



“Año de la Innovación y la Competitividad”

**Peer Learning Group Session of the Production Transformation Policy Review of
the Dominican Republic**

**Speech of the Dr. Rafael Paz, Executive Director of the National
Competitiveness Council**

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Good morning,

Ladies and gentlemen, on behalf of the Dominican Government, I thank the Government of Peru for having us here and also thank all of you participants today, for your contribution to the development of our nation through this Peer Learning Group for the Production Transformation Policy Review of the Dominican Republic.

To the National Competitiveness Council, and the Ministry of Industry, Commerce and SME's, it's an honor to be able to have this exchange with you.

We hope that through this peer meeting for the exchange of knowledge and experiences of your countries, we will be able to build tools that support the implementation of effective policies to increase productivity and the development of global value chains, in the Dominican Republic.

Let me introduce the starting point for the Dominican Republic, so that we can have a fluent discussion.

The Dominican Republic has a representative democratic system, with three branches, the Congress composed by the Senate and the Chamber of Deputies, the Judicial Branch exercised mainly by the Supreme Court of Justice and the Constitutional Court, and the Executive Branch, headed by the President of the Republic who serves as head of state and head of government.



The Dominican Republic has the competitive advantage of a democratic stability, an enviable economic growth, which has lasted for more than 50 years, and its people.

We're a country with a young population. The average age of the Economically Active Population is currently 27 years, and for 2050 it is estimated that it will be around 35 years. A more educated youth than its predecessors, adapted to new technologies, more open to the world and other cultures and languages, more concerned about the environment and above all, with greater opportunities to achieve their goals.

Of the more than ten million people living in the Dominican Republic, 45% corresponds to the Labor Force; this number has a projected increase in the coming years. Furthermore, this population has levels of schooling steadily increasing.

In the last two decades, the Labor Force with University Education went from 12% in the 1997 to 23% in 2017. This includes thousands of young people with postgraduate studies in foreign universities, and a high integration of women, in the working force and in leadership positions.

Dominican Republic has managed to reduce its levels of poverty in recent years, going from a general poverty rate of 40.5% in 2010 to 25.5% in 2018. Likewise, extreme poverty was reduced by 7% for the same period going from 10.8% to 3.8%.

Dominican Republic has implemented 9 program against poverty in which the government has invested more than 2 billions of dollars in the last 8 years, beneficiating more than 2.5 millions of people by 2016.

If we look at the aggregated economy, between 2010 and 2018 the GDP of the Dominican Republic increased in a year-to-year average growth of about 6%. The fastest growing economy in the region. The GDP for 2010 was around 53,889.6 million dollars, according to the preliminary data of the Central Bank, by 2018 the amount was 81,282.6 million dollars.



This growth has been supported by economic stability, during the last decades, where inflation has not exceeded the Central Bank's goals of $4 \pm 1\%$, during the last 8 years.

Also, unemployment has been moderately reduced in recent years, by 2014 the unemployment rate exceeded 8% while for 2018 this percentage stood at 5.7%.

The Gross Fixed Capital Formation (machinery and equipment, and infrastructure) has increased by 22.7% in the period 2010-2017. And the labor force has doubled during the same period.

At the sectoral level by 2018 the fastest growing economic sector in the country was the industrial sector with an 8.1% growth in comparison with 2017, this behavior was led by the performance of the construction sector and the Manufacturing in Free Trade Zones. Followed by the Agricultural sector, that had an increment of 6.3% in the same period.

For 2019 the country's GDP growth expectations are above 5%, based on the strengthening of domestic demand.

However, in order to achieve these expectations and maintain economic stability, it is necessary to boost the productive structure of the country, in a way that they have the capacity to create better products for export, but also to create decent jobs that generate consumption capacities within the country. In plain words, it is necessary to promote productive development policies.

The Dominican Republic has the potential of being a developed country... this shows in the confidence of our foreign investors, we are the Caribbean country that has received the biggest amount of FDI during the last five years.

