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TOWARDS AN ALTERNATIVE DEVELOPMENT MODEL IN SURINAME

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“A model is never defeated by the facts, however damaging,
but only by another model.”

Paul Streeten, quoted by Albert Hirschmann (1970).

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1 INTRODUCTION

This study advocates the adoption of an alternative development model in Suriname. Suriname adopted a state-centered and inward-looking development model in the early 1980s, although elements of the model had been present long before that time. Chapter II discusses nine major elements of that development model and their implications for policymaking.

Chapter III reviews the performance and consequences of this "old" development model and argues that it led Suriname astray and served the country badly. The misguided policies inspired by the "old" development model have had damaging consequences for Suriname's development. Over the last two decades, economic growth has been minimal and living standards have stagnated. Poverty has persisted and probably worsened.

Dissatisfaction with the performance of the old development model and the successful experience of other developing countries in the region that have adopted an alternative model of development caused certain elements of the old development model to come under challenge in the 1990s. As a consequence of the emerging cracks in the consensus on the old development model, the government carried out certain policy reforms in the 1990s that were at variance with the old model of development. Nevertheless, until very recently the old development model still held a powerful sway over thinking about development in Suriname, and consequently on the policies that were – or were not – adopted.

The transition to an alternative model of development received a major boost from the Government Policy Statement 2000-2005, which President Venetiaan delivered in the National Assembly on November 15, 2000. The Policy Statement clearly had underpinnings in an alternative model of development and it suggests that the new Government will take a new approach to development in Suriname. This is likely to have a major impact on the policies that the Government adopts and on Suriname's development progress.

2 THE OLD MODEL OF DEVELOPMENT

In the early 1980s, just as much of Latin America was abandoning its old, state-centered and inward-looking development model, Suriname moved in the opposite direction and adopted a development model that was more extreme than the old Latin American version. Suriname's version bore closest resemblance to countries, such as Nicaragua, that had declared themselves socialist but did not move to abolish private property. A military coup in 1980 triggered Suriname's adoption of that development model. Soon after assuming power, the new military government became influenced by Marxist-Leninist advisers and in October 1981 it declared a socialist basis to the "revolution" of 1980 (Sedoc-Dahlberg, 1990). However, the acceptance of that development model was not confined to the upper reaches of government. On the contrary, the new ideas fell on fertile soil because a large proportion of Surinamese intellectuals had been educated in the Netherlands during the 1960s and early 1970s, where they had been greatly influenced by radical student movements and the prevailing ideas about development.

The heyday of the old model of development in Suriname was during the 1980s. Since then the model has evolved over time and has been "watered-down", but it still greatly influences thinking about development and policymaking in Suriname. The most important elements of the old model of development are reviewed below.

A distrust of market mechanisms

The foremost element of the old model of development (OMD) is a lack of confidence in and a distrust of market mechanisms. Markets are not trusted to allocate resources efficiently and fairly or to achieve efficient outcomes. Positive outcomes cannot be expected if private agents are allowed to react unfettered to price signals because of an "irrational attitude of investment". Prices are not seen as the result of supply and demand but are "vulnerable to arbitrariness and chance". In extreme cases – and especially with regard to the parallel market exchange rate – price movements are even attributed to conspiratorial practices. In the OMD, one solution to such problems is planning, so that the state can influence investment and production decisions more rationally and efficiently. Consequently, the OMD places great emphasis on planning. Thus the Government Policy Statement 1988-93 advised that the National Planning Office would be more central and important than before. Also, the Suriname Structural Adjustment Program (1992) spoke of the need for a national industrial development plan in order to foster a "planned and focussed short and medium-term industrial development." It added that investment in particular sectors would be *assigned priority treatment on the basis of sector studies*. Given the perceived problems with markets, the OMD also prescribes heavy government regulation and controls so that the government can alter market forces to produce better outcomes. Thus the Government Policy Statement 1988-93 stated that "our society needs more regulation than ever." The OMD pays little attention to the potential distortions and losses of economic efficiency arising from government interventions. Nor is the OMD concerned about the effects of government-induced changes in the incentive framework on consumer and producer behavior.

