

# BTI 2010 | Dominican Republic Country Report

<b>Status Index</b>	1-10	<b>6.78</b>	# 35 of 128	
Democracy	1-10	7.55	# 32 of 128	➔
Market Economy	1-10	6.00	# 56 of 128	➔
<b>Management Index</b>	1-10	<b>5.80</b>	# 39 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	9.7	HDI	0.78	GDP p.c.	\$	7726
Pop. growth	% p.a.	1.1	HDI rank of 182	90	Gini Index		50.0
Life expectancy	years	72	UN Education Index	0.84	Poverty <sup>2</sup>	%	15.1
Urban population	%	68.3	Gender equality <sup>1</sup>	0.56	Aid per capita	\$	13.1

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

In May 2008 Leonel Fernandez of the Dominican Liberation Party (PLD) won the presidential elections in the first round (with 53.83% of votes), becoming the first president to be re-elected since Joaquin Balaguer in 1994. His re-election was made possible by a modification of the constitution implemented in 2002 under President Rafael Hipolito Mejia, permitting one attempt at immediate re-election, which had previously been banned by a 1994 constitutional reform enacted in the wake of a major crisis related to Balaguer's re-election. As he began his third presidential term in August 2008, Fernandez' party had an absolute majority in the Chamber of Deputies and a two-thirds majority in the Senate that appeared stable until the congressional elections in 2010.

The 2008 presidential elections can be described as generally peaceful and transparent, confirming a trend noticed during the congressional and municipal elections in 2006. While the PLD continued its success story at the polls, other important political parties once again lost influence. This was particularly true of the Social Christian Reformist Party (PRSC), whose candidate Amable Aristy Castro won only 4.59% of the vote. However, the Dominican Revolutionary Party (PRD), with candidate Miguel Vargas Maldonado, had to abandon its slight hope of winning the presidency (40.48% of votes).

Despite generally good macroeconomic figures, the government's performance during the period under review was not as good as in its previous two years (2004 – 2006). Instead of concluding the policies started at the beginning of his term, President Fernandez was highly focused on his reelection, which above all meant expanded public expenditures. On the one hand, he financed his campaign with public money (all candidates had access to public funds under the campaign finance law, but not the same resources at their disposal). On the other hand, very expensive projects were prioritized despite their relative lack of urgency (e.g., the construction of the first metro line in the capital Santo Domingo). Therefore, progress toward reducing the country's

many structural problems relating to issues such as education, health and inequality was minimal despite a generally good macroeconomic performance. In general, the period under review can be characterized as a period of economic growth, but social stagnation. No serious improvement in the population's standard of living could be achieved. Insufficient energy supply remains a tremendous problem, as do corruption and discrimination against Haitians. The government has made virtually no progress with respect to introduction of a constitutional reform announced by President Fernandez in October 2006. At the same time, under the Fernandez administration the Dominican Republic has proved to be a reliable international partner, particularly considering Fernandez's mediating role between the presidents of Venezuela and Colombia, Hugo Chavez and Alvaro Uribe, at the Rio Group Summit in March 2008. A responsible political leadership (especially compared to Fernandez's predecessor Mejia) was evident during the successful implementation of a stand-by agreement with the IMF.

## History and Characteristics of Transformation

The assassination of General Rafael Leonidas Trujillo in 1961 ended 30 years of dictatorship, but a military coup in 1963 led in 1965 to a brief civil war and U.S. intervention. In 1966, civilian rule was restored with the election of Joaquin Balaguer, but political development toward democracy remained stagnant for decades as neopatrimonial structures dominated both the state and the economy. Inefficiency in government action, a generally low level of institutionalization, and a lack of professionalism among administrators went hand-in-hand with limited leeway for initiative. There was also no reliable guarantee of fair rules for political competition. Given this lack of procedural legitimacy, disputes between patronage-based parties became permanent and hardened confrontations. The conservative caudillo Balaguer succeeded in maintaining power from 1966 to 1996 (save for a period from 1978 to 1986), in part by exploiting largely nontransparent election processes with close and questionable results. He was elected president six times in his career. Personality-based internal conflicts and frequent splintering weakened opposition parties.

The United States has played a decisive role in encouraging the transformation process in the Dominican Republic. This began with external pressure from the Carter administration, which forced Balaguer to recognize the opposition's electoral victory in 1978, which in turn initiated a short-lived surge of democratization. However, the transformation process stagnated once again after Balaguer returned to power in 1986. As the executive branch tightened its patronage-based grip on certain segments of the economy, it succeeded in perpetuating the conservatives' hold on the presidency. In 1994, the Clinton administration applied additional pressure on the Dominican Republic during the Haiti crisis of that year, which helped make extensive institutional reforms possible and facilitated the end of the Balaguer regime. Since then, there has been significant progress in transformation, not only in establishing the country's first credible regulation of

political competition, but also in improving the human rights situation, favoring the development of a civil society, and significantly reducing neopatrimonial power over business. The government could guarantee competitive elections by implementing institutional reforms in 1994 that were based on a pact among party elites and went unhindered by key actors such as military and church leaders. Thanks to the pact, political contenders and the relevant social groups were more inclined to properly observe the electoral process and recognize its results. Modernizing the judiciary and state administration also helped to enhance electoral and government credibility among the population. The government also took its first really important steps toward free trade by facilitating regional and subcontinental integration.

