



Annex A (8)

*Analytical Evidence to Support Guyana's Green State Development
Strategy: Vision 2040*

International Cooperation, Trade and Investment

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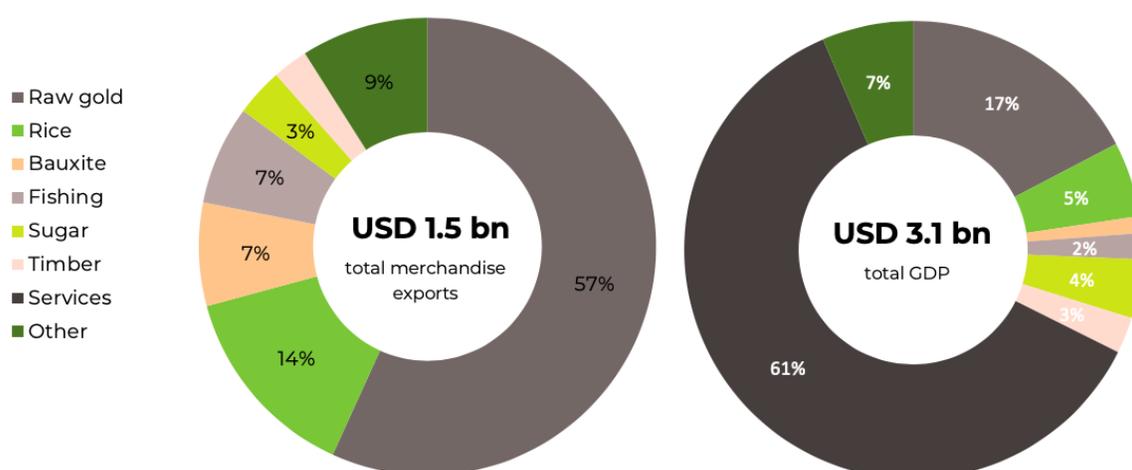
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A 8 International Economic Policy

A 8.1 Trade

As discussed in Annex A Section 5, a handful of primary commodities dominate Guyana's international trade. These are often referred to as Guyana's 'six sisters': gold, rice, sugar, bauxite, fish and timber. All six are primary products directly extracted from the earth or sea. Little processing is undertaken within Guyana before export. Historically, these commodities have accounted for the vast majority of Guyana's export value, over 70% in 2015, as shown in Figure 1. In addition, refined petroleum products are Guyana's largest import by a significant margin, accounting for 21% of total import value in 2015.

Figure 1: Commodity Exports as a % of Total Exports and Total GDP



Note: Exports only refer to goods and do not include services.

Source: Guyana Bureau of Statistics

As a result, Guyana is highly exposed to fluctuations in global commodity prices, making export revenue and import costs hard to predict. Primary commodities are heavily traded on international markets as they are relatively homogenous, cheap to transport and essential to many production processes. Hence, commodity markets are global. This often results in large swings in commodity prices, with knock on impacts on the value of Guyana's exports and imports. The high volatility of some of Guyana's key commodities is discussed in more detail in Annex A 5.2. Such volatile revenues and costs directly impact profit and make it challenging for producers to access finance and plan investments.

