Financing for development and the institutionalization of finance

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Abstract

This paper analyses issues related to financing for development using a balance-of-payments constraint approach. In the long run, countries that do not issue the international reserve currency must satisfy balance of payments equilibrium. That is debits must match credits. In an economy with little or no accumulation of net assets by the private sector, this restriction implies that countries must at the same time maintain a balanced budget. Balance of payments equilibria and a balanced budget implies, in turn that an economy with no asset accumulation must be, in the long run, in a steady state. In that steady state, the rate of growth of output compatible with balance of payments equilibrium is equal to the ratio of the rate of growth of exports to the import elasticity of income. In the short run, an economy can grow above its steady state level through capital flows. In fact it is possible using a simple balance-of-payments constrained model to show the level of capital flows that is compatible with a given target rate of growth of output. This requisite level also depends on international interest rate movements, profit repatriation flows and the rates of change in export growth and external debt. CARICOM countries been faced with the choice of promoting the attraction of foreign direct investment or of revising downwards the target output growth. Most countries have opted to promote the attraction of foreign direct investment and economic policy has centered its efforts and focus, on finance at the expense of growth and real sector development. More importantly it has dichotomized the financial from the real sector sphere. An important consequence is that some economies in the Caribbean do not benefit from external resources but rather transfer resources to the rest of the world.

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Introduction

This paper analyses the financing for development using A.P. Thirlwall's balance-of-payments constrained growth model. Thirwall's model states the rate of growth of an economy compatible with balance-of-payments equilibrium including no capital flows is given by the ratio of export growth to the import elasticity of income. Once capital flows are introduced in the model the balance of payments constrained rate of growth is also dependent on log-term capital flows, external debt, interest rates and profit repatriation flows. This model can also be used as a programming tool to determine the level of capital flows consistent with a given growth rate of an economy. More precisely, the level of capital flows consistent with a target rate of growth of output depends negatively on debt, international interest rates, and profit repatriation flows. The greater the level of indebtedness, international interest rates, and profit repatriation flows the greater will be the level of long-term foreign capital flows consistent with a given target rate of growth of output. If that required level of capital flows cannot be met, the target level of growth must be reduced. In the 1990's Caribbean countries have tried to avoid output reductions by promoting the attraction of foreign direct investment, which has become a key policy objective. The end result is the promotion and focus of economic policy on finance at the expense of real sector development.

The paper is divided into four sections. The first section explains A.P. Thirlwall's balance-of-payments constrained growth model with and without taking into consideration long-term capital flows, debt and repatriation flows and interest rate movements. The second section shows how the level of capital flows consistent with a given target rate of growth of output can be determined once the evolution of debt, international interest rates and profit repatriation flows are known. The third and fourth sections apply this framework to the Caribbean case.

Financing for development and the external constraint

The development of smaller economies depends to a great extent on the acquisition of a means of payments accepted in international transactions, which they themselves cannot issue. Smaller economies can only build their economic infrastructure and develop by importing capital and raw materials as well as technology. It follows that countries must earn the foreign exchange required to finance their imports. In other words, they must export or, more to the point, their export potential must be commensurate with that of their import capacity.

As a result over the long run countries must maintain equilibrium in the balance of payments or at least in the basic balance. Countries can only grow over the long run at rates of growth compatible with their external position. In this sense countries are said to be balance-of-payments constrained. Or to put it another way "countries' performance in overseas markets, and the response of the world financial markets to this performance, constrains the rate of growth of the economy to a rate which is below that which internal conditions would warrant" (McCombie and Thirlwall, 1994).

This set of ideas is encapsulated in the balance-of-payments constrained growth model developed by A.P: Thirlwall and J. McCombie which determines the rate of growth of an economy that is compatible with equilibrium in the balance of payments. This requires that exports and capital flows equal imports valued at current prices. Formally,

(1) $\quad XP_x + Fp_f = e(MP_m)$

Where,

P_x =   price of exports
X =   export volume
F =   real capital flows
p_f =   price of capital flows
E =   nominal exchange rate
M =   import volume
P_m =   price of imports

In turn the volume of exports and imports are specified as constant elasticity multiplicative functions. Export volume is a function of the relative price of exports and international prices and of world income. In a symmetric fashion, import volume depends on the relation between import prices and the domestic price level and of domestic income. That is,

(2) $X = a(P_x/P_f e)^\eta Z^\pi$

(3) $M = b(P_m e/P_d)^\varphi Y^\xi$

Where,

P_f = foreign prices of goods that compete with domestic export goods
P_d = domestic prices
Z = world income
Y = domestic income
π = income elasticity of demand for exports ($\pi > 0$)
ξ = income elasticity for imports ($\xi > 0$)
φ = price elasticity of demand for imports ($\varphi < 1$)
η = price elasticity of demand for exports ($\eta < 1$)

The specification of both equations follows the conventional approach known as the imperfect substitutes model.   It is built upon the assumption that domestic and foreign goods are not perfect substitutes. And, by taking for granted an infinite elasticity of supply- the model claims that exports and imports are essentially demand-determined. It thus argues that the two main determinants of say imports are the importing country's income, the own price of imports, and the domestic price of locally produced tradable goods and services.   Correspondingly, the main determinants of exports are the rest of the world's income and the price of export goods relative to the price of foreign made goods that compete with them in the international market. In addition, monetary illusion is typically assumed away and a zero-homogeneity restriction is imposed to guarantee that the foreign and the domestic price-elasticity of import (export) demand have the same magnitude in absolute terms.

