ILO NOTES

International Labour Organization

FACING THE CRISIS IN EUROPE: REFLECTIONS ON THE CASE OF DOMINICAN REPUBLIC

I. CRISIS IN EUROPE AND ITS EFFECTS

The crisis in Europe, especially the Eurozone, affected world economic performance, leading to a slowdown in economic activity. The Dominican Republic maintained high rates of economic growth over the last 20 years, with an average annual increase in GDP per capita of 4% which contrasts with the 1.8% for Latin America.[1] This data reflects the high growth in output and productivity in certain sectors such as manufacturing, telecommunications, and financial services. Nevertheless, growth expectations for the Dominican Republic as well as for the rest of Latin America and the Caribbean are low, and down when revised.

After the 2008 crisis, the path of growth for the Dominican Republic tended to converge at levels similar to the rest of Latin America and the Caribbean, as a result of the drop in its international competitiveness, weak human capital, and persistent inequality in the economic and social fields. This drop is expressed, for example, in maquila textile processing, which in the last decade fell to half the level recorded in 2001. In the medium term, the outlook for the expansion of exports appears uncertain. There are signs of a certain rise in "non-traditional exports", for example medical equipment, however, the country's export basket remains undiversified, mainly low-skill and low-technology products, which face strong competition from neighbouring countries and Asia, where costs are lower.[2]

TABLE 1: Latin America and the Dominican Republic: 209 and 2014 GDP trends and forecasts (annual GDP percentage variations)

Institution	2009	2010	2011	2012	2013
Latin America and the Caribbean	**-1.5**	**6.1**	**4.6**		
- International Monetary Fund (IMF)				3.0	3.4
- Economic Comission for Latin America and the Caribbean (ECLAC)				3.0	3.5
Dominican Republic	**3.5**	**7.8**	**4.5**		
- International Monetary Fund (IMF)				3.9	2.2
- Economic Commission for Latin America and the Caribbean (ECLAC)				3.9	3.0

Source: IMF (2013) *World economic outlook. Hopes, realities, risks* (Washington D. C., IMF)
ECLAC (2013) *Balance económico actualizado de América Latina y el Caribe* (Santiago, ECLAC)

1 Furthermore, economic growth is countered by a level of social investment that is amongst the lowest in Latin America, not making the most of human development and its potential for production, innovation, and consumption

2 Hausmann, R. et al (2011) *Construyendo un mejor futuro para la República Dominicana: Herramientas para el desarrollo*, CID Working Paper, Harvard University

As to the labour market, open unemployment in the Dominican Republic evolved from a low of 3.1% before the crisis to currently 5.8%, with an activity rate of just over 50%. Likewise, the country faces challenges in terms of the informal economy, vulnerable employment and underemployment, as well as a decline in waged employment.

II. DIFFERENCES BETWEEN THE CURRENT SITUATION AND IN 2008

At the onset of the 2008 crisis, the Dominican Republic had enjoyed three years of vigorous growth after a slowdown during its domestic financial crisis in 2003. Notwithstanding the international crisis, the country's GDP did not fall, albeit growth did contract, reaching 4.3% in 2009. After recovering over the following two years, with the lack of international economic dynamism the economy slowed once again, and growth expectations today are below those for 2009.

In early 2009, to face the exogenous crisis, the Government convened a "Summit of National Unity" to discuss the World Economic Crisis and to find solutions. This resulted in a sustained increase in investment in the Dominican Social Security System, from US$ 420.8 million in 2009 to US$ 494.4 million in 2010 and US$ 1.2371 billion in 2011. Likewise, the Central Bank was recapitalized and, to stimulate the economy and investment, the Central Bank reduced the monetary policy interest rate (overnight rate) from 8.5% in January 2009 to 4.0% in January 2010, as well as the Lombard rate from 14% to 9.5% during the same period. A simplified tax system and first and second tier banking was set up to support MSME's (FOMIPYME – Fund for Micro, Small and Medium Enterprise). [3]

President Danilo Medina came into office in August 2012 and focused his government on promoting transparency, good governance, economy based on solidarity, formalization of employment, and quality public services. In fiscal terms, and in view of the narrow available margin, the government implemented a fiscal reform in January 2013, expecting revenues for approximately 1.8% of GDP. Similarly, the government plan proposed creating 400,000 jobs as the target for the presidential term.

