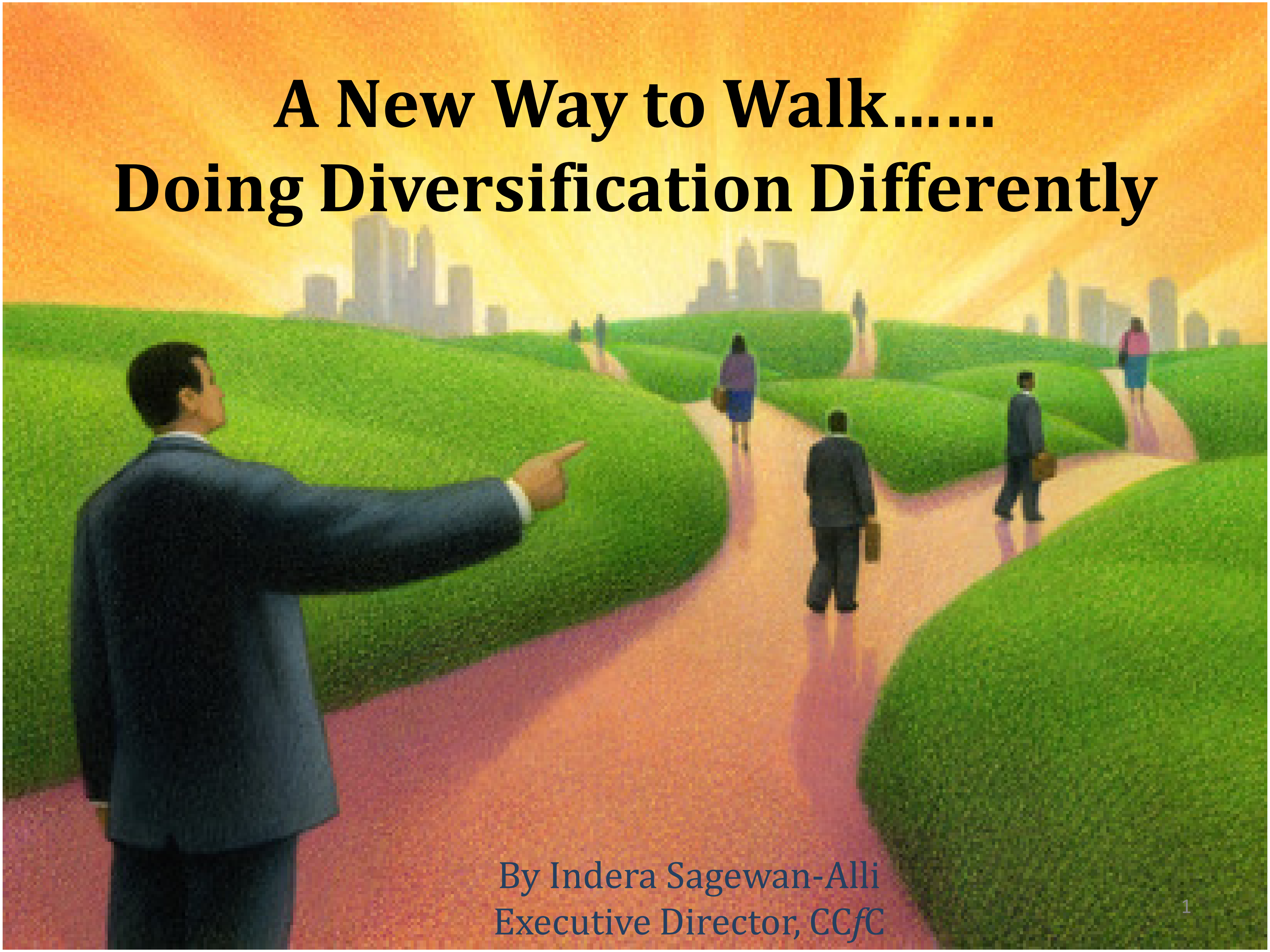
A New Way to Walk……
Doing Diversification Differently



By Indera Sagewan-Alli
Executive Director, CC*f*C

Export Diversification- An Old Tale…

People's National Movement General Elections Manifesto, September 24, 1956 states

"The principal features of the economic development of the country are….

- *The domination of the oil, sugar and asphalt industries"*

The “Old” New Kids on the Block

The Diversification Fallacies….

The existence of an industry (e.g. fashion) is **a sufficient condition** on which to build an export-led strategy?

“***the production trap!!!***”

We make it, it must sell!

The Diversification Fallacies….

Other countries are doing it so can We

"the copycat trap!!!"

If Barbados can do it, we can do it too!!!

The Diversification Fallacies….