Since in essence the model is a two-good model, it is generally assumed that the price of exports is equal to the domestic price (i.e., $Px = Pd = P$) and that the import price equal the price of foreign goods that compete with exports (i.e., $Pf = Pm = P^*$). Expressing Eqs. (1), (2) and (3) in rates of change, defining a parameter, θ, as the ratio of the value of exports to that of imports, iD as the debt service and δ as the percentage of capital flows that leave as profit repatriation, the basic balance-of- payments constrained model can be specified in the following four equations, where the logarithm of a variable is represented in lower case letters.

(4) $dp_*/p_* + dm/m + di/i + dD/D = \theta(dp/p + dx/x) + (1-\theta)(df/f (1-\delta) + dp/p)$

(5) $\theta = px/p*m$;

(6) $dx/x = \eta (dp/p - dp_*/p_* - de/e) + \pi dz/z$;

(7) $m/m = \varphi (dp_*/p^* + de/e - dp/p) + \xi dy/y$;

The solution to this four equation model permits the expression of the rate of growth of real output compatible with the dynamic expression of the balance of payments equilibrium (i.e., Eq. 1). Real output growth is a function of the initial export/import ratio, the growth rate of the world's real income, and the rate of growth of capital flows measured at constant domestic prices, and the real exchange rate. Formally,

(8) $ybpc = [\theta\pi dz/z + (1-\theta)(1-\delta)(df/f) - di/I - dD/D + (\eta\theta + \varphi + 1)(dp/p - dp^*/p^* - de/e)]/ \xi$

Starting from Eq.(8) it is generally assumed that the current account is initially equal to zero, that is $\theta=1$, the exchange rate is a constant and equal to 1 so that de/e=0 and domestic prices approximate foreign prices ($dp/p = dp^*/p^*$). In this way, the balance of payments constrained rate of growth is expressed as a function of the rate of growth of world income and the income elasticities for exports and imports,

(9) $ybpc = \pi(dz/z)/ \xi$

Dividing both sides of Eq.(9) by the rate of growth of world income leads to the expression of the ratio of domestic to world rate of growth as a function of the ratio of exports to import elasticities. That is,

(10) $ybpc/(dz/z) = \pi/ \xi$

Equation (10) is known as Thirwall's Law. It indicates that if the ratio of elasticities is less (greater) than one, the said country will grow at lower (faster) rate than the rest of the world.

A more frequent use in the literature of Eq.(9) is to use the export demand function (Eq. 6) and to substitute the rate of growth of exports (dx/x) for the rate of growth of income multiplied by the export elasticity of income (i.e., $\pi(dz/z)$) This leads to express the balance of payments rate of growth as a function of the rate of growth of exports and the import elasticity of income. That is,

(11) $dy/y = (dx/x)/\xi$

Eq. (9) sees the balance of payments approach as an export-led approach. For a given import elasticity of income the greater is the rate of growth of exports the higher will be the rate of growth of income. The equation also highlights that shifts in the income elasticity of imports that are not accompanied by an expansion of exports lead inevitably to a decline in the rate of growth of domestic income.

Eq.(9) is used in the literature to obtain the growth rate of output compatible with the balance of payments constraint and to compare it to the actual growth rate. In general, with a few exceptions, the balance-of-payments constrained rate of growth tends to approximate the actual growth rate, thus validating this approach to growth.

On the basis of long run econometric techniques analysis, the rate of growth consistent with balance-of-payments equilibrium was computed for each of the Caribbean economies. For

comparison purposes a similar exercise was undertaken for all Latin American economies. The result is then compared with the actual average rate of growth. In most cases the balance-of-payments equilibrium rate of growth approximates within reasonable bounds the actual rate of growth. In the case of Caribbean economies the difference exceeds one per cent in the cases of Jamaica and St. Vincent and the Grenadines.

Table 1 Latin America and the Caribbean Income and price elasticities of imports and long-term economic growth for Latin American and Caribbean countries. 1980-2004					
Country	Income elasticity	Price elasticity	y_a*	y_e*	y_e*-y_a*
Argentina	3.01	3.55	1.53	2.11	0.58
Barbados	2.92	----	1.14	1.91	-0.83
Bolivia	1.4	---	2.09	4.63	2.54
Brazil	3.26	---	2.16	2.29	0.12
Colombia	1.94	1.96	3.17	3.21	0.03
Costa Rica	2.17	---	3.74	4.21	0.47
Chile	1.48	---	4.58	4.79	0.21
Dominica	2.07	0.68	2.50	3.26	0.86
Ecuador	3.93	---	2.48	1.06	-1.42
El Salvador	2.32	---	2.05	2.26	0.21
Grenada	1.19	---	3.68	4.34	0.66
Guatemala	2.43	---	2.47	2.92	0.44
Honduras	2.84	---	2.93	2.00	-0.93
Mexico	n.a	n.a	n.a	n.a	n.a
Jamaica	0.81	-----	1.59	2.91	1.32
Nicaragua	n.a	n.a	n.a	n.a	n.a
Panama	n.a	n.a	n.a	n.a	n.a
Paraguay	3.87	5.26	2.51	2.56	0.05
Peru	3.20	4.60	1.91	1.45	-0.45
Dominican Republic	1.89	1.61	3.89	5.50	1.61
St. Kitts and Nevis	1.72	----	4.58	4.44	-0.14
Saint Lucia	1.22	---	3.72	4.42	0.63
St. Vincent and the Grenadines	1.95	----	4.47	2.81	-1.66
Uruguay	1.35	---	1.53	2.99	1.46
Venezuela	1.37	0.65	1.32	2.30	0.97
Source: On the basis of official information. N.A = Not available, due to the fact that the co-integration tests identified no cointegration vector. --- = the price elasticities are not significant at the 5% level. y_a, y_e = actual and balance-of-payments constrained growth.					

