Economic paper trinidad and tobago

Economics

Trinidad and Tobago is one of the wealthiest and most developed nations in the Caribbean and is listed in the top 66 High Income countries in the world. Economic reforms adopted in the early 1990s had resulted in an average economic growth of 7. 7 percent per annum, until the start of the world financial crisis in 2008, when the country began to experience a period economic downturn. This endured until 2012 when the economy slowly started to improve with an expected growth rate of 3. 5% in 2013.

It’s worth mentioning that the economic growth in general has been very unbalanced due to its high dependence on oil and gas. This sector accounts for around 40% of its GDP and 80% of exports, but only 5 percent of employment. The high dependence on oil and gas provokes certain internal and external economic challenges that need to be dealt with properly and sustainably. For this purpose the following seven sections of this paper are dedicated to give a macro-economic overview of the country’s economy.

The first section discusses the role of established institutions in maintaining and balancing out the country’s economic growth. Section two discusses the main fiscal policy challenges in the light of the post-world financial crisis and how they are being resolved. The third section discusses the Central Bank’s monetary policy and its main challenges. Section four discusses the role played by the exchange rate regime, the country’s trade and InternationalFinance. Section five discusses the country’s status ontechnologyand innovation, intellectual property rights and industrial development. Section six discusses the environmental policy in the light of sustainable development. The last section gives an overview of wage and employment generation policies.

I. Institutions It is commonly accepted that the wealth of a country is greatly determined by good institutions. But opinions widely differ on how to define a good ' institution'. A good institution can be defined as " the set of laws [, policies] and practices that motivate people to work hard, become economically productive, and thereby enrich both themselves and their countries". Daron Acemoglu & James A. Robinson, in their book " Why Nations Fail", consider the British Westminster model a ' good institution'.

They go through great lengths to prove this, even using this model as point of departure to measure a country's economic development. They concluded that most of the successful economies in the world thank their success to traditional establishment of political and economic institutions that are similar to the West-Minster model of Great Britain. T&T is one of such countries since it belongs to the British tradition and is organized as a Westminster-style parliamentary democracy. That is, there is a formal separation of powers between the Executive, the Legislative and the Judiciary.

The fundamental advantage of this system is that it traditionally incorporates economic inclusiveness, which in turn leads not only to the fulfillment of specific economic demands- i. e. the protection of private property rights protection, the predictable enforcement of contracts, opportunities for investment, effective control of themoneyflow and inflation, and a flexible currency exchange regime-, but also of societal demands in terms of human capital- evidence of this being the traditionally large subsidies and investments in respectively the university leveleducationand other sectors of human capital. Moreover, given the economy's position as energy abundant/dependent, both the monetary and the fiscal policy have evolved to jointly deal with the consequent destabilizing macro-economic pressures. Despite characterizing the basic institutions as good, some curious remarks need to be mentioned.

First of all, there is a discrepancy between practice and theory of the separation of power element. Real power has resided with the executive branch since Colonial times. In fact, decisive power was centralized in the colonial governor as the representative of the Crown. This tradition extends to the present, as real power resides with the Cabinet, particularly the Prime Minister, and Parliament can block only decisive bills. This centrality of power has led to an ineffective, outdated, narrow tax collection administration in the non-energy sector, which in turn causes incongruent/lagging growth relative to that of the energy sector (i. e. lessening diversification). In the second place, there are no substantive/effective laws in place that prevent could prevent corruptive campaign financing.

The following quote comes from the Trinidad Guardian Newspaper: “ the absence of regulation of the financing of political parties [has] led to our political and economic institutions becoming “ extractive” rather than inclusive ones. Our political parties require huge amounts of cash to get elected, which has to be repaid through extractive measures that benefit a narrow group of political investors”. Although being recognized by the successive governments as a problem of corruption there is no broad political will to reform campaign finance, and few public officials are ever prosecuted. This could again, but not conclusively, be attributed to the central role played by the prime-minister in influencing the rule of law. The government's Investment Climate Statement 2013 recognizes that corruption is real problem, but "[not to the extent it has seriously] undermined government or business operations".

The country's position improved from position 91 to position 80 on the Transparency International Corruption between 2011 and 2012, but it is still below its 2005 position of 59. In conclusion, as far as overall institutional quality is concerned, the country does relatively well in the Caribbean region on the basis of the indices of economic freedom, ease of doing business, voice andaccountability, government effectiveness and regulatory quality. Although the average score is not high in terms of institutional quality there is without a doubt enough space for improvement. In the words of the finance Minister's Budget Statement 2013: " We have a strong foreign exchange position; a low debt-to-GDP level and a robust well-capitalized banking system. We have room to pursue a policy of stimulating economic growth".