The dynamic character of democratic transformation in the Dominican Republic is attributed primarily to a willingness and ability to cooperate and compromise on the part of political elites, and on the application of pressure from both civil society and international bodies. The government itself cannot really be credited as exercising profound influence on successful transformation. On the contrary, a neopatrimonialist system has limited the executive's ability to act and the patronage-based operating mechanisms of parties, which in turn induces each new government to slow the pace of transformation. The government did not proactively develop and prescribe a strategy for transformation, but rather, it developed ex post a strategy in response to the interplay of the government, the opposition, and social and external actors.

Though abolished in 1994, immediate re-election for an incumbent president was re-introduced into the Dominican Republic in July 2002, when Article 49 of the national constitution was modified. The PRD – the party chiefly responsible for this modification – had initially advocated eliminating immediate reelection, which it argued was an important step toward greater democracy in the Dominican Republic. PRD President Mejia (2000 – 2004) nonetheless asserted his personal ambitions in 2002, provoking an intraparty conflict that constituted a setback for the democratization process. But the electorate upset Mejia's re-election plans, instead electing Leonel Fernandez Reyna in 2004, who benefited from the re-election option his political rival had introduced by winning the next presidential elections in 2008.

## Transformation Status

### I. Democracy

Since 1961, the process of political transformation has been characterized by authoritarian setbacks and long phases of stagnation. For the past decade, the democratic transformation process has been consistent, and some of the formal and informal restrictions on political participation have been eliminated.

#### 1 | Stateness

The state holds a monopoly on the use of force. This authority is not threatened or challenged by local clan monopolies or guerrilla movements. However, problems connected to drug trafficking and organized crime have grown.

Monopoly on the use of force

The validity of the constitution and the titular nation is unchallenged. However, there is a large minority of Haitian immigrants and of Dominican-Haitians whose political and socioeconomic participation is hampered by both formal and informal barriers; for example, children born to Haitian parents in the Dominican Republic are generally denied registration as citizens. Although there is a formal legal agreement about who is a citizen, this agreement is not safeguarded throughout society.

State identity

The separation of church and state is considered effective in practice, despite the fact that Roman Catholics make up at least 75% of the population. However, the freedom of minority religions is hindered. The Haitian immigrants' religions, with their African origins, have been openly suppressed. The Catholic Church is traditionally one of the most important institutions of power in the country, but religious dogmas play a subordinate role in political life, and they have little influence over the state's actions. However, individual candidates' religious affiliations have time and again become an election issue.

No interference of religious dogmas

The state has a fundamental presence throughout the country with respect to administrative institutions, officeholders, and the basic administration of justice. Although the principle of a civil service career path was introduced by law in 1991, the quality of state administration has been compromised by a high degree of political clientelism and insufficient human capital. Good governance and communication with the public have therefore not improved. The recruitment or

Basic administration

selection of government personnel carries with it a precarious legitimacy and patronage networks and corruption face little opposition. As a result, legislation passed by the central government is sometimes only weakly enforced.

## 2 | Political Participation

Elections are generally free and fair, mainly thanks to increasing civil society engagement, particularly that of the NGO Participación Ciudadana (PC, established in 1994). The PC has contributed significantly to electoral transparency since 1996, and it played a large role in ensuring that the 2004 and 2008 presidential elections were the most transparent in recent history. Thanks to thousands of PC election observers, significant manipulation of the elections was prevented. Furthermore, manipulation was also limited by reforms in the voter registration and vote count process, access by all political parties to the Junta Central Electoral (JCE, the central electoral authority) and voting stations, and by pressure from the United States, EU countries, and domestically from business and other groups. However, electoral fraud and manipulation are a hereditary burden of the Dominican Republic's political system. The JCE is responsible for organizing and conducting elections, and for counting votes and announcing the results, and is also the court of final appeal for all electoral judicial matters. However, its political autonomy is frequently suspect because its members are elected by the Senate for four year terms. Another problem is that JCE does little to limit the abuse of state resources or to enforce laws regarding campaign finance.

Free and fair  
elections

Thus, the question is not whether there have been attempts to manipulate elections, but rather, to what extent elections have been manipulated. Election results have been distorted further and their legitimacy undermined because electoral laws such as the opening of polling places, the guarantee of a secret vote, and the protection against intimidation have not been adequately enforced. Insufficient organization and a lack of adequate equipment, such as missing data on voters' civil status, inadequately updated voter rolls and insufficient availability of voter identification cards have also undermined proper electoral processes. The 2006 congressional and municipal elections made clear that the JCE was not able and probably not willing to resolve these problems. Since voters must cast their vote in the district in which they are registered, some have to travel from their residence to the polling station. In the days before the 2006 elections, some 60,000 voters were moved to other districts in the JCE's voter registry. Moreover, in some parts of the country, activists tried to prevent ballot counting, attempting to nullify the elections. However, it must be pointed out, that despite the PLD's two-thirds majority, the Senate elected the new members of the JCE, satisfying all of the country's three major political parties who achieved some representation on the JCE. The 2008 presidential elections were characterized by international observers as satisfactory, although four people were killed and several injured. Furthermore, some criticism

was expressed of President Fernandez's extensive use of national budgetary funds for his election campaign. In addition, candidates' names were listed on the ballot alongside the name of each political party that supported them, which meant an additional advantage for Fernandez with 12 appearances.

