1 A fast-growing economy in search of new development drivers

The Dominican Republic has been the fastest-growing economy in Latin America since 2010. The next priority for the country is to translate this economic growth into shared gains. That goal demands that the Dominican Republic address its persistent structural challenges by fostering local development and innovation. This chapter reviews the structural economic characteristics of the Dominican Republic in the last three decades and identifies opportunities for the future.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

This first chapter of the Production Transformation Policy Review (PTPR) of the Dominican Republic presents a snapshot of the structural economic characteristics of the country. The country has had the fastest-growing economy in Latin America and the Caribbean economies on average from 2010 to 2019. Remittances, mostly from its diaspora in the United States, foreign direct investment and tourism play an important role in the economy. However, as elsewhere in the world, the COVID-19 pandemic is adversely affecting these activities. The Dominican Republic is moving to cushion the short-term impact of the ongoing economic crisis (see Chapter 2 of this report). Nevertheless, the current situation is also prompting reflections about how to increase resilience to potential shocks, including by developing local capabilities in key industries such as medical devices and agro-food, strengthening regional integration and shifting towards more sustainable and inclusive development pathways. These questions are relevant to our review of the Dominican Republic, which even before COVID-19, needed to identify new ways to transform high growth into opportunities for all its citizens.

The first section of this chapter reviews the structural characteristics and economic performance of the Dominican Republic since the 1990s, including its emerging weaknesses, in the context of Latin American and the Caribbean. The second and third sections focus on two issues that require urgent attention to attain the next development level: strengthening the local production system through innovation and increasing the capacity to learn and benefit from global trends and foreign partners.

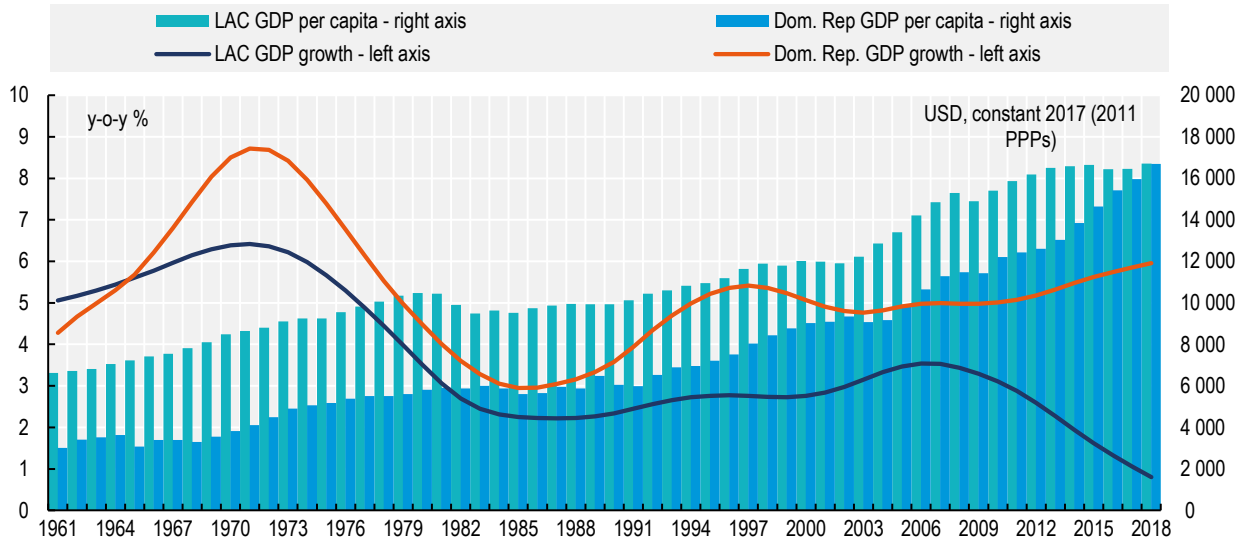
The chapter concludes with a reflection on the channels through which the current global economic crisis caused by COVID-19 is affecting the Dominican Republic.

A fast-growing economy

Since 2010, GDP grew at an annual average of 5.8%, making the country the fastest-growing in Latin America and the Caribbean, which, during the same period, grew at an annual rate of 2%. GDP per capita also increased, bringing the country close to the regional average at USD 16 800 in 2018 (in 2011 constant PPP), 40% more than in 2010, and 68% of that of Chile, the country with the largest GDP per capita in the region (Figure 1.1). Investment and consumption have been the main drivers of growth (Figure 1.2). In particular, investment has been the fastest-growing component of growth since 1991, expanding annually at 8.8% and has contributed 32% of domestic GDP growth.

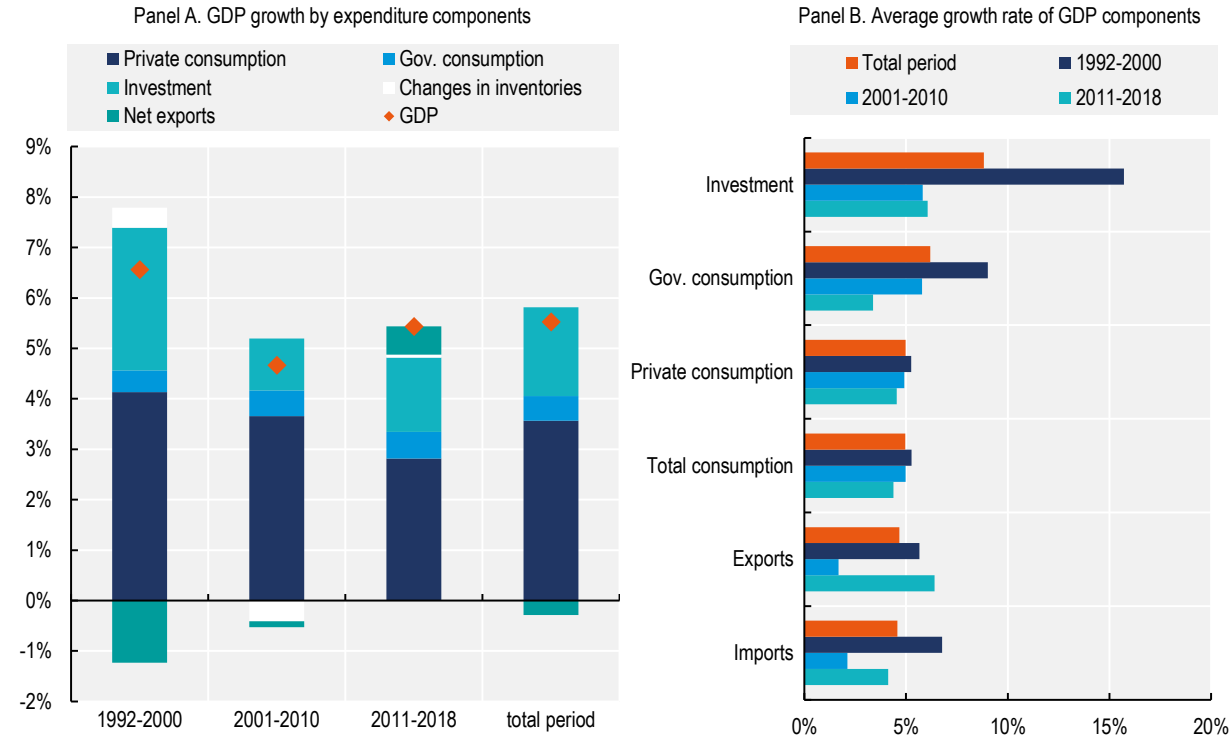
Figure 1.1. The fastest-growing economy in Latin America and the Caribbean

GDP growth and GDP per capita, Dominican Republic, 1961-2018



Source: Authors' analysis based on the Conference Board Total Economy Database (2018), https://www.conference-board.org/data/economydatabase/; and Word Bank data (2019), https://databank.worldbank.org/.

Figure 1.2. Investment and consumption have been the major drivers of growth, 1992-2018



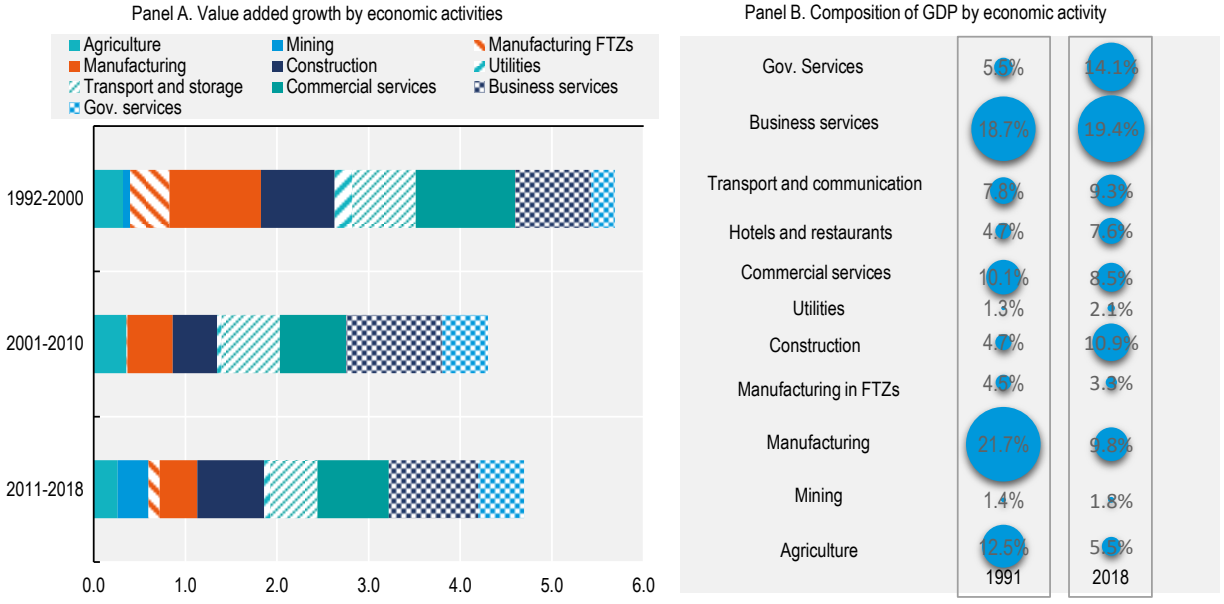
Source: Authors' elaboration based on Dominican Republic Central Bank (2019), https://www.bancentral.gov.do/.

