Competitiveness in Guyana's Export Performance 1992-2001

By

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1.0 Introduction

The performance of a country's external sector is used to assess its international competitiveness. An important aspect of such assessment is the real exchange rate which provides relative price information on the country's underlying competitiveness on goods that are currently tradable as well as goods that are potentially tradable (Marsh and Tokarick, 1994). Specifically, the real exchange rate is calculated as the relative price of traded to non-traded goods. If the prices of traded goods in different countries are closely related through external competition, the real appreciation of the currency will increase domestic consumption of tradables and discourage consumption of non-tradables. Lower production and greater consumption of tradables will weaken the external position of the country by the real appreciation of the exchange rate. Although movements in relative price based on aggregate price indices are an important indicator of international competitiveness, it can be difficult to draw inferences. This may be due to the existence of dual economic structures such as varying sizes of the competitive and non-competitive product and resource markets as well as the tradable and non-tradable sectors. Lipschitz and McDonald (1991) argued for example, that this may be due to imperfect price arbitrage of traded goods because they are usually not perfect substitutes for inter-sectoral differences in productivity development.[1]

To the extent that it is difficult to determine whether real exchange rate movements represent changes in competitiveness, the literature discussed other indicators of competitiveness. These include export unit values, the relative price of traded goods to non-traded goods, normalised unit labour costs in manufacturing and the ratio of normalised unit labour costs in manufacturing to value-added deflators. The latter is associated with changes in a country's balance of trade in goods and non-factor services. However, each of these does not provide a complete and satisfactory assessment of competitiveness by itself (Marsh and Tokarick, 1994). They also give little indication of other dimensions of competitiveness such as governance; the quality of the goods; the quality of services associated with the sale of goods; including the availability and cost of credit; or the time interval between orders and delivery dates and export marketing efficiency through technological innovations. In total

[1] Productivity by shifts in the terms of trade of growth in the traded goods sectors may require reallocation of resources to the non-traded goods sector to ensure a balance in the availability of both traded and non-traded goods and not necessarily a loss in market share by producers of traded goods vis a vis foreign producers.

competitiveness, these elements can be as important as price elements. However, quantitative measurements of these are difficult, if not impossible. (Narvekar, 1960). In spite of these difficulties, the extent of a country's external position or competitiveness can be assessed from different directions since external competitiveness is a multidimensional concept. The constant market share approach is also an indicator of external competitiveness.

This paper reviews the external competitiveness of the Guyanese economy. This issue is particularly important in light of the weakening of Guyana's external current account by larger merchandise trade deficits over the past few years. This has raised concerns that Guyana's external competitiveness may have deteriorated because of a real appreciation of the exchange rate and higher unit labour cost. The next Section provides an overview of the developments in Guyana's external current account and foreign exchange system. Section III examines various competitiveness indicators, including the constant market share approach. Section IV assesses Guyana's export prospects and challenges. Section V provides a summary and some concluding remarks.

2.0 Trends in Export Performance 1992-2001

Guyana experienced current account and merchandise trade deficits during the 1992-2001 period as shown in Table I. Both deficits showed a declining trend until the end of the 1990s. However, this trend reversed during the 2000-2001 period and is explained largely by Guyana's export of goods. Export of goods increased between 1992 and 1997 at an average annual rate of 9.2 per cent but decreased at an annual average rate of 4.8 per cent during the 1998-2001 period. The increase in exports was sufficient to offset the increase in import of goods during the 1992-1997 period. However, the decrease in exports during the 1998-2001 period was accompanied by an increase in imports to widen both the merchandise and current accounts.

Table I

Balance of Payments - 1992-2001
(US$ Million)

Item	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CURRENT ACCOUNT BALANCE	**-146.7**	**-137.9**	**-100.8**	**-94.9**	**-53.8**	**-105.1**	**-98.5**	**-75.2**	**-109.2**	**-128.6**
Merchandise Trade										
Exports f.o.b.	381.7	414.0	463.4	495.7	574.8	593.4	547.0	525.0	505.2	490.3
Imports c.i.f.	-442.7	-483.8	-504.0	-536.5	-595.0	-641.6	-601.2	-550.2	-585.4	-583.9
Trade Balance	-61.0	-69.8	-40.6	-40.8	-20.2	-48.2	-54.2	-25.2	-80.2	-93.6
Net Services and unrequited Transfers	*-85.7*	*-68.1*	*-60.2*	*-54.1*	*-33.6*	*-56.9*	*-44.3*	*-50.0*	*-29.0*	*-35.0*
Non Factor Services (net)	-5.3	-3.3	-9.2	-7.1	-22.3	-23.2	-32.1	-31.1	-23.9	-20.4
Factor Services (net)	-110.4	-93.8	-83.0	-86.0	-52.3	-73.7	-56.2	-57.9	-52.1	-58.6
Transfers	30.0	29.0	32.0	39.0	41.0	40.0	44.0	39.0	47.0	44.0
CAPITAL ACCOUNT BALANCE	**123.6**	**78.1**	**22.9**	**28.0**	**59.5**	**125.7**	**79.8**	**69.6**	**137.8**	**115.3**
1. Capital Transfer *	-	-	-	-	618.0	23.7	13.1	15.5	16.3	30.8
2. Medium and Long Term Capital (net)	*126.6*	*71.7*	*26.7*	*26.2*	*-552.9*	*90.0*	*67.9*	*79.9*	*119.5*	*95.4*
1. Public Sector	-11.3	8.4	-20.1	-27.2	-611.9	38.0	23.9	33.9	52.4	39.4
A. Central Gov't and Non-Financial Public Sector (net)	-21.3	4.0	-30.3	-32.7	6.1	38.0	13.9	23.9	42.4	39.4
Disbursements	*26.0*	*54.0*	*28.0*	*30.5*	*40.2*	*67.0*	*59.7*	*47.4*	*66.1*	*65.8*
Amortization	*-47.3*	*-50.0*	*-58.3*	*-63.2*	*-34.1*	*-29.0*	*-45.8*	*-23.5*	*-23.7*	*-26.4*
B. Other [1] *	10.0	4.4	10.2	5.5	-618.0	-	10.0	10.0	10.0	-
2. Private Sector (net)	137.9	63.3	46.8	53.4	59.0	52.0	44.0	46.0	67.1	56.0
Short Term Capital (net) [2]	*-3.0*	*6.4*	*-3.8*	*1.8*	*-5.6*	*12.0*	*-1.2*	*-25.8*	*2.0*	*-10.9*
ERRORS AND OMISSIONS	**-16.2**	**10.1**	**14.0**	**-2.0**	**-7.1**	**-16.6**	**-4.0**	**1.2**	**13.9**	**4.9**
OVERALL BALANCE	**-39.3**	**-49.7**	**-63.9**	**-68.9**	**-1.4**	**4.0**	**-22.7**	**-4.4**	**42.5**	**-8.4**
FINANCING	**39.3**	**49.7**	**63.9**	**68.9**	**1.4**	**-4.0**	**22.7**	**4.4**	**-42.5**	**8.4**
Change in Net Foreign Assets of Bank of Guyana (-increase) [3] ** [a] [b]	*-35.1*	*-39.7*	*-27.8*	*2.3*	*-14.0*	*3.0*	*22.7*	*-10.3*	*-61.1*	*-16.6*
Change in Non-Financial Public Sector arrears [4]	*-102.0*	-	-	-	-	*-25.0*	-	-	-	-
Change in Private Sector Commercial arrears	-	-	-	-	-	-	-	*14.7*	-	-
Exceptional Financing	*176.4*	*89.4*	*91.7*	*66.6*	*15.4*	*18.0*	-	-	*18.6*	*25.0*
Debt Relief	*154.4*	*44.6*	*66.1*	*57.4*	-	-	-	-	*21.3*	*25.0*
Debt Stock Restructuring	-	-	-	-	-	*18.0*	-	-	*-2.7*	-
Balance of Payments Support	*22.0*	*44.8*	*25.6*	*9.2*	*15.4*	-	-	-	-	-
Debt Forgiveness	-	-	-	-	-	-	-	-	-	-

