

THE DEFICIT IN INDUSTRIAL POLICY IN GUYANA

**A REVIEW OF 1999-2011 VS THE WORLD BANK'S
FUNCTIONAL MODEL OF GROWTH**

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September, 2011

Introduction

Growth and development require more than macroeconomic fundamentals being in place.

The eight (8) HPAAE's showed through their development experience that the following are also critical:

1. Selective interventions that guide the market to high-growth industries
2. Strong, neutral state institutions with good governance that set policy and guide allocation are equally important for **sustained growth. In Guyana the main deficits are institutions with good governance.**

Section 1:

The WB Functional Model of Growth Explained



Functional Model Background

- I. Articulated in 1993: The World Bank: **The East Asian Miracle**: *Economic Growth and Public Policy Research series*

- II. Bank conducted comprehensive review of the development experience and policies of eight (8) HPAE's – Japan, Hong Kong, Malaysia, Singapore, Republic of Korea, Thailand, Indonesia, Taiwan-China,

Functional Model Background

Performance of HPAE's Summarised :

- I. ***Sustained*** High GDP growth rates - 3 decades 1960-1990- approx 6%
- II. High rate of export growth: share of world exports grew from 8% to 18% 1965-1990. *Manufactured exports the largest share of growth.*
- III. Low Inflation: 1965-1995: annual avg. inflation of 9% vs 18% other LDCs
- IV. High share of private investment: 1970-1989: 15-22% of GDP.

Functional Model Background

Is an eclectic view combining:

- I. The “market friendly” view : *“appropriate role of government is to ensure adequate investments in people, provision of competitive climate for enterprise, openness to trade and stable macro-economic management.”*
- II. Revisionist views-institutions and strong state actions e.g Pack, Westphal, Amsden, lately Chang: *HPAE’s govts “led the market”; got “prices wrong” by altering incentives to boost industries that would not have thrived.*

The 1993 study was regarded by some economists as a breakthrough in World Bank views/position on importance of institutions and role of Government intervention in growth.

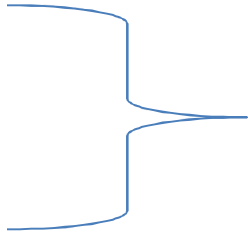
Method: “ An essay in persuasion” after Keynes based on analytical and country studies. “difficult to establish statistical links between growth and a specific intervention and ...causality. “

The Functional Model of Growth

- I. **Fundamental Policies**: that encourage/promote macroeconomic stability, and private investment.
- II. **Selective Policy Interventions**: ranging from market oriented to state led- low interest rates, directed credit, selective industrial promotion, and trade policies that push nontraditional exports.
- III. **Institutional Policies**: technocratic leadership in industrial issues-a high quality civil service-intention is designing the right policies and monitoring performance.

1.0 Fundamental Policies

4 Key Aspects of Macroeconomic stability:

- I. Fiscal prudence where internal and external debt remained manageable
 - II. Inflation kept under control
 - III. Exchange rate stability
 - IV. Macroeconomic crisis that emerged were resolved quickly
- 
- A blue bracket is drawn to the right of items II, III, and IV, grouping them together. The bracket starts at the level of item II, extends to the right, then curves back to the left to encompass items II, III, and IV, and finally extends to the right again.

1.0 Fundamental Policies

Policies that create MES have a **central and leading role** in the Bank's functional model. "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) .

High inflation **is unstable as it creates further doubt** about future rates of inflation, and **reduces the efficiency of investment and discourages it.**

2.0 Selective Interventions

- I. **Coordination of activities-to** enhance the functioning of incomplete/missing markets e.g institutional cooperation, information sharing.
- II. **Altering incentives** to favour specific high growth sectors esp. manufactured goods.
- III. **Directed and subsidised** credit.

3.0 Institutional Basis of Growth

- I. Building institutions that help leaders **establish political viability and legitimacy[Governance]**. *HPAE's were "developmental states."*

- II. East Asian high growth rates benefitted from high quality of the region's institutions. All institutional strategies – goal: **the principle of shared growth** guided policy.

