CONFERENCE ON THE ECONOMY 2010:ECONOMIC POLICY FORMATION AND PROGRAMME IMPLEMENTATION IN THE CONTEXT OF THECARIBBEAN REALITY

CRITICAL REVIEW OF TRINIDAD AND TOBAGO'S DIVERSIFICATION STRATEGIES AND AN ASSESSMENT OF LESSONS LEARNT

BY

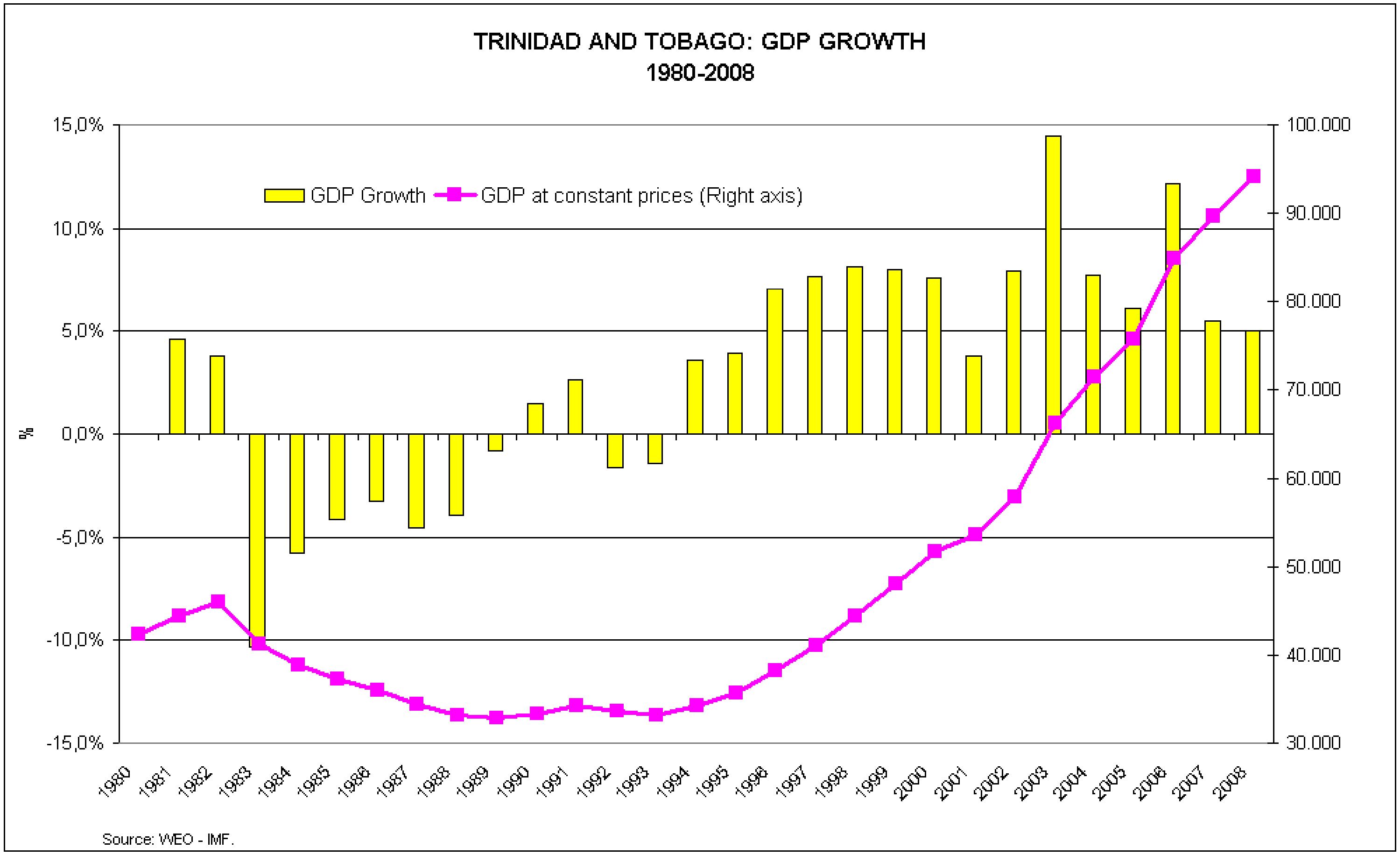
KELVIN SERGEANT

DEPARTMENT OF ECONOMICS

UWI – ST AUGUSTINE

OVERVIEW OF PRESENTATION

- What has been the strategies which sought to ensure diversification of the economy (1950's-2010)?
- Has the strategies worked. What is the empirical evidence?
- Have we learnt any lessons from past experiences? Why is the economy still exhibiting features of Duality – one that remains heavily dependent on the energy sector(Oil and Gas)?
- Can we ever get away from the phenomenon of the Dutch Disease or Natural Resource Curse?
- Some diversification Issues.



