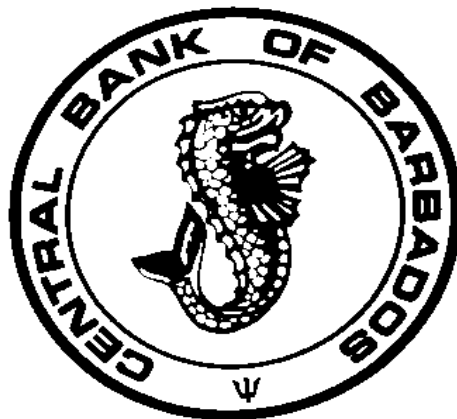


The authors would welcome any comments on this paper. Citations should refer to a Central Bank of Barbados Working Paper. The views expressed are those of the author(s) and do not necessarily represent those of the Central Bank of Barbados

**GUYANA'S FUTURE AS A PETROLEUM EXPORTING STATE**

BY

**JAY R. MANDLE**



**CENTRAL BANK OF BARBADOS**

November 2, 2016

## **Guyana's Future as a Petroleum Exporting State**

**Jay R. Mandle**\*

### **Abstract**

The possibilities and problems associated with petroleum will, in all likelihood, soon be confronted in Guyana. The fact is, however, that using petroleum to achieve diversification and development is easier said than done. To gain insight into what Guyana may face in the future, when and if a petroleum export industry becomes part of its economy, this paper surveys the experience of its energy- exporting neighbor, Trinidad and Tobago. The Trinidad and Tobago experience suggests that the problem of an excessively strong currency can be avoided. But what will have to be achieved in addition is the removal of the domestic impediments that block private sector development and the construction of a developmental state. To be successful the developmental state will have to reject the siren call of a diversification strategy that relies on petroleum, and instead implement one that builds on and augments the productive competencies of the Guyanese population.

**Key words:** Guyana, Trinidad and Tobago, product space theory, natural resource curse, industrialization.

**JEL codes:** 014, 025, 054, and Q32.

---

\* Jay R. Mandle is the W. Bradford Wiley Professor of Economics at Colgate University, 13 Oak Drive, Economics, 218 Persson Hall, Hamilton, NY, 13346; Tel.: 1-315-228-7960; Email: [jmandle@colgate.edu](mailto:jmandle@colgate.edu)

The possibilities and problems associated with petroleum will, in all likelihood, soon be confronted in Guyana. In January, the Guyanese Government announced that by 2020, ExxonMobil is expected to start production from an offshore area where it reported a significant petroleum discovery last year.<sup>1</sup> There is a great deal of excitement concerning how becoming a petroleum exporter will benefit the country. Writing in the trade journal *OilPrice*, Michael McDonald believes it will prove to be a bonanza for Guyana. He argues that the discovery by ExxonMobil of “a massive offshore column of oil” in Guyana’s territorial waters “changes everything.” He continues, “Within a decade Guyana could be completely transformed by the find, going from unpaved roads and sporadic power to being a developed nation.”<sup>2</sup>

The fact is, however, that using petroleum to achieve development is easier said than done. In the *Journal of Economic Perspectives*, Anthony J. Venables acknowledges that “using natural resources to promote economic development sounds straight forward.” However, though he agrees that in principle a country could use those resources to create the human and physical capital that can be used to support employment and generate economic growth, he warns that “in practice, this transformation has proved hard.” Venables writes, “indeed, few developing economies have been successful with this approach and economic growth has generally be lower in resource-rich developing countries than in those without resources.”<sup>3</sup> The problem is that countries that specialize in the export of resources such as petroleum tend to remain just that - exporters exclusively of petroleum. In turn, the failure to diversify their economies stunts their development.

---

<sup>1</sup> Presstv, “Guyana to Start Offshore Oil Production Soon,” January 6, 2016, [www.presstv.com](http://www.presstv.com)

<sup>2</sup> Michael McDonald, “ExxonMobil’s Large Offshore Discovery Faces Political Risk,” *Oilprice.com*, 14 January, 2016.

<sup>3</sup> Anthony J. Venables, “Using Natural Resources for Development: Why Has It Proven So Difficult?” *Journal of Economic Perspectives*, Vol. 30, No. 1 (Winter 2016) p. 161.

