LIBERALIZATION AND OPENNESS OF THE TRINIDAD AND TOBAGO ECONOMY IN THE 1990s

by

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1. Introduction

Trinidad and Tobago undertook major liberalization of its trade regime beginning in the late 1980s, the core of which involved dismantling quantitative import restrictions together with implementing a system of gradually declining import duties. Trade liberalization represented a significant departure from the previous policies of control based on negative lists and high tariffs. The country experienced macroeconomic imbalance due to falling oil prices and therefore decided to pursue trade liberalization as part of an overall program of adjustment. Even though the policy shift appears to have been successful, a careful examination of its impact on key macroeconomic variables has been conspicuously absent from the literature.

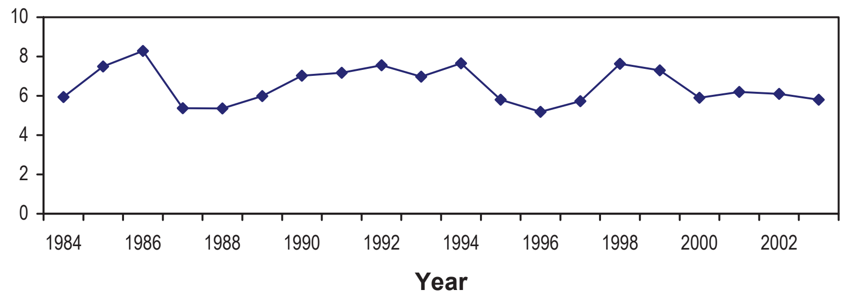
This paper examines the impact of trade liberalization on the economy of Trinidad and Tobago by outlining the major trends and developments since the start of the process of liberalization. Section 2 takes a background look at the policy objectives and the instruments used prior to trade liberalization and the phases of trade controls undergone in Trinidad and Tobago. Section 3 examines the existing trade policy regime and its objectives. Section 4 presents measures of the extent of openness of the economy of Trinidad and Tobago. Section 5 investigates the impact of trade liberalization on some of the key macroeconomic indicators, showing before and after trends. Section 6 profiles the major changes in the structure of imports, while Section 7 examines trends in exports. Finally, section 8 summarizes the main points.

2. Background

Upon becoming independent in 1962, the new government decided that Trinidad and Tobago should maintain its status as an 'open economy' [Hilare, 1995, p. 2] noted that "some governmental guidance was deemed necessary in order to influence the composition of imports, in the absence of voluntary changes by consumers". To facilitate this, many import controls were imposed which subsequently made the trade regime of Trinidad and Tobago far removed from being an 'open economy'. The policy on trade was also aimed at minimizing imported inflation. The taxes on international trade also provided an important source of revenue for the government of Trinidad and Tobago.

Figure 1 shows tax revenue collected from international trade as a percentage of total Source: Annual Economic Survey central government revenue during the period 1984 - 2002. It shows that there was a drastic drop in the amount of tax revenue collected after 1994, when the only applicable import duty was the CET of CARICOM. It fluctuated after 1994, decreasing and leveling after 1998.

Fig. 1: Taxes on International Trade as a Percentage of Total Revenue (TT$Mn)



Nevertheless, following independence, the overriding objective of trade policy was the protection of local economic activity from foreign competition based on an import substitution ideology. The strategy, which was popular in the 1960s, advocated the encouragement of domestic industrial development for developing countries. As the strategy continued into the 1970s, the economy grew rapidly due to high oil prices and increased foreign investment and consumption. The use of quantitative restrictions on foreign exchange and foreign trade operations increased in the early 1980s in response to balance of payments crises that resulted from a decline in the terms of trade, in particular declining oil prices. The collapse of oil prices in 1986, however, resulted in contracting output, declining per capita income, high unemployment, rising current account deficits and loss of foreign exchange reserve. In response to this, Trinidad and Tobago undertook a reorientation of economic policies as the country entered into a Structural Adjustment Loan with the IMF and the World Bank.

The trade strategy was switched towards encouraging export activity and away from import-substitution. By May 30, 1992, Trinidad and Tobago had undertaken a comprehensive program of unilateral trade liberalization. Quantitative restrictions for imports were largely dismantled and the scope of the negative list had narrowed considerably, although import licenses were still required for a few goods[1]. This was done in three phases - 40% of the items covered by quantitative restrictions were removed in 1991 and the remaining 60% were removed in two stages in 1992. According to Pantin (1992) these quantitative restrictions were replaced by tariff protection, which took two main forms. First, there was the Common External Tariff (CET)[2], which was agreed upon by members of the Caribbean Economic Community (CARICOM). These rates had a ceiling range, which was reduced in stages from 45% in 1992 to 20% in 1998.