Whatever the Global Trend we can join in

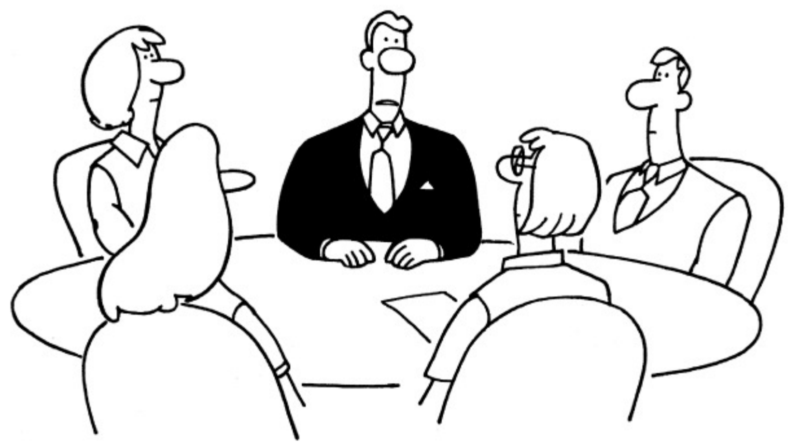
“*the Bandwagon trap!!!*”

If the market is health conscious, we can compete organic

The Diversification Fallacies....

Ministerial Sub Committees, Management Committees, State Enterprises, Special Purpose Vehicles operating in Silos facilitate diversification

“***the Institutional trap!!!***”



“Whew! That was close!
We almost decided something!”

The Diversification Fallacies….

Provide a range of Fiscal Incentives and diversification will follow

*"**the Incentive trap!!!**"*

Think about this…….

Do these drivers confirm comparative and competitive advantages to compete on the International Market?

They Don’t!!!!!


TRUST
THE
EVIDENCE
!

Energy

"Formula for success: rise early, work hard, strike oil."- J. Paul Getty

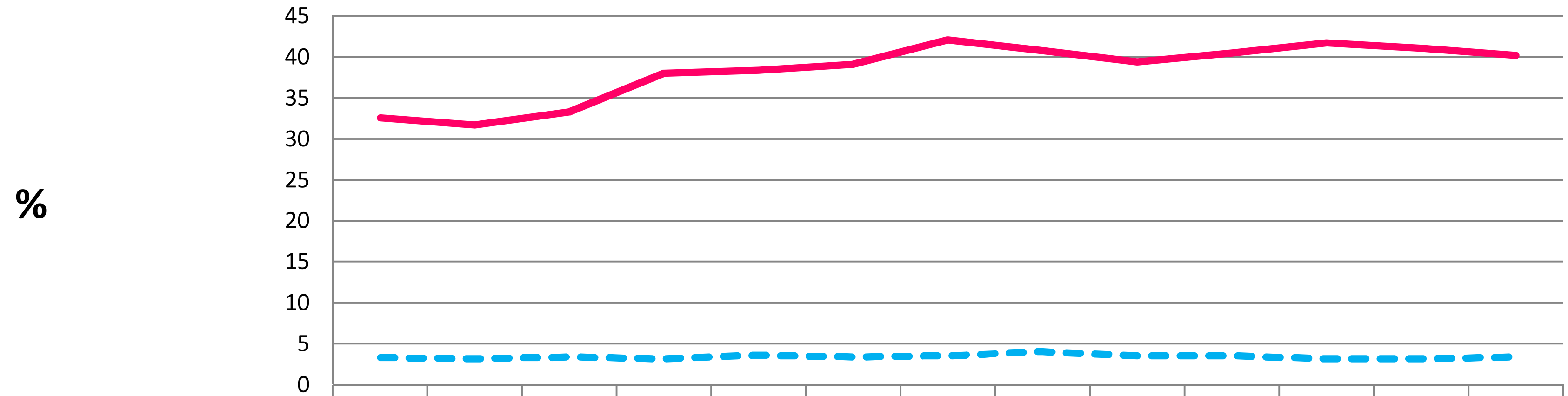
- Identified in **<u>1956</u>** PNM Manifesto as a priority sector for development (**57 Years**)
- ***State energy companies***
  - The National Petroleum Marketing Co. 1972
  - The National Gas Company 1975
  - The National Energy Corporation 1979
  - Petrotrin (Trintoc & Trintopec) 1993
  - Lake Asphalt Company of T&T Ltd. 1978
  - T&T Electricity Commission 1945

Incentives

Under the Petroleum Profits Tax several incentives are available, including:

