



**BENCHMARKING THE FDI ENVIRONMENT IN THE CARIBBEAN**

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**Foreign Investment Advisory Service  
a joint service of the  
International Finance Corporation  
and  
The World Bank**

## **EXECUTIVE SUMMARY**

### ***Project Rationale***

With a total population of 23 million people and a total GDP of US\$45 trillions, the Caribbean region seems an unlikely destination for significant amount of foreign direct investment (FDI). Nevertheless, the region has had an excellent track record in attracting FDI inflows over the last two decades. Measured by UNCTAD's FDI Performance Index, the region has been attracting two to three times as much FDI as what is predicted based on its relative economic activity in the world.

In more recent years, however, this overall good FDI performance has been on a downward trend due to a variety of factors. Being small and open, the Caribbean countries are extremely vulnerable to external shocks. The economic downturn after September 11 is felt particularly strongly throughout the region, leading to sharp decreases in GDP growth - from an average of 3.8 percent per annum between 1996-2000 to 0.7 percent in 2001 - and a stagnation of FDI inflows. In addition, most of the countries in the region suffer from persistent current account imbalances and double digit unemployment rates.

Prompted by a dwindled supply of foreign investment capital and increased global competition for investment, many governments in the Caribbean region are examining their business environments for attracting investment, including FDI. In its request to FIAS for assistance in a diagnosis of the businesses environment for private investment and enterprise growth, the Government of Grenada expressed strong interest in benchmarking itself against other countries in the region in how it is perceived by foreign investors as an investment location. This initiative is shared by other governments of the region. At the same time, the World Bank Caribbean Unit is currently conducting a regional growth study in the Caribbean basin, and has invited FIAS to participate in the exercise by carrying out an analysis of the overall attractiveness of the region as a destination for foreign investment.

### ***Caribbean Investor Perception Survey***

In response to these requests, FIAS conducted a Caribbean Investor Perception Survey between February – May 2004 of international companies operating in the Caribbean basin. The objectives of the survey are two fold: (i) to gauge the relative importance of a large number of factors that could potentially influence foreign investors' location decisions in the Caribbean region, and (ii) to assess the relative attractiveness of the different countries for foreign direct investment (FDI). In addition to providing an assessment along the lines of a set of investment climate criteria, firms were asked to identify "alternative investment locations" both within and outside the region in order to afford a view of which countries are considered competitors from the perspective of international investors. Finally, information was also collected on what sources of information potential investors turn to for information on a particularly country, the

results of which should inform the relevant investment promotion agencies in the region about the effectiveness of their efforts.

The sample frame was developed from an extensive list of firms obtained from the investment promotion agencies and chambers of commerce in the region. One of our aims in the sample construction process was to include firms at different stages of investment. However, information on past and prospective investments were nearly impossible to obtain as very few enterprises are interested in discussing their future projects, or their failed efforts in the past. Therefore, information collected largely reflect the views of the enterprises that have looked around and settled in at least one island in the Caribbean.

The interviews were conducted primarily by telephone. In total, the top level management from 201 companies were interviewed. The survey revealed that although a large proportion of the international companies active in the Caribbean region are from the US (42 percent), inter-island investment is also quite considerable (40 percent). Investment from Asia or South America, on the other hand, is very limited.

Overall, the scale of the investments is quite small. Micro, small and medium sized companies account for two thirds of the firms and more than a third of the investment is less than US\$1 million. Moreover, despite the small sizes of the local markets, the majority of the firms do not export at all, even though there is also a fair share of the firms that serve exclusively the overseas market.

### ***Key factors affecting investment decisions***

The survey investigated 42 aspects of the investment climate in 8 categories. Overall, investors in the Caribbean attach more importance to the quality of infrastructure than any other aspects of the investment climate. This is especially true for those in transport and retail/wholesale trade businesses. In addition, labor market issues, including the cost and availability of workers at different skill levels, labor productivity, labor market flexibility and labor relations, also rank high on investors' decision making list. By contrast, market access for either input supplies or final products, and administrative procedure for business approval and land accessing are low on investors' mind when evaluating investment options.

Firms in different businesses, however, attach varying degrees of importance to the various factors affecting investment climate. As manufacturing firms tend to be more export-oriented, they care a great deal about exchange rate stability and shipping services and ports, but are less concerned about access to land or anti-competitiveness practices. Services sector firms, on the other hand, because they are more geared towards the local market, tend to care more about political and regime stability and local market size, but less about the availability of unskilled labor.

Moreover, although firms do not give equal importance to all aspects of the investment climate, very rarely would a firm claim attaching no importance to any issue that could potentially affect its business operation. Therefore, it should be stressed that even though

this benchmarking exercise strives to identify *the* most critical aspects of the investment climate in the Caribbean, policy makers in the region should not neglect the relatively minor aspects of the business environment either.

### ***Key strengths and weaknesses of five Caribbean countries***

The survey provided enough country-specific information to allow a more in-depth cross-country comparison of the most important strengths and weaknesses of five Caribbean countries. It can be concluded that:

- Barbados comes out strongly in terms of its policy and legal environment, as well as its FDI framework, but falls behind in taxation, including both tax rates and tax administration, and customs.
- The Dominican Republic excels in labor supply and other aspects of the labor market, as well as relatively good tax and customs systems, but is the weakest among the five when it comes to quality of life.
- Grenada offers good infrastructure and a pleasant life style, but falls behind in FDI framework, market access, tax and customs procedures, and all aspects of the labor market.
- Jamaica provides the best market access and the best infrastructure facilities in the region, but is weak in terms of government bureaucracy and administrative obstacles to growth.
- Trinidad and Tobago is well-spoken of for its policy and macroeconomic stability and an abundant power supply, but lags behind for serious crime and security concerns and anti-competitiveness practices.

### ***Sources of information for investors***

The survey revealed that for information about a particular country, most investors rely on their own companies' internal reports and analysis. By contrast, traditional investment promotion tactics, such as trade missions and promotional campaigns by destination country officials, have not been widely used to as an information source. This suggests that the investment promotion agencies in the region have not been very effective in reaching the potential investors. In the case of the Dominican Republic, Grenada and Jamaica, the investment promotion activities are so insignificant that no investors cited them as a useful source of information.

### ***Lessons for the future***

The Caribbean Investor Perception Survey is a first attempt at benchmarking how the various countries in the Caribbean are perceived by foreign investors as an investment location. The survey results provide some unique insights into the dynamics of the international companies active in the region, and filled some important information gaps that could prove useful to many policy makers and policy analysts. At the same time, the survey implementation process also highlighted the limitations of such an undertaking and offered important lessons and directions for the future. These include:

- The survey instrument could be improved to ensure better and more accurate responses from the respondents. With perfect hindsight, it becomes clear now that some questions should have been raised in a slightly different way to avoid confusion and facilitate interpretation. For this reason, although the survey was able to identify which countries are considered competitors for what types of investment, no concrete conclusions could be derived on why.
- Given the tight time constraint, the survey did not succeed in collecting sufficiently good information from all countries that have shown a strong interest in the exercise. St. Lucia is one such example. In this regard, the current undertaking should be considered a pilot.
- Out of concerns of limiting each interview to 30-45 minutes to maintain interviewees interest and cooperation, some important investment climate factors were left out of the questionnaire. Better design of the survey instrument and heightened interviewing techniques would ensure maximum coverage of issues within strict time constraints.

# CHAPTER I

## INTRODUCTION

### A. Overview of the Caribbean Region

For the purpose of this study, the Caribbean region encompasses all the CARICOM members except the Bahamas and Montserrat, plus the Dominican Republic, a CARICOM observer. There are a total of 14 countries.<sup>1</sup> Together, they account for 0.4 percent of the total world population and less than 0.2 percent of the world wealth.<sup>2</sup> Given their small sizes, these countries are very open, with an average trade to GDP ratio of 112 percent over the last decade, but also extremely vulnerable to external shocks. Between 1996-2000, for example, these economies were growing at an average rate of 3.8 percent per annum. After September 11, growth in the region dropped sharply to 0.7 percent in 2001 and has only climbed up to 1.5 percent by 2003.

Another two shared features of these economies are negative external balances and high unemployment rates. With the only exception of Trinidad and Tobago, an energy-exporting country, the current account imbalances have been between 5-30 percent of GDP during the last few years throughout the region. At the same time, double digit unemployment rates have plagued the region over the last 20 years. Although the situation seems to be improving since the late 1980s, the regional average unemployment rate still stood at 12 percent by 2002.

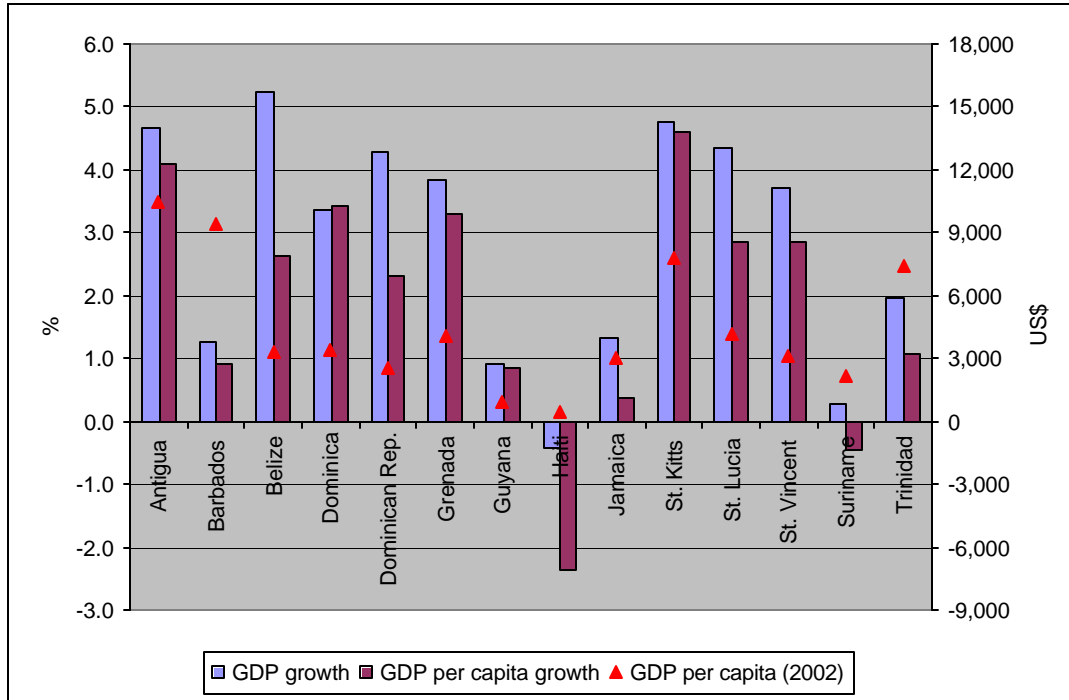
Nevertheless, sharp contrasts exist within the region in terms of both economic structure and growth performance despite their shared small size by world standard and other similarities. For example, while agriculture accounts for less than 5 percent of the national GDP in Antigua, St. Kitts and Trinidad and Tobago, it still weighs in at around 30 percent in Guyana and Haiti. Meanwhile, while several of the larger economies of the region, notably Jamaica, Haiti and Suriname, have experienced negligible or even negative levels of growth over the last two decades, others, notably Antigua and St. Kitts, have experienced much higher and steadier levels of per capita income growth. (Figure 1.1.)

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<sup>1</sup> The 14 countries are Antigua and Barbuda, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

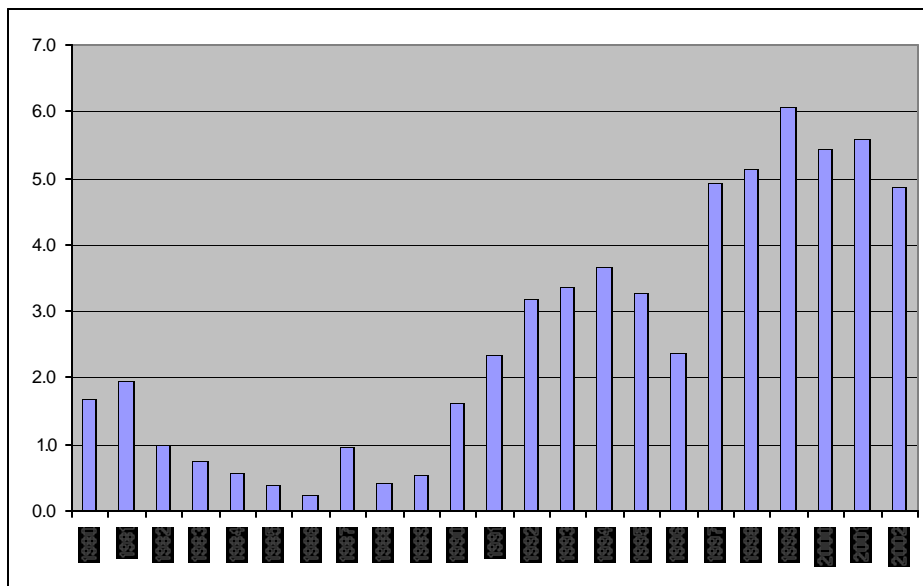
<sup>2</sup> These 14 countries have a total population of 23 million people and a total GDP of US\$45 trillions.

Figure 1.1 Average Annual GDP Growth (1980-2002) and GDP Per Capita (2002)



On the whole, the region has performed well in attracting FDI inflows. As Figure 1.2 shows, the regional FDI to GDP ratio increased from less than 1 percent in the 1980s to over 5 percent between 2000-02, although it has been on a downward trend in recent years as FDI inflows stagnated. The highly cyclical nature of the FDI inflows to the Caribbean region is another indication of the region’s vulnerability to external factors.

Figure 1.2 FDI to GDP Ratio in the Caribbean, 1980-2002, (%)



A country's FDI performance needs to be taken against the context of overall changes in global FDI flows.<sup>3</sup> For the last several years, the UNCTAD has produced an "FDI Performance Index" that ranks countries by comparing their relative levels of FDI inflows in relation to their relative levels of economic power.<sup>4</sup> Thus, an FDI performance index of one would suggest that the country is attracting exactly the proportion of global FDI that is represented by its proportion of global economic activity.

Table 1.1 reports the Caribbean region's overall FDI performance indices between 1980-2002 using this methodology. With the exception of the late 1980s, the Caribbean region has been attracting significantly more FDI than is predicted based upon its proportion of global economic activity. However, its high performance has been in decline since the early 1990s, long before the recent global economic downturn and the associated contraction of worldwide FDI flows. This suggests that the region, while still a "high performer" by international standard, is gradually losing its attractiveness to other regions over the last decade.

Table 1.1 FDI Performance Index for Caribbean

	1980-84	1985-89	1990-94	1995-99	2000-02
FDI Performance Index	2.8	0.14	3.7	2.5	1.9

Clearly, these aggregate performance indicators disguise the wide disparities in individual country's performances. St. Kitts and Nevis, for example, has been able to continue to improve its FDI performance over the last five years notwithstanding the global FDI decline. Nevertheless, the countries in the Caribbean region need to carefully assess their investment climate, their strengths and weaknesses in FDI attraction, and adjust their investment policies and promotion strategies to meet the new challenges.

## B. Caribbean Investor Perception Survey

Firms do not invest abroad solely on the basis of cost benefit calculations. Most of the time, they also look at a number of other factors that cannot easily be quantified, such as political and regime stability, macroeconomic policy stability, the efficiency of government services, the quality of roads, and many others including the life style afforded to the expatriates.

**Objectives.** To gauge the relative importance of the various factors influencing foreign investors' location decisions in the Caribbean region, as well as the attractiveness of the different countries for foreign direct investment (FDI), a survey was conducted between February – May 2004 of international companies operating in the Caribbean basin. In this investigation, inter-island investments are also considered as foreign investments. Thus, the final unit of analysis is the country. We try to establish a series of benchmarks

<sup>3</sup> As a result of the global economic downturn, the worldwide FDI flows halved between 2000-02.

<sup>4</sup> The numerator of the FDI Performance Index is the ratio of a country's FDI inflows as a proportion of world inflows, while the denominator is the ratio of a country's GDP as a proportion of global GDP.

from the view point of the firms that have considered and/or invested in at least one country of the region. That is, whereas most studies of the attractiveness of a country for FDI start by an examination of the existing firms in the country, we ask the managers of multinational companies who are at different stages of investment in that country.

***Instrument.*** The questionnaire was designed to collect a number of company characteristics, the company's evaluation of 42 factors in 8 categories that constitute a country's investment climate, the company's assessment of the country where it has chosen to investment and of the alternatives considered. The 8 categories of factors include policy and legal environment, FDI framework, market access, labor characteristics, administrative procedures, taxation and customs, infrastructure and quality of life. Information is also collected on what these companies rely on to form their views of the countries in Caribbean, which should be of interest to the investment promotion institutions of the region.

***Sample selection.*** The sample frame was developed from an extensive list of firms obtained from the Investment Promotion Agencies (IPAs) and Chambers of Commerce (CCs) in the 14 countries. Unfortunately, the response from the IPAs was not always favorable. Fortunately, the chambers of commerce were more forthcoming and presented web sites with listings of their members, which greatly facilitated the selection of the survey sample.

The list of companies compiled from these various sources contains some 1,400 enterprises, some of which are already established on the islands while others have expressed an interest in investing in the countries of the Caribbean. From this list, 650 companies were selected as interview candidates. These firms were selected with the following criteria in mind: the firms should have international investment; the firms should represent a wide variety of sectors; the firms should also provide a fair representation of the different islands/countries in the Caribbean.

