SURVIVAL: THE NECESSITY FOR INDUSTRIAL DIVERSIFICATION IN TRINIDAD AND TOBAGO

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Introduction

To be sure, small states are different from other states in terms of their income, growth, and other socio-economic factors. The literature is consistent with the view that small economies are also particularly vulnerable due to the fact that their size makes them more susceptible to the ravages of trade shocks than larger states that are better able to deal with such events. In the case of CARICOM states, they have the added disadvantage of being located in a region prone to hurricanes and volcanic activity, and these factors have had a devastating effect on developmental objectives.

It is generally accepted that per capita GDP growth rates are more volatile in small states, due to their much greater exposure to international trade and fluctuations in their terms of trade. Interest in economic diversification has increased in most nation states due to the realities and rigidities of economic instability that have plagued the world especially in recent times, and generally declining employment opportunities in the traditional resource-based industries of agriculture, mining, forestry, and the related manufacturing industries in developing countries specifically.

Many of the developing countries lean heavily on one or more of these industries to gain the much-needed foreign exchange to purchase the equally much needed capital and consumer goods that are utilized by the nation. With these bases being constantly and consistently eroded, there is now an almost international movement to develop some level of diversification in the economies of the South.

From as far back as 2007, the Trinidad and Tobago government had indicated its intentions of diversifying the local economy. One reason for the need to diversify the economy is that Trinidad and Tobago had failed to reap benefits optimally from preferential trade arrangements and from globalization. It was therefore argued that there existed a need for a new paradigm on diversification, to enable the economy to benefit from the existing (albeit diminishing) preferences and trade liberalization. At that point in time it was also evident that while other developing regions have increased their share in global trade, Trinidad and Tobago’s non-energy sector had seen its share progressively decline even as global trade liberalization had progressed.

It is clear that the failure to maximize gains from preference utilization and trade liberalization assumes special significance in the debate, given the likelihood that the future gains
that may accrue to Trinidad and Tobago from current trade liberalization efforts will be marginal at best. Essentially, as it currently stands, with the current economic structures, CARICOM countries, inclusive of Trinidad and Tobago will not be able to maximize gains from trade liberalization, and these economies risk perpetuating their historical failure to secure benefits from global trade reforms. Notwithstanding the falling prices in the primary markets, the inefficiencies of the economies, the low level of value-added incorporated into the exported goods, it is also probable that CARICOM countries will be marginalized further and any marginal gains accrued will be unevenly distributed among its countries.

Several key areas need to be examined, and these areas constitute the elements of a new diversification paradigm that will enable Trinidad and Tobago to benefit from a better use of its resources and from the ongoing trade liberalization efforts at bilateral, regional, and international levels. The ultimate recommended diversification policies would necessarily include the evaluation of the current macroeconomic, trade, sectoral, industrial, and financial development policies; as well as the proposed strategies that will strengthen institutions.

One of the major areas of concern is the ability of the government to implement pragmatic macroeconomic policies if the Trinidad and Tobago economy is to diversify successfully. While macroeconomic stability is important for the diversification of an economy to take root, not all components of the macroeconomic framework need to be excessively rigid. Stability alone through conservative fiscal and monetary policies (which at times may be prudent) is not enough to ensure the deepening of diversification within the local economy. While contributing to stability, a conservative fiscal policy may end up limiting the necessary fiscal space needed to boost investment in Trinidad and Tobago. Such constrained fiscal space, as the empirical results may suggest, may undermine the diversification efforts in the long run. Therefore, given that diversification of the Trinidad and Tobago economy is necessary for high and sustained growth, pragmatism in designing macroeconomic policies becomes imperative.

**Industrial Diversification in Trinidad and Tobago**

As a point of departure, let us be clear that diversification per se is not policy advice; it is merely a descriptive term that is used by policy makers and academics alike.

History shows that few economies grow for sustained periods of time unless they engage in sound macro-economic policies and, in practice, this is a multi-dimensional requirement, including low inflation, manageable budget and external deficits, and credibly manageable levels of debt (Hare 2008).

