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TOWARDS A POLICY ON FOREIGN DIRECT INVESTMENT WITHIN
THE CONTEXT OF THE OECS ECONOMIC UNION

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Towards a Policy on Foreign Direct Investment within the Context of the OECS Economic Union

Abstract
The paper examines the broad FDI policy framework of the ECCU member countries and highlights some of the key deficiencies. In so doing, it endorses the need for a more holistic approach to FDI which seeks to maximise the positive externalities to be gained from closer integration with the key sectors of the economy. Policy recommendations include improving the depth and breadth of the ECCU’s human resource base, enhancing the business climate, empowering the Foreign Investment Promotion Agencies and encouraging greater regional coordination and harmonization in respect of FDI policies.

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JEL Classification Numbers: E62, F15, F21, F43, O20, O43
Towards a Policy on Foreign Direct Investment within the Context of the OECS Economic Union

1.0 Introduction

The ECCU member countries have been characterised by a secular decline in growth over the past 2 decades, coupled with rising fiscal deficits and debt. Despite the best efforts of member governments to stimulate economic activity through various fiscal incentive measures and large capital programmes, growth has underperformed in these countries. In fact, when compared with other Small Island Developing States (SIDS) over the past two decades, real GDP growth in the ECCU countries has averaged 2.3 per cent relative to 3.2 per cent among SIDS.

Given the openness of the ECCU economies, the stability of the EC dollar and the small size of the domestic private sector, foreign direct investment (FDI) has often been viewed as being critical for increasing the productive capacity of the economies. This, it is envisaged, would be effected through the transfer of technology and managerial skills, the generation of employment and the improvement of the quality of services provided.

According to the IMF, FDI is defined as a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence by the investor on the management of the enterprise.

ECCU member countries have, through the use of various policy measures coupled with worldwide financial liberalisation, witnessed significant growth in FDI flows over the past two decades. In fact, annual FDI flows have averaged $1.4b (12.2 per cent of GDP), totalling some $29.7b over the period 1993 to 2013. This begs the question, therefore, whether or not the existing FDI policies of the member states need to be revamped in order to increase the growth dividends to the region. Additionally, given the move towards greater economic integration via the OECS economic union, what steps can be taken at the regional level to enhance the quantity and quality of FDI flows to the OECS?
Preliminary empirical evidence from this study supports the view that FDI is a significant contributor to growth. However, a key policy imperative of member governments is to increase their respective country’s absorptive capacity for FDI by improving the domestic education system, fine-tuning the mandate of their Investment Promotion Agencies (IPAs) and encouraging greater linkages between local suppliers and foreign investors.

The paper is organised as follows: Section 2 outlines the performance of FDI inflows over the past two decades; In section 3, the key components of an FDI policy are addressed; Section 4 discusses FDI policy within the context of the OECS Economic Union, outlining a vision and a suggested framework for same; and Section 5 concludes with some recommendations.

2.0 Stock Taking of FDI Performance and Policies in the ECCU

2.1 Historical Performance

Table 1 shows that over the period 1993 to 2013, FDI flows to the ECCU member countries averaged EC$1.4b annually or 12.2 per cent of GDP, ranging from an average of $10.6m (Montserrat) to $300.6m (Antigua and Barbuda). This compares with flows to the larger CARICOM\(^1\) and SIDS grouping over the same period which represented only 5.8 and 5.5 per cent of GDP respectively.

On a cumulative basis, total flows to the region are estimated at $29.7b over the twenty-year period. Regionally, FDI flows peaked in 2007, recording a value of $3.3b, as member countries ramped up preparations to host the ICC Cricket World Cup tournament. However, in the aftermath of the global financial and economic crisis of 2007/2008, FDI flows fell off precipitously, declining by some 19.7 per cent annually between 2008 and 2011 (Figure 1). Official figures equate the cumulative decline in FDI to $2.0b over that four-year period. However, the most recent data show that FDI recovered over the 2012 – 2013 period, rising by 17.3 per cent on average to $1.7b.

