

CONFIDENTIAL

PAGE 01 PARAMA 00849 01 OF 03 091722Z
ACTION ARA-00**RELEASE IN FULL**INFO OCT-00 COPY-01 ADS-00 AID-00 INR-10 EUR-00 SS-00
CIAE-00 EB-08 H-01 EXIM-06 NSAE-00 LAB-04 TRSE-00
OPIC-07 CEA-01 OMB-01 STR-14 SIL-01 SAL-01 FRB-03
AGR-01 OES-09 USIE-00 JUSE-00 SP-02 DOEE-00 FDIC-01
SNP-01 SLPD-01 /073 W
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FM AMEMBASSY PARAMARIBO
TO SECSTATE WASHDC PRIORITY 1490
INFO AMEMBASSY BRASILIA
AMCONSUL CURACAO
AMEMBASSY GEORGETOWN
AMEMBASSY THE HAGUE
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C O N F I D E N T I A L SECTION 01 OF 03 PARAMARIBO 0849

E.O. 12356: DECL: OADR
TAGS: EFIN, NS
SUBJECT: SURINAME: CURRENT ECONOMIC PREOCCUPATIONS

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY: LEVEL OF LOCAL PREOCCUPATION WITH SURINAME'S
ECONOMIC CRISIS IS RISING SHARPLY. ATTENTION OF BUSINESS
CIRCLES WAS CAPTURED MARCH 27TH WHEN CENTRAL BANK ORDERED
THREE LARGE COMMERCIAL BANKS TO CEASE ISSUING LETTERS OF CREDIT
(L/CS) UNTIL FURTHER NOTICE. MAN IN STREET IS NOTICING BOTH
SHORTAGES OF CERTAIN IMPORTED CONSUMER GOODS AND INCIPIENT PRICE
GOUGING BY RETAILERS. WITH TRIPARTITE GOS COALITION (ARMY,
LABOR, BUSINESS) NEGOTIATIONS ARE UNDERWAY ON SHAPE OF NEW
BUDGET. AS MINISTER OF FINANCE AND ASSOCIATES CURRENTLY
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PAGE 02 PARAMA 00849 01 OF 03 091722Z

EXPLAIN BUDGET OPTIONS -- NONE PLEASANT -- TO CONCERNED REPRESENTATIVES OF LEADING SECTORS OF POPULATION, INITIAL REACTIONS -- ESPECIALLY FROM LABOR--ARE DISTINCTLY COOL TO ANY TALK OF TAX INCREASES UNACCOMPANIED BY ARMY AUSTERITIES. GOS AND BUSINESSMEN ARE INCREASINGLY ASKING EMBASSY ABOUT PROPOSED GOS APPLICATION FOR CBI ACCREDITATION: WHY IT IS IN SURINAME'S INTEREST, WHAT PAPERWORK IS REQUIRED, HOW GOS SHOULD STRUCTURE LOCAL ECONOMY TO TAKE ADVANTAGE OF CBI, ETC. AGAINST THIS BACKGROUND FINANCE MINISTER CHEHIN PLANS DEPART FOR WASHINGTON APRIL 13TH FOR CONSULTATIONS WITH IMF ABOUT CONDITIONS FOR LOANS

REVIEW AUTHORITY: Leonard Kusnitz, Senior Reviewer

TO SURINAME AND WITH USG ABOUT CBI. ACTION REQUESTED: NONE.
END SUMMARY.

L/C STOP

3. ANY LINGERING HOPE AMONG BUSINESSMEN THAT SURINAME'S LONG ANTICIPATED FOREIGN EXCHANGE CRISIS WAS STILL A THING OF THE FUTURE ENDED MARCH 27TH WHEN CENTRAL BANK ORDERED THE THREE LARGE INTERNATIONALLY ACTIVE COMMERCIAL BANKS TO CEASE ISSUING L/CS UNTIL FURTHER NOTICE. BY ALL ACCOUNTS L/C STOP IS BEING RIGIDLY ENFORCED WITH VIRTUALLY NO EXCEPTIONS TO DATE (ONLY EXEMPTIONS KNOWN TO EMBASSY ARE FOR NARROW RANGE OF RARE MEDICINES). SINCE EVEN SURINAME'S SMALL MANUFACTURING SECTOR IS HEAVILY DEPENDENT ON IMPORTS (E.G. MALT FOR PARBO BRAND BEER), IMPORT STOP HAS SHAKEN CONFIDENCE OF ENTIRE BUSINESS SECTOR, MANY OF WHOSE MEMBERS HAVE RECEIVED EXPRESSIONS OF DEEP CONCERN FROM OVERSEAS SUPPLIERS OF DECADES STANDING.