It is argued that developed countries appear to be resource poor, even if they are enormously resource rich, because the non-oil part of these economies make the resource economy appear smaller whereas developing countries, like Trinidad and Tobago, easily appear resource rich, even though its resource base is smaller.

Even if small states like Trinidad and Tobago have a chance to diversify their economies, several endogenous growth theories suggest that openness to international trade makes it vulnerable. Noteworthy is the fact that that a significant portion of the growth rate
volatility experienced by small states (like Trinidad and Tobago) can be attributed to volatility in its terms of trade; but even so, growth rates in small states are significantly more volatile than in non-small states for a host of reasons (Easterly and Kraay 2000).

Regarding the approach to ensure sustainable economic growth in Trinidad and Tobago, consensus is split between whether to strengthen our dominant non-energy sectors or pursue industrial diversification. It is well worth the effort to take a closer look at this debate at least at the theoretical and practical levels.

Interestingly, it is argued that the funds and reserves gained from the present incomes from the energy sector can be used to develop the manufacturing, tourism and agriculture sectors and this will assist in national development long after the present oil-boom has abated. We seem however, not to be able to learn from the past experiences of our economy as in the 1980s depression, or the intentional economic upheavals and crises of the 1990s.

It may be prudent at this time to look at some partnership programs between the government and the local manufacturing, tourism and agriculture industries, which have against all odds, been developing, albeit slowly over the last decade. This is the only way to bridge the gap and deal with the economic obstacles and realities that exist in the market place; examples can be easily found when looking at similar economies (to some extent, such as the NICs). There is need not only for informed governmental industrial policy; but as is being advocated here, there is also a need for an informed diversification policy to be developed by the government.

The industries that are presently identified by the government in its diversification plan may in fact be useful to the overall development of the national economy; but there is sufficient evidence for us to be cautious in its selection of these sectors, and in its approach to the diversification process. What is being advocated here at this juncture is for all parties (governmental, private sector and civil society) to look at these sectors and make an evaluation as to their inputs into the future development of the national economy and developmental objectives. In other words, there needs to be an analysis of the current situation and determine whether or not these industries are better suited to our developmental needs than others (presently existing or to be developed).

As has been the case for other developing countries attempting to use this diversification strategy, the industrial policies executed challenge the prevailing perceived comparative advantage of Trinidad and Tobago where factor endowments are characterized by the abundance of labour and the existence of oil and natural gas deposits. In the practice of implementing capital-intensive heavy industry-oriented development strategies, there is usually a 'disconnect' as these firms do not have the wherewithal to survive in open, competitive globalized markets. This is due to a number of factors that include their high capital needs and production costs and, as such, these public enterprises are not financially viable as has been the case in Trinidad and Tobago.

The government clearly wants to move into the areas where they perceive Trinidad and Tobago to have a comparative advantage. However, it is being posited in this paper that the issue of competitive advantage has much more to offer the nation if the ultimate goal is sustainable development and sustainable employment in the economy. There are also other strategies that can be pursued, such as joint venturing with more knowledgeable firms in the economy (who may in fact have international
links and access to knowledge and R&D); rather
than seeking FDI as has been the rule of thumb
for so many decades.

Market access is also an area that needs
serious attention, as the realities of globalization
and trade liberalization have changed the game
in the international arena. Small states tend to
find themselves fighting for the scraps or playing
‘catch-up’ to the larger more developed nations.
We can be insulated from this to some extent by
our close geographical and increasingly close
trade and political relations with our neighbors
to the south. This avenue has yet to be explored
in its entirety and one has to be cognizant of the
challenges and opportunities presented by the
integration movements in Latin America such as
MERCUSOR, UNASUR, CELA and SICA.

