

TRINIDAD AND TOBAGO

A Troubled Economy

Tim Coone

Trinidad and Tobago is no longer the affluent jewel of the Caribbean that it was in the 1970s and early 1980s when oil prices soared bringing a bonanza of wealth to the islands' population of 1.3m. The subsequent collapse in oil prices has produced a 30 per cent fall in real incomes over the past four years according to Mr. Winston Dookeran, the Planning Minister and people are finding the new economic reality hard to take.

The current foreign exchange crisis is severe. Reserves fell at the end of June to \$ 20m, less than sufficient for one week of imports. Many companies have gone on to three day working weeks and are laying off employees. The government even mortgaged one of the national airline's jet aircraft in September for \$ 32m to help pay public employees and to inject some foreign exchange into the Central Bank. Two further aircraft leaseback arrangements are in the pipeline.

Mr. William Demas, the Central Bank president told representatives from the private sector last month that the foreign exchange situation "has never been worse".

So what went wrong?

About \$ 2 bn was sunk into the Point Lisas industrial complex during the boom. Designed to use local natural gas supplies, urea, ammonia, and methanol plants were built together with an iron and steel complex, and all aimed at the export market.

Today those industries are running heavy losses due to a combination of world over-production, low prices and heavy finance charges to pay for construction.

Tax income and savings from the oil sector also helped finance rapid development of social services and fuelled a boom in commerce. So much so that traditional areas of the economy such as agriculture, became neglected. Now 70 per cent of the islands' food is imported.

With the fall in oil income, the structural weaknesses of the economy and

its over-dependence on oil became all too apparent.

The government's immediate plan is to rationalise government spending, re-directing current expenditure on wages towards new investment, especially in the energy sector where output has been falling.

In the longer term, diversification is to be encouraged with export-led growth through investment in agriculture, tourism and down-stream petrochemicals.

One of Prime Minister and Minister of Finance A.N.R. Robinson's targets is to obtain 56 per cent of a three-year \$ 3.6bn state investment programme from new overseas loans. Together with direct foreign investment, this is what he believes will be necessary to turn round the Trinidad Tobago economy.

The other 44 per cent is to come from divestment of state-owned enterprises. The telephone company is the first in line and talks are expected in London in the first week of October.

Also planned are major layoffs in the over-extended public sector.

Meanwhile, a recent 30 per cent devaluation of the currency was a further measure designed to create a favourable atmosphere at the IMF and creditor bank discussions.

However, as with all IMF agreements, intense political opposition is stirred at home, and Trinidad is no exception. Food prices have been predictably hard hit by the devaluation, causing discontent, Mr. Robinson is being criticised for leaving it until the final hour to begin talks with the IMF, a move he originally opposed when he took office in December, 1986.

With reserves exhausted, his negotiating stance is accordingly weakened. His reply is that it has taken until now to work out Trinidad's own economic proposals. To start negotiations without a plan he said "leaves only the Fund's proposals on the table".

Unemployment is already 21 per cent of the 500,000 workforce, and can be expected to increase substantially over the coming year as adjustment plans take effect.

Mr. Dookeran admits that the initial thrust of new state and private investment, directed at capital-intensive energy-based projects, will not ease the unemployment problem. He said:



TRINIDAD TOBAGO AND THE IMF



The fall in oil prices has dealt a heavy blow to the Caribbean Islands of Trinidad and Tobago. These brief articles from "Panos Features" and The London "Financial Times" describes the state of the Islands economy and what it is like to belong to a Third World country desperately needing help from the International Monetary Fund (IMF). The country's reserves have shrunk to S 20m at the end of June 1988 from S 3 bn at the end of 1982.

The IMF, according to Kaisha Ince, a Trinidad and Tobago journalist, is demanding large cuts in the public wage bill, the removal of subsidies from basic foodstuffs, medicines, and school books, the removal of import controls and exchange controls, the raising of interest rates, and the privatisation of national industries at discounted prices. The IMF claims that its prescriptions will eventually improve the economy. But the talk everywhere is that of "pressure" and of people having to "hold their heads and bawl", a colloquialism for suffering. Each day, the newspapers scream "Crisis", "Economic downturn!" or "IMF inevitable" at a stunned population.

