Beyond Macroeconomic Stability: The Role of Selective Interventions in Guyana's Growth

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WORKING PAPER

This paper examines Guyana's growth record 1992 to 2010, against one aspect of the **World Bank's Functional Model of Growth (1993).** This model was developed by the Bank following its review of the development experience of several of the high performing Asian economies, many of *which are island states.*[1] In this model, growth depends on three pillars **: a)** policies that promote macro-economic stability- that is low increase in price levels, stable currency exchange rates, low indebtedness, **b**) selective policy interventions, and **c)** institutional policies such as a technocratic civil service, and wealth sharing mechanisms.

Since each of these three pillars can be the subject of lengthy discussion, this paper focuses on the role of Selective Interventions in Guyana's growth record since 1992. The paper will discuss how selective interventions were the cornerstone of the Asian Islands industrial policy which allowed them to achieve sustained growth over three decades (1960's to 1990's), and then use that basis to discuss Guyana.

According to current development thought, selective policy interventions are the cornerstone of a successful industrial policy. Such interventions includes the following: low interest rates or credit often provided by development banks, focusing credit on the high growth sectors, deliberately giving certain industries tax concessions, and supporting arrangements that will push exports of the favored industries. In keeping with structural change theory, the favored industries tend to be manufacturing and services.

The paper in focusing on Guyana will therefore look at the kind of selective policy interventions that Guyana has used to stimulate growth since 1992. It looks at whether there was a policy using such special interventions, and kind of interventions used. We will also assess the extent to which these special interventions have focused on high growth industries using case studies of sugar and tourism. We offer an assessment of what factors prevented the Government from using the selective interventions to the extent they were used by the island states in Asia.

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1 The countries reviewed were eight (8) –Japan, Hong Kong, Malaysia, Singapore, Republic of Korea, Thailand, Indonesia, Taiwan-China. **About 6 of these are island states.**

Introduction

This paper's contribution to the literature on the stagnation of growth in Guyana is to present the issues from a development policy perspective, contained in the World Bank's functional model, which continues to receive the attention of scholars and development policy analysts. This model presents an elegant and relevant framework for policymakers and analysts to gauge progress and deficits in policy from the standpoint of the broad parameters where government must be acting to stimulate a stagnant economy towards renewed and sustained growth. The main three pillars of sustained growth are macroeconomic stability, selective interventions and facilitating institutions (World Bank 1993). Guyana has enjoyed macroeconomic stability over the period 1999-2010. This policy plank is in broadly place to facilitate growth. There is the need to evaluate the role of the other pillars of sustained growth to understand Guyana's slow growth. This paper is confined to a discussion on the role of selective interventions.

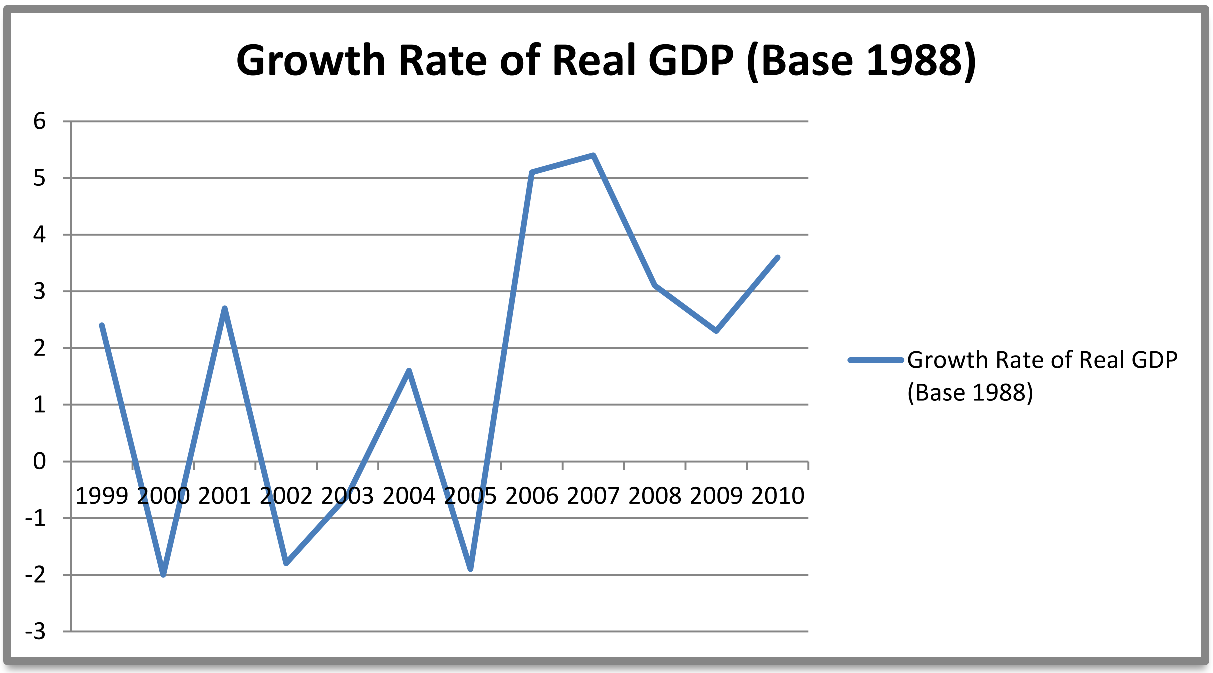
We review the key literature on the phenomenon of growth and stagnation in Guyana. The paper gives a broad outline of the objectives of development, and the functional model within the context of development. We discuss in more detail the role of selective interventions in the model. The broad context of interventions in Guyana is surveyed and finally we examine case interventions to argue our position of the "role of selective interventions in Guyana's growth".

