

Chapter III. Identification of the Needs to Strengthen Trade Capacities

This chapter presents an evaluation and prioritization of the needs identified by the Dominican Republic to strengthen its capacities in terms of trade. This chapter is divided into three parts, each one devoted to one of the stages toward the transition to the new integration and free trade framework: A) treaty preparation, approval, and ratification stage; B) treaty implementation stage; and C) free trade transition stage. This way the fundamental inputs to determine future actions in technical cooperation are provided because topics and sectors where the country needs cooperation are identified and priorities are set in accordance with an evaluation work carried out by the government in coordination with various sectors of the Dominican society.

The methodology used to identify and prioritize the needs consisted of consultations with pertinent civil servants, as well as with experts of various sectors of the Dominican society, business associations, sectoral chambers, academia, consultants, civil society organizations, and representatives of international cooperation agencies. The exercise carried out by the government collected and coordinated the diversity of existing opinions among the main actors concerning cooperation needs. The specialists identified needs relevant to them in their respective sector or area. Likewise, documents, reports, and statistics from government and non-government sources were analyzed.

The government strategy is framed within the objective of poverty reduction in the Dominican Republic. It is for this reason that trade liberalization is envisioned as an element that together with macroeconomic, stability, fiscal, monetary, and exchange policies will contribute to this objective.

As explained in previous chapters, the country went through a financial crisis that has been dealt with by the current government through changes in monetary and fiscal policies aimed at achieving economic stability and the private sector's confidence return. The fiscal policy required a tax reform that has affected the competitiveness of the corporate sector. It is for this reason that the government is currently reviewing the tax reform so that it is possible to maintain the same revenue level without affecting the competitiveness of the country. This reform will even have to compensate for the customs income loss once the DR-CAFTA becomes effective.

A. Treaty Preparation, Approval, and Ratification Stage

In recent years the Dominican Republic has been actively participating in several trade negotiations, among which—because of its magnitude and impact—stands out that of the DR-CAFTA. This active participation shows the country's commitment to free trade, which is framed within the development strategy whose main objective is improving the standard of living of all Dominicans.

Greater commercial integration in the region offers opportunities for development that the national market by itself could not offer. This participation has generated a series of demands with regard to the capacities of the government, the negotiating team, and the diverse institutions, both public and private participating in determining the country's trade policy.

With its own resources, as well as the effort of government personnel, and help from international cooperation, the country has been satisfying the needs required by each negotiation stage, especially in the area of training and relevant information management.

In the first stage of preparation for treaty approval and ratification, the country had the support of USAID. This institution provided training to the negotiating team, technical assistance to the negotiators during the negotiations period, as well as technical assistance and financial resources for a dissemination and awareness campaign with civil society. This included the design and launching of a web page on DR-CAFTA, and the preparation of an illustrative document on DR-CAFTA benefits.

The support given by USAID during the negotiations stage has been very useful. However, in order to facilitate its ratification by the National Congress, it is necessary to continue the DR-CAFTA dissemination and promotion campaign. To this end, the Ministry of Industry and Trade (SEIC, in Spanish) formed a commission to meet with different Senate Commissions, as well as with different blocks of legislative representatives. The American Chamber of Commerce (AMCHAM) in the Dominican Republic has been very collaborative and proactive in carrying out activities aimed at achieving the treaty ratification. They created the Support Coalition for DR-CAFTA, and among other activities, they have been carrying out workshops throughout the country to provide information about the treaty.

In addition to a DR-CAFTA dissemination and promotion program for civil society organizations, this first stage needs to carry out the following activities:

1. Institutional and operational strengthening of the Directorate of Foreign Trade and International Trade Treaty Administration of the Ministry of Industry and Trade.
2. Impact assessment of the DR-CAFTA on the manufacturing sector.
3. Identify the Dominican Republic commitments in DR-CAFTA.
4. Technical assistance for conducting specialized studies on opportunities for the services sector in the DR-CAFTA

The last three activities are being sponsored by USAID.

B. Treaty Implementation Stage

The national strategy to strengthen the trade-related capacities is focused on the agreement implementation stage and in particular, on the adjustment stage to the new integration framework.

