INTEREXPO CONGRESS

INVESTING IN CARICOM, “A NON TRADITONAL APPROACH”

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Content:

1. CARICOM, the well known characteristics / challenges;
2. The tradition with FDI's;
3. The current Regional environment;
4. The needed change;
5. Conclusion.

Since the colonial times the Caribbean region, and my focus is the Caribbean Community "CARICOM", we have been characterized as:

- Small economies;
- Small population;
- Small consumption markets;
- Small based production linked with mono culture (sugar, rice, banana, bauxite);
- Minimal or no innovation;
- Minimal or no 'local" investments in industry based sectors;
- Rich in bureaucracy.

We are all fully aware of the fact that on the long term the mono culture products have not survived. Currently the sugar industry in Guyana is also facing many problems. Bauxite has been replaced by gold and oil. But the situation is still such whereby the raw material is being exported. On the long term, again, the countries will lose out.

Member States of CARICOM have traditionally depended and placed a lot of emphasis on the attraction of FDI to stimulate their economies. Economic policy decisions, and incentive regimes were create and implemented to favour the FDI's.

Why FDI:

- To foster growth;
- Create employment;
- Reduce poverty;
- To transfer to other sectors through the transfer of technology and know how (very disappointing);
- To provide leeway for governments to focus on infra structure, small and medium size enterprises.

Foreign investors, however, have tended to favour certain sectors. These days, even the medium size investor tend to focus on "quick earn and quick cash" sectors, such as Real Estate.

ECLAC, in its 2015 Foreign Direct Investment in Latin America and the Caribbean Report noted that " Foreign direct investment (FDI) in Latam and the Caribbean fell by 16 % in 2014 to US$. 158.803 billion. Outflows of FDI from the region were also down, by 8%. Both these trends were driven by the decline in prices of export commodities and the economic slowdown in the region. Nevertheless, FDI remains very important for the economies in the region, especially for smaller Caribbean economies".

The decreased flows to Latam and the Caribbean (16%) and Africa (2%) were offset by substantial increase to developing Asia (15%).

The ECLAC Report also mentions that FDI to the Caribbean fell by 5%. The biggest increases in the region were reported by Barbados (5,119%), Antigua and Barbuda (66%), Paraguay (230%).

The greatest decreases were seen in Suriname (97%), Venezuela (88%) and Grenada (64%). It noted that FDI flows into Latam and the Caribbean will likely decline again in 2015.

<u>Overview of CARICOM FDI Inflows</u>

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Sectoral distribution of FDI

Data revealed that in the case of the Bahamas and the OECS the bulk of the FDI was to the tourism sector. In the case of Guyana, Suriname and Trinidad and Tobago the FDI flows went to natural resources industries.

This is regarded as the traditional way of investing:

- Tourism sector: hotels
  =>(whether or not inclusive packages), certain level of educated personnel, the mass is local staff with certain living standards;
  =>depends for 99% on foreign food chain (grapes, apples, water, etc.);
  => no spin off: innovation, other related industries (agro – industry), manufacture, etc.;
  => most of the time “old boys club” (networks).

- Natural resources:

- ⇨ Labour force: mass low level of education, no transfer of technology, no or minimal innovation;
- ⇨ Well paid labour force, however “time bound” no resources the first to go: negative social / economic consequences;
- ⇨ No long term spin off effects: “ghost town effect”;
- ⇨ Environmental degradation: resources gone, its done: pressure on the government, society to absorb the “mass accustomed to high earnings in short time and high spending attitude”; increase in crime, etc.

In both cases:

Transformation of the local societies in “mini western societies”, especially the people living in the interior. This again lays the foundation for all kinds of social, economic, cultural conflicts.

Even the investments in real estate have brought: negative impact for the local population. The best goes to those living abroad or to those who can afford it one way or another. The best agricultural land (already established infrastructure) is being dedicated to housing schemes, forcing those in agriculture to move further inland with all consequences – infrastructural issues-. Agriculture production becomes expensive and transportation costs increase.

Due to the way real investors choose their “resources” the pressure on the whole traditional infrastructure also become to bear a burden. The expansion of the cities cannot be serviced by the existing infrastructure.

The abovementioned means that policies must be created to attract investors “FDI” to invest, but in a different way and in other productive sectors.

What should be different and how (examples)

- Multi –investment approaches: hotel sector and agribusiness with spin off effects for the education sector, innovation, know how transfer, local food and beverages industries combined with health and wellness;
- Natural resources: the local population should be left in their “natural habitat and way of life”. Taking that away forces the people to use other paths of life which are strange them and also harms the local tourism sector. A Balance should be created. This will also assist in preventing the creation of “ghost towns”.

What is being done within CARICOM:

In December 2013, the inaugural Meeting of the CARICOM Commission on the Economy was held. The Chairperson is Barbados, the country that has the portfolio for the Caricom Single Market and Economy within the Conference of Heads of Government.

The priority focus areas are: fiscal sustainability, resource mobilization and unemployment, energy and ICT, debt relief and restructuring. Work in relation to agriculture and tourism also form part of the mandate given by the Heads of Government to the Commission.

The Community is working towards the adoption by Member States of a CARICOM Investment Code (CIC) and CARICOM Financial Services Agreement (CFSA).

We hope to operationalize this year a central Registration System for registration of Companies. This means that companies will not have to registered in each CSME jurisdiction . For example if a company has registered in Suriname, there will be no need for the company to register again in St.Lucia to conduct business in St.Lucia.

Soon, we also hope to finalise “CIMPROSUR”: this will simplify and will be less time consuming for companies who are looking for inputs for their products and which are not available in the CARICOM.

Several Member States are also working towards “one stop window” for investors.