Literature Review On Stagnation Of Growth In Guyana

Guyana's Economy Experienced Strong Economic Growth in the early 1990's, resulting from market oriented economic reforms initiated in the 1989. Growth averaged 7.1% during 1991-1997, but plummeted to an annual average of 1.7% during 1999-2010. Growth rebounded to 3.6% in 2011 and 5.4% in 2012 due to strong global demand for gold and increased investment in the sector. Nonetheless, given Guyana's current GDP per capita of US$2500 it would take approximately 14.4 years to double this assuming an annualized growth rate of 5%. International organizations and analysts alike have been perplexed by this slowdown of growth in Guyana, and concomitantly a number of studies have sought to present insights into this problem. Guyana had pursued a comprehensive reform program starting in 1989 with an Economic Recovery Program (ERP) which departed from the socialist based model pursued for decades. The reforms included widespread privatization of several state owned entities and the development of a market-based economy. The reforms resulted in initial high growth rates as it attracted new investments in forestry, telecommunications, and investment in some of the privatized entities. By 1998 slow growth rates started to show in Guyana, a trend which only in the last two years have seen some reversal based on external factors rather than domestic structural changes.

Staritz, Gold and Atoyan (2007) notes that some slowdown of growth resulting from reforms could have been expected, but that the evolution of growth in Guyana has been radically different from other countries that pursued large scale liberalization. They concluded that a significant part of the slowdown in growth in Guyana could be explained by domestic and foreign investment, deterioration of the political and institutional environment, and the dramatic reduction in the labor force due to emigration. This study emphasizes the need to revitalise private sector investment-domestic and foreign as the key for restoring sustained economic growth, through further improvements in the investment and political climate. This paper(ibid, 2007) also highlights the fact that capital is overestimated in Guyana, given that much of the investment has been for maintenance and repair rather than productive capital, reflected in the larger share of public investment in the total.

Da Costa (2007) explains Guyana's poor economic performance as the result of poor institutions resulting from the country's peculiar colonial history and geography. Moreover, ethnic conflict engendered since creation of two ethnically based parties since independence, have led to a lack of national consensus, with the ethnic group in power at any time adopting a rent seeking position rather than the creation of participatory institutions that are essential for supporting macroeconomic policy. Da costa also seeks to explain Guyana's earlier embrace of socialism as part of its sloth in developing strong institutions. Citing the example of Mauritius, Da Costa nonetheless notes that despite ethnic diversity, the latter country has experienced strong economic and social progress and hence underscores the need to create participatory institutions that promote dialogue, and inclusion, and mediate conflict.



Khemraj (2008) has discussed the oligopolistic nature of Guyana's financial system and the position that it nullifies the theoretical benefits of financial liberalization policies adopted by the Government, thus resulting in above competitive level interest rate, which constrains borrowing and private sector investment. The government of Guyana liberalized the financial sector as part of the reform program of post 1989. With this policy initiative, interest rate controls were dismantled, state-owned financial institutions privatized, allowing the entry of foreign banks. Government sold its shares in in the two largest commercial banks and the largest state-owned bank was sold in 2003. These actions effectively ceased the directed credit schemes to priority sectors that were extant in the pre-reform period. In addition, Khemraj (2008) argues that the small size of Guyana's real economy presents a natural barrier to the existence of deep financial markets and results in this dominance of oligopolistic commercial banks that charge above competitive level interest rates. Thus high finance costs provide a constraint on private sector investment and growth in Guyana.

I have no doubt that the previous contributors understand the importance of structural change in sustaining growth. Stronger understanding of Guyana's growth experience resides in resorting to the solid foundations of development theory, viz the importance of structural change as a necessary accompaniment of any process of sustainable growth. As such, policies that promote such structural change must accompany the growth process, and they reinforce each other. The failure to adopt such structural oriented policy i.e industrial policy is at the heart of unsustainable growth in Guyana.

This paper explains the historical background that affected Guyana's entire policy stances over the period we relate to. We then review some simple indicators of the overall structure of both GDP and exports over 1992 to 2011 to shed light on the phenomenon. Then we do two (2) case studies of how Government selective policy interventions to date have not assisted the growth process.

