

## **Emsley D Tromp: Regional integration – a policy agenda towards prosperity**

Address by Dr Emsley D Tromp, President of the Bank of the Netherlands Antilles (Bank van de Nederlandse Antillen), on the occasion of the seminar “Is Curaçao economically truly Caribbean?”, Willemstad, 24 April 2008.

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Good evening, ladies and gentlemen,

Let me start by thanking the Department of Economic Affairs of Curaçao and the Faculty of Social Sciences and Economics of the UNA for inviting me today. The topic of this seminar is a timely and important one for several reasons. First, regional integration has proven an important contributor to economic growth, especially in the case of small open economies such as ours, and second, Curaçao will become an autonomous country within the Dutch Kingdom in the near future. The ongoing constitutional changes provide a unique opportunity to design an economic policy that is aimed at sustainable economic growth by focusing on the development of key sectors of the economy. I believe that regional integration and cooperation should be included in this policy agenda.

The Curaçao economy shares many characteristics with other economies in the Caribbean basin. Similar to most economies in the region, our economy is small and open and has to deal with diseconomies of scale. Consequently, we are very vulnerable to international developments and external shocks. Moreover, like many islands in the Caribbean, tourism and international financial services are the main pillars of our economy.

Interestingly, despite sharing several characteristics with the neighboring economies, in terms of trade, our island is not really integrated into the Caribbean. The main trading partners of the Netherlands Antilles – of which the Curaçao economy represents 75 percent – are North America, Europe, and South and Central America. According to our trade statistics, trade with the Caribbean averaged only 8 percent of our total trade during the period 2000-2006. Despite our geographic proximity with Caribbean islands, the share of goods and services exported from the Netherlands Antilles to the Caribbean was 11.5 percent of total exports. Meanwhile, imports of goods and services from the Caribbean were only 4.3 percent of our total imports.

Ladies and gentlemen, trade flows are determined by the comparative advantage of a country vis-à-vis its trading partners. A country's comparative advantage is determined by, among other things, factor endowments and relative prices. Trade flows are negatively affected by trade barriers, which can be either tariffs, such as import duties, or non-tariffs including quotas, unfair customs procedures, and import licenses. These barriers affect trade in merchandise. Trade in services also is hampered by barriers, such as licensing procedures, nationality and residency requirements, and discriminatory treatment advantaging domestic companies over foreign ones. To stimulate trade flows, countries usually engage in free trade agreements with other countries. As you may know, free trade agreements reduce trade barriers considerably and ultimately may result in trading blocks with unrestricted trade among the members of the block.

Currently, there are several trading blocks based on free trade agreements among groups of countries in the Western Hemisphere. So far, the Netherlands Antilles has no full membership affiliation with any of the regional trading blocks. Furthermore, we lack bilateral free trade agreements with individual countries in the region. Hence, the Netherlands Antilles – and consequently Curacao – is faced with high trade barriers in the region. I believe that these barriers have a negative impact on our trade flows in the Caribbean. As a consequence, we are not seizing the opportunities the Caribbean market place has to offer.

Our failure to take advantage of these opportunities is unfortunate given that economic growth in our region has been particularly buoyant in recent years. According to the International Monetary Fund, the Caribbean economy grew by 4.2 percent last year, the fastest pace in the last two decades. For 2008, the IMF expects economic growth in the Caribbean to decelerate due to the global economic slowdown. Nevertheless, an above-average economic growth of 4 percent is projected for the region. By increasing cooperation within our region, the Netherlands Antilles, and consequently Curaçao, could benefit more from the ongoing economic expansion in the region.

Regional cooperation and integration are now imperative. Besides the classical benefits of trade creation and diversion, regional integration provides a platform for more effective integration into the world economy. This integration is crucial given the fast pace of globalization today. Globalization provides great opportunities, but it also leads to more competition. And globalization brings with it new risks and vulnerabilities.

Greater regional integration, if carried out correctly, can complement the process of global integration, both by taking advantage of the opportunities presented by globalization and by guarding against the vulnerabilities. This is especially important for small open economies such as ours.