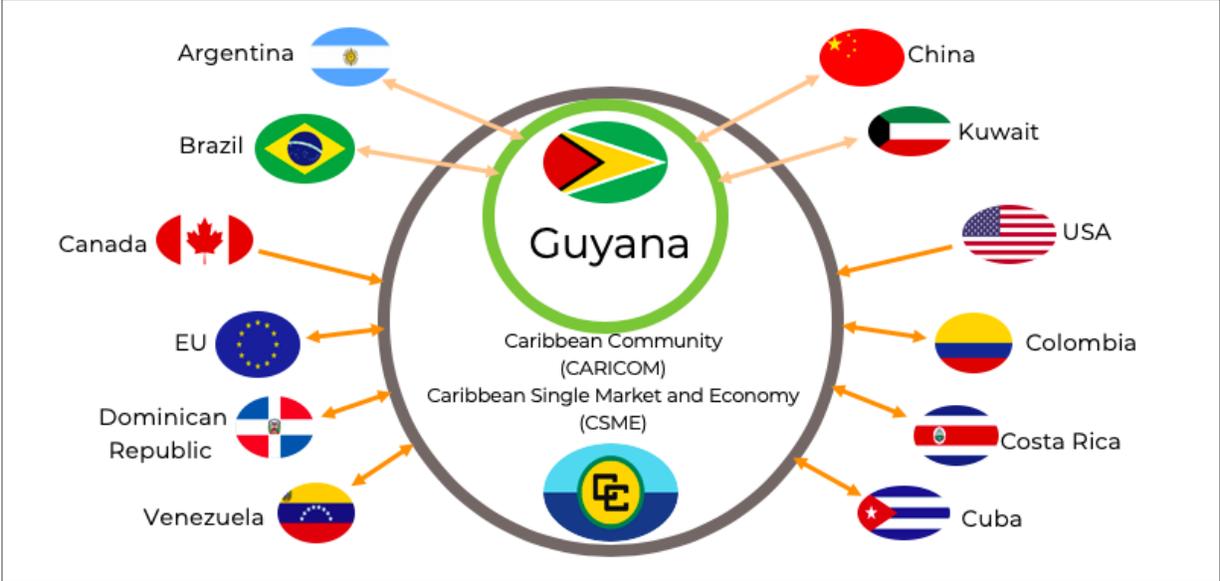
This reinforces the need to steer economic activity away from primary commodities to higher value-add products. When primary products are processed before export, they fetch higher prices, generate more domestic economic activity, and this employs more workers. In addition, the prices of processed products are less volatile (in part) because consumers are more able to substitute between them. Thus, if the price of one product increases, consumers may switch to another relieving some price pressure. By contrast, it is more difficult to substitute between primary commodities and hence, prices stay high.

Strong international trade relationships can also help to mitigate the impacts of price volatility. Free trade agreements can reduce the costs of international trade, both directly through the reduction of tariffs and indirectly through trade facilitation measures. This can lead to stable supply chain relationships between exporters and

importers, often reinforced by long term supply agreements or contracts. This helps exporters and importers reduce the risks they face and better plan for commodity price swings.

Guyana has a wide range of free trade agreements (FTAs), both bilaterally and through CARICOM, as well as key preferential access arrangements. Guyana largely formulates and implements its international trade policy through the Caribbean Community (CARICOM) framework. The Caribbean Single Market and Economy (CSME) removes all custom duties between CARICOM member states and applies a common external tariff to goods from non-CARICOM countries. Figure 2 illustrates that through its CARICOM membership, Guyana benefits from six FTAs with the EU, the Dominican Republic, Venezuela, Colombia, Costa Rica and Cuba, as well as two preferential access agreements with Canada and the US. In addition, Guyana has bilateral trade agreements with Argentina, Brazil, China and Kuwait.