These markets are many times that of
CARICOM and some preparatory work has
been done by way of bi-lateral trade agreements.
This is the case of Costa Rica, and this may be
seen as a potential doorway to the Latin
American market for Trinidad and Tobago and
the wider CARICOM territories. The same is
ture for the Cariforum arrangement between
CARICOM and the Dominican Republic. With
this in mind, we may want to concentrate on
specific areas of high value-added such as ICTs,
International Financial Services, Tourism and
Agriculture.

Regardless of the arguments about whether
or not diversification should be pursued, there is
quite clearly no point in doing so unless the
resulting new goods or services are produced
to a good quality standard, sufficient to be
internationally competitive (Hare 2008). Studies
which deconstruct export growth over
time typically find that growth of exports in
developing countries has been driven mainly by
the growth of the export of existing products to
new markets (Brenton et al. 2007).

Services have become a major – and
unfortunately often ignored – source of
diversification that needs to be evaluated and
addressed in a more comprehensive manner. It
is one of the stylized facts of economic
development that the share of services in GDP
and employment increases as per capita incomes
increase (Brenton et al. 2007).

Developing trade in services is a
complicated process and many countries do not
have an explicit trade in services policy or a
detailed, overall plan to develop services trade.
This lack of a strategic outlook can be partly
explained by the general paucity of data on
services trade and the resulting absence of
rigorous policy advice (Brenton et al. 2007).
Trinidad and Tobago, however, because of its
extensive experience in the oil and natural gas
industries, should as a matter of course,
investigate the benefits to be derived from
investments in this area.

Effective export growth and competi-
tiveness strategies need to be framed in a context in
which the global economy is highly dynamic.
Three developments frame diversification
opportunities in the new global economy: the
increasing spread and importance of global
production chains; rapid growth of new sources
of demand in large emerging economies, such
as Brazil, China and India and the increasing
importance of trade in services driven by rising
incomes (Brenton et al. 2007).

**Dutch Disease vs. Real Growth**

It is generally argued in the literature that a
remedy for the effects of the Dutch Disease is
for resource-rich nations to diversify their
economic efforts. This may seem too simplistic
an approach unless the relevant issues are
addressed, inclusive of exchange rates, market
price of exports, and the international demand
for these exports. As has been the history of many developing countries, there has been an over-reliance on exports to the ex-colonial centers in the international system and, as such, their goods are low in innovation and value-added because they concentrate on the basic extraction of raw materials for export. This is exacerbated when the primary export is carbon based, thus leading to the Dutch Disease therein rests the justification for diversification in these economies.

These factors have led to a volatile terms of trade for developing countries. Unfortunately, the exports of small states are usually more specialized than those of larger economies, both in terms of their export markets and products. Again this leads to the over-reliance on external factors to earn the much-needed foreign exchange that is necessary to keep the economies running.

There is no secret that the Trinidad and Tobago economy has morphed into a heavily dependent one (on the energy sector - oil and natural gas). Note however, that this Dutch Disease or over-dependence is what adversely affected the local economy in the past. It is with the understanding of this, and the appreciation of the fact that the manufacturing, tourism and agriculture sectors are the three sectors that will hold the country firm in times of economic turmoil and uncertainty that is presently important.

The proposal for industrial diversification seemingly stems from concerns about our heavy concentration on the energy sector. In the case of Trinidad and Tobago it is argued that we mainly refer to the revitalization of the manufacturing sector. It can be argued that the preferred approach is to expedite the manufacturing sector’s development rather than deliberately slowing down the energy sector’s development (which in reality is not an option for the government based on its current spending patterns).

The Employment Consideration

Whenever the issue of diversification arises it is usually accompanied by issues of employment in the economy. Interest in economic diversification has increased in most nation states due to the realities of economic instability and generally declining employment opportunities in the traditional resource based industries of agriculture, forestry, mining, and related manufacturing industries. Many counties depend to a large degree on one of these industries as their economic base. The sensitivity of rural unemployment and employment to swings in the business cycle has been examined by many researchers. In this paper we posit that communities must focus not only on providing jobs but more importantly on providing stable and sustainable jobs. Communities as well as state and local economic planners concur and have made diversification a focus of development efforts in many developed countries. It is now left for us to adopt such practices and policies.

