



Dominican Republic

The New Caribbean Chic

Investment Series 2006



INTERNATIONAL INVESTMENT GUIDE

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Living in luxury

As a Caribbean tourist destination, the Dominican Republic is quite distinct.

This is partly due to the sheer size of the country, which at more than 48,000 sq kilometers dwarfs most other Caribbean islands, and the grandeur and enormous variety of its landscape. Pico Duarte in Jarabacoa is the highest mountain of the entire East coast of the Americas, and with its natural parks, lakes and even desert areas, the country encompasses the diversity of an entire continent within an island setting.

THE CARIBBEAN DESTINATION

The Dominican Republic is already well established as a tourist destination. So when its Minister of Tourism, Felix Jimenez, claims it to be "the most important destination of the Caribbean", he is able to back this up with a host of data. "In 2004," he notes, "we received 3.4 million tourists, approximately 28 per cent of all the tourists who arrived on Caribbean islands. In the first half of 2005 the growth in the number of tourists was almost 8 per cent, and I can predict that by the end of this year we will have had 3,650,000 tourist arrivals."

Tourism has been – and is likely to remain – by far and away the most important sector of the economy, representing around 24 per cent of all demand for goods and services in the country.

"Tourism development in the country has been through a serious transformation in recent years", says Jimenez. "Previously, the Dominican tourist model was based on the all-inclusive blueprint, but now we are seeing the establishment of more 'boutique hotels' and a growing number of American hotel companies that do not follow the all-inclusive structure."

As examples of this significant shift upmarket, the minister cites the 'boutique' Casa Colonial Beach & Spa at

The Dominican Republic lends itself to the rapidly escalating demand for luxurious accommodation



Puerto Plata in the well established Playa Dorada resort area, which costs more than US \$400 per night – far more expensive than the all-inclusive hotels in the area. Similarly, boutique hotels feature prominently in the newer developments at Punta Cana and Cap Cana.

"Another substantial change", says Jimenez, "is the presence of more and more US-based resort and hotel chains. An example is the Westin Hotel in Punta Cana – the development of Roco Ki in Punta Macao – and other hotels of similar quality that are also negotiating to begin new developments in that area at the moment."

HEADING UPMARKET

The Punta Cana area is set to become the showpiece of the new, more upmarket tourism model. "In two years' time," says Jimenez, "it will have nine golf courses, while in La Romana there are already four courses. That means along the East Coast there will soon be 13 golf courses – many of them designed by leading golf professionals."

William Kirkman, CEO of Sea Horse Ranch, agrees: "Golf will soon determine the destination for many vacationers and property owners over the next few years. Golf tours around the Dominican Republic will offer an amazing variety of play and scenery."

The new boutique hotels in Punta Cana aim to capitalize on this. "The first



one," notes Jimenez, "is for the wine lovers. It will have less than 100 rooms, with two restaurants and a great wine cellar and, of course, beaches, tennis and golf courses nearby. The second boutique hotel is mainly for golf lovers, and is a project of Oscar de la Renta, Julio Iglesias and the Group of Punta Cana. Next year we will be seeing the beginning of a third boutique hotel in Punta Cana."

GROWING INFRASTRUCTURE

Another draw for more upmarket visitors is the development of major new marinas at Cap Cana and Roco Ki. "Speaking of marinas," Jimenez adds, "another is being developed in the area of Puerto Plata, at Costambar."

The Samaná Peninsula is likewise being opened to development in conjunction with the opening of the new El Catey International Airport. Central to this is the major project at Rincón Bay, whose marketing manager, Pablo Nogueroles, says will bring "economic and social development for the Peninsula of Samaná". Indeed, he argues that the new development and international

The new El Catey International Airport will bring economic and social development for the Samaná Peninsula

airport, the management of which is being carried out by the owners of Rincón Bay, "will transform Samaná into the hottest new tourist destination for the Caribbean".

A new focus on upper-end, activity-based tourism extends to villas and other residential developments. Kirkman says: "Sea Horse Ranch has an established reputation for high-quality single family villas, each with its own particular flavor but tied together with the common theme of terracotta tile roofs. Today, with more than 100 individual villas in place plus 12 new homes presently under construction,

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Moreover, Kirkman believes "the Dominican Republic lends itself to the rapidly escalating demand for luxurious accommodation, spacious green areas and security," and "it will not be long before exclusive flags like Four Seasons, Ritz Carlton and Aman appear in the country".

