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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

31 August 1988

Guyana: Striving to Revive the Economy



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Summary

President Hugh Desmond Hoyte's three-year effort to revive Guyana's economy and improve ties to the West is approaching a crucial juncture. A long-sought IMF agreement--which would provide the basis for clearing Guyana's massive foreign arrears, restoring international trade and investment credits, and enhancing prospects for economic revival--could be in place as early as October if bridge financing problems are resolved. In addition, the request Hoyte made last December to join the US-sponsored CBI program still is pending. If he fails to win CBI support by yearend, Hoyte would suffer a political embarrassment, and Guyana's chances for attracting foreign investment in areas other than resource exploitation would be set back.

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Although we believe Hoyte is committed to his economic reforms and westward shift in foreign policy, some members of Hoyte's own party are opposed to his strategy. However, Hoyte's intraparty opposition

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appears unwilling to challenge his leadership until Guyana's enormous economic problems overwhelm him or their own interests are threatened more directly.

[REDACTED]

Western assistance would have a significant impact on Guyana's medium-term future. But, even if Hoyte wins the aid he seeks, his staying power will be tested by continuing economic hardship and resistance from some ruling party members. Without renewed international financial support, however, Hoyte's ability to carry out further reforms would be eroded and his control of the government probably would be challenged.

[REDACTED]

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Burnham's Legacy

Former President Forbes Burnham's socialist rule of over two decades left Guyana with a corruption-ridden authoritarian government, a Communist-leaning foreign policy, and a ravaged economy.¹ Burnham used his black-constituent People's National Congress (PNC), the military, the constitution, and the courts to dominate the East Indian majority and consolidate his personal power. By the early 1980s, Burnham had begun to increase ties to Cuba and the Soviet Union in search of aid and international standing. Guyana's economy, which had been relatively prosperous and showing good potential in the early 1970s, was devastated by the end of Burnham's rule.

[REDACTED]

By 1985, the combination of a deterioration in Guyana's terms of trade and Burnham's policy of "co-operative socialism"--featuring wholesale nationalization of industry and commerce; broad government controls on prices, foreign exchange and trade; open hostility toward private business; and repressive tax system--had led to serious economic problems. These included:

- A sharp decline in production and exports from the leading sectors of the economy--bauxite, rice, and sugar;
- Accumulation of massive arrears to foreign creditors and virtual depletion of foreign exchange reserves, making it almost impossible to attract even short-term trade credits;

‡

- Deterioration of labor relations and large-scale emigration of skilled workers and managers, especially from the nationalized industries and East Indian population;
- Rapid growth of an underground economy, black market smuggling, and barter to avoid government restrictions and taxes; and
- A crumbling economic infrastructure.²

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Hoyte's Break with Burnham's Economic Policies

Since assuming the presidency upon Burnham's death in August 1985, Hoyte has moved steadily to adopt more market-oriented policies. Significant price restructuring--including price decontrol on 50 consumer and producer goods in 1986 and a major devaluation of the Guyanese dollar in 1987--already has taken place, according to the US Embassy in Georgetown. Hoyte also has taken steps to reduce government expenditures--which fell from over 100 percent of GDP in 1985 and 1986 to 92 percent last year--and to cut the massive budget deficit.

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Hoyte also has pushed to reduce government intervention and attract foreign investment. The closing or reorganizing of several unprofitable parastatals improved finances by producing a surplus in the state-owned enterprises' accounts in 1987, excluding interest payments, compared to deficits in earlier years. Hoyte is hoping to boost exports and domestic production by allowing private rice sales abroad, providing tax incentives to exporters and developers of agricultural land, and lowering the maximum income tax rate from 75 to 55 percent. A proposed new investment policy, which still must be approved by Guyana's National Assembly, will further define the rights of foreign investors. Although the draft allows reasonable compensated nationalization of private property, Hoyte has declared in public speeches since late 1987 that he will not resort to nationalization.

