J. Lat. Amer. Stud. **37**, 693–726 © 2005 Cambridge University Press
doi:10.1017/S0022216X05009831 Printed in the United Kingdom

Domestic Capital, Civil Servants and the State: Costa Rica and the Dominican Republic under Globalisation

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Abstract. This article studies the impact of neoliberal globalisation on the relative strength of different social actors and on the relations between these actors and the state in Costa Rica and the Dominican Republic. In particular, the article analyses the responses of large domestic capitalists to the new global environment and to the new policies implemented, as well as the effect of these policies on public servants (who have traditionally been an influential political force, at least in Costa Rica). The paper makes two basic claims. First, globalisation has had some common effects on the politico-economic structures of Costa Rica and the Dominican Republic, despite the vastly different historical trajectory of state–society relations in the two countries. In both countries, there has been an increasing concentration and financialisation of capital and a weakening of the state bureaucracy. Second, these changes in the politico-economic structure have imposed new, country-specific constraints for the consolidation of the neoliberal economic model, signalling the need to introduce institutional reforms in the near future.

Introduction

Costa Rica and the Dominican Republic have been regarded as relative successes under globalisation within the Latin American context.[1] Costa Rica recovered earlier than most other Latin American countries from the crisis of

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* I am grateful to Janine Berg, William Milberg, Maxine Molyneux, Andrew Schrank, Ken Shadlen and three anonymous referees for valuable comments and suggestions on a previous draft of this paper. Research support from the Instituto de Investigaciones en Ciencias Económicas, Universidad de Costa Rica is also gratefully acknowledged. All translations from Spanish are mine.

[1] They have also performed better in terms of economic growth from a long-term perspective. According to Maddison, between 1950 and 1998 real GDP per capita grew at an annual average rate of 2.3 per cent in the Dominican Republic and 2.1 per cent in Costa Rica, compared to 1.2 per cent in El Salvador, 0.9 per cent in Honduras, and 1.7 per cent in Latin America (44 countries) as a whole. A. Maddison, *The World Economy. A Millennial Perspective* (Paris, 2001). Maddison measures GDP per capita in 1990 international Geary-Khamis dollars.

the 1980s and has maintained higher rates of economic growth and higher levels of human development than its Central American neighbours. At the same time the country succeeded in attracting world-leading transnational corporations such as Intel, thus creating new comparative advantages in high tech exports of goods and services.

The Dominican Republic has been considered as another of the few positive Latin American experiences of the 1990s.[2] Some observers have gone so far as to talk of the 'Dominican miracle' because of the high rates of capital accumulation and growth that the country achieved.[3] Even the IMF has underlined the 'remarkable performance of the Dominican Republic's economy in the 1990s' and stressed the key role of market-friendly structural reforms.[4]

Relative economic success and political stability make Costa Rica and the Dominican Republic particularly interesting cases when studying the different effects of neoliberal globalisation in Latin America, particularly in small countries. By neoliberal globalisation I mean the consolidation of a new global model of development driven by the new competitive strategy of transnational corporations (TNCs), the expansion of the financial sector, and the shift in economic policy in both developed and developing countries.[5] Because of proximity to the United States and the creation of the Caribbean Basin Initiative, neoliberal globalisation has resulted in an increasing dependence on the US market in both Costa Rica and the Dominican Republic. Increasing migration to the USA, especially in the case of the Dominican Republic, has also made remittances a vital component of the new development model, further expanding dependence on the evolution of the US economy.

This article focuses on the impact of neoliberal globalisation on the relative strength of different social actors – particularly domestic capital – and on the relations between these actors and the state. Positive state–society interactions have been a key element in the economic success of latecomers in Northern Europe and more recently in East

[2] CEPAL, *Desarrollo económico y social en la República Dominicana: los últimos veinte años y perspectivas para el siglo XXI* (Santo Domingo, 2001).

[3] Fundación Economía y Desarrollo, 'El mito del milagro dominicano: Artículo de Cesar A. Miguel,' *Listín Diario* (April 2001) and Howard Wiarda, 'Dominican Republic Alert: Leading the World from the Caribbean: the Dominican Republic,' *Hemisphere 2000*, series VII, issue 4 (1999).

[4] IMF, 'The Dominican Republic: Stabilization, Reform and Growth,' *Occasional Papers. International Monetary Fund*, 206, 2001

[5] D. Sánchez Ancochea, 'Globalization and Inequality in the Developing World: Potential Benefits with Real Costs,' *CEPA Working Papers*, 2003, p. 9, and D. Sánchez Ancochea, '"Leading Coalitions" and Patterns of Accumulation and Distribution in Small Countries. A Comparative Study of Costa Rica and the Dominican Republic under Globalization,' unpubl. PhD diss., New School University, 2004, pp. 312 and 328.

Asia.[6] Even in less successful cases, state–society relations constitute a key determinant of patterns of capital accumulation and income distribution in developing countries; countries where labour is more influential, for example, tend to have a higher wage share and higher social spending.[7]

The comparison between Costa Rica and the Dominican Republic with regard to state–society relations under globalisation is particularly interesting because of the differences between the two countries during the 1960s and 1970s in this area. In the Dominican Republic, the administration of Joaquin Balaguer (1966–1978) actively supported the growth of large, family-owned conglomerates that progressively extended their interests to most sectors of the economy.[8] At the same time labour in both the private and the public sectors remained weak. In Costa Rica, an alliance between the emerging industrial capitalists and the middle class supported state intervention and increasing social spending. Some large investors did appear during this period, but the creation of a permanent bureaucracy, the promotion of cooperatives and the growth of small and medium firms with political ties to the state strengthened the position of other social classes as well.[9]

The role of the bureaucracy as a political force in Costa Rica and its absence in the Dominican Republic was particularly important. In Costa Rica a civil service law that secured the stability of public employees and limited political influence on appointments was approved in 1949. The implementation of this law increased the quality of the state bureaucracy and the legitimacy of state intervention, and made public employment socially attractive for a new professional class. At the same time, public employees – including those in the health and education sectors – became a formidable political force through their trade unions, demanding high wages and the expansion of social services and other development-related spending.

[6] For Northern Europe, see P. Katzenstein, *Small States in World Markets. Industrial Policy in Europe* (Cornell, 1985) and the abundant literature on the models/varieties of capitalism, including D. Coates, *Models of Capitalism. Growth and Stagnation in the Modern Er*a (Cambridge, 2000), chapter 4. For East Asia, see, for example, P. Evans, *Embedded Autonomy. States and Industrial Transformation* (Princeton, 1995) and A. Amsden, *The Rise of the Rest. Challenges to the West from Late-Industrializing Economies* (Oxford, 2001). For a comparison of Latin America with other regions in terms of state-society relations and other key institutional variables, see E. Huber (ed.), *Models of Capitalism. Lessons for Latin America* (University Park, 2002).

[7] See P. Heller, *The Labor of Development. Workers and the Transformation of Capitalism in Kerala, India* (Ithaca, NY, 1999); Peter Houtzager, 'Introduction,' in P. Houtzager and M. Moore (eds.), *Changing Paths. International Development and the New Politics of Inclusion* (Ann Arbor, 2003); Huber, *Models of Capitalism*, and D. Sanchez-Ancochea, "Leading Coalitions", pp. 41 and 49.

[8] F. Moya Pons, *Empresarios en conflicto. Políticas de industrialización y sustitución de importaciones en República Dominicana* (Santo Domingo, 1992).

[9] Sánchez Ancochea, 'Leading Coalitions', p. 85.

Despite these differences in state–society relations during the 1960s and 1970s, globalisation has resulted in similar effects. In particular, it has led to a similar process of concentration, financialisation and transnationalisation of domestic capital, as well as to a weakening of the bureaucracy as both a designer of public policy and as a political force in its own right.

These changes in state-society relations have called into question the long-term sustainability of neoliberal reforms, but for different reasons in each country. In Costa Rica trade unions within the public sector have seen their direct influence on policy design greatly diminished, but still maintain informal veto power over many dimensions of the economic reforms. In the Dominican Republic, close links between the state and large family groups contributed to economic growth during the 1990s, but were also partly responsible for the financial crisis that the country suffered in 2001.

In the sections that follow, this paper analyses the effect that globalisation has had on the structure of domestic capital in both countries. Section Two highlights its increasing concentration, transnationalisation and financialisation. Section Three studies how neoliberal reforms have affected the state bureaucracies, both as the designers of economic policy and as political forces, and section Four discusses different problems that Costa Rica and the Dominican Republic have experienced in the consolidation of the new development path. The paper finishes with some conclusions and assessment of prospects for the future.

1. Capital concentration and transnationalisation in Costa Rica and the Dominican Republic

During the 1980s and, especially, during the 1990s a dramatic shift in the Latin American development model took place. Trade liberalisation and financial deregulation, together with an expansion of global financial flows and a growing presence of TNCs, led to a process of restructuring within domestic capital, affecting different segments of the capitalist class asymmetrically.[10] Costa Rica and the Dominican Republic were no exceptions to this trend.

In both Costa Rica and the Dominican Republic domestic capital became increasingly concentrated and linked to TNCs, while financial capital increased its economic and political influence.[11] This process, however, had

[10] Sánchez Ancochea, 'Globalization and Inequality'.