To gain insight into what Guyana may face in the future when a petroleum export industry becomes part of its economy, this paper surveys the experience of its energy-exporting neighbor, Trinidad and Tobago. Of particular importance from the perspective of gaining insight into Guyana's possible economic future is the fact that Trinidad and Tobago, like many other petroleum exporting nations, has had only limited success in diversifying. As a result, it is a nation to which the term "resource curse" is often applied. Understanding why its diversification has been limited, and exploring the debates about the energy sector that have occurred in that country, can provide insight into what Guyana will have to do if it is to turn the petroleum curse into a blessing.

Taken in isolation from the rest of its economy, Trinidad and Tobago's energy sector has been quite successful. The country has been a petroleum exporter since 1907. When petroleum reserves started to decline in the late 1970s, the discovery and exploitation of extensive natural gas fields off-shore provided an important additional source of energy exports. Natural gas furthermore provided the feedstock for the production of petrochemicals: ammonia, and urea (both used in fertilizers); methane (used in the production of industrial and consumer products); and liquefied natural gas. In combination, these products constitute Trinidad and Tobago's contemporary energy sector. It was this sector that was largely responsible for Trinidad and Tobago's achieving a purchasing power parity per capita GDP of US\$ 31,970 in 2014. That level was roughly double the weighted mean of US\$ 15,226 for the combined countries of Latin America and the Caribbean, and it outstripped the per capita GDP for Jamaica, the largest Caricom country, whose per capita GDP in 2014 was only US\$ 8,640.<sup>4</sup>

---

<sup>4</sup> World Bank, *World Development Indicators, 2016* (Washington DC, 2016), Table 1.

But while energy exports have clearly benefitted Trinidad and Tobago, all is not well in that country. The structure of the Trinidad and Tobago economy is lopsided. In 2014, that sector was responsible for 85 percent of the country's total exports. Refined and crude petroleum provided 43.5 percent of energy export revenue, gas 31.8 percent, and petrochemicals 24.7 percent.<sup>5</sup> Because of that, the country cannot be considered a developed country.<sup>6</sup> Furthermore, the economy's lack of diversity means that it possesses little resiliency to shocks in the global energy market. When the global price of petroleum was climbing, as was the case between 1973 and 1982, and then again between 2002 and 2008, the economy grew rapidly, averaging 5.9 percent per year in the first of these periods and 6.5 percent per year in the second one. But when the petroleum market softened, the reverse was true. In nine of the eleven years between 1983 and 1994, the economy's growth rate was negative, as the price of petroleum declined from \$114.51 in May 1980 to \$24.98 in November 2003.<sup>7</sup> In addition, and beyond the problems caused by dramatic price swings, the energy sector created few employment opportunities. Throughout the boom years between 2002 and 2008, only once did employment in energy reach as high as 4.0 percent of the total number of jobs created in Trinidad and Tobago. That statistic averaged 3.5 percent for those seven years (Table 1).

---

<sup>5</sup> Computed from Central Bank of Trinidad and Tobago, *Annual Economic Survey 2014*, Table A.33(B).

<sup>6</sup> Simon Kuznets, "Modern Economic Growth: Findings and Reflections," in Assar Lindbeck, (ed.) *Nobel Lectures: Economic Sciences, 1969-1980* (River Edge NJ: 1992) p. 87

<sup>7</sup> World Bank, World Development Indicators On-Line, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>; "Crude Oil Prices 70 Year Historical Chart," [www.macrotrends.net](http://www.macrotrends.net).

Table 1

Role of the Energy Sector in Trinidad and Tobago Economy

	2000	2014
Percent of Gross Domestic Product	42.5	42.1
Percent of Government Revenue	30.2	48.1
Percent of Merchandise Exports	81.2	85.0
Percent of Employment	3.2	3.3

Source: 2000, International Monetary Fund, “Trinidad and Tobago: Selected Issues,” IMF Country Report, No. 05/06 (January 2005), Table 1; 2014, Central Bank of Trinidad and Tobago, *2014 Annual Economic Survey* (Port of Spain: Central Bank of Trinidad and Tobago, 2015) Table 2.