The local production and innovation system could be stronger

The economy shifted from manufacturing to services and tourism

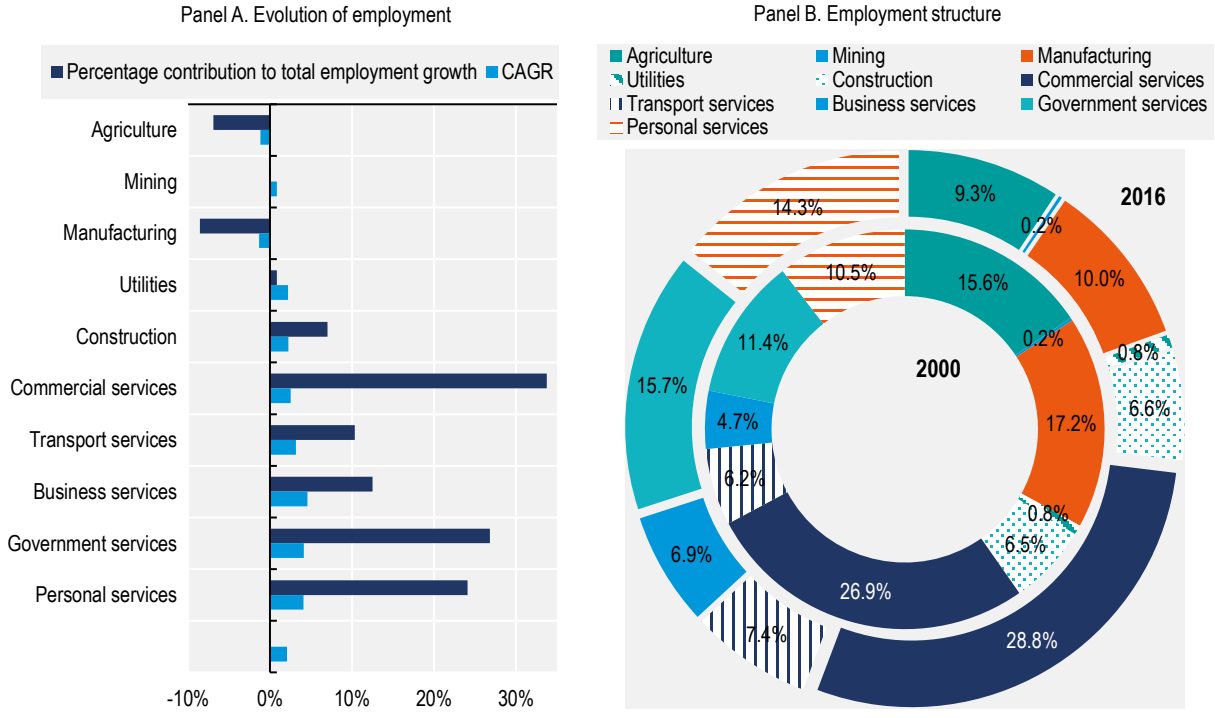
Since the 1990s, the Dominican Republic has moved away from manufacturing as the main pillar of its economy for several reasons. Changes in global trade agreements made the initial specialisation of the free trade zones (FTZs) in textiles and garments less competitive. National development strategies increasingly favoured growing activities as tourism. From 1991 to 2018, in parallel with the decline of manufacturing (which decreased from 22% to 10%) of GDP, government services increased from 5% to 14% of GDP in 2018 (Figure 1.3). The shift towards services is also reflected in employment growth. In 2000-16, total employment increased by 39%, from 3 million to 4.2 million, with a large share of employment absorbed by commercial and government services (Figure 1.4).

Figure 1.3. GDP by economic activity and sectoral contribution to growth



Note: The underlying components do not add to the total due to the non-additivity chain-linked series.
Source: Authors' elaboration based on Dominican Republic Central Bank (2019), https://www.bancentral.gov.do/.

Figure 1.4. Employment growth and structure by economic activities



Note: CAGR compound annual growth rate.
Source: Authors' elaboration based on the Dominican Republic Central bank (2019), https://www.bancentral.gov.do.

Tourism has come to play a vital role in the economy. From 2000 to 2018, the number of tourists more than doubled from 3.3 to 7.2 million, an annual average growth of 5.5%. In 2018, the total direct and indirect contribution of tourism accounted for 336 000 jobs (8.5% of total employment), 170 000 more than in 2000. The country is now the main destination for tourism in the Caribbean, attracting 24.1% of the total number of visitors in 2018, and the fourth most popular destination in Latin America, after Argentina, Brazil and Chile. With USD 7.5 billion in receipts from tourism in 2018, the Dominican Republic alone was responsible for 19.7% of total receipts in the region, followed by Brazil (15.9%), Colombia (13.2%), and Argentina (13.9%). However, there is room to increase the profitability of tourism. With USD 1 150 of generated income per tourist, the Dominican Republic lags behind other countries in the Caribbean, such as Costa Rica with USD 1 310 and Panama with USD 2 415 (World Travel and Tourism Council, 2019[1]).

Nevertheless, the sector faces serious sustainability challenges. Most investment in tourism is in coastal areas, which are highly vulnerable due to the effects of climate change and extreme weather conditions. The hurricane season in 2017 brought a direct economic loss estimated to USD 52 million, and 98 000 fewer tourists (World Travel and Tourism Council, 2018[2]). In addition, each tourist consumes as much as three times the water as a Dominican, and the entire sector is responsible for 43% of commercial energy demand and 40% of total country waste (UN Environment, 2019[3]).

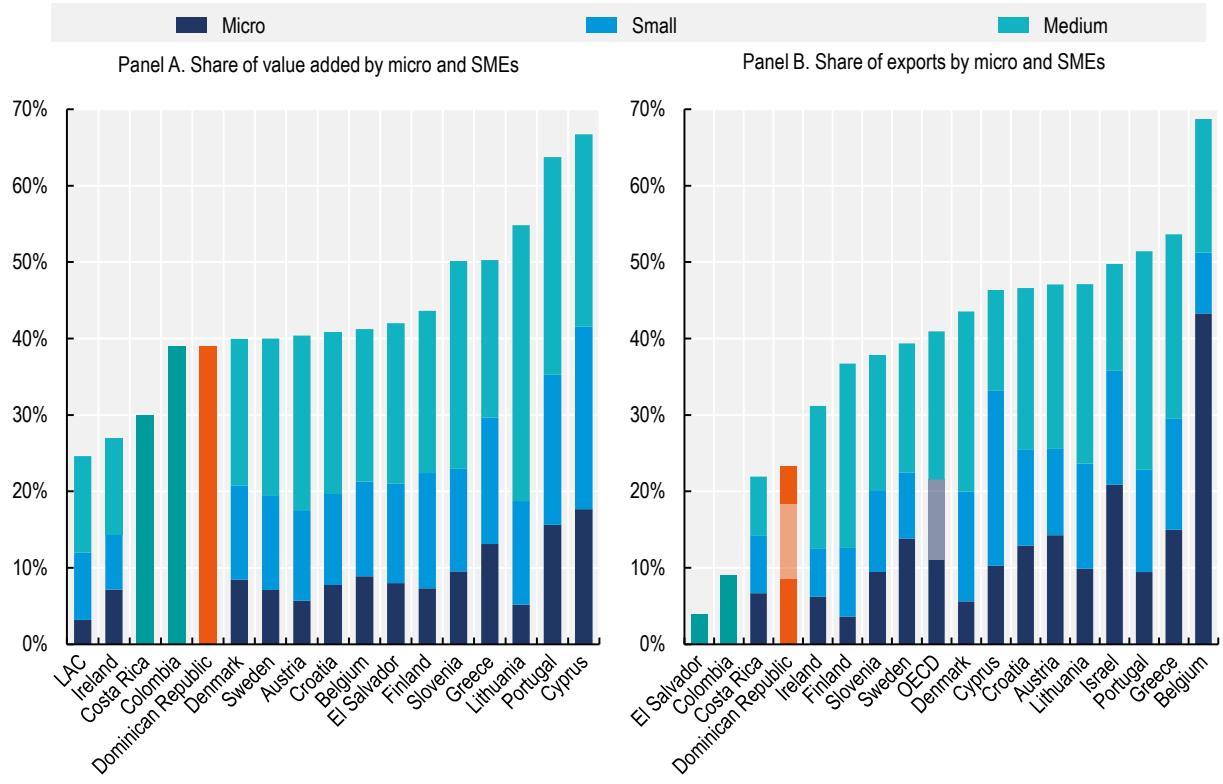
To forge a better path for the future, the development of a more sustainable and inclusive tourism sector should also include efforts to promote greater spillovers in the local economy. The enclave and scale-seeking model of all-inclusive limits this possibility considerably. Investment in this area also has the potential benefit of generating green jobs and improving competitiveness in areas such as renewables, energy-efficient technologies, and conservation practices.

Firm structure remains fragile

Micro, small and medium enterprises (MSMEs) represent 98% of total firms in the Dominican Republic, with 76% in the micro category. MSMEs employ 65% of the total workforce, contribute to 40% of total value-added and account for 23% of domestic exports. While the share of these firms in value-added is closer to the OECD countries, where the average is 49%, their contribution to national exports is much lower; in fact in OECD countries these firms account for 40% of total exports (Figure 1.5). Moreover, the large majority of micro-enterprises in the Dominican Republic are concentrated in less dynamic, less export-oriented sectors. In 2018, around 45% of micro-enterprises were in wholesale and retail, followed by professional business activities with 15% and manufacturing with 9%.

Figure 1.5. MSMEs contribute 23% to national exports, while in OECD they account for 40%

Dominican Republic and selected economies, 2018 or last available year



Note: The figure takes into account only enterprises in business activities ISIC rev. 4 (div 5-82). The OECD definition of size class: micro (1-9 persons employed), small (10-49 persons employed), medium (50-249 persons employed). Size class classifications in the Dominican Republic are defined according to the parameters contained in Law 187 of 2017. This involves two different indicators, size and turnover, with three different thresholds: micro (1-10 persons employed and DOP 8 million), small (11-50 persons employed and DOP 54 million), and medium (41-150 employed and DOP 202 million).

Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union:

The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

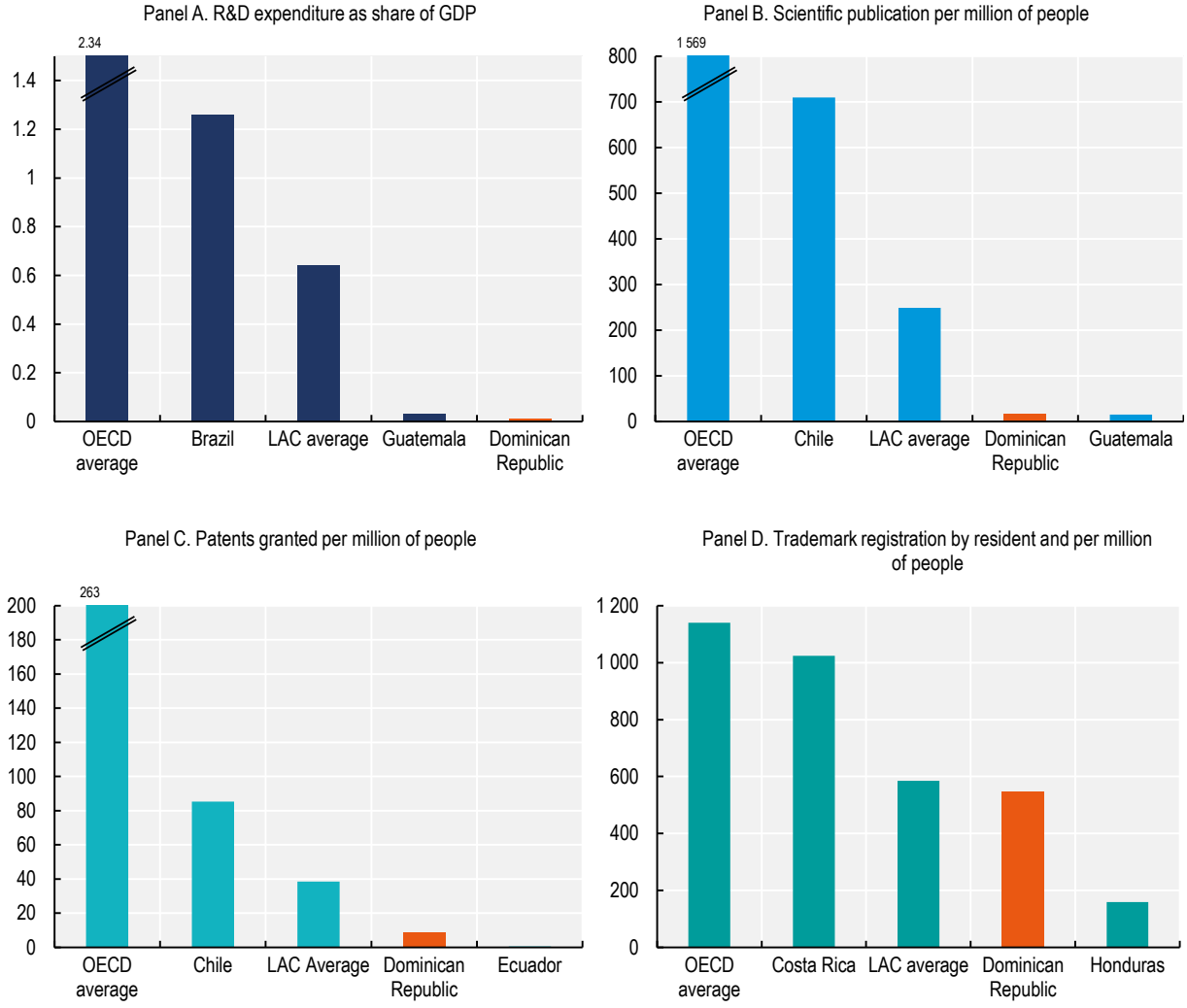
Source: Authors' elaboration based on OECD Structural and Demographic Business Statistics (SDBS), https://stats.oecd.org/; Dominican Republic General Directorate of Internal Taxes DGII, https://dgii.gov.do/; and ECLAC (2018[4]), Mipymes en América Latina: Un frágil desempeño y nuevos desafíos para las políticas de fomento, repositorio.cepal.org/handle/11362/44148.

The economy underperforms in innovation

The high growth of the Dominican Republic is not driven by innovation. In addition, the country lacks an official reporting on R&D figures. The most recent available estimates from the Ministry of Economy, Planning and Development (MEPyD) reported an investment in R&D of 0.01% of GDP in 2015. This figure is below the already low average level of Latin America and the Caribbean at 0.7%. Also, in 2018, the Dominican Republic achieved only three publications in significant scientific journals per million inhabitants, below the average for Latin America and the Caribbean of 250. It counts with 27 patent applications per million inhabitants, above Ecuador (22) but around a third of the regional average (93). Trademarks reveal a different performance; the economy performs in line with the average of Latin America and the Caribbean (Figure 1.6).

Figure 1.6. Innovation effort is limited in the Dominican Republic, 2018

Dominican Republic and selected countries



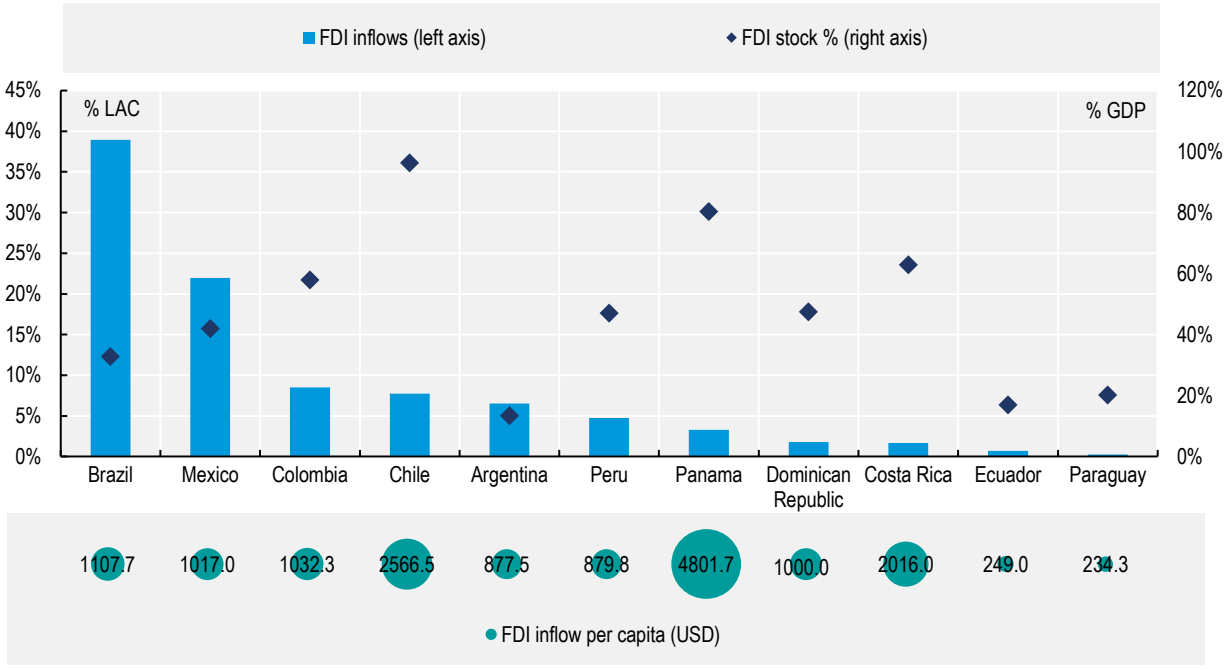
Note: Panel B refers to documents published by domestic researchers in scholarly journals indexed in Scopus, Panel C refers to patents granted to residents through the Patent Cooperation Treaty, Panel D refers to trademarks registered by resident via Madrid system.
Source: Authors' elaboration based on World Intellectual Property Organization, WIPO (2019), https://www.wipo.int/ipstats/en/; UNESCO database (2020), http://data.uis.unesco.org/; and Scimago Journal and Country Ranking (2020), https://www.scimagojr.com/.

The external factor could contribute more to local development

Foreign investment shifted towards tourism activities

In 2016-19, the country attracted roughly USD 10 000 million of total FDI, corresponding to 1.8% of total inflow investment in Latin America and the Caribbean, similar to Costa Rica. Over the same period, the ratio of FDI inflow to GDP stabilised at around 3.7%, above the regional level of 2.8%. The stock of FDI as a percentage of GDP is in line with the regional average of 47%, and below other economies that rely heavily on foreign investment, such as Costa Rica (63%) and Panama (80%) (Figure 1.7).

