

# BTI 2008 | Dominican Republic

## Country Report

<b>Status Index</b>	1-10	<b>6.80</b>	# 36 of 125	
Democracy	1-10	7.60	# 31 of 125	➔
Market Economy	1-10	6.00	# 54 of 125	↗
<b>Management Index</b>	1-10	<b>5.67</b>	# 44 of 125	

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

This report is part of the Bertelsmann Transformation Index (BTI) 2008. 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 125 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	8.9	HDI	0.75	GDP p.c.	\$	7,311
Pop. growth <sup>1</sup>	% p.a.	1.4	HDI rank of 177	94	Gini Index		51.6
Life expectancy	years	68	UN Education Index	0.83	Poverty <sup>3</sup>	%	16.2
Urban population	%	66.8	Gender equality <sup>2</sup>	-	Aid per capita	\$	8.7

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

In May 2006, the Dominican Liberation Party (PLD) of President Leonel Fernandez won the congressional and municipal elections, and it now holds an absolute majority in the Chamber of Deputies and a two-thirds majority in the Senate. As a result, in the second half of his term, Fernandez will have more opportunities to introduce reforms than during the first two years of his administration, when the parliament was dominated by the opposition. Constitutional reforms, however, will require the opposition's support, since a two-thirds majority is required in both chambers. The 2006 elections turned out to be particularly interesting in the country's history, not only because of the PLD's extraordinary results, but also due to the electoral coalition between the Dominican Revolutionary Party (PRD) and the Social Christian Reformist Party (PRSC); the two parties have been ideological rivals for decades. This alliance faced a coalition comprised of the PLD and some small parties without any real political weight at the national level. The election results were extremely disappointing for the PRSC in particular, but it is too early to judge whether the party has lost its significance in the political landscape. Altogether, the Fernandez government has been responsible for a good performance during the period under review, and progress has been evident in some of the key areas. Above all, the Dominican economy recovered from a recession following the severe banking crisis in 2003. Fernandez, with an experience of a successful presidency during his first term (1996 – 2000), could not only convince by introducing short-term measures, but also by aiming at fundamental improvements, even though with less achievements. In October 2006, Fernandez announced a constitutional reform, which would include an extensive reduction of the presidential powers by modifying Article 55 of the national constitution. The present assessment concludes that in terms of the absolute accomplishment of goals over the past two years, there has been some progress in political transformation, but much more in economic development. The latter can be contributed to the Fernandez

government. The Fernandez administration can be evaluated better than its predecessor, not only because of better macroeconomic figures, but also in view of a more responsible political leadership. The renegotiated and mostly implemented stand-by agreement with the IMF is one of the most striking examples of the government's good performance. Nevertheless, most of the structural problems remain unresolved, and the standard of living has not improved significantly. Corruption has continued to rise, there has been only slight improvement in the human rights situation, and the energy supply is still insufficient.

## 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 to civil war and U.S. intervention. In 1966, civilian rule was restored with the election of Joaquin Balaguer. However, the Dominican Republic's political development toward democracy remained stagnant for decades. 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 and an absence of dynamism in the private sector. There was no reliable guarantee of fair rules for political competition. Given this lack of procedural legitimacy, disputes between patronage-based parties became permanent, hardened confrontations. The conservative Caudillo Balaguer succeeded in maintaining power from 1966 to 1996 (save for a period from 1978 to 1986) 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 role of the United States was decisive in encouraging the transformation process in the Dominican Republic. First, external pressure from the Carter administration 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. The executive branch tightened its patronage-based grip on certain segments of the economy. This grip was successfully employed to perpetuate the conservatives' hold on the presidency. Secondly, the Clinton administration applied additional pressure on the Dominican Republic during the Haiti crisis of 1994, which made extensive institutional reforms possible and brought an end to 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 important steps toward free trade by facilitating regional and sub-continental 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 the central influence on successful transformation. On the contrary, neopatrimonialism has limited the executive's room to maneuver and the patronage-based operating mechanisms of parties, which in turn induces each new government to slow the pace of transformation. Thus, the government did not pro-actively 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, originally, advocated eliminating immediate re-election, which it argued was an important step toward greater democracy in the Dominican Republic. Nevertheless, President Mejia (2000 – 2004) asserted his personal ambitions, provoking an intra-party conflict, which constituted a setback for the democratization process.

## 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 has eliminated some of the formal and informal restrictions on political participation.