ALL-INCLUSIVE EXPERTISE

Yet that does not necessarily preclude further growth of the more established 'all-inclusive' resorts. Management company Amhsa Marina is considered fourth in terms of numbers of rooms according to CEO Luis López, who says this "reflects solid quality products in a competitive pricing ratio. Our expertise has been in all-inclusive packages, and we strongly believe in this travel concept. We understand our niche and fulfil the needs of this type of traveler rather than those looking for a more flexible vacation package. The market is big enough for both in the Dominican Republic."

The same is true of new business hotels in the capital, Santo Domingo, where the accent is on efficient 'no

Golf will soon determine the destination for many vacationers and property owners

frills' service. Typical of this is The Courtyard by Marriott – "a new product for Latin America" that, according to Gabriel Garcia, general manager of the group in Santo Domingo, is one of only seven Courtyards in the region.

The combination of more upmarket tourists seeking flexible travel arrangements is seen as an opportunity by Jose Peña, vice-president of Dollar Rent A Car. "We see a promising future", he says, "as we have an image and recognition level that attracts partnerships to the projects and other large investments in Cap Cana and elsewhere. Right now there are 17 companies serving 80 per cent of the Dominican market. Dollar takes 12 per cent of the market as a whole, with the Internet representing almost

65 per cent of current reservations and growing fast."

The shift upmarket has much to do with the growing proportion of US visitors to the Dominican Republic. As minister Jimenez points out: "Until eight years ago, Europe was our main market. Now, the USA and Canada represent 50 per cent and last year we received a million US visitors, excluding Dominicans living there."

EMERGING MARKETS

There are shifting patterns elsewhere. "Five years ago," says Jimenez, "the most important European country for us was Germany; now it is France." Today, direct flights can get you to Puerto Plata from Dublin and also from Poland, as new markets continue to open up. While new European markets start to discover the delights of the Dominican Republic, the island's popularity in the Americas continues to grow with 2005 producing huge arrival numbers from Mexico and other Latin American markets.

The Dominican Republic's natural beauty, new marinas, golf courses, jazz and film festivals, scuba-diving and whale-watching look set to attract more and more international interest over the coming years. ■



Trading at the crossroads

In addition to tourism, the Dominican Republic has enormous potential as a trading and transshipment hub that has not until now been fully realized.

The country enjoys a strategic location, standing at the crossroads of the Americas just two hours' flying time from Florida. It is among the largest US trading partners in the Western hemisphere and is well-located for handling the growing trade with the region's other economic power-houses such as Canada, Mexico and Brazil.

UNLOCKING THE POTENTIAL

The country's potential is set to be unlocked as the Dominican Republic enters into the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR). Historically, this will be one of the most important treaties the Dominican Republic has ever signed up to and should dramatically bolster the country's opportunities to build up trade throughout the region.

The US already has greater trade volumes with the Dominican Republic than exist with larger countries within the region, such as Argentina or Chile. Indeed, the Dominicans clearly like US products, with more than 70 per cent of consumer goods sold in the country being imported from the United States.

Whether the new opportunities opened up by the CAFTA-DR will result in a flourishing reciprocal trading pattern remains to be seen. What is certain is that if the country is to emerge as a major trade hub for the region, then the management of the country's customs service, Aduanas, will be of vital importance.

REBUILDING THE ECONOMY

Crucial reforms are already under way to improve the efficiency of Aduanas, whose General Director, Miguel Cocco, does not underestimate the challenges.

Photo: Aduanas



He took over after the previous government collapsed amidst financial crisis and says: "What we found here was a disaster". This was largely because, as he notes, "the customs administration had become totally politicized".

"The first measures that we adopted were focused on the administrative system and technology, which as it then operated was easily open to fraud. It was possible to gain access to the archives of the Dirección General de Aduanas (DGA) from any computer, so I implemented a computer system that prevented intruders from infiltrating the system," says Cocco.

Cocco also took a hard line on import tax avoidance, the collection of dues and reducing the disruptive impacts of personal intermediation. Nowadays the situation has changed 180 degrees as the bureaucracy and inefficiency that marked

We are creating a friendlier and more secure environment for investors

the old operations have been swept away. As he states: "We have political stability, transparency and laws that protect us. The DGA has stopped being an obstacle and is now an ally of the investor."

INVESTOR-FRIENDLY

"We have strengthened the judicial ethics and institutional independence, and we are creating a friendlier and more secure environment for investors. It is expected that the CAFTA-DR will provide more transparency and rule of law, and that is good for efficiency and good for us," says Cocco. The turnaround in Aduanas operations, when combined with the Dominican Republic's modern port and airports infrastructure, provides a very healthy foundation on which the country intends to stake its claim as the Caribbean's conduit for trade. ■



**The best of the world arrives here
and leaves with the best from us.**

The DGA (Dirección General de Aduanas) is aware of its key role to make the trading commerce between our country and the rest of the world easier.