[11] Similar processes took place in other Latin American countries as well. For the effect of globalisation on the Central American capitalist class, see F. Colburn and F. Sánchez, *Empresarios centroamericanos y apertura económica* (San José, 2000). For the evolution of large groups in the bigger Latin American countries, see W. Peres, *Grandes empresas y grupos industriales latinoamericanos* (Mexico City, 1998).

some country-specific characteristics that were primarily influenced by geography and previous state-society relations. In Costa Rica, the process of concentration and transnationalisation took place within the Central American regional market, and Costa Rican large capitalists, particularly within the financial sector, became subordinated to other regional groups. Meanwhile, the insular character of the Dominican Republic together with their traditional close ties with the state led large Dominican business groups to control the pace of economic reforms and diversify into new sectors of the economy. At the same time, the Dominican Republic witnessed the emergence of a new segment of domestic capital that concentrated in apparel production in the free trade zones.[12]

Costa Rica

Costa Rican domestic capital experienced three major changes as a result of the process of neoliberal globalisation in the 1990s. First, there was an increasing process of capital concentration around largest domestic firms, which adapted particularly well to the new policy model. Second, the large investors were increasingly focused on the Central American and Mexican markets. At the same time, investors from other countries increased their presence in Costa Rica, particularly in the financial sector. Overall, the largest domestic firms increased their ties with TNCs.

Data from the stock market and from personal interviews conducted in the country during 2001–2002 highlight the positive performance of the largest firms in Costa Rica. Table 1 shows the evolution of assets, profits and net worth in real terms in 1986, 1989 and 2000 for the ten firms that were in the stock market at the beginning and the end of the period.[13] Six of the ten firms experienced a percentage increase in their assets and net worth larger than the expansion of GDP between 1986 and 2000. Even more significant is

[12] See Andrew Schrank, 'Ready to Wear Development? Foreign Investment, Technology Transfer, and Learning-by-Watching in the Apparel Trade,' *Social Force*, vol. 83 (Sept.), 2004.

[13] A limitation of this analysis that should be acknowledged comes from the fact that many firms that were listed in the stock market in the late 1980s did not appear in 2002. There are complete series from 1986 to 2002 for only six firms, which were already among the largest in 1986: Florida Ice and Farm, Industria Nacional de Cemento (currently Holcim), Atlas Eléctrica, Durman Esquivel, Corporación Abonos Superior and Cormar. Table 1 concentrates on the period 1986 to 2000 in order to incorporate four more firms. The belief that capital was increasingly concentrated was shared by most of the academics and business managers that I interviewed in the summer of 2002. See also Carlos Sojo, 'En el nombre del padre: patrimonialismo y democracia en Costa Rica,' in C. Sojo and M. Rojas, *El malestar con la política* (San José, 1995). The disappearance of some firms from the list in recent times does not mean that they have gone out of business; it may just signal a change in their financing strategy.

Table 1. *Costa Rica: Growth of assets, net worth and profits for the firms listed in the stock market, 1986–2000. Real colones*[1]

	Assets					Net worth				
				Total growth for the period (%)					Total growth for the period (%)	
	1986	1989	2000	1986–2000	1989–2000	1986	1989	2000	1986–2000	1989–2000
Industry										
Florida Ice and Farm	132	149	398	202	166	47	112	350	640	211
Industria Nacional de Cemento/Holcim	110	83	158	43	91	96	63	82	−14	30
Atlas Eléctrica	52	46	65	24	40	18	19	42	130	127
Durman Esquivel, SA[2]	30	29	161	444	456	15	14	65	329	365
Trade										
Corporación Lachner and Saenz	88	112	51	−42	−55	26	32	10	−61	−67
Agencia Datsun, SA[3]	31	39	47	51	22	7	12	22	240	78
Corporación Abonos Superior, SA	16		75	361		6		30	440	
Capris, SA	10	8	20	91	137	4	9	7	70	−18
Services										
La Nación	47	45	96	102	112	28	27	36	27	33
Cormar	7	13	61	758	375	2	4	7	237	95

	Net profits			Total growth for the period (%)	
	1986	1989	2000	1986–2000	1989–2000
Industry					
Florida Ice and Farm	23	27	76	224	182
Industria Nacional de Cemento/Holcim	9	5	19	116	259
Atlas Eléctrica	3	2	7	158	194
Durman Esquivel, SA[2]	2	3	10	319	208
Trade					
Corporación Lachner and Saenz	3	4	3	−6	−24
Agencia Datsun, SA[3]	0	1	1	145	127
Corporación Abonos Superior, SA	0		3	1085	
Capris, SA	0	1	1	276	47
Services					
La Nación	4	5	7	71	43
Cormar	1	1	3	291	140
	1986	1989	2000	1986–2000	1989–2000
Nominal GDP/CPI	13,406.43	14,852.51	25,218.52	88	70

Source: *Actualidad Económica*, various issues.

Notes:

[1] Data on assets, net worth and profits corresponds to September of each year and is divided by the Consumer Price Index of the corresponding year.

[2] Data from 30 September 1987.

[3] The fiscal year families on 31 December of each year. GDP for 1986 and 1989 comes from calculations by the Instituto de Investigaciones en Ciencias Económicas Universidad de Costa Rica, from original data from the Central Bank of Costa Rica. It uses constant colones of 1991.

the fact that eight of the ten expanded their net profits over and above the growth of GDP during the whole period. The performance of Florida Ice and Farm (the largest domestic firm in the country), Durman Esquivel and Cormar was particularly significant. On the opposite side we find Lachner and Saenz, which overdiversified and did not recover a stable growth path until the early 2000s.

Interviews with managers from Florida Ice and Farm (beer and soft drinks), Atlas Eléctrica (white goods), Durman Esquivel (drainage systems) and Cormar (logistics), all of which are large firms within the Costa Rican context, confirmed the stock market data and showed how large firms were able to benefit from the neoliberal policy package.[14] The companies grew considerably thanks to an expansion of their market share in the Costa Rican market and to their entry into other Central American countries.

Since beer companies across Central America have always had a tacit agreement to respect each other's national markets, Florida opted to extend its operations to related business areas within Costa Rica. In 1995 it launched the mineral water Cristal (gaining a large market share in a few years) and in 2001 it started producing juices under the Tropical brand-name. As a result of the introduction of these two new products, employment, assets and net worth expanded substantially. Between 1994 and 2002, for example, employment increased from 1,500 workers to 2,400.

Florida's success was supported by its ability to finance new investment on relatively good terms. Thanks to its size and its investment in some of the new private banks (mainly Banex), the beer giant benefited from the deregulation and liberalisation of the banking sector, allowing it to obtain cheap credit in the domestic financial market as well as from international financial institutions. Florida also benefited from the reduction in tariffs on intermediate goods, since beer production is highly intensive in imported inputs, including malted cereal grain, hops and fermenting chemicals. At the same time, Florida did not suffer from trade liberalisation because of its complete domination of the Costa Rican beer market, which is characterised by high levels of customer loyalty.

The growth of Atlas Eléctrica, Durman Esquivel and Cormar rested on the Central American market and benefited from new political efforts to promote economic integration within the region. During the 1980s and 1990s Durman Esquivel invested in El Salvador, Guatemala, Nicaragua, Mexico, Honduras, Peru and the Dominican Republic. In the Dominican Republic, the investment was part of a joint venture with Metaldom and the

[14] Interview with one manager from each firm, San José, Costa Rica, September and October 2002. Unless otherwise stated the information for the following paragraphs come from these interviews.

Grupo Corripio. Like other large Costa Rican firms, Durman Esquivel took advantage of the deregulation of the banking sector and the arrival of foreign banks (especially, Scotibank and Citibank) to obtain funds at relatively advantageous interest rates.

Atlas Eléctrica's expansion of sales at an annual rate of more than 20 per cent during the 1990s also had the regional market as its focus. Unlike Durman Esquivel, Atlas' regional expansion rested more on exports than in investment in other countries, and was facilitated by the signing of free trade agreements with Mexico and the Dominican Republic and by the revival of the Central American Common Market. In 2001 Atlas bought the Salvadoran company Centron – formerly LA INDECA – when the Dutch conglomerate that owned INDECA went bankrupt. The purchase of Centron helped Atlas increase its total sales by 48 per cent and increase its regional market share in refrigerators to around 50 per cent.

Atlas also benefited from other economic policies, including tariff reductions on intermediate goods and the deregulation of the financial sector. The reduction of tariffs on intermediate goods was particularly important since 80 per cent of Atlas' inputs (which represent more than three fours of the final price of Atlas's kitchen appliances) come from abroad. The public sector was also instrumental in Atlas' survival in a more specific way; in 1987, when in the midst of a financial crisis that affected many Costa Rican firms no private investor wanted to purchase Atlas' bonds, a public bank bought a whole new issue.

Cormar, the regional leader in logistics (the transport of exports and imports, storage, and inventory management), is one of the most illustrative examples of the 'new' Costa Rican firm. It was both an active promoter and a clear beneficiary of the neoliberal policy package.[15] Cormar's growth in the last two decades was made possible by the state-promoted expansion of exports; trade liberalisation that resulted in the expansion of imports; and the promotion of FDI that resulted in the arrival of large TNCs demanding a variety of high-quality logistical services. Cormar also benefited from recent moves towards economic integration in Central America, becoming one of the leading firms in the regional logistics market. In the late 1990s Cormar also began managing the inventory of some large firms such as Farmacias Fischel, Procter and Gamble, Gillette and Johnson & Johnson.

The success of these and other similar firms, which was facilitated by the new neoliberal policy package, translated into significant increases in the income of the largest capitalists. Income for the firm owners in the top

[15] Cormar's growth has not only benefited the founders of the firms, which are still the largest individual investors, but many other large Costa Rican capitalists. This is so because many of the large clients of firms such as Florida Ice and Farm also have significant stakes in Cormar, to a greater or lesser degree.

