Introduction

This report provides a comprehensive analysis of the economic and political dynamics of Trinidad and Tobago, a small island nation off of the Northeastern coast of South America. The first section provides a growth diagnostic for Trinidad and Tobago, in which current economic trends and policies are assessed in order to craft policy recommendations to ensure sustained future growth and prosperity.

The diagnostic begins with a discussion of the structural features of the Trinidadian economy, including an assessment of the relative dominance of energy exports in the economy, and its implications on the macroeconomic framework of the country. The diagnostic shows that Trinidad and Tobago has been generally wise in the management of its resource wealth, but nonetheless needs to diversify as resources dwindle and energy prices fall. Considerations are also given to the ways in which government policy affects employment, productivity, and retail sales in the economy. The second part of the growth diagnostic focuses on the general macroeconomic and growth environment in the country. It finds that Trinidad and Tobago has experienced almost continuous economic growth in recent decades, largely due to sound macroeconomic fundamentals. It also finds that while the country's external position is strong, rebalancing in terms of public sector nonfinancial debt in order to ensure debt-sustainability is needed. The third segment of the growth diagnostic briefly examines Trinidad and Tobago’s government and public institutions (given a deeper examination in the political segment), and concludes that governance is generally strong, but improvements could be made to boost competitiveness. The fourth section examines Trinidad and Tobago’s business environment, concluding that significant improvements could be made in supporting human capital development and a skilled and educated workforce. The fifth section highlights the business environment for the private sector. The sixth section addresses the infrastructure and connectivity measures needed to improve the competitiveness of the tourism sector. The seventh section assesses natural disaster’s potential for economic damage. The eighth and final section concentrates on energy highlighting the benefits of low costs and an abundance of natural gas, but urging a transition away from oil dominance. Finally, concluding remarks are given, including on data limitations, and a general message of cautious optimism for Trinidad and Tobago’s future economic prospects is conveyed.

The second major component of this report is a political analysis of Trinidad and Tobago, beginning with an overview of its electoral system, the legislature, judiciary, and examining how voting is conducted in the country. The next section reviews major political parties and actors, including the economic ramifications of the major parties’ policies for the general election in May 2015. It concludes that even while low level graft and political scandals have risen in recent years, Trinidad and Tobago is still marked by a relatively stable political environment. The two major parties plan to implement pragmatic economic policies, but progress still has the potential to stall.
Part I - GROWTH DIAGNOSTIC: Trinidad and Tobago

This chapter presents a growth diagnostic of Trinidad and Tobago. The objective of this analysis is to provide an input for the discussions on and design of the Bank’s strategy with the country.

The chapter is divided into eight sections described as follows. Section I describes the structural features of Trinidad and Tobago and provides a contextual overview of the country’s economic growth. Section II provides a summary of Trinidad and Tobago’s macroeconomic stability and shows that the relative instability serves as a binding constraint to growth. Section III follows with a high level overview of public institutions in Trinidad and Tobago and their role in the economy. A discussion of productivity and competitive ensues in Section IV followed by an overview of the business environment and the private sector in Section V. Section VI focuses on the two main service sectors of tourism and financial services, while Section VII details on natural disasters and climate change. Section VIII describes the increasingly important energy sector and then concludes with final remarks.

1. STRUCTURAL FEATURES OF TRINIDAD AND TOBAGO AND ECONOMIC GROWTH

This section examines structural features of the Trinidad and Tobago economy. A framework is set to assess Trinidad and Tobago’s relative commodity dependency and potential for improvement in the tourism sector.

The Trinidadian economy has long been dominated by the oil and gas sectors. In recent years, a growing role of the non-energy sector suggests progress in economic diversification, which will become more important as oil and gas reserves are projected to dwindle over the next 15 years or so. Among the non-energy sectors, tourism and financial services have contributed much of the recent non-energy growth.

![Figure 1. Small Economies: GDP Per Capita, Human Development Index, and Island Status](image1)

![Figure 2. Trinidad and Tobago Real GDP Growth](image2)

Source: Penn World Table (PWT) 7.1.1 (Heston, Summers, and Aten 2012); and United Nations Development Program (UNDP).

Source: World Development Indicators (WDI), 2014
Trinidad and Tobago has overcome economic obstacles by diversifying its economy towards both tourism and the commodity trade. This allowed the country to reach a high level of income from oil/energy. Thus, Trinidad and Tobago is currently placed in the High Income category by the World Bank and enjoys one of the highest ratings under the United Nations’ Human Development Index (HDI). Trinidad and Tobago is on the list of High Human Development countries, with a rank of 66 out of 167 countries in 2012. Education levels, GNI per capita, and life expectancy have all risen substantially since 1990. In late 2011, the OECD removed Trinidad and Tobago from its list of developing countries, and is now classified as a high income country.

Relatively higher economic growth has improved the standing of Trinidad and Tobago in terms of per-capita income in the Caribbean (see Figure 3), and the country’s real GDP per capita is projected to rise to more than two times the average of real GDP per capita of Caribbean economies by 2018. The trend is similar but not as drastic when compared with the rest of small economy commodity exporters and tourism providers. Due to Trinidad and Tobago’s location, comparing it to other Caribbean island economies is illustrated and shows that Trinidad and Tobago has a high per capita GDP in both the commodities and tourism sector. Trinidad and Tobago out performs most Caribbean islands except the Bahamas and Barbados, which can be attributed to their smaller populations of less than 400,000 people while Trinidad and Tobago has 1.3 million citizens.

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<th>Figure 3. Per Capita GDP Caribbean and Trinidad and Tobago Relative to Small Economies, ROSE-C and ROSE-T (Index, 2000=100)</th>
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<td><img src="image1.png" alt="Graph" /></td>
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<td>Source: WEO April 2014</td>
<td>Source: Enterprise Surveys, IBRD.</td>
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Trinidad and Tobago relies on the private sector for most of the investment in the energy sector (see Figure 4). However, according to the World Bank Group’s Enterprise Survey, there are a number of problems in the performance of Trinidad and Tobago’s private firms, which impinge on overall productivity growth.
Productivity Growth issues seem to arise from slow business reforms compared to other countries’ international business developments as illustrated in the World Bank Ease of Doing Business Index. This has also been exacerbated by concentration of investments in the energy sector.

Employment growth is a key issue that the Enabling Competitive Business Strategy (ECB) hopes to accomplish through diversification of exports. While 51% of total government revenues come from the oil and the natural gas sector, the sector only employs 4% of the labour force in Trinidad and Tobago. The ECB was formed to promote and create new sectors for investment and production that will generate employment and alleviate poverty. The Trinidad and Tobago government is encouraging Micro and Small Enterprises (MSEs) to start businesses that will create new employment and revenue. According to the World Bank Group, “MSE’s are important for poverty reduction as they tend to employ poor and low-income workers and are sometimes the only source of employment in poor regions and rural areas (Economic Survey of Latina America and the Caribbean, 2014, 4). Labour shortages continue to be an issue in the manufacturing and agriculture sectors; while finance, insurance, business services and real estate, chemical and non-metallic minerals sectors face retrenchment notices (3).

Structural changes in the economy are reflected in the relative contributions of the natural gas and oil energy sectors to economic growth. Productivity and output contracted from 2009 through 2011 due to the great recession of 2009, depressed and volatile oil prices, and the changing of markets. The growth in the country can be attributed to foreign direct investment particularly in the natural gas sector. For a country that has a trade surplus, the surplus is from natural gas production, chemicals, and agriculture. The economy is commodity and service based employing 62% of the workforce in the service sector.

To counter the effects of volatile commodity prices, in 2000 the government of Trinidad and Tobago created a Revenue Stabilization Fund. The RSF “is structured such that deposits and withdrawals are made when fuel revenues differ by more than 10% of the quarterly projected budget, for 60% of the difference” (Elias, Carlos, IDB, From Growth Prosperity, 2006, 32).

In 2007, the Heritage and Stabilization Fund (a sovereign wealth fund) was created, with the assets of the RSF absorbed into it, and operates on many of the same principles as the RSF (4). This mechanism serves as a fiscal smoothing devise, and helps to mitigate the effect of fuel price volatility on the country’s fiscal position and on government revenues. The RSF also helps to support the counter-cyclical nature of fiscal policy, making it easier to save when fuel revenues are high, and draw down the RSF or even run a fiscal deficit when economic conditions deteriorate. Similarly, Trinidad and Tobago could use the RSF to reduce debt levels, should they become problematic. The success of the Fund is evidenced by Trinidad and Tobago’s solid fiscal position in spite of declining petroleum and natural gas prices globally.