The Dominican Republic has recently begun to carry out its first free trade agreements. For this reason the trade agreement implementation-related institutionalization should be gradually strengthened and prepared for the greatest demand that the DR-CAFTA will bring about and to face the new challenges arising from the globalization process. Furthermore, trade agreement success, both from the importers and the national producers wishing to export standpoint, will depend, to a large extent, on national capabilities to manage all acquired trade commitments.

Within its international incorporation strategy, the Dominican Republic government has found the need and opportunity to improve this area with a view to optimizing the national effort to export and compete in the best possible manner.

Following are the main country needs in trade commitment implementation-related areas where international cooperation could contribute greatly. These needs include institutional strengthening; agriculture, sanitary and phytosanitary measures, and food safety; the environment; public sector procurement; services; intellectual property; product origin rules and procedures; competitiveness; civil society; trade facilitation; unfair trade practices, dispute resolution, and safety measures.

B.1 Institutional Strengthening

Among the activities geared toward institutional strengthening are the following:

- Institutional and operational strengthening of Directorate of Foreign Trade and Trade Treaty Implementation (DICOEX) under the Ministry of Industry and Trade (SEIC). The needed strengthening is focused on DICOEX staff member training in specialized technical topics.
- Development of a treaty administration system for applying all country of origin rules set forth in trade agreements.
- Cooperation in strengthening the assessment tax department, for the a posteriori control of the GATT-WTO custom assessment code application.
- DICOEX institutional and operational strengthening with regard to its relationship with the Customs General Directorate's treaty administration functions.
- Technical and financial assistance for DICOEX data system reengineering.
- Creating sectoral databases that allow the country to determine greater exporting potential sectors, their recent and current dynamism and the tariff and non-tariff barriers they face in international markets.
- Improving national statistics on foreign trade so that commercial partners, products traded (at a high disaggregation level), unit value, trends, tariffs, and others can be identified.
- Strengthening the Customs General Directorate's Department of Statistics so as to obtain reliable foreign trade information to base decision-making.
- In the customs assessment area, it is necessary to provide DICOEX staff with needed analysis and instrumental capacity to use all advantages of any trade agreements signed by the country. In this regard, it is very important to have specialized technical assistance and training in the area of planning and strategic analysis.
- Training DICOEX personnel—through specialized technical assistance—in the necessary analysis and tools about all signed trade agreements, and identify non-tariff barriers hindering trade in order to guarantee the implementation of all WTO obligations.
- Likewise, there is a need to create a trade intelligence unit that provides the negotiating team with needed capacity and tools, especially on market access-related topics.
- As part of these strategies, there is a need to conduct studies on trade liberalization impacts in order to evaluate the effects DR-CAFTA commitments will have on the economy and on the livestock, industrial and services sectors.
- Also, it is important to carry out an analysis of the Dominican Republic's real and potential exportable supply for the most competitive products, as well as identifying main

markets so as to ensure macroeconomic stability through a focused national exportable supply by productive sectors.

- Technical assistance in the implementation process of the entity managing the Competition Defense Law once it is approved (it is still a draft).
- Support in case analysis, once the entity managing the Competition Defense Law is constituted.
- Technical assistance to simplify company registration procedures.
- Technical assistance to draft legislation for company reorganization and liquidation.
- Technical assistance to develop transparency-improving procedures in the bidding processes.
- Promote approval of an international arbitration law.
- Technical assistance to analyze the DR-CAFTA's Article 3.20 coverage on textile retroactiveness application.

B.2 Agriculture, Sanitary and Phytosanitary Measures, and Food Safety

The agricultural area is a high priority within the market access topic. The Dominican Republic is making a great effort to establish and maintain systems that meet international standards in sanitary and phytosanitary matters, disease and pest control as well as food safety. In this task it is expected to have the collaboration of the United States Department of Agriculture in order to expand cooperation ties and ensure favorable health and quality control conditions for the liberalization of agricultural goods.

Below we present areas that will require cooperation to strengthen our trade capacities:

- Training on common trade barrier practices using sanitary and phytosanitary measures.
- Carrying out a study on food safety to provide information and analysis on pesticide, insecticide and other chemical product use, as well as their impact on food quality, national legislation, and countries they are exported to. This study will serve as the basis for implementing future programs on this area.
- Advice on standard harmonization for mutual recognition agreements. Training selected personnel in the standard harmonization process, technical regulations, and evaluation procedures for compliance and identification of non-tariff barriers that are shaped as procedures, regulations, and standards hindering, restricting and blocking free trade, especially those with no scientific foundation.
- A need to improve the Dominican Agribusiness Board's laboratory capacities on analysis and certification topics was identified, as well as seeking recognition agreements with other countries, especially the United States.
- Strengthen the health service in the Dominican livestock sector.
- Improve sanitary and phytosanitary capacities.

