The Double-Edges of Dominican-US Relations: Development and Dependency

In 1961, after the assassination of Rafael Trujillo, ending his 31 year long dictatorship of corruption, racism, and human rights abuses, the Dominican Republic (DR) was one of Latin America and the Caribbean's poorest countries (Cabral, 2016). At this starting point, the DR had all the typical disadvantages associated with former Caribbean European colonies, including corrupt and weak institutions, high debt burden, and exacerbating natural disasters (Diamond, 2011; Jaramillo & Sancak, 2009; Ruprah et al., 2014). Yet by present day, DR has had 57 years of, at least nominally, democratic elections without a military coup (Cabral, 2016). This is against a backdrop of a thriving and diversified economy, with a strong mining industry, industrial free trade zones for overseas exports, an agricultural sector of various foodstuffs, a telecommunications industry, several hydroelectric dams, and of course, a substantial tourist industry (Diamond, 2011; Simoes & Hidalgo, 2011). Since 1960, DR was, and continues to be, the fastest growing economy out of all Latin American and Caribbean nations excluding those that were already high income (Fuentes et al., 2023; Jaramillo & Sancak, 2009; World Bank, 2023a). While DR was not immune to international downturns, such as the debt crises in the 1980s, its economy still experienced greater stability during this period than the majority of Latin American economies (Ocampo, 2004). More recently, DR's gross domestic product (GDP) per capita has surpassed traditionally much richer and larger economies such as Brazil and Peru (World Bank, 2023a).

This unusual economic success raises several critical inquiries: What are the factors contributing to DR's economic trajectory over other countries from similar historical starting points? Are the drivers of this trajectory sustainable for long-term development? Here, I argue that DR's success over the past half century was primarily shaped by its especially close and dependent relationship with the United States (US). I will start by focusing on how DR's long history of openness to foreign engagement set the stage for the US-DR relationship in the Post-Trujillo Era. I will show how US pressure for DR to follow anti-communist policies led to two key economic strategies utilized by the DR: the development of zones for de-regularized foreign export manufacturing and Western tourism. However, looking through the lens of the East Asian sequencing of economic modernization, I will then illustrate some of the potential pitfalls of heavy industry dependence on foreign investment. I next describe how DR's unique emigrant population with the US serves as an additional latent bulwark against economic difficulties. Finally, I review existing theory on extractive political institutions, explaining how although superficially DR's success seems to run against these principles, this theory can be better understood by considering how Dominican "transnationalism" may serve as an escape from such persistent economic obstacles.

To provide initial context, I will first evaluate common previous responses to this question, elaborating on how this paper differs from or extends these arguments. Jared Diamond posits that inequalities in development are primarily shaped by geographic determinism (Diamond, 1999). Thus, he attempts to address the disparities between Haiti and DR by ascribing them to lower rainfall and higher population density, leading to greater deforestation in Haiti (Diamond, 2011). However, as pointed out in later work by Laura Jaramillo and Cemile Sancak, rainfall is comparable in the two countries and population density is correlated with higher growth rates on a global level (Jaramillo & Sancak, 2009). Moreover, as journalist Noah Smith has pointed out, despite more deforestation, Haiti still has a larger total area of arable land than DR (N. Smith, 2023). I will argue that while Diamond's *environmental* geographic determinism argument for DR may not hold, a variation using *political* geographic determinism, based on DR's location as one of the first accessible Spanish colonies and then proximity to both Communist Cuba and the US mainland, may be better suited for understanding more modern country development. Jaramillo and Sancak found that specific policy decisions had a greater effect on DR's exceptional growth rate compared to Haiti. Here, I extend this argument by describing the broader overarching influences and themes that led to the Dominican government's economic strategies and developmental trajectory.

