

## **Jwala Rambarran: India and Trinidad and Tobago economies – building bridges for a robust relationship**

Keynote address by Mr Jwala Rambarran, Governor of the Central Bank of Trinidad and Tobago, at the 2013 India Business Seminar, Port of Spain, 20 March 2013.

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Ladies and Gentlemen,

It is my pleasure to address you at this 2013 India Business Seminar.

At the outset, I commend the Chamber of Commerce, InvesTT and the High Commission of India in Port of Spain for continuing to further deepen trade and investment opportunities between our two nations, which share strong cultural connections since East Indian immigrants arrived here over 150 years ago.

This year's India Business Seminar is certainly timely. Not only does it allow for further exploration of business opportunities that have arisen since the Honourable Prime Minister led a delegation to India in January 2012. But it also provides an occasion for us here in Trinidad and Tobago to critically reassess our state of readiness to firmly grasp these business opportunities.

I say this because even though some threats to the global economic outlook have partly faded, sparking renewed optimism, uncertainty is bound to remain high. More than five years into the global economic crisis, policymakers in Trinidad and Tobago's traditional trading partner countries are still struggling to resolve long pending issues to put their crisis-hit economies on a sustainable growth path.

In the United States, which accounts for almost half of our total exports, there has been agreement avoiding the so-called "fiscal cliff". Economic growth, however, remains subdued and the unemployment rate is too high. The United States is likely to face headwinds for some time to come from not completely resolving disagreements regarding expenditure cuts or changes to its public debt ceiling.

Across the Atlantic, our European trading partners, who absorb more than one-tenth of our exports, are likely to remain a source of global instability for a while yet. Persistent sovereign debt crises and underlying structural problems in several euro area economies will take time to resolve. Recent developments in Cyprus regarding the imposition of a tax on bank deposits have sparked a new wave of nervousness in periphery euro zone countries and in world financial markets.

Closer to home, the Caribbean, which remains our second largest export market, is gradually recovering from a deep recession. Since September 2008, nine countries in the Caribbean have turned to the IMF for increased financial support under various lending facilities to weather the crisis. Others have sought to rely mainly on fiscal stimulus to kick start growth, elevating the risk of debt distress.

Ladies and Gentlemen, even as we focus on dealing with the fall-out from the ongoing global economic crisis, we should not lose sight that our world is being reshaped by a number of megatrends.

One such megatrend is the rise of the new superpowers of Asia and the Southern Hemisphere. These emerging nations of Brazil, Russia, India, and China, or as they are more popularly known, the BRICs, are already major players in the world economy. They have 40 per cent of the world's population spread out over three continents and already account for 25 per cent of global GDP.

The BRICs are forming new South-South connections, reshaping emerging market and developing countries' engagement with the rest of the world. In the process, the BRICs are

helping to create a new Southern Silk Road, linking Asia, the Middle East, Africa and Latin America and the Caribbean, and signaling the return of the centre of the world economy's centre of gravity back to its origins.

In a January 2011 research report entitled "*The World in 2050*" Karen Ward, an economist with HSBC, predicts the following seismic shifts by the year 2050:

- The collective size of economies we currently deem „emerging' will have increased five-fold and will be larger than the developed world;
- 19 of the 30 largest economies will be from the emerging world; indeed, China and India will be the largest and third-largest economies in the world, respectively;
- Several other emerging economies – most notably, Mexico, Turkey, Indonesia, Egypt, Malaysia, Thailand, Colombia and Venezuela – will make substantial progress up the global league table;
- Some small-population, ageing, rich economies in Europe such as Switzerland and the Netherlands will slip down the grid significantly, while Sweden, Belgium, Austria, Norway and Denmark drop out of the Top 30 altogether.

These trends make it even more imperative for Trinidad and Tobago to build and strengthen South-South relationships during the current global crisis to help us withstand future economic pressures in our traditional markets.

In this regard, I remain convinced that international trade is a key instrument to building more robust and enduring relationships across countries. As a small, highly open island economy, trade is very important to Trinidad and Tobago, with the value of imports and exports of goods and services equivalent to 100 per cent of GDP. International trade allows us to import ideas and technologies, realize comparative advantage, foster competition and achieve higher sustainable employment and economic growth.

Deepening our trade engagement with India is, therefore, a step in the right direction. I am pleased to note that, within the recent past, our countries have been steadily moving to boost trade and investment linkages, building on our strong cultural links.

For us here in Trinidad and Tobago, India with its population of more than 1.2 billion persons represents an enormous, untapped market. For India, although Trinidad and Tobago may seem to be very small market with only 1.3 million persons, the country can be viewed as the Gateway to the Americas, offering a collective market of some 590 million persons in Latin America and the Caribbean.