\(^1\) Excluding resource-rich Guyana and Trinidad and Tobago, which receive a disproportionately larger share of FDI.
Table 1: Average FDI Flows to ECCU Member Countries, (1992 – 2013)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average (EC$M)</th>
<th>Per cent of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>136.62</td>
<td>23.77</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>300.55</td>
<td>11.04</td>
</tr>
<tr>
<td>Dominica</td>
<td>91.23</td>
<td>8.73</td>
</tr>
<tr>
<td>Grenada</td>
<td>176.32</td>
<td>10.53</td>
</tr>
<tr>
<td>Montserrat</td>
<td>10.56</td>
<td>7.61</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>228.82</td>
<td>15.57</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>261.87</td>
<td>10.23</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>206.38</td>
<td>14.79</td>
</tr>
<tr>
<td>ECCU</td>
<td>1,412.36</td>
<td>12.19</td>
</tr>
</tbody>
</table>

Source: ECCB

2.2 Composition and Distribution

An analysis of FDI data by investment type shows that equity, relative to land sales and retained earnings, accounted for the majority of investment in the ECCU during the period 1995-2013 (See Figure 2). Equity increasingly became the major form of FDI particularly in
Saint Lucia, Grenada, Antigua and Barbuda, and St Vincent and the Grenadines. In countries like Montserrat, St Kitts and Nevis and Anguilla, however, land sales increasingly dominated the FDI landscape.

The majority of FDI in the ECCU was predominantly based in the tourism sector during 1995-2013 (See Figure 3). The increasing trend of FDI in tourism was observed in half of the ECCU member countries namely Antigua and Barbuda, Grenada, Saint Lucia, and St Vincent and the Grenadines. Among the member states, Antigua and Barbuda is the most diverse in respect of the sectors attracting FDI, which may be related to a number of factors including the availability of more complete data and information; the diversity and stage of development of the economy; and the level of the policy effort in attracting foreign investors from different sectors of the economy.

In terms of origin, the majority of FDI to the ECCU during 1995-2013 cannot be identified (See Figure 4) based on the available data. However, among the identifiable countries, the USA was the most popular source of FDI during the review period.
2.3 **Growth Link**

FDI has been shown to positively impact growth throughout the literature. Endogenous growth models often assume FDI is more productive than domestic investment, citing that such investment encourages the incorporation of new technologies in the production function of the host economy (Borensztein *et al.*, 1998). Additionally, these models advance the view that FDI has an important long run dimension via the acquisition of new knowledge in the host economy through manpower training and skills acquisition. Moreover, de Mello (1997) point out that national growth is enhanced through alternative management practices and organizational arrangements introduced by FDI. Wei and Liu (2006), Bende-Nabende *et al.* (2001), and Borensztein *et al.* (1998) present empirical evidence that FDI can stimulate economic growth through technology transfer and spillover effects.

Given these purported growth effects, a panel regression model was developed with a view to empirically test whether or not FDI flows significantly impacted growth outcomes in the ECCU. The model was represented as follows:

\[ Y_{i,t} = \alpha + \sum_{t=1}^{k} \beta_i X_{i,t} + \mu_{i,t} \ldots \text{ where:} \]

- \( Y_{i,t} \) is the real GDP growth rate across the ECCU;
- \( X_{i,t} \) is a vector of independent variables to include private sector credit, FDI, government consumption (current expenditure), inflation, net exports and US GDP growth.
- All variables are expressed as a per cent of GDP except inflation and US GDP growth.
Table 2: Growth Model (panel regression)

<table>
<thead>
<tr>
<th>Regressor (% of GDP)</th>
<th>Coefficient</th>
<th>t-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector credit</td>
<td>-0.02</td>
<td>-1.58</td>
</tr>
<tr>
<td>FDI</td>
<td>0.25**</td>
<td>3.92</td>
</tr>
<tr>
<td>Government consumption</td>
<td>-0.24**</td>
<td>-2.35</td>
</tr>
<tr>
<td>Inflation</td>
<td>0.12</td>
<td>0.74</td>
</tr>
<tr>
<td>Net exports</td>
<td>0.01</td>
<td>0.19</td>
</tr>
<tr>
<td>US GDP growth</td>
<td>0.97**</td>
<td>4.74</td>
</tr>
<tr>
<td>Number of obs.</td>
<td>124</td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.31</td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>1.99</td>
<td></td>
</tr>
</tbody>
</table>