Also we have started to develop new markets internationally, and there is a notable positive tendency in the evolution of exports of goods of Dominican origin which have increased their share of international supply and demand. This indicates an improvement in the domestic economic structure. In the graph we see that although national imports increased in 2018, the current trade balance for goods keeps its trends almost constant.



Since 2010 the per capita income of the country had an average growth of about 4.9%, going from 5,688.75 dollars in 2010 to 7,891.29 in 2018, at the purchasing power parity rate. But this increment is held mostly by economic activities with moderate levels of employment, and high education requirements.

We confirm this when we studied the Productivity levels of the country, we saw that in 17 years the Total Factor Productivity did not had a significant contribution to the economic growth of the Dominican Republic, only 0.2% for 2017. But in terms of labor productivity, the results are different, it has shown a better performance than the total factor productivity, registering an average growth in the period of 4.32%.

Our study concludes that the economy have been growing over the base of factor accumulation and not on the base of productivity.

Not far from what international indicators show us, for example the Global Competitiveness Index from the World Economic Forum, which allows us to identify what are the performance indicators that make a country competitive, and compare them between economies.

In its 2018 report, the indicator evaluated 140 countries, where the Dominican Republic is the 82nd country. It was the 5th country in the world to increase its score comparing with 2017 (by 1.8 points) reaching 57.4 points in the score. This place we as the first among the 21 Latin American economies evaluated in terms of year-to-year performance.

Another indicator of interest is the World Bank's Doing Business, that measures the business climate of 190 countries, through the evaluation of the life cycle of a company in that country in terms of legislation, permits, customs procedures, among others. In its version of 2018-2019, this indicator positioned the Dominican Republic as the 102nd country out of 190.

The results for the Doing Business Report are, in general, less encouraging than the Global Competitiveness Index. But this contrast, far from being a reason for discouragement, **is precisely what motivates a work agenda like the one our country has embarked on through the National Competitiveness Council.**



And also motivated us to create accountability of our own regulations and make internal look to our norms and regulations. With the Decree 258-2018 the country established the quantification and analysis of the associated cost of current regulations, as well as the impact of the productive activity and the national economy.

And with the resolution 0003-2018 we established **SIMPLIFICA RD** as the methodology to estimate the Social Economic Cost of the regulations and an Inventory of the current Regulations.

By applying this methodology we learned that the economic cost of regulations in Dominican Republic accounts for 5.46% of GDP that is US\$ 3,895 million. An alarming number, and even more if we considered that this measured only includes 53 public entities of the country, selected by the criteria of their level of impact in the economic activity, say 53 entities that interfere in the business environment of the country.

I hope you have seen the panorama here, The Dominican Republic is, in short, an economy in full development and diversification, preparing to take off and insert itself in new markets. But nevertheless is a country with a broad list of improvements to do.

.....And that ladies and gentlemen is the reason why we gather here today.

How will we make the Dominican Republic revolutionize its economy to step up in the international arena beyond is strong tourism sector?

How can the country effectively insert its manufactured products on the global value chains?

How will we address the challenge of exponential innovation and the Fourth Industrial Revolution?

How will we make our economy more sustainable and resilient?

How could we take advantage of the potential we have in our people, and in our productive structure?



These are the questions that we have been addressing in the National Competitiveness Council of Dominican Republic.

But before telling you about the work we are doing, let me explain the nature of the National Competitiveness Council.

The council is a decentralized public entity, with a mixed board integrated by public and private sector representatives. The council counts with legal identity, as well as functional and organizational autonomy needed to fulfill the functions assigned by the law and its complementary regulations. And is also the only council in the country which is chaired by the President of the Republic.

As an entity integrated both by the public sector and the private sector, the Council sessions become enhancers for Public and Private Partnerships to the achievement of sustainable development. The aim of the Council is to promote strategies that boost productivity and improve the competitiveness of national productive sectors.

The council has developed an intense Agenda, which has as its central axis the "**Dominicana Competitiva**" strategy, focused on 4 pillars: Trade Facilitation, More Productivity and Exports, Innovation and More Formal Quality Jobs.

