

## **B. IMPACT OF GLOBALIZATION – THE DOMINICAN REPUBLIC**

The Dominican Republic already at an early stage went for the advantages of globalization. It is an attractive FDI host and has also very low poverty rates compared to other Latin American countries. People appertaining to the middle income class increased significantly during the last decade. There is a positive trend in employment, too. Within six years 400'000 new jobs have been created. The following pages will put some of these developments of successful globalization into context.

### **DR. 1 Effects on Income Levels and Living Standards**

The income level in the Dominican Republic increased the last few years. Although there were several break-ins in GDP, average annual growth rates over each decade were positive. Only latest developments show a decline. After enjoying steady growth over the past few years, the economy of the Dominican Republic contracted significantly in 2001, with the annual rate of growth in GDP falling from 7.3 percent in 2000 to 2.7 percent in 2001.

**REAL GDP GROWTH IN THE DOMINICAN REPUBLIC**

	1981–91	1991–2001	2000	2001	2002	2004	2005
GDP	+2.8	+6.3	+7.3	+2.7	+3.8	+3.0	+9.3
GDP p.c.	+0.7	+4.5	+5.5	+1.1	--	--	+7.9

*Source: World Bank; IMF.*

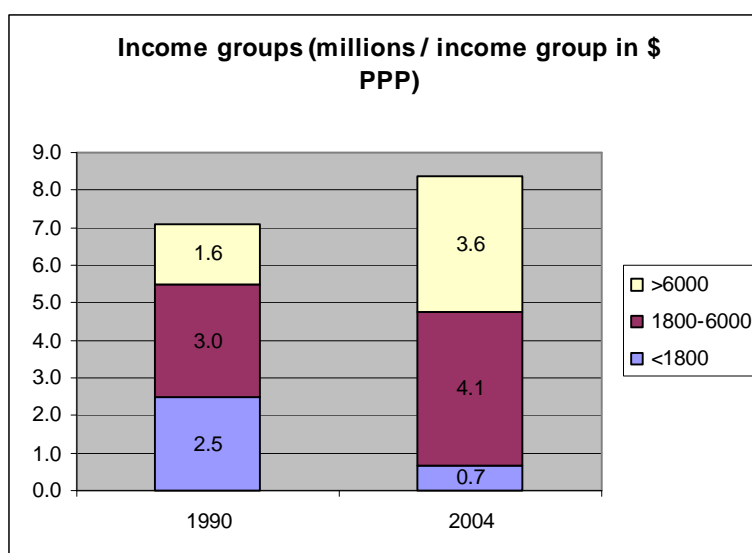
With massively falling poverty rates, the number of people with a per capita income of PPPUS\$ 1,800 – 6,000 increased from 3 million to 4.1 million between 1990 and 2004. The number of people with incomes above PPPUS\$ 6,000 increased even faster, from 1.6 to 3.6 million.

**SHARE OF INCOME PER QUINTILE OF POPULATION IN THE DOM. REPUBLIC (%)**

	1998	2004
Lowest 10%	2.1	1.4
Lowest 20%	5.1	4.0
II	8.6	7.8
III	13.0	12.1
IV	20.0	19.3
Highest 20%	53.3	56.7
Highest 10%	37.9	41.1

Source: World Bank.

II: second quintile, III: third quintile, IV: fourth quintile



Source: World Bank

Any conclusion about poverty should also take into account other relevant indicators over time such as human development. The Human Development Index (HDI) is a common index to measure social progress and well-being of countries<sup>1</sup>. The indicator improved from 0.67 to 0.74 over the last years, placing the Dominican Republic in the midfield of the countries included in the UNDP exercise, close to the world average.<sup>2</sup>

#### HUMAN DEVELOPMENT INDEX TRENDS, 1985 – 2001

	1985	1990	1995	2000	2001	2004
World	--	--	0.772	--	0.722	0.741
DC*	--	--	0.586	--	0.655	0.679
Dom.Rep. (94/173 <sup>+</sup> )	0.675	0.677	0.698	0.727	0.737	0.751
LAC**	--	--	--	--	0.777	0.795

Source: UNDP.

\* Developing countries, \*\* Latin America and the Caribbean, + HDI Rank 2001

There is improvement on all dimensions of human development over the last thirty years. However, it strikes, that life expectancy only improved slightly during the last decade, possibly due to an already high level. For comparison: Peru's life expectancy was 69 years in 2000, which means a progress of three years during the last decade. Jamaica improved its life expectancy by two years since 1990 and has reached 75 years now.