#### 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 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. Improving this situation by introducing new citizenship legislation is one of the major topics of the constitutional reform proposed by President Fernandez. Although there is a formal legal agreement about who is a citizen, this agreement is not safeguarded throughout the society.

State identity

There is separation of church and state. This separation is considered effective in practice, despite the fact that 98% of the population is Roman Catholic. 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. Yet individual candidates' own religious affiliations have time and again become an election issue.

No interference of religious dogmas

The state has a fundamental presence throughout the country manifest in administrative institutions, officeholders, and the basic administration of justice. Although the principle of a formalized administrative career was introduced by law in 1991, the quality of administration has been compromised by weak administrative laws, a high degree of political clientelism, and insufficient human

Basic administration

capital. Good governance and communication with the public have therefore not improved. The recruitment or 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 enforced only spottily.

## 2 | Political Participation

Elections are generally free and fair. However, electoral fraud and manipulation are a hereditary burden of the Dominican Republic's political system. The Junta Central Electoral (JCE), the central legal election authority, is responsible for organizing and conducting elections, and for counting votes and announcing the results; however, it lacks independence because its members are elected by the Senate. 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, 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 absent data on civil status, inadequately updated voter rolls and under-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. It remains unclear why, but in the days before the 2006 elections, some 60,000 voters were moved to other districts in the JCE's voters registry. Moreover, in some parts of the country, activists tried to prevent ballot counting, attempting to nullify the elections. It may, however, be promising for future elections that the Senate, despite the PLD's two-thirds majority, elected the new members of the JCE, satisfying virtually all of the country's political parties. Thanks to increasing civil society engagement, particularly that of the Haitian NGO Participacion Ciudadana (PC, est. 1994), the elections were free and fair. The PC has contributed significantly to the electoral transparency since 1996, and it is primarily because of the PC that the 2004 presidential election was the most transparent in recent history. Thanks also to the PC's 3500 election observers, significant manipulation of the 2006 elections was prevented.

Free and fair  
elections

In principle, elected officeholders – essentially the president and parliament – 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,

Effective power  
to govern

local administrations have served as channels for aspiring politicians to rise through the patronage system. Here the parties have functioned as a vertical organizational structure.

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 and labor unions are some of the best organized. Nevertheless, legally permitted strikes might be subject to massive government clampdown, as was the case during a general strike in January 2004.

Association /  
assembly rights

Freedom of opinion and the press are constitutionally guaranteed and generally respected. The media 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 television broadcast 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 has improved notably under the new 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, not least of all because of the patrimonial manner in which the economy is controlled. Patronage practices were and are one of the government's most important tools of control. There have been significant improvements made since the end of the 1990s, but traditional government patterns persist. Still, the constitutional reform proposed by President Fernandez seeks to reduce the powers of the executive branch.

Separation of  
powers

Although the constitution provides for an independent judiciary, it is politicized and characterized by corruption. Rule of law traditions are not highly developed, whether in terms of the rule of law proper or in due process. There have been some internationally supported attempts to reform the judiciary. Yet, the entire judiciary is institutionally impoverished in terms of its organization, financial resources, professionalism, career stability and efficiency. Standards for the separation of powers have by no means been consistently immune to interference, 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, insufficient organization, equipment, capacity and resources have, as in

Independent  
judiciary

other developing countries in the region, damaged the rule of law most. Hence, restrictions on the rule of law have not always been a consequence of intentional or systematic action on the part of the executive branch. Nevertheless, the net result is that there is no consistent guarantee of the rule of law or due process.

Prosecution of abuses of office is the exception that proves the rule, and such prosecutions 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 establishing the department to combat corruption in July 1997 was an unprecedented and important step toward reducing administrative corruption, its effectiveness remains limited because of its low budget. President Fernandez declared that combating corruption is one of his main goals, but after a slight improvement in 2005, perceived corruption was again on the rise. According to polls, a large majority (84%) of Dominicans believe that corruption among politicians is widespread.

Prosecution of  
office abuse

Civil liberties are guaranteed and citizens can claim their rights in institutional channels. However, civil rights are still violated in some cases and are not implemented in certain parts of the country. Discrimination against women remains a serious problem, as does the case of Haitian immigrants. 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 the institutions. Nevertheless, after having faced a strong opposition by the PRD-dominated parliament in the first two years of his term, President Fernandez (PLD) can rely on his party's majority in both houses (including a two-thirds majority in the Senate).