Two explanatory models have been offered to account for the absence of diversification that Trinidad and Tobago and many other petroleum exporting countries have experienced. The best known – Dutch Disease - emphasizes the consequences of an inflated exchange rate. With a price inelastic demand function for energy products, those exports will tend to strengthen a country’s currency. The resulting currency appreciation risks making domestically produced non-resource-based products uncompetitively expensive in international markets. At the same time, the income flows that are received domestically, whether by private individuals or the government, results in an increased demand for non-tradeable goods and services, such as housing or infrastructure. That demand drains resources away from non-resource-based tradeables, further limiting the expansion of that sector. When operative, the resulting bias against non-resource-based exports is damaging, resulting in an economy that is narrowly dependent on the resource export.<sup>8</sup>

---

<sup>8</sup> W. Max Corden and J. Peter Neary, 1982, “Booming Sector and De-Industrialization in a Small Open Economy,” *Economic Journal*, Vol. 92, (December), No. 368, pp. 825-48.

The second framework that seeks to explain the limited diversification that occurs in resource-rich nations is derived from the concept of “product space,” as developed by Cesar A. Hidalgo and his associates. This school of analysis defines the “space” between two products as the probability that they are exported by the same country. The authors map those export probabilities globally for 774 product classifications. They found many clusters - combinations of products for which the probability was high that a country that was exporting one product would be also exporting the other. But there were some products on the fringe of the product “forest.” The export of those products was not closely associated with the export of others.<sup>9</sup>

Hidalgo et al reason that the presence of an industry that uses inputs and skills that are similar to those employed in other industries encourages investment in the latter. Diversification is facilitated. But products that use technologies and capabilities that stand isolated in product space, that is that are distinct and not shared by other industries, result in few spin-offs. They militate against diversification. Hausmann and Hidalgo write, “while nearby activities require the same or similar capabilities to those already existing in the country, distant export activities have capability requirements that are very different.” The upshot is that, “countries that are better positioned in the product space, in the sense of having more nearby products, tend to have better opportunities to diversify and tend to outgrow countries that produce products that are less connected.”<sup>10</sup>

---

<sup>9</sup> A. Hidalgo B. Klinger, A-L Barabasi, R. Hausmann, “The Product Space Conditions the Development of Nations,” *Science*, Volume 317, (2007) pp. 482-487

<sup>10</sup> Ricardo Hausmann and Cesar Hidalgo, “The Network Structure of Economic Output,” *Journal of Economic Growth*, Vol. 16 (2011), p. 316.

As between the two frameworks – Dutch Disease and Product Space – Trinidad and Tobago’s experience more closely approximates that of the latter than the former. It appears unlikely that Trinidad and Tobago experienced a classic case of Dutch Disease. By contrast, the product space framework provides a plausible explanation for the limited diversification the country has experienced.

Evidence consistent with the Dutch Disease model would include appreciation of the country’s real effective exchange rate, so that its non-energy exports become substantially over-priced in global markets. And in fact the World Bank reports that in recent years, Trinidad and Tobago’s real effective exchange rate has increased.<sup>11</sup> Since however the Trinidad and Tobago dollar has been in a fixed exchange relationship since 1979 with the currency of its principle trading partner, the United States, such a strengthening could only have occurred if there had been a more rapid rate of inflation in Trinidad and Tobago than elsewhere, particularly the United States. That however seems doubtful. The authors of a 2014 International Monetary Fund Staff Report have argued that the inflation rate reported by Trinidad and Tobago’s Central Statistical Office was substantially overstated. When an adjustment was made for that distortion, it was found that almost all of the currency overvaluation disappeared. This led the International Monetary Fund staff to conclude that a loss in competitiveness from this source “may not yet be a critical problem.”<sup>12</sup>

---

<sup>11</sup> World Bank, World Development Indicators On-Line, <http://data.worldbank.org/indicators/PX.REX.REER/>

<sup>12</sup> International Monetary Fund, Trinidad and Tobago, 2014 Article IV Consultation, Staff Report, IMF Country Report 14/271, p. 4, 23, 36.of



