

Natural Resource Curse and the Socio-Economic Dilemma in Trinidad & Tobago



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Summary

- Introduction
- TT Economy and Society in retrospect 1980-2000s
- Socio-Economic Indicators
- TT Economy and Society: Prospects
- Conclusion



Introduction

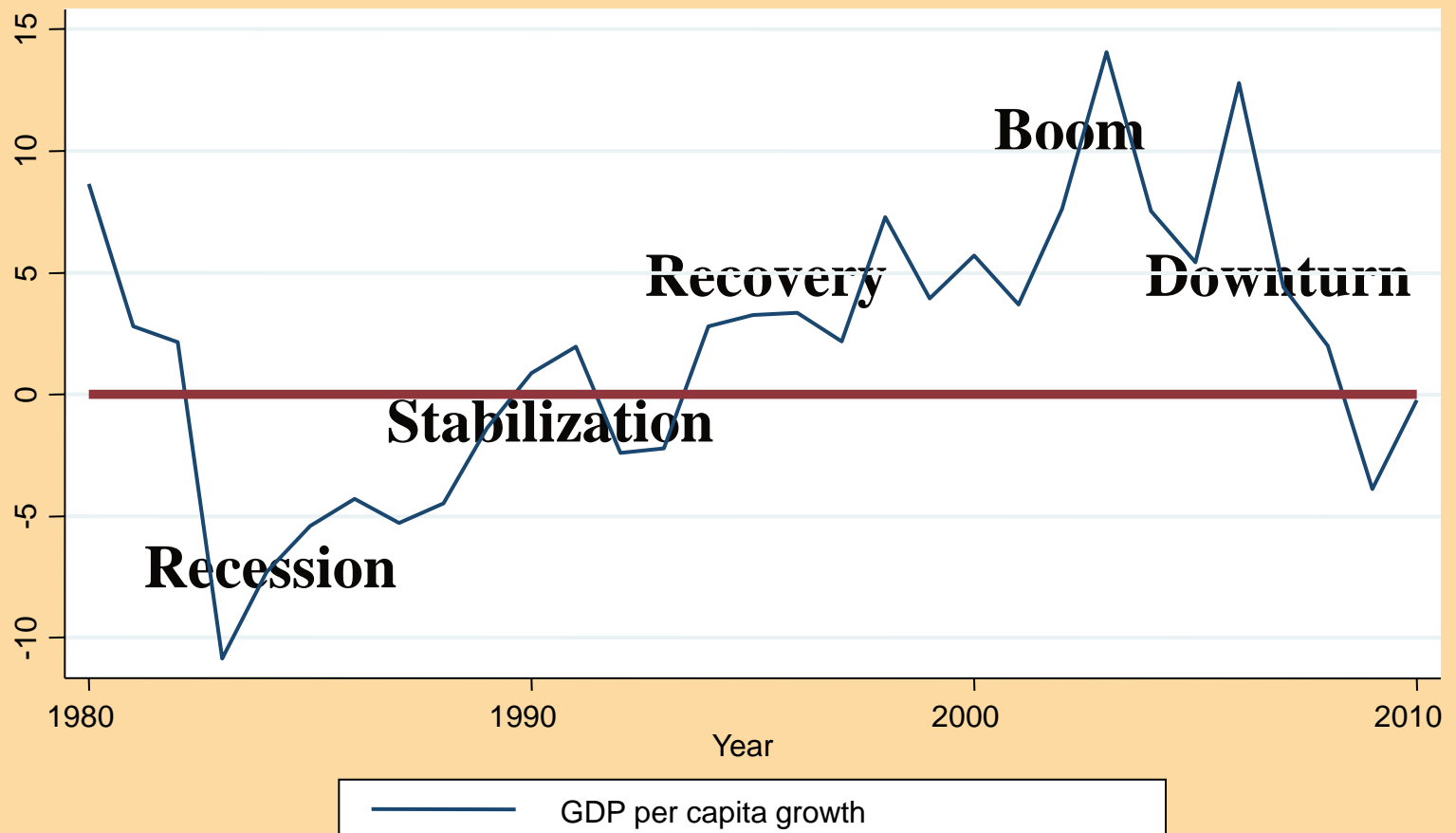
- **Trinidad and Tobago is a two-island independent Republic within the British Commonwealth.**
- **Member of CARICOM.**
- **Land mass of 4828 square kilometres.**
- **Population of 1.3 million.**
- **Rich in energy resources and has one of the higher income levels in the Caribbean.**
- **‘Energy’ sector accounts directly for over 40% of GDP, generates up to 60% of government revenue (sometimes more) and up to 90% of merchandise exports (2010). But less than 4% employment.**



Introduction (cont'd)

- TT economy typically suffers from ‘Dutch Disease’ and has undergone a number of major changes since the 1970s:
- Boom of the 1970s: high incomes, high employment.
- Recession in the 1980s: falling incomes and employment.
- Stabilization and Structural Reform 1983-1993
- Economic Recovery 1993-2002
- Boom again 2003-2007
- Downturn 2008-?

