

# AN HISTORIC WINDOW OF OPPORTUNITY FOR FDI IN TRINIDAD AND TOBAGO

## NEW OPENINGS ARE EMERGING IN THE NON-OIL SECTOR

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In the 50 years since attaining Independence, Trinidad and Tobago has emerged as the strongest economy in the Caribbean, with the most robust and advanced manufacturing sector, a world-class energy industry and a strong and resilient financial sector.

Buttressed by affordable energy, a skilled workforce, large amounts of Foreign Direct Investment (FDI) and a long history in the energy sector, Trinidad and Tobago registered strong growth in its Gross Domestic Product (GDP) for 15 years until it was negatively impacted in 2009 by the fallout from the global economic crisis and the precipitous fall in natural gas prices in the United States because of the emergence of shale gas. It was a test of mettle which the government overcame, first, by stabilising the economy and then, by maintaining a rigid focus on FDI growth opportunities.

At the time it gained independence, Trinidad and Tobago's economy was based primarily on petroleum and agriculture. But oil became king as the company then known as Amoco (now bpTT) made massive new oil discoveries off Trinidad's east coast in what is known as the Columbus Basin. The discoveries came at a time when oil prices were on the rise, which provided the financial capacity for huge investment in the country's infrastructure, including the construction of new schools, highways and industrial estates, including Point Lisas. They also helped to finance the initial investment in natural gas-based industries.

The oil boom lasted from 1973 to 1983, and as crude prices fell and eventually collapsed in 1986, coupled with strong wage demands, Trinidad and Tobago's economy went into a decade of painful recession.

Like all of the British West Indian colonies, there was limited manufacturing in Trinidad and Tobago at the time of independence; manufacturing was based primarily in Britain, with few manufactured goods finished in the West Indies.

During the 1960s, the government sought to attract manufacturing and FDI, following the example of the Puerto Rican Industrial Development Corporation. It attempted to implement what Nobel laureate Sir Arthur Lewis called "industrialisation by invitation," but was unable to replicate Puerto Rico's success. The government then moved to a policy of import substitution, which encouraged domestic production of goods rather than importation and established a de facto embargo of certain imports to protect domestic producers.

This was the first substantial foray into manufacturing in Trinidad and Tobago but as the price of crude declined and the economy fell into recession, the local assembly industry also fell on hard times. Consumers demanded finished products from abroad and as part of its borrowing arrangements from the international lending agencies, Trinidad and Tobago was forced to open its economy. This new reality led to several major economic decisions that would benefit the country significantly.

Perhaps the most important was the decision to shift the economy away from its over-reliance on crude oil and to increase the contribution that natural gas was making to the economy. In order to do this, the government approved and sought out FDI in the petrochemical sector to the point where Trinidad and Tobago has emerged as the largest exporter of methanol and ammonia in the world and is a key exporter of urea to the United States.

A second set of decisions that paid dividends was the retooling of the manufacturing sector, the opening up of the market which forced manufacturers to become competitive and the flotation of the TT dollar which effectively devalued the dollar and made local manufacturing products more competitive. These decisions allowed Trinidad and Tobago's manufacturers to become the strongest in the region, to the point where 80 per cent of all trade in CARICOM now

involves Trinidad and Tobago entities.

As the Trinidad and Tobago economy has rebounded, this country has punched above its weight in the energy sector. Until the collapse of natural gas prices in the US, Trinidad and Tobago provided America with 70 per cent of its Liquefied Natural Gas (LNG) imports. It is also a world leader in converting its natural gas into other commodities in what is termed the 'Point Lisas model of development'.

In seeking to deepen its energy sector and link it to the manufacturing sector, Trinidad and Tobago has now moved further downstream and already produces melamine, which is used in the manufacture of a range of items from glues to hardwood finishes to pot spoons. Part of that melamine is to be reserved for local manufacturers as the country is open to FDI and local investment in manufacturing plants using melamine as their base.

The government is also in negotiations with a consortium comprising Saudi Arabia's SABIC

and China's Sinopec for the construction of a US\$5.7 billion methanol to petrochemicals plant and a methanol to olefins plant.

The opportunities for investment in Trinidad and Tobago are enormous. On the financial services side, this country has many things going for it. Its banks remain strong and were not hit by the global financial crisis. Even the meltdown of Clico, the largest conglomerate in the Caribbean, did not threaten the local banking sector. Financial services account for more than a third of non-energy GDP, and the financial sector employs some 12 per cent of the labour force.

In addition, Trinidad and Tobago's financial sector has become a financial force in the Caribbean, giving it a natural hinterland advantage from which to consolidate its position as the financial services gateway to Latin America. Local banks account for about 60 per cent of total bank assets in the region; insurance companies account for a similar share of total

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Photograph courtesy of Methanex

All for One: workers at Methanex's Point Lisas plant

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T&T: Gateway to the Caribbean and Latin America

regional insurance business. Banks have about 15 per cent of their portfolio in offshore loans, the bulk of which is in the Caribbean. A vibrant wealth management industry has expanded significantly in recent years. About 25 per cent of the funds under investment in the mutual fund industry are denominated in foreign currency.

On the manufacturing side, the advantage of competitive energy prices, a skilled workforce, several trade agreements with CARICOM, Latin America, Europe and even the USA, all give local manufacturers an advantage in accessing significant markets. These, combined with moves to reduce the bureaucracy at the nation's ports and its governmental agencies, add to the ease of doing business in Trinidad and Tobago. And leading the charge is invesTT, the newly-created investment promotion agency led by its up-beat president Kelvin Mahabir:

“The opportunities in the non-oil and gas sector are there for all to see. Like every other place, we're not strong in every area, but we know where our strengths are: the creativity of our people,

low energy costs, core competencies in large-scale manufacturing, and we remain committed to providing investors with adequate support throughout the investment process,” Mahabir says.

As part of the twin island republic's move to further diversify its economy, it is investing in tourism, with a plan to promote the country's product and to encourage the construction of additional high-quality rooms on both islands. There are tax incentives for developers and opportunities to be part of both the business and culture and leisure tourism that Trinidad and Tobago has to offer.

Government has expended significant sums to build the Tamana InTech Park, designed to attract and encourage the development of ICT. It is also the home of the University of Trinidad and Tobago which will feed the ICT industry and other key sectors with the talent it requires. The science and technology park offers superior networking solutions based upon Next Generation Network (NGN) technology that includes highly reliable and fully redundant networks, wireless connectivity, bundled VoIP, seamless business mobility packages, video and web conferencing. There are also opportunities for light manufacturing and agro-processing.

There is no doubt that, like the world economy, Trinidad and Tobago is facing challenges particularly as it relates to growth. The government has adopted an expansionary policy as it seeks to return the economy to growth, with continued investment in infrastructure and other productive capacity. Ideally situated as the gateway to doing business in the Caribbean and Latin America, the country remains welcoming to FDI: an investor-friendly environment, enabling legislation, modern infrastructure, air and sea connectivity, a well-educated workforce, access to neighbouring markets through trade agreements and a stable political and economic environment. It is the place to invest. ■



Photograph courtesy of invesTT