Performance of  
democratic  
institutions

The lack of independence of the judiciary, as well as of the central bank, represents major problems for institutional stability and improved performance. Moreover, the municipal and parliamentary elections of May 2006 have shown that the political parties still do not take democratic rules seriously. But, despite the fact that individual institutions of the democratic state 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 – dominated by the three biggest parties, the PRD, PLD and PRSC – remains only slightly fragmented. Alliance for Democracy (APD) has the potential to become a further relevant actor in the party landscape. For the first time, three mayors from the APD were elected in the May 2006 municipal elections. Ideological polarization has receded further, as can be seen by the electoral alliance between the historically ideological enemies PRD and PRSC. Power struggles continue between and within the parties. The latter is evident within the PLD, where President Fernandez and former Secretary of the Presidency Danilo Medina are vying for the presidential candidacy in 2008. The parties are anchored in society, primarily through patronage networks. The tendency toward intra-party splintering or personality cults is typical of a milieu with a patronage-patrimonial bent.

Party system

Within the Latin American context, civil society organizations are well organized, but civil society still has little structure compared to EU countries. However, the number and influence of NGOs have increased in Dominican society in recent years. These groups call explicitly for institutional reforms to expand political participation and to improve social inclusion, and they work closely with international NGOs. These tendencies, together with the institutional reforms and advances in protecting human rights, lead us to conclude that the degree of consolidation has improved in some respect.

Interest groups

The data from Latinobarometro show that citizen consent to democracy is high (71%, after only 60% in 2005), and political protests do not tend to call the constitutional framework into question. In 2006, this result was fourth 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 27% of the population trusting in the majority of people, the level of interpersonal trust is not high.

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. In recent years, the service sector has overtaken agriculture as the economy's largest employer due to growth in tourism and free trade zones. 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 is just now emerging. Thanks to a renegotiated standby 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 into the first half of 2006. However, unemployment remains high (16%, 2006 est.) and the country suffers from significant income inequality with the poorest 20% of the population receiving about 4% of GNP, while the richest 20% enjoys almost 60% of national income. Foreign direct investment has reached levels similar to those prior to the crisis, while payments sent home by Dominicans living abroad increased again and the tourism sector continued to boom. The Dominican Republic's development prospects improved with the ratification of a free trade agreement with the United States and Central American countries (CAFTA-DR) in 2005; this agreement enters into force on 1 March 2007.

## 6 | Level of Socioeconomic Development

According to the UNDP's HDI 2006, compiled on the basis of 2004 data, the Dominican Republic is 94th out of 177 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 2006 ranks the Dominican Republic at 94 out of 136 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 seven years with a Gini coefficient of 0.52 (survey year 2003). The poorest 20% of the population receive about 4% of the total income, while the richest 20% receive approximately 57%.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	21,625	16,325	18,452	<b>29,502</b>
Growth of GDP	%	4.4	-1.9	2.0	<b>9.3</b>
Inflation (CPI)	%	5.2	27.4	51.5	<b>4.2</b>
Unemployment	%	16.1	16.7	18.4	-

		2002	2003	2004	2005
Foreign direct investment	% of GDP	4.2	3.8	4.9	<b>3.5</b>
Export growth	%	-3.2	7.9	7.6	<b>6.1</b>
Import growth	%	0.8	-14.4	-1.2	<b>14.2</b>
Current account balance	\$ mn.	-797.9	1036.2	1047.1	<b>-500.3</b>
Public debt	\$ mn.	4,029.9	5,080.6	5,815.2	<b>6,092.6</b>
External debt	\$ mn.	6,251.4	6,294.7	6,964.7	<b>7,397.6</b>
External debt service	% of GNI	3.3	6.2	4.5	<b>3.2</b>
Cash surplus or deficit	% of GDP	-0.2	1.4	-0.7	-
Tax Revenue	% of GDP	15.7	14.7	15.1	-
Government consumption	% of GDP	9.3	8.6	8.7	<b>9.8</b>
Public expnd. on edu.	% of GDP	2.3	2.3	1.2	<b>1.8</b>
Public expnd. on health	% of GDP	2.0	1.9	1.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.1	0.7	0.5	<b>0.5</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | 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 anti-monopoly 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

Liberalization of foreign trade

first presidency of Leonel Fernandez (1996 – 2000). His government relied on regional and sub-continental integration, as embodied in the 1998 free trade agreements with the Caribbean Community and Common Market (CARICOM) and Central America. Since 2002, free trade agreements have been put into effect with Costa Rica and El Salvador. The Dominican Republic is a member of the Free Trade Area of the Americas (FTAA). The U.S.-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) was negotiated and signed in 2004. The free trade agreement enters into force for the Dominican Republic on 1 March 2007 and is expected to have a further impact on sustainable growth in the free trade zone sector.