** significant at 5 per cent level

The results show that both FDI and US GDP growth positively and significantly impact ECCU GDP growth, with ECCU and US GDP growth having a near one-to-one relationship. In addition, the results show that a one percentage point change in FDI to GDP leads on average to a 0.25 percentage point increase in real GDP growth. Government consumption, on the other hand, is shown to have a negative and significant impact on GDP growth (0.24 of a percentage point) owing mainly to the leakages that occur via the import channel. Likewise, private sector credit, though not significant, was shown to have a marginally negative impact on GDP growth due to the large import content of domestic credit. These results are corroborated by the work of James et al. (2009) which show a positive and significant relationship between FDI and GDP growth in the ECCU economies.

2.4 Current Architecture for Attracting FDI

The ECCU member states are characterized by more pull than push factors that attract FDI to their shores and possess some key advantages in respect of their attractiveness for these flows. One such advantage is the relative economic and political stability which characterise the member countries. In addition, the strong democratic traditions inherent in member states augur well for prospective investments. This is further bolstered by the rule of law and strong respect for property rights. Additionally, the high rates of literacy across the member states is critical in attracting foreign investment especially from the ECCU’s
key trading partners, the United Kingdom and the United States. Accordingly, such high levels of literacy facilitate FDI inflows as it increases the ease with which employees are trained. Other important strengths of the ECCU member countries include a relatively stable financial system, a strong and stable currency arrangement with no capital controls, relatively good infrastructure and a high level of integration with the global economy. In light of the fact that member countries of the ECCU are not resource-intensive economies, like a few CARICOM member states, these fundamentals are more likely to have contributed to attracting FDI inflows, in addition to the direct efforts of member governments.

The other main components of the current architecture in the ECCU for attracting FDI are (i) the legislative framework and incentives and (ii) the operations of investment promotion agencies. The legislative framework has at its core the Fiscal Incentives Act and the Hotels Aid Act, which outline the parameters within which incentives are granted to prospective investors and delineate the broader socio-economic objectives of such incentives. These Acts generally make provisions for the exemption of income taxes on profits over specified time periods as well as the exemption of customs duties on raw materials, fixtures, fittings, plant and equipment for qualified enterprises\(^2\). In addition, a host of other incentives are provided for business enterprises which include loss carry-forward provisions, tax free capital gains, export credits and special treatment for International Business Corporations (IBCs) (See Table 1 in the Appendix).

Most of the ECCU member countries, with the exception of Anguilla, have investment promotion agencies which are responsible for attracting both domestic and foreign investment.\(^3\) The operations of these organisations have recently been revamped to allow them to function as fully-fledged one-stop shops which guide investors about the procedures and approvals necessary for establishing businesses. The agencies advise the government in their respective countries on investment policy issues to include improving the business climate and the granting of concessions. Growth and development are the two areas of policy focus for these institutions and to that end, they generally focus on the

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\(^2\) Qualified enterprises are those that meet a minimum investment threshold, employ a minimum number of staff and/or are engaged in a priority sector.

\(^3\) In the absence of a promotion agency, Anguilla has an investment officer.
promotion of investment in the following key sectors: tourism, manufacturing, and Information and Communication Technologies (ICT). In order to further promote these areas, some of these organisations including those in Saint Lucia and St Kitts and Nevis are currently assisting in updating/developing their country’s investment strategies and/or legislation.

One of the key shortcomings of the current architecture relates to the lack of clear guidelines and criteria for the granting of concessions. In most countries, the authority to grant concessions is vested in the Cabinet or Minister of Finance who is given broad discretion in the selection process and in finalizing the terms of the concessions (Chai et al., 2008). In addition, transparency and disclosure to the public on the terms agreed upon is severely lacking, thus leading to market distortions and allegations of favoritism among affected industry players. Further, deficiencies in respect of the monitoring of benefits to companies has also been cited as a key structural flaw in the ECCU, opening the door for companies to abuse the system and fostering rent seeking behavior among some firms.