Source : Bank of Guyana, Bureau of Statistics and Ministry of Finance.

[1] Includes sales of assets

[2] Includes changes in Net Foreign Assets of Commercial Banks

[3] Includes valuation changes

[4] Includes arrears on non-financial public sector medium and long term debt

* Jan-Dec 1996 figures includes the total debt write-off of US$618 million due to Paris Club Arrangements

Budget 1998 figures includes the total debt write-off of US$253 million due to HIPC Agreements

** Excludes the transfer of US$146 million foreign liability from Bank of Guyana to the Ministry of Finance in June 1997.

[a] After additional valuation adjustment of US$10.3 million in 1997

[b] Excludes the transfer of US$63.7 million foreign liability from the Bank of Guyana to the Ministry of Finance in November 1998

Table II (a)
Export Categories to Total Export (%) - 1992-2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total Exports (US$Mn)	**381.7**	**414.0**	**463.4**	**495.7**	**574.8**	**593.4**	**547.0**	**525.0**	**505.2**	**490.3**
Rice	9.2	8.0	12.0	15.4	16.2	14.3	13.4	13.5	10.2	10.2
Sugar	35.1	28.1	25.1	25.3	26.2	22.5	23.6	25.9	23.5	22.3
Bauxite	25.4	21.7	16.5	16.7	15.1	15.1	14.4	14.7	15.1	12.4
Gold	6.4	24.1	27.6	19.1	18.1	23.5	22.7	20.7	23.8	25.9
Timber	1.0	1.1	1.7	1.7	7.5	7.5	5.7	7.1	8.1	6.7

Source: Bank of Guyana Annual Report (various years)

Guyana has experienced significant shifts in the composition of its export of goods. Table II(a) and II(b) show that there was a shift away from some of the major traditional exports - rice, bauxite and sugar - towards other non-traditional products. During the 1992-2001 period, the largest share of exports of goods was held by sugar, followed by gold. Rice, bauxite and sugar exports, as a share of total exports of goods, fell significantly from 57.4 percent in 1995 to 44.9 per cent in 2001. Non-traditional exports increased steadily from 14.1 per cent of total exports to 22.4 per cent during the review period. The shift in the composition of exports of goods reflects shocks and the pace of structural reform in particular sectors.

Table II (b)
Other Exports (US$M) - 1995-2001

Commodities	1995	1996	1997	1998	1999	2000	2001	Total
Garments & Clothing	1.5	6.3	12.6	19.5	15.3	14.3	15.5	**85.0**
Fish & Shrimps	14.5	17.1	24.6	31.3	29.2	50.1	49.3	**216.1**
Rum & Other Spirits	8.7	11.2	8.6	6.2	7.5	6.5	7.9	**56.6**
Fruits & Vegetables	1.2	1.3	2.1	2.8	1.2	0.5	0.7	**9.8**
Prepared Foods	3.3	4.6	5.6	6.9	5.8	4.7	5.3	**36.2**
Wood Products	1.5	1.4	4.9	5.3	0.8	0.1	4.1	**18.1**
Pharmaceuticals	1.6	1.5	2.4	1.6	1.4	1.6	2.1	**12.2**
Diamonds	3.4	3.8	2.8	2.4	1.4	4.7	13.3	**31.8**
Nabbi furniture	0.3	0.2	0.9	1.0	2.5	3.4	0.3	**8.6**
Molasses	0.5	0.9	3.0	3.6	0.3	1.4	1.6	**11.3**
Re-Exports	11.6	12.9	20.2	22	20.3	2.5	3.2	**92.7**
Other	21.7	31.9	14.4	8.7	8.9	7.3	6.6	**99.5**
Total	**69.8**	**93.1**	**102.1**	**111.3**	**94.6**	**97.1**	**109.9**	**677.9**

Source: Bank of Guyana

Table II (c)
Total Exports (US$M) - 1995-2001

	1995	1996	1997	1998	1999	2000	2001	Total
Traditional Exports	425.9	481.7	491.3	435.7	430.5	408.2	380.4	3053.7
Non - Traditional Exports	69.8	93.1	102.1	111.3	94.6	97.1	109.9	677.9
Total Exports	495.7	574.8	593.4	547	525.1	505.3	490.3	3731.6
Percent - Traditional	85.9	83.8	82.8	79.7	82.0	80.8	77.6	81.8
Non - Traditional	14.1	16.2	17.2	20.3	18.0	19.2	22.4	18.2

