

*Drilling Down For Development**

Expansion of Point Lisas Model and Stock Market

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By

Ira Mathur

*This interview on the 17th July, 2011 in the Sunday Guardian by op-ed columnist Ira Mathur presents “*Drilling Down for Development*” as a new framework for endogenous growth underlying the 2011-2012 Budget for Trinidad and Tobago. Proposed by **Winston Dookeran**, Finance Minister of Trinidad and Tobago.

Drilling Down for Development

By *Winston Dookeran*

The old models of development for small states have not worked. Development cannot be imported. Nor can it be achieved through insular economic nationalism. Countries such as Trinidad and Tobago must begin by *Drilling Down for Development*. This concept underpins a new *Endogenous Growth Framework*. This begins on the international level, where a greater voice must be found for small states in the international financial architecture, driven by greater regional integration and multi-track diplomacy for small states. This must represent the unfolding out of the development of an entrepreneurial economy.

Entrepreneurship must overcome a survival culture, its dependency syndrome and an “anti-growth coalition”. Growth is unearthed out of an entrepreneurial middle-class, supported by national and institutional infrastructure. The role of the state in fostering growth must change from being dominant to being catalytic. At a ground level, change should take the form of a strategic alignment approach in government in order to align promises with performance.

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On my way to interview Finance Minister Winston Dookeran in snarling traffic I remembered the first “story” I covered on him while still a student in the 80s. He was explaining to embattled sugar workers how the Frank Rampersad plan for the closure of Caroni (1975) Ltd would allow them land and economic independence. The sugar workers didn’t accept it. They booed him. He was public enemy number one. When the company was eventually dissolved, the workers got nothing sustainable. They must have regretted not accepting his plan. Caroni became a wasteland. For 20 years I have wondered how Dookeran, who has consistently resisted playing to the gallery throughout his career (often to his own detriment) and who most has recently come under fire from local economists including Dr Dhanayshar Mahabir for creating a “stagnant” economy, has navigated the murky waters of political and economic public life. These are excerpts from an exclusive, wide ranging interview.

Q: Your recent call to the IMF to give more weight to the voices of small states puts you in line with Caribbean developmental economists from Sir Arthur Lewis, Lloyd Best, Frank Rampersad and William Demas. Where do you locate your economic thought within this tradition of Caribbean development?

A: National development cannot be imported. It must be inwardly driven from the strength of the country itself, by unearthing our people’s entrepreneurship, talent and capabilities.

In the 60s and 70s, Sir Arthur Lewis promoted industrialisation by invitation when we welcomed multinationals into our country. In the 70s and 80s there was a period of economic nationalism led by Demas and Rampersad. In the 90s there was a global paradigm shift to risk management and a market based economy. By the turn of the century the financial sector was not delivering our development and growth objectives. We lost ground, got into negative growth. When I came into office I recognised that drilling down for development was my major task and that is the current framework for the economic strategy.

Q: What can we expect in the upcoming budget?

A: My vision is for a society that will share and take ownership of both the benefits of a broad based development and the effort and risk it takes to make it happen. The budget will be based on \$75 a barrel for oil. Oil and gas remains the anchor upon which this economy turns so our economic growth has been narrowly restricted. As we create new spaces in the non energy and offshore sector this will change, I am committed to a public offerings programme for the rationalisation of state enterprises, an expansion of the stock market, and the expansion of the Point Lisas Industrial Estate to attract more equity capital at a local level. This will be the platform of growth in T&T. As part of our budget preparation we are seeking proposals and feedback from the population this July and August. As a start, I urge people to visit our Web site on <http://www.finance.gov.tt/>. You have come under fire for creating a “stagnant economy” by failing to spend more from the public sector investment fund as a means of pushing growth. What is your response?

The growth strategy for an economy is a sequential one. Our immediate task was to get a contracting and debt riddled economy under control. This included Clico’s \$20 billion dollars debt to investors—(ten per cent of our GDP) and five billion dollars to contractors. Globally there were economic crises developing in Greece, Portugal and Ireland and even the US was facing trade-offs between expenditure and taxation. I took all this into account arriving at my current economic policy.