Despite the creation of these mechanisms to buffer the economy from energy price swings, according to Private Sector Assessment of Trinidad and Tobago by the IDB, Trinidad and Tobago suffers from “Dutch disease”: negative side effects of a boom in a large important sector (energy) on the rest of the economy. High levels of gas and oil exports means that there is a tendency for the exchange rate to
appreciate and this damages the competitiveness of the non-energy goods-producing sector. Its abundant energy reserves protect the country from energy-price fluctuations. However, from 2006 to 2012, the real exchange rate increased by 30% on the strength of energy exports. The currency appreciation impacted other sectors including the food sector which was hit hard with inflation rates and softer prices from supply side inflation (8).

Figure 5: Petroleum Exports, 2000-2012

Figure 6. Natural Gas Exports, 1998-2002

Source: U.S. Energy Information Agency

Looking ahead, growth prospects of Trinidad and Tobago’s trading partners are positive; however, the country is facing structural and policy changes that are bear on the main sectors of tourism and energy exports. The appreciating real exchange rate, as well as an increasing liquefied natural gas (LNG) export capacity in the United States could expand global natural gas supplies potentially hurting both the service and oil industries in Trinidad and Tobago. Nevertheless, the IMF anticipates that global natural gas demand will continue to outstrip supply.

2. MACROECONOMIC STABILITY AND ECONOMIC GROWTH

Since the 1960s, Trinidad and Tobago has experienced continuous growth and continues to prosper. Its per-capita income stood at US$14,370 in 2013. This section analyses the past and present economic climate of the country along with the macroeconomic environment. This is vital in order to make recommendations regarding the maintenance of strong macroeconomic fundamentals, as well as ensuring public sector debt sustainability.

In the past, the main engine of growth in Trinidad and Tobago has been from the energy sector exposing the country to ups and downs of the price of oil over the years. Economic growth in Trinidad and Tobago is becoming more sustainable, after exhibiting considerable volatility in the years before the
global financial crisis in 2009. Growth peaked in 2003 at an annualized rate of close to 15%, largely due to strong commodity prices, particularly oil. This follows a general trend as far back as 1970, which saw considerable volatility in economic growth, with an average growth rate from 1970-2004 of 2.8% with a maximum of 13.3% and a contraction of 9.2% (IDB, 2006). More recently, after three years of slow recovery from the financial crisis, the economy grew at 1.6% in 2013, which the IMF partially attributes to a “2.5% growth in the non-energy sector.” Additionally, the Fund’s 2014 Article IV consultation notes that “government subsidies and transfers appear to be supporting consumption while public development spending supported construction” (4).

For Trinidad and Tobago, energy sector growth combined with higher public spending will foster future economic growth. Trinidad and Tobago’s medium term outlook for economic growth remains healthy, with real growth projected to reach 2.5% in 2014, which the IMF notes will be due to growth in the energy sector, and a buoyant non-energy sector supported by a high level of support from public expenditure. The IMF expects growth to remain in the range of 1.7%-2.1% from 2015-2019, with the primary external risk to growth being a sustained decline in the price of liquefied natural gas due to expanding global supply.

The macroeconomic environment in Trinidad and Tobago has a relatively strong global position with respect to savings, debt, and credit rating. However, it is not highly ranked with respect to inflation and the government budget balance. Inflation has improved since 2013, with core inflation remaining in the 2-3% range (see Figure 7).

**Figure 7. Macroeconomic Environment in Trinidad and Tobago, compared with 144 ranked countries.**

**Figure 8. The Current Account and Foreign Direct Investment**

Source: WEF. Note: 1=highest rank, 144=lowest rank. 2013 data

Source WEO, 2014.
The key policy dilemma facing the country is a growing divergence between its external and internal balances. The current account position has shown a strong and persistent surplus, while the central government’s overall balance shows a moderate deficit that is projected to grow along with unsustainable debt accumulation if policy is left unchanged. From 1995 to 2008, the country generated an overall fiscal surpluses but the economic recession in 2009 created low oil production which led to deterioration of the fiscal position (IDB, 2014). Thus, there is great need to reconfigure fiscal policy (for example by “rationalizing” social programs and cutting back on fuel subsidies) in order to bring the fiscal balance into a stronger position. According to the IMF, in order for Trinidad and Tobago to reduce public debt, there needs to be an increase in public savings and an ability to resist pressure to raise wages and subsidies. However, at the beginning of 2015, Legal Notice No. 402 replaced minimum wage from the 2011 rate of $12.50 per hour to $15 per hour.

However, since the mid-nineties the current account shifted from a deficit to an increasing surplus (see Figure 8), reflecting a positive difference of the trade balance due to the increase of production of natural gas, and where the gap between the current account and FDI has been positive showing differences essentially financed by foreign direct investment specifically in natural gas. While the trade surplus has continued, future downward trends in global energy prices affecting the country’s oil and gas exports can easily get rid of the current surplus and create a current account deficit (IMF, Article IV, 2014).

Due to the increase in the current account from the continued production of energy, the Trinidad and Tobago dollar has steadily appreciated in recent years, but a widening of the pegged exchange rate band may be needed to solve shortages in the foreign exchange market (see Figure 9). Despite an exchange rate classified as a “stabilized arrangement” with the USD as an anchor currency, the TTD has appreciated steadily since 2009. The IMF’s most recent Article IV concludes that, using official inflation data, the TTD was highly overvalued, approximately by 25.6% in 2013. However, the Fund notes that there is “a severe bias in measured inflation that distorts the real effective exchange rate” (36). After adjusting for this bias in official inflation figures, the overvaluation of the real effective exchange rate falls to around 8%, which the Fund concludes is “broadly consistent with fundamentals.” Downside risks include an erosion of international competitiveness due to a 20% appreciation in the REER since 2009, and what the IMF describes as problems with “the current system of foreign exchange allocation” (11). Despite a high level of reserves, “uncertainty about foreign exchange availability has led to an inefficient allocation as it is horded (as evidenced by the build-up of U.S. dollar deposits in the local banking system), further exacerbating shortages” (11). The IMF believes that if shortages persist, local business may suffer as they will be unable to pay their foreign suppliers or will be forced to pay a premium to purchase foreign exchange from unofficial dealers. The IMF concludes that introducing greater flexibility to the foreign exchange market, including by widening the limits on the exchange rate, will be essential to restore confidence and eliminate shortages and hording.
Trinidad and Tobago’s external debt load is very low, reflecting the massive current account surpluses, with a positive outlook for debt sustainability (see Figure 10). In comparison with other countries in Latin America, Trinidad and Tobago is characterized by relatively strong economic growth and a low gross debt/gdp ratio of 38.7% in 2012. The outlook for the sustainability of external debt remains bright, aided by a large current account surplus and “a high level of external buffers” (36). The IMF views no major concerns for Trinidad and Tobago’s debt sustainability through 2019, even under conservative baseline scenarios (9). The Fund expects Trinidad and Tobago’s gross debt/gdp level to remain below 40% through 2019, largely due to the low initial level of debt. Gross public financing needs are expected to grow, but remain below 10% of GDP through 2019. The primary balance is projected to be in balance (0% of GDP) in 2014, before turning into a deficit of 2-3% of GDP through 2019, hardly a cause for alarm. Additionally, public debt denominated in local currency is expected to increase at least three times the amount denominated in foreign currency, as a percent of GDP, and medium and long maturities will continue to dominate the composition of public debt (39). The prevalence of domestic currency denominated debt with medium and long term maturities will help shield Trinidad and Tobago from unsustainable debt dynamics and exchange rate volatility into the future. However, the Fund’s most recent Article IV consultation does mention the need for a longer-term rebalancing towards the non-energy sector, as energy supplies begin to dwindle. On a very positive note and historically uncommon for many Latin American countries, Trinidad and Tobago’s “debt metrics are relatively insensitive to changes in risk parameters,” largely because of a low level of external debt (projected to remain below 20% of GDP through 2019) and an exceptionally low level of short-term, foreign currency denominated external debt (39).

Since 1960, Trinidad and Tobago has experienced almost continuous economic growth. The GDP increased 213% per head, representing a 2.3% average growth rate along with per-capita growth income doubling since 1989. However, the global financial crisis caused the economy to contract from 2009-2011 with large drops in output in the construction, restaurant, and financial sector. Because of
the crisis, the local financial sector was exposed to mortgage-backed securities held by Trinidad and Tobago’s largest insurance company, CL Financial Group, which went bankrupt. The collapse of CL Financial Group not only affected Trinidad and Tobago but also caused a “major financial shock to the Caribbean creating a spill over effect in 15 Caribbean countries and exposing as high as 17% of GDP in Eastern Caribbean, leading to costly government intervention. Funds were taken in via deposit-like investment products as well as through traditional insurance and pension products and channeled to over-leveraged sister companies and real estate developments that sharply lost value during the global crisis. The collapse has placed at risk the assets of a wide range of depositors, investors and policyholders, including individuals, corporate and public pension schemes, and financial institutions. The government intervention the sister companies helped contain contagion, but the cost net of assets was as high as TT$13.6 billion (10% of GDP)” (IMF, Select Issues, 2011, 3).

