

Ewart S Williams: Economic leadership within the Caribbean with particular reference to Trinidad and Tobago

Feature address by Mr Ewart S Williams, Governor of the Central Bank of Trinidad and Tobago, at the Employers' Consultative Association of Trinidad and Tobago Fifty Second Annual General Meeting, Port-of-Spain, 16 March 2012.

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Thanks to the Employers Consultative Association for inviting me to address you as part of your lecture series. I also take the opportunity to congratulate you **on the occasion of your 52nd Annual General Meeting**.

Your anniversary is taking place against the background of an uncertain economic environment and in a complicated industrial relations climate.

Yet all birthdays are a time for celebration and you have much to be proud of, surviving 52 years of ups and downs and through it all, making a sterling contribution to the economic development of Trinidad and Tobago.

You have asked me to speak on **economic leadership within the Caribbean region**, with particular reference to Trinidad and Tobago. It is a rather broad topic but I would try to give you my perspective, hoping that it touches on the issues that concern you.

Without getting in too much detail, I will first try to indicate how our **economic performance compares with that of our regional counterparts**, suggesting that we have much to be thankful for. I will go on to make the point that the medium term economic prospects for the region are, to put it mildly, **very uncertain**. While we in Trinidad and Tobago have many more options than our CARICOM neighbours, given the uncertainties surrounding our natural resource endowments and the more difficult global economic environment, **we need to undergo considerable structural transformation**, if we are to maintain or increase the relatively high living standards which we now enjoy. My over-riding thesis is that you, **as the private sector**, would have a critical role to play in this process of economic transformation. However, success would ultimately depend on the extent to which we could set up a meaningful partnership with the other developmental partners, most notably the state, the trade unions, tertiary educational institutions and the NGOs community.

First the history...

There is no doubt that the Trinidad and Tobago economy has made remarkable strides over the past two decades, and in so doing, we have assumed the economic leadership of the Caribbean region.

For example, in the period immediately before the global recession, **say 2000 through 2008, real GDP** growth in Trinidad and Tobago averaged 7.6 per cent per year compared with the CARICOM average of 2.9 per cent. By 2008, Trinidad and Tobago accounted for 38 per cent of regional GDP and our per capita income is about US\$19,000 compared with an average of US\$8,900 for the other CARICOM territories. The Bahamas and Barbados have higher per capita incomes.

As we all know, the entire region was affected by global recession, some countries more than others. In 2009–2010, economic activity in the OECS declined by a cumulative 9 per cent. In Barbados and Jamaica, the cumulative decline was about one-half this amount – about 5 per cent. In these countries, the main contributing factors were the sharp fall in tourist arrivals and workers' remittances. The OECS were further affected by the impact of the CLF/Clico crisis (in fact, it was BAICO) and the devastation caused by Hurricane Tomas, particularly in St Lucia and St Vincent and the Grenadines.

(The region remained in crisis in 2011. While there has been some improvement in tourist arrivals, the OECS saw another year of economic decline, albeit at a reduced rate. Jamaica and Barbados both reported the start of a very weak recovery).

In Trinidad and Tobago real GDP is estimated to have declined by 3 per cent in 2009 remained flat in 2010 and declined again in 2011 (by just over 1 per cent).

I should note that Guyana and Suriname were the only two countries in the region that emerged unscathed, largely because of their gold resources which benefited from rising international prices.

Trinidad and Tobago's **more resilient economic performance**, relative to its neighbours, owes much to our energy resources and to the **entrepreneurial dynamism of our private sector**. These endowments are reflected, inter alia, in our stronger government finances, lower public debt, more robust foreign reserve positions, and in our dominance in regional trade.

The following summary statistics paint the picture.

- Regional governments have run **fiscal deficits** each year since 2000, **while Trinidad and Tobago has run fiscal surpluses for all but two years**, over the same period.
- The CARICOM region boasts of having among **the most highly-indebted countries in the world**, with public debt averaging around 70 per cent of GDP (Jamaica, Grenada and St Kitts and Nevis have debt ratios of over 100 per cent of GDP). In contrast, Trinidad and Tobago has a public debt ratio of 38 per cent of GDP.
- The relative fiscal and public debt performance are part of the story that explains **the differential credit ratings**. Trinidad and Tobago is the only Caribbean country rated "A" by Standards and Poor's. The Bahamas and Barbados also have investment grade ratings – **BBB and BBB minus**, respectively.
- Trinidad and Tobago dominates regional trade. For the period 2000 to 2007, Trinidad and Tobago had a positive trade balance of over US\$1.5 billion vis-a-vis our CARICOM partners; this increased to US\$2.2 billion in 2008–2010. Much of our positive trade balance was due to our energy exports. **Excluding energy trade, there is still an annual positive trade balance of around US\$400–\$500 million**. This latter statistic underscores the importance of the regional market for our manufacturing exports and for employment in the domestic manufacturing sector. It raises the interesting question **whether our enlightened self-interest does not justify some level of financial assistance to the region**.

