Two & Three
Introduction & Political stability

The Dominican Republic’s president has a strong and consistent approval rating. The country’s thriving economy is certainly a big factor in his popularity, but he has also lived up to his pledges to develop education, infrastructure and security.

Four
Macroeconomic

The IMF marks out the Dominican Republic as boasting one of the region’s most dynamic economies. However, further structural reforms will be needed, if the country is to maintain its rapid growth, say the country’s leaders.

Six
Financial system

The country’s banking system is already well-regarded and is moving into line with international standards under the new regulation.

Eight
Foreign direct investment

Foreign direct investment is on the rise in the Dominican Republic, while ambitious cross-border partnerships with Haiti provide further cause for optimism.

Ten
Tourism

The Dominican Republic has ambitious plans for its already-thriving tourism industry.
BUSINESS-FRIENDLY MEDINA AIMS TO DELIVER

Danilo Medina is riding a wave of popularity as he bids for a second term as Dominican president. Delivering on election promises will stand him in good stead for re-election, say his ministers.

Rob Dwyer reports.

When Danilo Medina assumed the presidency of the Dominican Republic in 2012 he had an overarching objective, to expand the country’s middle class. However, despite this focus, Medina recognized there needed to be multiple policy initiatives to deliver the economic growth that would reduce poverty and boost prosperity.

As Medina prepares his bid for re-election in May there has been tangible progress on his ultimate objective (8.1% of population have entered the middle class), as well as clear economic, social and political development in the Dominican Republic. The economy is the fastest growing in the region and, at a GDP growth rate of 7% last year, was the second fastest globally.

One of the main planks of economic development has been attracting tourism and free trade zones investment. FDI is up and the government has succeeded in deepening and broadening the economy. Free-trade zones have attracted hundreds of international companies to the Dominican Republic. These companies have been enticed not just by the tax incentives but also the government’s entrepreneurial approach in aiding new entrants by cutting bureaucracy.

Medina’s business-friendly stance has enabled the country to promote its natural advantages. It is only two days from the east coast of the US by container ship, making it a logical candidate for establishing ‘near-shoring’ operations. Europe is accessible too, being only eight days away by freight. And the Dominican Republic’s geographical location is enhanced by its free-trade agreements with both the US and Europe. The country is one of only 13 in the world with free-trade access to both these continental markets and, combined with other agreements, boasts unfettered economic export rights to a market of 900 million people.

Medina has pursued simple but dramatic social policies to improve education. The president’s bold election pledge in 2012 to spend 4% of GDP on education has been fulfilled (accounting for roughly 23.5% of total government expenditure) despite the higher than-expected economic growth. This spending has radically altered education provision and generated benefits across the economy. Longer daily attendance and greater take-up has enabled parents to enter the workforce. The construction of new schools has given a boost to the construction industry. The higher education standards are also set to improve the country’s human capital – labour costs are competitive with Mexico – further enhancing its attractiveness to international companies.

The Dominican Republic has long been a leading tourist destination in the Caribbean and the Medina government continues to play to this strength. The country is unusual in the region in having a relatively undeveloped coastline and the government has been facilitating foreign investors’ access to new hotel and leisure projects. Infrastructure projects have made new developments accessible and travel times across the country have been reduced by more than half, connecting the island’s attractions and broadening the tourist appeal. New development is focused on low-density, high-quality resorts, increasing competitiveness. It has led existing resorts to respond with redevelopment and refurbishment projects that also generate economic growth.

There has also been a successful strategy to make the capital Santo Domingo in the south, and Puerto Plata in the north as destinations for Caribbean cruise liners, which has helped boost both cities hotels and leisure industries.

However, the current administration’s main achievement has been the development of other industries as a way to diversify and increase revenue streams. The government is fostering new export drives from local agricultural producers. A goldmine at Pueblo Viejo has created a large and stable source of revenues. The government’s original target of 400,000 new jobs by 2016 looks likely to be exceeded by 50,000 – created across an increasingly diversified economy. More than 65,000 affordable homes have been built, doubling the country’s entire stock.

The government is also developing institutional strength and discipline. The improved financing position built on the recent economic growth, has been boosted by two external factors. First lower oil prices (the Dominican Republic is an importer of oil for electricity generation) and second price and foreign exchange stability, which has boosted the value of remittances.

The ministry of finance and the central bank have responded by growing central bank reserves and lowering the fiscal deficit. Traditionally, these have both been points of financial weakness for the economy but the big improvement in both measures has drawn praise from the IMF and the rating agencies. Perhaps most importantly, international investors have signalled their approval by placing billions of dollars of orders for the sovereign’s recent international bond transactions. The credit risk of the country, once one of the highest in the Caribbean, is below the average in Latin America and the outlook for further improvement is positive.