Second, a set of temporary import duties had been put in place to provide an equivalent level of protection to that previously provided by quantitative restrictions. These import duties took the form of a stamp duty of 20% together with an import surtax to carry the aggregate tariff protection to a ceiling of 100% and 120% in the case of garments. These import duties were to be phased out between 1992 - 1994, so that the only applicable import duty from January 1, 1995 would be the CET of the CARICOM[3].

Although, no direct export subsidies are granted, a system of investment incentives remained in place. These incentives included tax concessions and duty-free access for imports of inputs and capital goods. Some are geared to promoting exports, others are designed to promote the development of specific industries or sectors. According to the Minister of Finance, these were to be eliminated in 2002[4].

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[1] Import licenses are required for livestock, meat, fish, coconut products, oils and fats, motor vehicles, cigarette paper, ships and boats under 250 tons, and certain pesticides, but these licenses are, in general, issued liberally. Quantitative restrictions still apply to poultry parts.

[2] The structure of the CET was based on two principles: (i) that competing imports should be subject to higher rates than non-competing imports, and (ii) that imported final consumer goods should have higher rates than inputs and capital goods. Competing goods are defined as those for which 75% of regional demand can be satisfied by regional production.

[3] There are exemptions to the CET's basic structure for a variety of special goods belonging to one of four categories: List A, List B, List C and List D.

[4] From Budget Speech - 1998

3. Present Trade Policy Regime and Objectives

Trinidad and Tobago's trade policy has varied very little over the past 15 years or so despite several changes in government during the period. The drive toward a highly open, liberalized economy that started in the late 1980s has continued to the present. First, the country is a founding member of CARICOM and the dominant trading member within this group. Second, there has been pursuit of liberalized trade in the larger ACS (Association of Caribbean States) grouping. And third, the country has also been a leading supporter of the FTAA (Free Trade Area of the Americas) to the extent that it has waged a strong campaign to host the headquarters of the association. Additionally, there has been a number of bilateral "free-trade" agreements with regional, non-CARICOM, states.

At the CARICOM level, deeper integration among CARICOM countries is expected to result from reforms aimed at consolidating the CARICOM Single Market and Economy (CSME). Two protocols amending the CARICOM Treaty signed in 1997, are expected to lead to free movement of goods, services and capital, while further steps are being taken to liberalize movement of persons. Schedule I of the CARICOM Treaty allows a few national exceptions to the duty-free entry of goods from other CARICOM member states. However, Trinidad and Tobago has chosen not to use this exception, and is in the process of eliminating Schedule I.

CARICOM has preferential trade agreements with Colombia and Venezuela and under this agreement, Trinidad and Tobago, as a medium-development country, had bound duty-free access bilaterally as of 1 June 1998 on a number of products, most of which are already imported duty free.

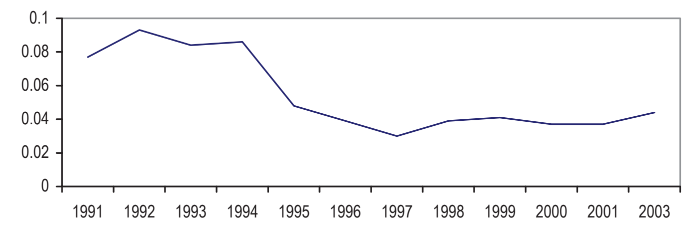
As a signatory to the Lomé Convention, exports of certain primary products originating in Trinidad and Tobago are offered duty free access into the European Union. Traditionally, exports of sugar and rum have been the main beneficiaries, but recently preferential access has been granted to petroleum and fertilizers. Trinidad and Tobago also benefits from trade arrangements between Canada and Caribbean countries (CARIBCAN), and the United States and Caribbean countries under the Caribbean Basin Initiative (CBI), which allows duty free entry into the U.S. for a wide range of exports grown and manufactured in eligible countries. Membership in other regional integration groups includes the Association of Caribbean States (ACS), which is comprised of 25 Caribbean states, and was formed in 1994 to promote regional development and trade.

Subsequent to the acceleration of trade liberalization measures, the first Trade Policy Review of Trinidad and Tobago was conducted by the World Bank on November 12-13, 1998 and at that time other members of the World Trade Organization congratulated the country on its recent liberalization and economic reforms, which they implied resulted in steady growth rates, low inflation and had attracted substantial foreign investment (World Trade Organization 1999). However, before a causal link can be drawn between trade liberalization and the positive macroeconomic indicators being observed, the perceived openness of the economy has to be measured.

4. Measurement of Openness in the Economy

Trade liberalization is expected to result in a more open economy. There are several measures used to analyze the extent of openness of an economy. One of the most popular is the collected tariff ratio (CTR), which is defined as the ratio of tariff revenues (TR) to imports (imp). An important advantage of this indicator is that it is drawn from observed data. This allows for intermediate situations where countries are neither totally open nor totally closed.