A high degree of confidence in the state as the promoter of development

A second and closely related element of the OMD is a high degree of confidence in the state as the promoter of development. As a result of this confidence in the state, the OMD assigns all manner of tasks related to development to the government and places little confidence in the private sector or civil society to contribute to development. Under the OMD, the government is expected to plan development and allocate resources (which is too important to be left to markets), and to produce some marketable goods and services (because the private sector cannot be trusted to produce the "correct" outputs in sufficient quantities at the right prices). Moreover, because the OMD has little faith in individuals and civil society to sort out their own problems, a paternalistic state is needed to resolve the myriad of problems that citizens face. The above justifies, among other things, state ownership and management of land, and state ownership and management of foreign exchange. The state is seen as the primary source of resources for development. The OMD does not consider the possibility of government failure.

Under the influence of the OMD, the authors of the present constitution entrenched a significant role for the state in many aspects of development. The Constitution foresaw a role for the state in the production of directly marketable goods and services, with state enterprises as important as private enterprises. The Constitution gives the state an important role in the markets for labor, land, and finance (The Constitution, 1987). The Constitution also places extensive social obligations on the state, with little consideration as to how costly these obligations would be and how the state could be expected to provide them (IDB, *Governance in Suriname* [2001]. Similarly, the government's aims in the late 1990s included: involving the state actively "in determining the development of companies in the productive sectors" (Wijdenbosch, 1996); formulating a development program that controls "both production and distribution"; ensuring "that the activities of each investor shall yield the best advantage"; and constructing a "national production system."

A low prioritization of macroeconomic discipline

The OMD gives low priority to macroeconomic discipline. Maintaining basic macroeconomic balance is seen as irrelevant or unimportant, and certainly subordinate to other aspects of development policy. Macroeconomic discipline may be viewed as an impediment to goals such as raising living standards and improving income distribution. Therefore, in order to protect the living standards of the poor, the OMD suggests that the government prevent state enterprises from raising their tariffs, and is relatively unconcerned if such a policy subsequently means that the enterprises make huge losses, which are a burden to the budget. More generally, policymakers who are influenced by the OMD tend to refer to macroeconomic discipline obliquely or pay it "lip-service" only.

An inward-looking development focus

The OMD is distinctly inward-looking and places great emphasis on self-reliance, national production and import substitution. Almost no emphasis is placed on export development, export-led growth, development in areas of comparative advantage, or the importance of competitiveness. It is not clear whether the adherents to the OMD are export pessimists – they do not believe that Suriname can successfully export because of supply or demand constraints – or whether exports are seen as unnecessary or even undesirable.[1] The views have probably shifted over time, from intellectual hostility towards international trade in the early 1980s, when it was viewed as a link to world capitalism, to more of an export pessimist/dependency theory position in the 1990s. The Suriname Structural Adjustment Program (1992) highlighted the development of import-substitution activities and in 1996 President Wijdenbosch declared that a goal of his administration's policy would be to "convert our economy which is open and dependent on aid into a nationally governable and controllable production economy."

An emphasis on volumes and production

The OMD places great emphasis on volumes and physical production. Physical production is used as the measure of economic progress and policymakers underline their commitment to ensuring that "production" does indeed grow. State enterprises judge their success by the volume of their output and pay little attention to their financial losses. The OMD pays little attention to value added or to the quality of output. Implicitly, the OMD views the output of the "productive" or goods-producing sectors as more important than the output of the service sectors. The OMD is particularly hostile to traders and the wholesale and retail trade sector, which are viewed as contributing little to the country's welfare and development.

A reliance on big projects

Advocates of the OMD place heavy reliance on one or two big projects as the source of development. Under the OMD, the state invests the vast majority of the country's invertible resources in one gigantic project in the expectation that the project will be successful and that its spillover benefits will be sufficient to develop the entire economy. In the 1970s policymakers placed great hope in and emphasis on the Kabalebo project – a project to mine and process bauxite in Western Suriname, which would have involved the construction of another hydroelectric dam and associated lake, and an alumina smelter in the jungle. In the 1980s planners focused on the Multi-Purpose Corantijn Project. This project would have greatly expanded the area suitable for rice cultivation through huge investment in drainage and irrigation in North-West Suriname. And in the late 1990s the government put its faith in the construction of two large bridges across the Coppename and Suriname rivers as the spur to development.

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1 Traditionally, export pessimism was the view that: (i) exporters of primary products would face a long-run deterioration in their barter terms of trade (the ratio of a country's export prices to its import prices); and (ii) developing countries would not be able to compete with industrial countries in the production of manufactured goods.