Industrial diversification is believed to be able to improve employment, which could serve the great need of Trinidad and Tobago’s economy. We are now presently facing unemployment problems among the lower educated, skilled and unskilled labor force. No matter how fast the economy seems to be growing, our unemployment rate seems to be an unrelenting challenge. Reintroducing labour intensive industries may actually exacerbate the present problem, as we need to create the avenue for high-end products (goods and services), thus requiring high-end inputs from labour; thus requiring better skilled and trained workers.
Trinidad and Tobago has labour-intensive manufacturing industries, such as textile, food processing, etc. However, due to a range of factors including developmental path, global economic depression, lack of funding and the like, we seem to have missed the opportunity to develop high-tech and electronics industries, which happen to be a strong field for other NICs such as Singapore.

Thus, if Trinidad and Tobago aims to improve the employment of its higher educated and skilled labour force by revitalizing the labour intensive manufacturing industries and pursuing industrial diversification, it will lower the chances for success. While the University of the West Indies churns out graduates each year, the high-tech graduates from the Faculties of Engineering and Natural Sciences usually find employment outside of the country or those that are not usually (for the most part) engaged in research and development activities which are necessary for sustained development.

On the other hand, high value added manufacturing is capital and technology intensive in nature, which is unable to provide large scale unemployment relief that we will need in the future as the construction boom abates and the unemployment figures rise. Thus, re-energizing the manufacturing sectors by heavy subsidizing could only benefit present employment figures; other than that, it fails in both competitiveness and economic efficiency, thus presenting a less convincing argument. A more sustained approach is being advocated here.

This paper supports the view that unemployment in a more diverse economy is more stable over business cycles than in a less diverse economy. Thus, it can be concluded that, in general, economic diversification in small, largely resource-based economies like Trinidad and Tobago should lead to greater cyclical stability.

In general, the agricultural and manufacturing sectors were the main stabilizing components in the economies of developing countries inclusive of Trinidad and Tobago. This lends support to efforts to maintain the agricultural sector and to increase manufacturing activity. This will not be true for all manufacturing, however. What is needed is more economic investigation to determine what industries and sectors are strongly related to employment stability, while realizing that others have the opposite effect on employment locally; noting that food processing and other, non-resource-based manufacturing were less so. These results have implications for development policies of natural resource-based states. Additionally one has to evaluate the costs associated with revitalizing these defunct sectors as well as developing new sectors that would add to the local economy. It is being argued that processing and manufacturing for non-traditional markets could also be explored in order to increase international trade.

Service activities are also an option for Trinidad and Tobago as the country has a highly educated population. Additionally, it is generally accepted that services are usually more stable over business cycles than manufacturing goods and that the services sector can evolve into the growth sectors of the local economy.

To be sure, this paper argues that neither simple unemployment stability nor indiscriminate diversification should be the desired goals for the stability of the economy; however it does support the view that diversification generally reduces cyclical instability. Nevertheless, such aggregate measures provide little in the way of specific policy recommendations. As suggested
by other researchers, this requires more detailed information on specific industry and community characteristics and how they also may affect economic stability.

**Government’s Role and Picking Winners**

As posited by Lin and Monga (2010) “...we will argue that these pervasive failures in developing countries are mostly due to the inability of governments to come up with good criteria for identifying industries that are appropriate for a given country’s endowment structure and level of development. In fact, governments’ propensity to target industries that are too ambitious and not aligned with a country’s comparative advantage largely explains why their attempts to ‘pick winners’ resulted in ‘picking losers.’”

