

# **Foreign Direct Investment in the Dominican Republic Contact Center Industry**

**By**

**Raúl Antonio Herrera Piña**

**THESIS**

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of requirements

for the degree of

**MASTER OF PUBLIC POLICY IN ECONOMIC DEVELOPMENT**

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Committee in charge:

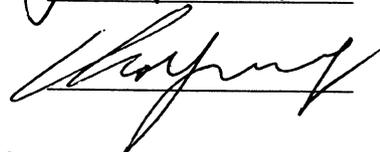
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2011

**ABSTRACT**

**Foreign Direct Investment in the Dominican Republic Contact  
Center Industry**

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Current financial crisis has forced many companies in the contact center industry to look for cheap and efficient places to run their business, especially places offshore. The Dominican Republic is rapidly becoming a leader in the contact center industry and is in fact attracting many of this companies looking to cut down on cost while earning talented human resources and revenues. Due to the benefits offered to investors in the Dominican Republic the country is attracting a great deal of FDI in the contact center industry. Latin American countries are acquiring such businesses due to the transition of an agricultural base country, to one dependant of service. Although the country counts with prepare human resources, technological infrastructure and incentives to investors, it does not count with a solid workforce dedicated solely to the call center industry. This is where the Dominican Republic needs to start laying down procedures and policies that will allow the country to start building a solid workforce and grant priority to this growing sector, thus receive the benefits of such investments.

## **Acknowledgments**

My journey to this great place was made possible by the support given to me by family members, friends, professors and co-workers. First of all I would like to thank the KDI School for providing me with the opportunity to experience an outstanding education, culture and cross-cultural environment. I would also like to extend my gratitude to Professor Seung-Joo Lee and Professor Jin Park for their counseling during my thesis writing process. I would also like to extend my gratitude to Professor Yoon Cheong Cho for her guidance along my KDI School stay, I could not have asked for a better mentor.

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## **1. Introduction**

### **1.1 Background and purpose**

The Dominican Republic has done a major shift in its economy, coming from an agricultural economy, to one based on services. An estimate of the sectors contribution to the country are, 60.2% in services (tourism, transportation, communications, finances, others), 15.5% in industry (manufacturing), 11.5% in construction, 11.3% in agriculture, and 1.5% in mining (CIA fact book, 2010). Right now only tourism leads the service industry, but it is soon to be challenged by the investment into contact centers. Because of this shift in its economy the Dominican Republic has become home to various foreign investments, being contact center the focus of this study on foreign direct investment (FDI) in contact centers, also known as call centers. It is important to explore the advantages the Dominican Republic offers to attract such foreign investment, as well as to analyze the fact that although there are benefits, it could also lack the necessary physical and legal infrastructure to sustain this rapidly growing industry.

Due to the ongoing world financial crisis, many international companies are struggling to keep their business afloat and looking to establish their contact centers outside of their home based countries. Saving money and reducing operational cost are some of the main reason companies move and do foreign direct investment. In order to reduce cost and become more efficient, contact centers are investing and conducting operations overseas as a way to meet such goals. It can be said that the Dominican Republic offers an answer to the difficulties contact centers companies are experiencing

and continue to confront back at home. Some of the solutions given to these companies establishing in the Dominican Republic are a great business climate for FDI, incentives and good geographical location, among other compensations. As a result of moving abroad contact centers gain a particular advantage over their competitors. These advantages can range from cheaper operational costs, strategic location and skilled personnel, to a variety of options which are be available in the Dominican Republic.

This study will provide the key aspects of contact center FDI in the Dominican Republic in order to reveal its strengths and weaknesses in this industry. With this the information investors are able to visualize what the country has to offer to current and future investors in the contact center industry. The study will also provide the investors' point of view on what makes the Dominican Republic an attractive place to invest foreign capital in contact centers, as well as some of the problems encountered throughout the business venture. The information provided by the governmental institutions in charge of disseminating details about this industry says "the country is capable, suited and ready to meet all the requirements of international investors" (CEI-RD, 2010). No system is perfect, which is why facts will be laid down in order to show what truly attracts, carries on or losses these investments on the island. Based on those previously mentioned facts the study will recommend improvements to be made by the country policy makers in order to keep a competitive edge on the rapid growing industry.

With this information the reader will be able to comprehend the flaws in the system, and what measures are needed in order to correct them and generate a more positive investment climate. Along with this positive investment climate the study will show the impact contact center FDI has had in the country. An efficient and effective investment climate can only be produced by pointing out the pros and cons of what the Dominican Republic has to offer to its investors. The conclusion of the study wishes to convey that these improvements can be achieved by taking action upon the recommendations given. As this study is mostly based on empirical knowledge, some of the observations will be/are based on the writer's industry expertise supported by more than seven years of working experience in this field.

## **1.2 Research questions**

- Is the Dominican Republic a good place for contact center FDI?
- Have contact centers FDI created a real impact in the Dominican Republic?

## **1.3 Research methodology**

In order to answer the research questions mentioned above, this paper will use a mixture of methodologies in order to analyze if the country is a good place for contact center FDI and if the industry has had an impact in the Dominican Republic. These methodologies include interviews, qualitative research and quantitative data.

#### **1.4 Organization of paper**

This document will be composed of four chapters, the first one being its introductory part. The first chapter will provide a brief introduction and background of the Dominican Republic and what sectors comprise the FDI in the country, along with the research questions and research methodology. The second chapter will present an overview of foreign direct investment, inflows, trends, performances and investment climate that pertains the country, as well as the promotion agency in charge of FDI in the Dominican Republic. A comparison with selected economies from the Caribbean, Latin America and others will be provided to show the current standing of the Dominican Republic against these economies. The third chapter will cover a more in-depth analysis of contact centers in the Dominican Republic, strengths, weaknesses and investors perspective. The study will also look at a particular company from which the study will depict the impact this center has had in the country. The concluding and fourth chapter will provide key findings from the study and recommend future improvements based on those findings.

## **2. Overview of FDI in the Dominican Republic**

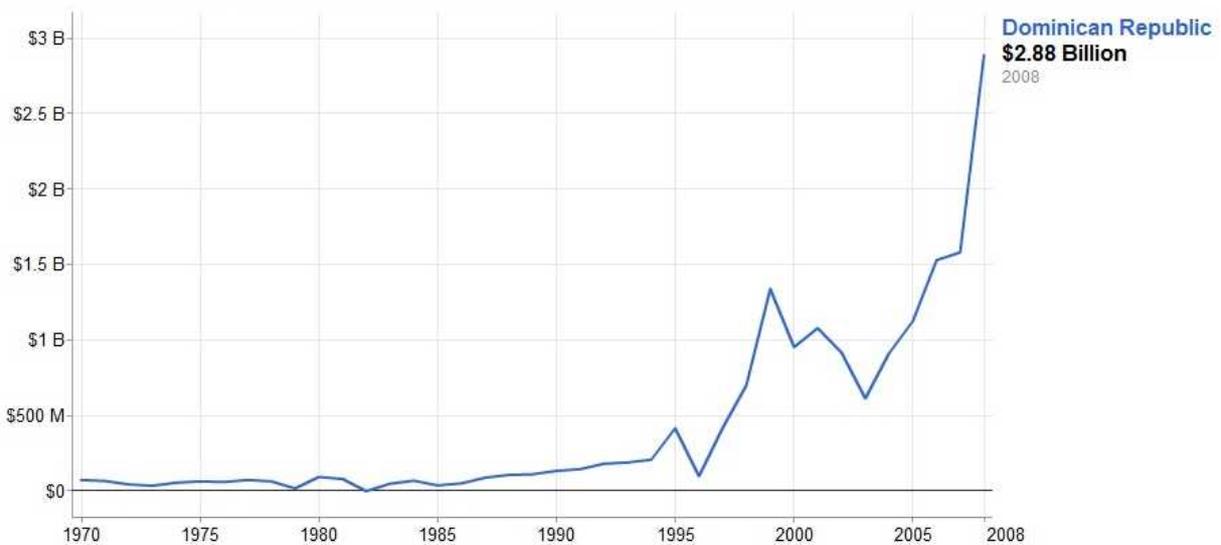
### **2.1 FDI trends and performance in Dominican Republic**

The Dominican Republic, like other developing countries, is actively seeking to attract FDI. FDI is an important factor which is being sought out to create employment opportunities and a better source of income. It is also an important source of knowledge and technological spillovers. The strong public support for FDI in the Dominican Republic is expressed through the creation of the Center for Exports and Investment of the Dominican Republic (CEI-RD), which is in charge of all exports and investment, and creation of public policies that incentivize exports. Some of these measures include simplification of administrative procedures, aid from the CEI-RD in logistics and information, subsidies, tax breaks, exemptions and other instruments that facilitate FDI. Before addressing the question of whether FDI in the Dominican Republic has led to development, spillovers of knowledge and technology or if it is a good place for contact centers to establish and invest, the study will provide an overview of FDI inflows and trends in the Dominican Republic.

FDI inflows in the Dominican Republic have made a miraculous recovery from 2004 to 2008 according to World Bank indicators (World Bank, World Development Indicators, 2010). As other developing countries, the inflow of foreign capital was affected by the political environment, which leads to macroeconomic instability and reflected in an average loss of almost \$200 million dollars per year during the 2000-2004 governmental period. During this period the collapse of one major bank caused financial turmoil and

many investors were forced to leave the country. After a change of government and the macro stability was placed back in track by the new authorities, the country received an average foreign capital inflow of \$450 million dollars a year, to earn a total of over two billion dollars in FDI inflows (See figure below). This great recovery happened during the 2004-2008 period, as it was first mentioned, and it is still improving as the country keeps positioning itself as a preferred destination for FDI. Contact centers are not the main reason for such fast recovery in FDI inflows, the new industry of contact centers is playing a very important role in the economy as it continues to evolve into a leading industry in the service field.

**Graph 1:** Foreign Direct Investment, net inflows.



Source: World Bank, World Development Indicators, 2010

In President Fernandez first governmental period (2004-2008) the country recovered from the worst financial crisis in many years. During 2005 the country predicted a GDP growth of 9.3% and inflation to be brought under control at 7.3% throughout the 2004-2008 years. By managing these issues President Fernandez said “We have rescued the confidence of investors by achieving macroeconomic stability” (Fernandez, 2004). Having achieved macroeconomic stability, the Dominican Republic received US\$1 billion worth of foreign direct investment (FDI) in 2005, up 40% from 2004, and U.S. investment accounted for around 40% of the total (CEI-RD, 2006). This led to an improvement of FDI inflows and mechanisms to continue attracting and supporting these newly found investments. Below are the net inflows of FDI for various Latin American and the Caribbean countries, including the Dominican Republic. Refer to table 1 for the Dominican Republic’s Central Bank data.