Table 2. *Costa Rica: Monthly income for the large capitalists in relation to other groups, 1991–2001*

	1991	1993	1995	1997	1999	2001
Large capitalist/Average	4.0	3.7	4.2	3.6	3.8	4.6
Large capitalist/Poorest	28.1	21.9	27.9	24.9	27.0	37.8
Large capitalist/Decile 5	5.7	5.3	6.1	5.2	5.6	7.1

Source: Own calculations from data of the Costa Rican Annual Household Survey (various years).

Note: 'Large capitalist' is defined as firm owners in the top decile 'Average' refers to the average level of income from all participants in the labour market. 'Poorest' refers to the average income of the lowest decile and decile 5 refers to the average income of the fifth decile.

decile – the 'big capitalists' – increased with respect to almost all groups in society, especially between 1997 and 2001. In 1997 the monthly income of the 'big capitalists' was 3.6 times larger than average income, 5.2 times larger than the average income of the median decile and 24.9 times larger than the average income of the poorest decile; by 2001 these numbers had risen to 4.6, 7.1 and 37.8 (see Table 2).[16]

The process of capital concentration has been particularly significant in the financial sector since the mid-1990s. Between 1986 and 1997, when the liberalisation of the financial market began and was consolidated, the number of private financial institutions grew from 25 to 42. At the same time, the share of assets and net worth of the largest private banks decreased. Since 1997, however, Costa Rica has experienced a dramatic process of concentration within the financial sector; the share of the three largest private banks in total assets went from 30.8 per cent in 1997 to 48.8 per cent in May 2003. In 2003 the ten largest private banks controlled more than 80 per cent of total assets and 70 per cent of net worth in the private financial sector. Meanwhile, the 'privatisation' of the Costa Rican financial system, which began with several reforms promoted by USAID during the mid 1980s, continued during the 1990s. In 2003 public banks had only 1.6 times more assets than private banks, compared to 5.1 in 1989 and 3.3 in 1993.

Concentration in the banking sector coincided with a simultaneous process of regionalisation. Given the relatively limited historical development of the banking sector in Costa Rica, it may not be so surprising that by 2003 only three of the ten largest private banks in Costa Rica were controlled by domestic investors (see Table 3).

[16] These dates must be treated with caution, as there are significant methodological shortcomings in the household survey data, especially for measuring the process of capital concentration at the top. Juan Diego Trejos, one of the most prominent Costa Rican researchers on income distribution and the use of the household income surveys, drew my attention to their deficiencies for measuring non-labour income (interview in San José, Costa Rica, August 2001).

Table 3. *Costa Rica. Ten largest private banks, May 2003* (*ranked by assets*)

	Nationality	Year of creation
Banco Interfin	CR[1]	1981
Banco San Jose, SA[2]	Nicaragua/CR	1968
Banco Banex	Panama (since 1999)	1981
Scotibank de Costa Rica, SA	Canadian (80%), CR (20%)	1987/1995
Banco Cuscatlan de Costa Rica SA	Salvador	2002
Banco Promérica, SA	Nicaragua/CR	1995
Banco Improsa, SA	CR	1995
Citibank SA	USA	1970
Bancentro, SA (LAFISE)	Nicaraguan	1990
Banco BCT, SA	CR	1981

Source: Actualidad Económica (various issues) from original data of the the National Stock Market and Sojo (1995).

[1] According to information from the World Bank, Interfin is owned by domestic capitalists (83.7% of total equity), FMO (a Dutch development finance company), the Central American Bank of Economic Integration, and other small Investors.

[2] Bank of America until 1985, when it was renamed Banco de San José.

The regionalisation of the financial sector was just one of the dimensions of the transnationalisation of the Costa Rican private sector. Another key change was the establishment of linkages between large Costa Rican firms and TNCs. With the exception of Durman Esquivel, TNCs entered into all the companies discussed earlier.[17] Atlas Eléctrica sold 20 per cent of the firm's equity to the Swedish firm Electrolux in 1996, a company that had bought White Westinghouse (a long-term ally of Atlas) a few years earlier. Cormar decided to incorporate the US firm Air Express International (AEI) as a shareholder in order to expand its distribution channels and reduce transport costs. When Danzas, the logistics firm of Deutsche Post, bought AEI, Cormar became a partner of one of the two largest global groups in logistics. Danzas currently owns 36 per cent of the firm. Florida Ice and Farm was one of the large Costa Rican firms that held out longest from establishing ownership linkages with TNCs. Ultimately, however, the company was forced to react to the entrance of some global beer giants in other Central American countries. In 2002 Florida sold 25 per cent of Florida Bebidas – its main subsidiary – to the Dutch TNC Heineken.

The Más X Menos group, owner of the supermarket chains Más X Menos and Pali, shows most strikingly the impact of globalisation in Costa Rica's largest investors.[18] The supermarket division of Más X Menos (Corporación

[17] Durman's interactions with TNCs have been limited to licensing agreements. The main one has been an alliance with the US company ADS Worldwide to produce the large PVC tubes Rib Loc in Latin America.

[18] *El Financiero*, various issues, *Actualidad Económica*, various issues, *Diario La Nación* (Jan. 4 1999), *Diario El Siglo* (20 Dec. 1999) and information from the Más X Menos web page.

de Supermercados Unidos) implemented an ambitious plan of regional expansion beginning in 1998. That year the company opened 24 supermarkets Palí in Honduras, El Salvador, Nicaragua and the Dominican Republic with a total investment of around US$12 million (3,250 million colones).[19] During the second half of the 1990s the main regional competitor of Más X Menos was the supermarket La Fragua, owned by the Guatemalan family Paiz in a joint venture with the Dutch TNC Royal Ahold. In January 2002, however, La Fragua, Royal Ahold and the Corporación de Supermercados Unidos created a new regional joint venture, the Central American Retail Holding Company (CARHCO). CARHCO brings together all the retail activities of the Costa Rican and the Guatemalan firms, as well as Corporación de Compañías Agroindustriales – Más X Menos's division of food production and distribution.

Dominican Republic

Neoliberal globalisation, which in the Dominican Republic was accelerated by a neoliberal package implemented after the 1990 economic crisis, was particularly beneficial for large domestic groups during the 1990s.[20] They were better able to adapt to the new economic conditions than small and medium firms. Table 4 summarises some basic information on seven of the most important groups discussed in the following pages and illustrates their recent pattern of expansion.[21] As in Costa Rica, large family groups built

[19] In El Salvador and the Dominican Republic Más X Menos decided to close its supermarkets after only three years of operation. Apparently, the company was unable to adapt to the cultural particularities of the Dominican Republic and compete with the efficient and aggressive domestic counterparts (*El Financiero*, no. 296, 22–28, Jan. 2001).

[20] According to a prominent Dominican economist and former government official who has done research on the subject (interview, Santo Domingo, Dominican Republic, June 2002) there were nine large economic groups in the Dominican Republic during the 1990s: Grupo Corripio, Grupo Popular, Grupo Baninter, Grupo Financiero Nacional, Grupo Vichini, Grupo Leon Jimenes, Grupo BHD, Grupo La Romana and Grupo Mercasid (the Bonetti, Vitienes and Armenteros families). Most names in the list coincide with those offered by other observers I interviewed and with some lists published in the Dominican economic press. Revista Mercado, for example, drew up a list in 1997 of the ten most powerful Dominican entrepreneurs, based on a poll of 154 executives. The list includes all the names mentioned above with the exception of Grupo BHD, Grupo Vichini and Grupo la Romana. Revista Mercado adds the construction group Grupo Moya (headed by Diego de Moya) to the list. See 'Los Diez Grandes,' *Revista Mercado*, (July 1997).

[21] Around this large ring of powerful groups lies another broader group of smaller large investors. Among them we find Grupo M and other large groups within the Free Trade Zones, which are becoming an increasingly influential segment within the Dominican capitalist class. Information from interview with a well-known Dominican economist and former government official (Santo Domingo, Dominican Republic, June 2002). See also Diego Sánchez Ancochea, 'Developing through Manufacturing Exports? Limitation of the New External Specialization of Small Latin American Countries in the Global Economy,'

close ties with the financial sector; during the 1990s all large Dominican groups had the financial sector as its core business or had invested in financial institutions. Four of the largest groups before 2003 had their core business in the financial sector: Grupo Popular, Baninter, Grupo Banco Hipotecario Dominicano (BHD) and Grupo Financiero Nacional. The Grupo Corripio, which according to its founder tried to remain independent from commercial banks, had a substantial stake (above 5 per cent) in Banco del Progreso and had also invested in a second Dominican bank. Grupo Leon Jimenes was the owner of the Banco Profesional, a small development bank, and acquired the Banco Nacional de Crédito (Bancrédito) from the Grupo Financiero Nacional after the financial crisis 2003. The families Armenteros and Bonetti, part owners of the agro-industrial giant MercaSID, have significant investments in different banks including Banco del Progreso. According to a prominent economist and former government official 'no matter how many attempts to reform the banking laws have been made, banks continue to be a window used by some groups to obtain financial resources'.[22]

Dominican groups have been even more active than Costa Rican firms in creating new alliances among themselves and with foreign firms. Mergers and acquisitions have been common, especially in the financial sector. Capital concentration in the financial sector began in 1990, continued at a slower pace during the 1990s and accelerated during the recent economic crisis of 2002–2003. Between 1990 and 1997 Baninter acquired (among others) the Banco Universal and the financial group Bancomercio, which had previously been bailed out by the Central Bank and included an insurance company, a development bank, a mortgage bank, a commercial bank, the newspaper *El Siglo* and other smaller businesses. The process of expansion of Baninter continued with the purchase of Banco del Exterior in 1998 and Banco Osaka in 2001, making Baninter the second largest financial group in the Dominican Republic.[23]

Baninter was not the only financial group active in mergers and acquisitions. Since the mid 1990s, Grupo Progreso, BHD and Banco del Progreso also acquired smaller banks and insurance companies. Outside the financial sector the most significant merger took place between Mercalia and SID, the two leading companies in the production and importation of food and mass consumption products. The merger, which was a response to the increasingly

paper presented at the 2004 meeting of the Latin American Studies Association, Los Vegas, Nevada, 7–9 October 2004, p. 22. I thank Ayacx Mercedes for pointing this out in the context of the current discussion.