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Hoyte's efforts to improve business incentives have produced some economic benefits, but the gains appear small in comparison to Guyana's economic troubles. Overall, the economy has grown at an average annual rate of less than 1 percent since 1985. Inflation dropped in 1986, but a steep devaluation pushed prices up almost 30 percent in 1987; the rate of unemployment has persisted at about 30 percent. Hoyte's successes include boosting registered gold production to a 30-year high of 666.2 kilograms in 1987 by increasing prices paid to gold miners and taxing income from mining at preferential rates. He also has

2. For a summary of key economic indicators from 1975 to 1988, see Appendix B.

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restored the government-owned sugar and bauxite industries to profitability and increased total exports by more than 10 percent in 1987. Nonetheless, imports remain depressed by the shortage of foreign exchange, and arrears to foreign creditors now total about \$1.2 billion. [REDACTED]

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Hoyte's efforts to promote foreign business opportunities in Guyana recently have paid off by attracting investment in the nascent petroleum industry and in gold mining. Georgetown has publicized its new openness by sending delegations abroad--including several led by Hoyte--and has invited private industry and governmental groups to visit Guyana. The US Embassy reports that three separate oil exploration deals have been closed since 1986, two in recent months. Canadian, Australian, and US mining companies also have reached agreements to explore and develop gold mining sites. [REDACTED]

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Little Progress on Political Reform

Hoyte's emphasis on economic reform and the political necessity of maintaining PNC dominance have precluded any real political reform. Hoyte has retained many Burnham-era measures to keep the ruling PNC firmly in control and himself as its leader. Guyanese politics continue to be characterized by a PNC monopoly on power, corrupt practices, and protection of black interests. [REDACTED]

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The expectation of significant economic and political changes, nevertheless, has strained relations between Hoyte and some top leaders within his party, although no formal break has occurred. In particular, Hoyte's decision to appoint and attract a number of East Indians to ministerial and other government positions has riled PNC members--even though few competent PNC blacks are available. Prime Minister Hamilton Green--the only clear rival to Hoyte--has not mounted a serious challenge to Hoyte's economic policies, describing them as only cosmetic. [REDACTED] The ambitious Green apparently is reluctant to move against Hoyte while a chance remains for foreign financial help. However, Green may hope to rally PNC support for Hoyte's electoral or forcible ouster in the event sizable external funding remains elusive. [REDACTED]

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The civil rights situation in Guyana generally improved in 1987, but progress reflects Hoyte's political style rather than effective legal protection. Although Hoyte's rule can be characterized as more benevolent than Burnham's, Guyana still

resorts to repressive measures to some extent; the US Embassy says police brutality still is common. Guyana's weak opposition parties have formed a coalition to press for fair elections--the next general election is due by December 1990--demanding that ballots be counted at the polling places and that the elections commissioner not be a presidential appointee. The group so far, however, has made no headway,

[redacted] The government recently won a constitutional ruling designating only one union as the agent between public sector employees and the government, thereby undercutting the bargaining power of Guyanese workers [redacted]

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Foreign Relations Tilt Westward

Hoyte's switch from Burnham's socialist platform to an economy oriented toward Western capitalism also has altered Georgetown's international diplomatic stance. Hoyte is refocusing his foreign policy with all countries, except Cuba, on the potential for favorable terms of trade.

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Key Next Steps--An IMF Agreement and CBI Designation

We believe Hoyte's long-term commitment to further economic liberalization and a westward drift in Guyana's foreign policy will depend on whether the trend reaps rewards. He desperately needs Western financial support to improve external finances and accelerate economic recovery. Hoyte's efforts in this direction are at a critical juncture, with decisions on an IMF agreement that includes broad debt relief and US CBI designation likely by yearend. [redacted]

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The first step in reaching agreement with the IMF--negotiating a policy framework--has been completed. It involves a tough three-year program of reforms designed to spur export-oriented economic growth, reduce government interference in the economy, and shrink the public sector's budget deficit. The program includes:

- Exchange rate unification through a major devaluation, to be followed by a flexible exchange rate policy designed to maintain export competitiveness;

- Liberalization of exchange and trade systems, and an improved incentive structure for production of key exports;
- Price increases for various public sector products and liberalization of other price controls;
- Restructuring the public sector and reducing its size to achieve a reduction of the budget deficit from 40 percent of GDP in 1988 to 20 percent in 1991; and
- Monetary policies consistent with other policy goals and interest rates in excess of the rate of inflation.

