An ideal nearshoring platform in the Caribbean region

The Dominican Republic is set for economic prosperity in a post-pandemic world

New leadership encourages foreign investment, tax incentives, and a thriving workforce as the Caribbean's economic powerhouse charts a robust recovery agenda

While COVID-19 stalled the Dominican Republic's bustling economy, especially its tourism, the Caribbean nation remains poised for an economic recovery as the world returns to a sense of post-pandemic normalcy.

The International Monetary Fund (IMF) expects the Dominican Republic to make a robust recovery, and the nation's new president, Luis Abinader, wants to ensure his nation's economy is driven by more than tourism. Abinader, 53, has outlined a revitalization plan that includes tax incentives and investment opportunities, and promotion of his country as an ideal location for nearshoring — when businesses move their operations to a nearby country instead of a distant one.

The largest economy in Central America and the Caribbean with an estimated gross domestic product (GDP) of $88.94 billion, the Dominican Republic's annual growth rate of 6 percent prior to the pandemic was the region's highest. Annual inflation remained below 4% from 2014-2019. Prior to the pandemic, tourism brought in $630 million to the nation's coffers. The number of visitors doubled from 2000 to 2018, making it the Caribbean's most popular tourist destination. But tourism wasn't the nation's chief economic driver.

Gold exports garnered $1.61 billion, medical instruments, $1.4 billion, and rolled tobacco, $833 million. Much of this went to the United States, Canada, India and Switzerland.

Since the early 2000s, multinational companies based in the United States and Europe transferred a significant part of their production processes to China and Southeast Asia to reduce costs and increase productivity. However, in the current international environment, influenced by geopolitical uncertainty generated by the trade war between the United States and China, the impact of COVID-19, and significant supply chain disruptions caused, among other things, by the blockage in the Suez Canal in March, many companies are revisiting or accelerating their reshoring/nearshoring strategy. They are focusing on relocating part of their production facilities closer to consumption markets to reduce operating costs, and mitigate risks associated with increased tariffs and logistics delays in their supply chains. The Dominican Republic serves as one of the best nearshore alternatives for many companies.

The country also has several favorable trade agreements with strategic partners, ranging from smaller economies, such as the Caribbean Community (CARICOM), Central America and Panama, to major economies, such as the United States, European Union, and United Kingdom. These partnerships have allowed exporters duty-free access to more than 900 million consumers in 49 countries, reduced trade barriers, and increased export potential for both local and foreign companies.

The Dominican Republic also offers one of the most attractive incentive packages for the free zones sector in the western hemisphere. It boasts a mature manufacturing ecosystem in sectors such as medical devices — eight of the top 30 companies in the world use the country as a production base — electrical components, jewelry, electronics, textiles, footwear, and many others.

The country's natural position within the hemisphere, more specifically as the heart of the Caribbean, provides unique opportunities, and it has made significant investments to position itself as a premier logistics hub. The country's geographical location allows connection with European and North American markets in record time. While its logistics infrastructure remains world class, its logistics connectivity is what separates the country from the rest. Home to the most connected airport in the Caribbean region, the Dominican Republic has daily flights to the United States and Europe, as well as the third best maritime connectivity in the region, with the seventh largest multimodal maritime port in Latin America.

The Dominican Republic boasts the second highest container throughput in the Caribbean, and the eighth highest in Latin America and the Caribbean region. This is particularly relevant considering that in 2019, the capacity in maritime container transport service increased from about 55 million TEUs (20-foot equivalent units) to 96 million TEUs on the three main East-West container shipping routes. This unparalleled logistics connectivity ensures the timely delivery of goods, wherever their origin or destination might be.

While inaugurating the Caucedo port expansion in November, as part of its $600 million investment in the country, Sultan Ahmed Bin Sulayem, CEO and chairman of DP World, said their objective was "to promote the Dominican Republic throughout the region as an interesting value proposition for multinational industries, and for this to help attract new investments to develop logistics projects in the country."

He added: "We are focused on leveraging nearshoring with the United States, within the Caribbean and Central America region, northern South America, and finally around the world."

Nearshoring: A Reality in the Dominican Republic

One advantage the Dominican Republic boasts of is its role as an industrial hub for major American companies. Eaton, GE Energy, Johnson & Johnson, Medtronic, Rockwell Automation, Cardinal Health, Baxter, Tiffany, and Hanes all have chosen this Caribbean nation as their industrial hub for the Americas.