Table 2  
Non Energy Exports and Construction Spending as a Percent of Trinidad and Tobago Gross Domestic Product

	Construction	Non-Energy Exports
1996	7.8	Na
1997	8.9	Na
1998	9.7	Na
1999	10.5	Na
2000	7.5	1.57
2001	7.9	1.67
2002	6.7	1.86
2003	6.1	1.45
2004	7.1	1.75
2005	7.4	1.07
2006	7.0	1.09
2007	8.3	1.31
2008	8.3	1.35
2009	11.3	1.06
2010	7.2	1.37
2011	5.8	1.49
2012	5.6	1.57
2013	5.3	1.09
2014	5.8	0.98

Source: Calculated from Central Bank of Trinidad and Tobago, *Annual Economic Survey*, Selected Years.

The fact that the Trinidad and Tobago dollar probably has not been seriously overvalued goes far to explain why two characteristics associated with Dutch Disease have failed to materialize there. First, as shown in Table 2, between 1999 and 2014 non-energy exports held their own, providing between 1.0 percent and 1.5 percent of the GDP for most of the period. Contrary to the anticipations associated with the Dutch Disease framework, those exports increased at a rate that roughly corresponded to the growth of the economy as a whole. Second, as also demonstrated in Table 2, for these same years there was not a dramatic shift into non-tradables in the domestic economy. For example, construction, the quintessential non-tradeable sector, failed to experience a noticeable uptick in its relative contribution to GDP.

In contrast to the weaknesses of Dutch Disease in explaining Trinidad and Tobago's difficult experience with diversification, the product space framework seems to be a good fit. Hidalgo and his associates found that oil is on the fringe of the product forest. In a discussion paper prepared for the Inter-American Development Bank, Hausmann and Klinger write that because of that oil's product isolation "...Trinidad & Tobago exports [are] far from almost all kinds of products" and as a result compared to Brazil, for example, it "is far away from the densest part of the forest." The implication of this product remoteness is that market processes alone will not be sufficient to result in diversification. As they put it "...the degree of sophistication of Trinidad & Tobago exports will hardly improve, unless economic policies are implemented to overcome the high and growing level of specialization."<sup>13</sup>

To the extent that this framework provides insight into the problem of diversification in Trinidad and Tobago, it also is useful in creating the context in which to assess the debates that have occurred in that country concerning alternative strategies to accelerate the diversification process. One school of thought sees the Trinidad and Tobago energy sector as an important source of diversification. An Energy Subcommittee responsible for drafting the energy chapter of Trinidad and Tobago's Vision 2020, a document intended to provide a path to the country's emergence to a developed country status, adopted that position. It emphasized the positive role that energy could play in diversification. Kerston Coombs reports that for the Sub-committee, "enhancing linkages between the energy sector and the rest of the economy was a burning issue."

---

<sup>13</sup> Ricardo Hausmann and Bailey Klinger, "Policies for Achieving Structural Transformation in the Caribbean: Private Sector Discussion Paper #2, Inter-American Development Bank, Discussion Paper No. IDB-DP-163, October 2009, p. 30

It was thought that “applying the skills and knowledge gained from the successes of the energy sector to the wider economy as a whole was therefore a priority.”<sup>14</sup>

The logic of this position is carefully spelled out in a paper by Anthony E. Paul and Trevor M. Boopsingh. They question whether sustainable diversification can be achieved “by isolating the energy sector,” and emphasize the importance of the working with the energy services firms that are already present in the country. Those firms, they argue, are “the most competitive of the Trinidad and Tobago economy.” Their buyers are multi-national firms that demand services at levels consistent with world class standards. With that the case, Paul and Boopsingh maintain that those domestic service providers represent “the best launch pad for economic diversification.”<sup>15</sup>

In the past, diversification in the energy sector did occur, taking the form of the introduction of ammonia, methane, and urea, as well as the supply of services to the firms exporting petroleum and natural gas. Undoubtedly there is room for more of this kind of diversification. The problem is that this form of diversification leaves energy as the predominant economic sector in the country. An alternative to energy as a source of economic dynamism has not been not established. The demand for industry services will closely mirror trends in petroleum and natural gas exports, and as a result those two products will continue to dictate the country’s macro-economic performance. Down this path lies the unacceptable risk that when petroleum and