Implementation of these policies is slated to proceed quickly. Exchange rate unification, for example, would occur at the start of the program with a likely devaluation of the official exchange rate by 50 to 70 percent. [REDACTED]

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The paper also presents a plan for filling a \$1.7-billion external payments financing gap for the October 1988 to September 1991 period. The bulk of financial support would be required in the first year in the form of a \$1.1-billion rescheduling of arrears and maturing credits, as well as an infusion of \$300 million in new foreign aid and credits. [REDACTED]

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The largest, and perhaps insurmountable, hurdle facing implementation of the program is the requirement to clear \$165 million in arrears to the IMF, World Bank, Caribbean Development Bank, and OPEC. IMF policy prohibits it from entering a program with a country not current in its obligations to the Fund. At the Paris Club, Canadian representatives recently noted that these arrears are so large, compared to prospective assistance, that repayment of bridge financing--normally a short-term loan repaid with IMF disbursements--would be impossible. The United States and the United Kingdom thus far have been noncommittal in their willingness to find a solution to the arrears problem. Officials from the IMF, World Bank, and Guyana currently are traveling to Western donor countries to seek aid commitments for the program and will conclude their tour in Washington on 8 September. [REDACTED]

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Obtaining CBI designation, while not critical to consolidating economic reform, is symbolically important to Hoyte because it would indicate that his efforts have been recognized by Washington and could encourage further foreign investment. Hoyte made his pitch for CBI designation last December at the annual Caribbean/Central American Action Conference in Miami. Guyana already is a member of CARIBCAN, the Canadian version of CBI, and is a beneficiary of the Lome Convention. [REDACTED]

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Outlook

Regardless of whether Hoyte succeeds or fails in securing increased Western assistance, his leadership is likely to be tested by entrenched intraparty rivalries and lingering economic discontent. To the extent that substantial Western support materializes, the chances are enhanced that Hoyte's economic reforms and westward shift in foreign policy will stick and help lift Guyana from its economic morass. Without such help, Hoyte's ability to press forward with his agenda and retain power are doubtful. [REDACTED]

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If Hoyte Obtains New Western Funding

We believe Hoyte, at least initially, could weather any disgruntlement within the PNC or any domestic unrest stemming from IMF-mandated economic austerity measures and reforms. Hoyte's public [REDACTED] statements indicate that he is committed to working with the IMF. The extent and speed of improvements in the economy, which partly will depend on the size of foreign aid commitments, will influence the ruling party's and public's patience with the accompanying hardships. At first, the agreement probably will boost inflation, constrain wages, and cut employment in the public sector. While the unions or opposition parties could respond with violence, the military probably would be able to control any civil unrest, at least over the short term. The US Embassy says many Guyanese apparently agree--albeit reluctantly--on the need for an IMF accord. However, if Hoyte's austerity measures called for substantial personnel cuts in the Guyanese military or police, those affected might protest violently.

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Even with an IMF agreement and substantial Western aid, Guyana's economy is in such shambles that it will take many years of economic upturn before the country can regain the level of prosperity of the mid-1970s. Guyana's intractable problems still will certainly persist at the end of the three-year horizon contained in the medium-term framework paper; debt relief will be necessary, and the public sector budget deficit will be massive by any yardstick. In addition, considerable investment in the nation's infrastructure and a reversal of the mass exodus of talented Guyanese is necessary to revitalize the economy. [REDACTED]

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Over the longer term, we believe the PNC, perhaps with military backing, could bring about Hoyte's electoral or forcible ouster if Guyana's opening to the West and reforms failed to produce tangible gains or threatened significantly major PNC interests. For example, if Hoyte substantially cuts

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the bureaucracy or sharply increases his reliance on business-oriented East Indians in the government, he would likely overstep the bounds of tolerance in the black-dominated PNC.

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The continuation of Guyana's efforts to improve diplomatic ties with the West also will depend on Guyanese perceptions of the economic benefits received from dealing with the IMF and Western investors. Obtaining CBI designation would undoubtedly provide positive reinforcement. If Hoyte manages to attract significant foreign investment, similar to the recent agreements for gold and oil exploration, he most likely would stand fast on relations with the West. If, however, economic adjustments ultimately fail to improve the standard of living and discontent within the PNC leads to Hoyte's downfall, Guyana probably would revert to a more left-leaning foreign policy stance. [redacted]

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If Hoyte Fails to Obtain Western Funding

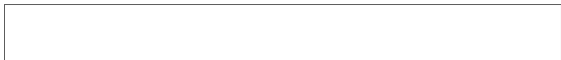
Over the short term, we believe failure to secure new Western funds would further weaken Hoyte's control over the government and party apparatus, possibly causing him to backslide on at least some economic reforms. Hoyte most likely would not completely abandon economic liberalization, but he might attempt to stir up nationalistic support by blaming the United States for Guyana's failure to acquire increased funding. At least initially, he probably would be able to ward off any challenges to his leadership, as his opponents probably would wait for definitive signs of economic and social upheaval before moving against him. [redacted]