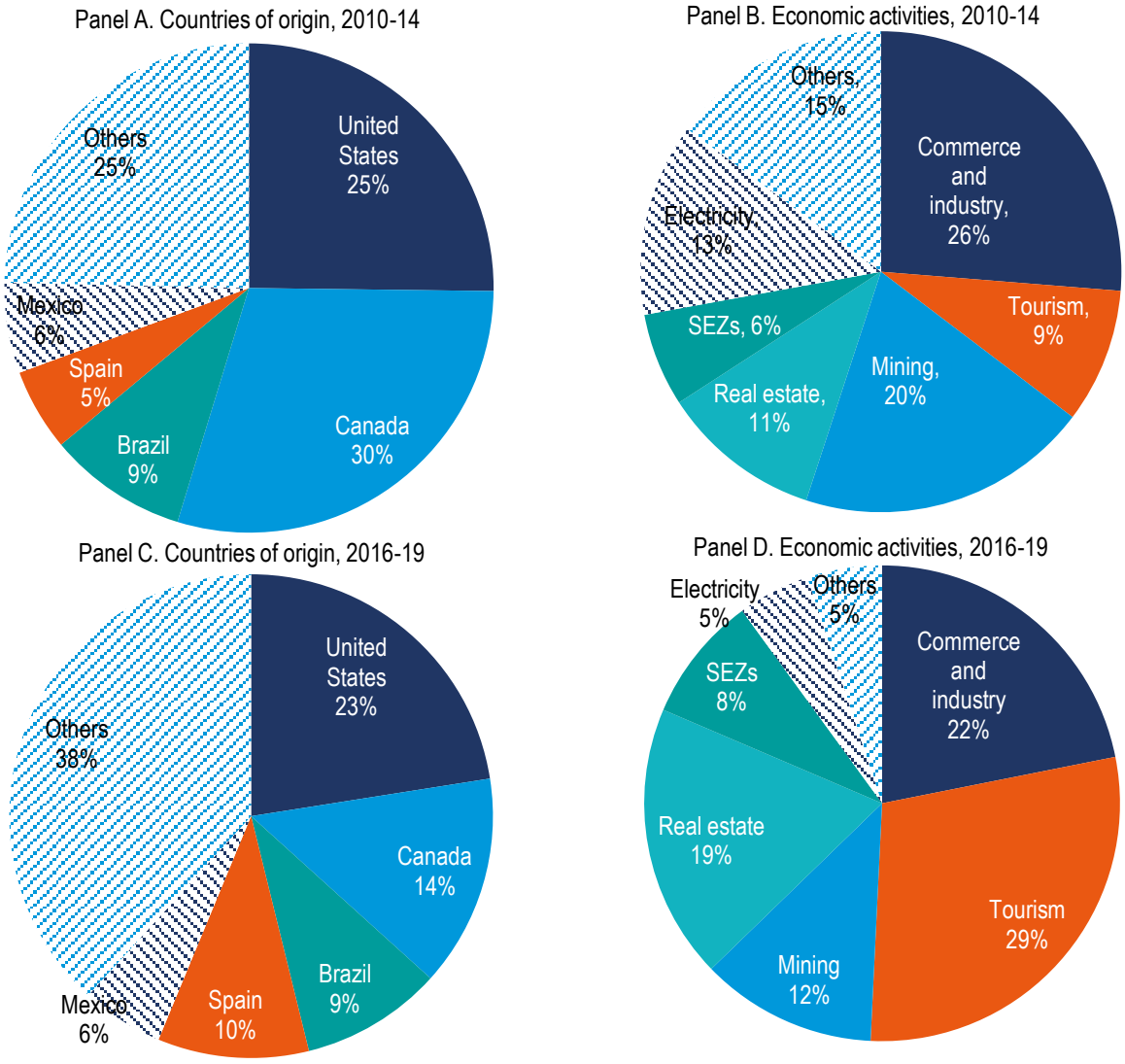
Figure 1.7. The Dominican Republic is among the top 10 destinations for FDI in Latin America and the Caribbean, 2015-18



Source: Authors' elaboration of based on UNCTAD FDI database, https://unctadstat.unctad.org/.

In 2016-19, the top five investors accounted for 62% of FDI, 13% less than the period 2010-14, as new investors like the People's Republic of China (hereafter "China") and Turkey emerged. But the United States remains the main country of origin of FDI with 23% of total investment, 5% less than in 2010-14. Most FDI goes into tourism, which in 2016-19 accounted for 29% of total capital expenditures and 55% of total jobs created through greenfield FDI (Figure 1.8 and Figure 1.9).

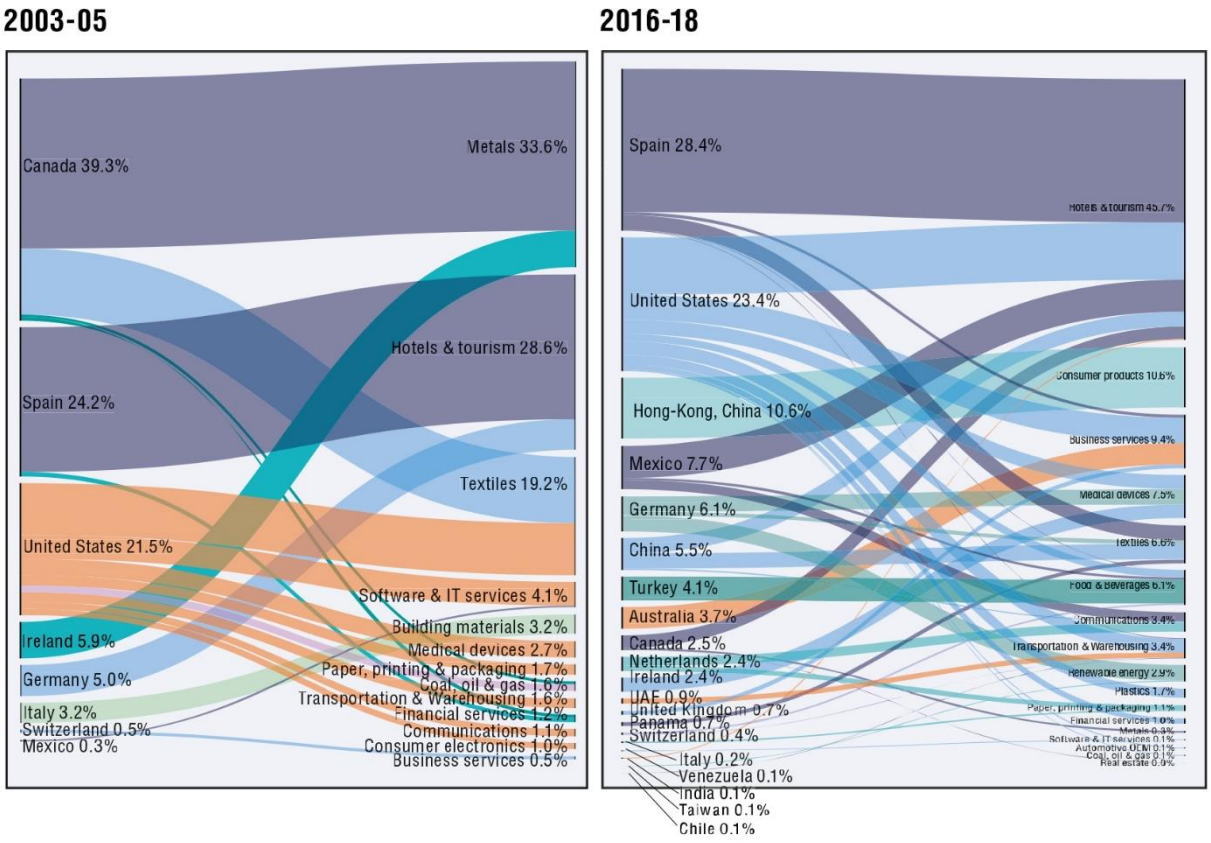
Figure 1.8. Share of total FDI inflows by countries of origin and sectors of destination, the Dominican Republic 2010-19



Note: The available information covers the period up to September 2019.
Source: Authors' elaboration based on the Dominican Republic Central Bank (2019), https://www.bancentral.gov.do/.

Figure 1.9. Greenfield FDI by countries of origin and economic activities, 2003-05 and 2016-18

Share of total jobs created in greenfield FDI



Source: Authors' analysis based on the Financial Times fDi Market Database (2019), https://www.fdimarkets.com.

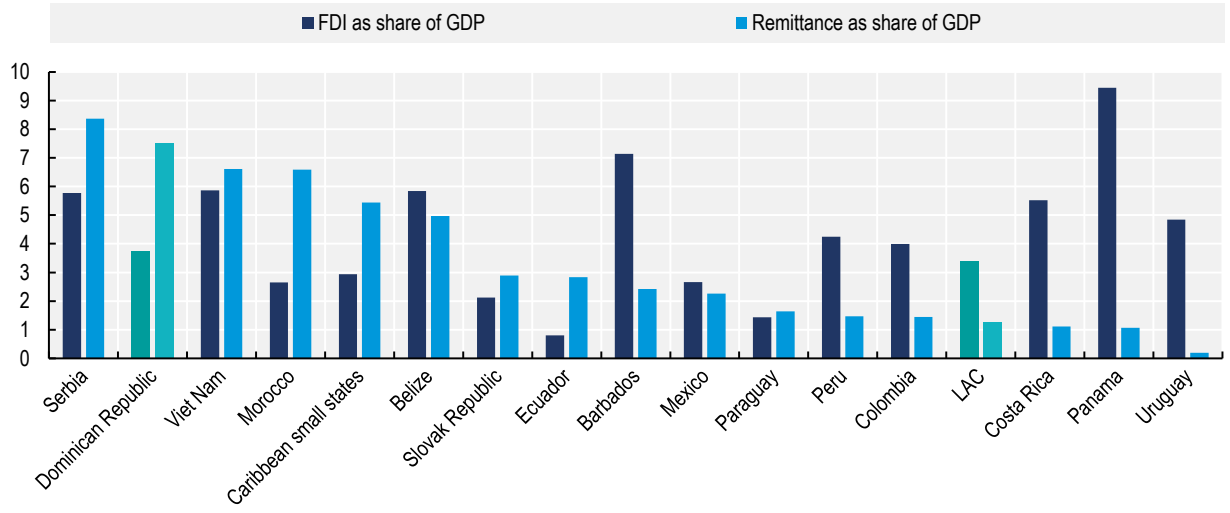
Remittances are more relevant than FDI as a share of GDP

Remittances to the Dominican Republic account for slightly more than 7% of GDP, while FDI accounts for 3.7% (Figure 1.10). Since the 1990s, remittance inflows grew on average 5% annually and in 2018 reached USD 6.8 billion, 23% of the total in Central America, second only to Guatemala with 30%. The largest share of remittances, 70% in 2010-18, originated from the United States, where 1.1 million Dominicans lived in 2018, a number equal to 10% of the Dominican population. European countries led by Spain contributed to 20% of total remittances in 2010-18.

The emigrant stock (persons born in the Dominican Republic and living abroad) is estimated to be approximately 1.3 million or 12% of the national population. Approximately 72% of the Dominican emigrant stock is located in the United States, followed by Spain (12%) and Puerto Rico (4%) (OECD/CIECAS, 2017[5]). Estimates of the diaspora population, which would include those with Dominican ancestry living abroad, suggest that the numbers are far larger. For instance, the 2016 United States Census estimates that the Dominican diaspora population is approximately 2.2 million with close to 70% located in the New York-Newark-Jersey City area (Zong and Batalova, 2018[6]).