4. GOOD ASPECT OF L/C STOP, IN MINDS OF THOUGHTFUL BANKERS AND BUSINESSMEN, IS THAT IT SHOWS STIFFENING OF SPINE OF PREVIOUSLY COMPLAISANT CENTRAL BANK WHICH IN RECENT MONTHS UNDER AN ACTING PRESIDENT HAD TENDED TO BECOME LITTLE MORE THAN UNQUESTIONING PAYMASTER OF GOS. THAT CENTRAL BANK IS ONCE MORE
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PAGE 03 PARAMA 00849 01 OF 03 091722Z

DOING ITS TRADITIONAL DUTY IS SEEN AS PROOF THAT NEW FINANCE MINISTER MARCEL CHEHIN IS BEGINNING TO IMPOSE KIND OF IN-HOUSE DISCIPLINE WITHIN GOS NEEDED BEFORE COMING SERIES OF MEETINGS WITH IMF.

SHORTAGES OF CONSUMER GOODS

5. IN RECENT WEEKS EMBOFFS HAVE CALLED ON NUMBER OF LEADING IMPORTERS AND HAVE VISITED THEIR WAREHOUSES (SEVERAL BUILT IN PAST TWO YEARS IN ANTICIPATION OF AN IMPORT SURGE THAT IS, OF COURSE, NOT UNDERWAY). WAREHOUSES AND COVERED STORAGE SPACE DESIGNED FOR AUTOMOBILES, IMPORTED FOODS, AND CONSUMER DURABLES ARE TYPICALLY FROM 50 - 90 PERCENT EMPTY. THIS STATE OF AFFAIRS, ACCORDING TO TYPICAL IMPORTER/WHOLESALER, HAS FOR ALL PRACTICAL PURPOSES COME ABOUT IN PAST 90 - 100 DAYS. ALL IMPORTERS CONSULTED--AS WELL AS LEADERS OF CHAMBER OF COMMERCE--CONFIRM THAT AN IMPORT PIPELINE EXISTS WHICH WILL NOT BE EXHAUSTED FOR ANOTHER 3 - 4 MONTHS AFTER WHICH, THEY THINK, STOCKS IN STORAGE WILL SOON BE DEPLETED. THEY FORESEE JULY 1984 AS THE BEGINNING OF THEIR REAL TIME OF TROUBLES.

6. AT THE RETAIL LEVEL, EFFECT OF 60TH IMPORT CURTAILMENT SPASMODICALLY BEGUN BY GOS LAST AUTUMN AS WELL AS OF MARCH 27TH LETTER OF CREDIT SUSPENSION HAS NOT YET MADE ITSELF WIDELY FELT. WITH SOME PERSISTENCE, MOST IMPORTED GOODS FREELY AVAILABLE ONE YEAR AGO CAN STILL BE FOUND SOMEWHERE IN PARAMARIBO. IT IS NOTABLY MORE DIFFICULT TO FIND SOME ITEMS

SUCH AS WHISKEY AND CERTAIN OTHER IMPORTED SPIRITS AND THEIR PRICE, DESPITE PUTATIVE GOS PRICE CONTROL, IS RISING. CURRENCY BLACK MARKET IS ALSO GROWING WITH ONE US DOLLAR NOW BUYING AT LEAST THREE SURINAME GUILDERS INSTEAD OF OFFICIAL RATE OF ONE DOLLAR BUYS SF 1.77. APPARENTLY, FEW SURINAMERS HAVE BEGUN MASSIVE HOARDING THROUGH MANY ARE BEGINNING TO TALK ABOUT IT AS AN OPTION. MORE WORRISOME TO UPPER MIDDLE CLASS SURINAMERS IS INCREASINGLY CERTAINTY ABOUT NON-AVAILABILITY OF FOREIGN EXCHANGE TO FINANCE THEIR CHILDREN'S EDUCATION IN CONFIDENTIAL

CONFIDENTIAL

PAGE 04 PARAMA 00849 01 OF 03 091722Z

NETHERLANDS OR, TO MUCH LESSER EXTENT, IN US.