And the facts are that Trinidad and Tobago has provided considerable financial assistance to the region over the past decade in a variety of ways. Since 2000, private sector firms and CARICOM Governments have raised approximately US\$2.2 billion on the local capital market mainly through bond issuance. In addition, official support provided by the Trinidad and Tobago Government includes US\$260 million through the Petroleum Stabilisation Fund, and about US\$50 million by way of its contribution to the CARICOM Development Fund.

The International Monetary Fund (IMF) considers **that the medium growth outlook for many countries in the CARICOM region will be subdued**. Excluding Trinidad and Tobago for the moment, the IMF envisages only: i) a slow recovery in tourism demand because of weaker growth in the advanced economies; ii) increased competition for scarce foreign direct investment; and iii) external shocks, including natural disasters, which could undermine economic stability due to limited fiscal space and high debt levels.

The medium term economic outlook for Trinidad and Tobago may be slightly better but several uncertainties and challenges lie ahead. It is to these uncertainties and challenges that I now turn.

In a speech I made to a Conference you hosted two years ago, I made the point that “while oil and gas have brought us to where we are, we are not sure how much further it would carry us”. If that was so in 2010, it is much more so now in 2012.

(I don't know about you but) I must confess to be very uncomfortable about the prospects for our energy sector.

The Scott Ryder Report tells me that, as at the end of 2010, proven gas reserves were equivalent to 9 years of production and proven oil reserves, the equivalent of 14 years (production). The data show that oil production has been on a secular decline for several years and anecdotal information suggest that petro-chemical industries are currently facing serious gas shortages. This portrait underscores ***the urgent need for*** investment in exploration in order to tap into our probable and possible oil and gas reserves. However, the results ***from two bid rounds*** conducted so far, have not been as good as envisaged.

In addition to the production uncertainties, there are serious risks to gas prices over the medium to long term. These arise from the great proliferation of shale gas technology which is likely to lead to a major increase in gas output and depress LNG prices worldwide.

The uncertain prospects for the energy sector and the central role that this sector will continue to play in the economy over the next few years, ***may be contributing to the crisis of confidence in the non-energy sector. Perhaps a national dialogue on the subject would serve to give investors a better understanding of the real picture in the energy sector*** and facilitate more meaningful planning of the much-needed diversification effort.

If current trends in the energy sector persist, the transformation of the non-energy sector ***will become all the more urgent***, if sustainable growth is to be achieved. This transformation would need to be based on the establishment of a range of competitive industries producing for new export markets.

You, the private sector are being called upon to play the major role in this transformation effort. I submit, as I have done before, ***that the market mechanism will not provide the necessary incentives for meaningful diversification***. State leadership and vision will be required and I would add the ***active participation of other stakeholders*** such as the trade unions and the tertiary educational institutions.

Among the Government's roles is the ***provision of public goods and services that are essential to the growth process***. Thus, the focus should be on the improvement of our economic infrastructure – specifically roads, water, electricity, ports and so on. ***Government has already announced sizable investment programmes in these areas. Government has also been placing great emphasis on education and training. Hopefully this emphasis would serve to create a culture that institutionalises continuous learning*** and a “can do” attitude, which is critical for an environment conducive to innovation.

The Government also has responsibility for maintaining an enabling environment. While there are several elements under this heading, ***“business facilitation”*** is one that requires particular attention.

In the latest *Doing Business* Report by the World Bank, Trinidad and Tobago ranks 68 out of 183 countries. In that Report, two of the areas cited as needing significant improvement are: i) ***dealing with construction permits – it takes around 297 days to get a building permit***; and ii) registering property, where it takes on average 162 days to complete the process.

Discussions with local traders also suggest ***that there are often significant delays and charges at our ports***, even relative to the rest of the Caribbean countries. I understand that some important work has been going on to progressively reduce administrative procedures by way of a *Single Electronic Window* which would help to further automate transactions.

The private sector also has its challenge. **Entrepreneurs need to move out of their existing comfort zones and to invest in new industries for export to some of the more promising and dynamic markets.** It is worth remembering that following the economic crisis of the 1980s, local private sector firms took up the challenge, identified new exports niches and established a formidable presence in the CARICOM region. In some cases the amount of capital needed may require partnering with foreign investors. In other circumstances, public/private sector partnerships may be the appropriate modality.

The trade unions clearly have an important role in the transformation effort. **Relations between companies and unions need to shift from being adversarial to one of cooperation.** It is critical for both parties to jointly address **competitive pressures** and work to harness the skills and commitment of the workforce.

Productivity and/or profitability are the source of an employers' capacity to pay, if business competitiveness is to be achieved and maintained.

Some of the more dynamic export-oriented economies (in Asia) have experimented with compensation systems which provide flexibility through variable pay arrangements which can respond to changes in market cycles or to poor enterprise performance. I am not sure whether it would work here but perhaps, it is worth some consideration.

Let me end by returning to the main theme ... While we are undoubtedly the economic leaders of the CARICOM region, our energy advantage is on the wane.

In these circumstances, in order to ensure medium-term sustainability and increasing living standards, we need to become more competitive, and to put the diversification thrust on the front burner. Time may not be on our side.