One of our aims in the sample construction process is to include firms at different stages of investment. That is, we want to have firms which have considered investing, but have yet to make an investment, firms which have made an investment and currently in operation, and firms which have made an investment in the past, but have since closed shop. However, information on past and prospective investments are nearly impossible to obtain. One of the managers interviewed explained: "When a firm sees a good opportunity, it invests. It does not shelf it or keep it on its drawing board for a couple of years. Unattractive prospects are dropped and forgotten." Thus, with the exception of a few cases, information collected reflect the views of the enterprises that have looked around and settled in at least one island in the Caribbean.

***Interviews.*** The survey was conducted primarily via telephone. In the interview process, the managers approached were the Chief Executive Officers and/or Chief Financial Officers of the subsidiaries in the Caribbean. Although the original idea was to reach the highest levels of a company's decision makers in order to obtain a strategic view of the company's global presence, in practice it was found that the higher level executives were

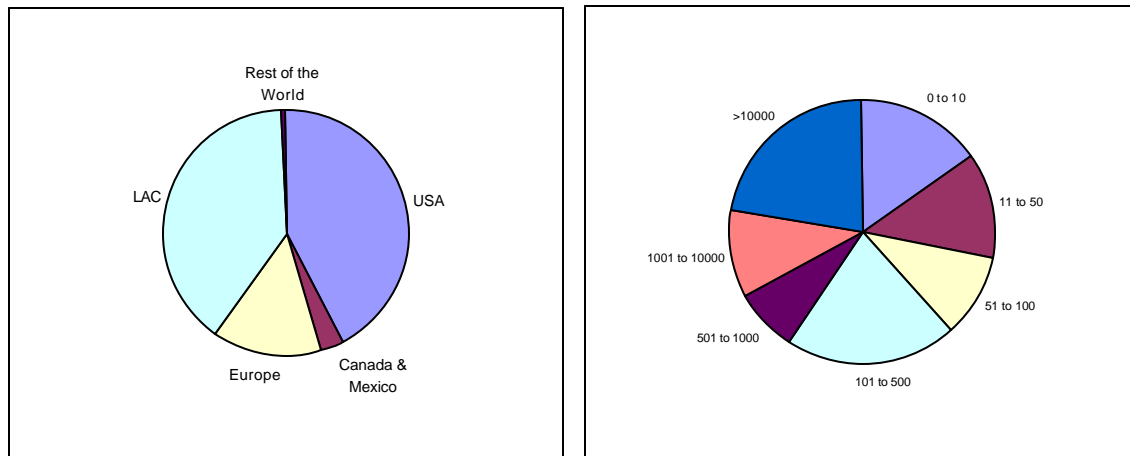
not only much more difficult to reach, but often did not have the kind of details on hand. In contrast, the top level management at the island level not only knew why a particular island had been chosen by the country, but was also familiar with many of the more detailed questions like those referring to wages or import tariffs.

**Achieved sample.** In total, 201 companies were interviewed. Among them, 20 are enterprises with headquarters in the Caribbean that have considered, but not yet invested in another country. The investment projects of these firms can be considered as “potential investment”. Unfortunately, the data collected from these investors are very sketchy and do not allow for an in-depth analysis. In addition, 22 enterprises were removed from the analysis because upon close scrutiny their investment should be classified as 100 percent local. Therefore, the bulk of the analysis in the report is based on the information provided by 159 firms.

**Sources of investment.**

North America is home to the highest proportion of the firms, accounting for 45 percent of the total. (Figure 1.1.) Latin America, including the Caribbean, is also very well-represented with 40 percent of the firms basing their headquarters there. The remaining 15 percent of the surveyed firms come from Europe and one from Japan. Many of these firms are quite small as more than a third of them have a worldwide labor force of less than 100 people. But there are also some very big multinationals – 23 percent of the firms have more than 10,000 workers in their global production network.

Figure 1.1 Distribution of Firms by Headquarter Location(left) and Worldwide Employment (right)

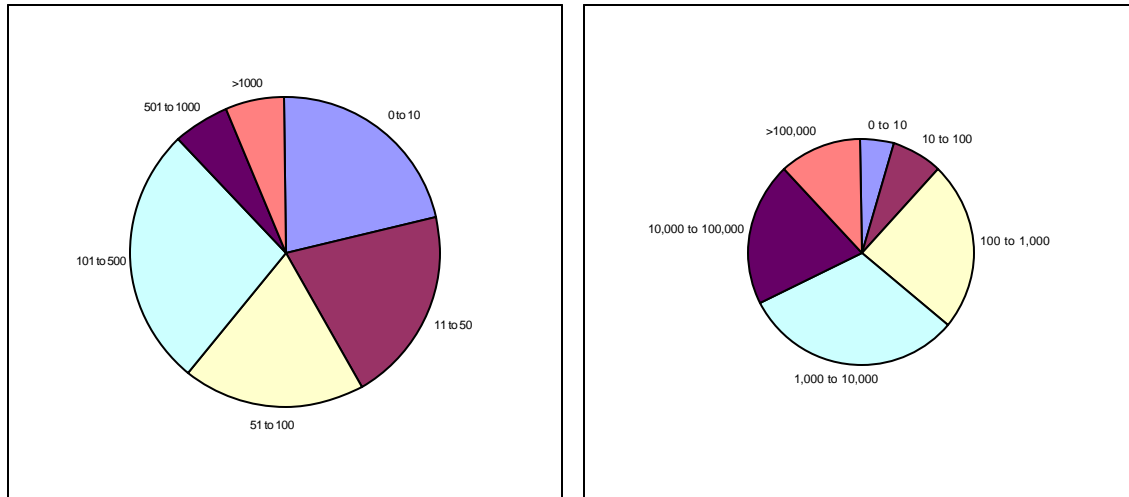


**Sizes of investment.**

The majority of the foreign establishments in the Caribbean are quite small in scale. For example, 22 percent of the firms are micro businesses with 10 employees or fewer. SMEs (i.e. between 11–100 employees) account for another 40 percent of the total

establishments. Correspondingly, the realized investments are also limited in size, as more than a third of the firms made investments of less than US\$1 million.

Figure 1.2 Distribution of Firms by Employment (left) and Investment (right, US\$1,000)



### *Characteristics of the Caribbean Subsidiaries*

Regardless of the investors' countries of origin or the location of the Caribbean establishments, most of the companies (52 percent) are privately-held companies with limited liabilities. Publicly listed companies account for another 36 percent, while other forms of legal status (e.g. partnership, cooperative, etc.) are only marginally represented. At the same time, despite the generally small sizes of the domestic markets in the Caribbean, a majority of the firms serve only the local clientele, although a fair share of the foreign investors (20 percent) export all their productions.

Figure 1.3 Distribution of Firms by Legal Status (left) and Export Share in Sales (right)

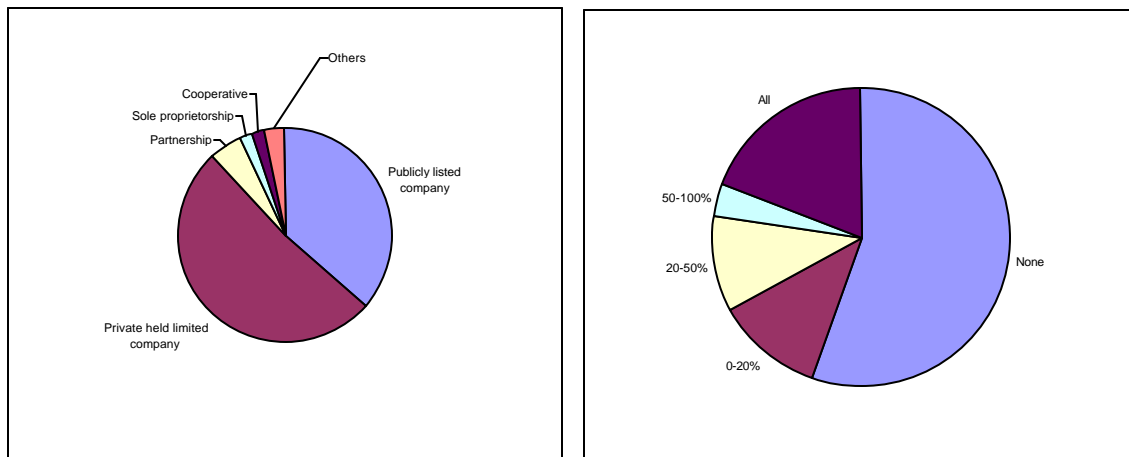


Table 1.2 reports the distribution of these firms by their leading activities, as well as the average size of the work force, levels of investment, and the shares of export in their total

sales. Firms in textile and garments industries, which have one of the lowest capital intensities among all types of companies, are big job creators and foreign exchange earners thanks to their export-orientation. By contrast, firms in the ICT-enabled services bring in much more capital on average, but do not provide as many jobs and are much more geared towards serving the domestic market.

Table 1.2 Distribution of the Sample by Sector

	No. Firms	No. Employees	Investment (US\$)	Export/Sales (%)
Agriculture	5	49	255,000	25
Food processing	20	296	21,575,000	24
Textile & garments	10	682	3,472,571	69
Electric and electronics	12	325	85,950,278	25
Other Manufacturing	19	223	28,707,692	47
Tourism	10	249	29,536,111	11
Financial services	11	124	38,303,571	0
ICT-enabled services	13	91	97,011,364	16
Transport	5	40	1,830,600	32
Medical services	11	348	81,756,667	30
Professional Services	10	55	6,047,750	12
Construction	4	208	525,000	0
Energy	12	174	669,363,636	50
Retail/wholesale Services	17	135	5,133,333	23

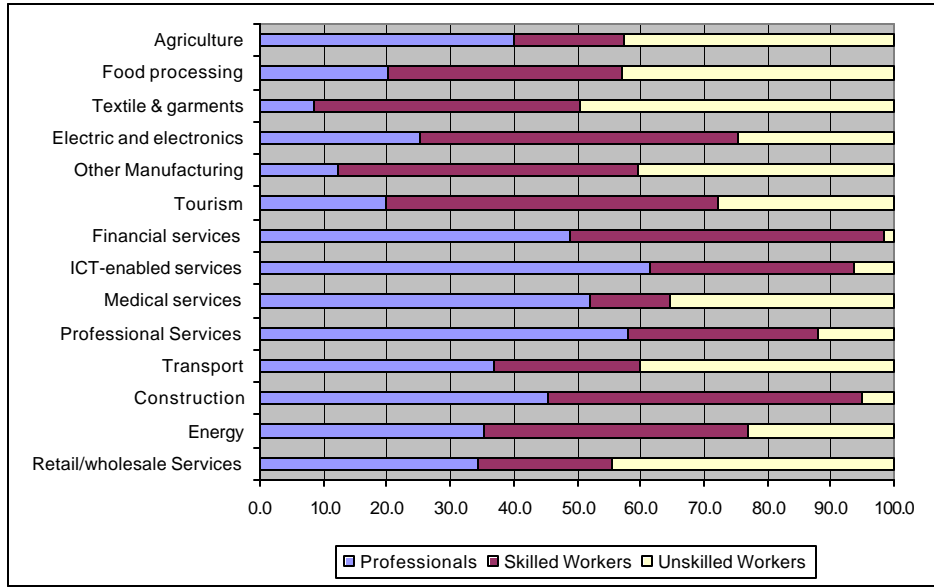
Moreover, the survey revealed that there are significant differences between the sources of investments in terms of the size and export-orientation of the investments. Investors from within the Caribbean region, for example, tend to have small establishments oriented towards serving the domestic market. European firms, by contrast, are very capital intensive, which in part reflects their heavy involvement in the energy exploitation sectors in Trinidad and Tobago. Companies with headquarters in the US, on the other hand, are much more labor intensive than all other investors, which is due to the high proportion of them in the food processing, garment and electronics manufacturing activities.

Table 1.2 Average Investment, Employment and Export by Source of Investment

	Investment (US\$ million)	No. Employees	Export/Sales (%)
Caribbean	449	89	10
Europe	4,477	276	25
USA	363	326	39

Figure 1.4 reports the skills composition of the firms by sector. Overall, the bulk of the employment created by foreign investors in the Caribbean are professional (31 percent) and skilled technical (39 percent) positions. While manufacturing firms hire more unskilled labor, services providers require more professional talents.

Figure 1.4 Skills Composition of the Foreign Firms in the Caribbean (%)



## CHAPTER II

### WHAT ARE INVESTORS LOOKING FOR IN THE CARIBBEAN?

In order to derive a sense of what firms are looking for when they consider investing in the Caribbean region, firms were asked to rate the importance of 42 aspects of the investment climate in 8 categories to identify the relative importance of these factors in their operation and their investment decisions.<sup>5</sup> For each aspect, the firms rate how important it is to them on a scale of 1-5 with increasing importance.<sup>6</sup> This chapter presents the findings of this exercise for the Caribbean region as a whole, by each investment climate component, and by sector.

Overall, very few firms (less than 5 percent) reported that any of the investment aspect is of no importance to them, and only slightly more (just over 6 percent) said any of them is of minor importance. This suggests that when a firm evaluates their investment options, no factor that has a potential bearing on its future operation is left un-considered. Nevertheless, firms do not give equal weight to all aspects of a country's business environment. In the following sections, each of the investment climate factors will be examined in detail. As it is expected that businesses in different sectors may attach different degrees of importance to the various factors, the relative importance of the factors will be analyzed by sector in order to shed light on what investors in different activities are looking for when they decide to locate their businesses in the Caribbean region.

#### A. Key Components of the Investment Climate

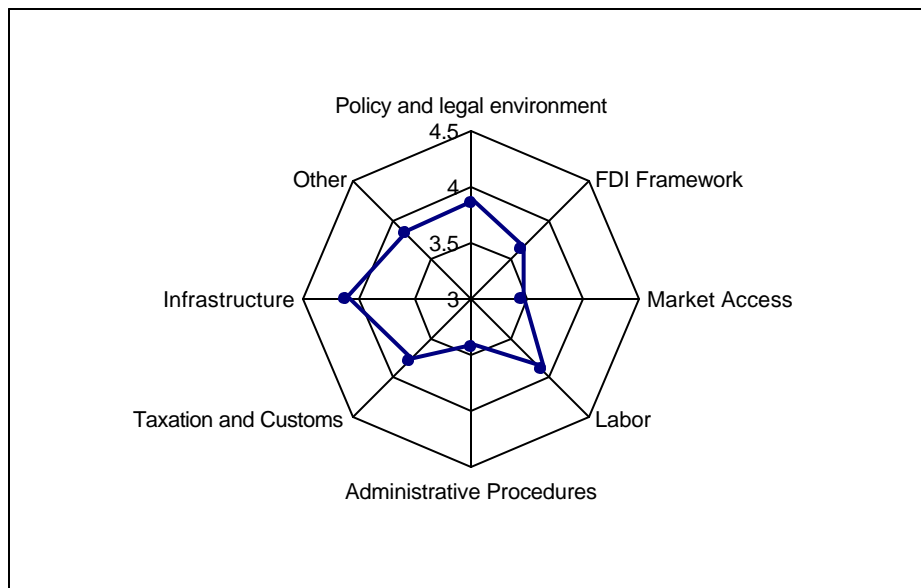
Figure 2.1 presents the aggregate ratings of importance given by all the firms in the sample. Infrastructure comes out as the most critical factor to the international companies in the Caribbean region. More than a third of the firms claimed that infrastructure is of critical importance to their businesses, while another 42 percent said it was of major importance. Labor issues are also a key factor for the foreign investors in the Caribbean. On the other hand, market access and issues related to administrative procedures are of only moderate consideration. Indeed, over 10 percent of the companies claimed that accessing the local market for either customers or inputs is of "no importance" to them.

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<sup>5</sup> See XXX for a list of investment categories and aspects considered.

<sup>6</sup> The scale of importance is 1 = no importance, 2 = minor importance, 3 = moderate importance, 4 = major importance, and 5 = critical importance.

Figure 2.1 Importance of Various Investment Climate Factors



### ***Policy and Legal Environment***

Although usually not considered *the* most important element by any type of investors to the Caribbean region, a country's overall policy and legal environment is nonetheless a key factor to consider when companies plan to invest overseas. It is especially important to firms in transportation sector, as well as those in food processing industries.

Among the various aspects of the policy and legal environment, while many companies do not give much importance to a country's anti-monopoly policies and practices, an overwhelming majority of them want political and regime stability. Indeed, more firms claim that it is a critical factor for their investment decisions than any other factor considered, even those relate to infrastructure. In addition, macroeconomic stability and the clarity and fairness of the laws and regulations are also critical to firms' choice of investment locations.

