

ABSTRACT

AN EXPLORATORY ANALYSIS OF THE DETERMINANTS OF PRIVATE INVESTMENT IN DEVELOPING COUNTRIES: THE CASE OF TRINIDAD AND TOBAGO (1966-1987)

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In recent times many Governments, have been targeting the private sector to rejuvenate their ailing economies. This has been the case in Trinidad and Tobago where the Government has articulated its commitment to the promotion of private sector investment.

This thesis using the flexible accelerator model of investment (modified to meet the specification of developing countries by Tun Wai and Wong (1982), attempted to ascertain the variable(s) that impacted most significantly and also in a positive manner on domestic private sector investment in Trinidad and Tobago.

Using this approach, our results suggest that the three most important explanatory variables with respect to domestic private sector investment in Trinidad and Tobago are:

- 1) Government investment (GGCF);
- 2) Domestic private sector GDP (PGDP); and
- 3) Net Foreign Reserves (FR).

Our major finding and departure from the Tun Wai and Wong study is the role that the level of foreign reserves play in influencing domestic private sector investment decisions in Trinidad and Tobago.

Our results suggests that the level of foreign reserves influences the domestic private sector in a number of ways and through a number of channels. In the first instance the foreign exchange earned by the petroleum sector is a major revenue stream for government. Secondly, the foreign reserves acting through the monetary base influences the level of credit available to the private domestic investor. Our research further suggests, that in an economy which is so dependent on imported goods, particularly capital equipment, the level of foreign reserves also acts as a confidence variable to the prospective domestic private investor. The level of foreign exchange that the country is earning in this regard acts as an index of confidence which, in the final analysis, determine the viability of a project which is heavily dependent on imported capital.