

## The Grand Hyatt project

***Address by Dr. E.D. Tromp, President Bank van de Nederlandse Antillen on the occasion of the groundbreaking ceremony of The Grand Hyatt project.  
Curaçao, Netherlands Antilles  
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Ladies and gentlemen, good afternoon.

It is a pleasure for me to be here. After years of planning, we are here today to celebrate the groundbreaking for the construction of a luxury hotel to be run by the Hyatt chain of hotels. This large investment project is a main element of the Santa Barbara plantation development plan. As so often in the recent past, economic activities in the Santa Barbara area have been one of the main engines driving growth on the island of Curaçao—the mining of phosphate and limestone, agricultural activities, oil transportation etc .... With this project, Santa Barbara again is expected to contribute significantly to our economic revival.

The Santa Barbara Plantation is one of the many projects being executed or being planned to expand the sector with the greatest potential to bring our economy on a higher sustainable growth level, namely, tourism. The simultaneous modernization and expansion of Hato airport is an important complementary project. If we are to fill the increasing numbers of rooms as a consequence of realizing those projects, then more airlift and better airport handling facilities, among other things, are needed. We are well underway to creating the necessary infrastructure to accommodate an expansion in the number of tourists to our island.

Ladies and gentlemen, as you know, Curaçao's key economic challenge, is to raise growth and employment performance. As Central Bank, we have the opportunity to get a good overview of the economy. However, through the years I have learned, that knowing what needs to be done is one thing. Actually doing it is another. Projects like the construction of this Hyatt hotel, will go a long way toward achieving our growth objective. Despite this fact, it took us an unacceptably long time to start this very important project.

I understand very well that some measures or decisions may not be very popular in an election year, but neither are high unemployment rates and social inequities. If we are prepared to undertake ambitious fiscal and structural measures, we will be in a much stronger position to take advantage of the positive environment that now exists to address weaknesses and risks.

During the past seven years, various studies have been conducted with the objective of enhancing our investment climate and raising the level of growth of our economy. The 1997 Inter-American Development Bank study, the 2001 World Bank and the Foreign Investment Advisory Service studies, and currently the OECD's Caribbean Rim Investment Initiative all identified the weaknesses as high utility and labor costs, rigid labor laws, a qualitative mismatch between labor demand and supply, complex and time-consuming licensing procedures, an underdeveloped capital market, and a complex tax system with opaque tax incentive schemes. These weaknesses are compounded by the absence of a clear and consistent investment-driven growth-oriented economic policy and a weakened government administrative apparatus.

While most of these recommendations from these studies have been put high on policymakers' agendas, very few have been translated into structural and consistent policies to attain them. Indeed, some reforms in our labor and product markets have even been reversed.

Ladies and gentlemen, if we are to promote growth and employment, we have to act accordingly. Economic policy must focus on enhancing investments in physical and human capital, for these are important determinants of our long-term growth potential. Investment in our human capital, for example, improving education and training, will enhance the way that investments in physical capital are put to use. The resulting increase in productivity will have a more permanent impact on our long-term growth prospects.

To enhance investment, the government has to continue investing in physical infrastructure, education, and an effective and efficient administrative apparatus, while pursuing policy measures aimed at creating an attractive investment climate.

This means that we must continue liberalizing our labor and product markets and correct the reversal of past reforms. Well-functioning markets promote a better match between demand and supply and more competitive prices. The latter will strengthen our purchasing power and international competitive position. Liberalization does not mean that the government should refrain from providing support to local industries. However, this support should not distort the

functioning of our markets. Examples of non-distorting support include enacting measures that reduce the cost of doing business and concluding trade treaties to facilitate exports. Furthermore, we have to continue on the path to broaden our tax base and simplify our tax system. A major simplification will make it easier and, therefore, less costly to administer for both the taxpayers and the tax administration, and will promote tax compliance, the benefits of which can be translated partly into lower tax rates.

Our investment climate will benefit greatly from public investing in education and training to reduce the qualitative mismatch between labor demand and supply, strengthening and reforming the administrative apparatus to facilitate the granting of licenses and permits to investors, and promoting the development of the local capital market with equity financing.

Another reason why progress has stalled in the realization of the project we are celebrating today, relates to the difficulties in arranging financing of projects of this nature and magnitude on our island. The attitude of investors toward risk-taking has been such that were it not for the direct support of the government, this project would have not been realized. This problem is not unique to Curaçao. In one way or another all major destinations in our region have supported initiatives in this sector.

As I mentioned, the tourist sector is the sector with the highest growth potential in the short term. Therefore, if we want to continue to make major inroads in this sector, a major priority is to enact the necessary changes in the financing of these projects. Some actions to consider are:

1. Establishment of a Bank for Reconstruction and Development. Currently the financing of projects is scattered among the OBNA, KORPODEKO, and Stichting Economische Ontwikkeling. By combining all of these institutions, we will be able to pool both financial and management resources and benefit from scale economies in financing projects that will greatly contribute to our growth and employment objectives.

2. Institutional investors must adopt sensible investment policies. The current policies of institutional investors that consider only government bonds and bank deposits as safe investments hamper progress in the further development of the capital market and, hence, the financing of projects in our growth sectors. Their risk stance represents perhaps our greatest challenge in raising our growth potential since a disproportionate share of our domestic savings is being channeled toward financing foreign investments. Looking ahead, the Central Bank's policy will be to overcome vested interests in this sector and to establish a level playing field for financial institutions to compete and innovate, to the benefit of consumers and investors.

Ladies and gentlemen, the economy of Curaçao urgently needs to move to a higher level of growth to adequately address our financial-economic and social ills. The only way to realize this increased growth is through a significant expansion in investment. With the completion of the first phase of this project—including the construction of the luxury hotel—700 direct and indirect jobs will be created, while foreign exchange earnings generated will grow to about US\$ 85 million a year. The total direct and indirect economic impact of this project is estimated to reach 5% of Curacao's GDP.

Private investment should therefore, be enhanced by creating an attractive investment climate through the elimination of its current weaknesses. This enhancement of private investment should be complemented with a higher level of public investment. We know what has to be done. Let's not waste any more time. Let's act so that projects like the construction of this resort will not start much later than intended or won't start at all.

Let me conclude by congratulating Jack and his team for their perseverance and Chris as the driving force behind this project for his continued optimism. I also would like to welcome the Hyatt Corporation to our shores. I am convinced that this project will be a valuable addition to their chain. Last but not least I would like to thank Scotiabank for their continued confidence in our economy as evidenced by their financial support for this project. I am sure that this project will contribute greatly toward the growth of this sector and, hence, our economic performance.

Thank you for your attention!!!