

## Appendix 4. Background to Suriname's Competitiveness Challenges

### A4.1 The Competitiveness Landscape

There are three approaches to competitiveness that have emerged over the last two decades:

- **The Real Exchange Rate**, which, in combination with domestic economic policies, achieves internal and external balance. An appreciation of the real exchange rate is a loss while depreciation is an improvement in international competitiveness.
- **Business Strategist approach** is based on four interrelated factors: firm strategy, structure and rivalry, demand conditions, related supporting industries and factor conditions (e.g. skilled labour, capital and infrastructure). The government is a facilitator encouraging firms to become competitive and creating the environment that enables firms to increase productivity and become competitive. Typically measured by the World Economic Forum Index & Doing Business.
- **Technology and Innovation approach** that is the introduction of new products and technologies through joint ventures, new licencing agreements, intra-firm organizational changes, and opening new plants that is new-to-firm innovation.

In the case of Suriname, the 20 percent devaluation in January 2011 is likely to have placed the current exchange rate within the equilibrium band. Therefore, the exchange rate is broadly in line with medium-term macroeconomic fundamentals. With solid management by the Central Bank of Suriname, the country is unlikely to experience significant imbalances in this area over the medium term.

In recent years the Business Strategist approach has been almost universally adopted by emerging economies and, in particular, developing countries. This approach embraces globalization and the neoclassical models of economic development promoted by the Washington Consensus (the larger development agencies that provide policy advice and promote perfect competition worldwide). It is founded on the theory that competitiveness is a combination of facilitating government institutions that have invoked reforms aimed at providing highly efficient support services to the private sector, an alignment of education with labour market needs, the updating of laws ensuring property rights, and an increase in transparency and good governance.

The technology and innovation approach is based on increasing levels of evidence that countries seldom grow rich by producing the same things more productively. To do so they must change what they produce: new economic activities that are more productive and thus are able to pay higher wages<sup>31</sup>. Such strategies are the impetus behind countries overcoming the "middle income trap". To do so requires concerted efforts to improve the effectiveness of a country's National Innovation System - *that set of distinct institutions which jointly and individually contribute to the development and diffusion of new technologies and which provides the framework within which governments form and implement policies to influence the innovation process. As such it is a system of interconnected institutions to create, store and transfer the knowledge, skills and artifacts that define new technologies*

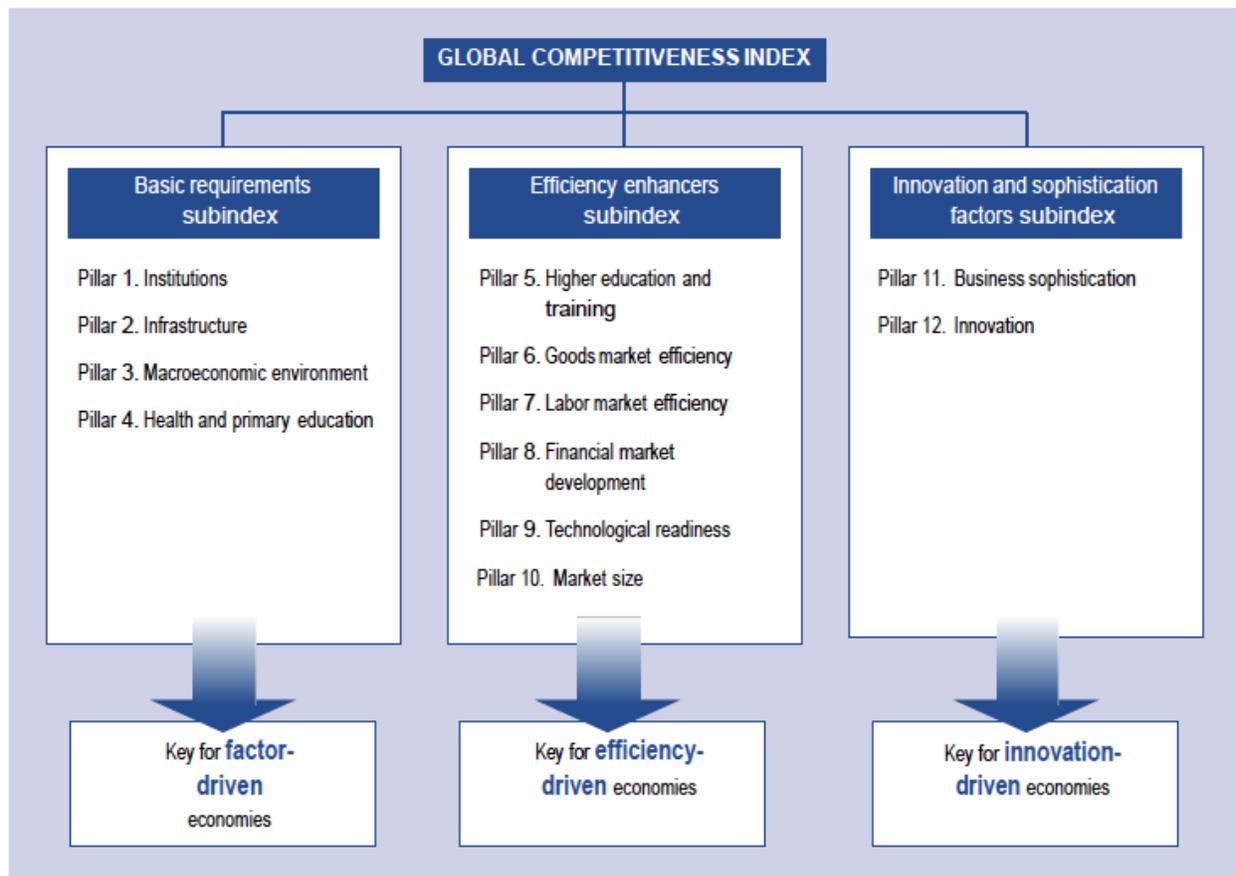
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<sup>31</sup>Policies for Achieving Structural Transformation in the Caribbean by Richardo Hausmann and Bailey Klinger. IDB 2009