[22] Interview in Santo Domingo (Dominican Republic), June 2002.

[23] *Diario Hoy* (April 13, 2003). Unless otherwise stated, information from Baninter comes from various issues of *Diario El Caribe* and *Listín Diario*.

Table 4. *Dominican Republic: some large family domestic conglomerates in the 1990s*

Group	Investors	Core sectors	Expansion during the 90s	Participation in banks	Link with TNCs	Situation in 2004
Grupo Corripio	Corripio Family	Trade/ Manufacturing	Acquisition of the newspapers *Hoy*, *El Nacional*, *El Día*, and *Ahora* as well as several TV channels. Acquisition of Cementos Colon in joint venture with foreign firms. Joint venture with Metaldom and Durman Esquivel (CR) to produce PVC pipes	Banco del Progreso	Representative of several TNCs in the country. Expansion in some new areas has been based on joint ventures with foreign firms	No known problems
MercaSID	Vitienes, Armenteros and Bonetti Families	Agro-industry	Merger between SID and Mercalia. Acquisition of Industrias Jaboneras, Mistolin Dominicana, Dominicana de Fragancias and Caribe Industrial. Participation in Industrias Veganas. Representative of many new international products	Banco del Progreso (Bonetti) Banco Gerencial & Fiduciario (Armenteros)	Representative of many mass consumption products in the country. Had already signed a collaboration contract with Unilever in the 1970s	No known problems
Grupo Leon Jimenes	Leon Jimenes Family	Beer & Tobacco	Acquisition of the main Dominican beer company in the 1980s. In 1996 it created Industrias de Alimentos to import and distribute several food products. In 2003 it acquired Bancrédito	Banco Profesional. It recently acquired Bancrédito, now called Banco Leon.	Phillip Morris has a share in the group	Strengthened after the crisis. Entered into the banking sector

Grupo Financiero Nacional	Pellerano Family	Insurance Banking FTZ Telecommunic.	Creation of Bancrédito and the FTZ of San Isidro in the 1980s. Creation of TRICOM in 1990	Bancrédito	Motorola has a participation of 40% in TRICOM	Was forced to sell Bancrédito. Pellerano was also forced to resign as CEO of TRICOM
Grupo Baninter	Baez Family	Insurance Banking	In the banking sector it acquired Banco Universal, Bancomercio, Banco del Exterior and Banco Osaka. Acquisition of TV channels and several newspapers	Baninter		Bank was liquidated and most branches sold to Scotia Bank. Baez Figueroa is in jail accused of banking fraud.
Grupo Popular	Grullón Family Smaller participation from Avelino Abreu, Pinturas Popular and Manuel Tavares among other investors	Banking	Acquisition of *El Caribe* as well as Radio Cadena de Noticias and creation of the TV channel Cadena de Noticias. It has a share in the textile exporter Grupo M and owns one of the largest insurance companies in the country	Banco Popular		Remains the leading bank in the country
Banco BHD	Caro Ginebra family, Brugal, Rafael Eduardo Selman	Banking	Acquisition of Banco Fiduciario and creation with Citibank and Bancrédito of the pension fund AFT Siembra	Banco BHD	Banco Sabadell (Spain)	Remains one of the leading banks in the country. Its main investors continue to have interests in many other sectors of the economy

Source: See discussion in the text. For BHD also Annual Report 2001.

liberalised economic environment, resulted in the creation of MercaSID in June 1999.[24]

In contrast to the case of Costa Rica, this process of capital expansion and concentration among Dominican groups coincided with a strategy of diversification. During the 1990s large Dominican groups continued growing and expanding into new activities within their core sectors and into new sectors of a still quite closed Dominican economy. Some examples illustrate the spectacular nature of this process that only stopped with the crisis of 2002–3. The Grupo Corripio had maintained a healthy rate of growth for four decades. According to its chairman Jose Luis Corripio the group 'has been growing [consistently] … Our strategy was a constant process of slow and unspectacular growth year by year'.[25] Between 1997 and 2002 the number of Corripio's employees increased from 5,600 to 7,100. Growth of the group remained concentrated on the Dominican domestic market and was made possible by the creation of new businesses and new alliances. Investments in mass media increased significantly during the 1990s; in 2003 the company controlled the morning daily Hoy, the evening daily *El Nacional*, the free newspaper *El Día*, the magazine *Ahora*, and several television channels (including Teleantillas and channels 2, 11 and 30) as well as the publishing company Editora Corripio.

During the 1990s Grupo Corripio also expanded its involvement in the industrial sector. In 1996 Grupo Corripo allied with the Colombian firm Cementos de Colombia and the Spanish firm Umar (subsidiary of the TNC Holcim) to acquire the privatised cement manufacturer Cementos Colón. The performance of Cementos Colon since then has been spectacular. According to the magazine *Estrategia y Negocios*, in 2000 the firm had annual sales of US$30 millions and increased its market share from 5 per cent in 1998 to 17 per cent two years later.[26] In 2000 Grupo Corripio also created a joint venture with the Costa Rican Durman Esquivel and with Metaldom – a large Dominican producer of metal products – to start producing PVC pipes in the Dominican Republic.[27]

The diversification of SID before 1999 and MercaSID, after SID's merger with Mercalia, took place within the food and cleaning and hygiene sectors. Between 1990 and 1999 SID acquired the Dominican firms Industrial

[24] Unless otherwise stated the information on MercaSID in this section comes from *Revista Mercado* (various issues) and MercaSID's webpage at www.mercasid.com.do.

[25] Quoted in 'El magnate dominicano,' *Estrategia y Negocios* (July 2003). Unless otherwise stated, the information about the Grupo Corripio in this section comes from that article as well as several issues of the monthly *Revista Mercado*.

[26] 'Las 75 empresas más admiradas de América Latina y República Dominicana', in *Estrategia y Negocios* (Sept. 2000).

[27] Interview with a manager from Durman Esquivel, San José (Costa Rica), Oct. 2002.

Jabonera (producer of soap Kinder), Mistolin Dominicana (disinfectants), Dominicana de Fragancias (toothpastes) and Caribe Industrial. The company also increased the number of TNCs it represents in the Dominican Republic, adding firms such as the ice-cream producer Wall's, and Kimberley Clark, producer of Kleenex, Huggies and Kotex. MercaSID has maintained the same expansionary strategy. In 2001 it bought a significant share of Industrias Veganas, which has a market share of 70 per cent in salami and other meat products; in 2002 MercaSID acquired Manantiales Crystal, a leading producer of drinking water.

The expansion of the financial groups Baninter and Grupo Financiero Nacional until their crisis in 2002–2003 was also remarkable. In addition to the acquisition of several banks described above, between 1995 and 2002 Baninter bought or founded several TV channels including Telecentro and the all-news channel RNN, several radio stations including a large share of Radio Cadena Comercial, and the leading newspaper *Listín Diario*. Baninter also created the first Dominican free newspaper (*El Expreso*) and the first business daily (*El Financiero*). The group was also the representative of Fuji in the Dominican Republic and owned the cable company Aster.

The Grupo Financiero Nacional, owned by the family Pellerano, offers an 'example of diversification … [with firms that occupy] leading positions in their respective markets'.[28] The Pellerano family started in the insurance sector with the creation of the Compañía Nacional de Seguros, which was the building block of the Grupo Financiero Nacional. During the 1980s Máximo Pellerano founded Bancrédito and the free trade zone of San Isidro.

During the 1990s the Pellerano family used the financial support of the Grupo Financiero Nacional and the experienced gained in the free trade zone to create the telecommunication company TRICOM. In 1990 TRICOM signed a contract with the government to offer all telecommunications services in the Dominican Republic. This agreement broke the monopoly of the foreign firm CODETEL, currently owned by Verizon, in the Dominican telephone market and led to the sustained growth of TRICOM during the 1990s. In 1992 the company entered into the long distance business and in 1995 it obtained the right to connect to the main line owned by CODETEL. It also began to offer cellular and beeper services in the same year. The expansion of TRICOM, which was facilitated by the participation of Motorola in its ownership (40 per cent) since 1994, was continuous until 2002. According to company data, profits after taxes grew

[28] Statement by Arturo Pellerano, president of the telecommunications company Tricom and son of the founder of the group Maximo Pellerano, in *Revista Mercado*, 1996. Unless otherwise stated the information on the Grupo Financiero Nacional and its subsidiaries comes from *Revista Mercado* (various issues), Bancredito's Annual Financial Statement, 2002 and Tricom's webpage at www.tricom.com.do.

from US$3.1 million in 1995 to US$22.0 million in 1999. Between 1995 and 1999 the number of fixed lines increased from 5,191 to nearly 120,000; and in 2001 the company also had a 50 per cent market share in the cellular sector.

