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Where Now for Guyana? September 2005

Many decades under state-sponsored socialism have left the Guyanese economy unable to compete internationally. Liberalisation in the late 1980s initially led to very rapid growth and high hopes, but unfortunately growth was not sustained. The economy shrank in 1998, and growth has been minimal since that time. Guyana remains one of poorest countries in the Western Hemisphere, and is also one of the smallest non-island countries in the world (measured by population). The general lack of economic opportunities has caused emigration to become a serious problem. Many people with skills necessary for the country's development leave to live and work abroad. The situation is exacerbated by race-based political conflict. The heavy polarisation of the two primary political parties has stifled change, raised uncertainty and prevented the cooperation necessary to build a national consensus for economic development.

Commodities, particularly agricultural commodities, dominate Guyana's economy. Sugar and rice production alone directly employ upwards of 20% of the total workforce. Gold and bauxite are also important, and to a lesser extent, shrimp and timber. In general, very little value is added to the commodities before leaving the country; most of the processing takes place abroad. Agricultural production fell dramatically during the period of state socialism, but recovered strongly during the 1990s. However, investment in modern harvesting/mining and processing techniques has been low, holding down wages. For many years Guyana has been able to export sugar and rice to the EU under preferential quota arrangements, receiving prices significantly higher than the world average. These quotas are gradually being phased out and the price received is falling; it is possible the quotas could disappear altogether as early as 2008, threatening a contraction in agriculture, the mainstay of the economy. The basis for Guyana's competitive advantage in the global economy is therefore weak, being largely founded on preferential market access, inexpensive, low-skill labour and the exploitation of natural resources.

The quality of economic policy and management is mixed. Macroeconomic policy, on the whole, has been good. Inflation has been brought down to reasonable levels and the currency has been stabilised. In contrast, the budget and current account deficits have been persistent problems, leading to large build-up of external debt. Guyana is a HIPC country, receiving debt reduction from the Paris Club six times since 1989, most recently in 2004. As an oil importing country, Guyana's external balance will surely deteriorate further if the current bout of high oil prices continues.

After an initial spurt of reforms, microeconomic management has been slow to evolve. There is a raft of laws, regulations and agencies in desperate need of modernising. The economy would likely benefit greatly from improved tax, trade, financial sector, property and investment regimes. Policy reform, however, is only part of the answer. Policy reform without implementation is ineffective, and Guyana's policy implementation has been particularly weak across many areas. To support microeconomic reform, investments in organisational capacity building, institutional restructuring and human resources development are required. Until these issues are resolved, microeconomic management will continue to be weak.

Guyana's period of state-sponsored socialism left indelible marks on the country's economy. Despite improvements in the legislative and regulatory framework, the overall business environment is perceived to be difficult. Government decision-making is heavily centralised. The private sector is small and weak and a strong entrepreneurial culture is yet to emerge. On occasion, foreign enterprises are still regarded with suspicion. Anti-trust legislation is almost non-existent, and many industries are dominated by one or two large enterprises. In fact, the business community consists almost entirely of a small number of large firms, and a large number of small firms. There are few of the competitive, mid-sized companies that have been so important for driving early export growth in other countries (the missing middle).

The private sector has been further hampered by political tension, the small internal market, shortages of skilled labour, and difficulty accessing credit. Political tension stifles necessary reform and worsens uncertainty. The small domestic market makes it difficult for firms to achieve the economies of scale necessary to justify large capital investments and reduce costs to international levels. Skilled workers frequently leave to take up better-paying jobs outside the country. Like many developing countries, the banking sector provides little credit to the private sector, especially SMEs, preferring instead to invest in low-risk, high-yielding government securities.

Poor infrastructure has hampered domestic and international trade. The road and rail network is relatively sparse, and the lack of regional infrastructure has prevented integration with neighbouring Latin American Countries. Despite sharing a border with regional heavyweight Brazil, there is virtually no trade between the two countries. Most cargo travels by sea, but port facilities are small and there are limited direct shipping connections. Most cargo must be transhipped through at least one – if not two or three – foreign ports before it reaches its final destination, raising the cost of shipping and shipping times well above international averages.

Despite the many difficulties associated with exporting, foreign trade is exceptionally important to the economy. In 2001, Guyana was ranked 6th in the world by exports as a percentage of GDP. A high percentage of agricultural and mineral production is exported, and incomes and poverty reduction are highly leveraged to export growth. However, exports have been virtually stagnant over the past decade. A dangerous mix of falling prices, eroding trade preferences and increasingly outdated production processes have hit traditional exports. Non-traditional exports, such as agro-processing and tourism, have also failed to take-off for a number of reasons, including poor infrastructure and a weak enterprise support system. The result has been a vicious circle of lacklustre growth, low investment and high emigration.

Many studies have been done on Guyana's export performance by both foreign and domestic organisations. For the most part, the studies agree on the basic facts: the vast majority of exports are commodities in the purest sense of the term: there is little value-added and minimal branding. The export base has been sustained until the present on a combination of natural resources, inexpensive, low-skill labour and preferential trading agreements. Relatively little has changed over the last several decades in terms of product mix and production methods. The situation is becoming increasingly untenable; change is needed, and sooner rather than later.

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