**Table 1: Foreign Direct Investment Flows by Country of Origin in Dominican Republic****CENTRAL BANK OF THE DOMINICAN REPUBLIC****INTERNATIONAL DEPARTMENT****FOREIGN DIRECT INVESTMENT FLOWS BY COUNTRY OF ORIGIN, 1993 - 2010**

(In US\$ millions and %)

Countries	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 <sup>1</sup>	2007 <sup>2</sup>	2008 <sup>2</sup>	2009 <sup>2</sup>	2010 <sup>2</sup>	TOTAL	%	Var 2010 vs 2009	
																					Abs	Rel
Spain	68.6	16.2	60.8	61.2	52.4	205.6	457.1	190.1	193.4	35.0	(13.3)	126.6	214.5	307.6	604.6	180.9	150.8	299.3	3,211.4	17.5	148.5	98%
United States	23.4	45.0	64.3	44.9	157.8	180.4	181.2	201.6	433.5	382.1	461.6	176.6	457.1	662.1	535.5	359.9	455.3	306.8	5,129.1	27.9	(148.5)	-33%
Canada	71.2	107.0	239.7	(23.3)	199.0	127.8	94.8	133.2	10.2	18.4	(22.7)	274.2	110.7	142.4	113.2	383.3	773.3	329.2	3,081.5	16.8	(444.1)	-57%
Gran Caimán	1.1	4.7	4.2	1.6	45.6	45.5	179.2	37.0	0.1	(13.7)	(9.1)	(62.8)	(58.7)	(40.8)	4.4	1.0	(44.4)	35.3	130.2	0.7	79.7	-180%
United Kingdom	5.4	7.3	5.9	5.2	41.4	22.9	75.7	17.4	2.0	(0.2)	(25.2)	21.4	94.8	55.4	60.1	590.8	(2.9)	(6.1)	971.3	5.3	(3.2)	110%
Swiss	14.5	20.4	14.8	12.9	14.7	7.7	16.5	14.0	2.0	4.0	5.8	18.2	48.1	(359.1)	(14.1)	30.9	3.1	(0.7)	(146.3)	-0.8	(3.8)	-123%
Netherlands	-	-	-	-	-	-	61.5	36.0	245.2	119.4	25.1	4.5	41.3	41.1	53.6	(72.9)	96.0	62.1	712.9	3.9	(33.9)	-35%
Italy	4.5	-	-	-	0.3	33.1	13.9	15.5	0.7	5.0	5.1	39.1	0.1	2.8	32.0	10.7	15.8	7.6	186.2	1.0	(8.2)	-52%
France	-	-	-	-	-	-	34.4	97.5	60.6	109.6	33.0	85.3	80.9	35.8	110.2	87.8	49.6	26.3	831.0	4.5	(43.3)	-62%
Mexico	-	-	-	-	-	-	-	-	37.8	6.2	18.8	52.7	(1.3)	83.5	(123.8)	1,055.2	273.2	369.2	1,771.5	9.6	96.0	35%
Denmark*	-	-	-	-	-	-	-	-	-	-	-	-	-	11.5	2.4	8.1	8.3	8.6	38.9	0.2	0.3	4%
Germany *	-	-	-	-	-	-	-	29.3	3.4	36.3	2.3	4.1	5.1	10.1	4.0	6.6	3.5	4.7	109.4	0.6	1.2	34%
Panama *	-	-	-	-	-	-	-	16.8	7.1	8.7	31.4	17.5	15.5	9.9	39.9	33.5	162.4	38.0	380.7	2.1	(124.4)	-77%
BR Virgin Islands*	-	-	-	-	-	-	-	7.2	20.2	23.5	19.5	48.7	(4.4)	42.7	21.4	59.3	23.1	30.2	291.4	1.6	7.1	31%
Venezuela *	-	-	-	-	-	-	-	-	7.5	0.1	(5.5)	4.4	6.2	16.5	52.5	10.9	31.1	140.4	264.1	1.4	109.3	351%
Rest	0.6	6.2	24.6	(6.0)	(90.6)	76.8	223.5	157.3	55.5	182.4	86.2	98.5	112.8	63.1	171.5	124.0	147.2	(25.1)	1,408.5	7.7	(172.3)	-117%
<b>Totals</b>	<b>189.3</b>	<b>206.8</b>	<b>414.3</b>	<b>96.5</b>	<b>420.6</b>	<b>699.8</b>	<b>1,337.8</b>	<b>952.9</b>	<b>1,079.1</b>	<b>916.8</b>	<b>613.0</b>	<b>909.0</b>	<b>1,122.7</b>	<b>1,084.6</b>	<b>1,667.4</b>	<b>2,870.0</b>	<b>2,165.4</b>	<b>1,625.8</b>	<b>18,371.8</b>	<b>100.0</b>	<b>(539.6)</b>	<b>-25%</b>

1: Figures revised according to updated data by companies.

2: Preliminary figures

\* Opening of the rest of the countries with more significant figures.

Note: Figures with negative values correspond to operating and/or divestment.

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Source: Central Bank of the Dominican Republic, International Department, 2010.

**Table 2:** Latin America and the Caribbean: Net inflows of Foreign Direct Investment, by country, 1998-2008 (Million of Dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Argentina	7 290.7	23 987.7	10 418.3	2 166.1	2 148.9	1 652.0	4 124.7	5 265.2	5 537.0	6 462.0	7 979.0
Bolivia (Plur. State of)	949.3	1 010.5	733.9	703.3	674.1	194.9	82.6	-290.8	277.8	366.3	512.0
Brazil	31 913.0	28 576.0	32 779.2	22 457.4	16 590.2	10 143.5	18 145.9	15 067.0	18 782.0	34 584.9	45 059.3
Chile	4 627.7	8 760.9	4 860.0	4 199.8	2 549.9	4 307.4	7 172.7	6 983.8	7 357.7	14 457.3	17 083.1
Colombia	2 828.8	1 507.9	2 436.5	2 541.9	2 133.7	1 720.5	3 015.6	10 252.0	6 656.0	9 048.7	10 563.8
Costa Rica	613.1	619.5	408.6	460.4	659.4	575.1	617.3	861.0	1 469.0	1 896.0	2 016.1
Ecuador	870.0	648.4	720.0	1 329.8	783.3	871.5	836.9	493.4	270.7	193.0	973.5
El Salvador	1 103.7	215.9	173.4	279.0	470.2	141.7	376.3	511.2	218.9	1 509.0	784.0
Guatemala	672.8	154.6	229.6	455.5	110.6	131.0	154.7	226.7	353.8	535.8	837.8
Honduras	99.0	237.3	381.7	304.2	275.2	402.8	546.7	599.8	674.2	815.9	888.4
Mexico	12 664.5	13 826.0	17 972.9	29 749.8	23 679.0	16 245.6	23 573.0	22 751.0	19 316.0	27 278.0	21 950.0
Nicaragua	218.2	337.3	266.5	150.2	203.9	201.3	250.0	241.1	286.8	381.7	593.8
Panama	1 203.1	864.4	623.9	467.1	98.6	770.8	1 012.3	962.1	2 497.9	1 907.2	2 401.7
Paraguay	341.9	94.5	104.1	84.2	10.0	27.4	37.7	53.5	182.9	196.4	150.0
Peru	1 644.0	1 940.0	809.7	1 144.3	2 155.8	1 335.0	1 599.0	2 578.7	3 466.5	5 342.6	4 079.0
Uruguay	164.1	235.3	273.5	296.8	193.7	416.4	332.4	847.4	1 493.5	1 222.7	2 043.9
Venezuela (Bol. Rep. of)	4 985.0	2 890.0	4 701.0	3 683.0	782.0	2 040.0	1 483.0	2 589.0	-590.0	646.0	1 716.0
Antigua and Barbuda	22.8	51.8	66.6	111.9	79.7	179.4	95.2	230.1	359.2	357.6	301.9
Anguilla	28.1	38.0	43.0	34.7	38.2	34.4	91.8	118.6	143.2	120.1	90.4
Dominica	6.5	18.0	20.3	20.6	20.7	31.9	27.5	32.2	28.9	60.7	59.9
Grenada	48.7	41.6	39.4	60.8	57.4	90.5	66.3	73.3	95.6	186.5	147.1
Montserrat	2.6	8.2	2.3	0.6	0.6	2.1	2.8	1.3	2.2	5.9	1.9
Saint Kitts and Nevis	31.9	57.7	99.0	90.3	81.1	77.9	53.1	104.3	114.6	163.8	94.0
Saint Lucia	83.4	83.2	58.2	63.0	57.1	111.8	81.0	82.0	237.7	247.9	185.5
Saint Vincent and the Grenadines	89.0	56.8	37.8	21.0	34.0	55.2	66.1	40.7	109.8	118.8	97.4
Bahamas	166.3	149.4	250.3	191.6	208.6	292.4	529.3	640.9	842.8	853.9	886.0
Barbados	15.8	17.4	19.4	18.6	17.4	58.3	-12.1	62.0	104.8	233.2	133.3*
Belize	17.7	53.6	23.3	61.2	25.4	-10.9	111.5	126.9	116.6	148.0	189.0
Guyana	44.0	46.0	67.1	56.0	43.6	26.1	30.0	76.8	102.4	152.4	178.0
Haiti	10.8	30.0	13.3	4.4	5.7	13.8	5.9	26.0	160.0	74.5	29.8
Jamaica	369.1	523.7	468.3	613.9	481.1	720.7	601.6	682.5	882.2	866.5	810.4*
<b>Dominican Republic</b>	699.8	1 337.8	952.9	1 079.1	916.8	613.0	909.0	1 122.7	1 528.0	1 578.9	2 884.0
Suriname	9.1	-61.5	-148.0	-26.8	145.5	200.7	286.2	398.5	322.7	315.7	345.6*
Trinidad and Tobago	729.8	643.3	679.5	834.9	790.7	808.3	1 001.0	940.0	883.0	830.0	2 500.0*

Source: Economic Commission for Latin America and the Caribbean (ECLA), 2009

## **2.2 Investment climate**

When one thinks of the Dominican Republic, images of tropical beaches and all-inclusive resorts may come to mind, but this ten million-strong nation, occupying two thirds of the Caribbean island of Hispaniola, also has one of the Americas' fastest growing economies and diverse scenery in the Caribbean (BusinessWeek, 2006). The briefing paper *Foreign Investment in Latin America and the Caribbean*, 2008 is one of the latest editions of a series issued annually by the Unit of Investment and Corporate Strategies of the Economic Commission for Latin America and the Caribbean (ECLAC) Division of Production, Productivity and Management. This report presents-in a very detail manner-the foreign investment done in Latin American and Caribbean countries, showing their relative differences and investment climate among other indicators. This report also touches on the contact center industry, which has contributed greatly to the ever increasing FDI inflow of the Dominican Republic. Comparing to other countries the Dominican Republic shows one of the best FDI inflows by reflecting a relative difference of 83%. What this means is that FDI activities have been constantly growing in the country, thus reflecting good initiatives, policy implementation and positive investment climate on the country (table 3).