THE BUDGET AND TAXES

7. FROM DECEMBER 31, 1983 TILL MARCH 17, 1984 (LATEST FIGURES AVAILABLE TO EMBASSY) SURINAME'S TOTAL FOREIGN EXCHANGE RESERVES (BOTH COMMITTED TO L/CS AND UNCOMMITTED) FELL FROM SF

CONFIDENTIAL

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PAGE 01 PARAMA 00849 02 OF 03 091932Z
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138 MILLION (DOLLARS 77 MILLION) TO 107 (DOLLARS 60 MILLION).
IN BRIEFINGS AROUND TOWN CURRENTLY BEING PRESENTED BY MINISTER
OF FINANCE AND/OR MEMBERS OF HIS ADVISORY GROUP THE CONSTANTLY
REVISED, TENTATIVE "BEST CASE" CY 1984 BUDGET CURRENTLY
ENVISAGES AN INCOME OF SF 523 MILLION (DOLLARS 293 MILLION) AND
(A) REGULAR EXPENDITURES OF SF 634 MILLION (DOLLARS 355
MILLION) PLUS (B) DEVELOPMENT EXPENDITURES OF SF 84 MILLION
(DOLLARS 47 MILLION) FOR AN OVERALL DEFICIT OF SF 195 MILLION
(DOLLARS 109 MILLION). WHEN THIS IS, HOWEVER, COMBINED WITH
AN ADDITIONAL ESTIMATED LOSS OF TAX REVENUE OF SF 30 MILLION
(DOLLARS 17 MILLION) CAUSED BY THE THREE-MONTHS DELAY TO DATE
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PAGE 02 PARAMA 00849 02 OF 03 091932Z

IN IMPOSING THE NEW TAX REGIME NECESSARY TO ACHIEVE NEW GOALS,
A NET DEFICIT IS THEREFORE FORESEEN OF SF 225 MILLION
(DOLLARS 126 MILLION). IN JANUARY 1984 THE "INTERIM CABINET"
OF PRIME MINISTER UDENHOUT INHERITED FROM THE PREVIOUS ALIBUX

REGIME AN EXPANSIONARY DRAFT BUDGET PROPOSING BOTH NEW SPENDING AND NEW TAXES (TAXES WERE OF COURSE TO HAVE BEEN IMPOSED IN JANUARY BUT COULD NOT BE BECAUSE OF WIDESPREAD WORKER OPPOSITION--ESPECIALLY IN THE BAUXITE SECTOR). WITH THE MASSIVE TAX HIKE PROVISIONS OF THE ALIBUX/CALDEIRA 1984 BUDGET SUDDENLY A POLITICAL IMPOSSIBILITY, THE UDENHOUT/CHEHIN TEAM INHERITED, IN EFFECT, A PROPOSED BUDGET WITH A DEFICIT OF AT LEAST SF 343 MILLION (DOLLARS 192 MILLION). AS NOTED ABOVE, THIS INHERITED BUDGET HAS NOW BEEN RESHAPED--ENVISIONING A 1984 BUDGET DEFICIT OF ONLY SF 225 MILLION (DOLLARS 192 MILLION). NOTE: ABOVE FIGURES DO NOT ALWAYS SUM EXACTLY DUE TO ROUNDING. IN ANY CASE, ABOVE FIGURES ARE NOT SET IN CONCRETE AND MAY VARY WEEKLY AS A RESULT OF ONGOING COMPROMISES WITHIN THE TRIPARTITE GOVERNMENT.