Overcoming the external constraint

From Eq.(8) above it is clear that if the current account is not initially in equilibrium capital flows have a positive effect on growth. More precisely the effect of capital flows on the balance of payments rate of growth is proportional to the current account disequilibrium. Indeed increasing capital inflows when the balance of payments deteriorates is of the three available policy choices to

maintain or improve growth and even shift the rate of growth compatible with balance-of-payments equilibrium.[2]

Capital flows refer mainly to long term capital flows and more precisely to foreign direct investment. Since the beginning of the 1990's decade foreign direct investment flows have become the primary source of capital flows of most countries' economies and indeed has shaped the orientation of most economic policies at least in the case of smaller economies. The preferred form of countries' foreign capital is foreign direct investment. According to mainstream economic theory foreign direct investment can increase the stock of capital and generate technological spillovers. .

As an example, the Monterrey Consensus[3] asserts that foreign direct investment has the main benefit of "contributing toward financing development in the long term, in a more stable orderly fashion than portfolio investment. In addition foreign direct investment is an important vehicle for the transfer of knowledge, skills, technology, the creation of jobs, to increase productivity, enhance competitiveness and entrepreneurship and to reduce poverty. As a result countries must step-up efforts to attract foreign direct investment." As part of these efforts countries must concentrate on creating the adequate macroeconomic environment and the appropriate regulatory framework to allow foreign direct investment to operate efficiently. Long-term capital inflows should also be complemented with other types of flows as, for example, remittances and official aid. In addition international organizations should provide support through "the provision of export credits, risk guarantees, co-financing, and leverage of aid resources and venture capital, as well as provision of information on investment opportunities."

Following Hussain (2001), the balance of payments constrained growth model can be used to determine the level of capital flows compatible with a given rate of growth of output or target output growth (ybpc*). That is,

(13) $df/f = (\xi ybpc* - \theta\pi dz/z + di/i + dD/D)/ ((1-\theta) (1- \delta))$

The rate of growth of capital flows is positively related with a given or 'target' domestic income growth level and negatively related to the growth in external demand, debt service obligations and profit repatriation flows. The greater the domestic growth rate the greater the import level and hence the greater the level of capital flows to finance that level of imports. The larger the debt service payments the greater the foreign exchange requirements. In a similar way the

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[2] As put by Thirlwall and Pacheco Lopez (2006): "If the balance of payments deteriorates with liberalisation, there are only three choices: an increase in capital inflows; adjustment of the exchange rate, or slower growth of GDP."

[3] In 2002, United Nations Member countries adopted the Monterrey Consensus at the Conference on Financing for Development (Monterrey, Mexico). The conference originated formally in resolution 54/196 of the United General Assembly by which it decided to convene in the year 2001 a high-level international intergovernmental event on financing for development. The General Assembly's resolution was the result of members' dissatisfaction with the framework governing international financial relations. It also responded to the need to ensure the effective mobilization of resources to enhance economic development. The Monterrey Consensus comprises three sections (confronting the challenges of financing for development: a global response; leading actions; and staying engaged). The first section states that financing for development requires a holistic and interconnected approach and the full participation of all its stakeholders. The second part is in turn subdivided into four sections. These four sections deal with mobilizing domestic and international financial resources for development, the role of international trade in development, international cooperation, sustainable debt financing and systemic issues. The last part of the Monterrey Consensus, 'Staying Engaged' states the need for a follow-up of the conference. It also describes the preparations for "the rededication of the existing United Nations Assembly's high level development dialogue as a forum for the highest economic authorities, open to the participation of all public and private stakeholders associated with the Monterrey Conference."

larger the proportion of capital flow repatriation the greater will be the foreign exchange requirements to achieve a given 'target' growth rate.

The Caribbean case

For the Caribbean the 1990's decade witnessed a loss of export competitiveness, coupled with an increase in the levels of indebtedness, interest rates, and profit repatriation flows.

Export competitiveness is measured by the export performance ratio (EPR, hereafter). Formally the export performance ratio is measured by the ratio of exports to the average propensity of import (i.e. the ratio of imports to GDP). Formally,

(12) $EPR = X/(M/GDP)$

Where,

EPR = export performance ratio.
X = exports of goods and services.
M = imports of goods and services.
GDP = Gross Domestic Product.

When exports are equal to imports, the export performance ratio is equal to GDP (EPR=GDP). Export performance will improve when X>M and EPR>GDP. The export will deteriorate when X<M and EPR<GDP.

The export performance ratio can be computed in terms of percent deviation from GDP. A value of 0 would indicate a state of external equilibrium A value greater than 0 in percentage shows the percent deviation of the external account from its equilibrium position. A positive (negative) deviation for the export performance ratio shows the extent to which the surplus (deficit) in the current account exceeds its balanced position.