Source: Author's calculations

Table III (a)
Traditional Exports (US$M) - 1995-2001

Export Commodities	1995	1996	1997	1998	1999	2000	2001	Total
1. Sugar								
Volume (metric tonnes)	225,421.0	256,979.5	256,241.0	236,771.0	275,266.7	277,270.0	252,333.0	1,780,282.2
Value (US$Mn)	125.5	150.7	133.1	129.0	136.2	118.8	109.2	902.5
2. Rice								
Volume (metric tonnes)	200,542.7	262,265.2	285,788.0	249,756.0	251,509.4	207,637.7	209,041.4	1,666,540.4
Value (US$Mn)	76.4	93.7	87.7	73.3	71.1	51.8	50.2	504.2
3. Bauxite								
Volume (metric tonnes)	1,974,877.0	2,274,416.5	2,200,300.0	2,346,113.0	2,389,002.7	2,532,923.5	1,836,388.2	15,554,020.9
Value (US$Mn)	82.9	86.8	89.4	78.5	77.2	76.4	61.0	552.2
4. Gold								
Volume (ounces)	261,793.2	301,156.0	352,798.0	437,681.0	391,690.9	428,009.4	449,345.0	2,622,473.5
Value (US$Mn)	94.7	103.5	139.8	124.0	108.7	120.3	127.0	818.0
5. Timber (Total)								
Volume (cubic metres)	145,623.9	144,784.7	164,209.2	160,000.0	169,406.6	184,427.8	187,196.9	1,153,679.2
Value (US$Mn)	46.3	47.0	41.3	31.0	37.3	40.9	33.0	276.8
Traditional Exports (US$Mn)	425.9	481.7	491.3	435.7	430.5	408.2	380.4	3,053.7

Source: Bank of Guyana

The performance of the export sector is associated with declining world prices. Table III (b) shows that all Guyana's major export prices declined since 1995. During the 1995-2001 period, rice had the largest price decline of 36.9 per cent, followed by 22.2 per cent for sugar, 21.8 per cent for gold and 20.8 per cent for bauxite. A reduction in export volume is also a contributing factor to the decline in export value. This is due largely to exports by the rice sector

which together with the other non-traditional crop sector accounts for approximately one-fifth of exports, faces competition in its product market and domestic labour market. On the other hand, the bulk of Guyana's exports are sold at ex-factory cost under special trading arrangements or 'head quarters' contracts as in the case of sugar and bauxite or through intra-company transfers as in the case of timber and gold.

Table III (b)
Exports - Unit Price (US$) - 1995-2001

Export Commodities	1995	1996	1997	1998	1999	2000	2001
Sugar	556.7	586.4	519.4	544.8	494.8	428.5	432.8
Rice	381.1	357.3	306.9	293.3	282.7	249.6	240.1
Bauxite	42.0	38.2	40.6	33.5	32.3	30.2	33.2
Gold	361.7	343.7	396.3	283.3	277.5	281.1	282.6
Timber	318.2	324.8	251.8	193.6	220.2	221.7	176.3

Source: Bank of Guyana Annual Report

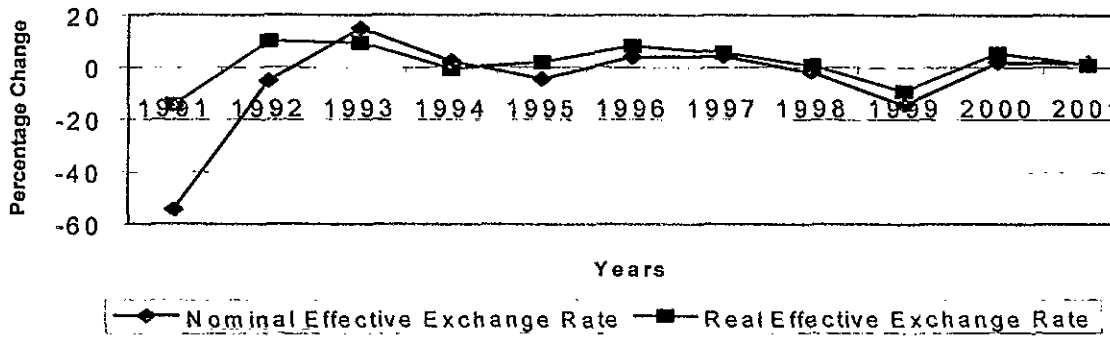
3.0 Assessment of Guyana's External Competitiveness

Changes in the real exchange rate of the Guyana dollar against the US dollar may serve as a first approximation to assessing changes in Guyana's external competitiveness. After liberalizing its foreign exchange regime in the early part of the 1990s (see Appendix I for evolution of exchange rate regimes after 1980), Guyana experienced continuous fluctuations in its real and nominal effective exchange rates[2] (Figure 1). Except for the depreciation in 1991, 1994 and 1999, the rate appreciated continuously during the 1991-2001 period. The magnitude of the fluctuations has been large ranging between 9.8 and -14.6 per cent, resulting in an average appreciation of 1.5 per cent per annum between 1991 and 2001. During 1996-2001, the cumulative real effective exchange rate depreciated by 11 per cent or approximately 1.8 per cent per annum. However, the rate at end 2001 was marginally higher than that at end 1996. The nominal effective exchange rate fluctuated with greater magnitude ranging between 14.7 and -54.5 per cent between 1991 and 2001, resulting in a cumulative net depreciation of 53 per cent or 4.7 per cent per annum. During the 1996-2001 period, the cumulative nominal effective

[2] The trade weighted exchange rate of the domestic currency relative to those of its trading partners.

exchange rate depreciated by 5 per cent or 0.7 per cent per annum. Movements in the real effective exchange rate and the nominal exchange rate suggest that there have been no close correlation between the two rates.

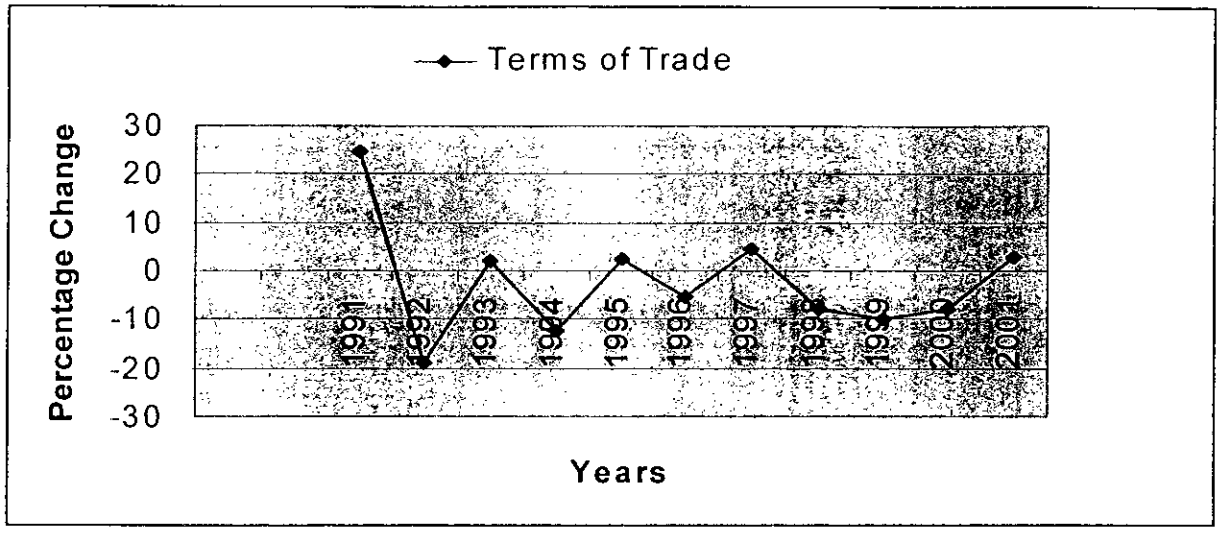
Figure 1



Note: (1) Negative values denote depreciation in the exchange rates
(2) Positive values denote appreciation in the exchange rates