Figure 2.2.1 Importance of Policy and Legal Environment

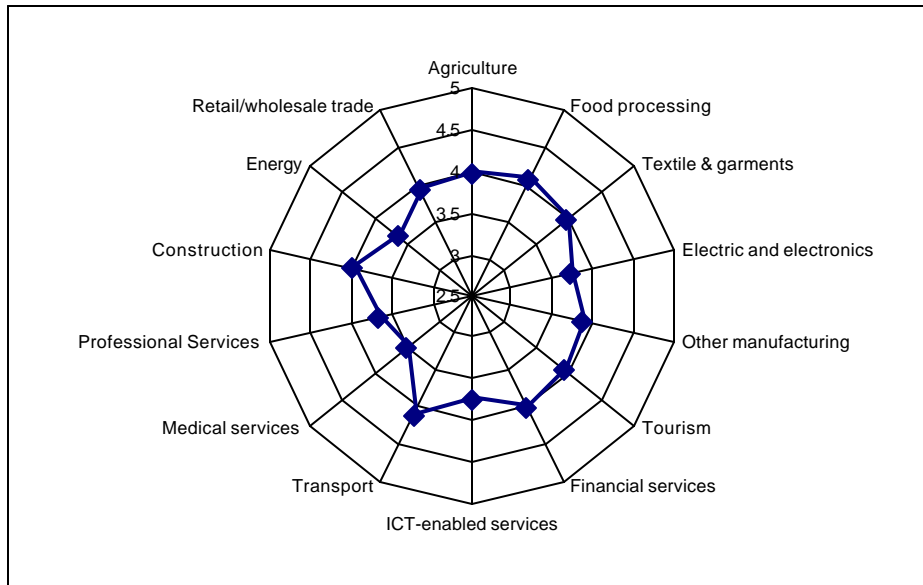
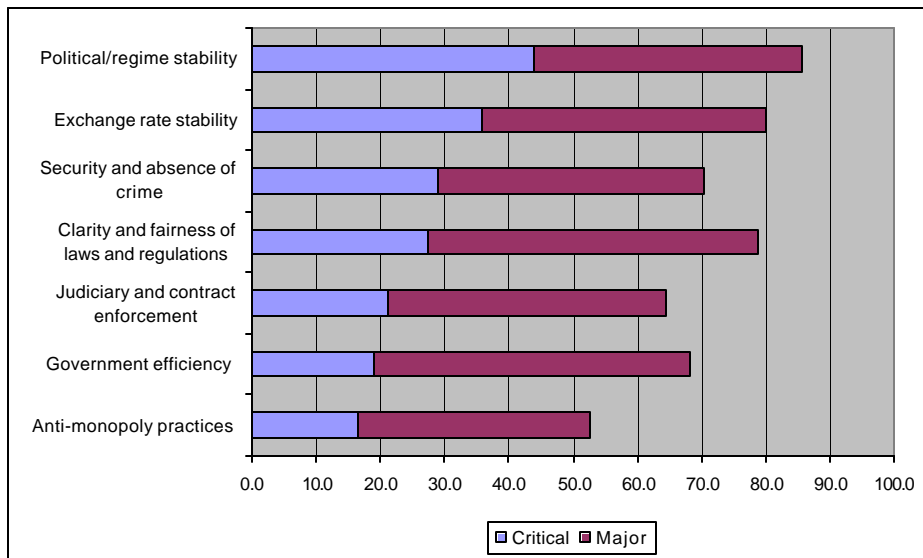


Figure 2.2.2 Components of Policy and Legal Environment



### ***FDI Framework***

A country's FDI framework encompasses everything that makes it attractive to foreign investors. The survey reveals that although some investors (e.g. those in food processing industries) are very sensitive to the special provisions for foreign companies, not all international companies attach a high level of importance to special FDI provisions. In the energy sector, for example, international oil and gas companies give only moderate consideration to the destination country's FDI framework.

A favorable attitude towards FDI is the most important component of a country's overall FDI framework. Also important are the special incentives, either fiscal or non-fiscal, that governments grant foreign investors, as well as the pre and post-investment services that the governments provide to foreign investors. As many studies have demonstrated that tax incentives are not particularly important to FDI location decisions in general, that so many firms are giving so much importance to incentives in the Caribbean suggests that competition is particularly fierce in this region. It also indicates that the region is attracting the "efficiency-seeking" types of investment, which are very mobile.

Figure 2.3.1 Importance of FDI Framework

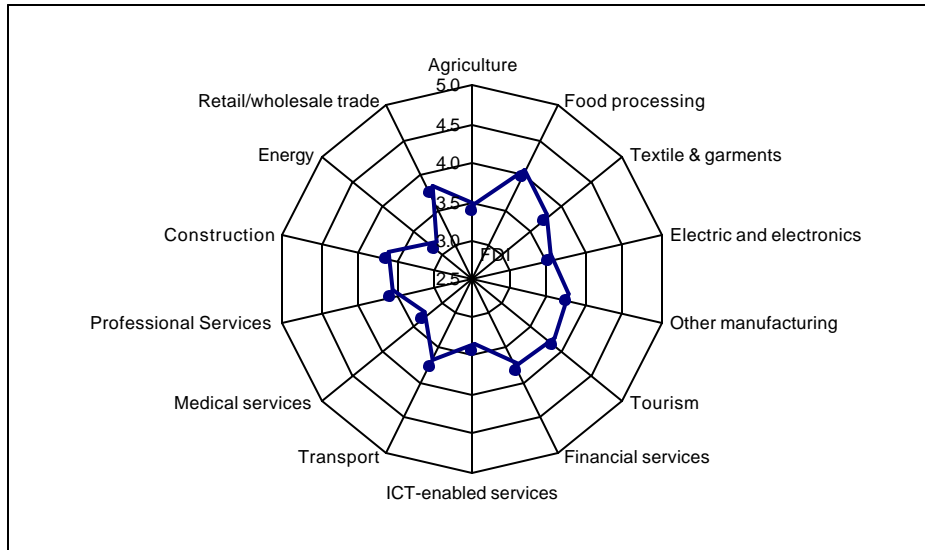
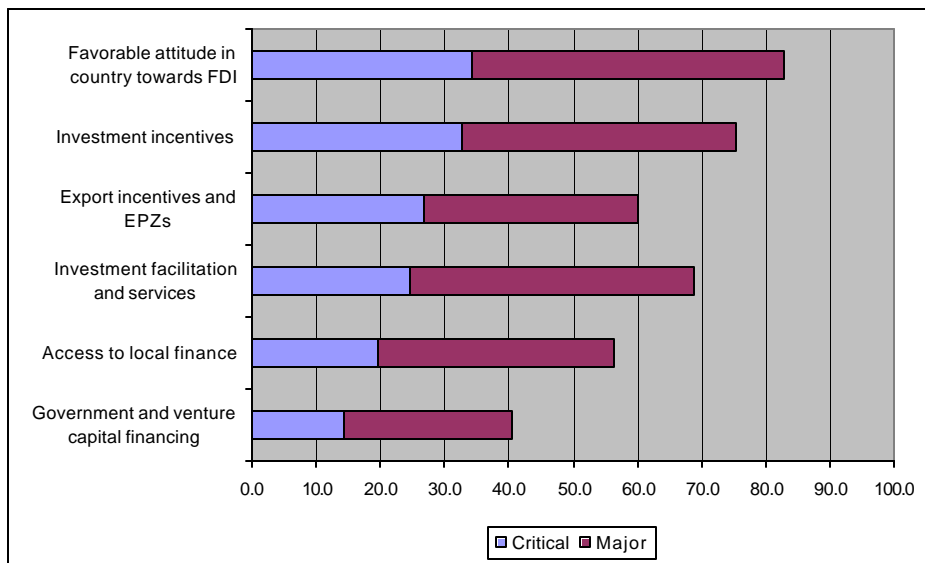


Figure 2.3.2 Components of FDI Framework



## Market Access

Market access refers to both the access to the consumer market for the final products and input market for supplies. Clearly, how important accessing the local market is depends largely on the market orientation of the firms. Given that the majority of the surveyed firms serve only the domestic market, it is somewhat surprising that market access is only rated as “moderately important” by these firms. However, the overall average disguises some wide differences across firms. To construction companies, which rely on the local market for inputs and serves only domestic clientele, being able to penetrate the local market is naturally critical to their success. But to export-oriented firms, such as energy and electronics manufacturers, the local market is of only moderate importance.

Figure 2.4.1 Importance of Market Access

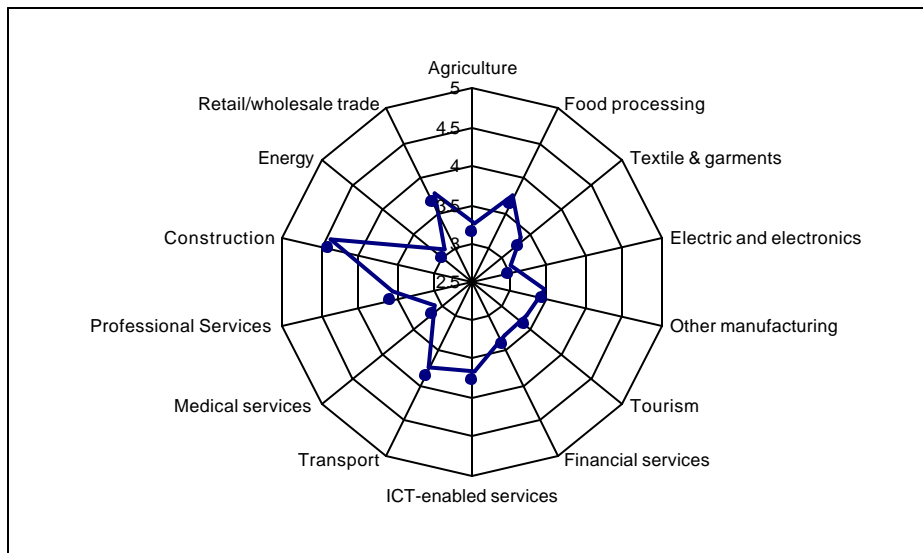
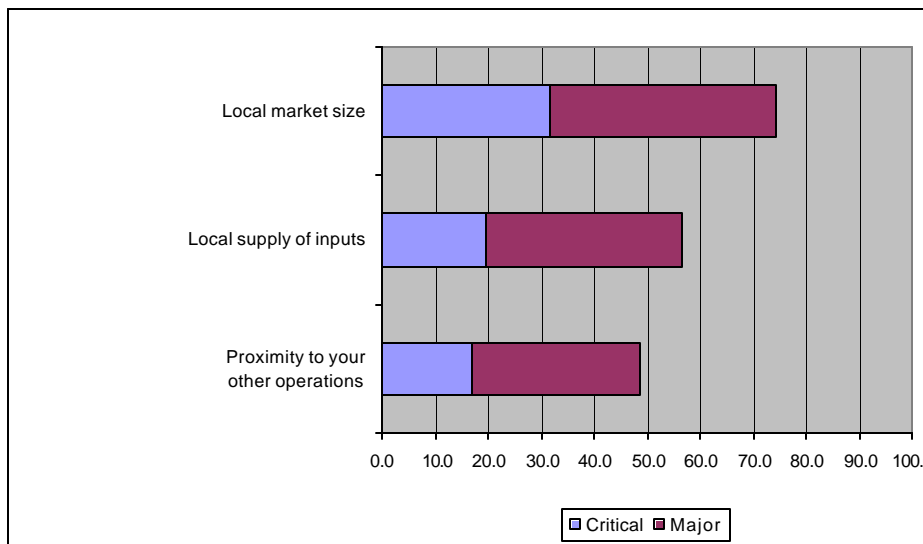


Figure 2.4.2 Components of Market Access



Among the three elements that were used to gauge the importance of market access, the size of the local market is clearly the most important factor. Proximity to a firm's other operations is relatively less important, thanks largely to the declining transportation time and costs of today's world.

### **Labor**

As a critical input to any kind of business, it comes at no surprise that labor is considered an important factor to firms' investment decisions. This is especially true to the various types of professional services providers. Labor productivity, in particular, is rated as a critical factor by 41 percent of the firms, second only to political and regime stability among a wide range of factors considered. Moreover, the availability and costs of skilled workers, including engineers, technicians, professionals and persons with managerial skills, are more important than unskilled labor. Labor market flexibility comes out to be the least critical factor among all labor market issues, although it remains a very important factor when examined in the broad spectrum of investment climate elements.

Figure 2.5.1 Importance of Labor

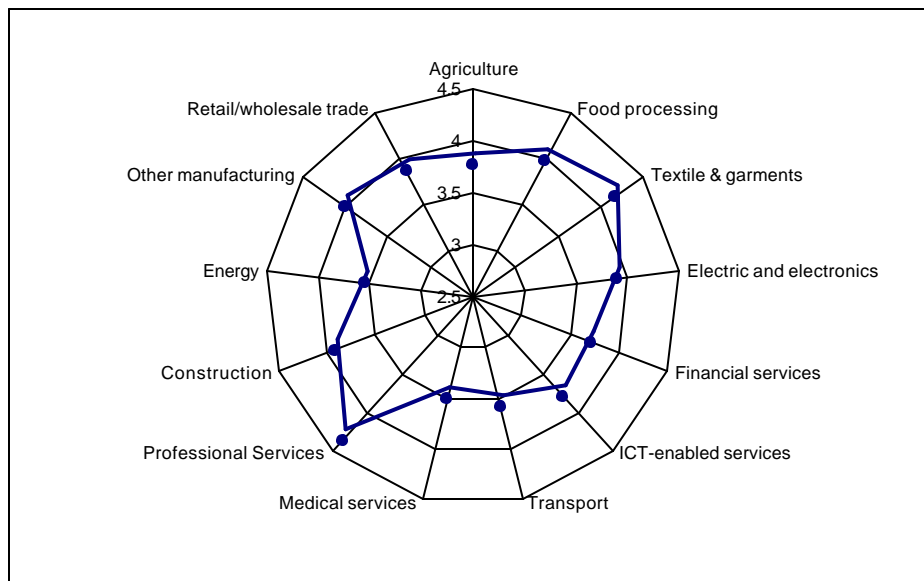
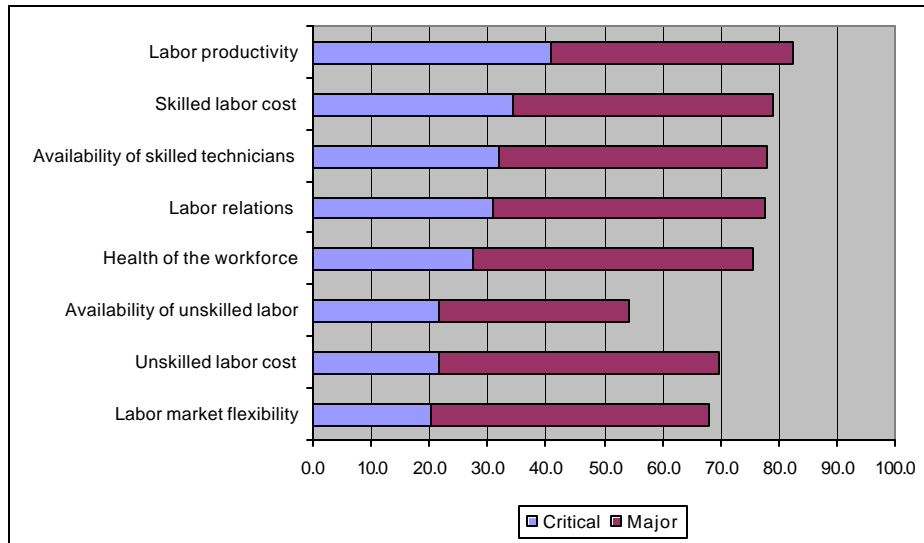


Figure 2.5.2 Components of Labor



### Administrative Procedures

Overall, issues related administrative and regulatory procedures, including business registration, getting licenses, accessing land and other resources, are considered to be much less important than other factors by the firms investing in the Caribbean. However, there are wide differences between firms on this. While many firms in the high-end services industries (e.g. ICT, financial and professional services) find them to be unimportant, for some low-skilled services firms (e.g. tourism and construction) and firms in the energy sector, they are of major importance. It should be noted that access to land, which is often one of the most contentious issues when it comes to foreign investor entry, is rated the least important factor in their investment decisions by the multinational companies in the Caribbean region.