To achieve the development of this work Agenda, public-public and private public coordination is necessary. That is why, of each decision issued by the Council, the President appoints Work Committees coordinated by the ministers of the sector in question, and integrated by members of the public and private sectors. In order to address competitiveness situations, in a form of short and medium term policy proposals or measures, that can be implemented and have an immediate impact.

In the 7 meetings of the council, we have achieved more than 100 impact measures approved by the Board. Some of these measures are:

- The creation of a public↔private partnership strategy for exports and its promotion, aiming to increase the productivity and jobs creation.



- Measures taken for improvements in the area of Sanitary Registration, shortening the processing times and attaining automatic renewal.
- Creation of one-stop shop for issuing Construction Permits.
- Reducing registration times for commercial names to one (1) day, and the formation of companies in 3 days.
- 88 measures for the promotion of Productive Development and Exports.
- Initiating the implementation of the Program for the Simplification of Procedures and Regulatory Improvement.
- Creation of the National Trade Facilitation Committee
- Preparation of a catalog of routes and connectivity to the Caribbean with the routes available from our ports and airports
- Creation of the profile for the Managers of the commercial sections.
- Creation of the Committee for the Coordination of Policies for Productive Development and Exports.
- Establishment of a Tourism Security Strategy
- Customs schedules extension
- Creation of the Innovation Committee to draw up a National Innovation Strategy

Among others.

We are aiming to develop a new method that will impact and unleash the innovative forces and opportunities of our country, and project into the world that Dominican Republic is, a place not only suitable but friendly for technology and innovation.

Based on these we decided to join the PRODUCTIVE TRANSFORMATION PEERS REVIEW, focus on three main issues that we understand will act as accelerants for the economic development of the country:

1. Quality and Innovation to improve Food Industries in Dominican Republic.
2. Nearshoring in manufacturing and logistics
3. Foster innovation in Dominican Republic



Although the agricultural sector only accounts for 5.5% of Dominican Republic's GDP in 2018, is still an important export market of the country, with certain star products as Cocoa beans and Bananas.

The Dominican Republic has 10 prioritized products within the agricultural sector, for promotion and improvement, which are: Avocado, Banana, Cocoa beans, Coconut, Mango, Pineapple, Greenhouse Vegetables, Oriental Vegetables, Meat and Cassava Manioc.

These products are prioritized based on their potential to boost the growth of the agricultural sub sector through improvements in quality, production processes innovations and their capacity to integrate a value chain for national Food Industries for export.

Food industries where 3.8% of the country's GDP in 2018, our goal is to strength our traditional products chains but also ignite those chains with the potential and capacities of becoming big league players in the international level.

The Dominican Republic is one of the top 10 countries that export Cocoa beans to Europe and is one of the main suppliers of organic cocoa for the European chocolate industry, our goal is to take advantage of the quality of our cocoa beans and integrate some of this production in the national value chain to, not only increase the exports, but also the value added of the exports.

This already started, in 2017 we registered Chocolate exports for about 5.1 million dollars, so we know the capacities and potential exists.

The second point we are focusing in, with this review, is the developing of a manufacturing and logistics strategy near the coast, considering the commercial policies of the United States and the new role of China in international trade.



The Industrial sector is the second most important sector of the country, 25.8% of GDP comes for its activities in 2018. Nevertheless, the country does not count with an integrated policy for promotion and development of the sector.

We have policies and programs but we need to aim them in the same directions.

The dispersion of policies have growth asymmetries of quality and Innovation between the manufacturers, and also led to a decrease of productivity in certain industrial activities.

Several incentives regimes for industrial activity and promotion of productive development coexist. Most of the Manufactured Products exported are made in Special Economic Zones, and there is little integration of these productions with the local manufacturing. This last, is caused for the know-how and efficiency gaps between both types of industries.

The readiness of the industrial sector, specially of the Local Manufacturing, is one of the main issues addressed by the board of the National Competitiveness Council, because within the fourth industrial revolution, those countries unable to improve their forms of production, will be left behind.

This is why, the third topic of the PTPR for Dominican Republic is the fostering of an innovation strategy that focus on innovation for productivity, including creative industries.