Fluctuations in the real effective exchange rate had no offsetting movements in the nominal effective exchange rate and relative price movements. This suggests that there has been active exchange rate management by the authorities in the pursuit of a competitive objective i.e. they sought to achieve a real effective exchange rate depreciation of the Guyana dollar. The behaviour of the real effective exchange rate, however, reflects endogenous responses to other macroeconomic variables. Specifically, Guyana undertook extensive macroeconomic reforms during the late 1980s and the 1990s to liberalize its economy and increase its export orientation. Nominal and real effective exchange rate movements were effects of these reforms. Therefore, the appreciation of the real effective exchange rate during the review period suggests that although there has been no gross misalignment, there has been no gain but some erosion in competitiveness.

Figure 2

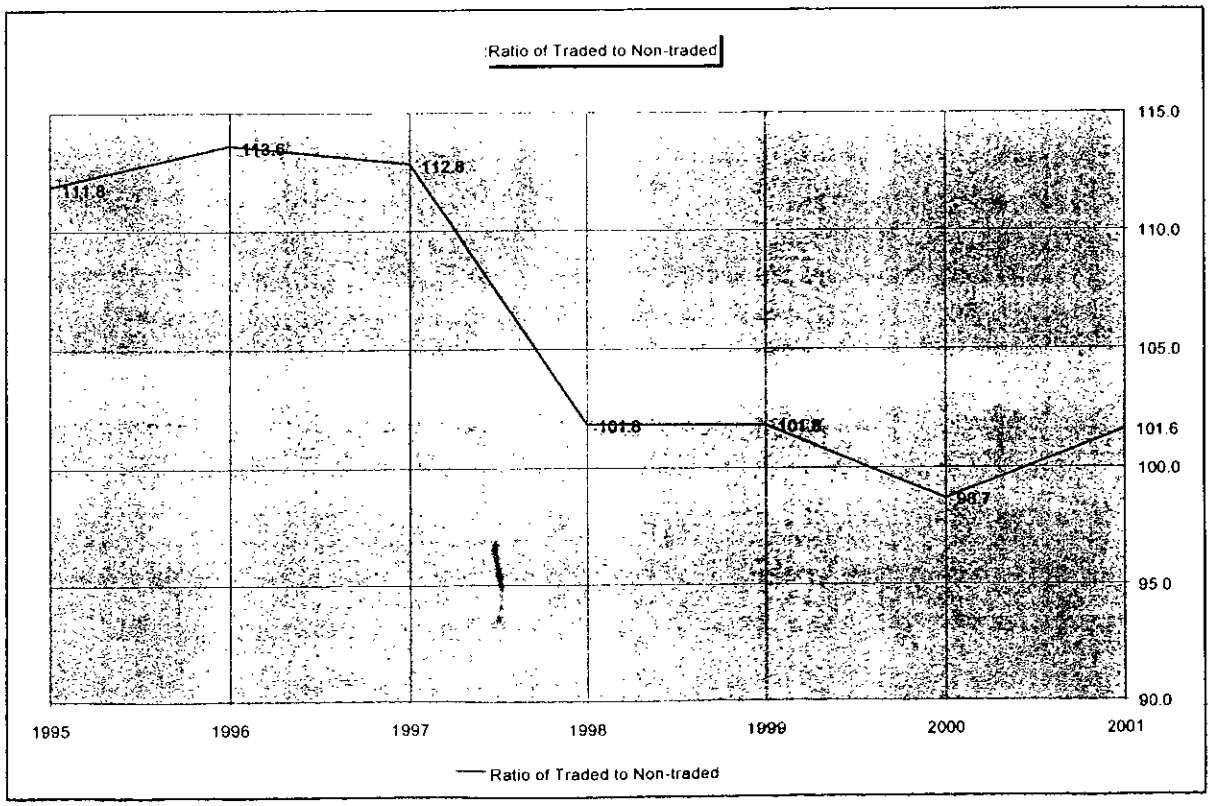


On the basis of productivity gains, one might argue that although there was a 1.5 per cent per annum appreciation of the real effective exchange rate, the exchange rate regime was on track. Specifically, the productivity gains in tradables such as sugar and rice were modest during the 1996-2000 period, suggesting consistency with the appreciation of the real effective exchange rate. Sugar experienced a 5 per cent increase in factory efficiency with respect to the recovery of sugar from cane. In addition, cost of production declined by 17 per cent or from an average of US$0.23 cents per pound to US$0.19 cents per pound. Rice also experienced a 29 per cent increase in yield per acre during the 1990s. This increase occurred during the 1990-1995 period and remained relatively unchanged during the 1996-2000 period.

The real effective exchange rate is also related to Guyana's external terms of trade over the review period. Guyana's terms of trade have deteriorated steadily since 1992, except for marginal improvements in 1993, 1995 and 1997. During the 1992-2001 period, the terms of trade (Figure 2) declined by 5 per cent per annum, reflecting falling world market prices for Guyana's major commodities - sugar, gold, rice and timber. Compounding this movement has been a rising trend in oil prices, particularly in 1999 and 2000. The deterioration of the terms of trade tends to depreciate the real effective exchange rate by worsening the trade balance.

However, in Guyana's case, it is important to note that the trade balance did not deteriorate because of erosion of competitiveness but from unfavourable terms of trade.

