ACHIEVING SUSTAINABLE GROWTH

Many developing countries possess a primary export industry which disproportionately contributes to their GDP and national wealth. Examples of these include the oil industry in Venezuela, precious minerals in Angola, columbite-tantalite (coltan) in the Congo, natural gas in Trinidad and Tobago, among others. Furthermore, these industries are many times based on non-renewable natural resources which will only sustain the economies linked to them for a finite period as technological substitutes advance and reserves dwindle.

A prototypical feature of these economies is their unstable nature due to dependence on fluctuating world commodity prices, changes in preferential market access arrangements, depleting reserves and a host of other possible market structure shocks. Such changes invariably have detrimental social and economic impacts on the related nations and societies.

BY ATIBA PHILLIPS
Founder and Principal Consultant at ICT Ltd.

THE ICONIC CASE OF TRINIDAD AND TOBAGO

THE CASE OF TRINIDAD AND TOBAGO IS INSTRUCTIVE FOR SEVERAL REASONS:

1. TRINIDAD AND TOBAGO EXHIBITS THE CHARACTERISTIC PROFILE OF A POST COLONIAL DEVELOPING COUNTRY WHICH RELIES HEAVILY ON A SINGLE EXPORT FACING INDUSTRY TO MAKE THE MAJOR CONTRIBUTION TO NATIONAL WEALTH AND GDP.

2. ITS DOMINANT PRODUCTIVE SECTOR IS NATURAL RESOURCE BASED AND HAS BEEN SUBJECT TO THE FLUCTUATIONS AND VAGARIES OF THE WORLD MARKET OVER THE LAST 40 YEARS THROWING THE HOST ECONOMY INTO PROTOTYPICAL BOOMS AND SLUMPS.

3. TRINIDAD AND TOBAGO'S ENERGY SECTOR IS FOREIGN INVESTOR-LED. MUCH OF THE VALUE CREATED BY THE SECTOR THUS RETURNS OUT-OF-COUNTRY.

4. THE LOCAL SKILL BASE HAS MAINLY BEEN DEVELOPED IN THE OPERATIONAL AND MAINTENANCE (LOW-VALUE ADDED) ASPECTS OF THE SECTOR, WHILE THE STRATEGIC MANAGERIAL, MARKETING AND TECHNOLOGY ASPECTS HAVE HISTORICALLY BEEN PROVIDED EXTERNALLY.

ADDITIONALLY, THERE MUST BE EFFORTS TO UPGRADE ACROSS SECTORS, ACTIVELY USING THE INNOVATIONS AND SYSTEMIC IMPROVEMENTS IN THE FLAGSHIP SECTOR TO PROVIDE LINKAGES AND ENHANCEMENTS TO OTHER SECTORS THUS ACHIEVING THE GOAL OF ECONOMIC DIVERSIFICATION.

Defining a New Outcome

The vision is to build a cadre of skilled managers, entrepreneurs and technologists who can build capacity across all domestic sectors. This capacity can eventually be taken to the international market such that revenue streams begin to occur which are diverse and independent of the initial "cash crop" activity within the economy.

Equity Participation

To carry out this transition, lesser-developed countries would be well advised to employ the world-class resources in the international marketplace to their advantage. This can be achieved through specific partnerships with international organisations adept in the experience and skill-sets being sought. At all levels of this value chain the developing country must seek to forge deep equity relationships in this process of alliance (rather than simpler distribution type arrangements) for there to be the optimal transfer of ideas and technology necessary to bolster indigenous human resource and institutional capability.

Skills Development

Pull strategies, in which the prescribed training and development activities are directly related to current and anticipated market opportunities as well as country development priorities must be pursued. This will serve to minimise the crippling phenomena of 'brain drain' as scholarship graduates find their skill-sets a mis-match to the opportunities and priorities of the local economy. Thus they seek employment in other territories better able to accept and reward their new found competencies.

The Quality of the Business Environment

Additionally factors such as the state of cluster development, the availability of business financing, the extent of bureaucratic red tape (in management culture as well as in Government), the tone of labour relations, as well as the independence of the judiciary, all affect the ability of the productive sector to efficiency carry on the business of wealth generation.

Technological Capability and Innovation

Developing nations must move away from the present mode of engendering "static technological capability" which is the minimum requirement for the maintenance of a given productive system, with existing given equipment and technology. "Dynamic technological capability" engenders a cadre of local companies and individuals with the complex set of skills and tools necessary to run the industry successfully over time and to innovate when necessary to overcome specific problems as they arise .

Another shift in emphasis which is necessary to achieve the goal of sustainability is the move away from the focus on the upgrading of the individual firm or entity within the sector, toward the looking upon upgrading as process of innovation across the sector as a whole. Individual domestic firms cannot compete in the global economy without the support of a dynamic and upgraded sectoral innovation support structure.

Additionally, there must be efforts to upgrade across sectors, actively using the innovations and systemic improvements in the flagship sector to provide linkages and enhancements to other sectors thus achieving the goal of economic diversification.

Public Policy Interventions

Host governments cannot rely on the schemes of attracting FDI alone to bring about the "productivity spillovers" (i.e. worker training, knowledge transfer and market access) and other positive externalities as extolled in theory. Developing countries must see it within their ability and mandate, to choose international companies as partners in a mutually beneficial and balanced process of development and profit-making. This ability becomes credible when developing countries recognise the value their economies bring to the Multi-National's global business.

Also as argued by Barclay (2003), Governments must enact credible selective intervention policies; i.e. policies which seek to create an environment which identifies opportunities and mechanisms for implementation which promote indigenous technological and strategic business acumen to be developed in the host country. However, the response by Multi-National Enterprises (MNE's) to intervention policies is likely to depend on whether or not they are perceived as credible, i.e. "they are seen as binding commitments made by host governments on which firms can rely as strategic planning assumptions. The MNE will not enter into a process of mutual strategic adaptation unless it is assured that the government can and will implement consistent policies over time".

Trinidad and Tobago has an opportunity to choose partners who will move away from the traditional model and require that more of the energy business be done locally; particularly head office functions, such as market development, commercial strategy, customer relations, research and development, political risk analysis, negotiation, mergers and acquisitions, trading and knowledge management. Trinidad and Tobago would therefore have access to world-class business methodologies and personnel development, technologies and processes. These businesses, in turn, will develop and spawn local suppliers and contractors at a similar level, encouraging a wider range of local businesses to develop their services to international specifications.

Conclusion

Trinidad and Tobago's changing objective is now not only to increase GDP but also to reduce dependency on oil and gas. The strategy suggested is one which is designed to create a diversified economy with increased purchasing power parity, greater equity in wealth distribution, a world-class workforce and a dynamic inshore economy satisfying local demand and exporting its surpluses.