Therefore our policy with everyone involved in the export/import economy focuses on modernity and is progress-orientated.



are the only company to offer 100 per cent per second billing and roaming in more than 105 countries."

New niche players include DGTEC, whose CEO Frank Díaz explains: "Our target is to serve the Hispano-American market in the new generation of telecommunication". Authorized in both the Dominican Republic and the USA, DGTEC's products include wholesale termination, pre-paid calling cards and other related services. "We are focusing on small- to medium-sized companies, offering a new generation of telecommunication such as IP-Pbx, solutions that are cost-effective and that reduce operating costs."

Similarly, Carlos Duran, President of Turitel, explains: "We saw a niche in the marketplace, namely low-rate telephones for poorer people. At the time, established companies were charging extremely high prices for long distance. So we opened up calling centers with reasonable prices and we were very successful. We were also pioneers in the debit card business, introducing the first Hola Card. And now, with the new technology coming in, we have been installing Wi-Fi (wireless fast connection for voice and data through the Internet)

We have the same technology that Verizon Wireless uses in the United States

for the last six months, with 25 per cent of locations covered."

NEW TECHNOLOGY INVESTMENT

The shift to new technologies is requiring significant investments. At Verizon, CEO Jorge Iván Ramírez says some \$200 million was invested in taking the company forward from its traditional telephone and long-distance business towards improving voice and data networks. For mobile phones, he points out, "We have the same technology that Verizon Wireless uses in the United States. We provide the best coverage, reaching 98 per cent of the areas with population in the Dominican Republic."

"At the same time," Ramírez says, "we are evolving from our legacy wire-line system to the broadband system, while

in IP (Internet protocol) we are changing our traditional switches to soft switches. We will converge our wireless, wire-line and mobile services, while with our access we are evolving into an IP network. These are the plans that we have for the next five years."

"We are growing in double digits in wireless, broadband and data", says Ramírez, "and are working with the government and other industries to promote market penetration among small businesses and families with PCs and laptops." Improving broadband access is another priority. "Currently", he says, "we have around 52,000 lines, but we need close to 100,000 households on broadband to achieve satisfactory market penetration."

CONNECTING COMMUNITIES

Wireless is the logical way to bridge the geographical and social gap between those with access and those without – particularly those in poorer or more isolated communities.

Ramírez predicts that wireless will increase from 40 per cent to nearly 70 per cent penetration over the next five years, and sees wireless technology as "one of the best tools for social development".

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"We are improving all services," says Ramírez, "to meet the new challenges this country now faces within the globalization environment and the CAFTA-DR. We want to integrate both the Dominican and Puerto Rican networks to create a 'virtual corridor' in the Caribbean area, since telecommunication, information systems and technology tools are probably the most important things for increasing economic activity, thereby allowing us to be more competitive in the CAFTA-DR environment."

FINDING THE SKILLS

One of the challenges for the industry's continuing growth is meeting the

There are great human resources in the Dominican Republic and we always choose local talent to handle our operations

demand for appropriately skilled and very often English-speaking personnel. New technology parks and free zones are being constructed and training schemes, such as that at the INTEC University in Santo Domingo, are assisted by telecoms companies like Verizon.

At DGTEC, Frank Díaz adds: "We are investing a large amount of resources in training our Dominican technicians in the United States. Even though our education is much better than in the past, the US is still our principal economic partner and a key requirement to be employed is to be able to speak English. The Dominican Republic is moving forward in education, and the

government is trying to bring new technology and the Internet to all sectors of education in the country."

"There are great human resources in the Dominican Republic", affirms Orange Dominicana's CEO Frederic Debord, "and we always choose Dominican talent to handle our operations. Additional skills are provided through training given by international personnel."

"Orange Dominicana is an example", says Debord, "that a European company can flourish in the Americas." Meanwhile, the ongoing telecoms revolution will undoubtedly have a far wider impact on Dominican society and the broader economy. ■



Back in the black

The banking sector of the Dominican Republic has been through a stormy period. The country's fast-expanding economy was knocked seriously off course by the banking crisis of 2003, which saw three major bank failures amidst rising public debt, currency devaluation and inflation rising to above 40 per cent for a short period.