Importantly, the pervasive use of incentives across the ECCU and wider Caribbean has created an environment in which governments are fearful that scaling back on such incentives would result in the loss of much needed investment in the domestic economies. In addition, the use of incentives has become so entrenched that firms can be described as being locked into what is referred to as “incentive dependence” (Chai et al., 2008). Essentially, concessions are granted to both new and existing firms over an indefinite period of time, to the point where they become a quasi-permanent subsidy to the operations of these firms. A related issue pertains to the fact that as countries continue to compete for investments, the actual cost of incentives may outweigh the purported benefits.

Another key challenge is that FDI has been predominantly tourism based in the ECCU and policy makers have not been very successful in attracting FDI in new sectors. Furthermore, the emphasis seems to be on quantity rather than quality, that is, focusing on attracting a large number of foreign financed tourism projects, rather than attracting investment with a high technology content that will increase the productivity of domestic sectors. Transnational corporations have immense technology and production capacities
that countries could tap into to develop new industries or expand existing ones (ECLAC, 2013).

3.0 Key Elements of an FDI Policy

Te Velde (2001) draws attention to the fact that there is no single best practice FDI policy or strategy and points out that the strategy partly depends on pre-conditions such as the presence of local capabilities, natural endowments, the size of the economy and the prevailing ideology regarding the degree of state intervention. In respect of the latter, Lall (1995) defines four different approaches: 1) Passive open door policy with limited policy interventions and no industrial policy; 2) Open door policy with selected interventions to improve supply conditions; 3) Strategic targeting of FDI and 4) Restrictive policy. In the case of low-income countries, Altenburg (2000) argues that the optimum strategy would be close to the second approach, with the third approach - strategic targeting - being feasible only if local capabilities are sufficiently developed. In essence, countries with adequate fiscal space may be able to bear the risk of strategically targeting key sectors for development, while those without may first want to focus their efforts on developing the necessary institutions and absorptive capacity in order to maximise the potential benefits of FDI.

Table 3 summarises some of the key elements of an FDI policy. Critical to the success of such a policy is the need to integrate it within the context of a clearly defined development objective and strategy, while taking cognizance of existing pre-conditions. In essence, the country should have a clear idea of its future development thrust and should be able to determine what its comparative advantages are and how FDI could be used to advance its objectives. Relatedly, the application of sound macroeconomic policies that promote competitiveness is crucial. Lall (2000b, p.4) argues that “FDI location decisions will increasingly depend on economic factors (reflecting underlying cost competitiveness) rather than on policy interventions that temporarily skew such decisions”. Some of the key factors include the quality of the workforce, education system, infrastructure, the legal and regulatory system, and the degree of political stability.
Table 3: Key Elements of an FDI Policy

<table>
<thead>
<tr>
<th>Clearly defined development objective and strategy</th>
<th>FDI that is aligned with the country’s broad development objectives;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sound macroeconomic management</td>
<td>Educated workforce; political stability; quality of infrastructure and legal and regulatory system; conducive business environment;</td>
</tr>
<tr>
<td>High Quality FDI Investments</td>
<td>Enhances the economy’s productive capacity via technology transfer; fosters a skilled labour market; environmentally and socially acceptable;</td>
</tr>
<tr>
<td>Strong linkage programme</td>
<td>Fosters greater spill-over benefits to the wider economy;</td>
</tr>
<tr>
<td>Effective and empowered Investment Promotion Agency</td>
<td>Adequately staffed and funded and given the necessary authority to execute its functions</td>
</tr>
<tr>
<td>International, regional and bilateral trade agreements</td>
<td>An important incentive for private investors and host countries desirous of expanding their export market;</td>
</tr>
</tbody>
</table>

Another critical issue pertains to the quality of FDI that is pursued by member countries. According to Willem te Velde (2001), the term quality usually refers to high-value added FDI and/or to FDI with positive linkages and spillovers to the domestic economy. This is important because increasing the quantity of FDI is not sufficient to propel the small island economies to higher levels of growth. As stated by Craigwell et al. (2008), “One important point to note is that the sub-region has focused significantly on competing for a larger quantity of FDI through tax and other incentives, rather than on better quality FDI and infrastructure and institutional development to maximize the benefits of FDI”. This is supported by a study by Crivelli et al. (2013) which estimates the cost of forgone revenue from tax incentives to range from 5.5 per cent to 8.0 per cent of GDP for three ECCU member countries.

