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STRATEGIES FOR SUSTAINABLE LONG TERM ECONOMIC DEVELOPMENT IN CURACAO

**Summary of Curacao's overall comparative
and competitive advantage and in all sectors
identified as potentially critical for future
economic growth and development**

by David Luff

Outline

- Summary of Negative factors
- Issues favourable to the implementation of reforms

I. Negative factors

- **Exogenous factors**, which the Government have no or little control over. They require international cooperation to try to curb them.
- **Endogenous factors**. A renewed policy must deal with them.
- Defining a policy focusing on sustainable development, diversification and business competitiveness.

Unfavourable exogenous factors

- **Small physical size**, proneness to climate extremes.
- The threats posed by a **changing climate** to Curacao's development prospects.
- **Limited natural resources**, inclusive of freshwater.
- **Limited resident human capital** (a population of approximately 140,000 inhabitants).
- **High fossil fuel costs** estimated at 0.42 US\$/kwh.
- **High cost of raw material** in general.

Unfavourable exogenous factors II

- **High cost of new environmental technologies.**
- The **high cost of** international ocean and air **freight**, although most study respondents did not consider that factor as an obstacle.
- **Strong foreign competition** and size of emerging economies.
- The **erosion of trade preferences.**
- **Food prices** are likely to continue to fluctuate with a general trend to move upwards.

Unfavourable endogenous factors

- Endogenous factors are twofold.
- On the one hand, they relate to **objective data** related to the current situation of the country and its companies.
- On the other hand, they are related to a number of existing **attitudes** prevailing in the country and which can, through politics, hinder changes.

Objective endogenous factors

Environment:

- There are **insufficient mechanisms to ensure that polluters pay the full cost** for their polluting actions. This may impair the proper pursuit of sustainable development.
- There is a **poor record of measurement** how quickly natural assets are being lost.
- There is an **inadequate legislative framework to protect the marine resources**.
- **Limited research** has been conducted to ascertain the effects warming temperatures northward may be having on migratory patterns of the fish stock

Objective endogenous factors II

Human resources

- There are **declining job opportunities** on the island.
- There are relatively **high levels of unemployment**, estimated in the vicinity of 30% of Curacao's youth, which impair social sustainability
- Curacao suffers from **significant brain drain** of its qualified personnel, which may actually exceed the Caribbean average
- There remains functional **illiteracy** in the population
- **Crime is on the rise** and poses a serious threat to social stability.

Objective endogenous factors III

Human Resources II

- There is a **shortage of skilled labour**. In particular, there is insufficient technological expertise.
- **The education system is not responsive to the needs of the island** in general and of employers in particular.
- Curacao spends a relatively high percentage of its GDP on the education system compared to other countries in the region. However, **the drop-out rate from secondary school remains high**.
- **Wages are on average quite high** relative to productivity levels.
- **Labour regulations are burdensome and lack flexibility**.

Objective endogenous factors IV

Business Environment

- The **cost of doing business** in Curacao is generally **high**, inclusive of the cost of capital
- **High shipping** (and container handling) **fares**.
- **High electricity and telecommunication prices**.
- The **cost of water** is exorbitantly high, due in part to a leakage of about 25%, an obsolete distribution system, and elevated energy costs.
- There remain **unnecessary administrative hurdles and discretionary practices**. Stakeholders complain about bureaucracy and red tape and not always predictable customs procedures.

Objective endogenous factors V

Business Environment II

- **Applying for a work permit** in order to hire an overseas person is **very difficult and extremely challenging**. The 80 – 20 rule is an important constraint in sectors such as tourism.
- The **local judiciary remains too slow** to effectively settle commercial disputes. Furthermore, concerns were also expressed about the possible lack of independence of the lower courts.
- Problems were identified in the implementation of the existing rules and procedures.

Objective endogenous factors VI

Economic policy, trade and investment

- There is a **significant budget deficit**, which must be curbed. The Government remains constrained in its budgetary policy.
- Pressures related to **health care and pensions present a significant drag on the budget** which may not be sustainable in the long term.
- Due to the fact that since 1971 Curacao has operated a fixed exchange rate with the US\$ of NAf 1.79 = US\$1, it is **limited in its monetary policy instruments**.
- There is a **growing level of uncertainty about the economic development prospects** of the economy. This impairs domestic and foreign investment.

Objective endogenous factors VII

Economic policy, trade and investment II

- There is a **growing dependence on foreign funds**, which is unreliable by nature
- **Low level of investment** may speak to relatively weak degree of FDI attractiveness.
- The bulk of private investment goes into three sectors only: financial, utilities ('Electricity, gas, and water'), and 'Transport, storage, and communications'.
- A combination of **inadequate savings and deficiencies in financial intermediation** has played a part in reducing investment.