Accordingly, this afternoon I would like to take the opportunity to talk about some issues related to building and sustaining our trade flows with India.

### **Merchandise trade flows**

Ladies and Gentlemen, although bilateral trade relations between Trinidad and Tobago and India seem to have considerable potential, the hard evidence suggests that we are barely scratching the surface and are yet to see any significant expansion of actual merchandise trade flows.

Based on data from our Central Statistical Office (CSO), the merchandise trade pattern between Trinidad and Tobago and India is as follows:

- Trinidad and Tobago consistently ran a trade deficit with India, which widened from around US\$15 million in 1998 to more than US\$50 million in 2006;
- Our trade deficit with India turned into a surplus of just over US\$30 million in 2007, for the first time in 9 years, mainly due to exports of LNG, but lasted only until 2008;

- A trade deficit of about US\$50 million re-emerged with India in 2009, principally on account of the global economic crisis; and widened to US\$85 million in 2010, before narrowing sharply to around US\$15 million in 2011.

At a sectoral level, Trinidad and Tobago's exports to India reflect our comparative advantage in energy but they are very highly concentrated in fuels. In 2011, the top export from Trinidad and Tobago to India was LNG, which accounted for more than 90 per cent of the value of total exports. This share has remained fairly constant over the past few years. Our other two top exports to India in 2011 were scrap/waste iron and Caribbean cedar greenheart or mora. I rather suspect, though, that the latter product might be a re-export from Guyana which, if true, worsens our export position.

In 2011, India ranked as the 35th largest export market for Trinidad and Tobago, well behind Brazil and China, which ranked better at 9th and 28th, respectively. Russia, on the hand, came at a very low 124th position.

Unlike exports, our imports from India show a lot more product diversity. In 2011, the top three imports from India to Trinidad and Tobago accounted for one-fifth of total import value. The top ten imports accounted for more than 40 per cent of total imports. Top imports from India comprised shelled cashew nuts, medication, barium sulphate, steel products and spices.

In 2011, India ranked as the 19th largest import market for Trinidad and Tobago. Again well behind Russia, Brazil and China, which ranked 4th, 5th and 6th, respectively.

The emerging picture, Ladies and Gentlemen, is that Trinidad and Tobago's slow pace of diversification away from the energy sector is starkly reflected in its lopsided trade with India. We are failing to generate any substantial non-energy exports to a market that is not only open and accessible but whose trade potential is still largely unrealized.

India, on the other hand, is quite rightly enhancing the volume of its trade with Trinidad and Tobago and the rest of the world. Nevertheless, India's share in world trade is still low when compared with other BRIC countries, particularly China, which corners about 15 per cent of world trade. This suggests substantial room exists for India's trade growth and expansion.

In fact, a 2009 study on India's global trade potential in the post-crisis period carried out by the Asia-Pacific Research & Training Network on Trade found significant potential for expansion of trade between India and several countries in Latin America and the Caribbean.

The results suggest that, relative to the actual level of trade in 2007, India can potentially attain:

- 11 times more trade with Barbados;
- 7 times more trade with Panama;
- 5.5 times more trade with Jamaica;
- 5 times more trade with the Dominican Republic;
- 3 three times more trade with Venezuela and the Bahamas; and
- Almost 3 times more trade with Trinidad and Tobago

One important policy lesson for Trinidad and Tobago, which results from the above analysis, is that Government must seriously aim at reducing "behind the border" and "at the border" costs of trade. It is indeed instructive to note that India placed a very low 127th out of 185 countries in the World Bank's 2013 global rankings on ease of trading at the border. Trinidad and Tobago has a higher ranking of 75th in terms of ease of trading at the border. Trade facilitation is, therefore, essential to reduce the cost and to compress the time required for trade across both countries' borders.

Another policy lesson is that Trinidad and Tobago can further enhance trade possibilities with India by leveraging its access to an enlarged market. Trinidad and Tobago has already established formal trade ties with the Dominican Republic, Cuba, Colombia, Venezuela, and Panama. Trinidad and Tobago is exploring a partial scope agreement with Guatemala. In addition, the CARICOM region has a trade agreement granting it access to the markets of the European Union, and is currently negotiating a CARICOM/Canada trade and development agreement.

Through the use of joint ventures with Trinidad and Tobago firms, Indian companies can use these trade agreements to establish a foothold in the markets of Latin America and the Caribbean. Additionally given that India signed preferential trade agreements with MERCOSUR (Brazil, Argentina, Uruguay and Paraguay) in 2004 and with Chile in 2006, having a partnership with a Trinidad and Tobago company, which is physically closer to these markets, may allow for greater exploitation of the preferential tariffs afforded to goods of Indian origin under these agreements.