A generally accepted successful route for countries to take in diversification is to target the mature industries in countries not too far advanced compared to their own levels of per capita income. The already developed countries lay the foundation for the routes to development and all the development strategies of the developing and less developed countries have one thing in common – they attempt to emulate the paths of the developed countries. As an example, “...Japan was imitated by Korea, Taiwan-China, Hong Kong-China, and Singapore in the 1960s and 1970s. Mauritius picked Hong Kong-China as its “compass” in its catch-up strategy in the 1970s. China chose Korea, Taiwan-China, and Hong Kong-China in the 1980s (Yifu Lin and Monga 2010).

Strictly speaking, Trinidad and Tobago can use this strategy for development as it does possess some labour-intensive manufacturing and processing. As for the chances of success in developing high value added manufacturing, it should be possible providing that the government gets actively involved, as in the case of the previously cited examples. However, it should not aim simply to reduce unemployment, though this will be a factor in the future, but should seek to develop industrial capacities that are sustainable given its natural and human resource endowments.

The fact that high value-added manufacturing has not taken place (to a large extent) in Trinidad and Tobago even though public opinion is firmly supportive and private enterprise agrees in principle, suggests that market forces alone might not be enough.

The Government has to get involved proactively and intervene in the market. This is exactly how Korea, Taiwan-China, Hong Kong-China, and Singapore have succeeded. Their governments have taken measures, such as formulating comprehensive economic plans, passing rules and regulations, enacting preference and industrial policies, and investing directly or indirectly in their economies. These endeavors not only bore fruits in its economic restructuring and the second industrial revolution in the early 1980s, but also gave birth to their electronics, IT, and biotechnology and other high value added industries. Clearly in the case of Trinidad and Tobago, many obstacles have to be overcome before we can successfully adopt such an approach.

The Trinidad and Tobago government needs to reach consensus internally and gain the support from the business sector via the chambers of commerce and civil society in relation to which sectors and industries should be supported by this diversification program. This is paramount in order to avoid controversies, as industrial policies often imply policy favors and preferences granted to certain industries.
The argument for diversification of the economy is that Trinidad and Tobago has no other choice when the realities of globalization and liberalization put additional stresses on the already-failing sectors of the economy. The argument against it is not without rationale either. There are also the concerns about the potential conflicts of commercial interests, operating efficiencies and deviation from fair competition due to excessive subsidizing and governmental interference. The government, one must realize, though intent on being productive and assisting the development of the sectors, also lacks the capability and experience that is needed to make informed decisions on diversification of the economy. Therefore, eagerness for quick success and instant benefit could prove to be counterproductive.

As a supporting mechanism, policy research is critical and the Trinidad and Tobago government does not presently possess strong resources in this area. Thus, the private sector, academic and research communities in Trinidad and Tobago need to shoulder some of the research burden and assist the government. Related studies must shift from purely theoretical to practical, producing more comprehensive assessment and analysis to concrete proposals. Only by doing so, we can get results in the shortest time understanding our limited resources. Otherwise, pinning all hopes on the government (as has traditionally been the case) will compromise the efficiencies and results.

This of course will necessitate not only an economic shift of resources, which usually brings with it all the bureaucratic and administrative opposition, but possibly more importantly it will require political will as well as business (corporate) and civil society contributions. What is being advocated here is that such initiatives have largely failed as the authorities have under-estimated the severity and complexities of such a task, and did not put strategies in place to deal with the civil society, social and cultural factors that need to be considered, if these strategies (which will demand more sacrifice on the part of the poorer members of society, as is always the case) are to succeed.

The policies advanced by the government must seek to provide jobs that are sustainable, not only for the short-run (as has been the practice to date), but for the long-term. In order to do this, there must be proper research into the areas that are viable, not only ones where there is perceived comparative advantages. It is clear that in many nations, particularly ones that have a high level of education like Trinidad and Tobago, there needs to be more focus on areas that create more value-added to medium technology goods in the medium term and high technology goods in the long term.

The endogenous growth models give a glimmer of hope for small developing countries like Trinidad and Tobago, as they see...