President Abinader attends Jabil's inauguration in the DR

But proof the country has much to offer in quality, productivity and connectivity is evident in its relationship with Jabil, which specializes in outsourcing of manufacturing for such companies as Cisco and Tesla. Jabil, which employs more than 260,000 people at 100 locations in 30 countries, began its operations in the Dominican Republic in April 2020, shortly after the pandemic spread worldwide.

Jabil also manufactured the first over-the-counter COVID-19 PCR test approved by the U.S. Food and Drug Administration. The test produces accurate results in about 10 minutes. The high demand for this test led the company to hire more than 800 employees. With the world reopening from the pandemic, and crowds expected to return to concerts, sporting events, theaters and other daily activities, demand for this test is bound to increase, and the company is considering expanding its workforce even more. Earlier this year, Jabil built a 60,000 square-foot expansion to its healthcare manufacturing plant.

The decision to begin operations in the Dominican Republic "is in large part due to the high-caliber talent pool and pride of work shown by employees in the island," said Steve Borges, executive vice president and chief executive officer.

Attracting foreign production to its shores is not the only way the government is working to bring in businesses and investment. To promote the country as a viable distribution hub, the Abinader administration established that goods stored in logistics centers would not be subject to taxes or duties for more than a year. For companies running these centers, this reduces costs, increases supply, and provides quicker access to markets. Such initiatives, and the country's proximity to major markets, have attracted multinational companies such as Nestlé, IKEA, and AbInbev to use the Dominican Republic as a regional distribution center.

Abinader, who has a business background, has made the advancement of industrialization a priority, crucial to the growth of his country. His national industrialization plan consists of five main pillars:

The Dominican Republic "had been one of the most dynamic economies in the region during the last decade in the context of robust growth, macroeconomic stability, a solid external position and a notable improvement in social indicators," according to the IMF.

The country has worked tirelessly to become a key and trusted manufacturing and logistics hub in the Americas.

Between August 2020 and April 2021, the Dominican Republic approved the installation of 45 new free zone companies and 2 new industrial parks, and has, for the past 10 months, experienced all-time records in exports. In the first quarter of 2021, exports from free zones totaled $2.2 billion, representing 60% of total exports during that period.

The country's strong, mature and proven manufacturing ecosystem has played a key role in motivating major multinational companies to either expand or relocate production lines, proving that "nearshoring" is already a reality for the Dominican Republic.

Notable among these companies are:

- **Eaton**, leader in the manufacture of electrical components, relocated the production line of its variable frequency products to supply the United States and other global markets, increasing its exports by 7%.

- **Cosmed Group** specializes in the sterilization and pasteurization of medical devices through a network of contract processing facilities. It is the first company with this type of experience installed in the Dominican Republic, contributing to the consolidation of a more favorable medical device manufacturing ecosystem and a decrease in operating costs for companies. Cosmed Group provides important opportunities for the logistics center ecosystem because it allows the attraction of regional cargo that today is transferred to Puerto Rico, Costa Rica and other destinations to be sterilized and re-exported.

President Abinader is given a tour of a local production facility

- **Muebletex**, leading producer of leather furniture, relocated to the Dominican Republic to reduce transit times to the United States by 50%, drastically reducing inventory costs and increasing its time-to-market.

- **Fresenius Kabi** mainly produces blood transfusion and handling products. In 2020, it completed a $35 million expansion of its manufacturing plant to increase production capacity and sterilization of plasma kits. Recently, it announced another expansion to add 15 square meters to provide logistics capabilities that further increase the capacity to manufacture and distribute products from these facilities.

- **Medtronic**, a multinational company dedicated to the manufacture of high-tech medical devices, made an investment of approximately $46 million in the new physical plant, where it plans to employ about 450 people in the San Isidro free zone.

- **Edwards Lifesciences** distributes medical devices to the global market. The Dominican Republic's excellent business climate represents a critical element for this company, which created 700 direct jobs, consolidating the international position of the country in the manufacture and export of world-class medical equipment and pharmaceutical products.

- **Teleperformance** is a leading global group in integrated digital services offering a 'One Office' support services model. Its new project will have an investment of $8 million to recruit new talent and create remote jobs through the Off Cities strategy in cities outside the National District, paying equally to the revitalization of the economy in areas with fewer opportunities.

