The power of regional trade

INTERVIEW WITH JOSÉ DEL CASTILLO SAVIÑÓN

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JOSÉ DEL CASTILLO SAVIÑÓN graduated in Law from Pontificia Universidad Católica Madre y Maestra University, from which he also received a Master's in Economic Legislation and Business Law. In addition to his legal advisory firm Gabinete Economico S.A., which provides legal advice to private and public enterprises in trade, foreign investment, government relations and communications, in 2011 Mr Del Castillo was appointed Vice Minister of Industry and Commerce for Fuels and Mining, before assuming his current role in the government of President Danilo Medina in August 2012.

More than 95 per cent of businesses in the Dominican Republic are small and medium-sized enterprises (SMEs), generating more than two million jobs and accounting for 30 per cent of the country's GDP. What is the ministry doing to help this vital sector?

Within days of taking office we set about implementing measures to help micro and SMEs which, as you say, are the backbone of the country's industrial and commercial sectors. One of the main problems micro and SMEs face is barriers when trying to access credit, and for that reason we are in the process of identifying potential new financial resources for these enterprises. In this regard, we have established a fund and created the Solidarity Bank, which is helping to meet the needs of SMEs.

In October 2013, the government launched a one-stop shop to facilitate the starting of new businesses and formalising the existing ones, because we should remember that more than 50 per cent of jobs are still in the informal sector. Our goal is also to encourage the formalisation of small, micro and medium-sized businesses currently operating in the shadow economy. Previously, it took up to a month to set up a company, involving multiple money transfers, three forms, and four visits to different offices. Now the process to set up a company takes just seven working days, and requires just one transfer to the Chamber of Commerce.

How are the various free trade agreements (FTAs) signed with the US and EU, along with the country's Free Trade Zones (FTZs), impacting on trade and investment?

The Dominican Republic has four FTAs in force. Most of our trade is carried out through these agreements. Exports to the US and the EU are at record highs. Investment comes mostly from those same sources, although Brazil, Mexico, Colombia and Venezuela are growing fast in importance.

With Haiti, our second most important export market at the moment, we hope to strengthen our regional ties in the context of our Economic Partnership Agreement (EPA) with the EU, which includes a regional preference clause to that effect. By virtue of this clause, what the DR gave the EU will be extended to Haiti and vice-versa. However, this requires Haiti to ratify the EPA, which has been pending since 2009.

The new strategy for trade negotiations envisages our developing closer ties with countries like Canada, Colombia, Chile, Mexico and other regional trading blocs. These are necessary requirements for us to consolidate our potential to become the logistics hub of the Americas.

The key policy of encouraging FDI through the expansion of FTAs and the development of FTZs has been a significant success. As a signatory to several major international trade pacts, the Dominican Republic has attracted the interest of larger markets as a result of its productive capacity and its enviable location between North and South America, en route to the Panama Canal from Europe and other markets around the world.

The FTAs give us duty-free access to the largest consumer markets with greater purchasing power. Furthermore, these facilities place us on equal terms with Central American countries. Also, these treaties provide us with an environment of greater legal certainty, which is a further incentive for investment. What's more, these treaties can be beneficial in so much as they oblige our manufacturers to compete more effectively by offering products that meet the standards demanded by these countries. In the agricultural sector, for example, there is still a lot of potential for us to reap the benefits of these treaties.

We are also trying to boost our mining exports, a sector designated as strategic by the government. For example, the implementation of the Pueblo Viejo gold mining project will add more than US$2 billion to our overall export figures in 2016, which represents a 20 per cent increase in our exports. The government also aims to provide continuity to the Export Processing Zone (EPZ) scheme to further attract FDI into the Dominican Republic, especially in the manufacturing sphere.

The Dominican Republic currently holds the presidency of the Community of Latin American and Caribbean States (CELAC), which puts increasing regional trade as one of its primary goals. Is the Dominican Republic making the most of the potential to boost its exports to the region?