...Knowledge and its use is the opening that is available to small developing countries that do not have much hope of developing using their limited natural resources. This warrants the development of education policies that are targeted to the development of skills that will be needed in the future to enable the population to benefit from the use of existing technologies and the development of new ones. These institutions must by necessity engender the transfer of knowledge and ensure that this knowledge is used in the most efficient way possible for the welfare of the economy. (Anatol 2008)
Thus, all is not lost, but the policies must be targeted specifically to the demands of the system, local and international.

Trade liberalization may offer some sort of refuge for these agricultural economies ravaged by falling demand and prices and the associated economic hardships. There may be a relative growth in the agricultural sector as trade opportunities are opened up and it becomes more efficient. In effect, the opening up of trade encourages trade and thus the associated resource allocation to follow comparative advantage. That however, is only possible if these economies are able to increase the levels of efficiency and innovation into the primary sector, and this has just not been the case historically, as evidenced by the closing of Caroni Ltd. in Trinidad, and the failing of the banana industry of the OECS (AnatoI 2009, 30).

As posited by Anatol (2009):

...Focused governmental policies in the above areas as well as trade and industrial policies will allow the development of the knowledge sector and increased knowledge use in the economy. This knowledge development will lead ultimately to increased efficiency and productivity which will lead to increased R&D and innovation, which will lead to an increase in exports and foreign exchange earnings which will lead to increased welfare benefits to the population. And that is the basis of all economic policies and theories, figuring out how to increase the welfare of the population (Anatol 2009, 32)

Ultimately, governments have to make hard choices when deciding to diversify their economies, taking into consideration their factor endowments, geo-political realities, population levels, social and administrative structures, trading partners, global financial situation, available funding, and the like. Having done this, there needs to be a comprehensive and holistic policy attempt to realize the objectives that are determined by the stakeholders, being the state, business community, civil society and other groups operating in the domestic space.

As posited by Hare (2008), it is important that diversification efforts be subject to competition and performance criteria, with little state interference to favor particular firms. For the state is rarely capable of ‘selecting’ good firms to support, and when it tries it is most likely to fall victim to lobbying from politically well connected owners and managers.

Trinidad and Tobago as a developing country lacks the bureaucratic and administrative structures necessary for the desired levels of efficiency. In addition, the government also lacks the technical, research and development competencies locally that are needed for this paradigmatic shift. It is being proposed that the Trinidad and Tobago government seek to assist industries that can take advantage of latent comparative and competitive advantages as determined by its endowment structure. Additionally the government should, where ever possible, try to create industries to imitate the more productive and mature industries in countries that are higher than their own level of per capita income; rather than make a random choice of industries to support.
Policy Actions and Recommendations

Industrialization has been accepted as the central dynamic force in the process of economic growth of an economy. The development experience of advanced countries and the newly industrializing countries (NICs) has shown that industrialization is the only way through which the general level of living standards can be continuously improved.

Sustained industrial growth has been widely acknowledged as an engine of economic transformation in all countries: developed and developing. Less developed countries, however, remained predominantly agrarian due to a lack of dynamism in the industrial economy and the low level of industrialization. Trinidad and Tobago is more fortunate as it has its resource based sectors; however other less endowed developing countries have made noticeable strides to sustained development in their economies.

In the local Trinidad and Tobago economy, we must realize that the majority of firms are characterized as either small or medium-sized. This classification applies beyond the industrial sector, and is based on structural variables such as the production structure, the enterprises’ size, the inter-firm relationships, the background of the entrepreneurs, the features of the local labour market, the sources of innovation, the social structure, the local institutions and economic policies. There is clearly a complementary role for the state and the market as well as of the public sector and to support this point, Harberger (1998) cautioned against the dismantling of the public sector for privatization until the efficiency gains of such acts are substantial.

