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Foreign Investment in the Caribbean is on the Decline

Last month the United Nations Economic Commission for the region (UN ECLAC) released its most recent report on foreign direct investment in Latin America and the Caribbean. The report shows that foreign direct investment in the English-speaking Caribbean has been on the decline for the past decade, as a percentage of GDP. The sole exception is Guyana, where thanks to the emergence of the oil export industry, there has been a spectacular increase.

Investment in oil production lifted foreign investment in Guyana from less than 5% of GDP on average prior to 2018 to in excess of 30% in the years since. Guyana's economy has ballooned as a result of the oil boom, propelling the country past Barbados, The Bahamas and Jamaica, to second place in the English-speaking Caribbean ranks in 2024, with GDP just shy of Trinidad and Tobago's US$26 billion.

Elsewhere in the Caribbean we see a contrasting picture. Five countries account for 85% of the region's GDP: Trinidad and Tobago with 24%, Guyana with 23%, Jamaica with 18%, The Bahamas with 13%, and Barbados with seven percent.

Trinidadians and Tobagonians have invested more money overseas than the amount that foreigners have invested in their country for most years since 2010. Much of the outward investment would have been in

Barbados and elsewhere in the Caribbean, although a breakdown of the percentage that remained in the region has not been published.

Foreign investment in Jamaica has fallen steadily from 6% a decade ago to just 1% of GDP in 2024.

Foreign investment in The Bahamas declined from 9% in 2010 to about 3% four years later, where the ratio remained until 2022. In the last two years it has fallen to less than one percent each year.

Foreign investment in Barbados fell from a record 15% of GDP in 2014 to 4% in 2018. Since then the ratio has remained around that level, with the 2024 figure recorded at 3.3%.

In order to put the region's economies on a sustainable path of future growth, Caribbean governments will need to reverse the downtrend of foreign investment, particularly in activities which can increase the capacity to earn foreign exchange. As the economies grow, countries will need to import increasing amounts of fuels and other essentials for the use of consumers and for inputs into production processes. In order to earn the necessary foreign exchange, each country must increase its capacity to produce internationally competitive products, expand tourism facilities and provide other international services.

Foreign finance is always needed for the projects that will expand capacity, to buy construction materials, fuel, equipment, computers and supplies, and other inputs. The decline in foreign investment across the Caribbean therefore indicates a widespread scarcity of growth-enhancing projects.

A widely-recognized obstacle to foreign investment is Caribbean governments' dismal record for administrative and regulatory competence. Although surveys of the ease of doing business from the World Bank and other sources have been discontinued, the declining FDI performance in recent years suggests that such reform measures as have been undertaken to date are yet to yield positive results. The fact that controls and restrictions on the availability and use of foreign currency continue in force in several countries is further evidence that much remains to be done.

The rating of the government's external debt is a factor that foreign investors take account of in assessing the risk premium they should attach to their financing of projects in any country. All other things being equal, investors looking to the Caribbean may be expected to prefer projects in The Bahamas and Trinidad and Tobago -- which both have government debt with an "Investment" grade rating from Standard and Poors -- to projects in Barbados and Jamaica, where government debt is graded "Speculative".

Other government measures which are effective in improving the incentives for foreign investment include: the provision and maintenance of high-quality health, education and public safety systems; building out and maintaining an adequate network of roads, ports, airports and other infrastructure; and putting in place a regulatory framework for high-performance telecommunications and public utilities. These facilities and services have a double benefit: in addition to attracting growth-promoting investment, they improve the quality of the lives of the population directly.

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