Structural Change and Development

Structural change is the underlying objective of development policy. The justifications for structural change as this overriding objective of the development process are well established in development theory (Lin, 2010). These justifications have stood over time and the experience of countries that have over the last few decades transformed their economies from poor and dependent to competitive and robust economies. Within the broadest three -sector division of structural change theory is the desired advancement from dependence on agriculture and transformation towards a greater percentage of GDP emanating from manufacturing and services. The economic desirability of this process occurring rests on fundamentally three or four premises summarized by Stijepic (2010) in a rather incandescent contribution: Fisher (1939, 1952) explains the necessity for this transformation on non- homothetic demand behavior, that is, income elasticity of demand for agricultural products decreases over time, while income elasticity of demand for manufacturing and services increases over time. Clark (1957) explains the necessity for structural change on the 'nature of the product" which affects total factor productivity in the relevant sector. The production process associated with the 'nature of the product" affects the scope for productivity increases. The revealed view is that "Rationalization of mechanical processes is relatively simple and therefore stands at the beginning of the technological development path. Industries/sectors (especially manufacturing) where mechanical processes are a key component of the production process, profit from their innovations. Over time the rationalization of mechanical processes progresses and technologies that are used become more and more sophisticated and aggregate income increases. This whole process is named industrialization (Stijepic, 2010 p. 228).

Other justifications for structural transformation are the international trade i.e the terms of trade argument.i The dependency theorists Raul Prebisch (1950) and Hans Singer(1950) had expounded on an observed trend of the terms of trade of developing countries producing primary products declining in comparison to terms of trade for the developed countries.ii Although recent rises in commodity prices now challenging this premise, it remains as one of the factors affecting the varying productivity of the three sectors. Marshallian externalities has also been explained as a fourth justification for structural change as contributing to more rapid growth rates due to linkages between manufacturing services and agriculture, in other words when the latter two sectors grow, they provide positive externalities to agriculture and all sectors are allowed to grow faster.

The Functional Model: A Theoretical/Conceptual Framework To Growth

The remarkable growth record of the HPAE's (High performing Asian Economies) countries in East Asia generated a large volume of literature by economists, and development practitioners such as the World Bank, analyzing and debating the relative role of state intervention versus the market in the "East Asian Miracle." The Bank (1993) in a highly influential study, expounded an eclectic framework that seeks to link rapid growth to the attainment of three functions. This framework was derived from the Bank' s detailed survey of the performance of the eight HPAEs and the academic, intellectual literature seeking to explain the remarkable success of these countries. In this framework, three groups of industrial policy instruments are deemed key to industrial policy and growth rates: macroeconomic policy, selective interventions and institutional factors.

The functional model is an acknowledgement that both the neoclassical and revisionist views of success in East Asia are partly correct, and is a combination of both. The typical neoclassical view holds that the market played the central role in the success of the HPAE, with government intervention playing only a minor role. For example (Wolf 1988, Chen 1979, Wade 1990) had argued that the relatively successful developing economies-Hong Kong, Malaysia, Singapore, the Republic of Korea and Taiwan, China benefited from decisions and policies that limit government's role in economic decision-making, and instead allowed markets-notwithstanding their imperfections and shortcomings-to exercise the dominant role in determining resource allocation. Thus the emphasis is on the fact that there were limited policy distortions in foreign trade regime and in domestic factor markets. Traded inputs were available to manufacturers at international prices, and exporters faced international prices in their export decisions.

The revisionist opposing review was postulated with almost as much vigor as that of the neoclassical view and has added more proponents since the publication of the Bank's Policy Research paper (Pack and Westphal 1986; Amsden 1989; Wade 1990, Chang 2002, Lin 2010). This school of thought argues that governments in the HPAEs especially Japan, Korea, Taiwan and China intervened extensively and selectively promoted individual sectors in the economy. Levels of protection and variation of protection across sectors have been greater than recognized, attesting that promotion of specific sectors was evident. Korea encouraged heavy and chemical industries by setting targets and providing supporting financial incentives. Taiwan used public investment in large scale manufacturing enterprises to ensure inputs for small and medium-scale exporting countries. For this school of thought market failures are pervasive and are a justification for governments to lead the market in critical ways. Governments need to "govern markets, "gets prices wrong" to lead industrial development in a way faster than the market would allow. This is especially for economies that need to catch up and facilitate the establishment and growth of industrial sectors that would not have thrived through strict operation of comparative advantage.

As noted, the functional policy approach summarises successful growth and **industrial policy** into three major planks. The three (3) planks are the following: a) fundamental Policies that encourage and promote macroeconomic stability, and that encourage private investment: The principal outcome of macroeconomic stability was that **"**This has been a potent encouragement for **private savings, investment, exports, and growth**, **since the private sector could count on relatively constant prices and interest rates**"(ibid. 108)**;** b) selective policy interventions that are a combination of other policies ranging from market oriented to state led. Selective interventions include low interest rates, directed credit, selective industrial promotion, and trade policies that push nontraditional exports and c) institutional policies, wherein the key institutional policies required as part of industrial policy include technocratic leadership in industrial issues through a high quality civil service. The intention is to guide government in designing the right policies and monitoring performance. See (World Bank 1993) for a fuller explanation of this model.

