



**CENTRE FOR CO-OPERATION WITH NON-MEMBERS
DIRECTORATE FOR FINANCIAL, FISCAL AND ENTERPRISE AFFAIRS**

ACTION PLAN FOR THE CARIBBEAN RIM INVESTMENT INITIATIVE

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**INVESTMENT CLIMATE IN THE CARIBBEAN BASIN:
Issues for Future Work**

Workshops held in Santo Domingo, Dominican Republic in April 2000 and in Curacao, Netherlands Antilles this year provided a venue for exchange of experiences on how to maximise the benefits of foreign direct investment (FDI) in the region. These workshops were a milestone in confirming the needs and willingness to enhance dialogue between the OECD and countries in the region. On the basis of these workshops the following topics were identified for consideration in future workshops:

- ◆ Improving the institutional framework
- ◆ Assess the role and performance of Investment Promotion Agencies (IPAs) and other organisations
- ◆ Promotion of forward and backward linkages to indigenous industries
- ◆ Assessment of comparative advantages with a view to building competitive advantages

To deal with these issues, a three-year programme on investment climate in the Caribbean is proposed. The programme will not duplicate work already undertaken and will take into account ongoing projects and those that have already been conducted by other international and regional organisations. The comparative advantage of this proposal therefore would be to build on what's already been done and to lead to concrete policy recommendations in the priority areas discussed below.

1. Topics for discussion

Improving the institutional framework

Investors often stress that the institutional framework is the key for foreign investment decisions. Dismantling heavy bureaucracy and increased transparency should be given sufficient attention when studying the investment climate. Some of the specific questions to be address are as follows:

- An assessment of current administrative obstacles faced by investors
- Coherence between national, regional, and international investment regimes
- Assessing the effects of the tax system on investment
- Regulatory reform and competition policy
- Improving public sector governance, efficiency, and mechanisms to fight corruption
- Corporate governance

Assess the role and performance of Investment Promotion Agencies and other organisations

Some countries in the region have extensively relied on Investment Promotion Agencies (IPAs) to attract investment. Their role can be important in marketing the country to foreign investors who are looking for new investment opportunities. This study would provide an opportunity to assess IPAs and their role in attracting and maximising the benefits of FDI. The study would focus on institutional frameworks of IPAs and various methodologies for assessing performance. What role could other organisations (e.g. Chambers of Commerce, business associations, etc.) play in attracting FDI? Is there scope for regional co-operation?

Promotion of forward and backward linkages to indigenous industries

Foreign direct investment projects differ in the degree of forward and backward linkages to indigenous industries. This study, which aims to identify factors that enhanced forward and backward linkages to multinational enterprises' (MNEs) operations, covers the following topics:

- What is the industrial structure in selected industries in which foreign investors play an important role? Is there a supply chain and does it include domestic companies?
- What is the knowledge and technology transfer process from MNEs to domestic suppliers? How can it be enhanced?
- What kind of infrastructure exists to strengthen linkages (e.g. business associations, information and advisory services for small businesses, etc.)?
- What can be done to facilitate partnerships between local and foreign investors, and what can be done to improve domestic firms access to capital?

Assessment of comparative advantages with a view to building competitive advantages

Understanding a country's current situation is crucial in order to identify the strengths that can be developed and the weaknesses that need to be redressed. This assessment would build on existing work and involve studies in the following areas (investor surveys regarding these issues would also be carried out):

- Current trade and investment patterns and trade regimes (e.g. restriction and preferential access)
- Relationship between trade and investment
- Labour markets (e.g. supply, skill levels, employment practices, etc.)
- Education systems
- Natural resources

In-depth analysis for some industries that have been or are potentially important to Caribbean economies would be useful in determining the impact of FDI on development and the building of competitive advantages. The following are sectors in which countries in the region have expressed interest:

Tourism

The objective of this study would be to understand the costs and benefits of tourism development in different market segments (e.g. all inclusive type resorts, high-quality individual tourism, and eco tourism). In order to conduct this study, the tourism industry needs to be examined in a holistic framework, including hotel developers, tour operators, marketing agencies and tourism agencies.

Information and communications technology

The information and communication technology (ICT) industry consists of both manufacturing and services sectors. Goods provided by the ICT industry can be divided into four areas: computer equipment, communication equipment, electronic components, and software goods. Various types of services can be classified under ICT, such as data processing, call centres, etc. For each of these segments, requirements for

building competitive industries may differ. This study would address how existing infrastructure can be used to build effective ICT sectors e.g. transforming the banking sector into modern financial service centres? This study would require an assessment of the potential for the future, a thorough analysis of technology policy of countries in the region, availability of human capital and infrastructure related to technology development, as well as investor's perceptions.

Agribusiness

This study would address some of the following questions. How can foreign technology and innovation help in the modernisation of the agribusiness sector? How can FDI help in the transformation of commodity production into processed food products? What are the future opportunities for more trade and diversification of products in this area?

2. Methodology and Output

Each project will be carried out jointly with the OECD and participating countries, with support of other international organisations. For each of the topics defined above, OECD would develop a research framework and methodology in consultation with experts. Local experts from the participating countries, following this framework and methodology, would conduct the research. Conclusions will be drawn jointly from the research findings at workshops, where the representatives of the international organisations, governments in the region, and private sector participants would meet to discuss the results of the research.

A steering group consisting of donor and participating countries and international organisations would be established. A country of the region, which will assume chairmanship of a meeting, would host each workshop. The analytical reports and conclusions from the workshops would be published and made available on the OECD and other web sites. It is also envisaged that a stand-alone web page within the OECD web site will be set up where progress of the projects can be followed.