Figure 3



The internal real exchange rate defined as the ratio of tradable prices to non-tradable prices can also be used to assess changes in external competitiveness. Disaggregated price level data can be used. This ratio reflects the prices faced by producers and the allocation of resources between the two categories of goods. If the relative price of non-tradable increases, resources will be shifted to that sector, resulting in a deterioration of export competitiveness. Figure 3 shows the movements in the internal real exchange rate defined as the ratio of price indices of food and services as proxies for the prices of exportables and non-tradables, respectively. The internal real exchange rate is smoother than the real effective exchange rate. The indicator suggests the rate appreciated during the 1995-1999 period, reaching its peak during the 1996-1997 period. It gave way to depreciation in 2000 and then appreciated again in 2001. This result

is similar to that illustrated by the real effective exchange rate indicators, suggesting that Guyana has lost competitiveness. Using the real exchange rate as an indicator of competitiveness can be misleading because market forces operate largely within one-fifth of the export sector. The lack of price competitiveness for Guyana's major exports - sugar, bauxite, timber and gold - therefore, shifts the assessment of competitiveness towards cost and non-price factors.

Unit labour cost is used as a preferred indicator of competitiveness and is measured by dividing wages by output. Accurate calculations of unit labour cost for the major export products are difficult because of data shortcomings. However, crude estimates of unit labour cost for sugar, rice and bauxite are shown in Table IV. The unit labour cost indexes for sugar and rice have increased while that for bauxite has declined. While the outturn for bauxite is explained by its capital intensity and rationalisation of the operation at Linden Mining Company (Linmine) that for sugar is explained by its labour intensity and output performance incentive. Dual wage setting and upward wage spiral explain higher unit labour cost in the rice sector.

Table IV
Labour Cost Indices 1995 = 100

Year	Sugar	Rice	Bauxite
1995	100.00	100.00	100.00
1996	95.62	115.00	89.73
1997	117.06	128.57	66.71
1998	121.61	141.43	70.12
1999	139.02	155.57	67.88
2000	161.57	155.57	54.67
2001	158.77	167.11	61.55

Source: Bank of Guyana

Wage increases can also be used as an approximation to assessing changes in external competitiveness on a cost basis. Figure 4 shows that wage increased for various sectors over the 1996-2001 period. It is clear from Figure 4 that wages in all the sectors, except bauxite, have increased substantially during the last decade. During the 1996-2000 period, wages in the government services increased by 128 per cent while that of sugar and distribution increased by 60 and 62 per cent respectively. The increase in the rice industry was 40 per cent while wages in the bauxite sector remained unchanged. The increase in wages is associated largely with the

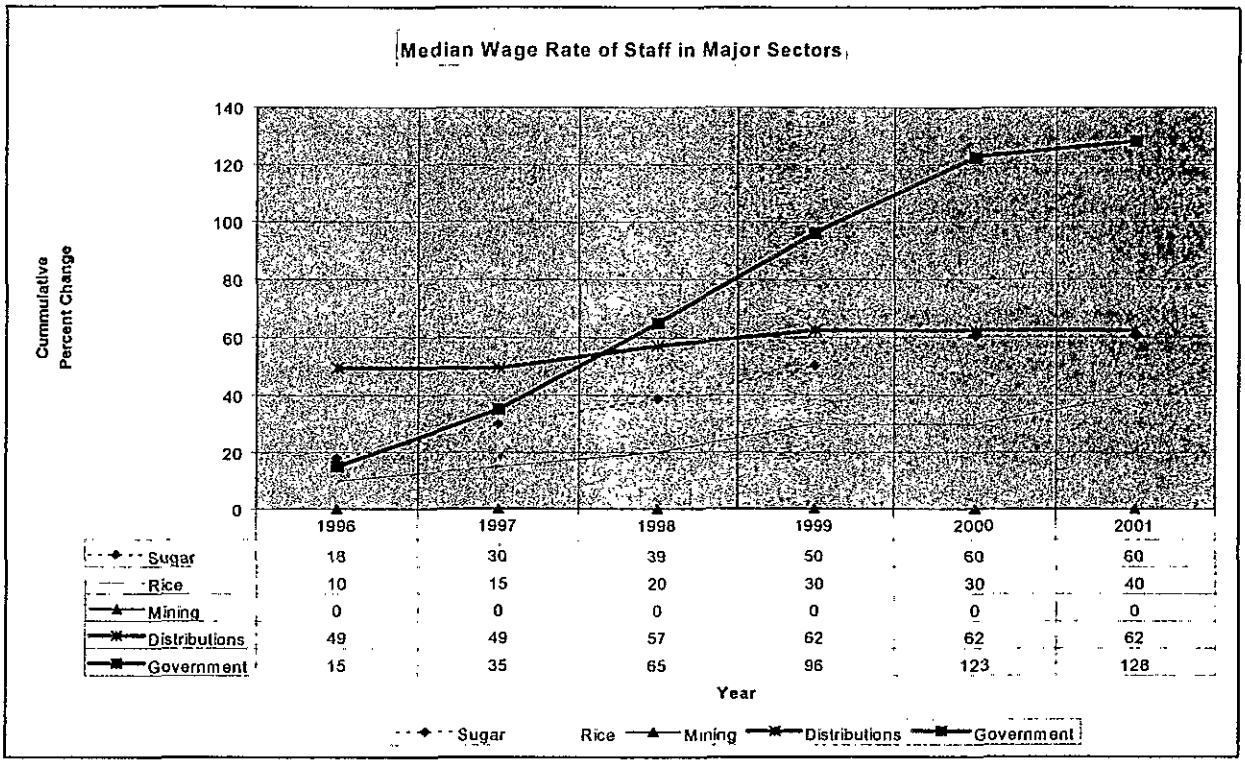
exchange depreciation of the Guyana dollar and price inflation pass-through. This suggests that the small, fragile competitive other crops and rice sectors have experienced reduced competitiveness and profitability following the upward wage spiral.

In addition to the price and cost indicators of competitiveness, non-price factors have also contributed to the cost of doing business in Guyana.[3] The Guyana's telephone system, even after 10 years of privatisation, is yet to provide services comparable to that of some Caricom countries. There are long waiting lines for telephone mainlines and a relatively low number of telephones mainline for employees, indicating that the quality of telecommunication services in Guyana is low. Related to the low quality of telecommunication service are also the slow progress in the provision of quality mobile telephone service and quick Internet access which have become necessary for day-to-day business transactions.

The electricity system in Guyana, which is now controlled by the Guyana Power and Light Company (GPL), provides inadequate, inefficient and expensive services that are determined by a non-competitive monopoly. The electricity system is plagued with problems ranging from generation to distribution. GPL power-generating capacity is among the lowest in the Caribbean with hardly any back up when there is generating failure in a power plant. This results in lengthening blackouts which last days. Electricity power generation losses are also quite high due to inefficient line maintenance. Such a system contributes to the cost spiral and negates the gain from currency depreciation. The problem is compounded by costly capital transactions and rapid recovery of an undefined portion of the capitalized value of the Company.