Other major companies, such as Cardinal Health, and B Braun, have already made significant expansions to their production facilities.

The experience of various multinational companies that have already trusted in the Dominican Republic to locate or expand their operations in the region constitutes clear evidence that the country offers an important investment destination in the Caribbean.

The Dominican Republic has the necessary conditions to continue focusing on the growth of industry, trade, and SMEs (small to medium enterprises).

President Abinader's plan to continue growing the industrial sector aims to promote companies that generate jobs and attract foreign direct investment throughout the territory. To achieve these goals, the government actively fosters:

- An incentive program through which companies are allowed an accelerated depreciation of those investments in fixed assets oriented to the implementation of new technologies or modernization of existing industries.

- Policies at the sectoral level for the dissemination of innovative technologies.

Minister of Industry, Trade, and SMEs, Victor Bisonó, is presented with locally manufactured PPE by Edwards Lifesciences

Dominican Republic: *A Haven for Nearshoring*

The effect of the pandemic on the world economy forced many companies to revisit their outsourcing and business strategies. The Dominican Republic is set to take advantage, given its track record as a popular nearshoring location.

One company that changed its strategy was Hayco, which produces equipment based on injection molding. When considering expansion plans, Hayco, which operates in the Dominican Republic as a key supplier for such companies as Clorox, and Procter & Gamble, chose the Caribbean nation to better serve the U.S., instead of expanding its facilities in Hong Kong. This decision proved to be a boon as the company saw a 25-percent increase in production during the pandemic.

Business leaders also praise the dedication of the high-quality workforce in the country. "We throw a lot at them, from new products to new technologies, and they are quick to learn and eager for more," said Chris Dugan, president of Precision Devices, which manufactures components for use in medical, military, and electric vehicle applications.

Other companies also have chosen the Dominican Republic for their production facilities, and seen their business grow and costs reduced.

Maintaining the country as a leading nearshoring location is a priority for its Minister of Industry, Trade, and SMEs Victor Bisonó. He believes his country is an ideal destination, especially for companies looking to better serve the United States more effectively.

President Luis Abinader: *A Look at the Leader*

The Dominican Republic is open for business. It boasts a clear track record of proven examples of nearshoring success stories, currently benefiting from reduced operational costs, enhanced market access to important consumption markets and logistic solutions that have established the country as a safe and secure destination for both international and local investment.

In this global context, where health challenges have impacted the security for a country as an investment destination, is the Dominican Republic a safe destination?

Absolutely, Dominican Republic is a safe destination. In terms of health safety, the Dominican Republic has shown it has implemented the right protocols which have produced an efficient and exemplary response to COVID-19. As of June 15, nearly 4.3 million Dominicans had received their first dose of the vaccine, while more than 2.1 million have been fully vaccinated. At the current rate, we will be meeting our goal of having immunized the entire country by the third quarter of 2021, for which we have already ordered and paid for the total amount of vaccines needed. Ultimately, we will be one of very few countries in the region to achieve this important milestone.

2020 became a year in which the exception was to find countries whose economies grew and, in 2021, the rule is to find countries with a sustainable economic recovery. What is the trajectory in which the Dominican Republic is going?

In line with all the regional economic forecasts, the Dominican Republic's economic recovery from COVID-19 has been a positive outlier. According to the Central Bank of the Dominican Republic, our Monthly Indicator of Economic Activity (IMAE) registered growth of 10.6% in March when compared to March 2020. When considering all sectors included in the IMAE, the Dominican economy grew close to 3.1% in the first quarter of 2021. Lastly, validation of this recovery has been given by the positive projections of the International Monetary Fund (IMF), which estimates a growth of 5.5% for the Dominican economy this year.

Luis Abinader Corona, President of the Dominican Republic

How is Dominican industry evolving in this context of economic reactivation?

We believe in Dominican industry and have the firm intention of promoting the required transformations that support the resilient spirit demonstrated through the national industrialization plan enacted by Decree, which establishes industrialization as a national priority. All this, with proper follow up from the "Presidential Working Group for Industrialization," which serves as an articulator of public policies focused on making free zones and local industries more competitive as a whole. Free zones and local industries will continue to evolve positively, considering our economy's 7.4% growth, as per the Dominican Republic's Central Bank data for the first quarter of 2021.