There is more to do: Medina’s key targets run up to 2020 and finance minister Simon Lizardo is targeting an investment grade rating. Further economic and financial progress will be needed to reach this objective, most notably in the area of energy policy reform, but the progress under the first administration certainly augurs well for the next.
The Dominican Republic’s president has a strong and consistent approval rating. The country’s thriving economy is certainly a big factor in his popularity, but he has also lived up to his pledges to develop education, infrastructure and security.

Medina is undeniably popular. His approval rating has remained consistently above 60%, across many surveys. In many polls, his approval rating still touches 90%. No serious independent analysts expect a surprise at the polls in May when Medina runs for re-election.

However, while Latin America has seen other popular presidents in the recent past, they have typically been populists; a cult of personality draped in nationalism often uniting populations through the portrayal of malevolent, usually foreign, forces. Their economic policies have tended to come from the ‘unorthodox’ category and their longer-term financial impact can be seen in Venezuela’s current fight against default and economic collapse and in Argentina where president Mauricio Macri has taken on a difficult inheritance.

But, the economic reality of the Dominican Republic is very different from these examples. Growth is the fastest in the region and the IMF praised the country’s economic and financial progress following its most recent Article IV visit in December 2015. That the Dominican Republic can combine economic and political stability is an important part of the country’s appeal to international companies and investors. So how has Medina managed to earn popularity without populism?

A part of the answer is the economic growth the country has enjoyed under his first administration. The economy has produced hundreds of thousands of new jobs and boosted average GDP per head. A strong financial system has extended into the growing wealth of the lower social classes, extending credit and financial inclusion and sharing the economy’s newfound wealth.

However, economic development is not the sole reason for Medina’s popularity. Rather it is the president’s ability to appeal to all sections of the country, whether rural or urban, which drives his approval ratings.

Administrative minister José Ramón Peralta says that comes from a powerful, simple and yet rare strategy of delivering on election promises. “When we were campaigning in the rural communities we would often hear the comment: ‘You are only here for our votes today, you tell us what we want to hear but after you’ve won the election we won’t see you again until the next election’,,” says Peralta. “That comment stayed with president Medina and so after he was elected we implemented a programme of surprise visits whereby the president visits rural communities to keep a strong connection and help deliver practical and financial support to enable them to develop in a way they want.”

These surprise visits, covered in the local media, have boosted the president’s support across the country, and not just in the areas directly concerned. A key part of these visits is the provision of practical support for local businesses. The government, in cooperation with the agricultural bank and Banreservas, the state-owned commercial bank, delivers business training (including support for identifying and targeting domestic and international markets for local products and services) and financial support through a myriad of financial projects aimed at these rural communities. Peralta says that the visits not only leave a legacy of economic growth for these communities but he also attributes the relative low rates of rural migration to cities to this initiative.

The president has also delivered on his 2012 election pledge to spend 4% of GDP on education. This has led to a radical improvement in the education infrastructure (23,000 new classrooms built in the past three years – more than in the previous 60 years) and quality (teachers’ pay has doubled and training improved). Illiteracy has almost been eradicated. The government has also consolidated what was a fragmented economy for future skills-based competition.

Security in the country has also been improved, with crime rates down from 24.3 per 100,000 people to 16.2%. Progressive immigration policies have been enacted to manage economic migration from neighbouring countries, with the aim of boosting economic development and stability.

“We are working towards building the prosperity of everyone in the country – and not just certain groups,” says Peralta. “By clearly delivering what we committed to in the last election campaign we are confident we will be given the broadest of mandates to carry on our work.”
These are testing times for Latin America. Growth across the region has stalled as China’s demand for commodities has slowed along with its economic growth. The rise in the dollar has added to the end of the commodities super-cycle, leaving many regional economies searching for new drivers of growth. There is one notable exception, however. The Dominican Republic’s economy is booming thanks to domestic reforms and policies that have been lifted by favourable international conditions.

The oil-dependent economy is seeing the price of its imports fall. The economy’s ties to the US are also benefiting growth and the value of remittances is increasing, despite the relative stability of the exchange rate. Together this has boosted domestic consumption and lowered inflation. GDP growth hit 7.3% in 2014 and 7% in 2015 – easily above the region’s second-fastest growing economy of Bolivia (4.4%) and in stark contrast to the lower rates of growth of the Pacific Alliance countries of Colombia (3.0%), Peru (2.5%), Mexico (2.4%) and Chile (2.1%). Elsewhere in the region, Brazil suffered a sharp contraction (-3.0%). The Dominican economy, with a population of 10 million, now accounts for 22% of the total GDP of Central America and the Caribbean, making it the biggest economy in the region.