Objective endogenous factors VIII

Economic policy, trade and investment III

- Domestic savings are inadequate. There is absence of a clear policy to remedy this ailment.
- The Government still **lacks the capacity to define a trade policy** in keeping with international rules and practices and to negotiate trade agreements as the need arises.
- **No systematic trade-related technical assistance is organised.** There is no regional programme in the framework of the 10th EDF (European Development Fund) in the area of trade.

Objective endogenous factors IX

Industrial policy

- There is a considerable **difference between the patterns of domestic production and consumption.**
- Curacao's **export base is undiversified.**
- The portfolio of curacao is very concentrated both on markets and in products. The US, The Netherlands and other Netherlands Antilles islands account for over three quarters of its exports.
- Curacao **does not have a proper competition policy.**
- Unregulated anti competitive practices seem to take place in the sectors of telecommunications, utilities, pharmaceuticals and harbour services.

Objective endogenous factors X

Industrial policy II

- The one sector that continues to be the leading growth contributor, i.e. “**financial intermediation**”, has posted a notable **decline** in economic activity.
- With the loss of Curacao’s national carrier ALM, Curacao lost many of its Jamaican and Haitian customers.
- **Taxes are high**. There is a risk that an overtaxed population circumvents making payments by entering the informal/shadow economy.

Objective endogenous factors XI

Industrial policy III

- There is a **weak company structure in Curacao**. A majority of companies employ not more than 10 people. They have not sufficiently invested to enhance their competitive edge in most cases.
- **Few companies run a marketing department and professionally explore niches**. Companies are not currently well-prepared to export and face competition.
- There is, generally speaking, an observable **lack of brand awareness**.

Objective endogenous factors XII

Politics

- It is difficult for any single party to get a parliamentary majority of eleven seat. A **coalition government is often required** and coalition governments are often unstable.
- The regular changing of Governments in the country generates **lack of continuity in development plans**.
- There is **insufficient dialogue and consensus between key stakeholders**, namely the Government, the private sector and the labour unions.

Attitudes

Difficulties due to mentalities and culture in Curacao:

- A **feeling of fear** prevails among the population afraid of facing a difficult transition phase.
- **Trade unions and other civil society representatives** have been exerting **strong pressure** to maintain a number of protection schemes and preserve local jobs.
- Curacao's young people would like to **emigrate**.
- **Capital holders** resent the current situation and **do not invest**.
- **The country remains very divided**, thus generating unstable politics.
- There are many visions, but a structural **lack of capacity to get organized and move into practical implementation**

Sector-specific Unfavourable factors

Agriculture

- Curacao's agricultural sector remains nascent **and labour intensive**.
- Relatively **abundant and cheap supplies of imported foods** brought into the island “crowd out” local production
- **Low net benefits** derived from being engaged in agriculture
- Curacao is a **freshwater scarce** island.
- **Rising grain prices** caused feedstock to increase and thus the input price for livestock.
- **Overfishing** is observed.

Sector-specific Unfavourable factors II

Tourism

- **Shortage of trained personnel** to meet growth demand.
- Mismatch between pre-service training and industry needs.
- Growing **dependency on overseas workers** may affect product character.
- Rapid expansion of tourism may alienate locals due to traffic congestion, restrictions on access to amenities, etc.
- Over-supply of accommodation.
- Uncontrolled/illegal development.

Sector-specific Unfavourable factors III

Financial Industries

- Limited competitiveness of the industry
- Threat of actions by the OECD countries.
- Poor implementation of legislation does not facilitate the development of new products.

Sector-specific Unfavourable factors IV

Oil Refinery and Oil by-Products

- The distinctive smell of sulphur emissions which are unpleasant to tourists.
- The emission of large amounts of greenhouse gases such as sulfur dioxide (SO₂), nitrous oxide (NO) and carbon dioxide (CO₂), which are all extremely damaging to the environment and public health.

Sector-specific Unfavourable factors V

Maritime, Airport, Transshipment and Vessel Registration Cluster

- **Obsolete equipments**
- **Growing competition** from harbors like Colon and Jamaica, which have upgraded their harbor infrastructure and activities to accommodate post-Panama container ships. Other harbors in the region such as St. Maarten, Cartagena, Trinidad and Manzanillo have also been investing in post-Panama infrastructure.
- **Obstacles in the registration and certification of ships**, as well as in the inspection policy that were seen by stakeholders as the most obstructive and bureaucratic.