**Table 3:** Latin America and the Caribbean: Foreign Direct Investment Income by Receiving Country, 1994-2008 (Million of Dollars and Percentages)

Country or territory	1994-1998 <sup>a</sup>	1999-2003 <sup>a</sup>	2004-2008 <sup>a</sup>	2007	2008	Absolute difference 2007-2008	Relative difference 2007-2008
South America	34 657	43 365	57 297	72 520	89 862	17 342	23.9%
Brazil	14 139	22 109	26 328	34 585	45 058	10 473	30%
Chile	4 051	4 936	10 552	14 457	16 787	2 330	16%
Colombia	2 784	2 068	7 907	9 049	10 564	1 515	17%
Argentina	6 529	8 075	5 874	6 462	7 979	1 517	23%
Peru <sup>b</sup>	2 620	1 477	3 413	5 343	4 079	-1 264	-24%
Uruguay	148	283	1 188	1 223	2 044	821	67%
Venezuela (Bolivarian Republic of)	3 034	2 819	1 169	646	1 716	1 070	166%
Ecuador	624	871	554	193	974	781	404%
Bolivia (Plurinational State of)	535	663	190	366	512	146	40%
Paraguay	193	64	124	196	150	-46	-24%
Mexico	11 036	20 295	22 974	27 278	21 950	-5 329	-19.5%
Central America	1 774	2 134	5 296	7 045	7 554	509	7.2%
Panama	708	565	1 756	1 907	2 402	495	26%
Costa Rica	417	545	1 372	1 896	2 016	120	6%
Honduras	79	320	705	816	888	73	9%
Guatemala	195	216	422	536	838	302	56%
El Salvador	240	256	684	1 509	784	-724	-48%
Nicaragua	135	232	357	382	626	244	64%
Caribbean	1 615	3 067	5 997	6 314	8 935	2 621	42%
Dominican Republic	368	980	1 605	1 579	2 885	1 306	83%
Trinidad and Tobago	580	751	1 231 <sup>c</sup>	830	2 500 <sup>c</sup>	1 670	201%
Bahamas	119	218	745	854	886	4	0%
Jamaica	207	562	769 <sup>c</sup>	867	810 <sup>c</sup>	-56	-6%
Suriname	-6	22	334 <sup>c</sup>	316	346 <sup>c</sup>	30	9%
Antigua and Barbuda	24	98	269	358	302	-56	-16%
Belize	33	31	138	148	189	42	28%
Saint Lucia	43	75	167	248	186	-62	-25%
Guyana	67	48	108	152	178	26	17%
Grenada	28	58	114	186	147	-39	-21%
Barbados	14	26	104 <sup>c</sup>	233	133 <sup>c</sup>	-100	-43%
Saint Vincent and the Grenadines	60	41	87	119	97	-21	-18%
Saint Kitts and Nevis	25	81	106	164	94	-70	-43%
Anguilla	22	38	113	120	90	-30	-25%
Dominica	24	22	42	61	60	-1	-1%
Haiti	5	13	59	75	30	-45	-60%
Montserrat	3	3	3	6	2	-4	-68%
Total	49 082	68 860	91 564	113 157	128 301	15 144	13.4%

<sup>a</sup> Annual averages.

<sup>b</sup> Figures based on the balance of inward and outward foreign direct investment published by the Central Bank of Peru.

<sup>c</sup> Estimates of the Economic Commission for Latin America and the Caribbean (ECLAC).

Source: Economic Commission for Latin America and the Caribbean (ECLA), 2009

A good investment climate is not created by simple marketing; it takes effort, strategy, good economic policies and first-class governance on behalf of the government and its Head of State. Because many countries offer desirable investment conditions companies frequently ask themselves, where they should invest their capital.

The answer must be provided by the country that wishes to be the host of the foreign investments these companies aspire to make. The Dominican Republic has characteristics that make it a desirable place to make an investment of any kind, but the question that still lingers around is if the country can really sustain an investment of great magnitude. Offering the right investment climate in the Caribbean is something that the country wishes to achieve, but is not always successful on doing so. With a long history of attracting considerable FDI in a variety of sectors, the Dominican Republic is a regional leader in attracting contact center foreign investment. New standing political stability and diversifying economy has lead many foreign firms to choose the Dominican Republic as their investment destination. Recent success in attracting FDI is due to the country's investor-friendly legal regime, generous incentives, and infrastructure capable of supporting new technologies, including information technology (*FDI Magazine, Financial Times Magazine, August 2005*). As mentioned earlier, this success is fairly new and the Dominican Republic still faces the challenge of maintaining and attracting this foreign investments. Below we can see another important piece of information which tells us about the investment climate of a country, the Balance of Payments.

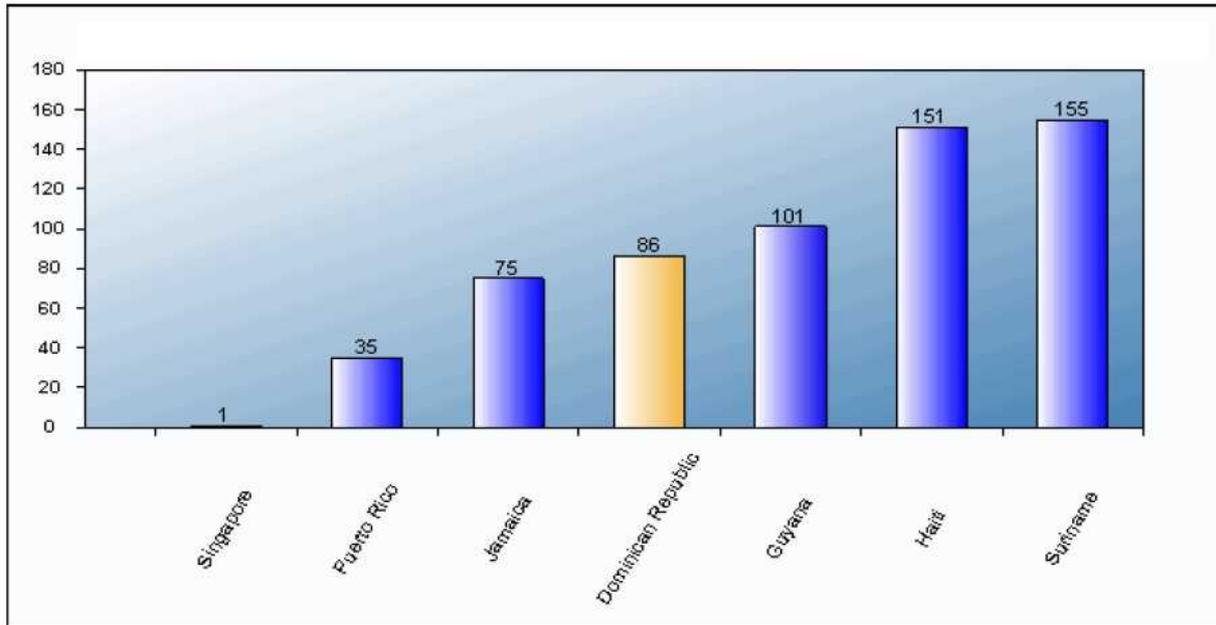
**Table 4: Balance of Payments of the Dominican Republic**