During the 1980s and 1990s, the growth of the world economy in general and economies under reform programs in particular recorded substantial instability. Therefore, realization dawned on the experts to recognize the differences in the stage of economic development and institutional arrangements across countries. In fact the profit-seeking private agents, misguided by market imperfection, were mainly responsible for creating instability in economic growth and creating unprecedented economic crisis in high performing East Asian countries (Stiglitz 2002). This must be avoided at all costs if Trinidad and Tobago is to make full use of the resources to achieve the level of development desired.

So basically, it is recommended that the government should seek to identify more developed countries that have successfully diversified their economies (and have similar endowments as ours) over the last twenty years. It should then seek to identify their successful products and services and determine if we can imitate their diversification path and (with some accommodation and tweaking, of course). Prioritization is also necessary, but should not be left to the arms of the state alone, but should involve inputs form all stakeholders. Thirdly, the obstacles that confront this strategy need to be itemized in terms of the firms (productivity and barriers to entry into other markets), the government procedures and bureaucratic inefficiencies as these can stifle the entire project.

In order to kick-start some of the selected industries where there may not be a high local capacity, foreign investments from other firms in more developed countries may be encouraged, but not in the old style of “Industrialization by Invitation,” but in a new mode that calls for proper regulation and government over-sight.

Additionally the government may wish to partner with The University of the West Indies and private firms to increase the level of human resources inputs into these industries in the aim
of increasing the endogenous inputs and development. As endogenous growth theory suggests this will be advantageous for the country in the long run as spillovers will be developed and the investments in human capital and research and development will lead to increased efficiency and profitability and the earning of monopoly rent. This again can lead to the development of clusters or related industries as well as upstream and downstream linkages.

As espoused by this author in other papers (Anatol 2008; 2009), it is also recommended that the government give incentives for local firms to engage in private research and development without the subsidies and grants usually offered by the state. This will be a part of the paradigmatic shift from over-reliance on government for their survival to their investment in productivity and the engendering of a culture of private rent seeking (which is seen as a major contributor to the development of endogenous industries).

To employ the most efficient strategy for the enhancing of the economy a few strategies can be considered. If there is the goal of achieving clusters or at least more firms that are based on the principles of endogenous growth theory, there needs to be more research and development injected into the local firms, there needs to be alliances made between local and foreign firms in the high end, high value added, high technology sectors, there needs to be more learning by doing in the local firms, and there needs to be a move to more complex activities by local firms.

In the case of the government, its role should be supportive in developing local capacities, thus seeking to act as a bridge between local and foreign investors, developing avenues of finance, creating the environment supportive of entrepreneurship, research and development and human capital development, and the development of local networks and supporting industries. It should also be concerned with the legal framework, legislative amendments; intellectual property rights systems, and macro-economic stability.

**Conclusion**

Diversification may be viewed as the new buzz word by policy makers and government officials. However, this does not negate the importance that this concept has for the development of the economy in Trinidad and Tobago. While the local economy has been to some extent insulated from the vagaries of the international financial crisis, it did have to deal with the local issues such as the Colonial Life Insurance Company (CLICO) debacle, and irresponsible government spending in a time when savings should have been a priority.

The Dutch Disease is a serious issue for small developing countries like Trinidad and Tobago that rely too heavily on one of its extractive industries while not responsibly channeling the profits into a reserve fund while at the same time reducing government spending and encouraging the private sector to be responsible for the economy's growth. Only in this way will the over-dependence on the government be reduced, and the economy can become buoyant and rise to the challenges of the international system.

Economic prudence is the issue here and there needs to be informed policy that relates to moving the economy further and to making it more efficient. It is being proposed that diversification is the only way forward. We need to produce more high-end products and engage in the provision of services on the international
market. The traditional markets are being withered away, and the traditional goods are being substituted. There needs to be investment in high-end goods and there needs to be the development of a vibrant, pro-active business sector. The government must create the environment for this sector to develop, but under no circumstances should it attempt (as has been the unfortunate case historically) to pick winners. The government's role is to create the environment and then step aside; leaving the rent-seekers and the productive sectors of the economy to engage the market and the international system.
References


