**Risk Parameter Methods**

We used a modified version of the Foreign Investment Risk matrix developed by Bhalla (1983) that uses political and economic risk measures as predictors of risk of foreign direct investment of a country. Input components and data sources for each component described in McGowan and Moeller (2009) are show in Table 1.

*Table 1.*



In Table 1, higher scores indicate higher political and economic stability in a country, and lower scores indicate lower stability. However, many of these datasets do not include all Caribbean countries present in our study. We extracted all data for the Caribbean countries that were available from these datasets and compiled additional economic and political data that were more widely available for our region. We created a Pearson’s correlation matrix using data from 9 countries for components in Table 1 from with similar components that were more widely available to identify appropriate substitutes. Table 2 shows the correlation coefficients and p-values between the original McGowan and Moeller 2009 indices and the chosen substitute index. No Caribbean data were available for the original conflict component, but WRI’s political stability score was assumed to be a logical substitute. GDP per capital data were widely available, thus a substitute component was not necessary.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **McGowan and Moeller 2009** | **Substitute Component** | **Source** | ***r*** | ***p-value*** |
| Attitude of government | Regulatory Quality |  | 0.85 | 0.00725 |
| Conflict | Political Stability |  | NA | NA |
| Corruption | Control of Corruption |  | 0.79 | 0.0029 |
| GDP per capita | NA |  | NA | NA |
| FDI Potential | FDI net inflows |  | 0.75 | 0.0165 |
| Inflation rates | CPI Growth |  | -0.73 | 0.0192 |

Values for all political and economic risk components used to calculate final risk value are presented In Table 3. Higher scores indicate a higher political and economic stability and lower scores indicate lower stability.

*Table 3.* Data for political (orange) and economic (blue) components used to calculate Caribbean country risk of Foreign Direct Investment (FDI).

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Island Country EEZ** | **Regulatory Quality** | | **Political Stability** | **Control of Corruption** | **GDP per capita (current US $)** | **FDI inflows (millions of US$)** | **CPI Growth (%)** |
| Anguilla | 0.89 | 1.32 | | 1.25 | 21382 | 85.45 | -1.86 |
| Antigua and Barbuda | 0.53 | 1.07 | | 0.67 | 14253 | 154.06 | 0.72 |
| Aruba | 1.38 | 1.26 | | 1.31 | 26406 | -22.57 | 0.48 |
| Bahamas | 0.25 | 0.96 | | 1.29 | 21962 | 384.91 | 1.86 |
| Barbados | 0.51 | 1.32 | | 1.79 | 15253 | 254.52 | -1.20 |
| Bonaire |  |  | |  | 21000 |  |  |
| British Virgin Islands |  |  | |  | 30880 | 51605 | 0.84 |
| Cayman Islands | 0.82 | 1.19 | | 1.03 | 57458 | 18987.38 | -2.93 |
| Cuba | -1.25 | 0.58 | | 0.07 | 7929 |  | 4.61 |
| Curacao |  |  | |  | 19869 | 175.14 | 0.00 |
| Dominica | 0.26 | 1.19 | | 0.62 | 7089 | 35.96 | -1.48 |
| Dominican Republic | -0.04 | 0.17 | | -0.77 | 6388 | 2221.5 | 0.84 |
| Grenada | 0.01 | 0.81 | | 0.31 | 8610 | 60.67 | -1.00 |
| Guadeloupe |  |  | |  | 21780 |  |  |
| Haiti | -1.16 | -0.73 | | -1.26 | 790 | 104.2 | 9.02 |
| Jamaica | 0.11 | 0.09 | | -0.33 | 4945 | 794.48 | 3.68 |
| Martinque | 1.25 | 1.01 | | 1.25 | 24118 |  |  |
| Montserrat |  |  | |  | 12407 | 4.15 | -1.18 |
| Puerto Rico | 0.98 | 0.84 | | 0.13 | 15900 | 78.16 |  |
| Saba |  |  | |  | 23600 |  |  |
| Saint Kitts and Nevis | 0.17 | 0.67 | | 0.27 | 15645 | 75.67 | -1.72 |
| Saint Lucia | 0.28 | 0.86 | | 0.45 | 7761 | 95.03 | -0.26 |
| Saint Vincent and the Grenadines |  |  | |  | 6652 | 120.74 | -1.73 |
| Saint-Barthelemy |  |  | |  | 27700 |  |  |
| Saint-Martin |  |  | |  | 19300 |  | 0.00 |
| Sint- Eustatius |  |  | |  | 26400 |  |  |
| Sint-Maarten |  |  | |  | 27789 | 10.76 |  |
| Trinidad and Tobago | 0.15 | 0.27 | | -0.54 | 21698 | 1618.61 | 4.66 |
| Turks and Caicos |  |  | |  | 23592 |  | -0.31 |
| Virgin Islands | 0.53 | 1.32 | | 0.67 | 36100 |  |  |