Many blame the economic decline on the policies of the former government, the People's National Movement

(PNM), in its 30 years of democratic socialism - though this brought free education up to university level, a health service and many other social benefits.

The present Prime Minister and Minister of Finance, A.N.R. Robinson, fervently declared on coming into office on a conservative ticket in December 1986, "we are on the brink of the debt trap" and "must at all costs escape the debt trap and dependence on the IMF".

Robinson stated in June this year that there was "no intention of devaluing the Trinidad and Tobago dollar nor in entering into a standby arrangement with the IMF".

But, states Kaisha Ince, now the debt trap has closed. The Trinidad and Tobago dollar was devalued by 18 percent on 16 August, bringing the total devaluation within 20 months to 68 percent. And on 10 September Robinson confirmed that Trinidad and Tobago is to negotiate with the IMF.

Devaluation has put a strain on household budgets with the prompt rise in imported food prices which has affected all consumers.

"Activity in the other more labour-intensive sectors will begin if we can start growth in the key energy sector".

Mr. Robinson has an optimistic time-frame "In 18 months we will be through the worst" he said. The government is clearly hoping that new private investment, both foreign and domestic, will take up the unemployment slack created by the government's own rationalisation plans. In this context, plans for developing new offshore manufacturing facilities, in a duty-free export processing zone (EPZ), are

being eagerly promoted by the private sector and are being equally resisted by the trade unions which fear the creation of "sweat-shop" industries.

Mr. Oscar Alonso, the chief executive of the Export Development Corporation, a government-funded body which boasts one of the most advanced trade information centres in the Caribbean, believes that Trinidad can be competitive in non-oil exports and that the EPZ is the way to achieve it.

He said: "We still lack the infrastructure. Where are the overseas trade

missions, the forward distribution centres?"

"We have the high technology but we lack the basics. Some people still seem to believe that oil will come gushing out of the sewers at \$ 30 a barrel and save us".

The ability of the government to tap and mobilise the financial resources necessary to restructure the economy along less oil-dependent lines, will be its real test in future. It will be the test of Mr. Robinson as Prime Minister and as a political leader if he can keep his nerve, without letting the tensions spiral into violence as unpopular economic measures stir waves of unrest in this hitherto peaceable society. The ultimate goal is diversification and according to Mr. Dookeran "The economic map of the country will look very different in 10 years' time if we succeed in getting the resources" he said.

If they fail, enough economic headaches lay ahead to give the country a bumpy ride. Some are nervously aware of the fact that it was economic hardship in tiny Grenada just 100 miles to the north that was the catalyst for revolution and invasion less than a decade ago.

That experience demonstrated that Trinidad and Tobago's location at the mouth of the Caribbean, and astride major reserves of gas and oil make it a country of strategic interest, and not just to super-power politicians. Lying just a dozen miles off the South American mainland, the country is finding itself host to a disturbing growth in drugs traffic to the US, as are most of its neighbours in the eastern Caribbean island chain. There are inevitable nagging fears that this traffic could generate corruption.

The country's problems thus provide an interesting litmus of how economic troubles common to many countries in the Caribbean can be tackled. If Trinidad and Tobago, with its underlying wealth and political stability, cannot deal effectively with the recent steep deterioration in its economic position, then the prospects are grim for other Caribbean nations that are less fortunately endowed.

Courtesy: *Financial Times*

Trinidad & Tobago devaluation "based on misleading IMF figures"

Ira Mathur

A journalist from Trinidad & Tobago recently settled in London.

A Caribbean economist who investigated the Trinidad & Tobago economy for the International Monetary Fund (IMF) in 1985, claims that IMF statisticians used

misleading figures in justification of a devaluation demand.

A 51-year-old Grenada economist, Davisson Budhoo, resigned from the International Monetary Fund in May to claim that the Trinidad & Tobago dollar was devalued in 1985 on the basis of a key, misleading statistic on the efficiency of local labour, he explained in London recently.

