

Caribbean & Central American Countries of the Future 2013/14

Winners

COSTA RICA'S CONTINUED SUCCESS IN FDI ATTRACTION HAS ALLOWED IT TO RETAIN THE TITLE CARIBBEAN AND CENTRAL AMERICAN COUNTRY OF THE FUTURE FOR 2013/14, WHILE PANAMA CLIMBED THE TOP 10 TO BE AWARDED SECOND POSITION, FOLLOWED BY THE DOMINICAN REPUBLIC IN THIRD. JACQUELINE WALLS REPORTS ON THE WINNERS



Trends in global FDI still exhibit the effects of the 2008 economic downturn. Worldwide FDI fell 14.3% in 2012 with associated capital investment down by a third. The Caribbean and Central American region continues to feel the impact of the downturn with inward FDI declining 28% last year. With many countries in the region depending heavily on financial services, tourism, commodities and funds from abroad, growth has remained relatively lacklustre with only a few countries, such as Costa Rica, Panama and the Dominican Republic, experiencing notable growth.

Costa Rica continued to attract investors thanks to its stable political and economic structures. According to **fDi** Markets, the country was the top destination in the Caribbean and Central American region in 2012, attracting almost one-fifth of total FDI projects. Costa Rica ranked highly in various categories including FDI Strategy, Business Friendliness and Labour Environment. Panama climbed the top 10 to place second in the biennial ranking. Although FDI into the country fell by 60% in 2012, the major expansion project of the Panama Canal combined with the 2012 enforcement of the free-trade agreement with the US

is expected to boost and extend economic growth in the future. Placing third, the Dominican Republic is on track to surpass its results for 2012. Figures from **fDi** Markets show that the country has attracted 50% more FDI projects in the first five months of 2013 compared with the same period in the previous year.

Best economic potential

One of the world's largest financial centres, well known for its tax advantages, the Cayman Islands is **fDi**'s top Caribbean and Central American country in the Economic Potential category. With more registered businesses than people, the islands witnessed a 200% increase in FDI in 2012, albeit from relatively small base figures.

Aiming to diversify its economy from its heavy reliance on the financial services and tourism sectors, the Cayman Enterprise City (CEC) was the first zone established under 2011 legislation to facilitate the development of special economic zones. The CEC targets knowledge-based companies in biotechnology, commodities and derivatives, information and communications technology, media, and academia. Between its inception in 2011 and May 2013, 46 companies have

established a presence or signed up to the zone.

Bermuda ranked behind the Cayman Islands in second position for Economic Potential. The UK overseas territory has the highest GDP per capita of all locations analysed for **fDi**'s Caribbean and Central American Countries of the Future with its wealth largely down to the islands' offshore finance industry. Following the global financial crisis, Bermuda joined the British Virgin Islands, Cayman Islands, Anguilla, Montserrat and the Turks and Caicos Islands in signing an agreement to tackle tax evasion by sharing information with the UK, France, Germany, Italy and Spain.

According to information collected by **fDi** Benchmark, Panama experienced the highest GDP growth of the region, enabling the country to rank third for Economic Potential. Panama's GDP growth rates are forecast to remain higher than neighbouring countries, thanks not only to the canal expansion, but also the continued success of the world's second largest free zone, the Colón Free Trade Zone.

Barbados – education is key

Barbados has been awarded the top position in the Labour Environment

BEST OVERALL

RANK	COUNTRY
1	Costa Rica
2	Panama
3	Dominican Republic
4	Cayman Islands
5	Trinidad & Tobago
6	Puerto Rico
7	Bermuda
8	Bahamas
9	El Salvador
10	Jamaica

BEST ECONOMIC POTENTIAL

RANK	COUNTRY
1	Cayman Islands
2	Bermuda
3	Panama
4	Dominican Republic
5	Costa Rica
6	Trinidad & Tobago
7	Puerto Rico
8	British Virgin Islands
9	Guatemala
10	US Virgin Islands

BEST LABOUR ENVIRONMENT

RANK	COUNTRY
1	Barbados
2	Montserrat
3	Costa Rica
4	Bahamas
5	Grenada
6	Cayman Islands
7	Jamaica
8	St Vincent & the Grenadines
9	Bermuda
10	Antigua & Barbuda

