

## New challenges for the Curacao economy

*Speech by Mr. A.G. Romero, Executive Director for the Quota International of Curacao  
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Someone once said: "There is nothing permanent except change."

We live in an environment of constant change, environment of challenges for the Curacao economy. We are building a new economy, and Curacao is changing.

Recently I read an interesting paper titled: "Top Trends of the New Millennium," issued by the Briefing Publishing Groups of the U.S.A. The paper expressed some imminent views on how individuals and corporations will be performing in the 21st century.

In my view, some of the ideas in the paper should, be used here, in Curacao, at this time, when we are just starting to build a new economy. Embracing the vision offered by the "Briefing Publishing Group" will help us meet the competition, confront the challenges, and surrender to the new cycle of change.

Today, I want to focus on three important areas of change and the role they will play in posing new challenges for the Curacao economy in the years to come: the repositioning of the economy, the reconfiguration of the health care delivery system, and of the planning of a retirement scheme.

First, the top trends of this millennium indicate that corporations as well as individuals are today repositioning themselves as global competition intensifies. Why are they doing this? The driving force behind these changes has to do with rapid integration of world trade and financial intermediation. Taking this lesson home to Curacao, we also are being forced to reposition our economy into this new international environment where global competition is pushing us to work more efficiently, through increased productivity and doing away with waste and misuse particularly in the public sector.

The second top trend that will have a lasting effect on our well-being is the reconfiguration of the health care delivery system. I would call this a public sector-driven health care system, or the managed care industry. The managed care industry that emerged in the 1960s worldwide was focused on curtailing escalating health care costs and safeguarding the public from unnecessary, overpriced medical procedures by controlling use of the health care system.

Many people accepted this concept but finally found out that it was too good to be true. Today, our society is experiencing the negative effects of the design of such a health care system.

The mounting problems and inefficiencies in the health care system in Curacao, where growing medical bills are left unpaid by the governments, is a point in case. Can we really afford this system in the near future? The simple answer is "no," and we should, therefore, concentrate our efforts on reforming this system into a more efficient one.

In the US, the solutions emerging to curtail health costs focus on a combination of private and public initiatives. Numerous benefits can be derived from private-based contracts between health care suppliers and insurance companies at competitive prices. If we succeed in combining these benefits with the public responsibility to provide health care for all, this can be one of our greatest achievements ever.

Like the US we have to start thinking in this direction to solve our problems in the health care sector. The third and final trend we will be seeing relates to retirement planning. Millions of people around the world are rethinking their retirement and the financing of their retirement plan. Many see retirement as a reward for a lifetime of hard work and are confronted on the one hand with higher costs for medicaid and medicare and, on the other hand, with stable dropping income in real terms.

Studies conducted in the US show that 40% of the American households have no retirement savings. Here, a 1996 study on our pension system concluded that two-thirds of the people on our islands do not have a fully funded pension plan. It is with these trends in mind that we have to concentrate our efforts on building a new society that is able to accommodate and solve a number of problems we expect in the coming years.

**The urgent need for a shift in the economic paradigm.**

It is important to state at this time of development that the traditional economic sectors of Curacao's economy, such as the tourism sector, the international financial services sector, and the oil-refining business sector have experienced dramatic changes in the course of recent decades.

Investments in the tourism industry have lagged behind for many years in Curacao, resulting in a deterioration of the physical infrastructure. In addition, the lack of training of the human resources in this sector has increased our dependency on foreign managers and workers. In the oil refining industry, the rationalization in cost, the further automation of the refining process, and the competitive trends in the world with regard to alternative and cheaper energy resources have resulted in a continued drop in employment in this sector in Curacao.

In the international financial services sector, competition of regional and international tax jurisdictions combined with the growing pressure from the world economic institutions such as the Organization of Economic Cooperation and Development (OECD), the Financial Stability Forum (FSF) and the Group of Seven have forced our authorities to reorient their tax policies. Furthermore, we have just started to focus our attention on new competing sectors and on other types of international financial services.