In order to maximize the opportunities and spillover effects of FDI, it is important that countries improve their absorptive capacity through various measures including targeted expenditure on education, infrastructure and research and development (Lall, 2000 and Blomstrom et al., 2000). From the perspective of both the host country and the foreign investor, a highly educated and skilled workforce has the ability to assimilate new technologies, thereby leading to an increase in productivity levels and an outward push of the production possibilities frontier. UNCTAD in its World Investment Report 2000,
showed that the lack of availability of skills and physical infrastructure were among the major impediments to investing in African countries at the time.

Relatively, high-quality FDI investments should be underpinned by adequate and independent environmental impact assessment studies. This is critical in ensuring that development projects do not cause undue damage to the region’s fragile ecosystems and is an essential ingredient in fostering the holistic long term development of the region.

Further, countries that have been successful in attracting and maintaining high levels of FDI flows have also established strong linkage programmes which seek to maximise the backward and forward linkages between foreign investors and small and medium size domestic enterprises (Te Velde, 2001). In many cases, the foreign enterprises do not possess complete information on the supply capabilities of local firms, while the latter may lack information on the potential opportunities which the foreign entities may present. Consequently, institutionalised linkage programmes, along with training, may be critical in filling the informational gap. Examples of linkage programmes can be found in Thailand (Board of Investors Unit for Industrial Linkage, BUILD), Ireland (National Linkage Programme, NLP, since 1983), and Singapore (Local Industries Upgrading Programme, LIUP, since 1986).

A related entity to the linkage programme and one that is critically important in advancing FDI is the Investment Promotion Agency (IPA). These institutions are generally multifaceted and serve as a hub for the screening, approval and obtaining of permits for foreign investors. In addition, they provide general information, undertake advertising and sector promotion, and support feasibility studies for potential projects. IPAs can take on different forms, ownership and funding arrangements and can be grouped according to the following: 1) government organisations 2) autonomous, quasi-governmental organisations and 3) private organisations. Government organisations have traditionally been confined to the screening and approval of investments, while quasi-governmental organisations are generally given a broader mandate, which includes sector promotion and advertising, and conducting feasibility studies. The more autonomous organisations are generally staffed with personnel with greater business acumen and are sometimes allowed to set their own wages, thereby attracting the best talent. Given the multi-faceted nature of FDI promotion,
IPAs generally work in concert with research institutes and training centres in order to further maximise the benefits of foreign investment flows and strengthen the linkages between FDI and the local economy.

Finally, international, regional and bilateral trade agreements play an important role as they help to bolster a country’s credibility in terms of its outward looking approach and serve as an added incentive to potential investors desirous of expanding their market share.

4.0 Vision for FDI Policy within the OECS Economic Union

The OECS Economic Union, enshrined in the Revised Treaty of Basseterre, was inaugurated in January 2011 with the broad objective of fostering closer economic relations among member countries. Articles 2 (c) and 2 (h) envisage it will facilitate, inter alia, the “harmonious development of economic activities through inter-sectoral linkages within and between Protocol Member States; and “economic growth, development and international competitiveness by the convergence and coordination of the economic policies of Protocol Member States.” The latter is expected to be achieved through the progressive harmonisation of investment and taxation polices, and incentive legislations, among other measures to be adopted by member countries. Given the broad platform for economic growth and diversification and the associated economies of scale occasioned by the Economic Union arrangement, it is critical that FDI play a more prominent and dynamic role within the new dispensation in furthering the region’s growth process. Consequently, greater coordination and harmonisation of policies that deter a race to the bottom in respect of concessions, while laying the groundwork for increased productivity and competitiveness by addressing the underlying structural weaknesses in the economy will augur well for the future growth and development of the ECCU.