With greater regional integration, economies of scale in the production of goods that are not attainable for individual islands due to their small size may be feasible for the region as a whole. Through regional agreements, politically challenging policy changes often can be realized. Furthermore, gains from specialization within the region can be achieved by pursuing different strands of the value-added chain. Regional integration also strengthens the ability of countries to deal with negative shocks, both external and country-specific. This ability is particularly relevant in our region, where the impact of shocks can be devastating for any single economy. Finally, combining forces through regional cooperation is the most effective way to proceed in international trade negotiations because it increases the power of small states.

Given these benefits, Curaçao must become more economically integrated within the region. Therefore, the barriers that are currently hampering trade between our economy and the region should be removed. I do realize that regional integration in the case of the Netherlands Antilles is very complex as our country is not autonomous in matters related to international affairs and trade. The government of the Dutch Kingdom is the authority responsible for international treaties and agreements. Because the Netherlands Antilles, and consequently Curaçao, are not sovereign with respect to international negotiations, regional integration achieved by joining a trading block is very difficult or even impossible. However, this challenge should not discourage us from making alliances or cooperating more intensively with regional trading blocks or individual countries in areas of interest. Such negotiations should take place, of course, with the support of the government of the Dutch Kingdom.

Ladies and gentlemen, the policy agenda towards more regional integration should include a thorough assessment of our comparative advantages and disadvantages vis-à-vis our neighboring economies. In this context, we must realize that cooperation and integration will be effective only if countries complement each other in terms of trade. By assessing our advantages and disadvantages, we will be able to select those areas and industries where regional cooperation will be most likely to stimulate trade.

Closer regional cooperation in such areas as tourism, transportation, telecommunication, and financial services will greatly facilitate the business development and economic growth of both Curaçao and its regional partners. Our tourism industry would benefit from more regional cooperation in marketing and promoting the Caribbean as a tourist destination. In addition, the sector would also gain from regional collaboration in tourism education and training programs.

In the area of transportation, we would benefit from more intra-regional shipping routes to promote the growth of intra-regional trade and business links. Furthermore, increased intra-regional air connections would support the further growth of our tourism industry.

In the area of telecommunication, our authorities could pursue regional collaboration to promote the further liberalization of the telecommunication services market and adequately regulate market monopolies, which tend to develop in this sector. This approach will stimulate the provision of state-of-the-art equipment and services at competitive prices. In addition, removal of barriers to trade in the telecommunications industry will provide our local companies with opportunities to expand their activities in the region.

Finally, more intensive collaboration is needed to promote the free flow of capital between our island and the region. Such collaboration will contribute to broader and deeper financial markets and the development of regional financial institutions, resulting in a wider range of financial instruments at lower costs. We already have had positive experiences with Caribbean banks and insurance companies that have expanded their activities toward our island.

Ladies and gentlemen, successful regional integration requires more than just the removal of trade barriers. Economic policy coordination and cooperation are also important in this context. Such coordination should include the following goals:

1. *Fostering of a stable macroeconomic environment.* Macroeconomic policy instruments, such as fiscal policy and monetary policy, should be applied in a consistent and sustained manner, complemented by supporting policies in the fields of, for example, education and infrastructure, and a stable institutional framework.
2. *Harmonization of regulatory frameworks towards a system of best practices.* This goal comprises a wide range of policy areas, such as standards for prudential regulation and supervision of the financial sector, foreign investment regulations, labor standards, product and professional standards, and tax harmonization, to mention just a few. Tax harmonization should include a regional code on fair tax competition and limiting the extension of tax holidays to attract foreign direct investment to prevent the erosion of our tax bases.
3. *Development of human capital.* A well-educated and skilled labor force is a critical success factor for regional integration and effective competition in a globalizing world. Regional cooperation between universities and training and research institutes can create economies of scale and attract high-quality staff to produce a labor force that meets the skills demanded by the business sector and the government.
4. *Improvement of productivity.* This goal comprises not only labor productivity, but also managerial capacity, adaptation to new technologies, and improvement of infrastructure.

Through regional integration, alliances, and cooperation, we can overcome our inherent weaknesses and ultimately be able to compete successfully in the global market. Many countries in the region have already realized that regional integration is crucial to seizing the opportunities of globalization, and overcoming the risks and challenges of this irreversible process.

I am convinced that progress towards more integration in the region will foster the performance of the Curaçao economy. For that reason, I sincerely hope that the question is not whether to integrate or not integrate, but rather, how integration can be realized in the most effective way. Therefore, integration into the region should be given a prominent place on the economic policy agenda of the new country of Curaçao. I thank you for your attention!