Introduction (cont'd)





TRINIDAD & TOBAGO ECONOMY IN RETROSPECT: 1980-2000s

- **1982 – 1993:** negative growth, declining income and employment due to the weakening and eventual collapse of oil prices and concurrent decrease in oil production
- **1989 – 1991:** Trinidad and Tobago Government entered into two stand-by arrangements with the International Monetary Fund and then signed on to a structural adjustment loan from the World Bank in 1991
- **1980s and 1990s:** Economic Reforms – fiscal, trade and exchange rate policy, financial sector and a privatization programme with respect to the state enterprises
- **Generalized Liberalization of the Economy**

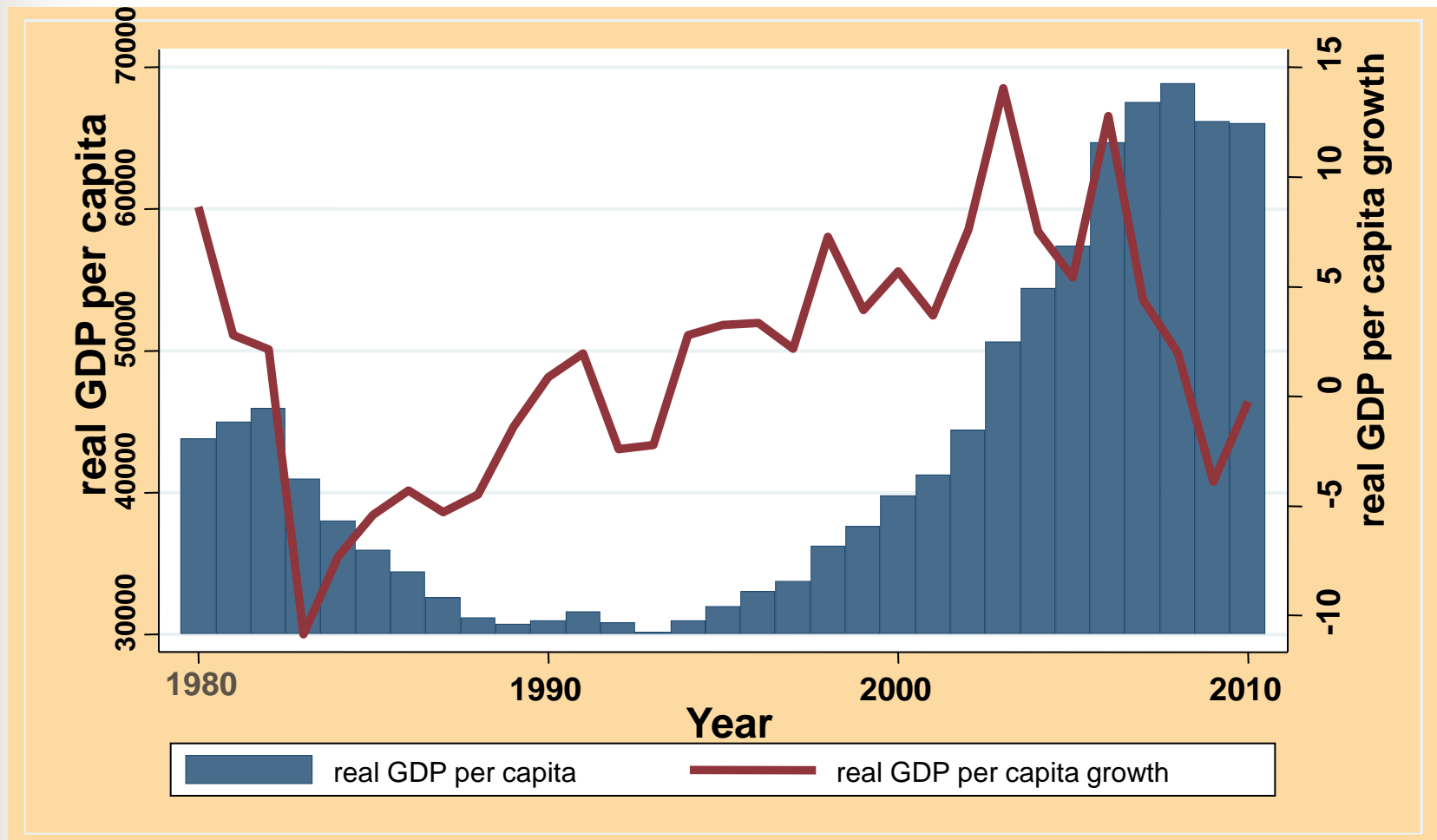


Index of Economic Freedom – Fraser Institute

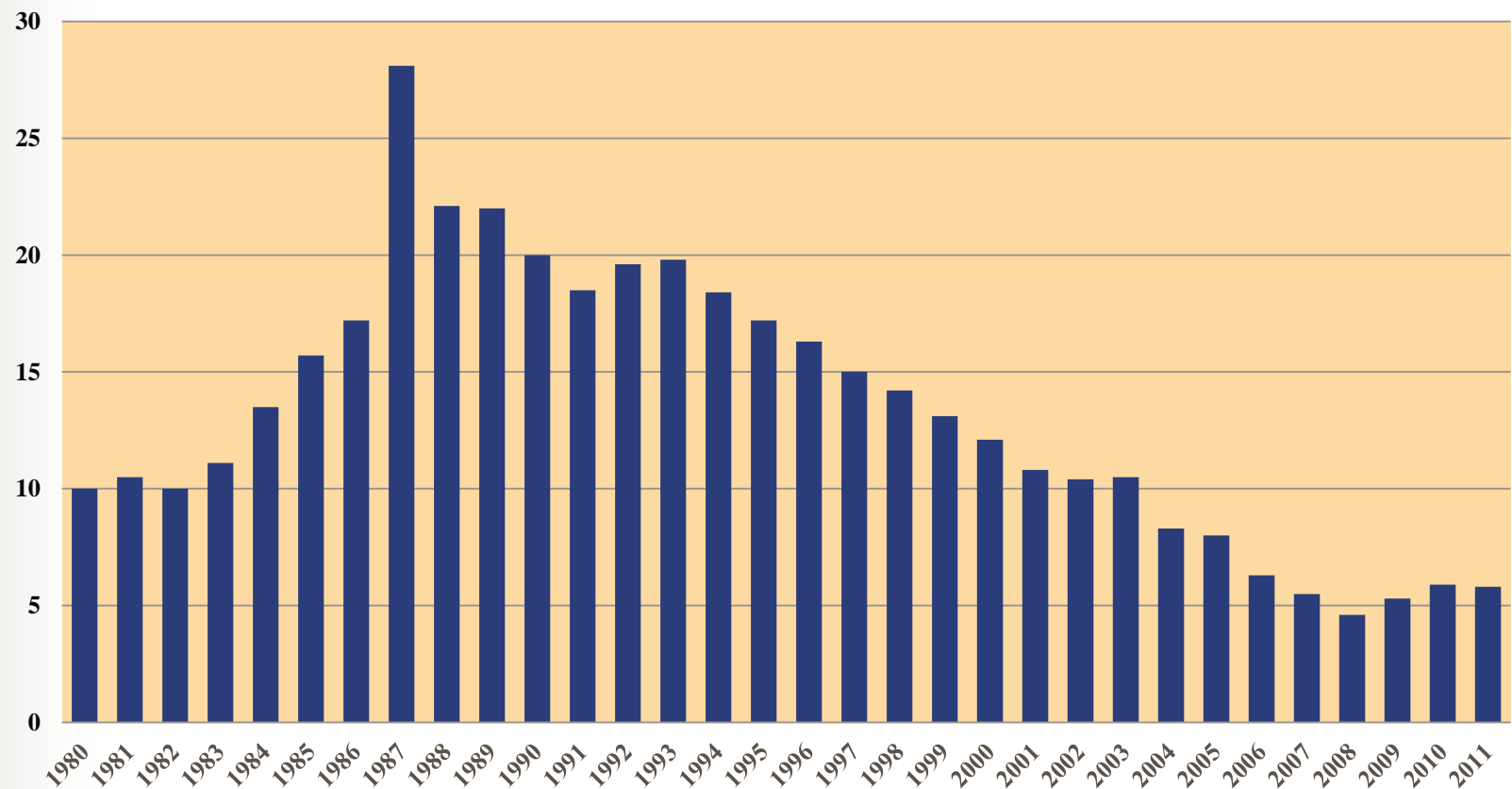
Year	Index	Rank
1980	5.07	65
1985	4.92	78
1990	5.64	52
1995	6.93	31
2000	7.18	33
2001	7	30
2002	6.9	39
2003	6.7	47
2004	6.7	53
2005	6.75	65
2006	7.2	42
2007	7.1	57
2008	6.83	61
2009	6.68	64