BALANCE OF PAYMENTS OF THE DOMINICAN REPUBLIC January - December 1993-2010**																			
(Millions US\$)																			
CONCEPTS	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*	2007*	2008*	2009**	2010**	
<b>I. Current Account</b>	<b>-612.9</b>	<b>-283.0</b>	<b>-152.3</b>	<b>-212.7</b>	<b>-188.0</b>	<b>-355.4</b>	<b>-428.2</b>	<b>-1028.5</b>	<b>-749.3</b>	<b>-797.9</b>	<b>1038.2</b>	<b>1041.6</b>	<b>-473.0</b>	<b>-1287.4</b>	<b>-2188.3</b>	<b>-4515.9</b>	<b>-2330.9</b>	<b>-4434.9</b>	
<b>I.1 COMMERCIAL BALANCE</b>	<b>-1443.2</b>	<b>-1460.7</b>	<b>-1260.9</b>	<b>-1874.3</b>	<b>-1896.0</b>	<b>-2816.8</b>	<b>-2894.4</b>	<b>-3741.8</b>	<b>-3603.0</b>	<b>-3872.7</b>	<b>-2168.0</b>	<b>-1962.1</b>	<b>-3724.7</b>	<b>-5693.7</b>	<b>-8428.8</b>	<b>-9245.4</b>	<b>-8313.0</b>	<b>-5709.8</b>	
EXPORTS	3,211.0	3,462.6	3,779.6	4,062.8	4,813.7	4,990.6	5,198.7	6,798.7	6,278.3	5,186.0	6,470.8	6,965.9	8,144.7	8,910.2	7,160.2	8,747.6	6,432.9	6,696.1	
NATIONAL	952.1	736.4	872.1	945.5	1,017.3	880.3	905.2	966.1	794.7	847.7	1,064.0	1,207.7	1,395.1	1,911.4	2,635.1	2,393.4	1,639.3	2,515.1	
FREE TRADE ZONES	2,008.9	2,716.1	2,907.4	3,107.3	3,596.4	4,100.2	4,331.5	4,770.6	4,481.6	4,317.3	4,406.8	4,858.2	4,749.6	4,978.8	4,525.1	4,354.1	3,793.0	4,080.0	
IMPORTS	4,664.2	4,903.2	5,170.4	6,727.0	6,898.7	7,697.3	8,041.1	8,473.6	8,779.8	8,837.7	7,828.8	7,883.0	8,884.8	12,173.9	15,697.0	16,982.9	12,966.9	15,298.9	
NATIONALS	2,796.4	2,991.7	3,164.2	3,590.7	4,192.0	4,696.6	5,026.8	6,416.0	6,952.9	6,227.3	6,096.9	6,363.1	7,366.3	9,955.6	11,097.3	13,964.0	9,946.1	12,505.2	
FREE TRADE ZONES	-1,859.8	-1,911.5	-2,006.2	-2,146.3	-2,495.7	-2,700.7	-2,834.3	-3,062.5	-2,826.4	-2,600.4	-2,530.9	-2,519.9	-2,503.1	-2,815.1	-2,499.7	-2,433.9	-2,349.8	-2,413.7	
<b>I.2 SERVICES BALANCE</b>	<b>715.3</b>	<b>888.8</b>	<b>884.9</b>	<b>1,018.8</b>	<b>1,276.3</b>	<b>1,132.0</b>	<b>1,092.2</b>	<b>1,564.3</b>	<b>1,828.4</b>	<b>1,767.3</b>	<b>2,248.4</b>	<b>2,380.7</b>	<b>2,466.8</b>	<b>2,966.2</b>	<b>3,062.6</b>	<b>2,961.3</b>	<b>2,857.3</b>	<b>2,936.9</b>	
INCOME	1,837.1	1,787.9	1,961.3	2,140.0	2,446.8	2,601.8	2,860.3	3,227.8	3,110.3	3,070.7	3,483.3	3,803.9	3,913.2	4,642.6	4,797.6	4,822.1	4,811.7	5,073.0	
Taxes	1,223.7	1,428.8	1,570.8	1,780.5	2,099.4	2,153.1	2,483.3	2,860.2	2,796.3	2,730.4	3,127.9	3,151.9	3,516.3	3,916.9	4,064.2	4,165.9	4,048.0	4,209.1	
Others	313.4	359.1	390.5	359.5	347.2	348.4	367.0	367.4	312.0	340.3	341.0	362.3	394.9	825.7	733.3	786.2	762.9	863.9	
EXPENSES	-821.8	-821.1	-868.4	-1,121.4	-1,171.3	-1,319.6	-1,246.1	-1,573.3	-1,283.9	-1,218.4	-1,218.4	-1,213.2	-1,468.4	-1,667.3	-1,746.0	-1,960.0	-1,824.4	-2,107.1	
Right	-431.6	-485.5	-488.2	-531.5	-557.9	-652.3	-642.4	-694.6	-627.4	-627.6	-590.2	-593.8	-706.7	-776.9	-903.9	-957.2	-842.1	-1,042.0	
Other	-390.2	-435.6	-478.2	-589.9	-613.4	-667.2	-603.7	-678.7	-656.5	-658.8	-669.2	-703.4	-749.7	-780.4	-841.1	-1,003.1	-982.3	-1,065.1	
<b>I.3 INVESTMENT INCOME</b>	<b>-867.0</b>	<b>-881.8</b>	<b>-788.0</b>	<b>-724.8</b>	<b>-786.4</b>	<b>-590.1</b>	<b>-874.8</b>	<b>-1,041.3</b>	<b>-1,091.7</b>	<b>-1,161.8</b>	<b>-1,383.1</b>	<b>-1,824.8</b>	<b>-1,802.2</b>	<b>-1,983.0</b>	<b>-2,183.2</b>	<b>-1,747.8</b>	<b>-1,720.8</b>	<b>-1,788.2</b>	
REVENUE	103.8	101.4	128.1	130.3	140.4	188.2	218.3	296.7	271.2	300.4	340.7	326.0	438.6	728.7	828.8	728.7	481.1	486.8	
Central Bank	23.4	16.3	23.5	28.8	24.9	26.4	36.3	39.6	38.0	25.5	17.2	20.0	59.5	116.6	157.6	107.2	51.5	43.0	
Other	80.2	84.6	104.6	101.5	115.5	141.8	183.0	260.1	233.2	274.9	323.5	306.0	579.1	611.0	671.0	621.5	409.6	443.8	
EXPENSES	-300.8	-783.3	-877.1	-866.1	-866.8	-1,068.3	-1,186.1	-1,341.0	-1,382.9	-1,462.2	-1,733.8	-2,148.8	-2,338.8	-2,681.7	-3,011.8	-2,478.8	-2,181.9	-2,287.8	
Interest	-275.0	-210.5	-226.9	-206.7	-179.6	-173.4	-179.3	-202.4	-202.4	-202.4	-238.2	-333.6	-376.1	-370.9	-416.2	-380.3	-313.1	-308.7	
Utilities and others	-525.9	-572.8	-670.2	-648.4	-756.2	-894.9	-1,010.9	-1,138.2	-1,145.5	-1,249.8	-1,495.6	-1,816.0	-1,962.7	-2,210.8	-2,595.6	-2,098.3	-1,868.8	-1,979.1	
<b>I.4 NET CURRENT TRANSFERS</b>	<b>84.0</b>	<b>882.3</b>	<b>862.2</b>	<b>1,187.7</b>	<b>1,382.1</b>	<b>1,898.6</b>	<b>1,847.8</b>	<b>1,902.3</b>	<b>2,027.6</b>	<b>2,288.3</b>	<b>2,336.9</b>	<b>2,627.6</b>	<b>2,867.1</b>	<b>3,144.1</b>	<b>3,401.2</b>	<b>3,812.8</b>	<b>3,216.8</b>	<b>3,118.2</b>	
Remittances	720.6	796.7	794.5	914.0	1,038.9	1,326.0	1,516.7	1,639.0	1,807.9	1,959.6	2,060.5	2,200.2	2,429.8	2,737.8	3,045.7	3,215.9	3,041.5	2,994.2	
Social Remittances	116.1	118.0	119.9	141.7	158.4	199.7	180.0	188.4	190.9	191.3	189.1	171.9	168.8	143.2	159.1	171.8	165.5	186.4	
Allowances	24.1	32.6	15.5	37.2	36.9	329.8	127.5	59.8	81.0	116.6	102.1	120.7	111.1	114.6	127.1	136.6	54.3	49.0	
Other donations (Gov. and/or private)	33.2	75.8	62.3	74.8	67.9	171.0	21.6	-34.9	-52.3	1.8	-15.6	4.7	-10.6	148.5	69.3	-17.0	-45.7	-95.4	
<b>II. ACCT. CAPITAL AND FINANCIAL</b>	<b>-182.4</b>	<b>466.4</b>	<b>178.0</b>	<b>73.8</b>	<b>481.8</b>	<b>890.2</b>	<b>1,072.7</b>	<b>1,698.8</b>	<b>1,703.6</b>	<b>383.1</b>	<b>-18.8</b>	<b>117.8</b>	<b>1,856.9</b>	<b>1,804.8</b>	<b>2,380.9</b>	<b>4,203.6</b>	<b>2,886.9</b>	<b>4,438.7</b>	
<b>II.1 CAPITAL ACCOUNT 1/</b>															<b>364.2</b>	<b>196.1</b>	<b>136.0</b>	<b>81.9</b>	
<b>II.2 FINANCIAL ACCOUNT</b>	<b>-182.4</b>	<b>466.4</b>	<b>178.0</b>	<b>73.8</b>	<b>481.8</b>	<b>890.2</b>	<b>1,072.7</b>	<b>1,698.8</b>	<b>1,703.6</b>	<b>383.1</b>	<b>-18.8</b>	<b>117.8</b>	<b>1,856.9</b>	<b>1,804.8</b>	<b>2,186.8</b>	<b>4,073.5</b>	<b>2,769.4</b>	<b>4,406.8</b>	
Direct Investment	189.3	206.8	414.3	96.5	426.6	899.8	1,337.8	952.9	1,079.1	916.8	613.0	399.0	1,122.7	1,284.6	1,667.4	2,370.0	2,156.4	1,923.9	
Investment Portfolio		-33.9	-2.9	-7.3	-7.5	-21.3	-43.8	264.5	603.7	-25.7	543.8	-24.3	244.2	773.8	948.1	-375.8	-449.5	524.9	
Public and Private Debt (Short and Long Term) (N)	-440.4	-78.0	27.3	-7.9	-32.4	-0.2	109.6	184.2	322.4	413.2	509.2	-142.7	84.4	405.4	179.5	495.7	759.9	1,329.5	
Public and Private debt (Short Term) (Net)	108.5	110.8	-7.3	76.2	130.5	55.5	147.9	281.2	-53.7	147.2	-296.6	-227.5	-38.8	267.7	-116.0	413.9	-179.4	386.2	
Currency and Deposits	-49.9	100.8	15.9	10.8	2.4	34.7	-56.3	49.2	0.5	63.2	-109.3	-7.0	-9.7	23.1	-9.8	-1.7	2.0	6.3	
Other 2	10.0	153.9	-271.2	-94.5	-61.8	-78.3	-28.4	-135.4	-248.5	-1,131.7	-1,286.5	-389.9	233.2	-1,204.0	-848.6	671.4	461.3	523.6	
<b>III. ERROR &amp; OMISSIONS</b>	<b>217.3</b>	<b>-897.8</b>	<b>75.0</b>	<b>108.8</b>	<b>-188.8</b>	<b>-388.1</b>	<b>-430.6</b>	<b>-818.1</b>	<b>-447.8</b>	<b>-188.8</b>	<b>-1,688.3</b>	<b>-879.8</b>	<b>-468.0</b>	<b>-123.2</b>	<b>411.9</b>	<b>-16.7</b>	<b>-129.0</b>	<b>4.0</b>	
<b>M.-GLOBAL BALANCE (I + II + III)</b>	<b>-488.0</b>	<b>-426.4</b>	<b>88.2</b>	<b>-30.1</b>	<b>96.2</b>	<b>12.7</b>	<b>181.0</b>	<b>-48.0</b>	<b>616.0</b>	<b>-864.7</b>	<b>-648.6</b>	<b>178.2</b>	<b>704.9</b>	<b>184.2</b>	<b>828.6</b>	<b>-336.8</b>	<b>408.0</b>	<b>67.8</b>	
<b>V. FINANCING</b>	<b>488.0</b>	<b>426.4</b>	<b>-88.2</b>	<b>30.1</b>	<b>-96.2</b>	<b>-12.7</b>	<b>-181.0</b>	<b>48.0</b>	<b>-616.0</b>	<b>864.7</b>	<b>648.6</b>	<b>-178.2</b>	<b>-704.9</b>	<b>-184.2</b>	<b>-828.6</b>	<b>336.8</b>	<b>-408.0</b>	<b>-67.8</b>	
Foreign Assets (sum...)	-156.0	388.6	-131.0	15.2	-39.5	-98.2	-193.7	89.5	-518.5	526.5	380.0	-541.8	-1,108.7	-344.3	-682.5	309.2	-637.8	-452.5	
Reserve Assets	-156.0	388.6	-131.0	15.2	-39.5	-98.2	-193.7	89.5	-518.5	526.5	380.0	-541.8	-1,108.7	-344.3	-682.5	309.2	-637.8	-452.5	
Use of IMF credit and loans 3/	84.2	-8.2	-33.9	-99.5	-65.5	27.4				-25.6	92.8	65.7	219.1	37.5	62.8	-41.7	274.7	390.8	
Transferred (Waived)	21.9	13.2	1.0	7.8	1.0	2.3	1.5	1.7	4.2	7.3	6.0	4.3		35.9	10.8	9.4	300.7	4.8	
Foreign Direct Investment (Reduction of arrears)																			
Investment portfolio passive		519.9																	
Other investment passive 4/	367.9	-486.1	95.7	66.6	5.8	55.8	28.1	-23.2	-0.7	46.5	89.7	292.5	184.7	76.7	-17.6	48.9	-343.6	-402.4	
From which:																			
Debt Rescheduling	352.3			21.8	130.2	21.2	14.7						417.0	80.1	33.7				
Total arrears-Other Passive	-378.3	-504.9	34.7	23.6	-124.7	34.4	14.4	-23.2	-0.7	46.5	89.7	292.5	-232.3	-3.4	-61.3	48.9	-343.6	-402.4	
Arrears accumulation	812.0	746	72.3	70.4	38.2	72.9	94.2	70.6	67.2	111.7	257.1	438.3	60.3	26.2	23.7	83.8			
Arrears repayment	-68.6	-133.7	-37.6	-40.1	-56.9	-37.7	-79.8	-93.8	-67.9	-65.1	-167.4	-145.4	-110.1	-25.1	-53.8	-13.9	-54.5	-402.4	
Rescheduling of arrears	-301.9	-434.0			-106.0								-182.5	-13.5	-19.5				
Arrears waivers	-20.3	-11.8		-6.7		-0.8	0.0			-0.1		-0.4		-1.7	-0.7	-289.1			

