

NEW ECONOMIC SPACES FOR THE DEVELOPMENT OF TRINIDAD AND TOBAGO

WHY SHOULD INVESTORS CHOOSE TRINIDAD AND TOBAGO?



DR MANFRED JANTZEN
Former Senior Advisor to
Minister Winston Dookeran
and Business Studies Scholar,
Trinidad and Tobago

The Challenge: Changing Direction

As the country celebrates its 50th anniversary of Independence against a backdrop of the Great Global Recession, Trinidad and Tobago (T&T) must chart its path to future sustainable growth through equitable and inclusive development. Such growth and development cannot be imported. It must be driven by T&T's inward economic strength, by unearthing entrepreneurship and talent and by creating new economic spaces for development not only inside but also outside of the country.

1. Trinidad and Tobago's government, in partnership with key stakeholders of society, has taken steps to build a competitive entrepreneurial economy by nurturing its investment climate, making it attractive to foreign investors.
2. T&T is on a sound economic footing and has structured an attractive base for investment, through prudent recent fiscal management.
3. Trinidad and Tobago's development demands economic growth that can only be achieved and sustained by integrating political and economic decisions, by a stable government, committed to all the attributes of good governance.

The rest of this brief article expands on these on-going strategic growth decisions.

Partnering: Turning the Economy Around

In 2010, Finance Minister Winston Dookeran and the People's Partnership assumed office at the depths of the global recession and the regional financial crisis which threatened to profoundly derail growth. Minister Dookeran moved swiftly to arrest the crisis. The legacy from the previous regime weighed heavily, and the first priority of the 2011 national budget was to quell the increasing uncertainty and rescue the country from plunging into a recession; having experienced average growth of around 8 per cent between 2000-2007 and been branded "a Caribbean tiger" by *The Economist*.

- This first budget "Facing the Issues" focussed

on restoring stability and preventing collapse.

The bailout of one of the region's largest insurers and investment firms, CLICO was handled in such a way that the structural integrity of the financial system was preserved. Meanwhile, the moral hazard inherent in such a bailout was mitigated by an approach which protected both taxpayers and small investors. The state assumed full control of assets, fully compensated more than 40 per cent of investors, including trade unions and credit unions, and issued 20 year bonds to the remaining short-term investors. The government also rescued the smaller Hindu Credit Union, safeguarding the assets of some 160,000 small depositors in the interest of equity.

- Furthermore the budget created an Independent Risk Committee to monitor and identify future systemic risk. Through these policies, and through the scrapping of several costly and even harmful "white elephant" projects such as Alutrint and Rapid Rail, the new government signalled a break with the old order.

- Since 2009, Trinidad and Tobago has risen by 22 places in the World in Bank's Ease of Doing Business ranking. This has reflected the resolution of outstanding payments to many contractors and of VAT refunds, and the honouring of letters of comfort to banks; along with civil service reforms and attempts to reduce red tape. These measures, and the settlement of negotiations for civil service salaries, largely had the desired effect: greater confidence and stability at a time when the wider world was dashing for the lifeboats.

- Public sector restraint led to Trinidad and Tobago being awarded a rating of A- with a stable outlook in 2011 by Moody's, a rating agency. These first steps have prevented the country from an experience akin to previous deep recessions by putting the financial "house in order".

- Multi-lateral financial institutions have been, as a result, very willing to lend for growth. For instance, with the Inter-American

Development Bank a new Country Strategy was agreed covering the period 2010-2015. This new Country Strategy reflects a major re-engagement with Trinidad and Tobago and its scope according to the IDB is appropriate given the confidence in the management of the economy by the Minister of Finance and the scope of the reform process. The agreed approval level for the strategy period is US\$1.3 billion, with average annual disbursement of US\$170 million, which would cover around 47 per cent of the projected gross financing needs of the country during the strategy period.

- The priority areas include: (i) financial sector regulation and supervision; (ii) public sector management; (iii) education; (iv) social protection; (v) climate change; (vi) energy; (vii) water and sanitation; and (viii) transport. Tobago's development challenges will be addressed in a cross cutting manner, with a special focus being given to the priority areas of energy, business development, climate change, and water and sanitation.