Figure 2.6.1 Importance of Administrative Procedures

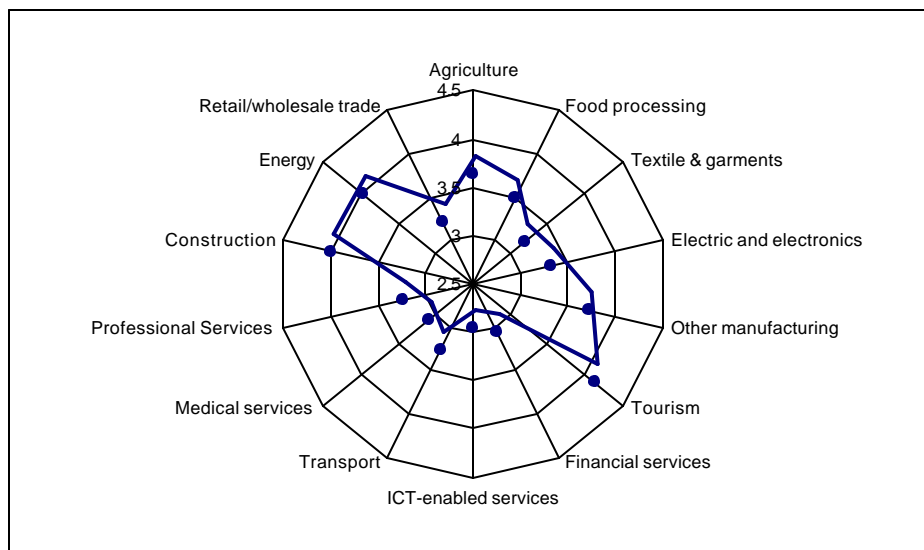
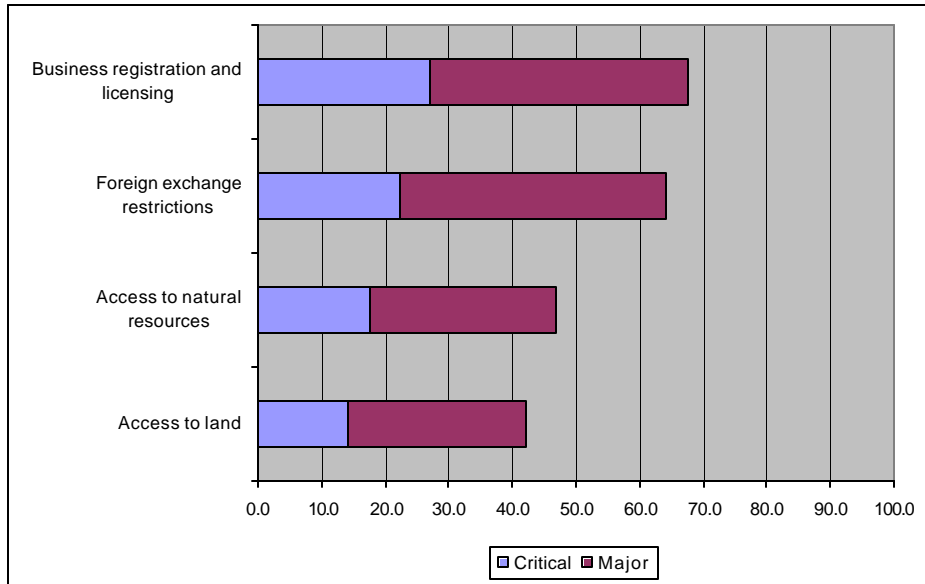


Figure 2.6.2 Components of Administrative Procedures



**Taxation and Customs**

Issues related to taxes and customs are generally an important issue to firms considering investment in the Caribbean. Compared to some other factors considered, the responses to taxation and customs are very consistent. Tax rates are rated to be the most important tax and customs related issue that concerns the multinationals in the Caribbean, with customs clearance procedures and levels of import tariffs following closely behind.

Figure 2.7.1 Importance of Taxation and Customs

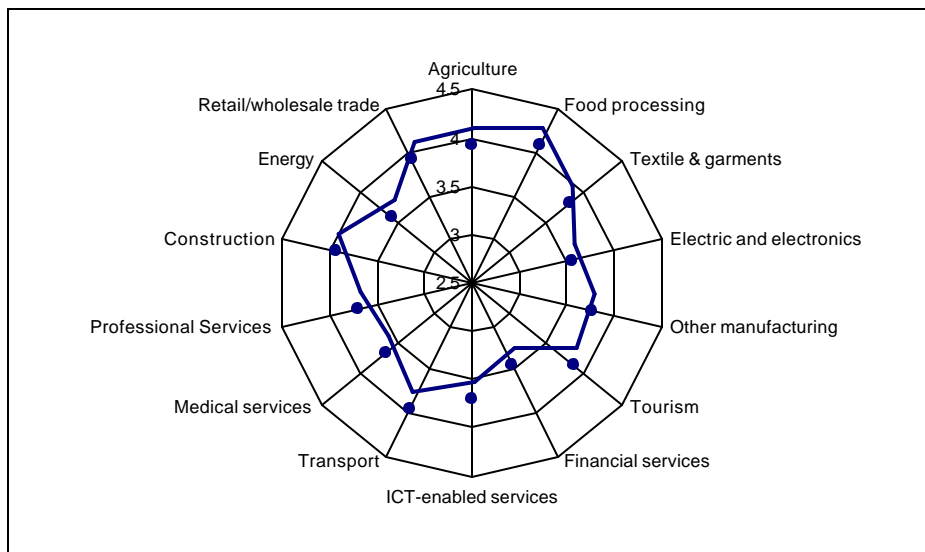
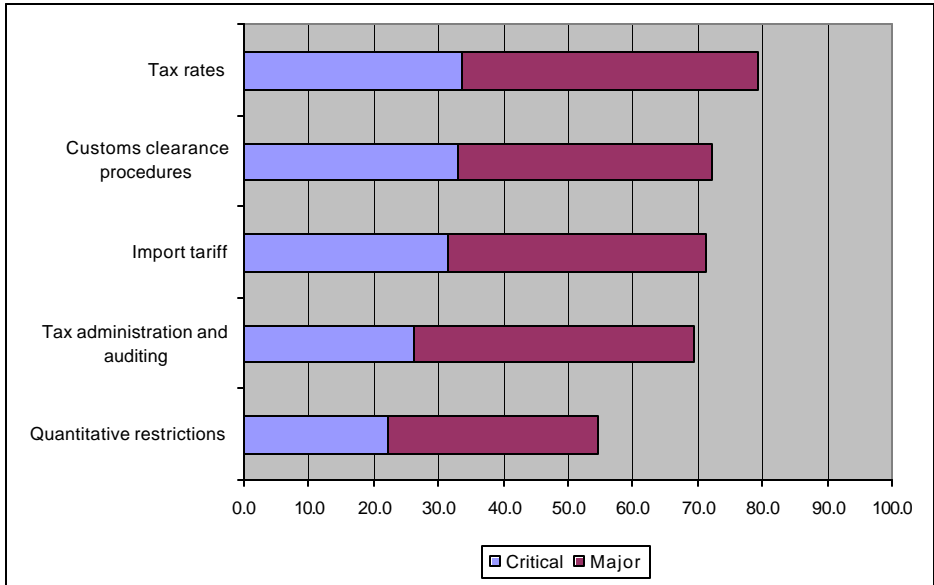


Figure 2.7.2 Components of Taxation and Customs



**Infrastructure**

To the international companies operating in the Caribbean, the quality of the infrastructure, including roads, ports and utility services, is rated to be of utmost importance. The responses are consistent across all sectors, but infrastructure is particularly important to companies in transport and retail/whole trade businesses. Similarly, although telecommunication appears to be the most important aspect of the infrastructure, there is, in effect, little difference between the importance ratings of the various components of infrastructure. For each factor, between 70-90 percent of the firms claim that it is of major or critical importance to their investment decision.

Figure 2.8.1 Importance of Infrastructure

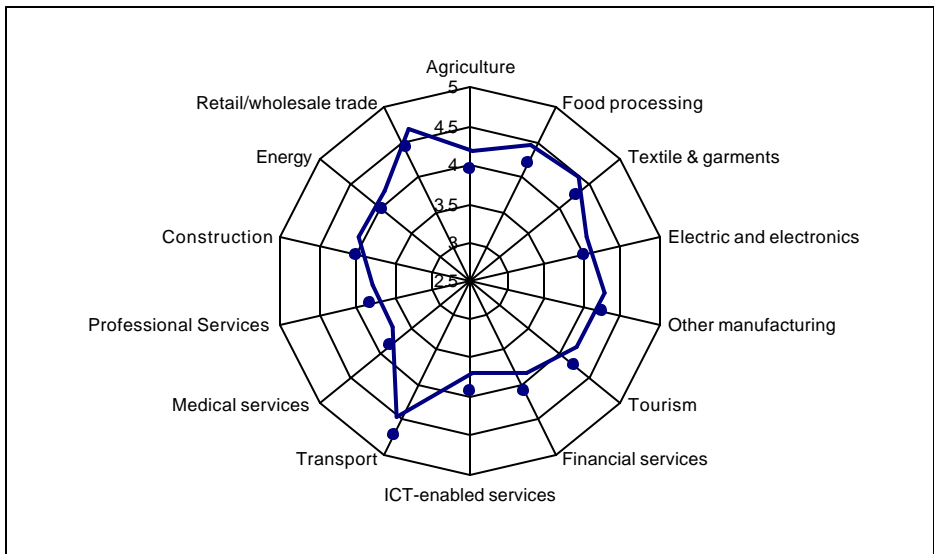
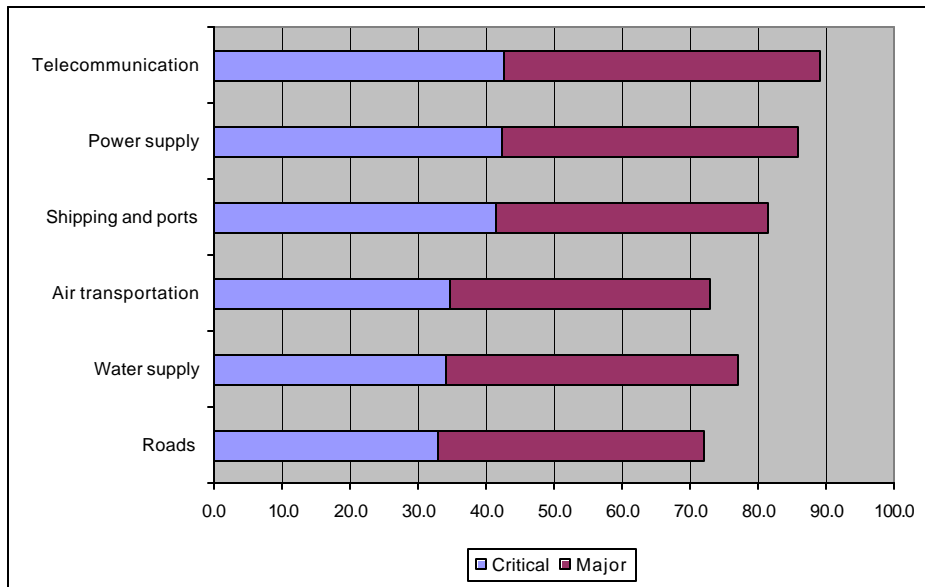


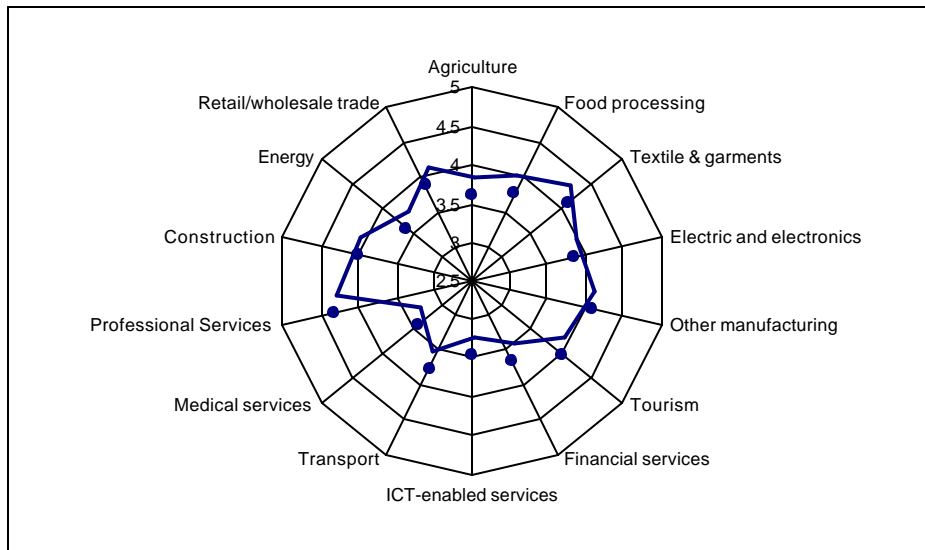
Figure 2.8.2 Components of Infrastructure



### Quality of Life

Although not directly related to the profitability of a firm's operation, the quality of life, including availability of good educational and healthcare facilities, nice living conditions, free of security concerns, etc. also enter into firms' investment decision processes. Indeed, to many types of firms, especially those in professional services, considerations of expatriates' personal lives are of major importance.

Figure 2.9 Importance of Quality of Life



## B. Sectoral Differences in Investment Decisions

Depending the kind of business they are in, it is expected that firms attach different levels of importance to the various factors influencing their investment decisions. For example, a large manufacturing firm searching to move some of its labor intensive assembly operations abroad may be much more interested in how efficient a country's export processing zones (EPZs) is running and whether there is an abundant supply of unskilled labor than the size of the local market or access to local finance. But to a service provider geared towards the domestic clientele, these latter set of issues may be of critical importance.

The following set of figures, which present the importance ratings by firms in different sectors, confirm this general view point. The table at the end of the chapter summarizes the key factors that firms in different sectors find to be most important to their investment, as well as those factors that they do not particularly care about.

Figure 2.10.1 Importance of Various Investment Climate Factors: Agriculture

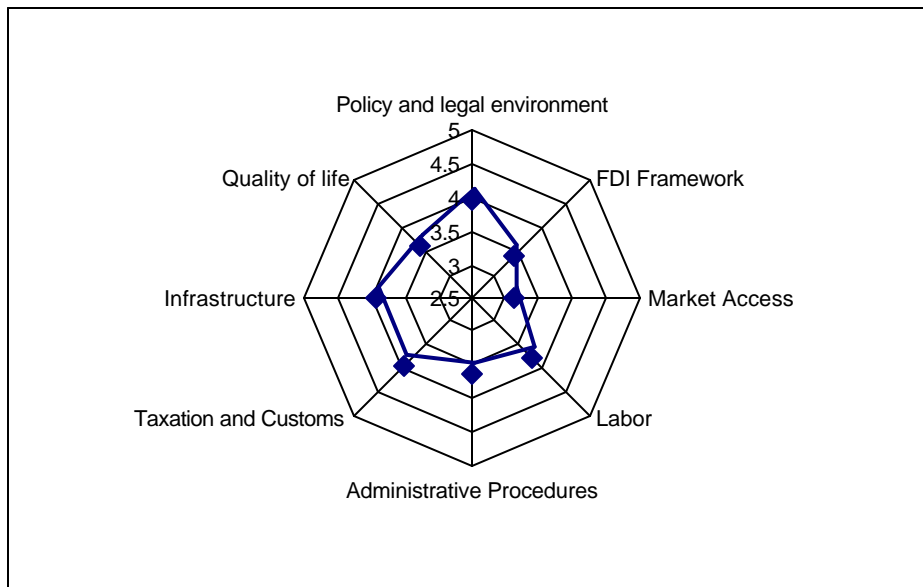


Figure 2.10.2 Importance of Various Investment Climate Factors: Food Processing

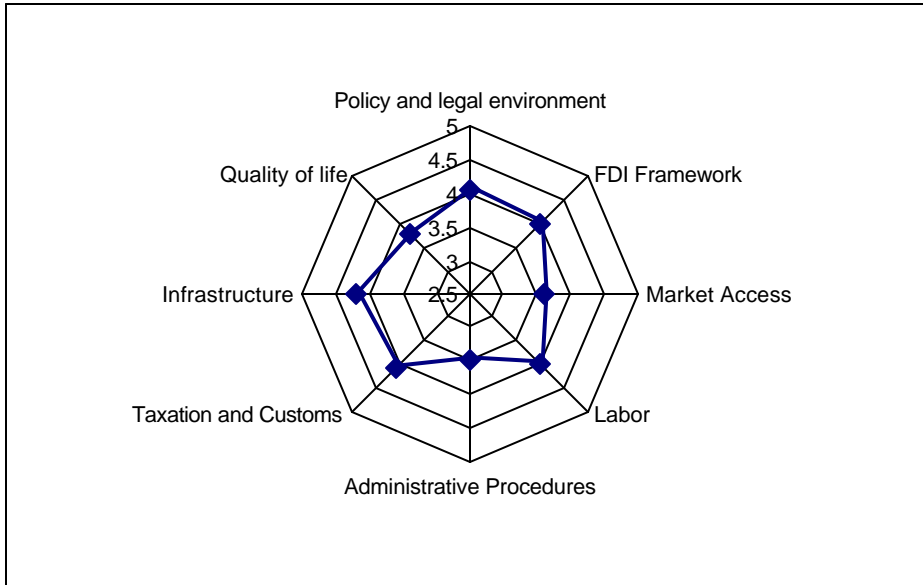


Figure 2.10.3 Importance of Various Investment Climate Factors: Textile and Garments

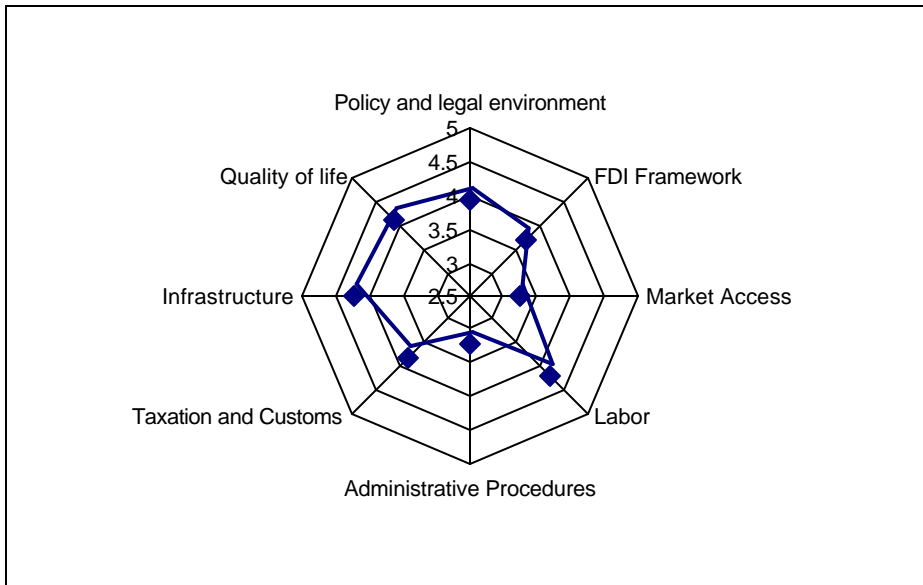


Figure 2.10.4 Importance of Various Investment Climate Factors: Electric and Electronics