The country’s exports have grown from $8.9 billion in 2012 to $9.9 billion 2014 (the projected figures for 2015 are expected to be above $10 billion). Foreign direct investment continues to exceed $2 billion annually since 2010, and the current account deficit has been reduced substantially, from 7.5% of GDP in 2011 to a projected 2.0% in 2015. Net reserves, though still low at about three months of import payments, are increasing and the growth is well diffused throughout the economy. The construction industry has been particularly strong in recent years (18.2% growth in 2015), thanks to infrastructure and school-building projects, but the wide base of the economy is solid.

The IMF team that visited the country in November 2015 said: “The Dominican Republic remains among the most dynamic economies in the region, having benefitted from a strengthened policy framework and external tailwinds. Growth averaged at 7% during 2014 and in the first three quarters of 2015, the fiscal position has improved, the external position strengthened, and inflation remains low. The current cyclical upturn provides a good opportunity to address the remaining vulnerabilities, build buffers against risks and strengthen the foundations for a sustainable and more inclusive growth in the future.”

Simon Lizardo, minister of finance, says the Dominican Republic’s rapid growth is creating space for further institutional reform. The administration’s priority in its first term has been fiscal discipline, he says and he adds that there is evidence of progress because in 2016, unlike previous election years, there is no fiscal slippage expected.

“In the next four years we will have to implement structural reform in many areas – in monetary policy, electricity and energy...
reform and with financial supervision,” says Lizardo. “We have to keep moving ahead to our medium-term goal of attaining an investment grade rating.”

Lizardo expects the economy to grow at 5% in 2016, which he says is the country’s long-term trend rate of growth, but with the average price of oil used in the 2016 at $48 a barrel, many analysts expect an even higher rate of growth.

The Dominican Republic has already achieved upgrades from all the major rating agencies in recent years and is now rated B1/BB-/B+. Reform of the electricity sector will be crucial for further upgrades. The government is working to cut the cost of electricity production through the development of renewable energy sources and two large coal-powered plants that will reduce the reliance on oil imports. There is also a project to improve transmission efficiency to lower the fiscal burden of the electricity sector to the state. Lizardo says that the administration will also seek to enshrine the current fiscal discipline through a fiscal responsibility law.

Larisa Arteaga, director at Fitch Ratings in Santo Domingo, says that the agency upgraded the sovereign to B+ in December 2014 and then a year later put the rating on review for another upgrade, which could come later this year. The economy is benefiting from a positive external environment, she says, but the improved ratings also reflect the government’s progress in increasing fiscal flexibility and strengthening the country’s fundamentals.

“The economy is expected to grow at around 5% and the government is working to lessen its vulnerabilities,” says Arteaga. “For example, the two coal-power energy plants will lessen the country’s dependency on oil imports in the medium term and that’s very positive for the Dominican Republic. Another strength is the country’s increasing financial flexibility – it has more access to get financing from the international markets, as well as developing the local markets and getting some important multilateral funding.”

Since November 2015 the country has announced separate funding agreements with the IDB ($300 million to improve the social security system and boost health spending), the EIB ($1000 million credit facility to improve the electricity sector) and the World Bank ($60 million to improve the management of public finances).

The increasingly positive perception of the country helped it open Latin America’s sub-investment grade markets in 2016. At the end of January the sovereign issued a $1 billion, 10-year bond that drew more than $2.8 billion in demand.

Magín Díaz, vice minister of finance and head of public credit, says that emerging market investors are increasingly differentiating credits in the region and the demand for this transaction reflects the Dominican Republic’s improved risk perception. “Our last transaction underlined the importance of having sound monetary and fiscal policies,” says Díaz. “EM spreads have increased in the past year but the Dominican Republic’s spreads have increased much less than our peers. That shows that investors value our fundamentals and the soundness of our economy and the government’s policies.”

The strong demand for its debt has also enabled opportunistic deals to improve asset/liability management. In January 2015 the country raised $2.5 billion in a dual-tranche transaction. Despite the size of the deal, and volatile market conditions, the sovereign was still able to reduce the pricing during the deal’s execution. The majority of the proceeds were used to pay off $4 billion of debt owed to Venezuela’s oil company PDVSA at a huge discount. The repayment reduced the country’s debt-to-GDP ratio by 3.3 percentage points to 34%, further strengthening the financial fundamentals.

The 2015 bond transaction was the latest in a well-designed and well-received public debt management programme. The Dominican Republic has created large, liquid benchmarks and in 2014 was able to issue 30-year securities that lengthened the average tenor of the sovereign’s debt.