A reliance on an elite to secure development

Despite its socialist origins, the OMD is surprisingly elitist. In the OMD, development can be secured through the efforts of a handful of wise policymakers and technocrats. This elite handful of policymakers can secure development through clever negotiations with donors, friendly countries and potential investors, and by finding and pursuing one or two big projects.

The population is seen as dependent

As a corollary to the above, the OMD takes a paternalistic view of the population. Under the OMD, the population is not so much a resource, but a problem for which policymakers must find sufficient employment and income.

3 *PERFORMANCE AND CONSEQUENCES OF THE OLD MODEL*

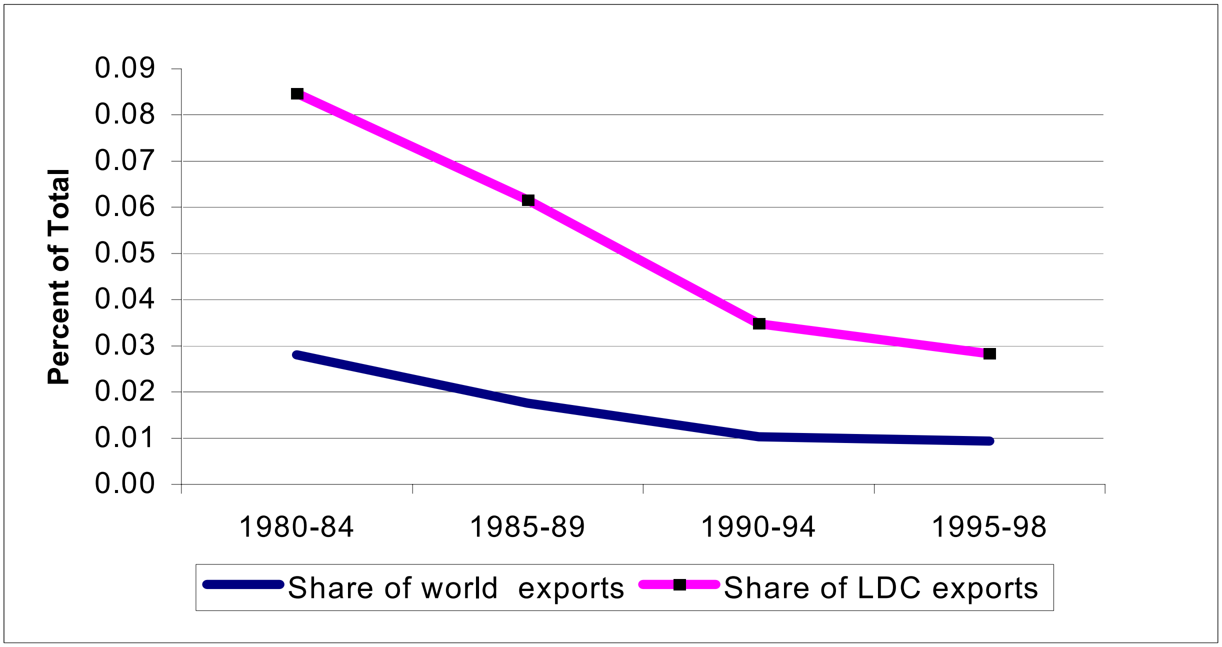
The OMD has been a comprehensive and costly failure. It has inspired policies that have obstructed Suriname's development, led to unwarrantedly low living standards, contributed to the persistence of poverty, and led to general economic and social underachievement. In 1999, real income per capita was 12 percent lower than in 1980 if measured in constant 1980 guilders. If measured in constant 1995 U.S. dollars, GDP per capita fell from $3,973 in 1980 to $1,567 in 1999.[2]

The policies implemented under the influence of the OMD have caused a variety of general economic problems. The macroeconomic situation has been highly volatile. Between 1980 and 1999, annual inflation averaged 40 percent and the real exchange rate fluctuated significantly (IDB, *Governance in Suriname*, [2001]). The incentive structure has also been highly distorted. Most notably, the exchange rate – the most important price in a small, open economy like Suriname's – has been severely distorted for long periods of time. Between 1980 and 1999 the average spread between the official and parallel exchange rates was 486 percent. Largely due to such distortions, there has been widespread inefficiency in the allocation and use of resources. Much capital investment has been wasteful and the incremental capital-output ratio (ICOR) has been extremely high by developing country standards.[3] Suriname's export performance has been dismal and the country has accounted for a steadily declining share of world trade (Graph 1). Suriname has lost ground particularly fast when compared to other developing countries.