B.3 The Environment

Pursuant to Law No. 77, the Ministry of the Environment and Natural Resources (SEMARN) was recently created in the Dominican Republic. This law has brought about an active involvement by this ministry in areas where the environment was not included before, such as the services and

investment areas. For this reason it is important to include the demand for technical assistance on environmental matters that are also relevant for the Dominican Republic's development strategy.

Some of the strengthening needs identified in this area are as follows:

- Support in environmental standard preparation.
- Technical assistance for environmental studies and impact evaluation of certain trade goods and services.

B.4 Public Sector Procurement

Some areas where action implementation is planned include the following:

- Follow up the draft legislation on government procurement, contracting, works concessions and services.
- Training technical personnel of the entity that will apply the bidding law.
- A web page design and implementation is required for bid publication.
- Training on statistical analysis of government procurement carried-out by the countries in the region, at all government levels.

B.5 Services

In the services area, the following is required:

- Technical assistance for conducting a study on the economic effects of the services sector opening, with special emphasis on its strengths and weaknesses.
- Technical assistance to develop an information system on the services sector trade.

B.6 Intellectual Property

Training and, in general, institutional capacity strengthening on this area is vital to achieve the full application of existing regulation. Some areas where action implementation is planned include the following:

- Specialized training in intellectual property.
- Training and internships for ONAPI staff members responsible for the area of distinctive signs on sound and olfactory marks tests.
- Training and internships for ONAPI staff members responsible for the area of patents on in-depth patent examinations.
- Training and internships for ONAPI staff members responsible for the area of distinctive signs for the registry of geographical indications and country of origin names.
- Training and internships for ONAPI staff members on the area of dispute resolution before the World Trade Organization.
- Training and internships for the Dominican Judicature staff members on industrial property rights compliance.
- Electronic recording system for distinctive signs, for their application, processing, recording, and maintenance.

B.7 Country of Origin Rules and Procedures

The main objective of the country of origin rules and procedures is to provide due monitoring to the country of origin provisions in each of the current treaties. In particular, consider that only products from signatory countries enter each country enjoying the treaty's preferences and benefits as long as they satisfy the country of origin established requirements. In addition, this will eliminate, what is commonly known as "product triangulation."

It is a system that includes: interpretation of country of origin standards, monitoring of country of origin standards' modifications, and supervision of country of origin standards compliance. Each one of these functions has a very institutional process, pursuant to the treaty in question's provisions, and it includes supervision at every step and authorization for each decision. Some of the strengthening needs identified in this area are as follows:

- Training and technical assistance to the DICOEX's Country of Origin Verification Unit.
- Training through specialized technical assistance in the analysis and tools on the country of origin rules.
- Training and technical assistance to DICOEX personnel regarding United States procedures and legislation on country of origin standards.
- Training programs and seminars for the private sector to comply with country of origin standards in other countries.

B.8 Competitiveness

The country's competitiveness strategy is based on three objectives: 1) leverage those sectors currently generating the greatest foreign exchange share, by capturing opportunities to stabilize and increase the employment generation and foreign exchange in tourism and free-trade zones; 2) develop foreign exchange generation capacity in sectors with potential, such as manufacturing and agriculture; and 3) identify other sectors and opportunities that can help increase foreign exchange generation in the long run.

Some of the strengthening needs identified in this area are as follows:

- Develop greater added value proposals in the tourism sector.
- Turn toward greater added value products and be prepared for inserting free-trade zones into the general economy (in the free-trade zone case).
- Make structural changes in the manufacturing and agricultural sectors such as the import and export processes and the financial system, as well as manufacturing and free-trade zones integration.
- Develop opportunities for non-traditional sectors and align different economic actors in a systemic action plan (ministries, businessmen, multilateral organizations, associations, trade organizations, and the general public), which includes support activities, such as regulation and infrastructure.
- Train and retrofit the labor force through scholarships to improve competitiveness.
- Training on quality.