Nevertheless, the 8.6% fiscal deficit and debt equal to 44% of GDP[4] reduces the space for government policies. Added to this, are the limitations of the fiscal system for more equitable collection and distribution of taxes. In addition, there are barriers that prevent economic growth from benefitting more households. This is partly due to the economic sectors that grew most dynamically are not significantly linked to the economy in general, as seen in free trade zones and tourism. Similarly, sectors leading growth are related to activities that create few jobs.

Faced by a possible new crisis, the situation in the Dominican Republic shows certain vulnerabilities. The country has a trade deficit on account of the greater fall in exports in comparison to imports. In addition, the Dominican Republic imports commodities and raw materials such as oil. Faced by a sustained rise in the price of these products, this would have an impact on the trade balance, as well as on production costs. This is especially relevant with regard to electricity, generated by thermal power plants and with problems in distribution and high costs. These two aspects, linked to a possible deepening of the crisis in Europe or slow growth in USA, could lead to a negative impact on the hotel and export industries.

In sum, a series of measures are required for the future. Taking into account the make-up of production, vulnerability to external shocks, and linked to the situation of public finances, these measures should aim toward more inclusive economic growth as well as possibly output resilience through domestic demand.

III. POSSIBLE AREAS FOR INTERVENTION[5]

a) Policy to support formalization and productive chains

The action plan recently proposed by the new administration is an important step forward. However, certain actions are worth highlighting: strengthening of the existing PROMIPYME programme (Programme to Promote and Support Micro, Small, and Medium Enterprise) would be of distinctive value to MSME's. The programme offers loans at favourable rates between 12 to 15 percent, in comparison to market rates that can be as high as 30 percent. Despite its appeal, so far its use has been limited. PROMIPYME should be better financed and its offerings should be better known to MSME's. Likewise, PROMIPYME should expand its training and advice services to its borrowers, including investment for technical training of its staff, building a reputation, and creating strong links with its customers in the private sector.

Total implementation of Law 488-08 (Regulatory Regime for the Development and Competitiveness of Micro, Small, and Medium Enterprises – MSME's) would provide a framework for all interventions and for the introduction of a clear and uniform definition of groups of enterprises. The law also specifies that MSME's should contribute at least 15% of the goods and services acquired by government agencies. Training, administrative routines, and other simple measures could be adopted to guarantee this participation is actually achieved.

3 ILO (2012) ***La crisis mundial en el mercado laboral de Centroamérica y República Dominicana: Impactos y respuestas políticas**. Second report* (Santo Domingo, ILO-OLACD).

4 IMF (2013) http://www.imf.org/external/np/sec/pr/2012/pr12445.htm

5 Based on ILO (2013) ***Crecimiento, empleo y cohesión social en la República Dominicana*** (Santo Domingo, ILO).

In order to strengthen productive chains, a platform could be strengthened for public and private dialogue, aiming to: (a) detect business opportunities in high value-added groups or local procurement for global value chains; (b) foster organized combination of public and private investment to look for these opportunities; (c) review the efficacy of existing incentives; and (d) involve local authorities, associations of local producers, and other stakeholders in local development strategies.

b) Wage Policy

Real average hourly wages in 2010 were 20% lower than in 2000 and have lagged well behind growth in labour productivity. The average hourly income in 2010 was RD$ 73, or approximately US$ 2, but very scattered in the distribution of earnings by sector and branch. Skill premiums –or accrued wage differences between skilled or unskilled workers– for secondary and tertiary studies dropped drastically in the first half, but remained constant since 2004. In 2010, workers with a secondary education averaged RD$ 67 per hour, approximately 20% more than workers with a primary education, who earned RD$ 56 per hour. Minimum wages are currently determined by a tripartite commission that meets every two years.

