



FUNDACIÓN DE
INVESTIGACIONES
ECONÓMICAS
LATINOAMERICANAS



SIR ARTHUR LEWIS
INSTITUTE OF
SOCIAL AND
ECONOMIC
STUDIES

Productive Development Policies in Trinidad and Tobago: A Review

Daniel Artana, Anne-Marie Mohammed, Ramiro
Moya, Sandra Sookram and Patrick Watson

FIEL/SALISES

Structure of Presentation

- Introduction
- Overview of TT Economy
- Review of Practice of PDP in TT
- Selected PDP
- Example of PDP: Cluster Promotion
- Conclusion

Introduction

- Trinidad & Tobago is rich in natural resources, having developed a world-class energy cluster based on gas and oil.
- There seems to be general agreement that diversification into sectors other than the energy sector should be one of the main goals to be attained in the medium term.
- The policies to be analyzed here are closely related to this diversification objective.

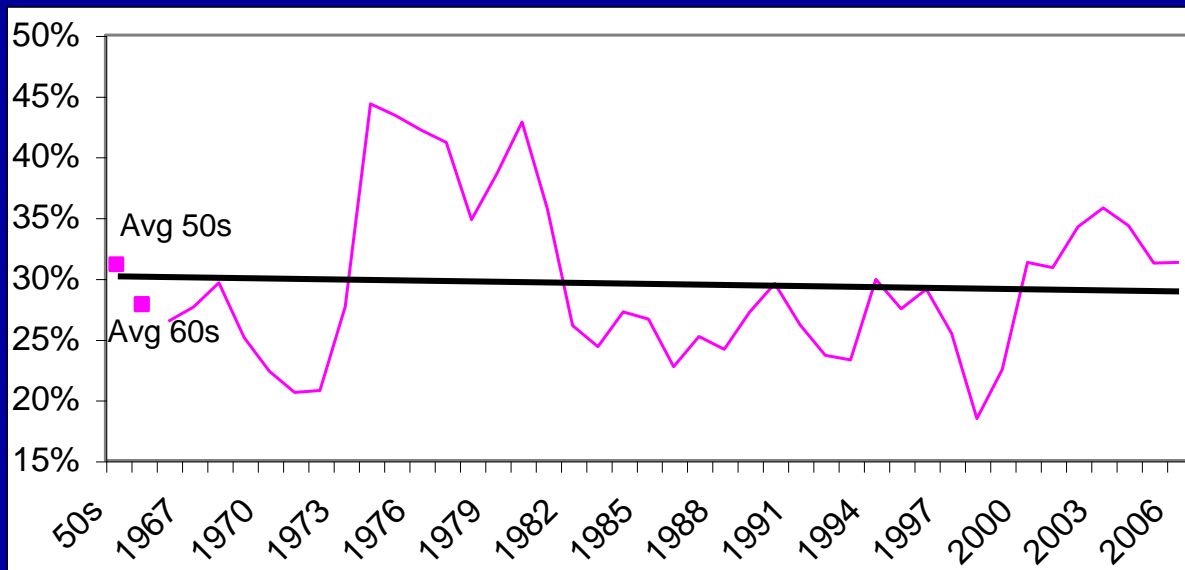
An overview of the economy

- ➡ Trinidad & Tobago is a middle income, energy-rich country with relatively strong institutions and political stability.
- ➡ It is the most industrialized economy in the English-speaking Caribbean.
- ➡ From 1994 to 2007, the country grew at an average rate of 7.7% per annum, but this growth has been very unbalanced.