[3] Political strife and unrest since the 1997 elections have also contributed to the high cost of doing business in Guyana.

Figure 4



The analysis so far demonstrates the differing position of Guyana's external competitiveness illustrated by various indicators. A number of them have shown deterioration in competitiveness. However, it also appears that Guyana's external competitive position may have improved or at least remained unchanged. Against this background, the analysis seeks to shed further light on Guyana's external competitive position using the constant market share approach.

The constant market share (CMS) approach entails a decomposition of a focus country's export growth into four components - a global market effect; a commodity composition effect; a market distribution effect; and a residual "competitive" effect. More formally, the change in the focus country's exports (ΔX) between any two periods can be written as

$$\Delta X = \sum_i rX_i \quad \text{.....(1)}$$

$$+ \sum_i r_i X_i - \sum_i rX_i \quad \text{.....(2)}$$

$$+ \sum_i \sum_j r_{ij} X_{ij} - \sum_i r_i X_i \quad \text{.....(3)}$$

$$+ \Delta X - \sum_i \sum_j r_{ij} X_{ij} \quad \text{.....(4)}$$

where r = the proportional change in the overall exports of competitor countries

r_i = the proportional change in competitors' exports of goods *i*

r_{ij} = the proportional change in competitors' exports of goods *i* in market *j*

x_i = Guyana exports of goods *i*

x_{ij} = Guyana exports of goods *i* to market *j*

The expression (1) of the decomposition is the "market growth effect"; (2) is the "commodity composition effect"; (3) is the "market distribution effect"; and (4) is the residual "competitiveness effects". Expression (2) and (3) take into account whether the focus country's exports are concentrated in commodities and markets that can be considered to be slowing or rapidly expanding relative to the average for competitors. Expression (4) is the residual portion of the expansion of the focus country export that is considered to be the result of increased competitiveness after the effects of changes in the size and pattern of world trade are eliminated. Expression (4) includes the effects of all conceivable elements of competitiveness such as quality of the goods, the quality of services associated with their sale, shortening of waiting lines, improved financing arrangements, and changes in discriminatory non-price trade policy.

Table V

Summary Statistical Analysis of Changes in Guyana's Exports of Agriculture and Minerals, 1996-2000

	Rice	Sugar	Gold	Bauxite	Timber	Total
			Guyana Exports ('000)			
Exports in 1996	262.00	255.50	290.00	2100.60	120.80	3028.90
Exports in 2000	207.60	277.40	428.00	2532.90	184.40	3630.30
Change in exports from 1996 to 2000	-54.40	21.90	138.00	432.30	63.60	601.40
Of the above						
(a) Change due to increase in value of world trade	41.52	55.48	85.60	506.40	36.88	725.88
(b) Change due to commodity pattern of increase in world trade	-110.03	-41.61	128.40	1012.80	55.32	1044.88
(c) Change due to market structure of increase in world trade	99.65	-2.77	-265.36	-2354.80	-118.02	-2641.30
(d) Change due to increased competitiveness of Guyana's exports	-85.54	10.80	189.36	1267.60	89.42	1471.64
Proportion of change due to						
(a) Value of World Trade	76.3%	253.3%	62.0%	117.1%	58.0%	120.7%
(b) Commodity Pattern in World Trade	-202.3%	-190.0%	93.0%	234.3%	87.0%	173.7%
(c) Market Structure of World Trade	183.2%	-12.6%	-192.3%	-544.7%	-185.6%	-439.2%
(d) Competitiveness of Guyana's Exports	-157.2%	49.3%	137.2%	293.2%	140.6%	244.7%

Source: Calculated from reported data.

In application of the CMS model, the appropriate "world" of competitors is calculated for each commodity and market since the identity of competitors varies across exports. The calculations are based on five (5) commodities - rice, sugar, gold, bauxite and timber - on twelve export country as the competitor's standard and on 18 market country. The five-commodity classification is used because it represents 80 per cent of Guyana's total exports. The calculations used volume shares because this satisfies the requirement that shares vary directly with relative competitiveness.[4]

The results of the calculations are summarised in Table V. The results indicate that during the 1996-2000 period, the increase in volume of 601 units or 20 per cent in Guyana's exports of the five (5) major commodities was far less than could be explained by the increase in the quantity of world trade during that period. The pattern of the increase in world trade, from

[4] If export value shares are used, an increase in relative competitiveness (fall in relative prices) could lead to a decrease in export shares, given an elasticity of substitution less than one in absolute value.

the standpoint of commodity composition and market structure taken together, was unfavourable to Guyana. The increase in competitiveness, however, was far greater than the increase in Guyana's exports.

The effect from the expansion of overall trade by competitor countries, i.e. the world market growth effects shows that if Guyana had shared only proportionately in the expansion of world trade, its exports would have increased by 726. However, the increase in Guyana's exports was only 83 per cent of the increase in world exports. Guyana's share in the volume of world exports in the five commodities increased by 20 per cent or from 0.05 per cent in 1996 to 0.06 per cent in 2000. The increase of 726 did not occur uniformly as shown in Table V and therefore overstates the magnitude of the benefit accruing to Guyana's exports from the expansion of world trade.

The commodity and market distribution effects which refer to the structural concentration on high growth commodities and markets, showed that the total effects were negative. The pattern of world trade expansion was such that Guyana with its original commodity and market pattern could not derive full benefit from it. From the perspective of commodity composition, the overall positive result suggests that Guyana has benefited from a favourable composition of exports. However, the negative results for rice and sugar suggest that Guyana was specialising in commodities - rice and sugar, in which the expansion of world demand was least marked. Especially strong positive effect was calculated for bauxite, followed by gold and timber. The loss to Guyana from the commodity pattern of world trade expansion was compounded from its market pattern. The loss from market effect arose from the exports of gold, bauxite and timber to markets with slow rates of growth. The relative dependence of gold, bauxite and timber on the North American market was high but growth of this market was slow. Guyana's position was slightly unfavourable in respect of sugar because its quota has been fixed in that market. Favourable effects were calculated for rice, reflecting Guyana's rice exports benefiting from the growth in the Caribbean market.