Figure: 2 Collected Tariff Ratio - 1990-2003



Source: Central Bank of Trinidad and Tobago, Annual Economic Survey - 1994- 2004

Figure 3 shows that in the case of Trinidad and Tobago, the CTR dropped drastically after 1994 which is consistent with the fact that from January 1, 1995 the only applicable import duty was the CET of the CARICOM. This measure shows that the economy certainly became more open after 1994.

The other measures of openness that follow, models those used by Nash (1993), where they were applied to a sample of African countries. These measures illustrate changes in trade restrictiveness of trade policy-related economic variables, rather than measuring trade restrictiveness. It is often the case that the change is the more relevant issue. This procedure involves various measures of consumption imports, which are defined as foods, textiles, and other manufactured imports. Since most domestic production in developing countries is concentrated in consumer goods, changes in protection, therefore, should be more reliably measured by changes in this subset than by changes in total imports. Also, many countries treat food and fuel imports differently from manufactures, and impose few barriers and low tariffs on these products. For this reason, food or fuel imports are omitted from imports of some of the measures. The changes in the openness indicators are measured during the period 1984 - 1997, with the **'before'** period covering from 1987 to 1991 and the **'after'** period spanning 1993 to 1997.
Further extensions to the data were added to observe trends into the current decade.

Table 1: Performance of the Real Effective Exchange Rate

Year	Real Effective Exchange Rate Before	Year	Real Effective Exchange Rate After	Year	Real Effective Exchange Rate After
1987	105.70	1993	92.36	1998	86.31
1988	99.15	1994	85.34	1999	80.09
1989	97.81	1995	83.58	2000	91.48
1990	100.00	1996	85.22	2001	97.76
1991	100.38	1997	84.45	2002	101.52
	Average: 100.61		**Average: 86.19**		

Source: Annual Economic Survey

Table 1 shows the performance of the real exchange rate. The change in each variable is shown over these two periods to determine the direction of movement. The 'After' column shows the five years after liberalization (1993-1997). This is compared to the 'Before' column which shows, the five years before trade liberalization (1987-1991).

Table 1 shows the change in the real effective exchange rate (REER). Ceteris paribus, trade liberalization is expected to lead to a depreciation of the REER. The average figures show that the Trinidad and Tobago dollar depreciated in real terms, which shows increasing openness.

In addition to the above measure, the import penetration ratio is another important measure of openness. This is an "outcome" measure since it gives an indication as to the result of policy changes. Tables 2 to 6 show the behavior of five different measures of import penetration in the domestic market. Table 2 shows imports (M) as a fraction of gross domestic product (GDP) i.e. (M/GDP).

Table 2: Imports as a Fraction of Gross Domestic Product

Year	(M/GDP) Before	Year	(M/GDP) After	Year	(M/GDP) After
1987	0.2205	1993	0.2402	1998	0.4978
1988	0.2092	1994	0.1894	1999	0.04043
1989	0.2280	1995	0.2645	2000	0.4073
1990	0.2089	1996	0.3230	2001	0.4087
1991	0.2590	1997	0.4241	2002	0.3900
	Average: 0.22512		**Average: 0.28824**		

Source: Annual Economic Survey

An examination of the average figures indicate that imports as a fraction of gross domestic product increased after trade liberalization showing an intensification of import liberalization.

The next two measures are consumer imports (CM) as a percentage of imports (M) and non-food consumer imports (NFCM) as a fraction of non food imports (NFM).

Table 3: Consumer Imports as a Percentage of Imports

Year	(CM /M) Before	Year	(CM /M) After	Year	(CM /M) After
1987	0.3786	1993	0.2458	1998	0.0743
1988	0.3741	1994	0.2995	1999	0.0846
1989	0.3254	1995	0.2020	2000	0.0667
1990	0.3014	1996	0.1929	2001	0.0747
1991	0.2745	1997	0.1526	2002	0.0674
	Average: 0.3308		**Average: 0.21856**		

Source: Annual Economic Survey

Table 4: Non-Food Consumer Imports as a Percentage of of Non Food Imports

Year	(NFCM/ NFM) Before	Year	(NFCM/ NFM) After	Year	(NFC M/NF M) After
1987	0.2516	1993	0.1444	1998	0.0826
1988	0.2616	1994	0.1866	1999	0.1352
1989	0.2003	1995	0.1235	2000	0.1057
1990	0.1847	1996	0.0991	2001	0.1179
1991	0.1805	1997	0.0836	2002	0.1159
	Average: 0.1805		**Average: 0.0836**		

Increases in the average CM/M and NFCM/NFM would indicate an intensification of import liberalization. However, Table 3 shows that the 'before' average figure is larger than the 'after' average figure. A decrease in CM/M over the period would indicate a retraction of the import liberalization process or an increase in protection in the years following trade liberalization. Similarly, Table 4 shows a smaller 'after' average amount. However, as shown later in Section 7, consumer imports were not the main items that increased during this period. The highest imports consisted of items related to the construction, chemical and manufacturing industries.

