



**Eilandgebied St. Maarten
Nederlandse Antillen**

**Economic Diversification
Study**

Final Report

SQW

economic development consultants

Eilandgebied St. Maarten – Nederlandse Antillen
Economic Diversification Study
Final Report

SQW Limited

Enterprise House, Vision Park
Histon
Cambridge, UK CB4 9ZR
United Kingdom

Tel: + 44 1223 209400
Fax: + 44 1223 209401
Email: kbpeters@sqw.co.uk

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Appendices in separate document

Executive Summary

Study rationale

1. St. Maarten is internationally renowned as a tourism destination and has bounced back from the general downturn in tourism immediately following the 9/11 tragedy and the adverse impacts of the hurricanes in the 1990s. Today, the Island maintains a robust position in the tourism market-place.
2. The economy of St. Maarten has been growing steadily and the standard of living of the majority of St. Maarteners is relatively high, particularly when compared to many other island countries in the region
3. However, although relatively strong, the economy is open to threats because of its strong reliance on the tourism sector. Furthermore, the type of tourism that characterises the Island (timeshare and cruise ships predominate) is susceptible to volatile cycles of demand and has lower multipliers than some other sub-segments of the tourism market which involve stay-over visitors and extensive spending on catering and entertainment.
4. In recognition of the potential vulnerability, the Government of St. Maarten commissioned two major studies. The first investigated how the tourism sector could be strengthened and expanded, leading to a recommended 'Tour Map' action plan. The second is a study on the economic diversification options for St. Maarten and the findings and conclusions of this study are the focus of this report.

Study approach

5. At the inception stage of the project, it was decided that there were two primary strands to the approach: a business strand and a policy/institutional strand. For both strands, a strength, weaknesses, opportunities and threats (SWOT) analysis was undertaken and a comparator and competitor assessment was completed.

The key challenge – identifying diversified activities

6. While the economy is performing well in terms of GDP, which increased by 4.8% in 2005 compared to 2004, the unemployment rate is high at 17.5 % in 2003 and 13.4% in 2005 and there are particular problems of joblessness amongst young people where unemployment is estimated to be as high as 30%. A particular challenge is to identify viable and sustainable activities to diversify the Island's economy, given that the resource base, market and labour pool size and skills are limited. It was consistently reported in interviews that there are severe labour shortages and that investors are continuing to import labour for their activities. Therefore, a particular

challenge will be to match required skills by retraining labour, and youth in particular, for the needs of the market.

The financing challenge

7. Government revenue is low in an international comparison and the tax base is narrow. Faced with the objective of diversifying the Island economy, upgrading infrastructure and improving labour skills, the Government lacks in adequate funds. To finance diversification, there is a clear challenge to broaden the tax base while not diminishing the Island's potential to attract investment.

The governance challenge

8. The role of the Island Government in attracting and administering investment opportunities is complicated. Departments have a number of overlapping roles and it is not always straightforward for potential investors to understand where to go and what to expect. At the same time, there appear to be low levels of coordination between departments in realising the full potential of investment opportunities.
9. The role of the private sector in attracting investment and improving the investment environment could also be stronger; at present, major players tend to dwell on narrow sectorial issues rather than adopting a common strategic approach in conjunction with the Government.
10. An important challenge will be to identify the ways in which the public and private sectors can work together in order for St. Maarten to attract and administer new investment opportunities. Private and public sector players on the Island could be more closely aligned and partnership approaches could be strengthened.

The business environment challenge

11. While St. Maarten has been successful in attracting some large investors, particularly in the tourism domain, it was reported that the business environment for small businesses could be improved. Administrative complexities surrounding business registration, premises, employment and skills can make it difficult for small businesses to get established and succeed. For a successful diversification strategy which cannot rely solely on larger players, it will be important to explore how this situation be improved.

The skills and training challenge

12. It is generally agreed that while primary and secondary education on the Island are of a good quality, there is scope to expand and improve tertiary education (vocational and higher). For the last year for which such data was available (1997), it was estimated that less than two thirds (61.8%) of St. Maarten youths in the 15 – 19 age bracket were participating in education. Indeed, the lack of skills training and skills

appears to be one crucial factor in the present situation of unemployment amongst younger people. Particular areas in need of attention include:

- skills requirements in all tourism-related activities
 - specific training in all sectors targeted for diversification
 - the need for education and training in entrepreneurship.
13. The lack of trained and skilled labour could delay (and may compromise) the successful introduction of the economic diversification strategy.
14. Also, there has been feed-back that the economy needs to be more inclusive; while some young people are locked into the benefits generated by the international tourism sector, others are not and issues of social cohesion could jeopardise future prosperity. Successful implementation of training would be one way of addressing these problems.

The wild cards – receiving potential investors

15. While the objective of this study is to identify specific business sectors to target for inward investment and indigenous support, it is important to realise that many investment proposals falling outside the framework of this report may be presented to the Government for approval. Principal among these, and in many cases defying business logic, are 'lifestyle investors' who wish to relocate their business activities to St. Maarten in order to enjoy the high quality of life on the Island. A mechanism to receive and process all investors, overturning many present practices that pose obstacles, will be an important outcome to be considered.

The silver lining

16. There is a range of challenges that must be faced in order successfully to implement a diversification strategy. But it should be remembered that the time is right to think of diversification. The economy is relatively strong; many of those whom we interviewed mentioned that the Island is becoming more cosmopolitan; the Tour Map will stretch the assets of the existing tourism industry and the review of St. Maarten within the Kingdom is an opportunity to review the institutional and policy framework for economic development and diversification. The opportunity to act must be grasped now.

Economic diversification options

17. Following a broad scan of economic diversification options, six sectors were further investigated as target diversification options. These are:

- 1 Marine activities

- 2 Agriculture and fishing
 - 3 Creative Industries
 - 4 Finance
 - 5 Logistics and distribution
 - 6 Information and Communication Technologies
 - 7 Education
18. **Marine activities** is a **high** priority economic diversification option. Initial expansion is likely to come through the sector's close association with sailing and yacht tourism but over time, there are options for marine activities to grow more independently. However, for this to happen, the key constraint of skilled labour needs to be addressed quickly, before competitors seize on this opportunity.
19. **Agriculture and fishing** is a **medium to high** priority economic diversification option. Initial expansion will be through the sector's linkages with tourism but over time it could develop into more freestanding activities. For this sector to develop, Government encouragement and assistance will be necessary.
20. **The creative sector** is a **medium** priority economic diversification option. There are strong benefits between cultural activities (including sports and music) and reengagement of disaffected youths which make this sector an attractive diversification option in view of the high problem of youth unemployment. Support for a locally-based creative industry in conjunction with the development of a locally distinctive St. Maarten cuisine could help to shape an important competitive differentiator for visitors.
21. **The finance and offshore sector** is a **medium** priority option. The sector has declined over the years and although competition is strong, St. Maarten could exploit the vulnerability developing in competitor countries and islands and build a small but strong finance sector.
22. The **logistics and distribution sector** is a **high** priority option. St. Maarten offers a strong asset base for the sector and could capitalise more on options arising from the port and airport expansion.
23. **The information technology, communications and call centre sector** is a **medium** priority option. The small size of the Island's labour pool and the lack of available skills limits the development of this sector. However, there are opportunities stemming from the good telecommunications infrastructure on the Island and also from linkages between this sector and logistics and distribution.
24. The **education sector** is a **medium to high** priority. Education is emerging as a global growth sector and St. Maarten has made some headway by attracting the American University of the Caribbean which offers higher education in medicine to

predominantly American students. Given its quality of life and accessibility from the United States, growth in higher education provision could be achievable. Moreover, there are other specialist areas of education to be explored. For instance, flight training could become a growth market as there are now much fewer opportunities for foreigners to be trained in the United States.

Governance

25. Economic diversification in St. Maarten will be helped by a strengthening of existing governance arrangements. At present, the private and public sectors are aligned on too few issues relating to the economic well-being of the Island. One way of addressing this issue is through the development of a Joint Economic Council (SXM-JEC), modelled to some extent on the JEC of Mauritius.

Economic diversification strategy

26. The recommended guiding principles of an economic diversification strategy for St. Maarten are as follows:
 - 1 Economic diversification and the development of the tourism industry must go 'hand-in-hand'
 - 2 Economic diversification must be seen as an opportunity to evaluate the dynamics and trajectory of the economy
 - 3 The Economic Diversification Strategy should be driven by a public-private partnership.

From diversification to economic development

27. There is significant opportunity to use the institutional strengthening associated with the economic diversification strategy to enhance the overall management of the economy of St. Maarten. The recommended SXM-JEC should not confine its remit and activities to economic diversification but should broaden its field of operation to encompass the whole economy.

1 Introduction

Study rationale

- 1.1 St. Maarten is internationally renowned as a tourism destination and the Island has bounced back from the general downturn in tourism immediately following the 9/11 tragedy and the adverse impacts of the hurricanes in the 1990s. Today, the Island maintains a robust position in the regional tourism market-place.
- 1.2 The economy of the Island is strong and the standard of living of the majority of St. Maarteners is high, particularly when compared to many other island countries in the region. During 2003-2004, the gross domestic product (GDP) of St. Maarten grew by some 4.5%, and is estimated to have grown by around 4.8% during 2005.¹ These are respectable growth rates and underpin a per capita GDP that is one of the highest in the Caribbean region.
- 1.3 However, although relatively strong, the economy is open to threats (it was generally perceived to be vulnerable by many representatives of the private and public sector organisations who discussed the issue with members of the SQW team in the course of the study). St. Maarten's prosperity relies almost exclusively on tourism and some components of the tourism product (such as timeshare and cruise ships) do not have the multiplier effects of more hotel-based tourism with higher spending per head on overnight accommodation, catering and entertainment.
- 1.4 In recognition of the potential vulnerability of the economy of the Island, the Government of St. Maarten commissioned two major studies. The first investigated how the tourism sector itself could be strengthened and expanded, and a 'Tour Map' action plan was recommended². The second is a study on the economic diversification options for St. Maarten and the findings and conclusions of this study are the focus of this report.
- 1.5 The two studies are related. Strengthening, and in particular 'stretching', the assets and activities of the tourism sector in St. Maarten will also encourage the economic diversification of the economy of the Island. For example, marine activities, which primarily serve the expanding yachting tourism sub-sector in St. Maarten, can also serve

¹ St. Maarten Economic Outlook 2006. Department of Economic and Policy Research. Island Government of St. Maarten (Philipsburg 2006)

² St. Maarten Tourism Masterplan. Tourism and Transport Consult (Dublin 2005)

and help to support the growth of general shipping, transportation and logistics activities.

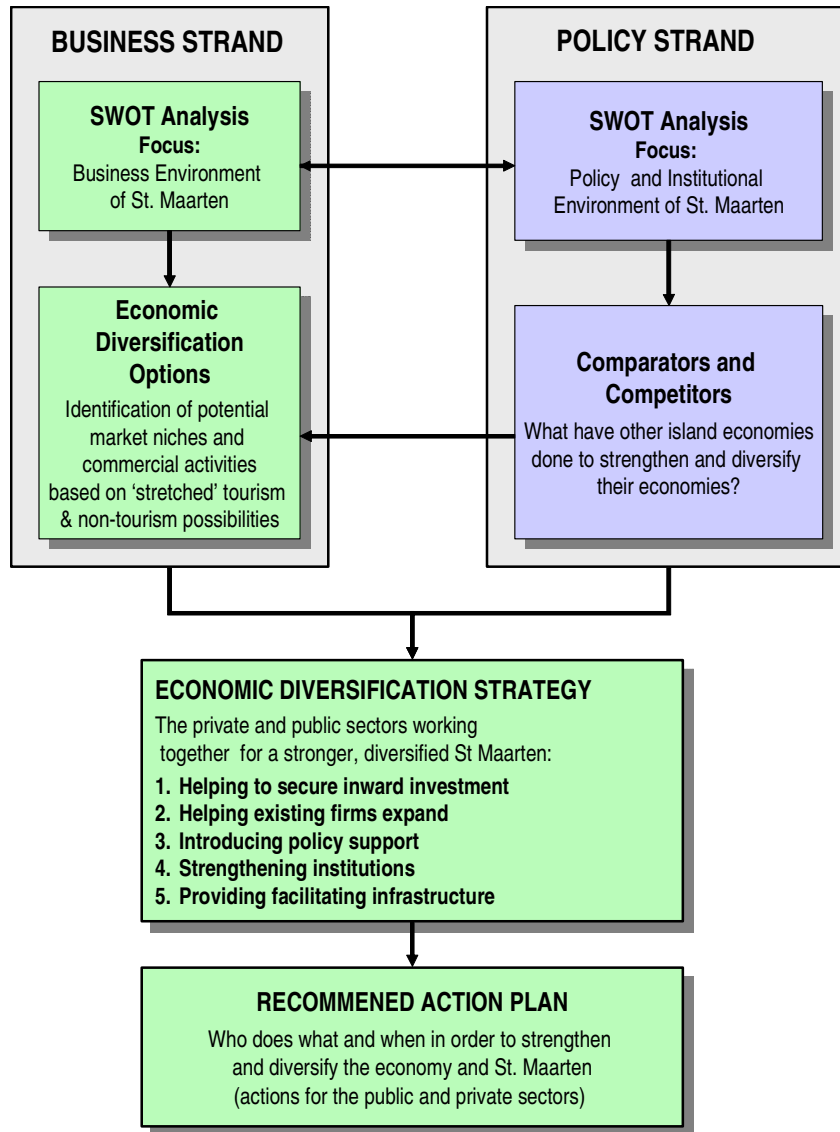
- 1.6 These linkages between tourism and diversification sectors apply across the board. Agriculture and fishing is another good example; while this sector is a diversified activity, the initial growth potential of agriculture and fishing would be closely tied to the demands of the tourism sector and a thriving local restaurant scene would help to increase tourism multipliers. Local food used in a distinctive local cuisine is a selling point for a number of the hotels and restaurants across the Caribbean - and St. Maarten would be no exception. Increasing local food security and self-sufficiency could be a by-product of the growth of the sector but it is extremely unlikely that the sector would take off without establishing channels to the local tourism market. Generally, the distinction between tourism and non-tourism activities is not clear-cut and this will be even more so in the early throes of the economic diversification of the Island.
- 1.7 Further, evidence from other countries, small and large, clearly indicates that important determinants of investment lie within the remit of government. Indeed, fair, effective and efficient government, a business friendly policy regime, and facilitative economic, social and physical infrastructure are crucially important determinants of investments rates. Government matters! Hence, in order to investigate the possibilities for the diversification of the economy of St. Maarten, it is necessary to examine the nature of the prevailing policy regime and the effectiveness of the associated institutions. It is also important to investigate how other island countries (and their governments working in partnership with their private sector) have pursued economic diversification, especially in countries and regions facing similar constraints to those of St. Maarten in terms of size, culture and physical constraints, and what lessons can be learnt and hopefully transferred to St. Maarten.
- 1.8 Devising an economic diversification strategy, particularly for a single sector economy, demands that we look at the possibilities of stretching that sector (in the case of St. Maarten, tourism) to lay the foundations of a diversified economy. Any economic diversification strategy will also require an examination of the effects of government policies and actions in relation to potential diversified activities that could be encouraged. These requirements of an economic diversification study are reflected in the study approach, which is described below.

Study approach

- 1.9 As illustrated in Figure 1.1, there are two primary strands to the approach: a business strand and a policy strand. For both strands, a strength, weaknesses, opportunities and threats (SWOT) analysis was undertaken. A comparator and competitor assessment

was also completed and the experience of other islands attempting to diversify their economies directly informs the economic diversification strategy presented in this report.

Figure 1.1: Study Approach



1.10 Based on the SWOT analyses, seven economic diversification options were identified and explored in detail by assessing:

- the rationale for choosing the sector in the first instance
- strengths and opportunities of the sector in St. Maarten at present, including any developments that might be already underway
- global developments that might impact on the sector
- strengths and weaknesses of the environment in St. Maarten that might impact on the sector
- market positioning at present
- how to improve market positioning
- institutional support for the sector in St. Maarten
- recommendations and next steps.