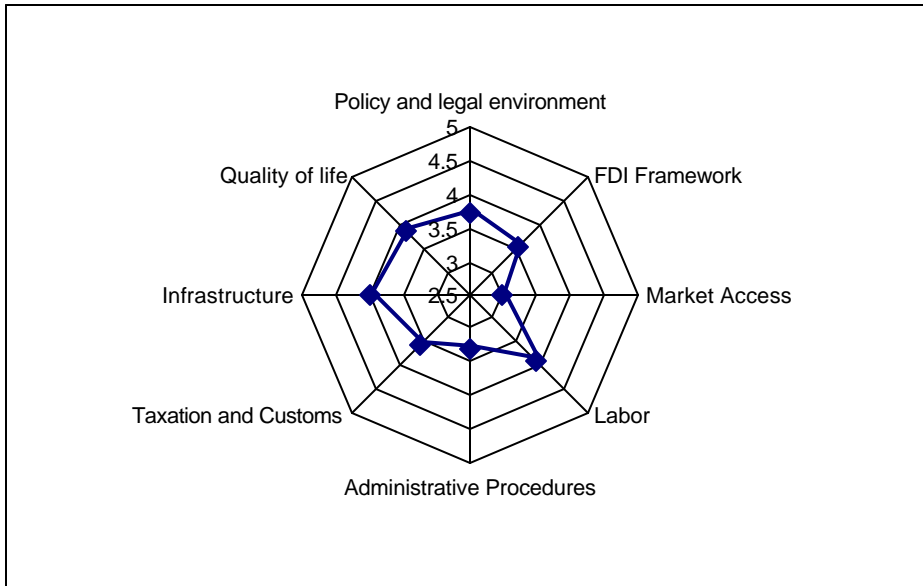


Figure 2.10.5 Importance of Various Investment Climate Factors: Other Manufacturing

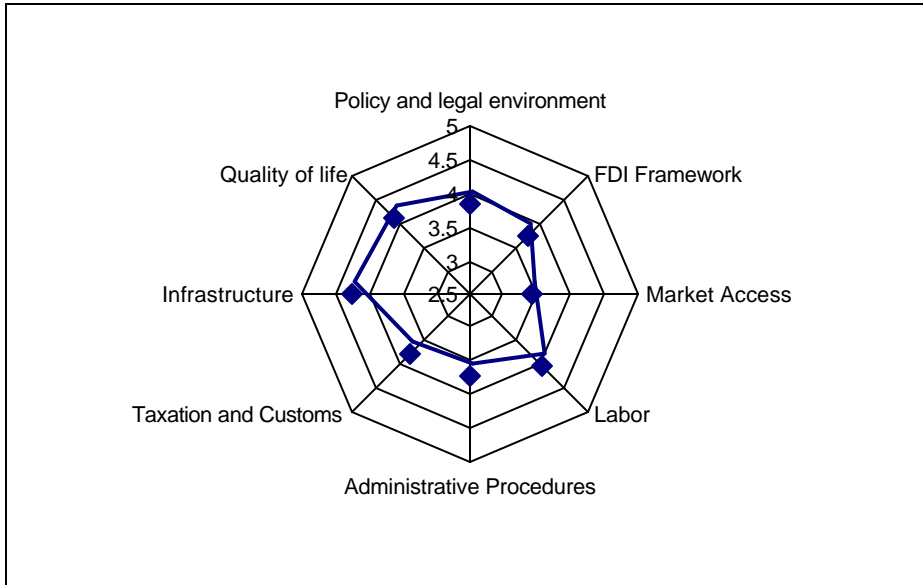


Figure 2.10.6 Importance of Various Investment Climate Factors: Tourism

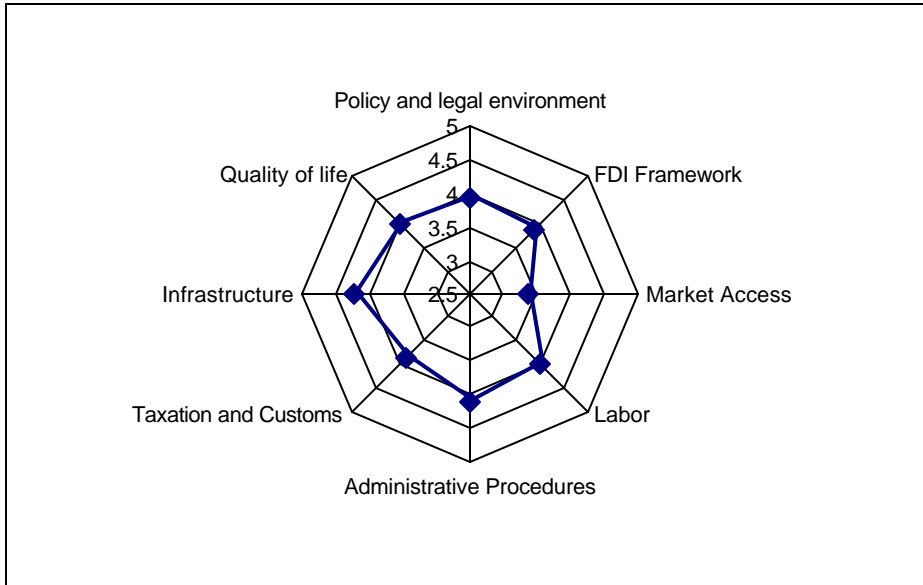


Figure 2.10.7 Importance of Various Investment Climate Factors: Financial Services

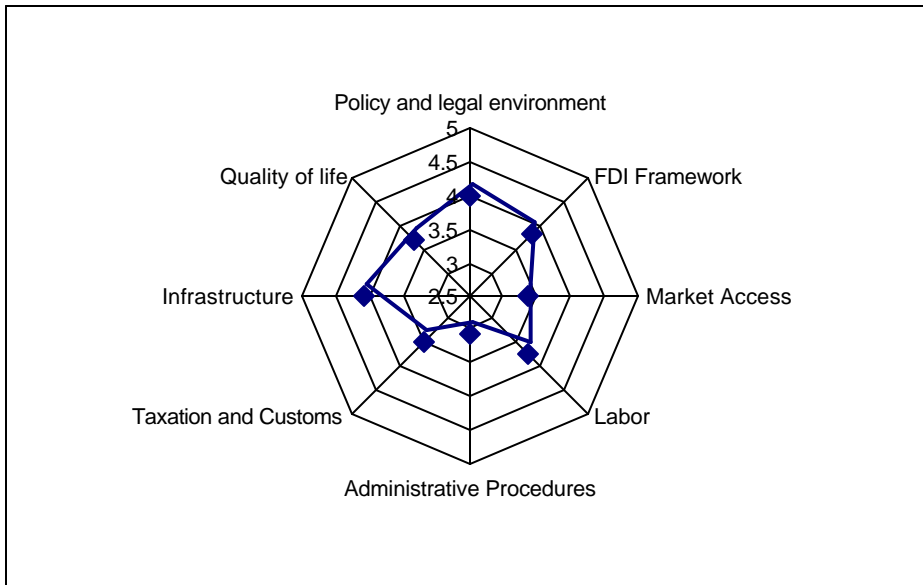


Figure 2.10.8 Importance of Various Investment Climate Factors: ICT-enabled Services

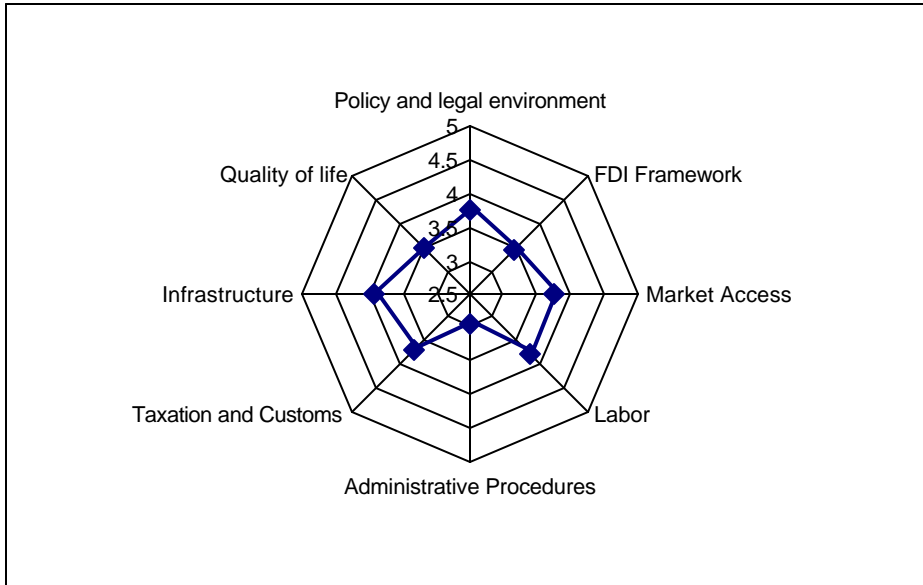


Figure 2.10.9 Importance of Various Investment Climate Factors: Medical Services

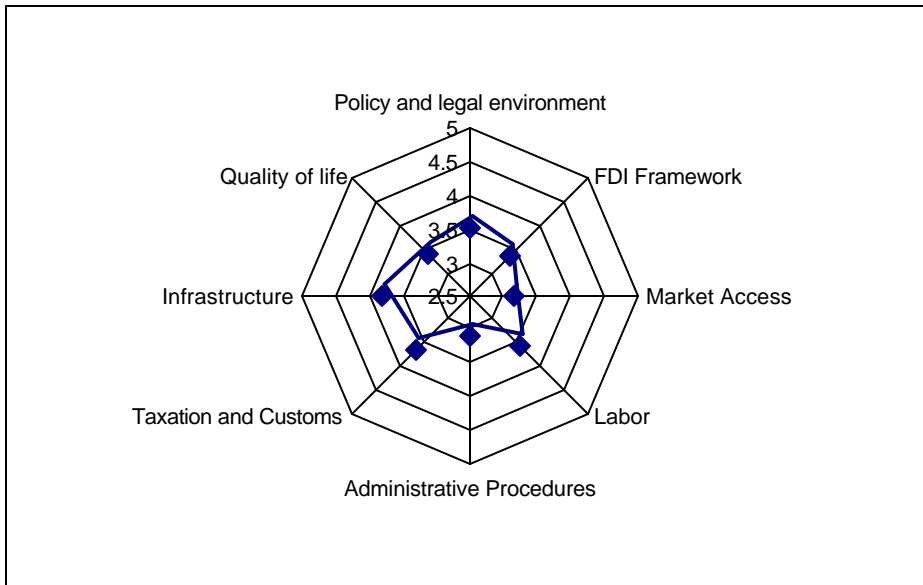


Figure 2.10.10 Importance of Various Investment Climate Factors: Professional Services

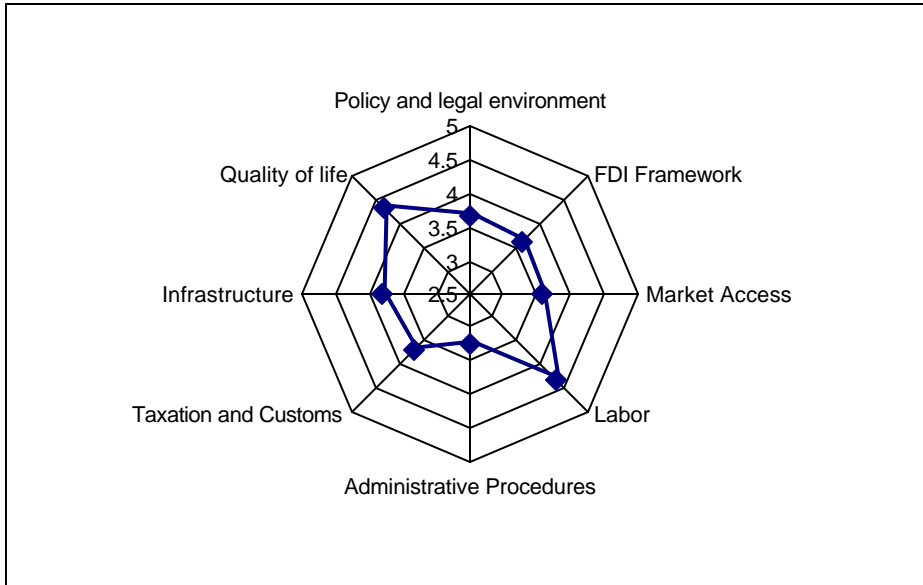


Figure 2.10.11 Importance of Various Investment Climate Factors: Construction

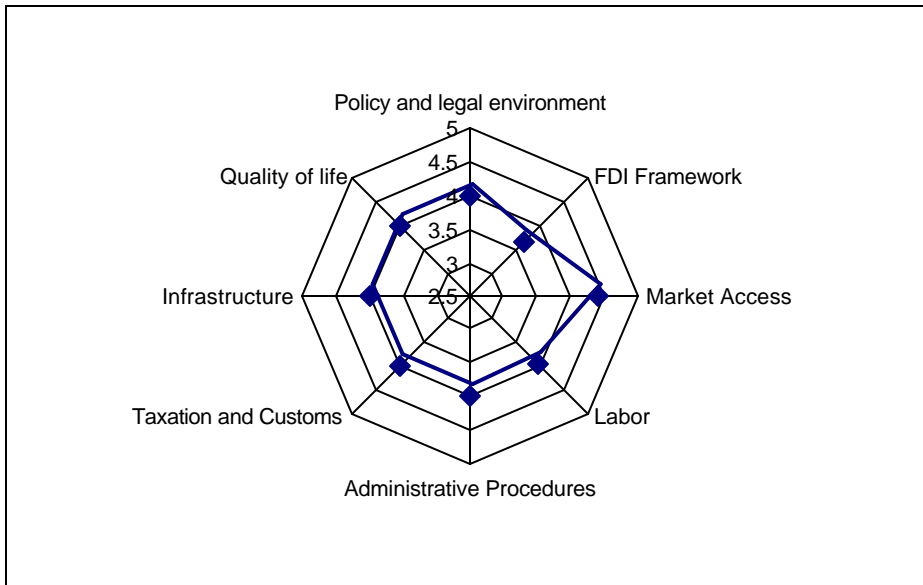


Figure 2.10.12 Importance of Various Investment Climate Factors: Energy

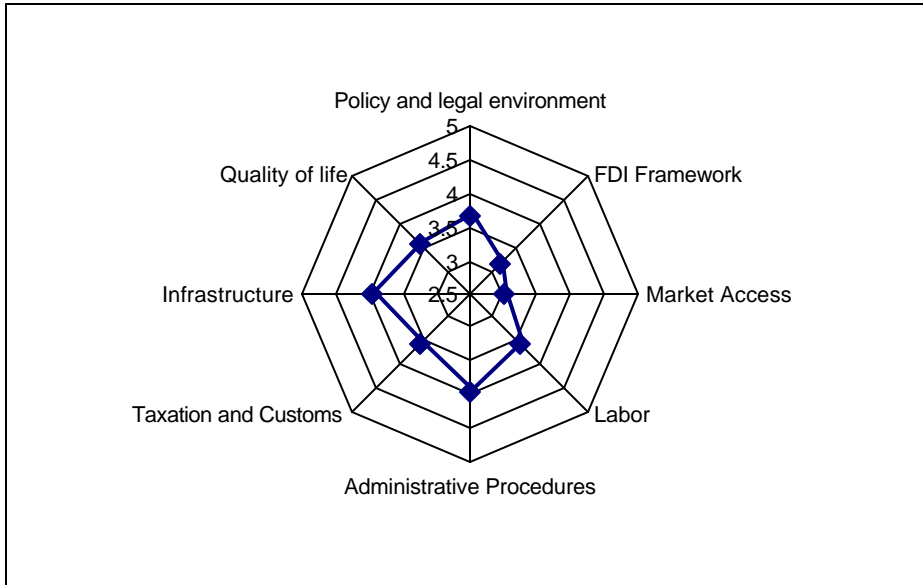


Figure 2.10.13 Importance of Various Investment Climate Factors: Retail and Wholesale Trade