TRINIDAD AND TOBAGO: GDP GROWTH
1980-2008
GDP Growth
GDP at constant prices (Right axis)
%
15,0%
10,0%
5,0%
0,0%
-5,0%
-10,0%
-15,0%
100.000
90.000
80.000
70.000
60.000
50.000
40.000
30.000
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Source: WEO - IMF.

FACTS ON THE TRINIDAD AND TOBAGO ECONOMY

- Between 1994-2008, the economy grew on average by 8% per annum
- Reserves reached US$8 billion in 2008
- Up until 2008, Government operated a fiscal surplus at approximately 5% of GDP
- Several other positive indicators persist

UNBALANCED GROWTH

- The energy sector remains the major growth pole of the economy
- The energy sector accounts for 45% of GDP and over 70% of exports, but only 5% of employment- From since its inception in the 1950's
- Growth in the non-oil sector has been low and in some cases, negative.
- Investment in the non-oil sector has been around 2% since 1991. In the energy sector, most investments have flowed in gas production
- Gas production does not guarantee diversification of the economy, because gas prices are highly correlated with oil prices

UNBALANCED GROWTH

- Since 1970, the onshore or non-energy sector's share of GDP has been consistently on the decline. Notwithstanding governments attempt at diversification over the years, the share of the offshore sector in GDP has doubled in the past 15 years.
- Outside of the energy sector, few clusters have developed.
- Empirical work support the phenomenon of the "Dutch Disease'

Diversification Strategies: 1958-1973- Industrialization By Invitation

- The PNM government saw economic development through “Industrialization by Invitation model of Arthur Lewis.

- Government sought to attract investors through the creation of the IDC

- The IDC created a production platform as well as assisted investors by providing investors with incentives, especially to exporting firms.

FROM INDUSTRIALIZATION BY INVITATION TO IMPORT SUBSTITUTING INDUSTRIALIZATION

- The Industrialization by Invitation model failed essentially because T&T could not compete with Puerto Rico.
- Between 1958-1973, there were three five year development plans in which the state controlled economic planning
- Mid 1960's, government introduced Import Substituting Industrialization(ISI)
- ISI was consistent with policies such as "Negative List"
- Buy Local
- Industrial parks
- Assembly type production such as mattresses, radios, TVs, motor cars, home appliances, processed foods, furniture
- High Import tariffs also existed.

STATE PARTICIPATION IN THE ECONOMY:

- Between 1969-1973, government's policy focused on investment in heavy industry, especially the petroleum sector

- Even before 1970, the state increased ownership in the economy in several sectors. This intensified in the 1970's

- Oil production increased tremendously because of:
  - New oil find off the east coast of Trinidad
  - Amoco's discovery of gas reservoir
  - The price of oil increased after the Arab/Israeli war in 1973

STATE PARTICIPATION

- The new oil boom bought in enormous amounts of revenue for the government
- The state intensified its ownership in several sectors of the economy which was seen as a broad based programme of industrialization, designed to acquire corporate assets
- Government establishes a White Paper on Public Participation
- In 1973, total expenditure on the acquisition of assets and public participation was $24.4 million
- By 1985, the government held shareholding in 62 enterprises covering sectors such as airlines, cement, telecommunications, hotels, food processing and of course, energy. By 1986, Government has over $4 billion in shares in State Enterprises

State Enterprises/Diversification

- In 1985, the SOE/Utilities contributed 16% of GDP
- Total employment was 53,700 or 13% of the labour force
- Investments amounted to $1 billion or 26% of national investment
- The state took over the “commanding Heights of the economy”
- Government used the oil revenues to diversify the industrial base of the economy.