Many large groups also benefited directly or indirectly from the expansion of the construction sector, which was actively promoted by the public sector. The construction sector grew at an annual average rate of 11.1 per cent in real terms between 1991 and 2002, and its share in real GDP went from 7.5 per cent to 12.7 per cent. As in the 1980s, construction inputs were also among the fastest growing industrial goods in the 1990s. Between 1990 and 1999 real production of concrete grew at annual average rate of 7.5 per cent, that of rods by 13.1 per cent and of paint by 8.7 per cent. Industrial production as a whole grew at an annual average rate of only 3.1 per cent during the same period.[29] Construction has generated windfall profits for large groups such as Grupo Corripio. Cementos Colón, which Corripio bought with other partners in 1996, grew by 28 per cent in 1998 and become profitable (after an investment in the company's name, building and machinery of more than US$31 million) in less than four years. According to Durman Esquivel, the new PVC factory that it opened with Grupo Corripio and Metaldom in 2001 generated profits faster than any other of Durman's investments in Central America, Mexico and the Caribbean.[30] The expansion of the construction sector, which was made possible by the growth of tourism, real estate and public investment, also benefited other medium and large family groups such as Grupo Moya, the García family (owner of Industrias Nacional and Ferretería Americana) and Grupo Tavarez.

2. Neoliberalism and the weakening of the state

There is increasing agreement within the development literature on the importance of state autonomy in the promotion of sustainable economic growth and a more equitable distribution of income, and in particular on the view that the state should act as a coordinating actor with the capacity to discipline domestic groups and put forward a coherent and independent national project.[31]

[29] Rates of growth calculated from original data collected in CEPAL, *Desarrollo económico y social en la República Dominicana: los últimos veinte años y perspectivas para el siglo XXI. Tomo II* (Compendio Estadístico), (Santo Domingo, 2001), p. 411.

[30] Interview with a manager from Durman Esquivel in San José (Costa Rica), Oct. 2002.

[31] For a review of these arguments within the development literature, see Diego Sánchez Ancochea, 'The Role of the State in Structural Change: An Institutional Approach,' *Transregional Center for Democratic Studies Working Papers*, Dec. 1999, particularly pp. 10–14 and 19.

Among the various factors that contribute to state autonomy (including the relative strength of different social classes), the existence of a 'Weberian' bureaucracy is among the most important. A 'Weberian' bureaucracy, or one that is internally characterised by meritocratic recruitment and predictable rules of decision-making and promotion, is likely to increase organisational coherence and secure policy continuity in the long run.[32] However, the consolidation of a Weberian bureaucracy in all areas of the public sector (including social services) may also lead to an unintended consequence: public servants represented by strong trade unions may become a new political force, demanding continuous increases in real wages and government spending. Public choice theorists see this as a particularly pernicious effect of bureaucratic structures, emphasising that it leads to excessive government spending and inefficient allocation of public resources.

The impact of public servants as a political force may not, however, be so negative. In countries such as Costa Rica and the Dominican Republic, where low rates of unionisation and widespread informality make the labour movement in the private sector very weak, politically powerful public workers may have a positive influence on human development. The stability of public sector jobs makes unionisation easier, while creating a new social force that demands higher real wages and increases in public social spending.[33] The existence of a quasi-Weberian civil service in Costa Rica since 1949 may have been one of the reasons behind the significant levels of social spending in that country during the 1960s and 1970s in comparison with the Dominican Republic and other neighbouring countries.

When analysing the effects of globalisation in the state structure, we should thus take into consideration this double role of the bureaucracy as both policy designer and political force. In Costa Rica neoliberal reforms have weakened the role of the bureaucracy in both areas due to the freezing of public employment, the weakening of stable patterns of employment and the increasing importance of political appointees at the managerial level. In the Dominican Republic, despite the introduction of a new civil service law, clientelism still dominates appointments in the public sector, and policy design is increasingly in the hands of a few private foundations with privileged access to the main political parties.

[32] Evans, *Embedded Autonomy*, and P. Evans and J. Rauch, 'Bureaucracy and Growth: A Cross-National Analysis of the Effects of "Weberian" State Structures on Economic Growth,' *American Sociological Review*, vol. 64 (1999), pp. 748–65.

[33] In Costa Rica, for example, in the mid-1970s an estimated 43% of public sector employees were unionised, as opposed to only 5 per cent of private sector workers. See S. Rottemberg (ed.), *The Political Economy of Poverty, Equity and Growth. Costa Rica and Uruguay* (Oxford, 1993).

https://doi.org/10.1017/S0022216X05009831 Published online by Cambridge University Press

Costa Rica

Following the neoclassical view of state intervention and rent seeking, dominant groups within the Costa Rican political establishment identified excessive state expansion as one of the main forces responsible for the financial crisis of the early 1980s. According to Eduardo Lizano, former president of the Costa Rican Central Bank, pressures from the public bureaucracy and other interest groups led to the creation of a 'populist [and] paternalistic' state and to the excessive expansion of public spending.[34] Not surprisingly, reducing the size of the state and its labour force became a primary policy goal.

Both the Monje (1982–1986) and Arias (1986–1990) administrations decided to freeze public employment, in agreement with the International Monetary Fund (IMF) and the World Bank.[35] Public employment remained stable at around 155,000 employees and its contribution to total employment decreased by more than 3 percentage points between 1985 (19.1 per cent) and 1991 (15.9 per cent). The freeze in public employment significantly eroded the bargaining position of trade unions and more generally affected the influence of labour in policy design.[36]

The efforts to reduce the size of the public sector and the influence of the bureaucracy became more vigorous during the early 1990s through the implementation of a programme of 'voluntary mobility' funded with resources from USAID.[37] The programme affected between 3,500 and 13,000 positions, depending on rival estimates.

The programmes of voluntary mobility further reduced the bargaining position of trade unions, already weakened since the 1980s.[38] They particularly affected workers with long tenure in the public sector, and thus likely participants in trade unions. Trade union membership, which has always been concentrated in the public sector, decreased from 15 per cent to 10 per cent of the total labour force between 1990 and 1999.

[34] E. Lizano, *Ajuste y crecimiento en la economía de Costa Rica, 1982–1994* (San José, 1999), p. 1.

[35] The freeze in public employment was also promoted by USAID, which was a fundamental force in favor of market-friendly reforms and the reduction in the political influence of the state and its trade unions. See, for example, W. Robinson, *Transnational Conflicts.*

[36] The impact of the freezing of public employment on the strength of the trade unions was highlighted by a leading member of the trade union confederation 'Confederación de Trabajadores Rerum Novarum' (interview in San José, Costa Rica, Aug. 2002).

[37] Juan Manuel Villasuso, 'Economía política de las reformas estructurales en Costa Rica,' *Simposio Internacional del Proyecto de Investigación Reforma Económica y Cambio Social en América Latina y el Caribe*, Cali, 1999.

[38] Interviews with two leading members of the Confederación de Trabajadores Rerum Novarum (San José, Costa Rica, Aug. 2002) and of the trade union confederation 'Central Del Movimiento de Trabajadores Costarricenses' (San José, Costa Rica, Sept. 2002).

Voluntary mobility also had a negative effect on the quality of the civil service and, as a result, on the autonomy and long-term performance of the public service. According to many specialists I interviewed, it was the most successful and qualified workers who decided to use the programme to shift jobs.[39] As the Director of the Civil Service explained, '[the programme of voluntary mobility] allowed a lot of good workers to leave because they could find a job somewhere else. The bad workers remained'.[40] Miguel Gutiérrez Saxe, director of the research programme Estado de la Nación argued that 'civil servants were recognised not only in terms of money but also of prestige. This has worsened a lot [in the last decade] and I think it was partly due to the programme of voluntary mobility'.[41] Juan Manuel Villasuso believes that 'in the last twenty years there has been a worsening in the efficiency of the public sector mainly because the most qualified people have left'.[42]

The voluntary reduction of public employment was not the only measure that affected the autonomy of the state and reduced the influence of trade unions. At least two other measures should be highlighted.[43] First, the number of *puestos de confianza* (i.e. people that are directly appointed by the ministers or directors of each institution and that leave with them) also expanded.[44] The tendency to create these new posts outside the bureaucracy began in the 1980s with financial assistance from bilateral and international organisations, including the United Nations.[45] The Minister of Foreign Trade and all his team of advisors, for example, were initially paid with funds from USAID. In the 1990s this group of professional technocrats became even more important, especially after a modification of the Civil Service Law in 1998, which increased the number of public positions that could be occupied by non-civil servants to include all general directors and sub-general directors in each institution.[46]

[39] Interviews with Miguel Gutiérrez Saxe (San José, Costa Rica, Sep. 2002), Guillermo Lee Chin (San José, Costa Rica, Oct. 2002), Juan Manuel Villasuso (San José, Costa Rica, Sep. 2002), Mario Mora, chief advisor of the PLN in the National Assembly at that time and former vice-minister of Planning in the Figueres Administration, 1994–98 (San José, Costa Rica, Aug. 2001), and Juan Diego Trejos, professor of economics at the University of Costa Rica (UCR) and research fellow in the Instituto de Investigacion en Ciencias Económicas, UCR (San José, Costa Rica, Aug. 2001).

[40] Interview in San José, Costa Rica, Oct. 2002.

[41] Interview with Miguel Gutiérrez Saxe (San José, Costa Rica, Sept. 2002).

[42] Interview with Juan Manuel Villasuso (San José, Costa Rica, Sept. 2002).

[43] Several of my interviewees also pointed to the increase in the number of public employees working with temporary contracts in Costa Rica. However, the lack of a census of the public sector in Costa Rica makes this shared impression difficult to verify.

[44] Estado de la Nación, *Séptimo informe del Estado de la Nación en Desarrollo Sostenible* (San José, 2001), chapter 1.

[45] Interview with Juan Manuel Villasuso (San José, Costa Rica, Sep. 2002).