B.9 Civil Society

In this sector, the areas in needed of strengthening are as follows:

- Establishment of an inter-institutional dissemination virtual system.
- Provision of additional resources for publications, forums, and public hearings.
- Technical assistance for developing a dissemination plan.
- Implementation of a radio dissemination program.

B.10 Trade Facilitation: Customs Reform and Modernization

The rapid growth of international trade, trade blocks integration, production trans-nationalization, information technology rapid development, and the review of the role of the state and its institutions, as well as the private sector role in light of the new social and economic realities, are factors influencing the need for a change in the role of customs and the adaptation of its procedures and regulations to the new times.

Customs of today should efficiently fulfill four basic functions in order to increase their competitiveness: (1) international trade facilitation; (2) generation of statistics and useful information for trade, the state, and users; (3) import tax collection; and (4) effective control of international traffic of goods, safeguarding the compliance with a series of tax and non-tax-related standards that regulate foreign trade.

Poor customs administration greatly affects the costs of companies directly or indirectly dependent on international trade, thus increasing product and raw material prices, reducing revenues, hindering processes, creating a good environment for corruption, and hindering the country's insertion in the world economy.

For this reason, the Dominican Customs reform and modernization has been regarded as a high priority by the current administration and in order to achieve this end, it has required the help and participation of users of the service such as importers and exporters, carriers, customs brokers and customs depositories, as well as international agencies.

Technical assistance and training—and in general—strengthening the institutional capacity in this area, is vital to achieve customs reform and modernization in the country. Some priority actions to be taken in this area are as follows:

- Design of new customs legislation, consistent with international trade advances.
- Provide the General Customs Directorate (DGA) with the necessary information and administrative tool to comply with the trade facilitation program.
- Adapt the legal framework to the new requirements brought about by the modernization and reform of a customs service responsive to international trade requirements.
- Creation of a transparency environment where information is reliable, timely, accessible, and available to all service users.
- Design of an efficient and transparent collection system.
- Provide the institution with skilled, stable and professionally qualified human resources, to meet the demands of a modern customs service.
- Strengthen the inspection function based on risk management to increase efficiency and ensure tax collection through the correct tariffs application.

- Simplify, automate, and incorporate new information technologies into customs processes so as to improve service quality.
- Generate relevant and timely information to support the institution's top management work for the purpose of promoting the customs process facilitation and streamlining.
- Educate and train customs staff on critical and deficient areas, establishing clear and permanent policies for human resources development.
- Develop a performance evaluation system for the institution, through adequate indicators.

B.11 Unfair Trade Practices, Dispute Resolution, and Security Measures

The Dominican Republic is signatory of the Marrakech Agreement through which the WTO was established in 1994. Within its framework the following agreements were signed: The Multilateral Agreements on Trade of Goods, The General Agreement on Trade in Services, The Agreement on Intellectual Property Rights Aspects Related to Trade, The Understanding Related to the Standards and Procedures Governing the Resolution of Differences, The Trade Policy Examination Mechanism, and four Multilateral Trade Agreements.

Among those agreements, are included The Agreement Related to the Application of Article VI of the General Agreement on Tariffs and Trade of 1994, The Agreement on Subsidies and Countervailing Measures, and The Agreement on Safeguards of 1994.

This way, the rules that would govern international trade relations and all commitments assumed by the countries thereof were established. That is why the Dominican Republic, adapting itself to the demands of the new times, enacted Law 1-02 on Unfair Trade Practices and Security Measures. Pursuant to Article 1 of Decree 184-02 dated March 13, 2002, SEIC is the institution empowered with the transitory responsibility for applying the aforementioned Law 1-02.

In this regard, the technical cooperation program on such matters seeks to develop SEIC's institutional capacity through the adequate training of relevant staff. Some priority actions to be taken in these areas are as follows:

- Training on research procedures with regard to unfair trade practices.
- Systems for the application of security measures.
- Training concerning the United States legislation on trade defense issues through seminars, internships, technical literature, etc.
- Training of SEIC technicians and attorneys on the procedures for dispute resolution.