Not only was the dollar devalued, but the figure was also used by banks and governments throughout the world for determining national creditworthiness.

This has had "tremendous adverse implications", says Budhoo in his open letter of resignation, which took him a year to write.

Commercial banks virtually halted all loans to the country. A small oil exporting country, Trinidad & Tobago found itself isolated internationally at a time when oil prices were falling dramatically and "when it needed all the support it could get".

Reported by a statistician of the International Monetary Fund, the Western world's economic watchdog, the key figure concerned the amount of labour used to produce a unit of output - a measure of productive efficiency known to economists as the Relative Unit Labour Cost (RULC).

According to the IMF statistic, the RULC rose over a period by 145% indicating a dramatic worsening of productivity. In fact, the indicator had risen only by 69%.

When this error was discovered, Budhoo says his initial understanding was that there would be reparations and that the mistake would be made public.

However, "all reference to the RULC was deleted from all text, tables and charts. Public acknowledgement and publication of the corrected series and dramatic downturn of the index in 1986 would have devastated the case for a devaluation".

Further, Budhoo says the IMF 1987 report on Trinidad & Tobago was a "blatantly unfair portrayal of confusion and of governmental policies

gone hopelessly astray."

Similarly, wrote Budhoo, in 1988, IMF officials were still "drilling home the point that RULC was way out of line and that massive devaluation was needed". Without such devaluation the country was warned it would "slither progressively into mounting economic chaos."

Each miscalculation was built upon a

Third World pays World Bank

Robert Walgate *Editor, Panos Features*

For the first time last year a major branch of the World Bank received more from the Third World than it gave. The trend is likely to grow.

The World Bank, which invests money from the industrialised world in Third World development projects, drew nearly US\$2 billion - equivalent to the total economic production of Nepal or Niger - out of the Third World last year.

At least that's what happened to the Bank's main investment branch, the International Bank for Reconstruction and Development (IBRD), in the year to June 1988, according to the World Bank's latest annual report, released recently.

Although the IBRD invested US\$15 billion in new projects, it clawed back US\$ 17 billion in the form of repayments and interest. Only when the smaller, International Development Association (IDA) branch of the Bank, which gives low-interest loans to the poorest countries, was included, did the World Bank's account with the Third World show a benefit to the Third World of US\$ 700 million. In the previous year the surplus was US\$ 3.4 billion, nearly five times as much.

Last year Nigeria, whose economy is not exactly the world's fittest, paid the Bank a net US\$ 240 million. Net Bank transfers, including IDA assistance, to Africa - which includes many of the world's poorest countries - averaged around US\$1 billion a year from 1984-87. But the figure fell by

previous one and IMF teams visiting Trinidad and Tobago "manufactured statistical indices - the RULC and several others - that would allow us to prove our point, and push a particular policy line, irrespective of economic realities and circumstances of the country".

Budhoo's letter has so far been met with silence from the IMF, which "distresses" him: "It is in the interest of the Fund itself that these malpractices are brought to light," he says. "Truth will prevail. I will go ahead with my work until they are forced to respond."

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nearly half in 1988 to US\$580 million.

The Bank paid out a net \$1 billion to Asia - again around half the \$2 billion or so it was disbursing in 1984-87.

The bank is not alone in its problem with interest and repayments on Third World loans. According to Bank figures, in 1980 the developed countries were giving aid of some US \$ 3Q billion a year to the Third World, after interest and repayments were taken into account. But 1987 showed the exact reverse - with the Third World paying the developed world US\$30 billion.

It is at first surprising that the World Bank, a supposed force for development, is becoming tarred with the same brush.

But in the long run, isn't such a trend inevitable? The World Bank is, after all, a bank: and banks expect to get their money back, with interest.

On the bottom line, the World Bank is in business to make money, not to give aid.

Of course in the long run, so the theory goes, Bank-supported development projects will have become so successful that they will generate surplus income, making payback painless.

The only trouble is that for many countries that surplus has not materialised. Payback time is now; and painless it is not.

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