[46] Interview with Guillermo Lee Chin (San José, Costa Rica, Oct. 2002).

The new positions in the public sector were occupied by a new generation of highly qualified technocrats who usually shared few common values with civil servants in general and with trade unionists in particular. According to Gutierrez Saxe, 'every four years a whole elite of "puestos de confianza" changes, so that a body that used to be made of public servants becomes a body from the political system that encrusts itself in the public administration, arrives, learns and then leaves. As a result many institutions have lost institutional memory'.[47] For Leonardo Garnier, Minister of Planning in the Figueres Administration (1994–1998), these experts were often needed to 'make things work' but their expansion 'prevented institutional development and led to the creation of parallel technical bodies to the state'.[48]

Several decisions by the Constitutional Court also limited the ability of public workers to negotiate collective agreements.[49] In 1979 the General Law of Public Administration prohibited the signing of collective bargaining agreements (*convenciones colectivas*) between the state and public employees.[50] The impact of this law during the 1980s was limited because public employees could always appeal to the arbitration of the Labour Courts.[51] In 1992, however, the Constitutional Court found this mechanism unconstitutional for all civil servants.[52] Since then, civil servants have been forced to accept the decisions agreed at the Bargaining Commission for Public Wages (Comisión Negociadora de Salarios del Sector Público).[53] While they participate in this commission, trade unions are quite unsatisfied with its functioning because they find little room for real negotiation.[54]

In November and December 2004 several corruption scandals affecting three former presidents of the Republic further called into question the autonomy of the state from political interests. Political appointees to the Board of Directors of two of the main autonomous public institutions in the country (the Social Security Board and the Costa Rican Institute of

[47] Interview with Miguel Gutiérrez Saxe (San José, Costa Rica, Sept. 2002).

[48] Interviews with Leonardo Garnier, former Minister of Planning and currently Professor of Economics, UCR (San José, Costa Rica, Aug. 2001 and 2002).

[49] Interview with Juan Diego Trejos (San José, Costa Rica, Aug. 2001).

[50] M. Blanco, *Los compromisos del gobierno de Costa Rica en materia de libertad sindical* (San José, 1993).

[51] J. A. Bonifacio and G. Falivene, *Las relaciones laborales en el nuevo contexto de las reformas administrativas*, 2002: http://www.clad.org.ve/siare/innotend/laboral/laboral.html.

[52] The decision of the Constitutional Court did allow collective bargaining agreements for the public employees not subject to 'the regime of public employment' (*Ibid.*). This has allowed workers in many autonomous institutions to obtain higher wage increases than other public employees and has contributed to further erode the legitimacy of the bureaucracy.

[53] M. Castro, *Violación de disposiciones laborales por el gobierno de Costa Rica* (San José, 2001): http://www.aseprola.org/documentos/denuncia_libertad_sindical/denuncia_libertad_sind1.htm.

[54] *Ibid.* section 3.4. The same idea was expressed by two of the trade union leaders I interviewed.

Electricity, ICE) were at the centre of the corruption episodes. While the final outcome in terms of judicial decisions and institutional reforms is still undetermined, there is increasing agreement in civil society (including trade unions, business associations and universities) on the need for a more transparent and apolitical process of appointment of these Boards of Directors, reducing the involvement of the two major political parties.

Dominican Republic

The 1990s witnessed the first real attempt of the Dominican government to modernise the bureaucracy. In 1991 the government passed landmark legislation that created the figure of the permanent civil servant. According to an official from the European Union programme for the modernisation of the state in the Dominican Republic, 'the law of 1990 is of European standard'.[55] The law established a new regime for hiring employees in the public sector to 'guarantee the selection, stability in post, training and promotion of the public servants'.[56]

The actual implementation of the Law, however, was disappointing. In a political system dominated by clientelism, political parties need public jobs to offer to their political clientele and they have shown little inclination to create permanent public positions. As a former leading government official in the first Fernandez administration recognised, 'there is a serious problem of political clientelism in the Dominican Republic', which makes the creation of a real bureaucracy particularly hard.[57] According to the director of the Office of Public Personnel (Oficina Nacional de Administración y Personal, ONAP) between 1993 and 2000 only 1,291 employees were incorporated into the new civil service regime. When the Partido Revolucionario Dominicano (PRD) arrived into power it made an effort to expand the number of civil servants; yet, by mid-2002 less than 1.5 per cent of all public employees had been incorporated into the regime and could therefore benefit from employment stability. In 2002 the Dominican government had still not defined a clear set of norms for the hiring of public employees or a clear human resource plan.[58] Budgetary constraints prevented the institution in charge of training public servants (the Instituto Nacional de Administración Pública, INAP) from starting to function until 1997, six years after the approval of the law.

[55] Interview in Santo Domingo, Dominican Republic, July 2002.
[56] Introduction of Law 14-91 of the Civil Service and Administrative Careers.
[57] Interview in Santo Domingo, Dominican Republic, July 2002.
[58] Interview with a high ranking public official in Santo Domingo (Dominican Republic), May 2002.

https://doi.org/10.1017/S0022216X05009831 Published online by Cambridge University Press

The result of the permanent weakness of the public employees was that the bureaucracy was no closer to playing an active political role in the 1990s than it had been in the 1970s or 1980s. Trade unions in the public sector were weak or non-existent and clientelism and short-termism in the creation of public jobs remained. According to an incomplete census of public employment published in 1997, more than a quarter of the more than 300,000 workers employed by the Dominican government had been working in the public sector for less than a year and nearly half have been working for less than four years.[59] In some key institutions the situation was even more striking. In the office of the Presidency of the Republic 38 per cent of the nearly 5,000 employees had been working for less than a year; in the Secretariat of Finance 47 per cent of the employees had been working for less than two years and only 9 per cent had been in the institution for more than twenty.

The weakness of the bureaucracy together with the lack of technical expertise of the political parties also limited the capacity of the state to define the development path of the country, with the result that the task of setting a policy line for the country fell into the hands of external consultants and private foundations. According to a former UNDP consultant and government official, key components of the reform package that the Balaguer Administration implemented in 1990–91 were initially designed by Glen Jenkins from Harvard University in 1989, with financial support from the UNDP. When the crisis exploded in 1990 the Technical Secretary of the Presidency asked the UNDP for economic advice, and decided to implement Jenkins' proposals on tax and tariff reforms.[60] The UNDP also advised the government to initially pass most of the reforms through presidential decree.

During the Fernández (1996–2000) and Mejía (2000–2004) administrations the Fundación Economía y Desarrollo (FEyD) was instrumental in pushing the neoliberal agenda of the World Bank and other international financial institutions. In 1991 the World Bank and the Dominican Central Bank decided to design a five-year macroeconomic plan and commissioned the FEyD to draw it up. The programme, which was published in 1993 and was later updated in 1996 for the period 1996–2000, become the cornerstone of economic policy for the Dominican government.[61] Members of the FEyD occupied various positions in the Central Bank, the Presidency of the Government and the Secretariat of Finance, from which they advised both the Fernandez and the Mejia administrations.

[59] ONE, *Censo del sector público de la República Dominicana, 1997* (Santo Domingo, 1997).
[60] Interview in Santo Domingo, Dominican Republic, June 2002.
[61] For a complete discussion of the proposals see the original plan in A. Dauhajre et al., *El Programa. Programa macroeconómico de mediano plazo para la República Dominicana, 1996–2000* (Santo Domingo, 1996).

3. Difficulties in securing state–society relations conducive to economic development in Costa Rica and the Dominican Republic

Adapting to the changes in state-society relations just described was initially easier in the Dominican Republic than in Costa Rica. The Dominican political-economic system had been characterised by strong links between the political elite and the large family conglomerates since the 1960s, and the bureaucracy had always been weak. Neoliberal reform did not harm the close ties between state and domestic capital; in fact, the central role of large capitalists was strengthened even more.

In Costa Rica, on the other hand, the 1990s were a period of turmoil. Initial success in the implementation of neoliberal reforms (that were backed by large firms and the political elite) led to increasing dissatisfaction from a majority of the population. Trade unions from the public sector, which were weak but had not disappeared, used this opportunity to challenge the direction of economic policy and the survival of the economic reforms in their most radical form.

Questions about the direction of the economic model have also been raised more recently in the Dominican Republic. A sharp financial crisis in 2003, which led to a 100 per cent devaluation of the Dominican peso and a reduction of real GDP per capita by 2.2 per cent in 2003, clearly showed that a close partnership between a weak state and strong business groups may not be sustainable in the new global environment, and that strengthening the regulatory and supervisory capacities of the state is mandatory.