Graph 1. Suriname's Share of Developing Country and World Exports

2 To obtain constant 1995 U.S. dollar estimates, nominal GDP in Suriname guilders was converted into nominal U.S. dollars using an economy-wide average exchange rate series that is calculated by the IMF. The nominal U.S. dollar series was then deflated by the U.S. GDP deflator (1995=100).

3 An ICOR provides an indication of the amount of capital needed to raise output by one unit. Lack of adequate investment data preclude a precise calculation of Suriname's ICOR. However, if one assumes conservatively that the investment rate has averaged 10 percent of GDP, this would imply an ICOR of 29 over the 1980-1999 period. ICORs for developing countries are typically in the range of 3-9. For instance, World Bank (1987) estimated an ICOR of 4.5 for highly outward-oriented developing countries and 8.7 for highly inward-oriented counties in the 1973-85 period.



A paradox of the OMD is that some of its biggest failures have been precisely in those areas where it placed so much emphasis:

Development of the "productive" sectors – A key goal of the OMD has been the development and growth of the "productive" sectors: agriculture, mining, and manufacturing. However, although the mining sector has grown by over 5 percent per annum over the last 20 years, the agricultural and manufacturing sectors have stagnated, in spite of policymakers' rhetoric, extensive investment and production subsidies, and, for a while, protection from external competition.

Between 1980 and 1999, agriculture, fisheries and forestry output grew by only 0.2 percent per annum and manufacturing output shrank by 3.4 percent per annum. Similarly, employment in agriculture and manufacturing declined by 1.2 and 0.8 percent per annum, respectively between 1980 and 1998.

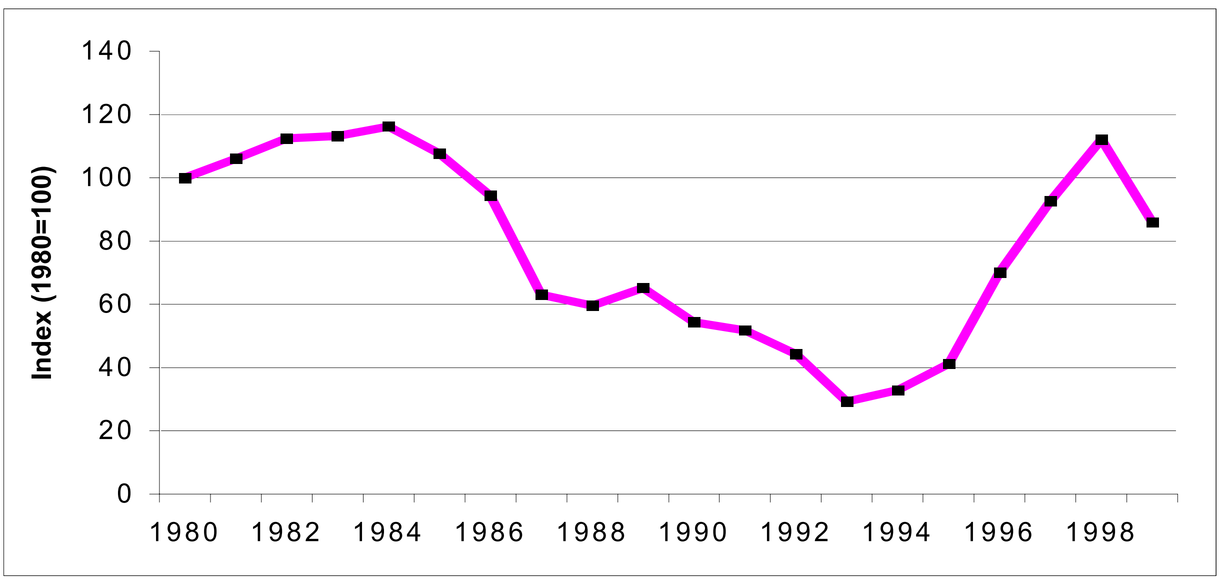
The experience of the rice sector was typical of non-mineral, tradable-goods producing sectors. The combination of a heavily overvalued official exchange rate, foreign exchange surrender obligations, trade licensing controls, and exports taxes greatly reduced the profitability of the sector and brought about a decline of output.