In the following two tables, CM and NFCM are shown as a fraction of total consumption (Con). This measurement is considered a more reliable indicator of restrictive trade policy than the previous two because, as noted above, in most developing countries, it is the imports of consumption goods that are the most stringently restricted.

Table 5: Consumer Imports as a Percentage of Consumption

Year	(CM/ Con) Before	Year	(CM/ Con) After	Year	(CM/ Con) After
1987	0.1220	1993	0.0937	1998	0.0910
1988	0.1192	1994	0.1031	1999	0.1143
1989	0.1261	1995	0.0939	2000	0.0984
1990	0.1065	1996	0.1009	2001	0.1068
1991	0.1101	1997	0.0923	2002	0.0878
	Avg: 0.11678		**Avg: 0.0967 8**		

Table 6: Non Food Consumer Imports as a Fraction of Consumption

Year	(NFCM/ Con) Before	Year	(NFCM/ Con) After	Year	(NFCM/ Con) After
1987	0.0673	1993	0.0485	1998	0.0465
1988	0.0707	1994	0.0553	1999	0.0671
1989	0.0655	1995	0.0523	2000	0.0591
1990	0.0559	1996	0.0464	2001	0.0628
1991	0.0641	1997	0.0468	2002	0.0542
	Avg: 0.0647		**Avg: 0.04986**		

Source: CBTT, Annual Economic Survey

Therefore, increasing shares of non-food consumer imports in total consumption would indicate reduced protection.

Again, in both of the cases illustrated in Tables 5 and 6, there have been decreases in the 'after' average figures when an increase would have indicated an intensification of the liberalization process.

To sum up these measures, two of them show increasing openness (negative change for REER and positive change for M/GDP), while the other four indicators show an increase in protection in Trinidad and Tobago (negative changes for CM/M, NFCM/NFM, CM/Con and NFCM/Con) since the initiation of unilateral trade liberalization.

It must be noted that one of the limitations of these types of measures is that a lower ratio infers tighter restrictions, rather than indicating differences in the composition of imports across time. As seen from the section on imports, the highest percentage change during the period 1991 - 1998 was in the importation of synthetic fibres, which increased by 11337.67%.

In addition to measures of openness, indicators of openness are now examined to augment the above results on the extent of openness in the economy. The indicators of openness were undertaken at various points in time and are presented chronologically to show how the economy progressed over the period.

Indicators of Openness

i. **The Sach and Warner Openness Index**

According to the conditions of the Sach and Warner Openness Index (1995), Trinidad and Tobago was judged to be closed. The data for trade policy during the 1980s in Trinidad and Tobago were as follows:

Table 7: Sach and Warner Openness Index

Average tariff (intermediate and capital goods)	0.293
Quota Coverage	0.245
Black Market Premium (1970s)	0.22
Black Market Premium (1980s)	0.45*
Export marketing board	0**
Socialist	0***

* A large black market premium is evidence of the rationing of foreign exchange, which tends to be a form of import control.

** Set equal to 1 for countries with extreme distortions resulting from their export marketing board

*** Set equal to 1 for countries classified as socialist

Source: Sach and Warner (1995)

It must be noted that for the purpose of their study Sach and Warner defined developed economies as all countries with a real GDP of $5,000 or more in 1970. According to Sach and Warner (1995, p. 15) "this criterion results in a few classifications that are not standard, namely that Ireland, Greece and Portugal are classified as developing countries, while Trinidad and Tobago and Venezuela are classified as developed". They also indicated that these unusual classifications have little impact on their main conclusions. Sach and Warner's main conclusion was that reform works and that there is no invincible poverty trap. However, they also admitted that openness is not enough to produce growth - stable macroeconomic policies, structural policies and institutions are also needed.

ii. **Index of Economic Freedom**

The Heritage Foundation's index of economic freedom used ten factors to indicate the level of economic freedom of a country. Under each factor is a grading scale. The scale runs from 1 to 5, with 1 being the most free, and 5 the least free. Countries were then ranked according to four categories of economic freedom. Countries receiving a score of 1.99 or less were considered to have economies that were 'free'. Countries scoring between 2.00 and 2.99 have economies that were 'mostly free'. For scores of between 3.00 and 3.99, economies were ranked as 'mostly not free'. And economies that obtained a score of 4.00 and above were considered 'repressed'. Table 8 shows the rating given to Trinidad and Tobago.