In principle, elected officeholders – essentially the president and congress – have the power to govern. In contrast to many Latin American countries, the military is not a “state within a state,” and is not highly politicized. The high level of centralization has made the subordinate regional and local levels of the administration dependent on the current political leadership of the nation. Hence, local administrations have served as channels for aspiring politicians to rise through the patronage system. In this sense, the parties have functioned as a vertical organizational structure. Also, there has been limited fiscal decentralization.

Effective power to govern

The law provides for freedom of association and assembly, and the government generally respects these rights. Compared to other countries in the region, the Dominican Republic's civil society organizations are some of the best organized, although this cannot be said about labor unions. Nevertheless, legally permitted strikes can be subject to massive government clampdown, as was the case during a general strike in January 2004. Although the general strike in July 2007 was characterized as generally peaceful, an activist was shot and killed by the police.

Association / assembly rights

Freedom of opinion and the press are constitutionally guaranteed and generally respected. Media companies are mostly private and pluralistic, though ownership is highly concentrated. The structure of the mass media provides for a plurality of opinions. There are more than 40 broadcast television stations, and the vast majority of these are operated by private owners. There are five national and a large number of local newspapers. Although it is not restricted, access to the Internet is concentrated in mainly urban areas. During the Mejia administration, journalists were threatened and arrested in several cases, but the situation improved notably during the first two years of the Fernandez government. Nevertheless, in 2007 the level of violence toward the media increased. In particular, journalists reporting on drug trafficking and corruption were endangered and some complained about the lack of security provided to them by the government.

Freedom of expression

### 3 | Rule of Law

The independence and separation of government powers is established by the constitution, but in fact the executive branch has always maintained considerable predominance, in part because of patrimonial control over state resources and executive concentration of authority. Patronage practices were and are one of the government's most important tools of control. Significant improvements have been made since the end of the 1990s, but traditional government patterns persist.

Separation of powers

Although the constitution provides for an independent judiciary, it is politicized and characterized by corruption. Traditions of the rule of law are not highly developed, whether in terms of the rule of law proper or of due process. There have been some internationally supported attempts to reform the judiciary, but the entire judiciary continues to suffer from its weak institutional organization and a lack of financial resources, professionalism, career stability and efficiency. Standards for the separation of powers have not been consistently upheld, and the balance of power has shifted significantly in favor of the executive branch. Recent reforms, such as the new Criminal Procedures Code of 2004, provide for greater efficiency and guarantee additional protections to suspects. However, poor institutional organization, and a lack of equipment, capacity and resources have, as in other developing countries in the region, served to undermine the rule of law. In other words, the inconsistency with which the rule of law or due process is guaranteed cannot always be attributed to intentional or systematic action on the part of the executive branch.

Independent  
judiciary

Prosecution of abuses of office is extremely rare, usually do not result in conviction and have often been politically motivated. Efforts to improve performance in this regard have increased more because of intensified outside pressure from the Organization of American States (OAS) and Inter-American Development Bank (IADB) than because of the government's own initiative. Although the establishment of a department to combat corruption in July 1997 was an unprecedented and important step toward reducing administrative corruption, its effectiveness remains limited because of its small budget. President Fernandez declared combating corruption to be one of his main goals, but after a slight improvement in 2005, perceived corruption was again on the rise and has remained consistently high. According to polls, a large majority of Dominicans believe corruption among politicians to be widespread and about 75% of public functionaries are considered corrupt. Even President Fernandez himself admitted that regular payments were made from the state budget to certain party members since 2005. He justified this measure as an important instrument of social stabilization, considering the demands of his numerous supporters. Therefore, investigation into corruption inside the government does not seem to be tolerated by the authorities, as seen in the case of dismissed Attorney General Guillermo Moreno.

Prosecution of  
office abuse

Civil liberties are guaranteed, and citizens can claim their rights through institutional channels. However, civil rights are still violated in some cases and are not implemented in certain parts of the country. Discrimination against Haitians and Haitian-Dominicans is particularly serious. In spite of legislation, women's civil rights remain a serious problem. In political disputes (e.g., the opposition's efforts at social mobilization, demonstrations, etc.), there are still some sporadic violations by the government's security forces, partly because of low salaries and a high level of corruption throughout the country's law enforcement institutions.

Civil rights

#### 4 | Stability of Democratic Institutions

Democratic institutions perform their functions adequately, but there is a high level of inefficiency due to tensions between institutions. Nevertheless, after having faced a strong opposition by the PRD-dominated parliament in the first two years of his second term (2004 – 2008), since the mid-term election of 2006 President Fernandez (PLD) has been able to rely on a majority for his party in both houses (including a two-thirds majority in the Senate) through 2010.

Performance of democratic institutions

The reintroduction of the possibility of immediate reelection for the president of the republic could be seen as a setback in the democratization process. By approving this measure, the parliament's majority abandoned an important part of the Pact for Democracy. However, considering Mejia's defeat in the presidential elections, it is essential to emphasize the population's democratic rebuttal of such a plan of retaining power. This fact is even more significant in the context of the successful reelection bids by other Latin American presidents such as Alberto Fujimori in Peru and Carlos Menem in Argentina. However, President Fernandez's reelection in 2008 probably contradicts his idea of enhancing Dominican democracy.

