



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

Workshop on Foreign Direct Investment in the Caribbean Basin and Latin America

5-6 April 2001, Curacao

Background and Objectives

Introduction

This workshop builds on the contributions and discussions made at the Workshop on Foreign Direct Investment in the Caribbean Basin held in Dominican Republic in April 2000. The previous workshop confirmed that the Caribbean countries have acknowledged that foreign direct investment (FDI) is a crucial component to take them to higher level of economic development. At the previous workshop, the countries stressed the importance to study following subjects in order to draw out investment policies that best benefit them.

- ❖ Promotion of forward and backward linkages to indigenous industries
- ❖ Improving institutional framework
- ❖ Creating efficient capital markets and improving access to capital
- ❖ Improving foreign direct investment statistics
- ❖ Assessment of competitive advantages
- ❖ Improving the indicators to assess the performance of Investment Promotion Agencies

The present workshop provides a venue for continued policy dialogue among the Caribbean countries and the OECD in search of the investment strategy that promotes economically and socially sustainable development. The three main objectives of this workshop are:

- 1) To follow-up and build on the discussions of the previous workshop to identify key issues for the region
- 2) To share experiences and lessons of improving investment climate among the participants
- 3) To agree on a concrete action plan of the Caribbean Rim Investment Initiatives that will serve as a forum for discussing measures to improve investment climate

The common theme throughout this series of workshops is that a country needs to learn about itself – knowing about its endowments as well as current policy in place. Assessing the relevance of current policy vis-à-vis endowments is a crucial step that needs to be taken very seriously. Equally important is the benchmarking of the current situation of the country with the best practices around the world.

The present workshop is expected to be a milestone of the OECD's work on investment policy in the Caribbean, by launching the Caribbean Rim Investment Initiatives, a three-year programme to explore various policy issues to improve investment climate in the region.

Recent Trends

In recent years, countries in the Caribbean Basin have made significant steps towards liberalization and regulatory reform, recognizing the importance of creating a favourable environment for private investors. Some of these initiatives include the granting of national treatment and the elimination of most restrictions on capital and profit remittances. The acceptance of international arbitration as a means of solving disputes between the host country and foreign investors by some countries is also a significant step forward. A number of deregulation efforts enabled a relatively smooth privatisation process and opened new opportunities for large-scale investment, mostly through mergers and acquisitions.

Concerted efforts within the region have played an important role in the improvement of investment climate of the region. Renewed approach since the 1990s focuses on the development of competitive export-oriented production activities. This differs considerably from earlier approach that focused on the promotion of intra-regional trade, which resulted in less impressive outcomes. The new approach aims to establish long-standing common market objectives, including the creation of CARICOM Single Market and Economy.

In the latter half of the 1990s, the region began to attract a level of FDI flows that are incomparable to that of the previous years: from US\$6.6 million average between 1988 and 1993, to US\$17.6 million in 1994-1999 periods. FDI continues to be undoubtedly the most important source of capital in the region. Behind the surge of investment flows, privatisation programmes have been important vanguards. Foreign investors participated in the privatisation of electricity services in El Salvador and the Dominican Republic, of telecommunications in El Salvador, and won airport concessions in Costa Rica and the Dominican Republic. Increasing amounts of FDI are being used to restructure previously acquired privatised enterprises. At the same time, the region has attracted foreign investment with assembly operations, which would set up a production and export platform. Though it is rather insignificant in absolute amount compared to FDI flows into other emerging economies, the sum is quite substantial for the size of these economies in the Caribbean.

The session of *Recent Trends and Policy Developments in the Caribbean Rim* lays out a foundation for further discussion by providing factual information. More specifically, the session aims to address the following issues.

- 1) How have the recent policy developments on FDI influenced the FDI trends in the region?
- 2) What are the lessons to be learnt to attract particular types of FDI, in terms of modality and sector?
- 3) How have the countries in the region benefited from FDI in recent years?

Creating a Favourable Investment Climate

Among the countries in the region, strategy towards better investment climate and the result of the policy differ considerably. Some countries continue to rely on natural resources such as petroleum, bauxite, gold and timber, and the development of industry that utilizes the resources. Another group of countries still rely on traditional agricultural economic base: these countries tend to have difficulty in attracting sustainable foreign investment that helps the country to

diversify or up-grade its economic structure. A large number of countries in the region continue to rely on tourism. Only a handful of countries moved towards economic structure in which the manufacturing sector is a substantial size in the economy. In this respect, the countries in the region still have a long list of improvements in order to attract quality investment that benefits the local economy. Among which, CARICOM has recognised that substantial improvements can still be made on registry and authorisation procedures and other administrative barriers as well as legal and regulatory restrictions.