**Figure 11. Overall government balance and Current account**

![Figure 11](image1.png)


**Figure 12. Savings and investment Gaps**

![Figure 12](image2.png)


While Trinidad and Tobago has seen moderate gross central government debt in recent years, the key will be to redirect a high level of gross national savings towards productive investments. Over the period of 2009 to 2015, (with 2014 and 2015 being projections), public sector debt has and will remain below 40% of GDP. The overall nonfinancial public sector balance is projected to only remain in slight deficit territory, at less than 3% of GDP. These moderate deficits, in an economy characterized by large surplus of savings over investment, do not present a key concern. However, gross national savings has outpaced total investment (as a percentage of GDP) continuously since 2003, and is expected to continue to do so into the future. It is vital that this excess savings be directed towards productive investments, for example through infrastructure projects and policies that boost the skill set of the labour force, two areas where Trinidad and Tobago is in need of attention. Government policy can be
instrumental in reducing the savings rate and channelling it towards productive investment, perhaps by reducing the interest rate available for deposits at government owned banks.

3. GOVERNMENT AND PUBLIC INSTITUTIONS
This section briefly analyses Trinidad and Tobago’s government and public institutions (which are given more attention in the political segment). This is done in order to assess the government’s capacity to credibly enact rational economic policies, and its ability to enhance the country’s business climate. A key factor in the economic growth process is governance and the quality of public institutions.

Trinidad and Tobago ranks relatively high across most governance indicators (see Figure 14). Using the World Bank’s Worldwide Governance Indicators (WGI), Trinidad and Tobago performs worse than both small economies and the Caribbean (ROSE) in five out of the six indicators. These include Voice and Accountability, and Political Stability/No Violence, Rule of Law, and Control of Corruption. On Government Effectiveness, Trinidad and Tobago ranks considerably lower than its peers in both of these groups. On Regulatory Quality, it ranks slightly higher than the rest of the Caribbean and ROW. Similarly, using World Economic Forum’s pillars, it can be seen that Trinidad and Tobago performs better than its peers across all areas and especially in Judicial Independence, Efficiency of Legal Framework in settling disputes, and Transparency of Government Policymaking. Trinidad and Tobago institutional pillars performance exceeds that of the Caribbean economies and the ROW.

Like other small economies, Trinidad and Tobago has a relatively large government sector. According to “Is there a Caribbean Sclerosis?,“ generally small economies (with populations less than 3 million) have relatively large government sectors, which can be seen by the downward sloping trend line in Figure 17, which plots government expenditure adjusted for economics size against population. Trinidad and Tobago lies approximately in the middle among its peers, suggesting a large public sector but one that is of average size compared with other small economies.
Trinidad and Tobago has adopted, over the years, some of the best practices worldwide to try and shield the domestic economy from the effects of energy price volatility, as it maintains a very stable exchange rate to the dollar. Due to the recent rapid growth in the energy sector and the positive and negative effects on the development of the local economy, the government maintains a policy of a quasi-fixed nominal exchange rate of TT$6.3-6.4:U.S. $1, meaning that inflation rates have a direct impact on real exchange rates. To prevent revenue volatility, especially from the change in energy production, the government saves in the Heritage and Stabilization Fund (HSF) to avoid transmitting price volatility from the energy sector to the rest of the economy.

Further, Trinidad and Tobago shows some institutional strength in the efficiency of its government expenditure. Applying three different approaches to measure such efficiency—Afonso et al.’s Public Sector Performance (PSP) approach that develops a Public Sector Efficiency (PSE) measure, Herrera and Pang’s Data Envelopment Analysis (DEA), and Free
Disposable Hull (FDH) technique also developed by Herrera and Pang—it can be seen that Trinidad and Tobago’s expenditure efficiency is ahead of many of its peers (see Figure 16).

4. PRODUCTIVITY AND COMPETITIVENESS
This section reviews productivity and competitiveness issues in Trinidad and Tobago, which are vital to assessing private sector viability and the growth of non-public sector employment.

The underlying causes of possible economic growth gaps in Trinidad and Tobago could be a lower capacity utilization, a relatively uneducated workforce, and a range of constraints to private sector expansion. This section reviews the causes of a possible economic growth gap, using country level-data and measures to provide a comparison to other Caribbean small economies.

Sustained high economic growth is typically associated with high growth in productivity rather than just increases in inputs (capital and labour). Trinidad and Tobago’s total factor productivity declined after 1982 but started to pick up relative to the comparable countries in 2006 (see Figure 19) and is the main factor following economic growth per capita (see Figure 20) as sources of the economic growth gap. Annual labour productivity growth matches that of other high income non-OECD countries (0.5% per year), and capacity utilization only slightly trails that of other high income non-OECD countries (72.5%, compared with 73%) (Enterprise Surveys, 2010). These statistics indicate Trinidad and Tobago should see benefits to growth from high labour productivity, which allow with improvements in capacity utilization could narrow the economic growth gap.
Factors such as construction permit delays, large stock of unskilled workers, and lack of international certifications are hampering firms’ potential. For example, only 30% of firms have their own website, compared with 51% of high income non-OECD countries, and just 11% of firms have any internationally-recognized quality certifications, compared with 17% of high income non-OECD countries. This could be limiting firm’s ability to build extra capacity through the identification of foreign markets to export to. Additionally, the days needed to obtain a construction related permit (381.8, versus 124.6 in high income non-OECD countries) presents a massive roadblock to increasing productivity by providing impediments to business expansion or attempts to accommodate the needs for extra capacity. Finally, a relatively large stock of unskilled workers (39.4% of all production workers, compared with 29.9% for high income non-OECD countries) presents challenges for firms who require highly skilled staff in order to innovate, expand, and export.
Trinidad and Tobago’s inflation rate and real exchange rates are conducive to external competitiveness. Competitiveness is at the heart of an export-oriented economy’s ability to compete successfully in the international market. Country level indicators of competitiveness typically used in the literature are: real exchange rates often complemented by specific costs (unit labour costs or energy costs), indirect measures, for example world trade market shares and synthetic measures such as WEF’s global competitiveness index. Inflation in Trinidad and Tobago is near the ROSE average, suggesting no serious effects on external competitiveness (see Figure 23). Equilibrium exchange rates show a real exchange rate that is aligned with long-term fundamentals, along with a current account surplus, suggesting a boost to competitiveness and confidence (see Figure 24). Thus, with a real exchange rate that is neither greatly over nor undervalued, and stable inflation that is not significantly above other C6 economies, Trinidad and Tobago is in a strong competitive position. Of course, this does not take into account the business environment and the private sector, which is analysed in the following section.
Figure 23. Competitiveness: Real Exchange Rates

Source: Penn World Table 7.1 (Heston, Summers, and Aten 2012). Note: CPI = consumer price index; OECs = Organization of Eastern Caribbean States; Ba = Bahamas; Br = Barbados; TT = Trinidad and Tobago; Su = Suriname; ROW = rest of world; ROSE = Rest of small economies.

Figure 24. Equilibrium Exchange Rate

Source: Recent IMF Article IV documents. Note: The size of the bubbles indicates the size range of estimations due to different benchmarks, including long-run economic growth assumptions.

Figure 25. Global Competitiveness Index

Source: WEF

Figure 26: Market Share

Source: UN Conference on Trade and Development, UNCTADstat
5. BUSINESS ENVIRONMENT AND THE PRIVATE SECTOR

This section examines the extent to which the government of Trinidad and Tobago creates an enabling business environment for the public sector. This assessment is followed by recommendations for change in the way the goods and labour markets function in the country, enhancing the viability and robustness of the private sector.

High and sustained economic growth often results from a competitive environment for domestic and foreign firms. Trinidad and Tobago has made improvements with regard to the creation of an exporting private sector and has fostered a competitive business environment, but an unskilled labour force continues to hold back the private sector’s full potential. Continuing growth since 1960 has helped Trinidad and Tobago with investment specifically in the private sector. This section explores reasons behind the performance of the private sector in Trinidad and Tobago. This section also explores the achievements Trinidad and Tobago has made in creating a strong business environment, as well as some of the challenges ahead if the country is to maintain strong growth rates.

**Firms face key challenges for private sector development in Trinidad and Tobago.** Challenges for the private sector are clustered around registering property; crime, theft and disorder; access to finance; inadequately trained workforce; labour regulations; and poor physical infrastructure. According to the World Bank’s 2014 Doing Business Report, Trinidad and Tobago ranked 66th overall out of 189 countries. Improvement to these areas will be key for enhancing the viability and success of the private sector going forward.