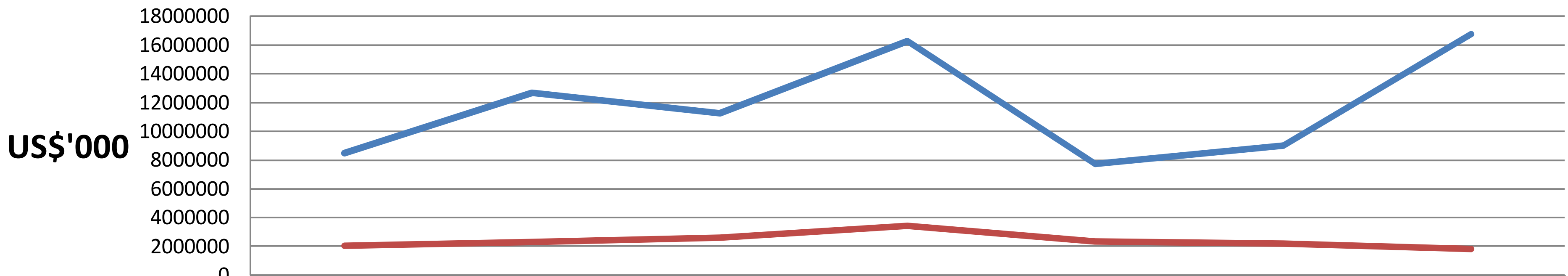
- – Initial allowance on tangible expenditure of 20%
- – First year allowance on tangible expenditure of 20%
- – Annual allowance on tangible expenditure of 20%
- – Expenditure on development dry hole shall with the Minister's approval be written off in the financial year that the dry hole is plugged and abandoned.
- – Workover allowances of 100%.
- – Heavy oil allowance - 100% of capital expenditure on drilling wells.

Economic Indicators, 2000-2012



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Petro & Gas % of GDP	32.6	31.7	33.3	38	38.4	39.1	42.1	40.8	39.4	40.5	41.7	41.1	40.2
Petro. & Gas % of Total Emp.	3.3	3.2	3.4	3.2	3.6	3.4	3.5	4	3.5	3.5	3.2	3.2	3.4

T&T Trade in Energy Products, 2005-2011



	2005	2006	2007	2008	2009	2010	2011
Exports	8494206	12674347	11260370	16260033	7728922	9009767	16743372
Imports	2035364	2332015	2629717	3443014	2356023	2217860	1814904

Food Sustainability

"Eating what we Produce "

- Identified in **<u>1956</u>** PNM Manifesto as a priority sector for development (**57 Years**)
- ***Subsectors***:
  - **<u>Core</u>**: Agriculture
  - Fishing & Fish Farming
  - Food Processing
  - Printing & Packaging

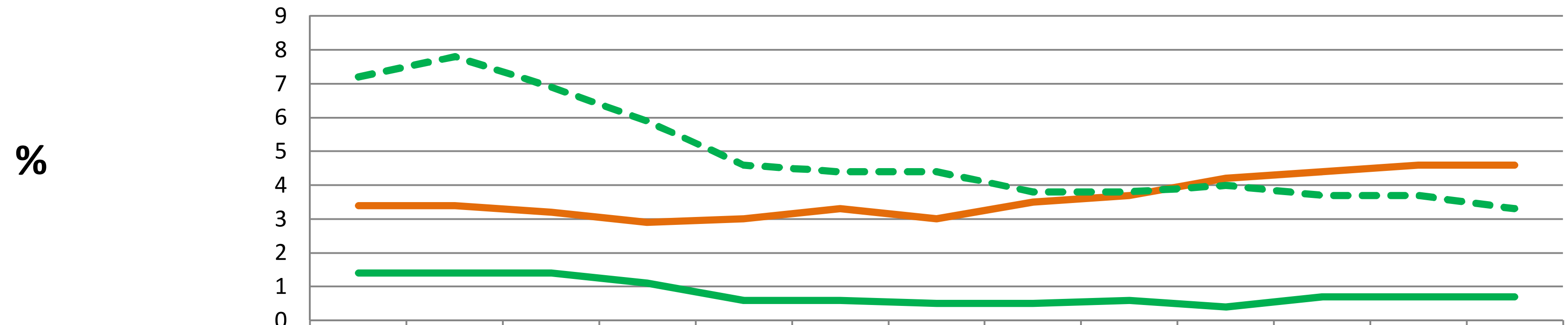
➢ **Food import bill stands at $4 Bn per annum (MP+SD)**

State Bodies	Research Entities
Agricultural Development Bank (ADB) 1800s	The University of the West Indies (UWI)
Agricultural Society of T&T 1839	Caribbean Industrial Research Institute (CARIRI
Cocoa and Coffee Industry Board 1961	University of Trinidad and Tobago (UTT)
National Agricultural Marketing and Development Corporation (NAMDEVCO) 1991	Caribbean Agricultural Research and Development Institute (CARDI)
Livestock and Livestock Products Board 1997	Caribbean Fisheries Training & Development Institute (CFTDI)
Food and Beverage Industry Development Committee (FBIDC) 2005	
Sugarcane Feeds Centre (SFC) 1976	
Seafood Industry Development Company (SIDC) 2006	

