Improving Transport Logistics and Competitiveness in Suriname

Technical Annex SU-L1057

Regional Integration

|  |
| --- |
| **Abstract**  Transport infrastructure networks in Surinam are key for its integration to regional and global markets. In Suriname it is observed a costly cross-border transactions and high logistics costs, which limit competitiveness and access to markets. The most important infrastructure for international trade in Suriname is Paramaribo Port, specifically the Dr. Jules Sydney Terminal which handles most of the commerce of the country with high regional connections. Despite its relevance, Dr. Jules Sydney Terminal shows capacity and congestion issues that does not permit to perform better services that benefit international trade and tourism.  The Project (SU-L1057) aims to increase Suriname's competitiveness and productivity by improving logistics performance through interventions in Paramaribo Port with important effects in competitiveness of the agricultural product. This document explains how the project supports the economic integration of Suriname through interventions in Paramaribo Port related to; (i) Road interventions Capacity expansion of Martin Luther King and Van ‘t Hogerhuysstraat; (ii) Repaving and improvement of other corridors, and implementation of ITS; (iii) Port interventions: Truck center outside the port, implementation of a port community system and (iv) Institutional strengthening. This intervention will contribute to reduce congestion and improve logistics services and commerce processes, which is expected to be reflected in gains for users, the productive sectors and the competitiveness of firms. According to the Results Matrix of the project, the logistics improvements will have the following positive outcomes related to regional integration facilitation: (i) xxx |

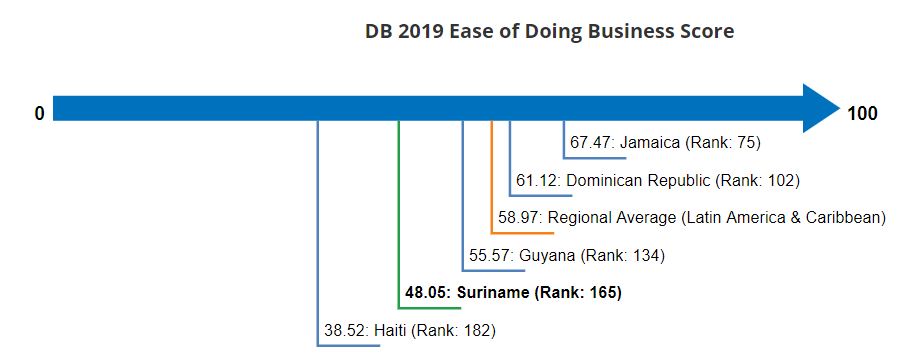
1. **Introduction**
   1. Suriname is the smallest country in South America, but in the regional academic literature it is always considered the largest of the Caribbean territories. Surinam is a small open economy, dominated by the mining and oil industry, with exports of gold and oil accounting for approximately 73% of exports by value.  In the past, bauxite/alumina exports were Suriname’s main industry, but production has declined in recent years as mines became worked out. The agricultural sector remains a significant driver of the Suriname economy; being banana, fish, wood and rice the most important products for international trade.
   2. Transport infrastructure networks in Surinam are key for its integration to regional and global markets. Dr. Jules Sydney Terminal is Suriname’s most important port with almost 90% of the country’s import and export seaborne traffic, excluding oil and alumina. Nearly all containerized agricultural products exports traffic goes by ship from this port; the rest is transported by private terminals. Currently, the port has an annual throughput capacity of approximately 100,00 TEUs, with the potential to double it in accordance with future demand. The total TEU traffic of the port has increased since two terminals started operations in 2011.
   3. The Inter-American Development Bank (IDB) is promoting an improvement initiative to help Suriname’s transport in the Port of Paramaribo and its adjacent roads. The Improvement of Logistic and Transport in Paramaribo Program aims to increase Suriname's competitiveness and productivity in the agricultural sector by improving the transport logistics within and near the Dr. Jules Sedney Terminal. The program considers investments and activities throughout four inter-related fronts: a) improvement of port access and land utilization; b) optimization of port operation and customs inspections; c) upgrade and climate adaptation of road infrastructure, bridges and secondary roads; and d) modernization of traffic management.
   4. This document analyzes the Program of Improving Transport Logistics and Competitiveness in Suriname (SU-L1057) presenting the arguments that explain the contribution of the project to the economic integration of Suriname, validating therefore its strategic alignment with the regional challenge of economic integration proposed in the Updated Institutional Strategy of the Bank (UIS) 2010-2020 (GN-2788-5). This annex aims to demonstrate that the Project will contribute to Suriname economic integration through the improvement in the quality and efficiency of the infrastructure and operations of Paramaribo Port. The document is organized in three sections: first, it is presented the economic context, secondly it is presented the qualitative and quantitative arguments demonstrating that the project contributes to improve the physical and economic integration of the country; and the third section analyzes the validation of the operation’s alignment with the Economic Integration Challenge in accordance with the UIS and the Bank´s Sector Strategy to Support Competitive Global and Regional Integration (GN-2564-4).
2. **Economic Context**
   1. The GDP annual growth for Suriname was negative -2.6%, -5.1%, and -1,2% in 2015, 2016, and 2017 respectively. The period of economic contraction was largely caused by a sharp decline in the international prices of the country’s main exports (gold and crude oil). Suriname economy has grown at low rates in the last nine years, showing a Gross Domestic Product — constant prices — annual average growth for the years 2011-2019 of 1.1%, with a positive growth tendency supported widely by public and private investment (Figure No. 1).