The historical legacy of openness to foreign engagement in DR is rooted in its colonial past. The location of both the first permanent Spanish settlement and first lasting city in the New World (DR's current capital, Santo Domingo), DR has been shaped by centuries of colonial rule under Spain (Guitar, 2011). As a Spanish colony that spent its history prior to the 1800's as a base of protection for sailing exports, DR's colonial slave population never reached the majority percentages found in colonies much more focused on plantation agriculture (Guitar, 2011). Thus, European immigrants made up a larger proportion of the population–and with them, their political comfortability with European powers. Leading up to its final independence as a nation, DR voluntarily chose to temporarily return to Spain in 1861 out of fears of Haitian re-occupation, further highlighting the closer relationship DR had with its colonial rulers compared to some of DR's colonial counterparts (Whitney, 2013). Then, during the 1950s and 1960s, Trujillo gained the support of the US in part by offering generous conditions to American businessmen (Cabral, 2016; Lawler & Mahan, 2010e). Overall, DR's prolonged history under or associated with European and American powers fostered a precedent of embracing foreign involvement and investment.

The Cuban Revolution in 1959 and the subsequent establishment of a communist government under Fidel Castro heightened Cold War tensions in the region. The US became deeply concerned about the further spread of communism to neighboring countries, especially those that were geographically close such as the DR (Lawler & Mahan, 2010f). The 1965 Dominican Civil War following Trujillo's assassination therefore prompted US military intervention, eventually resulting in US backed President Joaquín Balaguer taking power. At this time, the Dominican economy was overly dependent on "relatively inefficient, high-cost" state-owned sugar mills that survived on access to the sheltered US market but nevertheless comprised 85% of total Dominican exports (Lawler & Mahan, 2010a) . Balaguer and subsequent Dominican leaders leveraged US fears to their advantage in negotiating for higher sugar quotas (Lawler & Mahan, 2010a), funding for education (Lawler & Mahan, 2010d), agricultural reform and irrigation projects (Lawler & Mahan, 2010c), and key roads and dams (GONZALEZ, 1972; Lawler & Mahan, 2010b). Between 1965 and 1969, DR ranked second among Latin American countries in US economic assistance per capita (Lawler & Mahan, 2010c). This US aid was critical in laying the infrastructure foundation that would become important for further development in the DR. However, much greater impact would come in the form of US incentivized steps toward key liberal economic policies.

The US exerted considerable pressure on DR to embrace capitalist liberalization throughout the Cold War. A pivotal program was the Generalized System of Preferences (GSP) designed to allow developing nations, including the Dominican Republic, to export specific goods to the U.S. and other participating countries with reduced or zero tariffs. However, eligibility for the GSP also hinged upon adherence liberal, anti-communist economic policies (Wong, 2023). On the diplomatic front, U.S. officials actively championed free trade and export diversification through government telegrams and during official visits (Lawler & Mahan, 2010f). Beyond these direct interactions, US influence in key international financial institutions, including the World Bank and the International Monetary Fund (IMF), further worked towards this agenda of liberal economics. DR has secured several loans from the IMF throughout the 1960's until now, which come with the obligation to implement free trade policies and diversify exports (International Monetary Fund, 2012). Similarly, starting in 1969, the DR received several World Bank loans for agriculture projects, education, highways, and power sector engineering, which again are contingent upon adoption of similar economic measures in project plans (World Bank, n.d.). Ultimately the support provided by these programs and institutions became a means through which the US steered DR towards trade liberalization and export diversification.

US pressures led DR to pursue two specific policies: Zonas Francas/Free Trade Zone (FTZ) industries and a deliberate focus on tourism. FTZs are designated areas, established to attract foreign companies, where businesses enjoy corporate income and construction tax exemption, reduced bureaucracy fees, and reduced customs and investment regulations (World Bank, 2016). The first FTZ in 1969, was the La Romana Industrial Zone, setup with expertise help by the American conglomerate Gulf and Western Americas Corporation since, by the Dominican government's own statement, there was a lack of any prior business expertise for attracting foreign investment (CNFZE, 2023). The success of Dominican FTZs stems from capitalizing on DR's geographic proximity to the US, and in the ensuing decades, Dominican FTZs experienced remarkable success. By the early 2000's, FTZ exports made up 80% of Dominican export goods (U Santos-Paulino, 2006). Presently, there are a total of 84 zones accommodating approximately 770 companies, generating over 190,000 jobs (CNFZE, 2023).