\*Revised figures.  
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A comparison of economies is an excellent way to view how well positioned is a country and the investment climate it offers. *Doing Business 2010: Reforming Through Difficult Times* is the seventh in a series of annual reports investigating regulations that enhance business activity and those that constrain it (Doing Business 2010). The report presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies, from Afghanistan to Zimbabwe, over time (Doing business, 2010). Looking at this specialize report the Dominican Republic reflects its ranking in ease of doing business and other important world ranking criteria's that foreign investors consider necessary to know and have before investing in any of them. Although this report is using specific economies, the data compares the Dominican Republic to the economies of countries around its region, as well as others from a distant hemisphere and much more developed than the island. One basic criterion for investment is the ease of doing business. In graph 2 we can see Dominicans Republic ranking against selected economies.

**Graph 2: Ease of Doing Business – Global Rank**



Source: Extracted from Doing Business, 2010

Graph 3, which has also been extracted from the *Doing Business 2010: Reforming Through Difficult Times* Report, touches on another very important factor for investors when they consider making an investment abroad. The ranking given in this chart is compared to the selected economies of Haiti, Puerto Rico, Singapore, Rwanda and others. This comparison is done once again to show how the Dominican Republic presents itself as a favorable investment location.

**Graph 3:** Dominican Republic's Ranking in Doing Business

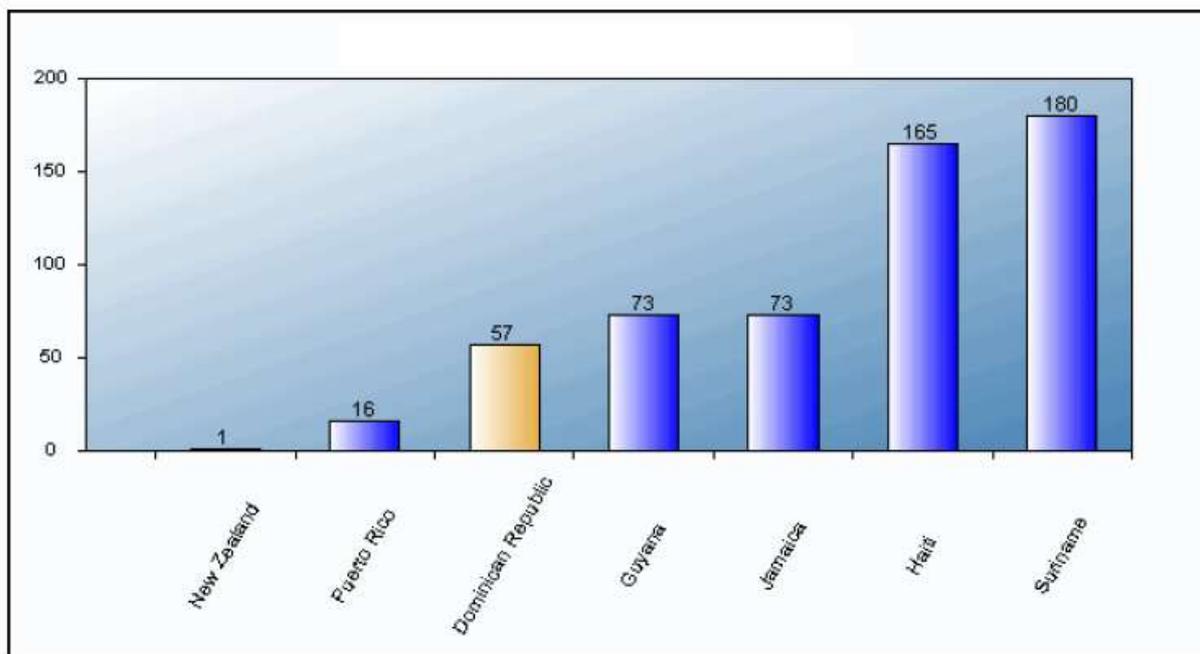
Rank	Doing Business 2010
Ease of Doing Business	86
Starting a Business	107
Dealing with Construction Permits	92
Employing Workers	97
Registering Property	112
Getting Credit	71
Protecting Investors	57
Paying Taxes	70
Trading Across Borders	36
Enforcing Contracts	86
Closing a Business	146

Source: Extracted from Doing Business, 2010

Once an investment is done, one of the biggest, if not the main concern of any investor, is how secure is their investment in a foreign country, meaning how they are protected from any unwanted situation. The Dominican Republic has recently passed a new legislation which provides a greater protection to its investors, thus providing investors with a contingency plan if a recession or theft is to happen. The graph below shows the global ranking of the Dominican Republic in terms or protecting its investors, which is a great improvement from other areas already mentioned. Although this is a very important concern for investors, it still addresses a post-investment situation. What

this means is that it does not really provide an immediate impact in attracting a foreign investment, if other factors are discouraging. In the end this particular item does boost investors' confidence in the country they plan to invest and it also adds to a better investment climate.

**Graph 4:** Dominican Republic's Ranking in Protecting Investors – Compared to Good Practice and Selected Economies



Source: Extracted from Doing Business, 2010

In an interview with CEI-RD Minister Eddy Martinez in the renowned Dominican daily show *Hoy Mismo*, transmitted by channel 9, he talks about the investment climate in the Dominican Republic and mentions key factors that make the country a great place to invest compared to other countries in the region. He mentions establishing incentive

mechanisms in order to attract those capitals which appraise the value of the investment. This investment is not only for the amount, but for the impact they will have in terms of technology transfer, creation of employment, type of employment, quality of products produced in the country and if they will carry out Research & Development activities. Although this mechanism is something the country wishes to implement, it is still not fully incorporated, thus leaving room for error. The institution is still trying to educate and integrate the contact center community so that they can share these incentives and goals with other investors who want to do future business based on the country's incentive structure.

To disseminate this information the CEI-RD has done seminars concerning these incentives, and is moving forward to the implementation of those incentive policies. During the interview CEI-RD Minister mentioned that many investments come through different ministries, therefore many investors are not sure who and how their investments are handled. This reflects a clear disorganization in the governmental mechanisms, which translates into a weakness. Minister Martinez suggests that the government creates an "integrated mechanism of investment". What this means is that no matter the origin of the investment or ministry, it will end up in a single place. This will allow proper follow up of the investment, and in case a project gets trapped, the institution can determine where it is detained due to bureaucracy or lack of project handling. Based on that integrated mechanism the country can increase its FDI inflows by having all projects in a single place, thus providing one more reason to invest in the Dominican Republic.

### **2.3 Promotion agency (CEI-RD) and incentives offered**

The Dominican Republic's government has implemented a liberal framework for attracting FDI. It makes no distinction between foreign and local companies in terms of ownership restrictions and ability to qualify for investment incentives. Foreign investment is permitted in all sectors except those related to public health and the environment<sup>1</sup>, as well as national security. The Dominican Republic government also offers full exemption from all taxes, duties, charges, and fees that affect production and export activities in free trade zones, which it introduced in 1969. The free trade zones aim to attract high-tech manufacturing (including electronics and electrical components) as well as more traditional manufacturing—such as of automotive parts, medical devices and pharmaceuticals, plastics, metals, injection molding, textiles and footwear, jewelry, tobacco and of course contact centers. The incentives offered last up to 25 years for zones on the Haitian border, and up to 15 years for all other zones. In May 2006 there were 59 industrial parks and free trade zones in the Dominican Republic, hosting more than 600 companies, providing over 190,000 direct jobs, and occupying 2.1 million square meters. Although there are no performance requirements for foreign investors, few sector-specific incentives are offered to them. (*World Bank Group, MIGA, Snapshot of the Caribbean, 2007*)

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<sup>1</sup>Due to regulations foreign investors cannot take part in investment such as storage and disposal of hazardous or radioactive waste.