Import-substituting industries have fared no better. During 1985-92 import-substituting industries grew moderately behind trade restrictions, at great cost to Surinamese consumers. But the lack of opportunities for economies of scale, their low productivity and low rate of technological acquisition rendered them uncompetitive and unable to survive when trade restrictions were removed.

Welfare of the poor – Adherents to the OMD often contend that policies inspired by the OMD are socially progressive and are the optimal policies if one places heavy weight on the welfare of the poor. But the reality is that the poor have suffered immeasurably from OMD-inspired policies. Indirect evidence suggests that both poverty and inequality have increased over the last 20 years and that the consequences of having a "soft" economy – soft budget constraints on the government and state enterprises, underpriced foreign exchange, capital and imports, and protection from internal and external competition – have been hard on the poor.

Several assessments estimated poverty in 1993 to be in the range of 50-70 percent of the population (ISS, 1999). Unfortunately, no reliable estimates of poverty have been made for the beginning of the 1980s or the end of the 1990s, so it is difficult to assess the evolution of poverty over time. Nevertheless, related indicators, such as the level of real wages, suggest that poverty worsened from 1980 to 1993, then improved in the 1995-98 period and deteriorated again in 1999 (Graph 2). Instead of having grown over time, real wages in 1999 were only 86 percent of their level in 1980.

Graph 2. Average Real Wages 1980 - 1999



Although estimates of inequality are not available for the beginning of the 1980s or the end of the 1990s, it is likely that inequality has also grown over the last two decades. The rich, powerful and well-connected have been the overwhelming beneficiaries of government economic regulations. Privileged access to import and export licenses, foreign exchange at the official exchange rate, and monopoly powers have created artificial scarcities and conferred rents to the recipients of such privileges. Society as a whole, including the poor, has borne the costs: both the static costs (high cost goods) and the dynamic costs (the loss of growth). Also, the poor have probably suffered disproportionately from macroeconomic instability and inflation, because they tend to hold a greater proportion of their total wealth in money.

The state as the engine of development – OMD supporters placed a heavy emphasis on the purported benefits of having the state as the engine of development. But the confidence in an extensive and pervasive role of the state in development has been dented by the state's weak actual performance and capability. The state has been unable to execute adequately even the core functions of government, such as providing critical public goods, let alone carry out adequately non-core functions (IDB, *Governance in Suriname*, [2001]). Most state enterprises have also performed weakly, often producing substandard goods or services inefficiently. Consumers and taxpayers have borne the cost of state enterprise inefficiency.

In sum, the OMD has fostered policies that have been extremely damaging to Suriname's development and welfare. OMD-inspired policies have failed in all major areas, but perhaps most spectacularly in those areas in which the OMD itself attached particular importance.

4 ELEMENTS OF AN ALTERNATIVE MODEL OF DEVELOPMENT

Similar experiences of many Latin American and Caribbean countries have led those countries to adopt a new model of development ([Iglesias [1992], World Bank [1993]). The major elements of the alternative model of development (AMD) are:

A reliance on market mechanisms

The AMD advocates heavy reliance on market mechanisms. Competitive markets are seen as the best possible method for efficiently organizing the production and distribution of the vast majority of goods and services.[4] A well functioning market provides vital information needed for economic decision-making at a low cost, by generating prices. Prices summarize vast amounts of information about resource availability and scarcity, technology, and tastes and preferences. Prices inform producers about how much consumers value different products, and they inform consumers and producers about the scarcities of resources and costs of production. When individuals face prices that reflect true economic scarcities, their efforts to maximize their own private utility will produce a socially efficient allocation of resources: that is, society's welfare will be maximized in the sense that no one will be able to be made better off without someone else being made worse off. In this manner, markets permit the social problem of efficiently allocating and utilizing resources to be solved by allowing decentralized production and consumption decisions based on market prices. The prices generated by a well functioning market inform and coordinate economic decisions so as to guide resources into their highest valued uses. In addition, the prices generated in a market system transmit information about changes in economic circumstances quicker than any other information system. Without markets, rational economic decision-making is very difficult because important information is missing.

The AMD not only advocates greater use of market mechanisms but also suggests that the government ensure that markets are as competitive as possible by removing unnecessary barriers to entry and by ensuring that any government interventions that are required are as neutral as possible.