1.11 Economic diversification will evolve on St. Maarten. How the economy looks and functions in 15 years' time will not be the same as to how it may look and function in three years' time. Indeed, the most effective and efficient way to 'kick-start' the diversification process will be to stretch the tourism activities. Diversification must complement the existing and planned tourism offer, at least in the initial years of the diversification strategy. As the diversification process gathers momentum, new opportunities are likely to arise, many of which cannot even be envisaged today, but will only be available to St. Maarten because of the groundwork laid during the initial years of the diversification process.

1.12 Following the identification of possible 'diversified economic activities', a diversification strategy was devised, based on the guiding principle of the public and private sectors working together in order to achieve a strengthened and diversified economy. Policy changes and institutional strengthening required to achieve the goal of a diversified economy were examined. Lastly, an action plan was formulated which specifies who does what and when in order that the goal of economic diversification can be achieved.

Structure of the report

1.13 The structure of the report is as follows:

- **chapter 2** describes the key challenges facing the Island in relation to economic diversification
- **chapter 3** presents two analysis of strengths, weaknesses, opportunities and threats analysis (SWOT) of the work undertaken as part of the business strand and the policy strand
- **chapter 4** examines appropriate comparators and competitors; a number of island countries in the Caribbean and further afield (for example Mauritius) have devised and implemented programmes of economic diversification and relevant lessons can be learnt and applied in St. Maarten
- **chapter 5:** presents the seven chosen diversification options including marine activities, agriculture and fishing, the creative sector, finance and offshore activities, logistics and distribution, information and communications technologies and the education sector and evaluates them on a grid of criteria. The possibilities for the development of these sectors are fully described in a separate volume of appendices submitted in conjunction with this report
- **chapter 6** presents an economic diversification strategy focusing on the combined actions that the private and public sectors can take in order to stretch the tourism assets, promote economic diversification in viable commercial areas and establish a ‘new vision’ for the Island, one that moves from a strong but vulnerable tourism destination to a strong and robust diversified business location
- **chapter 7** contains the recommended action including comments on the implementation mechanisms to be taken (who does what and when) in order to ‘kick-start’ economic diversification and begin the journey to the ‘New Vision’.

1.14 A separate volume of appendices contains a full description of the seven target sectors constituting the move towards economic diversification. In order to ensure that the main body of this report is short and sharp, much of the detailed assessment of the options for economic diversification is contained within the appendices.

Caveats and opportunities

1.15 This report identifies possible economic activities that can be promoted in St. Maarten and which will begin the economic diversification (and strengthening) of the Island’s economy. These findings have been backed up with market research amongst industry leaders and possible investors. However, before converting tentative interest into more tangible decision, it will be important to address some of the obstacles that have been identified as hindering progress. Many of these recommended changes will generate

benefits far beyond those pertaining to the economic diversification of St. Maarten. Indeed, the changes should improve the general management of the Island and lead to the formulation of a much needed over-arching economic development vision and strategy for St. Maarten.

Acknowledgment

- 1.16 In undertaking this study, we have benefited from the help and interest of a large number of individuals passionately concerned with the future of St. Maarten. A full list of consultees is presented in the Appendix. Here we would wish to express our particular thanks to Miguel de Weever and his staff at the Department of Economic Policy and Research of St. Maarten for their assistance and guidance given to us during the study.

2 The Challenge

KEY MESSAGES OF THIS CHAPTER:

- **The economy of St. Maarten is doing well with respectable rates of growth and a relatively high per capita income**
- **Virtually all activity is driven by tourism**
- **The contribution of tourism to the islands' prosperity could be stronger**
- **Implementing the 'Tour Map' will stretch tourism assets and activities**
- **The review of St. Maarten within the Kingdom is an opportunity to review the institutional and policy framework for economic development**
- **There are a number of challenges to be addressed concerning financing, governance, the business environment and skills and training**
- **The more specific challenge is to identify economic diversification options which are viable on St. Maarten**
- **The decision made over the coming 12-24 months concerning how the Island is to be managed and where the economy should head are crucial**

Strong but vulnerable economy

- 2.1 St. Maarten has an estimated population (2004) of just over 33,000 people and an activity rate of 58.9%. A large percentage of the inhabitants are not native St. Maarteners but have legally settled on the Island. However, anecdotal evidence suggests that there are also significant and growing numbers of illegal residents on the Island.
- 2.2 While the economy has performed well in terms of GDP growth, unemployment is relatively high at 17.5% in 2003 and 13.4% in 2005. Despite this relatively large number of jobless people, it was consistently reported in interviews that there is a severe labour shortage on the Island and that investors are continuing to import labour for their activities.
- 2.3 As can be seen on Table 2.1, the economy of St. Maarten is strong and has experienced significant growth of GDP in 2003 and 2004, the last years for which official data are available.

Table 2.1 : Key Macro-economic indicators, 2001 – 2005					
	2001	2002	2003	2004	2005 Half year
Nominal GDP (in million NAF)	833.0	853.7	909.3	966.3	1,049.3
Real GDP growth (% change)	4.6	1.7	5.0	4.5	4.8
Inflation (% change)	1.0	0.5	1.6	2.1	3.1
Unemployment rate (%)	12.8	-	17.5	-	13.4
Tourism					
Stay-over arrivals	402,649	380,327	427,587	475,032	467,861
Cruise arrivals	867,752	1,055,040	1,171,734	832,060	1,488,461
External account (millions NAF): Transaction basis					
Trade balance	-443.60	-484.30	-542.50	-710.30	-582.3
Merchandise exports	326.50	294.10	461.60	589.90	622.7
Merchandise imports	770.10	778.40	1,004.10	1,300.20	1205
Tourism exports	866.50	875.30	963.10	1,096.90	791.5
Tourism imports	244.70	250.40	256.40	196.50	146.2
Net	621.80	624.90	706.70	900.40	645.3
Government finances (1,000 NAF)					
Revenues	178.60	152.20	143.10	168.30	190.5*
Expenditures	178.60	174.90	158.10	165.20	190.5*
Budget balance	0	-22.7	-15	3.10	0
Budget balance (% of GDP)	0	-2.3	-1.41	0.2	0

Source: Sint Maarten Economic Outlook (2006)

* Budget 2005

2.4 Table 2.2 below provides information on the employed population by economic activity.

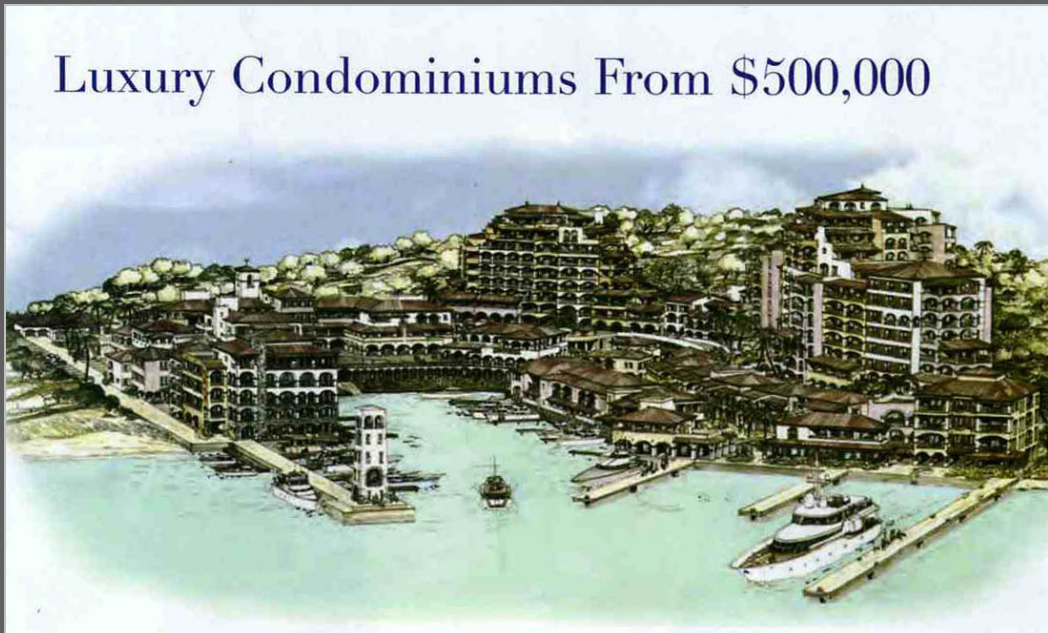
Table 2.2 : Employed population by economic activity					
	1996	2000	2001	2003	2005 (2 year average)
Agriculture, fishing and mining	102	95	118	134	207
Manufacturing	396	426	451	607	566
Electricity, gas and water	230	248	243	266	289
Construction	1,462	1,706	1,548	1,498	1,685
Wholesale and retail	3,054	3,297	3,117	3,167	3,557
Restaurants and hotels	2,489	2,377	2,455	2,606	2,820
Transport and storage	1,152	1,364	1,417	1,470	1,519
Financial intermediation	566	581	501	442	601
Real estate, renting	964	1,244	1,445	1,500	1,646
Public administration, social sector	1,000	968	1,053	1,071	1,547
Education	599	673	423	366	402
Health and social work	377	439	399	412	510
Other community	1,268	1,400	1,608	1,820	1,880
Private households	728	748	694	820	770
Extra terr	38	49	23	20	75
Total	14,424	15,615	15,495	16,200	18,073

Source: Sint Maarten Economic Outlook (2006)

2.5 On examining the Island's economy, it can be seen that virtually all activity is driven by the tourism sector which exposes the Island to the vagaries of the international travel trade and threats coming from external events such as the terrorist attacks on 9/11/2001 or health scares such as the Asian SARS crisis. In the case of St. Maarten, the Island is also vulnerable to tropical cyclones which have in the past devastated the tourism sector.

2.6 While the role of tourism is immense, it is not clear that the economy and the people of St. Maarten are deriving maximum benefits from the sector and that the linkages between the tourism product and the creation of wealth and prosperity for the Island are as strong as they might be. There is significant money leaking outside the Island from development projects and there are questions as to whether short term gains are traded for long term pains (see Figure 2.1).

Figure 2.1: Short-term gains but long term pains?



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The key challenge – identifying diversified activities

- 2.7 A particular challenge is to identify viable and sustainable activities to diversify the Island's economy, given that the resource base, market and labour pool size and skills are limited. Moreover, labour laws are relatively restrictive and wage rates generally higher than on neighbouring islands.

The financing challenge

- 2.8 Government revenue is low in an international comparison and the tax base is narrow. Faced with the objective of diversifying the Island economy, upgrading infrastructure and improving labour skills, the Government is short of money. To fund diversification, there is a clear challenge to broaden the tax base while not diminishing the Island's potential to attract investment.

The governance challenge

- 2.9 The role of the Island government in attracting and administering investment opportunities is complicated. Departments have a number of overlapping roles which makes it difficult for potential investors to understand where to go and what to expect. At the same time, there appear to be low levels of coordination between departments in realising the full potential of investment opportunities.
- 2.10 The role of the private sector in attracting investment and improving the investment environment could be stronger, with major players tending to dwell on narrow sectorial issues rather than adopting a common strategic approach in conjunction with the Government.
- 2.11 An important challenge will be to identify the ways in which the public and private sectors can work together in order for St. Maarten to attract and administer new investment opportunities. Private and public sector players on the Island could be more closely aligned and partnership approaches could be strengthened.
- 2.12 The existing Joint Social and Economic Council is often characterised as 'semi-dormant' and the public and private sectors are aligned on too few issues. It seems clear that collaborative and collective working, so necessary to the success of a major initiative such as economic diversification, needs to be strengthened. One of the key challenges as regards economic diversification is to improve the governance of the Island – and to establish an effective and efficient public-private partnership environment.

The business environment challenge

- 2.13 While St. Maarten has been successful in attracting some large investors, particularly in the tourism domain, it was reported that the business environment for small businesses could be improved. Administrative complexities concerned with business registration, premises, employment and skills can make it difficult for small businesses to get established and succeed. How can this situation be improved, and

what measures need to be taken to streamline the business environment and make it conducive for small and medium-sized businesses?

The skills and training challenge

2.14 It is generally agreed that while primary and secondary education on the Island are of good quality, there is a lack of tertiary education (vocational and higher). Whilst up to date information has been difficult to obtain, in 1997 less than two thirds (61.8%) of St. Maarten youths in the 15 – 19 age bracket were participating in education. Indeed, the lack of skills training and skills appears to be one crucial factor in the present situation and it is recognised that skills training is weak. Indeed, this is a crucial factor in the present situation of structural unemployment in what is otherwise a booming economy. Particular areas in need of attention include:

- skills requirements in all tourism-related activities
- specific training in all sectors targeted for diversification
- the need for education and training in entrepreneurship.

2.15 The economy needs to be more inclusive; while some young people are locked into the benefits generated by the international tourism sector, others are not and issues of social cohesion are on the political agenda, even if often unspoken on the Island.

2.16 The lack of trained and skilled labour could delay (and may compromise) the successful introduction of the economic diversification strategy.

The wild cards – receiving potential investors

2.17 While the object of this study is to identify specific business sectors to target for inward investment as well as policies to support economic expansion, it is important to realise that many investment proposals falling outside the considerations of this report may be presented to the Government for approval. Principal among these, and in many cases defying business logic, are ‘lifestyle investor’ who wish to relocate their business activities to St. Maarten in order to enjoy the high quality of life on the Island. A mechanism to receive and process such and other investors, overturning many present practices that pose obstacles, will be an important outcome to be considered.

The silver lining

2.18 There is a range of challenges that must be faced in order to successfully to implement a diversification strategy. But it should be remembered that the time is

right to think of diversification. The economy is relatively strong; many of those whom we interviewed mentioned that the Island is becoming more cosmopolitan; the Tour Map will stretch the assets of the existing tourism industry and the review of St. Maarten within the Kingdom is an opportunity to review the institutional and policy framework for economic development – and diversification. The opportunity to act must be grasped now.

3 The SWOT Analysis

KEY MESSAGES OF THIS CHAPTER:

- The Island is strategically located in the Eastern Caribbean and connectivity assets are being significantly upgraded
- The Island's tax free status is an important distinguishing feature
- Tourism continues to prosper and is forecast to do so for the coming decade
- However, there are a number of critical weaknesses which must be addressed
- A key weakness relates to the nature of governance on the Island (the private and public sectors are aligned on too few issues concerning the economy)
- Indeed, one of the most important factors 'preventing' the economic diversification of the Island is the problematic institutional and policy framework and the mind-set that goes along with it
- Other weaknesses include:
 - (a) lack of adequate training for the local population
 - (b) infrastructure deficit (roads, parking, and public transport)
 - (c) lack of an entrepreneurial culture
 - (d) shortage of land and high cost of reclaimed land
- Readily available opportunities to make money quickly – and subsequently 'cash out early' – have prevented many from investing in economic diversification options in the past
- An incentive structure is required which changes this 'get rich quick' milieu and makes it attractive to consider diversified activities
- An important threat to the plan for diversification is the deterioration of social cohesion
- Local involvement in the economic diversification of the Island has to be of high importance
- Another threat is the possibility that the institutions of the State working in partnership with the private sector do not grasp the opportunity to strengthen and diversify the economy.

Introduction

- 3.1 As discussed in the second Chapter, the consultants firmly believe that the time is right for considering and implementing an economic diversification strategy. The economy of the Island is relatively strong; tourism has picked up and is expected to expand yet further in the forthcoming years (though perhaps not at the same rate as in previous years). The economy is relatively robust, and government revenues are expected to rise³. In general it appears that the economy and the Government of St. Maarten are in ‘good shape’ and able to accommodate the ‘shock’ of diversification and changing the trajectory of the economy.