**Figure No. 1. Suriname Gross Domestic Product (Constant prices)**

Data: 2019-2023 are forecasted years

Source: International Monetary Fund (IMF), World Economic Outlook (WEO).

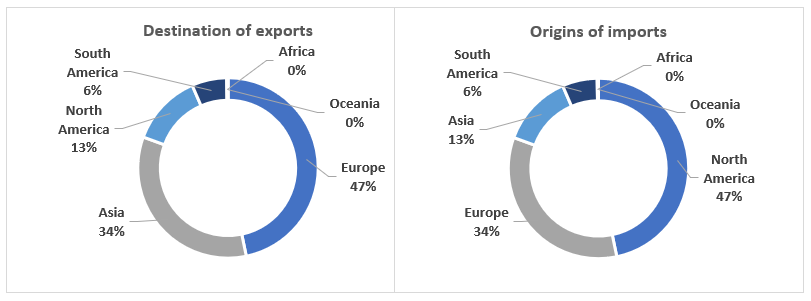
* 1. According to the diagnosis, it is observed that realizing Surinam’s full economic potential, faces limitations due to the country's weak transport infrastructure network (roads, ports and aviation), which inhibits the logistic performance and productivity of its key sectors. In 2019, Surinam ranked 165th on the Doing Business, which was the second lowest for the Caribbean region only above of Haiti (Figure No. 2). This was the result, among other things, of the poor quality of the road network and delays related to the lack of computerization and automation of international trade processes. Widely, high logistics and export costs are responsible for the weak performance in the index; for example, the cost to export a container in Suriname is approximately US$1,050 while the cost to export a container for the Caribbean region in average is US$1,006[[1]](#footnote-1).

**Figure No. 2. DB 2019 Ease of Doing Business Score**

Source: *World Bank -Doing Business report 2019.*

* 1. Customs and trade facilitation processes directly related with economic integration show inefficiencies in Suriname. According to the Trading Across Borders indicator in the World Bank’s Doing Business Report, which measures the time and costs involved in exporting and importing a product, border compliance for exports takes 84 hours in Suriname, compared to the Latin America & Caribbean average of 61.9 hours and 12.5 hours in OECD high income countries. In the case of imports, border compliance takes 48 hours, compared to the Latin America & Caribbean average of 62.2 hours and 8.5 hours in OECD high income countries[[2]](#footnote-2). Suriname’s overall performance on the index is weakest in areas relating to freight transportation safety, the widespread perception of efficiency and transparency problems in customs processes, and the institutional environment.
  2. Regarding the trade dynamics and the economic integration, Suriname is member of the Caribbean Community (CARICOM) since 1995; CARICOM is constituted by relatively small countries in terms of population and size, and diverse in terms of geography and levels of economic and social development. CARICOM countries share similar development challenges that could be assessed by combining efforts and creating synergies to move towards a greater development state through economic integration[[3]](#footnote-3). According to IDB estimates, CARICOM is operating on average 46% below its trade potential. In addition, intra-regional trade in the Caribbean stands at a relatively low 13% of total trade; this increases to just over 20% if exports to Latin America are included. These estimates put in evidence that the pattern and structure of CARICOM trade in goods has remained somewhat unchanged across the last ten years.
  3. The region exports small percentages of its total production to intra-regional markets, while trade with extra-regional traditional partners such as USA, Canada, the UK, and the rest of the European Union, dominates by far CARICOM’s total trade in goods. Furthermore, most of CARICOM’s trade, both intra-regional and extra-regional, is carried out by the region’s most developed countries, with Trinidad and Tobago as the leading exporter (73.4%) and Jamaica (28%) the major importer.
  4. The trade dynamics of Suriname analyzed in a bilateral perspective, depicts that the tops destinations of its exports are; Switzerland (30%), Belgium (9.6%), France (2.5%), and The Netherlands (2.2%), highlighting the fact that the aggregation of these four countries represents the 45% of the total value of Suriname’s exports. Regarding the origin of its imports, the top countries are the United States (24%), Trinidad and Tobago (13%), Saint Lucia (3.2%), Panama (2.2%) and Canada (2.1%)[[4]](#footnote-4). It is observed a low level of intraregional commerce in Suriname with South American region[[5]](#footnote-5) (only 6.3% of total exports and 5.5% of total imports) mainly concentrate towards Guyana; therefore, it is relevant to promote greater levels of trade with the Latin American and the Caribbean region to reduce the risk of negative external economic shocks that could have origin in developed economies. To achieve this objective; transport infrastructure investment represents a contributor to reduce transport and logistic cost and enhance economic integration.