For the countries in the region, the development of an effective and equitable incentive regime is one of the most important agenda. In fact, CARICOM has long been concerned with this subject, particularly to establish a level playing field among the member countries in order to contain competition among CARICOM countries in granting incentives to attract investment. Though equity and transparency are the key components of effective fiscal policy, the countries may benefit greatly from international best practices in this field.

Experiences presented by various speakers in the previous workshop in the Dominican Republic also confirmed that the creation of favourable investment climate through institutional development is a key building block for attracting sustainable FDI. An introduction of liberalised investment regime is a mere beginning. Adoption of appropriate governance structures --both for public and private, the development of physical infrastructure and human resource development - is a pressing issue for the Caribbean countries.

The session of *Best Practices for Creating a Favourable Investment Climate: National, Regional and International Approaches* will address the following issues.

- 1) What is the current regulatory framework for business activities in the region?
- 2) What is the policy framework for attracting foreign investment?
- 3) What measures are taken to ensure good governance in the public and corporate sectors?
- 4) What has worked and what did not work? And why?

Identifying Comparative Advantage

Though crucial, improving regulatory framework for business activities is only the beginning of the efforts to attract quality private investment. Inducement of higher value-added investment requires carefully crafted infrastructure and institutions to implement the policies that match with the comparative advantage of the country's endowments. This task involves two key elements: to know what is the current comparative advantage of the country, 2) what is the comparative advantage that the country wants to build on.

The previous workshop has observed enthusiasm among the Caribbean countries to learn from the model of Singapore and Ireland to move towards high-tech economy. Information technology industry is rather diverse, and each segment of the industry has different factor endowments to build competitive industry. Before promoting the industry, countries need to assess current status of information technology industry and availability of resources (human capital and infrastructure).

While development of new skill-intensive industry is important, the previous workshop also noted that transforming traditional agricultural industry into higher value-added industry could not be neglected. Countries need to identify whether there is an agribusiness sector that has a potential to be a high value-added industry (in terms of exporting market), and whether the

country has the policy infrastructure to make the transformation of the industry (such as water control etc).

The session on *Investment Promotion: Identifying Comparative Advantage for Investment in the Region* asks the question, “How did a country identify the current and future comparative advantages?” The question contains the following details.

- 1) How was the process of identifying competitive advantage like?
- 2) What was the key element of the process?
- 3) Who were involved in the discussion? Who played the key role?
- 4) Was the link between current and future comparative advantage clear?
- 5) If not, what are required to make the transformation?
- 6) What industries were identified? And why?

Way Forward

The last session of this workshop is to discuss the launch of *the Caribbean Rim Investment Initiative*. The initiative was jointly proposed by the OECD and the governments of Jamaica and the Dominican Republic to provide a venue where international expertise can be brought together to analyse the need of the Caribbean countries in improving investment climate. The initiative, which draws on the action plan proposed at the end of the workshop in the Dominican Republic, is a three-year-programme to study issues that are the keys to understand current policy needs of the Caribbean countries. The programme fully integrates initiatives of this kind launched by other organisations and focuses on subjects that are not dealt by others or where value added can be produced in working with others.

The uniqueness and the biggest value-added of this programme are in its proposed research methodology. The programme will focus on analysis to be carried out by each country. The steering committee, led by the OECD and participated by other international organisations, develops research framework and methodology in consultation with experts. Participating countries conduct research and analysis in line with the framework. Conclusions will be drawn jointly from the research findings at workshops, where the representatives of the international organisations, the governments in the region and private sector meet to discuss the issues. This allows consensus policy recommendations in the region, but more importantly, helps to develop technical expertise on policy analysis in these countries’ governments.

There will be a workshop for each research agenda under the programme umbrella in order to discuss the result of the analysis and to exchange experiences in different policies. Each workshop will be hosted by a country of the region, which will assume the chairmanship of the proceeding.

The analytical reports and conclusions from the workshops will be adequately formatted and prepared for dissemination. It is envisaged that a stand-alone web page within DAF/OECD web site will be set up, where the progress of the project will be posted.