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 a standby agreement with the IMF. Among other things, banking supervision was improved and a law on banking risks adopted. The capital market is less developed, but the foundations exist. The investment climate, although damaged by the banking crisis, has improved during the period under review, 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 (42.7%) and remained high for the next year, but was successfully combated during the period under review, reaching only about 4% in 2006.

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 was very successful in completing this task. Concentrating not only on short-term policies, the government adopted a series of rules to create institutional safeguards. According to these measures, together with the current government's willingness to preserve the macroeconomic stability, the risk of populist policy changes can be assessed as relatively low.

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 accompanied by both state and semi-state enterprises. Since the implementation of the General Act for the Reform of Public Enterprises in 1997, at least 50% of an enterprise must be retained by the state. Privatizations continue to constitute an aspect of economic policy.

Private  
enterprise

## 10 | Welfare Regime

Although macroeconomic figures are very promising, the Fernandez government has not been successful 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 (2.3% in 2003). 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

Society is distinctly heterogeneous, and equal opportunity often does not exist. 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 women from the poorer segments of the population, who have no income of their own. They also have less of a voice in decisions, both in the family 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 a 9.6% average between 2005 and 2006. The inflation rate was almost four times lower in 2005 than a year before. Urban unemployment decreased two percentage points between 2004 and 2006. Foreign debt's percentage of the GDP is similar to the levels prior to the economic crisis. The balance of trade deficits increased during the period under review, as imports have grown significantly. Tax revenues were lower than expected by the government. The budget deficit is under control and foreign investment has grown. Remittances by Dominicans living abroad continued to increase (for 2006, \$2.5 billion is expected), and the tourism sector has continued to grow. Altogether, economic performance has clearly improved during the period under review.

Output strength

## 12 | Sustainability

The main agencies responsible for environmental protection are the Department of National Parks and the Department of State for Agriculture. Environmental problems in the Dominican Republic include deforestation, 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, 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 have increased and are about 3% of GDP, but still remain below the Latin American average of 3.5% to 4%.

Education policy  
/ R&D

## Transformation Management

### I. Level of Difficulty

Although still considerable, the structural constraints on government cannot be considered high compared to many other countries undergoing transformation. However, some structural distortions of a political and socioeconomic nature continue to exert an influence, in particular the legacies of the patronage and patrimonial systems. The country has a medium level of income. Although Dominican society is not particularly fragmented in terms of ethnicity and it 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 2003, which indicates a negative trend (47.4 in 1998). The prevalence of HIV is at 1.1%, which ranks the Dominican Republic at 94 out of 177 countries in UNDP's Human Development Report 2006.

Structural  
constraints

The traditions of civil society are weak, and this is 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. Some improvements, however, can be observed inside civil society. Principally, this is due to the NGO Participacion Ciudadana (PC), founded in 1994, that has established new forms of an active civil participation in the country's democratization process, especially regarding the electoral procedures.

Civil society  
traditions

Dominican society is divided according to conditions of economic and social inequality. Religious or ethnic cleavages – apart from the 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 it 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 the political actors' ability to learn from mistakes and change political behavior for perceiving problems and formulating 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 include an effort to increase the level of democracy by implementing a constitutional reform.

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 shortened and unsatisfactory tax reform. Nevertheless, the leeway for political action has increased significantly after the parliamentary elections, since Congress is dominated by President Fernandez's PLD. At the same time, Fernandez faces opposition inside the PLD. The situation is particularly complicated because his opponent for the next presidential elections, Danilo Medina, controls large parts of the PLD. Still, the Fernandez government is more successful than its predecessor.

Implementation

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 are indisputable improvements, political elites are nonetheless responsible for failing to avoid partisan battles. President Fernandez can benefit from the experiences of his first term (1996 - 2000). Moreover, he can learn from his predecessor Mejia's lessons, including governing with a parliamentary majority.

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

Efficient use of assets



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. Budget resources, in contrast, have been used more efficiently during the period under review. 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, to date, no reasonable solution has been found. 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.