The average maturity of the local debt has also increased in recent years, although the maximum term of debt sold to date is five years. However, the development of onshore financing liquidity for the sovereign has been important in reducing currency exposure: from having 100% dollar-denominated debt in 2012 to 70% today. Díaz says he is monitoring the international markets for the possibility of a global DR peso-denominated transaction to further reduce the dollar exposure.

Lizardo admits the oil shock has been a credit positive for the country’s risk profile but that higher interest rates in the US means that the country needs to continue to strengthen. “It is very important that with the possible approach of higher yields in the US we have to continue to do our homework to reduce the risk of the DR,” he says. “We have been able to get our yield curve lower due to international conditions but if we get better ratings we will be able to lower our yields, independent of what is happening in the international markets.”

That search for better ratings takes Lizardo back to the focus of the first administration’s main goal: fiscal discipline.

“The experience in the Dominican Republic over the last few decades has been that every time there is an election a lot of investor uncertainty is created,” he says. “This time, we conducted a $1 billion bond deal in the international markets just months before an election because this time there is no uncertainty and there was very strong demand. The fiscal deficit in the budget for this year is lower than last year and we will invite the rating agencies to come after the elections and see that for themselves.”

---

**THE DOMINICAN ECONOMY, WITH A POPULATION OF 10 MILLION, NOW ACCOUNTS FOR 22% OF THE TOTAL GDP OF CENTRAL AMERICA AND THE CARIBBEAN**

www.euromoney.com
The Dominican Republic’s financial sector has seen rapid growth in recent years. Ten years ago there was virtually no domestic capital markets activity and today it is worth $1 billion a year. In terms of loan growth, the system grew by 12.6% in the past 12 months. A new trust law was passed in 2011 that promises potential securitization financing to drive the country’s many infrastructure projects. Both the IMF and the rating agencies consider the banking system to be well-capitalized and well-regulated. The IMF’s latest report states: “The financial sector remains sound, with banks showing healthy capitalization, profitability and asset quality. The mission welcomed progress made in strengthening banking supervision.”

Despite the relative strength of the financial system, a new law is on the way designed to strengthen it further. The proposals have already gone through eight rounds of public comments and adoption is expected to come in the first years of the next administration. The changes are progressive, rather than dramatic, but should add even greater robustness to the growing capital market’s supervisory authority. When adopted, the new law will also bring the country’s banking regulations into line with international standards.

The banking system itself is solid: following the country’s financial crisis in 2003 there was a drive to quality in the sector. Customers moved deposits and other business to the larger banks. The largest bank on the island capitalized on this trend and Banco Popular became the dominant player. However, in recent years there have been two key developments that have shaken up the Dominican Republic’s banking system. In 2014 the third and fourth largest banks merged to form Banco BHD Léon, creating a true competitor to Popular in the private sector, however, BHD Léon is still 8.7% below Popular’s market share of deposits (26.9%).

The more significant event was the reinvigoration of the government’s wholly-owned bank Banreservas. President Danilo Medina recruited Enrique Ramirez from the private sector, as he did with other top executives to run the state bank. The president’s mission for the new executive team was clear, to build the state bank into a competitive alternative for private sector retail and corporate banking clients.

The change in the bank’s size and business mix has been dramatic. It had long been the leading institution thanks to its public sector business but the new management team has turned this upside down. In 2012 the bank’s portfolio was 80% public sector and just 20% private sector. This ratio has already been reversed.

The public sector portfolio on the bank’s balance sheet has been reduced, largely due to a series of securitizations of credits from the ministry of finance that the bank has sold to Citi and Bank of America Merrill Lynch. Meanwhile, the bank has radically reformed its retail proposition, winning market share from the private sector, and has implemented new institutional structures to maximize cross-selling initiatives that boost both revenues and profitability. The bank is working towards reaching the cross-sell index levels of other regional competitors as it is focused on increasing the share of wallet of its existing clients rather than seeking to increase its clients base.

The corporate banking segment has also been revamped. While the bank is strict about focusing on profitable business
it is also tasked with delivering financial support to the government’s key growth sectors. It has been a strong supporter of construction, tourism and agriculture projects in the Dominican Republic.

“There is no conflict between the bank financing the growth of companies in the industries that are the strategic focus for the government and growing a profitable bank,” says Ramirez. The government also introduced a law to recapitalize Banreservas to the tune of an additional Ps10 billion ($220 million) by the end of 2016. The process used retained earnings and would-be dividend payments to increase the bank’s capitalization. The bank says the process should be complete in the first half of 2016 but the government is already considering further capitalization (the minister of finance is chair of the bank’s board of directors).