Aside from the economic benefits of markets, the market mechanism is inherently compatible with an open and democratic society. Market transactions consist of voluntary agreements and are not coercive. Moreover, markets confer equal opportunity by not discriminating on the basis of class, race, political affiliation, or personal connections.

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4 In some cases – where goods have public goods characteristics (they are non-rival and/or non-excludable) or where externalities are present – markets fail and the government must correct the market failure.

The private sector is viewed as the engine of development

The AMD sees the private sector as the principal engine of growth and development. The private sector is best placed to produce marketable goods and services because: a) privately-owned and managed organizations have a greater incentive to be efficient and to perform well; b) the private sector's objectives are focused; and c) private sector operations are generally unaffected by political pressures and considerations. Competitive pressures and the discipline of the marketplace quickly and severely punish failure, inefficiency and waste in the private sector. Therefore, the private sector is likely to undertake corrective actions more quickly than the public sector, to be more dynamic and more innovative. Privately-owned organizations are likely to be more responsive than their public sector counterparts to changing market conditions and varying customer demands, and better able to adapt to change. By contrast, state failure can persist for sometime because the costs can be shifted to taxpayers. In addition, the government and state-owned enterprises may find it very difficult to change course because of vested interests and political pressures.

Therefore, the AMD maintains that the role of government is not to displace, suppress or hamper the private sector but to create an enabling environment that is conducive to private sector development. The principal elements of an enabling environment are a secure legal framework and system of property rights, macroeconomic stability, an undistorted incentive framework, a low regulatory burden, and stable and predictable government policies. Such an environment is likely to stimulate private investment, which, in turn, will lead to growth in output, income, employment and productivity.

Moreover, the AMD holds that the process of accepting the private sector as a partner in development and as the principal agent in investment and economic activity, can improve the efficiency and effectiveness of the state itself because it is better able focus on its core tasks. Thus, promoting private sector development can provide a double benefit.

A high prioritization of macroeconomic discipline

The AMD gives high priority to macroeconomic discipline, viewing macroeconomic stability as a precondition to successful development. Macroeconomic stability, characterized by low inflation, a stable real exchange rate, and stable relative prices, reduces uncertainty and therefore encourages saving and investment. A stable exchange rate also increases investment in the tradable sectors (World Bank, 1993). Macroeconomic stability reduces variability in relative prices and therefore improves the efficiency of resource allocation. And low inflation is necessary to reduce poverty and inequality on a sustainable basis.

The AMD regards large and sustained fiscal deficits as the primary source of macroeconomic disequilibrium. Large deficits cause excessive monetary expansion and excessive government borrowing, which in turn lead to inflation, overvaluation of the exchange rate, balance-of-payments problems, capital flight, rising variability of relative prices, and the crowding out of private investment. Hence, in order to avoid these problems, the AMD advocates budgetary and macroeconomic discipline.

An outward-oriented development focus

An outward-oriented development focus is an important element of the AMD. Outward-orientation consists of low barriers to international trade and an emphasis on export-led growth. Advocates of the AMD cite several benefits of an outward orientation. First, a country can take advantage of larger markets. This leads to increased economies of scale, increased specialization, and greater utilization of capacity. For a country like Suriname, which is exceptionally small in economic terms, these benefits can be significant. Second, openness to the rest of the world exposes producers to greater competition, thereby spurring them to greater efficiency and dynamism. Third, openness increases the speed and efficiency with which small countries can absorb technology from the industrialized world. Fourth, export-led growth automatically alleviates balance-of-payments constraints on growth, which might otherwise hinder growth or lead to "stop-go" macroeconomic policies. More generally, advocates of the AMD point to the empirical observation that worldwide there is a high correlation between GDP growth and the growth in export earnings. Similarly, as Sachs and Larrain (1993) point out, "Almost all studies in the past 25 years have documented the superior growth performance of outward-oriented countries."

An emphasis on value-added

In the AMD, the yardstick of economic growth is the growth of value added. Physical production and volumes mean little in themselves, except to the extent that they are correlated with value added. A focus on physical production may be unhelpful because it distracts from issues of output quality and, most importantly, from the question of how much consumers value the production. In the AMD, value added in any sector is as important in principle as the value added in another sector. Output in the service sectors, such as the wholesale and retail trade sector, increases national welfare. Nevertheless, advocates of the AMD are concerned if output in the tradable sectors is particularly weak, since this might constrain prospects for growth and the country's ability to adjust to external shocks.