With USD 37 000 average income, the Dominican diaspora not only contributes to local development through the remittances or as potential final consumers; they also provide a foothold into wider commercialisation channels. In fact, migrant-entrepreneurs act as co-creators of goods, services, and intellectual property and often operate as collaborators, investors, and distributors in international markets (Nurse and Kirton, 2014[7]).

Figure 1.10. FDI inflows and remittances as a share of GDP, average 2010-18



Source: Authors' elaboration based on (World Bank[8]) database (2019), https://data.worldbank.org/.

Merchandise exports are concentrated in primary commodities

From 2000 to 2018, Dominican merchandise exports increased on average 3.5% annually. The number of exported products increased from 800 to 2 400, shifting from labour intensive products to primary commodities that now account for 43% of total exports (Figure 1.11). Several factors concur to explain this trend. The end of the Multi-Fiber Agreement in 2005 made the garment and textiles sector less competitive, with the exception of niche markets such as sportswear (Box 1.1).

FTZs, which mostly hosted labour-intensive manufacturing in footwear and textiles, evolved in response to changing global incentives, with new sectors such as pharmaceutical and medical devices emerging. New mining projects started to be developed in 2012, including the restarting of extraction in the Pueblo Viejo gold mine, the second-largest gold deposit in the world. The Economic Partnership Agreement between the European Union and CARIFORUM, signed in 2008, also contributes to explain the change in the export pattern as agricultural exports, including bananas, sugar, and cocoa, increased by more than 20% between 2013 and 2017, with Germany, the United Kingdom, France, and Italy as main destinations (European Commission, 2019[9]).

Box 1.1. The Multi-Fibre Arrangement

Established in 1974, the MFA was a derogation from established trade rules that limited opportunities for developing countries, and was characterised by complex quotas on imports by the major industrialised nations on garment and textile prices. As part of the Uruguay Round of negotiations that created the World Trade Organization in 1995, the MFA was replaced by the Agreement on Textiles and Clothing (ATC), which phased out all quota restrictions over a 10-year transition period ending 1 January 2005. The G&T sector was integrated into normal merchandise trade rules in 2005 as quotas came to an end. Also, importing countries were no longer allowed to discriminate between different exporters.

Pre-2005

Cost and reallocation effects. The quotas added to the cost of production, restricted supply, raised prices for consumers, and reduced total trade volume. The quotas led also to a relocation of production to developing countries that benefited from preferential access to advanced economies' markets. For example, the quotas imposed on Chinese exports because of the MFA, coupled with African Growth Opportunity Act preferences, represented an implicit export subsidy for Lesotho and many other African economies in the apparel industry.

Employment effects. Despite the positive impact on the economies that enjoyed preferential access, as many as 19 million jobs in developing countries may have been lost because of quota restrictions under the MFA. These effects were profoundly imbalanced; a single job retained in developed countries may have caused the loss of 35 jobs in developing economies.

Post-2005

The end of MFA generated a lot of concern in those countries, such as the Dominican Republic, that were enjoying preferential market access, especially to the United States and the European Union markets (Table 1.1). Their concern stemmed from large Asian countries that had well-established G&T industries, were highly price competitive, and enjoyed large-scale production advantages. Since the phasing out of quotas, the share of the developing countries in the global G&T trade has been on the rise as the share of advanced economies fell. The combined share of the EU and the United States in global textile exports declined from 40.9% in 2005 to 27.6% in 2016, and in the global clothing exports from 32.7% in 2005 to 27.7% in 2016. China increased its share in world textile exports by 26.8 percentage points between 2000 and 2016 and by 18.2 percentage points in world clothing exports during the same period. Between 2000 and 2016, India's share of global textile exports almost doubled, from 3.6% to 5.7%, while its textile exports reached a total of USD 16 billion and its clothing exports USD18 billion, making it the sixth-largest in clothing trade and the fourth-largest in global textile trade. Similar figures characterise the recent experience of Viet Nam and Bangladesh.

Table 1.1. The end of the MFA

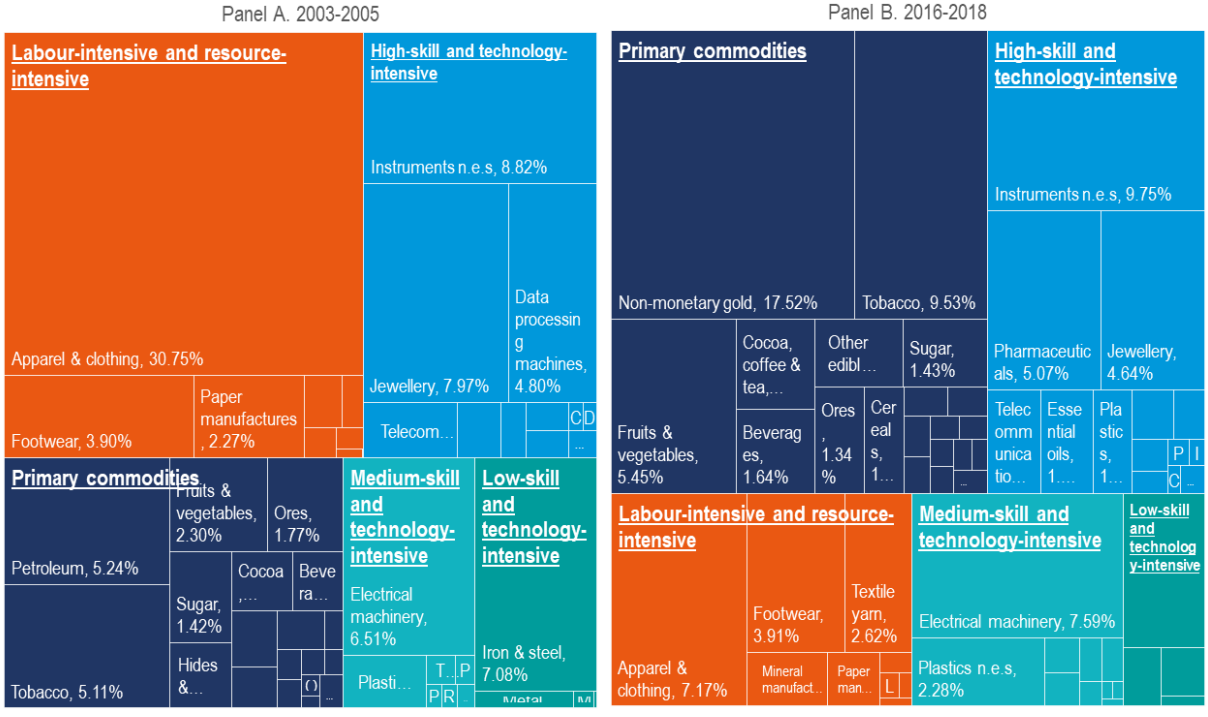
	Share of world exports		Share in total country exports	
	2004	2018	2004	2018
China	21.46%	38.11%	20.3%	14.1%
Bangladesh	1.29%	3.20%	87.1%	94.0%
Viet Nam	1.41%	4.60%	30.0%	25.0%
EU27	34.22%	23.85%	5.5%	5.0%
Italy	8.65%	6.89%	14.1%	11.8%
Turkey	3.15%	3.10%	28.3%	17.3%

Latin America and the Caribbean	4.11%	2.21%	4.9%	2.2%
Dominican Republic	**0.43%**	**0.12%**	**40.2%**	**17.1%**
Peru	0.20%	0.16%	8.6%	3.0%
United States	3.28%	2.55%	2.5%	1.6%

Source: (UNCTAD, 2005[10]), *TNCs and the removal of textiles and clothing quotas,* and (Ayoki, 2017[11]), The impact of Multi-Fibre Arrangement phase-out on Sub-Saharan Africa's textiles and clothing exports.

The United States remains the principal trading partner of the Dominican Republic, while the overall number of trading partners increased from 98 countries in 2000 to 147 in 2017. The top five trading partners account for 82% of total domestic exports and 68% of national imports. The United States, in 2016-18, accounted for 53% of total national gross exports and accounts for 44% of domestic gross imports, down from 75% and 53% in 2002-04. The composition of the top five trading partners has slightly changed. Haiti and Canada increased their export shares whereas Korea and the Netherlands have been replaced by India and Switzerland. The surge of India, Canada, and Switzerland is mainly driven by the increase in the exports of gold, whereas 40% of exports to Haiti are concentrated in garment and food products. Imports from China doubled from 7% to 14% replacing Japan in the second place. From China, the Dominican Republic mostly imports equipment machinery and textile products. Brazil and Spain maintained their leading position among the top five whereas Mexico replaced Japan (Figure 1.12).

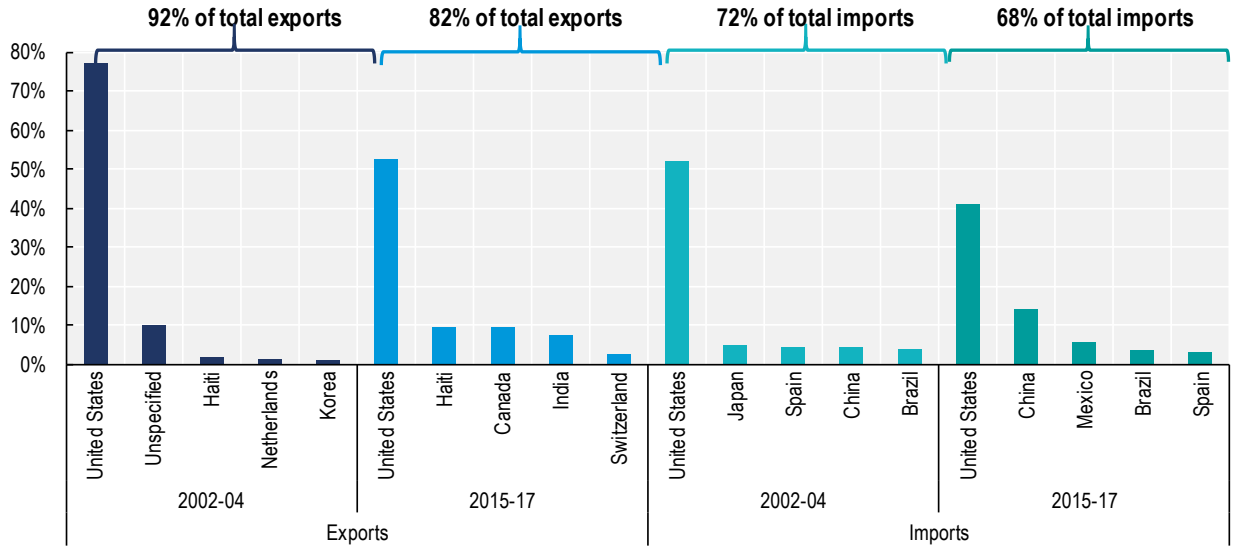
Figure 1.11. Exports by degree of technology intensity, Dominican Republic, 2003-05 and 2016-18



Note: Names of commodity codes are shortened for visual purposes. Based on SITC Rev.3 and following a hierarchy for manufactures developed by UNCTAD, https://unctadstat.unctad.org/EN/Classifications/DimSitcRev3Products_Tdr_Hierarchy.pdf.
Source: Authors' elaboration based on the UN Comtrade database (2019), https://comtrade.un.org/.