- Public Sector management: The former Minister's reform agenda in the public sector management area was aimed at improving transparency, efficiency and effectiveness of public expenditure, including SOEs. The interventions, which started in 2010 were focused on: (i) strengthening the policy-making processes, as well as coordination, planning and monitoring of public expenditure, with a special focus on the PSIP; (ii) enhancing project cycle management; including planning, and pre-investment activities, procurement practices and monitoring and evaluation capacity; and (iii) improving information flows for decision making; by improving the data quality and availability.

Economic Transformation: Government as Catalyst

Major reform activities were initiated in 2010 and continued in 2012 in the financial, social

protection, climate change and the energy sectors.

- Financial sector: Following the CLICO issues, the Ministry of Finance immediately embarked on reform activities to reduce the vulnerabilities of the financial sector and reduce the probability of systemic crisis. The associated interventions were focused on: (i) reforming the regulatory and supervisory framework for the financial sector; and (ii) strengthening the institutional capacity of the Government in the area of risk identification and management.

- Social protection: In an attempt to improve the effectiveness and efficiency of spending in the social area, the Ministry of Finance initiated the following activities in 2010 – (i) Consolidation of four main cash transfer programs and improvements in targeting outcomes; (ii) Institutional strengthening of MOPSD, which includes monitoring, learning and evaluation capacity; and (iii) Improving the supervision of the CSOs that receive public funds to provide social services.

- Climate change: The Ministry of Finance saw the mainstreaming of climate change adaptation and carbon reduction into the country's development programme as a key priority. Interventions were, therefore, supported in the following areas: (i) integration of climate change mitigation and adaptation concepts for key sector policies ; and (ii) formulation of a stand-alone carbon reduction strategy and policy.

- The energy sector: The Ministry of Finance placed an emphasis on the development of a more efficient, sustainable and cleaner energy matrix. The interventions initiated in 2011 were focused on: (i) strengthening the regulatory and legal framework to contribute to a more sustainable energy sector; and (ii) promotion of an efficient and rational production and use of fossil fuels.

The second, catalytic, budget for 2012 included tax incentives for Small and Medium sized Enterprises to list on the stock exchange, an expansion of deposit insurance and greater

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emergency powers for the Central Bank, in order to strengthen the financial sector and develop capital markets. Stricter punishments were introduced for those caught abusing fuel subsidies, as well as a wide range of significant tax incentives for alternative energy investment and adoption, with an emphasis on liquefied natural gas. Tax reform and modernisation continue in earnest.

- In 2012, the government intends on playing a catalytic role in investing some US\$2.5 billion in two major downstream energy plants to produce melamine, calcium chloride and caustic soda and related products.
- In the medium to long term, the government is promoting greater high-value industry, encouraging and entering negotiations with private sector and foreign investors to inject

up to US\$5 billion in a series of downstream energy plants.

- This is happening concurrent to a large upgrade of infrastructure and new highway additions.

Creation of New Economic Spaces for development has been a major priority for the Ministry of Finance between 2010-2012. The combination of developing capital markets whilst providing the framework and initial investment push for Trinidad and Tobago's industrial estates amounts to the creation of new economic spaces for development.

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The state must foster an economic space that a generally risk-averse private sector can begin to participate in, and that foreign investors

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Commanding heights: government buildings still dominate the skyline of Port of Spain

may feel more comfortable in aggressively building a dynamic industrial sector. The key is cooperation between public and private spheres to build a partnership that boosts competitiveness. Already, foreign investors have committed more than US\$1.4 billion for 2012, with negotiations for another US\$5 billion worth of projects in the pipeline.

