

## **Emsley D Tromp: Tourism in the Netherlands Antilles from a macroeconomic perspective**

Speech by Dr Emsley D Tromp, President of the Bank of the Netherlands Antilles (Bank van de Nederlandse Antillen), on the occasion of the annual VERA Conference, Willemstad, 8 November 2007.

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Good afternoon ladies and gentlemen,

It is with pleasure that I accept the invitation to address you this afternoon. Let me start by wishing you a fruitful and productive seminar. Ladies and gentlemen, the theme of this VERA conference as you know is "Accountancy and Tourism". While instinctively there does not seem to be a relationship, at least in the conventional sense, between these two sectors as the topic of this conference indicates, a careful analysis may lead you to conclude otherwise. Usually when we deal with the topic of accountancy, on the one hand, we discuss the standards, rules, and regulations in this professional field. The tourism industry, on the other hand, is usually discussed in terms of its economic impact, marketing efforts, and recent and future developments. Nevertheless, these two sectors have an important interrelationship. Firms in the tourism sector rely on accounting and tax services provided by the accounting firms. The tourist sector is also becoming an important client base for the accounting profession. By enhancing their mutual understanding, it will allow both sectors to better serve each other. It will also become possible to better structure one's services to meet both present and future needs.

A growing tourism industry generates more business opportunities for the accounting firms. Therefore, I do applaud the initiative of the VERA to organize this conference and to discuss the developments within the tourism industry, and their implications for the accounting sector. Today, I would like to add to this discussion by reviewing with you the developments within the tourism industry in the Netherlands Antilles from a macro-economic perspective.

First, I will deal with the developments on the global and the regional levels, followed by a discussion of the developments in the tourism sector in the Netherlands Antilles. Secondly, I will make an attempt to shed some lights on the challenges and opportunities the sector is facing and the necessary macro-economic environment conducive for the growth of the tourism sector. Last, I will discuss the outlook for the tourism sector.

Tourism, ladies and gentlemen, is a thriving industry. As the world economy expands, consumers are willing to spend an increasing share of their income on leisure activities like travel. On a global level, the tourism sector has indeed benefited from the world economic growth of recent years. According to the World Tourism Organization 846 billion persons around the world traveled for leisure or business in 2006. This represents a growth of 5.4% compared to 2005. (Figure 1 presents the development in tourism arrivals on a global level over the period 1990-2005.) During the past 15 years, the tourism sector has been expanding, except for North America. This lack of growth in the North American market, may be the result of the 9-11 attack and its aftermath, and natural disasters that occurred during the period 2000-2005. In spite of that, the tourism industry remains one of the largest and fastest growing sectors of the global economy.

One of the key characteristics of the tourism industry is its contribution to foreign exchange earnings. The World Tourism Organization estimates that the worldwide receipts from international tourism reached US\$733 billion in 2006. International tourism receipts increased by US\$57 billion in 2006. (In Figure 2, the development in international tourism receipts is presented for the period 2002 – 2006).

For many countries, foreign exchange receipts from tourism are an important contributor to economic development. It is widely acknowledged that the sector contributes to the economy in terms of job creation, investments, and income for the government. In addition, the industry has indirect spin-off effects across all other sectors of the economy. Therefore, the tourism sector is an important development tool especially for developing economies.

Because tourism contributes to economic development and growth, national economies compete against each other to obtain a larger share in international tourist arrivals by exploiting their competitive advantages. In fact, traditional tourist destinations, such as North America, Western Europe, Southern Europe, and the Caribbean, are facing increased competition from emerging tourist destinations including Asia and the Pacific, Central and Eastern Europe, Africa, and the Middle East. The increase in the number of tourist destinations is a result of the higher demand for tourist destinations. Fueled by the strength of the global economy, demand has emanated from new markets, such as China, India, and Russia. (Figure 3 shows the market shares in international stay-over tourist arrivals by region.)

The Caribbean has continued to experience growth in international tourist arrivals. In most Caribbean economies, tourism expansion has played a key role in economic growth and development. According to the World Travel and Tourism Council, the Caribbean is the most tourism intensive region in the world. Evidence also suggests that in all Caribbean countries, tourism is a highly labor intensive sector that provides opportunities for many small and medium enterprises that produce or supply products and services to the industry.

The impact of tourism is especially strong in the retail trade, hotels and restaurants, and the construction sectors. In most Caribbean economies it is a major generator employment and foreign exchange. According to the World Travel and Tourism Council, tourism now contributes to approximately 15 percent of the Caribbean's Gross Domestic Product and 16 percent of total employment.