Strengths

- 3.2 St. Maarten is characterised by a range of distinctive advantages and strengths. It is a multicultural trilingual territory with an effective rule of law and generally good labour relations. It is strategically located in the Eastern Caribbean and the natural beauty of the Island is without question. The Island’s duty free status is an important factor in encouraging wholesale and retail trade.
- 3.3 St. Maarten has some important ‘connectivity assets’ including Princess Juliana International Airport (PJIA) which is in the throes of a major expansion programme, St. Maarten Port and its cruise ship quay in Philipsburg which is scheduled for further expansion and the Simpson Bay Bridge which has opened St. Maarten to the mega yacht market. Furthermore, major new tourism developments (such as the Dawn Bay Hotel development and the Aquarius development at Cupecoy) are in the pipeline. A priori it would seem that the Island has everything going for it, and most certainly should be successful and able to deliver an acceptable standard of living to the vast majority of its people, if not all members of the community⁴ (see Figure 3.1 for a summary of the SWOT associated with the economy of St. Maarten).

Weaknesses

- 3.4 So what is preventing the further growth of the economy and, in particular, the diversification of the economy? A range of weaknesses characterises the political economy of the Island which have in the past - and are liable to continue to prevent in future - the diversification of the St. Maarten economy.

³ A discussed in “St. Maarten Economic Outlook, 2006” published by the Department of Economic Policy and Research. (page 24)

⁴ A detailed description of the economic strengths of St. Maarten and planned developments in the Island can be found in The Tourism Masterplan (2005) and in “St. Maarten Economic Outlook, 2006” published by the Department of Economic Policy and Research. It is not the intention within this report to repeat information that can be readily found in other documents in the public realm.

3.5 Some of these weaknesses relate to the scale of the Island and its economy. St. Maarten is relatively small (in both area and population numbers); many industry scale economies are just not available to the businesses and communities of the Island. Furthermore, because of its scale, a range of physical factors of production (such as land) are at a premium.

Figure 3.1: Summary SWOT of the Economy of St. Maarten

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Noted tourism destination (St. Maarten is a well known destination, with an established presence in the North American market) • Expected future expansion of the tourism industry (cruise passengers expected to rise from 1.35 million in 2004 to around 2 million in 2015) • Recent rise of high value added tourism activities (mega yachts) • Distinctive multi-cultural quality of life (tri-lingual, dual French and Dutch cultures; unique in the Caribbean) • Strategic location (a hub in the region – for wholesale trade, retail shopping and transshipment) • Good and expanding connectivity assets (expanding airport and seaport/cruise quay and facilities; excellent harbour – Simpson Bay) • Good communication assets (good telecommunications) • Recent environmental improvements (Philipsburg Front Street and Boardwalk; and planned beautification of Back Street planned) • Generally good labour relations (Compared to Guadeloupe and Puerto Rico which have frequent strikes, St. Maarten is a good environment) 	<ul style="list-style-type: none"> • Tourism associated with high leakage and low multipliers (timeshare and cruise ships often associated with low spend and relatively high leakage) • Lack of land (St. Maarten is a small Island; land is obviously at a premium) • Land ownership (most land is alienated [held in private ownership]. Difficult for government to make land available for diversified activities) • Lack of skilled labour (many ‘incomers’ possess skills that the local population do not have and are willing to working for prevailing wage rates) • Inadequate vocational training (Dawn Bay development will generate some 600 jobs; most will have to be filled with imported labour; local skilled labour unavailable – why?) • Lack of private and public sector stakeholder alignment (collaborative and collective working only embryonic - Social and Economic Council not a ‘key player’). • Lack of entrepreneurial culture lacking (youth “disaffected”; rejection of job opportunities in fields such as plumbing and air conditioning engineering) • Incentive structure “lopsided” (Tax holidays for “large projects” (such as timeshare developments), but few such incentives for small and medium companies) • Infrastructure constraints (“bottle-necking” on roads / parking; poor public transport; land reclamation expensive)

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Current prosperity lays foundation for diversification (Current property boom; 'traditional' tourism sector doing well. Port is expanding - now is the time to prepare for diversification) • Island increasingly cosmopolitan and open to change (use of internet allows firms to change sourcing patterns; local banks compete with international banks for funds; "state of mind" is OPEN – "we're up for change!") • Educational institutions expanding and could provide required skilled labour (American University campus at Cupecoy now has some 600 students) • Possibilities to stretch and sweat tourism assets is significant (e.g. SXM as culinary capital of the Caribbean based on the unique Dutch /French/Creole/African mix) • The forthcoming review of the status of St. Maarten within the Kingdom - creates the opportunity to review the current administrative framework for economic investment. 	<ul style="list-style-type: none"> • Diversification given lower priority (given the relative strength of the economy and the common desire to "cash out early" on investments, there is a danger that public and private sectors are unwilling to make the hard efforts to secure diversification) • Social cohesion not bolstered (need to involve local people in the diversification programme; failure to do so may have adverse effects on social cohesion and ultimately the economy) • Lack of Government financial resources (some pump-priming may be needed to kick start the diversification process; a severe lack of government funds MAY compromise the process) • Vision and strategy 'crumbles' (to implement the vision and strategy, commitment is required on part of the public and private sector - but may not be forthcoming) • Institutions do not change (main threat is lack of stakeholder alignment behind a vision and strategy and institutions that are not "fit for purpose"). Planning on ad hoc basis continues.

Institutional and policy challenges

- 3.6 However, other nations and territories around the world have overcome the constraints imposed by size and scale and have carved out distinctive and profitable niches in regional (and indeed global) service and product markets. In St. Maarten, in addition to the problems of size and scale, there are other problems which are making economic diversification difficult. These include the lack of skilled labour on the Island, the absence of adequate training, particularly for the young people of St. Maarten, the high costs of setting up a business and a general sense that 'entrepreneurialism' is weak.
- 3.7 It is, however, the view of the consultants that the most important weakness characterising St. Maarten relates to the way the Island economy is managed (and the associated institutions of governance and the policy regime of government). This is, perhaps, a 'good weakness' to have, for unlike the physical size of the Island, institutions and policies, being social constructs, can be changed by the society that devised them. Indeed, this weakness is important precisely because it can be changed relatively quickly, if the collective will to do so is present.
- 3.8 During the study, the consultants met with a large number of stakeholders representing the private and public sectors and from these meetings it became clear that the private and public sectors are aligned on too few issues. Partnership working needs repair. The current state of affairs is not the 'fault' of anyone

person, or the expression of Machiavellian behaviour on behalf of an individual or an organisation. It is, perhaps, a structural outcome and an expression of how the institutions and mechanisms of governance evolved as the tourism industry developed and rapidly expanded in the 1980s and 1990s. In the view of the consultants, setting up an institution modelled to some extent on the Joint Economic Council in Mauritius could help to address these problems.

- 3.9 The situation is illustrated by the following comments from various business men and women made to the consultants concerning private-public partnership working in St. Maarten:

Figure 3.1: Comments received from consultees in the course of the study

“we’re not singing from same hymn sheet”

“we need a coherent long-term vision for the Island and a plan, backed by the private as well as the public sector, to implement that vision. We have bits of it – such as the Tour Map and the airport expansion – we need to bring it all together in a framework”

“The joint Social and Economic Council doesn’t do much!”

“Government doesn’t give much support – if any! – to potentially diversified activities. ... There wasn’t a commissioner at the fish farming demonstration... and that sends out a particular message. ... If a Commissioner is present at the meetings discussing diversification then “there will be a full house!”

“We’re a tourism product with a ‘cash in and get out quick’ mentality.... this could boomerang ... but we’re not tackling this very well”

“There are huge opportunities – just look at the jobs that will be generated at Dawn Bay – but where is the co-ordinated strategy to ensure that the Island and the local labour force get the benefits?”

Summary

- 3.10 In conclusion, St. Maarten is characterised by a range of strengths which could be used to underpin a successful economic diversification strategy. There are, however, a number of weaknesses (and looming threats), which must be addressed. Most importantly, governance issues need to be tackled.
- 3.11 Before providing specific suggestions on the way forward for St Maarten, the following chapter outlines some of the ways in which other countries facing similar challenges have proceeded.

4 Comparators and Competitors

KEY MESSAGES OF THIS CHAPTER:

- **St. Maarten is a small island state, politically related to Europe, within a region that is economically integrating into the regional trade bloc**
- **St. Maarten has a high level of GDP per capita, well above that of neighbouring island states**
- **Levels of Government revenue (as a percentage of GDP) are low, equivalent to some of the world's least developed economies**
- **Other island states are also seeking to diversify their economies away from dependence (in many cases on sugar) and have implemented a wide range of measures and initiatives to support diversification**
- **Economies that have successfully diversified have developed clear and integrated strategies for economic development, drawing upon the strengths of both the public and private sectors**
- **A critical success factor for economic diversification appears to be the strength and effectiveness of private-public sector co-operation and partnership**
- **Mauritius has a good benchmark and exemplar for St. Maarten**
- **Of particular note is the Joint Economic Council of Mauritius which is the representative of the private sector and communicates the views of the sector to the Government**
- **This approach ensures that the private sector speaks with one voice and that conflicting or contradictory representations to the Government are avoided.**

St. Maarten and the region

- 4.1 St. Maarten has a relatively high GDP per capita of over \$ 16,000, roughly equivalent to that of Latvia, and well above that of neighbouring islands. Interestingly, the GDP per capita for the French territory of Guadeloupe, including French St. Martin, is only \$7,900 per capita. In spite of this apparently satisfactory economic performance, levels of unemployment on St. Maarten remain high and there is a general perception that the Island requires a more robust and diversified economy to generate both additional income and employment.

Table 4.1: Regional GDP Comparison	
Country	Per Capita GDP (in \$)
Haiti	1,600
St Vincent	2,900
Montserrat	3,400
Jamaica	4,300
Grenada	5,000
St Lucia	5,400
Dominican Republic	6,500
Anguilla	7,500
St Kitts and Nevis	8,800
Antigua	11,000
St. Maarten	16,309
Netherlands	30,500

Source: CIA World Fact Book 2005

Figure 4.1: The Caribbean region: competitors and comparators’.



4.2 Conversely to the apparent good performance of the Island’s GDP compared to that of the neighbouring islands, levels of government revenue generated by the economy are exceptionally low at around 11% of GDP⁵. Levels of government revenue on the neighbouring islands are at least twice that level. While these neighbouring independent island states have invested heavily in social and economic assets such as education and infrastructure, levels of provision of St. Maarten are low and largely dependent on grants from the Kingdom for major projects.

Table 4.2: Regional Comparison of Government Revenue as a percentage of GDP	
Country	Government as % of GDP
Grenada	23.54
St Kitts	22.50
St Lucia	22.70
St Vincent	25.03
Trinidad and Tobago	24.20
Grenada	23.09
St. Maarten*	10.80 (1)
Madagascar	9.43
Yemen	11.3

Source: UNDP; *St. Maarten statistics; 1) this figure is an underestimate; see footnote 5 below

St Kitts – A Regional competitor and comparator

Background

4.3 The island state of St. Kitts and Nevis (St. Kitts) typifies the small island nations of the Eastern Caribbean which are both markets for St. Maarten and direct competitors for inward investment. Sugar was the dominant industry for some 250 years but is now in decline, with the ending of preferential EU tariffs for the sugar producers from the nation group of the African, Caribbean and Pacific (ACP) countries. The government of St. Kitts had been aware of this prospective change for some 20 years and had initiated a diversification strategy from an early date. There was a recognition of the imperative to diversify into other sectors because without it St. Kitts would not be able to service its external deficit; hence import substitution was as important as exporting.

⁵ This figure does not include the taxes that are paid by St. Maarten to the Federal Government but is merely what is paid and remains on the Island.

- 4.4 One of the key diversification sectors was agriculture. Land that had been used for sugar production was gradually made available for other crops such as pineapples, white potatoes and onions. Over time, other crops were added and St. Kitts farmers are now producing tomatoes (fully self-sufficient), cabbages (fully self-sufficient), green peppers (75% self-sufficient), carrots (75% self-sufficient), white potatoes (only grown in two months), onions, pineapples, five fingers (Taiwanese crop), guavas, water melons and a range of other fruits. There has been financial and technical support for the agricultural sector from Taiwan due to strong political ties between the two nations.
- 4.5 Studies are now being undertaken to develop the food processing industry in an effort to employ some 1,200 people currently in the sugar industry. Some of the activities being studied include:
- use of sugar cane for animal feed
 - use of sugar cane for the production of bio energy, including ethanol
 - use of sugar for rum production, facilitated by interest expressed by a Scottish distiller.
- 4.6 The livestock sector has been developed in parallel. Domestic beef production has now replaced 90% of imports and St. Kitts is becoming self-sufficient with sheep, goats, pigs and poultry.

Fisheries

- 4.7 St. Kitts has some 300 registered fishing boats ranging from 4 metres to about 7 metres in length. The industry is believed to employ 350 fishermen in St. Kitts and a total of 600 in St. Kitts and Nevis. Fish are being caught for the domestic market, tourism industry and, to a lesser extent, export markets. The government hopes further to develop the fisheries sector and increase fish production for export markets. A fisheries training school has been established and one-off cash grants of \$3,500 are made to fishermen to support working capital needs.
- 4.8 The government is now investigating the development of aquaculture, utilising land previously used for sugar cane production for fish farming using plantation reservoirs to raise Tilapia.

Tourism

- 4.9 Tourism has replaced sugar as the main industry. St. Kitts had targeted a mixed market segment with particular focus on the mid-range mass market (unlike

Anguilla which is focussing on the luxury end of the market). The largest hotels are the Marriot, with 600 rooms, conference centre and casino, and the Four Seasons Resort on Nevis. There are currently attempts to attract another “5 star” operator. The country was a late starter in the Caribbean tourism market and is endeavouring carefully to manage the scale and pace of development to preserve its character.

- 4.10 The product range is diverse and includes beach bungalows, boutique hotels, golf courses and horse racing. Most recently, several developments have taken place in the health tourism sector which the government wishes to develop along with the conference market. Cruise tourism has also become very important and is now a major activity. A terminal has been constructed which is capable of accommodating up to three cruise liners and an expansion programme is already at the planning stage.

Light manufacturing

- 4.11 The beginnings of light manufacturing activities go back to the 1960s with US investments in the electronics and garments sectors, primarily for the US market. Up to 4,000 jobs were created in the manufacturing sector, facilitated by a low tax regime and preferential tariff entries.

Information technology

- 4.12 In common with many of the other island states, St. Kitts is hoping to develop an IT sector, including call centres and business outsourcing operations. IT infrastructure is considered good. Indeed, with three service providers on the Island, infrastructure is considered by local St. Kitts residents as being of high standard.

Tax incentives

- 4.13 St. Kitts has developed a range of tax and investment incentives since achieving independence. These include:
- No personal income tax
 - Corporation tax rate of 35%
 - Tax exemption for hotels above 200 rooms in size, to attract bigger hotels
 - Zero tax for the financial services sector
 - There is a 7% hotel room tax and a 2% hospitality tax; the hospitality tax is used for tourism marketing.

- 4.14 For major investment projects, the government offers a tax holiday of between 15 and 20 years' duration, otherwise, tax rates are not as low as those offered in St. Maarten. There is no customs duty exemption on goods and materials imported for investment projects. In line with standard practice, duties depend on the type of goods imported, with some categories of import comparatively high. In addition, St. Kitts imposes a relatively high consumption tax at a standard rate of 22.55% on goods and services.

Population and labour market

- 4.15 St. Kitts and Nevis, with an area of 130 square kilometres, have a total population of 44,000. Of those, 32,000 people live on St Kitts and 12,000 people on Nevis. Non local immigrants are only about 3,000 people, mainly from Guyana. Government is at some pains to control the influx of outside labour. If there are certain skill shortages, then people can get labour from outside. Work permits may be obtained in specific circumstances, for instance for tradesmen (such as carpenters), teachers, managers or staff with financial sector skills such as accountants, financial specialists and IT professionals. Interestingly, the unemployment rate is low at around 5%, although youth unemployment is higher. In common with St. Maarten, it is believed by the authorities that some young people are marginalising themselves, with rebellious youth attitudes becoming an issue as well as the rise of gun-related crime. With the participation of youth, church and community groups, there is reported to be some success in absorbing unemployed youths in environmental improvement programmes.