BEST COST-EFFECTIVENESS

RANK	COUNTRY
1	Trinidad & Tobago
2	El Salvador
3	Nicaragua
4	Barbados
5	Panama
6	Costa Rica
7	Dominican Republic
8	Puerto Rico
9	Jamaica
10	Bahamas

BEST INFRASTRUCTURE

RANK	COUNTRY
1	Panama
2	Dominican Republic
3	Jamaica
4	Bahamas
5	Puerto Rico
6	Costa Rica
7	Antigua & Barbuda
8	Aruba
9	Grenada
10	El Salvador

BEST BUSINESS FRIENDLINESS

RANK	COUNTRY
1	Puerto Rico
2	Costa Rica
3	Panama
4	Bahamas
5	Anguilla
6	Bermuda
7	El Salvador
8	Dominican Republic
9	Cayman Islands
10	British Virgin Islands

BEST FDI STRATEGY

RANK	COUNTRY
1	Costa Rica
2	Dominican Republic
3	Nicaragua
4	El Salvador
5	Trinidad & Tobago
6	Guatemala
7	Jamaica
8	Belize
9	Barbados
10	Cayman Islands

category. Barbados has one of the highest literacy rates in the world thanks to free primary and secondary education, and free university education for nationals.

The Barbadian government places significant emphasis on the development of human and social capital, dedicating about 20% of its annual budget to education. In its submission for fDi's Caribbean and Central America Countries of the Future, Invest Barbados states that the country has "a knowledgeable and reliable workforce which prides itself on excellence in service delivery".

As with Barbados, the UK overseas territory of Montserrat has an education system based on the UK model, with education compulsory

to age 14 and free up to age 17. Montserrat placed in second for Labour Environment with Costa Rica in third. Home to the highest number of universities in the Caribbean and Central America region, Costa Rica has proven to be an attractive destination for companies in advanced manufacturing, life sciences, software and IT-enabled services sectors. According to Costa Rica's investment agency, CINDE, there has been a shift towards a higher level of complexity of products manufactured, signalling "the quality of human capital and the growing confidence in the capabilities of Costa Rican plants to follow strict regulatory protocols".

Trinidad and Tobago's low costs

Trinidad and Tobago has overtaken El Salvador to be ranked as the most

cost-effective location in the Caribbean and Central American region. An abundance of oil and gas reserves, accounting for about 40% of GDP and 80% of exports, make the country a wealthy nation compared with many of its neighbours. Cheap energy prices combined with low operating costs have attracted investors in low-cost industries. In its submission for the ranking, InvestTT states: "We know where our strengths are: the creativity of our people, low energy costs and core competencies in large-scale manufacturing."

The highly industrialised country of El Salvador was positioned in second in the Cost-Effectiveness category. El Salvador offers a cheap export platform for investors involved in aeronautics, offshore business services, textiles and apparel. Ranked in third, ■

Nicaragua's cost-competitive structure is evident in its FDI track record. According to fDi Markets, more than half of all the country's FDI recorded since 2003 has been involved in manufacturing and extraction activities.

Costa Rica tops strategy list

The prize for the Best Caribbean and Central American Country for FDI Strategy goes to Costa Rica. In its submission, CINDE highlights its strengths in FDI attraction, saying: "Costa Rica has taken advantage of its privileged location in the centre of the Americas, and through its web of free-trade agreements (with the US, Europe and China among others) has become a major manufacturing and services hub".

The Dominican Republic was

positioned in second for FDI Strategy. With a total of 57 trading zones in operation and more than 533 companies, the National Free Zones Council of the Dominican Republic states: "When considering, availability of highly trained personnel, excellent transport infrastructure, a complete range of reliable services and facilities, outstanding geographical locations and competitive incentives, there is no wonder why the Dominican Republic is the location of the future."

The judging panel awarded third place to Nicaragua for the best FDI Strategy. In its submission, PRONicaragua is gearing up for the future by "not only working on ensuring the success of companies already established in the country, but... also

preparing to become the leading FDI destination in the region".