An emphasis on dispersed and organic growth

In the AMD, development is seen as arising from a multitude of small projects rather than one or two huge projects. Growth is incremental and decentralized. Risk is spread across a wide range of projects, thereby ensuring that the country prospers even though some of the projects fail.

The entire population is seen as contributing to development

In the AMD, every person contributes to development when he/she works in an enabling environment with the correct incentive structures. Every individual can make a unique contribution to development. In the AMD, the responsibility of policymakers is to ensure that incentive structures are such that citizens' efforts are channeled in the right directions i.e.

towards developmentally positive activities like hard work, saving, long-term investment, exporting, acquiring new technology, raising productivity, and learning.

The population is seen as a critical resource

The AMD holds that the population is the principal resource of the country. While natural resources and physical capital are important inputs for development, ultimately successful development depends on human resource development. Raising the skills and capabilities of the population is seen not only as a critical source of economic growth but also as an intrinsic aspect of development.

Consequently, the eight elements of an AMD listed above differ markedly from the major elements of the OMD (Table 1).

TABLE 1
COMPARISON BETWEEN THE OLD MODEL OF DEVELOPMENT AND AN ALTERNATIVE MODEL

Element	Old Model of Development	Alternative Model of Development
View of markets	Distrust of markets – extensive controls, regulations and government interventions. Reliance on planning.	Extensive use of markets as efficient method of organizing production and distribution of goods and services.
Engine of development	Government seen as engine of development and solution to all development problems.	Private sector seen as engine of growth. Government facilitates growth by providing an enabling environment.
Macroeconomic discipline	Low priority – unnecessary or subordinate to other goals.	High priority – precondition to successful development.
Trade focus	Inward-looking. Extensive use of protective instruments: tariffs and non-quantitative barriers.	Outward-looking. Open trade policies and emphasis on export-led growth.
Yardstick for growth	Volume and production.	Value added.
Mode of development	One or two big projects.	Broad based and organic growth.
Developers	Handful of policymakers and technocrats.	Whole population.
View of population	Must be found employment and income.	Principal development resource.

5 TOWARDS AN ALTERNATIVE MODEL OF DEVELOPMENT

The extent to which Suriname fully embraces an AMD and completes the transition to AMD-inspired policies will be a critical determinant of Suriname's development performance in the early 21st century. Fortunately, Suriname's progress towards the alternative model accelerated in 2000.

The Beginning of the Transition

Leading thinkers, the business community, and some parts of civil society in Suriname have been espousing AMD views for several years. The private sector, especially the Suriname Trade and Industry Association (VSB), the Chamber of Commerce (KKF) and the Association of Surinamese Manufacturers (ASFA), has increasingly called for the acceptance of the private sector as the engine of growth, a greater role for markets, and a reduction in the role of the state. In one of the most articulate and coherent calls for an AMD, Lim A Po (2000) called for a paradigm shift to an "enterprising society" where economic growth is the most important development objective. He cited the adverse effects of the primacy of government, a revival of belief in the market, and an increase in the awareness of the importance of an active civil society as factors behind this shift. In addition, policymakers and the public have become increasingly convinced of the necessity of sound macroeconomic management. Most notably, public awareness and consensus that monetization of fiscal deficits leads to macroeconomic instability grew considerably in the 1990s

In addition to the aforementioned intellectual shifts, the government took concrete steps towards an AMD by reforming certain policy areas in the 1990s:

Price liberalization. In 1993-94, the government removed retail and other price controls on most consumer staples and agricultural products such sugar, meat and palm oil. In 1995, the government liberalized the price of milk. Since then, the vast majority of product prices have been market-determined. The most important exceptions have been fuel, electricity, and flour. Although the government briefly tried to re-introduce price controls on 40 basic goods in December 1997, it was unable to enforce the controls.