Incentives

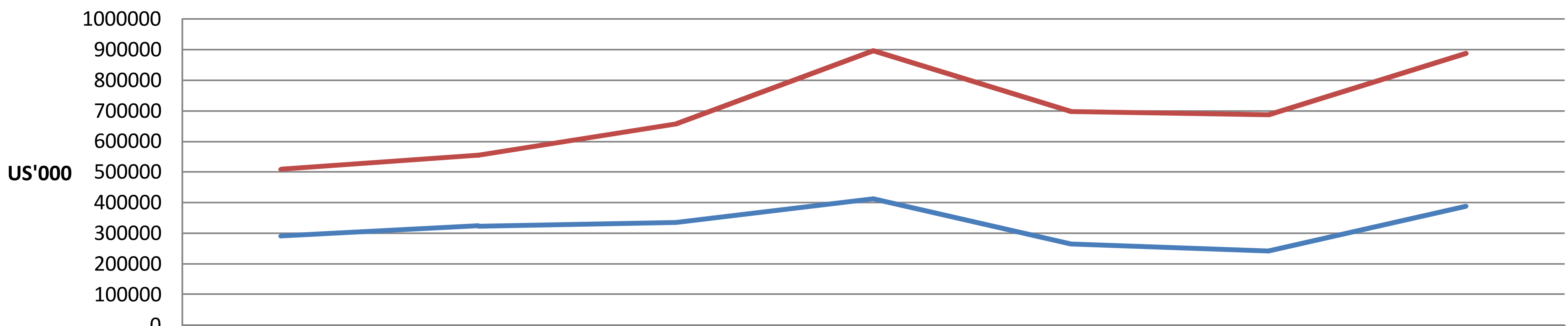
Agriculture	Food & Beverage
Agricultural Incentive Programme include – Vehicles – Water for Agriculture – Land Preparation – Machinery and Equipment – Marine Fisheries	The Fiscal Incentives Act - a waiver of income tax on dividends or other distributions, other than interest, out of profits derived from manufacture of approved products
Low interest loans from ADB (3-5%)	Total relief from VAT on imports for highly capital intensive enterprises
URP in Agriculture (launched 23 July 2013)	The Customs & Excise Act- duty free importation of plant, machinery, equipment, components and raw materials (Third Schedule of the Customs Tariff)

Economic Indicators, 2000-2012



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture % of GDP	1.4	1.4	1.4	1.1	0.6	0.6	0.5	0.5	0.6	0.4	0.7	0.7	0.7
Food & Beverage % of GDP	3.4	3.4	3.2	2.9	3	3.3	3	3.5	3.7	4.2	4.4	4.6	4.6
Agri. % of Total Emp.	7.2	7.8	6.9	5.9	4.6	4.4	4.4	3.8	3.8	4	3.7	3.7	3.3

T&T Trade in Food Products, 2005-2011



	2005	2006	2007	2008	2009	2010	2011
Exports	289811	323800	335638	412571	265590	241438	387497
Imports	508912	554881	657523	896416	698565	686409	887852