SOCIO-ECONOMIC INDICATORS:

Real GDP per capita:1980-2010 (TT\$)



Unemployment Rate: 1980-2011

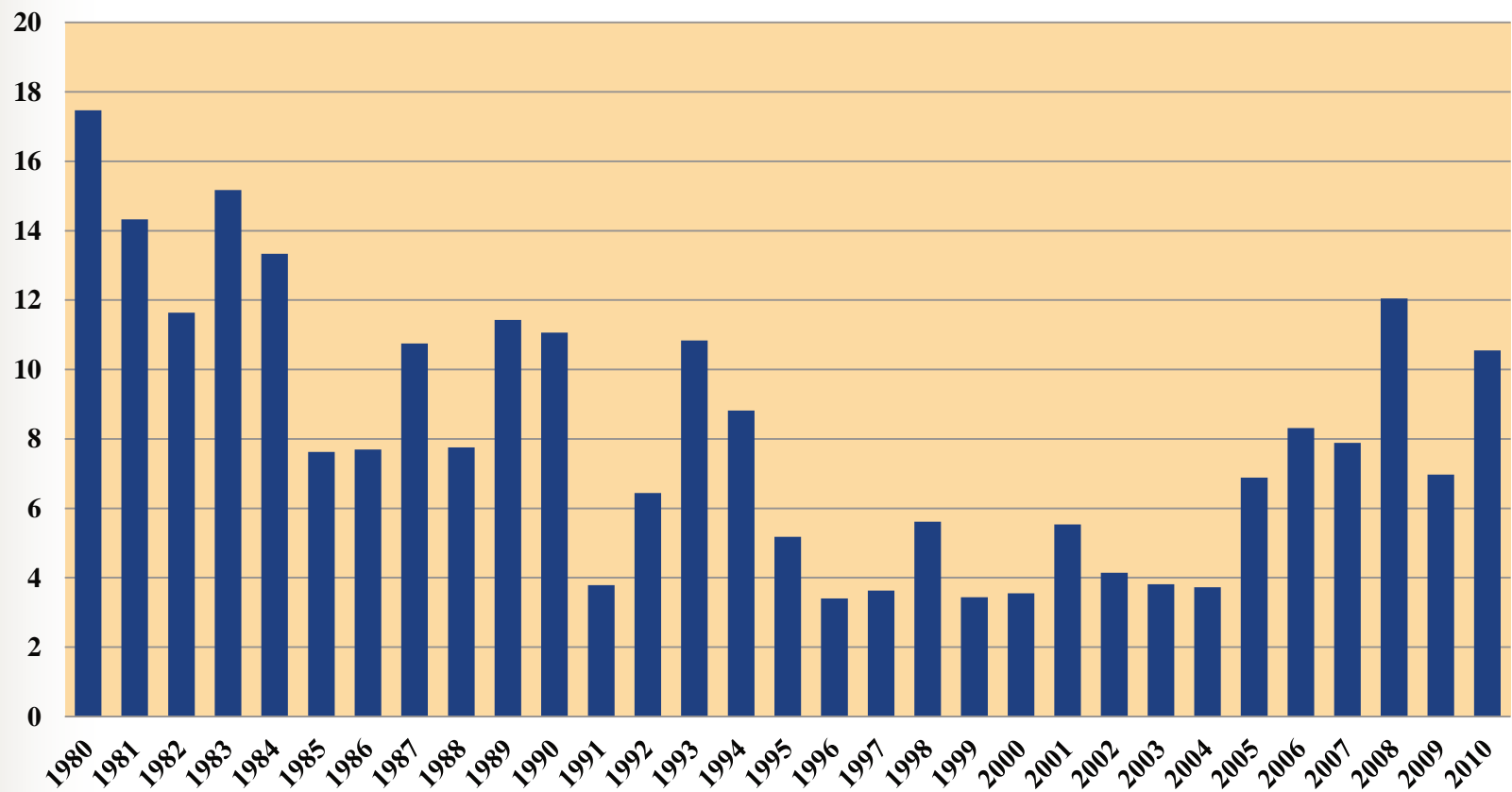




Heritage and Stabilisation Fund

- Revenue Stabilization Fund was initiated in the financial year 1999/2000.
- Fund now modified and renamed Heritage and Stabilization Fund.
- Higher than budgeted oil prices have allowed for a further build-up in the value of the Fund which is estimated at US 4.1 billion at September 2011.
- The combination of the two aspects in the same fund has been the cause of considerable debate and controversy. For the moment, legislation has not been enacted to set out how it is to be operationalized.