Trade liberalization. Since 1994, the government has liberalized external trade in several phases. In July 1994 the government greatly simplified the tariff structure and lowered effective protection. Until then, tariffs had been applied in many levels between 0 and 100 percent. On July 1, 1994 the government reduced the number of tariff categories to four: 5 percent for raw materials, 10 percent for manufactured goods, 20 percent for luxury goods and 40 percent for electronic goods. Suriname joined CARICOM in 1995 and started to apply CARICOM's

Common External Tariff Agreement (CET) on January 1, 1996. Under the agreement, trade with other CARICOM members became free of duty while trade with the rest of the world became subject to CARICOM's common external tariff. In 1996 the CET was 5-25 percent for most goods and 40 percent for luxury goods. For a limited number of consumer items, such as alcohol and tobacco, the government of Suriname applied a duty of 50 percent. In April 1997 the government removed the 5 percent tariff on raw materials and in January 1998 CARICOM reduced its maximum CET to 20 percent.

Subsequently, the government reformed non-tariff barriers. In September 1999 the government removed all quotas and replaced a cumbersome and generalized trade licensing system with a limited "negative list" of imports.

Macroeconomic policy framework. From 1993-95 the government implemented a macroeconomic stabilization program whose major elements included exchange rate unification and fiscal discipline. However, the government did not sustain these policies and it relaxed macroeconomic discipline in the 1997-2000 period.

2000 and Beyond

The shift to an AMD made a quantum leap on November 15, 2000, when President Venetiaan delivered the Government Policy Statement 2000-2005 in the National Assembly. In the Policy Statement, President Venetiaan announced that his administration's policies would focus on achieving an open and competitive economy characterized by a dynamic, export-oriented private sector. He added that the government would seek to liberalize the economy and would place a high priority on fiscal discipline and macroeconomic stability. Moreover, the government would focus on its core tasks. This signifies that the intellectual consensus in Suriname is now clearly shifting toward an AMD. As a result, policymakers and society more broadly, are likely to:

- Have greater confidence in and commitment to markets. In particular, policymakers will have an increased awareness of the power of incentives. This awareness will extend not only to areas traditionally regarded as "economic" but also to sectors like education and health, which have hitherto been regarded as having their own dynamic. Policymakers will become increasingly aware of government policy distortions in markets.
- Place an increased emphasis on the private sector as the engine of growth.
- Take a more realistic view of the capabilities and limitations of the state.
- Adopt an increasingly disciplined stance towards macroeconomic management.
- Adopt an increasingly outward orientation.
- Place an emphasis on developing human resources as the basis for improving productivity and less emphasis on a few, large, capital-intensive projects.

In turn, those intellectual shifts are likely to lead to policy changes in the following areas:

Greater incorporation of market forces in key areas. The foreign exchange market and land are the most important areas requiring greater use of market forces. The foreign exchange market could be liberalized by broadening and deepening the parallel exchange market and by reducing the importance of and eventually eliminating the official exchange rate. Market forces could be introduced into the land market by gradually increasing the amount of land in private ownership.

Privatization. The government could simultaneously expand the scope of the private sector and shed some of its non-core functions by implementing a privatization program. The government could kickstart the privatization process by selling its stakes in commercial banks and a hotel. State enterprises producing marketable goods would also be obvious candidates for privatization. In some areas – such as telecommunications and air transport – reducing monopoly power and strengthening competition may be more important than privatization.

Public sector reform. The government needs to reform itself to shed the various non-core functions that it currently undertakes. This will enable it to match better its responsibilities with its capabilities, to improve its effectiveness in core tasks, and to reduce its costs (IDB, *Governance in Suriname, [2001]).*

Deregulation and debureaucratization. The government could foster private sector development by eliminating unnecessary regulations and bureaucratic hindrances to business.

Macroeconomic management. Having re-established macroeconomic stability in the short run, the government needs to sustain and lock that stability in by improving macroeconomic management in the medium and long term. Reforming budgetary management will be key to improving fiscal and macroeconomic management.

Export promotion. As noted above, the government has made substantial progress in reducing tariff and non-tariff barriers to trade. Nevertheless, a significant disincentive to exporting still exists in the form of foreign exchange surrender obligations on exporters. Removing the surrender obligations from non-mineral exporters is a *sine qua non* for better export performance. In addition, the goal of relentlessly expanding exports needs to become an explicit policy objective.

Human resource development. An increased emphasis on human capital accumulation would imply increased attention to education. As IDB, *Suriname: Education Sector Study [1998]* points out, improving education outcomes – in particular, raising the number of well-educated children – requires reform of the incentive and institutional structure of the education system. More specifically, it requires decentralization, debureaucratization, choice, greater parental involvement, and a shift in focus from inputs into the education sector to outputs.

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