

OPENING ADDRESS AT AMCHAM'S SECOND GOVERNANCE CONFERENCE

24TH NOVEMBER 2011

CHAMBER OF COMMERCE BUILDING

Sustainable Economic Development - The Onshore Economy

Thank you Hugh.

All protocols observed...

As Hugh put it so succinctly, my job, other than to moderate the discussion periods to follow the addresses, is to introduce the speakers and to advise you of their perspectives. To do so I need to give you some understanding of why we have chosen the topics to be addressed.

When we sit as a committee to plan this conference, a process which this year began some seven months ago, we take careful stock of where we are as a country, a nation, an economy and a society. This is our tenth annual conference; the second in our series on governance and, as in every previous year, we seek to explore and understand the issues we consider most important and we invite a panel of speakers who we feel can best inform and educate on those issues.

We have been very fortunate over the years to never have had an invitation to speak turned down by anyone. That says something about the relevance of our choice of subject matter in relation to the national interest and the respect which our organisation has earned in the national community. This year is no different.

Our choice of topics this year is informed by recent past experiences and the conviction that only by comprehending the mistakes of our past are we likely to avoid repeating them. I remember standing right here, in this very room, in 2005 - six years ago - and warning about "drunken sailor

economics” and the threat of “dutch disease”, where we fritter away our abundant natural resources without a plan for the future and have nothing to show for it when the money has been spent. Six years later and that is precisely where we are today. No one in power listened then. Let us hope those in power today listen so we might be better off six years from now.

The selection of topics for today’s conference may not at first glance appear relevant to the title of the conference “Sustainable Economic Development – The Onshore Economy” so let me knit it together for you.

You will recall the recent construction boom when we put up all kinds of tall and fancy buildings using foreign labour, foreign materials, foreign construction companies and foreign consultants. You will recall the indecent haste in which it was done, whereby we circumvented all the traditional systems for tendering for public works. You will recall the enormous scandals which came out of that process which caused the last government to fall and you will recall the findings of the UFF Enquiry. Sorry to bring up such awful memories so early in the morning when you have just had breakfast.

What you might not recall is just how much money was spent, how little of it remained in Trinidad and Tobago and how much of it that should have remained here found its way into people’s personal foreign bank accounts. Indeed we may never know. I hope we find out one day but I would not bank on it. If we do we will have to build another jail.

What we do know is that the process, which involved the formation of special purpose companies, was designed to get around the bureaucracy of the public service regulations, which were found to be too slow and cumbersome to deliver the rate of progress that was desired by those in power. Rather than modernise that system and make it more efficient, it was deemed more expedient to circumvent it altogether.

The results speak for themselves. We paid for some horrendously expensive buildings with enormous maintenance costs attached, which we have to pay for in the future. Most of the space is still empty and unutilised and we are now finding out that much of the work was so

shoddy it will take billions more to repair it before we can put them to use. What a crying shame.

All of this points to a massive failure in governance which needs to be addressed urgently and comprehensively. Why is the Public Service so backward and cumbersome? Why has it not been modernised and made more efficient? We have been hearing about public service reform for decades but there is precious little evidence of any progress. Why is that? Who is responsible and what can be done about it?

Clearly there is a need to develop a better system of procurement for public works. We have had promises from government for years to bring new legislation to parliament but so far nothing to show for it. How much longer must we wait? How much longer are we prepared to wait?

Most if not all of you are familiar with the terms “Offshore Economy” and “Onshore Economy”. A speaker at one of our earlier conferences, a learned gentleman by the name of Lloyd Best, coined the terms to refer to those parts of our economy that are based on the export of primary products which are exploited by foreign countries or companies. Historically this began with sugar, followed by citrus and cocoa - with oil and gas being the most recent commodity examples.

Those were the elements of what he termed the “Plantation Economy”, where the investment, the technology and the primary markets were all foreign and our country was in effect a plantation and our role was merely to operate that plantation. The “Onshore Economy” by contrast, is that which is locally owned and managed. However for most of our history the onshore economy was in effect a “satellite” of the offshore; its fortunes tied to that of the former. The offshore economy earned the foreign exchange and the onshore economy used that foreign exchange primarily to import goods for distribution and trade. Even the shopping malls and associated real estate developments were essentially by products of the offshore economy.