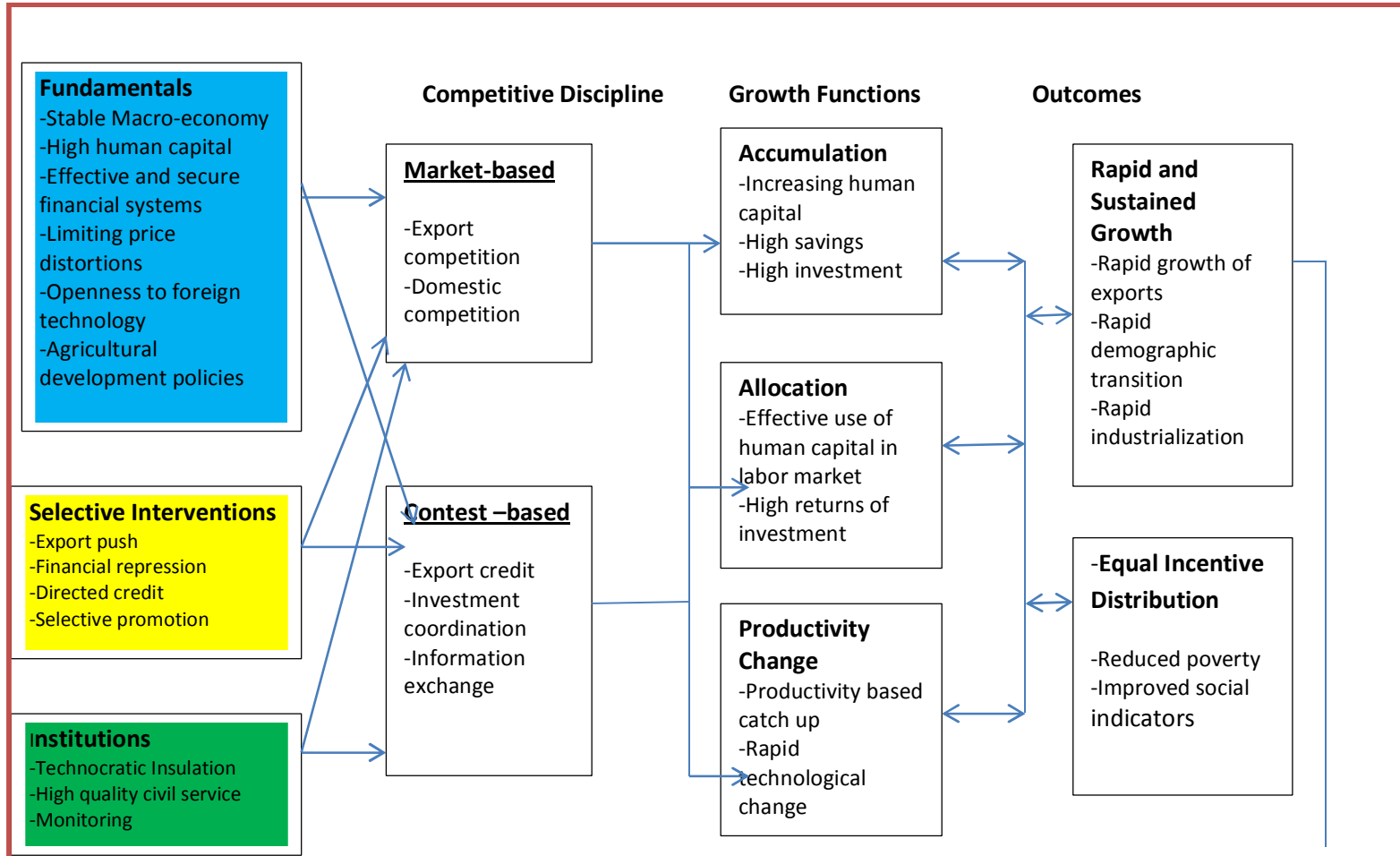
Key Indices of Shared Growth

- a. **wealth sharing programs**-to include non-elites in economic growth
- b. A cadre of **economic technocrats**- insulated from narrow political pressures: “*Economic contests, like others, require competent and impartial referees-strong institutions.....a high quality civil service(p. 11)*” ;
- c. Institutions and mechanisms: share information/win the support of business elites.

Key Indices of Shared Growth

- d. Support for SME's- Government investment in basic amenities: housing and public health services.
- e. universal primary and wide access to secondary & higher education.

