

ECONOMIC OUTLOOK 2018

Good morning ladies and gentlemen. My industry is financial services, in particular insurance and pensions. This part of the financial-services industry is the custodian of much of our Nation's long-term savings. So I bring my comments from that perspective.

However, the fundamental question goes across all industries. Do we have an economic problem? The short answer is yes. But the core issue is that our economic problem results from us having a massive structural problem. We need to understand this fundamental distinction because the approach to fixing a structural problem is very different from fixing a purely economic problem. It involves change, vision, cohesiveness and collective national will.

To be clear, if our country was a car and all we had was an economic problem it would be like the car going over a bumpy road. Drive long enough or steer to a smoother lane and the problem is fixed. Using the same car analogy, a structural problem means that the car is travelling over a bumpy road and it's engine is falling apart. Driving long enough or shifting to a smoother lane would not fix the problem for long. The only solution is to change the engine.

Our structural problem is that for decades our engine has been oil and gas. Both oil and gas are suffering supply problem as well as low commodity prices that are expected to persist well into the 2020s. The writing is on the wall. Shale oil and gas are here to stay. Wind and solar renewables are becoming economically viable. Hybrid cars can drive 800km on one tank of gas. Oil and gas will certainly be part of our landscape for a long time to come but if we rely on them to generate national wealth we are condemning the next generation of Trinidadians and Tobagonians to be poorer than our generation. That is a national travesty.

To fix our structural problem we need to produce more from the non-energy sector and to improve the efficiency of our infrastructure.

Every successful country on this planet has made good use of their geography and their people. We have done a poor job at this. Our country is blessed with abundant water and flat, fertile land yet we rank 188th out of 205 countries in farmland per capita. Of the 17 countries that we are better than, 7 are deserts and 1 is Greenland! As for tourism, 10 new large hotels opened in the Caribbean in 2017 alone, yet we cannot even collectively decide if we want a new hotel in Tobago. We are south of the hurricane belt yet our yatching industry is in sharp decline while that of Grenada (in the hurricane belt) is booming. We have not sought to build a super-efficient port to take advantage of the widening of the Panama Canal nor our proximity to South America. We have a tremendously educated, young population yet we lack the confidence to develop knowledge-based, technical industries.

I believe that many of us are thinking that the State needs to seize these opportunities to diversify our economy. I do not agree. The State has shouldered this burden for too long. Business needs to diversify our economy while the State needs to set clear, transparent, evenly-applied policy. It takes two hands to clap but Trinidad and Tobago is currently a no-armed man. Policy, where it even exists is mainly neither clear, nor transparent nor evenly-applied. There must be a separation of roles. Policy must be set and interpreted by leaders and executed by staff. But too often leaders abdicate their roles and policy is set, interpreted and executed by relatively junior staff.

And where have the entrepreneurs gone? Business cannot continue to be about importing and distributing goods then seeking to invest the profits overseas. Business has once again to be about production, efficiency, seizing opportunities and taking calculated risk. The last time our economy was in such dire trouble was in the 1980s and the businesses community rose to the occasion. Manufacturing blossomed. This must happen again.

Every successful Nation creates infrastructure such that the cost of operating this infrastructure is not an unnecessary drain on the wealth of its citizens. Every nation needs roads, ports, airports, hospitals, national & personal security, retirement security, permits and governance. If these are provided efficiently everyone becomes richer and entrepreneurship thrives. If these are provided inefficiently everyone becomes poorer and entrepreneurship cannot take root.

A vibrant business community and the existence of efficient infrastructure provides dignity to citizens. It provides an environment where citizens can pursue their ambitions, where they do not suffer financially in ill-health and old age and where there do not live in fear of becoming the prey of criminals. This interest in the dignity of its citizens must be the fundamental objective of a State. This is why, thousands of years ago, human-beings formed societies in the first place.