## A4.2 The Global Competitiveness Index’s Methodological Framework

The World Economic Forum (WEF) has been at the forefront of national competitiveness analysis for the past three decades, working with leading academics and continuously incorporating relevant new findings of theoretical and empirical economic literature into its work. The Global Competitiveness Index (GCI) was introduced in 2004 as a state-of-the-art, comprehensive methodological framework to assess the set of institutions, policies, and factors that determine national levels of productivity across more than 130 economies. The Index identifies a large number of macro- and micro-economic drivers of growth, analyzing a total of 113 indicators. The GCI builds on the awareness that competitiveness is a complex phenomenon that cannot be explained by one or two factors exclusively. On the contrary, competitiveness—and hence sustained growth - is driven by the inter-relationships of several diverse elements. The GCI methodological framework groups all these elements into 12 Pillars of Competitiveness, as shown in Table 1 and detailed below:

Table A4.1: The 12 Pillars of Competitiveness in the GCI<sup>32</sup>



<sup>32</sup>Source: Sala-i-Martin et al., 2009.

1. The institutions pillar gauges the quality of 1) public administration, and overall security situation in a given economy and 2) private institutions, in terms of their corporate ethics and accountability.
2. The infrastructure pillar measures the quality and extensiveness of roads, railroads, air transport, and telecommunications, as well as the efficiency of port and electricity supply.
3. The macroeconomic stability pillar captures hard data indicators, notably the government budget balance and debt, inflation, the interest rate spread, and the national savings rate.
4. The health and primary education pillar comprises two sub-pillars: basic health standards and the quantity as well as quality of primary education.
5. The higher education and training pillar includes two sub-pillars: one measures enrollment levels at the secondary and tertiary levels and the quality of higher education, and the other measures the extent of vocational and on-the-job training.
6. This pillar is divided into two sub-pillars, analyzing respectively the extent to which government interventions create distortions (including through agricultural policies, antimonopoly policies, taxation, and red tape) and the intensity of competition, as well.
7. The labour market efficiency pillar assesses the flexibility of the labor market in each country and the extent to which it fosters the efficient use of talent.
8. The financial market sophistication pillar consists of two sub-pillars that gauge first the efficiency of the financial system and second its soundness and trustworthiness. It analyzes variables such as the ease of obtaining bank loans, the soundness of banks, the ease of raising money on the local stock market, and the availability of venture capital.
9. The technological readiness pillar measures the extent to which countries leverage technologies and knowledge available in the country irrespective of their origin, with a special emphasis on ICT penetration and usage.
10. The market size pillar includes both domestic and foreign markets, therefore giving credit to export-oriented economies and geographic areas - such as the European Union (EU) or the Caribbean Community (CARICOM) Single Market and Economy - that comprise many countries but have one common trade policy and market.
11. The business sophistication pillar measures micro-economic factors that are particularly important for firms and countries high on the value chain and close to the technological frontier.
12. The innovation pillar captures measures of the innovation potential of a given country, as well as a measure of innovation outputs e.g. the number of registered utility patents per capita.