Specifically, a new vision of FDI that is consistent with the OECS Growth and Development Strategy (OGDS) may be optimal. According to the strategy, eighteen economic and social sectors, arranged into three distinct clusters, have been identified as being critical in driving the region’s development path over the medium to long term. The clusters are identified in Figure 5 and seek to highlight those sectors that are: 1) deemed to be the growth drivers; 2) seen as crucial in extending the region’s growth potential; and 3) underpin the region’s growth and development thrust.
It follows then, that a targeted approach across the member states in respect of pursuing FDI in the identified sectors, while addressing the underlying factors of low productivity and the quality of the human resource base, among others, may present the best prospects for sustained and higher levels of growth for the ECCU. Understandably, the policies to be adopted by member governments would entail some level of product differentiation, highlighting comparative advantages, while maximising the benefits of greater coordination and the associated economies of scale, for example in the areas of tourism marketing, ICT development, transportation and renewable energy, among others.

Figure 5: Key Sectors of the OECS Growth and Development Strategy

4.1 Relooking the Type and Sources of FDI

For over two decades, FDI to the ECCU has been funded predominantly from equity, largely concentrated in the tourism sector and sourced primarily from the USA. A cursory look at the evolving policies of investment agencies across the ECCU shows that they have been targeting FDI in a number of sectors in addition to tourism, and expanding their
sources to include joint ventures and public-private partnership (PPP) arrangements. Some of the sectors that the investment agencies target are consistent with those outlined in the OECS Growth and Development Strategy, and they should continue to be aggressively pursued.

Importantly, ECCU member states could strengthen their efforts to tap into FDI from countries other than the USA. The ongoing globalization process has brought to the forefront more foreign direct investment outflows from developing and emerging market economies such as East and South-East Asia, and the BRICs. Between 2003 and 2013, the developing countries’ share of total outward FDI rose from 10.0 per cent to 39.0 per cent (ECLAC, 2013). Consequently, ECCU member countries would be well served to intensify their efforts to attract some of these flows as they seek to diversify away from the US market. Furthermore, it may be beneficial to capitalize on cementing new relationships via bilateral trade agreements - both individually and as a block – thus creating investment and trade opportunities with an expanding list of partners to include Canada and Brazil.

4.2 The Targeted Outcomes of FDI

Given the reorientation and renewed vision for FDI as outlined above, a well-coordinated and calibrated FDI policy is expected to yield at the minimum good governance in the selection of investments that can generate greater and better quality employment. The latter is expected to result from the increased diffusion of technical and managerial skills across the employment spectrum. In addition, the technology transfer is expected to positively contribute to higher levels of productivity, thus pushing the production possibilities curve outwards. Further, a well-designed FDI policy should ensure that the necessary linkages with the domestic economy are cemented by bridging the information and skills gap between investors and local entrepreneurs.

The sustainable use of resources is also of paramount importance to both the investor and the host country as appropriately designed policies would ensure that the resources are utilized in such a manner that make them available for future generations, thus supporting long run development. Ultimately, the coalescing of these factors should engender higher levels of growth and employment, thus positively impacting public finances and improving the domestic debt dynamics.
4.3 The Suggested Framework for FDI Policy at the Regional Level

In a similar manner to the European Commission’s common policy on international investments, the policy framework on FDI in the OECS should be built around the core principles of providing investors with a sound legal and regulatory environment that enforces and protects property rights; a conducive business environment; a pool of well-educated and trained workers; and access to timely and more complete data on market developments and players. The common policy should seek to level the playing field across member countries by establishing maximum thresholds for various incentives, thus encouraging greater competition along fundamental economic factors such as the ease of doing business and the technical capacity of the work force.

Given that the OECS Authority - comprised of heads of governments – is the supreme policy-making Organ of the Economic Union, it follows that the general parameters of the policy should be agreed to by such a body and given effect by the Economic Affairs Council (Figure 6). It would then be the job of the respective member governments, through their parliaments, to implement the policy, possibly with the technical assistance of the OECS Commission. In addition, a sub-committee could be created as part of a system of peer review to ensure compliance with the broad principles of the policy, thus fostering greater transparency and credibility. This sub-committee would consist of a representative from each OECS member country, appointed by the respective Minister of Finance and answerable to the Economic Affairs Council.
5.0 Conclusion and Policy Recommendations

The potential benefits of FDI have been well documented in the literature. In fact, studies on the ECCU confirm the general finding that FDI positively and significantly impacts GDP growth. However, the history of FDI in the ECCU is replete with member governments offering generous tax incentives to lure foreign investors to our shores in an effort to boost economic growth. Importantly, the growth impact has not been commensurate with the quantity and value of FDI flowing through the domestic economies over the past two decades.