All of the benefits mentioned above and the continuing inflow of investment is happening thanks to efforts from the government and the institution in charge of carrying out FDI promotion. The institution carrying out this very important task is the Dominican Republic's Export and Investment Center (CEI-RD), which is headed by Eddy Martinez, as the Minister and Executive Director of this government institution that promotes national strategic export and foreign investment opportunities and works hands-on with local and foreign enterprise to facilitate business activity. Because the institution knows the importance of investment they are aggressively targeting investors through offices in New York, Miami and California, and because of the nation's entry into the Central American Free Trade Agreement, or CAFTA-DR. The Centro de Exportación e Inversión de la República Dominicana (CEI-RD) as it is called in Spanish, is the country's one-stop investment promotion intermediary. It has three main departments: Export Promotion, Investment Promotion, and a Training Center. The CEI-RD aims to strategically promote the valuable conditions that the Dominican Republic offers as an investment destination and foreign trade developer, by pursuing priority areas as defined by the Government, to increase employment, technological transfer and the social welfare of the Nation. The agency organizes and participates in trade missions both overseas and locally as well as provides tools to assist investors, such as an export directory. (*World Bank Group, MIGA, Snapshot of the Caribbean*)

As previously mentioned the CEI-RD is the official organization responsible for the promotion of international trade and Foreign Direct Investment. It was created as a product of the fusion of the Center for the Promotion of Exports of the Dominican

Republic (CEDOPEX) and the Office for the Promotion of Investments of the Dominican Republic (OPI-RD), according to Law 98-03, effective since June 17, 2003. The CEI-RD is comprised of two main operational areas, export promotion and foreign investment promotion. Its functions include many promotions, but some of the more relevant to this study are promotion of the country's advantages to attract foreign investment. It also coordinates with other government institution related to foreign trade in the interest of achieving an expedient and efficient flow of exports and investments in the country. It deals with promotion and development of FDI and business from the CEI-RD offices abroad, currently in Miami, New York and Chicago. Among all the CEI-RD participates actively in trade negotiations and administration of resulting agreements which contributes to the improvement of the legal framework and its proper application. This will be also available throughout the Foreign Service network and the new offices opening in Puerto Rico and Silicon Valley. (CEI-RD, 2010)

The institution services are available for local and foreign companies to facilitate the exports and investments of the country which is an advantage to any investor. Among the services the CEI-RD offers, and which are relevant to this study, there is specialized consulting and technical assistance in meeting the regulations and norms required for the export of goods and services, which is helpful to new investor who are not familiar with the legal framework. They also have validation of certificates of origin, technical assistance relating to trade agreements, recommendations for improving the production process and benefiting from tariff preferences. The new investor can also benefit from visits on behalf of the CEI-RD specialized staff to their companies in order to evaluate

the production process under trade agreements and preferential programs. One very important service the CEI-RD offers is that they ensure the correct application of norms relating to export and investment procedures by administrating Law 84-99 on the reactivation and promotion of exports and Law 16-95 on foreign investment. Other services, although not specific to the industry, offered by the CEI-RD and from which investors could benefit are product profiles and market analysis, business intelligence, legal and economic information, registration of exports and foreign direct investment, facilitation of a network of representatives abroad and foreign trade documentation center.

The CEI-RD offers several attractive promotion programs for FDI. These programs include National and International Trade shows and expos where it presents companies, local and foreign, can showcase their products. The CEI-RD also coordinates trade missions in order to ensure a successful transaction as well as training programs relating to international trade. In these specific programs relating to international trade, local companies can get educated and learn how to export their products and foreign investors can learn about the local market and opportunities. Another very important promotion program and the one of the most significant is the coordination of business meetings to present what the country's has to offer, as well as to contact potential investors and exporters. With this two-way program, foreign and local investors will have a mutual gain by making the necessary contacts to get their business started, thus generating future FDI (CEI-RD, 2010).

### **3. Case study of contact center FDI in Dominican Republic**

#### **3.1 Contact center FDI**

As it was previously mentioned, this study looks at the pros and cons of contact center FDI from various angles, one from the host country point of view and the other from the investor's point of view. Regarding the host country the study takes into consideration a report created by the economist Jonathan Aragonéz, from the CEI-RD, as well as other documentation of contact centers from the CEI-RD. These documents will provide the necessary data to point out the country's benefit and disadvantages. Due to the lack of published papers that truly criticize or analyze the contact center industry, this study will base many of its facts on three key items. These three key contributions are empirical knowledge of the writer, interview conducted with the economist previously mentioned, and interview with a contact center owner who is doing FDI in the Dominican Republic.

The Dominican Republic has had strong export services for many years, and as a result there are forty to fifty call centers registered with the Dominican Call Center Association. Investors currently operating in the country cited skilled workers, most of whom are bilingual, as their main reason for choosing it as their investment location (Dominican Republic Contact Center Association, 2010). The country has a large, well-trained labor force and although Spanish is the country's official language, investors can find bilingual workers as mentioned before.

*“Apart from the stable, fast growing economy, attractive cost structure and “near shore” location, it can be said that people are the primary competitive advantage in the Dominican Republic. Investors in the Dominican Republic always emphasize the Dominicans high learning ability and proficiency in English”. (Eddy Martinez, 2006).*

The country’s large size means that land is available for green field investment-if one was to be done-although most investors opt to rent or lease a work space for their operations. The country also offers great access to all markets being that is one of the six countries in the world that has a free trade agreement with the U.S. and Europe. Some of the other countries that have such a privilege are Israel, Jordan, Chile and Mexico (Office of the United States Trade Representative, 2010). Other favorable investment factors included the country’s well-developed, affordable telecommunications infrastructure which is the only one in the Caribbean with access to four international cables through the Americas Region Caribbean Optical-Ring System Cable (ARCOS-1). What this means is that the Dominican Republic connection to the U.S. or any other country is redundant, thus ensuring contact center businesses to always be connected.

Contact centers in the Dominican Republic generate 25,000 direct jobs, from the 57 companies registered and operating in the country (CEI-RD, 2010). In the next two years those centers are expected to create 30,000 additional jobs, which when added to the indirect ones are more than 150,000 jobs (Aragonez, 2010). This information comes

from the CEI-RD, which also says that almost all of the data and information technology centers have been installed in the country in the past three years, meaning this great progress has been done in record time. This year alone, and not including centers outside of free trade zones, Contact Centers constituted 15% of approved companies in the free trade zones of the Dominican Republic, being matched only by textile companies (Approved companies by the Free Trade Zone and Export Committee, 2010). In previous reports the committee also shows how these companies add to the country's GDP year after year, reflecting in a steady and secure growth of this industry.

**Table 5:** Companies Approved in 2010

<b>Distributed by Activity</b>	<b>Number of Companies</b>	<b>%</b>
Call Center	4	15%
Textile Manufacturing	4	15%
Service	3	12%
Tobacco and its Manufacturers	3	12%
Footwear and its Manufacturers	2	8%
Fur Processing	1	4%
Manufacture of Plastic and Wooden Slips	1	4%
Manufacture of Paper and Cardboard	1	4%
Manufacture of Construction Materials	1	4%
Electronics	1	4%
Processing of Cocoa and its Derivatives	1	4%
Manufacture of Wooden Boxes	1	4%
Repair and Reconstruction of Electrical and Mechanical Components, Automotive and Industrial Equipment	1	4%
Plastic Manufacturing	1	4%
Production and Marketing of Glass Containers	1	4%
<b>Total of Companies</b>	<b>26</b>	<b>100%</b>

Source: Free Trade Zone and Export Committee, 2010

**Table 6:** Foreign Direct Investment Flow by Sector

CENTRAL BANK OF THE DOMINICAN REPUBLIC  
INTERNATIONAL DEPARTMENT  
FOREIGN DIRECT INVESTMENT FLOW BY SECTOR  
1993 - 2010 PERIOD  
(In US\$ millions and %)

Sectors	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 <sup>1</sup>	2009 <sup>2</sup>	2010 <sup>2</sup>	Total	%
Tourism	73.1	42.5	111.2	61.2	114.2	312.2	296.9	73.7	155.3	211.8	78.5	137.6	312.1	284.9	541.0	228.4	186.0	164.0	3,384.6	18.4
Commercial / Industrial	16.6	33.9	140.8	59.8	216.5	177.4	182.6	153.7	166.6	223.2	102.9	320.5	199.4	(168.2)	183.6	574.2	280.3	308.0	3,171.8	17.3
Telecommunications	93.1	123.7	149.3	(36.2)	32.8	117.1	98.0	272.2	223.3	223.1	146.5	224.6	111.8	340.2	(144.9)	213.0	180.5	327.5	2,695.6	14.7
Electricity	-	-	-	7.5	42.9	33.4	631.4	281.9	401.9	140.1	1.2	(57.7)	117.1	(51.6)	58.7	113.0	121.2	122.7	1,963.7	10.7
Financial	6.5	6.7	13.0	4.2	14.2	29.5	40.9	45.3	15.1	24.9	99.4	61.4	44.0	104.2	27.9	167.6	136.9	93.1	934.7	5.1
Free Trade Zones	-	-	-	-	-	-	40.5	42.5	72.6	45.0	44.9	100.1	174.7	130.5	70.4	44.5	66.7	52.7	885.0	4.8
Mining	-	-	-	-	-	-	-	-	6.8	22.6	77.9	60.2	30.5	106.9	30.4	357.4	757.6	311.2	1,761.5	9.6
Real Estate	-	-	-	-	-	-	-	-	-	-	-	81.8	133.1	337.7	900.3	526.9	436.2	246.6	2,662.6	14.5
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	645.0	-	-	645.0	3.5
Others <sup>3</sup>	-	-	-	-	-	30.2	47.6	83.7	37.5	26.2	61.7	(19.5)	-	-	-	-	-	-	267.4	1.5
<b>Direct Investment</b>	<b>189.3</b>	<b>206.8</b>	<b>414.3</b>	<b>96.5</b>	<b>420.6</b>	<b>699.8</b>	<b>1,337.8</b>	<b>952.9</b>	<b>1,079.1</b>	<b>916.8</b>	<b>613.0</b>	<b>909.0</b>	<b>1,122.7</b>	<b>1,084.6</b>	<b>1,667.4</b>	<b>2,870.0</b>	<b>2,165.4</b>	<b>1,625.8</b>	<b>18,371.8</b>	<b>100.0</b>

(1): Figures revised / Cifras revisadas

(2): figures from 2009 and 2010 are preliminary.