The evolution of the average EPR for CARICOM economies with and without Trinidad and Tobago (the region's leading exporter country) is shown in Figure 1 below for the period 1990-2005. For the whole period under consideration the EPR is negative reflecting a current account deficit. In addition it exhibits a downward trend since 1992 indicating a deteriorating export performance. In 1992, the EPR deviated from an equilibrium position by roughly 10% of GDP. In 2005 the gap increased to more than 20% of GDP.

Figures 2 and 3 complement the analysis of exports. The former shows a decline in the rate of growth of service exports since 1985 showing that the deterioration in export competitiveness affected also services. The latter also shows that as a general rule the rate of growth of imports tend to outs pace that of exports. That is when exports grow by x% imports tend to grow by a factor greater than x%.

Figure 1
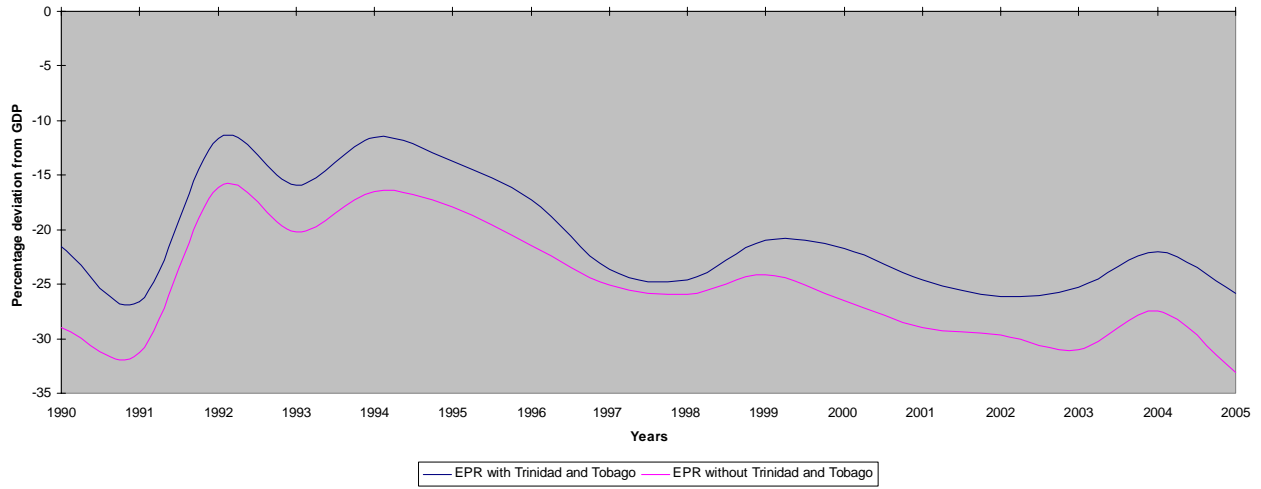**Export performance ratio for CARICOM economies in percentage deviation from GDP**
1990-2005

Figure 2
Rate of growth in export services in real terms
Average for CARICOM (1981-2004)