The WB Functional Model



The WB Functional Model

It is clear that in all three(3) areas fundamentals of macro-policy, selective interventions, and institutions that Government has an active role in creating them.

World Bank(1993, p. 354)defines **Industrial Policy**: “..attempts to achieve more rapid productivity growth by altering industrial structure”[By Govt]

Section 2:

Guyana: The Situation Analysis



Quick Situational Stats-Guyana

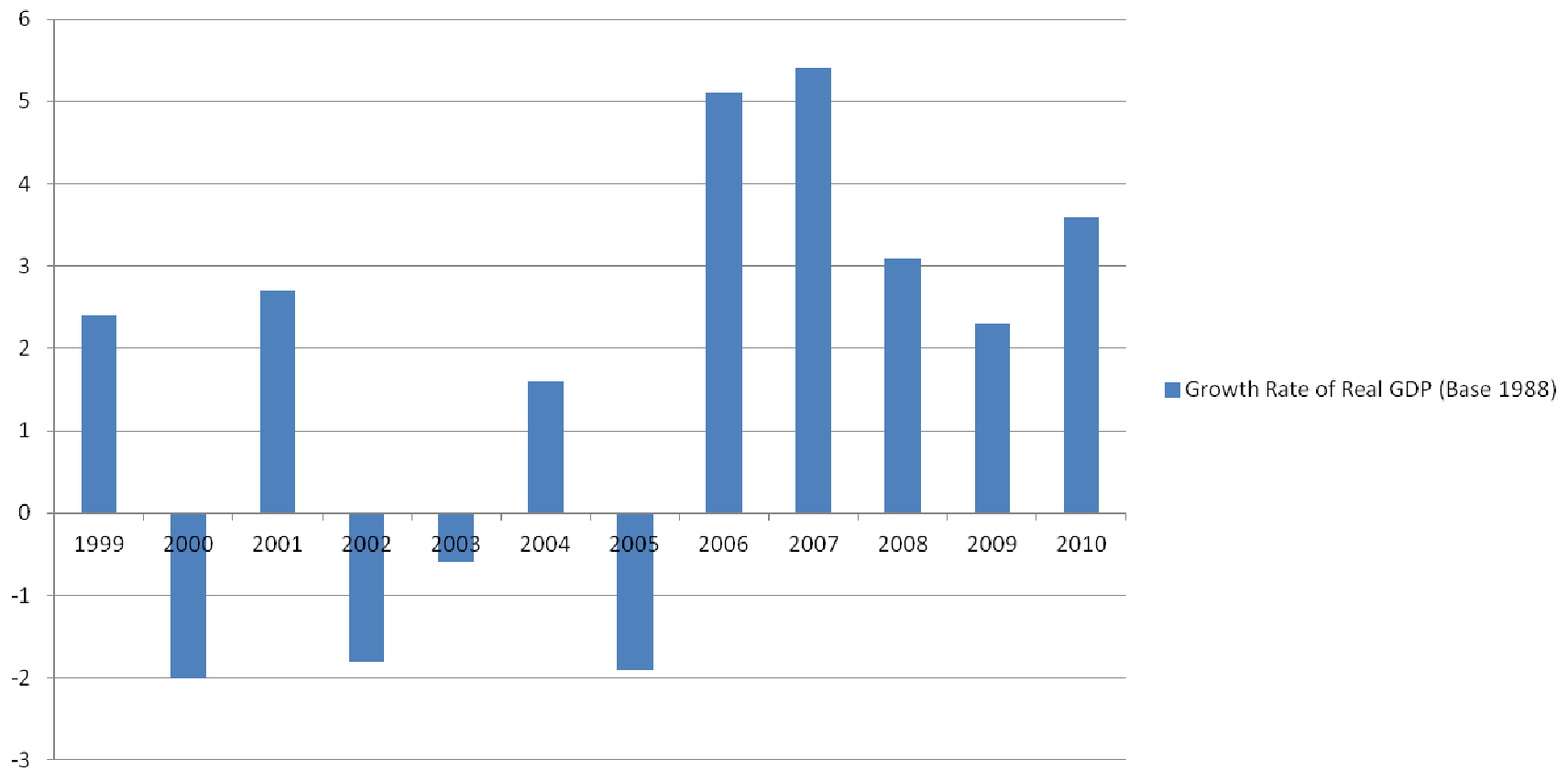
-Per Capita GDP (2010)- US\$2,501

-Average growth 1999-2010= 1.7%

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Growth Rate of Real GDP (Base 1988)	2.4	-2.0	2.7	-1.8	-0.6	1.6	-1.9	5.1	5.4	3.1	2.3	3.6