Selective Interventions and Growth

Selective interventions by the state through an industrial policy defined as "government action to create productivity based growth" (World Bank 1993) " is intended to accelerate this process towards structural change. Selective interventions are premised on two issues -market failure and incomplete markets. When they work properly, a primary function of markets is coordination through the information that is provided by prices. The price system is an invisible mechanism that coordinates the production decisions that make up myriad firms in the economy. When markets are incomplete or missing they cannot perform this function. In well developed economies, information sharing is supplemented by trade journals, association meetings, information newsletters. In developing countries, institutional arrangements for cooperation and information exchange are weaker than in developed countries. Hence, there is need for coordination beyond what markets can provide.

In its model, based on its extensive knowledge of LDCs the Bank notes that "Among the markets most affected by information problems are capital markets. In economies where equity markets are weak or absent, credit mechanisms become the primary vehicle for raising capital and diversifying and spreading risk."(ibid p.91) As a result, in most HPAEs governments intervened aggressively and supported development banks and other financial institutions. In both Japan and Korea, Government set up and directed managed directed credit programs and through implicit or explicit guarantees or other forms of intervention, reduced risks to banks and investors. The third strong argument for selective interventions is to build up technological capabilities being the technical, managerial and organizational skills needed in new industries. Capabilities are firm-specific institutional knowledge made up of individual skills and experience accumulated over time (Lall, 2000).

The position has grown among economists and even previously free market proponents such as the World Bank(2005) that selective interventions in trade, industry and supporting institutions have played a substantial role in industrialisation through the development of institutions needed to support industrial and technological activity (Lall 2000, Chang 2002, Lin et al 2010).With even the neoliberal organisations like the World Bank, making this concession, then the need for activist industrial policy in the form of selective promotions has a necessary place in development positioning for sustainable growth. Selective interventions are instruments of development policy used to stimulate sustained growth by creating structural change towards high growth sectors.

Economic Policy in Guyana

1966-1985-Cooperative Socialism

1985-1992 Structural Adjustment

1992-2002: Quest for Macro-Economic Stability

2003-2012: Regulatory Reform

Taking together therefore the theories of structural change summarized above and the accompanying arguments for deliberate selective interventions, it follows that to properly understand the occurrence or non-occurrence of sustained growth in any country, that the structure of GDP over time, must be studied for the foundational explanations. In other words, especially in a developing country, it is not possible to talk about growth or stagnation without referring to the types of industrial policy that has been adopted.

Selective Policy Interventions in Guyana

A regulatory regime for selective policy interventions was initiated rather late in Guyana, only until 2003. Up to then Guyana's economic policy 1985 throughout to 2003 was the preoccupation with converting the economy from socialism, from onerous indebtedness of the country, and in bringing about macroeconomic stability. The country's current slow growth can never be fully be put into proper perspective unless it is appreciated that the devastation of the economy and the economic resources and energies absorbing policymakers up to say 1999 when the country started experiencing debt relief provided more fiscal space for attention on changing the structure of the economy.

The ideological positions of Guyana's Government was socialist until 1985 when the new President was ushered into office and resolved to change the direction of ideological position(Da Costa, 2007, World Bank 2003)iii. It follows that there have been twenty six (26) years to address issues related to a new economic structure. The 26 years may be broken down into the following sub-periods. 1985-1992-Structural adjustment; 1992-1999 pursuit of debt relief and macro-economic stabilisation; 1999 to 2012: legislative and policy reform to privatize and achieve macroeconomic stability. Cooperative socialism from independence to 1985 meant that the country got a pretty late start compared to other Caribbean countries, in building a business class.

Beginning with the policy stance from 1991/1992, macro-economic stability was the main thrust of Government rather than structural change. This resulted from the huge debt overhang and previously high inflation rate(Inflation was 100 per cent in 1991(Da Costa 2007) . The country also shifted to a flexible exchange rate in 1991. Guyana's broad macro-economic policy was prudent making the period 1999-2010 one that has enjoyed macroeconomic stability. The country has enjoyed single -digit inflation over the period 1999-2010 at 6.1% as an annual average. Guyana's foreign debt was 93% of GDP up to 2006, currently reduced to 56.7% at this time, with reduced debt servicing burden (Faal, 2003).