Every business from Apple and General Electric to the guy selling tomatoes in the market knows that it cannot possibly be good at everything. Yet too many States think that they can be good at providing every type of infrastructure. We cannot continue to follow this paradigm for the simple reason that our State is increasingly not going to have the money to provide infrastructure so if the private sector does not step in we will have less and less basic services. Common sense would say that whoever provides this infrastructure should be the group that could provide it most efficiently in a transparent manner. I don't see whether infrastructure is best provided by the state or the private sector as a philosophical question. It clearly depends on the circumstances. However, I am a pragmatist. The reality is that most businesses in Trinidad and Tobago make money because if they don't they will close down. The reality is that also most State enterprises lose money. So therefore it is a matter of fact, not opinion, that we will all become more prosperous if more infrastructure is provided by the private sector in a competitive environment and a transparent manner.

So back to financial services. Long-term financial institutions like insurance companies and pension funds are sitting on \$60 billion in investable assets. A lot of it is in cash. Yet the country needs to grow more productive businesses and provide more efficient infrastructure. Capital therefore needs to find its way to profitable, well-managed enterprises. We need to overcome this investment gap.

This is where policy is critical. If we have the right policies then businesses will sprout everywhere. With the right policies in place youths in the Beetham will see and feel opportunity and realise that life can offer so much more than dependency on community leaders. With the wrong policies businesses will die, the State will not earn enough tax to maintain infrastructure and our Nation will sink into poverty. This is a very real threat.

I would like to draw your attention to this document “G20/OECD HIGH LEVEL PRINCIPLES OF LONG-TERM INVESTMENT FINANCING BY INSTITUTIONAL INVESTORS”. Look it up on the internet. It is endorsed by the Ministers of Finance of the wealthiest countries of the world. It is how they govern and regulate the National Savings of their own countries where they clearly have a very vested interest in success. I will point out some of the key policies recommended in this document.

- In particular, long-term investment can help achieve broader policy goals such as financial stability, debt sustainability, job creation, inclusive growth, higher living standards, competitiveness, sustainable economic development and green growth.

In other words, long-term savings needs to be a major source of funding for the development on a Nation.

- A long-term investment horizon can also bring direct benefits to institutional investors.....

In other words, engaging in National Development does not conflict with providing an attractive rate of return to savers.

-governments and other competent authorities such as the regulators and supervisors of institutional investors play a key role in facilitating long-term investment.

In other words, regulators should be facilitators in national development. They cannot divorce their role from the development of a Nation. None of us can, whether businessman, politician, government worker, teacher etc. This is critical or else we will stifle the flow of our Nation's savings to National development.

-the consistent and effective enforcement of the rule of law is essential for long-term investment.

In other words, this country cannot prosper unless we control crime. In fact, right now crime is the key business issue. It is my strong view that one of the first areas where the public sector and the private sector should join forces is in tackling crime.

- Where appropriate, governments should provide opportunities for private sector participation in long-term investment projects such as infrastructure and other relevant projects via, for instance, public procurement and public-private partnerships.

Note that the richest countries in the world operate in a manner that allows the private sector into public procurement and public-private partnerships.

- The tax environment and policies should remain stable and avoid creating impediments to long-term investment by institutional investors.....

One of the most critical activities currently taking place is the creation of the new Revenue Authority for a number of reasons:

- 1. It levels the playing field by making sure that tax laws are applied evenly and that everyone who should pay tax is paying tax.***
- 2. It will significantly increase the State's revenue and prevent a subset of well behaved citizens from bearing the Nation's entire tax burden.***
- 3. It will make a serious dent on white-collar crime. This is why it needs to be supported and not opposed by labour.***

So to summarise my outlook for the economy in 2018:

- We have a major structural problem and oil and gas is not going to raise our level of prosperity to what it used to be barring a major war in the middle east.
- The good thing about a structural problem is that it is solvable if we have the will and grit to significantly change how we run our economy. Just like in Jamaica our entire society needs to be onboard to making commercial activity successful.
- The State needs to articulate and even-handedly administer clear business-friendly policies.
- Entrepreneurship needs to strongly emerge as a culture.
- National procurement needs to be exceptionally transparent.
- Public-private partnerships need to be the default mechanism to create infrastructure.
- Crime needs to be brought under control.
- Tax collection needs to be meaningfully reformed.
- And long term capital needs to find its way to profitable nation-building projects because if the nation fails so does every saver.

So ladies and gentlemen, 2018 will indeed be a pivotal year.