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LC/CAR/R.192

Date: October 1986

ORIGINAL: ENGLISH

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
Subregional Headquarters for the Caribbean



PRACTICAL ASPECTS OF INTERNATIONAL INVESTMENT  
IN INDUSTRIES OF CARIBBEAN ISLAND COUNTRIES

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This document has been prepared without formal editing. The document was prepared jointly by Mr. Edgar Ortegón, Co-ordinator, Joint ECLAC/ILPES Planning Unit for the Caribbean and Mr. Pedro Herrera Molina, formerly Economic Affairs Officer, ECLAC for presentation at the Seminar on Island Economies held in Martinique from 27-28 October 1986. This Seminar was sponsored by UNCTAD, Institut D'Etudes Internationales et Des Pays en Developpement and Université des Sciences Sociales de Toulouse. The views expressed are the sole responsibility of the authors and do not necessarily coincide with those of the institutions to which they may be attached.

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## I. MOST OUTSTANDING SOCIO-ECONOMIC ASPECTS OF CARIBBEAN COUNTRIES

In an effort to try to synthesize the most outstanding characteristics of Caribbean countries, we could say that the overall effect of a small internal market, scarcity of natural resources, limited availability of capital for investment, inadequate skilled labour and the existence of a fragmented and complex regional system are the basic problems of the region's social and economic development which are responsible for its special character.

If we include Guyana, Suriname and Belize, non-island countries, the Caribbean as a whole, towards the end of 1985, had a population approaching 29 million inhabitants. In other words, a total population comparable to that of countries such as Colombia or Argentina. Nevertheless, if we were to exclude Cuba, Haiti and the Dominican Republic, its population would fall to approximately six and a half million.

Out of a total of twenty countries, only nine have an area above 1,000 km<sup>2</sup>. The total gross product reached US\$40,301 million in 1985 and its labour force reached eight million five hundred persons of whom a high percentage remain unemployed or under-employed. In terms of per capita income, the disparity is great, oscillating between Haiti with US\$341 and Trinidad and Tobago with a per capita income of above US\$7,000.<sup>1/</sup>

In terms of contribution to the internal product, agriculture contributes, on the average, with a tendency towards decreasing, between 10 per cent and 20 per cent, industry accounts for 10 per cent and services, with a high participation on the part of the tourist sector, approximately 60 per cent.

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<sup>1/</sup> See LC/CAR/G.182 "An evaluation of economic performance of CDECC countries", March 1986.

From the point of view of the external sector, export earnings depend fundamentally on a few basic products such as sugar, bananas, bauxite/ alumina, petroleum or cocoa. On an overall basis, exports as a percentage of the internal gross product represent in the case of the smallest countries around 60 per cent. With respect to imports, the figure rises to 80 per cent. This reflects, in a certain way, the smaller Caribbean countries' serious vulnerability to and dependency on the international market. With respect to public sector accounts, the tributary base is limited and per capita expenses relatively greater than in large countries by virtue of the scarcity of economies of scale. The above factors, when added to an inefficient control over public enterprises, have led to a permanent deficit situation and consequently to a situation of dependence on external financing in order to attend to the basic needs of development.

Using the above facts as a basis for discussion, the following pages will be devoted to suggesting fundamental elements which would need to be analysed and encouraged in order to make international investment a decisive factor in the development of the Caribbean.

## II. POSSIBLE SYSTEMS FOR FOREIGN INVESTMENT AND INDUSTRIALIZATION WHICH MAY BE IDENTIFIED IN THE CARIBBEAN AREA

Among others, possible systems for foreign investment and industrialization could be the following:

- (a) Foreign investment for transnational industrialization;
- (b) Foreign investment for disorganized and/or static industrialization;
- (c) Foreign investment for flexible and integrated industrialization.

With respect to the first system, transnational industrialization has shown its great limitations: it is a system which is difficult to integrate into the local development because of its own special needs and the limitations of countries open to investment.

Transnational industrialization in its practical aspects is not generally passed on to concrete projects likely to be identified with new enterprises capable of continuing the encouragement of initiatives and local knowledge with a view to satisfying local demands. In the same way, the ability to absorb and effectively develop this type of industrialization is a particularly difficult proposition for the small Caribbean countries.

It is obvious that every technology is not a neutral force in the social and economic climate of each country. Therefore, it exerts an influence on this climate in accordance with the objectives, guidelines and priorities established by the economic, political, ecological and social variables. In keeping with this criterion, before adopting a strategy for industrialization on any basis, it is necessary to have a clear perspective with respect to the industrial development that may be generated and its repercussions in the medium and long term.

In addition, in order that transnational industrialization may be compatible with social progress, there must be a minimum of identification between the interests of foreign investors and the real interests of countries open to investment. On the one hand, transnational industrialization operates in relation to the large transnational enterprises and these, by definition, follow the directives of parent firms. On the other hand, the advantages for the country accepting foreign investments within this system of industrialization depend to a large extent on the level of technical competence and organizing ability that would permit the adoption, assimilation and utilization of that type of industrialization. In the case of the Caribbean, the physical size and the internal market of some countries constitute serious constraints for the effective utilization of this scheme in such a way as to apply the foreign investment effectively in proportion to the social and economic interests of each country and of the region as a whole.