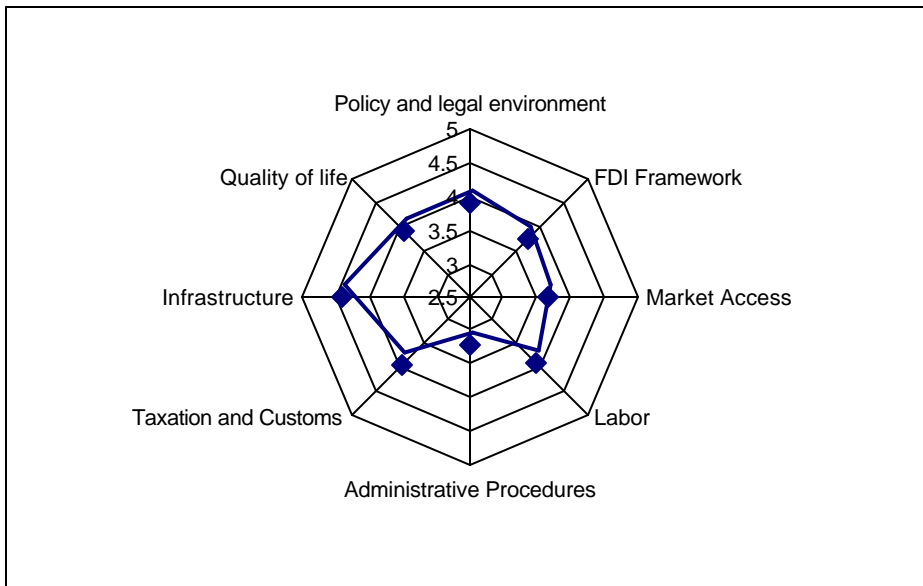


Table 2.1 Summary of Importance in Investment Climate Factors

Sector	Most Important Factors	Not So Important Factors
Agriculture	<ul style="list-style-type: none"> <li>• Favorable attitude in country towards FDI</li> <li>• Political/regime stability</li> <li>• Labor productivity</li> <li>• Labor relations</li> <li>• Shipping and ports</li> </ul>	<ul style="list-style-type: none"> <li>• Access to local financing</li> <li>• Proximity to firm's other operations</li> <li>• Availability of unskilled labor</li> </ul>
Food processing	<ul style="list-style-type: none"> <li>• Exchange rate stability</li> <li>• Tax and investment incentives</li> <li>• Shipping services and ports</li> <li>• Political/regime stability</li> <li>• Telecommunication facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Access to land and natural resources</li> <li>• Proximity to firm's other operations</li> <li>• Anti-monopoly practices</li> </ul>
Garments and textile	<ul style="list-style-type: none"> <li>• Import tariffs</li> <li>• Political/regime stability</li> <li>• Favorable attitude in country towards FDI</li> <li>• Labor productivity</li> <li>• Availability of skilled technicians</li> </ul>	<ul style="list-style-type: none"> <li>• Access to natural resources</li> <li>• Anti-monopoly practices</li> <li>• Foreign exchange restrictions</li> </ul>
Electric and electronics	<ul style="list-style-type: none"> <li>• Labor productivity</li> <li>• Telecommunication facilities</li> <li>• Power supply</li> <li>• Exchange rate stability</li> <li>• Availability of skilled technicians</li> </ul>	<ul style="list-style-type: none"> <li>• Local supply of inputs</li> <li>• Quantitative restrictions</li> <li>• Access to land and natural resources</li> </ul>
Other manufacturing	<ul style="list-style-type: none"> <li>• Shipping services and ports</li> <li>• Power supply</li> <li>• Political/regime stability</li> <li>• Availability of skilled technicians</li> <li>• Labor productivity</li> </ul>	<ul style="list-style-type: none"> <li>• Proximity to firm's other operations</li> <li>• Government and venture capital financing</li> <li>• Anti-monopoly practices</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>• Air transportation</li> <li>• Availability of skilled technicians</li> <li>• Business registration and licensing</li> <li>• Favorable attitude in country towards FDI</li> <li>• Investment incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Proximity to firm's other operations</li> <li>• Export incentives and EPZs</li> <li>• Quantitative restrictions</li> </ul>
Financial services	<ul style="list-style-type: none"> <li>• Telecommunication facilities</li> <li>• Political/regime stability</li> <li>• Investment incentives</li> <li>• Power supply</li> </ul>	<ul style="list-style-type: none"> <li>• Proximity to firm's other operations</li> <li>• Access to land and natural resources</li> </ul>

	<ul style="list-style-type: none"> <li>• Cost of professional labor</li> </ul>	<ul style="list-style-type: none"> <li>• Availability of unskilled labor</li> </ul>
ICT-enabled services	<ul style="list-style-type: none"> <li>• Telecommunication facilities</li> <li>• Power supply</li> <li>• Cost of professional labor</li> <li>• Labor productivity</li> <li>• Local market size</li> </ul>	<ul style="list-style-type: none"> <li>• Access to land and natural resources</li> <li>• Availability of unskilled labor</li> <li>• Cost of unskilled labor</li> </ul>
Transport	<ul style="list-style-type: none"> <li>• Export incentives and EPZs</li> <li>• Customs clearance procedures</li> <li>• Air transportation</li> <li>• Telecommunication facilities</li> <li>• Power supply</li> </ul>	<ul style="list-style-type: none"> <li>• Import tariffs</li> <li>• Access to natural resources</li> <li>• Availability of skilled technicians</li> </ul>
Medical services	<ul style="list-style-type: none"> <li>• Telecommunication facilities</li> <li>• Customs clearance procedures</li> <li>• Favorable attitude in country towards FDI</li> <li>• Labor productivity</li> <li>• Shipping services and ports</li> <li>• Cost of unskilled labor</li> </ul>	<ul style="list-style-type: none"> <li>• Access to land and natural resources</li> <li>• Local supply of inputs</li> <li>• Local financing options</li> </ul>
Professional services	<ul style="list-style-type: none"> <li>• Availability of unskilled labor</li> <li>• Labor relations</li> <li>• Cost of skilled labor</li> <li>• Favorable attitude in country towards FDI</li> <li>• Security and absence of crime</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-monopoly practices</li> <li>• Access to land</li> <li>• Government and venture capital financing</li> </ul>
Construction	<ul style="list-style-type: none"> <li>• Local market size and supply of inputs</li> <li>• Availability of skilled technicians</li> <li>• Import tariffs</li> <li>• Quality of roads</li> </ul>	<ul style="list-style-type: none"> <li>• Quantitative restrictions</li> <li>• Export incentives and EPZs</li> <li>• Government and venture capital financing</li> </ul>
Energy	<ul style="list-style-type: none"> <li>• Access to natural resources</li> <li>• Cost of professional labor</li> <li>• Shipping services and ports</li> <li>• Power supply</li> <li>• Judiciary and contract enforcement</li> </ul>	<ul style="list-style-type: none"> <li>• Government and venture capital financing, or other local financing options</li> <li>• Proximity to firm's other operations</li> <li>• Availability of unskilled labor</li> </ul>
Retail and wholesale trade	<ul style="list-style-type: none"> <li>• Shipping services and ports</li> <li>• Air transportation</li> <li>• Telecommunication facilities</li> <li>• Labor productivity</li> <li>• Power supply</li> </ul>	<ul style="list-style-type: none"> <li>• Access to land and natural resources</li> <li>• Local supply of inputs</li> <li>• Local financing options</li> </ul>



## CHAPTER III

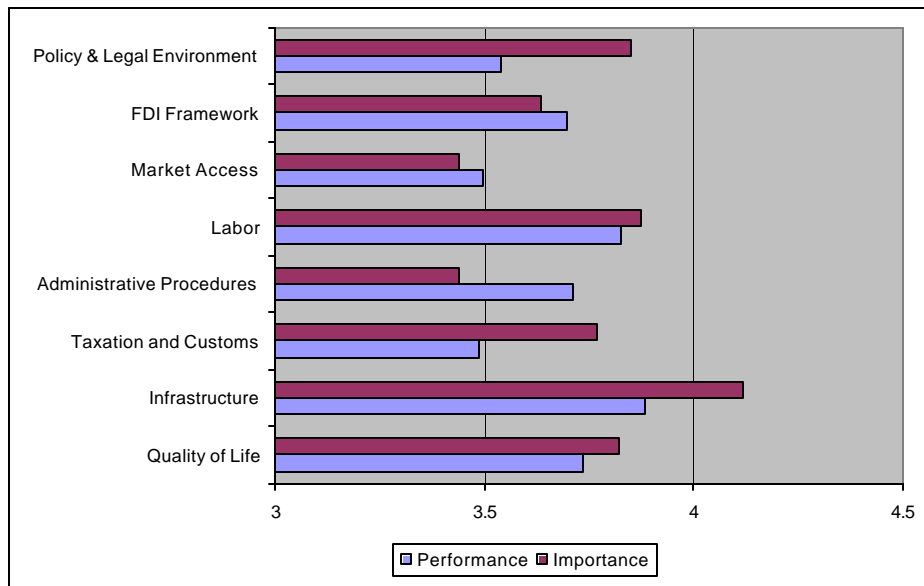
### ATTRACTIVENESS OF THE CARIBBEN AS DESTINATION FOR FDI

#### A. Caribbean Region's Overall Attractiveness

Overall, the Caribbean region has performed well in attracting more FDI inflows than what is predicted based on the region's share of world economic activity. However, this high performance has been declining over the past decade, as other countries are catching up. Therefore, it is important to examine how the region is doing in terms meeting the expectations of the foreign investors.

Figure 3.1 presents the overall importance and performance ratings by the surveyed companies of the various investment climate factors that influence their investment location decisions. It is interesting to note that infrastructure, which was considered by the firms to be the most important consideration to their operations, also received the highest performance rating among all aspects of the investment climate in the Caribbean. This suggests that at the regional level, the quality of infrastructure, including roads, ports and utility services, plays a key role in attracting FDI to the Caribbean. In particular, investors are happy about the telecommunication services of region. Supplies of power and water, as well as the quality of the seaports, have also generated positive remarks.

Figure 3.1 Overall Importance and Performance Ratings of the Caribbean<sup>7</sup>



Note: Importance rating scale: 3 = moderate importance, 4 = major importance, 5 = critical importance; Performance rating scale: 3 = neutral, 4 = good, 5 = excellent.

<sup>7</sup> As the Importance and the Performance Ratings are not done on the same scale, the two ratings for an individual factor should not be compared directly, but in relation to other ratings on the same scale.

In terms of its overall policy and legal environment and its taxation and customs regimes, however, the Caribbean region is under-performing the investors' expectations. On the policy front, investors are not happy about the region's overall political and macroeconomic stability. They find that in many cases laws and regulations lack clarity and fairness and that contracts are not always enforced. Crimes and lack of security are serious concerns among many investors. Moreover, investors also complain about government inefficiency in delivering services. With respect to taxes and customs, while investors are generally satisfied with the region's tax administration, they think the tax rates are too high and the customs clearance procedures a major obstacle to doing business in the Caribbean region. This finding suggests that by improving their policy and legal framework and addressing the problems with their taxation and customs regimes, the Caribbean countries are likely to attract more FDI.

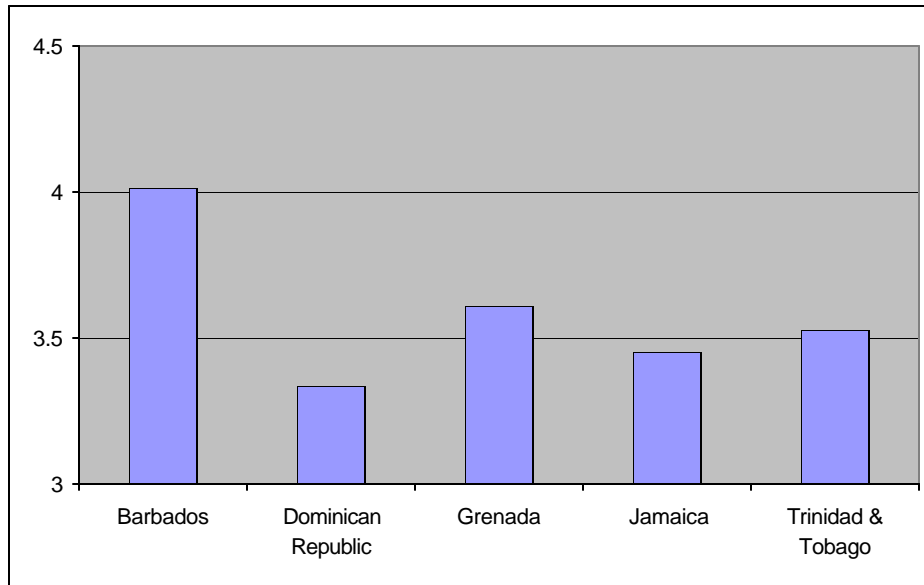
## **B. Comparing the Investment Climate of Five Caribbean Countries**

Clearly, the overall average ratings disguise substantial differences between countries in their investment climates. Here, the performance rating of Barbados, Dominican Republic, Grenada, Jamaica, and Trinidad and Tobago are compared along the lines of the 8 categories of investment climate measures. The other, smaller economies are not included in this analysis largely because the substantially fewer numbers of observations for these countries, which make the results less representative.

### ***Policy and Legal Environment***

Figure 3.2 depicts the performance ratings for the policy and legal environment in the five countries. Barbados comes out clearly ahead of the pack for its political and macroeconomic stability, the clarity and fairness of its laws and regulations, and its government's efficiency in providing public services. At the other extreme, the Dominican Republic is perceived less favorably in most areas that make up a country's policy and legal environment, but is particularly criticized for its exchange rate volatilities and inefficient public services. Trinidad and Tobago, on the other hand, represents a mixed bag: while it is considered to have a very stable macroeconomic policy framework, it suffers from very serious security concerns among foreign investors.

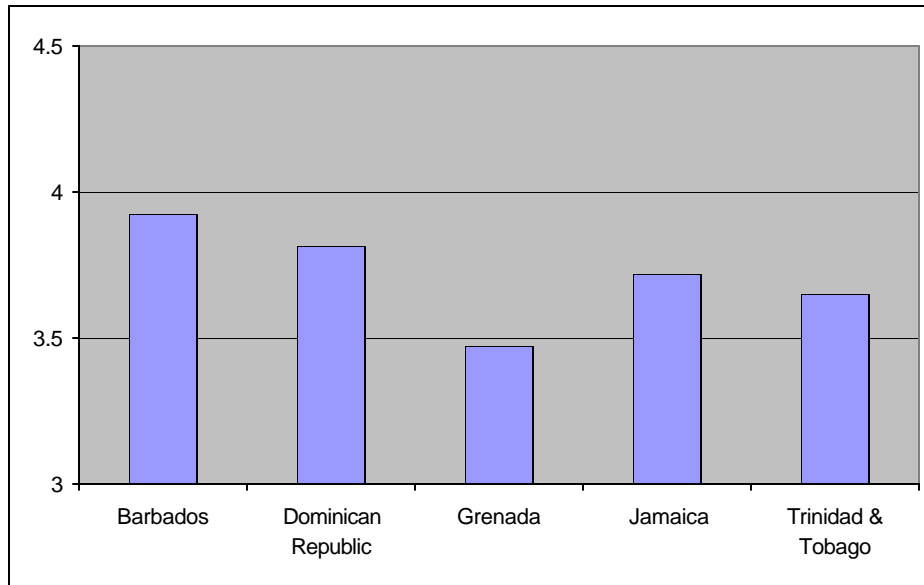
Figure 3.2 Comparison of the Policy and Legal Environment in Five Countries



### ***FDI Framework***

All five countries are considered to have a favorable attitude towards FDI in general. However, Barbados comes out the best once again in terms of the policies and practices specially geared towards attracting foreign investment. (Figure 3.3 and Table 3.2.) It is perceived by investors to offer the best investment incentives and have more financing options available to foreign investors than the other islands. Grenada, on the other hand, is not recognized as an especially attractive place for foreign investors. Although it received lower ratings than others in most aspects of the FDI environment, its ratings are particularly hurt by the lack of capital financing options on the island, especially the kind of project-based venture capital financing that is increasingly relied upon by international companies for their financing needs.

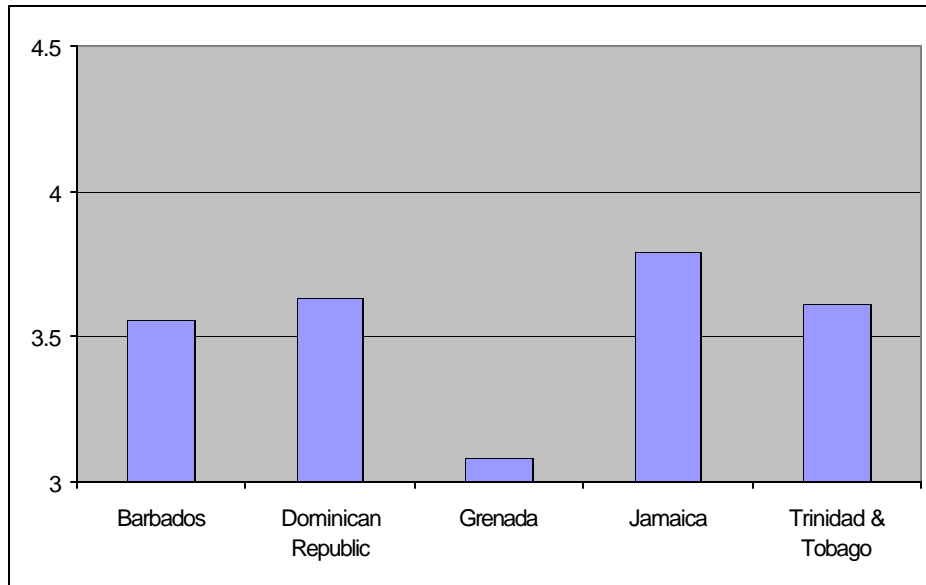
Figure 3.3 Comparison of the FDI Framework in Five Countries



### *Market Access*

Accessing the local market is not considered of primary importance to the foreign investors in the Caribbean. Given its small size, the region does not present many opportunities for “market-seeking” types of investors. It is therefore not a surprise that Grenada comes out the least attractive in terms of market access, because of its small population and very limited supply base for inputs. It should be noted that, although the Dominican Republic has the largest population, it is Jamaica that is perceived to have the biggest local market in the Caribbean. This outcome is a reflection of the fact that Jamaica has attracted more diversified FDI inflows than the Dominican Republic.