**Trinidad and Tobago’s 2010 Enterprise Survey ranks the country highly in a number of critical areas.** Relative to other commodity-based small economies, Trinidad and Tobago ranks highly in terms of the efficiency and size of its retail sector. When compared with other tourism-based small economies, Trinidad and Tobago’s services sector performs very well. This is likely connected to the fact that expanding tourism in Trinidad and Tobago has produced economic linkages in the services sector, such as restaurants, hotels, and shopping outlets. Exporters (and importers) have been shown to be larger, more productive, more skill and capital-intensive, and offering higher wages than non-exporting firms. The share of exporting firms is higher in Trinidad and Tobago than the comparators (about 20%, compared to a 14% average), and a sizeable proportion (about 80%, according to the Enterprise Survey) of firms import raw materials from abroad, primarily in the energy sector. Despite this, Trinidad and Tobago ranks below other small economy tourism providers and commodity exporters in terms of its trade orientation, as seen in Figure 27.

![Figure 27. Private Sector Profile](source: Enterprise Survey)
Among the private sector, factors that are of key concern are lack of an educated workforce, crime, theft, and disorder. According to Trinidad and Tobago’s 2010 Enterprise Survey, 30% of firms identify the lack of an educated workforce as a key obstacle in the business environment. Crime, theft, and disorder followed by problems accessing finance ranked second and third, with 17% and 12%, respectively. Medium sized firms (20-99 employees) ranked crime, theft, and disorder as a prime concern, at 27%. Both large (100+ employees) and small firms (1-19 employees) believed the lack of an educated workforce posed the foremost constraint, at 30% and 34%, respectively (4). These findings are consistent with the conclusions of the growth diagnostic prepared in 2007 by the Sir Arthur Lewis Institute of Social and Economic Studies (SALISES) and the Fundación de Investigaciones Económicas Latinoamericanas (FIEL), which similarly identified a lack of skills as an impediment to private-sector growth. Additional information about specific skills that are lacking in the market is not available. For this reason, the IDB Private Sector Assessment Report recommended that the issue be researched and the findings be used to underpin policies aimed at improving the country's supply of skills.

Trinidad and Tobago’s private sector performance can be explained by the degree of which there is an enabling business environment in the country. Data from the 2010 Enterprise Survey displays a mostly positive picture of the business environment in Trinidad and Tobago. For example, water shortages and electricity outages are both less frequent than other Latin American country (LAC) economies, as are infrastructure services delays. Additionally, the average time to clear direct exports through customs is about 20% shorter than other LAC economies, as are days spent to obtain an import license. Senior management time spent dealing with requirements of government regulation is also shorter, with management spending about 14% of their time in other LAC economies doing this, compared with 8% in Trinidad and Tobago. However, improvements could be made with regard to the number of days required to obtain a construction permit, which is close to 400 days, compared with an average of just below 100 for other LAC economies. Firms in Trinidad and Tobago also face relatively harsher conditions in terms of the time involved to complete business (see Figure 29). These factors that disable the business environment translate into a wider gap when comparing Trinidad and Tobago to the Doing Business Frontier, as shown in Figure 29. Trinidad and Tobago stands at 61 in a 0-100 scale where 100 represents the best practices in doing business. Other countries like Jamaica, Lesotho, Macedonia, Mauritius and Suriname are ahead of Trinidad and Tobago in this regard.

Both labour market and goods market efficiency indicators (from the WEF Competitiveness data) suggest that the economy is characterised by a relatively competitive environment (see Figure 30). Trinidad and Tobago contract enforcement capabilities are far greater than other tourism and commodity based small economies. Starting a business in Trinidad and Tobago ranks easier than other
tourism-based small economies, and about as easy as other commodity-based small economies. Dealing with construction permits and registering property also rank competitively. However, improvements could be made in trading across borders for both exports and imports, and obtaining an electric connection.

**Figure 30. Goods and Labour Markets Efficiency**

Comparative indicators of labour market efficiency reveal that Trinidad and Tobago does as well as other small economies in most categories. Trinidad and Tobago lags slightly behind other small tourism-based economies in the areas of cooperation in labour-employer relations, hiring and firing practices, and the efficient use of talent. Additionally, labour market regulations tend to reduce the flexibility of the labour market. However, Trinidad and Tobago’s labour market efficiency is hindered by an inadequately educated workforce, which over 40% of firms identify as a major constraint, as opposed to 31% of other high income OECD countries.

**Improving the education level of the workforce (as opposed to changing labour regulations) will be key to addressing small, medium, and large enterprise weaknesses.** Trinidad and Tobago has attained a relatively high level of education and a literacy rate of 98.8%. The country ranks average in the Global Competitiveness Report (GCR) 2012-13 for educational indicators. Of over 140 countries, Trinidad and Tobago ranked 34th for high quality of primary education. There were also low enrolment rates in secondary and tertiary schools. As noted earlier, small, medium, and large firms alike identify lack of an educated workforce as a key constraint to their development. It could be possible that available primary education does not adequately prepare citizens for the work environment of the country, with over 40% of firms identifying this as a major constraint (as opposed to only

**Figure 31. Labour Market Issues**

Unemployment, total (% of total labor force), 2000-2013

7% identifying labour regulations). Though 42% of workers are offered formal job training by their employer (compared to 52% for high-income non-OECD countries), identifying areas of education critical to employer needs and empathizing them in primary and secondary education will be vital.

The unemployment problem has improved greatly over the past decade, but structural impediments remain, including widespread underemployment. Trinidad and Tobago’s unemployment rates have been steadily improving over the last 13 years, with year end 2013 unemployment standing at 3.7%. However, the IMF warns that this low rate masks a prevalent problem of underemployment, which the authorities of Trinidad and Tobago recognize. This is mostly due to the large number of workers that rely on government employment programs; however, the IMF notes that Trinidad and Tobago is taking steps to improve training in government employment programs, thereby increasing these workers viability in the private market. The IMF also notes that Trinidad and Tobago’s “estimated elasticity of unemployment to GDP is low, suggesting that officials may underestimate the degree of slack in the labour market” (7). In effect, the reported unemployment rate is “de-linked” from GDP growth because Trinidad and Tobago has introduced temporary government employment programs that have served to buffer the unemployment rate from volatility in economic growth (19).

The Unemployment Relief Program (URP) and the Community Environment Protection and Enhancement Program (CEPEP) “provide unskilled or semi-skilled people with temporary jobs at wages exceeding the minimum wage” (19). The URP has three components, which include providing short-term employment on a rotating basis, a program targeting women and teaching them marketable skills, and a “Special Contracts Delivery” program which awards small-scale contracts for work done in the community. CEPEP, an agency of the Ministry of Housing and Urban Development, provides employment through environmental clean-up, coastal maintenance, waste removal, and disaster and emergency response. The two programs have strong enrolment, with “beneficiaries of these two programs alone exceeded the average number of unemployed between 2008 and 2012” in fiscal year 2012. Though these programs are successful at shielding low-skilled workers from economic downturns, the IMF finds that they produce little value-added, and are often plagued with underemployment, with nearly half of enrollees working less than full time for the specific reason of “no more work to do” (19). The IMF concludes that “reducing high dependence on government support” will be key to enhancing labour market competitiveness. However, improvements have been made; Trinidad and Tobago ranks 96th out of 144 countries in labour market efficiency according to the 2014-2015 Global Competitiveness Index, in 2011-2012, it ranked 110th. Trinidad and Tobago’s sub-rankings for country capacity to attract talent and the effect of taxation on the incentives to work were ranked among the top 50 countries in the world in the most recent report.

Though business complaints about labour regulations are minimal, improvements could still be made to address rigidities. As noted above, only 8% of firms identify labour regulations as a binding constraint. However, improvements could be made with regard to the Industrial Relations Act, Enforcement, Training, and the role of the Ministry of Labour. With regard to the Industrial Relations Act, the IDB’s 2013 Private Sector Assessment identifies “maintaining collective bargaining at company level, reinforcing the bipartite aspects of collective bargaining, and authorizing non-unionized workers to
go directly to the Industrial Court without having to register with a union” as useful reforms. With
regards to enforcement, Trinidad and Tobago should “increase minimum wages (in real terms) as little
as possible in the short term, and raise minimum wages at the same rate as growth in labour
productivity over the longer term. With regards to training, Trinidad and Tobago should “promote the
development of private training institutions, and improve the incentive structure” of these institutions,
“create an effective accreditation and certification system,” and “provide upper- and middle-class
students with training loans and give poor students training subsidies,” which would help alleviate firm
concerns about an inadequately education labour force (26).