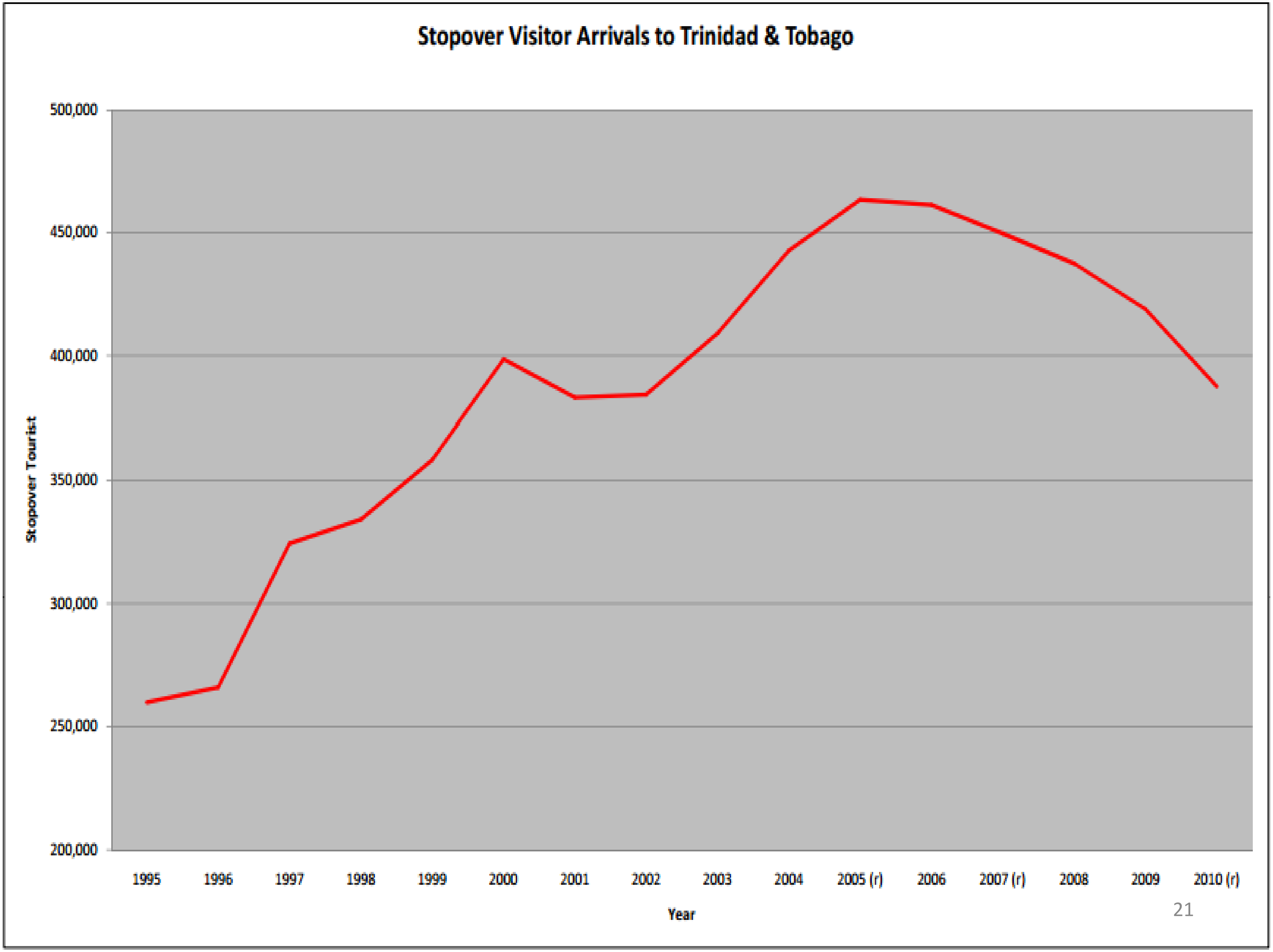
Tourism

"Jewel of the Caribbean Sea"

- Identified in **<u>1956</u>** PNM Manifesto as a priority sector for development (**57 years**)
- ***Main Agencies***
  - Ministry of Tourism (MoT) 1994
  - Tourism Development Company (TDC) **2005**
  - Division of Tourism of the THA 1996
- ***Academic Institutions***
  - Trinidad and Tobago Hospitality and Tourism Institute
- ***Legislation***
  - Tourism Development Act, 2000 (TDA) 1996
- ***Policies***
  - The National Tourism Policy 2010

Incentives

- A number of tax benefits for new projects which fall in certain target areas (The Tourism Development Act (Chapter 87:22))
- A room upgrade program- provides a subsidy /rebate for the maintenance of rooms for hotels with < 100 rooms
- A facility for the waiver of taxes and duties on vehicles for use in the Tourism sector.



Stopover Visitor Arrivals to Trinidad & Tobago
500,000
450,000
400,000
350,000
300,000
250,000
200,000
Stopover Tourist
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005 (r)
2006
2007 (r)
2008
2009
2010 (r)
Year

Culture & Creative Industries

"The Lifeblood of our people"

- Identified in the **<u>1986</u>** NAR Manifesto (**27 years**)

Culture	*Creative Industries (Focus of MTII)*
Heritage Preservation	• Music • Film • Fashion
State Vehicles	
Division of Culture (Min. of Arts) 1981	Creative Industries Company a.k.a **CreativeTT** (MTII) - MusicTT, FilmTT, FashionTT 2013
Academic Institutions	
UWI's Department of Creative and Festival Arts	
UTT's Caribbean Academy of Fashion and Design (CAFD)	
Digital Film Institute of Trinidad and Tobago	

Incentives

- The Customs & Excise Act- duty free importation of plant, machinery, equipment, components and raw materials (Third Schedule of the Customs Tariff)
- Production Expenditure Rebate Programme
- Tourism Development Act- a tax exemption for a maximum of seven years on the profits from the "the approved tourism project"
- Income Tax Act- Individuals are allowed a tax deduction of up to 25% on investment in the equity capital of an approved tourism project.
- The Corporate Tax Act's Art and Culture Allowance- companies can obtain a 150% tax rebate on the expend. of an artistic work up to a maximum of TT$1,000,000