Obviously, our biggest export market is by far the United States: nearly 60 per cent of our exports go there. After that, it's Haiti and the EU, the main destinations for goods produced in the DR. In total, we are talking about exports worth US$9.6 billion last year. Unfortunately, one of the main challenges we face in increasing our share of trade with some of our regional neighbours is the protectionist policies they still pursue. This has to do with the scale of their economies: they cannot compete with us on price, so they protect their markets. They see us a power in the region, the biggest economy in the Caribbean region, for instance, and in many ways as a threat to them. The other difficulty is lack of connectivity. We do not have fast, efficient ways to get our goods to these regional markets. Transport costs are high. The Caribbean should be a natural market for us, but it isn't. We want to diversify our export markets, but until these two issues are addressed, we'll have to look further afield. We are looking at Russia particularly, as well as China and Asia, for luxury goods such as rum, organic cocoa, and cigars: we control 40 per cent of the world cigarette and cigar market. They are our second biggest agroindustrial export.

What is being done to improve tax collection?

The informal economy is the key challenge here. This is why part of the measures we've introduced are fostering people working in the shadow economy to formalise SMEs while making it simpler for them to pay their taxes. What's more, we have tax scales so that smaller firms pay a lower rate of tax.

On the issue of unfair competitive advantages of companies operating in FTZs, they are entitled to sell part of their production to the domestic market, and recently adopted legislation has approved a 2.5 per cent tax on these companies' activities in the local market that effectively constitutes an income tax. Such a move aims to eradicate potentially unfair competition. We believe that the EPZ scheme should be continued, because it currently generates 130,000 direct jobs and over US$4 billion in exports.

The first meeting of the Quisqueya Binational Economic Council (CEBQ) to facilitate the development of the Haiti/DR border area, took place in November, between leaders of the private sectors of Haiti and the Dominican Republic. Given the current uncertainty in Haiti, how confident are you that this initiative can gain traction?

As you know, Haiti is in the midst of a major political crisis and this has interrupted the talks. We understand the difficulties they face, but our more immediate priority is to deal with the Haitian ban on Dominican imports. These sanctions could end up costing us US$500 million in lost exports over the year. As part of ongoing trade talks, our two governments agreed to enhance commercial trade and normalise ground transport of goods. Even though there have been political problems between the Dominican Republic and Haiti, trade between our two nations continues on a daily basis, although much of it is smuggling. We will be able, through this agreement on trade, to fight against smuggling – the scourge that hinders economic development in Haiti. Estimates suggest Haiti loses more than US$300 million because of smuggling. The only way to fix it and to help build a stronger Haiti, one that can be a better business partner for all the countries in the region, is to sit down and talk. The private sectors in both countries have asked their respective governments to work faster toward the ratification of mechanisms for tariff harmonisation, taking into account existing regional trade agreements.

In recent years the DR has begun developing closer ties with China. How has the trade relationship been affected by China's economic slowdown?

China is not a key export market for us yet, in fact it's our competitor in terms of manufacturing. Recently, we have been benefitting from increased labour costs in China, particularly in textiles. China has been hit by different factors that have pushed up its manufacturing costs, which has allowed us to position ourselves better, particularly in the FTZs, where we have created 46,000 jobs in recent years. So, the slowdown has not had a negative effect, in fact, it has helped us. That said, over the last few years, we have increased diplomatic and trade relations with China, and we now have mutual commercial representative offices here and there. At the same time, we are organising official visits between both countries to improve trade links. Trade relations will increase as we move forward, and as I said, we are focusing on increasing exports to China. There are many opportunities for both countries to develop commercial and industrial ties, particularly in the mining and energy sectors.

Looking to the future, which sectors do you expect to drive sustained economic growth in the Dominican Republic?

We are looking at developing non-traditional areas, and we will do this through the FTZs. As I just mentioned, we want to increase our share of textiles exports, and jewellery, medical instruments, pharmaceuticals, electrical and electronic components, are already at the top of our export list. Moreover, we're strengthening our presence in Europe through organic products, particularly cocoa and banana, as well as tropical fruits and vegetables. We also have potential in heavy industry, as well as technology, and we are talking to [Taiwanese electronics giant] Foxconn about setting up an assembly plant. We also need to set up clusters to link education, technology, and manufacturing to foster innovation. F

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