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Economy

Local Capacity Development: The Key to Benefiting from Globalization and Reducing Unemployment in the Dominican Republic

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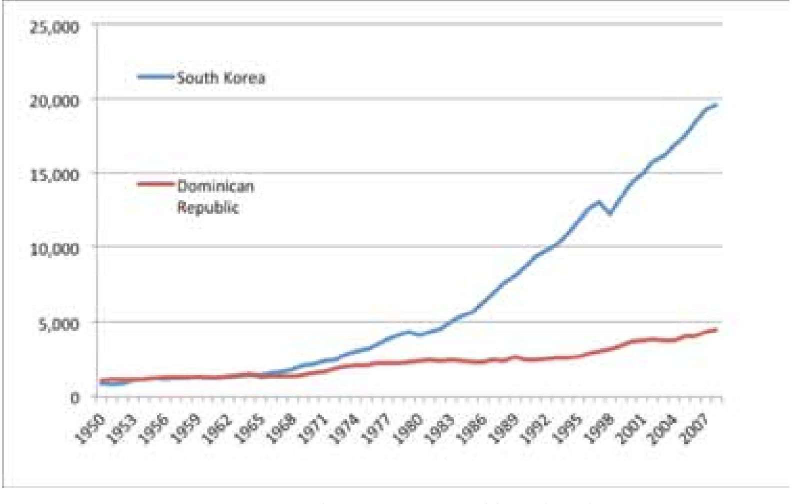
Introduction

As a nation, South Korea is generally acknowledged to be a success story in developmental economics. Beginning in the early-1970s, and accelerating through the 1980s, the South Korean economy grew at a rapid pace. Due to the deregulated nature and openess of its financial sector, economic growth abruptly slowed in the mid 1990s with the Asian Financial Crisis, although the economy has since rebounded[1].

Interestingly enough, in 1950, the Dominican Republic (DR) had a larger GDP per capita than many of the so-called "Asian Tigers", including South Korea (henceforth Korea) and Taiwan[2]. But, as shown in Figure 1, in 2008, GDP per capita in Korea was four times larger than that of the DR. Similarly, in 2008, Taiwan had a GDP per capita quadruple the amount in the DR.

Figure 1. GDP per capita Dominican Republic and South Korea, 1950-2008



Notes: Constant 1990 Prices Geary-Khamis. Source: Maddison (2010)

1. The Dominican Republic itself pursues many similar neo-liberal policies and is well-advised to take note of the consequences as seen in the case of South Korea in 1997.
2. GDP per capita = Gross Domestic Product/ Population. Asian Tigers refer to Korea, Taiwan, Singapore and Hong Kong.

In many important ways, Korea and the Dominican Republic share very similar economic backgrounds. Both benefited from having preferred access to markets and demand in the United States (US); both were open to foreign investments and international trade; both had similar human capital resources in the 1960s (Rodrik, 1995); both were affected by political turmoil at different points in the last century (in the form of the Korean War and political instability in Korea, and military coups in the DR); and both suffered the negative consequences of colonialism. What, then, can explain the differences in how each nation has developed over the past 50 years?

One could argue that the Korean miracle is primarily due to geopolitics and the role the US played in its development. But, the Korean economy did not begin its rapid growth until the early 1970s, relatively long after the beginning of these political influences. Furthermore, it is worth noting that US influences alone are not indicative of economic growth as they can be found in many countries which remain underdeveloped, including the DR (Bogen, 1965; Morgenthau, 1967).

One of the most important differences between the two countries lies in the fact that in cases of countries such as Korea and Japan, there was a national priority placed on developing the country's own productive capacity, while the DR focused attention on increased production for export, rather than stimulating, and then locally fulfilling, domestic capacity (e.g. as early as 1969, the DR created Free Trade areas designed to attract foreign companies who were actively looking to cut expenses by setting up lower-cost operations overseas). Furthermore, while both Korea and the DR pursued policies designed to reduce their reliance on imports in the last quarter of the 20th century, only Korea took the additional step of requiring its firms to achieve quantifiable export levels. This ultimately led to the creation of several world-class Korean companies, while the DR pursued an inward-looking strategy that has produced only a handful of smaller, Dominican-owned multinational corporations. To quote Lall (2003):

> Korea started with light industry, but protected, subsidized and intervened in various ways to deepen its industrial structure. It

> directed (and often subsidized) credit to promote entry into complex technologies. It forced firms to raise local content. It restricted FDI and intervened in the technology transfer process to raise local capabilities. It created giant conglomerates (the chaebol) to lead its exports and technological push. It guided and promoted R & D and skill formation. It set up a massive technology infrastructure geared to the needs of selected industries. It ignored intellectual property rights to promote copying and reverse engineering (p. 293).

The Dominican Republic, on the other hand, focused on a "branch-plant" system of industrialisation, as did many other nations in the periphery according to Arestis and Paliginis (1999): [3]

> Indeed, Multinationals Enterprises moved to those countries, but the industrialisation of the periphery in the 1960s and 1970s was a branch-plant industrialisation with no linkages with domestic capital and with no transfers of skills or technology… The periphery, in both cases [in the cases of the NAFTA and of E.U.], is dominated by a weak domestic manufacturing sector which could not withstand competition from the manufacturing sector of the core countries (p. 217).

Structural changes also played a major role in the development of the Korean economy (Taylor, 2005).[4] For most of the twentieth century, the DR has focused on low value-added products, characterized by stiffer global competition and lower wages. In contrast, all the "Tigers" (Korea, Taiwan, Hong Kong and Singapore) actively sought out, and created niches, in high value-added sectors (Ocampo et al., 2009).

When taking all the above factors into account, the case of countries like Korea suggests that success in the world economy today requires a country to have both its own productive capacity and an industrial base focused on the creation of high value-added goods. Clearly, though it may not be possible to exactly replicate the experience of these countries, the need that each country looks for niches and creates its own solid productive capacity is undeniable. Rodrik (2007) summarizes:

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3. Periphery refers to the countries outside of the core (as represented by wealthy nations). The concept of center-periphery follows the famous ideas first presented by Raúl Prebisch.
4. Structural change refers to a change in the composition of output. In this case, the structure changed towards high value-added sectors.

> Simply put, countries that have benefited the most from globalization are those that did not play by the rules. By contrast, Latin America, which tried harder than any other part of the world to live by the orthodox rules, experienced on the whole a dismal performance since the early 1990s (p.5-6).

This book studies the Dominican economic model. In particular, it analyzes the impact of external sectors on the economy and the effect of economic growth on job creation and the labor market. The next section discusses the conventional justification for a Free Trade agreement and explains why such an agreement can be counterproductive if there are assymetries in the productive capacity. The second section explains some theoretical aspects of the labor market and opens the analysis, in the third section, about the results of the current Dominican growth model: jobless growth with stagnant wages.