Figure 1.12. Dominican Republic's top 5 trading partners, 2002-04 and 2015-17

Share of total gross merchandise exports and imports



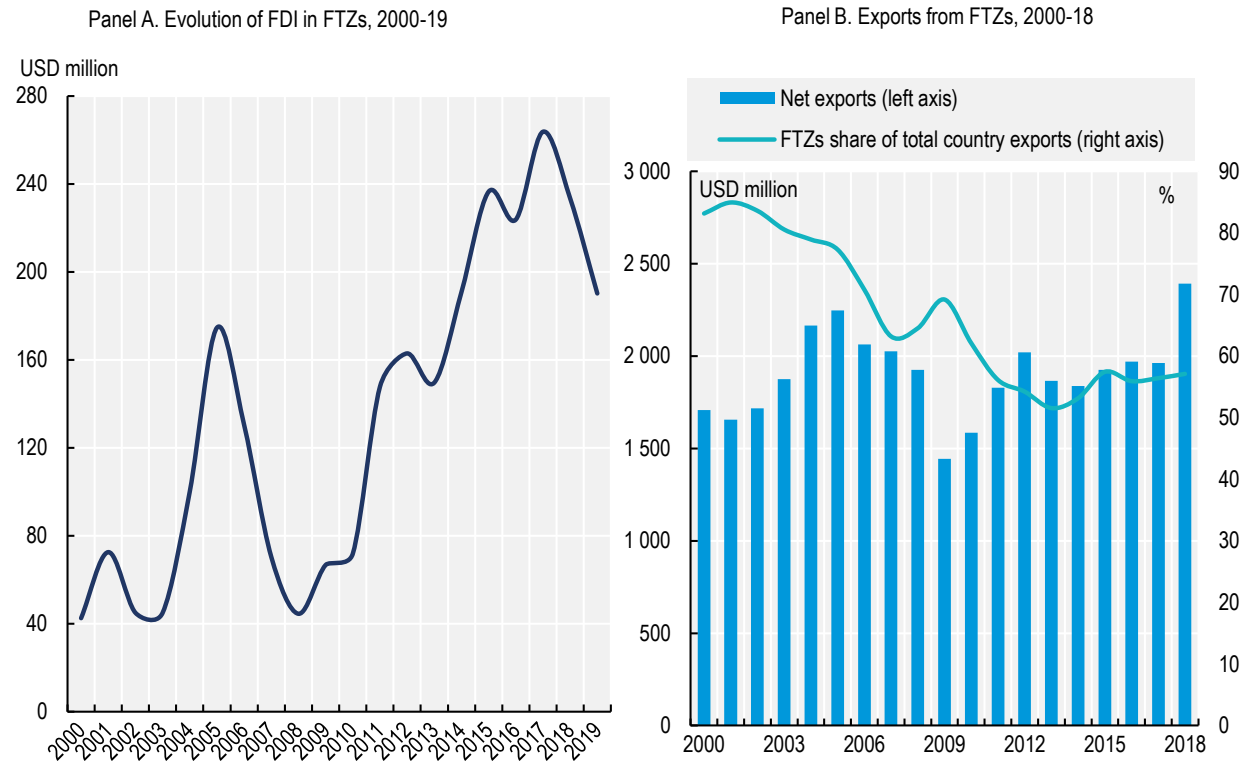
Source: Authors' elaboration based on the UN Comtrade database (2019), https://comtrade.un.org/.

The Free Trade Zones changed specialisation but continue to display limited local linkages

The change in the Dominican Republic's export profile is also evident in the transformations of the Free Trade Zones (FTZs) (Figure 1.13). In 2019, 75 FTZs were hosting 695 firms, up from 44 FTZs and 484 firms in 1999. However, the FTZs lost relevance for employment over the same period: in the 1990s they accounted for around 7% of domestic employment, while nowadays they account for around 4%, according to official data from the National Free Zones Council (CNFZE). The investment in FTZs increased, even though the FTZs percentage of total exports has declined from an average of 80% during 1995-2005 to 56% during 2010-17. The FTZs were introduced in the 1960s to foster job creation and local industrial development. They hosted principally labour-intensive manufacturing, with footwear and textiles playing an important role.

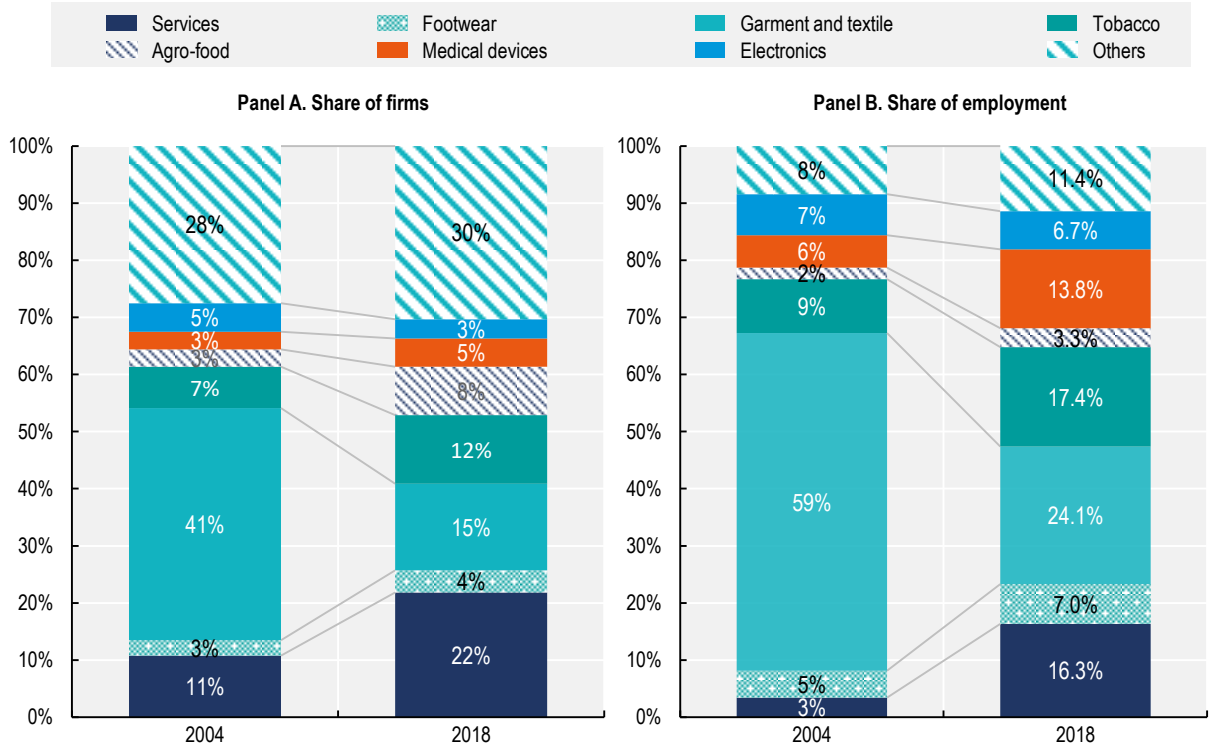
Over time, the activities hosted in the FTZs have diversified from mainly export-oriented manufacturing to also export-oriented services, such as Business Processing Offices. Textile and garments accounted for 15% of the total number of firms operating in FTZs and 23% of total jobs in 2019 down from 41% and 59% respectively in 2005 (Figure 1.14). While in 2000-04, half of the FTZs exports came from garments and textiles, in 2018, five industries accounted 66% of total FTZs exports, namely professional and scientific instruments (including medical devices), tobacco and tobacco manufactures (15.6%), electrical machinery (12.5%), textile and apparel (11.8%) and miscellaneous manufactures (10.7%) (Banco Central de la Republica Dominicana, 2020[12]). The United States remains the principal economic partner in the FTZs, accounting for around 40% of total FDI. Also, 77% of the Dominican Republic FTZs exports go to the United States (Banco Central de la Republica Dominicana, 2020[12]; CNZFE, 2019[13]).

Figure 1.13. The share of exports from FTZs on total exports decreased from 80% to 56% from 2000 to 2017



Source: Authors' analysis based on data from the Dominican Republic Central Bank (2020), https://www.bancentral.gov.do/a/d/2532-sector-externo and CNFZE Statistical bulletin 2018 and 2004 http://www.cnzfe.gob.do/.