C. Free Trade Transition Stage

The diverse sectors participating in the country's economic life are well aware of the joint effort's magnitude to take advantage of the opportunities offered by the new markets, as well as to face the new competitiveness conditions that the country will undergo internally. The national effort coordination to compete and improve economic performance requires plans to strengthen competitiveness and internal changes in the domestic economy that will be framed in a mid-long term vision.

The Dominican Republic estimates that, from now on, the country must be prepared to obtain the maximum benefit from free trade. In that preparation process, the productive apparatus competitiveness increase will be a determining factor.

The development of a strengthening plan for national competitiveness requires knowing all sectoral needs, the analysis of current capabilities to compete and their strengthening as well as creating new capacities in the sectors less prepared for competition. Likewise, it implies changes in the way the public sector does things and in the support services to be provided to national sectors that need it.

This section presents the strategy that will frame the strengthening needs during the free-trade transition stage in order to take advantage of the treaty. This is based on identifying the country's exporting potential, improving electric power costs and supply, supporting the development of small and medium enterprises, supporting industrial company transformation, and improving quality standards and systems.

C.1 Exporting Potential

Among the activities identified to expand the Dominican Republic exporting potential, are the following:

- Analysis of the information and communication technologies sector exporting potential. (Sponsored by USAID).
- Analysis of the medical equipment sector exporting potential. (Sponsored by USAID).
- Analysis of the electronic equipment sector exporting potential. (Sponsored by USAID).
- Analysis of the footwear sector exporting potential. (Sponsored by USAID).
- Analysis of the opportunities presented by DR-CAFTA in order to expand the Dominican Republic exports. (Sponsored by USAID).
- Financial assistance for strengthening craft rural centers, Pilot Plan: Craft Village of Higuerito and Reparadero.
- Improvement of Dominican exports quality.
- Diagnosis of exportable supply.
- Pilot Project Technical Training for Exports.

C.2 Electric Power Costs and Supply Improvement

- Energy Sector Reform.

C.3 SMES Support

The small and medium enterprise sector is an important component in employment generation and poverty reduction in the country. Therefore, it is necessary to help these companies to compete with imported products and to produce export products. In this regard, the following activities are recommended:

- Creation of a fund for the SMEs industrial transformation and to improve this enterprise sector's productivity.
- Creation of a fund to finance the conversion of 200 SMEs into exporting companies.

- Technical and financial assistance for the creation and establishment of an information and business management system for Dominican MISMEs.

C.4 Industrial Company Transformation Support

Many Dominican companies have been operating within a somewhat protective commercial policy. With the DR-CAFTA, these companies will face strong competition with imported products and with the difficulty of redirecting their production toward exports. The following activities are conducive to supporting these companies in their adjustment to the new economic and competitiveness environment:

- Creation of a fund to support company transformation and production redirection.
- Incentives and support for the cooperation bilateral program with associations and productive groups in the United States.
- Technical assistance for establishing a company incubator program.
- Local industry and free-trade zone link. What inputs do the free-trade zones installed in the Dominican Republic use? Possibility of being supplied by the local market.

C.5 National Quality System

Law 602 created the General Quality Standards and Systems Directorate (DIGENOR, in Spanish) as an administrative agency dependent on the Ministry of Industry and Trade. In accordance with the provisions of this law, DIGENOR is the agency in charge of executing the National Commission on Quality Standards and Systems' programs and resolutions.

DIGENOR is charged with the responsibility for managing and developing the National Quality System (SNC, in Spanish), that is, everything related to metering, standardizing, and compliance and quality evaluation.

In the Dominican Republic there are institutions, some accredited by DIGENOR, that would complete the institutional infrastructure for a National Quality System. Such institutions offer tests, trials, and advisory services. However, there are no institutions offering main metering services in the Dominican Republic.

The National Quality System would take care of the weakness that for the country represents not having the technical chain facilitating Dominican goods and services access to foreign markets. In other words, it would create a badly needed technical confidence in the country.

Some priority actions to be taken in this area are as follows:

- The General Quality Standards and Systems Directorate's updating and institutional and operational improvement.
- The General Quality Standards and Systems Directorate's strengthening.
- Strengthening the food quality inspection and supervision system. Ministry of Industry and Trade. Executing Unit: DIGENOR.

- Strengthening the fuel quality inspection and supervision system. Ministry of Industry and Trade. Executing Unit: DIGENOR.