Figure 2: Guyana’s Key Trade Agreements

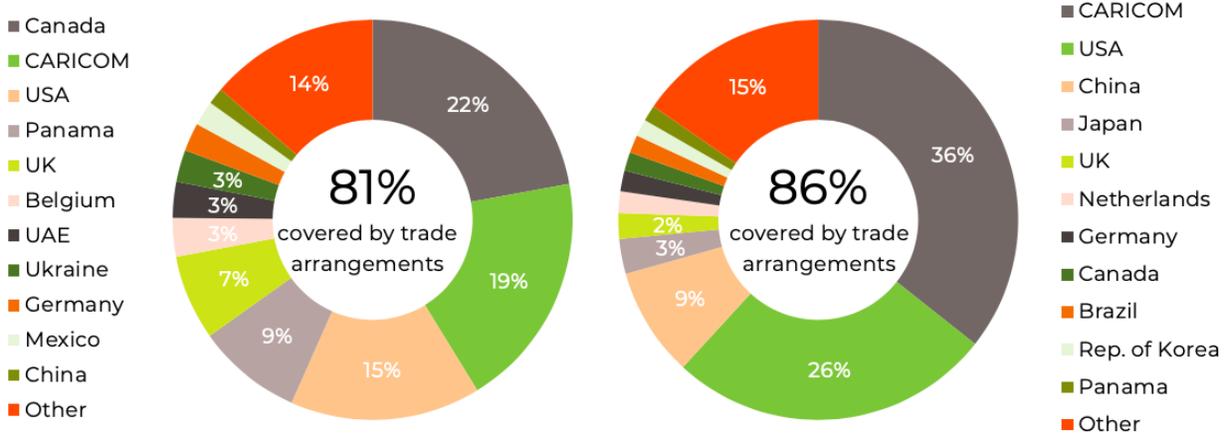


Note: The EU Economic Partnership Agreement is with CARIFORUM (CARICOM + Dominican Republic)

Source: WTO; GO-Invest; European Commission

These drive the majority of international trade: Canada, CARICOM, the US and China are among the most important partners. As Figure 3 demonstrates, trading partners covered by some form of trade agreement account for the vast majority of Guyana’s international trade, over 80% of both exports and imports by total value. This demonstrates how influential the terms of these agreements are to Guyana’s economic performance and underlines the importance of their stability.

Figure 3: % of Exports and Imports through Trade Agreements

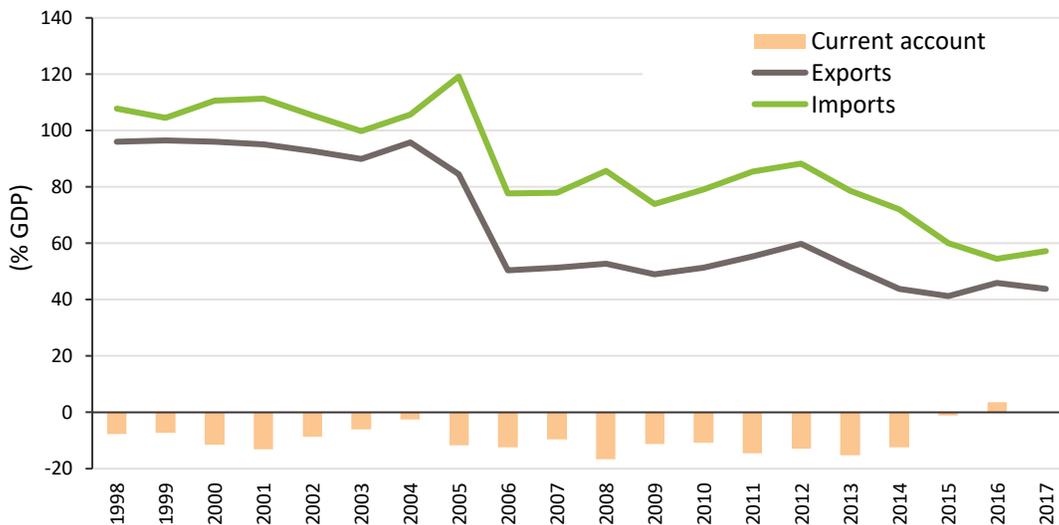


Note: Agreements based on information from WTO, GO-Invest and the European Commission. 'Other' includes countries with less than 1.3% share by value.

Source: UN Comtrade

The collapse of a key EU trade deal in part led to a permanent decline in the importance of exports to the Guyanese economy. Figure 4 displays Guyana's total exports and imports over the last 20 years as a percentage of GDP. From 1998 to 2005, these remained relatively stable, averaging 93% and 108% respectively. In 2006, both fell sharply reflecting the collapse of a key trade agreement underpinning Guyana's supply of sugar to the EU in addition to the closure of Guyana's largest gold mine (see Annex A(2) A2.1.1). This permanently shifted the structure of the economy away from international trade, with exports and imports failing to recover to previous levels. This demonstrates how critical trade policy is to Guyana's economy, amplified by its small open economy status and dependency on primary commodity exports.

Figure 4: Exports never recovered from the collapse of the EU sugar trade deal in 2006



Note: The current account is the sum of net exports of goods and services and net income.

Source: WB World Development Indicators

The expiry of the Caribbean Canada Trade Agreement (CARIBCAN) in 2023 poses a considerable risk to Guyana's export performance. The CARIBCAN waiver (which grants duty-free treatment of imports of eligible products into Canada from beneficiary Commonwealth Caribbean countries) has been renewed four times since its establishment in 1986. Negotiations to replace CARIBCAN with a free trade agreement launched in 2007 but failed to reach a conclusion despite seven rounds. Under current legislation, the waiver will terminate in 2023. Given Canadian markets accounted for more than 20% of exports in 2015, this could have a permanent damaging effect on Guyana's export performance if an alternative agreement is not reached¹. While there are currently no plans for further negotiations, this remains a priority on Guyana's international trade agenda.

Guyana has made good strides in implementing the EU-CARIFORUM² Economic Partnership Agreement (EPA) though more progress is needed. This EPA aims to create a free trade agreement between the EU and CARIFORUM countries, but also strengthen trade capacity within Caribbean countries and support private sector development. Guyana is one of the few CARICOM countries broadly on schedule with their EPA implementation commitments, and that has seen an increase in trade with the EU since the EPA's signing. That said, further work is required to realise the full benefits of the EPA including support for SME establishment, business environment reform, CARIFORUM regional integration, and data collection and exchange.

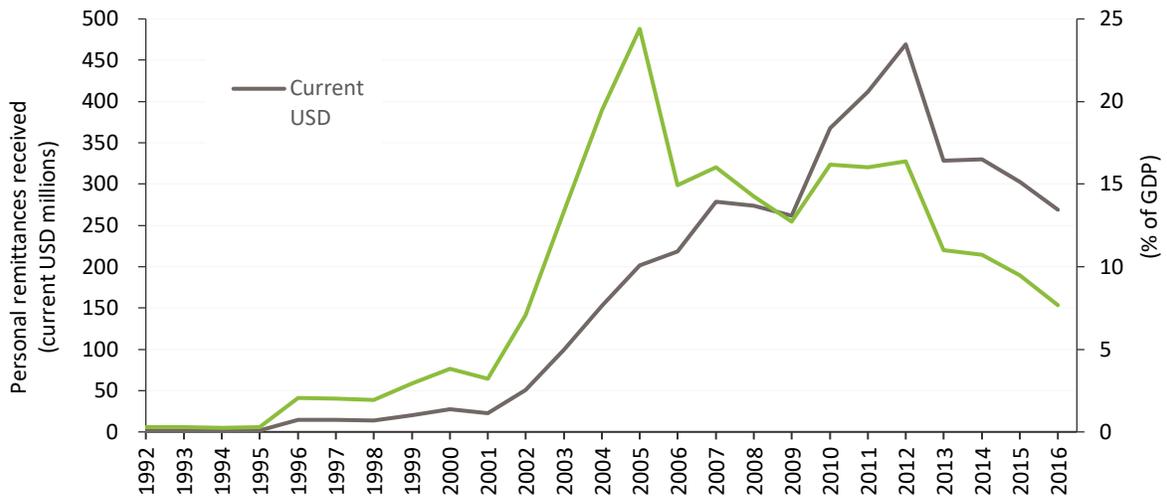
Under the WTO Trade Facilitation Agreement (TFA), Guyana has committed to implementing 73% of provisions immediately and up to 27% by 2020 (conditional on technical assistance). The TFA aims to reduce bureaucratic delays and 'red tape' surrounding international trade by simplifying, modernising and harmonising global export and import processes. This includes provisions to expedite the movement, release and clearance of goods, as well as for effective cooperation between customs authorities. Full implementation of the TFA is expected to boost developing country exports and economic growth by 3.5% and 0.9% per year respectively.

In 2016, strong export growth and high remittance income led to the first current account surplus since records began. Guyana's persistent current account deficit has been cited as a potential threat to long term macroeconomic stability, in part due to the accumulation of debt. A combination of export growth and import decline, supported by high net income from remittances, led to a current account surplus in 2016 for the first time in 40 years, as shown in Figure 5. Remittances have sharply increased from the early 2000s, peaking in relative terms at nearly 25% of GDP in 2005. This has steadily declined since though remain high at roughly 8% of GDP in 2016.

¹ There may also be benefits to a free trade agreement (FTA) over CARIBCAN. Research suggests that an FTA with Canada is unlikely to lead to a large expansion in merchandise exports though there is considerable growth potential in service exports, in particular, business process outsourcing. Import tariff reductions could also reduce costs for Guyanese businesses and consumers, particularly associated with petroleum products and vehicles.

² CARIFORUM countries include CARICOM countries and the Dominican Republic.

Figure 5: Despite recent declines, remittances remain an important source of income for Guyana



Source: World Bank World Development Indicators

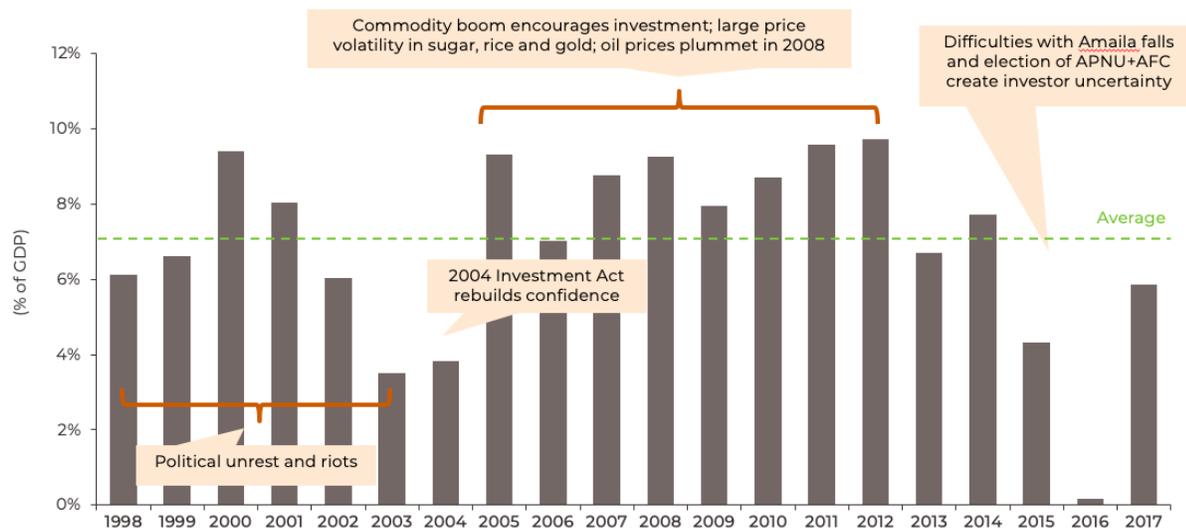
A 8.2 Investment

Investment performance has been more volatile than trade, underlining the importance of a stable political and business environment and supportive foreign investment policy. Figure 6 examines trends in inward foreign direct investment (FDI) as a share of GDP over the last 20 years. There is considerable variation around the average of 7% across the period, with FDI falling as low as 1% and reaching as high as 9.5% at points. Investor sentiment is highly sensitive to both market and political events.

Political unrest and riots led to a decline in FDI in the early 2000s, subsequently mitigated by the establishment of the 2004 Investment Act in combination with rising demand and falling costs for commodity export industries. FDI fell sharply from 2014 to 2016, again reflecting the perception of a more unstable political environment due to the change in government and continued delays to the Amaila Falls project. FDI has since recovered reflecting greater confidence in the government as well as rising infrastructure demand from the oil and gas sector. This sensitivity illustrates that a stable business environment, underpinned by effective legislation, is critical to maintaining investor confidence.

Guyana's legal framework offers foreign and local investors equal treatment. The 2004 Investment Act provides the overarching regulatory and legislative framework for the protection of private investments in Guyana. The Act eliminates differential application of incentives between foreign and domestic firms; and allows for investments in all forms of legal economic activity, except for some restrictions on foreign investment in mining. Enterprises may be wholly owned by foreign investors, and the repatriation of profits is unrestricted provided tax obligations are met.

Figure 6: Geopolitical events have triggered large swings in foreign direct investment (FDI)



Note: Data from 1998-2015 is from the World Bank and 2016 onwards from the Bank of Guyana.

Source: World Bank World Development Indicators; Bank of Guyana Annual Reports 2016, 2017

The Guyana Office for Investment (GO-INVEST) provides investment promotion and facilitation services to foreign and domestic investors. It was established in 2004 as a semi-autonomous body under the direct purview of the Office of the President and advises the government on the formulation of national investment policy. In addition, GO-INVEST provides potential investors with information about opportunities in priority sectors, assists with administrative procedures, and provides a platform for investors, businesses and project developers to meet.

Efforts to streamline and improve investment facilitation are ongoing. Under the National Competitiveness Strategy (2006), GO-INVEST is being reformed to improve its efficiency and effectiveness. The reform includes a review of the Investment Act to reduce outstanding discretionary loopholes and revise GO-INVEST's mandate. GO-INVEST is currently drafting a new internal strategy which will guide the development of investment promotion and facilitation in the future.

The government also provides targeted support for small businesses to invest and reach scale. The Small Business Act (2004) established a mandate to provide investment incentives and facilitation services for small businesses, which led to the creation of the Small Business Bureau (SBB) and the Small Business Council (SBC). The SBB aims to tackle key barriers to small business expansion including access to finance, business management capacity and technical skills.

However, trade and investment agreements aren't enough; this must be underpinned by a supportive business environment. The Hubs and Spokes Programme, a joint initiative of the EU, ACP Group Secretariat, Commonwealth Secretariat and Organisation Internationale de la Francophonie, provided a National Trade Advisor to Guyana to evaluate the success of its trade agreements. The assessment concluded Guyana was not realising the full potential of existing agreements due to:

- a severe lack of infrastructure necessary to facilitate trade, especially in communications, financial services and research and development;
- socio-political issues and a perception of low and inefficient policy-making capacity, particularly concerning labour supply;

- high logistical costs, most notably from excessively high electricity prices;
- technical barriers to trade including restrictions due to sanitary and phyto-sanitary (SPS) standards;
- poor local investor sentiment and a lack of domestic entrepreneurship.

A 8.3 Conclusion

The terms of Guyana's international trade and investment agreements are essential to its export performance, and economic growth. Over 80% of both export and imports are with countries that Guyana has some form of trade agreement with. Moreover, the collapse of the EU sugar trade deal led to the most significant structural decline in exports in the last 30 years. This demonstrates the influence trade agreements have on Guyana's exports, which in turn account for a large share of GDP.

Guyana must seek to maintain and strengthen these relationships, as well as broader trade facilitation measures. A key upcoming risk is the expiry of the Caribbean Canada Trade Agreement (CARIBCAN) waiver in 2023, as Canada currently purchases over 20% of Guyana's exports. Over the next three years, Guyana must also continue to implement the EU Economic Partnership Agreement and complete its commitments under the WTO Trade Facilitation Agreement (TFA).

Though strengthening the business environment is the most critical priority to unlock the full potential of Guyana's existing agreements. A comprehensive assessment of Guyana's international trade policy and performance revealed that, despite a strong set of free trade agreements and investment incentives, a weak business environment discourages foreign direct investment and trade. In particular, poor transport networks, high electricity prices and a lack of skilled labour limit the growth of domestic and foreign businesses alike.