---

<sup>14</sup> Kerston Coombs, “Energy and Development – Realizing the Vision,” in Trevor M. Boopsingh and Gregory McGuire (eds.) *From Oil to Gas and Beyond: A Review of the Trinidad and Tobago Model and Analysis of Future Challenges* (Lanham: University Press of America, Inc, 2014), 269-270

<sup>15</sup> Anthony E. Paul and Trevor M. Boopsingh, “Taking Trinidad and Tobago Forward and Abroad: The Technical Challenges, in Trevor M. Boopsingh and Gregory McGuire (eds.) *From Oil to Gas and Beyond: A Review of the Trinidad and Tobago Model and Analysis of Future Challenges*, p. 387.

natural gas reserves are depleted, Trinidad and Tobago will be left without a sector to replace them.

The logic of product space theory is to move away from energy – to create industries that are in a dense product space. By doing that, spill-overs will be more likely to occur. The process of diversification will be market-driven. But that requires the government to play an initiating role in fostering the development of the new sector from which spill-offs could emerge. The public sector will have to ensure that both an improved infrastructure and a well-educated labor force are in place as well. It will also have to develop a system of incentives that will induce entrepreneurs to risk venturing into new productive activities.

In fact such an approach was suggested in Trinidad and Tobago by the late Lloyd Best and Eric St. Cyr several years before product location theory was articulated. Best and St. Cyr argued that diversification policy in Trinidad and Tobago should concentrate on enhancing the productive capability of domestic - “maroon” - firms that were not part of the energy sector. These firms were present in what they called the “inshore economy.” Because maroon firms employ “indigenous technology and organization,” they are, Best and St. Cyr wrote, the ones that could most effectively “drive the process of transformation and autonomous expansion.”<sup>16</sup>

In fact, the Vision 2020 Plan rejected the recommendations of its Energy Sub-Committee instead advocating a diversification strategy that was similar to the Best and St. Cyr approach. The Plan published a long list of industries to be targeted for development: food and beverages, chemicals

---

<sup>16</sup> The Honourable Lloyd Best and Dr. Eric S. Cyr, “Modelling the Economy,” Trinidad and Tobago Review, Vol. 28, April 18, 2005 p. 49, 50. [www.theintegrationistcaribbean.org](http://www.theintegrationistcaribbean.org)

including plastics, metal processing, leisure marine, information technology/electronics, printing and packaging, construction, exportable services. The fact is, however, that this strategy to diversify away from energy was never seriously implemented. Gregory McGuire reports that special purpose companies that were established to implement non-energy-based diversification were “stymied by lack of funds and inadequate legislation.”<sup>17</sup> Terrence Farrell summarizes the experience saying “far from being an exercise in charting the long-term future of the country, Vision 2020 ended as an exercise in futility.”<sup>18</sup>

What this means is that the efficacy of trying to diversify by turning away from energy never was tested. For those who would like to see the region more self-reliant and less dependent on multi-national firms, the Best/St. Cyr approach is obviously attractive. But the fact is that those authors provide only a sketch of what such a strategy would look like. Much more detail is required before its potential can be analyzed seriously. In short, diversification away from energy rather than through energy remains at best an interesting hypothesis. How it would actually be implemented remains unclear.

Despite this uncertainty, there are aspects of Trinidad and Tobago’s experience that could help Guyana formulate effective diversification policies as it becomes a petroleum exporter. The first and most important fact that will emerge in the new environment is that it will be much easier for the government to finance new investment projects. With petroleum revenue, a Guyanese President will be able to repeat what Trinidad and Tobago’s first Prime Minister Eric Williams is

---

<sup>17</sup> Gregory McGuire, “Managing the Resource-based Economy in Times of Plenty,” in Trevor M. Boopsingh and Gregory McGuire (eds.) *Taking Trinidad and Tobago Forward and Abroad*, p. 96

<sup>18</sup> Terrence W. Farrell, *The Underachieving Society: Development Strategy and Policy in Trinidad and Tobago 1958-2008* (Jamaica, Barbados, and Trinidad and Tobago: University of the West Indies Press, 2012) p. 204 204

reputed to have said: “money is no problem” for the public sector.<sup>19</sup> Roads and the port could be greatly improved and the supply of electrical power made more reliable. Petroleum thus could provide the resources for the extensive upgrading of Guyana’s infrastructure that diversification will require.