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, President Fernandez pledged austerity for his government and promised large cuts in government hiring and heavy spending, which was significant in his predecessor's administration. However, in the Global Corruption Perceptions Index produced by Transparency International, the Dominican Republic dropped from 87th in 2004 to 99th in 2006. In the survey, the Dominican Republic ranked 19th out of the 29 evaluated countries from Latin America and the Caribbean. The battle against corruption and the enhancement of state financial transparency have just begun. There is a department authorized to combat corruption, but it needs more political and financial support from the government.

Anti-corruption  
policy

## 16 | Consensus-Building

There is a 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.

Consensus on goals

Their resistance consists of stalling and applying the brakes.

It cannot be said that all potential veto holders are under control; however, it is probably true that their ability to cause obstructions can be kept under control. The reintroduction of the possibility of immediate re-election 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 re-election practices of other presidents from Latin America, like Fujimori in Peru and Menem in Argentina. However, President Fernandez's re-election ambitions for 2008 probably contradict his idea of enhancing Dominican democracy.

Anti-democratic veto actors

Because of the country's extreme social polarization, considerable potential for conflict has been growing over the decades. After polarization had increased due to the economic crisis, the situation improved during the period under review, but not significantly. 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 about the constitutional reform. It remains doubtful whether civil society's input will significantly influence 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 Participacion Ciudadana (PC). In 2006, it was because of PC that the congressional and municipal elections were transparent, while the electoral authority, JCE, proved itself unable to monitor the elections once again.

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, to date there has been no comprehensive social processing or generalized policy of reconciliation.

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 until now 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, International Labor Organization, International Atomic Energy Agency, and International Civil Aviation Organization. The first Fernandez government, as well as the Mejia administration, was highly committed to advancing the Dominican Republic's integration into the world market. Although the current Fernandez government is trying to advance in the same way, decisiveness has been lacking with regard to the expected implementation of the free trade agreement with the United States. Besides, 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 favor transformation.

Effective use of support

Even though the Dominican Republic's international standing deteriorated 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 latter was suffering a recession. The country's reputation for reliability and credibility is still solid in international and transnational opinion. The Fernandez government not only re-negotiated the canceled stand-by agreement with the IMF, it also fulfilled most of the latter's demands and is considered a showcase for a successful IMF stand-by agreement. Altogether, there has been improvement during the period under review, although the political authorities are not making a good impression by slowing the implementation of the free trade agreement with the United States.

Credibility

The political leadership works actively and successfully to establish and broaden as many cooperative relations as possible. This strategy can already point to several successes, including the FTAA and the signing of free trade agreements with CARICOM, Central America, Costa Rica, El Salvador and the United States. At the same time, the 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

Transformation toward a market-based democracy and a market economy gained new dynamism during the period of review. Nevertheless, an important series of problems remain unresolved. First of all, despite an evident advance in market economic development and very impressive macroeconomic figures, the government has not focused enough on the population's needs. Economic policies may not consider the requirements of the IMF only, although the latter are very important and the government has shown a great deal of responsibility here. However, the political authorities should address such key problems as unemployment, energy supply, health care and education. For example, problems affecting the free trade zones (FTZs), which arose in connection with the expiration of the so-called Multi-Fiber Agreement of 1 January 2005, were predictable, and a solution is 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 – suffered bankruptcies, increasing unemployment and export slumps. Generally, government policies should focus much more on structural problems rather than short-term, clientele-oriented measures. Even though oil prices are still very high, the government has to improve the energy supply. Institutional arrangements made since 1997 are insufficient, and the government must guarantee much better financing. One of the key related tasks is to diminish the Dominican Republic's dependence on international petroleum prices.

Secondly, despite an improvement of the human rights situation under the Fernandez administration, the government must accept that the treatment of Haitian immigrants is frequently inhumane, and that there is a need for an entirely new policy, including, but by no means limited to, better living conditions, integration measures and citizenship legislation. 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 right now the rare opportunity to accelerate the reform process. Some endeavors, such as 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 needs of profound restructuring, and the central bank needs greater autonomy. Also, the new elected 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. Furthermore, since the country's dependency on the U.S. economy is very high, the legislative and executive branches need to step up efforts to achieve the final ratification and implementation of the free trade agreement with the United States and prove that the Dominican Republic is a reliable partner.

Finally, political leaders have the responsibility to agree on key strategic questions, regardless of their personal ambitions. Intra-party divisions inside the PLD, where President Fernandez and his former Secretary of the Presidency Medina both aspire to represent their party in the 2008 presidential election, can lead 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.