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FEATURED Q&A

How Well Has Medina Managed the Dominican Economy?

Q In his annual Independence Day address to Congress on Feb. 27, Dominican President Danilo Medina touted better-than-expected economic growth in 2013 and said he would make employment and productivity priorities for his administration this year. Yet poverty in the Caribbean country remains entrenched, a recent World Bank study has found, with only two percent of Dominicans escaping poverty in the last decade, compared to 40 percent of poor Latin Americans overall, despite comparatively higher GDP growth rates per capita in the DR. What have been the economic accomplishments of the Medina administration, and what have been its shortcomings? What accounts for the World Bank study's conclusions that the DR's prosperity has not been shared? What policy proposals would do the most to address the gap?

A Aníbal de Castro, ambassador of the Dominican Republic to the United States: "President Danilo Medina, since taking office, has steered a sound economic policy that fosters growth and guarantees stability. Policies put in place last year stabilized the currency and helped sustain low inflation. Particularly, the Medina administration reduced the central government deficit to an estimated 2.9 percent of GDP in 2013, from 6.6 percent in 2012. The year 2014 marks a decade since the Dominican Republic overcame a bank crisis that caused the peso to depreciate by 100 percent and inflation to quadruple. The World Bank's latest poverty assessment report, by including the sample from 2003-2004, when 15 percent of the population fell almost instantly into extreme poverty, neglects the real progress of rising living standards. The Dominican population living in poverty has actually fallen more than 10 percent since 2005. The Medina administration is committed to a model of shared prosperity and social inclusion. The government has made it easier for entrepre-

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Cuba Agrees to Begin Talks With European Union

Cuba's government on Thursday agreed to start talks with the European Union, which could lead to increased trade and investment. Cuban Foreign Minister Bruno Rodríguez said the country accepted the E.U. invitation "with satisfaction." See story on page 2.

File Photo: Granma.

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NEWS BRIEFS

Venezuela Expels Panama's Ambassador, Three Other Envoys

Venezuela on Thursday gave Panama's ambassador to the country and three other diplomats working at the embassy 48 hours to leave, BBC News reported. The move occurred a day after President Nicolás Maduro froze political and trade relations with the Central American nation, which he accused of being a "lackey" working with the United States to intervene in Venezuela. In recent days, Panama has tried to use the Organization of America States as a mechanism to respond to ongoing protests in Venezuela.

Brazil Posts Record February Trade Deficit

Brazil last month saw its largest-ever trade deficit for February amid a high demand for imports and a lack of competitiveness in local industry, Reuters reported. The country's trade ministry said Thursday that Brazil's deficit was $2.125 billion in February, the second consecutive monthly gap. In January, Brazil's trade deficit was $4.06 billion, its largest monthly trade shortfall ever.

Malaria Being Found at New Altitudes, Including in Colombia

Malaria is being found in regions where it has not seen before as warmer temperatures allow the disease to spread to higher altitudes, according to research published in *Science*, BBC News reported Wednesday. The study used data from densely populated areas in the highlands of Colombia and Ethiopia and found that in warmer years, the disease was found at higher elevations. The study's author said that warmer temperatures could result in the disease spreading and millions of new cases.

Political News

Sánchez Cerén Leads Ahead of El Salvador's Presidential Vote

Salvador Sánchez Cerén, a former Marxist guerrilla leader, is ahead in polls leading up to El Salvador's presidential election on Sunday, the Associated Press reported. In the runoff, Sánchez Cerén faces conservative Norman Quijano, a former mayor of San Salvador. Sánchez Cerén heads into the second round with approximately 55 percent support, as compared to 45 percent support for Quijano, the AP reported. The two candidates were the top vote-getters in the election's first round on Feb. 2, with Sánchez Cerén narrowly missing an outright victory. During his campaign, Quijano has warned that his opponent, a member of the ruling Farabundo Martí National Liberation Front (FMLN), would move the country too far to the left and would bring it under the influence of the socialist government of Venezuelan President Nicolás Maduro. Sánchez Cerén has denied the claims. In a rally last Sunday, Sánchez Cerén vowed to expand social programs that have won backing among the poor. He has promised to expand pensions for elderly Salvadorans and provide free school supplies. "We will dedicate all our energy, all the experience we have accumulated fighting for the people for so long, and we will put it all to work to deepen these changes," he told thousands of supporters waving red flags. Since the first round, Quijano has shifted his strategy away from focusing on proposals to use the military to fight gangs and to warnings that Sánchez Cerén would follow Venezuela's path. "We cannot allow the FMLN's deceptions and traps to deny us access to a better future. If not, we can see the sad example of Venezuela," Quijano recently told supporters. "Fatherland, yes! Communism, no!"