Figure 1.14. Since 2005, garment and textiles lost prominence in the FTZs

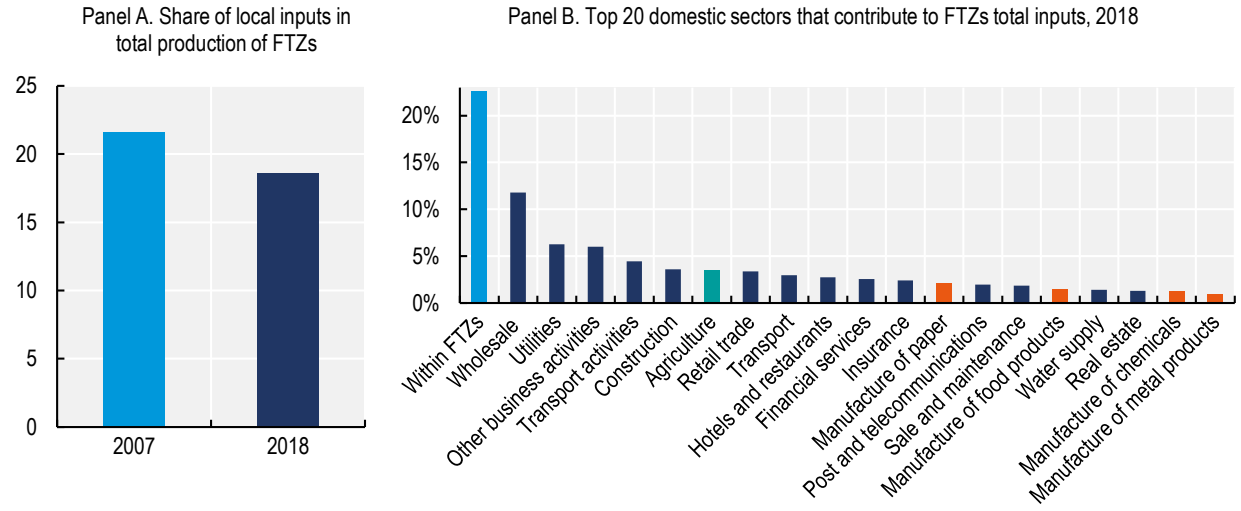


Source: Authors' analysis based on data from the Dominican Republic Central Bank (2020), https://www.bancentral.gov.do/a/d/2532-sector-externo and CNFZE Statistical bulletin 2018 and 2004 http://www.cnzfe.gob.do/.

This reconfiguration of the FTZs has contributed to reduced sourcing from local suppliers. Between 2005 and 2018, the share of local inputs decreased from 22% to 18%. In 2018, more than 50% of local inputs were services (including cleaning, catering and waste management), the rest of local sourcing is spread among several areas, including agriculture (3.5%), construction (4%), paper and related products (2.1%), food and beverages (1.5%) and chemical products (1.3%). The share of inputs sourced locally from firms also operating in the FTZs increased to 23% from 17% in 2011 (Figure 1.15). Firms operating in garment and textiles source 28% of their inputs locally; new industries rely less on local providers because the activities are new in the economy and therefore, in the absence of a targeted policy to develop local suppliers, there are no suitable local sources. For example, in the case of medical devices, the share of local sourcing for FTZs firms is 3% (Reyes et al., 2017[14]; Banco Central de la República Dominicana, 2014[15]). Limited local sourcing can be explained by several factors. In the case of some of the new activities in the FTZs, such as medical devices, there is no ready-made local industrial base to source from, as the industry is relatively new to the local economy. Local sourcing is also not yet part of the national country attractiveness package and foreign investors may lack the knowledge and operational capacity to deal with local bureaucracy and companies. In other cases, domestic capacity to meet technical standards and regulations may be limited.

Setting up FTZs can respond to the urgent need of creating employment or can be part of a long-term strategy to foster learning and upgrading in the local industry. The primary objective of the FTZs influences their management, the selection of investment projects, and ultimately the capacity of the FTZs to operate as an enclave or as a driver of local development.

Figure 1.15. What are firms in the FTZs sourcing locally in the Dominican Republic?

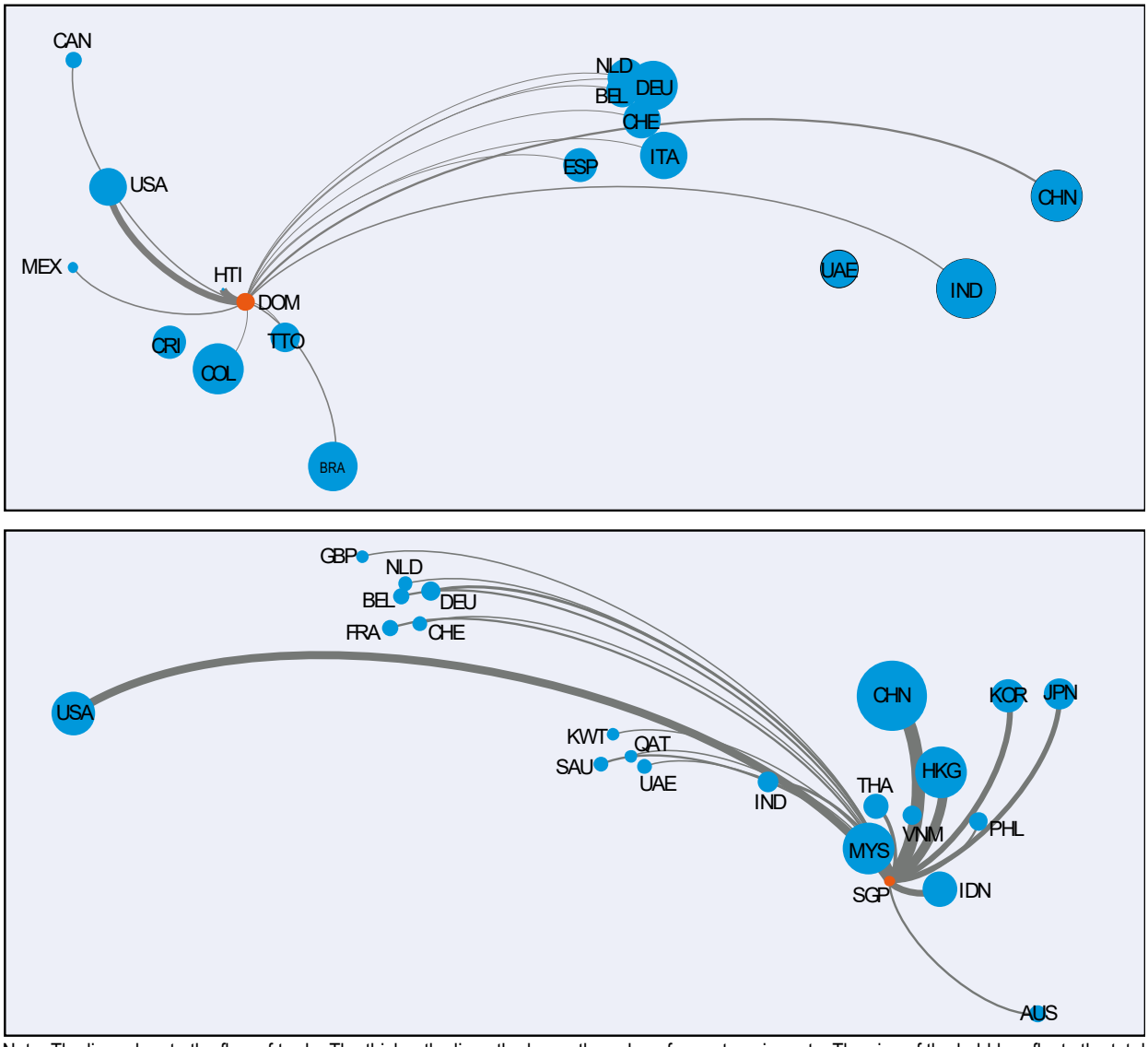


Source: Authors' elaboration based on General Directorate for Taxes DGII, http://www.dgii.gov.do/; and Dominican Republic Central Bank (2019), https://www.bancentral.gov.do/.

Participation in global and regional value chains by the Dominican Republic, measured by trade in intermediaries as a share of GDP, is 15%, lower than Costa Rica (20%), and Mexico (30%). For a small global hub like Singapore, this share is 120% of GDP. The Dominican Republic has a small trade network and is loosely connected to regional value chains when compared with Singapore (Figure 1.16). For example, 8 countries account for over 1% of total intermediate exports for the Dominican Republic, versus 18% for Singapore. Moreover, while Singapore is highly connected to regional partners, the Dominican Republic has few production ties to Latin American and the Caribbean. It imports mostly from the United States and to lesser extent from China, and exports predominantly to the United States. In contrast, Singapore can reap the benefits of the dense value chains that have developed in Asia. While neighbouring countries may compete for individual investments, proximity to other industrial and export hubs can drive investments in more complex goods whose manufacture may draw from nearby markets.

Figure 1.16. The Dominican Republic relies less on regional integration than Singapore

Intermediate goods export and imports network of the Dominican Republic and Singapore, 2015-17



Note: The lines denote the flow of trade. The thicker the lines the larger the value of exports or imports. The size of the bubble reflects the total number of export partners. The layout follows approximately the geographical locations of countries although some adjustments have been made for visual purposes. Only countries that account for over 1% of total intermediate goods exports and imports are reported.
Source: Authors' elaboration on UN Comtrade (2019), https://comtrade.un.org/.

The COVID-19 pandemic: facing the health emergency and addressing the economic consequences

As this report neared completion, the world has faced an unprecedented emergency: the COVID-19 pandemic. The health emergency has radiated outward from Asia, to Europe, the United States and, in a fourth wave, to Latin America, the Caribbean, and Africa. The uncertainty of how the pandemic will affect health and economic welfare in the Dominican Republic remains very high. It is equally unclear how long the risks of contagion will remain serious enough to require domestic and global lockdown measures.

The first confirmed case in the Dominican Republic was reported on 1 March 2020. As of 14 May , more than 11 000 positive cases and 409 deaths had been confirmed.

The Dominican Republic faces two major challenges: 1) addressing the health emergency; and 2) minimising the adverse economic consequences in the short and medium-term. It is of utmost importance that the country takes into account the long-term impact of short- and medium-term economic recovery plans to avoid locking in low productivity and non-environmentally sustainable pathways. Lessons from addressing the economic consequences of natural disasters show, for example, the need to use the opportunity not only to reconstruct but to innovate and to set up incentives for converting production and consumption modes into new, more innovative patterns.

