

# The Global Illicit Trade Environment Index

A report by The Economist Intelligence Unit

**DOMINICAN REPUBLIC**

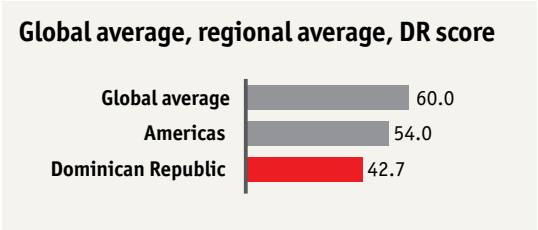




Illicit trade in the Dominican Republic has skyrocketed in recent years, triggered by the country’s geographic location as a bridge between South America and the US, as well as its porous border with neighbouring Haiti. This is exacerbated by high levels of informality in the economy (the informal sector accounted for 52.7% of the workforce in 2016, according to the Central Bank) and prevalent corruption in the military and law enforcement. Frequent tax reforms, the latest of which took place in 2012, have also encouraged tax evasion and related forms of illicit trade in alcohol, tobacco, petroleum and pharmaceuticals, among others.

The Dominican Republic ranks 71st out of 84 countries in the Global Illicit Trade Environment Index, with an overall score of 42.7 (out of 100). The category in the index where it registers its strongest performance is the customs environment category, where it ranks 57th overall and 10th out of 19 economies in the Americas region. It struggles even more in the supply and demand category, as well as in government policy, where the twin problems of corruption and weak state institutions hold down its score. Rigid labour markets and poor protection of intellectual property rights also lower the economy’s overall performance.

The government has, however, recently stepped up controls to reduce trade in contraband as part of a wider effort to reduce the size of the informal sector. Measures have also been put in place to modernise and enable custom processes in ports and airports along the border with Haiti, a primary source of illicit goods. The administration has also beefed up legislation, enacting an anti-money laundering law that targets both contraband and tax evasion. Two other pieces of legislation—a revision to the customs law and a special regulation for contraband and illicit trade—are also currently under proposal. According to Circe Almanzar, the executive vice-president of the Asociación de Industrias de la República Dominicana (AIRD, the Dominican Industry Association), the current legislative framework to fight illicit trade must be strengthened, since it fails to address the entirety of the supply chain. “The draft bill against contraband and illicit trade that is under consideration in congress,” says Ms Almanzar, “will [if enacted] tackle entire criminal networks that smuggle, distribute, and commercialise three regulated and high-taxed products: cigarettes, alcoholic beverages, and fuel.”

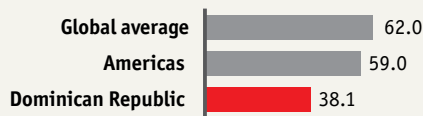




## Government policy

The Dominican Republic’s rank of 75th places it in bottom percentile in terms of performance on government policy. The country underperforms in terms of compliance with Financial Action Task Force (FATF) standards on anti-money laundering, coming in 73rd. Its performance is also poor on the corruption indicator; corruption has long limited the government’s institutional effectiveness. On cybersecurity preparedness, the Dominican Republic receives nearly the lowest score, above only economies such as Guatemala and Iraq. The country is also lacking in terms of intellectual property protection. “The increasing levels of counterfeit goods are overwhelming our trade and law enforcement officials”, says Jaime Angeles, a local IP council who also commented on the absence of a plan to crack down on these imports. “In order to combat the import of fake goods, the authorities must achieve fluid levels of cooperation between the different government institutions,” added Mr Angeles.

### Government policy scores



Although local legislation does permit law enforcement the use of two of the three investigative techniques recommended by the UN Office on Drugs and Crime, the level

of cooperation between law enforcement and customs authorities to counter illicit trade is low. Inter-agency collaboration, vital to combating illicit trade, is restricted by occasional turf wars between customs and law enforcement authorities, a state of play that is unfortunately not unique to the Dominican Republic. Recognising this problem, a presidential committee, composed of representatives from the public and private sectors, has been created to foster inter-agency actions and collectively devise a national strategy to counter illicit trade. In the latest meeting (as of this writing) held between the government and the private sector, both parties agreed to formalise the results of the sectorial working groups under the coordination of Ms Almanzar, which will include holding further meetings every two months and presenting the findings to the executive.

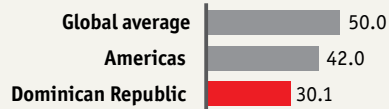
## Supply and demand

The Dominican Republic also ranks very near the bottom of the index (73rd out of 84 countries) in policies to control the supply and demand of illicit trade, scoring 12 points below the already low regional average. The lowest marks it receives in this category, and indeed in the entire index, are due to ineffective labour market regulations and poor quality of state institutions, both of which foster informality and illegality. Although the economy’s level of tax and social security burdens placed it near the middle of the global index, “frequent and piecemeal changes in tax policy create distortions that ultimately



[aggravate] the use of illegal products”, says Manuel Cabral, an expert on local markets for alcohol and tobacco products. “Following a tax hike in 2012, cigarettes and alcohol contraband increased sharply, reaching up to 30% of the market share in each case over the course of the next three years.”