Last year Dominican Republic was the 87th country out of 127 in the Global Innovation Index, measured by the INSEAD School and the WIPO. The country also was the 95th economy out of a 140 in the pillar of innovation of the Global Competitiveness Index 2018.

These numbers are no surprise, our country have little investment innovation, and moreover has not strategy for its promotion and improvement.



In 2007 the National System of Innovation and Technological Development (SNIDT) was created, with the aim of articulating the net of institutions that promotes innovation and technological development in the country. To date the strategy has not been fully articulated.

Given this situation and with the intention of boosting the subject, 2019 was declared by the president Danilo Medina as the **year of Innovation and Competitiveness**.

The declaration put in motion all the innovation related institutions under the coordination of the National Competitiveness Council, the Ministry of the Presidency, through the **Program Republican Digital** and the Ministry of Higher Education, Science and Technology. This last is the responsible entity of the definition of national policies for education science and technology.

In the first Plenary Session of the Competitiveness Council in this year, the creation of an Innovation Committee was approved, with the task of elaborate through work sessions with the public, private and academic sector **a National Innovation Strategy** that emphasis useful innovation, to respond to the needs of the productive sectors.

The Ministry was addressing the innovation issues by granting scientific investigations done by university-affiliated researchers, through the Fund for Innovation, Scientific and Technological Development (FONDOCYT).

Between 2005 and 2017, the FONDOCYT financed 443 researches, costing 87.8 million dollars, and resulting in 2 patents of invention in the areas of Nanosciences and biotechnology.

There is no registry that a research financed by the FONDOCYT has been linked to solutions for productive sector issues and with a non-academic affiliation. This gives the idea that FONDOCYT has achieved its goal of promoting the scientific research in the country, and now is time to work on it second goal of creating knowledge and innovation for the improvement of the national productive sectors.



Now, to move forward in this three main subjects we face a few

Challenges

Agricultural Challenges:

- Low development of external competitiveness in several products.
- Inefficiencies and underutilization in the use of land, water and public resources
- High levels of rural poverty
- Scarce financing for short and long term activities, and the absences of an agricultural insurance system
- Obsolescence of public institutions in the sector
- Outdated laws and redundancy in activities
- Improve the agricultural logistic chain, with a particular effort maintaining the cold chain.

Manufacturing Challenges

- Increase sectoral productivity
- Improvement of quality infrastructure
- Support for the implementation of quality management systems, process improvement and compliances with standards
- Improve incentives mechanism to promote the technological updating companies
- Develop flags projects for the productive Chain
- Investment in innovation specialized human capital
- Develop and register patents
- engagement between the companies and academies
- Active policies to promote innovation for the industries

Innovation Challenges

- Low conditions of appropriation and dissemination of knowledge.
- High risk levels associated with investment in R+D+i (high barriers to exit).



- Resistance to change within companies (low incentives to intra-innovation, there are no innovation bonds).
- Little knowledge of creativity culture, lack of confidence in innovative entrepreneurs.
- Improvement in academic programs (cultural transformation).
- Inefficient linking university-company.
- Low public investment in research.
- **Elaborate in a consensual way, a national innovation strategy.**
- Lack of materialization of results from investments in innovation.
- Lack of R +D+i laboratories.
- Lack of economic-fiscal incentive.

.....Ladies and gentlemen.

We are confident that today, by learning about how you overpassed some of this challenges in your own country, and with the help of the OCDE team, developing the Production Transformation Policy Review, it's our first step in the construction of a more Competitive Dominican Republic.

Why do I say competitive and not developed? Well because; "Competitiveness is the backbone of sustainable development"

I understand that competitiveness is the **unifying axis** of the great transformations that the Dominican Republic has undergone during the last fifty years. And because, through competitiveness, we will achieve stronger and higher quality internal sectors, and an effective insertion in international markets.

So that in a few years the Dominican Republic could be known not only for its beautiful beaches, **but also**, for the quality of the goods and services produced there and distributed to the world.

Thank you so much!