#### A4.3 Classification of CARICOM Countries into Stages of Development

Table 2 below provides a synopsis of the GCI comparative classification of four CARICOM countries according to the Index's "Stages of Development" barometers (i.e. factor driven; efficiency driven; and innovation driven).

Table A4.2: Classification of selected CARICOM countries into Stages of Competitive Development

Stages of Development	Caricom Countries and Comparators	Other countries in this stage	Important areas for competitiveness
Stage 1(factor-driven) Income of < US\$2,000 Transition from 1 to 2	<b>Guyana</b>	India, Madagascar, Honduras, Nigeria, Pakistan, Phillipines	Basic Requirements (critical) and Efficiency Enhancers (very important)
Income of \$2,000 - \$3,000 Stage 2 (efficiency-driven) Transition from 2 to 3	<b>Jamaica</b>	Algeria, Egypt, Guatemala, Paraguay, Saudi Arabia, Venezuela	Basic Requirements (critical) and Efficiency Enhancers (increasingly important)
Income of \$3,000 - \$9,000 Transition from 2 to 3	<b>Suriname</b> , Costa Rica, Dominican Republic, Panama, Mauritius	Argentina, Brazil, Peru, South Africa, Thailand	Basic Requirements (very important) and Efficiency Enhancers (critical)
Income of \$9,000 - \$17,000 Stage 3 (innovation-driven) Transition from 2 to 3	<b>Barbados</b>	Chile, Coratia, Mexico, Russian Federation, Turkey, Uruguay	Same as above, but innovation factors become increasingly important
Income > \$17,000	<b>Trinidad and Tobago</b> , Cyprus, Ireland, Malta	Hong Kong SAR, Iceland, Israel, Taiwan, China, USA	All three areas important: Basic Requirements, Efficiency Enhances, and Innovation Factors

Source: Measuring the Competitiveness of Selected CARICOM Countries. IADB. 2009

In the factor-driven stage, countries and firms compete based on their factor endowments, primarily low-cost labor and natural resources, and their economies are centered on commodities and/or basic manufactured products. Efficient public and private institutions (pillar 1), extensive and well-functioning infrastructure (pillar 2), good macroeconomic fundamentals (pillar 3), and a healthy and literate labor force (pillar 4) are critical elements for national competitiveness at this stage.

As economies move up the development ladder to the intermediate, efficiency-driven stage, long-term growth increasingly depends on efficient factor markets and production processes and practices at the firm level. Key competitiveness drivers in this stage are quality higher education and training systems (pillar 5), efficient markets for goods and services (pillar 6), flexible labor markets (pillar 7), sophisticated and sound financial markets (pillar 8), a large domestic and/or foreign market that allows for economies of scale (pillar 9), and the ability to leverage existing technologies, notably Information and Communication Technology (ICT), in the national production system (pillar 10). In the third and most advanced innovation-driven stage of development, competitiveness is still driven to a large extent by efficient markets and production processes; however the capacity to produce new and innovative products becomes increasingly important. At this point, a large innovation potential (pillar 12) and the use of sophisticated production processes (pillar 11) are the crucial competitiveness enhancers.

Economies are allocated to the different stages of development according to their GDP per capita at market exchange rates, which is used as a proxy for wages. This criterion is then complemented by a second one measuring the extent to which countries are factor driven, using as a proxy the share of exports of mineral products as a share of total exports (goods and services) over the 2003–07 period. It is assumed that countries that export more than 70 percent of mineral products are to a large extent factor driven. The countries falling between two of the three stages are defined as “in transition.”

CARICOM economies are each in a different stage of development, with Guyana, Suriname, and Trinidad and Tobago in stages 1, 2, and 3, respectively, and Jamaica and Barbados in transition from stage 1 to 2 and 2 to 3, respectively. Hence, despite their geographic proximity, the factors driving their competitiveness are quite different depending on the specific economy.