Finance

"Financial Capital of the Region"

- Identified in the **1986** NAR Manifesto (**27 years**)
- Currently, financial services is the 2nd largest sector in T&T
- The Trinidad and Tobago Financial Sector comprises of:

Commercial Banks Credit Unions Development Financial Institutions Life and General Insurance Companies Mortgage Finance Companies	Other Non-Bank Financial Institutions The Stock Exchange Trust and Pension Fund Managers Unit Trust and Mutual Funds Venture Capital Companies	Deposit Insurance Corporation Home Mortgage Bank Financial Services Ombudsman Regional Credit Rating Agency

- The financial system in Trinidad and Tobago is dominated by commercial banks with an extensive network of 133 branches. (MP+SD)

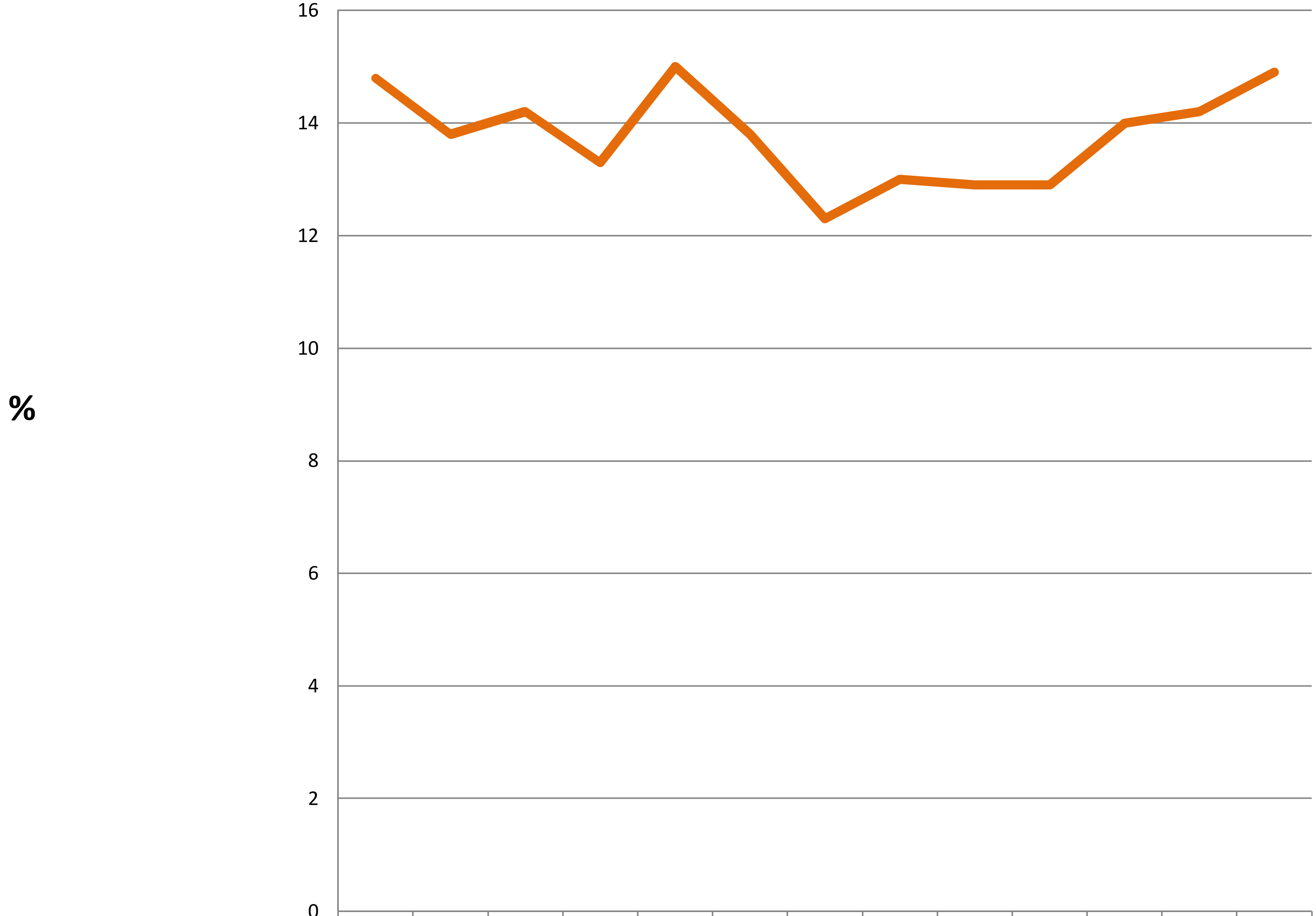
Finance

2010

1965

- ***State Enterprises***
  - Trinidad and Tobago International Financial Centre (TTIFC)
  - Trinidad and Tobago International Financial Centre Management Company Limited (TIFCMCL)
  - Export-Import Bank of Trinidad and Tobago Limited (EXIMBANK)
  - First Citizens Holdings Limited (FCHL)
  - National Enterprises Limited (NEL)
  - National Entrepreneurship Development Company Limited (NEDCO)
  - Taurus Services Limited (TAURUS)
  - Trinidad and Tobago Mortgage Finance Company Limited (TTMF)
  - ATRIUS Life Insurance Co. Limited (ATRIUS)
  - CLICO Trust Corporation Limited (CTC)

Economic Indicators, 2000-2012



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Finance, Insurance, Real Estate % of GDP	14.8	13.8	14.2	13.3	15	13.8	12.3	13	12.9	12.9	14	14.2	14.9

Maritime

- Identified by the previous administration in **2001** as a priority sector (**12 years**)
  - was initially developed as a result of the rapidly expanding energy sector
- ***State Bodies:***
  - 1994
  - Maritime Industry Development Committee (MIDC)
- ***Maritime Training Facilities:***
  - UTT
  - Arthur Lok Jack
  - Seafarers Training Institute Ltd.
  - Marine Safety (Training Consultants) Ltd.
  - Caribbean Fisheries Training Development Institute (CFTDI)
  - San Fernando Technical Institute (SFTI)

Incentives

- The Fiscal Incentives Act - a waiver of income tax on dividends or other distributions, other than interest, out of profits derived from manufacture of approved products
- The Customs & Excise Act- duty free importation of plant, machinery, equipment, components and raw materials (Third Schedule of the Customs Tariff)
- The Foreign Investment Act
  - allows a foreign investor to purchase land not exceeding 1 acre for residential purposes and 5 acres for commercial purposes
  - allows a foreign investor is to purchase up to 30 % of the cumulative shareholding in a public company
- Total relief from VAT on imports for highly capital intensive enterprises

- Draft Strategic Plan 2013-2018 currently being developed by MTII
  - Ship building (Offshore Support Vessels)
  - Ship repair
  - Transhipment
  - Bunkering
  - Value-added logistics support services
- Case in point: **T&T does not build ships!!!**
  - There is small scale production of small vessels
