



The World Today

Investment Policy: where do we go?

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The term Foreign Direct Investment (FDI) refers to an aspect of foreign 'aid' that typically focuses on financial investments within a country derived from external sources which are aimed at commercial activities within the receiving countries. Foreign Direct Investment in ideal circumstances brings with it some degree of technical skills transfer.

In Trinidad and Tobago, FDI is largely focused on the energy sector. The total stock of United States investment in Trinidad and Tobago was US\$1.98 billion at the end of 2005. Annually, total foreign direct investment into Trinidad and Tobago averages US\$700 million, most of which are focused on the energy sector, (Atlantic LNG, Nucor etc.)

In terms of current policy, the Ministry of Trade and Industry has formulated an Investment Policy that is seeking to increase FDI in the non-energy sector. The only success story to date of such investment that is noteworthy is that of the Marriott Business Hotel. The relative lack of success of past efforts to attract investment in the non-energy sector does not necessarily imply an inevitable failure in the present policy of attempting to attract foreign investment to the non-energy sector. What should be considered is whether there needs to be a more comprehensive policy shift in terms of Trinidad and Tobago's present economic windfall and the pursuit of FDI.

A necessary avenue to help secure the further diversification of the economy may possibly be achieved through pursuit of a comprehensive policy that is focused on Overseas Direct Investment (ODI). Overseas Direct Investment refers to investment that flows outward from a country in an organized and officially sanctioned manner. It does not refer to 'Capital Flight.' Trinidad and Tobago's ODI initiative occurs under the ambit of the Heritage and Stabilisation Fund (HSF). This fund was created in response to the realization that current trends in economic policy throughout the world have been moving towards the diversification of the income base of governments, i.e. they are not relying only on taxes but are making strategic investments where dividends are received and there is capital appreciation.

At the end of 2006 the balance in this fund was estimated at TT\$9 billion. A total of 60.0 % of the aggregate of excess oil and gas revenues will be deposited into the fund during any financial year. The fund will be invested in a wide range of international investment instruments including fixed income securities as well as in bonds and equities. This will insulate the fund from domestic shocks.

In terms of the continued development of Trinidad and Tobago, a key question must be: how do we continue to create sustained development in light of diminishing

natural resources which are used to fund our development? The most likely alternative to a resource based economy is that of a ‘wealth driven’ economy. The latter is an adaptation of Michael Porter’s ‘Wealth Driven Stage’ of his Competitive Advantage Model.

In our context, what this concept of ‘wealth driven’ would refer to is the ability of the economy of Trinidad and Tobago to earn economic rents from investments it has made from income generated from the energy sector. As a concept, it is not superficially much different from the principle behind the Heritage and Stabilisation Fund. The difference that arises between the HSF and investments aimed at creating ‘wealth driven income’ is with respect to the circumstances under which overseas investments are made.

The HSF requires that oil and gas revenues in a given period exceed budgeted revenues. In pursuing the creation of a ‘wealth driven’ economic base, the policy approach should involve the government actively budgeting monies, which would be invested in foreign securities, other countries economies and their industrial sectors as a means of facilitating a wider diversification of income earning activities for Trinidad and Tobago’s economy.

The benefits of such a policy dimension could possibly extend to the acquisition of leading edge technologies as a result of ownership, which has been achieved by investment in research institutions and/or productive sectors in other countries. Furthermore, there is a psychological benefit to local industries that are exposed to new investment opportunities, via such a policy. These opportunities can extend to the development of new markets through the formation of productive working relationships and even production and marketing arrangements with other companies in targeted export markets (the association between the international conglomerate COTT of Canada and our own SM Jaleel is one such example).

The reality is that a properly managed policy of Overseas Direct Investment, whether under the ambit of the Heritage and Stabilisation Fund or a more comprehensive overseas investment policy is even more critical at this time when we are involved in a national debate over our economic future. The answer may in fact be to look externally and invest more of our present windfall in the economic prospects of other countries. The reality is that like an investor, it is also not prudent for a country to invest all of its eggs in one type of basket. It may also not be prudent to only invest in eggs.