It is now the received wisdom that the quantity of FDI has less to do with growth outcomes than the quality of these flows, that is, the extent to which these flows reverberate throughout the economy via the diffusion of technology and skills, thus leading to higher wages and salaries and opportunities for the upward mobility of workers. Equally as important is the degree to which backward linkages could be forged with the domestic private sector, thus boosting the multiplier effect of these flows.

An FDI policy cannot be prepared and implemented in isolation. It has to be done within the context of the local economy and should address issues related to the people, their
socio-economic circumstances and their physical environment. Consequently, such policies should seek to integrate the broad goals of maximising the potential benefits of FDI flows, while minimising any potential risks such as a legacy of FDI projects creating more leakages than linkages in the local economy.

The OECS Economic Union presents an opportune platform for the member states to combine their resources and work more closely in ensuring that their FDI policies are aligned and in sync with the broader OECS Growth and Development Strategy, which lays out the vision for growth in the sub-region over the medium to long term. To this end, it is important that member countries utilize the institutional apparatus provided under the arrangement to establish the “rules of the game” by ensuring that countries compete on the merits of their economic fundamentals as opposed to engaging in a race to the bottom via incentives. Critical to this is the need to ensure that member countries develop a cadre of adequately educated and skilled workers so as to more quickly assimilate and benefit from new technologies and management practices. In addition, countries would be well served to empower their Investment Promotion Agencies with the requisite staff and resources and to encourage greater collaboration among agencies and governments on issues of regional importance, such as tourism marketing, transportation and renewable energy.

Ultimately, the new arrangement would require a paradigm shift among regional leaders and citizens, one which espouses the virtues of collective action over individual self-interest and one that takes a deliberate and long term view of the region’s development prospects and crafts policies as appropriate.
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### Table 1: FDI Legislation and Fiscal Incentives across ECCU Member Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Anguilla</th>
<th>Antigua and Barbuda</th>
<th>Dominica</th>
<th>Grenada</th>
<th>Montserrat</th>
<th>St. Kitts and Nevis</th>
<th>Saint Lucia</th>
<th>St. Vincent and the Grenadines</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legislation</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Fiscal Incentives Act</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tr>
<tr>
<td>Hotels Aid Act</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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</tr>
<tr>
<td><strong>Corporation Tax Rate</strong></td>
<td>0%</td>
<td>25%</td>
<td>28%</td>
<td>30%</td>
<td>30%</td>
<td>33%</td>
<td>25 - 28%</td>
<td>15 - 32.5%</td>
</tr>
<tr>
<td><strong>Incentives</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Tax holidays</td>
<td>N/A</td>
<td>3 – 20</td>
<td>15 – 20</td>
<td>10 - 15</td>
<td>10 - 15</td>
<td>15</td>
<td>15</td>
<td>10 - 15</td>
</tr>
<tr>
<td>Loss carried forward</td>
<td>N/A</td>
<td>≤ 7</td>
<td>≤ 5</td>
<td>≤ 3</td>
<td>≤ 5</td>
<td>≤ 5</td>
<td>≤ 6</td>
<td>≤ 5</td>
</tr>
<tr>
<td>Capital Gains</td>
<td>N/A</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Customs duty exemption</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>Export credit</td>
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<td>✓</td>
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<tr>
<td>IBCs</td>
<td>N/A</td>
<td>50</td>
<td>20</td>
<td>20</td>
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<td>exempt</td>
<td>exempt</td>
<td>25</td>
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<tr>
<td><strong>Withholding tax on flows to non-residents:</strong></td>
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<td></td>
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<tr>
<td>Dividends</td>
<td>0%</td>
<td>0%</td>
<td>15%</td>
<td>15%</td>
<td>0%</td>
<td>10%</td>
<td>0%</td>
<td></td>
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<tr>
<td>Interest</td>
<td>0%</td>
<td>25%</td>
<td>15%</td>
<td>15%</td>
<td>0%</td>
<td>10%</td>
<td>15%</td>
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</tr>
<tr>
<td>Royalties</td>
<td>0%</td>
<td>25%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
<td>15% - 25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Local Investment Promotion Agency</strong></td>
<td>Financial Services Commission</td>
<td>Antigua and Barbuda Investment Authority</td>
<td>Invest Dominica Authority</td>
<td>Grenada Industrial Development Corporation</td>
<td>Montserrat Development Corporation</td>
<td>St. Kitts Investment Promotion Agency</td>
<td>Invest Saint Lucia</td>
<td>Invest SVG</td>
</tr>
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</table>