Table 8: Overall Ratings of Indicators of Openness

Indicators	Ratings
Trade	5
Taxation	5
Government Consumption	2
Monetary Policy	1
Foreign Investment	1
Banking	2
Wage and Prices	2
Property Rights	1
Regulation	3
Black Market	3
OVERALL SCORE	**2.5**

Source: Index of Economic Freedom, 1995

As seen in Table 8, the rating given to both trade and taxation were 5, which signified a set of policies that were least conducive to these two indicators. These two high ratings contributed heavily to the overall score of 2.5, which put Trinidad and Tobago into the 'mostly free' category.

iii. **Index of Economic Freedom of the World 2000**

The Fraser Institute used an index consisting of 23 components for 123 nations and came up with a ranking for openness. To have the ratings easily comparable across countries and time periods, they were placed on a scale from zero to 10. Higher ratings were indicative of institutions and policies more consistent with economic freedom. Table 8 shows that Trinidad and Tobago moved from a 4.7 rating in 1975 to 7.5 in 1997, which show increasing openness through time and also that the most recent rating (1997) was closer to the highest possible rating a country can receive i.e. 10.

Table 9 Area Rating Scale for Trinidad and Tobago

	Year					
	1975	**1980**	**1985**	**1990**	**1995**	**1997**
Summary Ratings	4.7	5.0	4.8	5.4	7.2	7.5
Rank	55	61	69	57	45	39

Source: The Fraser Insitute Website

As shown above, both measures and indicators were used to determine the extent of openness in the economy. Taking into consideration the inherent limitations and subjectiveness of these measure and indicators, the results indicate an increasing trend towards greater openness. Based on this conclusion, an assessment of the impact of trade liberalization on the economy can be undertaken by examining movements in some important macroeconomic variables.

5. Impact Of Trade Liberalization On Key Macroeconomic Variables

Table 10 presents an overview of some of the key macroeconomic indicators during the period 1990-2002. An analysis of each of major group (economic activity, domestic prices, external sector and macroeconomic policies) will be conducted to evaluate the impact that trade liberalization has had on these variables during the period 1990 - 2002.

Table 10 : Macroeconomic Indicators: 1990 - 2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. Economic Activity													
GDP Growth	1.5	2.5	-1.6	-1.5	3.6	3.8	3.5	3.2	3.3	5.8	5.7	4.1	2.7
FDI/GDP	2.9	4.3	4.6	13.1	18.3	9.8	12.0	33.8	23.8	9.4	8.3	9.4	7.7
Unemployment Rate	20.4	18.5	19.6	19.8	18.4	17.2	16.2	15.0	14.2	13.1	12.1	10.8	10.4
2. **Domestic Prices**													
Inflation	11.1	3.8	6.5	10.8	8.8	5.2	3.4	3.7	5.6	3.4	3.5	5.6	4.1
Average Interest Rate (lending)	11.7	11.8	12.8	13.1	13.9	13.4	14.2	11.9	12.4	15.9	15.3	14.5	12.8
Real Effective Exchange Rate Index	100.0	99.6	97.6	108.3	117.2	119.6	117.3	83.41	86.31	89.09	91.49	97.87	101.52
Real Wage Growth	-9.2	-0.7	-1.6	-6.9	-7.6	-3.2	-0.8	-0.8	-	-	-	-	-
3. External Sector													
Terms of Trade Index	71.1	71.6	69.6	72.5	79.2	84.8	86.9	93.7	87.6	-	-	-	-
Trade Balance/GDP	26.7	14.5	18.2	18.3	26.3	20.2	9.59	-16.7	-12.3	0.9	11.8	8.2	2.5
Current Account/GDP	12.1	-0.12	3.65	3.78	7.72	10.11	-1.30	-19.2	-10.6	0.5	6.6	4.7	0.5
External Debt/Exports	1.28	1.40	1.45	1.49	1.40	1.11	0.87	1.05	0.56	0.56	0.39	0.38	0.41
4. **Macroeconomic Policies**													
Fiscal Surplus/GDP	-1.2	-0.2	-2.8	-0.2	0.0	0.2	0.5	-1.9	-1.5	-3.1	1.6	-0.1	0.3
M1/GDP	9.1	9.1	9.9	10.2	10.5	10.4	9.6	10.7	10.6	9.1	8.3	9.5	11.3
Nominal Exchange Rate	4.25	4.25	4.25	5.35	5.92	5.95	6.01	6.25	6.30	6.27	6.28	6.20	6.21

Source: Annual Economic Survey, IDB, CSO (Trinidad and Tobago)

Investment is important for economic growth and from this perspective the investment rate becomes a critical variable. Table 10 shows that while reaching a low of 9.8% of GDP in 1995, in 1997 foreign direct investment reached its highest point of 33.8% during the period under review.