Inflation Rate: 1980-2010





Social Indicators

- Secondary education: Gross enrollment increased from 69% to 90% (1979-2008).
- However, within Caribbean region, TT's educational indicators close to regional average although its income level way above average.
- Furthermore, TT ranks below regional average in terms of net and gross enrollment rates in both primary and secondary education
 - the duration of compulsory schooling is just 7 years, whereas the regional average is almost 10;
 - average years of schooling is just below the regional average and the ratio of expenditure in education to GDP is 4.3%, while the regional average is 5.9%.



Social Indicators (Cont'd)

- Low enrollment ratio in higher education: just 6% of labor force has higher education, compared to 26% in developed countries.
- Recent initiatives to increase the number of students at the tertiary level by creating a new university, introducing non-traditional courses and eliminating fees at the tertiary level.
- Gross Enrollment Ratio at the Tertiary level increased from 6.8% in 1990 to 12% in 2005.



PROSPECTS OF TRINIDAD & TOBAGO ECONOMY

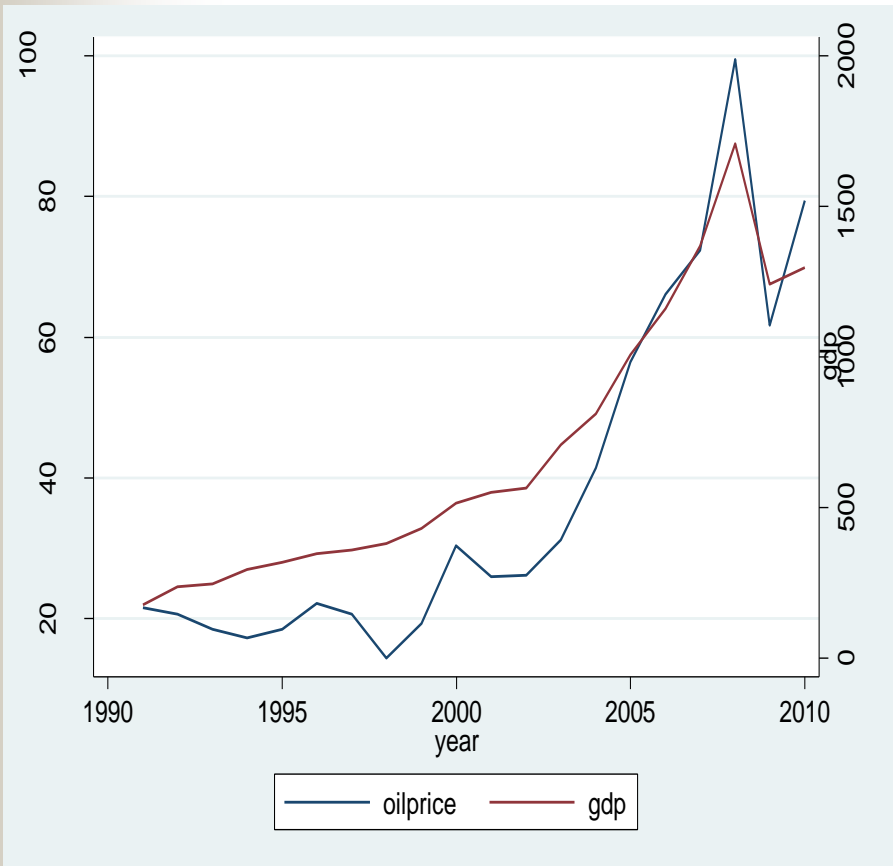
- The economy inevitably affected by the price of oil, economic fortunes of its major regional and international trading partners;
- The 2008 International Financial Crisis has been followed by an European sovereign debt crisis and the US continues to experience slow growth.
- Growth in Brazil, Russia, China and India is slowing.
- Medium term no longer looks favorable
 - Falling growth in 2009, 2010 and 2011 by 3.3%, 0.02 and 1.4% respectively.
 - Oil (but not gas) prices are rising once more but mature oil fields are providing lower oil production.