The second policy was DR's approach to tourism development. Caribbean tourism by American and European visitors had already been ongoing in several other countries, including Jamaica, Barbados, and Cuba (Potter, 2004). To both diversify its economy white simultaneously bolstering foreign relations with the US and the West, the DR began a rapid *laissez-faire* approach

(Potter, 2004), enacting the Tourism Incentive Law of 1971 offering tax exemptions and low-interest loans for tourism infrastructure. This fueled a hotel construction craze with room capacity skyrocketing from 1,134 in 1970 to over 20,000 only two decades later (Sambrook et al., 1994). At the same time, the post-WWII economic boom in the US had increased disposable income and leisure time among the general public, fostering a greater desire for travel and exploration. America's Airline Deregulation Act of 1978, less than one decade after the DR's Tourism Incentive Law of 1971, marked the abolishment of federally set airline fares, unleashing affordability of international flights for the American public (F. L. Smith & Cox, 2023). This, combined with a relatively stable government thanks to heavy US backing (and heavy US monitoring (Lawler & Mahan, 2010c)), quickly made DR a prominent vacation destination. Last year alone, DR had 7.4 million tourist arrivals compared to an island population of 10 million, more than twice per capita than Mexico, the only country with more tourist arrivals overall (World Bank, 2023b).

How did these key economic strategies lead to the divergence of DR's economic trajectory compared to other Latin American and Caribbean nations? A helpful framework used for understanding developing economies is the East Asian sequencing of economic modernization (Dietz, 1986). This model, which annotates the development of successful East Asian countries of similar size, including South Korea, Taiwan, and Japan, features a progression from Easy ISI (Import Substitution Industrialization) to Easy ESI (Export Substitution Industrialization) and finally to Difficult ISI. In the initial stages, there was a focus on protecting development of domestic industrialization for nondurable, simple goods. Following this, they transitioned to Easy ESI, emphasizing industrial maturation and exportation of these same goods. Finally, they subsequently shifted to Difficult ISI by further upgrading local industries for production of technologically advanced goods (Dietz, 1986). By the 1950s, larger Latin American nations like Mexico and Brazil had effectively implemented Easy ISI on a limited scale (Dietz, 1986). However, confronted with a recurrent debt balance, these nations opted to shift abruptly from Easy ISI to Difficult ISI. Instead of concentrating on expanding the exportation of easily produced goods, akin to the strategies employed by East Asian economies, their focus shifted towards trying to reduce domestic importation costs. Due to the deficiency in technological expertise and skill levels, decision-makers in Latin American economies required dependence on foreign corporations, leading to these corporations dominating key industrial sectors. Unfortunately, this led to foreign companies substituting for local know-how, hindering the local learning process and further outcompeting and impeding the maturation of the local entrepreneurial class (Dietz, 1986).

With this insight, we can now analyze DR's economic trajectory. Unlike both the East Asian and larger Latin American economies, DR began from a much more disadvantaged starting point, lacking substantial easy ISI for any goods outside of sugar production by the 1960's. Thus, DR did not have the resources or capital to embark on any ambitious difficult ISI plans as other Latin American countries did. Faced with this situation, DR necessarily needed to keep its relationship with the US, its primary source of any funding, and in the meantime pursue strategies that were also politically and economically beneficial for the US, such as expanding tourism and allowing foreign companies to set up export manufacturing in FTZs. With the focus of FTZ industries on only specific exports (CNFZE, 2023), DR's locally-owned industries could be somewhat developed in parallel, funded by FTZs' and tourism's revenue. Indeed, due to DR's dual approach of liberally economic industries in tourism and FTZs while still maintaining high tariffs on all other industries, local manufacturing exports rose from 11 percent to 33 percent between 1980 and 1990 (Dauhajre, 1989). Through this strategy, DR was able to effectively simultaneously complete easy ISI and easy ESI between 1960 to 1990. By 1990, DR's industries were substantially more diversified, and tariffs were lifted to allow local industries to improve and compete internationally (Young & Cardoso, 2001). However, this East Asian modernization sequence analysis does reveal several key issues of DR's foreign dependency. Most notably, DR faces the same short-circuiting of local learning that large Latin American countries had with foreign multinational corporations. Furthermore, as seen in similar foreign-based export industrialization economies, such as Puerto Rico (PR), DR's economy runs the risk of high foreign dependency (Dietz, 1986). While currently extremely lucrative, any events that jeopardize or outcompete DR's attractiveness to foreign companies would be hazardous to DR's economy. Admittedly, DR has taken steps to mitigate these risks that PR did not (Dietz, 1986). In addition to trying to maintain a diverse economy through parallel focus of local and foreign-owned industries, the government is aware of the importance of backward linkages between FTZ companies with the domestically owned economy. This is exhibited, for example, by recent "match-making" rounds between FTZ and local businesses and domestic producer training for becoming suppliers of FTZ firms (World Bank, 2016). Additionally, DR has one last key economic advantage–in the form of "transnationalist" migration.