To strengthen the relationship between the minimum wage and making better use of human resources, it is advisable for minimum wage increases to relate to growth in productivity and inflation. Dominican authorities, in consultation with social partners, may wish to consider annual adjustment of the minimum wage based on growth in productivity during the preceding year and the inflation rate. This would not only ensure workers benefit from gains in productivity growth, but would also avoid many of the delays in the adjustments present in the current system to revise wages.

c) Social protection

A decisive improvement was initiated in the second half of the 2000's decade, as a result of stronger policies for social development. After just a few years, almost half of the population gained access to health care thanks to: (i) the introduction of a subsidized social security regime that began in 2002 and focused on the unemployed and persons living below the poverty line; and (ii) a contributory scheme introduced in 2007 for workers in formal employment.

Pension coverage (old-age, disability, and survival insurance) also increased at a very fast pace, at least for workers in formal employment: from roughly 30% in 2003 to more than 70% in 2009. The government has committed to maintaining its drive toward greater coverage, both for health care as well as pensions, for example through the introduction of a mixed system (subsidized and contributory) focused on self-employed workers with incomes below the minimum wage. Given the great size of the informal sector, fiscal sustainability of this effort could be a challenge, especially if fiscal revenues remain at their comparatively low level and the economy does not create more and better formal employment.

d) Technical training and education

Reports on the country's development often speak of the lack of appropriate training for technicians, professionals, and engineers, as well as for administrative areas for which there is only a middle level of training available. It is advisable to provide additional public resources to expand and diversify the training offered by INFOTEP (Technical Professional Training Institute) in the Dominican Republic, and which could have an immediate and significant positive impact on the creation of jobs, both at formal enterprises that contribute to INFOTEP as well as enterprises in the informal sector, among individuals who aspire to become businessmen or people who wish to improve their employability. INFOTEP has gained a reputation at national and international level for the quality training it offers. In addition, implementation of the agreement recently signed between INFOTEP and the State Secretary for Education, could be an important step forwards to use INFOTEP know-how to improve the quality of technical secondary education, which lags behind most other countries in the region. In the medium term, INFOTEP could develop further to become the mainstay of a flexible and decentralized national training system, able to regularly work with the private sector combining face-to-face training with training in the workplace, improving employability, and avoiding bottlenecks due to lack of training, and also facilitating the provision of training driven by demand in sectors with a high potential for growth in employment.

On the other hand, there is intense national debate about the need to increase investment in primary and secondary education, above all to overcome deficiencies in infrastructure, improve study programmes, retain teachers, and decentralize responsibilities. The education system should be able to respond to national challenges for development. A "virtuous circle" of coordinated policies should connect education, professional training, productive transformation, employment, and decent work. In the short term, new systems should be put in place to offer guidance with regard to future career outlooks so that students may access secondary as well as higher education; to update programmes for university studies according to the expansion in sectors of activity and occupations; to relate universities and enterprises with high technology demands; and to encourage training apprenticeships in the workplace. Due to widespread poverty, social policies should guarantee access to quality training and education for all, based on the success of programmes such as "Solidarity" to reduce attrition rates, and such as "Youth and Employment" to facilitate the transition to work among socially disadvantaged youth.

e) Vocational guidance and intermediation policies

The National Employment Service (SENAE) offers labour intermediation services, guidance, job seeking, labour-force forecasts, and information and analysis of the labour market. These services have been positively assessed; however, SENAE faces obstacles to expanding its reach at territorial level and prospection. If given appropriate support, with good connections to the private sector and with competent staff, SENAE could become a very valuable source of information about the labour market, not only for individuals and enterprises, but also for government agencies and institutions responsible for the design, implementation, and supervision of social policies and the labour market.