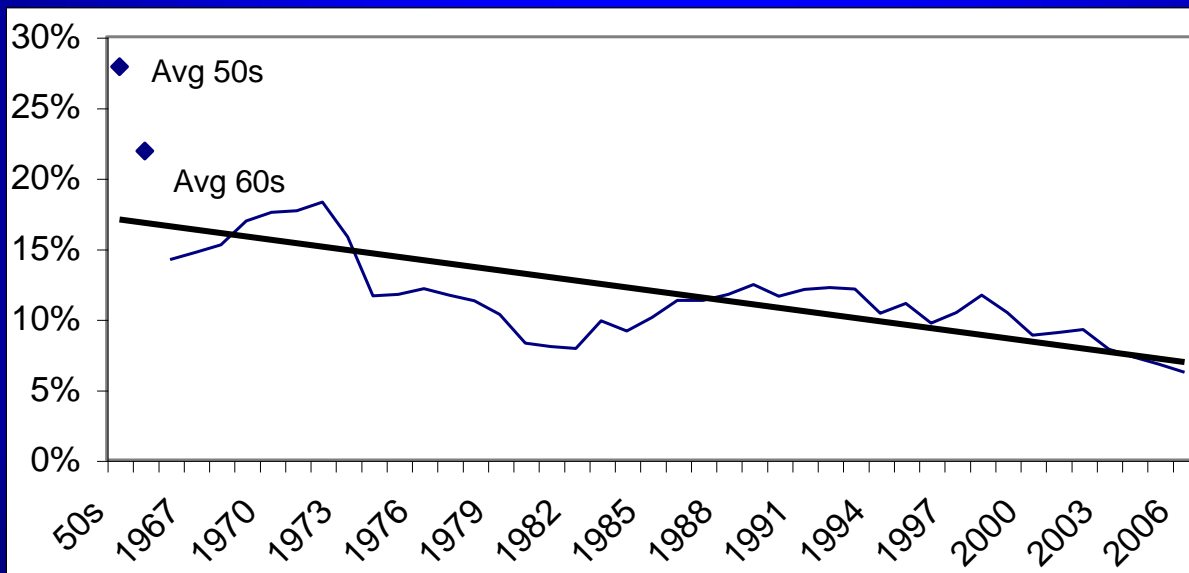
Overview (cont'd)

- Growth led by energy sector, which accounts for more than 45% of GDP, 80% of exports, but only 5% of employment.
- In non-energy sector, growth has been much lower: the energy sector accounts for 29 points out of the 51 of the accumulated growth rate between 2002 and 2006, private sector services for 19 and the rest of the economy for just 3 points.

