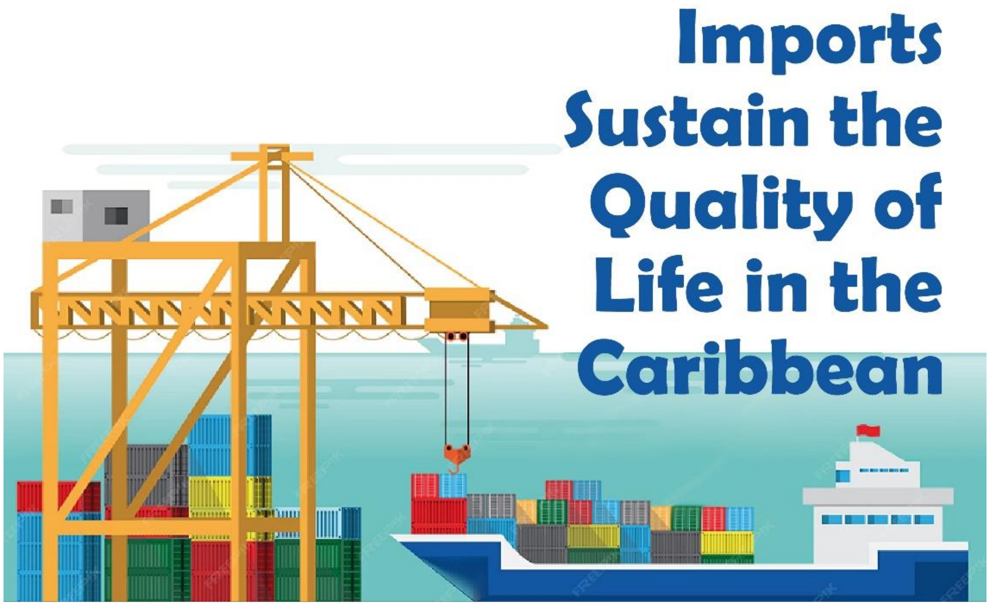
# Economic Letter November 2025

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**Imports Sustain the Quality of Life in the Caribbean**

The patriotic sentiment that Caribbean countries import too much is at odds with the reality that our standard of living in this region is made possible by imports. The fact is, the greater the level of imports, the higher is the standard of living. In order to increase the GDP of Caribbean economies we must therefore increase our capacity to import. That means investing in tourist accommodation and services, exploiting oil, renewable energy and mineral resources, hosting more international business, financial and educational services, and investing in rum and other manufacturing facilities, all with a view to have more foreign currency available for imports.

Foreign earnings depend entirely on the Caribbean's capacity to produce; the markets to which we sell are so large that they can easily absorb whatever quantities of goods and services the region can offer. In order to increase capacity to earn foreign currency the Caribbean needs investment, the largest portion of which must be financed in US dollars to pay for imported construction materials, equipment, supplies, fuel, vehicles and other requirements. Countries can attract needed foreign finance to the extent that they offer a competitive environment for investment. Let's break this down.

*Maintaining Caribbean standards of living requires adequate supplies of imports.*

Caribbean nations' sense of independence confronts the reality that everything that supports our modern way of life is either imported or made with the use of imports. It is impossible to sustain the standard of living of even the least well off unless the full range of imported items is available. In economic terms, import dependence is a structural feature of small economies like those of the Caribbean. This should not be considered a weakness; it is just a feature of the economy, like the time zone in which the country lies. In an import-dependent economy an increase in the rate of growth will be accompanied by a proportionate increase in imports. An increase in imports is usually a good sign, an indication that investment is rising and the economy is on a sustainable growth path. The corollary is also true: a decline in imports is usually a sign that the purchasing power of the national income has fallen.

*Increasing countries' foreign earnings.*

The very high standards of living enjoyed by the people of countries such as Iceland, Malta and Bermuda is testament to the fact that import dependence does not limit the growth potential of small economies. Import dependence simply means that our countries must keep increasing their earnings of foreign exchange to allow them to purchase more imports. Caribbean countries have the advantage that they can find markets for everything they can sell abroad because their products are such a tiny share of their overseas markets. The Caribbean is so small that we can fill all the tourist accommodation the entire region offers, provided the price is right, whatever the state of the US, Canadian or UK economies. The same holds for offshore medical schools, oil and gold production, rum and everything else that the region is able to sell competitively on the international market.

*Foreign investment is essential.*

We have established that small growing economies need additional imports and the foreign exchange with which to purchase them. To increase foreign earnings the economies must increase their capacity to supply the goods and services in which they have proven international competitiveness. Creating new capacity requires investment and finance in foreign currency to cover import costs. The most important policies our governments can pursue to promote investment are 1) maintaining a stable and predictable exchange rate for the domestic currency and 2) prudent management of the public finances to ensure that the country remains credit worthy in the financial markets of New York and London. With a stable exchange rate and an investment grade rating for the government foreign debt, countries are assured of foreign investor interest in the international competitive sectors of the economy. The final hurdle that often remains for potential foreign investors is the level of efficiency of the public sector.

*Public policy failures are the main limitation on the growth of Caribbean economies.*

The Caribbean suffers no shortage of foreign investor interest in new projects in proven internationally competitive sectors such as tourism, oil, offshore medical schools, rum production and international business and finance. What stands in the way of expansion in these activities are exchange rates that are frequently under threat of devaluation, persistent deficits on the current account of the public sector, and a government bureaucracy that fails to deliver public services effectively and with tolerable levels of productivity. The solution to the Caribbean's problem of anaemic growth lies with addressing these domestic issues. The earliest signal that progress is being made in any country is a significant increase in foreign direct investment. An increase in foreign direct investment across the region would be the surest indicator that Caribbean countries are lifting themselves out of the economic doldrums in which they have been stuck for many years.

*My Economic Letters may be found under "Commentary" at DeLisleWorrell.com.*