“We are discussing a new organic law for the bank that will outline its mission statement and strategic vision for the bank – and how that interplays with the government’s macroeconomic programme,” says Ramirez. “Fortunately for both the bank and government, recent growth has been above expectations so the government doesn’t need to receive any dividend payments in the near term and we can channel that into increasing the bank’s capital base to enable us to grow even faster.”

The development of Banreservas into a true competitive force in the country’s banking industry has caused concern among its private sector competitors. Privately they concede that the pressure from Banreservas is being felt across different areas, including recruitment, as the the state bank has been able to attract top talent to fill the management positions of its new retail, corporate and wholesale and investment banking units. The rate of growth has been impressive across the bank’s key metrics. Between 2010 and 2015 total assets grew by 9.9%, total deposits by 8.1%, the total net loan portfolio by 13.3% and total equity by 8.6%.

“It is very hard for the private banks to compete with Banreservas because it has the lowest cost of funding in the system – all government deposits go through the bank,” says Larisa Arteaga, director at Fitch Ratings in Santo Domingo. “Right now, Banreservas is a very big and important player and enjoys pricing power.” Arteaga says some of the banks are increasing their exposure to riskier market segments in response, but the system’s non-performing loans remain low and she is not concerned about any unstable credit bubbles forming in any market segments.

Ramirez at Banreservas is unapologetic about the bank’s pursuit of market share and its current recapitalization. He points to the work the bank is doing on extending financial inclusion to unbanked segments of the economy as evidence that the profitability of the bank is a means to an end – and not an end in itself.

“The government recognises that a strong Banreservas leads to a strong banking system and a strong Dominican Republic,” says Ramirez. “The increasing capitalization is anchor to that strategy.”

Ramirez points to the four initiatives within its financial inclusion strategy: CREE, which brings together entrepreneurs, investors and advisers to help grow SMEs, Prospera, which directs money into investments in the sectors identified as priorities for the country’s economic growth (such as agribusiness); Preserva, a financial outreach and education programme for unbanked individuals; and Cerca, a growing network of correspondent banking agencies that fulfil (often rural) banking services through affiliate businesses.

Technology has been a big driver of greater financial inclusion – for example, through mobile banking and ATMs – as well as driving other digital efficiencies in other areas of the bank’s products and services. However, this investment has raised efficiency issues, with the bank registering a cost-income ratio of 72% as of September 2015. This also reflects the size of the physical network throughout the country that it needs in its role as main state bank.

**CAPITAL MARKETS**

The local capital markets are dominated by issuance from the ministry of finance. The government now taps the local market regularly and offers tax incentives for investors that make these bonds (typically 10 year tenors with coupons of 9.75%) attractive and relatively liquid. The central bank also issues as part of its monetary governance of the economy – issuing paper to take out liquidity from the system when rates are rising.

So far issuance by the private sector is rare. Bankers say that it is not just a case of the public sector bonds crowding out private supply – especially given high rates and tax incentives. They point out that the level of disclosure required to issue bonds is a disincentive, with many of the largest companies in the Dominican Republic family-owned and unaccustomed to required levels of transparency. However, this is expected to change. Investment bankers report strong private sector interest in issuing domestic bonds and as the buy-side continues to develop. Pension funds and money market funds are growing quickly and the first hedge fund is now registered.

The local capital markets are dominated by issuance from the ministry of finance. The government now taps the local market regularly and offers tax incentives for investors that make these bonds (typically 10 year tenors with coupons of 9.75%) attractive and relatively liquid. The central bank also issues as part of its monetary governance of the economy – issuing paper to take out liquidity from the system when rates are rising.

So far issuance by the private sector is rare. Bankers say that it is not just a case of the public sector bonds crowding out private supply – especially given high rates and tax incentives. They point out that the level of disclosure required to issue bonds is a disincentive, with many of the largest companies in the Dominican Republic family-owned and unaccustomed to required levels of transparency. However, this is expected to change. Investment bankers report strong private sector interest in issuing domestic bonds and as the buy-side continues to develop. Pension funds and money market funds are growing quickly and the first hedge fund is now registered and raising funds. Originally the trust law was used to cover real estate assets but has been developed to cover tourist projects. As these trusts grow they will provide a source of securitisations for the local market.
Attracting inward investment to the Dominican Republic is crucial if president Danilo Medina is to fulfil his objectives for economic growth, job creation and the expansion of the country’s middle class.

Jean Alain Rodriguez is executive director of the Centre for Export and Investment of the Dominican Republic (CEI-RD). The organisation has a broad remit and it is one that Rodriguez has made even wider. He argues that the key to attracting foreign capital to the country is to cut through red tape and bureaucratic challenges.