Future opportunities

Although disparities still prevail in the performance of countries in the Caribbean and Central American region, many locations have benefited from finance, tourism and energy industries. Future opportunities for growth include the expected increase in trade resulting from the widening of the Panama Canal as well as the increase in momentum of 'nearshoring', which may extend south of the Mexican border. The future for the region depends on how the countries capitalise on these opportunities while developing strategies to target emerging source countries and subsectors. ■

JUDGING PANEL



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METHODOLOGY

To create the shortlist for fDi Caribbean and Central American Countries of the Future 2013/14, the fDi Intelligence division of the Financial Times collected data using the specialist online FDI tools fDi Benchmark and fDi Markets, as well as other sources. Data was collected for 29 countries under five categories:

Economic Potential, Labour Environment, Cost Effectiveness, Infrastructure and Business Friendliness. A sixth category was added: FDI Strategy. In this category, 16 submissions were received from countries in the Caribbean and Central American region regarding their current strategy for FDI promotion and this was scored by

fDi's judging panel. Countries scored up to a maximum of 10 points under each individual data point, which were weighted by importance to the FDI decision-making process in order to compile both the subcategory rankings, as well as the overall Caribbean and Central American Countries of the Future ranking.

JUDGING CRITERIA

ECONOMIC POTENTIAL

- Population growth rate
- Unemployment rate
- Inflation
- GDP by purchasing power parity (PPP)
- GDP (PPP) per capita
- GDP growth (2007 to 2012)
- GDP forecast (2013 to 2018)
- Outward FDI (January 2008 to April 2013)
- Outward FDI per 100,000 people (January 2008 to April 2013)
- Inward FDI (January 2008 to April 2013)
- Inward FDI per 100,000 people (January 2008 to April 2013)
- Inward FDI growth
- Inward FDI in research and development, and design, development and testing (January 2008 to April 2013)
- Inward FDI in manufacturing (January 2008 to April 2013)
- Inward FDI, mega projects by capital expenditure (January 2008 to April 2013)
- Inward FDI, mega projects by capital expenditure per 100,000 people (January 2008 to April 2013)
- Inward FDI, mega projects by job creation (January 2008 to April 2013)
- Inward FDI, mega projects by job creation per 100,000 people (January 2008 to April 2013)
- Patents (2003 to 2012)
- Patents per 100,000 people (2003 to 2012)
- Patents growth
- Growth in imports

- Growth in exports
- Imports per capita (2011)
- Exports per capita (2011)

LABOUR ENVIRONMENT

- Labour force
- Literacy rate
- School life expectancy
- Secondary enrolment rate
- Tertiary enrolment rate
- Education expenditure
- Number of universities
- Number of international baccalaureate schools
- Quality of life score
- Growth in quality of life score
- Human development index
- Birth rate
- Death rate
- Life expectancy

COST EFFECTIVENESS

- Annual rent – prime grade A office space
- Annual rent – prime grade A industrial space
- Four-star or five-star city centre hotels
- Cost of electricity
- Minimum wage
- Cost of establishing a business
- Cost of registering a property
- Cost to export
- Cost to import
- Corporation tax rate
- Total tax rate

INFRASTRUCTURE

- Upload speed
- Download speed

- Growth in internet users
- Percentage of population using the internet
- Number of airports (paved runways)
- Number of international destinations served
- Growth in number of international destinations served
- Number of ports (medium +)
- Number of top 12 Latin American ports
- Total cargo volume of top 12 Latin American ports
- Liner shipping connectivity index
- Telephone mainline subscribers
- Growth in telephone mainline subscribers
- Mobile phone subscribers
- Growth in mobile phone subscribers

BUSINESS FRIENDLINESS

- Number of companies within the knowledge-based sector
- Proportion of Companies within the knowledge-based sector
- Number of companies within the knowledge-based sector per 100,000 people
- Number of jobs created by inward FDI
- Number of expansion/co-location inward FDI projects
- Top 1000 world banks
- FT global 500 companies
- Corporation tax rate
- Days taken to start a business
- Firing costs
- Ease of doing business index
- Index of economic freedom
- Corruption perception index
- Strength of investor protection index

Information collected by fDi Benchmark