Yet, in conjunction with international bodies, the Dominican authorities have now succeeded in restoring stability within the banking system, which is made up of 12 multi-service banks (two of them foreign-owned), three public banks, and 18 savings and loan associations. Inflation is back under control, and the economy is now growing faster than most analysts had predicted.

Central Bank Governor Héctor Valdez Albizu, who has the full backing of the new President Dr Leonel Fernández Reyna, affirms that he is set on "re-establishing the ethics that sustain the mission of the Central Bank" – some of which, he admits "were lost during the previous administration". He is bent on applying "intelligent criteria and healthy measures directed to straighten the



Central Bank Governor
Héctor Valdez Albizu

erratic course of the economy during recent years".

For instance, as of last January, the basis for calculating the national debt and other key economic data was changed in a way that Albizu believes "will silence the criticism and questioning of some analysts" that previously greeted the publication of economic figures.

INCREASED CONFIDENCE

Greater transparency and systematic rigour of economic statistics is already feeding through into levels of confidence. According to a recent survey, some 38 per cent of Dominicans anticipated that their economic situation – and that of their families – will improve significantly during the current year.

That confidence is shared by key private-sector bankers such as Victor Méndez Capellán, whose Group Vimenca encompasses telecoms, freight, travel, real estate, foreign exchange and, in Banco Vimenca, one of the Dominican Republic's home-grown multi-service banks. Different companies within the group work with leading international players such as American Express and Western Union.

"Today," says Capellán, "the Dominican Republic is the most attractive country for foreign investment, because of the high level of security we enjoy, comparatively speaking, as well as our privileged geographic location. Our economy generally reflects decent levels of growth, tourism is ever-growing, and remittances are growing at 8 per cent every year."

ATTRACTIVE OPPORTUNITIES

With the return of stability and confidence in the banking system, and with one of the fastest-growing economies in Latin America, the Dominican Republic is once more an attractive investment opportunity – especially in real estate, which offers some of the most reasonably priced property in the Caribbean region.

It also offers tax-free US dollar banking facilities and, given that local bank interest rates for US dollar cash deposits are around 10 per cent or more for a short-term deposit of, say, 90 days, a considerable premium over rates available elsewhere.

BACK ON COURSE

Following the government's cooperation with the International Monetary Fund in furthering the recovery process at the macro-economic level, regulatory measures to renew confidence in the banking system, and a commitment to public-sector finance reform and ensuring debt sustainability, the Dominican Republic is back on course to being a high-growth and secure home for investment. ■

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The application of intelligent criteria and healthy measures to straighten the economy is key

A rich palette of colours

The rich and unique mix of colonial architecture and tropical flora on show in the Dominican Republic have been attracting artists and photographers to this Caribbean island for years.

In 1973, Francis Ford Coppola brought Robert De Nero, Al Pacino and his film crew here to make *The Godfather Part II*. It was a pioneering decision to shoot a big-budget film in the Caribbean and, 30 years on, Santo Domingo continues to prove a welcome backdrop to some of the film industry's biggest blockbusters with current Hollywood heart-throbs Matt Damon and Colin Farrell both shooting here this year.

The gothic architecture on view in Santo Domingo is unrivalled in the Caribbean in terms of quality and variety. As the first city built by the Europeans in the early 16th century, Santo Domingo boasts the oldest church anywhere in the Americas, the oldest fort and hospital, and the first paved road in the new world. Wandering around the old town is like stepping into a colonial treasure trove.

The sense of history and culture that pervades is something that has seeped



Elvis Avilés

into the character of the people. There is a very distinctive Dominican attitude that differentiates the country and its people from her Caribbean neighbours. As well as being naturally hospitable and service-orientated, arts and culture are high up on the Dominican's list of priorities.

GROWING INFLUENCE

Dominican art is not yet well known around the world, but it is starting to be recognized. Dominican art draws from its Hispanic heritage – during the Spanish Civil War many artists fled from Franco's regime to the island – but there are also African influences from neighbouring Haiti. The most famous Dominican painters working today

include Jaime Colson, Luis Desangles and Guillo Pérez.

One of the new breed of up-and-coming artists, Elvis Avilés, is sure that Dominican art is set to take off. "Up until now we haven't had the exposure that Mexican or Cuban artists have had, but as more people discover our country we are becoming recognized. Our Caribbean style is naïve, but the technique expresses movement and energy. We use a lot of colour and light. This region has a lot of riches, both spiritual and visual, and that is what we use in our work. You can go anywhere in the world and still be able to see that it is a Dominican painting because of the brush strokes, the colours and the strength."

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