No major state, societal, or political actors are committed to the overthrow of democratic institutions. Nevertheless, attempts to manipulate democratic institutions continue. The lack of independence on the part of the judiciary and central bank represents major problems for institutional stability and improved performance. Moreover, the municipal and parliamentary elections of May 2006 showed that the political parties still do not take democratic rules seriously. But despite the fact that individual democratic institutions are not fully accepted by all relevant political actors, significant progress has been made during the transformation process.

Commitment to democratic institutions

#### 5 | Political and Social Integration

The party system remains only slightly fragmented. Despite longtime dominance by the three biggest parties, PRD, PLD and PRSC, only the first has proved to be really strong in winning voter favor. After the 2006 congressional elections and the 2008 presidential elections the dominance of PLD is clear, whereas PRD and particularly PRSC have suffered severe losses. Ideological polarization has receded further, as could be seen by the electoral alliance between PRD and PRSC, historically ideological enemies, in 2006. Power struggles continue between and within the parties. This has been evident within the PLD, where President Fernandez and former Secretary of the Presidency Danilo Medina vied for the presidential candidacy in 2008. The primary election – clearly won by Fernandez – was praised by PLD as an exemplar of democracy. The parties are anchored in society,

Party system

primarily through patronage networks. The tendency toward intraparty splintering or personality cults is typical of a milieu with a patronage-patrimonial bent.

Within the Latin American context, the Dominican Republic's civil society organizations are well organized, but civil society still has little structure compared to EU countries. Furthermore, the extent of participation in civil society groups remains low. Also, labor organizations are extremely weak. However, the number and influence of NGOs have increased in Dominican society in recent years. These groups call explicitly for institutional reforms expanding political participation and improving social inclusion, and work closely with international NGOs. These tendencies, together with the institutional reforms and advances made in protecting human rights, lead us to conclude that the degree of consolidation has improved in some respect.

Interest groups

The data from Latinobarómetro show that citizen consent to democracy is high (73%, as compared to just 64% in 2007), and political protests do not tend to call the constitutional framework into question. In 2008, this result was third best in Latin America.

Consent to democratic norms

Dominican society's ability to organize itself is relatively high. According to surveys, the level of interpersonal trust is above the Latin American average. However, with only 20% of the population trusting in the majority of people, the level of interpersonal trust is not high in absolute terms.

Associational activities

## II. Market Economy

In the 1990s, the Dominican Republic enjoyed strong economic growth with an average growth of 7.7% per year from 1996 to 2000. The service sector overtook agriculture as the economy's largest employer due to growth in tourism and free trade zones (FTZ). However, the contribution of the FTZ to GDP dropped by 20 percentage points between 2003 (65%) and 2007 (45%), mainly due to export slumps in the textile sector. The collapse of one of the country's largest banks, a drop in tourism, and lower U.S. demand for Dominican manufactured goods caused a major financial, economic and social crisis in 2003 and 2004, from which the country recovered during the second administration of President Fernandez (2004 – 2008). Thanks to a renegotiated stand-by agreement with the IMF in 2004, and the government's efforts to facilitate economic growth, macroeconomic performance has improved significantly. The economy returned to a robust growth of 9.3% in 2005, and strong growth continued in the following two years, before decelerating in 2008. According to the figures, combating unemployment was probably the government's major economic success during the period under review, with the rate falling from 18.4% (2004) to 14% (2008 est.). However, the country suffers from

significant income inequality with the poorest 20% of the population receiving about 4% of GNP, while the richest 20% enjoys about 57% of national income. Foreign direct investment rose more than 100% in 2008 mainly due to projects in the manufacturing and the telecommunications sector, while remittances from Dominicans living abroad increased again and the tourism sector continued to grow, albeit moderately. The Dominican Republic's development prospects have not improved yet with the implementation of the free trade agreement with the United States and Central American countries (CAFTA-DR) in March 2007. After two years in force, the agreement seems to be a serious challenge for the Dominican economy.

## 6 | Level of Socioeconomic Development

According to the UNDP's HDI 2008, compiled on the basis of 2006 data, the Dominican Republic was 91st out of 179 countries. The country's level of development does not permit adequate freedom of choice for all residents. Social exclusion due to poverty, education and gender discrimination is quantitatively and qualitatively severe and structurally ingrained. The 750,000 to 1 million Haitians living in the Dominican Republic as an ethnic minority are hit particularly hard by these exclusions. The UNDP's GDI 2008 (2006 data) ranks the Dominican Republic at 76th out of 157 countries. Despite some improvements to welfare in the last decade, poverty assessments make clear that around 15% of Dominicans are still living in extreme poverty (under \$1 a day). Income inequality remained unchanged over the last nine years with a Gini coefficient of 0.52 (survey year 2004). The poorest 20% of the population receives about 4% of the total income, while the richest 20% receives approximately 57%.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	22039.2	34004	35952.8	<b>41316.5</b>
Growth of GDP	%	1.3	9.3	10.7	<b>8.5</b>
Inflation (CPI)	%	51.5	4.2	7.6	<b>6.1</b>
Unemployment	%	18.4	17.9	16.0	<b>15.6</b>
Foreign direct investment	% of GDP	4.1	3.3	4.1	<b>4.1</b>
Export growth	%	3.6	-1.2	0.7	<b>2.4</b>
Import growth	%	5.3	11.3	8.2	<b>11.7</b>