Sánchez Cerén

File Photo: Sánchez Cerén campaign.

Sánchez Cerén plans to make El Salvador a member of Petrocaribe, in which Venezuela provides allies with subsidized oil. He has also said he admires more moderate leftist leaders such as Brazil's Dilma Rousseff and Uruguay's José Mujica.

Cuba's Government Agrees to Talks With European Union

Cuba's government on Thursday formally agreed to start talks with the European Union that are aimed at restoring relations with the bloc of countries, BBC News reported. Cuban Foreign Minister Bruno Rodríguez said the country was accepting the invitation that the European Union made last month "with satisfaction." The talks will be connected to progress on human rights issues in Cuba and could lead to increased trade and investments in the communist country. "Cuba welcomes with satisfaction the Feb. 10 proposal of the high official, which will put an end to the unilateral E.U. policies toward Cuba and accept the start of the negotiations," Rodríguez told reporters in Havana, referring to the European Union's foreign policy chief, Catherine Ashton. The European Union, which is already Cuba's second-largest economic partner after Venezuela, restricted relations with Cuba in 1996 in an effort to strengthen dialogue on human rights and multi-party democracy in the Caribbean island nation. Several E.U. member states already have bilateral agreements with Cuba. Also, hundreds of thousands of Europeans travel each year to Cuba, providing the country with a major source of revenue. E.U. negotiators have said they hope to sign a bilateral agreement with Cuba by the end of next

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>
> — *Bruno Rodríguez*

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year. The two sides have not yet set a timetable for the negotiations. Closer relations between Cuba and the European Union would mark the largest shift in relations since E.U. leaders lifted sanctions against Cuba in 2008. That was the same year that Raúl Castro formally became Cuba's president, succeeding his brother, Fidel. Since then, Raúl Castro has implemented various economic reforms. Cuba's government has also said it hopes to engage in similar talks with the United States. After a meeting with an E.U. official last month, Rodríguez said he hoped U.S. President Barack Obama would follow Europe's lead. [Editor's note: See related Q&A in the Feb. 18 issue of the *Advisor*.]

Company News

Mexico's Telecom Regulator Finds Industry Has Dominant Companies

Mexico's telecommunications regulator, the Federal Telecommunications Institute, said Thursday that it had concluded the industry has dominant companies, but said it will not disclose their names until they are notified, Bloomberg News reported. In a preliminary ruling in December, the regulator identified **América Móvil** and **Televisa** as dominant. It is likely that the regulator has upheld those findings, according to analysts. President Enrique Peña Nieto signed landmark telecommunications industry reform last year, which includes the creation of a new regulatory body that will have the ability to regulate dominant companies and force them to sell assets. However, lawmakers have not yet passed secondary legislation that is needed for the reforms to take effect. Backers of the reforms have said the measures are needed to increase competition in the industry, which is currently dominated by billionaires including América Móvil's Carlos Slim and Televisa's Emilio Azcárraga.

Peña Nieto

File Photo: Mexican Government.

Featured Q&A

Continued from page 1

neurs to access credit through SME support programs. The president is also highly invested in agricultural production, personally addressing the social issues that concern rural communities. Education is a key concern for the administration, which has doubled the budget assigned to this area in the past year. Four percent of our $59 billion economy is destined to improving the standards of teachers and building thousands of classrooms. The improved access to a quality education, alongside an emblematic program to eliminate illiteracy by 2015, are the cornerstones of a development strategy designed to create equal opportunity for all Dominicans."

A Christopher Mitchell, professor emeritus of politics at New York University: "The Medina administration has reduced the government's fiscal deficit from over 6 percent of GDP to less than 3 percent. This was accomplished by increasing the VAT rate to 18 percent, cutting public works and issuing bonds. The 2012 deficit stemmed primarily from massive spending by Medina's PLD party, partially to promote his election. An onerous 2009 agreement with the Canadian mining company Barrick Gold was renegotiated in 2013, opening the prospect of an eight-fold increase in royalties. (The government's enthusiasm for mining proposals also grew, and some officials determinedly support an environmentally-questionable nickel extraction proposal at Loma Miranda.) The fruits of economic growth have been narrowly distributed due to causes including: low employment generation in growing sectors including telecom and finance; government budgets burdened with non-social subsidies to electricity generation; and high reliance on regressive taxes, limiting the chances for redistributing income. Policies to reduce poverty are readily available, though politically costly. They include rigorous long-term planning and fiscal controls to get the most out of the Medina government's praiseworthy allocation of the legally-required 4 percent of GDP for primary and secondary education. (The Ministry of Education recently purchased 35 luxury SUVs from its new budget largesse.) Government corruption at all levels, which deters many forms of investment, should be seriously combated; 'law-enforcement' agents are often charged as complicit with criminals. Recent VAT increases should be allowed to sunset gradually as planned, and more direct taxation should be substituted for the government's common practice of widely distributing small handouts to boost party loyalty."