Table 1 (Source: IDB working paper series #115)

II. Fiscal Policy A quick look at the conventional fiscal balance sheet over the past decade shows a fiscal balance that predominantly moves in the same direction with the GDP trough the business cycles. This would imply a countercyclical fiscal policy that stimulates aggregate demand in times of economic down turn and withdraws from it during periods of economic downturn. However, despite sustained deficits, and high level of government expenditure (averaging 33. 3% GDP) during 2009 to 2011, current aggregate demand remains weak. There are cyclical factors that need to be taken into consideration when reading the balance sheets.

Research papers show that despite of its countercyclical appearance, the fiscal policy is in fact pro-cyclical. And pro-cyclical fiscal policies are not popular nor under mainstream economists nor under the developing world's governments, including T&T. The reason for this is very straight forward: they harm social welfare. When measuring the degree of pro-cyclicality of Trinidad and Tobago in relation to the Latin American and Caribbean region (LAC), it is considered alarmingly profound.

The moral of the story is that in order to measure the effectiveness of fiscal policy we should look to cyclically adjusted measurements, especially in the case of resource dependent countries like Trinidad. Recently the government had been trying to move towards a counter cyclical fiscal policy which proves to be a considerable challenge. We see that in its management of debts and taxes. The government consciously chose for deficit spending until 2016 as a measure to return to pre-crisis growth rates. The situation has never been so demanding now that the non-energy tradable sector's share of GDP has been shrinking continuously over the past 50 years while on the other hand risks of energy price shocks to the economy are increasing.

Deficit spending refers to a situation in which government spending exceeds tax receipts. There are conditions attached to this, namely that there should not be a structural deficit. The basic idea is that the government should run a deficit in times of economic downturn to compensate for the shortfall in aggregate demand, but run surpluses in boom times so that there is no net deficit over an economic cycle. There is a certain degree of unease among oppositional political groups about the medium term future of the structural debt. Trinidad and Tobago's public debt/ GDP ratio rose from 32% in fiscal year 2010/2011 to 46. 6% in current fiscal year. IMF projects a debt/GDP ratio between 48% and 69% by fiscal year 2016/2017 taking into account the possibility of a growth shock.

The sudden jump in the debt/GDP ratio was partly attributable to the government's efforts to secure a settlement for policyholders of the failed insurance company CLICO, which costs the government an additional debt equivalent to 13% of the GDP. According to the Budget Statement 2013 this expenditure was necessary to prevent the economy from slipping back into a financial and economic crisis. But there is no real need for concern, because the debt/GDP ratio of 46. 6% is in line with the IMF benchmark recommendation of 50%. Apart from T&T, only Haiti and Suriname have an acceptably low debt to GDP ratio of respectively 16% and 3%. Four countries in the Caribbean have accumulated exceptionally high public debt, averaging in excess of 90 % of GDP: Jamaica (143 %), St. Kitts & Nevis (145 %), Grenada (105 per cent), and Antigua & Barbuda (98 per cent). All of them experienced more profound economic crises and some of them approached the IMF for financial support, contrary to T&T that is a creditor nation to the IMF. Around 97% of the debt is owed to local public through the issuance of government Treasury Bills and Securities. This gives the government a great degree of economic sovereignty in controlling the local currency.

Japan for example has the world's largest debt/GDP ratio of 238%, but effectively services this debt, because this is owned to by Japanese nationals. Trinidad and Tobago has improved its remarkably weak and outdated tax regime, but still has a long way to go. Recent estimates provided by Prime-Minister Kamla Persad-Bissessar show that the outstanding taxes due to tax evasion are U$ 10 billion or 55% of GDP. Despite the tax amnesty in 2011 (which already expired) only U$317 million was collected (or 1. 4% of GDP). It's tantamount that the government collects this money to invest in diversification and public services like education, health, security, issues that have received little interest by private sector.

Despite the introduction of new tax technology, there still is a lack of qualified staff to manage it. Apart from the actions already undertaken to improve the overall tax regime, the budget statement specified the areas of further action: the gradual reduction in fuel subsidies and transfers to state enterprises, refocusing the social welfare programs by simultaneously stimulating employment among the pool of beneficiaries. When this process is completed by 2016 a remarkable transition towards countercyclical policy shall be achieved.

III. Monetary policy * The dual structure of the economy has made the desired effects of monetary policy in the management of interest rates and inflation less straight forward. * The insurance sector is the least regulated. But since the Clico case new laws of regulations have been enacted thereby stimulating the Central Bank's supervisory and regulatory responsibilities over the financial market