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Over the long term, prolonged economic stagnation and the implicit failure of Hoyte's opening to the West increase the probability that the President--or his successor--would become more anti-West and possibly more authoritarian. With diminishing prospects for Hoyte's economic and diplomatic initiatives, his PNC opponents--possibly under Green's direction--might finally seek Hoyte's removal. Signs of a turn away from the West probably would lure Cuba, the Soviet Union, and North Korea to seek renewed influence in Georgetown. Although we believe Guyana's economy could continue making slight progress without IMF support, it would be difficult, if not impossible, for Georgetown to achieve the normalization of foreign finances needed to attract foreign investment, reorganize the public sector, and incorporate the underground economy. With little hope for any economic improvement, many discontented Guyanese probably would attempt to emigrate to the United States. [redacted]

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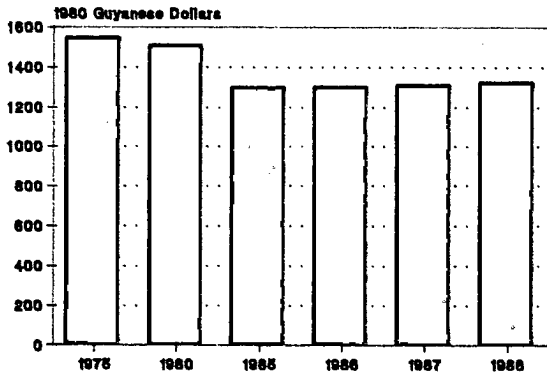
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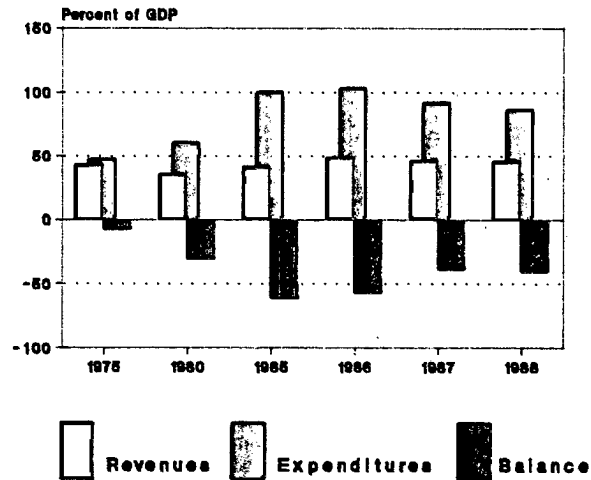
Appendix B

GUYANA: Economic Indicators 1975-1988

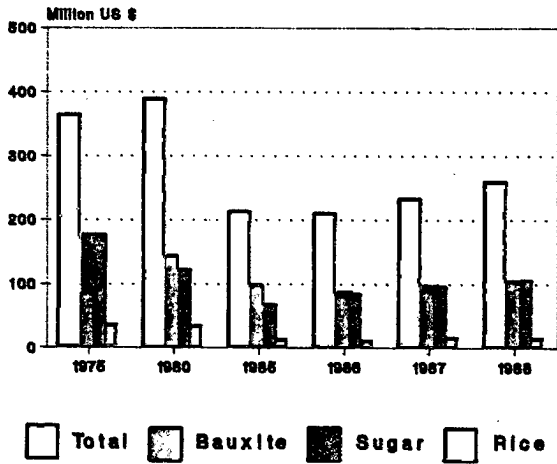
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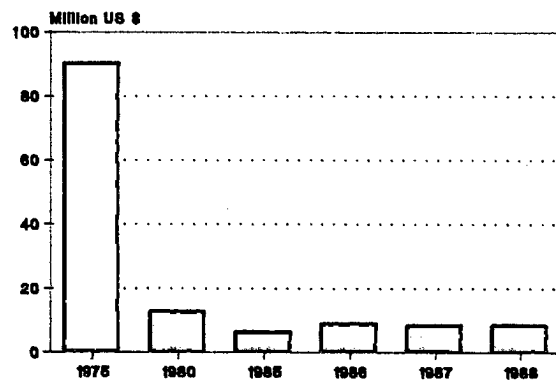
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- 1 - CPAS/ISS/DI - 7G50
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