“We offer a one-stop-shop for foreign companies,” he says. “We work with foreign companies to help them in all aspects of establishing operations in the Dominican Republic, from locating land to identifying potential partners and suppliers for their business. We help with permits and regulators. We act as their day-to-day contact and liaise internally within government, between departments, so that instead of companies having to deal with 12 to 15 different ministries they simply work with us.”

Rodriguez says the approach is paying off. FDI has increased by 8.3% since 2012 – during a time of volatility in emerging markets in general and the region specifically. The country now attracts 37% of all FDI in the Caribbean and that has driven recent GDP growth rates of around 7%.

“We have improved the business climate of the country by focusing on achieving a simpler, more efficient and secure process and at the same time guaranteeing high levels of transparency and confidence for investors,” says Rodriguez.

As well as logistical support in establishing operations, the government also provides a range of tax incentives to attract inward investment. Manufacturing is tax-free in designated National Free Zones and this policy has attracted world-class brands to the country. There are also tax incentives for targeted industries (including textiles, tourism, film and renewable energy), as well as incentives for foreign nationals accompanying their businesses and residing in the country.

However, Rodriguez says one of the biggest draws is the geographical location of the country. It is perfectly located for near-shoring operations to the US. Internet retail has made the speed of shipment of goods more important and the Dominican Republic is two days from the US east coast for freight and eight days to Europe. The development of the soon-to-be-enlarged Panama Canal is also a positive.
The growth in FDI has been distributed throughout the economy – 63% of the 614 companies registered in the free zones are foreign companies. There have also been some high-profile, large investments. In ports, DP World has invested in a cargo terminal in Punta Caucedo, while Carnival invested $85 million in a passenger terminal that opened last year. The leisure industry has seen the Hard Rock Hotel open its first Caribbean resort in Punta Cana – the success of which has led the parent company RCD to plan another hotel in Santo Domingo. In 2014, JW Marriott also opened its first Caribbean hotel. Barrick Gold Corporation opened a mine that now generates significant government revenues. Investments by Altice and America Movil in the telecommunications sector show that the economy can also attract the world’s leading technology companies.

The Dominican Republic is also creating a call centre industry. Teleperformance established operations on the island in 2012 and today employs 1,200 people in Santo Domingo and has plans to create 750 jobs in La Romana.

Not all the investment facilitated by the CEI-RD is foreign. The organization has worked with AES Dominicana to develop a natural gas energy plant. The island relies on oil imports for energy generation and the cost of energy has worked against the country in terms of competitive advantage. However, with a natural gas and two coal-powered power stations due to come online producing a combined 720 megawatts, as well as initiatives to improve transmission, energy costs are set to fall. Rodriguez says the shift into heavier manufacturing is already taking place: “We are starting to be competitive in energy costs,” he says. “Walmart recently located a large plastic fusion plant in the Las Americas Free Zone because energy prices are falling. If they keep going down we expect to see automotive industries, not just parts, but the whole process. We want to produce and assemble.”

Labour costs are lower than China. They are above Mexico but Rodriguez says the government is working to make sure employers have the quality of human capital they need. Illiteracy has been reduced to marginal levels. 800,000 people have achieved literacy since 2012 as a result of the government’s investment in education. Also, the country is ranked second in the region by the English Proficiency Index – above both Mexico and China. Meanwhile, crime rates have fallen by 33.3% in the past four years and the political and economic stability offered by the country is unmatched in the region and much of Latin America.

Rodriguez’s other mandate is exports. Employment in the island’s export businesses has increased by 19,116 since 2012 and job creation directly linked to FDI is 71,536. The CEI-RD helps both foreign and domestic companies that produce goods and services on the island find export markets. The organization works with the country’s consulates to identify buyers and produces events to showcase the island’s potential exports. In June this year the organisation is hosting the largest trade show ever to be organised in the Caribbean. DR Exports 2016 will attract over 1,000 buyers and Rodriguez says that he is working to build product awareness and meetings before the event so that the 5,000-plus individual meetings will focus on negotiating contracts rather than building awareness.

BUILDING ALONG THE HAITIAN BORDER

The desperate economic and political situation in Haiti, the Dominican Republic’s neighbour, led it to be granted duty-free status for textile exports into the US. In response, Grupo M created a complex of textile factories, called CODEVI, in the north of the country, near the town of Ouanaminthe. Now the company has four plants that make jeans, T-shirts and synthetic garments for a wide variety of international brands, including Levi’s, Under Armour and Gap.

Grupo M’s director, Fernando Capellan, President & CEO of Grupo M and CODEVI, says that the 7,000 jobs provided to the local Haitian community (as well as 4,000 for Dominicans), has generated a hugely positive response among a local population that has few other sources of employment. Every day hundreds of Haitians turn up looking for work at the small bridge that connects the complex to Haiti – with the numbers swelling above 1000 on Mondays and Fridays.