GDP Share



Petroleum Sector

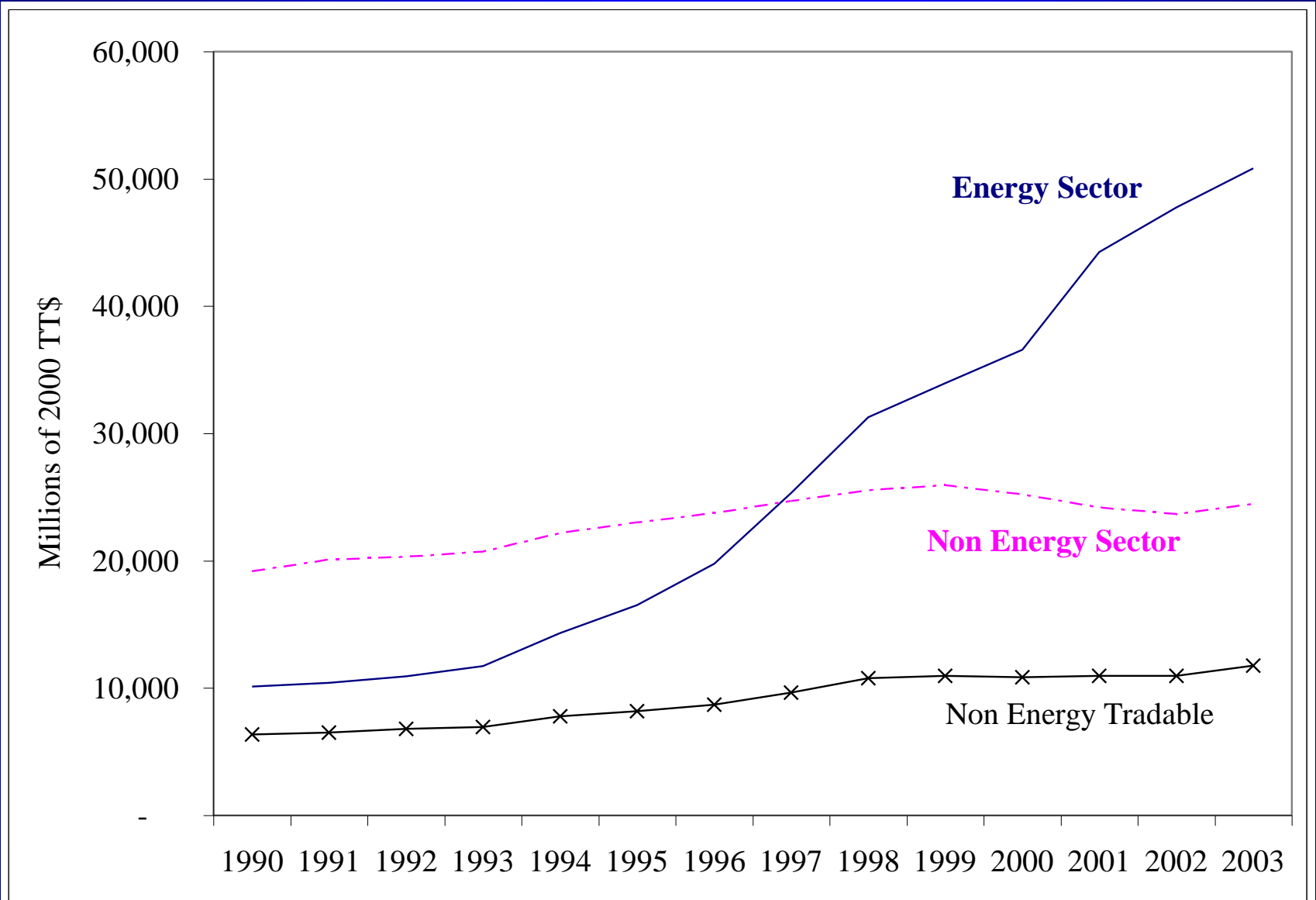


Non-Petroleum Tradable Sector

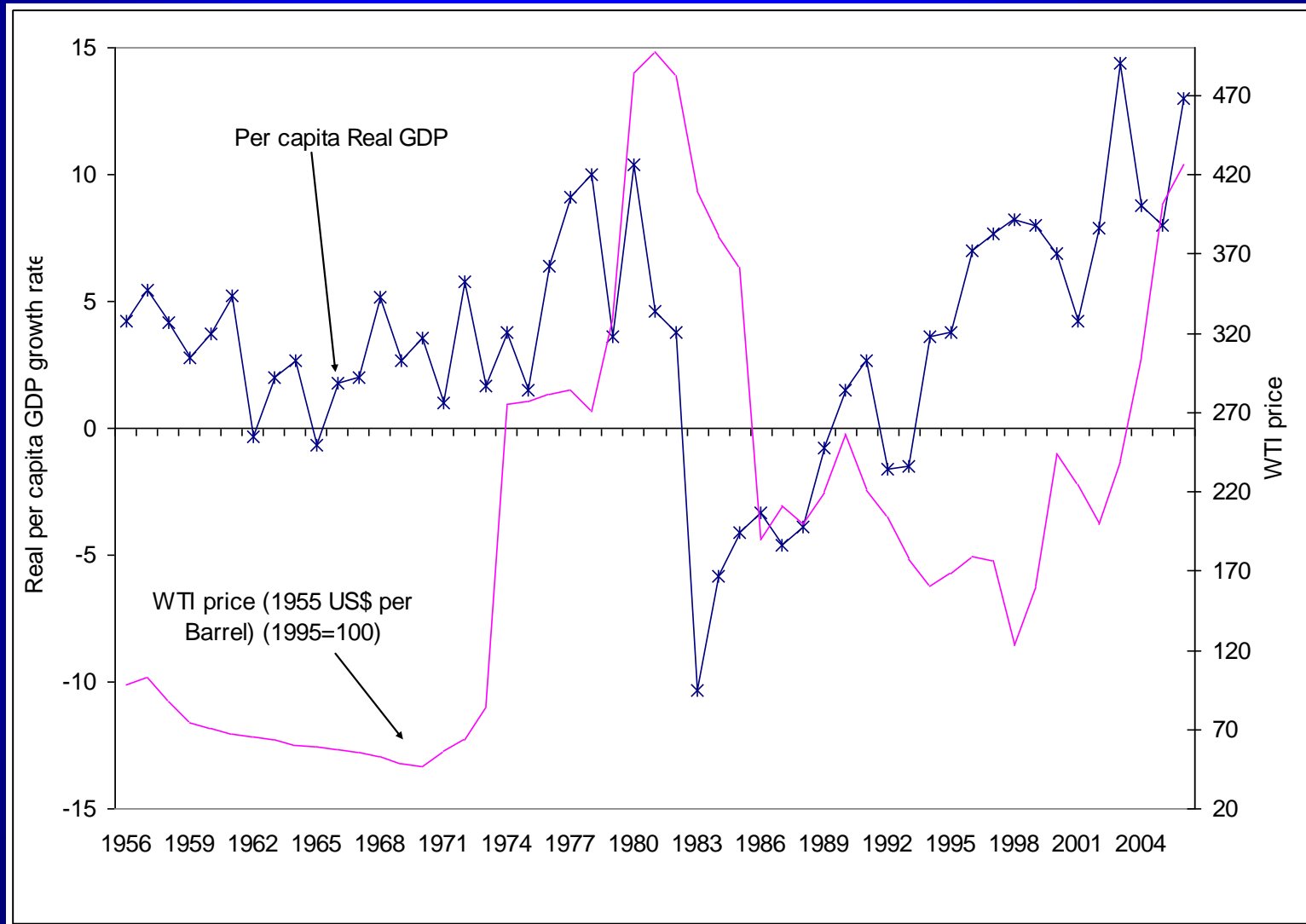
Overview (cont'd)