Despite its economic success, DR continues to have one of the fastest-growing US emigrant populations among Latin American and Caribbean nations (Noe-Bustamente & Hugo Lopez, 2019). One in 10 of its population resides abroad and remittances represent around 7% of its GDP (Simoes & Hidalgo, 2011). Although several other Latin American and Caribbean countries likewise have large or growing US immigrant populations, Dominican immigrants may be particularly unique in the functional and relational role they play for the Dominican economy and nation. In other Latin American countries with substantial emigration, the primary catalyst is often political conflict, such as in Honduras, Guatemala, and Venezuela, or especially severe economic conditions, such as again with Venezuela and with Haiti. In contrast, quantitative measures of regime changes find the DR to be one of the most politically stable (Jaramillo & Sancak, 2009), again, in large part due to its political geographic location leading to greater US supervision (Lawler & Mahan, 2010c). Likewise, DR's current immigrant population more broadly represents the native Dominican population, with many belonging to affluent social strata (Duany, 2011). Thus, Dominican emigrants may be less likely to emigrate on the basis of foundational survival needs and more likely to maintain contact and connections, revisit, or return to their home communities. Combined with greater numbers and higher, more homogeneous concentration in specific areas such as Inwood or Washington Heights, this may result in a greater preservation of Dominican culture and national ties, leading to a stronger "transnationalist" identity post-emigration (Duany, 2011). Supporting this idea, one report found that Dominicans were the second largest group of voluntary return migrants (IOM, 2012), despite higher or similar numbers of US immigrants from Mexico, El Salvador, and Cuba (Shoichet, 2023).

To understand how this "transnationalist" migration is developmentally and economically advantageous for DR, it can be helpful to consider Daron Acemoglu and James Robinson's theory of extractive versus inclusive institutions. Acemoglu and Robinson argue that extractive institutions concentrate resources in the hands of a few, stifling political participation and economic opportunity for the majority. This fosters a "vicious cycle" of persistent policies that support stagnation and continue inequality. In contrast, inclusive institutions with a more equitable distribution of resources and opportunities contribute to a "virtuous" cycle of more dynamic and innovative societies (Acemoglu & Robinson, 2012). As a Spanish colony, DR began its history with a legacy of extractive institutions (Acemoglu et al., 2001; Acemoglu & Robinson, 2012).

These obstacles against fair competition continued throughout its later dictatorships and caudillo/military backed leaders. Despite recent democratization, a system of inefficiencies, including less secure property rights and market distorting price controls, trade restrictions, and bureaucratic fees, continues to make entrepreneurship difficult (Acemoglu et al., 2001; Young & Cardoso, 2001). Internally overcoming such an ingrained system favorable to the ruling elites is slow, but emigration to the US may represent an easier way out of this "vicious cycle", by allowing access to more inclusive economic opportunities. Dominican Americans gaining foreign entrepreneurial expertise, knowledge, training, and capital may be better suited upon return to invest in or establish local businesses. Remittances sent to family living in remote regions of a country provide incentives to spread financial infrastructure (Demirgüç-Kunt et al., 2011). More frequent contacts and return visits to the home country could stimulate the development of transportation and communications services. All of these may help support pathways for the distribution of wealth and opportunity in DR.

DR's unique economic success is shaped by its close relationship with the United States. US pressure for liberal economic strategies led to the widely productive strategies of FTZs and tourism, and "transnationalist" Dominican immigrants who can easily travel and connect between the US and DR provide a further economic safeguard. Ultimately, understanding the origins of a nation's development trajectory can provide essential insights into the historical, political, and economic factors at work, such as the risks of foreign industrial dependency and the function of "transnationalist" migration as a possible solution for accelerating escape from historical cycles of extractive institutions. These insights may not only help guide future policies for DR but may also contribute to recommendations for the many other developing countries currently facing similar economic obstacles or dependency situations.

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