**A4.4 The Competitiveness Unit Suriname (CUS)**

The CUS was established in June 2012 under the Kabinet of the Vice President to oversee implementation of the Suriname’s Competitiveness Enhancement Program. The program is partially funded by the Inter-American Development Bank (IADB) and the Government of Suriname. Chart A4.1, below, highlights the Unit’s emphasis on four thematic issues: 1) Business Climate Reform, 2) Innovation and Industrial Policy, 3) Law and Governance and 4) Human Capital Development.



The Unit has a staff of two senior managers and four young professionals and has initiated a number of information gathering activities including 1) a field-trip to Panama to develop a better understanding of that country’s competitiveness strategy and 2) attendance at the Regional Inter-American Competitiveness Network Annual Meeting in October 2012 in Chile. The main tasks of the CUS are to 3) Coordinate Government actions to strengthen National Competitiveness; 4) Identify priority economic growth sectors; 5) Develop a Private Sector Development Roadmap; 6) Develop/ Monitor Doing Business Agenda and 7) Develop/ Monitor National Competitiveness Strategy and Action Plan.

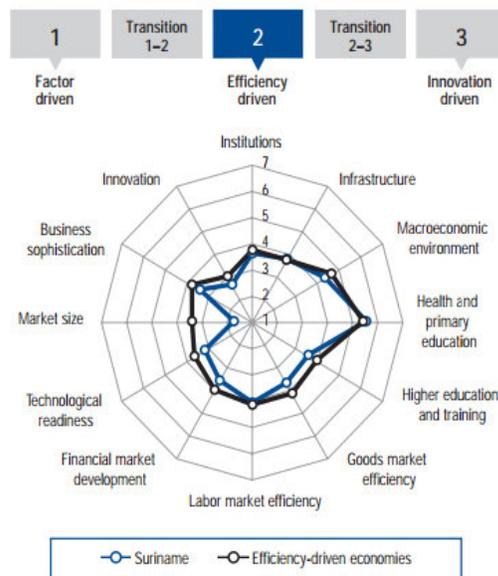
#### A4.5 Suriname’s Competitiveness: strengths and weaknesses

A range of competitiveness issues needs to be addressed if Suriname is to maximize its economic development potential. The importance of this agenda has been well established in a range of recent diagnostic reports including the 2012-2013 Global Competitiveness (GCI) Report, the 2013 World Bank Group Doing Business Report, the 2010 World Bank Enterprise Survey and the 2012 Compete Caribbean Private Sector Assessment Report (PSAR). Table A4.3 below summarized Suriname’s 2012 – 2013 Competitiveness Ranking and Stage of Development in the Global Competitiveness Report published by the World Economic Forum.

#### The Global Competitiveness Index

	Rank (out of 144)	Score (1-7)
GCI 2012–2013 .....	114	3.7
GCI 2011–2012 (out of 142).....	112	3.7
GCI 2010–2011 (out of 139).....	n/a	n/a
<b>Basic requirements (40.0%).....</b>	<b>83</b>	<b>4.3</b>
Institutions.....	93	3.6
Infrastructure.....	79	3.7
Macroeconomic environment.....	96	4.3
Health and primary education.....	82	5.5
<b>Efficiency enhancers (50.0%).....</b>	<b>124</b>	<b>3.3</b>
Higher education and training.....	102	3.6
Goods market efficiency.....	128	3.7
Labor market efficiency.....	96	4.1
Financial market development.....	107	3.6
Technological readiness.....	105	3.2
Market size.....	139	1.7
<b>Innovation and sophistication factors (10.0%).....</b>	<b>117</b>	<b>3.0</b>
Business sophistication.....	112	3.4
Innovation.....	124	2.6

#### Stage of development



Suriname ranks 114<sup>th</sup> out of 144 countries in the 2012 – 2013 GCI. It is assessed as second to last in competitiveness in the region, before Guyana. Since its independence in 1975, Suriname’s turbulent history has severely constrained the country’s development. However, strong commodity prices — accompanied by sounder policies — have put the country on a more favorable growth path.

Significant improvements have been realized in recent years, which enabled the country to move up to 103<sup>rd</sup> in 2008/09 rankings. However, as a larger number of competing countries have adjusted their competitiveness rankings faster than Suriname, it has slipped from a ranking of 103<sup>rd</sup> in 2008/2009 to 114<sup>th</sup> in 2012/2013.