Rate of growth of exports and imports of goods and services
1980 - 2004 (Averages)
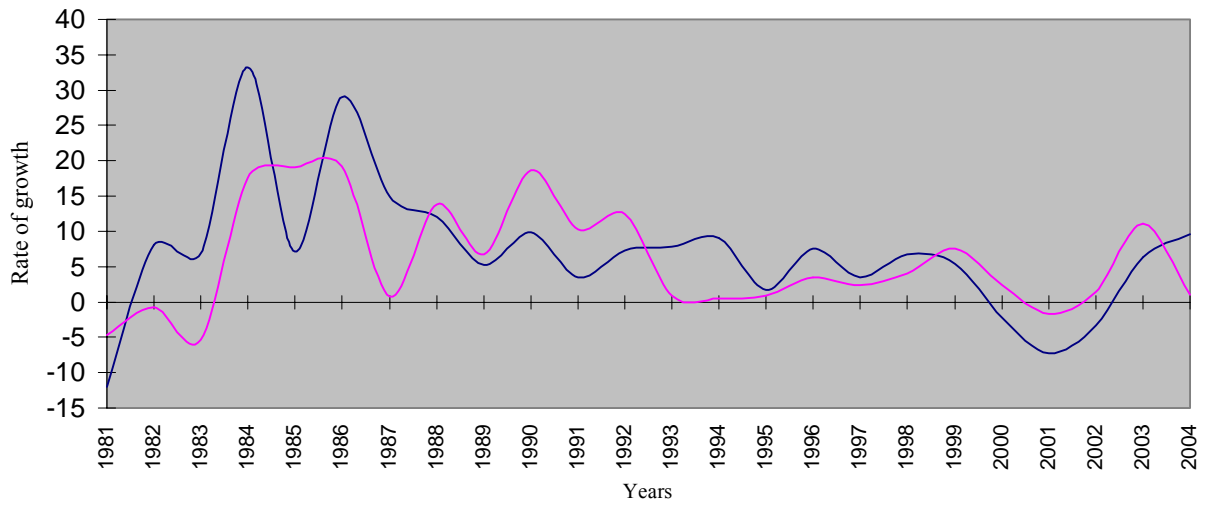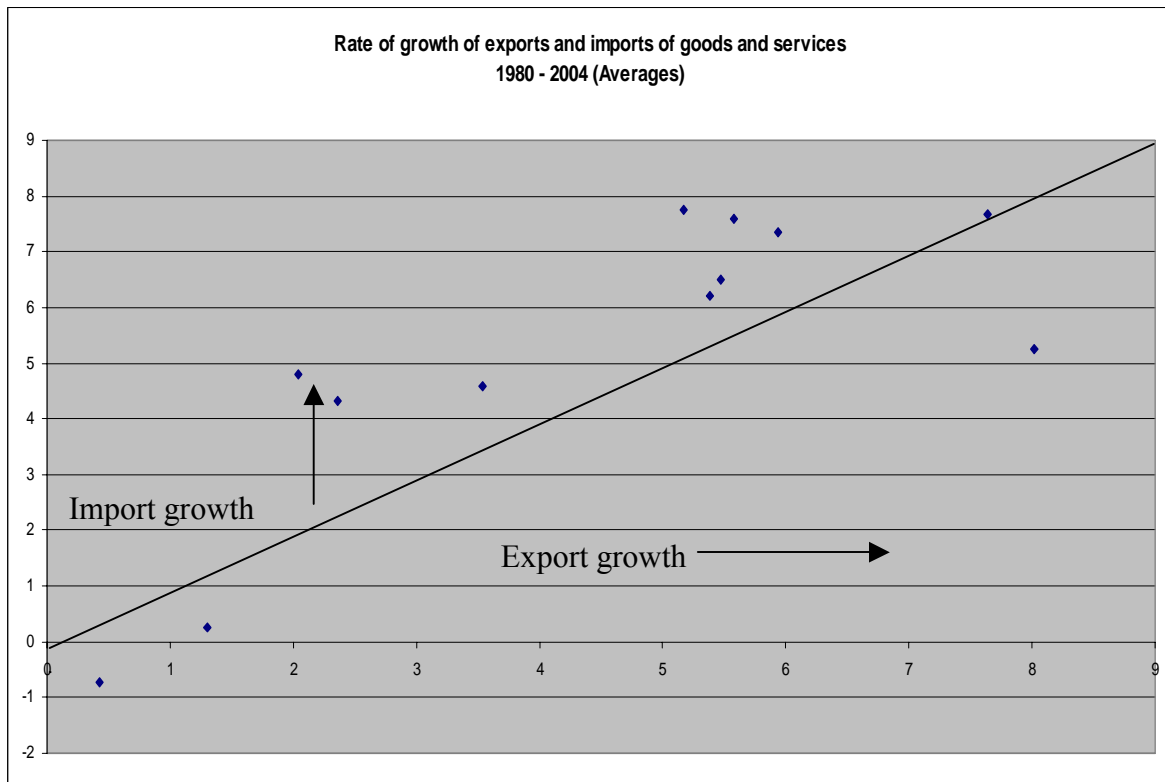
At the same time that export performance has deteriorated, countries have increased their levels if indebtedness. In the past decade the stock of outstanding debt for the larger sized economies has evolved, on average, from 60% in 1990 to 79% of GDP in 2005. Among these, Jamaica and Guyana exhibit the highest indebtedness ratios (143% and 140% of GDP respectively for 2005).

In the case of the smaller economies the stock of debt increased from 35% to 95% of GDP for the same period. St. Kitts and Nevis, Dominica, and Grenada exhibit the highest debt to GDP ratios (153%, 119% and 91% respectively for 2005). This is shown in Table 1 below.

Figure 4
Gross and net foreign direct investment
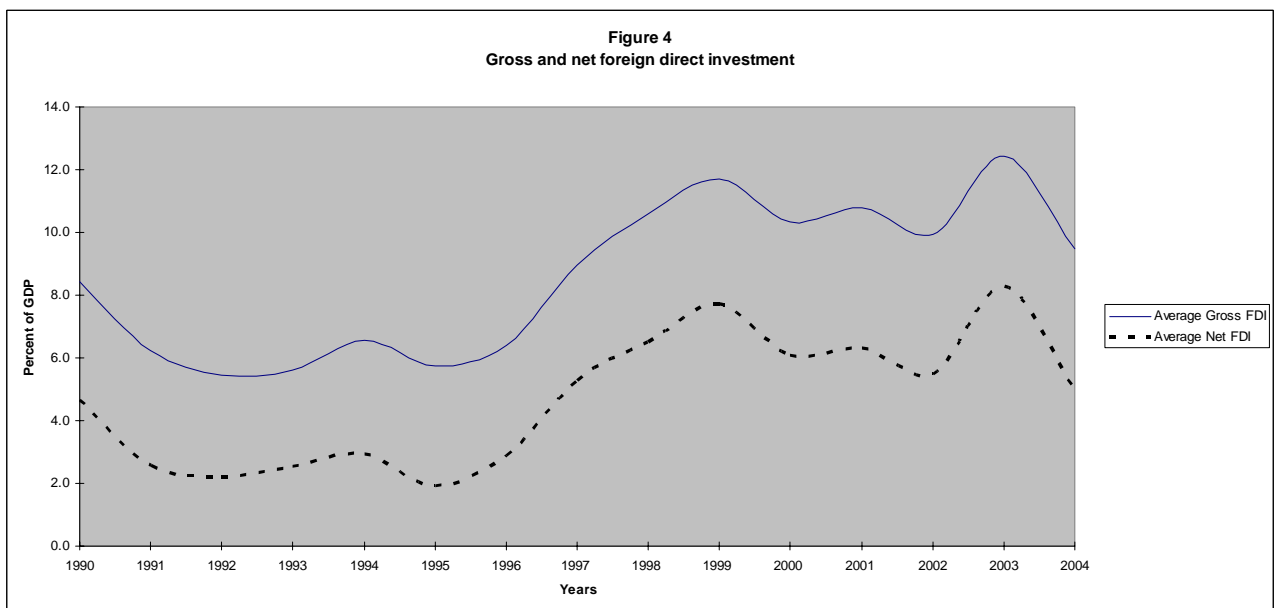
Furthermore profit repatriation flows have also noted an increased trend during the same period. Figure 4 above show the evolution of gross and net foreign direct investment flows for 1990-2004 for a selected group of CARICOM economies (Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Belize, Barbados, and Jamaica). On average for the entire period under consideration gross foreign direct investment flows represented 8.6% of GDP. Profit repatriation flows accounted for 4.7% in the same period. In other words profit repatriation flows represent more than 50% of gross foreign domestic investment.