The unemployment rate has continued to decline generally during the period 1990 to 2002. It fell from 20.4% in 1990 to 10.4% in 2002. This increased employment can be attributed primarily to increased employment in construction, transport and communications.

6.2 Domestic Prices

Inflation has been on a downward trend during the 1990s. The rate in 1997 was 3.7%, and in 1998 it increased further to 5.6%. The small increase from 1996 to 1997 had been attributed to increases of 17% to 20% in the food category due to shortfalls in agricultural supply as a result of adverse weather conditions (Central Bank, 1998).

The World Bank's and IMF's doctrines suggests that, with effective liberalization, interest rates should increase. Higher rates are supposed to lead to more profitable investments and raise the marginal efficiency of capital. Table 10 shows that the average interest rate (lending) has increased from 12.8 in 1992 to 14.2 in 1996. The highest interest rate achieved during the period under review was 15.9% in 1999. At a real interest rate exceeding 8%, the amount of private investment and the number of projects that can be undertaken with adequate return are limited. Trinidad and Tobago's capital market is still thin and developing and this results in domestic private investment being financed through personal savings or bank borrowing.

In conjunction with trade liberalization, there is a certain consensus which emerged in favour of floating exchange rates, or, perhaps more accurately, against fixing the rate too rigidly. Trinidad and Tobago falls in the latter category and as shown in Table 9, the real effective exchange rate index increased from 97.6% in 1993 to 119.8% in 1998, falling in line with what is known as a 'realistic exchange rate'. The REER dipped after that and rose to 101.52% in 2002.

With regard to the real wage, studies on the direct impact of trade reform on poverty are not many. But to the extent that trade reform reduces anti-export bias and to the extent that exports are intensive in the use of unskilled labour, trade reform is expected to increase real wage reducing both poverty and inequality. Table 10 shows that the real wage growth did in fact increase from -9.2 in 1990 to -0.8 in 1997.

External Sector

As shows in Table 10 above, after the implementation of the comprehensive program of unilateral trade liberalization the terms of trade has been steadily increasing since 1993, which indicates that the price of exports relative to imports has been rising steadily. However, according to the Central Bank (Annual Economic Survey 1998 p. 27), "in 1998 the overall terms of trade is estimated to have declined by about 8%". This was attributed to the sharp fall-off in international commodity prices (crude oil, petrochemicals, iron and steel products) resulting from the economic crises in Asia and Russia.

In Trinidad and Tobago, external transactions in goods and services represent over 100% of GDP, with exports of fuels, the main earner of foreign exchange, accounting for over 20%. Low export diversification and strong dependence on the oil/natural gas sector make Trinidad and Tobago vulnerable to external shocks. The strong decline in oil prices that occurred in 1998, while imports continued to increase, had a negative impact on the current account. Until 1996, Trinidad and Tobago generally posted a trade surplus. However, in 1997 and 1998 imports have grown much faster than exports, fuelled by rapid increases in consumer and capital goods, as the economy expanded and the local currency appreciated in real terms. Between 1993 and 1997, imports more than doubled, while exports increased by around 50%, and in 1997 a trade deficit of US$610 million emerged. In 1998, the trade deficit increased to US$661.1 million as exports declined by 6.4% while the value of imports increased marginally over the previous year's level. The current account, in surplus for most of the 1990s, recorded a deficit of US$708 million (19.2% of GDP) in 1997. The evidence in Table 10 shows that the current account at first improved and then deteriorated after trade liberalization in 1992.

Macroeconomic Policies

For many developing countries the possible negative impact of a freer trade regime on government revenues and expenditure represents an important obstacle to the lowering of trade taxes or other reforms with equivalent outcome such as reconstructing the customs administration. Trinidad and Tobago had budget surpluses in 1995, 1996, 2000 and 2002 which were attributed to improvements in tax collection, proceeds from privatization, and reductions in government subsidies and transfers.

Liberalization of the Trinidad and Tobago currency occurred in 1993, and from that time there has been a modest, steady rate of depreciation of the nominal exchange rate as Table 10 shows. Rajapatirana (1993), in his study of the Latin American experience presented regression results which supported the hypothesis that liberalizing of trade policies had a greater probability of going together with devaluations of the nominal exchange rate than tightening of trade policies.

From the foregoing, it appears that trade liberalization has had an effect on the major macroeconomic variables, whether direct or indirect. The following sections examine more closely the trend in imports and exports during the 1990s.

Imports

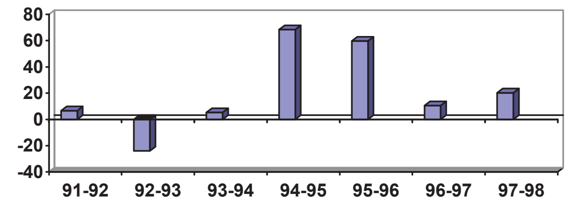
In Trinidad and Tobago, quantitative restrictions (QRs) on the level of imports were the main instrument of protection for domestic economic activity. Good listed on the Negative List could only be imported under specific import licences granted by the Ministry of Industry and Commerce. Goods not on the Negative List could be imported under an Open General Licence. One major incentive offered to potential manufacturers was to restrict imports competing with their product by placing them on the Negative list.