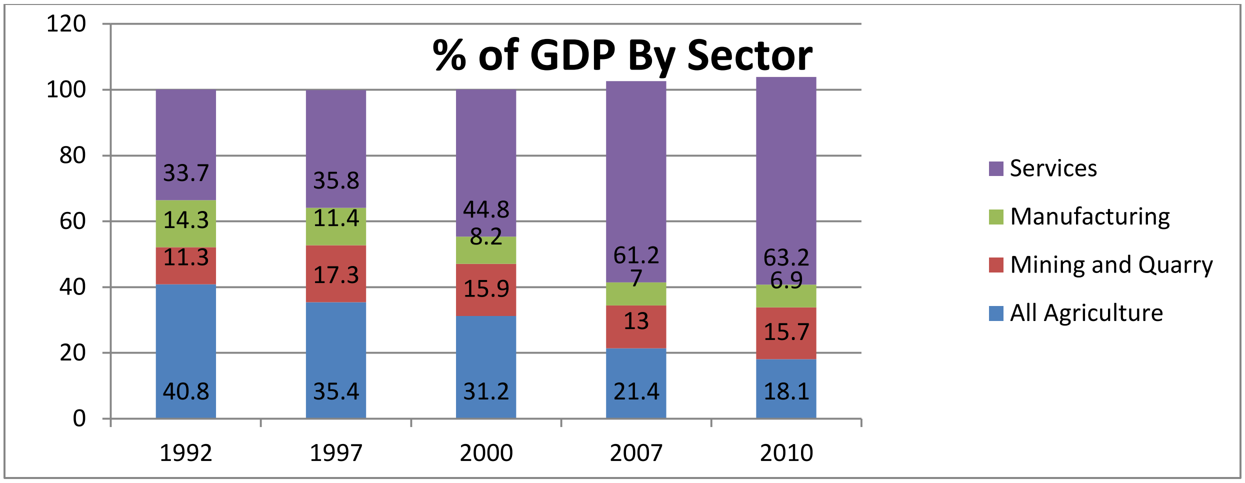
The current period, now though late is ripe for pursuing structural transformation through stronger selective interventions, which are the core of an active industrial policy. In 2003, the enactment of the Fiscal Amendments Act, provided a clear legislative statement by Government of Guyana, of which industries it considers to have high growth potential and which will receive fiscal concessions from the state, in a transparent and predictive manner. It provided a transparent and predictive policy towards industrial development by the Government of Guyana. It provided a regulatory basis to end discretions and arbitrary concessions to specific investors. The activities meriting exemptions from income tax up to five (5) years were listed as the following: non- traditional agro-processing, information and communication technology, petroleum exploration, extraction, or refining, mineral exploration, extraction, or refining, tourist hotels or eco-tourist hotels (p.18). The Act also provides exemption from income tax if the activity creates new employment in any of four (4) depressed areas. Given Guyana's low growth rates, it is clear that the regulatory framework being in place for granting concessions over eight years has not been enough to stimulate the kind of growth rates that are required in these sectors. A policy of more active selective industrial policy interventions will be required to require the structural transformations of the economy that are required.

Guyana National Competitiveness Strategy (2006) recognizes the need for Government to intervene to create new poles of growth to complement the traditional sectors in the economy. It notes the dependence on four (4) pillars which consist of primary commodities and the need to diversify the economy from this old structure of GDP. In 2006 when the strategy was crafted gold, sugar, rice, timber, bauxite and shrimp accounted for 69% of GDP. In terms of export performance, in 2006, gold and sugar also accounted for half of the country's exports, also exemplifying the exposure to the vagaries of commodity markets. More importantly the declining international market fortunes for sugar based on the EU's reform of the Sugar Protocol whereby the landed export price received would be reduced by 36% over three (3) years provided new imperatives for diversification in Guyana, towards industries with more favorable international growth trends. Indeed, the utmost need for diversification of Guyana's economy and fostering of new poles of industrial competitiveness had been espoused quite clearly in the Guyana's National Development Strategy (NDS) of 2001 and the Poverty Reduction Strategy Paper. However, selective interventions to substantiate these stated recognitions have been slow and delayed, not concomitant with the seriousness of these policy actions to overall growth of the economy. The NDS (2001, page 9) states that "Guyana relies too heavily for its economic existence on the production and export of a few virtually unprocessed commodities."

The NCS makes explicit statement that the strategic sub-sectors identified for growth requires targeted[selective interventions] and that "*If unlimited resources were available, the Government could intervene vertically and horizontally to address obstacles constraining sector-level competitiveness, unlocking bottlenecks across many complete sectoral supply chains simultaneously. But there are not enough resources to experiment with multiple supply chains; such an approach would spread resources too thinly, with little possibility of having significant impact(NCS p18).*" The NCS therefore expressed preference for broad points of intervention, providing public goods and the selection of market-driven interventions that allow the news sectors to grow. The sectors in the NCS are IT, tourism, non-traditional agriculture(including organic), manufacturing and fisheries(aquaculture).

Structure of Guyana's GDP and Exports 1980-2012: The Statistics

Due to the small population and small domestic market, Guyana is an extremely open economy with an export to GDP ratio of more than 50% -in 2010 it was 59%iv . Hence export performance plays an important role in growth. Guyana's slow growth in the period of 1999-2010 continues to be the result of two things a) the composition of GDP has shown strong growth in the percentage of services now dominating GDP-but services are all non-tradables and are negligible in exports, b) exports continue to be dominated by primary products, recently gold, sugar, rice, bauxite.