6. TOURISM

Tourism is one of the main sectors of the Trinidad and Tobago economy. However, to allow for
continued growth in this sector, wiser investments in infrastructure and other key areas are
needed. This section will explore Trinidad and Tobago’s tourism sector and assess the steps the
government is taking to bolster its viability, including through various certification and tourism
employment training programs.

Tourism continues to play a modest but growing role in the economy, and opportunities should be
taken to bolster its viability and growth potential. While the IMF’s most recent Article IV consultation
notes that there has been little concrete progress in improving tourism statistics, available World Bank
data show that receipts from international tourism (Figure 33) have been growing year-on-year when
measured in current U.S. dollars. The most recently available data (2011) indicate that tourism receipts
brought in $650 million USD, higher than any other measured year. When tourism receipts are
measured against export earnings (Figure 34), they have consistently comprised between 3 and 5.5% of
total earnings for exports, a small but not negligible amount. According to the World Economic Forum’s
2013 Travel and Tourism Competitiveness Report, the Travel and Tourism industry represented 3.8% of
GDP, and was expected to grow at 3.1% per year over the period 2013-2022. Travel and Tourism
Industry employment represented 5.3% of total employment, providing over 32,000 jobs with an
expected growth rate of 1% per year from 2013-2022. With regards to the backwards and forwards
linkages that the Industry creates, the Travel and Tourism “economy” represented 7.2% of GDP in 2012,
with an expected growth rate of 3.2% per year from 2013-2022 (340). These trends suggest that
international arrivals to Trinidad and Tobago should continue to grow, provided that the country
maintains its infrastructure, enhances its air and shipping connectivity, and takes other necessary steps
to attract visitors.

Adequate infrastructure is necessary to keep positive inflows of tourisms into the country. The overall
picture given by the WEF’s infrastructure pillars has been mixed. When compared with other
commodity-based small economies, Trinidad and Tobago performs relatively well (see Figure 35). It
meets or exceeds quality of infrastructure in each of the WEF’s seven categories, scoring particularly
well in the number of fixed telephone lines per 100 people. However, when compared to other small
tourism-based economies, Trinidad and Tobago falls behind in some critical areas. For example, the
quality of ports and roads lag behind other tourism-based small economies, and while air connectivity is on par with these economies, it has a low rank globally.

The Trinidad and Tobago Tourism Industry Certification (TTTIC) and Small Tourism Enterprise programs are a step in the right direction. The Trinidad and Tobago Bureau of Standards (TTBS) has recently created the TTTIC program to “ensure that tourism operators and service providers in Trinidad and Tobago’s tourism sector conform to prescribed standards of quality in their operations.” The program targets accommodation providers, tour guides and operators, short-term motor vehicle operators, and land transportation service providers. The TTTIC logo provides enhanced credibility, and “is valid for a period of one year after which re-assessment and verification is conducted to ensure continuous compliance with the national standard.” Additionally, tourism operators can benefit from the Small Tourism Enterprise Program (STEP), which aims to provide subsidized training and resource materials for operators. STEP is a project of the Tourism Development Company Limited (an SOE), and provides workshops around “Association Management, Business Management, Customer Relationship Management, Defensive Driving, Records Management, Computer Literacy, Social Media and Niche Mark” (6). The TTTIC and STEP efforts represent great strides in bolstering the attractiveness and efficiency of the tourism industry.

Finally, a major effort is needed in terms of enhancing connectivity. On average, smaller economies tend to have lower air and liner shipping connectivity indices. Trinidad and Tobago, however, is outperformed by other countries with similar population in both, air connectivity index and shipping connectivity index (see Figures 37 and 38). In 2007, the World Bank’s Air Connectivity Index ranked Trinidad and Tobago 109th out of 206 countries. Though these figures may seem daunting, Trinidad and Tobago is not as globally disconnected as suggested. For example, according to the Air Connectivity Index working paper by Arvis and Shepherd, Trinidad and Tobago has direct flight links to 16 other countries, not a low number when compared with others in the region (for example, Uruguay has 6, Suriname 4, Bahamas 7). The authors also highlight that even though the U.S. is very well connected globally, it still only has direct air connections to 102 out of a possible 210 countries (31).
| Figure 33. Tourism Receipts, Millions of current USD | Figure 34. International tourism, receipts (% of total exports) |
Source: World Development Indicators, 2014

Figure 35. Overall Infrastructure

Figure 36: Travel and Tourism Competitiveness Index

Source: WEF

Figure 37. Air Connectivity Index

Source: UN Conference on Trade and Development, UNCTADstat

Figure 38. Liner Shipping Connectivity Index
7. NATURAL DISASTERS AND CLIMATE CHANGE

Due to the location of Trinidad and Tobago in the Caribbean, natural disasters are major concerns for its citizens and have major potential for economic disruption. This section discusses the previous natural disasters that have affected the islands and possible outcomes from climate change.

The country’s location, size and activity concentrated along the coast imply that economic growth is hindered by natural disaster shocks and endangered by the erosion of its main natural and physical assets. Both Trinidad and Tobago sit on the South American Tectonic Plate, and are thus subject to periodic earthquakes. According to Trinidad and Tobago’s Office of Disaster Preparedness and Management, there are six seismogenic zones (a zone capable of generating an earthquake) in the country. Additionally, the Office documents and describes 10 earthquakes of at least magnitude 4.7 that have occurred since the 1960’s, four of which were over magnitude 6.

Natural disasters have both a short-term and possible long-term negative consequences on economic growth. While the frequency of natural disasters is lower (given the relation between frequency and size) the direct costs are low (see Figures 39 and 40). Major cities such as the Port of Spain and San Fernando, located on the coast line can be heavily impacted by hurricanes and flooding. The Port of Spain hosts the country’s international airport and can be subject to flight delays and cancelations in the event of tropical storms that result in high winds and flooding. The country also suffers from earthquakes and storm surges that are extreme events and can cause major losses for the future of the country. Lightening, floods, tropical storms, drought, and hail storms have lower probability of affecting the country but could cause significant local damage.

Trinidad and Tobago is subject to climate change that could cause negative economic effects to multiple industries. A 2011 government study used regional models for the Providing Regional Climates for Impacts Studies (PRECIS). PRECIS found that Tobago will be the most effected by temperature...
increases and precipitation decreases compared to Trinidad. Currently, the average temperature is 21°C and is expected to increase by .07°C to 2.6°C annually by 2060 and 1.1 °C to 4.3 °C by the 2090s (6). The warming temperatures are projected to hurt the agriculture, human health, human settlements and infrastructure, coastal zones, water resources, and tourism sector. Rising temperatures can cause the soil for growing agriculture to become arid which will increase the difficulty of growing a variety of plants. The rising of temperatures and humidity is projected to increase the spread of vector borne diseases. Infrastructure will be effected by the increasing intensity and precipitation of the flooding and the coastal zones that will create sea level rises and ocean acidification. All other sectors will effect tourists’ interests of visiting the country and ultimately will hurt GDP.

**Trinidad and Tobago accounts for less than 1% of the global greenhouse gas emissions but recognizes the need for environmental reform due to energy being the main sector.** The government ratified the United Nations Framework Convention on Climate Change (UNFCCC) and has pledged to look for ways to reduce greenhouse gas.

**In light of natural disasters, there is not much that Trinidad and Tobago can do besides purchasing insurance and preparing accordingly.** However, the islands are taking steps to reduce their greenhouse gas emission to leave a smaller carbon foot print and try to reduce climate change.

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**Figure 39. Number of Disasters**

**Figure 40. Direct Costs of Natural Disasters** (measured in U.S. dollars)

Sources: The International Disaster Database; and IMF, *World Economic Outlook*, October 2013.

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8. **Power**

The energy sector of the Trinidadian economy receives more inward foreign direct investment than any other sector. Though the country’s energy usage remains largely self-sufficient, falling global energy prices threaten to upend future growth. This section explores the impact of energy on the economy and the future it holds as a key determinant of the health of the country’s macro economy.
Trinidad and Tobago is a net energy exporter, and is highly dependent on energy exports and their contribution to growth. As a result, the country is highly self-sufficient in its domestic energy use. According to the IDB, Trinidad and Tobago’s energy sector accounts for 45.3% of national GDP, provides 57.5% of government revenue and is responsible for 83% of merchandise exports in 2011. The IDB determines that domestic energy production is more than enough to cover domestic demand, with 43% of produced liquid natural gas (LNG), 20% of natural gas, and a smaller proportion of petroleum used domestically.