However, growth in the Caribbean tourism industry has been lagging behind the global expansion largely because of the small scale and vulnerability of Caribbean economies to external shocks. In fact, growth in 2006 was partially offset by damages to the infrastructure that were caused by hurricanes in 2005. Moreover, problems in attracting additional airlift to the region also negatively influenced the regional expansion of tourist arrivals in 2006. Tourism sector growth in the Caribbean region has also been hampered by some weaknesses in the investment climate in the region. Because the tourism industry is a major source of income for most Caribbean countries, any threats to the sustainability of the industry must be addressed in a timely way. That is to say, we have to maintain a good investment climate.

Ladies and gentlemen, a good investment climate will lead to investment, jobs creation, and expansion of economic activities. More investments in the tourism industry will not only raise activities in the sector, but will also stimulate additional investments in related sectors, and hence contribute to economic expansion. Therefore, it is crucial that the investment climate give the correct signals and encourage high quality and more productive private investment.

With regard to the investment climate, Caribbean economies face more or less similar weaknesses. These weaknesses include:

- A qualitative mismatch in the labor market
- Inefficient public sector
- Infrastructure deficiencies
- Complex taxation systems
- Crime
- Macro-economic instability, and

- Natural disasters

Needless to say, the economies in the region should address these issues if they want to enhance their investment climate and thereby stimulate growth of the tourism sector and the economy.

Ladies and gentlemen, the Netherlands Antilles is no exception in the Caribbean. Similar to most countries in the region, tourism is one of the most important sectors in the Netherlands Antilles' economy.

In 2006, the Netherlands Antilles received about 2.6 million tourist visitors – stay-over and cruise – which is a growth of 36 percent compared to the year 2000. Visitors to St. Maarten represented 73 percent of total visitors in the Netherlands Antilles, followed by Curaçao with 22 percent and Bonaire with 5 percent. (Figure 4 shows the development in stay-over tourist in Curacao, St. Maarten and Bonaire.) As illustrated, the number of stay-over visitors in the Netherlands Antilles has increased on average by 1.3 percent during the past six years. Meanwhile, Curacao's stay-over tourism has risen on average by about 3 percent per year during this period.

The number of cruise tourists has also been growing in the Netherlands Antilles. (Figure 5 presents the development in cruise tourism for each island for the period 2000-2006.) The cruise tourism market is the largest in St. Maarten, which accounts for 79 percent of total cruise tourism, followed by Curaçao with 18 percent and Bonaire with 3 percent.

The tourism industry contributes directly and indirectly to the economy. Tourism expenditures stimulate economic activity and create additional business sales, employment, and household income, and government revenues. (In Figure 6, the share of tourism receipts in total foreign exchange revenues is depicted.) Tourism receipts account for 39 percent of the total foreign exchange revenues from the exports of goods and services. (Figure 7 presents the share in foreign exchange revenues from tourism in Curacao, St. Maarten and Bonaire.) St. Maarten has the largest share of foreign exchange receipts from tourism, followed by Curaçao and Bonaire. Tourism is the main foreign exchange earner, whereas bunkering, and re-exports by the free-zone generate about 15 percent of the foreign exchange earnings.

(Figure 8 illustrates the development in foreign exchange revenues from tourism in Curacao, St. Maarten and Bonaire over the period 2000-2006.) Foreign exchange revenues from tourism over the period 2000-2006 have increased on all islands of the Netherlands Antilles in the past six years.

Tourism has an influence on several sectors in the economy, but is felt mostly in the hotels & restaurants and wholesale & retail sectors.

Based on the weights of tourism-related activities in these sectors we estimated that the tourism industry contributes approximately 7 percent to Gross Domestic Product of the Netherlands Antilles. Meanwhile, tourism accounts for about 6 percent of GDP in Curaçao.

According to estimates of the World Travel & Tourism Council, the tourism industry accounts for approximately 4,500 jobs, representing 8.3 percent of total employment in Curaçao. Tourism's share of total employment is greater than its share in gross value added. This is because on average, tourism tends to be more labor-intensive than other forms of economic activity.

When tourism-related businesses purchase goods and services from other domestic companies, we speak of the indirect impact of tourism on the economy. Moreover, individuals employed at the hotels, restaurants, and other tourism-related businesses will spend their income locally, which will create more jobs and spending in the economy. The combination of the direct and indirect impacts of tourism creates a spin-off effect in the economy contributing to a higher level of growth.