		2004	2005	2006	2007
Current account balance	\$ mn.	1041.5	-473.0	-1287.6	<b>-2067.8</b>
Public debt	\$ mn.	6152.1	6078.5	6439.6	<b>6545.6</b>
External debt	\$ mn.	7301.6	7383.1	8773.6	<b>10342.0</b>
Total debt service	% of GNI	3.9	3.3	4.3	<b>3.5</b>
Cash surplus or deficit	% of GDP	-1.4	-0.5	-1.6	-
Tax Revenue	% of GDP	12.9	14.6	14.8	-
Government consumption	% of GDP	6.2	6.7	7.2	<b>7.4</b>
Public expnd. on edu.	% of GDP	-	-	-	<b>2.4</b>
Public expnd. on health	% of GDP	1.5	1.7	2.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.5	0.7	0.5	<b>0.6</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

Competition in the market economy remains, to some degree, severely over-regulated, and in practice there are often no rules that apply uniformly to all market participants. The executive branch exercises patronage-based control over the economy. There are still price controls on some products (including sugar and agricultural products).

Market-based competition

Monopolies and oligopolies encounter resistance only in some cases. The General Act for the Reform of Public Enterprises of 24 June 1997, which includes antimonopoly provisions and guarantees equal opportunities for domestic and foreign investors, lacks effectiveness. Foreign investors still face more difficulties than Dominican enterprises.

Anti-monopoly policy

Traditionally, the most important features of Dominican foreign trade policy have been high tariffs, protectionism for local enterprises and heavy dependence on the United States. The first important steps toward free trade were taken during the first presidential term of Leonel Fernandez (1996 – 2000). His government relied on regional and subcontinental integration, as embodied in the 1998 free trade agreements with the Caribbean Community and Common Market (CARICOM) and

Liberalization of foreign trade

Central America. Since 2002, free trade agreements have been put into effect with Costa Rica and El Salvador. Negotiations on preferential bilateral agreements with several countries failed to advance significantly in the period under review, but in December 2007 the Dominican Republic and the CARICOM states signed a full Economic Partnership Agreement (EPA) with the European Union. The U.S.-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) was negotiated and signed in 2004. The free trade agreement entered into force for the Dominican Republic on 1 March 2007, but the economy has not yet benefited from the new trade conditions. On the contrary, Dominican companies have suffered losses as they have begun facing serious competition from the United States.

As the banking crisis in 2003 demonstrated, the banking system was structurally worse off than generally believed. Still, the Fernandez government reformed the banking sector, one of the conditions of the standby agreement with the IMF. Among other things, banking supervision was improved and a law on banking risks adopted, so that the fundamentals of the Dominican banking system have been strengthened significantly. Though less developed, the foundations for a capital market are in place. The investment climate, although damaged by the banking crisis, has improved under the Fernandez government, which is to some degree the result of the government's foreign investment policy.

Banking system

## 8 | Currency and Price Stability

Price and currency stability are acknowledged goals of economic policy, but the central bank is autonomous in principle only. Its policies are, de facto, influenced by government decisions, and its mode of action is not particularly transparent. The inflation rate was relatively low until 2002, and its volatility could not be categorized as especially severe. Inflation escalated in 2003 (to 42.7%) and remained high for the next year, but was successfully combated under the Fernandez administration, falling to just 5% in 2006 and reaching about 7% in 2008.

Anti-inflation /  
forex policy

Recent government authorities have clearly tried to preserve macroeconomic stability, including fiscal and debt policy. Contrary to its predecessor, the Fernandez government has been very successful in completing this task. With a focus beyond short-term policies, the government adopted a series of rules to create institutional safeguards. With these measures in place, taken together with the current government's willingness to preserve macroeconomic stability, the risk of populist policy changes can be assessed as relatively low. That said, the government's considerable expenditures during the election campaign contributed to fiscal instability in 2008.

Macrostability

## 9 | Private Property

Property rights and the regulation of the acquisition of property are defined in law, but there are considerable problems with implementation under the rule of law due to corruption, inefficient administration of justice and political intervention.

Property rights

Private enterprise is the backbone of the economy, but is accompanied by both state and semi-state enterprises, although the state as producer has declined considerably since 1990s. Under the Mejia administration, privatizations were frequent, but he also brought electricity back into the public sector after it had been privatized. Under Fernandez, privatizations have continued to constitute an aspect of economic policy.

Private enterprise

## 10 | Welfare Regime

Although macroeconomic figures are very promising, the Fernandez government has not had much success in combating poverty. Measures to avert social risks remain rudimentary and are usually used as populist short-term social policies. They often take the form of subsidized prices (for food, transportation, water, electricity, etc.), subsidized loans (mainly for agriculture), subsidized housing (for few) and subsidized jobs in the bureaucracy. Public health expenditures have grown, but their share of GDP is still very low (1.9% in 2004). There is no social health care system to meet the population's needs. The government has increased the public component of expenditures in the health care sector, but not significantly. It remains not only considerably well below the Latin American average, but below average for every other continent as well.