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<sup>1</sup> The HDI is a composite index measuring average achievement in three basic dimensions of human development: a long and healthy life (measured by life expectancy at birth), knowledge (adult literacy rate) and a decent standard of living (GDP p.c.). Performance in each dimension is expressed as a value between 0 and 1. The HDI is then calculated as a simple average of the dimension indices.

<sup>2</sup> UNDP (2003), p. 237–238.

### SOCIAL STATISTICS FOR THE DOMINICAN REPUBLIC, 1970 – 2000

	Literacy rate (percent)				Life expectancy (years)				Infant mortality (per 1000 live births)			
	1970	1980	1990	2000	1970	1980	1990	2000	1970	1980	1990	2000
Dom.Rep.	67	74	79	84	59	63	66	67	98	76	50	39
LAC*	74	80	85	88	61	65	68	70	84	61	41	29
DC**	53	62	69	75	55	60	63	64	108	88	67	59

Source: World Bank. Taken from Williamson (2003), p. 3.

\* Latin America and the Caribbean, \*\* Developing countries

To show how widespread human poverty is in a country, you can use the Human Poverty Index (HPI). The HPI-1 measures *deprivations* in the same three basic dimensions of human development captured in the HDI<sup>3</sup>. The HPI-1 value is expressed as percentages and indicates the proportion of the population affected by the three key deprivations in their lives. In 2001 the Dominican Republic ranked 25 in a list of 94 developing countries. According to its HDI value of 13.9 percent, about 1.2 million people were affected by human poverty<sup>4</sup>. Compared to 1995 this corresponds to an improvement. In 1995 about 1.3 million people, 17.4 percent of the population, were living in human poverty. Within six years 100'000 persons escaped from human poverty. In 2004, the HPI-1 continued to improve to 11.9% thus ranking 27.

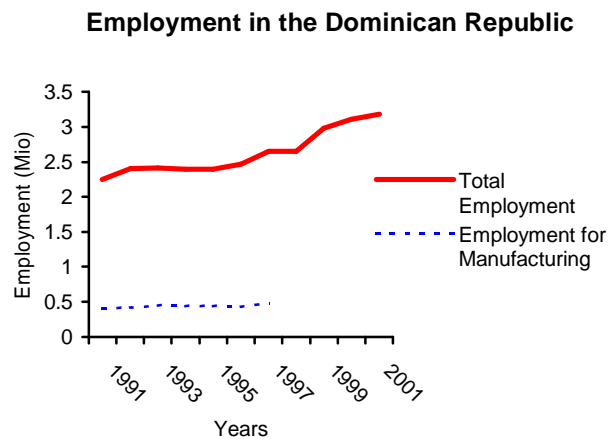
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<sup>3</sup> HPI-1 measures deprivations for *developing* countries, whereas HPI-2 captures also social exclusion and measures deprivations for selected OECD countries.

<sup>4</sup> Note that human poverty (social dimension) needn't correspond to income poverty (US\$1/day standard).

## DR. 2 Effects on Employment

The Dominican Republic increased total employment by 400'000 jobs within six years, from 1991 to 1997. The share of people employed in the manufacturing sector was about 18 percent in the middle of the 1990s. More current data for employment in manufacturing are not yet available.

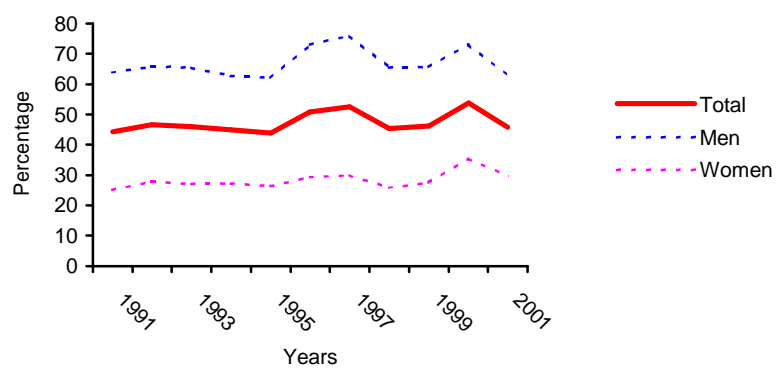


The employment-to-population ratio<sup>5</sup> provides information on the ability of an economy to create jobs. The Dominican Republic increased its ability to create jobs in the middle of the 1990. After a drop-in in 1998 the employment-to-population ratio reached a temporary maximum. However, in 2001 the proportion of the population that is employed fell back on the same level as in 1998.

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<sup>5</sup> ILO (2001a), KILM.