The situation mentioned above could be less critical if within each country there also existed a clear definition of priorities and/or codes of conduct concerning the precise way to operate within the social, economic and ecological order. With respect to ecology and effective utilization of available natural resources there is a pressing need for each country to firmly display the political will to promote:

- (a) Energy-saving technologies;
- (b) Intensive technologies in the use of local materials without compromising or destroying the natural heritage;
- (c) Technologies which allow an adequate balance between the use of renewable and non-renewable resources; and
- (d) Technologies which minimize damage to ecosystems and which promote a better human environment.

On the broader social and economic level, consideration must be given to the effects of transnational investment on the following aspects:

- (a) Technologies capable of encouraging massive consumption rather than elitist consumption;
- (b) Technologies oriented towards satisfying the basic needs of the large majority groups of the population rather than technologies oriented simply towards the purchasing power of minority groups;
- (c) Technologies which permit the wide use of available human resources and at the same time raise the levels of skills, productivity and standard of living;
- (d) Technologies which promote a rise in consumption of local products and foods, in all possible cases, with a priority on the excessive consumption of foreign or elaborate products with a high imported component;

(e) Technologies which facilitate a reduction of social inequalities instead of its increase; and

(f) Technologies which encourage participation, avoiding alienation and marginality.

With respect to the second scheme, it concerns an effort that may promote a certain normal development which frequently does not spread nor manage to generate a sustained impulse for the economy of the country accepting investments when the overall picture is taken into consideration. In other words, this type of development does not produce adequate socio-economic transformation.

In contrast to the two preceding systems, a type of foreign investments capable of promoting flexible and integrated industrial development seems to be the most convenient alternative for small Caribbean countries. And this is so because of its potential for bringing together all the available internal resources, adjusting itself with greater facility to the small and medium business, adapting itself with greater speed to the changing circumstances of the external scene and facilitating the generation of multiplier effects by means of a better organization between the different sectors.

### III. PRACTICAL ASPECTS FOR FACILITATING FOREIGN INVESTMENT IN THE CARIBBEAN

Because of the socio-economic features mentioned in the first chapter, the precise practical aspects of international investment worth pointing out are the following:

(a) As a matter of priority, conditions ought to be created for the establishment of an "export-oriented" industry with the competitive ability to make full use of the comparative advantages

offered by Caribbean countries. This would permit the achievement of profitable levels of production; an increase, as far as possible, in the benefits deriving from already established arrangements - Caribbean Basin Initiative, Lomé Convention, CARIBCAN and the strengthening of the process of commercial integration at the level of CARICOM and other regional systems.

The fact that high priority is attached to industrial export-oriented development does not mean a disregard for the necessary attempts at complementing what may be termed an inward-looking industrial development capable of creating a stable and technico-material basis designed to satisfy the basic needs of majority groups within the population.

(b) Highly selective in the sense that it selects those branches, activities or products in which the viability and profitability are such that they permit an adequate level of efficiency, competitiveness and stability.

(c) Specific, that is to say, it is not sufficient to identify a branch or sector in particular without the additional need to pinpoint those activities which, as a result of their advantages and procedures are those which have a greater internal and external potential. This attempt at specific selectivity is basic to the establishment of a package of ideas involving concrete projects attractive to foreign investment.

(d) Identification of perfectly localized economic areas in which Caribbean countries can develop individually and maintain relative leadership.

(e) Maximum utilization of available human potential, in the sense of raising the level of skills, improving non-formal education and in this way generating greater productivity and greater technological culture.

(f) Encouraging effective procedures for the acquiring and transfer of available knowledge and technology within an international framework.



In this respect, namely the ability to be able to distinguish between dominated and dominant technologies, it is crucial for Caribbean countries to play an active and not passive role in the area of available technologies.

(g) The attainment of a greater industrial specialization in relation to the geographical milieu suitable for the development of certain activities with comparable advantages such as tropical medicine, cosmetics, paints, plants, foods, pharmaceutical products, furniture, things cultural, etc.

(h) Utilization of geographical situation in order to serve as a bridge for industrialization processes in specific branches designed for the transformation of inputs. This would avoid the countries having to become mere receivers of "dirty technology" in a transnational industrial redeployment.

(i) The avoidance of a substitution of imports which compromise their own technological development, restricting the growth of internal productive potential considered as a whole, or leaving no concept of subregional commercial integration.

(j) The anticipation of problems of false economies in the investment process and of substitution of imports by not harmonizing sectoral optimum with the national or subregional optimum (investments to maximize profits of the private sector and eventually of the public sector), incompatible with the general objectives of the country or of the subregion. At the same time, these false economies bring about distortions and non-dynamic situations in the rest of the industrial sector.