Social safety nets

Dominican Republic society is distinctly heterogeneous with little equal opportunity. There are great discrepancies in development between urban and rural areas. State institutions compensate for gross social differences, but these measures are not very effective. Equal opportunity for women or Haitian immigrants is not widespread. This is particularly the case for poor women without an income of their own. Their voices are often left unheard within their families and at the community level. Far more women than men emigrate to the cities and to other countries.

Equal opportunity

## 11 | Economic Performance

Economic growth reached an average of 6.5% per year between 2007 and 2008. The inflation rate increased, but remained far below the levels reached at the end of the Mejia administration. Urban unemployment decreased by more than two percentage points between 2006 and 2008. Foreign debt as a percentage of the GDP

Output strength

increased significantly in 2008. The balance of trade deficit continued growing, as exports stagnated and imports boomed again in 2008. Tax revenues increased in 2007, but fell in 2008. After three years of promising results (even reaching a surplus of 0.4% in 2007) the budget deficit returned to a level close to that reached during the crisis in 2004. Foreign direct investment showed remarkable figures in 2008, rising by more than 100%. Remittances by Dominicans living abroad continued to increase (for 2008, \$3.1 billion is expected), and the tourism sector kept on growing. Altogether, economic performance was not as good as two years before, but still relatively solid during the period under review. The economy's potential for growth could be assessed as relatively high, as soon as the effects of the world economic crisis diminish. However, GDP growth of only 1.5% is expected in 2009.

## 12 | Sustainability

The main agencies responsible for environmental protection are the Ministry of Environment and National Resources (which includes a subsecretary of protected areas and biodiversity, amongst others) and the Ministry of Agriculture. Environmental problems in the Dominican Republic include deforestation (although this has been limited by national laws), water supply, soil erosion and coral reef degradation caused by eroding soil entering the sea. Fishing, particularly artisanal overfishing, threatens almost 80% of the country's reefs. In some cases, chemical poisons are used to catch fish and the capacity for enforcing regulations is limited. Moreover, by giving preference to economic growth, mass tourism has grown and brought swelling coastal populations as well as unmanaged development, which affects over half of the reefs. Although tree-felling has been prohibited since 1967, many farmers continue to cut trees surreptitiously to clear land for cultivation. To sum up, environmentally compatible growth is taken into account only at the institutional level, thus subordinating environmental concerns to growth efforts.

Environmental  
policy

There are facilities for education, vocational training, and research and development in important sectors, but they remain highly variable and are substantially deficient. Government spending in these areas is low in both quantity and quality. State expenditures on education increased at the beginning of the millennium to almost 3% of GDP, but fell to about 2% of GDP in the middle of the decade and remain clearly below the Latin American average of 3.5% to 4%.

Education policy /  
R&D

## Transformation Management

### I. Level of Difficulty

Although still substantial, structural constraints on government in the Dominican Republic cannot be considered high compared to many other countries undergoing transformation. However, some structural distortions of a political and socioeconomic nature – in particular the legacies of the patronage and patrimonial systems – continue to exert an influence. The country has a medium level of income. Although Dominican society is not particularly fragmented in terms of ethnicity and is homogeneous in terms of religious beliefs, the Haitian minority, which includes seasonal workers primarily in agriculture and construction, long-standing legal and illegal immigrants, as well as Dominican citizens of Haitian background, remains poorly integrated and exposed to extensive informal discrimination. Social polarization and associated latent social conflicts are still high. The latest available Gini coefficient was at 51.7 in 2004, which indicates a negative trend (47.4 in 1998). According to UNDP's Human Development Report in 2007/08, the prevalence of HIV is at 1.1%.

Structural  
constraints

Civil society traditions are weak, due to decades of neopatrimonial presidential rule. Intermediary entities find it difficult to maintain strength and autonomy, above all against the parties, considering the latter's ability to deliver patronage. However, some recent improvements can be observed inside civil society. Principally, this is due to the NGO Participación Ciudadana (PC), founded in 1994, which has established new forms of an active civil participation in the country's democratization process, especially regarding electoral procedures.

Civil society  
traditions

Dominican society is divided according to conditions of economic and social inequality. Religious or ethnic cleavages – apart from those affecting Haitian immigrants – do not play an important role in society. Social cleavages, until now, have not led to a critical level of social conflict.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

The political leadership does pursue long-term aims, but sometimes postpones them in favor of short-term political benefits. Given the difficult initial framework and the short time frame of the latest surge in transformation, it would be premature to draw conclusions about success and failure regarding political actors' ability to learn from mistakes and change political behavior, or their ability to perceive problems and formulate accordingly policies. On the one hand, some political actors occasionally revert to former patterns of political decision-making. On the other hand, the Fernandez government's policies go beyond mere crisis management and have included an effort to increase the level of democracy by implementing a constitutional reform, though the proposed reform (which is being actively debated in 2009) also includes measures which may permit Fernandez's return and permanently preclude the right of Dominican-Haitians to gain Dominican citizenship. In 2008 President Fernandez was even criticized by various social and political actors for prioritizing this reform on his political agenda, while there was an urgent need for political action to resolve a series of pressing socioeconomic problems.