Education system

- 4.16 Education on St. Kitts is free up to the tertiary level and the nation has achieved a high level of literacy. The country has a College of Further Education, for 500 students, offering courses in subjects including nursing training and teaching training. Some courses are linked with the University of the West Indies. There are plans to extend courses into new areas such as engineering; health and hospitality training.
- 4.17 Businesses in the tourist industry, particularly overseas hotels, are encouraged to train staff overseas where possible. There is a constant dialogue between large employers and government on an ad hoc basis through the vehicle of policy outreach meetings. Government believes that it is crucial for stakeholders to be kept well informed and has created many open channels to facilitate this process, including town hall meetings with local communities.

Future vision

4.18 The Government of St. Kitts has a clear vision for the economic development of the islands which includes:

- the transition of the economy from product orientation to service orientation
- emphasise on the importance of tourism – but sensitive to the natural environment of the islands
- further conversion of sugar land to other agricultural uses and the development of aquaculture
- investment in education.

Mauritius – An example for St. Maarten

4.19 The island nation of Mauritius in the Indian Ocean has been faced with many economic challenges, similar to those that confront St. Maarten and other small island states. The country, which has an area of 2,600 square kilometres and a population of 1.2 million, lies some 1,500 kilometres off the east coast of Africa in the Indian Ocean.

4.20 Since independence from the United Kingdom in 1968, Mauritius has developed from a low income, agriculturally-based economy to a middle-income diversified economy with growing industrial, financial and tourist sectors. For most of the period, growth has been in the order of 5 to 6% per year. This remarkable achievement has been reflected in increased life expectancy, lowered infant mortality and a much improved infrastructure. Estimated at \$13,200, Mauritius now has the second highest GDP per capita in the whole of Africa.

4.21 Mauritius has had an industrial sector since the nineteenth century when it served to support both the sugar industry and shipping activities. The industrial sector was given a boost in the early 1960s when it was decided to adopt a policy of import substitution to reduce the country's dependence on monocrop agriculture. This process was supported in the 1970's with the creation of Export Processing Zones (EPZ) which incorporated a range of incentives designed to attract export-orientated industrial production. Mauritius was successful in attracting a large number of textile manufacturers, principally from Hong Kong, who relocated to exploit the quota arrangements of the Multi Fibre Agreement (MFA) which allowed them exports to major European markets.

- 4.22 In addition to the EPZ, the Mauritius Government has also set up a range of manufacturing sector support schemes⁶. Incentives included in these programmes cover rebates on customs duty, sales tax, corporate tax, and tax on dividends. As well as encouraging the local manufacturing sector, which was originally funded by the sugar sector, specific measures and incentives have been targeting at attracting inward investment.
- 4.23 During the 1980s, Mauritius also established itself as a high class tourist resort destination for the long haul market. This positioning and the reputation that the country has won is largely the fruit of a 'selective tourism' policy which builds sympathetically on the natural beauty of the island and the sense of hospitality of its inhabitants. From early beginnings in the 1970s, tourism has grown to become the third pillar of the Mauritian economy. Unlike the sugar and textile sectors, tourism operates without any institutional safety net in what is an increasingly competitive international market.
- 4.24 In the tourism sector, there are three main incentive schemes: the Hotel Development Certificate Scheme, the Hotel Management Services Certificate and the Leisure Development Certificate. The first two schemes offer a 15% corporate tax and tax free dividends for ten years. The third, the Leisure Development Certificate, concerns registration duty payable on purchase of immovable properties.
- 4.25 How has Mauritius achieved its economic success? In a continent so often associated with economic failure, how has this small island nation come to be placed second only to South Africa in terms of economic competitiveness and what, if any, lessons does it hold for St. Maarten?
- 4.26 The success of Mauritius resulted mainly from the choice of a proper development strategy, focusing on export-led growth. Political and social stability, policy continuity and sustained infrastructural developments were among the other factors, which attracted foreign investment to develop the Export Processing Zone (EPZ) and subsequently tourism. Mauritius has responded to its challenges by establishing a unique approach to economic problem solving, developing a strong interface between government and the private sector. The government/private sector economic diversification partnership has given common purpose and direction to the development process.

⁶ These schemes include the Export Enterprise Scheme, the Pioneer Status Enterprise Scheme, the Strategic Local Enterprise Scheme and the Small and Medium Sized Enterprise (SME) Scheme.

Private sector organisations

- 4.27 The Mauritius private sector has a strong tradition and culture of entrepreneurship and of empowering effective representative bodies. The Mauritius Chamber of Commerce and Industry (MCCI) was established as early as 1850 (predating the London Chamber of Commerce) and is the oldest institution in the country representing the private sector. It was established by the Mauritian business community during the first decades of British administration to ensure formal representation of business interests and to settle disputes and conflicts arising in trade-related activities. Originally known as the 'Chamber of Commerce', it took on its present name of 'Mauritius Chamber of Commerce and Industry' in 1965 as the country was moving towards independence and diversifying its economy. MCCI has evolved over the years from a predominantly representative and consultative body to a dynamic actor in the socio-economic development of the country.
- 4.28 The Chamber of Agriculture was founded in 1853 by representatives of the agricultural community and its membership now comprises about a hundred companies, producer groups and individuals. An established organisation, it is at the forefront of the development of the local sugar industry and a privileged partner with government in various initiatives aimed at developing agriculture in Mauritius. As one of the main voices of the agricultural community, the Chamber has striven to carry out its first mission, which is to promote and safeguard the interest of agriculture, of agricultural industries and of all other industries depending thereon. It has, in this respect, played a major role in the development of agriculture in Mauritius and of related fields, namely agronomy, research, technology, training and commerce. The initiatives undertaken by the Chamber are on three levels, internationally, regionally and locally.
- 4.29 With the advent of globalisation and trade liberalisation, smaller producers, particularly small island states like Mauritius, run the risk of being marginalized in the long term. This new regime has created a number of fundamental challenges for the Mauritian agricultural sector to which it and the wider private sector are now responding. The objective of the Mauritius Chamber of Agriculture is to ensure that the sector adapts to this new global context, while contributing to the socio-economic development and providing an adequate level of food security to the country.
- 4.30 The Mauritius Employers' Federation (MEF) was founded in 1962, six years before Mauritian independence from the UK. The MEF is the body that represents the private sector employers in all matters relating to employment, labour, industrial relations, social welfare provision and productivity. The MEF represents the

employers officially in negotiations with the government and the trades unions as well as participating in statutory bodies. The main aims of the MEF are:

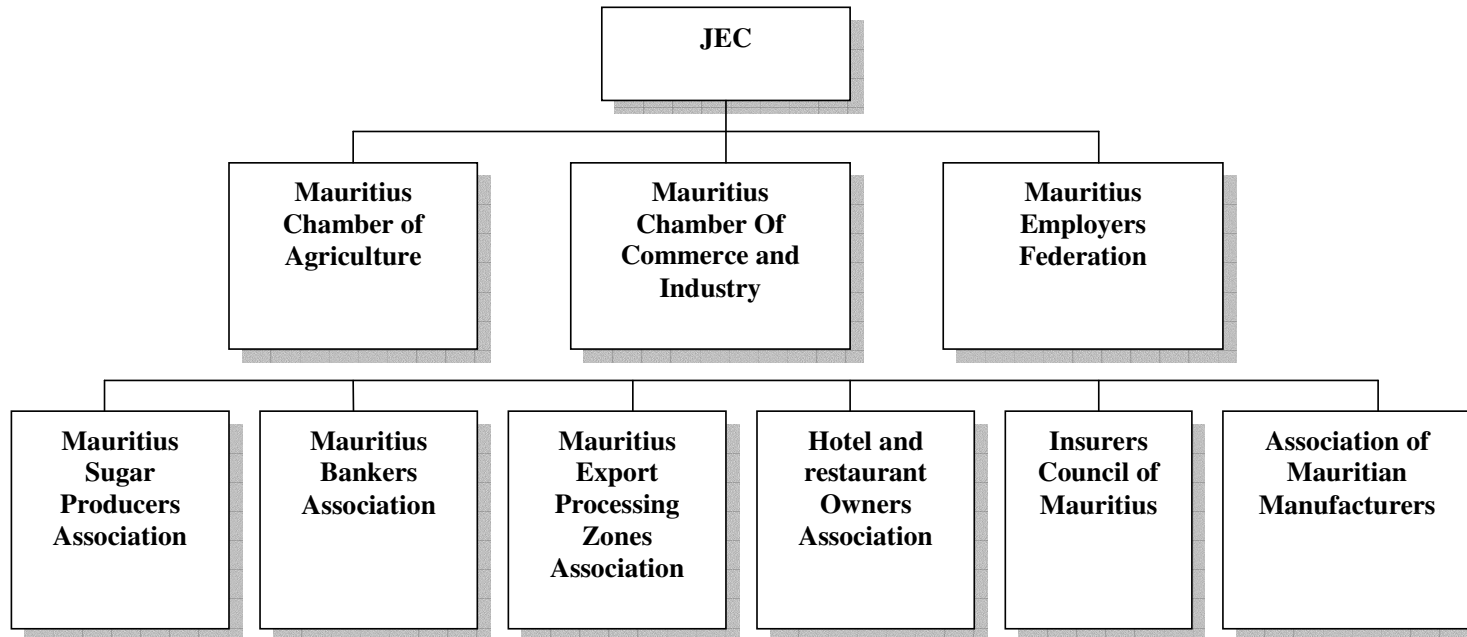
- to foster a better understanding of the role and importance of employers, enterprises and the private sector at large, in the social and economic development in Mauritius
- to strengthen management's ability to cope effectively with problems that may arise in the operation of an enterprise
- to promote smooth and harmonious relations between employers and their employees
- to bring about closer cooperation between employers and their social partners, and among employers themselves.

4.31 The private sector is composed of five sectoral associations namely: the Mauritius Sugar Producers Association (MSPA), the Mauritius Bankers Association (MBA), the Mauritius Export Processing Zone Association (MEPZA), the Association des Hôteliers et des Restaurateurs de L'île Maurice (AHRIM) and the Insurers' Council of Mauritius. This structure is seen as having distinct benefits including:

- effective representational function at an internal level
- systematic access to information and to players
- capacity to develop positions on policy issues
- opportunities to participate in debates and negotiations
- meaningful partnership with government in the country's development process.

4.32 Figure 4.2 overleaf summarises the organisational set-up of the private sector in Mauritius.

Figure 4.2: Organisational Set-up of the Mauritian Private Sector



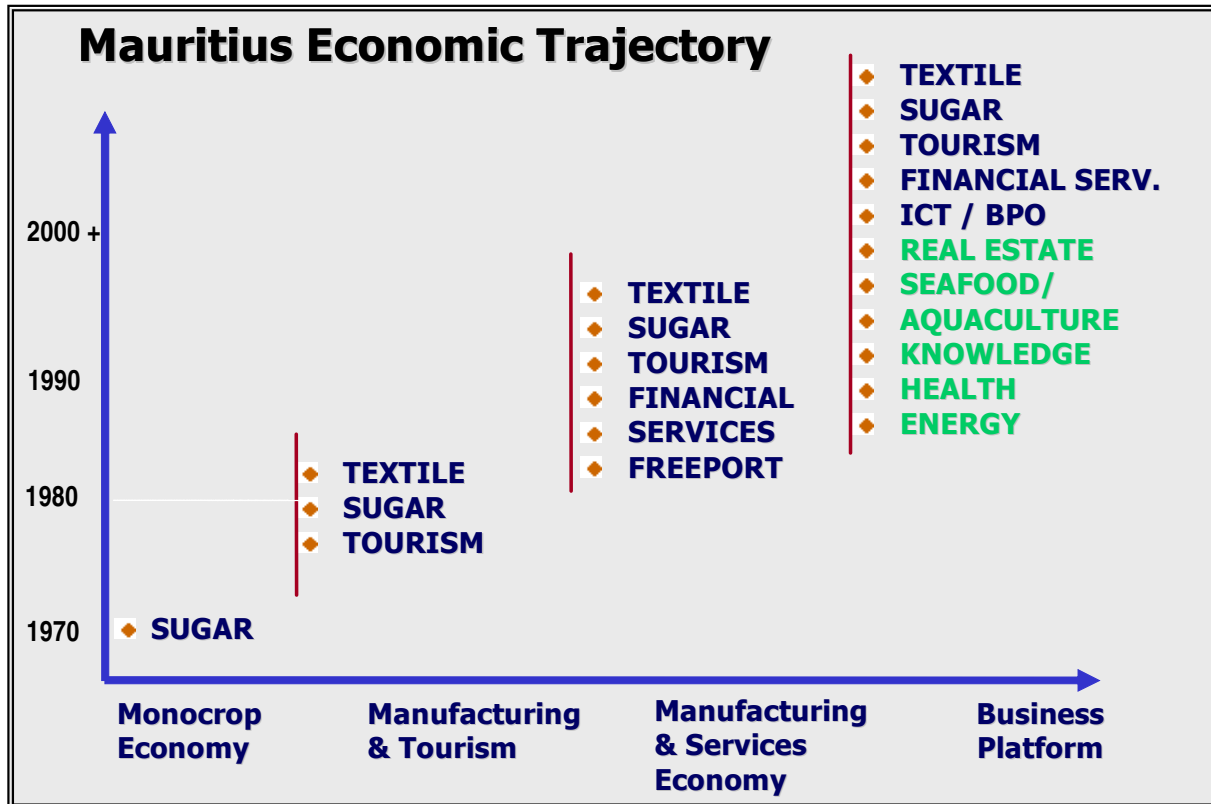
The Mauritius Joint Economic Council (JEC)

- 4.33 The Mauritius Joint Economic Council (JEC) is the coordinating umbrella body for the Mauritius private sector and the lead body in a three tier organisation structure between the private sector, the government and trades unions. JEC is the representative of the private sector and reflects the consensus position of the many individual bodies formed by the private sector, the outcome of internal negotiation and agreement within the private sector. This approach ensures that the private sector speaks with one voice and that conflicting or contradictory representations to the government are avoided. The clarity of this structure also frames clearly defined roles between government and the private sector
- 4.34 Interaction between the private sector, in the form of the JEC, and the government takes place at both a formal and informal level. At the formal level, there are regular scheduled meetings between the government and the JEC as well as participation in annual tripartite wage negotiation with government and the trades unions. The JEC also make a formal submission every year on its proposals for the national budget and participates in a number of government standing committees dealing with the economy and economic development. At the informal level, contact between government and the private sector include:
- regular meetings between private sector organisations and relevant ministries on sectoral issues
 - joint promotional activities.
- 4.35 In addition to its activities in Mauritius, the JEC also maintains overseas representative offices in Brussels and Geneva to promote the interests of the Mauritian private sector in both the EU and the WTO. The private sector, through the JEC, participates in the formulation of national economic policy through a number of formal meetings and bodies, these include:
- National Negotiating Committee on future ACP-EU relations
 - WTO Standing Committee
 - budget consultations
 - information & Communications Technology Committee
 - re-structuring of the sugar sector.

Economic diversification – an evolving process

- 4.36 The JEC now participates in a number of specific working groups formed with the government to develop identified new strategic development sectors, these include:
- seafood hub
 - Business Process Outsourcing (BPO)
 - knowledge hub
 - health services
- 4.37 Mauritius now sees itself as a regional economic player and is actively diversifying into the Southwest Indian Ocean region where the larger economic space offers the country the potential to expand beyond its small domestic market. This strategy is being expressed in a re-branding exercise where the notion of being “Made by Mauritius” is replacing the “Made in Mauritius” label (see Figure 4.3 for an overview of the economic trajectory of Mauritius).

Figure 4.3: Mauritius – the Exemplar and Benchmark for St. Maarten?



Source: Raj Makoond, Director, Joint Economic Council, Mauritius, St. Maarten – Jan 06, 2006 Economic Diversification Workshop St. Maarten

4.38 The sectors where the economy is now expanding into the region have been identified as being:

- **sugar**, Mauritian sugar producers have negotiated development agreements with Madagascar, Mozambique, Ivory Coast and Nigeria and are developing the sugar industry in those countries, using the considerable experience they have gained in Mauritius
- **textiles**, where established Mauritian companies are expanding into Madagascar, Botswana and even India
- **tourism**, already an established tourism destination, Mauritian hotel and tour operators are expanding their activities into the region, this includes investment in Seychelles, Madagascar, Zimbabwe, the Comoros and South Africa
- **consultancy services**; the economic diversification experience has equipped service providers with much marketable knowledge and many skills which are of interest to governments and private sector organisations elsewhere in the world.