### **Trade in services**

Ladies and Gentlemen, apart from international trade in merchandise goods, there also exists international trade in services, which I believe has greater potential opportunities for building economic bridges between Trinidad and Tobago and India.

One potential market opportunity lies in cooperation with the Indian film industry. As many of you know, India is the largest film producer in the world, with Bollywood a major centre for Hindi film production. Bollywood produces roughly 1,000 movies a year. Hollywood only produces 500 and Japan produces 400 movies a year. Bollywood has been generating revenues at around 10 per cent a year. Some 3 billion cinema tickets are sold in Bollywood compared with 1.5 billion in the United States.

In an attempt to capture a more global audience, Bollywood is beginning to collaborate with leading Hollywood studios in areas from production to distribution to content protection. In 2007, Warner Bros made its Bollywood debut with Ramesh Sippy Entertainment. Yash Raj Films (YRF), India premier studio, entered into an agreement in 2008 with Walt Disney, leaders in family entertainment, to exclusively create a series of original computer-animated films. In 2009, Reliance Big Entertainment signed a deal worth US\$1.2 billion with Steven Spielberg's „Dream Works SKG' to produce 36 films for the next 6 years.

According to a 2010 brochure from the Ministry of Trade, industry and Investment on our own local film industry, several Hollywood productions have filmed here on location over the past fifty years.

For the prospective film-maker, Trinidad and Tobago has substantial resources for the production of feature films. These include scenic and contrasting locations in close proximity to each other, a “film friendly” people, an ethnically diverse population, good airlift from the United States and Europe, varied accommodation options, equipment and support service providers, and a trained and dedicated staff at the Trinidad and Tobago Film Company Ltd (TTFC).

In 2007, the filming of the first Bollywood movie **“Dulha Mil Gaya”** took place in Trinidad and Tobago. While the movie failed to click at the Indian box office, it was a runaway success here in Trinidad and Tobago and formed the opening feature at Movie Towne, Chaguanas, running for about one month. Since then, how many other Bollywood movies have been filmed on location in Trinidad and Tobago? None!

I, therefore, find it disappointing that we completely failed to grasp this golden opportunity to market Trinidad and Tobago as an alternative Bollywood island destination. Mauritius, on the other hand, has taken advantage of its location, exceptional beaches and largely Indian population to become one of the top film-shooting destinations for the Indian film industry. Bollywood filmed over 90 days on location in Mauritius in 2010.

Ladies and Gentlemen, travel and tourism is another potential area for building more robust relationships between Trinidad and Tobago and India. With the increasing wealth of the Indian urban middle class, travel and tourism has now become an affordable luxury. With 350 million Indians ranked as middle class inhabitants and economic growth increasing by 5–6 per cent every year, India offers enormous potential for future growth in outbound travel.

According to the 2012 report “Indian Outbound Tourism Market”, in percentage terms, India is the fastest growing outbound tourism market in the world, and in terms of numbers, it's the second fastest after China.

In any economic slowdown tourism is the first sector to get affected. But the Indian outbound tourism market seems to be an exception. Spending within the market hit US\$12 million in 2010 and is expected to reach over US\$20 million by 2015.

The United States is way ahead of its rivals and controls almost one-third of Indian outbound tourism spending. Not only do countries like Singapore, Malaysia and the United Arab Emirates get a steady and strong surge of India tourists, but also those like South Africa and Australia which are up-and-coming popular destinations for the well-to-do Indian.

For Trinidad and Tobago capturing even a small share of this Indian travel market can be a boon to our tourism industry. Indian visitors would have a sense of familiarity with some aspects of the culture and food, but would also be able to enjoy the cosmopolitan mix that is Trinidad and Tobago. One strategy to employ in seeking to attract these niche markets is to emphasize sports tourism, honeymoon packages and festival tourism.

## **Conclusion**

In closing, Ladies and Gentlemen, my message is simple. International trade offers many bridges to be built between Trinidad and Tobago and India. Trinidad and Tobago is seeking out new markets for survival. Indian entrepreneurs are going global and looking for new investment prospects in the Caribbean. Our policymakers and business community should forcefully seize these opportunities, building upon existing relationships. In my respectful view, Trinidad and Tobago should set a goal to run a US\$100 million trade surplus with India over the next 2–3 years and the surplus should reflect a wide range of non-energy exports.

Let me end by reminding you of a quote attributed to Mahatma Ghandi and which is highly relevant to my message, “the difference between what we do and what we are capable of doing would suffice to solve most of the world’s problems.”

I thank you.