The success of Grupo M’s venture has begun to attract more companies. The potential for expansion is huge. Capellan expects that the duty free export regime into the US, which underpins the economics of the project, will be extended to 2030. Grupo M says that the poverty in Haiti and the lack of education means that such schemes need not only provide jobs and training, but also basic health services, childcare and sporting facilities. The project has even created its own TV station to promote awareness and education.

The success of CODEVI has led to ambitious plans for expanding such bi-national developments along the corridor of the two countries’ border. Further expansion of manufacturing is planned for the north – with the reconstruction of the port of Manzanillo offering the potential for faster shipment to the US and elsewhere. There are also three other projects awaiting governmental approval: in power generation, agriculture and the leisure sector. The Inter-American Development Bank is in discussions to help the projects by supplying political risk guarantees that will allow sponsors to go to tap US institutional investors for funding. Hopes are high that the border between the Dominican Republic and Haiti will provide an important source of wealth for both countries.
The Dominican Republic’s government is balancing its drive to diversify its economy with a strong focus on developing the island nation’s traditional strength – tourism. Tourism generates over $6.5 billion annually and is growing at 7% a year. With occupancy rates at over 80%, the Dominican Republic is experiencing a boom in new hotel development and refurbishment of its existing hotel stock. There are currently 70,000 hotel rooms in the country and the projected pipeline will bring a further 8,000 on stream over the next few years.

For a nation of 10 million people, the country boasts very strong international links. There are six international airports (more than Spain) and soon the privately-held airport of Punta Cana will be classified as a US Federal airport, removing the need for travellers travelling from the US to clear immigration. There are also extensive port projects to integrate the country more closely into the Caribbean cruise industry, with Santo Domingo and Puerto Plata bringing hundreds of thousands of tourists onto the island from cruise ships every year.

Internal infrastructure has also improved the Dominican Republic’s appeal to tourists. New highways and a bypass of Santo Domingo have more than halved travel times around the island, making daytrips to the capital from coastal resorts more popular and generating additional revenue. Tourism currently makes up 12.7% of GDP and this is set to increase with the government planning an ambitious expansion programme.

EM: HOW RELIANT IS THE DOMINICAN REPUBLIC ON TOURISM AND HOW DO YOU PLAN TO ENHANCE THE INDUSTRY UNDER THE NEXT ADMINISTRATION?

Garcia: Under president Medina’s current administration there has been a considerable increase in the number of tourists visiting the DR. Between September 2012 and September 2015 we welcomed 6,650,000 tourists – generating $17 billion. Each year we create a new record for the number of tourists we welcome to our shores. We are not only the country that is growing the most in relative terms but we are growing the most in nominal terms. The government’s investment is crucial to this growth – we are ranked 11 out of 135 for developing infrastructure that supports the tourism industry.

EM: HOW HAVE INVESTORS RESPONDED?

Garcia: The change in the conversation with the CEOs of the world’s large tour operators has been dramatic. At the start of this administration, these meetings had a mixed agenda – some good things and some complaints – but now that has changed. We are not even being asked for many high-level meetings anymore, and when we ask why this is, the response is that these CEOs have nothing left to ask for. Everything the president pledged to the industry during the 2012 election has been delivered.

However, I would like to stress that the appeal of the DR goes beyond financial incentives and the potential for development of our coasts. Our people are also a leading competitive advantage. For seven consecutive years we conducted a survey of tourists who come to the Dominican Republic. Every year the highest-ranking positive factor about tourists’ stay in the country has been the attitude and quality of service provided by the Dominican people. It’s what keeps bringing tourists back: in 2012 we set a target of attracting 10 million tourists before 2022 and we will hit that goal before 2020 with our current rate of growth.

EM: HOW IMPORTANT IS INFRASTRUCTURE DEVELOPMENT TO UNDERPIN THIS RATE OF GROWTH?

Garcia: Infrastructure investment has driven a lot of the growth in investment in tourism, but so too have the investment incentives law. We amended the incentives law 158-01 to broaden the activities that qualify for tax and other incentives. Now it isn’t
just destinations that are covered by the law but any activity related to tourism. And we also extended those benefits from 10 to 15 years. This has injected a lot of dynamism into areas that previously had no tourism investment.

During this administration we have approved 108 projects, which correspond to 17,500 new hotel rooms – as well as other tourist-related projects. However, in terms of hotel rooms, so far 4,500 new rooms have been inaugurated and there are currently 11 hotel projects in the execution phase, which will lead to another 4,400 new hotel rooms.