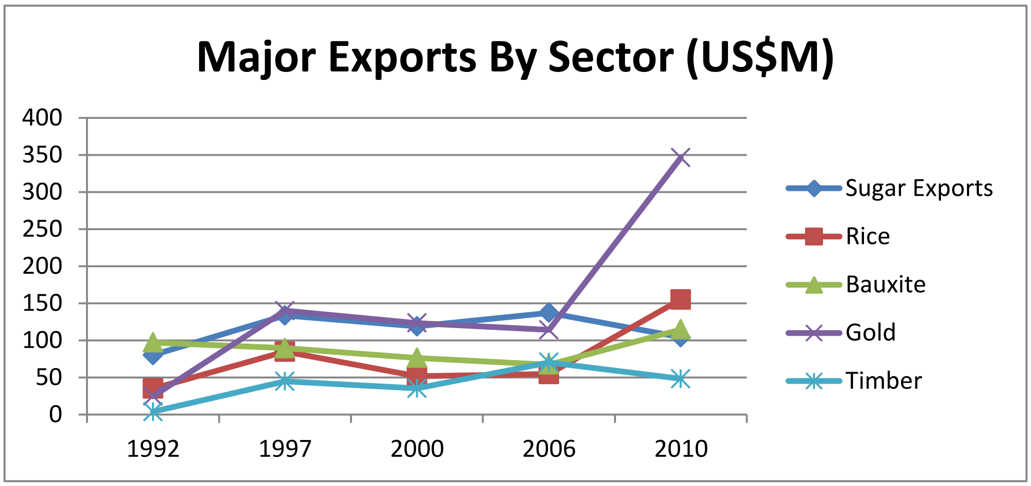
According to official statistics (See fig 2) agriculture accounted for 40.7 per cent of Guyana's GDP in 1992. Fifty per cent of this amount consisted of sugar cane production. By 2010 agriculture declined to 18.1% largely the result of declining production and exports of sugar. Official statistics also show a remarkable increase in the service sector in GDP from 33.7% in 1992 to 63.2% in 2010. In this regard, two important points are to be noted: the rebasing of the national accounts in 2010 allowed for the inclusion of a range of legitimate services previous unmeasured such as government services, education, water, energy. The second point to note regarding the increase in services is that the services sector is largely untradeable with services showing an average negative net balance of US$(116.2) over the period 2009 to 2011. Given Guyana's small domestic market and the resulting fact that exports are important to generate resultant growth in GDP then the slow growth of services exports has not assisted the performance of GDP.

The traditional export sectors have not performed impressively over the period [See Table 1 and fig 3] either. Recently, the larger percentage in export growth performance has come from growth in the exports of gold, motivated by higher gold prices resulting from the slowdown in the global economy and higher demand for gold. Sugar export revenue in 2010 was below that of 1997 and is expected to reduce further based on the removal of preferential prices for the commodity. The export earnings from rice have gone up due to increased rice production partly responding to higher preferential prices from Venezuela. There has been some rebound in bauxite but not significantly higher than 1992. Gold earnings have increased by 1400% over 1992 benefiting from the global economy's poor performance. Other exports have not shown much improvement over the 18 year period. In fact, what is clear from the data is that 36 per cent of the growth in export earnings has come from the externally generated good fortunes of the gold industry. These indicators of export performance for Guyana make the growth experience an even more worrying phenomenon, and of course point in the direction for the need for stronger selective targeted interventions for structural change and diversification of Guyana's economy.

Table 1: Guyana's Export Performance

	1992	1997	2000	2006	2010
Sugar Exports	79.9	133.4	118.8	137	104
Rice	35	84.7	51.8	54.6	155
Bauxite	97	89.4	76.3	67.3	114.6
Gold	24.6	139.8	123.3	114	346.2
Timber	3.7	44.6	35.2	70.3	48
Other	123.2	81.5	99.8	141.9	124.1
Total Exports	**363.4**	**573.4**	**505.2**	**585.1**	**891.9**

Source: Bank of Guyana Reports



Case Studies: Selective Interventions: Sugar and Tourism

In the remainder of this paper we discuss the patterns of intervention of the Government of Guyana and how these patterns need to be improved to create the structural changes required. In this essay we select two productive sectors to discuss the policy attitude of selective interventions towards old and potential growth sectors. We select sugar as one of the old sectors and tourism as an emerging sector given its importance in the global context to contribute to faster growth rates in developing countries. In subsequent papers we conduct more detailed studies of industrial policy in the various sectors.