Table 2: Primary Energy Sources in Trinidad and Tobago by Type (2014)

<table>
<thead>
<tr>
<th>Energy Source</th>
<th>Share of Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Gas</td>
<td>92%</td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>7%</td>
</tr>
<tr>
<td>Biomass/Renewables</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

Source: US IEA, 2014

Industrial use accounts for the largest share of energy use in Trinidad and Tobago, at 60%. The residential sector is the second largest energy-using sector, at 29%. The commercial sector consumes 10%, with the remaining one percent going to power streetlights (see Table 3).

Despite harm to growth from energy exports, low energy costs and an abundance of natural gas help keep domestic costs low, though improvements in delivery are needed. According to British Petroleum’s 2014 Statistical Review, natural gas consumption accounts for the vast majority of Trinidad and Tobago’s energy usage (872 trillion British Thermal Units in 2013). Trinidad and Tobago is also the world’s sixth largest exporter of liquid natural gas (LNG), and the largest exporter of LNG to the United States. According to the U.S. Energy Information Administration, the generation of electricity is also dominated by natural gas, and the central government has commissioned the county’s second combined cycle gas-fired power plant. However, according to the World Bank, Doing Business Getting Electricity in Trinidad and Tobago, great gains in efficiency are needed to meet new electricity demand; the length of time to obtain an electrical connection upon application also contributes to the energy constraint given that it takes over 50 days compared to an average of 21.3 days for the Latin American countries.
Table 3: Electrical Energy Use in Trinidad and Tobago by Sector (2011)

<table>
<thead>
<tr>
<th>Energy Source</th>
<th>Share of Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>60%</td>
</tr>
<tr>
<td>Residential</td>
<td>29%</td>
</tr>
<tr>
<td>Commercial</td>
<td>10%</td>
</tr>
<tr>
<td>Streetlights</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: IDB, Castalia Consulting

Figure 41. Oil Prices and the Current Account and Net Lending/Borrowing

Sources: International Monetary Fund, World Economic Outlook Database, October 2014, U.S. IEA 2015.

Recent developments in technology and distribution have changed the economics of alternative energy sources. Trinidad and Tobago can achieve its objectives in the energy sector by diversifying energy sources and increasing energy efficiency. Diversify energy supply mix with renewables and by replacing natural gas with oil products, especially for its export market can also be beneficial. Expanding
the energy sector away from a dominance on natural gas can help shield its current account balances from movements in global oil and natural gas prices.

CONCLUSIONS

The study concludes that while Trinidad and Tobago’s external position and macroeconomic fundamentals are strong, policy changes in the fiscal, labour, and energy areas will be required for sustained future growth. Reengineering fiscal policy by curbing energy subsidies, and creating social programs that better target the vulnerable with better coordination and less overlap will be vital. Otherwise, the fiscal position of the central government remains strong, with a projected debt to GDP ratio expected to remain below 40% of GDP through 2019. Fiscal revenues are set to outperform the previous year for the second year in a row, with a generally accommodative fiscal policy. In the labour arena, reforms are needed to reduce underemployment in the economy, which includes reform of temporary make-work programs which reduce measured unemployment, but contribute little value added. Finally, more balance is needed between the energy and non-energy sectors. This would serve the country’s economy in a multitude of ways; by making its fiscal position less dependent on commodity prices, a lessened dependence on inward FDI (which reach a record historical high of $2.3 billion in 2012), and help ease pressures on the labour market, in which energy-sector employment contributes very little.

Trinidad and Tobago’s business climate can be improved through government policies that promote a more educated and better trained workforce. Despite high literacy rates, Trinidad and Tobago is in dire need to a highly educated workforce. According to the Global Competitiveness Index, 40% of firms of all sizes identify lack of an educated workforce as a key constraint to their development, compared to only 7% identifying labour regulations. Government policy is key to providing investments needed to rectify this, with increased investment in practical skills and training vital. Creating an effective accreditation and certification system, providing upper- and middle-class students with training loans, and providing poor students with training subsidies can help alleviate this critical problem.

The outlook for debt sustainability remains positive. Public debt denominated in local currency is expected of at least three times the amount denominated in foreign currency, as a percent of GDP, and medium and long maturities will continue to dominate the composition of public debt. The IMF’s 2014 Article IV consultation further mentions that debt levels should remain below 40% of GDP through its projected period of 2019, and that external debt is expected to remain below 20% of GDP, with a very low share of short-term debt over the same period. However, a sustained decline in oil and gas prices has the potential to cause debt vulnerability that is increased by current fiscal deficits. This can be alleviated by focusing on diversifying the country’s non-energy economic base by public investment and structural reform (41).

Finally, data limitations impose a constraint not only on the depth of this study’s growth inquiry but, perhaps more importantly, to macroeconomic management in Trinidad and Tobago. The most seriously affected areas, according to the IMF’s 2014 Article IV consultation, are national accounts, prices, and external sector statistics. The Article IV mentions that shortcomings in balance-of-payments data severely limit the IMF’s ability to conduct effective surveillance. It is important to note that
effective macroeconomic management must be anchored in evidence-based policy. As such, data improvements represent not only transparency issues but also serve to illustrate the limits faced by policymakers in designing optimal policy frameworks as well as responding to specific situations, especially negative exogenous shocks.

Part II - Political Institutions in Trinidad and Tobago

This Chapter presents an overview of the political environment of Trinidad and Tobago with insight on the May 2015 general election. The objective of this analysis is to provide input for the discussions on and design of the Bank’s strategy with the country. A continuation of monitoring and analysis after the upcoming general elections will be vital to ensure that pragmatic and rational economic policies become a reality.

The document is divided into two sections described as follows. The first section provides an overview of the political system, with descriptions of the basic structure of the national government, and the relationships between the major branches of government. Description of the voting system is also included, as well as a comparison between other Caribbean countries on the major elements of democracy. The second section describes Trinidad and Tobago’s major political parties, including the prevalence of centre-left parties and the outlook for the upcoming May 2015 general election. A conclusion ends the report with cautious optimism about the future prospects of the political will to implement sensible economic policy.

I. Overview of the political system

Figure 1. Basic Structure of the National Government

Source: Office of the President, Republic of Trinidad and Tobago
As indicated in Figure 1 & 2, Trinidad and Tobago follows a parliamentary democracy modelled by the structure of the Westminster System and upholds a traditional British-style representative led by the President as the country’s Head of State (see Table 2 for details). The (non-executive) President is elected by the Electoral College or committee by the members of both the House of Representatives and the Senate and serves a 5-year term. The control of the government rests with the Cabinet, which is led by the Prime Minister who answers to Parliament.

The President appoints the leader of the largest party in Parliament as the Prime Minister, who serves as the Executive. The Cabinet of the Prime Minister is appointed by Members of Parliament and is made up of elected Members of the House of Representatives and appointed Members of the Senate. The Prime Minister is the most powerful person in the government and serves as its de facto head, as opposed to the President, who serves in a more ceremonial role.
The legislature is comprised of two houses, the 31 member upper house of the Senate, and the 41 member House of Representatives. The Senate is an unelected body and seats are divided by 16 of the 31 appointed by the President on the advice of the Prime Minister, 6 on the advice the Leader of Opposition, and 9 independent senators appointed by the President. The House of Representatives consists of 39 single member constituencies for Trinidad and 2 for Tobago. The Speaker can be elected from within or outside the House but must be a citizen and not be disqualified for elections.

The judiciary is independent of the Government. The judiciary system is mandated to perform oversight of the Executive and to act as a forum for resolution of legal disputes. The system is headed by a Chief Justice and is comprised of the Supreme Court and the Magistracy. The Constitution guarantees entrenched protection of fundamental human rights and freedoms which are guaranteed to nationals and foreign investors.

Trinidad and Tobago is a member of the Caribbean Community (CARICOM) which has created a “court of last resort” for both civil and criminal matters through The Caribbean Court of Justice (CCJ). The CCJ was implemented in April 2005 to replace the British Privy Council as the highest court in the region. The CCJ is located in the Port of Spain, Trinidad and Tobago, and has two jurisdictions: original jurisdiction\(^1\) and appellate jurisdiction\(^2\).

Voting in Trinidad and Tobago is voluntary and is managed by the Election and Boundaries Commission (EBC). Before the grant of franchise in 1924, natives were denied the right to vote as a means of participating in the process of governance of the then colony ruled by Great Britain. Demand for the electoral system grew with street demonstrations and protests, called the Butler Riots of 1937. In 1945, the British Parliament granted universal adult suffrage to Trinidad and Tobago to those 21 years and older. Once Trinidad and Tobago gained independence, the 1976 Constitution of the Republic of Trinidad and Tobago changed voting to 18 years and older. The process of registration is voluntary, and the applicant must be a citizen with residence in the country for at least one year and in their home district for at least two months prior to polling. Citizens can be disqualified for insanity, electoral offence, and prison sentence of death or imprisonment exceeding 12 months.