Costa Rica

In Costa Rica the old political coalition between a dispersed private sector, the state and public servants that had been created and consolidated during the post-Second World War era did not survive the shocks of the 1980s. As we have seen in the preceding discussion, the public bureaucracy and its trade unions ceased to participate directly in policy design. At the same time, concentration in the private sector coincided with the relative marginalisation of small and medium producers. The result was, in the words of the former Minister of Planning Leonardo Garnier, that 'a lot of different groups are trying to identify what their role is in the new society and how they can manage to improve after the crisis (…). It is not just that there is not a [national] project but also that there is not an underlying [stable] structure to support a new project'.[62]

The negative consequence of the lack of a clear political coalition in Costa Rica became clear during the Rodríguez Administration (1998–2002). Miguel

[62] Interview with Leonardo Garnier (San José, Costa Rica, Aug. 2002).

https://doi.org/10.1017/S0022216X05009831 Published online by Cambridge University Press

Angel Rodríguez, one of the most prominent neoliberal economists in the country, came to power with an ambitious programme of neoliberal reforms. Since he did not have sufficient political power to launch his programme (he had been elected in a poll with low levels of participation and did not control the National Assembly), Rodríguez decided to organise a process of national consensus building ('*concertación nacional*') to rally social support.[63]

The process of national consensus building was initially organised as a tripartite effort with participation from the state, the business sector and the trade unions, but was later opened to other social groups. Despite contributing to bringing together labour and capital in some key topics, improving the relations between the government and civil society and reaching more than 150 agreements, the process of consensus building was not a success in the medium term. At the end of 1999 most of the agreements reached that required approval from the Legislative Assembly had not passed.[64]

Probably one of the most severe failures of the 'concertación nacional' was its inability to reach an agreement on what to do with the Costa Rican Institute of Electricity (ICE) and other public institutions. The different social forces involved in the process of negotiation only agreed on the need to strengthen the ICE and create a regulatory agency for the telecommunications sector.[65] The lack of social consensus on this topic re-emerged during the failed attempt to liberalise the energy and telecommunication sectors and resulted in one of the most severe political crises of the last two decades.

On March 2000 the Legislative Assembly approved a Law to reform the ICE. The law, which was popularly known as 'Combo del ICE', incorporated two different reform proposals prepared by the government in 1998. They involved the opening of the telecommunications sector to private producers, an expansion of private involvement in the generation and production of electricity, and a modification of the legal character of the ICE.[66]

The project was strongly supported by the business class and the two major parties, all of whom saw the liberalisation of the telecommunications

[63] The following discussion on the process of national concertation is mainly based on Estado de la Nación, *Quinto Informe del Estado de la Nacion en Desarrollo Sostenible* (San José, 1999), Estado de la Nación, *Sexto Informe del Estado de la Nación en Desarrollo Sostenible* (San José, 2000), and M. Gutiérrez Saxe and J. Vargas Cullell, 'Conversaciones sobre la experiencia y desafíos de la concertación nacional de 1998 en Costa Rica,' San José, unpublished manuscript, 1999, as well as on an interview with Gutiérrez Saxe (San José, Costa Rica, Sept. 2002).

[64] Estado de la Nación, *Sexto informe*, chapter 5.

[65] Estado de la Nación, *Quinto Informe*, box 5.4.

[66] Estado de la Nación. *Séptimo Informe*, and Manuel Solís, 'Entre el cambio y la tradición: el fracaso de la privatización de la energía y las telecomunicaciones en Costa Rica,' *Revista de Ciencias Sociales*, vol. 95, 2002, pp. 33–47.

and electricity sectors as a way to improve the efficiency and quality of the services and to continue to attract foreign direct investment. What neither politicians nor business leaders could expect was the opposition that exploded in the days after the approval of the project. As Marco Vinicio Ruiz, then head of the industrialists, told me 'I always thought that the key was that the political parties agreed on the reforms. In this ['the combo'] they agreed but society rejected their decision'.[67] The protests began the day of the approval of the law, extended for more than three weeks, and culminated with a general strike on 4 April.

The immediate cause of the crisis, which ultimately resulted in the abandonment of the reform effort, was the high level of support that the ICE enjoyed among Costa Rican citizens. According to a survey carried out by the firm Unimer and published by the *La Nación* newspaper in 2000, a majority of the population was against the privatisation of the Internet system, the cellular system and, especially the domestic telephone system.[68]

The reaction to the 'combo del ICE' was more generally a sign of the overwhelming discontent of a majority of the population with the direction of the country. The 2000 Unimer survey already mentioned found out that 84.1 per cent of Costa Ricans believed that the protests were 'part of a general discomfort' with the government and the political elite. While there was clear agreement among TNCs, domestic capital and the state on the need to deepen the neoliberal economic reforms, a majority of the Costa Rican population disagreed. Trade unions in the public sector were able to seize the opportunity and recover on the streets some of the influence they had lost in the process of policy design.

After the failure of the 'combo del ICE' the government understood the need to reincorporate trade unions – and social movements more generally – into the design of the development model. In 2001 and 2002 it promoted the creation of mixed legislative commissions in which business associations, trade unions and other social movements – with voice but no vote – met with legislators to discuss particularly important policy issues. The government also promoted the creation of an Economic and Social Council (Consejo Económico y Social), a tripartite institution in which labour, capital and the government are to be represented.

At the same time the business community sought to establish new links with trade unions and other social movements. In 2001 the Chamber of Exporters (Cámara de Exportadores de Costa Rica, CADEXCO) together with the trade union confederations Rerum Novarum and the National

[67] Interview with Marco Vinicio Ruiz, San José (Costa Rica), Aug. 2002.
[68] The survey can be found at http://www.nacion.com/ln_ee/encuestas/unimer/6-2000/encuesta.htm.

https://doi.org/10.1017/S0022216X05009831 Published online by Cambridge University Press

Association of Public Employees (Asociación Nacional de Empleados Públicos, ANEP) published a general policy proposal for Costa Rican development. The document, which was an attempt to prepare Costa Rica for the upcoming negotiations of the Free Trade Agreement of the Americas, called for the promotion of the industrial and agricultural sectors oriented towards the domestic market.[69]

In 2001 the Union of Chambers also began to meet periodically with trade unions and other social movements. The talks between the peak business association and trade unions concentrated on four different areas: employment, economic policy, education and the creation of the Economic and Social Council. After a few months they agreed on a set of general guidelines including the need to design a National Employment Plan that improves the training system and increases productivity; the increase in taxes as a percentage of GDP without increasing tax rates, and the raising of the efficiency and autonomy of the public sector.[70] Despite these efforts, little real advance has been made over recent years in most key policy areas. In particular, fiscal policy and government spending are still a major problem; within the new neoliberal economic model, Costa Rica is finding it increasingly hard to maintain high social spending and expand public investment while securing low public deficits. Part of the problem has been the inability of the government to increase the tax burden, which remained below 13 per cent of GDP between 1995 and 2002 (as compared to 16 per cent, for example, in the case of the Dominican Republic).

The administration of Abel Pacheco (2002–2006) has been unable to break the socio-political impasse in the country. A project for fiscal reform has been under discussion in the National Assembly for more than three years, but had not yet been approved at the beginning of 2005. In July and August of the previous year, new social mobilisations from public sector workers supported by other social movements forced the government to increase public sector wages and open negotiations on a broad set of issues in its economic agenda. This agreement was followed by the resignation of the more neoliberal ministers in the cabinet, illustrating the lack of consensus within the administration on the direction to follow.

Political uncertainty in Costa Rica reached its highest point with the disclosure of major corruption scandals in October and November 2004. The first involved the alleged payment of commissions to top managers of the Social Security Board, a member of its Board of Directors and the former President of the Republic, Rafael Angel Calderon, for the purchase of

[69] Interview with a leading figure of the trade union confederation 'Confederación de Trabajadores Rerum Novarum,' San José (Costa Rica), Aug. 2002.

[70] Information from an internal document provided to me by the trade union confederation Rerum Novarum in August 2002.

medical equipment from a Finnish company represented in Costa Rica by Farmacias Fischel. Another finding of illegal commission payments, this time in the ICE, followed this first scandal. The French telecommunications transnational Alcatel allegedly paid several million dollars to the former President Miguel Angel Rodríguez and top managers of the ICE to secure a contract for the supply of 400,000 cellular phones.

The corruption scandals resulted in the preventive imprisonment of both former presidents and also affected the two major political parties (which received donations from Alcatel) and former president José María Figueres, who received payments of one million dollars from Alcatel for consultancies carried out after his term in office. In the long run, these corruption episodes have also opened the door for a serious reform of the institutional system in Costa Rica; according to a survey published in *La Nación* in December 2004, more than four fifths of the Costa Rican population believe that these scandals constitute a useful opportunity to bring about a shift in Costa Rica's general direction. The character that any future reforms may take, however, is still uncertain. Defenders of the neoliberal model that the country has followed since the early 1990s believe that the public ownership of key institutions is at the root of corruption, and that privatisation and deregulation will contribute to eradicate it. Critics of the neoliberal model within trade unions and other social organisations, on the other hand, stress the joint responsibility of the neoliberal elite of the two major parties and the reforms themselves for the high level of corruption. According to this view, stronger social participation in policy design is the only way to secure accountability and subject close links between political parties and large domestic and foreign firms to scrutiny.[71]

Dominican Republic

The 1990s were a period of high growth in the Dominican Republic especially after 1995. Between 1996 and 2001 real GDP, measured in local currency, grew at an annual average rate of 5.7 per cent, two percentage points higher than in Costa Rica. High growth was made possible by an increase in foreign exchange earnings from tourism, remittances and exports from the free trade zones, and also by the acceleration of private investment. Gross private investment increased by more than 200 per cent in real terms between 1990 and 1999, concentrating mainly in the construction sector.

The main beneficiaries of economic growth were once again the large family groups, which took advantage of their close ties to the state to set the

[71] For a description of the scandals and the different explanations of their causes and effects, see Central American Politics, vol. 31, issues 38, 40, 41, 45 and 47.

https://doi.org/10.1017/S0022216X05009831 Published online by Cambridge University Press

pace of the reforms.[72] The ability of these large families to influence the state manifested itself on many occasions. They were able, for example, to influence in their favour the process of tariff reduction that started in 1990. According to Jaime Aristy, 'between 1990 and 1993 some industrial sub-sectors were able to recover most of the effective protection that they had lost in 1990 … therefore, they increased their profit margins. On the other hand, other sectors, that do not have the same influence on the government, were not able to improve their effective protection'.[73] Among the most protected products were those produced by SID (toothpaste, oil, detergents), Grupo León Jimenes (beer) and Grupo Corripio and other construction conglomerates (rods).

