

Entrepreneurship for development

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PRESIDENT OF THE DOMINICAN REPUBLIC



DANILO MEDINA was elected President of the Dominican Republic in May 2012, and took office in August that year. A graduate of the Autonomous University of Santo Domingo, he was elected a Deputy in the National Congress in 1987, and rose to become President of the Chamber of Deputies in 1994. He subsequently served twice as Secretary of State to the Presidency.

Governments may very well establish new diplomatic relations, reduce tariffs or promote new cooperation projects in many areas. But progress in economic policy-making and in the further integration of Latin America and the Caribbean requires more active coordination with the private sector.

Firms in the private sector are the ones taking advantage of market access opportunities by signing contracts, advancing trade, extending logistical networks and creating the larger share of sustainable jobs.

Firms in the private sector are the ones building an ever-closer mesh of deals, creating the entrepreneurial basis for regional integration from the Labrador Peninsula to Tierra de Fuego.

We in the Dominican Republic value greatly this role of the private sector. That is why we believe most firmly that public-private partnerships are the best response to the challenges ahead.

The OECD estimates that over 130 million persons should become part of the middle class in Latin America by 2030. This is the greatest increase after the Asia-Pacific region.

The challenge for governments like mine is to maintain the momentum for these transformations to take place, by redoubling our efforts to close the inequality gap so that wide swathes of members of our society are included in the process of development, while ensuring the stability of our democratic political systems.

In order to accelerate the transition towards a middle-class society, we need coherent strategies to insert our countries into the global economy. The time has come for us all to foster the missing links between export-oriented activities and the rest of our economies.

Intra-industry trade explains about 80 per cent of world exports. These vast trade flows of goods and services are part of the value-chains of multinational firms. According to ECLAC – the UN regional body for economic research in Latin America and the Caribbean – this results from the increased liberalisation of trade and investment, the reduction in transport costs and the advances in information technologies.

The results are obvious in the automobile industry but

also in electronics, aeronautics, medicines and textiles. All phases have become international. For any of the industries mentioned above, R&D, manufacturing, distribution, retail and even after-market customer service are all taking place in different countries.

This scenario creates opportunities for all. Countries can afford to specialise in producing efficiently the phase of the process for which it is most competitive, taking advantage of its proximity to important markets, its access to raw materials, its adequate legal framework, its locational advantage for logistics, its modern infrastructure for telecommunications, the flexibility and productivity of its labour force or any other source of competitive advantage.

This process has a great potential to leverage our development processes further. In the Dominican Republic, I am working towards the internationalisation of Small and Medium Enterprises (SMEs), either as direct exporters or as indirect exporters linked to the global value chains of multinational firms.

The challenges for the region of such a policy initiative are enormous. In the region, export-oriented SMEs have to bridge a large productivity gap. Many are still part of the informal sector. As a result, their access to credit is expensive, usually outside of the formal financial mechanisms.

SMEs' ability to comply with environmental, quality, sanitary and technical regulations is also limited.

The rewards for working against these obstacles, however, are larger still. Our challenge as policy-makers is to face them head-on, so that our SMEs are able to make the connection to global value-chains as providers of goods and services.

In order to take advantage of these opportunities, we need to break the vicious circle that conditions and limits the internationalisation of SMEs. This requires closing the productivity gap, helping them to incorporate technology, innovation and knowledge into their products. Most importantly, their managerial abilities need to improve as well.

What we need is an active industrial policy seeking to address the needs of SMEs.

Our focus so far has been on building the capacities of SMEs to meet quality standards and rules of origin, as well as in building associative productive schemes through clustering.

There is much more that governments can do, especially when it comes to improving the quality of our social capital, through higher educational standards and improved health indicators.

Industrial policy in the region has favoured a small set of policy objectives, usually protectionist, relying on an unfair concept of competitiveness – basically, low wages and unsustainable fiscal incentives.

If we are to integrate our SMEs into global value chains, action is needed beyond these policies of the past, ideally with a regional rather than national focus. Success requires that policies applied in the countries of a same region be mutually reinforcing.

At the regional level, therefore, we face two major challenges: to ensure full market access for all firms to the regional market, through increased regional integration; and to achieve a greater coordination of industrial policies at regional or sub-regional levels.

There has to be greater alignment between our industrial policies with our fiscal and trade policies, so that we can achieve a more coherent policy environment. This coherence is a common bet between policy makers, entrepreneurs and labour. Closer coordination between them is also a prerequisite.

The Dominican Republic, in line with the Latin-American and Caribbean region, has much more to do to improve the way it participates in the global economy, so that it can overcome its traditional role of supplier of commodities and other basic inputs.

The period of booming commodity prices was a precious opportunity to invest the wealth thus generated in achieving a productive system that could grow more sustainably in the future.

On many occasions, governments have focused on achieving results only during the short-term periods imposed on them by their electoral cycles. Firms have sometimes focused on even the even shorter periods of the quarterly or the half-year results.

Our pending task has been to generate greater bonds of trust and joint efforts, so that barriers to entrepreneurship could be removed, jobs could be created and general welfare could be increased.

Greater bonds of trust are the basis of the consensus decisions ahead, for our economies to take off and possibilities multiplied.

In the Dominican Republic we are working to overcome the inertia that has prevented consensus decisions in the past. Step by step, a new, common vision is emerging that reaches out beyond the short term, with a focus on development and social capital accumulation.

To this end, we have striven to build confidence and to listen to the demands of all sectors. Most of all, consensus-building has become the hallmark

of our government. For our objective is to create a competitive entrepreneurial fabric, a solid middle class and a modern and efficient State.

That is why, in November 2012, we opened a dialogue between industry and government. Any Dominican industrialist can testify that our common, action-oriented agenda is already under way.

One example is the Board against Contraband, Counterfitting and Informality, a mechanism integrating government officials and representative of the main trade groups, seeking to combat jointly these illegal practices that cost Dominican society so many millions annually.

Another, even more important example is the convergence of all members of Dominican society around a Pact for Education, covering the complete formative cycle, from early to tertiary and even adult education. The goal is to develop fully the potential of our human capital and to facilitate capacity building and citizenship development, with a view to a more active and effective participation in the Knowledge Society.

The experience of this Pact for Education is being replicated in seeking to resolve another of our great pending challenges: the electricity sector. I am certain that we should soon arrive at a national consensus to build a system for generating and distributing electricity competitively and reliably, which is yet another element in the construction of an integrated entrepreneurial environment.

We became convinced that there was a need to establish a new model for the labour market. With a view to reaching a consensus, employers, unions and government are engaged in the dialogue required to find the balance between rights and flexibility for more quality jobs to be created in the future.

All of this has generated for us the confidence of our society and in particular of our private sector. It is the basis for the sustained growth of all economic sectors, which explains the 7.3 per cent rate of growth of GDP registered by the Dominican Republic for 2014, the highest in a region that barely grew an average of 1.2 per cent.

The future lies in the work of key sectors such as logistics, infrastructure, energy, finance and telecommunications. It is their experience that should guide the design of our new policies. It will be thanks to their business models that our SMEs will be able to cater to the needs of the global value chains of multinational firms.

By working together, entrepreneurs and government officials should realise the dream of a Latin-American and Caribbean region in permanent peace, united in its quest for cooperation, in its shared work and its common progress.

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