As a result following the logic of Eq.(13), CARICOM countries have been faced with the choice of promoting the attraction of foreign direct investment or of revising downwards the target output growth. For the most part CARICOM economies opted for obvious reasons for the first alternative.[4]

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[4] The sources for foreign exchange flows include mainly grants and official loans, non-factor service earnings, unilateral transfers (i.e., remittances), official, and foreign direct investment flows. Of these, grants are the most insignificant source of financing representing on average 3.7% of GDP (see Table 12 below). This is the result of a declining trend that can be traced at least to the beginning of the 1980's decade. Regional computations show that official aid represented 59% of total net financial flows and decreased to represent only 6% by the end of the 1990's decade. The most important component of foreign exchange flows are net service earnings which represented on average 14% of GDP for 2001 followed by foreign direct investment (9% of GDP for the same year). In addition as shown in Table 2 below foreign direct investment has maintained its share in total net financial flows becoming its single most important component over time.

Table 2 Foreign exchange flows, 2003				
Country	Grants as % of GDP	FDI as % of GDP	Services receipts as % of GDP	Unilateral transfers as % of GDP
Anguilla	2.07	29.03	29.59	0.13
Antigua and Barbuda	…..	5.70	36.28	0.88
Barbados	…..	2.13	23.02	3.68
Belize	17.66	7.44	6.55	5.99
Dominica	3.64	4.52	9.16	6.65
Grenada	4.20	12.25	15.62	5.45
Guyana	5.94	7.95	…..	6.24
Jamaica	0.27	8.45	5.25	12.20
St. Lucia	0.98	3.39	29.61	2.07
St. Kitts and Nevis	0.50	25.62	9.75	5.39
St. Vincent and the Grenadines	1.84	6.06	20.81	4.39
Suriname	0.20	1.56	-15.09	-0.12
Trinidad and Tobago	…..	7.64	2.54	0.37
Average	3.73	9.36	14.42	4.10
Source: On the basis of official data				

The attraction of foreign capital flows in the Caribbean and its implications

The dependence on capital flows to maintain desired target growth rates of output according to Eq.(13) have had one important consequence for CARICOM economies. Economic policy has centered its efforts and focus, on the attraction of finance at the expense of growth and real sector development. Overall this policy has dichotomized the financial from the real sector sphere.

The necessity to attract foreign direct flows pressured CARICOM countries to narrow the range of regulations affecting foreign exchange transactions and the financial account of the balance of payments. In fact, though regulations remain in place in most of the English speaking Caribbean economies, these are not stringent regulations when viewed at the individual level. The resulting need to orient export promotion efforts to foreign exchange earning activities jointly with the need to protect traditional commodity products has led governments to 'open' the capital and financial account of the balance of payments prior to the merchandise account. Thus a more or less close merchandise account coexists with an open capital and financial account.

In most cases, especially in the case of the smaller CARICOM States policies for the attraction of foreign direct investment have consisted of a gamut of fiscal incentives. Governments have actively promoted those activities, which are foreign exchange intensive through a scope of fiscal incentives. This has impaired the use of taxation as a tool to achieve a more equitable distribution of income or to equilibrate the budget. Fiscal policy is mainly a microeconomic tool providing incentives to develop activities in selected economic sectors. The instruments include profit tax holidays, tariff exemptions, export allowances for extraregional exports following the expiration of the tax holidays, dividend payments, loss-carry forward, and depreciation allowances.

The cost of fiscal incentives has been exceptionally high as illustrated by some of the smaller economies of the Caribbean. Estimates based on customs data indicate that during the first part of the past decade import related tax concessions averaged between 4% and 6% of GDP for Antigua and Barbuda, Dominica, St.Kitts and Nevis, Saint Lucia, and St. Vincent and the Grenadines and were above 10% of GDP for Grenada. In the first part of the present decade import related tax concessions for Dominica, Grenada, Saint Lucia and St. Vincent and the Grenadines. However a substantial increase was noted for Antigua and Barbuda, and St.Kitts and Nevis (9% and 13% of GDP, respectively).