**Figure 3. Trade dynamics of Suriname by continent**



Source: Observatory of Economic Complexity, MIT

* 1. The reduction of transport cost and logistics can be considered a tool for developing the activity of small and medium sized enterprises by increasing their probability to export. (Molina, D., Heuser, C y Mesquita, M., 2016). Transport infrastructure plays a decisive role in the systemic competitiveness of the economy due to the direct impact it has on transport costs, which are a determinant of the final prices of tradable and non-tradable goods. Empirical evidence shows that good logistic performance benefits the competitiveness of economies, which has a direct impact on both regional and global trade flows. This is supported by the fact that logistics costs impact on the final prices of goods and services, which translates into losses or gains of competitiveness in relation to the rest of the global competitors, affecting the country's external position.
  2. There is an inverse relationship between exports and transport and logistics costs (Krugman and Livas, 1996). Additionally, the logistics development has a direct impact on market access and the flow of goods and services, affecting issues of space economy directly related to regional integration (Venables, 1996). Likewise, the IDB (2010) has stated that the organization and institutional strengthening of the freight logistics sector in Latin America is essential for generating a positive impact over the medium and long term[[6]](#footnote-6). Countries such as Colombia, Uruguay and Panamá have made progress on important reforms to their logistics institutional management to boost competitiveness.