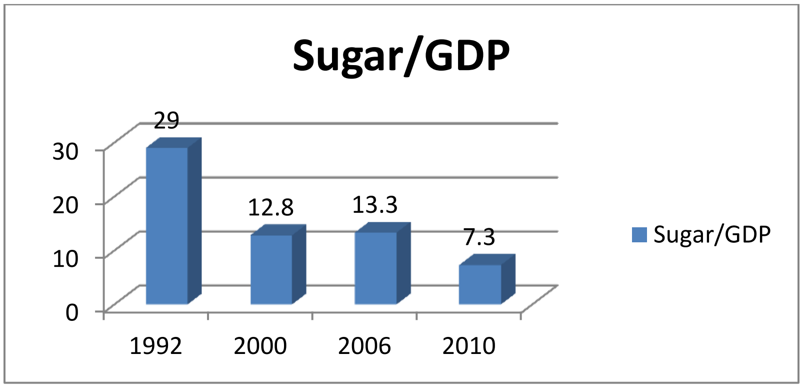
Sugar

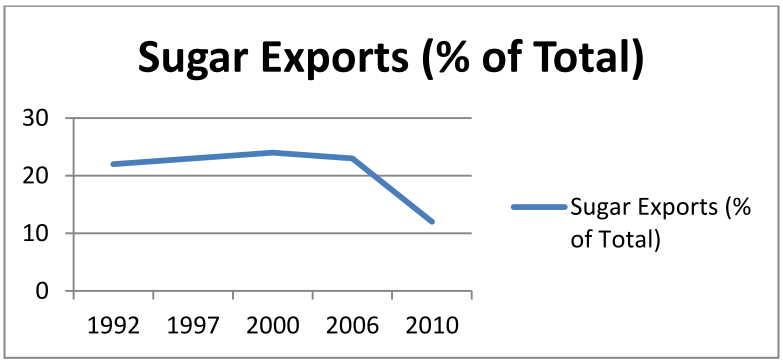
Sugar was once king in Guyana.2 In 1959 it accounted for 50% of export revenue (Reubens and Reubens 1962); by 2006 this had fallen to 23% and by 2010 to 12%. In terms of GDP contributions in 1956 sugar accounted for 15% (Reubens 1962); Accounting for both cane sugar production and the manufacturing component of sugar, in 1992 sugar accounted for 29% of GDP, by 2000 12.8%, by 2006 13.3% and 7.1 % by 2010.

So the decline of the ability of the sugar industry to contribute to sustained growth in Guyana had long been clear and signaled that attention of industrial policy on growth should be more vigorously on new industries especially in the deployment of budgetary resources. The fall in the performance of the industry and its importance in the economy came as a result of fall in absolute production levels and not as a result of the fact that the other sectors were growing more rapidly than sugar. Tonnes of sugar

2 This introduction is intended to give broad indicators of Governments intervention in sugar, rather than a detailed coverage of the issue. This is in order to compare it with broad interventions in a high-growth sector tourism.

produced have seen absolute reductions. In 1960, sugar accounted for 23,000 in employment directly in sugar (Reubens and Reubens 1962), which was approximatey 15% of the labor force. Government of Guyana unsubstantiated sources note that by 2010 sugar accounted for 18,000 jobs. It is clear that on these ground again that industrial policy was to refocus on other industrial targets to sustain growth of Guyana's small economy.





GOG Intervention Action Plan for Sugar

It is against this background that we evaluate the selective interventions of the Government in the industry. It is well known that many developing countries that heavily relied on sugar have had to make provision to greater exposure to market prices for the product on the international market rather than on previously preferential rates allowed to ACP countries by the EU. This new reality has implied smaller possibilities for relying on this sector for GDP stability and growth. In November 2005 the European Agriculture Council agreed to cut the EU guaranteed sugar price by 36% over 4 years starting in 2006. The Guyana Action Plan for sugar costing a total of **US$640M** was prepared in response to the draft EC Regulation of 22 June 2005 that invited Sugar Protocol countries to prepare strategies for the purpose of mitigating the effects of the price cuts. It presented a comprehensive strategy to offset the revenue loss from the EU sugar price cut via new areas of economic activity in the sugarcane industry and in agriculture (GOG 2006, p.3). The expected effect of the announced 36% price was to reduce the landed export price receive by Guyana from €523.7 per tonne to €335 per tonne by 2009/10. The reduction in the annual value of the quota will be €31.5 million (US$ 37 million) when the price cut fully comes into effect (GOG 2006).

The key aspects of the Action Plan were the following: expansion of production in line with new marketing opportunities; adding value by producing direct consumption brown and refined sugars; branding and packaging for retail; increasing sales to Caricom countries in addition to the EU and US markets; implementing an agricultural improvement plan covering improved agricultural practices and mechanisation aimed at increasing yields, factory upgrading and improved sugar quality; refining and co-generation.

The Plan and Interventions in the Industry

GOG estimates were that the value of lost preferences will be equivalent to 5.1% of GDP and 5.4% of merchandise exports annually (GOG 2006. These estimates given by the Government itself appeared too small to warrant the level of resources expended in urgency on the Guyana Sugar Corporation, the company that produces sugar in Guyana. Looking at the trend in reductions of contributions to sugar to GDP and export earnings as discussed above, gives the clear indication that the level of interventions could be justified by factors other than strict economic criteria per se.

The Government of Guyana was optimistically expected that if the industry succeeds in fully implementing the main elements of the plan, it should remain profitable even after the EU price cut. The industry plan aims to cut estate production costs from an average of 17 US cents/lb in 2005 to 12 US cents/lb in 2010. After the EU price cut the EU price will be around 18.2 cents/lb. (GOG 2006 p 5-6).

One important part of the Action Plan has already been funded. The construction of the new sugar mill, co-generation plant and estate expansion at Skeldon (total cost US$168 M) has been facilitated by the Government of Guyana and financed by loans totalling US$ 110 million from the World Bank, Caribbean Development Bank and Exim Bank of China. GuySuCo has contributed US$58 M from its own cash resources. However, most of the investments included in the Action Plan, amounting to US$ 621.79M (€ 518.16M), remain unfunded. Meeting these financing needs will be a major challenge, in particular during the period 2006-9 when capital requirements are highest(GOG p. 53). Packaging plant also funded at approximate cost of US$12.5M.

In addition to direct budgetary support to sugar, the industry has also benefited from several fiscal concessions which have reduced earnings to the public treasury, deferral of all taxes, and minimal rental to the state for most of the land utilized by the Guyana Sugar Corporation.