8. MINISTRY OF FINANCE TEAM IS NOW CONSULTING WITH BUSINESS, ARMY AND LABOR LEADERS TO SEEK THEIR UNDERSTANDING AND SUPPORT FOR NEW BUDGET AND TAX INCREASES THAT MUST ACCOMPANY IT. WHILE BOTH LABOR AND BUSINESS LEADERS ACCEPT IN THE ABSTRACT THE NEED FOR A TAX HIKE, BOTH GROUPS CITE EXTRAVAGANCES BY GOS IN GENERAL AND ARMED FORCES IN PARTICULAR (E.G. NEW MERCEDES LIMOUSINES, CISM BASKETBALL TOURNAMENT NEXT SEPTEMBER) AS JUSTIFICATION FOR THEIR UNWILLINGNESS TO CHAMPION ANY TAX INCREASES TO THEIR RANK AND FILE. "NO TAXATION WITHOUT REPRESENTATION" IS HEARD WITH GROWING FREQUENCY FROM EMBASSY BUSINESS AND LABOR CONTACTS. MORE FREQUENTLY HEARD, HOWEVER, IS "NO TAX INCREASE WITHOUT REAL AUSTERITY BY THE ARMY."

9. IN ONE RECENT BRIEFING TO BUSINESSMEN JOSEF BRAHIM,
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PAGE 03 PARAMA 00849 02 OF 03 091932Z

PRESIDENT OF SURINAAMSCHE BANK AND CONFIDANTE OF FELLOW ETHNIC LEBANESE MINISTER OF FINANCE MARCEL CHEHIN, SKETCHED TIMETABLE WHICH SAW SERIES OF MODERATELY DIFFICULT GOS/IMF NEGOTIATIONS CULMINATING IN AGREEMENT ABOUT JUNE FIRST ON MEASURES BOTH SIDES WILL TAKE. THIS WOULD BE FOLLOWED BY INTENSE PUBLIC EDUCATION CAMPAIGN IN SURINAME IN SUPPORT OF MEASURES AND ENTRY INTO FORCE OF NEW TAX REGIME AND OTHER MEASURES AROUND JULY 1, 1984.

10. ONE LOCAL SCHOOL OF THOUGHT FORESEES SOCIAL UNREST OCCURRING WHEN WITHHOLDING OF MORE TAXES AT SOURCE FIRST TAKES PLACE IN EARLY JULY. ANOTHER VIEW RECALLS THAT MASSIVE STRIKES LAST DECEMBER/JANUARY BROKE OUT WHEN CALDEIRA-PROPOSED TAX HIKE WAS STILL ONLY IN TALKING STAGE WITHIN GOVERNMENT BUT LEAKED OUT TO PUBLIC DOMAIN. IN THIS VIEW, CURRENT ROUND OF EXPLORATORY MINFIN MEETINGS WITH BUSINESS AND LABOR LEADERS MAY IN ITSELF SUFFICE TO TRIGGER PUBLIC RESISTANCE, POSSIBLY BEFORE END OF APRIL AND IN ANY CASE BEFORE JULY. IT MUST BE NOTED, HOWEVER, THAT CALDEIRA'S FAILURE TO CONSULT KEY PLAYERS IN ECONOMY (BUSINESS AND LABOR) WAS IMPORTANT ELEMENT IN PUBLIC REJECTION OF HIS TAX PROPOSALS; ON THIS LATER OCCASION,

CHEHIN IS POINTEDLY MAKING EXTENDED EFFORTS TO DISCUSS FISCAL PROBLEMS AND REMEDIAL OPTIONS WITH ALL INTERESTED PARTIES. WHETHER THIS TACTIC WILL MEET WITH MORE UNDERSTANDING AND SUCCESS REMAINS TO BE DETERMINED. MOEDERBOND UNION CHAIRMAN FRED VAN RUSSELL, WHEN QUERIED ON THIS POINT, TOLD EMBOFF THAT TRADE UNIONS ARE NOW PARTNERS IN GOVERNMENT AND THEREFORE HAVE RESPONSIBILITY TO UPHOLD AND SUPPORT GOVERNMENT PROPOSALS. THIS VIEW BEGS QUESTION OF WHETHER--AS WAS CASE IN DECEMBER 1983 STRIKES -- RANK AND FILE WILL BREAK WITH THEIR LEADERSHIP.