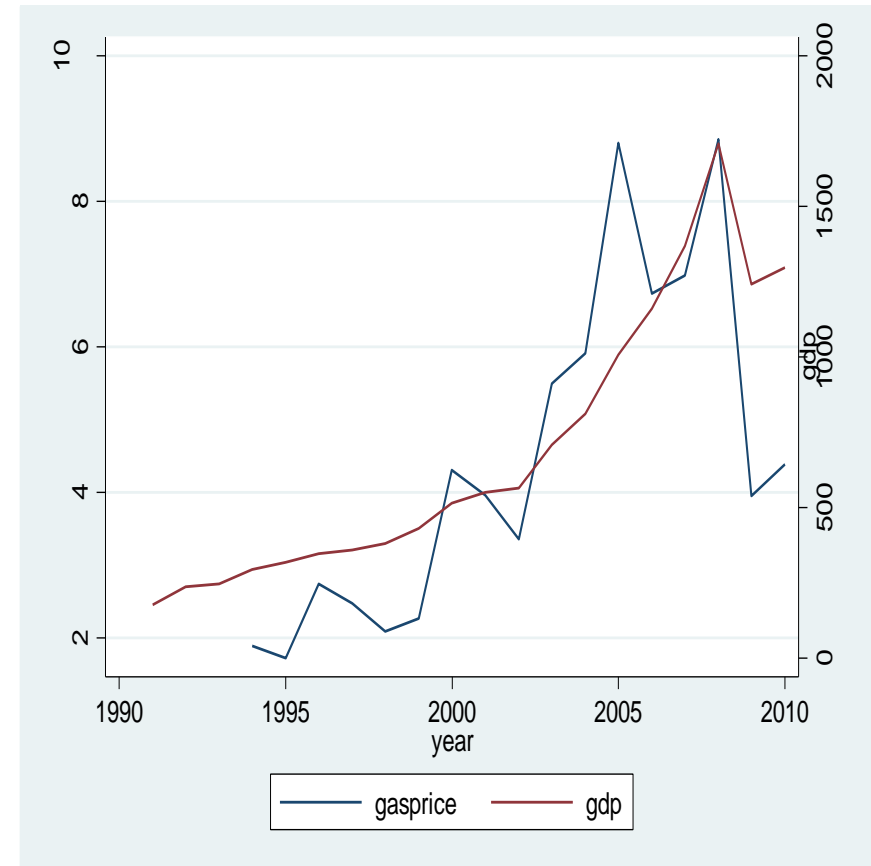
Prospects (Cont'd)

- Also threat to continued supply of oil and gas (Ryder Scott Report 2011)
- Economic stability and socio-economic advancement will depend on efforts to diversify the economy and boost output in the non-energy sector.
- Much of this already articulated in the documents of the 'Medium Term Policy Framework' Committees.