Economic, political, and final risk values were calculated for countries that had data available across all components in *Table 3*. Bhalla (1983) states that GDP per capita is one of the most important variables in determining both political and economic risk because income per capita reflects both the underlying economy and the effectiveness of political management (McGowan and Moeller 2009). We found a significant, positive correlation between GDP per capita and the risk scores calculated for the 14 countries with data available (*r* = 0.88, *p-value* = < 0.001). Because data for other risk score components were difficult to find for all Caribbean countries, and GDP per capita data were available for all countries, we used a linear regression to predict risk scores based on the countries’ GDP per capita. Observed and predicted values are presented in *Figure 1*. Final risk scores for each country are presented in *Table 5*.

*y* = 2.1 + 2.7e-05*x r*2 = 0.78



*Figure 4.* Observed (points) and predicted (blue line) relationship between GDP per capita (current US$) and country risk scores. Upper and lower 95% confidence intervals are indicated by grey shading and predictor limits are indicated by dotted lines.

*Table 5.* Final risk scores. Risk score values that were predicted instead of calculated indicated in bold. Countries with higher risk scores are expected to have lower FDI risk.

|  |  |  |  |
| --- | --- | --- | --- |
| **Island Country** | **Political Score** | **Economic Score** | **Risk Score** |
| Cayman Islands | 4.31 | 2.72 | 3.35 |
| Aruba | 4.77 | 1.94 | 3.07 |
| Virgin Islands | 4.11 | NA | **3.01** |
| British Virgin Islands | NA | 3.48 | **2.87** |
| Bahamas | 3.96 | 2.02 | 2.79 |
| Sint-Maarten | NA | NA | **2.79** |
| Saint-Barthelemy | NA | NA | **2.79** |
| Sint- Eustatius | NA | NA | **2.75** |
| Anguilla | 4.53 | 1.56 | 2.75 |
| Barbados | 4.54 | 1.52 | 2.72 |
| Martinque | 4.51 | NA | **2.69** |
| Saba | NA | NA | **2.68** |
| Turks and Caicos | NA | NA | **2.68** |
| Guadeloupe | NA | NA | 2.63 |
| Bonaire | NA | NA | **2.61** |
| Antigua and Barbuda | 3.94 | 1.72 | 2.60 |
| Curacao | NA | 1.75 | 2.58 |
| Saint-Martin | NA | NA | **2.56** |
| Trinidad and Tobago | 2.71 | 2.38 | 2.51 |
| Puerto Rico | 3.81 | NA | **2.47** |
| Montserrat | NA | 1.45 | **2.38** |
| Dominica | 3.85 | 1.30 | 2.32 |
| Saint Lucia | 3.57 | 1.46 | 2.31 |
| Cuba | 2.42 | NA | **2.26** |
| Saint Vincent and the Grenadines | NA | 1.27 | **2.23** |
| Saint Kitts and Nevis | 3.31 | 1.46 | 2.20 |
| Jamaica | 2.65 | 1.88 | 2.19 |
| Grenada | 3.34 | 1.39 | 2.17 |
| Dominican Republic | 2.45 | 1.62 | 1.95 |
| Haiti | 1.05 | 2.40 | 1.86 |