ATTITUDE TOWARD IMF

11. IN NOVEMBER AND DECEMBER 1983, LOCAL MEDIA BEGAN TO PORTRAY IMF AS ANTI-THIRD WORLD FORCE BENT ON EXTORTING CONCESSIONS FROM GOS AGAINST SURINAME'S REAL INTERESTS. NO CONFIDENTIAL

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PAGE 04 PARAMA 00849 02 OF 03 091932Z

SUCH RHETORIC IS CURRENTLY HEARD. GOS BELIEVES (WITH CONSIDERABLE JUSTIFICATION) THAT IT CAN DECLINE EARLIER IMF SUGGESTION ON DEVALUING CURRENCY IN ORDER TO STIMULATE EXPORTS AND

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PAGE 01 PARAMA 00849 03 OF 03 091920Z
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CURB IMPORTS. MOOD OF CURRENT GOS FINANCIAL TEAM VIS-A-VIS
IMF IS UPBEAT, BUSINESSLIKE AND HOPEFUL OF MODERATELY TOUGH
BUT SHORT AND SUCCESSFUL NEGOTIATIONS OVER NEXT FEW WEEKS.

CARIBBEAN BASIN INITIATIVES

12. FOR ESSENTIALLY POLITICAL RATHER THAN ECONOMIC REASONS, AND
AS USEFUL WARM UP STAGE ON ROAD TO RESUMPTION OF US CIVILIAN
AND MILITARY AID, GOS APPEARS READY IN PRINCIPLE TO APPLY
FOR CBI CERTIFICATION, PERHAPS AS EARLY AS NEXT MONTH.
REQUESTS FOR EMBASSY BRIEFINGS ON CBI ARE INCREASING FROM GOS,
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PAGE 02 PARAMA 00849 03 OF 03 091920Z

BUSINESS AND LABOR. HAVING, ARGUABLY FOR THE WRONG REASONS, DECIDED TO APPLY FOR CBI CERTIFICATION, GOS IS NOW UNDERSTANDABLY CASTING ABOUT FOR THE RIGHT REASONS. THUS OPENNESS TO CBI IS CREATING IN TURN A MORE FUNDAMENTAL (THOUGH NASCENT) AWARENESS OF INADEQUACY OF CURRENT POLICIES REGARDING TOURISM, EXPORT EXPANSION, CAPITAL FORMATION AND FOREIGN INVESTMENT ATTRACTION. IN THIS RESPECT IT IS WORRISOME THAT MINISTRY OF TRANSPORT, TRADE AND INDUSTRY IS FAST BECOMING LAST REFUGE FOR RADICALS RECENTLY DRIVEN OUT OF FOUR OTHER MINISTRIES CONTROLLED BY BUSINESS AND LABOR NOMINEES WITHIN CABINET. FOR BETTER OR WORSE THIS MINISTRY HAS AN INDISPENSABLE ROLE TO PLAY IN IMPORT/EXPORT POLICY AND ITS ANGRY NEW ANTI-AMERICAN ARRIVALS FROM THE LEFT PRESUMABLY ARE NOT DISPOSED TO SEEK ECONOMIC GROWTH FOR SURINAME THROUGH PARTNERSHIP WITH THE US WITHIN CBI.

13. AGAINST THIS GENERAL BACKGROUND OF SPREADING AWARENESS THAT REAL ECONOMIC CRISIS IS AT LAST UPON SURINAME, FINANCE MINISTER MARCEL CHEHIN PLANS TO TRAVEL TO WASHINGTON APRIL 13TH FOR DISCUSSIONS WITH IMF AND USG. SEPTEL WILL DETAIL HIS INTERESTS. LABOR AND BUSINESS ARE NOT PREPARED TO INDLUGE SURINAMESE ARMY'S EXPENSIVE TASTES OR INCREASE TAXES TO INDULGE SUCH ECONOMICALLY MARGINAL SHOWCASE PROJECTS AS THE ANTI-ILLITERACY CAMPAIGN, A PEOPLE'S MILITIA OR BOUTERSE'S PET NATIONAL UNITY CAMPAIGN. IN THIS DISINCLINATION SURINAMESE CIVILIAN INTERESTS AND THOSE OF THE IMF WILL CERTAINLY COINCIDE.
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