4.39 The next chapter starts to explore the diversification options for St. Maarten.

5 Economic Diversification Options

KEY MESSAGES OF THIS CHAPTER:

- **Following a broad scan of possible economic diversification options, seven sectors were agreed with the client to be target diversification options:**
 - 1 **marine activities**
 - 2 **agriculture and fishing**
 - 3 **the creative sector**
 - 4 **finance and offshore**
 - 5 **logistics and distribution**
 - 6 **information technology and call centres**
 - 7 **education**
- **Key observers with knowledge of these sectors inside and beyond St. Maarten were contacted, and their assessment of the viability of the sector on the Island was sought and recorded**
- **Those sectors with the greatest potential in St. Maarten and listed as high priority for action are:**
 - (a) **marine activity**
 - (b) **agriculture and fishing**
 - (c) **logistics and distribution**
- **All others have been graded as medium to high options**
- **Details of each sector are in a separate volume of appendices**
- **Stretching the tourism assets and activities must also be considered as part of the economic diversification plan**
- **Indeed the initial development paths of the target economic diversification options is likely to be linked to the tourism sector**

Introduction

- 5.1 Following a broad scan of possible economic diversification options, seven sectors were further investigated as target diversification options. This chapter provides summary information on these sectors while more detail is provided in the appendices.

Marine Activities

Rationale for choosing the sector

- 5.2 Marine activities cover a diverse range of components including yachting (and its supply chains) and marine engineering. St. Maarten has been developing a reputation in marine-related activities for some time but more recently, the expansion of Simpson Harbour and the construction of Simpson Bay Bridge have increased the potential by allowing mega yachts to come to St. Maarten at an unprecedented level.
- 5.3 This in turn has further raised the profile of the Island as both a desirable destination and as a hub for marine services and facilities. Yachtsmen from all over the world fly into St. Maarten to join their boats (owned or chartered) and to go sailing to a range of destinations in the Caribbean⁷. The Heineken Regatta, which takes place annually in St. Maarten, is now the largest sailing Regatta in the Caribbean and St. Maarten is firmly established on the global sailing map.

Strengths and opportunities of the sector in St. Maarten at present, including any developments that might already be underway

- 5.4 Within the Eastern Caribbean, St. Maarten is now one of the major centres for yachting-related expenditure, only surpassed by the British Virgin Islands (BVI). The strengths of the Island include:
- location
 - ease of accessibility by air
 - number and range of berthing facilities
 - range of support services
 - range, quality and cost of technical supplies and services.
- 5.5 The Cole Bay Yard development will further improve St. Maarten's repair and maintenance service offer and help to reduce seasonality of the sector through offering dry dock facilities.

Global developments that might impact on the sector

- 5.6 **Geographically**, marine activity has been growing strongly in the Eastern Caribbean for a number of years and St. Maarten has been gaining ground steadily. The two main

⁷ The expansion of Princess Juliana International Airport (PJIA) is important for the continuing success of this business.

charter and cruising boat destinations are the Virgins [comprising the British Virgin Islands (BVI), the United States Virgin Islands (USVI) and the Puerto Rican outer islands] and the Grenadines (Grenada and St. Vincent and the Grenadines). In addition, Trinidad and Tobago is a main gate to the Latin American mainland and an important hurricane shelter and service centre.

- 5.7 Within marine-related activities, the **mega yacht sector** has seen major growth in both the number and size of boats in the last five to ten years. In 2003, orders were placed for more than 580 new mega yachts worldwide and these vessels require a lifetime of care and service, thus the increase in total mega yacht numbers, whether rapid or steady, requires an increase in berths and service and repair facilities.
- 5.8 St. Maarten has emerged as an important service centre and popular winter destinations, in particular for mega and super yachts. Anecdotal evidence suggests that BVI and the Grenadines offer superior cruising water to St. Maarten, thus emphasising the importance for St. Maarten to build on its existing competitive strengths.
- 5.9 The revenues that can be generated from servicing mega yachts are significant and St. Maarten has developed a reputation for marine engineering, especially the service and repair of yachts. Building on this reputation, a number of enterprises have expanded their facilities on St. Maarten in order to gain a foothold in the mega yacht market. It is important that St. Maarten is able to expand its offer to this sector if it is to retain and grow its market share. Such a growth in the marine engineering sector would require careful planning and represent a major investment

Strengths and weaknesses of the environment in St. Maarten that might impact on the sector

- 5.10 St. Maarten is characterised by the following sector strengths and critical success factors:
- high level of investment in marinas and related infrastructure
 - extensive trading of marine equipment
 - provision of high quality marine services, especially electronics, rigging and fabrication
 - the strong tourist boom on the Island created a cash spin-off that made it financially possible to establish many specialist businesses
 - the great variety in products, services, cultures and travel systems

- the investment that resulted through the ‘Loi Pons’ (a programme of tax advantages called defiscalisation in France that provided tax advantages for investments made in tourist infrastructure in the French overseas departments) on the French side
- lack of government restrictions on development
- lack of restrictions on imported labour, making it possible for expatriates with skills to set up businesses
- the duty free status of the Island.

5.11 The availability of skilled labour has been identified as a key issue for the sector. It would appear that most of the skilled labour is non-local (ie people moving to the Island specifically to live and work in the sector. Education in marine-related subjects on the Island at present is insignificant. Off Island, the Community College in the BVI and the Seamen School in Jamaica offer training in marine skills. However, very few scholarships are awarded to St. Maarten pupils to study at these colleges.

5.12 The marine sector is highly specialised with little skill cross-over with other sectors. The sector does not exhibit clearly trodden career paths – most people in the sector get involved after having spent a considerable number of years on boats (for sports and leisure and/or as part of groups such as Sea Scouts). A major constraint is that local youths do not tend to get involved in these activities.

Market positioning at present

5.13 The structure of the marine industry in St. Maarten varies from that in most other islands:

- relatively less charter boat companies and more marine equipment suppliers
- relatively more large yachts than elsewhere
- relatively more suppliers of specialised skill-based services
- relatively fewer yachts anchored in quiet secluded picturesque anchorages.

5.14 This profile of the industry reflects the conditions and opportunities that are present on the Island. The lack of customs duties has made it possible to manage stocks of products and the relatively easy immigration possibilities have made it possible for expatriates to initiate services based on skills developed elsewhere. It was reported that the marine industry had developed over the last five years – most notably with the arrival of the mega yachts in Simpson Bay Lagoon.

5.15 The St. Maarten Tour Map identified the following characteristics of the yachting sector:

- St. Maarten is now an established and significant base for yachting in the Caribbean
- yachtsmen from all over the world fly into St. Maarten to join their boat (owned or chartered) and to go sailing/cruising to other destinations in the Caribbean. Princess Juliana International Airport (PJIA) is a significant component in the success of this business
- St. Maarten is seen as a good place to be if you have a technical problem with your yacht, both in terms of cost and quality of workmanship
- a lot of money is spent in St. Maarten in initial provisioning for yachting trips to other destinations and in fuelling for the motor yachts (yacht home porting)
- considerable money is also spent in docking boats between charters in St. Maarten
- day chartering of boats by cruise and stay-over visitors is also quite significant
- there is considerable scope for further growth in the sector
- occupancy in the high season reaches 85% and more.

5.16 There are a number of barriers which might prevent St. Maarten from further diversifying into this growth market.

Seasonality

5.17 An increased dependence on mega yachts may heighten the problems of seasonality as mega yachts usually spend the summer months in the Mediterranean and the seasonal nature of work is cited by local people as a reason why there is limited interest in being employed in this sector.

A sub-regional approach

5.18 If St. Maarten were to develop activities in this field, it would help if this was done in the context of a sub-regional strategy for the marine-based tourism sector. In particular, there could be advantages of close liaison with Antigua/Barbuda and St. Barths; the mobile nature of yachting and the differential strengths of each island mean that greater cooperation would help to market a sub-regional product to optimise the economic benefits from the sector.

- 5.19 A sub-regional approach is also vital in terms of economies of scale (and to ensure complementarity as not all islands can offer all services). For example, skills issues are hard to address when considered purely on an island basis; regional training programmes and favourable working permit agreements between islands will make it easier to engage local people in the marine engineering sector. At national level, in order to ensure its position in the sub-region, St. Maarten needs to engage fully and as early as possible in this process in order to position the Island as a leader in the marine engineering field.

Better national level collaboration

- 5.20 There seems to be scope to improve the administration of yachting in St. Maarten. Reports have highlighted the low level of involvement by the public sector in St. Maarten and a need to improve the public image of the industry. In the private sector, there was little collaboration with the tourism industry, even for the planning of large regatta events. While the SMMTA has helped to raise the profile of the sector and brought its concerns to the attention of the Government, more needs to be done to ensure that the public and private sector work together to maximise opportunities on St. Maarten.

Skills development

- 5.21 Local involvement in the yachting sector remains low on St. Maarten despite a rapid growth in the sector and the lack of skilled labour amongst the resident population means the St. Maarten has become reliant on importing labour. It was suggested that islands with stricter entry conditions (for example St. Kitts) are now beginning to benefit as skill levels improve within the local workforce. There were suggestions that any programme designed to address skills gaps in the marine engineering sector should be accompanied by policies which encourage opportunities for islanders.

How to improve market positioning

- 5.22 In the long term, the marine sector will not reach its potential unless local people are encouraged and supported to work in the sector. The practice of bringing in expatriates hinders the development of the sector as:
- there is often a considerable time lag between identifying a skills gap or vacancy and finding the most appropriate overseas employee
 - the cost of travel to St. Maarten and accommodation for expatriates often has to be covered by the employer

- labour turnover is high as employees have no long-term affiliation with the Island.

5.23 Once the skills issues have been addressed, there is then scope to market the sector internationally and to position St. Maarten as one of the world's leading marine hubs.

Institutional support for the sector in St. Maarten

5.24 The sector has been supported through the range of infrastructure projects that have been completed to improve marina facilities. However, more support for infrastructure development, location marketing and training and skills is necessary for the potential of the sector to be realised.

Recommendations and next steps

5.25 Our recommendation is that the marine sector is accorded a **“high priority”** as regards moves towards economic diversification.

5.26 There are a number of steps that are required in order to promote the expansion of the sector:

- the infrastructure requirements of the sector need to be clearly understood and, if feasible, acted upon. Particular concern was expressed about the state of the Island's road network. There needs to be a dialogue with industry representatives on where the major bottlenecks are and what might be done to alleviate them, including suggestions on the financing of such improvement schemes
- there is a role for destination marketing supported jointly by industry representatives and Government. There are a number of key fairs and events in the annual diary where St. Maarten should be well represented to attract more customers
- a wide range of activities are required to address the labour market needs of the sector, encouraging St. Maarten's youth to excel in it; more work is needed to ensure that the attitudes of youths and employers change so that the former are well acquainted with marine life at an early age and the latter are more willing to employ and train youths. This will require close cooperation between the Island Government and marine sector employers and will involve financial and time commitments from both
- there is also a need for a recognised and respected marine proficiency certificate which youths can use as evidence that they understand the basics of yachting

- over time, more pupils need to be encouraged to take scholarships to study marine skills abroad, particularly those related to emerging markets such as the mega yachting sector
- more generally, the analysis already undertaken by the industry on trends, future opportunities and skills etc must be disseminated, understood and acted upon
- explore sub-regional collaboration to achieve economies of scale for marketing and skills development.

Agriculture and fishing

Rationale for choosing the sector

5.27 In addition to the employment generation effects of investment in agriculture and fisheries, there are three other reasons for investigating the potential of this sector Maarten's economy:

- to ensure food security, primarily for the domestic population
- to achieve a certain degree of import substitution and associated foreign exchange savings
- to create a 'defensible differentiator' for the tourism offer of St. Maarten, namely using locally grown 'fresh' food and fish produce in the restaurants and hotels of the Island.

5.28 Creating a defensible differentiator is perhaps the most compelling of the three reasons. St. Maarten's very existence depends on tourism and this dependency is unlikely to diminish significantly, even in the medium to long term. Creating a 'difference' and thereby securing a position in a market is important, particularly as many markets, including tourism, are volatile and subject to rapid change. Furthermore, an emphasis on locally produced (and often organic) produce addresses the linked agendas of sustainability and environmental friendliness.

Strengths and opportunities of the sector in St. Maarten at present, including any developments that might be already underway

5.29 At present, nearly 100% of foodstuffs (raw and produced) consumed in St. Maarten are imported. Technically, agriculture is feasible and there are working farms in St. Maarten, albeit extremely few in number. We were told that the soil of St. Maarten is fertile and modern water harvesting methods and systems mean that water should not be

a major constraint (however, at present, most of the water used on the Island comes from the desalination plant).

- 5.30 Recently, a thorough investigation of the potential of agriculture and fishing was undertaken, focusing on the opportunity to develop a combined fish farming and hydroponics operation (aquaponics) on the Island. A consulting team from the University of the US Virgin Island (USVI) led by Dr Charles Shultz demonstrated the commercial viability of the operation in the USVI and judged that a similar operation could be commercially viable in St. Maarten. The research demonstrated that aquaponic production of tilapia fish and lettuce is profitable in USVI where retail prices are high and direct marketing is feasible. Similar conditions apply in St. Maarten.
- 5.31 Furthermore, according to the St. Maarten Chamber of Commerce, a number of supermarkets in St. Maarten have agreed to allocate selling space for locally grown produce if it can be produced to a given quality standard and in sufficient quantities. Aquaponic systems seem well suited for islands like St. Maarten due to the small land requirement, high productivity, water conservation and nutrient recycling characteristics of the operations. It would appear that there is considerable potential for such a system to be established on the Island, particularly given market trends associated with consumption preferences for locally grown fresh, organic and distinctive products and supplies to hotels, restaurants and the mega yacht sector could become commonplace.
- 5.32 Other ideas related to aquaponics generated during brainstorming sessions held by SQW in St. Maarten in January 2006 included:
- establishing a prison farm; it was reported that at present there are few activities for prisoners many of whom do not possess skills appropriate to the prevailing labour market. A prison farm would engage prisoners in worthwhile activities and help to provide them with skills they could use after their release from prison
 - setting up one or more school farms; school farms are used to teach children about the natural world (including issues of food consumption, healthy living and sustainability) and instil enthusiasm about food production on the Island
 - garden plots (using water harvesting techniques).

Global developments that might impact on the sector

- 5.33 Research indicates that the food service market is worth US\$150 million in the Netherlands Antilles⁸. By far the most important aspect of this market is the hotel,

⁸ USDA Foreign Agricultural Service GAIN Report 2005

restaurant and institutional (HRI) food service market. St. Maarten, as other Antillian islands, is heavily dependant on food imports and most of these imports come from the USA and the Netherlands. Whilst food and drink represents a major market, the agricultural sector contributes less than 1% to the Netherland Antilles' GDP and employs less than 1% of the total workforce⁹. In St. Maarten this appears to be the result of a combination of economic, topographic, climatic, and cultural factors.

Cut flowers

- 5.34 The Caribbean region imports nearly US\$4 million in nursery products and cut flowers from the USA alone, nearly all supplied directly to the tourism industry. Resorts, hotels, restaurants, casinos and golf courses all require regular supplies of such products and local production is insufficient to meet demand. In the Netherlands Antilles, the sales value of nursery products and cut flowers in 2003 was \$1.6 million; 47% of these products were imported from Colombia, 29% from the Netherlands and 4% from the USA. Data on local production were not available but is likely to account for a tiny proportion of this total.
- 5.35 Nursery products and cut flowers may present an opportunity for St. Maarten, especially in terms of the local market. The perishable nature of flowers means that good communication networks, cold storage and road and air networks are vital, especially if produce is being exported. St. Maarten has the advantage of all of these infrastructure assets as well as a strong internal demand from the tourist industry.
- 5.36 The task of entering this market should not be underestimated as the industry is highly dynamic and extremely competitive. Further research would be required in order to test the viability of the sector but there is no doubt that innovative producers can reap considerable rewards.