Figure 3.4 Comparison of Market Access in Five Countries



### *Labor*

Labor is an important concern for all investors. Firms interested in investing in the Caribbean reported that all countries have a sufficient supply of unskilled labor and the health of the workforce is good. The Dominican Republic stands out in every aspect of the labor market. Investors like its easy availability of all kinds of labor, both skilled and unskilled, the productivity of its workers, the smooth labor relations between management and labor in country, as well as its flexible labor market regulations. In contrast, investors operating in Grenada are much less happy about what they encounter there. Despite its reasonably good educational network, investors report great difficulties in recruiting workers with technical, managerial and other professional skills. In addition, labor costs are high in Grenada, especially at the high end of the skills spectrum, but also for unskilled labor. (Table 3.5.) Moreover, investors complain that the labor market is not very flexible in Grenada.

Figure 3.5 Comparison of the Labor Market in Five Countries

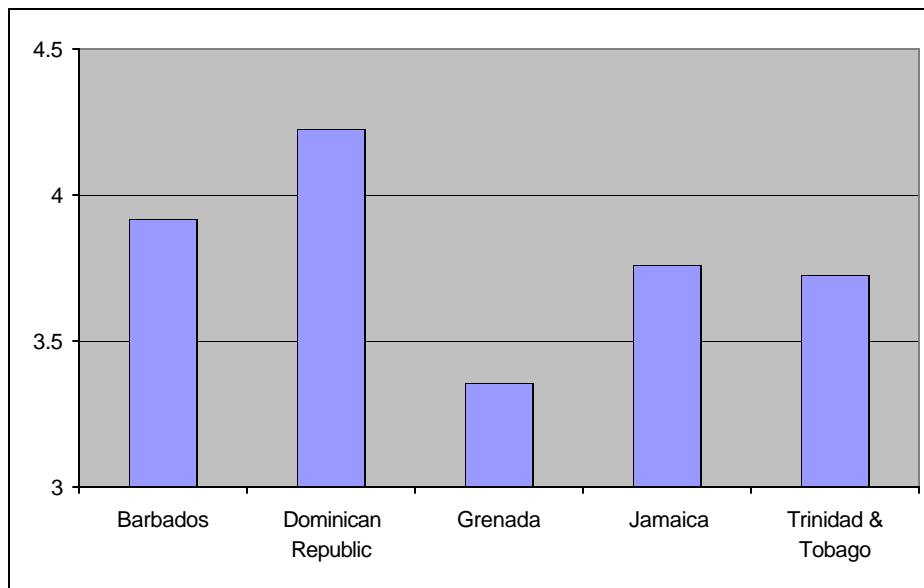


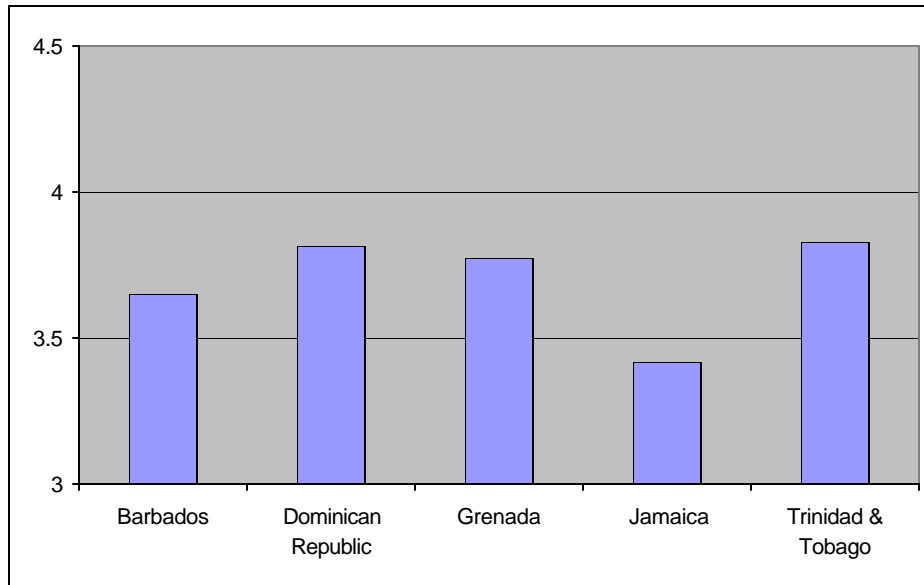
Table 3.1 Labor Costs (US\$ per hour)

	Barbados	Dominican Rep.	Grenada	Jamaica	Trinidad & Tobago
Professional labor	30.00	14.30	63.70	23.10	32.40
Skilled labor	12.00	4.47	10.30	8.96	13.50
Unskilled labor	4.66	1.47	4.65	4.53	2.88

### *Administrative Procedures*

Investors in the Caribbean region do not generally find administrative procedures an overly important concern in their investment decisions. They also find the region reasonably good in implementing simple and streamlined procedures for investment approval and realization. Indeed, investors find that the business registration and licensing regimes are quite good in all five countries. On the less positive side, investors have found that the procedures for accessing land, and to a lesser degree natural resources in general, are too complicated in Jamaica.

Figure 3.6 Comparison of the Administrative Procedures in Five Countries



### *Taxation and Customs*

In general, the taxation and customs regimes in the Caribbean region are considered by international investors as a weakness in the overall investment climate. All countries received relatively low ratings in this regard. Of course, no business likes to pay taxes. But if the tax burden is not excessive and shared fairly among all members of the society, most would accept them as part of the normal costs of doing business. In this respect, Grenada comes out the weakest among the five. Investors complain about the high tax rates in Grenada, as well as and the cumbersome customs clearance procedures. Furthermore, according to the companies' estimates of the actual import tariffs they paid, Grenada also comes out as having the higher average import tariff among the five. (Table 3.8.)

Figure 3.6 Comparison of Taxation and Customs in Five Countries

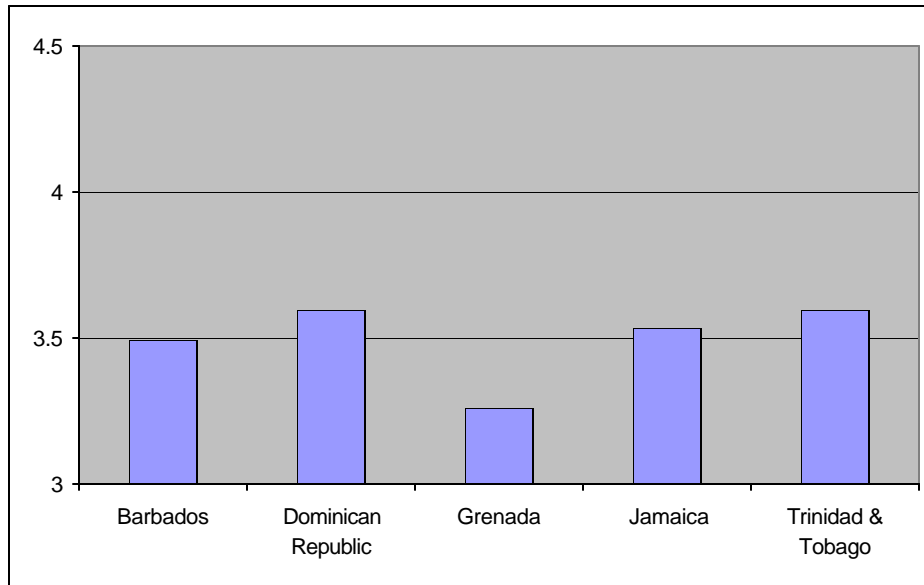


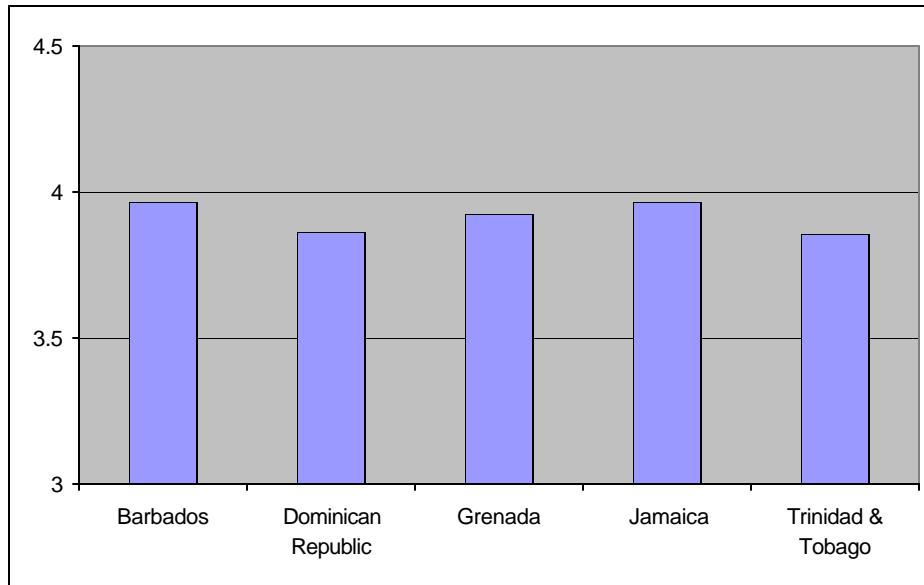
Table 3.2 Average Import Tariff (%)

	Barbados	Dominican Rep.	Grenada	Jamaica	Trinidad & Tobago
Average import tariff	11.20	13.30	39.30	14.50	9.60

### ***Infrastructure***

In general, the infrastructure of the Caribbean is considered as an asset. Especially with respect to telecommunication services, all countries except Trinidad and Tobago received ratings of “good” or “excellent”. Investors in the Dominican Republic are particularly satisfied with the telecommunication provisions in the country. However, the Dominican Republic suffers from deficient power supply, while investors in Barbados and Trinidad and Tobago are less than thrilled about the roads on the islands.

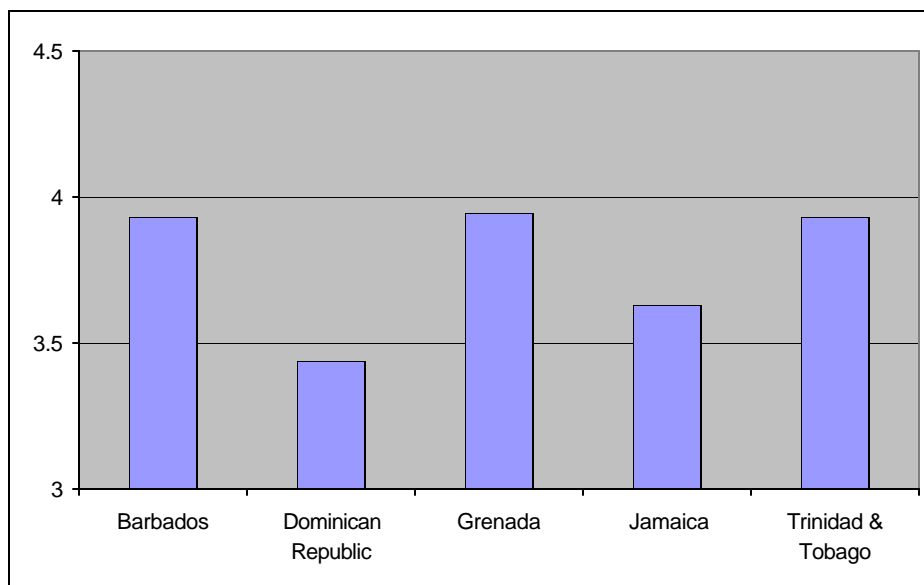
Figure 3.7 Comparison of Infrastructure in Five Countries



### *Quality of Life*

Finally, the Caribbean islands offer a reasonably good quality of life to expatriates and families. As there is a natural link between the comfort of living and a country's overall development level, it comes at no surprise that Barbados is considered a desirable place to live while the Dominican Republic is not. However, there is more to the living standard of a county than simple wealth. Grenada, for example, wins for its low crime rate even though its GDP per capita remains below the OECS average, while Trinidad and Tobago attracts for its sophisticate lifestyle in spite of high security concerns.

Figure 3.8 Comparison of the Quality of Life in Five Countries



### **C. Strengths and Weaknesses of the Five Countries**

In this section, the particular strengths and weaknesses of the five countries are examined in an effort to shed some light on what these countries have done well and where they should focus on as a first priority in order to improve their investment climate for attracting more foreign investment.

#### ***Barbados***

Barbados has long been regarded in the region as a well-managed economy. Over the last three decades, although its growth rates were not spectacular, they are steady and sustained. As a result, Barbados not only has the highest level of per capita GDP, measured at PPP, in the Caribbean region, it is also considered the most advanced among all developing countries in terms of human development. The survey results re-confirmed this overall positive picture of Barbados as a good investment location – even though investors find Barbados does better in some areas than others, they do not think it has done really badly in any area.

*Strengths.* Barbados's political and macroeconomic stability has not gone unnoticed with foreign investors. Reliable supplies of utilities, including power, water and telecommunication services, are also important pluses for Barbados. In addition, the prevailing favorable attitude in country towards FDI, the clarity and fairness of rules and regulations, an efficient government apparatus, as well as the availability of unskilled labor, have all been identified as strengths for Barbados.

*Weakness.* The biggest complaint that investors have in Barbados is with its high tax rates and inefficient tax administration and auditing systems. At 37 percent, the corporate income tax in Barbados is among the highest in the region and also high by international standard. To counterbalance the effects of high taxes, Barbados grants special investment incentives to qualified investors, who have commended on the incentive regime's generosity. Naturally, this creates an uneven playing field between those who benefit from concessions and those who don't. In addition, the lack of good local supply of inputs is also considered a handicap for doing business in Barbados.

#### ***Dominican Republic***

Dominican Republic is one of the largest and fastest growing economy in the Caribbean for the last decade. The Industrial Free Trade Zones, which were growing in excess of 10 percent per year during the 1990s, have fueled the overall economic growth. It has the largest manufacturing sector in the Caribbean. However, the economy suffers from periodic exchange rate instability and a very vulnerable banking system.

*Strengths.* One of the key strengths of the Dominican Republic is its well-functioning labor market. Thanks to a relatively large labor force, both skilled and unskilled workers are relatively easy to find and at substantially lower costs than other countries in the region. Investors also find the labor market to be sufficiently flexible to meet their needs and the labor relations are considered conducive to enterprise growth. In addition, the Dominican Republic has one of the most advanced telecommunications network in Latin America, a large number of seaports and good shipping facilities.

*Weakness.* Two of the biggest problems facing investors in the Dominican Republic are unreliable electricity supply and exchange rate instability. Policies and laws are reported to change frequently, and investors find that the government is inefficient in delivering public services. In addition, the judiciary system is weak, which lead to failures of contract enforcement. Anti-competitiveness practices are another area of concern to foreign investors.

### ***Grenada***

Grenada's economy is dependent on agriculture and tourism, and increasingly on manufacturing. Even today, more than a third of the island's population depends on nutmeg farming to earn a living. Agro-processing, which is main manufacturing activity in Grenada, is being encouraged by the government as a potential growth area. Meanwhile, constructions of new tourist projects have been very robust in the past few years, which help the overall economy show positive growth.

*Strengths.* Apart from macroeconomic stability, which Grenada shares with her sister states of the OECS, investors in Grenada praise its telecommunications network. Indeed, although Grenada is still behind in mobile telephone market, it has one of the highest fixed line coverage in the Caribbean. In addition, the availability of unskilled labor and good power supply are also considered strong points for the country.

*Weakness.* Grenada's small economy greatly limits its capacity to meet the demand of international companies for input supplies. Investors also report great difficulties in getting finance because the banking sector, although liquid, is conservative and there is little venture capital financing available. Shortages of technical and managerial skills, coupled with an inflexible labor market, make labor market issues one of the biggest obstacles to doing business in Grenada. In addition, investors also complain about high tax rates and high import tariffs, as well as complicated customs clearance procedures.

### ***Jamaica***

After being in a recession for the past five years, Jamaica is showing signs of modest recovery. Long-term growth, however, is hampered by persistently high interest rates, high crime and violence concerns, and a decline in competitiveness. Nevertheless, given

its relatively diversified economic base by Caribbean standard, many believe that Jamaica maintains potential for faster economic growth and modernization.

*Strengths.* Investors speak highly of Jamaica's infrastructure facilities and favourable attitude towards FDI. Indeed, with two international airports and 18 seaports (2 public and 16 private), Jamaica is a major transportation center of the Caribbean region. Meanwhile, the telecommunication system is modern and offers a wide range of service options. In addition, with a relatively large domestic population, Jamaica also attracts for its local market size.

*Weakness.* Difficulties in accessing land and natural resources have been cited as a significant obstacle by investors in Jamaica. At the same time, the government is widely considered to be bureaucratic and inefficient in providing services, particularly in the branch offices of the customs and licensing agencies. In addition, although both skilled and unskilled workers are relatively easy to find, labor productivity is low. Finally, crime and security concerns seriously impair Jamaica's attractiveness to foreign investors.

### ***Trinidad and Tobago***

Endowed with rich deposits of oil and natural gas, Trinidad and Tobago is one of the most prosperous countries in the Caribbean, and has been enjoying positive growth over the last 10 years. Although the energy sector remains the focus of economic growth, the Government has targeted information science as a future growth area. Trinidad and Tobago's computer literacy is among the highest in the Caribbean. Other diversification efforts include manufacturing and agriculture.

