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Poverty Persists in Dominican Republic, Despite Economic Growth

by Crosby Girón

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Despite the fact that Latin America has experienced an economic slowdown and some countries entered a recession, the Dominican Republic’s economy grew by 7% in 2015, making it the fastest growing economy in the region. Analysts cite the decrease in fuel prices and the recovery of the US economy as the reasons behind this growth.

The Dominican Republic’s economic growth has occurred in the midst of a complex economic scenario in which some of the world’s main emerging markets show signs of deceleration (NotiCen, Jan. 8, 2015). Latin American economies shrunk by an average of 0.9%, whereas the Dominican Gross Domestic Product (GDP) increased by 7% for two consecutive years. The best performing economies in Latin America were Panama, with a 5.9% growth; Bolivia, with 4%; Nicaragua, with 3.9%; and Guatemala with 3.7%. One of the main economies in the region is Brazil, which has shrunk by 3.7%. Mexico, Argentina, and Chile experienced growth levels lower than 2.5% according to World Bank estimates.

Better than expected progress

Héctor Valdez, governor of the Dominican Republic’s Central Bank, called the state of the Dominican economy satisfactory and better than expected, citing as reasons the decrease in oil prices in the world market (the Dominican Republic is not an oil producer), and the recovery of the US economy. The United States is one of the Dominican Republic’s main business partners as well as an important source of tourism and remittances.

In terms of income from the export of goods and services, remittances and foreign investment, the Dominican Republic received more than US$23 million in 2015, equivalent to 35% of its GDP.

According to a preliminary 2015 report issued by the Central Bank, the 7% economic growth that the country has experienced for two consecutive years is also linked to the development of the construction sector, which experienced 18.2% growth, and the development of the trade and financial services sectors, which registered 9.1% and 9.2% growth respectively. Added to this, the tourism industry grew by 9.2%. The Dominican Republic received a record-breaking number of tourists: 5.6 million visitors, an 8.9% increase in one year. This growth can be attributed to tourism promotion policies as well as to a considerable investment in infrastructure.

Valdez added that the fact that inflation stayed below 2.34%—and thus below the 4% target set by the government—also had a positive impact on GDP growth.

However, despite the country’s positive macroeconomic growth, living conditions for the population have not improved significantly. Most of the Dominican population earns less than 10,000 pesos a month (around US$220), which is insufficient to purchase the basic food basket (around US$288 a month).
According to the World Bank, in 2016, Latin America will see a moderate recovery from the recession. After the 0.9% contraction it experienced in 2015, economic growth will remain unchanged. According to the bank’s experts, there are differences between the subregions, and growth in the Central American, North American and Caribbean economies will compensate for South America’s weakness.

**Poverty persists despite economic growth**

The Dominican Republic is like a coin with two sides. The country has experienced enviable levels of macroeconomic growth, but high levels of poverty show that living conditions have not improved for a sizeable percentage of the population.

In recent reports, the World Bank has referred to the Dominican Republic as the “poor rich country” in the region. This idea is not new, as a number of think tanks that study economic behavior have concluded that this is a long-standing problem that successive administrations have failed to deal with.

The 2003-2004 economic crisis that pushed thousands of Dominicans below the poverty line is long over, but the underlying problem has remained unsolved: 40% of Dominicans are poor, even though they have the necessary qualifications to earn a greater income (NotiCen, Feb. 27, 2003, May 29, 2003, and Aug. 12, 2004). The World Bank believes the problem lies in the fact that economic growth has not improved human development.

The root of the problem is a skewed pattern of income distribution. Rita Mena, coordinator of the United Nations Development Program (UNDP), considers the Dominican Republic has levels of inequality that are extremely high in comparison with the international average.

Mena also draws attention to the fact that there are huge disparities in terms of development between different geographical areas. For instance, the Central District has the country’s highest levels of development, but the situation is completely different in the province of Monte Plata, in the north. “The contrast in levels of development between these two places can be observed throughout the country. Not everyone has access to the same opportunities. There are huge disparities in terms of access to education, healthcare and basic sanitation, and these disparities result in even greater disparities in terms of access to the labor market,” Mena said.

The problem is even worse bearing in mind that over 50% of the Dominican working class belongs to the informal economy. These workers have no access to social security, medical insurance, or retirement funds, and their salaries are usually insufficient to cover living expenses.

According to the World Bank, a person lives in poverty when his or her daily income is less than US$4.70 a day (around 4,684 Dominican pesos a month). In the Dominican Republic, even with the minimum wage adjustment implemented by the government in 2013, those who work for small companies earn a minimum wage of 6,880 pesos a month.

According to Mena, the problem worsens when the gender issue is taken into account, as women can earn 22% to 50% less than men, even when they have the same or higher levels of education.

For this reason, experts say this is a structural problem that the state needs to face. “We need a fiscal policy that allows for a greater re-distribution of wealth, and we need to rethink the structure of the taxation system and the impact of public spending,” Mena said.