

Country Market Profile: Dominican Republic

Euromonitor reports that in 2021, the country's economy expanded in real terms, driven by increasing domestic consumption, public investment and external demand. However, the persisting pandemic-related risks, supply constraints and global inflationary pressures raise uncertainty and weigh on the country's economic outlook.

- Following real growth of 10.3% in 2021, Dominican Republic's economy is predicted to expand at an average annual real rate of 4.9% over the medium term.
- The unemployment rate is expected to fall by 0.2 percentage points to 5.8% in 2022 – below the pre-pandemic level and lower than the average of 11.5% in Latin America in 2022.
- Inflation in Dominican Republic is forecast to slow down to 5.2% in 2022, from 8.1% in 2021.
- Dominican Republic's merchandise exports increased by 19.1% and imports rose by 39.1% in 2021, with the country remaining a net importer of goods.
- Gross Fixed Capital Formation (GFCF) in Dominican Republic rose in real terms over 2021, as a result of strong economic recovery and fiscal stimulus measures.
- The public debt-to-GDP ratio in Dominican Republic fell to 63.6% in 2021, compared to the regional average of 69.8%.

The Dominican Republic is the favorite country for foreign investors in the Caribbean region. However, the country's competitiveness is adversely affected by the poor quality of its infrastructure. Improvements in the troubled electricity sector are urgently needed and will require several years to implement. Private investment in real estate, financial services and the manufacturing industry picked up in 2021.

Population totaled 10.6 million in 2021, (CIA World Factbook Est.), an increase of 2 million since 2000. The median age in 2021 was 27.9 years, 5.4 years greater than in 2000. Although a modest ageing process is underway, the number of those less than 20 years will still make up a significant portion of the total in the medium term.

USDA's Santo Domingo Office of Agricultural Affairs, OAA, reports that the Dominican Republic, or "DR", is the fourth-largest market for U.S. products in the Western Hemisphere, valued at US\$1.7 billion in 2021. That is growth of 24% over the prior year, and 40% of the regions total. The DR is the largest market for U.S. exports of processed foods in the Caribbean which in 2021 totaled US\$550.2 million. This represented an increase of 9% from that of 2020 and another record high level, as well as over 34% of the regions total. Top U.S. processed product exports in 2021 included:

- Processed/Prepared Dairy Products
- Fats & Oils
- Food Preparations & Ingredients
- Alcoholic Beverages
- Non-Alcoholic Beverages
- Prepared/Preserved Meats

- Condiments, Sauces Jams & Jellies

The U.S. enjoys some advantages in the Dominican food market but it also has its challenges.

Advantages

- The implementation of CAFTA-DR, which has lowered or eliminated duties on nearly 80% of products
- A large and growing tourist population, which demands high-value food products
- A growing number of consumers demanding higher quality and healthier products - they generally perceive that U.S. products meet their requirements - as well as an increasingly modern HRI sector which also seeks new, high quality products
- Consumers greatly influenced by U.S. culture, with a positive perception of U.S. products
- Efficient food distribution channels (new highways, modernized seaports/airports)
- The proximity of the DR to the U.S. and a strong bilateral relationship throughout the public and private sectors, which facilitates trade
- Growing population in urban centers and increased rate of employment
- A Dominican diaspora in the U.S. of approximately one million people, clustered primarily in the northeastern states and Florida, whose remittances help support the Dominican economy

Challenges

- The ongoing and incoming negative impact of the COVID-19 pandemic over the HRI sector and the overall purchasing power of Dominican consumers
- Competition from other CAFTA-DR signees and the DR's other free trade agreement partners
- Delays for import permits and sanitary registration, which can affect the availability of imported products
- Requirement that imported products must have a label in Spanish that must be placed at origin or in the DR
- Remaining cold chain limitations, which have been reduced through USDA technical and financial support
- 18% Value Added Tax (VAT) and high internal logistical costs
- A lack of institutional continuity across changes in government administrations

Retail Sector Highlights:

Euromonitor has reported that the retail sales value in the packaged food market in the Dominican Republic is forecast to reach US\$2.7 billion in 2022. That represents a 24.7% period growth rate from 2018, or US\$543.6 million. The forecast growth rate is estimated at nearly US\$3.6 billion by 2026, and 30.4% growth or US\$834.8 million from 2022. Top growth categories in the forecast include:

- Savory snacks
- Confectionery
- Ice Cream & Frozen Desserts
- Baby food
- Sweet Biscuits, Snack Bars and Fruit Snacks
- Dairy Products (Ex. Cheese)
- Cheese (Ex. Dairy)

Post reports that the Dominican retail sector can be divided into two distinct segments or channels: the modern and the traditional. The modern retail distribution channel is comprised of three main components: supermarket chains, independent supermarkets, and convenience stores known as “food shops.” Supermarket chains dominate this segment and offer a wide variety of U.S. products.

However, despite their prominence and growth, only 20%-25% of retail sales are via the modern retail channel. The traditional retail channel is subdivided into two main components: neighborhood stores known as “colmados” and walk-in food warehouses known as “Almacenes,” located mainly in traditional street markets. In addition to direct sales to the public, Almacenes also serve as suppliers to colmados. It is estimated that 70%-80% of retail food sales are recorded by the traditional retail channel.

The number of Dominican supermarkets has doubled over the last 20 years. Supermarkets are concentrated in the greater Santo Domingo area and other large urban areas. There are currently approximately 150 supermarkets nationwide. With more than 40 points of sale, the majority of independent supermarkets are based in Santo Domingo and Santiago, the two largest cities. Most of these independent supermarkets have joined forces under an umbrella group known as the National Union of Low-Cost Supermarkets (UNASE).