Like most economies in the region, the Netherlands Antilles is characterized by some weaknesses that negatively influence the development and growth of the tourism sector.

One of the drawbacks on the tourism industry is the qualitative mismatch in our labor market. This mismatch is common on all the islands of the Netherlands Antilles.

The main reason for the structural unemployment is not so much the absence of jobs, but a qualitative mismatch between labor supply and demand. However, according to the recent vacancy survey by the Central Bureau of Statistics, there is a high demand for workers with a low level of education, such as the MAVO, LBO, and VSBO. Fifty-two percent of the job openings require individuals with a low level of education. On the other hand, the majority of the unemployed jobseekers have a low level of education. Thus, a paradoxical situation seems to exist in the labor market, as the high unemployment often coexists with vacancies in the low skilled labor-intensive occupations. Lack of motivation and or loss of skills due to a protracted period of unemployment may be the underlying causes.

As we all are very aware, tourism depends heavily on the skills level and professionalism of the labor force to make the sector more productive and competitive. Therefore, human resources requirements in the tourism sector are a critical factor for the industry. Moreover, the tourism sector requires more flexible labor laws to account for seasonality, daily flows and the specific characteristics of an industry that operates on 24-hour 7-days a week basis.

Ladies and gentlemen, private and public partnerships are crucial to shape and ensure a sustainable future growth for one of the world's largest industries – tourism. Due to the economic importance of the sector, the government has a key role as a facilitator and mediator rather than a financier. In the past, our government has also taken the role of financier by offering grants or even taking over the management of hotels in order to safeguard employment in the tourism industry.

It is clear that the public and private sectors have different interests and roles in the tourism industry. Yet there is a strong need for them to complement each other through partnerships at all levels to exploit the tourism sector's full potential. The private sector can and must play the driving role in tourism development, ensuring quality products and competitive services geared towards rapidly changing demand, while the government needs to show leadership by stimulating and facilitating investment, streamlining and clarifying regulations, and developing the much-needed infrastructure and human capital.

Public – private partnerships have proven to be an effective tool in the development of many industries. The Netherlands Antilles has the potential to realize the economic and social benefits from tourism if the government and the industry join in efforts to address the obstacles and constraints that hamper the further development of the tourism sector.

Ladies and gentlemen, to improve our investment climate, the government should tackle its weaknesses, thus creating an environment conducive to investment, including investment in the tourism sector. Sound public finances are indispensable for sustained economic growth, the creation of jobs, and social progress. Fiscal discipline is not only needed for macro-economic stability, but also to preserve funds essential for public investment, especially in education, infrastructure, and social safety nets.

Another weakness of our investment climate is the current administrative barriers or high degree of bureaucracy.

In this respect, it is important that the government streamline its administrative procedures by removing all unnecessary bureaucracy and simplifying the procedures for obtaining business and work permits and business visas.

The other policy area that needs our attention is the tax system, which also plays an important role in shaping the investment climate. In my view, the new tax system of the future country of Curacao should be simple and transparent. These reforms are needed to encourage consumer spending and investment by raising disposable income that is by lowering the marginal tax rate. This increase in disposable income will lead to more economic activities, which will broaden the tax base and hence raise sufficient revenues to cover government expenditures. In addition, a more effective and efficient assessment and

collection system should also be an important component of the new tax system, since it can ensure budget neutrality in the face of the reduction in direct tax rates.

Another important issue is to balance the expansion in tourism with the protection of our natural resources. In recent years, researchers around the globe devoted quite some time to raise our awareness about achieving a sustainable tourism expansion. Preserving nature and launching eco-projects are the latest trend. This trend has also reached Curaçao, as eco-projects and environmental friendly projects are being developed. Furthermore, it is essential that we develop and promote our national heritage designations, which will further improve our tourism environment.

Ladies and gentlemen, as can be appreciated, the tourism industry represents an important pillar of the Netherlands Antilles economy.

It has registered important growth during the last few years. In order to sustain that, we have to continue to invest in our investment climate. Moving forward, we can also conclude that the long-term prospects of the tourism industry look promising. According to the World Travel and Tourism Council, global tourism is projected to expand by approximately 5 percent annually over the next seven years, while the tourism sector in the Caribbean area is expected to grow at 4 percent annually. As part of the Caribbean area, the Netherlands Antilles tourism sector will undoubtedly share in this growth.