In 1964 there were about 100 items on the Negative List. There was a downward rigidity in the size of the List: items put on the List tended to stay there indefinitely. By 1972 the List had grown to over 400 tariff items. As of 1972 some of the main imports prohibited or subject to stringent control were cosmetics, saccharin, coffee and cocoa beans, electronic items, mechanical gambling devices and complete passenger automobiles. Firearms, ammunition, narcotics and certain other goods were either prohibited or rigidly controlled.

The first Standby Agreement with the International Monetary Fund marked the beginning of the dismantling of quantitative import controls. At the beginning of 1991, a more significant reduction was made in the size of the Negative list. This was in keeping with the conditionalities of a Structural Adjustment Loan from the World Bank. Apart from other conditions, the SAL also required that at the end of 1991 all other manufactured items, except those retained for health, and security reasons were to be removed from the Negative List. There was no commitment to remove QRs on agricultural items.

Importation of items that were formerly on the negative list soared after the list was dismantled in 1992. For example, Figure 3 examines the trend in motor vehicles, one of the items which was on the negative list, for the period 1991 to 1998. Figure 3 shows that the percentage change in motor vehicle imports immediately became positive and remained that way for the periods following the dismantling of the negative list, the largest percentage change being 68.37% during 1994-1995.

Fig. 3: Percentage Change in Value of Motor Vehicles Imported: 1991 - 1998



Source: CSO

Further, imports to Trinidad and Tobago were examined through the period 1991 to 1998. An examination of the structure of imports between the years 1991 and 1998, shows that there has been some staggering increases for certain products. These changes are shown in Table 11.

As shown, synthetic fibres and polycarboxytic acid had changes of over ten thousand percent. A further examination of Table 10 indicates that most of the items are those used in the manufacturing industry.

Table 11: Imports with the Highest Percentage Change in Value between the period 1991-1998

Item	Percentage change between 1991 to 1998
Synthetic Fibres	11337.67%
Polycarboxytic Acid	10549.87%
Tobacco (manufactured)	5846.92%
Ores of Base Metal	4395.42%
Fish (fresh, chilled, frozen)	3094.58
Coke, Retort Carbon	2449.34%
Heating, Cooling Equipment, NES	2178.09%
Natural Gas	1576.13%
Worn Clothing, Rags	1254.44%
Fixed Vegetable Oils, Fats Soft	1090.39%
Aluminium Ores	1058.14%

Source: CSO

An examination of the import data for the years 1991 through to 1998 (Table 12) also shows that there are certain items which utilizes a high proportion of foreign exchange, most of which are not consumer goods. The dynamic nature of the country's imports is highlighted by looking at the top ten imported items, at the 3-digit SITC code, for significant years during the 1990s.

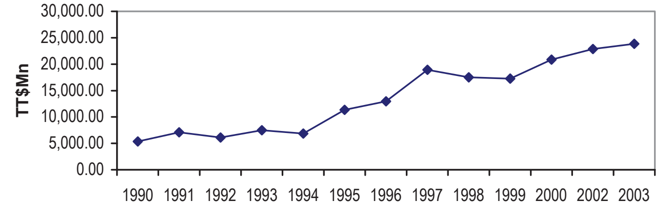
Table 12: Top Ten Imports for 1991, 1993 and 1998

Item - 1991	US$Mn	Item - 1993	US$Mn	Item - 1998	US$Mn -
Petroleum, Crude	214.43	Petroleum, Crude	216.45	Heating, Cooling Equip. Nes	409.72
Paper and Paperboards	42.89	Heating, Cooling Equip. Nes	100.92	Petroleum, Crude	338.69
Motor Cars	42.48	Ships and Boats	50.31	Tubes, Pipes, Fittings, Iron	160.93
Tubes, Pipes, Fittings, Iron	39.16	Paper and Paperboards	34.05	Motor Cars	87.38
Iron Ore and Concentrate	36.43	Oil-seeds, for soft oils	28.73	Iron Ore & Concentrate	59.36
Medicaments (Incl. Vet. Meds.)	32.78	Motor Cars	27.37	Paper and Paperboads	53.55
Vegetables, Fresh, Dry	32.39	Tubes, Pipes, Fittings, Iron	27.15	Ships and Boats	44.68
Oil-Seeds, for soft oils	32.04	Milk and Cream	27.05	Misc. Chemical Prods. Nes	41.67
Other Machinery Nes	29.53	Medicaments (Incl. Vet Meds.)	26.29	Telecom. Equip	41.64
Measuring Checking Instruments	29.01	Pumps for Liquids	26.23	Data Processing Machines	37.75

Source: CSO

Table 11 shows that spending on imported motor vehicles, of which foreign used vehicles is a subset, almost tripled from 1993 to 1998. Figure 4 shows total imports of goods to Trinidad and Tobago for the period 1990 to 2003.