**EM: HOW DO THESE PROJECTS DIFFER FROM EXISTING ONES?**

**Garcia:** We have approved some projects that mark an important difference, from a social and economic perspective, for the DR. For example, we are about to conduct the official launch of a significant development in the region of Pedernales. There are two projects – both backed by world-class businesses – that, combined, are worth more than $3 billion. And these will be destinations unlike any others in the Dominican Republic. They will be low-density resorts and, with more than 55% of the land in the area protected, they will attract an eco-conscious tourist. These resorts will be very superior quality: we say that the pessimists say that the beaches in Pedernales are the most beautiful in the country, while the optimist says they are the most beautiful in all of the Caribbean. However, despite the natural beauty the area also has pockets of relatively high levels of poverty and these projects are vital to help generate wealth in the local economy.

**EM: WHAT ARE THE OTHER STRANDS TO THE STRATEGY?**

**Garcia:** We have been pursuing a very ambitious plan to generate tourism in our capital, Santo Domingo, which is the oldest settlement in the new world. We are developing the port to enable cruise ships to visit the city and have been redeveloping the colonial town, as well as other neighbourhoods. The effect has been amazing. We have seen a lot of development of the leisure industry, including new hotels, bars and restaurants. The gastronomy of Santo Domingo is now so well developed that it need not be envious of any other world city. All this has been facilitated by an expansion of the tourist zone – which offers investment incentives – beyond the original scope of the colonial area, along the city’s coast, which has led to significant development. We now have some malls that rival Miami for size and for the choice of brands.

The cruise ships are a very important strand to our strategy. It is the form of tourism that has the highest spending per person. It’s a high-frequency, high-revenue business. And it’s not just crucial to Santo Domingo. Carnival has just opened its new $85 million terminal near Porto Plata. It estimates 300,000 tourists in its first full year of operation and 600,000 by the third year. And the company’s senior management has told me that the reaction from the first ships has been so overwhelmingly positive that they plan to expand quickly up to 1 million a year. That has led to other tour operators expressing an interest in developing logistics in the country and this will have a big impact on the economy.

**EM: WHAT ARE THE OTHER STRANDS TO THE STRATEGY?**

**Garcia:** We have been approved some projects that mark an important difference, from a social and economic perspective, for the DR. For example, we are about to conduct the official launch of a significant development in the region of Pedernales. There are two projects – both backed by world-class businesses – that, combined, are worth more than $3 billion. And these will be destinations unlike any others in the Dominican Republic. They will be low-density resorts and, with more than 55% of the land in the area protected, they will attract an eco-conscious tourist. These resorts will be very superior quality: we say that the pessimists say that the beaches in Pedernales are the most beautiful in the country, while the optimist says they are the most beautiful in all of the Caribbean. However, despite the natural beauty the area also has pockets of relatively high levels of poverty and these projects are vital to help generate wealth in the local economy.

**EM: WHAT ABOUT COMPETITION ELSEWHERE IN THE CARIBBEAN? IS THE US’S RAPPROCHEMENT WITH CUBA A THREAT?**

**Garcia:** No. We don’t compete with Cuba. We already have many more tourists and operate in a different segment. But we are going to work with Cuba. I have already invited Cuba’s tourism minister, Manuel Marrero, to visit the Dominican Republic to see how we have developed and because we know how to offer the service that north Americans desire. We are also going to work on an agreement to offer Chinese visitors holidays that are split between Cuba and the DR, which will offer us an expansion into the Chinese market and could have an extraordinary impact on the flow of tourists to the country. We have already seen Chinese businesses buying hotels in the country to prepare for this growth in anticipation of such an agreement.

**EM: WHICH MARKETS ARE SEEING THE FASTEST GROWTH FOR THE DOMINICAN REPUBLIC?**

**Garcia:** One of the fastest-growing markets was Spain. We saw 16% more visitors in 2015 from that European market, compared with a total growth of 9%. The US is our largest market. That continues to grow and we saw 12% last year, it’s now equivalent to 48% of all our tourism. But we also saw continued demand from Canada – one of the most stable markets. And Europe is growing strongly, especially as other markets in the Middle East are having problems, and Germany saw one of the strongest increases in tourist numbers.

However, perhaps the biggest ‘breakthrough’ market in recent years has been in south America. We have seen a huge growth in tourists from Argentina, Brazil and Venezuela. Every time I meet someone from one of these three countries they tell me how fashionable it is to go to the Dominican Republic. So that’s one of the most exciting things about tourism in the DR right now: we have solid growth from our main market of north America, fast growth from Europe, potential from Asia and new, strong demand from South America. It’s this strong geographical diversification that provides the basis for domestic and international investments in our tourism industry and has enabled us to surpass our already ambitious targets.