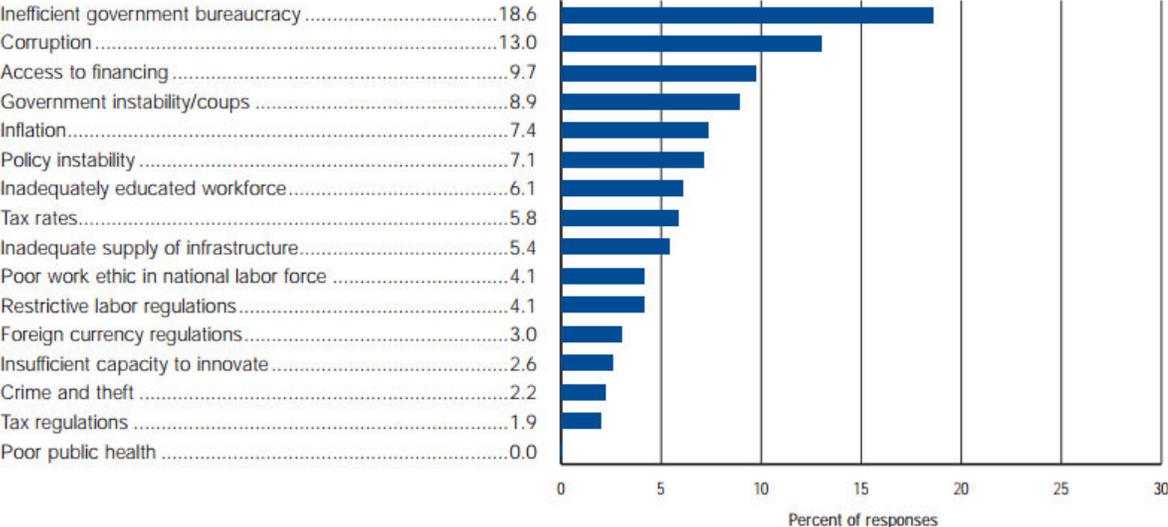
Suriname’s strengths and weaknesses become particularly apparent when benchmarked against the averages of those at the efficiency-driven stage of development.

Suriname ranks 96<sup>th</sup> with respect to macroeconomic stability, the second best rating among the five CARICOM countries in Table 2, after Trinidad and Tobago, one of the two other resource exporting countries in the group. Aided by high commodity prices and sounder policies, the macroeconomic environment has gradually stabilized in recent years. Suriname’s public finances were put on stronger footing with the government running a budget surplus in 2007. Containing spending and a reform of tax collection that raised revenue, as well as the introduction of excise taxes achieved this. Also, inflation has been contained after surging to double-digit levels in 2008 as a result of accelerated credit growth.

Another area of strength for Suriname is health and primary education (82<sup>nd</sup>). But the fairly poor health conditions of the population are partially offset by the good results achieved for primary education in terms of both enrolment and quality. The improvements have been impressive since the early Nineties. In 2012/2013, 88% of all children attended primary schools compared to 78% in 1990–91. Still, the health conditions remain worrying despite some improvements reflected in reduced infant mortality and higher life expectancy. Tuberculosis, HIV/AIDS, and malaria are fairly widespread (105<sup>th</sup>, 105<sup>th</sup>, and 108<sup>th</sup>, respectively), and in particular HIV/AIDS creates significant costs for businesses (107<sup>th</sup>). The quality and availability of infrastructure has registered the largest improvement since 2008/09, moving up by 20 positions to 79<sup>th</sup> overall among the pillars of the GCI. The quality of infrastructure for ports has improved to 42<sup>nd</sup> for seaports and 99<sup>th</sup> for air transport, respectively.

Suriname is also addressing some specific issues relating to the business-enabling environment that had constrained business activity in the past: Some regulations have been streamlined to make it less burdensome for business (94<sup>th</sup>). But transparency of policymaking needs to be improved (121<sup>st</sup>), and the legal framework strengthened to allow for challenging regulations and settling disputes among businesses (115<sup>th</sup> and 116<sup>th</sup>, respectively). When asked about the most problematic factors for doing business (Table A4.4, below), Surinamese business leaders highlighted inefficient government bureaucracy as the most important issue by far, with 18.6% of all responses, followed by corruption (13%), and access to finance (9.7%).

**The most problematic factors for doing business**



Against these developments a number of serious shortcomings related to other areas captured by the GCI persist in Suriname. These will have to be addressed for the country to move ahead.