Still, in spite of very generous concessions, foreign direct investment flows have evolved at an uneven pace and have only slightly increased in the past decade. For the CARICOM region, between 1990 and 2005, foreign direct investment as a percentage of GDP remained within a 7% to 8% range. For the OECS, foreign direct investment expanded from 11% to 13% (see Table 3 below).

More importantly when the net resource transfer to some economies such as the case of the OECS is compared to the revenue foregone as a result of the incentives put in place to attract foreign direct investment, it can be seen that these economies, rather than being resource beneficiaries actually transfer resources to the rest of the world. It is thus not surprising that under these circumstances improving the level of welfare of their populations and the reduction of poverty is a distant objective.
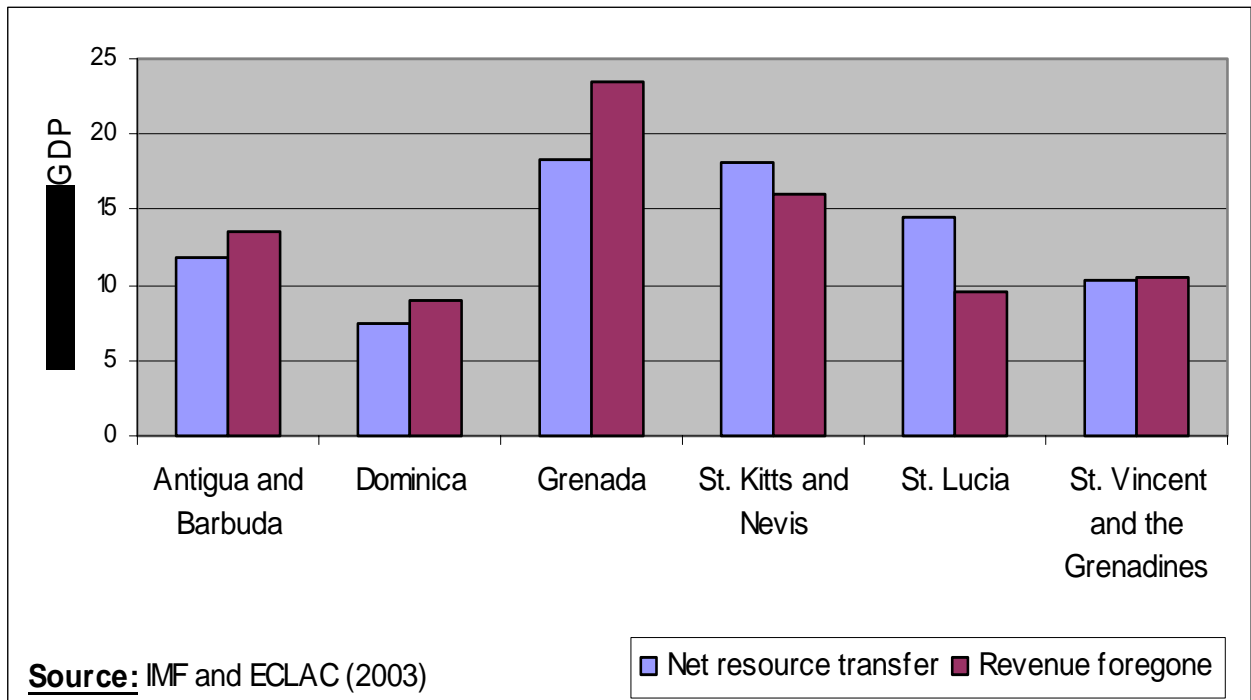
Figure5

Source: IMF and ECLAC (2003)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
				Table 3												
			Total public debt as percentage of GDP													
				1990- 2005												
Barbados	62.7	66.1	72.7	78.9	78.9	72.0	71.1	67.8	65.9	64.3	71.4	82.6	89.1	83.9	84.0	74.6
The Bahamas	29.0	37.6	41.5	45.8	45.4	43.6	42.9	44.4	41.5	40.1	37.6	38.6	41.3	43.7	44.8	46.2
Guyana	459.3	532.2	526.5	430.2	366.6	330.8	217.9	202.2	211.3	173.8	167.4	168.1	172.7	147.2	136.9	139.6
Jamaica	131.1	181.3	117.7	121.8	101.0	96.6	79.6	83.9	85.8	99.6	107.8	140.5	149.3	153.1	152.9	143.5
Suriname						0.0	0.0	0.0	0.0	0.0	54.3	45.8	36.1	29.6	25.8	22.4
Trinidad and Tobago						34.2	31.3	26.2	23.3	23.3	20.6	18.9	17.2	14.5	11.1	8.9
Belize						0.0	0.0	0.0	33.4	34.6	51.6	55.9	62.3	76.8	82.1	84.3
Anguilla	13.3	14.8	15.0	12.9	11.7	11.6	11.1	10.7	9.9	8.6	15.1	17.0	18.4	18.7	23.1	25.3
Antigua and Barbuda	75.4	70.7	66.0	57.7	55.3	57.9	50.8	59.8	63.6	61.1	119.2	116.9	123.2	128.3	114.7	103.4
Dominica	49.5	51.5	50.0	46.5	46.0	46.9	43.5	36.4	35.2	49.3	114.9	128.5	128.8	126.9	108.3	106.9
Grenada	39.7	36.8	36.9	35.6	36.6	34.7	33.0	31.4	29.2	29.7	58.2	72.8	99.6	97.2	112.7	109.4
St. Kitts and Nevis	25.1	26.3	25.2	24.5	22.9	23.2	24.3	38.6	43.0	50.0	114.4	133.0	151.0	164.3	180.1	173.0
St. Lucia	16.9	17.8	19.3	19.8	20.0	20.7	22.0	23.2	21.2	22.8	40.5	48.7	55.2	60.2	68.3	65.1
St. Vincent and Grenadines	28.1	30.7	30.1	32.0	35.7	33.1	31.2	30.2	31.7	48.6	70.0	71.2	72.3	73.8	77.5	78.7
Average CARICOM	66.4	76.1	71.5	64.7	58.6	57.5	47.0	46.8	49.7	50.4	74.5	81.3	86.9	87.0	87.3	84.4