I knew we had to take a step by step approach to avert economic disaster. First, we stabilised the deficit, got the debt situation under

control and secured the credit rating of the country. This was a precondition of growth. The risk of T&T's financial position deteriorating was averted notwithstanding the enormous demands on the treasury by Clico depositors, contractors, banks and wage negotiations. This resulted in an international rating that moved from us from negative to positive.

The second stage requires public sector investment spending to finance and reignite the growth process. We recently concluded, in record time, an agreement to inject some 1.3 billion US dollars into the economy and have done the groundwork to raise additional financing in both the local and external sectors. As I speak, we are concluding an arrangement to finance the fuel subsidy for gas which accumulated billions of dollars of balances in the last few years.

The third task is to expand the economic space of the country away from the narrow confines of oil and gas. The massive road investment in the south-western peninsula is a start. We are also finalising an arrangement through the Inter American Development Bank (IADB) for a sustainable cities programme to make Port-of-Spain a hub of development. Even as we laid economic foundation blocks we simultaneously began to restore confidence in the private sector with the expansion of equity financing without compromising our social development and Gate programmes.

You can see positive upward trends reflected in stable unemployment levels, increased demand for housing, a new optimism in the stock market, and falling inflation. The fourth step of our transformation was to make the economy more efficient. We are doing this by developing a capital market, and sharing both the nation's wealth and risk across the board. Finally, Tobago is undergoing economic stress mainly due to the dip in the tourism sector. Government allocates some 2.5 billion dollars to Tobago for development. We have also begun discussions with the Chamber and bankers to see how we can provide short term support to revive economic activity there.

The crises faced by Europe and the US pose a real threat to the mainstay of our oil- and gas-based economy and a blow to sustained global growth. Policy perspectives in place to mitigate these risks are on my

radar. So it is somewhat simplistic to say the economy is stagnant, when in fact evidence-based analysis suggests otherwise. A resumption of growth from a negative 3 per cent to a positive 2 per cent is not a matter of arithmetic as it is a matter of calculus of how economies work.

Q: What about the outstanding debts to contractors and to depositors of Clico and HCU? What effect has the legal action by your policy holders had?

A: The Clico fiasco threatened to derail not just an institution but our economy with financial collapse. Our objective is threefold: to meet the demands of the depositors, stabilise Clico, and find a formula for the state to be repaid the 20 billion dollars of investment that was envisaged. The legal action by Clico investors poses a threat to the country but less so as people understand that we are committed to honouring all debts.

So far, we have paid in full 10,000 “small” Clico depositors (under \$75,000) and some 200 senior citizens with medical and other challenges have been paid \$250,000 under a compassionate window. We began a liquidity support programme for credit and trade union investors. We are about to go to Parliament to issue bonds for larger depositors and are working with the financial community to arrive at an appropriate rate that will satisfy the depositors, while maintaining the financial integrity of the country. Similarly, we are committed to honouring the debts of the Hindu Credit Union. The processing of claims of over 100,000 depositors has begun and payments are imminent.

Q: It is said that a civilised society is measured by the manner in which we treat our most vulnerable. How successful was the last budget in addressing the needs of ordinary people, the unemployed, the poor and the elderly?

A: For a country as well off as ours in comparative terms, our poverty levels are far too high. Some 17 per cent of us live on less than US\$2 a day. Our budget proposals will address not just the symptoms but the

cycles of poverty. To that end, the delivery of public goods, in particular roads and education throughout the country has been setting the stage for a wider distribution of the benefits of economic management.

When the economy contracted in '08 and '09, unemployment rates rose. We averted that trend not just by expanding the social programmes promised in the last budget, but by increasing consumer confidence which was achieved according to a recent Central Bank report. Unemployment has begun to stabilise and projects are unfolding. I am confident that the gap with respect to investor's confidence will begin to close and more employment will be created.

Another key challenge is the rising cost of living. I see it myself when my wife and I go to the grocery. To address food security we introduced a low interest rate regime to stimulate food production. The evidence shows this is working. For the elderly, we raised pensions to 3,000 dollars, and for public sector workers we concluded the technical work necessary to improve their living wage by maintaining pension levels and proposing a wider catchment of living wage measures with medical insurance.