General elections for the House of Representatives occur every five years. Each eligible citizen is able to vote for a political party at the proper polling station. The percentage of votes convey the breakdown down of party representation in the House (see Table 2). Even though each term is five years, at the advice of the Prime Minister, the President can dissolve the parliament and create an earlier election (like in 2010). After parliament is dissolved, a general election can occur in 30 days. Due to the continuing replacement of officials under current Prime Minister Kamla Persad-Bissessar, there is a chance that the five year general election scheduled for November could occur in May.

The structure of the local governments is written under the Municipal Corporations Act 1990 for Trinidad, while Tobago is governed under the Tobago House of Assembly Act of 1996. The local government is not a part of the constitution for Trinidad and Tobago but the Tobago House of Assembly

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\(^1\) Establishment of Caribbean Community

\(^2\) “Court of Last Resort” for both civil and criminal matters
is preserved in Chapter 11A of the constitution. Both Trinidad and Tobago use a single tiered local government system with Trinidad divided into 14 regional corporations and Tobago into a single House of Assembly (see Table 1). The Trinidad boroughs and cities have elected mayors and deputy mayor and the regional corporations have chairpersons and deputy chairpersons. The Tobago House of Assembly holds positions of chief secretary, deputy chief secretary, and up to five secretaries. All corporations and wards have the same power and responsibility to execute citizen-centred national initiatives.

Table 1: Regional Municipal Corporation

<table>
<thead>
<tr>
<th>Municipal Corporations</th>
<th>Divisions (Region, Borough, City, Ward)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trinidad:</strong></td>
<td></td>
</tr>
<tr>
<td>Arima</td>
<td>Borough</td>
</tr>
<tr>
<td>Chaguanas</td>
<td>Borough</td>
</tr>
<tr>
<td>Couva-Tabaquite-Talparo</td>
<td>Region</td>
</tr>
<tr>
<td>Diego Martin</td>
<td>Region</td>
</tr>
<tr>
<td>Penal-Debe</td>
<td>Region</td>
</tr>
<tr>
<td>Point Fortin</td>
<td>Borough</td>
</tr>
<tr>
<td>Port of Spain</td>
<td>City</td>
</tr>
<tr>
<td>Princes Town</td>
<td>Region</td>
</tr>
<tr>
<td>Mayaro/Rio Clara</td>
<td>Region</td>
</tr>
<tr>
<td>San Fernando City</td>
<td>City</td>
</tr>
<tr>
<td>San Juan-Laventille</td>
<td>Region</td>
</tr>
<tr>
<td>Sangre Grande</td>
<td>Region</td>
</tr>
<tr>
<td>Siparia</td>
<td>Region</td>
</tr>
<tr>
<td>Tunapuna-Piarco</td>
<td>Region</td>
</tr>
<tr>
<td><strong>Tobago:</strong></td>
<td></td>
</tr>
<tr>
<td>St. George</td>
<td>Ward</td>
</tr>
<tr>
<td>St. Mary</td>
<td></td>
</tr>
<tr>
<td>St. Andrew</td>
<td></td>
</tr>
<tr>
<td>St. Patrick</td>
<td></td>
</tr>
<tr>
<td>St. David</td>
<td></td>
</tr>
<tr>
<td>St. Paul</td>
<td></td>
</tr>
<tr>
<td>St. John</td>
<td></td>
</tr>
</tbody>
</table>

Source: Republic of Trinidad and Tobago
Overall, Trinidad and Tobago compares favourably with the rest of the Caribbean in terms of political freedom. According to the standard Freedom in the World index published yearly since 1972 by the American NGO Freedom House, ranks countries by civil liberties and political rights that largely based on the Universal Declaration of Human Rights. Countries are assessed as free, partly free, or unfree. As shown in Figure 2, Trinidad and Tobago is classified as free. The Index of Economic Freedom is produced annually by The Wall Street Journal and another American NGO, the Heritage Foundation. According to this index, countries are classified as free, mostly free, moderately free, mostly unfree, and repressed, with Trinidad and Tobago being assessed as moderately free. While this is the mid-ranking for the index, it is the highest in the region. Finally, Reporters without Borders, a France-based international NGO, produces the Press Freedom Index which classifies countries as having a good situation, a satisfactory situation, noticeable problems, a difficult situation, or a very serious situation with regard to freedom of expression and information. According to this index, Trinidad and Tobago is satisfactory.

**Sources:** 1/ Freedom House, 2/ Wall Street Journal and the Heritage Foundation, and 3/ Fraser Institute, 2014.

The Economist Intelligence Unit’s 2014 democracy index ranks Trinidad and Tobago 48 out of 167 countries labelled with a “flawed democracy.” Caribbean neighbours, Jamaica, Suriname, Guyana, and the Dominican Republic fall under this designation as well. The stable and well-established electoral process, lively media, and the electoral process has helped maintain the ranking despite failed
improvement attempts in 2013. Due to regular elections, multiparty system, and lively and free media, Trinidad and Tobago outscores several countries that are considered “full democracies.” The recent removal of key cabinet members by Prime Minister Kamla Persad-Bissessar, has weakened the stability of the current administration (EIU, 2015).
Table 2. Political Structure of Trinidad and Tobago

<table>
<thead>
<tr>
<th>Official Name</th>
<th>Republic of Trinidad and Tobago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form of Government</td>
<td>Unitary state, with some degree of regional autonomy for Tobago</td>
</tr>
<tr>
<td>Head of State</td>
<td>President elected by an electoral college comprising all members of parliament, currently Anthony Carmona</td>
</tr>
<tr>
<td>The executive</td>
<td>Prime Minister appoints cabinet, which is responsible to parliament</td>
</tr>
<tr>
<td>National Legislature</td>
<td>Bicameral parliament: 41-member directly elected House of Representatives (the lower house); 31-member Senate (the upper house), comprising members nominated by the prime minister, the leader of the opposition and the president, and appointed by the president; parliament sits for five years</td>
</tr>
<tr>
<td>Regional Legislature</td>
<td>The Tobago House of Assembly was established in 1980 with certain powers over the island’s finances and other delegated policy, planning and administrative responsibilities; it comprises 12 elected members, in addition, six members are appointed by the majority party and one by the minority party</td>
</tr>
<tr>
<td>Legal System</td>
<td>A full system of regional and appellate courts, with the appeals court at the apex of domestic courts; final appellate power rests with the Judicial Committee of the Privy Council in the UK</td>
</tr>
<tr>
<td>National Elections</td>
<td>Next national election due in 2015</td>
</tr>
</tbody>
</table>
| Main political organisations | Government: People’s Partnership (PP) coalition consisting of the United National Congress (UNC), Tobago Organisation of the People (TOP), Congress of the People (COP), National Joint Action Committee (NJAC) and the Movement for Social Justice (MSJ)  
Opposition: People’s National Movement (PNM)  
Prime minister: Kamla Persad-Bissessar  
President: Anthony Carmona |
<table>
<thead>
<tr>
<th>Key Ministers</th>
<th>Attorney-general: Garvin Nicholas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Education: Tim Gopeesingh</td>
</tr>
<tr>
<td></td>
<td>Energy &amp; energy affairs: Kevin Ramnarine</td>
</tr>
<tr>
<td></td>
<td>Finance &amp; economy: Larry Howai</td>
</tr>
<tr>
<td></td>
<td>Foreign affairs: Winston Dookeran</td>
</tr>
<tr>
<td></td>
<td>Health: Fuad Khan</td>
</tr>
<tr>
<td></td>
<td>Housing &amp; urban development: Roodal Moonilal</td>
</tr>
<tr>
<td></td>
<td>Justice &amp; legal affairs: Prakash Ramadhar</td>
</tr>
<tr>
<td></td>
<td>Local government: Marlene Coudray</td>
</tr>
<tr>
<td></td>
<td>National security: Brigadier Carl Alfonso</td>
</tr>
<tr>
<td></td>
<td>Planning &amp; sustainable development: Bhoendradatt Tewarie</td>
</tr>
<tr>
<td></td>
<td>Public administration: Carolyn Seepersad-Bachan</td>
</tr>
<tr>
<td></td>
<td>Sports: Brent Sancho</td>
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<tr>
<td></td>
<td>Tourism: Gerry Hadeed</td>
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<td></td>
<td>Trade, investment &amp; communication: Vasant Bharath</td>
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<tr>
<td></td>
<td>Transport: Stephen Cadiz</td>
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<tr>
<td></td>
<td>Works &amp; infrastructure: Surujrattan Rambchan</td>
</tr>
<tr>
<td>Central Bank Governor</td>
<td>Jwala Rambarran</td>
</tr>
</tbody>
</table>

*Source:* Economist Intelligence Unit, 2015 and Government of Trinidad and Tobago.
II. Major political parties and actors

Trinidad and Tobago’s political scene in recent years has been dominated by two centre-left parties. In recent history, centre-left parties have tended to be the most influential in the country’s political arena. All active parties, including the People’s Partnership, People’s National Movement, Democratic National Assembly, and the Independent Liberal Party can be characterized by an ideology of Democratic Socialism. Outright Marxist and Communist parties, such as the Workers and Farmers Party and the Communist Party of Trinidad and Tobago, have existed in the past, but their influence has waned over the past 40 years.