All of these developments trigger long-lasting policy changes for the local authorities. We are focusing on identifying and revitalizing the main and potential sectors for future economic growth.

I find this a major challenge not only for the policymakers, but also and principally for all investors and others living on this island.

These trends I have just briefly outlined call for a new approach to safeguard the economic significance of important economic pillars of Curacao in terms of employment, tax income, foreign exchange, production, and wealth accumulation.

Beginning last year, the government of the Netherlands Antilles decided to work closely with the World Bank and Foreign Investment Agency Services (FIAS) to identify areas of risks for the economy of the various islands of the Netherlands Antilles, and to design multi-annual economic programs to resolve issues of concern.

In the next section, I will briefly outline the most important recommendations of the World Bank and FIAS with regard to the most urgent actions that we have to undertake decisively and swiftly to create this new Curacao economy for us and our future generations.

#### **New conditions for economic growth on the island.**

As indicated earlier, the World Bank is actively involved with the government of the Netherlands Antilles in designing an economic program, and has suggested the following strategy for growth. In its final report of April 2001 the World Bank team recommended some areas of attention to ignite economic growth.

This strategic development plan, should be multi-pronged involving the port, the financial sector, distribution, manufacturing, social services, and above all, the tourism sector. The potential for increased earnings from tourism in Curacao is great, but realization of this potential will require considerable new investments, both in the private and public sectors.

Major underutilized attractions of Curacao include:

- The historic town with old neighborhoods and buildings that should continue to be restored as a marketing instrument for strategic growth;
- The beautiful coastline with small beaches;
- The well-protected deep-water ocean port with excellent facilities, including the largest floating dry dock for ship repairs in South America;
- The dozens of old 'country houses'.
- The private sector is undertaking significant investments in the tourism industry. The developments in the area of Otrobanda serve as a good example of how private initiatives have transformed the area of Kura Hulanda for instance into a wonderful business and tourism quarter of the island.

Another initiative at the famous "Awa Sá" side is now being finalized where a new hotel will emerge, and a shopping center at Riffort will connect the new mega Pier cruise terminal with our famous Queen Emma Bridge.

To give you an overview of the various projects in the hotel and tourism sector that are being undertaken or are scheduled to start soon I will name a few of the projects that are intended to jump start the economy of Curacao.

Some hotel projects are:

Chogogo Resort, Coral Estate, Habitat, Living Stone Resort, Lions Dive Hotel, Papagayo Resort, Brionplein Hotel, Royal Resorts, Santa Barbara Resort, van der Valk Hotel, Caracas-Bay Resort, and the Cas Abou Resort.

Another area of attention is the international financial services sector where economic activities continue to play an important role for Curacao. This industry is now at the beginning of a new era mainly in a response to changing national and international conditions.

To meet the various challenges that the international financial services industry faces, the Netherlands Antilles authorities recently adjusted and modernized its tax legislation in line with international standards.

Some important milestones the government achieved during the last two years include:

- The approval in Parliament in December 1999 of the New Fiscal Regime (NFR) as a reaction to criticism, by the OECD and the group of Seven economies with regard to the differences in taxation between the residents of the islands and those entities and persons living abroad (nonresidents).
- On December 1, 2000, the United States Internal Revenue Services (IRS) approved the request of the Netherlands Antilles to be classified as a 'Qualified Intermediary'. This approval is important in connection with the introduction of the new tax withholding regulations in the USA in January 2001 under which income from non-QI sources is subject to higher withholding tax rates.
- In December 1, 2000, the governments of the Netherlands and the Netherlands Antilles reached an agreement in principle in amendments of the Kingdom Tax Arrangement (BRK).

Considering all the aforementioned changes in the international financial industry one can conclude that the Netherlands Antilles is reforming its tax regime to comply with the international trends particularly to remove the distinction in taxation between residents and nonresidents of a country.

#### **Removing barriers to growth.**

The World Bank team has recommended the authorities on the island to work on a comprehensive social consensus among all the stakeholders to realize the necessary paradigm shift on the island.