Selective Interventions in Tourism

As we have noted the shift to high income -elasticity sectors which naturally have the greatest potential for growth has not occurred in Guyana, due to the previous emphasis on commodities and on the country's emphasis on exploitation of Guyana's abundant natural resources. In the immediate post-independence period countries in the Caribbean such as Barbados supported foreign investment in manufacturing and tourism to diversify their economies (Guyana embraced cooperative socialism which included state control of most of the economy(nationalization of sugar and bauxite, banks, centralized credit), state led development of manufacturing, and state controlled education (Da Costa 2007).Within this schema of inward development tourism as a possible growth industry was not embraced. Further, in the early 1970's Guyana depended on the commodity boom. Guyana's infrastructure was destroyed and remained in disrepair for decades after independence due to the espousal of socialism which made unfeasible a viable tourism industry(ibid 2007).

There is little evidence to suggest that a tourism policy existed prior to the 1990s, either implicitly or explicitly. Several factors may have been responsible for this. First, the Government may have felt that Guyana does not possess what it takes to be a tourist destination. Second, the apprehension that impact associated with tourism would exacerbate social problems may have discouraged its development3. Thus, policies to stimulate Guyana's tourism industry came rather late with 1996 being designated as 'Visit Guyana" year Therefore, according to the NDS 1996 report, certain policy decisions have been instituted to give guidance to the tourism industry.

Thus early policy measures at tourism industrial policy in Guyana were: [4] the removal of the visa requirement for the major tourist generating markets, in Japan, North America, Western Europe and Scandinavian and Commonwealth countries, as of 1993, the introduction of a 10 percent room tax on all establishments with a capacity of fifteen (15) or more rooms, with the intention of

3 (NDS, National Development Strategy (2001-2010) A Policy Framework Eradicating Poverty and Unifying Guyana A Civil Society Document Annex 20: Tourism 2000)

44 In a subsequent paper we will explicitly address in more detail industrial policy in tourism in Guyana

channeling funds back into the industry, the introduction of a tourism incentive package that granted duty free concessions to a number of items was prepared for the sector in 1995. Subsequently, the Government's decision to commission the organisation of America States (OAS) to develop an Integrated National Eco- Tourism Development Plan, of which Plan for Kaieteur National Park is a component. In addition to that, according to NDS 2000 report, in 1998, a project commissioned by the Government of Guyana and executed by consultants from the University of Guyana resulted in the production policy document. The broad objective of this policy is: "To develop a sustainable tourism that produces maximum economic, social, cultural development strategy through the optimum use of human resources and the provision of a product of the highest quality." Then ,In 2006, the IADB funded the Tourism Action Plan for Guyana.

Based on conservative estimates of per capita visitor spending, direct tourism receipts for Guyana were estimated between US$78.9M to US$116.5m based on visitor arrival of 115,000(Guyana Tourism Action Plan, 2006). In 2010, there were approximately 150,000 visitors to Guyana (Guyana Tourism Authority). These figures are measly compared with performance of tourism in CARICOM.

The lateness of selective interventions is best mirrored in Guyana Tourism Authority's paltry destination marketing budget of US$70,000 in 2006 compared to US$5M for St Lucia in 2006

The point we make in this section is consistent with the argument of the preceding sections that selective industrial interventions in high price and income elasticity sectors has been rather too late and of too small magnitudes to stimulate the kind of sectoral and structural change that is needed to stimulate and sustain higher growth rates, and that the time is now ripe for such a policy shift by the Government of Guyana.

Conclusion

The gist of this paper has been that the conversations on the stagnation of growth in Guyana must place greater emphasis on the nature of and the direction of selective policy interventions to understand the most appropriate reasons for the slow-down in growth. Current research, discussions and empirical evidence of high growth countries provide sufficient evidence that sustainable and high levels of growth must come from an economy that is dominated by sectors with high income elasticities, and long term favorable terms of trade. The paper gives recognition to the fact that recent policy making in Guyana was dominated by efforts to restore macro-economic stability, the opposite of which was the inheritance from several years of socialist policy and aversion to open markets and trade as facilitators of growth. The devastation of Guyana's economy and infrastructure which followed the socialist policy must not be underestimated but recent policy making has taken too long to posture a more activist policy towards the high growth sectors as can be seen from the interventions in sugar against the interventions in tourism.

What the two case studies show is that selective interventions in Guyana have been disproportionately in favor of sectors in agriculture, such as sugar rather than in favor of sectors with high elasticities and long term favorable terms of trade, which the theory of structural change predict would lead to higher productivity and sustained growth.

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ii Cited in Magnus Blomstrom and Bjorn Hette (1984) Development Theory in Transition.

iiiiii These two (2) studies give broad indicators in changes of policy direction in Guyana. We have supplemented that with our own knowledge of events in the period 2003 to present. Note that 1989 marked the official launch of the Economic Recovery Program(ERP) but steps to dismantle the socialist program started after the death of Forbes Burnham in 1985. In 1992, a new PPP government acceded to office which made strenuous efforts at debt relief and macro stability.

iv Budget 2011