Furthermore, the Trinidad and Tobago experience also suggests that the problem of an excessively strong currency impeding diversification can be avoided. At the moment, Guyana’s currency floats against other currencies. It therefore might well become overvalued when petroleum dollars arrive in the country. But when that day comes, Guyana could avoid such an outcome, as did Trinidad and Tobago, by pegging its currency to the United States dollar or an index of internationally traded currencies. With the accumulated reserves that petroleum will bring to the country, its central bank could undertake decisive interventions in foreign exchange markets to offset an excessive strengthening of the Guyanese dollar. If at the same time sufficient caution is exercised concerning the increase in the domestic money supply, and inflation is avoided, the real effective exchange rate too can be managed. Dutch Disease in Guyana is not inevitable.

But neither an improved infrastructure nor the avoidance of an inflated currency will be sufficient for success in Guyanese diversification. What in addition will be needed is removal of the domestic impediments that block private sector development. In Guyana, would-be entrepreneurs are confronted with both too many obstacles and not enough encouragement for any diversification strategy – energy-based or otherwise

---

<sup>19</sup> As quoted in Scott B. MacDonald, *Trinidad and Tobago: Democracy and Development in the Caribbean* (New York: Praeger Publisher, 1986), p. 191.

Table 3  
Selected Measure Taken from Global Competitiveness Index

1. Irregular Payments and Bribes	119
2. Quality of Electricity Supply	113
3. Business Costs of Crime	111
4. Protection of Property Rights	109
5. Protection of Intellectual Property	106
6. Quality of Roads	104
7. Favoritism in Decisions of Government Officials	104
8. Judicial Independence	97
9. Number of Days to Start a Business	94
10. Burden of Customs Procedures	91

Source: Klaus Schwab (ed.) *The Global Competitiveness Report 2015-2016* (Geneva: World Economic Forum, 2015)

- to be successful. Table 3 reports on seventeen questions responded to by managers and executives in the most recent Global Competitiveness Index. What emerges from that table is the fact that crime in Guyana is a major economic constraint on business (3), that the business executives view government as highly corrupt (1, 7, and 8), that the government does not adequately supply infrastructure (2, and 6) and that it acts as an impediment to market activity (4, 5, 9, and 10). In short, the Guyanese state does not provide an environment that facilitates business initiatives.

For Guyana to use its petro dollars to diversify and develop its economy, the obstacles reported in the Global Competitiveness Index will have to be ameliorated. Instead of constraining the private sector, the government will have to create conditions in which it can thrive. If it does so,

the investments made in infrastructure and education could yield substantial returns. Needed is the construction of what in the literature is called a development state.<sup>20</sup>

This is precisely what was done in Asia, where growth-promoting governments have succeeded in the modernization project. There, poor countries became richer when their governments undertook policies that enhanced the productive capacities of firms in their countries, and encouraged them to participate in global markets. Something similar will have to occur in Guyana if the opportunity presented to the country by petroleum is to be taken advantage of. Of course, the circumstances that allowed for the rise of Asian developmental states are fundamentally different from those that prevail in the Caribbean and specifically in Guyana. Most important in this regard is the nature of the political rule in the two regions. In Asia, the authoritarian rule that prevailed was strong enough to impose a policy consensus on the society. Committed to advance the economic development of their countries, the leaders of Singapore, South Korea, Taiwan, and others were powerful and single-minded enough to push through the changes that were required.