*The most significant challenge for Suriname is to restore the efficiency of the goods, financial sector development, and market size. Suriname performs poorly in all three areas, ranked 128<sup>th</sup>, 107<sup>th</sup>, and 139<sup>th</sup> respectively.*

*Domestic competition is limited to relatively few companies that dominate markets for goods and services (76<sup>th</sup>), a situation that is aggravated by a largely ineffective anti-monopoly policy (118<sup>th</sup>). At the same time, the entry of new businesses that could increase competitive pressure is heavily restricted through administrative and regulatory barriers to entry. Moreover, the country is protected from foreign competition by barriers to trade (111<sup>th</sup>) and to entry of foreign direct investment (115<sup>th</sup>), which has limited the country's ability to fully leverage its significant potential for attracting FDI.*

Reforming labor markets would require alleviating the country's significant and persistent rigidities. Presently, *it is cumbersome and costly to hire and fire employees in Suriname, and the relationships between labor and employers are prone to conflict.* Moreover, meritocracy has not taken root in the country's business culture, resulting in a loss of efficiency of employees. Hiring and firing practices (137<sup>th</sup>), pay and productivity (123<sup>rd</sup>) and to foster female participation in the labor force (115<sup>th</sup>) could significantly improve the availability of skilled and motivated talent to business.

*The two areas where Suriname lags behind its peers by the highest margin is 1) market size, where it is ranked 139<sup>th</sup> of 144 countries; and 2) the strength of investor protection, at 141<sup>st</sup> out of 144.*

As a middle-income economy of approximately 538,500 persons, the domestic market size is small in Suriname. Further developing trade in goods and services would benefit the country because it would intensify competition among domestic businesses and could enable them to realize economies of scale, hence partially offsetting the disadvantages of the country's small domestic market size.

In the case of technological readiness, Suriname's FDI and technology transfer ranks 130<sup>th</sup> of 144 countries. In the shorter term, fostering technological readiness could provide additional advantages. Given Suriname's stage of development and the need to diversify the economy to make it more resilient to commodity price variations, it is important that the country fully makes use of existing technologies for increased development. The country's business sector does not appear to leverage the latest technologies for competitiveness through licensing or FDI, although it does somewhat better with respect to using ICT.

Suriname's ranking in the World Bank's Doing Business Report for 2013 is similar to that of the GCI 2012 – 2013 report: overall, Suriname has slipped from 155<sup>th</sup> in 2009 to 164<sup>th</sup> of 185 countries in 2013. The Doing Business Report focusses mostly on regulatory issues and reflects the most problematic factor for doing business of "inefficient government bureaucracy" – as noted in Table 2 above. The DB rankings, like the GCI are also relative – which means that a country's ranking can be lowered even if it does nothing to improve its performance given that other countries are also moving to improve their own rankings annually.

#### A4.6 Limitations of competitiveness rankings

It may be useful to ask: do competitiveness rankings – and the growing obsession of numerous developing countries with improving their rankings on the GCI - actually lead to increased value addition and (increased) economic prosperity nationally?

Globally, while there is close to wholesale buy-in to the GCI model, empirical evidence suggests that the rankings actually mask other more pivotal variables that influence both value addition and prosperity. In *“One Economics, Many Recipes: Globalization, Institutions and Economic Growth”*, Dani Rodrik questions the logical assumption that improved rankings are a reflection of the two crucial barometers (increased value addition and resulting economic prosperity) of developing countries<sup>33</sup>. In relatively thorough analyses of emerging market conditions and performance Rodrik concludes that deliberately structured – and therefore distorted – industrial policy was the driving force behind East Asia’s closing of the productivity convergence gap between Eastern and Western countries. Table A4.5, below provides a poignant snapshot of the differences between policies proposed by the Washington Consensus (i.e. neoclassical economic theory as the “mainstream ideal”) and those used in East Asia (i.e. actual economic policy).