A two-pronged approach has been initiated by the Ministry of Finance under the leadership of former Minister Dookeran to promote private sector development:

- Competitiveness improvements through business climate reforms were initiated. T&T needs a strong business climate that facilitates innovation, entrepreneurship and business development in productive sectors.
- Bringing selected State Owned Enterprises (SOEs) to the point of public offering – an exercise which is currently being undertaken to prepare a road map for this public offerings programme. The Ministry is cognisant of the political implications of such a programme, but is committed to facilitate an orderly rationalisation of the SOEs in light of the increased pressure on the treasury to sustain these SOEs.

The government is expanding its programme of public offerings, in order to both increase private sector participation, and develop the stock market. These include the already-listed Point Lisas Industrial Port Development Corporation, the Trinidad and Tobago Mortgage Bank (a merger between two previous state mortgage providers) and First Citizens Bank. This is aligned with an overarching plan that has identified several key “growth poles” for the opening of internal economic spaces, which will be aided by the creation of special economic zones and favourable tax environments.

- Central to outward-facing development will be the creation of economic spaces within a context of regional integration.

New Economic Spaces: Sustainable Growth and Development

Learning from the Euro crisis has underlined the ever-increasing relevance of a perspective based on political economy. Politics and economics must work together. Political efforts are paramount in regional integration and Trinidad and Tobago must lead. Political and economic institutions must be built in order to mitigate moral hazard; that it may not prove disastrous in times of crisis. It is with this in mind, and in the interest of resistance to international shocks, that the maintenance of prudent sovereign wealth funds, present in Trinidad and Tobago in the form of the Heritage and Stabilisation Fund becomes more important. If these safeguards can be built, then Trinidad and Tobago may lead the creation of a regional economic space that clusters the economic resources of the region to promote growth.

- In first instance, and given the resource-based drive in the world economy, emphasis has been placed by the Ministry of Finance on the combination of natural resources to promote further growth in the southern axis of the Caribbean (T&T, Suriname and Guyana).

- The sectors involved are mining (bauxite) through the participation in the establishment of a regional aluminium industry in Suriname, promoting the use of gas in the Caribbean energy mix, and agriculture, ensuring adequate food production for T&T and the region. The forward and backward linkages created by these sectors are expected to benefit the entire Caribbean region from the growth poles in T&T, Suriname, and Guyana.

On the 50th anniversary of Independence, we seek to promote endogenous growth instead of the old state-centred model. We have stepped onto the path to development, but many more tough political decisions and structural reforms are necessary in order to adapt to a rapidly changing future.

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The state has partnered with the private sector, boosting investment and fostering an entrepreneurial economy. The Financial Times has rated Trinidad and Tobago one of the top “Caribbean and Central American Countries of the Future”

The World Economic Forum’s *Global Competitiveness Report*, in which Trinidad and Tobago has risen by five places since 2009, identifies several areas of interest for competitiveness. Despite its size, it is making strong investments in its IT infrastructure, and its markets are becoming more sophisticated.

- It is a strategic hub in the Caribbean, housing, amongst other organisations and multi-nationals, over 40 embassies and missions. Most school-children have been issued with laptops and plans are afoot to expand to achieve universal broadband access.

- T&T has robust institutions, provides free

higher education and healthcare and a stable economy that is resuming growth in earnest.

- In addition to the advantages for foreign investment already discussed, others include: competitive labour rates, high technical ability, time zone similarity with North American Markets, high cultural affinity to North America, robust telecommunication infrastructure.

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- The Minister of Planning & Sustainable Development is committed to a competitive, innovative-driven economy as an imperative for sustainability and prosperity, and entrepreneurship must be the driving force for generating higher levels of constant growth.

- The Finance Minister since June 2012, Lawrence Howai, has stressed that growth is his priority.

The foundations for growth have been laid, a roadmap for sustainable development exists, Trinidad and Tobago is ready. International investors would do well to take note. ■



Trinidad and Tobago: in the fast lane

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* The content of this article is based on the sources listed below including the writings of Winston Dookeran, as Finance Minister and internationally respected development economist. I also want to thank Iwan P. Sewberath Misser for his contributions and Kiran Mathur, who was an intern for two summers in the Ministry of Finance, for his assistance.

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