Nothing like that is present in the Caribbean. Throughout the region there is an electoral process that, because of its competitive nature, tends to impede consensus-building. That bias to divisiveness is reinforced in Guyana by the ethnic fissure that exists between the Afro-Guyanese and Indo-Guyanese communities. Communal politics both reflects and reinforces a political cleavage that historically has made it all but impossible for those in power to undertake transformative governance. Guyanese politicians' status as group leaders has imprisoned them in

---

<sup>20</sup> Adrian Leftwitch, "Bringing Politics Back In: Towards a Model of the Developmental State", *Journal of Development Studies*, Volume 31, Issue 3 February 1995, pages 400-427



a zero sum politics which neglects long-run national development in favor of short-term group advantage. When that is combined with the residual mistrust of the private sector that was an important component of West Indian nationalism, the outcome is a state that falls far short of what is required to stimulate entrepreneurship and development. A political and social problem, not simply an economic problem, will confront Guyana if and when it secures the revenue that could be used to diversify.

Because Guyana has a long history during which its leaders speak in the name of the nation, but act only to advance sectarian interests, it is hard to know what weight to apply to recent conciliatory remarks made by Guyanese President David A. Granger. Granger was elected in May 2015 as the head of a coalition in which the Afro-Guyanese party joined with a disaffected Indo-Guyanese and a non-communal opposition party. In an address in February 2016, Granger declared that he did not regard the results of the coalition's electoral success as a victory. Instead, he went on to say that he saw it as an opportunity. Quoting Granger: "For one side to win 207,000 votes and for the other side to win 202,000 votes is not a grand victory. Rather it is an opportunity for collaboration, not conflict." He called for a social contract, the purpose of which "would be to reach a broad consensus on the goals of national development," and went on to say "we need to exhibit the common sense and social cohesion which can ensure a cessation of this senseless divisiveness."<sup>21</sup>

It is not yet clear whether or to what extent President Granger will act on the kind of inclusive agenda his remarks suggest. To date, the opposition party has not been won over, and some of the actions of the government seem to tilt in the opposite direction. But at the same time, the

---

<sup>21</sup> "President Calls Again for 'Social Contract,'" Stabroek News, February 15, 2016.

government includes some individuals who would seem to be out of place in a sectarian government. Professor Clive Y. Thomas, an activist opponent of the PNC's Government during the 1970s and 1980s when, under Forbes Burnham, it used the army to suppress opposition, nevertheless occupies an important non-Cabinet position in the Government. And, in addition, Dr. Rupert Roopneraine, a colleague of Thomas' in the Working People's Alliance, actually is part of the cabinet, serving as Minister of Education.

If in fact the Granger-led government does represent a break from Guyana's past of communal politics, Guyana could begin the construction of a developmental state. Once the export of petroleum is initiated, the government will be provided with more resources than in the past it ever could have anticipated. Those funds could make it possible for it to invest in human capital and infrastructure at historically high levels. Such expenditures would be the necessary condition for the achievement of economic diversification and modernization, though they would not be sufficient. The government would have to complement those expenditures with policies to reduce the barriers to entrepreneurship revealed in the Global Competitiveness Index, and also reward firms for success in export markets. All of this would work if and only if the Government were successful in appealing to all segments of Guyanese society.

Even with success in these areas, Guyana will still have to choose between a diversification strategy that builds from petroleum and one that builds from the non-petroleum economy. The temptation to base diversification on petroleum will be strong, especially since the alternative, favoring domestic firms, will likely be seen through a communal lens as advantaging the Indo-Guyanese population. But the implications of product space theory suggests that the temptation

should be avoided. So too does the experience in Trinidad and Tobago where, despite the long-term presence of an energy industry, spinoffs resulting in diversification have not emerged.

Nothing like the construction of a developmental state has yet been initiated in Guyana. The government has not moved to implement President Granger's progressive words. Many of the dysfunctions that have long plagued Guyana persist. It is true that until at some time in the future, perhaps by 2020 when petroleum is first exported from the country, the financing for new investment projects will become available and the country's infrastructure will be upgraded. But if the benefits that petroleum can provide are to be captured, reforms in the functioning of government will have to be implemented using the interval between today and that date in the future. Something like a developmental state needs to be built.

With improved roads, a modernized port, advanced telecommunications, reliable power supplies and a better educated population, the Guyanese government will have to choose between two competing diversification strategies. It seems clear that the success of the fledgling development state will be determined by its ability to reject the siren call of a diversification strategy that relies on petroleum and instead implement one that builds on and augments the productive competencies of the Guyanese population.