

II. Introduction

This report explores tourism sector governance in the Dominican Republic, identifying key challenges in establishing sustainable, inclusive growth through tourism. I begin with an overview of the Dominican Republic's rise—and future—as a regional tourism leader and the legal framework that has supported the sector's growth. Then, I review lessons learned from the existing academic literature on inclusive growth through tourism and address both recommendations of pro-poor tourism scholars and practitioners, and skepticism from those who find that tourism and development cannot ever be mutually reinforcing. Next, I address four challenges I have identified within the Dominican tourism sector: 1) ensuring economic development reaches the country's poorest, 2) generating growth in basic services and infrastructure that keeps pace with tourism development, 3) environmental and carrying capacity concerns, and 4) modernizing the framework for fiscal incentives. Finally, I provide a series of policy recommendations to address these challenges.

While some of these challenges affect tourism throughout the country, it should be noted that this report focuses particularly on the Bávaro-Punta Cana tourism pole. As the country's (and indeed the region's) leading destination, it offers important lessons as tourism continues to grow nationwide. Furthermore, policy changes directed at the east coast are likely to have the greatest impact on private sector actors, tourists, and local residents.

III. The Dominican Republic as a Regional Tourism Leader

After several false starts, the Dominican Republic's rise as a tourism leader took place fairly rapidly. In the mid-twentieth century, private hoteliers took advantage of the "authoritarian ineptitude" of the Trujillo regime to build a high end tourism infrastructure, much as they had in Cuba under Batista.¹ Provisional governments and political instability hampered the growth of the sector during the 1960s and early 1970s. While Puerto Plata benefited from government support and community integration in the mid-1970s, the country's largest and most successful tourism poles (like Punta Cana) were developed entirely by private investors. The all-inclusive model was seen as the only option for development along the eastern coast, as the area lacked government-supplied infrastructure, security, or sanitation; provision of these services in an enclave environment with private investment prevailed. To attract resort development, the country has offered an impressive package of incentives to developers: long-term (up to 50 years) leases of beachfront property, tax exemptions on revenues and importation of materials for specified periods, a specialized labor code for the tourism sector, and more.

Today, the Dominican Republic welcomes more than five million tourists a year—more than any other Caribbean country—and is home to 25% of the region's hotel rooms. The sector has enjoyed steady growth over the last four decades. Between 1970 and 2000, stayover arrivals increased by more than 12% per year. Tourism accounts for 15.3% of the Dominican Republic's GDP (4.7% direct contribution), and 14% of its employment (4.2% of direct employment). Travel and tourism draw 4.6% of total national investment, and visitor exports generated 35.3% of total exports in 2013.² The tourism sector is highly self-contained, as most visitors stay in all-inclusive resorts with pre-paid packages, and resort developments are concentrated in four key areas—Puerto Plata, La Romana, Santo Domingo, and Punta Cana.³ 95% of the international

1 Evan Ward, *Packaged Vacations: Tourism Development in the Spanish Caribbean* (Gainesville: University Press of Florida, 2008), 157.

2 WTTC, "Dominican Republic - Travel and Tourism Economic Impact 2014" (World Travel and Tourism Council, 2014), www.wttc.org.

3 Padilla, Art and Jerome McElroy. "The Tourism Penetration Index in Large Islands: The Case of the Dominican Republic." (2005). *Journal of Sustainable*

class rooms in the country are foreign-owned and 80% of them are part of chains. About 65% of the country's tourists arrive in Punta Cana International Airport (one of eight international airports), which is surrounded by all-inclusive hotels. As one industry insider points out, "tourism is the oil of the Dominican Republic.⁴"

While high, low, and shoulder seasons are still present, occupancy rates have become more even throughout the year. As in much of the Caribbean, August is sold-out up to a year in advance to the European market. However, the sector's growth prospects are dismal; according to the WTTC, the country ranks 155 out of 184 countries for growth in the 2014 forecast, and 154 out of 184 countries for long-term growth in the 2014-2024 forecast.⁵ The 2015 Travel & Tourism Competitiveness Index provides further guidance on the sector's relative strengths and weaknesses. In terms of overall competitiveness, the Dominican Republic ranks near the middle of the pack, at 81 of 141 countries studied. The Dominican Republic's prioritization of travel and tourism (rank 7 of 141) is particularly strong, though it fares poorly in safety and security (120 of 141), price competitiveness (110 of 141), and environmental sustainability (131 of 141). The country ranks most highly in travel and tourism government expenditure, with the sector capturing 21.8% of the government budget.⁶ Whether the Dominican Republic can sustain the sector's growth remains to be seen, although the sector is an economic policy priority. President Danilo Medina has set a goal of reaching 10 million tourists by 2022, which will require considerable efforts in promotion and diversification (of investment, touristic products, and source markets).

Tourism. 13 (2005), 357.

4 Personal interview with tourism sector entrepreneur

5 WTTC, "Dominican Republic - Travel and Tourism Economic Impact 2014."

6 "The Travel & Tourism Competitiveness Report 2015" (World Economic Forum, 2015), 136, http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf.