GEO

Guyana Economic Opportunities

Export and Investment Promotion Study Tour to Trinidad and Tobago and Costa Rica

Final Report

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I. Background

The Guyana Economic Opportunity (GEO) Project, funded by USAID and administered by Chemonics International, Inc., has the broad objective of encouraging economic growth in Guyana. An established mechanism to generate economic growth is foreign direct investment. Guyana, since its opening of the economy in 1988, has attracted foreign direct investment but not in the amounts truly necessary to provide accelerated economic growth. There are numerous reasons behind this fact; however, a key aspect is the lack of a cohesive government policy combined with effective programs and an apparent lack of understanding of the subject within much of the private sector.

It was thought that providing an opportunity to a selected group of Guyanese government and business leaders to observe first hand institutions and mechanisms used by countries that have mounted successful investment promotion campaigns would prove helpful in stimulating Guyanese efforts to attract investment. As such, a study tour was organized to take place during July 2000.

The countries selected for the study tour were Trinidad and Tobago and Costa Rica. Both are small countries that have been quite successful in recent years in attracting foreign direct investment. Trinidad and Tobago is, like Guyana, a member of CARICOM. It also has a common cultural heritage and similar ethnic makeup and is geographically close to Guyana. Costa Rica has the reputation of being the most successful of the Central American republics in promoting economic growth, a growth stimulated to a significant degree by the development of tourism as well as from efforts to move away from its agricultural base towards higher value-added industry. Thus, each country was regarded as a good role model for Guyana.

The composition of the participants combined public and private-sector interests. In the lead was Guyana’s Minister for Trade, Tourism and Industry, Mr. Geoffrey Da Silva. Minister Da Silva served for many years with Guyana’s Consulate General in Toronto, Canada, and thus was familiar with overseas business and government relations. He is currently the Cabinet Minister most involved in efforts to promote investment and tourism in Guyana.

Guyana’s efforts to promote foreign trade and investment have been assigned to a public institution, the Guyana Office for Investment, or GO-INVEST. A chance to observe counterpart institutions in action was considered of particular value to GO-INVEST, and thus its Chief Executive Office, Deochand Narain, and a Senior Investment Officer, Malika Alleyne, were selected to participate.

Since the participation and support from Guyana’s business community is essential to any effort to promote economic growth, four representatives of the private sector participated. They were:

- Abdul Sattaur Gafour, President of the Guyana Manufacturers Association and head of a firm which manufactures and distributes building supplies.

- Steven Bovell, President of the Linden Chamber of Commerce and Industry, and former managing director of a large bauxite operation.

- Ramdial Bhookmohan, President of the Berbice Chamber of Commerce and Industry, Vice President of the Private Sector Commission and a hotel operator.

- Steve Hemraj, President of the Essequibo Chamber of Commerce and Industry and manager of a copra and edible oil plant.

The group proved to have been well-selected and appeared to have gained substantial insight and new information in the areas of investment promotion and export development. The interactions at review meetings were good and the participants were cooperative and conscientious in carrying out the program.

II. Program

To provide the information and background desired, the program included visits to cabinet-level counterparts for Minister Da Silva, to investment, trade and tourism development institutions, to private-sector associations and to industrial park/free-trade zones.

In Trinidad and Tobago, the group met first with Minister of Trade and Industry Mervyn Assam, who, accompanied by senior aides, gave an overview of requirements essential to attract foreign investment and then engaged in a dialogue with the group. Among topics covered was the existence in Trinidad of a Committee on Trade-Related Matters serving in an advisory role on trade policy and chaired by the President of the Trinidad and Tobago Manufacturers Association. This Committee also participates in trade negotiations.

The next visit was to the Tourism and Industry Development Company (TIDCO), which has the responsibility for promotion of investment, trade and tourism in Trinidad. TIDCO was reorganized in 1996 as a company, but one in which all the shares are held by the government. It has a staff of 140 people, owns free-trade zones and hotels and has an investment portfolio that has some placements outside Trinidad and Tobago. Owing to a scheduling conflict, the group met with some of TIDCO's technical staff before gathering to hear a presentation by Mr. Vishnu Ramlogan, TIDCO's President, who touched on the philosophy and practices of the institution. TIDCO stresses non-petroleum-related industrial and export development and tourism..

The second day in Trinidad began with a joint breakfast session for the Guyanese group, hosted by the Trinidad and Tobago Manufacturers Association (TTMA) and the Trinidad and Tobago Chamber of Commerce and Industry. The President and Second Vice President of the TTMA, Messrs. Anthony Rahael and A. Stuart Dalgleish were among several Trinidadian speakers. There was also an exchange of views between the two hosts and invitees.

At midday, the group traveled to Point Lisas to visit the Point Lisas Industrial Port Development Company. This industrial and port complex is based on access to petroleum and natural gas produced in Trinidad and most of its impressive development comprises capital-intensive processing plants producing such products as ammonia and methanol. It's port is being developed, however, as a modern container port designed to serve Trinidad's industrial zone in the central part of the island. Investment is also being sought in non-oil-related activities. The company was begun as a private firm, but was reorganized some years back, with the government now holding 51 percent of shares. The company's president and senior economist spoke to the group, outlining what they view as the necessary requirements for investment promotion.

In the afternoon, the group met with Mr. Kameel Khan, Chief Executive Officer of the Property and Industrial Development Company of Trinidad and Tobago (PIDCOTT). This company is a subsidiary of TIDCO and is charged with the actual management of the free-trade zone/industrial parks in the country. Mr. Khan outlined policies and costs of park operations in the country.

The group enjoyed a dinner hosted by TIDCO and in turn hosted a well-attended reception that offered the opportunity for the further exchange of views.

By Thursday, July 27, the group had relocated to San Jose, Costa Rica, to carry out a program similar to that in Trinidad.

The program began with a meeting with Costa Rica's Minister for Foreign Trade, Mr. Tomas Dueñas, who spoke at length on Costa Rica's experience in reorganizing its economy and attracting foreign investment. At the conclusion of the session with the Minister, Mr. James Stanley, Managing Director of La Promotora de Comercio Exterior de Costa Rica, PROCOMER, took over. He explained the reorganization of agencies in 1995, which gave his institution the responsibility for investment incentives, export development and the oversight of the country's export-processing zones, all of which are privately owned and operated. PROCOMER is self-supporting, collecting fees from export invoices and rents from the export-processing zones. As part of the reorganization, employment was reduced by over half. About 60 percent of current activities are directed to free-trade zone administration and 40 percent to export development. This latter effort involves market intelligence gathering as a principal activity.

In the afternoon the group met with the President and Executive Secretary of the Costa Rican-American Chamber of Commerce. Given that 75 percent of Costa Rica's trade and most of its foreign investment comes from the United States, focus on American interests is logical, but the President, James Fendell, stressed that the Chamber is truly a binational group active in promoting business in Costa Rica and pursuing an ever-improving climate for investment. The Chamber has 450 corporate members and some 1,350 associates, which gives it the base to be an effective lobbyist both in Costa Rica and in the United States.

The second day in Costa Rica began with a meeting with CINDE, the Costa Rican investment-promotion agency. Established in 1982 with funding from USAID, CINDE remains a non-governmental organization. USAID direct funding ended in 1992, but CINDE has access to trust funds from a USAID-established foundation in addition to earning fees for services. Its level of activities has declined since 1992, but it still employs a staff of 40 and is active in promoting Costa Rica's image abroad and in directed efforts to attract and assist investors for Costa Rica.

The group next met with Rodolfo Lizano, Director of Planning of the Costa Rican Tourism Board (ICT). ICT was established as a government agency in 1955 and is charged with administering the country's tourism incentives, coordinating promotional efforts and overall planning. Mr. Lizano offered a number of interesting comments on the methods and requirements for successful tourism promotion.

The last meeting was a visit to an export-processing zone, Ultrapark Free Zone and Business Center, in the outskirts of San Jose. Ultrapark's President, Mr. Paul Ziegler, outlined the business philosophy of a free zone and the issues in which a free zone investor is typically interested. Costa Rica has moved away from labor-intensive activities, since its labor costs are relatively high, and is using its strong educational base to attract knowledge and other high-tech businesses. Park tenants today include call-center operations, regional administrative centers for major corporations, medical device assembly and distribution, as well as the company's own gold refining and jewelry business.

The final debriefing of the group was impressive as each spoke of the lessons learned from the trip and there was a sense of wanting to follow up on what had been learned through concrete steps to be taken upon the return to Guyana.

The program was carried out with few problems and did offer a very relevant review of the factors involved in investment promotion, export development and trade policy formation.

III. Summary of Information Received

The comments made by the many individuals who met with the Guyanese group fell mostly into a common pattern. The basic requirements for attracting foreign investment are well-known. The role of public and private sector actors varies between countries, as do the factor endowments that underlie a country's fundamental ability to attract foreign investment. So investment promotion strategy has to build on these factor endowments and work to improve conditions where possible.

All three countries—Guyana, Trinidad and Tobago, and Costa Rica—have a legacy of socialist government policy, including state ownership of public utilities and major industries. In addition, all three strove for industrial development through high barriers against imports, creating a protected market for local manufacturers. In general, this approach has failed, and each country has moved towards an open economy, entailing a greater role for the private sector.

Trinidad and Tobago has taken many steps to open its economy. Its industry has either adapted to the wider market or gone out of business. Nevertheless, the state still is heavily involved in the economy. The free-trade zones and the various agencies involved in investment promotion and export development remain public entities. Rice milling and sugar remain state enterprises, as do public utilities. A key factor endowment supporting Trinidad's development is its petroleum and gas resources. Energy-related industrial development alone assures substantial amounts of foreign investment, foreign exchange earnings and government revenues. Capital-intensive industrial investment does not assure employment, however, hence the government's focus on non-oil industrial development and an emphasis on small and medium enterprises. The need to generate employment also supports tourism promotion, concentrated principally on the island of Tobago.

Costa Rica has no mineral resources and until rather recently was economically dependent on exports of a few agricultural commodities. Its development strategy is currently threefold: diversify agriculture, promote tourism and develop industry through the mechanism of free-trade zones. Factor endowments include an equable climate, locations of tourist interest and a literate, relatively well-educated work force. In the mid-80s Costa Rica privatized its free-trade zone scheme and allowed an NGO (CINDE) to assume a lead role in promoting the zones and diversifying agriculture. Tourism and industrial development in the zones have both done extremely well. Visitors to Costa Rica number more than one million per year, some 100,000 foreigners live in Costa Rica, many in retiree status, and roughly nine export-processing zones with free-trade status have been developed. In addition, selected companies have been granted free-trade zone status as stand-alone facilities, the most noted of which is the American technology firm Intel. Despite growth that has overtaxed Costa Rica's infrastructure in place, Costa Ricans are reluctant to give up state ownership of public utilities and such services as insurance, gasoline distribution, pharmaceutical pricing and telecommunications. Tariff rates are falling, but remain higher than many of its competitor countries. Legislation authorizing concessions has been passed and the country hopes now to expand the program from the international airport, already granted, to roads and other facilities. Moves to privatize the telephone system met with strong public resistance, compounded by the fact that both electrical power and telecommunications are part of a single public enterprise.

In sum, the pendulum towards the private sector has moved a bit further in Costa Rica than in Trinidad and Tobago, but neither country is yet a truly open economy or bastion of private enterprise.

The comments made by those visited were remarkably uniform in describing the basic necessities to attracting foreign investment. The first requirement involves the country's image, a key component of which is political stability. Political stability also encompasses security of persons and property. A basic step to enhance a country's image is a national strategic alliance involving all parties and all sectors of the society in support of a national commitment to an open economy fueled by foreign investment. This commitment includes everyone, from the President on down through the government, the business community and the public at large.

The second requirement is a strong legal and regulatory framework. There must be a clear signal that investors are welcome, that there are established, clear and consistent "rules of the game".

A third requirement is infrastructure, that is, a framework of roads, air and sea ports, power supply, telecommunications, potable water and other public services that provide a base on which investors can build. Forcing investors to provide their own infrastructure makes a country uncompetitive except in those rare cases where the value of a natural resource can cover the added cost.

The fourth requirement is the identification of a few specific opportunities for investment based on a country's comparative and competitive advantages. Investment promotion must be targeted to valid opportunities to have much chance of success.

The fifth requirement is that to promote trade it is essential to find new products and new crops. For example, Costa Rica went from exporting 350 items 15 years ago to exporting 3,000 different items today.

Other important elements mentioned were the need for human-resource development and institutional strengthening. Costa Rica is especially proud of having devoted a significant part of its fiscal resources to education and believes that its educated workforce is its principal asset in attracting foreign investment. Both Trinidad and Costa Rica have restructured and downsized public agencies involved in investment promotion and export development. Costa Rica is carrying out a "simplification" program designed to rid the statute books of all laws and regulations that are duplicative, conflictive and obsolete. Both Trinidad and Costa Rica have centralized the decision-making process so that proposed investments are approved in a matter of weeks instead of months or years.

Costa Rica's Foreign Trade Minister pointed out that tourism is a good avenue for economic development since it tends not to be capital-intensive and has the potential to generate substantial employment. It requires a national effort and careful planning that encompasses social, environmental and economic aspects. The country should conduct an inventory of what it has to offer and then design a legal framework that offers incentives to foreign investors as well as encouraging environmental protection and the promotion of social welfare. The needed elements are nature, or places that intrinsically attract visitors, accessibility to these sites, and the capacity to interpret the site to the visitor, i.e, explain to the visitor the history and significance of what s/he is seeing. Entrepreneurial skills are needed, such as those which can be aided through imaginative financing of small-scale tourist projects, especially in the area of eco-tourism.

A major point made in both countries visited was that globalization is inevitable. Firms and countries that fail to adapt will be left far behind in the race for economic development.

The route a firm takes to enter export markets begins first when it is able to compete in its domestic market against open competition from abroad. The next step, or test, is to become part of the chain of supply to the export industry, and then, finally, a move to become an exporter of an integrated product line.

One interesting idea mentioned of benefit to developing countries with limited industrial capacity is to “import” entrepreneurs. Given a favorable investment climate and immigration regime, foreigners with technical or business skills may see business opportunities and have the skills and contacts to exploit those that have been ignored for whatever reason by local business.

IV. Commentary

Reviewing the requirements spelled out in the foregoing section, Guyana unfortunately is deficient in meeting the conditions necessary to attract foreign direct investment at present. One of the principal objectives of the observation tour was to demonstrate clearly to the participants the distance between conditions in relatively successful economies like Trinidad and Costa Rica and those in Guyana.

As a country, Guyana has not yet made a commitment to a fully open, private-sector-led economy. Signals sent to foreign investors are mixed and often negative. In Trinidad, where there are natural connections with Guyana, the group learned of a Trinidadian investor who put up a building in Guyana two years ago, but has been unable to commence operation owing to his failure to secure a building lease. The President of the Point Lisas Port Development company spoke of visiting Guyana two years ago looking to invest, only to perceive the existence of an unseen but real barrier to foreign investment. He left and has not returned. Guyana’s image is not helped either by the persisting sense of political instability.

Guyana has serious problems that will not be solved over the short run. These issues include a serious lack of human resources, a very small domestic market and poorly developed infrastructure. The country has great potential, but translating that potential into economic growth is not easy. The major instrument for development is foreign capital. There are huge amounts of capital available in the world but none will flow to Guyana simply because the Guyanese are nice people or that the country is poor. Investment comes only where there are opportunities to earn satisfactory returns on invested capital.

Guyana needs a national economic development strategy, one that is acceptable to all political parties and the majority of the public. This national strategy will require a much-improved legal and regulatory framework with clear and consistent rules for investors.

Responsibility for decision-making affecting investors or trade matters must be concentrated to the degree that decisions are made quickly following established rules and investor compliance with those rules.

Once the strategy and framework are in place, efforts to attract investment must be focused on specific products or areas in which Guyana can compete. This could be eco-tourism, aquaculture, food processing, gold refining or secondary wood products, but none will be developed without a reasonably good investment climate. Since Guyana lacks the skills and resources to develop its infrastructure, natural resources and industry, it is incumbent upon the country to devise means of attracting the necessary capital from abroad, whether by Build-Own-Transfer mechanisms for public works, concessions to private firms for tourism, agri-business or transport projects, or fiscal incentives such as duty-free import of capital goods or materials to be processed and exported for industry and tourism in general.

Both Guyana's business community and government institutions are weak. The best answers may well be to shrink the role of government to enable it to better match its resource base and to subject the business community to foreign competition. Failure to adapt to global trends and to overcome its current policies and institutional deficiencies will leave Guyana well along the road to becoming a "failed state".

V. Recommendations

GEO's activities to date seem aimed in the right direction. In the effort to enforce understanding of the huge gap between Guyana's rather pious entreaties to investors and its reality, the proposed "Investors Road Map" should be a useful tool. A new investment code will be useful, but only if not vitiated by the various vested interests in the country. Working to strengthen small businesses in Guyana should also help in industrial development, assuming that the effort is directed at small and medium enterprises and not confined to subsistence microenterprise.

There are three areas that GEO ought to look at with respect to further development in Guyana. First, it should work with the Private Sector Commission and/or the Guyana Manufacturers Association, or whatever other business groups there are, to assist the private sector to come up with its own, unified development strategy. The assumption is that if a unified private sector can develop a national strategy, politicians will fall in line. Working with the public sector is not likely to have nearly as good a result. Technical assistance to strengthen private sector institutions is available from agencies such as the Trinidad and Tobago Chamber of Commerce and Industry.

Secondly, GEO should look into the development of a sector-specific tourism strategy. Study tour participants were told that the new Tourism Law of Panama is an excellent model for such a legal framework. To attract foreign investment and to stimulate local small and medium enterprises, questions of land lease or concessions need to be resolved, incentives specified and promotional programs designed. Government efforts to improve immigration and customs procedures as well as enhancing personal security also form part of the program. Costa Rica's Tourism Board has offered to provide technical assistance. TIDCO in Trinidad is another possible source for technical assistance and even investment capital.

Third, efforts should be made to focus GO-INVEST's efforts on a narrow range of activities. The institution needs to be endowed with the capacity to make decisions on investment proposals in a relatively short period of time. It cannot function and depend on the whims of various ministries as to whether to respond to investor requests or not. It also has too few resources to allow a wide range of activities. The preconditions for export processing/free-trade zones do not exist in Guyana at present and efforts to build industrial parks is probably not an effective use of resources at present. GO-INVEST needs to build its capacity to respond to requests received and to begin a process first of identifying investment possibilities in Guyana before proceeding to conduct market research to help identify firms that might be interested in investing. Targeted approaches are much more likely to bear results.

VI. Lessons learned

One of the lessons learned could be that seven or eight participants in a study tour is an optimum number. As it was, with seven participants, two staff and three interpreters (in Costa Rica), the group was at the limit for seating facilities in most of the conference rooms where it was received. Further, increasing the number of participants stretches out the time required for each event on the study tour, as each participant strives for the same amount of attention as the others.

Moreover, there is a question as to homogeneity of the group. This group got along well but there was a some division between the interests of the group. There is also a need for follow-up to tours such as these in an effort to retain the value for the effort expended and information gathered by the participants.

A final logistic note concerns the fact that, when the group traveled from Trinidad to Costa Rica, both flight segments were with American Airlines, permitting the group to use the airline's international transit lounge. No one went through U.S. immigrations or customs. Traveling from Costa Rica to Guyana, there was a change to BWIA for the second segment and no transit lounge was available. The group had to clear U.S. immigrations and customs, but the latter only for hand luggage, since the checked luggage went directly from AA to BWIA and did not pass through customs. There are provisions for transiting passengers without U.S. visas. The airline takes custody of the passenger, holding the passport and tickets, which are returned as the passenger boards the outgoing flight.