The competitiveness effect might have been expected to be negative on the basis of the deterioration in competitiveness by several of the indicators discussed earlier. However, the

calculation yielded a large, positive effect indicating that Guyana's exports increased by a somewhat greater amount than would have been expected if they had grown by the same proportion as did competitor's exports in each good and each market. The net change in Guyana's exports attributable to changes in world trade can be placed at -870 units or a decline of 145 per cent of the actual increase. The rest, 1472 units or 245 per cent, is, according to the CMS model, attributable to the increased competitiveness of Guyanese exports.

The gains from positive competitiveness effects did not occur uniformly for the different commodities. The results in Table V show that, with the exception of rice, all the other commodities experienced positive competitiveness effects. Bauxite, timber and gold experienced the largest and most significant gains. The results suggest that some of the non-quantifiable elements (such as fiscal concessions, marketing efficiency, early delivery dates, equality of product, etc) of competitiveness had a significant positive impact on exports, offsetting the real exchange appreciation experienced during the period.[5] Although the gains from sugar were positive, they were relatively smaller reflecting declining unit cost of production and productivity increases during the period. Rice experienced negative competitiveness effects which retarded export growth by 157 per cent during the 1996-2000 period. The negative competitiveness effects were particularly strong during the 1997-1998 and 1999-2000 periods, retarding growth by approximately 75 and 50 per cent respectively. To some extent, the results adversely affected exports during the related periods. Evidence collaborative of the deterioration in rice competitiveness is seen in the higher cost of production and hence Guyana's inability to effectively penetrate Caricom and other markets.

4.0 Exports Prospects and Challenges

Export prospects are a major concern for Guyana, given the new international environment, which is becoming more liberal over time and the loss of competitiveness from appreciation of the real effective exchange rate and higher cost of production, particularly

[5] It is important to note that gold, timber and bauxite (by Arorima) were produced by multinational companies that enjoy significant fiscal concessions. The bauxite operation at Linmine was heavily subsidised by government.

through increases in labour costs. To enhance its export prospects, Guyana would have to improve the long-term indicators of competitiveness. This would have to be achieved by maintaining a responsive exchange rate which would facilitate the reallocation of resource toward the more productive sector, strengthening the external balance and improving economic performance; lowering overall cost of production by keeping labour cost in line with productivity gains; obtaining and using appropriate technology; developing human capital; promoting both domestic and foreign direct investment; making the institutions that influence trade efficient and ensuring the overall efficiency of economic activity; as well as having reliable physical infrastructure and efficient public utilities in power and communication.

Improvement of competitiveness is crucial and cannot be delayed considering that preferential arrangement for Guyana's major commodities - sugar and rice - would be phased out before the year 2010. Specifically, Guyana, as part of the ACP nations, would lose duty and quota free access for all products entering the European Union under the European Commission's (EC) 'Everything But Arms' initiative of February 26, 2001. This initiative has modified unilaterally existing preferential arrangements by extending duty and quota free access for all products entering the EU from less developed countries. Only in the case of sugar, rice and bananas would full implementation be delayed until 2006 (for bananas) and 2009 (for sugar and rice). Despite this, quotas for these commodities have been opened which suggest that the Caribbean (including Guyana) and ACP producers have already lost shares of their European markets.[6] In view of this, and the fact that Guyana would face aggressive competition in the EU markets from low cost producers such as Mexico and Cuba and from Central and Eastern European countries that have the advantage of geographical proximity to the EU, the consequences would be profound for the Guyanese economy.

The sugar industry would have to significantly cut average production costs, currently estimated at more than 30 per cent above world market prices, and modernise and centralise its cultivation and milling operations. In this regard, the government through the Guyana National Development Strategy (GNDS) intends to enhance competitiveness through: (i) higher field

[6] The Special Preferential Sugar Agreement (SPSA), which provides a preferential price of 85 per cent of the prevailing guaranteed price under the ACP Sugar Protocol, expired in 2001 and was renewed for an additional five years but with drastically reduced quota to be eliminated over the next five years.

productivity based on improved farm practices and improved genetic varieties; (ii) the utilisation of additional areas of land mainly in the most productive areas (Skeldon and Albion/Rosehall areas); (iii) enhanced sugar recovery through the replacement of the existing obsolescent mills by larger state-of-the-art factories which, in addition to giving higher yields, exhibit significant scale economies (construction of a new 350 tch factory at Skeldon); (iv) the rationalisation of the industry through the merging of some estates and some operations; (v) the utilisation of diffusion technology at two estates; and (vi) the co-generation of power from both the Guyana Power and Light Company and Guysuco's own bagasse. In addition, organic sugar is being produced while there would be new pack sizes and packaging; establishment of a distillery; building of a refinery; and developing a market in the Caribbean for refined sugar.

The rice industry can improve its competitiveness through raising productivity of the land and manufacturing. The GNDS outlined that this would come about by the attainment of increased productivity through better farming practices and the use of improved varieties; increased mill recovery through the modernisation and rationalisation of most of the rice mills; and greater efficiency in the use of water. There would also be better market intelligence to provide for a more diversified international market for Guyana's rice, although the major importers would remain the European Union and CARICOM. In addition, the rice industry is to be diversified with the production of rice straw (for mushroom production and as a ruminant feed), rice flakes and popped rice.

In the longer term, Guyana would need to adapt its economy to the changing, more liberalized nature of international sugar markets and lessen its dependence on sugar and other traditional exports which carry declining export prices. Reallocating human and capital resources to new areas of activity to sustain economic growth, employment and exports should complement its current efforts to secure competitiveness. This would require a deepening of adjustment measures to diversify the economy through the production and manufacturing of a variety of agricultural crops for exports, and promotion of high growth industries such as tourism and the establishment of free zones. The Guyana National Development Strategy (2000) noted that there would be increased efforts in the form of tax incentives, market intelligence and research and extension services to help diversify the agricultural sector, which in turn would

allow for the diversification of the manufacturing sector. The focus would be on the production of oil palm, coconut, green vegetables, ground provision and fruits and flowers destined for the tourist havens of the Caribbean and niche markets in North America and Europe.

The establishment of free zone development and tourism are among other industries emphasized in the GNDS, given their enormous potential for economic growth and employment. Free zones remain a highly effective means of attracting foreign direct investment and generating non-traditional exports. The increasing trend towards private sector development and operation of free zones offers the government a unique opportunity to facilitate rapid investment and export growth, while reducing public sector outlays. Free zones underscore the importance of competitiveness through lower operating costs.

5.0 Summary and Conclusions

The analysis in this paper shows the differing picture of Guyana's external competitiveness by the various indicators examined. A number of price and cost-based measures of external competitiveness, such as the real effective exchange rate indices, internal real exchange rate and labour cost indicators, have shown that Guyana has been losing ground against its main competitors in recent years. Moreover, the results of constant market share analysis are revealing and actually suggest positive competitiveness effects for some of Guyana's major exports, taking into account the need for product diversification, improved quality factors, and market orientation as important indicators in evaluating international competitiveness.