Oil price, Gas price and GDP per capita

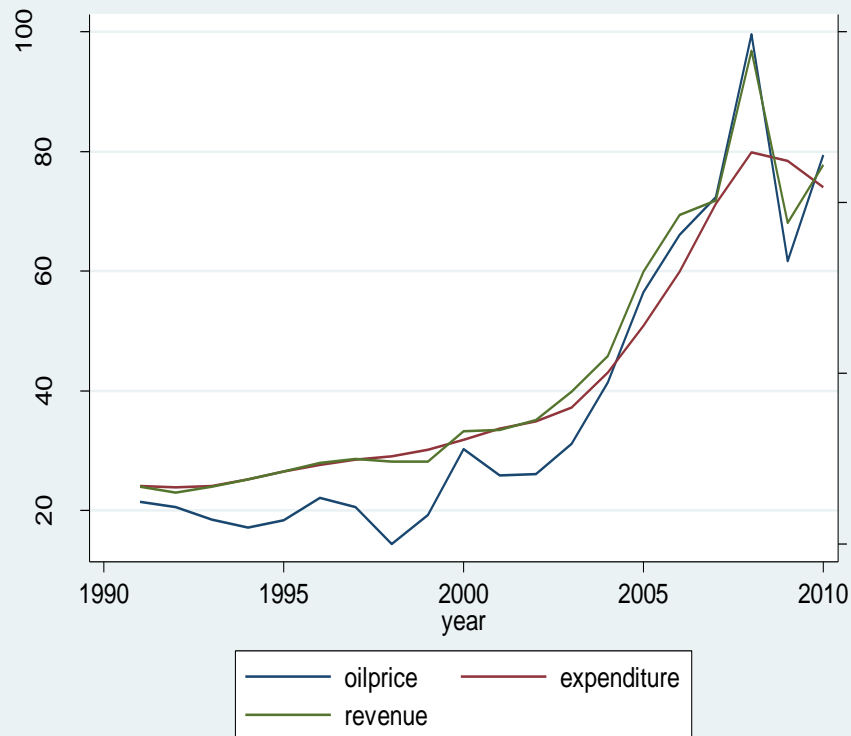


Correlation coefficient 0.98

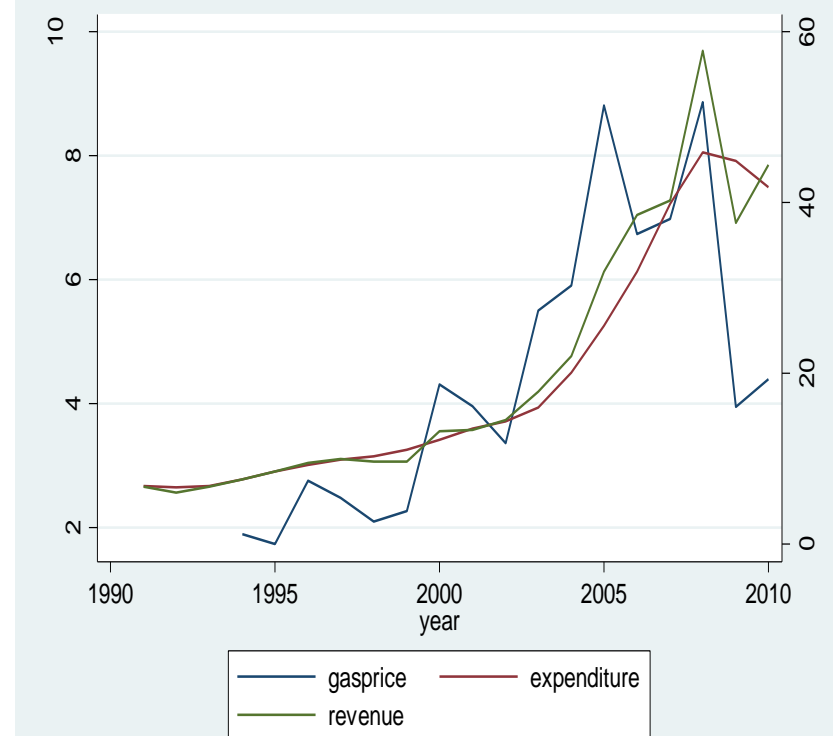


Correlation coefficient 0.81

Oil price, Gas price and Government Revenue and Expenditure



Correlation coefficient:
Oil and expenditure 0.96
Oil and revenue 0.99



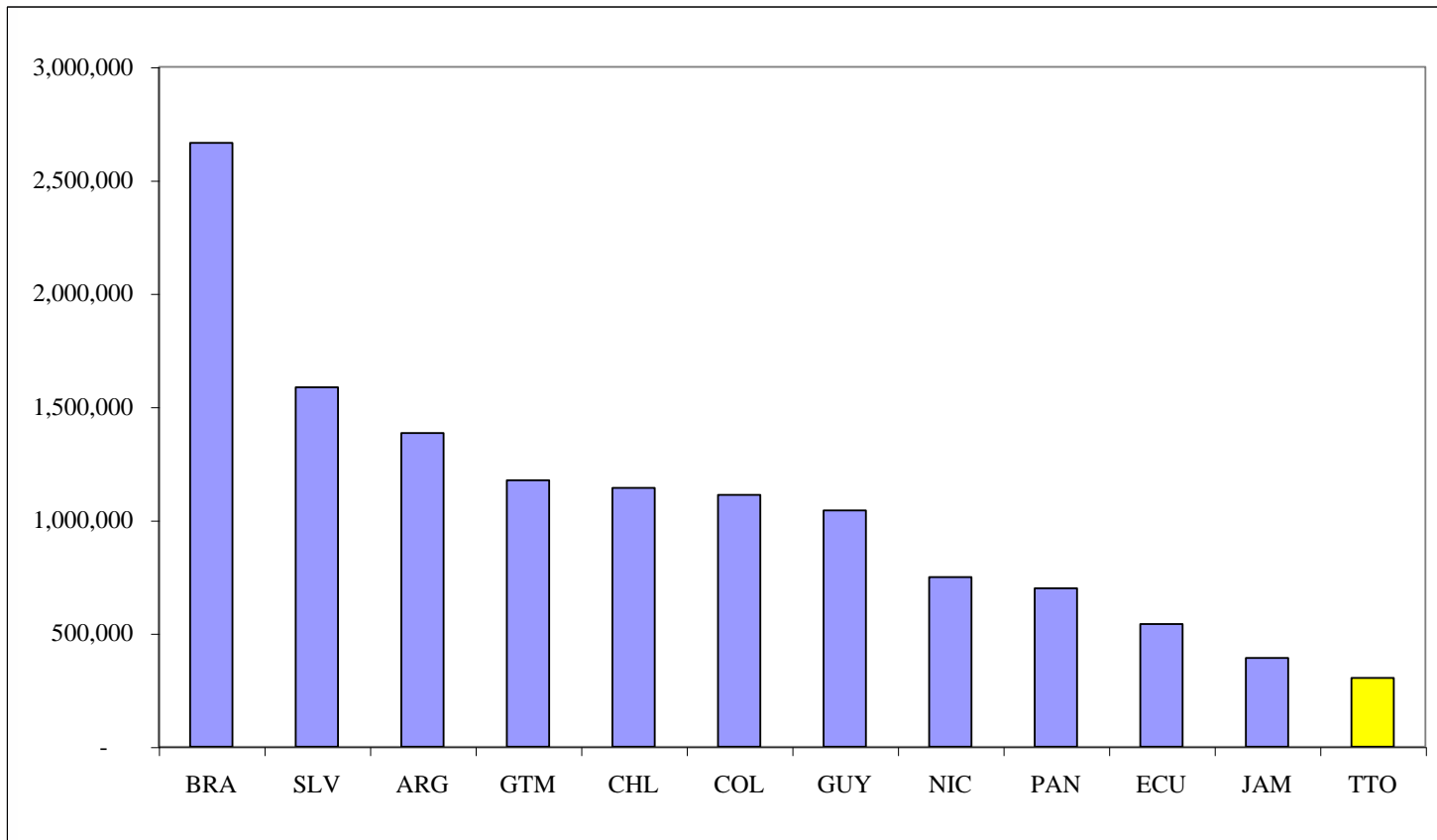
Correlation coefficient:
Gas and expenditure 0.68
Gas and revenue 0.79