  - Do not have expertise in this area
  - Training facilities do not currently cater to ship building
    - ➢ **Should not be a priority in developing the industry!**

INSANITY

"doing the same thing over and over again
but expecting different results."

Solution???

Do Diversification Different!!!

Cluster Mapping and GVC Analysis

Cluster Mapping

The classifying of firms engaged in the production and processing of a commodity into natural clusters based on the complexity of their respective internal value chains. It is used to identify declining and emerging areas for investment and activities/products with the highest margin.

Cluster Mapping

1. Identify all companies within industry
2. Firm level data Collection (age of firm, products, size, markets, employment, etc.)
3. Grouping into natural segments (clusters) based on common value chains
4. Prioritizing clusters for detailed GVC analysis
   - Based on potential for exports, employment creation, degree of specialization, etc.
   - 5 forces analysis to determine areas with highest barriers to entry

Global Value Chain Analysis

Identifies the sequence of value added within an industry from conception, production to end use to determine the value added of each component (Gereffi et al. 2001).

It provides an understanding of how Firms/Industry can competitively improve their presence and insertion into the global market.

Global Value Chain Analysis

1. Identification and description of the input-output structure
   - process of transforming raw materials into final products
   - the nature of the interactions among firms
2. Analysis of the Geographical Scope of the Global Value Chain
   - analysis of the global dispersion of the main value Points
   - identification of opportunities & obstacles to the local value chain growth

3. Analysis of the Industrial Organisation and Global Governance Structure of the GVC

- identification of Lead Firms
- analysis of lead firm strategies & the effectiveness of the enabling environment

4. Define the local value chain of the cluster and locate in the GVC context

5. Map the local institutional and stakeholder context

- identification and analysis of the general enabling factors (domestic) & the industry specific factors
- performance of a stakeholder analysis

7. Identify potential upgrading opportunities
   - SWOT and PESTLE

8. Four pillars analysis for upgrading strategies and associated policy mechanisms
   - proposed strategies for accessing markets, training, financing, collaboration and coordination

9. Implementation and Monitoring

Outcomes of Cluster/GVC Analysis

- Competitiveness Strategies for medium to long term development and growth of priority sub-clusters

- Implementation Plans on a time line with KPIs

The Local Maritime Industry

Drydocking and docking facilities

-Fresh water pressure washing

-Sandblasting

-Painting

-Grit blasting

Construction and Repair

-Fabrication

-Welding

-Steel repairs

-Machinery repair

-Gas free certification

-Ship wright[1]