I quote from page 7 of the World Bank report: "To broaden popular support for a national economic recovery plan, it would be important to engage all relevant stakeholders in the Netherlands Antilles in a vigorous national debate and consensus building exercise. The Comprehensive Development Framework (CDF) approach, for developing a higher degree of national consensus on what needs to be done and how to do it." Unquote.

Further in completing the essential paradigm-shift exercise, there are other critical areas where new development is of utmost importance for our future economic growth.

The World Bank has recommended to look into the following areas:

1. Accelerating expansion of Curacao's port container;
2. Teaming up with labor groups to find ways of re-arranging work shifts in Curacao ports to reduce the costs associated with overtime. In turn, this would permit a lowering of some port charges, which would have an important 'signal value'.
3. Relaxing restrictions on work permits for managers and senior staff from foreign countries would also help expedite economic recovery.
4. Along with the World Bank, we are involved in refocusing the economy of the Netherlands Antilles.

The Foreign Investment Agency Services (FIAS) has conducted a study on the barriers to attracting new investments. I would like to share some preliminary findings with you. The foreign direct investment (FDI) study concluded that Curacao has many attractive features that can draw foreign investors. These features are skilled managers, specialized experts in international taxation and accounting, and a judicial system that is better than almost any in the region.

On the other hand, numerous negative barriers repel potential investors.

Two important areas need urgent improvement:

- Reducing administrative barriers, red tape, and excessive long delays and the difficult processes for getting licenses.
- Simplifying, streamlining and strengthening the tax system, which has too many taxes, is too complex, contains some excessive high rates and suffers from incompetent collection and enforcement.

Other areas of concern for the FIAS where we have to make necessary improvements are: improving the education sector, completing the privatization of public companies, and finalizing the financial difficulties because these raise interest rates and increase uncertainty for businesses.

According to the FDI study, compared to most countries in the world, the business environment here is subject to too much regulation, extremely long and unjustifiable delays in administrative decisions of government, and excessive discretion in the administrative functions.

Establishing a business and getting a basic business license are automatic in almost every country and usually accomplished in a matter of days, or even hours. Here these processes are discretionary, and they can take months or even more than a year.

The other important area where our authorities will have to make further reforms is the taxation system of the islands. The serious problems relating to taxation have roots on several levels.

- On the day-to-day level, and closest to the operations of businesses is the complexity and instability of the tax system. There are simply too many taxes, and the system is complex and discretionary as it relates to the investment climate. The instability in the number and kinds of taxes, tax rates, and tax regulations is very unattractive for (foreign) investors.
- A second level of risk relates to a lax and inefficient system of collection and enforcement of taxes. The inadequacies of revenue collection exacerbate the fiscal problems of the nation, leading to high interest rates and uncertainty in the business sector.
- At the inter-island level, the present system of tax collection and how the revenues are subsequently distributed is a source of many problems.

The present system is in part a product of the basic impossibility of having a uniform tax system throughout the five islands. This impossibility comes from the big differences in income level, economic structure of the islands and the tax base.

In a survey conducted by the FIAS team of business executives on Curacao the number one problem mentioned was "the taxes are too high." Other conclusions on the tax system from this investigation were that: "taxes are too complex" and "taxes are inconsistent among the islands."

### **Concluding remarks**

Ladies (and Gentlemen), today I have shared with you some of the top trends in the world that are having a significant impact on the way we will be conducting our state of affairs in the years to come on the island of Curacao. I have also outlined for you the evolving economic challenges that our island is experiencing and the reforms that are heading our way.

It's certainly a challenge. A new challenge for the Curacao economy. And a challenge for every individual in Curacao. To the confident, it's encouraging because the challenge exists to make things better.

While I think that it's important to make the necessary changes in our economic structure, we still have to complete and finalize the IMF program. I leave you with these thoughts in mind and wish you all the best in the future endeavors of the Quota Club.