The new thinking of the onshore economy is one which does not depend on the rents earned by the offshore economy but rather one based upon

sustainable and renewable resources – primarily knowledge-based resources. Think of services and home grown technology. Think of products that can be exported to earn foreign exchange which do not depend on foreign investment.

I once attended a lecture by the economist Eric St. Cyr in which he put the concept very starkly indeed. The standard of living we enjoy today is as a result of the energy rents we earn and the foreign exchange generated by that sector. Without those rents the value of our currency would diminish very rapidly and we would soon not be able to afford all the imports we now take for granted, such as the \$4B food import bill, not to mention the consumer luxuries we have become so accustomed to. Unless we are able to earn that foreign exchange through exports of products and services other than oil, gas and their derivatives, we will be in dire straits when the energy reserves start to run out, having developed appetites we can no longer feed.

We had a glimpse of just such a situation in the 1980's when the price of oil fell to \$9 a barrel and we did not as yet have any gas sector. Our currency quickly devalued from \$2.40 to the US\$, then to \$3.60, then to \$4.75 and then to \$5.75 when the so called floating exchange rate came into effect. We have since seen a managed devaluation to today's rate of \$6.40.

Let us understand that the experience I have just described coincided with the exploitation of our natural gas resources. Were it not for gas we would have been more like Jamaica and Guyana where the exchange rates are many multiples higher, not \$6.40 but \$100 or \$500 to one US\$.

It is not as though our oil and gas reserves are about to run out but there is considerable risk of price instability in those commodities and we would be very foolish to assume that our current foreign exchange inflows are guaranteed for the next decade or more, especially given the type of economic crises we see developing all over the world, the outcome of which we cannot predict.

If we remove our energy sector foreign exchange earnings and look at our net foreign exchange usage, it vastly exceeds our earnings and the gap

grows wider every year. Our non-energy manufacturing sector is a net user of foreign exchange, despite its enviable export record. The trading sector is overwhelmingly dependent on foreign exchange and yet it earns little or none.

The trend we need to be seeing is one where our foreign exchange earnings outside of the energy sector are growing faster than our usage. We need to begin now to reverse that trend and hopefully the remaining years of foreign exchange inflows from energy will give us the buffer we need to make the transition. If we are unable or unwilling to do that we put ourselves in a position of great risk.

Of course none of what I am saying is news to anyone. We have known this for some time. The problem is that experience has shown that while the energy sector rents are flowing we don't seem to have the capacity or the will to change the pattern.

Which brings us to the role of the government. They after all are the ones who control the purse strings of the treasury and it is they who decide our fiscal, monetary and economic policy. Theirs is not any easy lot. Oftentimes they are torn between what they think will win the next election and what they know will benefit the country. Governments who decide to swallow the bitter pill and do what the country really needs are often punished at the next election. Governments whose concerns go no further than the next election often make politically expedient choices designed for short term advantage but which have seriously adverse long-term consequences for the economy.

We are at an interesting point in our politics. We have temporarily shrugged off the old tribal mantle we have carried for the last 40 years but it is anyone's guess whether we will be able to resist the temptation to put it back on because that is what we know and have been accustomed to. And in a curious, almost masochistic way, that is what we are tempted to revert to when we do not know what we really want.

Ladies and Gentlemen, we have managed once again to assemble a line-up of speakers who are eminently qualified to speak on the subjects at hand.

One of the most difficult tasks we had was to decide the batting order. Here they are in order of appearance.

Afra Raymond is the President of the JCC and publishes a weekly column in the Guardian. He will speak on the need for procurement reform. I suggest you put on your seat belts.

Kenneth Lalla is the former Chairman of the Public Service Commission and has more experience in the subject than anyone I know. He will educate us on the role of the public service and how that service might be reformed to better serve our needs for economic development.

Gervase Warner is CEO of the Neal and Massy Group and was one of the private sector activists who helped to develop the concept of what became the 2020 vision while he was a consultant at McKinsey & Co. He brings a familiarity and competence in global economics that will enlighten and inspire. This is the second time he is a speaker at our annual conference so that should tell you how much respect we have for him.

Michael Harris is perhaps the most insightful columnist in the local press today. If his Trinidad Express column is not the first thing you read on a Monday morning then I suggest you recheck your priorities. He foresaw and predicted the fall of the previous regimes long before anyone else and will offer us an insight into what we need in our politics and government if we are to begin to tackle the challenges that lie before us.