<i>Institutional Domain</i>	<i>Mainstream Ideal</i>	<i>“East Asian” Pattern</i>
Property rights	Private, enforced by the rule of law	Private, but government authority occasionally overrides the law (esp. in Korea)
Corporate governance	Shareholder (“outsider”) control, protection of shareholder rights	Insider control
Business-government relations	Arm’s length, rule based	Close interactions
Industrial organization	Decentralized, competitive markets, with tough antitrust enforcement	Horizontal and vertical integration in production ( <i>chaebol</i> ); government-mandated “cartels”
Financial system	Deregulated, securities based, with free entry. Prudential supervision through regulatory oversight.	Bank based, restricted entry, heavily controlled by government, directed lending, weak formal regulation
Labor markets	Decentralized, deinstitutionalized, “flexible” labor markets	Lifetime employment in core enterprises (Japan)
International capital flows	“Prudently” free	Restricted (until the 1990s)
Public ownership	None in productive sectors	Plenty in upstream industries

Source: *“One Economics: Many Recipes, Globalization, Institutions and Economic Growth”*

Rodrik concludes that the failure of many Latin American countries to use similar selective approaches had resulted in a *widening* of the convergence gap in recent years. African countries, even in the face of sustained economic growth, are also experiencing a widening of that gap when compared with developed nations – mainly because of their failure to increase productivity in the manufacturing sector<sup>34</sup>. The issue of low productivity in manufacturing sectors of developing countries is also highlighted by Ganeshan Wignaraja in *“Competitiveness Strategies for Developing Countries – a manual for policy analysis”* and by Sanjaya Lall in *“Competitiveness, FDI and Technological Activity in East Asia”*.

<sup>33</sup>Rodrik, D. *One Economics, Many Recipes: Globalization, Institutions and Economic Growth*, Princeton University Press, 2007.

<sup>34</sup>The Future of Economic Convergence by Dani Rodrik, Harvard University Press, August 2011

Another underlying assumption is that improvements in the Doing Business environment are logically linked to more FDI – leading to greater technology transfer and value addition in the recipient country<sup>35</sup>.

So what is the correlation between a country's Doing Business Ranking and Foreign Direct Investment levels? Based on 2004 to 2011 rankings and FDI in those years a study concluded that the correlations between the two indicators for developed countries was quite low (0.33) whereas the correlation was 0.61 for developing countries<sup>36</sup>. Improvements are especially strong in “starting a business” and “closing a business” and “protecting investor rights” indicators. The conclusion is that improvements in “doing business” can be one important factor attracting more FDI inflows to developing countries.

In *“The Age of Productivity – Transforming Economies from the Bottom Up”*, the authors point out that low economic growth in Latin America and the Caribbean (LAC) region is not a factor of (limited) Foreign Direct Investment (FDI). Instead, it is due primarily to low productivity growth. Furthermore the study postulates that the region could greatly accelerate its economic growth and close the income per capita gap with policies that promote better ways of using existing resources<sup>37</sup>. For instance, a typical Latin American country could have increased income per capita by 54% since 1960 if its productivity had grown like the developed world. Consequently, income per capita in this typical country would have almost doubled if its productivity were close to full potential. According to the authors, productivity can be improved by a combination of the following measures:

- 1) Reducing transportation costs via improvements in the efficiency of the transportation sector, the regulatory framework of ports and airports, and improving infrastructure.
- 2) Deepening credit markets by improving property registries and creditor rights protection, and with better supervision and financial regulation.
- 3) Improving tax regimes by simplifying tax regimes for all firms and reducing evasion.
- 4) Improving social security by developing less distortive ways of providing universal access, cutting links with type of employment and avoiding parallel programs only for the informal (sector).
- 5) Better Micro and Small Firms policy by aiming to help productive firms to grow, or low productivity firms to become medium productivity firms and evaluating such support programs.
- 6) Promoting innovation: fostering innovation and improving links between firms and research centers;
- 7) Introduction of proactive but restrained industrial policy.

In summary, the reality is that (higher) GCI rankings are necessary preconditions or “best practice ground rules” for creating an environment that is conducive to FDI and prospects for increasing added value. But on their own - and without selective industrial policies aimed at “steering” the economy towards value adding activities – improving a country's GCI ranking should not be expected to lead to greater prosperity. As Rodrik points out ... “for countries trying to dig out of poverty, success usually requires following policies that are tailored to local economic and political realities rather than obeying the dictates of the international globalization establishment”.

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<sup>35</sup>The World Bank's Doing Business Ranking is closely aligned with the annual GCI rankings

<sup>36</sup>Foreign Direct Investment and Ease of Doing Business: Before, During and After the Global Crisis. Nihal Bayraktar  
Pennsylvania State University – Harrisburg, June 27, 2011.

<sup>37</sup>Pages, Carmen ed., *The Age of Productivity*, Inter-American Development Bank, Washington, D.C., 2010.