(3): Includes net loans coming from direct investments, as well as other sectors.

Note: The sectors with negative values correspond to operating and/or divestment losses.

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Source: Central Bank of the Dominican Republic, International Department, 2010.

The contact center industry in the Dominican Republic is one that has maintained a steady and significant growth. By doing so it has provided a great deal of jobs in the Dominican labor market, citing that for the year 2009 the industry counted with twenty two thousand jobs. Taking into consideration that the growth of this industry will be of about 27% and 36% annual growth during the next five years, it means that by 2014 the number of jobs can grow to an astonishing one hundred and fifty thousand jobs if the average annual growth rate is of only 27%. If the industry grows at an average of 37% annually, we are talking about having 250,000 jobs, which is almost double of the previous projection. (Aragonez, 2010)

### **3.2 Strengths, weaknesses and investors perspective of contact centers FDI**

Deciding whether to invest or not in a country is a decision which is influenced by what the country has offered, showed, and what other investors say their experience has been. Investors will most likely take other investors input as the reality of how business works in a country. One of the biggest disadvantages mentioned by investors is the language deficit in the Dominican Republic. What has been an advantage so far can appear to be a challenge in future, since the growth of the industry is faster than the ability of people to learn the language, therefore there will be a shortage of English speaking workers in the future with the current speed of growth. This statement comes from the interview with Mr. Blake Janover, contact center owner who has experienced the lack of English speaking representatives. He mentions that the Dominican Republic is a great place to invest, but not the best in the world due to some more important flaws

than not enough English personnel. The main weaknesses mentioned by this contact center owner are banking, finance, and overall legal infrastructure, which is why he runs everything through an external company abroad instead of legally constituting a Dominican company. He also says that it takes time to get things rolling in the country, but he likes the Dominican Republic because “it offers a huge tax benefit, as the US offers almost none” (Blake Janover, 2010). Further details given by Mr. Janover can be seen in the Appendix.

As for the interview with Mr. Jonathan Aragonez, an economist for the Center of Export and Investment of the Dominican Republic, he explains that the Dominican Republic offers contact center investors a great deal of benefits. In his interview he mentions some of the exclusivity of Dominican Republic, its treaty and skilled labor force. The most significant interpretation I could gather from the interview is that investors will most likely earn a profit based on the revenues generated in the investment of a contact center.

*“This is an industry that is expected to grow at a steady 27 to 36 percent in average in the next 5 years, so the investor is bound to make a great profit in the business”.*(Aragonez, 2010)

As weakness graph 2 reflects a clear disadvantage on behalf of the Dominican Republic the ease of doing business by ranking lower than a Puerto Rico and Jamaica. Puerto Rico and Jamaica are much smaller countries, which may contribute to more

agile processes, but with respect to the fact that they are neighboring countries there should be a bigger similitude among them in handling business. This is a clear sign that depending on how a country handles its business will reflect how efficient are their mechanisms, therefore providing a bigger ease of doing business. A factor that plays a role and should not be of much importance is the fact that Jamaica and Puerto Rico receive assistance, guidance and at times are regulated by developed countries. This should not be an excuse for the Dominican Republic to fall behind in such a basic and important principle. Graph 3 shows that the Dominica Republic is not providing a favorable climate for investors since is falling behind to neighboring economies which only advantage seems to be a more organized and efficient system. The Dominican Republic continues to improve, but is weak due to all the red tape and its bureaucratic process. As a result we will continue experience a dawdling progress on efficiency.

Both the investor and the host country agree on one thing, the Dominican Republic offers advantages that many other countries don't have, and that is why the country is becoming a leader in the industry. These advantages are not only extended to the country and the investor, but are also transferable to the workforce. The average starting salaries in the contact centers are between RD\$18,000 to RD\$22,000 pesos<sup>2</sup>. This amount is three times more than the average salary of RD\$6,000 pesos-established by law-for people working office jobs such as law clerk, assistant or financial analyst (Ministry of Labor of the Dominican Republic, 2007). The contact center salaries

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<sup>2</sup> 2010 exchange rate: RD\$37 pesos for \$1USD, therefore divide the Dominican salary must be divided by \$37USD in order to get the equivalent in dollars.

are only matched by those of Doctors or Engineers in production plants, which is very demanding professional field in comparison with being a contact center agent. Although this is good for an individual whose only skill may be to speak English, it affects other labor markets due to the fact that the salary is so much more attractive than almost any other field. This disparity causes a shortage of much needed lawyers, accountants and other professionals in the country. As the industry's strong growth in the country requires more staff, it becomes harder to secure a supply of skilled manpower, which causes higher costs and affects competitiveness by having such attrition. Not every investment is perfect and the country needs to confront the sad reality that although it offers incentives to investors, it also lacks of other mechanisms to maintain investments in the long run.

### **3.3 Impact analysis of Nearshore Call Center Services FDI**

In order to show the impact of contact centers FDI in the Dominican Republic this study will look at "Nearshore Call Center Services". Based on this company we will be able to evaluate the impact of FDI by conducting a case study. The study will illustrate the impact this enterprise has had in the country such as spillover effects, technology transfer and capacitating human resource.

Nearshore Call Center Services (NCCS) is a contact center established in 2006, which started with less than 100 seats as a conductor of FDI. The reason is referred as a conductor of FDI is because the company handles foreign accounts although it is

constituted by local capital. Today NCCS has become a leading contact center in the Dominican Republic, boasting over 1800 seats across three locations and offering direct and indirect employment to many Dominicans. Because of its attention to detail, execution and management that rivals any call center in the USA, NCCS is receiving continuous investment from its foreign clientele. Nearshore has achieved its expectation thanks to the development of an experienced international management team that boasts individuals from the USA, Britain, Canada, Italy, France and the Dominican Republic, making it a cross cultural company that not only receives foreign currency, but it also brings a new culture. As a result of having such a diverse workforce it has given employees new organizational culture and transfer of knowledge in terms of management.

Besides the transfer of knowledge there was also technological transfer. Due to the type of clients NCCS was handling state-of-the-art facilities are built to the highest standards, adopting Cisco enterprise solutions and N+1 redundancy across all potential points of failure. Being that clients don't want to have their information compromise they have also brought their own experts to provide specific security consultation and gained their experience. These clients have also brought into the company/country its software which manages customers' needs, giving the Dominican workforce new knowledge on Customer Relationship Management (CRM) tools. Another great benefit Nearshore has received indirectly is the obligation to comply with international standards such as PCI and HIPPA certification, which clearly exemplifies security of data. With these international certifications-which are required by international clients-Nearshore

exposes its Dominican employees to international standards, thus providing them with more transfer of knowledge.

NCCS has also provided an opportunity for students to afford their studies and the ability for adults to sustain their families. Most of the agents in contact centers consider this their permanent job, mainly because they are adults over the age of twenty three with families to support. Students perceive this in a different way, for them is only a mean of obtaining enough money to pay their college education. In very odd cases people do pursue this as a career opportunity, but most likely will be people who have been in the industry at management level for many years. Jobs in the Dominican Republic pay very little and it does not suffice for basic needs. In call centers the pay ranges from RD\$18,000 to RD\$22,000 pesos. This pay is considered above average for someone who has no High School diploma or College Degree and whose only qualification is that they speak English. There is not much opportunity for growth and development in contact centers, and many young people only take the job to be able to pay for their education, but that in itself means that call centers have an impact in the countries youth. Nevertheless, there are many instances where agents have become supervisors or QA analysts and have even become managers or opened their own call center.

NCCS is an entity based on foreign capital that not only provides direct jobs to the people mentioned above, but it also provides indirect employment to over 80 other

individuals. For the indirect jobs, NCCS facilities outsource their security, maintenance and legal staff along with other minor contracting services. Security alone provides over 50 jobs, maintenance provides 25 jobs and a legal staff is composed of 4 lawyers. All of this can be said to be an indirect result of FDI in the country thanks to NCCS.

#### **4. Conclusion and recommendations**

##### **4.1 Key findings**

With the continuous improvements being done by the Dominican government, it can be said that the country is becoming a great place to do FDI. A very important matter among the numerous others mentioned is security, which is something every investor asks for. The Dominican Republic needs to maintain macroeconomic stability and security, which is a responsibility of all institutions of the state. At this moment there is lack of coordination within governmental entities and there needs to be support from all of them. Another support that needs to be given is by society itself. Recent studies measure the impact a country's general culture has when attracting foreign investment. These studies have found out that there is correlation between greater cultural background in the country including museums, universities, historical centers and entertainment, and the amount of investment a country receives. Aside from these incentives, all the infrastructure and human resources, which is the most important asset the country counts with, are important factors when it comes to attracting foreign investment in the contact center industry. In regards to those aspects Dominican Republic is doing well in the region and still improving, but it cannot be satisfied with

measuring itself within the region. The Dominican Republic is greatly placed in comparison with Haiti or Cuba, but that's not the measurement they should be looking for, which is why in a recent study done by South Korea, the country is measuring itself against Ireland, Singapore, Mauritius and South Korea. The country needs to continue gathering the criteria's of great companies like those on the Fortune 500 list or great European and Asian countries who are now looking at other countries within the Latin America region other than Mexico and Brazil. Becoming a leader in the world of contact centers is something that many countries are trying to achieve and the Dominican Republic is one of them. Although it still lacks in certain areas, it offers greater advantages to investors over other countries in the region and the local workforce.

As for the impact contact centers have had in the country, is clear it has helped more than any other industry by providing jobs to a great amount of individuals. Most of the time these contact center workers have no skills, and are professionals with no experience or recently graduated with no business contacts in their field. Those individuals will most likely start out making RD 8,000 a month on other jobs, if they are lucky enough to get a job on their field or something related to it. Contact centers hire accountants, doctors, lawyers, and other professionals who cannot find a better paying occupation in their field, thus having to take a job in a contact center. In the case of tenured professionals is to make ends meet until they find something better. Around 90% of contact center workers at the agent/operator level have no marketable skills or job experience, aside from being bilingual (Dominican Today, 2008). It is clear that

contact centers are a source of income to those who are in need but is not taken serious.