-Glass repairs

Marine Engineering

-Construction

-Waterfront structural engineering

-Electrical & electronics

Other Services

-Marine equiment rentals

-Underwater services

-Wet dock repairs

-Remote location repairs

-In transit repair

-Inspection

-Waste manegment

-Chandler services[2]


Climate
Location
Skills
Comparative
&
Competitive
Advantages
Political
stability
Standards
Cheap
energy
Exchange
rate

Strengths

- location of T&T
- Close proximity to Panama Canal
- Comparatively Cheap energy cost;
- Availability of skilled labour
- The hydrocarbon export sector attracts a lot of marine vessels

Weakness

- Lack of Government support;
- High upfront capex cost to create a dry dock;
- Limited research done in the sector
- Limited parts manufactured in Trinidad and Tobago to be used for repairs
- Large market share controlled by foreign firms

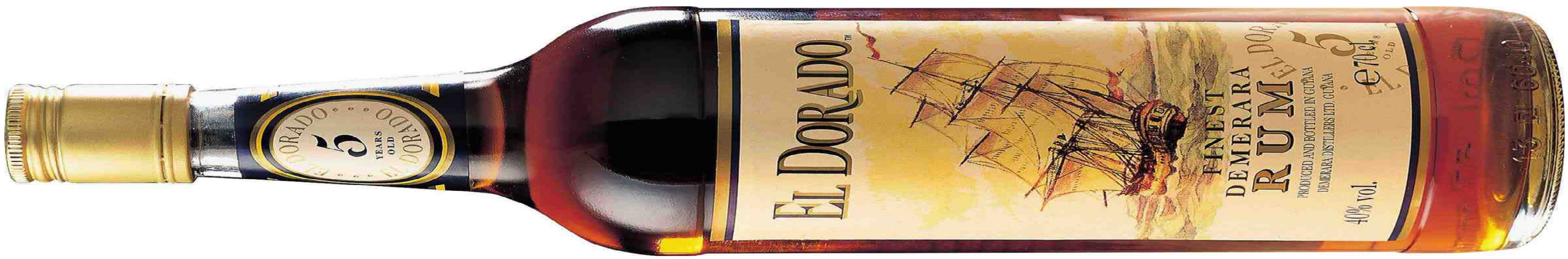
Opportunities

- The global demand for ships increasing
- T&T can make a transition of the marine value chain in the long run
- has the potential to develop a ship parts manufacturing sector
- Can create many permanent jobs for workers
- More energy efficient technologies can eventually be deployed in the sector

Threats

- Potential competition from Guyana, Curacao and Brazil;
- High crime in Trinidad may discourage tourist
- Inflation is high and may gradually erode cost competitiveness

GVC Example



Sugar Cane Byproducts production

- Sugar Cane Juice
- Sugar Cane Syrup
- Molasses as a by-product of Sugar Production

Bulk Rum Production: Fermentation, Distillation, Ageing

- Yeast
- Caramel
- Oak Barrels
- Stills (Pot, Column)
- Bourbon Casks
- Steel tanks

Blending

Spices (aniseed, rosemary, cinnamon, pepper, caramel)

Bottling

- Oak Casks
- Wooden Barrels
- Bottles
- Corks
- Labels

Distribution

- Wholesale (bulk rum)
- Retail
- General Distributors
- Specialist rum distributors
- Retail travel

Major Source Markets:
Brazil
Thailand
India
Guatemala

Major Producing/Consuming regions:
Caribbean
Latin America
India
Europe
The Philippines

Major Blending and Bottling regions:

Canada	Germany
UK	Austria
Scotland	France
Tennessee	The Netherlands

GVC in Practice

Malaysia- high-technology manufacturing value chain

- Value added exports constitute 68% of total export share
- Ranked 7th among top 25 exporting economies
- Ranked 3rd among developing economy exporters Ranked 11th among the Top 20 economies
- highest FDI rates of return (17%) in 2011 (UNTAD 2013)
- Post Crisis GDP Growth 5.1% 2011, 5.6% 2012 (WB)

Summary

- Determine the Criteria an industry/cluster must satisfy to be included in an export diversification strategy
- Know where we are - Cluster/Industry mapping to determine potential niches
- Analyze the Global Value Chain to determine where you can position your industry (comparative/competitive advantage)
  - Understand the Global Demand Trends for potential niche products
  - Understand the target market-standards, product characteristics
  - Understand your competitors
- Determine if you can produce a Competitive Product
- Develop a Competitiveness based Growth Strategy on a time line with KPIs
- Work the Strategy


That's all Folks!
SUPERB wallpapers