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## **National Development Strategy**

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### *The Manufacturing Sector*

The National Development Strategy (NDS) points out that because Guyana is manifestly rich in commercially exploitable natural resources, and appears to possess immense market opportunities in North America, Western Europe, and the Caribbean for manufactured goods via the enabling CBI, Lome and CARIBCAN arrangements, and the CARICOM Single Market, it ought to be able to develop a competitive advantage for the export of manufactured products. It laments, however, that in spite of these potentialities, growth in the manufacturing sector has been somewhat limited.

Indeed, it asserts that the sector's share of GDP was actually higher in the period between 1950 and 1975 than in subsequent years, and claims that in part, this has been because of the absence of rational and conducive policies at the macroeconomic level specifically for the manufacturing sector and, in part, because of the failure of local investors to display the required initiative." The NDS goes on to state that in recent years, however, the number of manufacturing units has risen significantly and, in key subsectors such as engineering and wood products, there has been a noteworthy expansion in average plant size. In addition, although natural resource-based subsectors, such as wood processing and agro-processing, still account for the bulk of the employment in manufacturing, other subsectors, such as textiles and metal-working, are now beginning to gain in importance." There are several reasons for our apparent failure to take full advantage of the relative abundance of natural resources in our country, and of the trade agreements which successive governments have negotiated on behalf of our nation.

First, in the past, especially in the period between 1976 and 1989, when Guyana was in economic and financial thrall, manufacturers were virtually starved of the foreign exchange they needed to expand their businesses and to invest in new enterprises. As a result, not only did they find it difficult to retool their existing operations, they also found it virtually impossible to import new technologies into the country.

Second, the high rates of interest which prevailed for much of this period greatly reduced their profitability (because so many of the businesses were dependent on loans) and negatively influenced their capacity to compete in world markets.

Third, the steep series of devaluations which occurred in the late 1980s, although intended in part to make our exports more competitive, in fact made it more costly for Guyanese entrepreneurs to import the processing and manufacturing equipment which

they so desperately needed. Overall, the magnitude of the devaluations worked to their disadvantage.

Fourth, because many of the businesses in Guyana are family-owned and managed, there appears to be a reluctance to engage in joint ventures with overseas investors who may be in a position to provide additional capital, marketing techniques, and new management skills.

Fifth, perhaps because of the authoritarian nature of colonial governance, and the socialist, state-centred ideology that was pursued by national governments even before the attainment of full independence, the private sector in Guyana generally seems to be inordinately psychologically dependent upon governments, and turn to them for support in areas which are considered in other countries to be the private sector's own preserve and responsibility.

Sixth, a review of the disposition of processing facilities in Guyana would highlight the fact that processing plants are often not optimally located in relation to the raw materials on which they depend. This is especially important when the high costs of transporting bulk commodities in Guyana are taken into account. This concentration of manufacturing in the coastal zone, apart from incurring unusually high production costs, results in an inequitable distribution of economic activity in our country, and increases the density of our population in this already overcrowded region of Guyana.

Seventh, manufacturing has not significantly progressed here because of a number of interlocking factors. For example, in a study which compared the manufacturing cost structures of Jamaica, St Lucia, Grenada, and Guyana, it was found that, despite the fact that existing wage rates in our country were the lowest, Guyana was the least competitive of the countries. In Guyana, the costs of energy and transport were twice that of the other countries; our transaction costs, which include the time spent in consultations with the government, were deemed to be the highest; and the technologies that were generally utilized in the manufacturing processes were considered to be frequently inappropriate.

Eighth, the NDS expresses concern in respect of the quality of the government agency that is charged with responsibility for the manufacturing sector. It alleges that the former Ministry of Trade, Tourism and Industry (MOTTI) did 'not have at its disposal sufficient capacity for policy design, in regard to the manufacturing sector,' and claims that at the central level, the Ministry of Finance, through its fiscal, monetary and planning instruments can, and does, profoundly affect the course of the sector". Moreover, it asserts that the old Ministry of Trade, Tourism and Industry did not seem to possess personnel who were able to address those issues which affect the sector at the key political and technical levels. Indeed, after a careful examination of the relationships between the two ministries, the NDS came to the conclusion that there was a distinct asymmetry in authority between them, and suggested that unless the balance was redressed the MOTTI may find, when it comes to policy design for the manufacturing sector, that it has the responsibility but not the means and authority, to deliver effectively, even though it remained accountable for sector performance. "In the present

circumstances," the NDS suggests "it seems necessary to review the effectiveness and distribution of labour and authority in the Ministry of Finance, the Ministry of Trade, and Go-Invest with a view to making them, together, more efficient and effective."

All this was written before the last general election and the consequent formation of a new government. It may therefore be too early at this stage to determine whether the new dispensation has overcome the problems that appeared to be inherent in the structure and distribution of duties among the agencies responsible for manufacturing. The situation has also become even more confused with the establishment of a new Ministry of Foreign Trade.

The NDS lists other constraints to the development of the manufacturing sector, among which are the sub-optimal state of the telecommunications system, the inadequacy and unpredictability of energy supplies, the poor quality and low density of our transportation network, and the unacceptable levels of education in the country. As these problems have either been already discussed in these columns, or will be examined in future articles in this series, they will not be addressed here. However, the NDS's remarks on the labour situation, in the context of manufacturing, should perhaps be treated less summarily. The NDS asserts that there are significant imperfections in the labour markets." It goes on to state that the framework which the labour legislation currently provides is derived from the period of import substitution industrialisation, and needs to be modified to balance better the interests of the two key social partners, and suggest that there should be established a "neutral public authority to adjudicate between employer and employee." It holds the view that there is need for a more stable industrial relations climate in Guyana and, in this context, states that "it would certainly help to review the experience of Banks DIH to see what lessons could be learnt and to put them into practice," because "harmony in the sector is a key factor in the competitive market place." It specifically urges that consideration be given to the forging of employee-shareholding ownership mechanisms.

In next week's article, the current configuration and status of Guyana's manufacturing sector will be described, and the strategy which has been devised by the NDS for its growth and expansion will be delineated.