A William M. Malamud, executive vice president of the American Chamber of Commerce of the Dominican Republic: "President Medina has invested more in education, which is critical to long-term competitiveness. He has also demonstrated unprecedented transparency in public finances, with better controls on spending. And he has been directly engaged with all levels of society, with weekly visits to communities around the country. To effectively address income inequality in a sustainable fashion, the government should continue its investments in human capital and focus on creating the conditions conducive to private investment. Specifically: (1.) Stabilize the electric sector. Reduce the unsustainable level of subsidies, which undermines macroeconomic stability and the ability of the government to invest in social programs. The role of the state in the electric sector should be that of regulator and contract enforcer. With financial stability in the sector, private investment in more efficient generation will come. (2.) Reduce informality in the private sector. Formalizing the estimated 50 percent of the economy that is currently off the books would broaden the tax base, allowing the government to lower marginal rates. Most of these informal

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Featured Q&A

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jobs pay below minimum wage, exacerbating income inequality. (3.) Near-shore manufacturing. Rising business costs in Asia, combined with higher transportation and logistics costs, present an unprecedented opportunity to translate the Dominican Republic's geographic proximity to the United States into a sustainable comparative advantage in near-shore manufacturing. The country should focus on lowering the transaction costs associated with trade. Short-term actions include: passing the draft customs law currently in Congress; implementing the single-window project for customs; unleashing competition in ground transportation, currently dominated by a local cartel; and, creating the legal framework for transshipment and logistics operations."

A Bernardo Vega, president of the Fundación Cultural Dominicana and former ambassador of the Dominican Republic to the United States: "For a number of years, Dominican economists and the U.N. Development Program have been emphasizing that the Dominican economy has been growing fast, but income distribution has been worsening. The recent World Bank study confirms this. A decrease in real wages, a regressive tax structure and government expenditures concentrated in capital-intensive public works helps to explain the above, despite conditional aid programs for the poor. The emphasis of the Medina administration is on government expenditures in education, literacy, health and microfinance, in contrast to Leonel Fernández's emphasis on public works. This should help to improve income distribution. Medina has also been able to decrease the cost of public works contracts it inherited from the prior administration and had decreased the size of the public sector deficit. Medina, however, has not been able to decrease the bloated public sector payroll, fight corruption, decrease unemployment rates or get more consumers to pay their electricity bills."

A Miguel Collado Di Franco, senior economist at the Centro Regional de Estrategias Económicas Sostenibles (CREES) in the Dominican Republic: "The administration's main achievement is the fiscal deficit reduction of 2013. However, the government spending reduction was accompanied by the largest tax increase in contemporary Dominican history. Around 17 taxes were created and/or increased. Tax increases, and the lack of structural reforms, harmed economic growth in 2013. For instance, real aggregate sales decreased by 1 percent, total imports by 4.9 percent and total exports (excluding gold) by 5.1 percent. International and local historical evidence shows that energy consumption and economic growth are highly correlated; that is the reason why at CREES we employ real energy consumption, measured by real crude oil, liquid fuels, and natural gas (OFNG) imports, as an alternative indicator of economic performance. Real OFNG imports decreased by 6.1 percent as of September, the largest decline since 2009, during the global recession. CREES and various local economists had expressed that the official methodology employed to measure GDP should be revised in order to have a more reliable estimate of economic growth. Because GDP figures tend not to reflect real economic growth since 2003, there is a perceived weak link between economic performance and poverty reduction. According to the World Bank, this case is unique among Latin American and Caribbean countries. Therefore, particular attention should be drawn to local GDP figures. Still, it is evident that the Dominican Republic urgently needs structural reforms that promote investments, productivity growth and job creation as sustainable sources of poverty alleviation and socioeconomic mobility."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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