1. **Overview of the operation in terms of Regional Integration**
   1. The Project (SU-L1057) aims to increase Suriname's competitiveness and productivity by improving its logistics performance which is key to the country’s agriculture and other important economic sectors. Specifically, the program will improve the quality and efficiency of the infrastructure and operations of the Port of Paramaribo through: (i) the provision of port efficient infrastructure, and the acquisition and implementation of equipment and technological platforms to facilitate trade logistics and goods clearance processes; (ii) improvements in the level of service, capacity, and resilience of adjacent roads and access to the port; and (iii) institutional capacity strengthening to ensure efficient execution of civil works, sustainable asset management, and adequate operation of new systems.
   2. IDB’s studies indicate that poor transport and logistics infrastructure in Suriname, along with low network connectivity hinder the connection between production centers and markets and affect the country competitiveness. The limitations primarily affect the agricultural value chains, where the transport associated losses could be extremely high. As mention before, the three primary industries that contributes to the Surinam exports are petroleum, gold, and agriculture; each of these industries depends on Paramaribo Port for global and regional trade. Studies shows that agricultural products are disadvantaged by inefficiencies in the current outbound transportation logistical practices causing some degree of competitive weaknesses on the global market, therefore improvements on main land transport routes to Dr. Jules Sedney Terminal will contribute to enhance competitiveness of the agricultural product, highlighting the fact that *the route connects with the relevant productive areas of agricultural products such as banana, rice, fish, wood and gold, with the export/import facilities.*
   3. Paramaribo port handles about 50 percent of Suriname’s seaborne trade by volume. The multipurpose port is Suriname’s main cargo gateway, accounting for over 90 percent of the nation’s seaborne trade. The Port is of great regional relevance since its trade dynamics is mainly regional. This is evidenced by the fact that in 2017, *90% of the origin of ships arriving to Dr. Jules Sedney Terminal came from South America and the Caribbean.* The rest of the ships origin of precedence is 6% Europe and 4% other regions. Is important to highlight that imports arrive to other ports such as Guyana, Panama and Trinidad and Tobago before reaching Suriname. Exports dynamics of the port are also mainly regional, *with 96% of the departing ships heading to South America and the Caribbean, before reaching other destinations. Only 4% departs directly from the port to the rest of the world.*
   4. With regards to the effects on Suriname tourism, Paramaribo has tremendous potential as a cruise destination that goes well beyond the two or three cruise ship calls a year it has received in recent times. This potential is evident from the fact that neighboring French Guiana receives up to 70 cruise calls each year, one of its main draws being the opportunity for passengers to visit the notorious Devil’s Island. The aim is to persuade the operators of these ships visiting French Guiana to make a complementary call in Paramaribo. This would greatly enhance any cruise itinerary that embraces a range of interesting destinations in north-east South America; Suriname, French Guiana, Guyana and perhaps Belem in Brazil. For the time being, the lack of a proper cruise berth is a problem because regu­larly calling cargo vessels have priority.
   5. Considering the productive profile of Suriname and its potentials; capacity and congestion issues in Paramaribo port does not permit to perform better services that benefit international trade and tourism. Lack of spaces to perform value added services to the foreign trade cargo, lack of commercial spaces for the allocation of transport and logistic companies: custom broker agencies, shipping line’s offices, logistic operators, etc. The program will permit Surinam to perform a multiagency logistics and transport services that will permit to consolidate a logistic system with positive effects in regional integration.
   6. The interventions in Paramaribo port related to; (i) Road interventions Capacity expansion of Martin Luther King and Van ‘t Hogerhuysstraat; (ii) Repaving and improvement of other corridors, and implementation of ITS; (iii) Port interventions: Truck center outside the port, implementation of a port community system and (iv) Institutional strenghthening, will contribute to reduce congestion and improve logistics services and commerce processes, which is expected to be reflected in gains for users, the productive sectors and the competitiveness of firms.
2. **Validation Criteria under the Integration Strategy**
   1. The Program of Improving Transport Logistics and Competitiveness in Suriname (SU-L1057) project is strategically aligned with the development challenge of economic integration included in the Bank's Institutional Strategy 2010-2020 (GN-2788-5) since the expected results from of the project are to increase the quality of road and port infrastructure to enhance exports of agricultural goods. It is expected that the project will result in lower logistic costs and travel times, thus improving the ease of trade and competitiveness, and improving resilience standards of road and port infrastructure.
   2. Finally, according to Sector Strategy to Support Competitive Global and Regional Integration (GN-2565-4), a regional integration operation is classified as such when it incorporates one of the following non-mutually exclusive indicative criteria: (i) a cross-country focus, (ii) national subsidiarity, (iii) regional additionality, and (iv) compensation of coordination failures. This operation is aligned with the criteria of cross-country focus, since it supports a national investment, focused on the objective of improving the competitiveness of various territories by promoting their integration in the national and regional economy. It also includes investments in logistics developments which implies increases in efficiency and productive competitiveness at the regional level. The project also contributes to national subsidiarity since it is a national investment with cross-border objectives since Paramaribo enhance regional connectivity.

1. World Development Indicators (WDI), World Bank. [↑](#footnote-ref-1)
2. World Development Indicators – World Bank [↑](#footnote-ref-2)
3. CARICOM Member States have set three strategic goals to guide the development of remedial programs and projects for increasing their competitiveness, reducing inefficiencies, and deepening global and regional economic integration, as follows: (1) upgrading key economic infrastructure, (2) enhancing competitiveness and facilitating trade expansion and diversification, and (3) deepening regional integration and maximizing gains from external trade agreements. *Source:* *Caribbean Community Regional Aid for Trade Strategy 2013–2015 Caribbean Community Secretariat.* [↑](#footnote-ref-3)
4. Data source is the Observatory of Economic Complexity of the Massachusetts Institute of Technology (MIT) <http://atlas.media.mit.edu/en/> [↑](#footnote-ref-4)
5. South American trade relevance for Suriname is observed particularly high with Guyana, representing 89% of total exports by value and to LAC, followed by Venezuela 5.8% and Brazil with 3.9% of participation. [↑](#footnote-ref-5)
6. La logística de cargas en América Latina and el Caribe: una agenda para mejorar su desempeño. IDB Technical Note IDB‐TN‐103. [↑](#footnote-ref-6)