Modern grocery retailers continued to expand in 2021, with the leading chain Grupo Ramos, as well as other chains Supermercados Nacional and Supermercado Bravo opening further outlets. In addition, Supermercados Nacional also bought two stores from Supermercados La Caedna, thus eliminating competition in strategic locations. Also, many supermarkets have started accepting aid cards and this will increase the consumer base further, to the detriment of traditional grocery retailers, which continued to lose value share in 2021.

Euromonitor reports that the pandemic and in particular the 2020 lockdowns were a boon for modern grocery retailers in the DR. In 2021, with society gradually opening up, and people starting to eat out again, current value growth was lower. However, the retailer that continued to perform strongly was the discounter Ramos, as with consumers being price sensitive due to the economic fallout of the pandemic, they looked for affordability

Modern grocery retailers will register healthy constant value and volume growth over the forecast period. The recovery of the economy post COVID-19, including the return of foreign tourists, will support value and volume sales. However, inflation could be a

challenge over the forecast period, as factors such as rising global energy prices feed into higher grocery costs. This could dampen volume sales somewhat.

The discounting format will be the strongest performers in terms of value share growth. With the economy taking time to recover from the pandemic and inflation also denting consumer purchasing power over the forecast period, consumers will be looking for affordability. This will benefit the chain Ramos, which is the only discounter in the Dominican Republic.

According to Euromonitor there will be increased focus on private label over the forecast period, as the fallout of the pandemic, combined with the possibility of rising inflation, will see consumer purchasing power reduce. As a result, consumers will be looking for affordability. Consumer confidence in private label is also increasing, as they are typically manufactured by the same producers of leading brands.

Most convenience stores are located in gas stations and focus on pre-packaged and ready-to-eat foods and beverages. They offer a high portion of U.S. brands (some produced outside the U.S.), including snacks, sodas, other non-alcoholic beverages, rum, wine, and beer. Customers generally only purchase food and drink to consume in this inexpensive and social environment. There are no regional or national chains in this sub segment.

Dominicans share much of U.S. culture, such as sports, entertainment, and fashion. Similarly, Dominican food consumption trends are similar to trends in the United States. While U.S. trends may take a few years to arrive in the DR, CAFTA-DR has accelerated this transfer. For example, in the middle class and above, consumers routinely visit U.S. fast food chains and restaurants established in the DR. Dominican consumers perceive that product made in the United States and other developed countries are more reliable in terms of quality and safety. Additionally, higher income classes are demanding more natural and healthy products, including those with less saturated fat, cholesterol, and sugar. This creates opportunities for many U.S. products.

Best Product Prospects

Post reports that industry sources indicate that the best product prospects in the Dominican retail sector include U.S. dairy products (cheese, yogurt, and milk powder), although they continue to face onerous and time consuming import regulations. Other top categories are poultry, pork and pork products, beef and beef products, flour and other baking ingredients, spices, candies, fresh fruit, processed vegetables, prepared foods, condiments and sauces, snacks, eggs and egg products, and fruit and vegetable juices. There is also growth potential for existing and new alcoholic beverage products within the distilled spirits, wine, and craft beer categories.

Food Service Sector Highlights:

The leading U.S. products for distribution in the growing HRI sector include premium red meat cuts, pork, poultry parts, seafood, cheeses, frozen potatoes and vegetables, fresh

fruit, wine, and craft beer. U.S. beef (including special meat cuts) is growing in popularity at high-end restaurants, especially in Santo Domingo.

While the DR has substantial domestic poultry and pork sectors, the growing food service sector creates additional demand for specific cuts. The DR's food service sector is largely dependent on imported seafood products, which creates opportunities for U.S. lobster, salmon, and other seafood products in this price-sensitive market.

Cheeses, whether served individually or as ingredients (especially cheddar, mozzarella, and provolone), are widely used in the food service sector. In addition, frozen potato products continue to be very popular. U.S. wines, mainly from California, are gaining market share despite fierce competition from the European Union. There is also increasing demand for U.S. craft beer. U.S. turkey has high potential during peak holiday periods and duck can be found on occasion as a specialty product in some upscale hotels and restaurants throughout the year.

In addition to the normal demand from the tourist sector, the DR's previous economic growth fueled consumer purchasing power, and led to a growing gastronomy sector. As well, increased local demand fueled continuous growth, innovation, and creativity among leading independent and franchise restaurants. This growth in turn has led to continued expansion and interest in premium red meat cuts, pork, poultry parts, seafood, cheeses, frozen potatoes and vegetables, fresh fruit, wine, and craft beer.

Food Processing Sector Highlights:

As of September 2020, the Dominican Republic's food processing industry was valued at US\$2.5 billion, with an additional US\$0.7 billion for processed beverages and other products during the same period. Combined, these categories were 50% of the total value added for all manufacturing activities in the DR. The key products include processed meat, milling products, dairy products, oils and vegetable-origin fats, and sugar confectionary. These activities have substantially contributed to employment and growth in the Dominican Republic's (DR) economy.

The COVID-19 pandemic did not affect the demand for most of those product categories during CY 2020. The U.S. continues to be a strong supplier of meats, edible oils, fats, dairy products, wheat, and other key ingredients. There is potential for increased exports of those and other U.S. ingredients, especially as Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) moves towards full implementation by 2025.

Best Product Prospects

Post reports that there is potential for increased exports of U.S. ingredients for the Dominican milling, dairy, and confectionary industries, especially since CAFTA-DR will be fully implemented. This growth will be seen within products already present in the market. However, growth opportunities for U.S. dairy ingredients may continue to be limited by onerous and time-consuming import requirements.