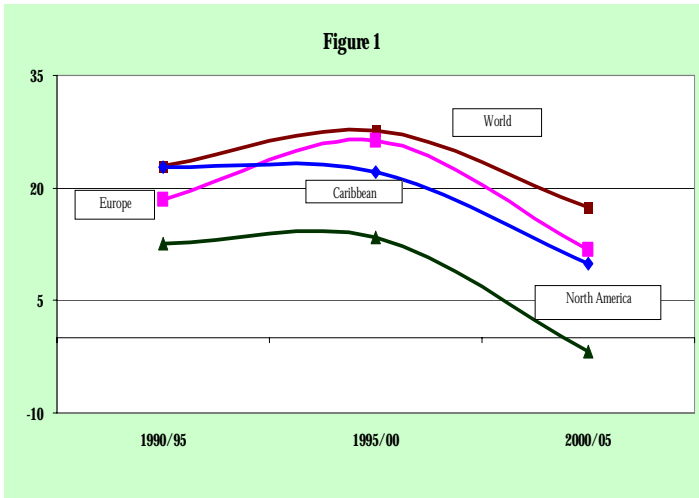
Therefore, it is safe to say that the firms in the tourist sectors will continue to increase and will increasingly become important players in our economy. To the accounting profession it means more and hopefully financially healthier clients. The need to have more people in the accounting profession with increased knowledge of this sector is becoming self-evident. Seminars like this one, is a very important step in meeting this objective. It is with this in mind that I once more would like to congratulate the organizer of this seminar who took the initiative to address this important topic for our economy.

As we all know, on the constitutional scene, the Netherlands Antilles is due to be disbanded on December 15, 2008. This change in status will also bring its pressure to bear on the prospects for the tourism sector. One of the main changes accompanying the new constitutional status of Curaçao is the elimination of the double layer of government. This will reduce the administrative barriers in the government apparatus considerably, facilitating the decision-making process of policies and projects.

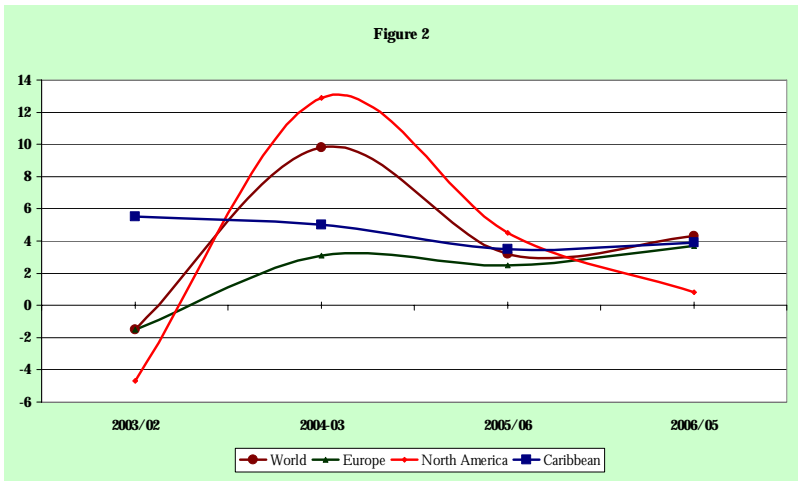
The outlook for Curacao's tourism industry as a consequence of this may be substantially enhanced. A continuous and increasing flow of investment is already noticeable in this sector, with the numerous promising projects in the pipeline. The World Travel and Tourism Council estimates average annual gains of 6 percent in the total employed in Curacao's tourism sector over the next seven years. I hope sincerely that the benefits of this expansion will be sustainable and will raise higher living standards for all especially those that were marginalized in our society.

Ladies and gentlemen, I thank you for your attention.

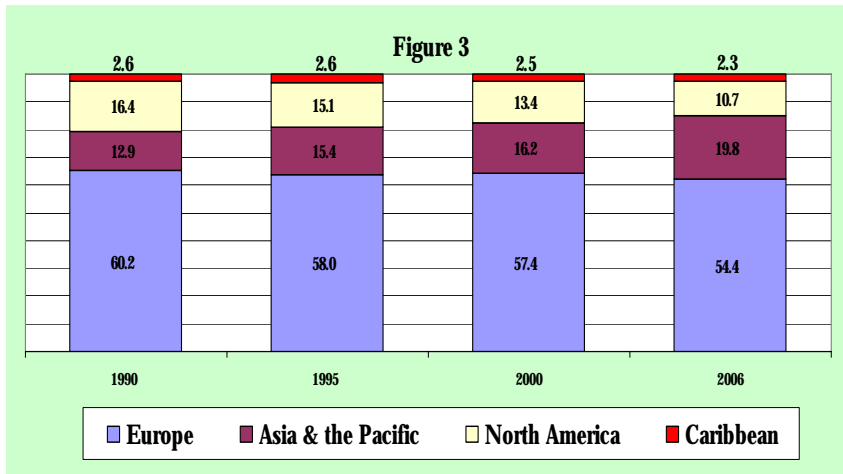
## International tourist arrivals (% change over 5 year period)