Prioritization

Although committed to democracy and a market economy, the Fernandez government has enjoyed only limited success in implementing its announced reforms. Such was the case in the adoption of a short-lived and unsatisfactory tax reform. The difficulties in adopting the constitutional reform provide evidence that the government has not been able to induce profound change, and can only advance slowly. A two-thirds majority – required to reform the constitution – exists only in the Senate, and the success of President Fernandez's proposal thus depends on votes from the opposition. Still, the essential obstacle has been opposition inside the governing party, the PLD. Former Secretary of State Danilo Medina, who controls large parts of the PLD, has opposed himself to the constitutional reform.

Implementation

To a certain degree, the political leadership responds to mistakes and failed policies with changes, but its policy frequently remains stuck in the same routines. Although willingness is evident and there have been indisputable improvements, political elites are nonetheless responsible for failing to avoid partisan battles. President Fernandez can benefit from the experiences of his first (1996 – 2000) and second (2004 – 2008) terms.

Policy learning

## 15 | Resource Efficiency

Despite the lack of options for rapid and thorough progress in socioeconomic development, and despite the shortage of available resources for expediting democratic transformation such as expanding the rule of law, increasing political participation and reducing corruption, the government has used its resources rather efficiently. However, much potential remains untapped, and the government does not focus enough on these tasks. Inefficient use of government administrative personnel remains a severe problem. The same applies to administrative organization and recently to use of budget resources. Although the Fernandez government was appreciated by the international community for an efficient use of budget resources, high electoral campaign costs, payments to PLD partisans and the construction of a short metro line for a cost of approximately €500 million raised serious doubts as to the government's sense of responsibility. The expense and uncertainty of electricity generation and distribution continue to be significant problems for the country's further development. The Dominican Republic is highly dependent on oil for its energy supply, which poses major problems for the population. Despite the government's repeated pledges to resolve this problem, no reasonable solution has been found to date. Furthermore, the government and private enterprises continue to hold each other responsible for this unsatisfactory situation. Additionally, the political class continues to divert resources for its own advantage.

Efficient use of assets

The Fernandez government has coordinated conflicting objectives and interests better than its predecessor, but success has been limited. Intra-party friction, redundancies and lacunae are evident. Given the traditional patronage-oriented patterns of control, there is still a risk that every government will make use of them in the interest of short-term political gains.

Policy coordination

Corruption is a fundamental characteristic of the administrative and state culture. The police and the armed forces are characterized by a high level of corruption. The state's battle with corruption cannot be won as long as the government itself continues to benefit from the traditional mechanisms of corruption. In his inaugural address in 2004, President Fernandez pledged his government to a program of austerity, promising large cuts in government hiring and spending, both of which were significant in his predecessor's administration. However, extensive payments to PLD partisans and the financing of Fernandez's electoral campaign through considerable public spending revealed a completely different picture. Altogether, the battle against corruption and the enhancement of state financial transparency have not advanced significantly. There is a department authorized to combat corruption, but it needs more political and financial support from the government to be effective. In his inaugural address in 2008, President Fernandez repeatedly promised to do his best to fight corruption, but it is doubtful whether his intention goes beyond mere rhetoric.

Anti-corruption policy

## 16 | Consensus-Building

There is consensus in terms of the need for both a market economy and democracy. The 1994 Pact for Democracy represented an agreement between the political parties and a number of relevant social groups (including the Catholic Church) that was unique in the country's history. Since then, the actors in question have essentially backed the transformational goals of democracy and a market economy. None of the actors who are skeptical about transformation, such as the military, has enough obstructive capability to count as a veto power. Their resistance consists of stalling and applying the brakes.

Consensus on goals

Anti-democratic veto actors are mostly under control, or at least their ability to cause obstructions seems to be nil. None of the actors who are skeptical about transformation, such as the military, has enough obstructive capability to count as a veto power. Their resistance consists of stalling and applying the brakes.

Anti-democratic veto actors

Because of the country's extreme social polarization, considerable potential for conflict has been growing over the decades. Although polarization increased due to the economic crisis, the situation improved to a certain degree and stabilized during the period under review. The government is trying to prevent cleavage-based conflicts from escalating, but is more focused on short-term measures than on changing social structures.

Cleavage / conflict management

Although the political leadership formulates its policy autonomously and has frequently ignored civil society actors, it has tried to involve them in the current debate over constitutional reform. It remains doubtful whether civil society's input will significantly influence the reform, but at least the authorities have learned to accept the new role of civil society. This is illustrated particularly well in the case of election monitoring, above all by the NGO Participación Ciudadana (PC). It was also because of PC that the congressional and municipal elections in 2006, as well as the presidential elections in 2008, were transparent; despite some progress, the JCE electoral authority proved itself unable to provide a transparent, accessible process, open to observation by party actors or others at voting stations through all steps of the vote count.

Civil society participation

Taking into account past acts of injustice, there is still a need for a process of reconciliation. Nevertheless, it seems difficult to expect acknowledgement of government-perpetrated acts of injustice under the Balaguer regime, because former collaborators and adherents are still present among the political elites, and their cooperation is needed to achieve transformational goals. Even in regard to the Trujillo dictatorship, which ended in 1961, there has been no comprehensive social processing or generalized policy of reconciliation to date.

