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| Too small, too poor, too open: Coping with the global economic shocks |

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| **Introduction** At the end of last week’s column I introduced a list, which is not exhaustive, of the main channels through which the negative impacts of the global economic crisis have been transmitted to the economies of Guyana and the wider Caricom region.  In this and the coming two weeks, I shall offer brief comments on the manner in which these channels have functioned over the past 2-3 years, following the order indicated in the listing provided. Context To fully appreciate the context of this presentation, two considerations should be kept foremost in mind.  First, both the economies of Guyana and the wider Caricom region are by any standard, small, relatively poor, and exceptionally open to economic shocks emanating from the rest of the world, and particularly from its major trading and financial partners (the United States, the European Union (EU), Japan, the BRIC countries (Brazil, Russia, India and China) as well as their regional neighbours).  Thus for example, the World Bank Indicators database show that the value of global GDP expressed in nominal prices at official or market exchange rates for 2009 is approximately  US$58 trillion (that is million, million); whilst the value of Guyana’s GDP is only US$1.2 billion (that is, thousand million) or about 0.0002 per cent.  Indeed for the wider Caricom region, GDP value totals US$63.3 billion or about 0.01 percent of global GDP.  Guyana’s total trade (imports plus exports) is larger in value than its GDP; domestic investment is largely financed from foreign savings; and, it operates a managed exchange rate linked to the US dollar.  To this one should add such features as 1) very high migration levels (including skilled persons), 2) large external indebtedness, and 3) an overly intrusive role played by foreign and international institutions in domestic policy formation and guidance of programmes and projects on the ground.  From this very brief description we can see that Guyana’s economy is too small, too poor, and too open to contain the worst global financial crisis and economic recession since the Great Depression. Significant reverses in economic performance and the advancement of livelihoods in Guyana are structurally determined.  **Double whammy** The second consideration to bear in mind is that the current global economic crisis followed immediately on the global food and fuel prices crisis of the first half of 2008.  There has been a double whammy, since the food and fuel prices crisis morphed into the current financial crisis and economic recession.  At the peak of the food and fuel crisis, Q1 and Q2, 2008, government was driven to emergency responses following on global riots and local discontent. These responses included 1) the grow more food campaign, 2) plant seed distribution 3) provision of mobile farmers food-markets aimed at vulnerable Guyanese and 4) energy conservation campaigns. These safety-net and relief measures were necessary because rising food import prices were generating strong inflationary pressures, and rising fuel prices impeded production through rising input costs.  Readers would recall that in this period globally oil prices had peaked at about US$150 per barrel. The inflation of food prices in 2008 was reported by the Bureau of Statistics at 20 per cent for that year.  I had challenged this figure at the time for being unreasonably low, given the steep rise in prices of specific items I was aware of, and the 16 per cent value added tax (VAT) in operation. Merchandise exports Turning to the first listed channel, exports of goods; four commodity groups from Guyana and the wider Caricom have been significantly adversely affected by the global crisis.  These are 1) energy and energy-related exports (mainly Trinidad and Tobago; 2) minerals (especially bauxite/alumina) mainly Guyana, Jamaica, and Suriname; 3) agriculture and forestry products (mainly Belize, Guyana, Jamaica, Suriname and several OECS states);  and 4) light manufactures (mainly, Barbados, Jamaica and Trinidad and Tobago).  On top of this it should be noted that in recent times regional sugar export sales have transitioned from the higher preference-based price arrangements of the ACP-EU Sugar Protocol to its replacement – the lower market-driven price arrangements for sugar the EU has put in place, consequent to the signing of the Cariforum – EU, Economic Partnership Agreement (EPA) towards the end of 2008.  Not surprisingly, this period of economic crisis has been characterized with cutbacks in production and export sales.  Indeed in some cases there has been as well temporary closure of business operations, as in Trinidad and Tobago (steel) and bauxite in Jamaica and Guyana.  Structurally, Guyana and the wider Caricom are heavily dependent on the export of primary commodities, with minimal local value-added.   These have been badly hit by the recession, but they seem to be rebounding in the early phases of recovery. There is as well a heavy concentration on a limited number of these exports in a few overseas markets.  Unfortunately, these markets have been the USA and the EU, the two markets where the global economic recession has been centred.  Nearly four decades after the formation of the sub-regional grouping, the development of intra-Caricom trade is still restricted, and therefore cannot provide a counter-weight to these negative features.  Finally, Guyana has been actively pursuing regional markets for its sugar, rice, fruits and other agricultural products.  In addition, the export sale of furniture, jewellery and craft is picking up.  These latter, however, remain of secondary importance, although they bring important value to specific businesses.  In this regard elements of the irregular underground economy have taken root, mainly through sales of gold and jewellery, and at border areas, rice and sugar.  Merchandise export data for Guyana, as reported in the 2010 Budget, indicate declines in export values during 2008-2009 for the following main items: bauxite, sugar, rice, timber and what are classed as “other” products. Surprisingly, the last non-specific “other” item is listed as the second largest! There was, however, a large increase in gold exports for 2009.  Nevertheless, on the whole merchandise trade fell in value from US$801 million in 2008 to US$768 million in 2009.  **Services exports** All Caricom states (including Guyana) are dependent on the export of services, mainly travel, tourism, off-shore financial services, health care, off-shore education, and business-related services.  This dependence varies considerably; in several states services exports account for over three-quarters of GDP.  Guyana has, however, only recently started to build an eco-tourism sector.  Tourism is dependent on the purchasing capacity of potential tourists. It is therefore, a highly discretionary item.  At times of economic hardship and uncertainty, expenditure on tourism can be postponed, if not deferred entirely.  As a consequence the fall-off in regional tourism and travel activity has seriously impacted the region.  Next week I shall give further brief comments on other channels indicated in the list at the end of last week’s column. |