Source: Fiscal Incentives Act, Deloitte and Touche, PKF International, KPMG
<table>
<thead>
<tr>
<th>Agency</th>
<th>Main Roles</th>
<th>Sectors of Focus</th>
</tr>
</thead>
</table>
| The Antigua & Barbuda Investment Authority | • Provides a variety of promotion and support services to investors.  
• Advises the Government on all issues of importance to investors, particularly those on the country’s business climate and competitiveness.  
• Facilitates the process of investors who were given incentives and concessions.  
• Monitors the investment projects to ensure their intended benefits materialise. | Construction, home ownership, agriculture, diversified tourism, and technology-enabled services/business process outsourcing. |
| The Invest Dominica Authority         | • Assists the Government in forming and executing national policies for investment, in particular, those to improve the industrial and investment climate of Dominica.  
• Prepares Cabinet submissions on behalf of clients requesting fiscal incentives.  
• Processes applications for investment incentives. | Tourism and industrial activities including manufacturing and ICT.               |
| The Grenada Industrial Development Corporation | • Provides advice to the Government on strategies and policies for the continued development of the investment climate. Some of the specific areas that it provides the Government with policy advice on are: granting of investment permits and licenses; appropriate actions to be taken based on the level of compliance of investments with the conditions under which investment incentives were given; the economic impact of the Investment Incentive Programme; assess areas requiring legislative/regulatory reform; and protect tax and incentive packages for investors.  
• Assists in the current development of the country’s investment promotion strategy.  
• Spearheads entrepreneurial and business skills training; provides business support services and leases industrial space. | Tourism and other industrial activities.                                       |
| The Montserrat Development Corporation | • Promotes new domestic and international investment; develops sites and properties, particularly Little Bay and Carr’s Bay.  
• Supports local enterprises through business training and advice as well as a business financing facility.  
• Plans, designs and coordinates construction projects for economic development.  
• Identifies potential investors and/or the potential sources of investment - sectors, countries and businesses.  
• Assists in the creation of a new Investment Fund for Montserratians and members of the diaspora to invest in projects and businesses in the country. | Tourism and other industrial activities.                                       |
<table>
<thead>
<tr>
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</tr>
</thead>
</table>
| **St. Kitts Investment Promotion Agency (SKIPA) and Nevis Investment Promotion Agency (NIPA)** | • SKIPA makes recommendations to the Government to implement policy changes to improve the investment climate of the country. These recommendations are related to reforms in the investment incentives regime.  
• Both of these Agencies are involved in exploring, attracting and promoting investment initiatives that will increase growth and development; also provides business support services to investors. | The priority sectors for SKIPA are tourism, agriculture, financial services, IT, renewable energy, international education, light manufacturing.  
NIPA promotes investment in key sectors including tourism, agriculture, IT and renewable energy. |
| **Invest Saint Lucia** | • Promotes investment and facilitates businesses.  
• Manages 6,400 acres of land; a shopping complex; and seven industrial estates comprising twenty six factory shells.  
• Identifies major issues and measures to assist the Government in developing a national investment policy which recognises FDI and its role in the economy. | Tourism, manufacturing, ICT. |
| **Invest St Vincent and the Grenadines** | • Engages in public relations and marketing to build the image of the country.  
• Facilitates business development, research and information sharing to existing and potential investors, and export development. | International financial services, ICT, tourism, agro-business, light manufacturing and creative industries. |

Sources: Websites of various Investment Promotion Agencies