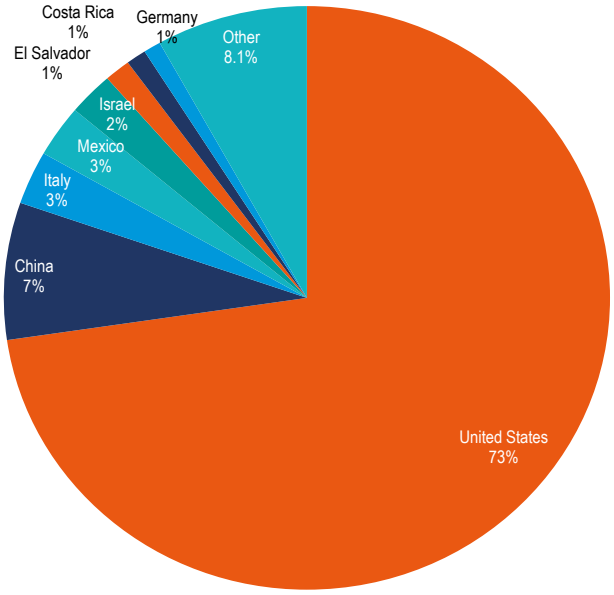
Addressing the health emergency: Testing, protecting, treating and curing

Limiting contagion is essential and lockdown is the most common strategy. For a country like the Dominican Republic with 60% of the labour force in the informal economy, lockdown is particularly hard to implement and implies higher costs for the most vulnerable. It is therefore essential to complement it with additional measures to enable easing out the full lockdown as soon as possible. The country has closed its borders and implemented a partial curfew from 20 March. In addition, it is important to ensure affordable access to testing. Testing deployable in decentralised settings and without the need of highly skilled medical personnel is essential. Doing this at the Latin America and Caribbean level is desirable. Ensuring affordable access to a vaccine will also be crucial once one is available; the world will need a global agreement to lift all pandemic-related intellectual property protections.

Avoiding shortages of personal protective equipment (PPE) and in-hospital capacity to treat patients (including ventilators) is crucial. The country has an estimated 400 ventilators, 1.6 hospital beds per 1 000 people (below the regional average at 2.1), 14.1 doctors and 3.5 nurses per 10 000 inhabitants, significantly lower than the regional average of 21.4 and 15.8, respectively. Moreover, the Dominican Republic is a net importer of PPE, mainly from the United States (73%), reflecting the high level of dependency of the country grappling with the world's highest caseload. Industrial reconversions have been useful in countries such as Italy, France and Spain where for example textile and paper, beverage manufacturers were able to reorganise and produce masks, gloves, and hand sanitisers. However, these items need to be certified to be effective and firms do not learn to manufacture overnight (Primi et al., 2020[16]). Business-to-business sharing of knowledge can make industrial reconversions an effective option, and the Dominican Republic has some local capacities in medical devices (see Chapter 4 of this PTPR). Through partnerships with lead foreign investors, the domestic firms could contribute to match part of the local demand. For example, the country is a net exporter of mouth-nose equipment and protective garments (UN, 2019[17])).

Figure 1.17. Import of personal protective equipment (PPE) in the Dominican Republic

Share of total imports by country, 2016-18



Note: The classification for PPE is based on the definitions provided by the Commission Implementing Regulation (EU) 2020/402 of 14 March 2020 making the exportation of certain products subject to the production of an export authorisation.
Source: Authors' elaboration on UN Comtrade database (2020), https://comtrade.un.org/data/.

Minimising the adverse economic consequences of the pandemic

For the Dominican Republic, the COVID-19 shock's economic consequences have arrived via four major channels: remittances, tourism, trade, and FDI.

Remittances

Remittances play an important role in sustaining final consumption, especially among poor households. Around 54% of Dominicans receive remittances at least once a month and it is estimated that they contributed to 10% of household income in 2018 (Keller et al., 2018[18]; OECD/CIECAS, 2017[5]). Although in January and February 2020 there was an increase of 10% with respect to the same period in 2019, total inflow remittances dropped by 22% (USD 145 million) in March 2020 once the pandemic hit the main countries of origin such as the United States and Spain. The World Bank projects for 2020 that global remittances will decline by 20% due to the economic crisis (World Bank, 2020[19]) If this projection remains valid, for the Dominican Republic at the end of 2020 the net drop of remittances could amount to USD 1.4 billion, or 2% of GDP. A reduction in remittances could exacerbate the loss of income for a large share of informal workers. These workers, representing 58% of total employment, have limited access to health and welfare services and tend to work in economic sectors that not only carry a high risk of infection but are also directly affected by lockdown measure, such as commercial activities (26%), household and services workers (22%), construction (11%), and transport (10%) (Banco Central de la República Dominicana, 2020[20]).

Tourism

Tourism and related local activities represent 16% of GDP, 17% of total employment, and 65% of total exports. With an average of 530 000 people visiting each month the country, with a direct contribution to the local economy of USD 630 million, the unprecedented halt in the global tourism industry is putting the Dominican Republic under an immediate and major strain. In January-February 2020, the country already faced a reduction of 6% over the same period last year, and the situation is expected to get worse as the country has now closed its borders and no tourists are allowed to enter. The future of the tourism industry is highly uncertain and will depend on how soon mass testing and a vaccine are available. Preliminary OECD estimates envisage a decline in international tourism from 45% to 70% for 2020 (OECD, 2020[21]). Under this preliminary scenario, a reduction between 45% to 70% for 2020 of inbound tourists in the Dominican Republic could lead to a net direct loss between USD 3.4 billion (4.1% of GDP) to USD 5.2 billion (6.5% of GDP) and to direct job losses of between 135 000 to 210 000 workers. The local agriculture sector, which supplies 80% of the total fresh products to resorts, could lose between USD 90 to USD 140 million.

The tourism industry has a good track record of rebounding from the crisis; countries hit by natural disasters often see tourism rebounding once confidence is restored and a good infrastructure and marketing strategy are in place. In addition, the Dominican Republic could ponder diversifying its client base: while it is now principally a destination for United States' travelers, it could explore possibilities of receiving more tourists from Latin America and the Caribbean and globally by leveraging on unique local assets.

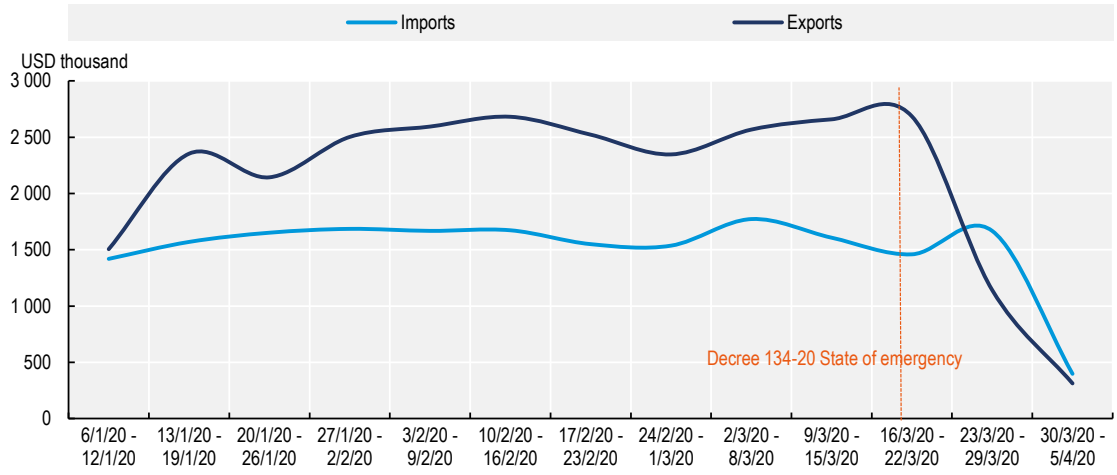
Trade and FDI merchandise trade

Facilitating trade remains essential, even more so in a pandemic. In the case of the Dominican Republic imports are a key source of food for the local population. Total imports for the period January-March 2020 dropped by 4% compared to the same period of 2019. The global drop in oil prices induced a reduction of 30% imports which represented 18% of total merchandise imports of the country in 2019. Net of oil, the data show an increase of 2.06% over last year, driven mainly by staple goods that track basic food basket such as rice (+120%), wheat (+40%) and milk (+25%). Total exports in January-March 2020 increased by 5.7% in relation to the same period of 2019. Of these 43% were raw materials, 36% consumer goods, while the remaining 21% capital goods. Exports of gold, which represents 15% of total exports, increased by 22% on year-to-year base (gold price increased from USD 1 400 to USD 1 600 per ounce in January-March 2020). Exports of medical devices increased by 30% with respect to the same period in 2019. Textile and footwear shipments dropped by 30% and 17%, respectively. Only after the declaration of the state of emergency on 19 March, with the shutdown of several economic activities, did the COVID-19-effect influenced trade. For example, total FTZs trade between 19 March and 5 April dropped by 58% with respect to the previous two weeks (Figure 1.18).

As the COVID-19 breakout shows a time lag in the contagiousness around the world, the trade impact is likely to be asymmetric in relation to various trade partners. For example, in the first three months of 2020 exports to United States increased relative more with respect to the same period of 2019, whereas exports to China, the first country in which the virus spread around the population, had a drop by 70%. In the near future, the impact of COVID-19 on the Dominican trade will largely depend on the rebound of main trade partners such as the United States and the European Union.

Figure 1.18. FTZs total trade dropped by 58% after the Shutdown

Weekly exports and imports from and to FTZs, January-April 2020



Source: Authors' elaboration based on the Dominican Republic Custom Service (2020), https://www.aduanas.gob.do/.

FDI and global supply chains are being severely affected. The medium- and long-term impact of the pandemic on global FDI and on the Dominican Republic is highly uncertain. No one can know to what extent the pandemic will affect global value chains, but initial signs show that relocations will increase. Japan has earmarked USD 2.2 billion of its economic stimulus package to help its manufacturers shift production out of China; the United States already had in place a strategy to bring manufacturing back to the United States. The pandemic could very well accelerate the trend.

Conclusions

The Dominican Republic, though the fastest-growing economy in Latin America and the Caribbean since 2010, cannot afford complacency. Growing calls for more inclusive growth and the current economic crises induced by the COVID-19 pandemic highlight the need to identify new growth drivers that increase the resilience of the economy and mobilise domestic productive potential. Meeting this challenge would reduce dependency on external factors and diversify economic partnerships. Updating the national development model by increasing ties with Latin America and the Caribbean, diversifying trade and investment partners, and supporting more local entrepreneurs and industrial development will help the Dominican Republic achieve a more inclusive and sustainable growth and will also help the economy address the economic consequences of COVID-19. Chapter 2 of this PTPR discusses which policy reforms can affect this transformation. Chapters 3 and 4 focus on the challenges and opportunities in agro-food and nearshoring investment.

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