Sector-specific Unfavourable factors VI

Maritime, Airport, Transshipment and Vessel Registration Cluster II

- In the case of **transshipment** :
 - Location opposite trunk routes
 - High captive volumes
 - Port accessibility
 - High handling capacity
 - Low cost (transshipment is highly price sensitive, footloose, cost two additional moves)
 - Participation strategic partner required, willing to invest (BOT)
- Currently exclusively rights CPS for all cargo/entire land.

Sector-specific Unfavourable factors VII

Logistical services related to high value products

- The Curacao Airport Holdings seems understaffed and overstretched.

Clean Energy Sectors

- The **lack of a coherent energy policy** and existence of electricity supply contracts that guarantee the power providers a minimum rate of return on their investments (fuel surcharge).
- **Investment in solar energy is discouraged** by the energy policies currently in place. Investment is also inhibited by the inability of the power grid to use feed-in tariffs, though small producers and households would be able to sell to the grid in Curacao.

II. Issues favourable to the implementation of reforms

- *General positive factors*
- *Sector-specific Favourable factors*

General positive factors

- Curacao sits in an **enviable position in the region** largely outside the hurricane belt in the Caribbean.
- Curacao is **close to regions comprising relatively prosperous and high growth countries** and may develop positive synergies with them.
- Curacao has **substantial marine resources**.
- Curacao has a **low rate of inflation and a stable currency** (pegged to the US dollar)
- **Each graduate** from secondary school is **proficient in at least three official languages**, i.e., English, Dutch and Spanish.
- There is a strong work and analysis potential among the urban Curacao workforce.

General positive factors II

- **Salaries and social welfare are already quite good** even though a drop in purchasing power has been recorded.
- In terms of **basic infrastructure**, Curacao is reasonably **well equipped** (telecom, harbour, airport, road infrastructure).
- There is a **reliable supply of utilities**, even if they are expensive.
- **Data collection mechanisms are in place** and statistics are generally available.
- **The maintenance of the Dutch legal and judiciary system is a positive acquis** for Curacao.

General positive factors III

- Curacao benefits from **the most generous tariff regime granted by the European Union.**
- In addition Curacao is subject to **a preferential regime of rules of origin** and **special provisions on transshipment.**
- The close connexion with the EU provides a favourable framework for exploring opportunities for trade and investment with the EU Member States.
- **Private cash assets are possibly available** for investments.
- There are already **incentives** supporting companies (IT centres, tax incentives on inward capital investment, investment allowances, Expatriate exemptions on income tax, E-Zones, etc.

General positive factors IV

- **People are starting to think differently.** The stakeholders within the private sector and the Government are starting to ask the right questions. Companies have made it clear that they are ready to take up the challenge if a clear policy is implemented.
- **Donors' funds are available.**
- Apart from its small size and its low population density Curacao has few excuses to oppose any policy promoting competitiveness and openness to international trade.

Sector-specific Favourable factors

Agriculture

- The island is said to produce a **very high quality of products** and is relatively disease free.

Sector-specific Favourable factors II

Tourism

- **Friendly welcoming people** and staff in tourism industry
- Multilingual; diverse culture
- Building long-term skill base in the industry
- Existence of Initiatives in training, community-based tourism and public awareness
- **Good year round climate**
- **Interesting reefs** – drop-offs, swim-throughs, etc.
- **Variety of beaches; national parks** and scenic areas
- **Willemstad world heritage city** a major attraction

Sector-specific Favourable factors III

Tourism II

- Extensive road network which is in good condition
- 'State of the art' airport management system
- Modern cruise terminal and mega pier
- Safe havens and moorings for yachts
- Good provision of water and power
- Plentiful accommodation
- Range of activities and attractions
- Rich cultural heritage

Sector-specific Favourable factors IV

Financial Industries

- Sophisticated financial system
- Favourable tax treaties

Sector-specific Favourable factors V

Maritime, Airport, Transshipment and Vessel Registration

- As one of the largest commercial dry-dock in the Caribbean, the Curaçao Dry-Dock (CDM) is well know in the region for the high quality of its services
- Apart from being considered one of the most expensive dry docks in the Caribbean, ship owners still consider this dock as relatively inexpensive, due to the highly favorable rate of the Euro.
- Curaçao Airport has an **important strategic location**, making the country an excellent distribution hub for several important regions.

Sector-specific Favourable factors VI

Back office services, Data Centre and Digital, IT and high tech services

- Curacao enjoys “**exceptional**” **connectivity** (5 major sub-sea cables, 2 more projected, that the island is connected to).

Clean Energy Sectors

- **Wind conditions are ideal** for the exploitation of wind energy
- The subsidies related to the production of solar panels by the US and China have helped to sharply reduce the price of the technology, and make it more affordable.

Thank you