The close ties with the government and their knowledge of the Dominican economy allowed large groups to either compete successfully with TNCs or, more often, to become indispensable partners for them. The Dominican Republic's small size, its insular character, and the existence of powerful domestic capitalists limited the incentive that foreign firms had to invest in the country without a local partner. When the Costa Rican firm Durman Esquivel decided to enter the Dominican Republic, for example, it realised that doing it alone was risky because the large groups had too much political power. Durman, which had invested alone in Central America and Mexico, decided to create a joint venture in the Dominican Republic with Grupo Corripio.[74]

British Tobacco, a much larger foreign firm, was not as successful. When it decided to enter alone into the Dominican market in 2001, it faced substantial difficulties with customs and other public institutions from the beginning. According to the company, Customs established an excise tax on their twenty-cigarette boxes that was four times that applied to other domestic producers – including León Jimenes. While it is true that the Ministers of Finance and of Industry and Trade undertook to resolve the problem, the conflict between Customs and British Tobacco lasted for several months.[75]

The close ties between large family conglomerates and the state contributed to high capital accumulation during the 1990s; yet the financial crisis

[72] In addition to the largest groups, large capitalists in the tourist sector and the free trade zones also benefited significantly from the expansion of the 1990s and the state promotion of both sectors. Meanwhile, although real wages and social spending increased, the rate of growth of real wages was significantly lower than that of GDP and public social spending remained extremely low by regional standards.

[73] Jaime Aristy, 'Liberalización de la balanza de pagos. Efectos sobre el crecimiento, el empleo, y la productividad. El caso de la República Dominicana,' in E. Ganuza et al. (eds.), *Liberalización, desigualdad y pobreza: América Latina y el Caribe en los 90* (Buenos Aires, 2001), p. 945.

[74] Interview with a manager from Durman Esquivel, San José (Costa Rica), Oct. 2002.

[75] See *Listín Diario*, 10 June 2002.

that erupted in 2002 showed both the limits of the exclusive alliance between the state and large groups and the institutional weakness of the state.

When Baninter and Bancrédito began experiencing difficulties during the last months of 2002, they both received substantial support from the government. The Central Bank gave discounts and other loans to Baninter to the value of more than 41,000 million pesos. This financial assistance was far beyond what was permitted under the law, and continued even when it was unclear whether Baninter could survive.[76] The Mejía administration was also actively involved in the failed attempt to merge Baninter with the domestic financial group Grupo Progreso.[77]

After months of backing Baninter the government changed gear and accused Baninter's head Ramón Baez Figueroa of economic fraud in May 2003. Only then did the allegation surface that Baez Figueroa had been running a parallel bank that generated losses of more than 44,000 million pesos (around 12 per cent of GDP and 60 per cent of government spending). Deposits in the parallel bank were used to finance the acquisition of new firms by the Grupo Intercontinental and by Baez himself.

Months later, after Bancrédito had been sold to the Group León Jimenes, the Central Bank also accused the Pellerano family (former owners of Bancrédito) of creating a parallel bank. According to the Central Bank, the Pellerano family had used Bancrédito to finance the expansion of other firms in their group, including Tricom.

Although it is still too early to establish what really happened at Baninter and Bancrédito during the 1990s, the financial crisis revealed some interesting patterns in state-large businesses relations. First, the last three administrations were unwilling or unable to supervise the behaviour of large conglomerates. Baninter and Bancrédito had been using double accounting and unreported funds to finance their expansion into new sectors of the economy. Their behaviour, which contributed to the 'miracle' of the 1990s, should have been noticed by any competent regulator. Second, the large groups also used their resources to finance political parties and their leaders and support other Dominican institutions. Baninter allegedly used resources from the parallel bank to purchase goods and services (including luxury cars and trips to various resorts) for a long list of politicians, including the three presidents of the Republic, Joaquin Balaguer, Leonel Fernandez and Hipólito Mejía. Baninter also made contributions to most sectors of the Dominican

[76] See *Diario Hoy*, 9 April 2003.

[77] Information on Baninter after its crisis has been quite extensive. The following section is based on various articles from the Dominican newspapers *El Caribe* and *Diario Hoy* and from the US newspapers *The Miami Herald* and the *Wall Street Journal*. It is also based on web reports from JP Morgan and from a briefing that was handed to the press by officials from the Central Bank when the government announced the fraud.

elite, including the Catholic Church, the military and the artistic community – Baninter become a key sponsor of cultural events – as well as several foundations and NGOs.

While there is no doubt that the size of Baninter's donations and illegal contributions was unusually large, it may be a good indication of the relationship between the large groups and the government. In Dominican society it is 'traditional' for large groups to finance political parties, as recognised by José Luis Corripio in a newspaper interview in 2002.[78] The largest groups are also generally directly involved in supporting non-governmental organisations and foundations, as well as cultural events. Through all these mechanisms they contribute to setting the political, economic and cultural agenda of the country.

Third, the management of the two bank interventions also showed the preoccupation of the government with the well being of large investors. Instead of repaying only 500,000 pesos per bank account to Baninter's depositors (as the Monetary Code establishes), the Mejía administration decided to guarantee the full amount of all deposits. The government and the Central Bank also made the commitment to honour offshore accounts, something that was not legally required. This decision benefited a few large investors asymmetrically, since only 85 accounts held 77 per cent of Baninter's total deposits at the time of intervention in the bank.[79]

The aftermath of the crisis resulted in the consolidation of the trends of the 1990s, including the strengthening of the large domestic groups (with increasing participation from those located in the free trade zones and the tourist sector), the increasing transnationalisation of the Dominican economy and the weakening of the regulatory capacity of the state. The Grupo León Jimenes purchased the bank Bancrédito, thus gaining further presence in the financial sector. The assets of Baninter were sold to the foreign bank Scotibank, which had been present in the country since the 1920s and has become one of the largest banks in the country. Meanwhile, a new stand-by agreement with the IMF includes measures to increase the regulatory capacity of the state, but few reforms have been approved so far.

While the Dominican economy recovered relatively well from the crisis thanks to the expansion of the free trade zones, tourism, telecommunication and agriculture, and grew by 2.0 per cent in real terms in 2004, the standard of living of a large segment of the population worsened significantly.[80] The unemployment rate increased from 13 per cent in 1999 to 18 per cent in

78 'El magnate dominicano,' *Estrategia y Negocios*, July 2003.
79 Information from an Op-Ed by Bernando Vega in the daily newspaper *El Caribe* on 23 Nov. 2003.
80 Preliminary data based on statistics from the Annual Report 2004 of the Central Bank (in 1970 pesos).

2003, while minimum real wages in the private sector fell by 22.5 per cent in 2003 and 7.5 per cent in 2004. In the public sector the reduction was even larger: 25 per cent in 2003 and 15.3 per cent in 2004. It is thus likely that the Dominican Republic will return to its high growth path while maintaining the exclusionary character of its development model at the same time.

4. Conclusion

Despite long-term differences between Costa Rica and the Dominican Republic in state-society relations (and as a result in patterns of income distribution and social spending), neoliberal globalisation has resulted in some common trends. Trade liberalisation, together with the growing economic power of transnational corporations, has led to the increasing concentration and transnationalisation of capital. At the same time, financial liberalisation and the expansion of financial capital in the world economy has contributed to the expansion of the banking sector in both Costa Rica and the Dominican Republic.

The state has also been affected in similar ways in both countries. The new accent on the reduction of public deficits and the redefinition of the state bureaucracy – which was partly prompted by policy recommendations from the World Bank and the International Monetary Fund – has reduced the role of the state as employer and weakened the capacity of the public sector.

These similar general trends have called into question the survival of the neoliberal policy model in both countries. In Costa Rica, the reduction in the role of the state as employer, the deterioration of the bureaucracy's capacities, and the strengthening of a small segment of an increasingly internationalised domestic capitalist class have all conspired to reduce the support for state-centred policies. At the same time, full social support for the neoliberal agenda has never been secured, and trade unions and other social groups have recently succeeded in preventing the application of new neoliberal reforms. Costa Rica certainly has great potential for advancement within the current global era due to its long-term investment in health and education, but will need to incorporate various social groups (including trade unions) in the process of policy design if it is to consolidate sustainable economic growth and long term achievements in human development. The discussion of the causes and consequences of the recent corruption scandals, as well as the negotiations around the approval of the Central American Free Trade Agreement with the United States may offer a new opportunity to recreate an inclusive development model, but may just as easily lead to the consolidation of the exclusionary tendencies of the neoliberal project.

In the Dominican Republic, globalisation resulted in high rates of growth during the 1990s, as a consequence of the brief easing of the foreign exchange constraint and the expansion of domestic capital accumulation (particularly in the construction sector). Large domestic groups, which grew significantly under import substitution industrialisation, controlled the pace of economic reform and became indispensable allies of foreign capital.

The model, however, proved unsustainable. The inability of the state to regulate financial capital and prevent excessive credit creation led to the bankruptcy of two banks, a sharp devaluation of the peso and the demise of the optimistically named 'Dominican miracle'. This may be, in fact, another lesson regarding the process of neoliberal globalisation: the liberalisation of financial flows may act as a disciplining force, undermining excessive, inefficient rent seeking behaviour from the capital class in the not too long run. It is advisable, therefore, that the current administration of Leonel Fernández (2004–2008) should make a decisive effort to strengthen the regulatory capacities of the state and its ability to discipline large domestic capitalist groups. The extent to which all these changes will take place and will result in the creation of more democratic and equal political and economic structures, however, remains unclear.