Guyana's flexible exchange rate regime is intended to be a tool of monetary management that would cause economic stabilisation and prosperity. It is intended to adjust to whatever level is indicated by market forces. However, because of the remaining structural rigidities in the form of dual economic structures and sectors, the benefits of a flexible exchange rate policy are minimised. Consequently, the use of exchange rate movement to improve competitiveness in an undiversified economy may be only limited to one-fifth of the economy, in other crops and the rice sectors that face competition in both product and resource markets. For maximum benefits, the sturctural rigidities would have to be removed. The dual pricing of resources, especially labour, erodes the gains from the flexible exchange regime and sets up an upward spiral parallel

to the exchange rate depreciation. In this regard, there is need for a wage policy which is linked to productivity gains.[7]

Greater competitiveness can also come about through lowering overall cost of production with the use of the appropriate technology, while keeping labor costs in line with productivity gains. Information and accounting standards through institutions that influence efficient trade, its promotion, and value enhancement through reliable infrastructure can add a new thrust to Guyana's competitiveness. In view of the likely ultimate loss of the European Union preferential market for Guyana's major commodities – sugar and rice, it is imperative that these industries undertake forward-looking production and marketing solutions immediately, so as to reduce unit cost and enhance price competitiveness. Factor enhancements—improvement in human and non-human quality can lead to competitive product pricing, rather than self-induced currency depreciation that adversely affect consumption needs. Real development would allow for a sustainable evolution of the Guyana economy over the long run as the true costs of using labor, capital, and land benefit from their respective productivity enhancements. Greater sustainable efficiency in all of Guyana's areas of production and new markets or bilateral exchange for its traditional exports-sugar, rice, bauxite, gold, diamond, timber, and shrimp - can help to satisfy the country's development goals in a stable economic and financial environment.

Diversification is to be achieved through the production and manufacturing of a variety of agricultural crops and promotion of high growth industries such as tourism as well as the establishment of free zones. The critical issue is whether currency depreciation should be placed in the extraordinary role of a blunt development tool that facilitates its own demise or whether the sacrifice of currency depreciation would be internalized as tangible benefits to the population.

Looking ahead, the overall prospects for Guyana's exports would depend on the country's ability to become efficient and aggressive in cultivating values in global and regional markets. This is crucial given the increasing liberalization of markets over time and the loss of preferential markets. Efficiency improvements and value cultivation could be supported through

[7] Human resources development can contribute significantly to productivity and high wages.

the maintenance of a responsive exchange rate that is isolated from unintended absorption of windfall gains in the cost spiral. A policy designed to absorb windfall gains within the domestic infrastructure would tend to stabilize currency values and secure the intended effects of sustaining production, national savings, and domestic investments.

Appendix

Since 1980, the nominal external value of the Guyana dollar has been determined under two successive exchange regimes. From 1981-1991, the exchange rate was pegged to a basket of currency for general transactions.[8] The Guyana dollar was devalued frequently *vis-à-vis* the basket under the adjustable peg and experienced shark devaluation on several allocations as shown in Table I. However, different exchange rates were maintained for the export of gold, rice and diamonds. The exchange rate system included controls regarding surrendering, purchasing and selling of foreign exchange. In 1987, a secondary foreign exchange window at commercial banks was established as an attempt to move toward a market determined exchange rate i.e. a rate that is in line with the parallel market. This exchange window failed because of restrictive regulations governing its operation whereby the supply side excluded exporters and included receipts from tourism and remittances while the demand side included only holders of licenses for purchases. The parallel market continued to attract substantial foreign exchange as the distortions continued with the creation of multiple exchange rate of the Guyana dollar, overvaluation of the official exchange rate for the Guyana dollar, and administrative controls on trade and foreign exchange. There were also losses to exporters due to the artificially low Guyana dollar, while importers made large profits as the difference between import and domestic prices. There was also an accumulation of arrears on current international transactions.

In 1989, the bank window rate and special rates for gold and diamonds were abolished and the official rate was devalued by about 70 per cent, to G$33.00 per US$1. In November 1990, the cambio market (both banks and non-banks) was introduced as the first step towards unification of the exchange rate. The market was to compete effectively and eliminate the parallel market. The official foreign exchange rate, however, was highly overvalued as the market continued to be supplied with receipts from the traditional exports sector and the proceeds used for servicing debt and pay for essential imports.

[8] In 1981, the basket comprised of US dollar, the Pound Sterling, the Deutsche Mark, the Yen, and TT, with equal weights. In January 1984, the basket was redefined with the French Franc and the Dutch Guilder replacing the US and TT dollars.

Table A

Year	Exchange Rate
1980	2.55
1981	3.00
1982	3.00
1983	3.00
1984	4.15
1985	4.15
1986	4.40
1987	10.00
1988	10.00
1989	33.00
1990	45.00
1991	122.75
1992	126.00
1993	130.75
1994	142.50
1995	140.50
1996	141.25
1997	144.00
1998	165.25
1999	180.50
2000	184.75
2001	189.50

Source: Bank of Guyana Annual Report (various years)

In February 1991, the exchange rates in the two markets were unified. The official rate was determined weekly based on the average free market rates of the three largest bank cambios for the preceding week. Many transactions were transferred from the official to the cambio market. Also, bank and non-bank cambios were free to negotiate exchange rates between themselves and the public. Further, with a view to achieving closer integration of the official and cambio markets, the Bank of Guyana in 1993 initiated a policy of foreign exchange transaction with the cambio market, consistent with its target for gross international reserves.

During the 1994-1995 period, the surrender requirement for Guysuco and gold exports through the Gold Board was reduced. Guysuco and bauxite producers were authorized to trade freely in the cambio market. In addition, foreign exchange accounts were authorized for non-residents and exporters. In 1995, the Exchange Control Act was abolished and in May 1996,

controls[9] were only established that provided for authorized dealers to operate foreign currency accounts in Guyana, loan or borrowed gold or foreign exchange and prior authorization for lending money or securities to foreign owned entities. With the unification of the foreign exchange market, the illegal parallel market was eliminated, being subsumed in the legal cambio market.

[9] This Act which was assented to by the President on May 23, 1996, regulates certain dealings in gold, foreign currency, foreign securities and the movement of foreign currency to and from Guyana. It also repealed the Exchange Control Act, thus further liberalising the exchange system.

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