Strengths and weaknesses of the environment in St. Maarten that might impact on the sector

- 5.37 There are a range of obstacles that need to be addressed:
- lack of land: other commercial activities can easily 'outbid' agricultural uses for land; this is because the potential returns associated with these other commercial activities (such as hotel and timeshare development or marine activities) are usually substantially higher
 - problematic attitudes: it is widely reported that people do not want to "go back to agriculture" and "will not do it if it is too much hard work". While there may

⁹ USDA Foreign Agricultural Service GAIN Report 2005

be some truth in this proposition, it is unlikely to characterise the entire population of the Island

- supply chain “lock-in”: wholesalers have strong links with off-Island food providers, particular firms based in the USA; a significant proportion of stay-over tourists are American who often demand US products
- insufficient Government support: we were told that for the sector to thrive it would require more determined support by Government.

5.38 All indications suggest that large scale agricultural production is not viable on the Island and that realistically St. Maarten will continue to import the bulk of its agricultural produce. However, there appear to be a range of opportunities in niche and/or higher value markets in spite of the obstacles listed above.

Market positioning at present

5.39 The small amount of agricultural produce that is being produced on the Island at the moment finds a ready market in the tourism sector. The constraints to developing this sector are not to be found in the market but are associated with supply conditions.

How to improve market positioning

5.40 Given the size of the tourism market, once production constraints have been overcome, it should not be too difficult to sell home-grown agricultural products to domestic customers, provided it can be done to the required quality levels and at acceptable costs.

Institutional support for the sector in St. Maarten

5.41 At present, the agricultural and fisheries sectors are not of high priority and it would be fair to say that activities happen despite rather than because of support provided by Government. If the sector was seen to be worth supporting, constraints arising from the availability of suitable land and skilled labour would need to be given high attention by the government, the private and the educational sectors.

Recommendations and next steps

5.42 Our recommendation is that agriculture and fishing is accorded a “**medium to high priority**” as regards moves towards economic diversification. There is a huge range of possibilities to be explored in further depth. It is recommended that the Government and the private sector devise a clear plan for the agriculture and fishing sector of the Island with the aim to produce a range of organically grown high quality foodstuffs that are used in top quality restaurants and hotels on the Island.

A medium to longer-term goal would be to make St. Maarten the culinary capital of the Caribbean, based on its unique Dutch – French – Creole - African mix of history and culture. The move to ensure that St. Maarten does develop a distinctive (and profitable cuisine) should be supported by culinary courses at the university and the enhanced promotion of culinary tourism in St. Maarten.

5.43 There are, however, a number of steps that are required if agriculture and fishing is to be established on St. Maarten:

- **policy decision:** The Government must decide whether it considers agriculture and fishing to be worth supporting. The argument offered here is that it the sector is worth supporting, primarily because the development of agriculture and fishing could support the development of tourism and create a small but very useful ‘defensible differentiator’ for the Island. If such a decision is taken, it will require senior decision makers to “throw their weight behind the sector”
- **land allocation:** As most land is in private ownership, there needs to be a process to bring land into agricultural use. This could be through a number of routes such as (a) extending the pond-infill to provide land for agriculture/aquaponics; (b) negotiating with private land owners and those wishing to establish an agricultural/aquaponics operation with the aim of establishing a demonstration operation, or (c) working with existing farmers to extend their operations
- **demonstration operations:** Establish an aquaponics demonstration operation along the lines suggested by Dr Shultz. Further, if the Government does feel that it is worth supporting the sector, a mini conference should be held to explore the options and possibilities described in this report. In particular, representatives of educational establishments such as the University and schools should attend and focus on how culinary courses at the University could underpin the promotion of culinary tourism in St. Maarten.

Creative industries

Rationale for choosing the sector

5.44 Worldwide, the creative industries are a growing sector. The sector is made up of a number of segments including advertising, antiques markets, architecture, arts, crafts, design, designer fashion, film, music, performing arts, publishing, software, television and radio¹⁰. The industry is growing worldwide, facilitated by global trends for increasing leisure activities as well as consumer demands for “authentic” goods and

¹⁰ This is the definition for the creative industries used by the UK Department of Culture, Media and Sports (DCMS)

services. There are strong linkages between the creative industries and the tourism sector; visitors appreciate locations with a strong indigenous arts and cultural sector which increases tourist **numbers**; at the same time, the quality and breadth of indigenous creative products and services increases visitor **spending**, thereby increasing the wealth creation potential of the tourism sector.

5.45 There are no statistics on the size of the creative industries in St. Maarten but there is strong evidence that despite a developing tourism sector, the indigenous creative industry is currently failing to reach its potential for a number of reasons:

- the opportunities in directly tourism-related activities appear to outweigh wealth creation benefits of the creative sector
- there are a range of obstacles faced by artists and creative businesses which make commercial success difficult; these obstacles include lack of appropriate property and shortage of finance for working capital.

5.46 Given the buoyancy of the tourism industry, there is clearly substantial potential to increase the size of the creative sector and to encourage local youths to get involved. The industry demands a wide range of skills from natural talent and craft specialisms (eg woodwork, artistry etc) to business management, marketing and small scale manufacturing.

5.47 A strong local creative industry is vital, both as a continual source of local employment and locally retained wealth, but also to support the development of the tourism industry in such a way that protects the heritage, culture and tradition of the Island.

Strengths and opportunities of the sector in St. Maarten at present, including any developments that might be already under way

5.48 The most obvious strength held by St. Maarten is its market place. It has a captive market of over 1 million tourists every year. The Harbour Village, PJIA and the town centre offer the opportunity both to develop the sector and improve the authentic nature of the holiday experience. Other opportunities include:

- the planned local craft complex for the area in front of the government offices in Philipsburg
- close linkages with plans to develop the agricultural sector where authentic packaging and design will be required.

Global developments that might impact on the sector

- 5.49 The growth of this sector is influenced by the global rise in tourism and the requirements of affluent societies to benefit from “authentic” products and services. It is estimated that the global market value of the creative industries increased from \$831 billion in 2000 to \$1.3 trillion in 2005.¹¹

Strengths and weaknesses of the environment in St. Maarten that might impact on the sector

- 5.50 Whilst there are some internationally recognised artists working on the Island (for instance Ruby Bute on the Dutch side and Roland Richardson on the French side – see Boxes 5.1a and 5.1.b, there is general agreement that the quality of local crafts and artistry is poor and that there is a distinct lack of training available.
- 5.51 Efforts have been made by the Chamber of Commerce (CoC) and the Small Business Development Foundation (SBDF) to make local firms more financially stable and able to occupy premises at key sites. However, their ability to compete with corporate operations from overseas and the ability of the Government to enforce regulations and protect firms from anti-competitive behaviour is hindering progress.

¹¹ UK National Endowment for Science, Technology and the Arts (NESTA): Creative Industries Briefing Note (April 2006)

Box 5.1.a: Ruby Bute

Ruby Bute, renowned St. Maarten's national treasure, is a mentor tutor to many emerging artists. Bute's painting career spans over thirty years of dedication to visual arts and as an author of two volumes of poetry. She has produced paintings that document historical aspects of St. Maarten's life and culture. Her strong images capture the joyousness of carnival, the serenity of old homes and ancestral landscapes. Bute's "Tanny and the Boys" with its bright colours and warm expressive faces of these beloved musicians, her portrayal of children playing, hair braiding and "Dem Ole Days" are testimony to her love and understanding of the heart and soul of St. Martin. Unforgettable are Ruby Bute's poems, two published volumes "Golden Voices of S'Maatin" and "Floral Bouquets to the Daughters of Eve". We listen to Ruby's poems and readings often presented spontaneously and in special recitals and we know they are truly gifts from Ruby Bute to St. Maarten/St. Martin.

Exhibitions of Bute's paintings are regularly held in St. Maarten, in Amsterdam and other Cities in Holland, Aruba, Bonaire, Curaçao and Saba. Her works are owned by collectors in St. Maarten/St. Martin, and the United States. Yearly solo exhibitions are held at the Nanette Bearden Fine Arts Gallery, Philipsburg, St. Maarten, and at Bute's studio in Ebenezer Estates in South Reward, St. Maarten.



Box 5.1.b: Roland Richardson

Recognised for his commitment to record the Caribbean landscape and people, their traditions and cultures, Roland Richardson is a pioneer in the school of Caribbean art, and perhaps father of Caribbean impressionism, “en plein air”, painted always from life. A native of St. Martin, French West Indies, Richardson has worked over the last thirty years in his domain, studying its remarkable patterns of light and shadow, the ebb and flow of the Caribbean seasons, the generations of his people.



Market positioning at present

- 5.52 At present, the creative sector in St. Maarten is small. Although it comprises a handful of internationally renowned individual artists, as a sector it is unorganised, highly variable in terms of quality and ill-equipped to compete with overseas operations.
- 5.53 Front Street in Philipsburg is dominated by jewellery and cosmetic outlets and whilst it does have some arts and craft stores, the majority sell imported goods. Back Street is equally lively and attracts more independent tourists and locals. Stores vary widely from budget toiletries, car parts and accessories, music, comparison retail, groceries, liquor stores and many more. However, those stores that do sell creative goods and, in particular, the local market, tend to sell imported produce.

How to improve market positioning

- 5.54 As with agriculture and fisheries, the challenges for the creative industries are more concerned with overcoming supply constraints than lack of market opportunities. Given the large number of tourists who visit the Island every year, indigenous and authentic creative products are bound to find customers.
- 5.55 However, quality will be an important consideration and any support offered to the creative industries should include quality assurance processes. Such processes could include:
- a creative producers network with membership offered to those that adhere to specified quality standards
 - a quality label conferred by the producer network
 - an annual competition for creative products and services in a wide range of activities (arts, crafts, music, architecture, film etc), judged by a panel of national and international artists and experts; this annual competition could become another major event in the St. Maarten tourism calendar (preferably outside the main season also to address seasonality issues
 - the creation of special categories in the competition for young artists, craftsmen and performers to stimulate the development of local talent.
- 5.56 The benefits of encouraging indigenous arts and crafts would be significant, giving local people employment opportunities whilst also contributing to the sustainable development of the tourism industry by protecting and promoting its culture and heritage.

Institutional support for the sector in St. Maarten

5.57 At present, there is no special support available for the creative sector. There are a wide range of steps that need to be taken to promote the creative industries sector:

- the skills base needs improving through work with schools, colleges and the University
- the profile of the industry needs raising through events and competitions
- the sector is made up predominantly of small firms and individuals which might need supporting through the provision of premises and funding for working capital
- there has been a tendency for property in key strategic sites to be let to large corporate outlets due to the lack of financial security of many local operations and rates in the main shopping areas of Philipsburg are too high for most local operations to afford. Where rates have been subsidised to allow local craft businesses to rent premises in these areas, there have been issues surrounding the subletting of premises to commercial businesses at higher rates.

5.58 Efforts have been made by the CoC and the SBDF to make local firms more financially stable and able to occupy premises at key sites. However, businesses' ability to compete with corporate operations from overseas and the ability of the Government to enforce regulations and protect firms from anti-competitive behaviour is hindering progress. It would appear vital that the Government ensure that any new craft complex has strong local representation and that the barriers that have held back the development of the industry in the past are overcome.

Recommendations and next steps

5.59 Our recommendation is that the creative industry sector is accorded a “**medium priority**” as regards moves towards economic diversification. The following actions must be considered:

- **awareness raising and skills development;** there is a need to ensure that provision of training and education is available for individuals to be in a position to consider setting up in business in the field of creative industries. Colleges and schools need to work with businesses and the Government to encourage and develop skills in crafts and arts, combine these skills with business management training, and encourage employers to engage in training – both of students and employees

- raise the **quality** of products and services in the sector; in addition to education and training, there are a wide range of measures including the introduction of quality standards, competitions and events to improve quality levels
- explore support requirements for **small businesses**; the creative industries could provide many opportunities to support indigenous entrepreneurial activities
- provision of **premises** and subletting; there needs to be a supply of affordable and good quality workshop and retail premises for small businesses to be able to operate successfully in this market segment. This includes the need to address previous problems of subletting.

Finance

Rationale for choosing the sector

- 5.60 Offshore financial centres started to grow significantly in the early 1970s as a consequence of the unravelling of the post war fixed exchange rate mechanisms in 1971-3. Since then, international financial transactions have been growing rapidly to service the increasing needs of global businesses and offshore financial centres play an increasingly central role in the global financial world. It is estimated that approximately \$11.5 trillion of assets are held offshore by high-net-worth individuals, avoiding tax of around \$255 billion each year.¹²
- 5.61 The Netherlands Antilles had already started to attract offshore financial companies during the Second World War when it provided a good base for Dutch companies wanting to protect their assets from the German occupation of the Netherlands. After the war, there were attempts to hold on to these companies to develop their contribution to wealth creation and employment. St. Maarten used to have a reasonably sized offshore financial sector in the 1960s and 1970s but due to a number of factors, financial activities have declined over recent years.
- 5.62 Given the size and growth potential of the industry globally, it is an obvious sector to explore regarding its diversification potential for St. Maarten.

Strengths and opportunities in St. Maarten that might impact on the sector

- 5.63 At present, the finance sector in St. Maarten is small, employing relatively few people and hence not generating much revenue for the Government. An element of optimism comes from the fact that employment figures in “financial intermediation” which had

¹² Sam Hinto Smith : The Offshore World. Open Democracy (21 March 2006)

gone down from 581 (2000) to 442 (2003) have recently started to rise again (601 in 2005).¹³

5.64 One of the main players on the Island at present is **Carib Offshore** (www.carib-offshore.com) which is an affiliate network of offshore asset protection service providers with a worldwide client network. Centred on St. Maarten, Carib Offshore is managed by the Trust Company of St. Maarten (Trust Co). The expertise of the network is in the field of offshore financing (investing opportunities utilising insurance backed products for financial security) and offshore asset protection (custom tailored asset protection strategies).

5.65 Three factors underpin the current dynamics of the sector in St. Maarten:

- history: The offshore finance industry was doing relatively well in St. Maarten in the 1960s, and did even better after May 1969 when there was an anti-government riot in Curaçao which, according to industrial observers, frightened many finance companies off Curaçao. However, in the 1980s the Government of St. Maarten ([is it the Island Government of St. Maarten or the Federal Government?](#)) changed the rules and regulations governing ([in which way, if you can be specific](#)) the sector making the business environment less favourable for offshore financial companies. This led to companies leaving the Island and indeed it may be difficult to persuade these companies to “return
- the nature and attractiveness of the required infrastructure on St. Maarten. The crucial question is what it would take to attract financial firms such as CITCO and AMICOP (two leading firms in the Caribbean Region) to St. Maarten. Such firms require a stable, modern and flexible regulatory environment, “minimum” control within the bounds of this environment, positive government support characterised by “smooth sailing” (namely effective and efficient management of the sector), skilled staff, and the physical, economic and social infrastructure required by such staff
- the effects of global competition and disclosure rules: Competition for financial services companies has dramatically increased between locations. This means that the St. Maarten offer has to be very well constructed and completely supported by the Government and the private sector (working together) for the Island to re-position itself in relation to the finance industry. Further, given the international concern with disclosure expressed in, for example, the European Savings Directive and the rules and regulations relating to Homeland Security in the United States, it is vitally important that the St. Maarten regulatory authority is seen as effective and efficient.

¹³ Netherlands Antilles Central Bureau of Statistics (2006)

5.66 It would appear that more needs to be done than is happening at present for the finance sector is to grow on the Island as competition is fierce and many islands in the Caribbean see the finance sector as a means of diversifying and strengthening their respective economies. St. Maarten has to do something “special” to build the sector in the face of such competition.

Global developments that might impact on the sector

5.67 The international finance sector is highly competitive; however, due to a mixture of conducive quality of life factors and positive policies implemented by some governments, the Caribbean region had managed to attract its fair share of international finance activities with many islands, led by the Cayman Islands, positioning themselves as a key location in this field.

5.68 There are obvious reasons why the islands of the region have focused on the finance sector as it brings wealth and prestige and is a productive source of government revenue. For example, it is maintained that in 2004 the sector generated some US \$170 million in net revenue for the BVI government.