In the 2007 general election, the People’s National Movement (PNM), (which has a long history of domination in the politics of Trinidad and Tobago) won a majority of seats in the House of Representatives with nearly 46% of the vote. This came after the PNM won an outright majority in the previous (2002) election. A number of issues would surface soon after the PNM’s 2007 victory that paved the way for its defeat in the next election. Firstly, a scandal involving the misuse of a $45 million scholarship fund (awarding scholarships to children of party supporters) emerged (Tack, 2011). Then Prime Minister Patrick Manning was personally implicated in the scandal. This, combined with further uproars over financial mismanagement and poor implementation of PNM’s budget led Patrick Manning to call for general elections in May 2010, over two years earlier than required by law (Taitt, 2013). It was with this election the People’s Partnership came to power; a coalition comprised of the United National Congress (UNC) (the other major political party apart from the PNM), the Tobago Organization of the People, the Congress of the People, and the National Joint Action Committee. Prime Minister (and the first woman to assume the post) Kamla Persad-Bissessar was inaugurated on May 26th, 2010, for a five year term.
Table 2. Recent Election Results in Trinidad and Tobago

<table>
<thead>
<tr>
<th>Parties</th>
<th>Votes</th>
<th>%</th>
<th>Seats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007 Election Results</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>People’s National Movement</td>
<td>299,813</td>
<td>45.85</td>
<td>26</td>
</tr>
<tr>
<td>United National Congress–Alliance</td>
<td>194,425</td>
<td>29.73</td>
<td>15</td>
</tr>
<tr>
<td>Congress of the People</td>
<td>148,041</td>
<td>22.64</td>
<td>0</td>
</tr>
<tr>
<td>Democratic Action Congress</td>
<td>8,801</td>
<td>1.35</td>
<td>0</td>
</tr>
<tr>
<td>Democratic National Assembly</td>
<td>376</td>
<td>0.01</td>
<td>0</td>
</tr>
<tr>
<td>Independents</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total valid (turnout 66%)</strong></td>
<td>651,576</td>
<td>100</td>
<td>41</td>
</tr>
</tbody>
</table>

| **2010 Election Results**              |         |        |       |
| People’s Partnership Coalition         | 432,026 | 59.81  | 29    |
| United National Congress–Alliance      | 285,354 | 39.5   | 12    |
| New National Vision                    | 1,998   | 0.27   | 0     |
| Independents                           | 349     | 0.02   | 0     |
| **Total valid (turnout 69.45%)**       | 719,727 | 100    | 41    |

*Source*: The Elections and Boundaries Commission

The People’s National Movement has formulated an economic policy focused on achieving strong employment, fiscal sustainability, and economic diversification in preparation for the election in May 2015. According to PNM’s draft policy statement, released in late 2014, the party’s overarching economic goal is to “achieve fiscal balance, high levels of employment and price stability” (36). The draft policy statement also outlines a number of fiscal policy goals, including efforts to “control the level of government spending to long term sustainable levels that are consistent with revenue generation capacity, address any existing imbalances between capital versus recurrent expenditure, limit the build-up in national debt - especially in times of high energy prices, and rationalize tax collection efforts” (36). Monetary policy will be directed towards price and exchange rate stability, in part to “alleviate major increases in food prices,” a large contributor to inflation over the past decade. The policy draft also outlines a number of steps towards economic diversification, and increasing the importance of small and medium enterprises in the economy through the establishment of New Business Clusters, and more in-depth small-medium economies (SME) training. These steps would help ensure future viability in the composition of Trinidad and Tobago’s private sector.

The United National Congress has similarly developed a stance to help solidify its position in the upcoming election. A recent budgetary statement released by the Minister of Finance discusses the introduction of a growth-oriented tax system over the period 2014-2016. According to the brief, the new system will “be regionally and internationally competitive; encourage savings and investments,
reduce the dependency on tax incentives for encouraging investment, will be in line with international best practice, will promote stability and predictability and encourage compliance and enforcement” (14). The brief also outlines a number of current and future efforts the UNC has made in promoting the development of human capital, including the Government Assistance for Tuition Expenses (GATE) program, which covers 100% of undergraduate tuition and up to 50% for postgraduate students. The UNC also emphasizes that universal early-childhood education is close to being achieved, through the construction of over 80 Early Childhood Care and Education Centres (ECCE) and enhancing technological connectivity in the classroom. The brief also proposes lengthening “the time frame for developers to receive tax exemptions to develop residential house sites being part of a land development project” to end-2018 (from end-2015) in order to encourage land development” (34).

Regarding Trinidad and Tobago’s financial regulatory regime, the UNC has proposed a Single Financial Regulatory Authority to consolidate financial sector oversight in order to become more resilient in the face of crises. Though the independent Central Bank has authority to oversee financial institutions through its Financial Institutions Supervision Department (established by the Financial Institutions Act of 2008), a more complex institutional framework may be wise. The UNC document cites the liquidity crisis and subsequent bailout of CL Financial (the largest privately held conglomerate in Trinidad and Tobago) in 2009 and its complex causes as a reason for a SFRA. The SFRA would include “representation from the Central Bank, the Securities and Exchange Commission, the Ministry of Finance and the Economy and other stakeholders in the financial sector” (16). This new arrangement has the potential to offer a diverse range of expertise and views that can prevent another CL Financial-scale crisis and bailout, beyond what the central bank can do alone.

Ethnic politics could shape the outcome of upcoming general elections, predicted to be a close contest between the People’s Partnership coalition, led by Prime Minister Kamla Persad-Bissessar, and the People’s National Movement party lead by Keith Rowley. The politics of the islands in recent years have tended to be divided along ethnic lines, between Indo-Trinidadian and Afro-Trinidadian voters. Due growing unpopularity of the current Prime Minister, this could be a good opportunity for the opposition, PNM, to attract not just the regular Afro-Trinidadian base but also swing voters from the People’s Partnership (EUI, 3). A recent scandal, in which Prime Minister Persad-Bissessar reshuffled her cabinet for the fourth time since May 2010, threatens to hurt the chances of the People’s Partnership.  

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3 Recent release of cabinet members have hurt the People’s Partnership coalition. After immense pressure, Prime Minister Persad-Bissessar removed key cabinet members in February due to public scrutiny. The attorney-general (Anand Ramlogan), national security minister (Gary Griffith) the president of the Senate, minister of justice and sports, and junior ministers for works and national security either resigned or were fired from their position. According to media reports, “the issues involved in their dismissal suggest an attempt to manipulate the coalition to the advantage of the UNC, and the dismissed individuals have been accused of engaging in virtually conspiratorial actions which appeared to border on illegality”. The seriousness of this situation is punctuated by the fact that both the Attorney General and the Minister of National Security appeared to the public to have the full confidence of the Prime Minister, and were instrumental in the coalition’s planning for the general election. This is the fourth major cabinet reshuffle since the May 2010 general election, with 24 ministers departing.
CONCLUSIONS

While two major parties with pragmatic economic policy ideas are to compete in May’s general election, cautious optimism is warranted. Though both parties can be characterized as centre-left, the People’s National Movement has chosen an economic message in line with future debt sustainability, external competitiveness, and price stability. The United National Congress has chosen to take a slightly different approach by emphasizing a growth orientated tax system that encourages both savings and investment. Regarding improvements to Trinidad and Tobago’s labour force, both the UNC and PNM offer viable policy options, with the PNM choosing to focus on small and medium enterprises through the establishment of New Business Clusters, while the UNC is choosing to emphasize the development of human capital through the Government for Assisted Tuition Expenses program (GATE) and Early Childhood Care and Education Centres (ECCE) programs. Though labelled a “flawed democracy,” Trinidad and Tobago’s coming election is unlikely to be mired in violence or corruption, and one can be fairly certain about the direction of economic policy in the coming years.

However, as the history of Trinidad and Tobago shows, political currents in the country can be subject to domination by one party, as evidenced by the PNM’s 30 year reign beginning in 1956. Time can be the only judge of if and when pragmatic policy ideas become reality, or if vested interests and energy revenues will allow for their enactment.