GDP Growth(1999-2010)

% Annual Growth Rate of Real GDP (Base 1988)



Guyana Exports

An overall upward trend in exports, since 1999. But Exports continue to be dominated by **agriculture and natural resources**.

In 2000:

- Agriculture accounted for **49% of exports**
- Natural resource - gold and timber accounted for 31% of export revenue,

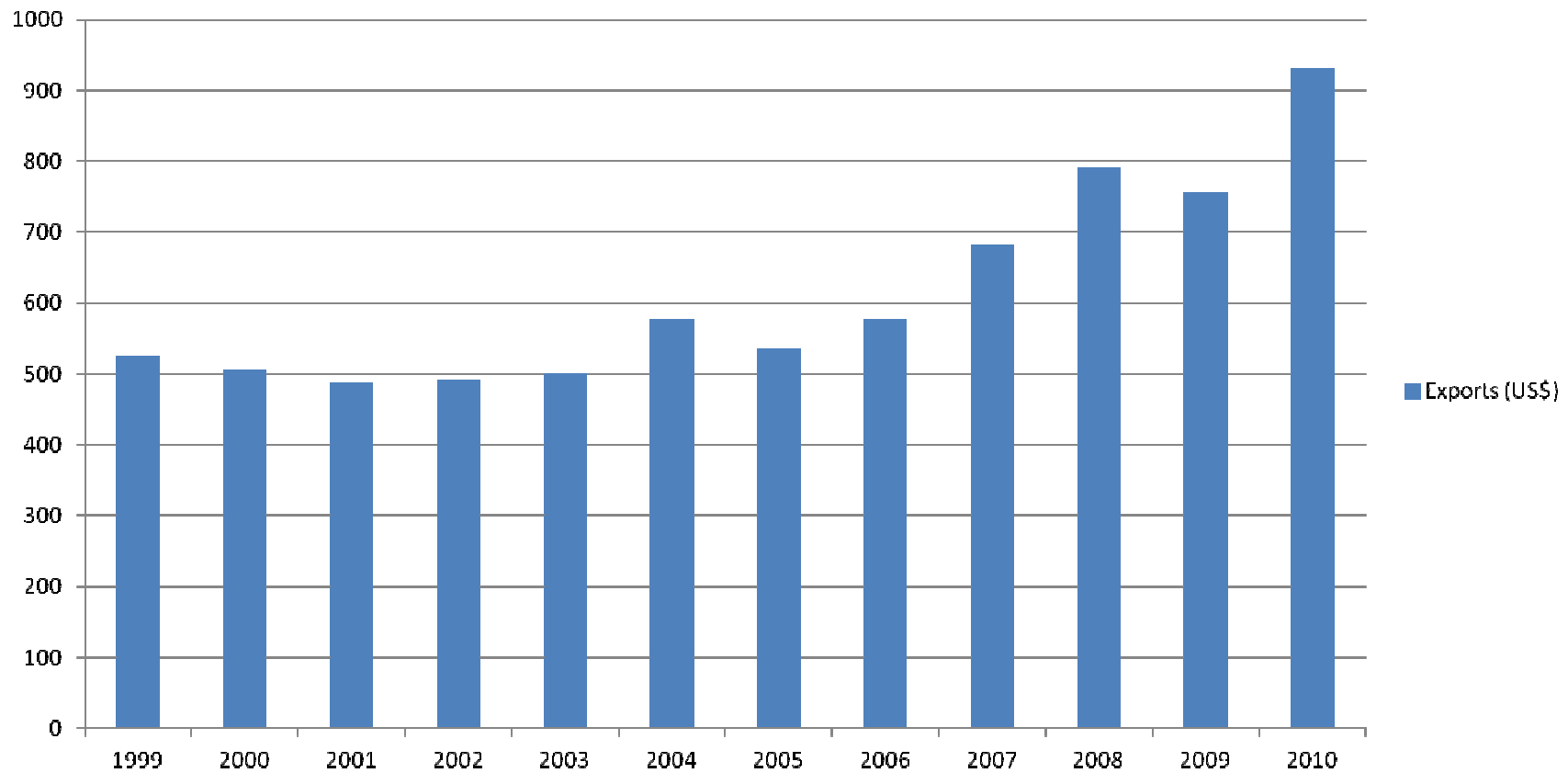
In 2010,

- Agriculture for **40% of exports**
- Natural resources gold and timber-accounted for **42%.**

Exports Performance

BOG data

Exports (US\$)



Investment Composition[IMF Data]