A Thriving Post-Pandemic Nation

As countries come out of COVID-19, the Dominican Republic appears well suited to deal with a post-pandemic environment and revitalize its economy.

Crucial to any return to normalcy is the vaccination rate, and, as President Abinader indicated, the Dominican Republic is well on its way to meeting its goal of having its population vaccinated by year's end.

Abinader's business and investment friendly polices, the country's knowledgeable workforce and predictions of a return to a thriving tourism sector have already borne fruit.

The government says its numbers already show a nation rebounding from the pandemic. Exports for January-April totaled $3.7 billion, a 3 percent increase from the previous quarter and 22.9 percent from the same period in 2020 — due mainly to an increase in exports from its free trade zones. The rise in exports from free trade zones included a 75 percent increase in tobacco, 76.7 percent increase in precious stones or metals, 63.8 percent increase in apparel and clothing accessories, and 8.3 percent hike in medical devices.

The Dominican Republic can lay claim to an attractive geographic location, a solid and robust legal framework, and tax incentives aimed at promoting the development of various strategic sectors. It also has excellent maritime connectivity and appropriate infrastructure for the development of logistics and industrial platforms that will allow it to continue increasing its trade flows with the rest of the world. All this makes the Dominican Republic one the most dynamic economies in the region, with constant robust growth and a resilient financial system. The International Monetary Fund's forecast of 5.5% economic growth in the Dominican Republic stands in stark contrast to the projected 1.8 percent overall growth of Latin American and Caribbean nations.

Constant Growth and Stability

The Ministry of Industry, Trade and SMEs is focused on implementing public policy actions that will continue positioning the Dominican Republic as a world-class logistics and industrial hub in the region, with a clear strategy based on promoting efficiency, enhancing technology, processes automation and continually updating its appeal as an investment destination.

The Dominican economy is being reactivated, thanks to the confidence the current administration has proactively offered to all productive sectors. This sends a clear signal to both local and foreign investors that the country has what it takes to attract and retain successful investments as diverse as medical devices, jewelry, cigar manufacturing, textiles, and electric devices.

President Abinader's main commitment is to industrialization. On Oct. 28, two months into his administration, he enacted Decree 588-20 listing industrialization as a national priority. That action sent a clear signal his administration understands that increasing the competitiveness and productivity of the sector will generate a virtuous cycle of growth and opportunity for free zones, local industry, and small and medium sized enterprises, all while generating quality jobs for Dominicans. Since August 2020, when Abinader was sworn in, his economic strategy has reaped great rewards. The most notable example comes from the free trade zone sector, which has boasted record export numbers and cemented itself as an important engine of the Dominican economy. The latest figures prove the economy continues to fire on all cylinders, reaching historical growth figures of 32.4% in March of this year.

Víctor Bisonó Haza, Minister of Industry, Trade and SMEs

"We are constantly changing, adjusting and improving as an investment destination. That has been the driving force behind the National Strategy for the Export of Modern Services, which aims to balance our export of goods with the export of services, while also fostering an environment for creativity and innovation in the Dominican Republic ; something that had never been done before. We, at the Ministry of Industry, Trade and SMEs, will continue to promote local and foreign investments in our country, with many success stories that confirm that the Dominican Republic is more than ready to enhance any investor's competitiveness while facilitating its integration to regional value-chains." – Minister of Industry, Commerce and SME - Victor. O. Bisonó

Growing Economic Sectors

The tourism and services industries weren't always the largest economic contributors in the Dominican Republic. Manufacturing led the way until the 1990s, when tourism and the service field started to take over. The shift was a big boost to the nation as it became the fourth most popular tourist destination among Latin America's 20 nations in 2018. This led to a 39 percent increase in total employment in only six years, according to the Organisation for Economic Cooperation and Development.

The country is the world's leading exporter of cigars, Latin America's second largest exporter of candles and cotton fabrics, third largest exporter of medical devices, largest supplier of electrical circuit breakers and switches, fourth largest exporter of medical-surgical instruments, top-10 supplier of leather footwear, and third largest supplier of wool coats to the United States, as well as an important exporter of jewelry and precious metals.

The Dominican Republic's strengths in terms of infrastructure and air, logistics and maritime connectivity, a robust legal framework, and excellent business climate, and tax incentives in free trade zones, tourism, film production, and renewable energies make it readily available to foreign and domestic investors, guaranteeing legal certainty of their investments.