Figure 4: Imports for the period 1990-2003



Source: CSO

Figure 4 shows that, after steadily increasing from 1994, imports has continued to increase for the most part. A comparison of the value of imports between 1994 and 1997 shows that there was an increase of 175.72% in imports.

3.8 Exports

The response of exports in general, and manufactured exports in particular, to liberalization is expected to be slower than the response of imports, since production for exports takes time while imports respond almost immediately. This seems to be the case in Trinidad and Tobago since, as Table 13 shows, the top ten exports for the years 1991, 1993 and 1998, have remained largely unchanged during this time period. The only changes were the addition of items such as non-alcoholic beverages and meals, flour, wheat/meslin.

Table 13: Structure of Exports for 1991, 1993 and 1998

Item - 1991	US$Mn	Item – 1993	US$Mn	Item - 1998	US$Mn
Petroleum Oils, etc	657.43	Petroleum Oils, etc	520.47	Petroleum Oils etc	624.19
Petroleum, Crude	609.71	Petroleum, Crude	358.15	Petroleum, Crude	236.81
Inorganic Chem. Elements	183.01	Inorganic Chem. Elements	147.39	Inorganic Chem. Elements	227.65
Iron and Steel Bars, rods	110.02	Iron & Steel Bars, Rods	120.98	Iron & Steel bars, Rods	189.31
Fertilizers	67.03	Fertilizers	58.61	Alcohols, Phenols etc.	138.71
Alcohols, Phenols etc.	59.88	Alcohols, Phenols etc.	39.25	Meals, Flour, Wheat/meslin	806.45
Sugar, Molasses, Honey	32.37	Liquified Propane, Butane	32.78	Fertilizers	465.08
Liquified Propane, Butane	17.22	Sugar Molasses, Honey	27.23	Articles of Paper	433.04
Pig Iron, Sponge Iron	16.44	Articles of Paper	19.49	Non-alcoholic Beverages	423.26
Alcoholic Beverages	15.44	Alcoholic Beverages	19.27	Alcoholic Beverages	329.58

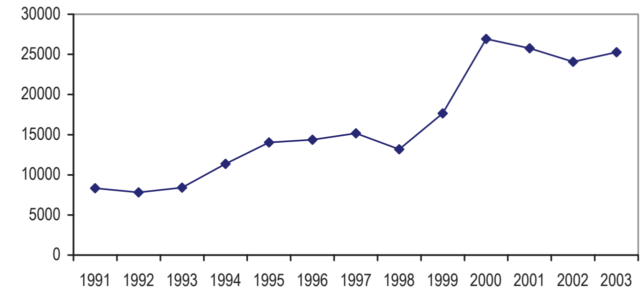
Source: CSO

According to Rajapatirana (1993), trade policy could influence manufactured exports in at least two ways: (i) trade policies change the regime of incentives facing producers and exporters and alter the profitability of tradables vis-à-vis non-tradables, for instance through changes in real exchange rates; (ii) trade policies bring about changes in the availability of imports that may be critical to the export production of manufactures.

It is found that the latter effect is likely to be more important than the former effect. Therefore, the impact of trade tightenings on manufactured exports is likely to work through the effect on imports and the role of imported inputs in export production. Policies of trade tightenings usually do not influence exports directly. It is not often that trade tightenings policies restrain exports, unless it is in the form of withdrawal of some existing export incentives.

Figure 5 shows the value of exports from Trinidad and Tobago during the period 1990 to 2003.

Figure 5: Exports - 1990-2003



Source: CSO

An examination of Figure 3.5 indicates that exports started to increase dramatically after 1994 and leveled off at after a 66.92 % increase from 1995, peaking in 2000

8. Summary and Conclusions

The various indicators and measures of openness show that the economy of Trinidad and Tobago progressively became more open during the 1990s, and can therefore be considered as having a high degree of openness at present. The macroeconomic variables showed that the economy as a whole has responded positively to trade liberalization, whether the impact was directly or indirectly related. The overall trade and structure of the economy has changed very little, however, over the period. There have been no drastic changes in dollar value of the top ten imports or exports. This is so despite extremely large increases in imports, for example, across a wide section of goods. This indicates that there remains very weak, if any, linkages between the energy sector and the rest of the economy. So fundamentally, in spite of the relative success of the manufacturing sector the country's economy has not been significantly transformed by liberalization.

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