Transition Probability Matrices and Revealed Comparative Advantage Persistence in a Small Oil-based Economy

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ABSTRACT

Over the past 10 years, Trinidad and Tobago has seen a shift in its trade structure due to increased energy exports and foreign investment in the energy sector. This paper proposes to explore the changing pattern of exports by evaluating the dynamics and persistence of comparative advantage as measured by an RCA (Revealed Comparative Advantage) index using 3-digit export data for the period 1991-2008. The paper calculates and examines Balassa's RCA Index for the Trinidad and Tobago economy to determine how its comparative advantage has changed over the time period 1991-2008 using tools such as Galtonian Regressions, Markov Chains, Transition Probability Matrices, Mobility Indices and Granger Causality tests. The results indicated that the pattern of trade in Trinidad and Tobago has become more specialised as the country focused on the exports of petroleum products and has not placed as much emphasis on the development of non-energy exports.

Keywords: Revealed Comparative Advantage (RCA), Balassa Index, Galtonian Regression, Markov Chains, Transition Probability Matrix, Mobility Indices