5.69 Within the financial sector, there is a trend for the market to divide into a more ‘upmarket’ component (where locations try to compete with the main financial services centres) and a more ‘downmarket’ segment which tries to capture business from lower net worth individuals who are looking for quick, efficient and relatively cheap service.

Strengths and weaknesses of the environment in St. Maarten that might impact on the sector

5.70 Amongst the strengths of the sector in St. Maarten are:

- some reputable and sizeable representatives of the industry already present, in particular the Trust Company of St. Maarten
- the Island is very accessible from the main financial centres in the United States and Europe through the Island’s international airport
- the sector has a history on the Island, even though it is one that has gone through some ups and downs
- through the education and training links of St. Maarten youths with the Netherlands, there could be a supply of skilled graduates available for the industry.

5.71 Amongst the weaknesses are:

- given the small size of the sector at present, the pool of skilled labour is small
- no provision of relevant education and training on the Island
- at present, there are no special schemes and incentives to attract companies.

Market positioning at present

5.72 At present, St. Maarten does not occupy a favourable and strong position in the international and regional (Caribbean) finance sector. The sector is too small and there are no special policies, incentives and marketing measures in place to attract companies to the Island.

5.73 There is, however, an opportunity to attract business from those countries which have become less effective and efficient in managing and supporting their financial sector. Indeed, one individual interviewed by SQW argued that he was engaged in facilitating the relocation of a few finance companies from Curaçao to St. Maarten due to the perception that the way in which the government and the politicians were handling the sector in Curaçao was not to the liking of a number of the companies based there.

How to improve market positioning

5.74 In the first instance, there needs to be clarity as to which market segment St. Maarten would be targeting, whether the aim for the Island would be to be an up-market financial centre (which would require solid regulation based on the effective and efficient management of the sector and the provision of the infrastructure required by those working in the sector) or whether it would be desirable to be less up-market, similar to Anguilla (where individuals can deposit funds with asset protection trusts) or St Kitts which is targeting online gambling.

5.75 Further, it is necessary to be clear as to the underlying reasons for promoting the sector; if the rationale is to soak up local unemployment, it might be necessary to think again. The sector often uses expat labour and local labour tends to be junior and unskilled. Of course policies and incentives can be introduced to capture training benefits for local employees and to maximise local economic spin-offs, but, in general, the sector does not offer employment to a large number of people and certainly not those that are poorly trained and unskilled.

Institutional support for the sector in St. Maarten

- 5.76 From discussions held by SQW with members of both the private and public sector in St. Maarten, it appears that many feel that the prevailing rules and regulations and, most importantly, attitudes of the Government are not sufficiently differentiated from those of other island governments in the region
- 5.77 It is encouraging that the Government of St. Maarten has recently decreed a new “Business & Director’s License Policy for Offshore Companies”. The policy aims to make it easy for companies to be incorporated in St. Maarten. It includes the following procedures:
- establishment
 - director’s licenses
 - processing fee (exemption)
 - yearly fees (exemption)
 - Chamber of Commerce procedures
 - Business License Format
 - mandate to the Sector Director Economy and Tourism
 - time for business and director’s license to be issued (one week).
- 5.78 This policy will allow for a much more efficient processing of the license which can now be granted in about five days with straightforward lines of authorisation and the avoidance of length advice and/or bureaucratic procedures.
- 5.79 The political stability of St. Maarten could offer an opportunity for offshore companies to transfer their company from other islands, for example Curaçao. The fees required to establish an offshore company have been set to be competitive, allowing St. Maarten to be considered seriously by these investors.
- 5.80 Other steps required to promote the industry on the Island include:
- a campaign to promote the sector internationally through marketing materials and a presence at key industry events
 - attempts to promote the labour pool for financial services companies, in particular by trying to match young St. Maarteners educated in the Netherlands with financial sector investors

- an awareness of the property and infrastructure needs of the sector; it might still be possible to integrate a customised financial services suite at the new PJIA; such a suite would have the advantage of promoting the sector to business travellers using the airport but it would also provide interested investors with an efficient operating base.

Recommendations and next steps

5.81 Our recommendation is that the finance sector is accorded a **“medium to high priority”** as regards moves towards economic diversification. There are other sectors where quick wins (and more substantial wins) can be generated in relation to economic diversification, the sector is highly competitive and other areas in the Region appear to have first mover advantage. Nevertheless there are clear actions that can be taken to strengthen the sector:

- firstly, it is recommended that St. Maarten aims to become an ‘up-market’ financial centre, and actions are taken to promote the Island as such a centre are pursued. The new license policy for offshore companies is the first step in this direction to be followed by others.
- secondly, it is recommended that the evolution of more ‘down-market’ activities on the Island, such as on-line gambling, are left to the market. The government should take a neutral position on such activities while devoting all efforts to creating a strong quality financial centre.

5.82 This means that the government must establish a sound, effective and efficient regulatory environment – with vision and panache that can attract activities from other areas in the region and the world, and then build an endogenous sector on the Island. Key actions that must be taken include:

- **government attitude and policies:** The government must adopt a strongly positive position, and be seen to adopt such a position. Consideration should be given to using English common law rather than civil law to support the sector and the management of trusts. A task force of key private and public sector representatives (perhaps a sub-group of the proposed Joint Economic Council) should be established to develop, within a period of three to four months, an action plan for the sector. Discussions should be held with the likes of CITCO and AMICOP (two leading firms in the Caribbean Region) as regards the actions that the government can and should take.
- **associated sector development:** As well as actions directly related to the finance sector, the government must be keenly aware of the broader infrastructure

requirements of the finance sector including ICT needs and the quality of life factors that will attract the professional working in and managing the sector

- **skill requirements:** It should be explored whether some of the young people which are currently being educated in the Netherlands through public scholarships could be recruited for the sector.

Logistics

Rationale for choosing the sector

5.83 Logistics is a multi-faceted sector which covers a wide range of activities. Due to its broad coverage and the relative novelty of some of its segments, the sector is not as clearly defined as others. The US-based Coalition of Service Industries (CSI) has suggested the following definition: “Logistics is the process of planning, implementing, managing and controlling the flow and storage of goods, services and related information from the point of origin to the point of consumption”.¹⁴

5.84 St. Maarten is well placed to increase its role in global logistics due to its significant connectivity assets, the port and the airport. The role of both is set to increase due to past and future investment spending. While the expansion programme has been primarily driven by the growth of the tourism sector, there appears to be considerable development potential in the role of St. Maarten as a sub-regional logistics hub including:

- the strong growth in container and general cargo trans-shipment through the port
- increasing frequentation of the port by main line carrier routes serving the eastern Caribbean
- the emergence of St. Maarten as a duty free wholesale distribution centre for the neighbouring islands, including the French side
- the increase in air cargo volume being handled by the airport and the construction of a dedicated air cargo facility as an element of the airport expansion programme
- the continuing strong growth in tourism both on St. Maarten as well as on neighbouring islands generating increasing demand for imported goods

¹⁴ Statement of the CSI to the US International Trade Commission: An Overview of the Global Market and Potential Effect of Improving Trade Impediments (November 18, 2004)

- the position of both the port and airport as the major international sea and air linkages in the region.
- 5.85 Given the current growth in both air and sea cargo, underpinned by local and regional tourism growth, there is clearly the potential to expand logistics activities in St. Maarten and create further employment opportunities. Logistics demands an extremely wide range of skills, from overall and supervisory management, information technology design, processing and maintenance to manual operatives and there are clearly opportunities for the local labour force, particularly youths, to participate in the development of the sector.
- 5.86 There may also be opportunities for local business start-ups to enter the logistics sector through providing specialist services, for example in the area of break bulk re-packaging for hotel and catering supplies or specialist courier services for high value or perishable goods. We were told that the port already operates with a small core staff of around 50 and subcontracts most activities out to smaller independent entities including retailers, transport businesses, catering specialists, security firms and many more.
- 5.87 Opportunities also appear to exist in the reefer, or frozen goods, sector, utilising cold storage facilities abandoned by the fishing sector to create a regional cold storage distribution centre conforming to strict international norms, particularly those of the EU.

Strengths and opportunities of the sector in St. Maarten at present, including any developments that might be already under way

- 5.88 While there are no specific government initiatives for the development of the logistics sector, the continuing status of St. Maarten as a duty free port requiring no import or export bills is a considerable attraction to both shipping and logistics companies. St. Maarten port is one of the few deepwater ports in the Eastern Caribbean with shore handling cranes and container handling facilities. In addition, the port also has a dedicated RoRo berth. As a cruise terminal, the port is one of the busiest and best regarded in the Eastern Caribbean and is attracting an increasing number of operators¹⁵.
- 5.89 Two small cruise operators are now using St. Maarten as a home port for their Caribbean operations, a situation which should lead to the demand for specialised logistics services for ships stores, maintenance and provisioning in St. Maarten, adding to the demand generated by the mega yacht sector.
- 5.90 A port improvement programme is underway which will see the expansion of both cruise and cargo facilities in the port including the ‘port back up area’ external to the

¹⁵ In reference to the Creative Industries Sector, the cruise terminal could enhance its role as a showcase for indigenous arts and crafts producers.

main working area with a view to the construction of additional warehousing facilities. Consultations revealed that the port authority is in discussions with two mainline container carriers both of whom are interested in developing operations on St. Maarten as a regional hub for the Eastern Caribbean.

5.91 The second phase of the expansion of St. Maarten's international airport (PJIA) is currently underway and is due for completion later during 2006. This expansion will increase the passenger and freight throughput of the airport. It is understood that the airport authority and island government are in negotiation with a number of European carriers, including Virgin and Lufthansa, with a view to offering landing rights at PJIA. A linkage, through Lufthansa, to Frankfurt which is Europe's largest air cargo hub would greatly enhance the air cargo linkages of the airport.

5.92 Other logistics development opportunities which may exist, based on the existing economic strengths of St. Maarten, include the following:

- high value express distribution of marine spare parts for the mega yacht business, either from locally established warehousing or from overseas distributors. Potential demand in the high value express delivery will be further strengthened by the establishment of 'home-porting' in the cruise sector
- hospitality sector logistics activities, both locally and regionally, covering the distribution, processing and packing of consumables
- the increasing development of St. Maarten as a duty free wholesale distribution centre for the region
- if St. Maarten were to develop its agricultural sector, there would be further logistics opportunities generated by the trading with perishables.

Global developments that might impact on the industry

5.93 The global logistics industry is made up of the following key components:

- scheduled and chartered air transportation
- deep-sea, coastal and inland water freight distribution
- freight trucking
- couriers
- warehousing and storage (including refrigerated warehousing and storage)
- specialist software development and custom computer programme services

- production of computer peripheral equipment
 - specialist consultancy services.
- 5.94 The industry is growing rapidly. World exports of transportation services in 2004 were estimated to be around US \$500 billion and the industry experienced global growth rates of 14% in 2003 and 23% in 2005.¹⁶
- 5.95 The logistics industry is increasingly being consolidated, both vertically and horizontally, as customers like to deal with known service providers. As a result, the industry both for air and sea cargo is moving towards ‘hub and spoke’ operations. By actively attracting additional air and sea operators to both the port and airport, in the process creating a wider distribution base, the Island is reinforcing its position as a sub-regional transport hub and should prove increasingly attractive to logistics operators.
- 5.96 Another trend that is impacting on the logistics industry is the emerging importance of e-commerce for trading a wide range of products. Given its tax free status, there could be opportunities for St. Maarten in this field.

Strengths and weaknesses of the environment in St. Maarten that might impact on the sector

- 5.97 The physical infrastructure, both port and airport, are already the most sophisticated in the region and are now being upgraded and expanded with government support. While there are no specific government initiatives for the development of the logistics sector, the continuing status of St. Maarten as a duty free port requiring no import or export bills is a considerable attraction to both shipping and logistics companies. The absence of a logistics development strategy to maximise the returns on port and airport investments is however seen as a weakness and steps should be taken to prepare such a strategy and market these facilities regionally and internationally.
- 5.98 Direct employment in the sector, by the port and airport authorities, is low, not more than approximately 100 posts. However, the sector creates substantial indirect employment opportunities which can be expected to rise further as both the port and the airport undergo their expansion programme.
- 5.99 While skills in the sector have traditionally been seen as being low, mainly requiring manual labour, there is a range of trends that will require upskilling. These include:
- more demanding management and marketing of the port and the airport to allow both to play their full role in the global and regional distribution system

¹⁶ WTO Statistical Yearbook 2005

- more sophisticated freight movement and control systems based on complex information technology systems to allow for just-in-time stock management requiring higher operator skill levels and training
- advanced levels of customer care in the port and airport for St. Maarten to live up to its marketing brand as “the friendly island”.

5.100 There are a number of established logistics operators on the Island; these are mainly domestic enterprises as no integrated logistics carriers have established large scale operations yet. With the possible establishment of mainline carriers, it is reasonable to assume that international logistics providers may consider establishing themselves on St. Maarten.

Market position at present

5.101 At present, the two main drivers of the logistics sector in St. Maarten are the tourism sector and the Island’s role as a duty free wholesale distribution centre. While the Island does play a regional role, much of the activity is informal, particularly in the wholesale sector which is highly fragmented and dominated by a large number of independent traders most of whom are not native islanders.

How to improve market positioning

5.102 To improve the market positioning of the Island, the following steps need to be considered:

- integrate the port and airport much more closely to position St. Maarten as a superb air/sea hub
- in doing so, aim to attract some key logistics operators that can help to strengthen St. Maarten’s role as a sub-regional hub
- address the training needs required by modern logistics operators.

Institutional support for the sector in St. Maarten

5.103 The sector has benefited immensely from public sector support for infrastructure development and it is also strengthened by St. Maarten’s tax free status. However, what is currently lacking is an integrated logistics strategy that brings together the port and the airport to explore the opportunities of the sector and the obstacles that need addressing to further its development.

5.104 Logistics operations are exceptionally cost sensitive and thrive in business environments with simple regulatory frameworks. Generally St Maarten’s regulatory

framework is well established; however, it may need simplifying and various aspects, such as the giving of permits and licenses, may need reviewing.

Recommendations and next steps

5.105 Our recommendation is that the logistics sector is accorded a “**high priority**” as regards moves towards economic diversification. Key steps to achieve growth and development in this sector include:

- there is a need to prepare a logistics development strategy identifying key target markets, operators and services that may be attracted to both the port and airport. Particular activities that should be examined are the development of an air/sea distribution hub, the development of a logistics intranet for stock control and consignment tracking, the development of refrigerated storage and distribution and the development of inter-island groupage services
- the Island has to be positioned and promoted as a logistics hub stressing the high quality of transport infrastructure, strategic location, political stability and low tax environment
- local businesses should be encouraged to ‘look outside the envelope of St. Maarten’ and develop regional markets, expanding their business space and building on the Island’s position as a logistics hub
- the local community should be sensitised to the potential importance of logistics as an economic activity and the business and employment opportunities that would flow from regional logistics activities centred on St. Maarten
- training programmes in logistics activities, particularly for youths, should be identified and implemented in step with new developments at both the port and airport
- consideration should be given to the establishment of a web-based trade portal allowing regional buyers to order goods online from local wholesalers and track the shipping of their consignments in real time
- in the longer term, colleges and schools need to work with businesses and the Government to encourage and develop skills in logistics and distribution , combine these skills with business management training, and encourage employers to engage in training – both of students and employees.

Information and Communications Technologies (ICT)

Rationale for choosing the sector

- 5.106 Information and communications technology (ICT) is one of the key growth industries in the world. The sector is important both in terms of direct wealth and employment creation as well as an input into effective processes in all other manufacturing and services sectors. The sector is made up of a large number of components including manufacturing and services activities.
- 5.107 A recent development in the ICT sector has been the outsourcing of activities from higher cost to lower cost locations. These activities, often referred to as business process outsourcing (BPO) have become one of the fastest growing segments of the business services market and a major force in the internationalisation of business services. From its inception in the 1990s, the market has expanded from simple payroll and administration outsourcing to a widening and ever more complex array of business functions including finance, human resource management, customer relationship management and logistics.