- Even more striking is the low investment in the non-energy sector.
- Since 1991, capital stock has grown by 7% per annum, but in the non-energy sector capital stock has grown only at a modest 1.5%.
- New investment has been directed mainly to the gas industry, after the discovery of new reservoirs.

Recent path: More concentration



GDP per capita growth and WTI price (in constant 1955 US\$)



Overview (cont'd)

- Outside of the energy industry, no healthy clusters have been developed and few local firms can provide sophisticated services to foreign energy companies.
- Thus, despite the comparative advantage of abundant oil and natural gas, true competitive advantages remain to be exploited.

Overview (cont'd)

- Not having a developed non-energy tradable sector can limit future growth due to lack of externalities in production, lack of forward and backward linkages, lack of learning-by-doing and lack of local entrepreneurship.
- As a consequence of this 'natural resource curse', recent success of energy sector might be in itself a constraint to development of non-energy tradable sector.

Overview (cont'd)

- A more prudent fiscal policy combined with the more stable macroeconomic environment of the last years ought to have provided a better environment to overcome the natural resource curse.
- Such a policy is (was?) necessary to isolate the non-energy sector from the risks of the energy sector.

Overview (cont'd)

- The question is whether enough has been done to boost growth in other economic sectors, and whether specific industrial policies are needed to ignite growth and overcome years of underdevelopment.
- This study takes for granted that authorities want to achieve more complex, backward and forward linkages and industrial production less dependent on energy sector (Vision 2020?).

Overview (cont'd)

- Artana et al (2007) consider that eliminating constraints to growth in Trinidad & Tobago, is one of “fine tuning”.
- Many macro reforms already implemented, but more needed from the micro point of view to improve competitiveness of key business clusters and improve conditions for innovation and entrepreneurship.

Review of Practice of PDP in TT

- Historically, GOTT played active role in several economic sectors (vertical policies), often involved as a provider or a key decision maker, taking the responsibility for so doing away from the private sector.
- Some see this as a limitation to private sector development (Fairbanks et al 2006; and Artana et al 2007).

Review of PDP (cont'd)

- From mid 1950s, Trinidad and Tobago has applied diverse industrial policies that have been changing over time.
- First was 'industrialization by invitation' model following example of Puerto Rico. GOTT sought to attract investment using newly created Industrial Development Corporation (IDC).
- Policy not successful (Celimene and Watson 1991).

Review of PDP (cont'd)

GOTT then implemented a policy of industrialization by import substitution (ISI).

Main instrument of protection was the Negative List: items on this list would require a license for importation that was not easy to get.

IDC began to construct service industrial parks. There was an explosion of assembly-type industrial production.

Review of PDP (cont'd)

- From 1973, oil production was an enormous source of revenue for the government.
- State embarked on a broad-based program of industrialization, spending part of the revenues in acquiring corporate assets.
- At its peak, 62 enterprises were owned by the state, covering sectors of activity as diverse as airlines, cement, telecommunications, hotels, food processing and energy.

Review of PDP (cont'd)

- In early 1980s, fall in price of oil and in domestic production caused severe decline in government revenues.
- New government elected in 1986 attempted a policy of industrial development based on the non-energy sector.
- Since then, several policies have been implemented to diversify industrial fabric.

Review of PDP (cont'd)

- State agencies as the Tourism Development Company (TDC), the Business Development Company (BDC), the Estate Management and Business Development Company, Ltd. (EMBD), the Sugar Manufacturing Company of Trinidad and Tobago (SMCOTT) have been key players
- This might be seen as distrust of market mechanisms and ability of private sector as an engine for development.