FDI/GDP	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Antigua and Barbuda	15.5	13.4	4.6	3.3	5.0	6.4	3.6	4.0	3.7	4.9	4.2	14.1	9.2	22.1	9.4	13.0
Dominica	7.5	8.4	10.6	6.6	10.6	24.5	7.5	8.6	2.5	6.7	6.5	5.5	6.9	10.7	8.3	8.7
Grenada	5.8	6.3	9.0	8.1	7.4	7.2	5.7	10.4	13.8	10.9	9.1	14.9	14.4	20.1	12.4	5.3
St. Kitts and Nevis	30.6	13.6	7.2	7.2	6.9	8.9	14.4	7.1	11.1	18.9	29.2	25.8	22.9	20.7	11.4	10.4
St. Lucia	10.8	12.9	8.2	6.9	6.3	5.9	3.2	8.3	13.2	12.4	7.8	9.0	7.7	15.0	10.4	12.6
St. Vincent and the Grenadines	3.9	4.2	6.0	13.2	19.3	11.6	15.3	31.5	28.0	17.2	11.3	6.1	9.3	14.4	15.8	7.7
Barbados	0.7	0.4	0.9	0.6	0.7	0.6	0.7	0.7	0.7	2.7	6.1	5.2	6.8	9.0	-0.4	8.1
Belize	4.2	3.1	3.0	1.6	2.6	3.4	2.6	1.8	2.6	13.1	2.8	7.0	2.7	-1.1	9.9	9.7
Guyana	0.0	0.0	45.4	14.9	23.1	13.9	9.0	7.7	6.7	7.3	10.0	8.5	6.5	3.7	0.0	0.0
Jamaica	3.0	3.2	3.9	1.6	2.7	2.5	2.8	2.7	4.8	6.8	5.9	7.6	5.7	8.8	6.8	6.0
Suriname	-4.3	0.9	-2.0	-0.7	-6.0	-3.6	2.6	-1.2	1.0	-8.1	-19.1	-4.0	-7.7	-6.8	-2.9	-2.5
Trinidad and Tobago	2.1	3.1	3.1	7.9	10.0	5.4	5.9	16.7	11.6	9.4	8.3	9.5	8.8	7.6	4.9	6.7
Average	7.1	6.0	8.8	5.8	7.1	7.4	6.1	7.4	8.0	8.4	6.7	9.1	7.7	10.6	7.4	7.2
OECS	12.4	9.8	7.6	7.5	9.2	10.8	8.3	11.7	12.1	11.8	11.4	12.6	11.8	17.2	11.3	9.6
Standard deviation	9.5	7.3	1.1	3.2	3.6	0.7	1.6	9.0	5.6	3.2	2.9	3.3	0.3	10.2	3.1	4.4

Table 4
FDI as percentage of GDP for CARICOM economies, 1990-2005

Table 5 Composition of net financial flows for CARICOM economies In percentage of the total 1990-2000											
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total net financial flows	100	100	100	100	100	100	100	100	100	100	100
Total net long term	85.73	107.64	90.94	102.54	103.70	72.10	128.90	72.68	105.29	73.27	100.00
Official flows	**59.25**	**92.44**	**29.22**	**39.18**	**14.85**	**23.50**	**14.56**	**5.82**	**13.43**	**6.86**	**6.34**
Grants	33.88	64.12	20.43	35.32	20.66	24.11	25.78	16.10	20.70	17.38	4.76
Loans	25.37	28.33	8.79	3.86	-5.82	-0.61	-11.22	-10.28	-7.26	-10.51	1.58
Private flows	26.49	15.19	61.71	63.36	88.85	48.60	114.34	66.86	91.86	66.40	93.65
Debt flows	-42.55	-27.52	-12.64	-14.16	-11.22	-19.88	-6.28	-4.77	7.32	-0.04	33.69
Commercial bank loans	-12.07	-1.12	-4.07	-1.86	-3.30	-6.26	-8.27	-2.46	-2.69	-4.65	4.99
Other	-24.56	-26.41	-8.57	-12.30	-7.92	-13.63	1.98	-2.31	10.01	4.62	28.70
Foreign direct investment	**69.04**	**42.71**	**74.35**	**77.53**	**100.07**	**68.48**	**120.62**	**71.63**	**84.54**	**66.44**	**59.96**
Short term debt flows	14.27	-7.64	9.06	-2.54	-3.70	27.90	-28.90	27.32	-5.29	26.73	0.00
Source: On the basis of World Bank and ECLAC data.											