### Supply and demand scores



## Transparency and trade

Transparency and trade, which measures, among other factors, the governance of free trade zones (FTZs), is another problematic category for the Dominican Republic, where it also ranks near the bottom of the index (71st) and scores below the average of its regional peers. Its status as a signatory to Annex D of the Revised Kyoto Convention (RKC) and regular international publication of official statistics on drug seizures and human trafficking keeps DR from being in last place. Reporting of intellectual property infringements, however, is non-existent, which affected the country’s score. The Oficina de la Propiedad Intelectual (ONAPI, the national office for intellectual property) records intellectual property rights and is responsible for seizures of IP-infringing goods, which take place usually upon the request of the aggravated parties. Law

enforcement agencies do not regularly publish seizure data.

### Transparency and trade scores



The Dominican Republic’s monitoring and oversight of its FTZs ranked in the middle of the 84 economies covered by the index. Customs legislation does empower customs officials to inspect goods in transit upon suspicion of contraband without the need for a judicial order or warrant. However, the effect of these controls in official ports and other points of entry into the country is offset by prevalent informal transit points on the Dominican-Haitian border, through which high amounts of illegal goods are smuggled, according to Mr Cabral. “Improving controls and transparency at the border is one of the main challenges in the fight against illicit trade.”

## Customs environment

The Dominican Republic receives its highest category score in the index in the customs environment category, with a score of 66.3, just above the regional average score. The launch in 2012 of an Accredited Economic Operator (AEO) programme, which allows companies to pre-register with local customs for screening by the



general customs office, boosts the economy's score, as does the percentage of shipments it physically inspects, where it ranks near the top.

### Customs environment scores



The customs office also has a recordal system in place for trademarks and copyrights, as required by the Dominican Republic and Central America Free Trade Agreement (DR-CAFTA), to which the country acceded in 2004. The customs agency has gone above its call of duty in defending IP at the borders even if the brand is unregistered, says Mr Angeles. The recordal system does not include patents, however, which along with a shortage of able personnel to meet the increasingly high inflows of contraband goods, lowers the economy's score on this indicator.

## Conclusion

The overall policy environment in the Dominican Republic is held back by poor governance and weak institutions, which together enable the supply of illicit goods both to enter the country properly and to transit through it onto other destinations. The country has managed to improve custom processes, as evidenced by increases in seizures in recent years.<sup>1</sup> More improvements could be on the way—a wide-

ranging bill for the eradication of illicit trade, contraband and counterfeit regulated products is now awaiting final approval by the country's legislature.<sup>2</sup> Should the bill get passed, and more be done in the coming years to tackle corruption and strengthen state institutions, the environment for illicit trade in the Dominican Republic will become less hospitable for traffickers and traders.

<sup>1</sup> See, for example: <https://www.diariolibre.com/noticias/sucesos/aduanas-se-incauta-de-un-contrabando-de-whisky-y-cigarrillos-con-valor-de-50-millones-de-pesos-YK6941670>  
<sup>2</sup> <https://www.diariolibre.com/economia/aird-saluda-aprobacion-del-proyecto-de-ley-contra-contrabando-e-ilicitos-EC10212644>



# TRACIT project sponsors and contributors

---

Companies and relevant organisations have helped us develop this work by sponsoring our research and collaboration with the EIU.

- AmCham Costa Rica
- Association of Industries of the Dominican Republic (AIRD)
- Authentix
- Brand Protection Group (Brazil)
- British American Tobacco
- Business Council for International Understanding
- Coca Cola Serbia Montenegro
- Crime Stoppers International
- Diageo
- Eurocham Myanmar
- Ideas Matter
- Japan Tobacco International
- Marazzi and Associati
- Naftna Industrija Srbije (NIS)
- National Petrochemical Industrial Company (Saudi Arabia)
- Pernod Ricard
- Philip Morris International
- Programme for the Endorsement of Forest Certification (PEFC)
- Procter & Gamble
- Richemont
- Unilever
- Universal Music

**LONDON**

20 Cabot Square

London

E14 4QW

United Kingdom

Tel: (44.20) 7576 8000

Fax: (44.20) 7576 8500

E-mail: london@eiu.com

**NEW YORK**

750 Third Avenue

5th Floor

New York, NY 10017, US

Tel: (1.212) 554 0600

Fax: (1.212) 586 0248

E-mail: newyork@eiu.com

**HONG KONG**

1301 Cityplaza Four

12 Taikoo Wan Rd

Taikoo Shing

Hong Kong

Tel: (852) 2585 3888

Fax: (852) 2802 7638

E-mail: hongkong@eiu.com

**SINGAPORE**

8 Cross Street

#23-01 Manulife Tower

Singapore 048424

Tel: (65) 6534 5177

Fax: (65) 6428 2630

E-mail: singapore@eiu.com

**GENEVA**

Rue de l'Athénée 32

1206 Geneva Switzerland

Tel: (41) 22 566 2470

Fax: (41) 22 346 9347

E-mail: geneva@eiu.com