Diversification?

- TT Government has identified seven key industries for intensified developmental focus:
 - Yachting;
 - Fish and Fish Processing;
 - Merchant Marine;
 - Music and Entertainment;
 - Film;
 - Food and Beverage;
 - Printing and Packaging.

Open Forest Analysis





Planned Measures

- Successive governments claim to be involved in intensive promotional activities to attract investments in these areas.
- Policy package for this group of industries includes
 - tax and custom tariff incentives
 - marketing and promotional assistance
 - skills training
 - R&D assistance
 - productivity enhancement support.



Pressure on exchange rate

- Strong inflows of foreign exchange during most recent boom put pressure on the real exchange rate to appreciate, creating inflationary pressures and eroding the external competitiveness of non energy sector.
- Recent figures show non-energy sector, more and more, as net user of foreign exchange, a trend that must be reversed for long term sustainability.



Competitiveness

- Implementation of floating rate regime and removal of exchange controls in the 1990s allowed local manufacturers to achieve greater profitability in international trade.
- Improvement in trade competitiveness since 1993.
- Improvement threatened by current inflationary trends as well as upward pressures on TT dollar.
- 2011-2012 Global Competitiveness Index ranks Trinidad and Tobago 81st, after Barbados (42nd) and Jamaica (107nd).



Pressure from Trade Unions

- Challenging industrial climate as ongoing wage negotiations in the various sectors (public sector, banking, port workers) has escalated into strikes and other protests action:
 - Strike action at TCL for 6 months has affected the construction sector.



Lack of Borrowing/ Excess Liquidity

- Excess liquidity has caused the CBTT to lower the repo rate 3 times in the past year and reducing commercial banks' lending rate and rates in the government securities.
- Consumer lending has been growing moderately but business credit continues to fall.



Slump?

- Latest Corporate Confidence Index shows local business confidence is falling, due to concerns about inflation, shortage of skilled labour, lower investment returns and government's failure to stimulate the economy.
- Business executives have expressed confidence in recent times notwithstanding increasing concern that current economic downturn (2012) will continue, despite continued forecast strength of global oil prices.



Conclusion

- Economic outlook in the years to come will be influenced by non-economic factors such as the existence of a stable government and ability of authorities to control the rise in criminal activity.
- Activity in the non-energy sector will be affected by the economic circumstances existing among the country's major trading partners and these are likely to be negative.



Conclusion (Cont'd)

- Need for deliberate repositioning of T&T economy, in addition to a focus towards new types of activities and new economic partners in order to achieve economic diversification and sustainable economic growth.
- T&T will face some challenges regarding structural transformation and adaptation, but this should be attenuated if there is a deepening of regional integration structures along with a diversification of exports and creating an enabling environment for trade and investment.

END



Thanks for your attention!