1999

Private Sector Investment-12.6% of GDP

Public Sector Investment-11.8% of GDP

2009

Private Sector Investment-10.8% of GDP

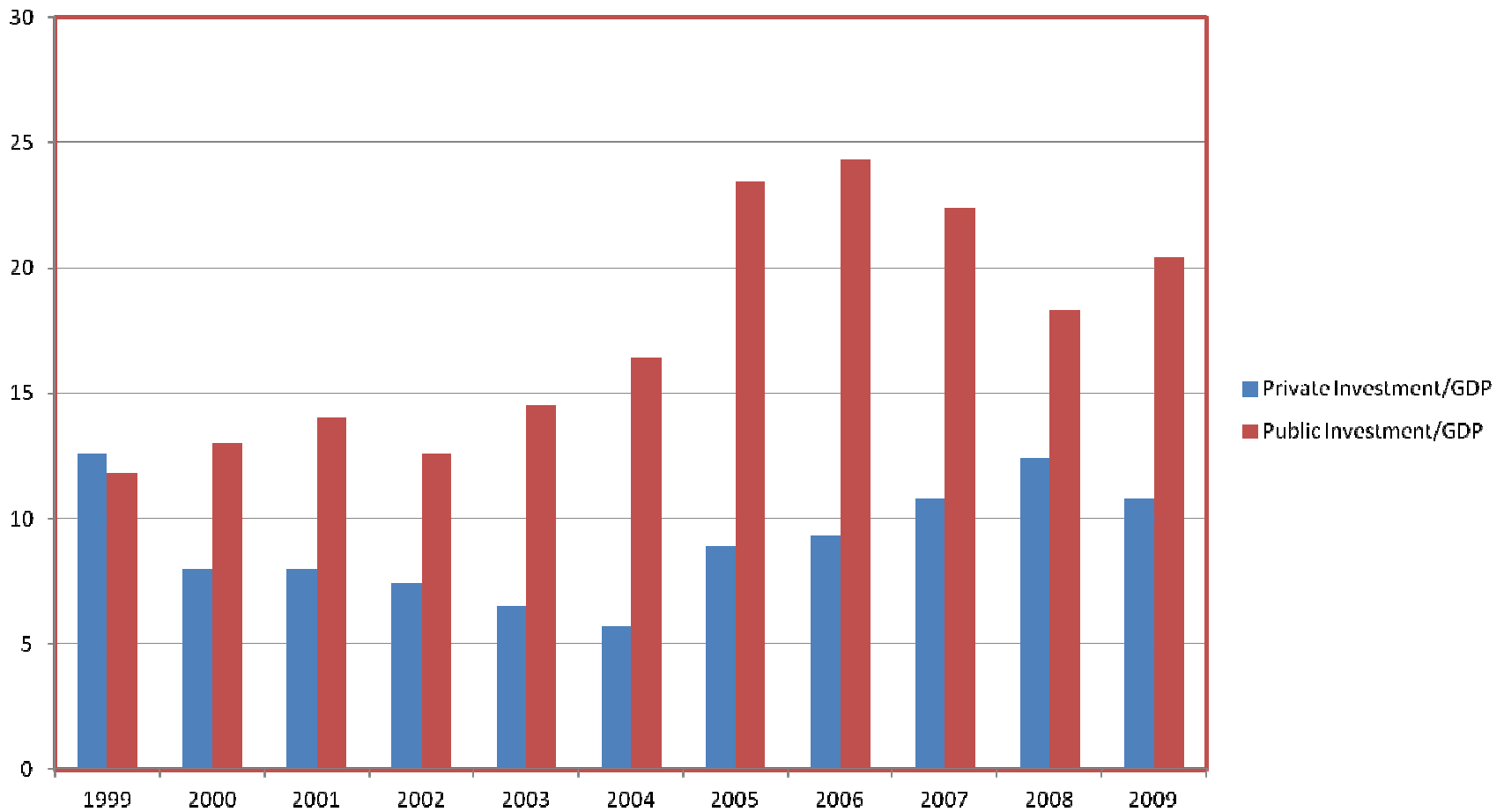
Public Sector Investment 20.4 % of GDP

Government continues to be the dominant investor in the economy, as shown by the investment data.

- 1. Average public investment for the period is 17%,**
- 2. Average private investment is half of that at 8%.**

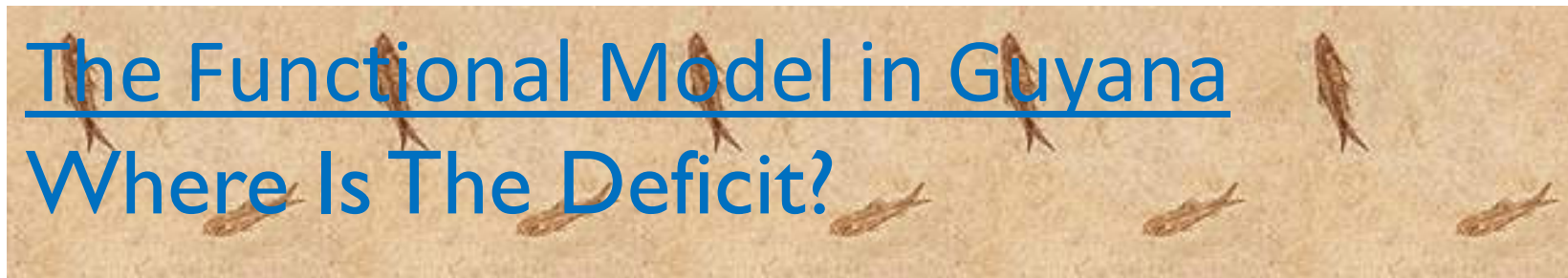
Public/Private Investment

% of GDP



Section 3:

The Functional Model in Guyana
Where Is The Deficit?



Plank #1: Macroeconomic Stability

Over last few years IMF commended Guyana for macroeconomic policies that have “remained prudent.”

- I. Supportive monetary policies-inflation 1999-2010 was 6.1%.
- II. Public debt down to 56.8% of GDP in 2009.
- III. Nominal exchange rate remains stable
- IV. GOG intervenes from time to time to mitigate effects of rising oil prices.

**Plank #1 in Place: Vast improvement over the 1970's
1980's**

Plank # 2: Selective Interventions

2003: Fiscal Amendments Act: Removal of Discretion in Tax Regime: Milestone in laying the legal framework for selective interventions/financial concessions in a systematic way:

- Clearer rules of the game for incentives
- Greater predictability and consistency
- Clear policy in relation towards industrial development.
- Defined sectors/regions eligible for tax holidays/ regions.
- Tax holidays ranging from 5-10 years.

Exemptions from corp. tax may now be granted for:

- New economic activity in **non-traditional agro-processing, IT, Petroleum, tourism.**

*Has brought greater clarity and transparency for the business community in terms of their entitlements to financial concessions. Small Business Act and Bureau in operation, **but requires more resources for a more interventionist stance with greater impact.***

Plank #3: The Institutional Basis For Growth

Plank #3:1 Legal and Regulatory Framework For Private Investment

Guyana has filled a huge backlog in the legal framework:

- **1993: Privatisation Policy Framework Policy Paper:** vibrant private sector; engine of growth
- **2003: Fiscal Amendment Act:** Clearer Rules of Game By Sector
- **2004: Investment Act:** Protection of Investment
- **2005: Value Added Tax: Simplification of Consumption Tax:**
Repealed a number of taxes and simplified sales tax to 16% for most products.
- **2011: Reduction of Corporate Tax Rates:** Budget 2011, 35 to 30% for non-commercial companies, commercial companies from 45% to 40%.
- **Commercial Court Set Up**