SOE Challenges

- SOEs and Public Utilities became a drain on the treasury
- Total public debt increased to $1 billion
- By 1979, the public utilities had a cumulative deficit estimated at TT$900 million
- Task Force was set up which indicated that the economy was still dominated by the oil; heavy dependence on imported food, lack of diversification of the production and export structure, high levels of unemployment and high wages.
- The policy prescription in the mid 1980s was therefore to diversify the production base of the economy into methanol and urea; move away from taking command of the economy; establish a mixed economy with private sector involvement
- The state should be a facilitator and not a producer.

The 1980's and Structural Adjustment

- Economy went into a recession in 1980's. For close o a decade, the economy contracted persistently. Fiscal deficit was 6% of GDP. The Current account deficit on the BOP account rose to 15% and was financed by using up $2.4 billion of foreign reserves
- Stabilization programme in 1988
- Devaluation of the dollar by 15%
- 10% cut in wages and salaries of public servants
- State borrowed from the IMF and World Bank in 1989
- Period of tariff removal and liberalization of the economy
- The state remained a facilitator in the economy.

THE 1990'S:RESOURCE BASED INDUSTRIALIZATION OR THE POINT LISAS STRATEGY

- During this period, the state established the Point Lisas Industrial estate and focused on the development of the energy sector in areas such as natural gas, methanol, urea, ammonia,etc.
- This strategy of Resource Based Industrialization is one where the value chain is extended by taking a natural resource and processing it further, rather than exporting it in its crude form.
- Government maintained control of all the energy companies and even established a national petroleum marketing Company.
- The strategy also involved public sector investment in the offshore sector so as to increase the national take from resource exploitation for distribution onshore
- This strategy - ensures that the onshore sector is tied to the vagaries of the offshore sector.

RBI – A CRITIQUE

- "Distributing rents from the offshore sector as handouts to unproductive consumption, low productivity public sector make-work schemes(URP and CEPEP) and support for large non-traded sectors in distribution and services onshore is good politics, but does not raise the standard of living permanently. We may create a semblance of prosperity, but the fundamental issue is not addressed. To solve the problem onshore, the population must be transformed to make them wealth creating through productive enterprises in goods and services. " Dr. Eric St Cyr

From Resource Based Industrialization to Vision 2020

- In 2002, government established a Vision 2020 Planning Committee. This MSG membership was drawn from diverse fields to guide the planning process
- The MSG established 28 Committees to develop strategic plans in sectors/areas of interest.
- The remit of the Group was "to lead the process of planning to develop a national strategy that would guide the country becoming a developed nation by the year 2020.
- Government targeted seven sectors
  - Food and Beverage, Printing and Packaging, Merchant marine, Film, Music and Entertainment, Fish and Fish processing and Yachting
  - Information Communication and Technology(ICT) was also included.

GDP BY KIND OF ACTIVITY-ISIS % CONTRIBUTION

	1966	1974	1982	1990	1995
Agriculture	4.7	3.9	2.3	2.6	2.05
Petroleum	25.6	43.6	26.8	30.8	27.9
manufacturing	7.9	7.2	5.0	7.7	8.5
Services	62.4	45.8	65.9	58.9	61.3

Vision 2020

- Vision 2020 envisaged a level of development which ensured a resilient, competitive, and diversified economy. The new sectors were supposed to be linked with the non-oil sector and promote export led growth in that sector
- Creation of entrepreneurs through NEDCO
- Measures to ease restrictions on imports and exports of manufactured goods
- E-commerce and E-business
- Reform of the public service
- Legislative reforms to increase trade and investment and to develop the financial and capital markets
- Human Resource development(UTT,COSTATT,GATE,UWI)
- Innovation and Entrepreneurship

Vision 2020

- Vision 2020 seems to be no longer on the planning agenda given that a new government is now in power.

- The Budget Speech of the new Minister of Finance 2010 proposes a different approach to diversification of the economy

GDP AT MARKET PRICES:PERCENT CONTRIBUTION

	2006	2007	2008	2009
Petroleum Industry	47	45	49	35.8
Agriculture	0.6	0.4	0.4	0.6
Manufacturing	5.6	5.3	4.3	4.9
Services	46.3	48.9	45.8	59.1

Some Diversification Issues

- What is the future for the non-oil sector now, given the current economic situation
- What is the export product space?
- Can the concerns of the business sector such as macro risks, low profitability, infrastructure and crime be sufficiently addressed to encourage them to get involved in diversification mode at this time
- Can the new sectors which emerge be sufficient to reverse the country's deep dependence on energy production?
- Can diversification as a policy be thought of on a regional scale and not simply domestic?

- THE END