Review of PDP (cont'd)

- In 2002, Government issued policy statement declaring, as top priority, divestment of management and ownership of State Operated Enterprises, with preference given to local investors.
- Fairbanks et al (2006) see this move related more to fiscal management than to any explicit connection to private-sector development.

Review of PDP (cont'd)

- The main vision of the GOTT about PDPs expressed in the Green Paper: “The Trinidad and Tobago Industrial Policy 2007-2012”.
- Main strategy is to diversify the economy away from its dependence on the energy sector, by developing non-oil manufacturing activities as well as services.

Review of PDP (cont'd)

- Most of these policies are Government-intensive: problems to be solved through Government institutions more than market-oriented reforms.
- This is evidence of little or no change in GOTT's approach to developing private business.
- However, these plans elaborated through collaboration with private sector representatives.

Review of PDP (cont'd)

- Green Paper states that “government intervention should take place only if it could result in greater social and economical gains” (pp. 31).
- Also, “The recommended approach is for the creation and implementation of *effective policies that target and address the inefficiencies in the market*” (pp. 31).

Review of PDP (cont'd)

- “There would be different sets of incentives recommended for the promotion of each sector and not a single policy for all of them (pp. 32)”.
- *Accordingly, the authorities would assume that policies should be basically of a vertical nature rather than a horizontal one.*

Selected PDPs

- Underlying paper looks in detail at four PDP: Cluster promotion, Tourism, SME and FTZ
- PDP selected under the criteria that:
 - most of them are explicitly considered as priorities in the government's program;
 - they show an enormous potential for improvement;
 - c) they are part of the ongoing debate around the need for industrial diversification.
- Only PDP involving Cluster Promotion to be analyzed here.

Cluster Promotion

- The currently selected clusters are:
 - Food and Beverage
 - Printing and Packaging
 - Merchant Marine
 - Film
 - Music and Entertainment
 - Fish and fish processing.
 - Yachting

Clusters (Cont'd)

- Difficult to determine whether selection of clusters represents idea of “picking the winner” or that of encouraging development of clusters in which TT already has a comparative advantage.
- When a country suffers from Dutch disease, it is hard for any cluster be a successful exporter if it is not closely related to oil and gas production.
- TT exports highly concentrated in the energy cluster.

Clusters (Cont'd)

- Even though some efficient clusters may remain hidden in Trinidad and Tobago due to so-called Natural Resource curse, GOTT has chosen seven specific activities to support.
- However, there exists the risk that not all of them represent the more efficient clusters— or at least ones with potential comparative advantage.

Clusters (Cont'd)

- In most of the clusters, *innovation policies are not of concern to the authorities but, on the contrary, they are focused on fiscal incentives or financial support unrelated to such a process.*
- However, some initiatives such as improving the standards in food or fish processing are PDPs directed to coordinate the stakeholders through solving some market failures.

Clusters (Cont'd)

- Although there are no precise indicators for the targeted clusters, closer inspection of labour productivity growth rates of some of those related industrial sectors show that they did not outperform average growth rate in recent years.

Clusters (Cont'd)

- In fact, we considered worker productivity growth in 33 industrial sectors, thirteen of which belonged to targeted clusters.
- Only four outperformed the average productivity rate of growth between 1998-1999 and 2005-2006.
- Chosen clusters may not be the fastest growing ones, which would be the case if they belonged to the group with comparative advantage.

CONCLUSION

- The GOTT has envisioned an unusually large process of transformation.
- This involves a change in the actual pattern of production from an energy producer country to a more diversified economy.

CONCLUSION (cont'd)

- One important question to be answered about PDPs in general is whether they will be sufficient to reverse the pattern of deep dependency on energy production.
- Clearly, the efficacy of implemented PDPs depends a lot on broader policies to mitigate Dutch disease.
- Fortunately, most of the analyzed policies are strongly related to encouraging the production of tradable sectors.

CONCLUSION (cont'd)

- Also, some of the PDPs are still to be elaborated, implemented and evaluated.
- In some clusters, the PDPs were implemented but they are far from being completed.
- In others, there are proposals but their viability was not even evaluated.

CONCLUSION (cont'd)

- To be fair, there is an ongoing process of discussion and evaluation but the accountability of the agencies and bodies in charge is still weak.
- 2009-10 budget specifically addresses development of Merchant Marine.

THE END