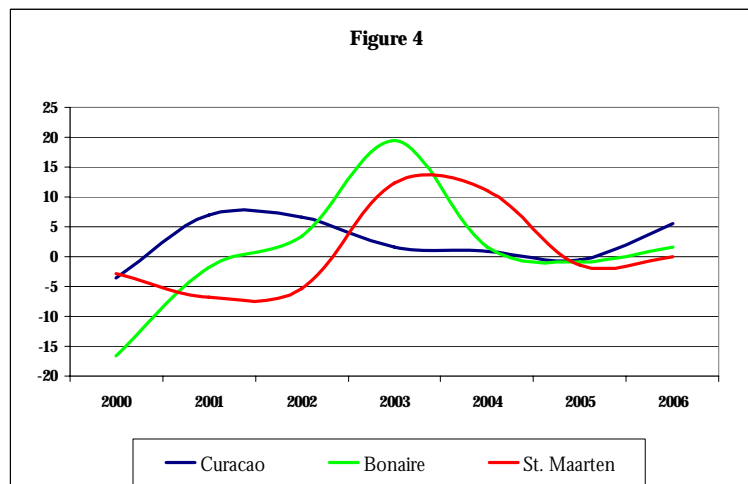
## International tourism receipts (% change)



## Market share of international tourist arrivals (%)

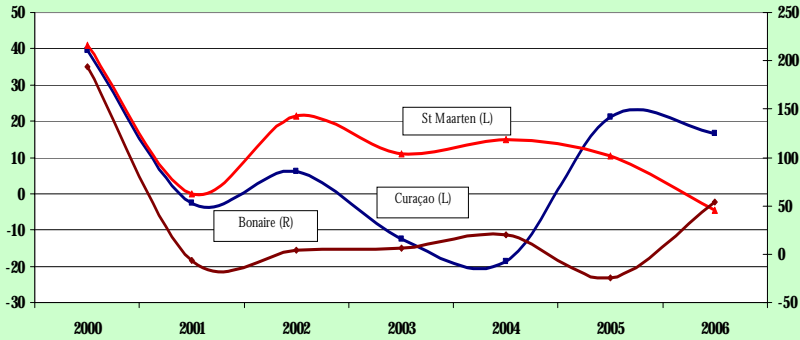


## Stay-over tourism: 2000 – 2006 (% change)



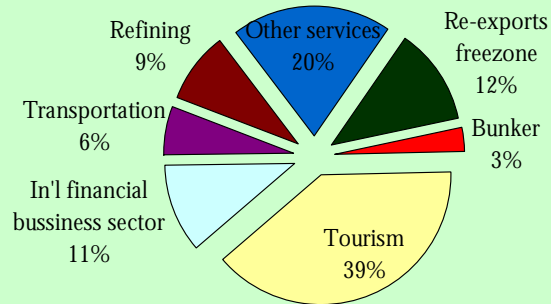
## Cruise Tourism: 2000 – 2006 (% change)

Figure 5



## Share in foreign exchange in the Netherlands Antilles

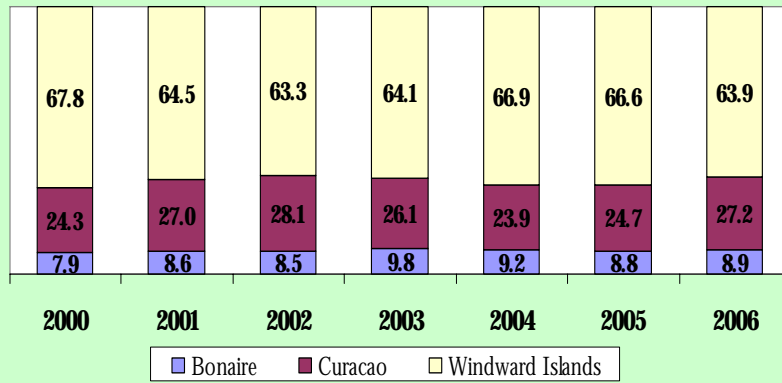
Figure 6





## Share in tourism receipts (%)

Figure 7



## Tourism receipts: 2001 – 2006 (% change)

Figure 8