Although what has just been stated may be valid for larger countries or countries with continental features, it is particularly important in the case of small or island

countries where the options are more limited and the possibilities for rectification less or more costly. Therefore, the role of the state in the prevention of such errors is decisive. A large country, with relatively abundant human, financial and natural resources can afford the luxury of experimenting and correcting such errors without suffering a serious setback in its industrial development. On the other hand, small countries and island countries need to have a greater knowledge and to experiment more in the imitating and patterning of industrial processes in order to avoid committing costly errors on the road towards the establishment of a sustained process of effective industrialization.

Although the social cost of such efforts at research may be considerable, the savings in the medium term, in terms of time and sacrifices avoided, are adequate compensation.

Based on the above-mentioned general elements, we may now point out some complementary aspects capable of stimulating international investment seen from the angle of the interests of Caribbean countries. Among others, the following are worth mentioning:

(a) Distribution of technological packages through the establishment of adequate codes of conduct on the part of the more industrialized countries and the strengthening of scientific and technological capabilities of countries receiving these technologies.

(b) Consideration of the time factor in the evaluation of the investment process. In the case of the Caribbean, in order to benefit from its comparative advantages, it is necessary to correct some of the traditional problems related to this important factor. As manifested in some countries, this factor constitutes an additional/special motive for isolation, rise in costs and a disincentive to international investment.

At the time of decision-making, as far as the investor is concerned, the element of "time-preference" should not be compromised or held in check by the widespread notion of "Caribbean time."

(c) In spite of its strategic, geographical position with respect to the north and the south within the Western Hemisphere, the region is better known for its tourist attractions than for its industrial potentialities. In order to correct this, there is need for an inventory of resources and possible alternatives for industrial diversification.

Once this has been achieved, such an effort must be complemented by a wide and appropriate publicity campaign in the industrialized countries of major interest to the area. Participation in fairs and international commercial events plays a fundamental role.

(d) From the Government point of view, Caribbean countries must develop a policy of providing adequate and reliable infrastructure in the area of transport and communications so as to guarantee the effectiveness of foreign investment. Without an infrastructure providing basic services, the advantages derived from the geographic situation may be lost. In addition, there is the risk of increasing even more the problems of technological incompatibility between the investing country and the country at the receiving end of investments.

(e) As far as South-South co-operation is concerned, it cannot be denied that there exists a broad field of industrial complementarity which remains virtually unexplored and which can be cemented by highly profitable Government to Government agreements in areas such as the food industry, the forest industry, pharmaceuticals, fishing, services, etc.

(f) At the global level, a greater compatibility must be put in place between the different strategies and policies for the development of the subregion; and there must also be greater harmony in its mechanisms and a constant effort towards encouragement, guaranteeing the maximum use of the traditional comparative advantages and new opportunities. There is need for proper management of the different economic policies to be established

and especially of the more sensitive questions related to their practical implementation.

(g) The problems of scale and size of businesses are definitely important for the Caribbean. In this sense, there is need to identify critical questions and to establish a concrete technological policy, to guarantee the growth of small and medium businesses to the fullest limits of their potential and efficiency. At the same time, there is need to promote and pass on appropriate techniques for these businesses and a need also to select alternatives that take into account the local peculiarities. Research for the development of these businesses on the basis of an efficient and profitable performance must be a priority.

(h) With regard to the legal aspects, besides ensuring a periodical revision of the legislation on industrial property, it is important to complete and publicize complementary legal norms in the question of the regulation and control of foreign investments in the countries of the subregion. Updating of national codes with the relevant norms must be done. In the same way, it is necessary to make as uniform as possible and to harmonize these legal norms in relation to the rest of the technical instruments of a fiscal, monetary, credit and tariff nature.

(i) There is an urgent need to establish and keep up-to-date in relation to mobilizable potential and local potential a varied package of offers of economic projects that are technologically viable. These "project profiles" must be distributed among the possible investing countries, paying attention to their characteristics, preferences and specific situations.

In the task of dissemination and promotion of these "project profiles", an important role can be played by inter-governmental agencies, chambers of commerce and other institutions of this type, whose work would be made easier through the growth of project banks and pre-investment funds at the level of each country

and of the subregion as a whole. On the other hand, this atmosphere of confidence would allow better identification of ideas for new projects, maintenance of an adequate "ex-ante" and "ex-post" follow-up, and would make the appropriate execution of its financing a viable proposition.

(j) The role of the state in the channelling and practical application of foreign investment should centre, among other things, on the following aspects:

- (i) A clear indication of the limitations of market forces to be able to pinpoint its dynamic and develop other elements necessary for the state's work of orientation and promotion;
- (ii) A precise definition of the critical areas for integrated social development, particularly in those sectors where efforts and resources must be concentrated as a matter of priority;
- (iii) A body of precise mechanisms and instruments to carry forward the technological and industrial policy of each country; and
- (iv) A greater political commitment as well as a greater flow and evidence of technical co-operation between the countries of the area and other regions.