Reconciliation

## 17 | International Cooperation

The political leadership works with bilateral or multilateral international donors and tries to make use of international assistance, but this does not always facilitate significant policy learning and improvement. Undoubtedly, one of the strengths of the transformation process to date has been the willingness of state and non-state actors to cooperate internationally and transnationally. The Dominican Republic belongs to the United Nations and many of its specialized and related agencies, including the World Bank, the International Labor Organization, the International Atomic Energy Agency, and the International Civil Aviation Organization. The first Fernandez government (1996 – 2000) and the Mejia administration (2000 – 2004) were highly committed to advancing the Dominican Republic's integration into the world market. The current Fernandez government has tried to advance in the same way. In addition, both presidents made use of their partners' skills (e.g., election observers, advice on institutional reforms) and offers of material resources (e.g., technical and financial cooperation) to facilitate transformation.

Effective use of support

Despite some deterioration in the Dominican Republic's international standing due to the economic crisis of 2003 – 2004, macroeconomic stabilization (price and currency stability, reduction of foreign debt, privatization laws) achieved in the 1990s remains an important reason why external actors applaud their Dominican partners' willingness to cooperate internationally. In fact, the United States signed a free trade agreement with the Dominican Republic (CAFTA-DR), even though the smaller partner was in the midst of a recession. The country's reputation for reliability and credibility remains solid in international and transnational opinion. The Fernandez government renegotiated the canceled stand-by agreement with the IMF and successfully completed it after three years in January 2008. As a result, at the end of 2008 the IMF began post-program monitoring discussions with the government.

Credibility

The political leadership works actively and successfully to establish and broaden as many cooperative relations as possible. This strategy has already led to several successes, including the signing of free trade agreements with CARICOM, Central America, Costa Rica, El Salvador and the United States. In December 2007 the Dominican Republic and CARICOM signed a full Economic Partnership Agreement (EPA) with the European Union. However, the country's relationship with Haiti is still complicated. The Dominican Republic has been criticized by the OAS and the Inter-American Court of Human Rights, among others, for its treatment of Haitian immigrants. Although President Fernandez recognized that the methods of treatment did not always correspond to international norms, he complained about a lack of support from the international community.

Regional cooperation

## Strategic Outlook

Unlike the preceding biennium, the period under review did not see new dynamism emerge in terms of transformation toward a market-based democracy and a market economy. Hence, an important series of problems remains unresolved.

First, despite a certain advance in market economic development and impressive macroeconomic figures, the government has not focused enough on the population's needs. Economic policies should not consider only the requirements of the IMF, although these are very important and the government has shown a great deal of responsibility in this regard. However, the political authorities should address such key problems as energy supply, health care, education and unemployment (which has been reduced, but remains high). For example, problems related to the free trade zones (FTZ), which arose in connection with the expiration of the so-called Multi-Fiber Agreement of 1 January 2005, were predictable, and a solution is still required. During the period under review, the FTZ – for a long time one of the motors of Dominican export growth, especially because of textile production – continued suffering export slumps. With a decrease of 19% in 2008, the textile sector was on the decline for the fourth year in a row. Generally, government policies should focus much more on structural problems rather than short-term, clientele-oriented measures. Regardless of the fall of petroleum prices, the government has to make a greater effort to improve the energy supply and resolve the problems of the electricity sector, such as high costs and uncertainty of electricity generation and distribution. Institutional arrangements made since 1997 are insufficient, and the government must guarantee much better financing. Considering the volatility of petroleum prices, diminishing the Dominican Republic's dependence on oil is one of the key related tasks.

Secondly, despite an improvement in the human rights situation under the Fernandez administration, the government must accept that treatment of Dominican-Haitians and of Haitian immigrants is frequently inhumane, and that there is a need for an entirely new policy. This should include, but should by no means be limited to, better living conditions, integration measures and citizenship legislation. Unfortunately, the proposed new constitution will rather try to preclude any path to citizenship. Furthermore, the political authorities should focus their efforts on fighting corruption, and strengthen the anti-corruption department by providing appropriate political and financial support. Since this department has been established, the number of corruption cases detected – not combated – has increased.

Thirdly, given the context of macroeconomic stability, a parliamentary majority, and increased international trust, the government has had the rare opportunity to accelerate the reform process. However, the world economic crisis has put this macroeconomic stability in danger (e.g., GDP growth is expected to fall to around 1.5% in 2009) and the leeway for government action seems to have been reduced. Moreover, despite initial optimism, the Dominican economy has not yet benefited from the free trade agreement with the United States. The world economic crisis is also

likely to negatively impact the tourism sector, one of the pillars of the country's economy. Nevertheless, and compared to many other administrations in Latin America, the Fernandez government still has the chance to implement structural improvements. Some endeavors, such as an appropriate constitutional reform, would clearly constitute an important step toward greater democracy. Some of the biggest challenges still have to be met; an extensive tax reform is required, the financial sector is in need of profound restructuring, and the central bank needs greater autonomy. Also, the Junta Central Electoral (JCE) is not only expected to cooperate with civil society, as already announced, but to distinguish itself as an autonomous, effective and transparent electoral authority.

Finally, political leaders have the responsibility to agree on key strategic questions, regardless of their personal ambitions. Intraparty divisions inside the PLD, in which President Fernandez and former Secretary of the Presidency Medina both aspired to represent their party in the 2008 presidential elections, have led to setbacks in the reform process. The current political leaders should not allow politics to impede policies, especially since they might draw lessons from their country's recent history.