Plank #3: The Institutional Basis For Growth

Plank #3:2 Mechanisms to share information and win the support of business elites

- National Competitiveness Strategy (NCS) initiated in 2006 created a **National Competitiveness Council**: **central point of policy** leadership between GOG and private sector. Chair-the President or Prime Minister
 1. Programed to meet quarterly. Has not Met as programmed.
 2. Is a very useful institutional creation for single approach to policy.
- **Public Private Dialogue (PPD)** bodies to resolve specific policy issues: energy, infrastructure, trade transactions, small business, external negotiations
- **Annual Presidential Summit** public/private sector

Plank #3: The Institutional Basis For Growth

Plank #3:2 Mechanisms to share information and win the support of business elites: **Doing Business Deficit**

Being acted on through NCS(National Competitive Strategy), but progress slow: Guyana ranked [101 in 2010] & [100 in 2011] of 183. Some Businessmen insist doing business not as hard as index suggests[depends on sector-services vs goods].

WORLD BANK DOING BUSINESS INDICATORS

- 1.Starting a Business
- 2.Dealing With Construction Permits
- 3.Registering Property
- 4.Getting Credit
- 5.Protecting Investors
- 6.Paying Taxes
- 7.Trading Across Borders
- 8.Enforcing Contracts
- 9.Closing a Business

Key issues/institutions: Guyana Revenue Authority & customs clearance, shipping costs, Deeds registry, tax, access to credit [credit bureau].

Plank #3: The Institutional Basis For Growth

Plank #3.3 Wealth Sharing programs

Positive: There has been a vast expansion in land ownership by citizens and of access to housing in Guyana by all strata of society.

Plank #3: The Institutional Basis For Growth

Plank #3.3 Wealth Sharing programs

Deficits-in Governance Related Institutions

Given huge public investment expenditure -larger than private sector, mechanism required for enhancing fairness, equity and economic efficiency in procurement, allocation of resources and production.

- **Public Procurement Commission(PPC)** posited through Constitutional Amendment of 2000-2001 has not been created. Purpose: “ensuring purchasing by public institutions done in fair, equitable, transparent, competitive, cost effective manner.”
- An IDB/GOG project Fiscal and Financial Management Project (FFMP) had the setting up of this Commission as one of its **stated deliverables/objectives**.

Plank #3: The Institutional Basis For Growth

Plank #3.3 Wealth Sharing programs

Result: The largest source of patronage, corruption and waste of economic resources/low productivity of investment: the award of GOVT contracts.

Plank #3: The Institutional Basis For Growth

Plank 3.4 Cadre of Economic Technocrats-DEFICIT

WB “To sustain growth, a bureaucracy must have the competence to formulate effective policies and the integrity to implement them fairly. The more policymakers attempt to fine tune the economy, *the greater the need for competence and honesty (1993 p. 174)*

Civil Service Reform-Not Done: a large and growing number of contract employees continue to be contrary to spirit of professional civil service, insulated from political influence. Guyana’s state is not “developmental,” **but one that is seeking its own interests.**

E.g It took GOG years to appoint Director of NCS. He lasted 14 months and has not yet been replaced.

Conclusion

Growth requires 3 key policy planks:

- Macroeconomic fundamentals- low and manageable debt and stable prices;
- Selective interventions that lead the market to new high growth industries.
- Strong impartial institutions-regulatory framework that encourages private investment, a technocratic civil service that devises growth - oriented policies and referees economic contests among firms industries in a competent, fair and equitable manner; institutions that foster govt business dialogue on reforms needed; institutions that support efficient allocation of resources and production; institutions that promote the sharing of wealth. **In total- institutions must promote the legitimacy of the Government-speaks of good governance.**

Conclusion

In Guyana:

1. Growth has been slow; GDP abysmally low at US\$2500.
2. Exports have been growing but dominated by resources and agriculture.
3. Private Investment still too low and public investment driving economy

Key Deficits

Governance: Institutions that promote fairness, equity and efficiency:
Missing “developmental state.”

1. Civil Service Reform for competent and impartial referees
2. Procurement Process reform given public investment: larger than private
3. More resources for selective interventions
4. Doing Business Institutions require accelerated attention through NCS

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