#### **4.2 Recommendations for future improvement**

The country needs to realize the potential it has on this industry and start taking actions and creating measures that will allow it to become a leader for FDI in the contact center industry. Although the industry is employing professional from different areas, it should also start thinking about hiring professionals in the field of contact centers. Having graduates from different fields does not provide security to this industry. A doctor, accountant, lawyer or any other profession will always look for something in their field of study, therefore causing a high turnover and attrition rate in the centers. The state needs to put in place training facilities that provide trained professionals in the area. An important key element which is recommended is trained personnel in order to help facilitate and educate the workers already in place. Being able to speak English should not be the only skill taken into consideration. At a bigger scale the government needs to implement the integrated mechanism of investment. By putting this system into place investment will find its way to the desired area and person to assist in this matter.

A subject that was not directly addressed in the study and which is very important is to account for all contact centers in the Dominican Republic. Although the CEI-RD and the Call Center Association accounts for formally registered contact centers, there are hundreds of informal centers in the Dominican Republic. Knowing and registering the

real number of centers will provide more accurate figures, possible conglomerates and creation of unified strategies in the country. Another suggestion for the development of this sector is to provide smaller centers with better incentives in order to grow. Small call center operations do not count with the necessary capital to provide or hold major operations. With an active development plan which includes low interest rate loans, training, assistance and workshops these centers could easily attract a great amount of foreign investment, therefore causing a greater impact in the country. With these tools that are available to bigger enterprises, many of these minor companies won't be left out and can become part of these industry. Last but not least is the importance of disseminating all the benefits this industry receives and offers so that more people can be motivated to join into these ventures. If these recommendations are to be taken into consideration the country can easily position itself as the future investment destination for FDI in the rising sector of contact centers.

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## ***Appendix I:***

### **Interview with Mr. Janover**

#### **1. How are you currently financing your investment in the Dominican Republic?**

At this moment I'm financing everything personally. Started small and used my businesses money to grow the business. Everything I have ever done is catalyzed one hundred percent by organic growth and I have yet to seek outside capital in any venture. I started as the telemarketer myself and play all roles until it grows. If the time comes I am open to other types of financing, joint ventures or local bank loan, but as of right now the business is providing for itself.

#### **2. What are the cons and pros of investing in the Dominican Republic?**

I have a Dominican corporation but have yet to run anything through it. I need it for payroll and taxes purposes, but right now still funding everything through my U.S. Corporation. Banking, finance, and overall infrastructure in the country (Dominican Republic) is weak and subsequently having a corporation doesn't automatically legalize you, it takes time to get things rolling. With that said, there are countries that can be used as intermediaries that offer huge tax benefits as the US offers none.

### **Interview with Mr. Aragonez**

#### **1. What exactly does the Dominican Republic has to offer to the foreign investors looking to set up a contact center?**

The contact center industry is amongst the fastest growing segments within the Dominican Republic. Our country's close proximity to the United States, highly skilled labor force, modern infrastructure and favorable economic policies continue to provide the ideal environment for foreign investment. Our present national policy is based upon the creation of new market opportunities in specialized areas such as contact centers; a segment viewed as key to our continued strong economic performance.

The Dominican Government is COMMITTED to increasing the quantity and quality of spoken and written English sponsoring programs such as English as a Second Language (ESL), a mandatory bilingual curriculum into the educational system and the creation of bilingual cities. Investors may also benefit from the Contact Center Institute of the Americas (CCI) that offers contact center agent and management certifications, outsourced training programs and staffing services to local and international companies.

### **Dominican Republic Educational Support System – Fast Facts**

- 33 Universities and over 420,000 students enrolled in 2006
- 60 English Language Institutes
- 15 Multilingual Institutes (English, French, German, Italian, Japanese, Portuguese, Mandarin)
- 135 Community Technological Centers

- 570,000 professionals with diplomas of higher education (Post-graduate studies and graduates at technical level)
- Contact Center Institute of the Americas (CCI)
- Cisco Regional Academy (CATC) at Las Americas Institute of Technology (ITLA)
- CCNA, CCNP, Network Security Certifications

### **Operational Cost**

The Dominican Republic currently is one of the most cost effective destinations among international and regional markets. Labor costs are amongst the lowest in the region.

### **Contact Center Institute of the Americas (CCI)**

Located within the Parque Cibernetico de Santo Domingo (PCSD), the Contact Center Institute of the Americas (CCI) is the only organization of its kind in all of Latin America. The Institute is dedicated to providing high quality training to prospective industry employees, as well as to established professionals. The strategic alliance between Fine Marketing Solutions, Tele-development Services, and the PCSD has established the Dominican Republic as a powerful hub in the call center world. CCI applies the best practices of the United States and vanguards technology to help companies recruit, contract and train qualified agents and contact center management

### **High Quality Talent**

The Dominican Republic labor force is second to none. Most Dominicans are bilingual; many speak three languages or more. However, what separates Dominicans from others in the region is our strong work ethic and service orientation. Don't just take our word for it, come visit and you will find:

- A motivated and flexible workforce;
- People willing to do whatever it takes to get a job done right the first time;
- An unwavering commitment to excellence and dedication to quality;
- An educational system and ancillary support mechanisms in place for continued growth of our students and professional competencies.

Let me give you an example, Tim Searcy CEO of American Teleservices Association (ATA) said:

*“The Dominican Republic has proven to be an outstanding choice for many firms seeking near shore cost advantages for call center and BPO opportunities. With an eager and educated workforce as well as the many training programs put in place by the government, companies have found the ideal blend of lower costs and high quality. Unlike some other offshore choices, the DR also enjoys easy access from the United States with many direct flights from Florida airports. Personally, I recommend the Dominican Republic as well because of the friendliness of the government and its support for our industry.”*

## **2. What is the success rate of these companies in the country?**

Call Centers in the Dominican Republic is an industry that in recent years has maintained a stable and significant growth. The growth rate in the industry would be hovering in the next 5 years between 27% and 36% in average. The industry has an estimated value for 2009 of US\$179.34 million, representing 0.38% of Dominican Republic's gross domestic product (GDP), which is projected to grow to around US\$834.2 million by 2014, increasing its share of GDP to 1.5%. This means that every firm that decides to install it's call centers in Dominican Republic has a great opportunity to make a significant profit in their business and be part of one of the most innovative and successful industry, which is contact centers.

## **3. Do you believe the country has an adequate infrastructure to support and endure the industry rapid growth?**

The Dominican Republic has the most advanced telecommunications structure in Latin America, rated amongst the top 10 globally. In 2008, our country will become home to the Network Access Point (NAP) of the Caribbean, making an already excellent telecommunications infrastructure even more robust.

The Dominican Republic has some of the most modern equipment available in the telecommunications world; WiFi hotspots are found throughout the major cities and broadband internet is easily accessible from home and office. We are also

interconnected with all of the countries in the Caribbean, Central America and the United States through an underwater optical fiber cable, guaranteeing the security of electronic transactions.

The Dominican Republic also provides:

- Over 6.0 million cable and wireless lines
- Over 1.7M internet connections
- Main Dominican cities connected through optical fiber rings
- Per Capita usage in telecommunication higher than in the United States
- First country in Latin America that implements Online Education

As I mentioned before, some of the most important things are the rapid growth of Bilingual Workers, although the Dominican Republic goes beyond the English language. We currently have many students, studying abroad not only English, but German, French, and since we know the rapid economic growth of Asian countries such as China and Korea, we have a large amount of individuals-in the Dominican Republic and abroad-studying Mandarin, Korean and other important languages in the globalize world.

In the other hand we have Information Technology Communication (ITC) going through an important phase in our country, and are identified as a priority for the coming years. We are actively developing new Research and Development (R&D) strategies,

International alliance which adds to the investments and will help us guide and drive our technology sector.

*I believe D.R has an adequate infrastructure to support the industry rapid growth and more! (Jonathan Aragonez, 2010)*

## Appendix II: Commercial Balance of the Dominican Republic with South Korea



### Comercial Balance of the Dominican Republic with South Korea



January - December, 2006 - 2010

FOB Value in US\$

Year	Exports			Imports			Trade Balance		Trading	
	Nationals	Free Trade Zones	Nationals y Free Trade Zones	Nationals	Free Trade Zones	Nationals y Free Trade Zones	Nationals	Nationals y Free Trade Zones	Nationals	Nationals y Free Trade Zones
2006	181,253,579.28	1,009,544.12	182,263,123.41	31,577,352.70	4,537,751.63	36,115,114.33	149,676,228.59	146,148,009.08	212,830,931.99	218,378,237.74
2007	134,984,206.96	1,328,584.41	136,312,791.36	37,413,700.88	2,862,846.12	40,276,547.00	97,570,506.07	96,236,244.36	172,397,907.83	176,389,338.36
2008*	18,789,377.45	5,434,426.81	24,223,804.26	59,975,235.78	10,177,808.06	70,153,043.84	(41,106,848.33)	(45,930,227.53)	78,769,603.23	94,377,636.10
2009	9,174,855.93	4,336,401.33	13,511,257.26	47,818,408.21	18,002,084.74	65,820,492.95	(38,943,592.28)	(52,309,235.69)	56,995,264.14	79,331,792.21
2010*	18,845,864.12	10,960,232.20	29,806,096.32	93,050,182.20	15,484,899.61	112,535,081.81	(74,204,298.00)	(82,728,964.49)	111,895,026.32	142,341,189.13
<b>Total</b>	<b>388,047,883.74</b>	<b>23,098,186.87</b>	<b>388,117,073.61</b>	<b>288,836,349.77</b>	<b>64,885,582.18</b>	<b>324,721,247.95</b>	<b>83,212,933.87</b>	<b>81,416,826.68</b>	<b>692,883,733.61</b>	<b>710,818,821.64</b>

Source: DGA and CEI-RD Statistics  
 Central Bank of the Dominican Republic (BC-RD)  
 National Statistics Office (ONE)  
 \*Figures subject to ratification

Source: Export and Investment Center of the Dominican Republic, 2010.

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