### Employment-to-Population Ratio in the Dominican Republic



### TOTAL EMPLOYMENT IN THE DOMINICAN REPUBLIC

		1991	1996	2001
Employment (in 1000)	Total	2251.7	2490.3	3176.5
Population (in 1000)	Total	5087.6	4900.2	6931.3
Employment-to-Population Ratio	Total	44.3%	50.8%	45.8%
	Men	63.8%	73.0%	62.7%
	Women	25.1%	29.3%	29.6%
Employment f. Manufacturing	Total (% of total Empl.)	406.8 (18.1%)	433.0 (17.4%)	--

Sources: LABORSTA and ILO.

\* persons aged 15 years and over

### DR. 3 The Costs of Institutional Constraints and the Benefit of Opening

Global foreign direct investment flows (FDI) in Latin America declined by more than 50 percent in 2001. Compared to this regional development the performance of the Dominican Republic can be characterized as satisfactory.

The *Inward FDI Performance Index* confirms this evaluation. The index is the ratio of a country's share in global FDI flows to its share in global GDP and benchmarks success in attracting FDI<sup>6</sup>. In 1990 the Dominican Republic was ranked 32 (of a total of 140 countries) with an index value of 1.9. Obviously the island attracted almost twice as much FDI than may be expected on the basis of its GDP. The index value of 2000 was 1.6, but the Dominican Republic improved its rating by one more rank because other countries dropped back in performance.<sup>7</sup> Calculating FDI as percentage of GDP you get the following picture.

**FDI INFLOWS AND FDI OUTFLOWS IN THE DOMINICAN REPUBLIC**

	FDI inflows (US\$ mio)	FDI inflows (% of GDP)	FDI outflows (US\$ mio)	FDI outflows (% of GDP)	nom. GDP (current US\$ mio)
1990–1995 (annual avg.)	211	--	9	--	--
1996–2001 (annual avg.)	784.5	--			
2001	1 198	5.7%	4	~ 0%	21'200
2002	917	--	12	~ 0%	--
2003	613	--	-38	--	--
2004	758	3.2%	--	--	23600
2005	899	3%	--	--	29200

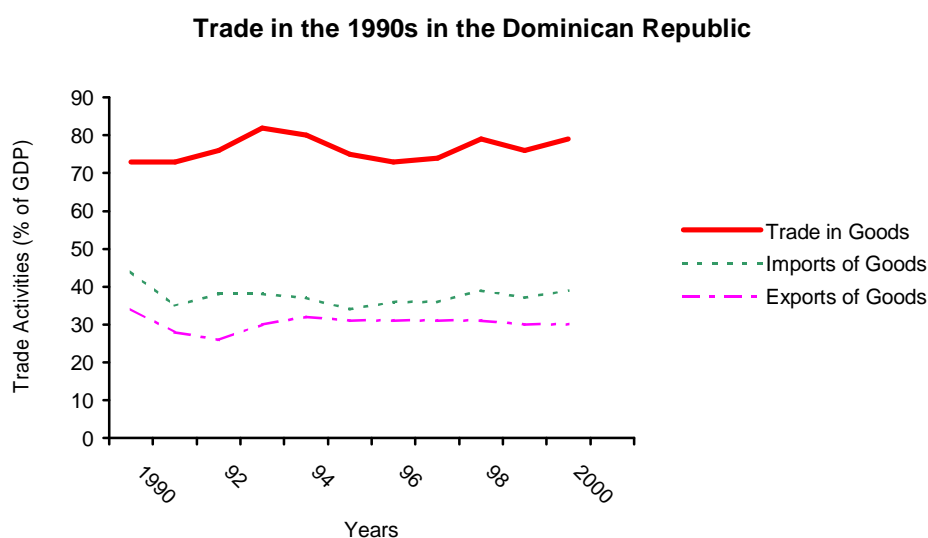
Sources: UNCTAD, except of: \*own calculations based on World Bank Data.

<sup>6</sup> UNCTAD (2002a), p. 23.

<sup>7</sup> UNCTAD (2002b), p. 26.

FDI inflows increased continually until 1999. After the drop-in in the year 2000 FDI increases again. It is not yet predictable how FDI inflows will develop in the future. Regarding FDI outflows from Latin American countries it has to be said, that most of it remains within the region. However, as an investor, the Dominican Republic plays a neglecting small role.<sup>8</sup>

To evaluate a country's development in economic performance it is helpful to consult the data for its trade activities, too. Big fluctuation can't be observed during the last decade.



Compared to 1991 the Dominican Republic intensified its trade activities until 2000. Compared to the data of 2001 exports of goods declined by 4 percent and imports by 3 percent. On average, however, trade expanded at a moderate path during 2000-2005.