*Strengths.* Investors speak well of Trinidad and Tobago's political and macroeconomic stabilities. As the country has been liberalizing its economy for several years, there prevails a favourable attitude towards FDI and there are few restrictions on FDI entry. Indeed, it is considered as the Caribbean country most qualified to join NAFTA. Given its energy base, abundant power supply is another key strength of the economy.

*Weaknesses.* Despite its macro stability and relative prosperity, crime and other security issues are serious concerns among foreign investors in Trinidad and Tobago. Meanwhile, investors complain about inefficient government services and the lack of venture capital financing options. Moreover, as state-owned enterprises still play a significant role in the national economy, anti-competitiveness practices are reported to be common in Trinidad and Tobago.

Table 3.3 Ranking of the Five Countries for Each Investment Climate Aspect

	Barbados	Dominican Rep.	Grenada	Jamaica	Trinidad & Tobago
<b>Policy and legal environment</b>					
1 - Political/regime stability	1	5	4	3	2
2 - Exchange rate stability	1	5	3	4	2
3 - Clarity and fairness of laws and regulations	1	4	2	5	3
4 - Government efficiency	1	4	2	5	3
5 - Security and absence of crime	3	2	1	4	5
6 - Judiciary and contract enforcement	1	5	4	3	2
7 - Anti-monopoly practices	1	3	4	2	5
<b>FDI framework</b>					
8 - Favorable attitude in country towards FDI	4	3	5	1	2
9 - Investment incentives	1	2	5	3	5
10 - Export incentives and EPZs	2	1	4	5	3
11 - Investment facilitation and services	2	3	5	1	4
12 - Access to local finance	1	2	3	5	4
13 - Government and venture capital financing	1	2	5	3	4
<b>Market access</b>					
14 - Local market size	2	3	5	1	3
15 - Local supply of inputs	4	3	5	2	1
16 - Proximity to your other operations	4	1	3	2	5
<b>Labor</b>					
17 - Availability of professional workers	3	1	5	2	4
18 - Availability of skilled technicians	2	1	5	3	3
19 - Availability of unskilled labor	2	1	4	5	3
23 - Labor productivity	2	1	5	4	2
24 - Labor relations	2	1	5	3	4
25 - Labor market flexibility	2	1	5	3	4
26 - Health of the workforce	4	1	3	2	5
<b>Administrative procedures</b>					
27 - Business registration and licensing	5	3	4	1	2
28 - Foreign exchange restrictions	2	2	5	4	1
29 - Access to land	4	2	1	5	3
30 - Access to natural resources	3	1	2	5	4
<b>Taxation and Customs</b>					
31 - Tax rates	4	1	5	3	2
32 - Tax administration and auditing	3	2	5	1	3
34 - Quantitative restrictions	4	3	2	5	1
35 - Customs clearance procedures	2	3	5	4	1
<b>Infrastructure</b>					
36 - Telecommunication	3	1	2	4	5
37 - Power supply	1	5	3	4	2
38 - Water supply	1	5	4	3	2
39 - Roads	5	1	2	3	4
40 - Air transportation	3	2	5	1	4
41 - Shipping and ports	5	2	4	1	3
<b>Other</b>					
42 - Quality of life	3	5	2	4	1

## CHAPTER IV

### ALTERNATIVE LOCATIONS AND SOURCES OF INFORMATION

#### A. Alternative investment locations

In many respects, the Caribbean islands are alike. They are all small by world standard, their economies all depend on tourism as a main source of foreign exchange earnings, agriculture in all countries is a declining sector but still employ a significant proportion of the labor force, and they all aspire to diversify into agro-processing, ICT, financial and other services industries. So it seems that these countries are competing for the same foreign investment.

In order to shed some light on which countries are considered competitors to which countries from the point of view of the investors, firms were asked to identify the leading alternative destinations within and outside the region for their investment projects in the Caribbean. Table 4.1 summarizes the findings from this exercise, and should serve as a reference for countries, especially their investment promotion agencies, trying to assess their competitive advantages and adjust their investment promotion strategies.

As seen, different countries are considered competitors by firms in different sectors. In the case of Barbados, for example, Antigua and Barbuda and Trinidad and Tobago are its competitors for investment in the ICT-enabled services, while St. Lucia and St. Vincent compete for its manufacturing industries. Outside the Caribbean region, the US is a competitor of Barbados for financial services investments, as well as those in trade.

Table 4.1 Summaries of Alternative Destinations

Destination	Alternatives Within Region	Alternatives Outside Region
Barbados	Antigua (7), St. Lucia (3), St. Vincent (4), Trinidad (6, 7, 15)	USA (6, 16)
Belize	British Virgin Islands (6)	
Dominican Rep.	Barbados (3), Haití (3, 15), Jamaica (2, 4, 5), Trinidad (4)	China (3, 4), Costa Rica (2, 4, 10, 15), Cuba (12), Guatemala (10, 15), OECD Countries (4), Panama (8), Puerto Rico (4, 7), USA (5), Venezuela (14)
Grenada	Bahamas (5), Barbados (7, 13), Guyana (12), St. Kitts (5), St. Lucia (4, 5, 12, 13), St. Vincent (12),	Canada (13), Costa Rica (7), St. Martin (5), USA (5)

	Trinidad (2, 5, 13)	
Jamaica	Barbados (2, 5, 6, 7, 11, 12, 15, 16), Cayman Island (10), Dominican Rep. (2, 6, 15), Grenada (16), St. Kitts (2), St. Lucia (2), Trinidad (6, 15, 16)	Barbados (11), Canada (6), Mexico (15), United Kingdom (12), USA (2, 6, 16)
St. Kitts & Nevis	Antigua (6), St. Lucia (3)	
St. Lucia		China (7), Costa Rica (7), India (7), Mexico (7), Monserrat (9)
Trinidad & Tobago	Antigua (10), Barbados (2, 4, 7, 14), Cayman Island (6), Dominican Republic (15) Jamaica (7, 12, 13, 15)	Bermuda (7), Columbia (10), Costa Rica (8), Mexico (7), Panama (10), USA (16)

Note: The numbers in the parenthesis represent the types of activities for which the country is considered an alternative investment location to the country in question. The activities are coded as below:

- |                              |                                   |
|------------------------------|-----------------------------------|
| 1 = Agriculture              | 9 = Education                     |
| 2 = Food processing          | 10 = Medical services             |
| 3 = Textile and garment      | 11 = Labor services               |
| 4 = Electric and electronics | 12 = Other professional services  |
| 5 = Tourism                  | 13 = Construction                 |
| 6 = Financial services       | 14 = Energy                       |
| 7 = ICT-enabled services     | 15 = Other manufacturing/industry |
| 8 = Transport                | 16 = Retail/wholesale trade       |

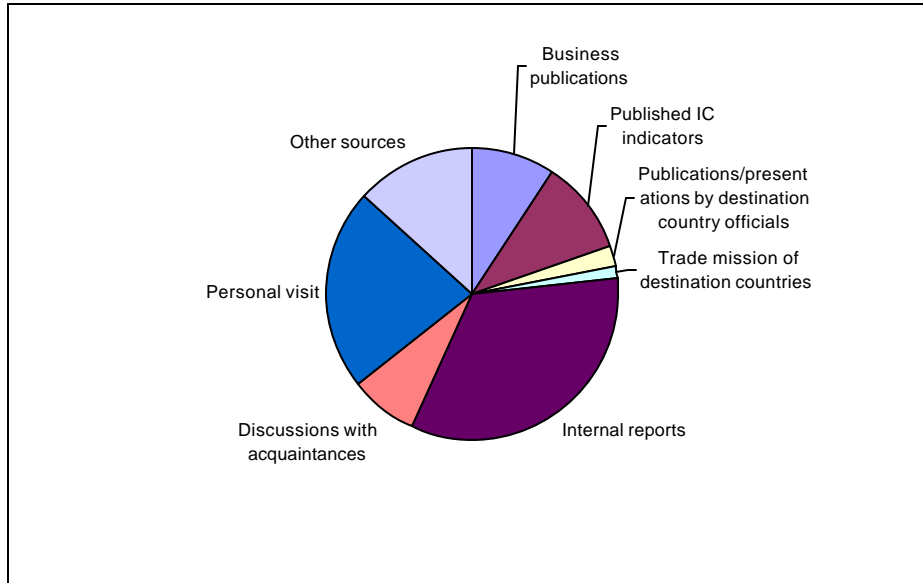
## B. Sources of Information for Potential Investors

There are four critical functions involved in effective investment promotion: image building, investment generation, investment service and investment policy advocacy. More in-depth analysis of selected IPAs in the Caribbean region (e.g. the Grenada Industrial Development Agency) reveals that the Caribbean IPAs tend to focus most of their efforts on the last two functions. That is, they generally assume an investment facilitators' role while ignoring other key functions of an effective IPA.

This general observation is reconfirmed through the Caribbean Investor Perception Survey. In addition to the information on the competitive strengths and weaknesses of the investment climate in the Caribbean countries, the survey also collected information on where the investors would go for information that would ultimately shape their investment decisions in a country. It was found that that in most cases, firms rely on their own companies' internal reports and analysis to get information about a particular

country. (Figure 4.1.) Personal visits are also quite important.<sup>8</sup> By contrast, traditional promotional methods, such as trade missions of destination country to the source countries, or publications, promotional ads and presentations by destination country officials in the source countries, are rarely relied upon by investors to form their opinions about a destination country. This finding suggests that the regional investment promotion agencies have not been very effective in reaching their targeted audience, or significantly influencing the decision-making processing of potential investors.

Figure 4.1 Use of Information Sources by Foreign Investors



Once again, these regional aggregates hide some important differences between countries. The following series of figures present the frequency of reliance on the various information sources by investors in the five Caribbean destination countries. Some of the most noticeable features include:

- For information on Barbados, investors rely equally on publish investment climate indicators and on their own internal analysis (nearly 30 percent each) to form their initial impressions and subsequent opinions about the country.
- The investment promotional activities (i.e. promotion ads and tours) by the officials of the Dominican Republic, Grenada and Jamaica are so insignificant and ineffective that no investors cited them as an important source of information for these countries.
- Personal visits are by far the most influential and reliable source of information for investors interested in Grenada and Trinidad and Tobago.

<sup>8</sup> Other sources include business contacts through personal relations, acquisition of a local company, and various other informal channels.

Figure 4.2 Information Sources for Barbados

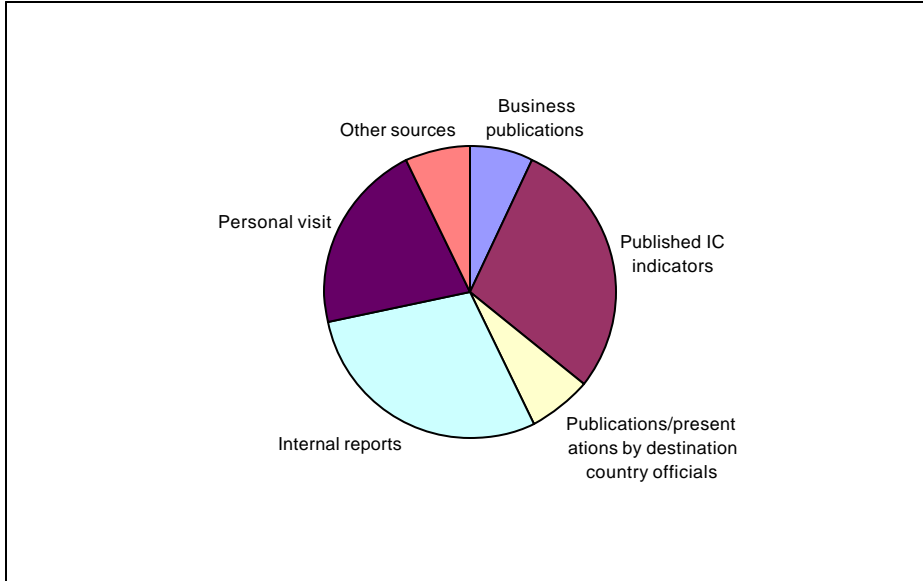


Figure 4.3 Information Sources for the Dominican Republic

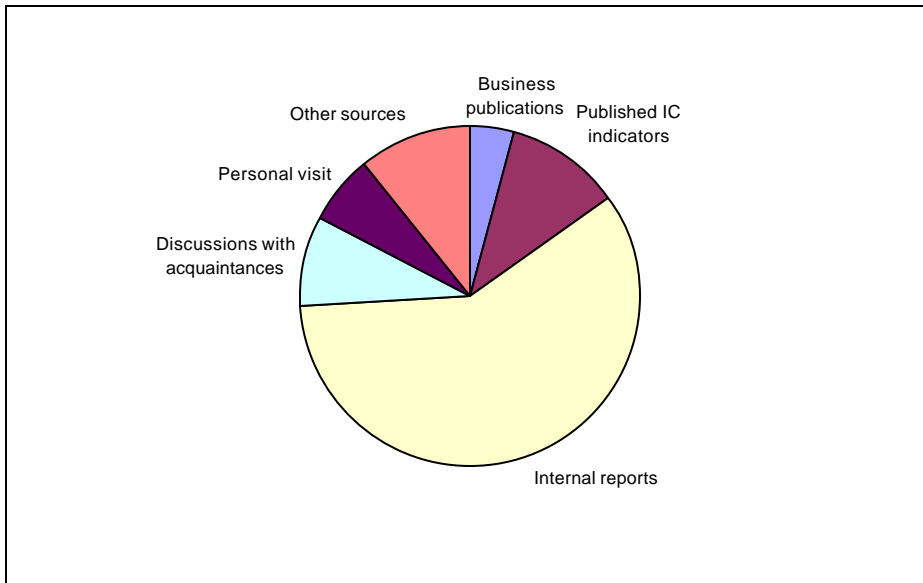


Figure 4.4 Information Sources for Grenada

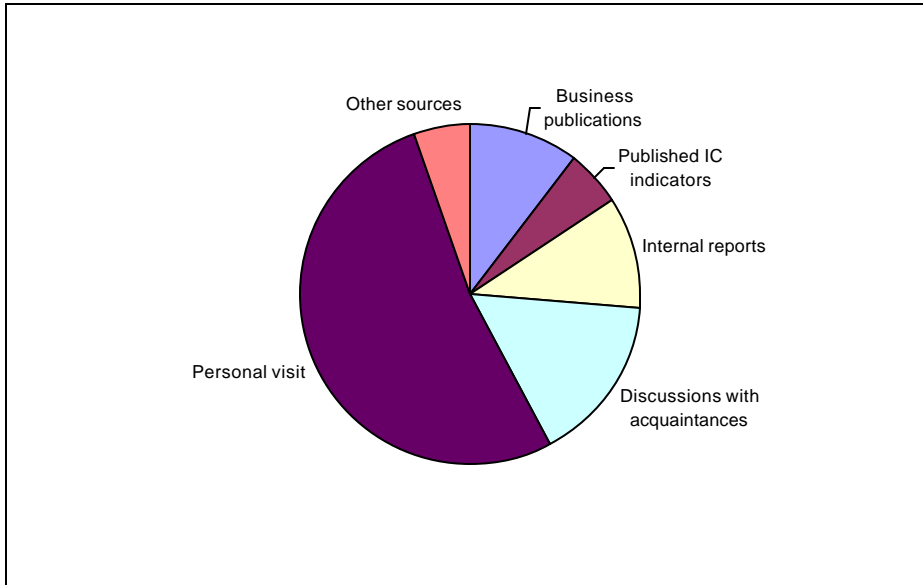


Figure 4.5 Information Sources for Jamaica

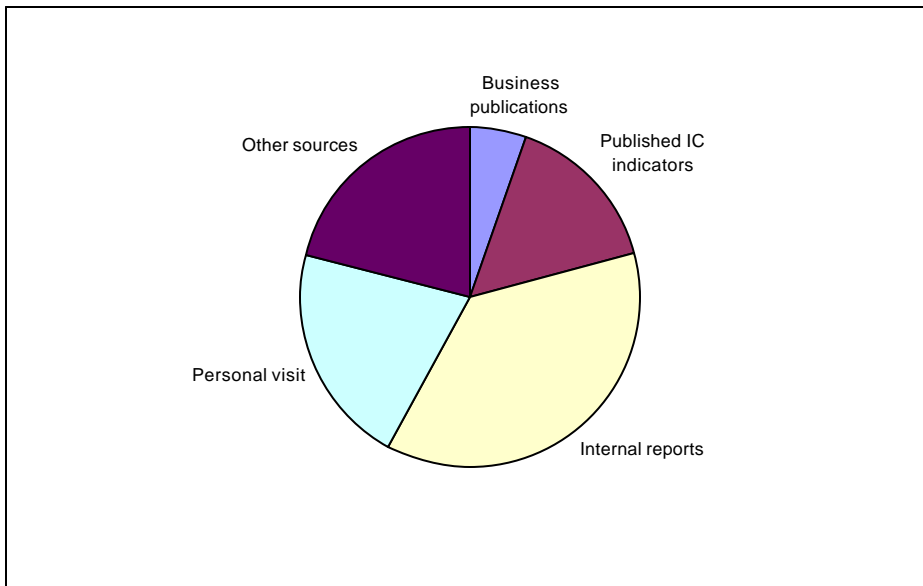


Figure 4.6 Information Sources for Trinidad and Tobago