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<sup>8</sup> UNCTAD (2002c), p. 68.

### TRADE IN THE DOMINICAN REPUBLIC 1991 – 2001

	1991	1997	2000	2001	2005	2006
Exports of goods and services (% of GDP)	28%	31%	30%	24%	34%	35.4%
Imports of goods and services (% of GDP)	35%	36%	39%	32%	37.7%	41.6%

Source: World Bank. Data for 2001 from UNDP.

### GROWTH IN EXPORTS OF GOODS AND SERVICES

	1981–91	1991–01	2000	2001	2000-05
Exports (average annual growth)	+10.2	+6.7	+7.3	-7.9	+4.2*

Source: World Bank.

\*Free on Board

## **DR. 4 Current and potential growth**

The economies in Latin America have lived through a decade of slow growth. Economic performance of most Latin American countries is worse under current conditions than it would be with additional reforms.

One possibility to measure how efficient a country taps its potential is the Index of Economic Freedom (IEF). "The absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself"<sup>9</sup> is one key to prosperity.

One of the major findings of the index is a strong, positive correlation between economic freedom and income per capita. People invest, work, and consume where regulatory barriers are lowest and, most important, where property rights are protected. Without the rule of law, societies have no mechanism to stop private abuses and public mismanagement<sup>10</sup>. So, it is not surprising that property rights, regulations, and black market factors were found to have the highest significance in explaining the variation in per capita income across countries.

The IEF measures a total of ten different factors. For each factor, a country receives a score from 1 to 5 – where 1 is freest and 5 most repressed. With scores between 3 and 3.4 the Dominican Republic was categorized mostly unfree most of the time during the last ten years. Only in 2000 and 2001 the island got qualified as mostly free. In trade policy, regulations, property rights and black markets it got its worst scores and hardly any improvement. Since 1998 the Dominican Republic improved its performance continually until 2001, when it reached a maximum, placed on rank 59 with a score of 2.85. Since then a decrease can be observed. Due to deterioration in monetary policy and wages and prices, as well as stable scores (that means no improvement) regarding the other factors, the Dominican

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<sup>9</sup> Definition of "Economic Freedom" according to The Heritage Foundation (2000), p. 71.

<sup>10</sup> According to a research study by Roll/ Talbott (2002). Taken from Eiras (2003), p. 3.

Republic got its worst ranking in 2003. With a score of 3.1 it was ranked 85 (out of listed 171 countries).

It is obvious that the Dominican Republic still has a lot of potential mainly in the key areas to long-term economic growth and prosperity. The court system for example, is inefficient, corruption and bureaucratic red tape run high, and the government can expropriate property. Business regulations, too, are still burdensome, and inconsistent application remains a problem.

**10 FACTORS MEASURED BY THE INDEX OF ECONOMIC FREEDOM FOR THE  
DOMINICAN REPUBLIC**

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
IEF Rank	69	77	73	84	80	61	59	72	85
IEF average Scores	3.4	3.2	3.1	3.2	3.1	2.9	2.85	3	3.1
Trade Policy	5	5	5	5	5	4	4	4	5
Fiscal Burden of Government	2	2	2	2	2	2	1.5	1.5	1.5
Government Intervention	2	1	1	2	1	1	1	1	1
Monetary Policy	5	4	3	3	3	2	2	3	3
Banking and Finance	3	3	3	3	3	3	3	3	3
Capital Flows and Foreign Investment	3	3	3	3	3	3	3	3	3
Wages and Prices	2	2	2	2	2	2	2	3	3
Regulations	4	4	4	4	4	4	4	4	4
Property Rights	4	4	4	4	4	4	4	4	4
Black Market	4	4	4	4	4	4	4	3.5	3.5

*Source: The Heritage Foundation.*

*Score from 1 to 5 – where 1 is freest and 5 most repressed.*

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## ACRONYMS AND ABBREVIATIONS

bn	billion (1 bn = 1000 millions)
ECLAC	UN Economic Commission for Latin America
EIU	Economists Intelligence Unit
et sqq	and the following
$\Delta$	change
DC	Developing Country
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HDI	Human Development Index
HPI-1	Human Poverty Index for Developing Countries
ICSE	International Classification of Status in Employment
IEF	Index of Economic Freedom
ILO	International Labor Organization
LAC	Latin America and the Caribbean
KILM	Key Indicators of the Labour Market (of ILO)
mio	million(s)
p.c.	per capita
PPP	Purchasing Power Parity
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US\$	US Dollar
WBG	World Bank Group
WDR	World Development Report (of World Bank)

WIR      World Investment Report (of UNCTAD)