Strengths and opportunities of the sector in St. Maarten at present, including any developments that might already be underway

- 5.108 At present, there are only a few companies operating in St. Maarten which could broadly be described as belonging to the ICT sector. This includes the sub-segments of:
- communications services
 - mobile phone sales and servicing
 - computer sales, services and software stores.
- 5.109 An important base for the ICT sector is the telecommunications infrastructure:
- St. Maarten's telecommunications infrastructure consists of a range of fixed landline services, mobile telephony services, internet and leased line services
 - land line services are provided by Sint Maarten Telephone Company N.V. (TelEm) which is government-owned
 - the company has two associated companies, TelCell (mobile services) and SMITCOMS N.V. for international telephone services
 - mobile telephony has been growing since 1997, following the establishment of TelCell

- there are a number of Internet Service Providers (ISPs) operating on the Island including Network IDL, CaribService, UTS Wireless and Caribserve.net
- wireless technology has increased in recent years; one of the recent arrivals is Caribserve.net which is run by Roy A. Richardson and offers wireless technology on the Dutch and French part of the Island
- there is an ongoing need to upgrade and expand telecommunications infrastructure in the light of increased competition and the demand from subscribers for the best and latest technology
- there is a recognised need to secure more broadband width for future residential and business uses
- the main challenges facing the telecommunications sector in St. Maarten are the same as those facing telecommunications companies across the world, maintaining a viable operation in an environment of decreasing revenues, increasing competition and high investments.

5.110 However, there have been recent developments which inspire confidence that there are future opportunities to build on:

- in February 2006, the NetPro Group (the only ICT provider in the Netherlands Antilles and Aruba to have achieved the status of Microsoft Global Gold Certified Partner) opened a new office in St. Maarten; the company recognised the need to open an office on the Island to be able to service major developments and projects
- caribserve.net, a high speed wireless ADSL provider, has recently been set up by an entrepreneur returning to St. Maarten after an extensive period in the United States.

5.111 Moreover, while the sector is currently relatively weak, the Island does have a number of strengths:

- relationship with the Netherlands – including training links for young people
- established logistics hub – which offers a wide range of information and communications technologies opportunities
- deregulated telecommunications and multiple providers
- strong and stable legal framework

- through strengths in tourism, a large number of expatriates with extensive ICT background.

Global developments that might impact on the sector

- 5.112 The demand for ICT services remains very strong. Some Caribbean nations have had a degree of success in attracting the IT sector although so far activities have been largely limited to Call Centres servicing the US market.
- 5.113 Within the sector, the use of the Internet for producing and trading is increasing steadily which could provide opportunities for nations which combine an excellent communications infrastructure with a stable political regime and favourable tax environment.

Strengths and weaknesses of the environment in St. Maarten that might impact on the sector

- 5.114 At present, the environment for ICT-related activities in St. Maarten is mixed:
- there are only a small number of ICT-related companies on the Island
 - consequently, the pool of people with an ICT background who could be employed in the sector is small
 - there are no special provisions for ICT companies such as property schemes with specially favourable terms and conditions.
- 5.115 However, the combination of an excellent telecommunications environment and an advantageous tax status could be a powerful lever for St. Maarten to attract companies. “The Internet has yet to have much direct impact on the conduct of offshore business from the Netherlands Antilles, but with all other aspects of business activity, no one can doubt that there will be an impact, that it will be soon, and that it will be substantial.”¹⁷
- 5.116 Such a strategy could be helped by the proximity to the underwater optic glass-fibre cable “Americas II”, running from North America via the Caribbean to South America which became operational in October 2000 and “Arcos” which became operational in February. Arcos has a capacity of 960 gigabits in comparison to the 25 gigabit capacity of Americas II. The proximity of St. Maarten to Curaçao may provide the Island with considerable opportunities; however, equally, Curaçao’s lead in this field may be a competitive threat to St. Maarten developing a role in this area.
- 5.117 The natural bonding of the Internet and offshore activities stems from the fact that both benefit from tax advantages. Businesses which can operate on the Internet without, so to

¹⁷ E-commerce in the Netherlands Antilles (www.lowtax.net).

speak, touching ground in a high-tax jurisdiction will naturally migrate to offshore jurisdictions; while businesses that already have offshore existence will find it highly convenient to be able to use the Internet to trade with their high-tax customers without having to make a landing in their countries.

- 5.118 As a major offshore jurisdiction with tens of thousands of offshore enterprises already installed, including many trading companies, it is only a matter of time before the Netherlands Antilles become a centre of e-commerce activity. The islands' geographical location, their good telecommunications links and sophisticated business infrastructure add to the inevitability of an e-future for the Netherlands Antilles.
- 5.119 This opportunity has already been pursued by Curaçao where a new e-commerce park was opened in November 2001 with a multifunctional datacentre. The e-commerce park is situated next door to the UTS building with its direct connection to the backbone of the most important telecom cables resulting in high quality continuous 24/7 service from its NOC. The e-commerce park provides facilities for global offshore internet companies that relocate their activities to Curaçao. A company that establishes in park building is awarded special tax incentives under legislation which provides for the establishment of tax-privileged e-zone areas. “

Call Centres

- 5.120 Because of the Caribbean's cost base, call centres could represent a considerable opportunity. However, there are considerations to be addressed in relation to this activity:
- call centre employers generally have a high turnover of staff, with many employees identifying a call centre position as being a 'temporary and not a long-term career.'
 - the sector is not very strong on St. Maarten with no major international operators established on the Island and relatively few local companies.
 - the relative security and stability of St. Maarten may render it more attractive as a 'Disaster Recovery' location for the region. Call centre technology may be relevant to this opportunity.

Market positioning at present

- 5.121 Due to the lack of skilled labour and the small business population in this segment, St. Maarten is not currently positioned as a particularly attractive location for ICT-related activities. However, there is also a lack of specific policies and facilities of particular

importance to ICT businesses and the Island-based telecommunications infrastructure would need gearing up for large scale transfer of voice, data and images.

How to improve market positioning

5.122 Given the small size of the St. Maarten labour pool, particularly for skilled graduate labour, the potential for this sector is relatively. Nevertheless, the Island could position itself for specialist services based upon its existing skills in a limited number of niche markets. These include:

- relationship with the Netherlands. Provision of BPO for Dutch-based accountancy, finance and banking operations through locally established branches
- e-commerce opportunities, in particular related to the excellent connectivity assets on the islands
- e-services connected with finance and offshore trusts.

Institutional support

5.123 The factors that might influence a successful IT sector are:

- a competitive and well regulated telecommunications sector. Great improvements have happened in St. Maarten and the proximity to major fibre cables is an important consideration but more could be done to make St. Maarten a leader in terms of telecommunications infrastructure
- manpower with appropriate skills. The pool of labour at present is small and would not be a sufficient attractor for investors
- premises which are fully equipped in terms of property and telecommunications infrastructure for companies to start operating
- a regulatory environment which takes away obstacles for initial establishment and growth.

Recommendations and next steps

5.124 Our recommendation is that the ICT and call centre sector is a “**medium priority**” as regards moves towards economic diversification.

5.125 Key next steps are as follows:

- Develop the **skills** necessary for this sector; in conjunction with schools and colleges, devise a strategy to develop literacy, numeracy and computer skills to help attract ICT investors
- Aim to engage **graduates returning from the Netherlands** in this sector; at present. Many of these educated young people never return to St. Maarten or, if they do, do not work in areas where their skills are appropriately utilised
- **promotion** in key source markets, particularly in the Netherlands, of St. Maarten as a secure and stable offshore location for BPO, particularly in the financial and business services sector
- **creation of a first class ‘IT Environment’** on the Island in consultation with key industry players, building on existing strength of the telecommunications infrastructure and shaping it as a key locational advantage
- in particular the Government should consider developing and implementing an **‘e-government strategy’** to raise IT skills Island-wide and to provide greater and cleared access to the administrative process for both citizens and potential investors. Such national IT strategies would also provide high level base demand to encourage new service companies and IT providers to enter the local market.

Education

Rationale for choosing the sector

5.126 Education is an international growth sector. It used to be almost exclusively treated as a public good but for a number of reasons there has been a shift and education has become more of a private good affected by globalization. This applies to all aspects of education including secondary, tertiary (vocational and higher) and specialist knowledge- and skills-based education and training.

5.127 St. Maarten has already attracted a key player in the field of higher education (the American University of the Caribbean) and given the lifestyle attractions of the Island it would appear possible to attract other players in this field.

Strengths and opportunities of the sector in St. Maarten at present, including any developments that might be already underway

5.128 St. Maarten has two existing anchors in the education field, the University of St. Maarten and the American University of the Caribbean.

5.129 The **University of St. Martin** traces its origins to the 1980s when the Mullet Bay Resort and Casino identified the need to upgrade the performance of its employees.

Contact was made with Johnson & Wales University to provide professional staff to conduct custom designed hospitality training programme and courses. Credits earned for the courses completed were transferable to Johnson & Wales University. In 1986, this training programme evolved into the Mullet Bay Institute which also accepted students who were not employed at the Mullet Bay Hotel.

- 5.130 The rapid growth and success of the Mullet Bay Institute led to the emergence of the University of St. Martin, an institution of higher education that would benefit both the Dutch and French sides of St. Maarten as well as the neighbouring Caribbean islands. In 1994, the University began offering an Associate Degree in General Liberal Arts and continued expansion has resulted in the Associate of Arts Degree in Business, the Associate of Science Degree and the Bachelor of Arts in Education Degree. In 2000, the University began its transformation into its current phase with renewed emphasis on business and liberal arts; it also started to offer in conjunction with the University of the Virgin Islands a Masters Degree in Education.
- 5.131 The **American University of the Caribbean (AUC) School of Medicine** is providing medical education to students from the United States and elsewhere in the world. AUC is fully accredited according to regulations of the U.S. Department of Education and is approved for the U.S. Federal Family Education Loan Programme (FFELP). The academic programme is modelled after U.S. medical school curricula and students receive exceptional preparation for the United States Medical Licensing Examinations (USMLE) Steps 1 and 2. Basic sciences are taught on St. Maarten and clinical rotations are offered at affiliated hospitals in the U.S., United Kingdom and Ireland.

Global developments that might impact on the sector

- 5.132 It is estimated that global demand for higher education will reach 160 million by 2025, from an estimated 84 million today.¹⁸ Behind this rising trend are a number of structural changes. In developed countries, higher education is now perceived as a crucial part of countries' national innovation systems and the quality of teaching and research is therefore associated with far reaching impacts on the international competitiveness of the national economy. In developing countries, social demand for higher education remains very high and systems are expanding but the financial capacity to support this increasing expansion is often inadequate. The result of these trends is that countries that used to offer exclusively public systems of education have

¹⁸ International Finance Fund – Edinvest: Stimulating investment in global education (Washington 2003)

adopted legislation that allows for the development of a private higher education sector.

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5.133 Higher education is increasingly seen as a private good, with greater benefits for the individual than society. In particular, higher education for working adults (life-long learning) has been targeted by both public and private higher education institutions as a market, both nationally and internationally. Consequently, components of higher education are treated in many countries as a marketable commodity.

5.134 These processes are facilitated by a number of trends including:

- reductions in the cost of air transport which make it feasible for young adults and more mature students to travel regularly to
- the availability of the Internet allow the combination of residential and distance-based education and multi-campus provision
- generally rising levels of affluence in countries where the indigenous education system is facing bottlenecks including such population rich countries as China.

5.135 In addition to higher education, there is also an increasing market for vocational education and professional updating. This includes a wide array of areas including:

- Personal development including meditation, yoga, assertiveness, time keeping
- Life skills such as cooking
- Sports such as sailing, diving, driving, flying, golf
- Arts such as painting, music, sculpture, dance, creative writing
- Languages,

5.136 At present, St. Maarten has small scale provision in some of these areas including a Sunsail presence at Oyster Pond. However, it has not positioned itself strongly as an education and training location.

Strengths and weaknesses of the environment in St. Maarten

5.137 The strength of the environment in St. Maarten are its life-style factors which make education and training provision an attractive proposition for adolescents and adults. Another strength is the fact that one foreign institution (the American University of St. Maarten) has already chosen the Island as a location for its overseas activities. Other

¹⁹ International Institute for Educational Planning : Policy Forum on Accreditation and the Global Higher Education Market (13 – 14 June 2005). Information Note (Unesco 2005)

strengths are associated with the cosmopolitan nature of the Island and in particular representation of the Dutch and French culture.

- 5.138 The small size of the Island in terms of population is a potential weakness as it restricts the pool of teachers and professionals to deliver courses. Moreover, so far there have not been many signs of entrepreneurship in this field which has restricted the presence of small suppliers of training.

Market positioning at present

- 5.139 St. Maarten has attracted a key player which will give comfort to other renowned institutions who are looking for a presence.
- 5.140 Regarding smaller niche operations, there could be a case of identifying those that might be particularly worthwhile to pursue and to explore how to attract international or regional providers.
- 5.141 A particularly interesting avenue to pursue could be areas associated with some of the existing or emerging strengths of the Island. For instance, the connectivity assets (airport and port) could lend themselves to logistics training or flight instruction.

How to improve market positioning

- 5.142 If this sector was seen to be of high priority, there are two main strands of market positioning:
- a marketing campaign to attract further international players. This should be done in consultation with the American University of the Caribbean which might over time want to increase its presence in St. Maarten
 - consultations with PJIA and the Port to explore whether there are opportunities for continuing education and training resulting from the expansion of the connectivity assets.

Institutional support for the sector in St. Maarten

- 5.143 The sector is welcome on the Island but so far there are no special support mechanisms or attractions. For larger players, non-bureaucratic procedures together with the availability of good quality sites and/or premises will be important.

Recommendations and next steps

- 5.144 We see the education sector as of medium to high priority as a diversification sector for the Island. The following next steps should be taken for positioning:

- Discussions with the two key players (University of St. Maarten and American University of the Caribbean) about areas that might complement and strengthen their provision
- Promotion and marketing of St. Maarten as a conducive location for education
- Promotion of the specialist education and training sector to individuals and small businesses, supported by the CoC and the SBDF
- Exploration of special opportunities such as the flight instruction segment.

Views of St. Maarten's stakeholders

5.145 Following a scan of possible economic diversification options a workshop with key stakeholders representing the Island economy was held in early January 2006. Considerable enthusiasm for an economic diversification strategy was demonstrated.. The sectors with the greatest potential in St. Maarten were seen to be the following (see Figure 5.1, given overleaf):

- Agriculture and fishing
- Marine activity
- Logistics and distribution

5.146 Some support was also show for the IT sector and the creative industries, but the three above listed sectors were seen as the key “drivers” of economic diversification Furthermore, it was agreed that the initial phase of any economic diversification programme for St. Maarten will have to be based on ‘stretching’ and complementing the tourism sector (existing and planned within the ‘Tour Map’).

5.147 In summary, it seems to be reasonably clear that the economy of St. Maarten could be diversified; there are viable options and key stakeholders of the Island are supportive of the plan to diversify the economy and of the identified target sectors.

Figure 5.2: Views of the Key Stakeholders in St Martin

Recorded Group Ideas in -19th of January 2006 Workshop on Economic Diversification.

- **Group 1** – diversification should be based on what is existing (e.g. [1] marine sector; – but access for youth is an issue; training important; [2] agriculture – new ways of undertaking agricultural activities can be used; greenhouses and aquaponics. TARGET should be to reduce imported foodstuff by 10-15% within 2-3 years; [3] distribution sector- SXM could be a distribution PLATFORM e.g. marine spare parts, clothing etc. Need agreement PLUS encouragement (from stakeholders) to make these possibilities happen; 1,200-1,400 registered unemployed. Training and guidance needed. After training possibilities must be highlighted – join-up policy actions to ensure smooth transition from training to job)
- **Group 2** – Agriculture and ICT. [1] Agriculture -factors of production OK (soil / water) French and Dutch collaboration should be encouraged, and EU support secured. Co-operative effort required . MIND-SET must change - School initiatives could be very effective. Overcome negative attitudes re agriculture held by population. Greenhouses / aquaponics / fish farming – high technology agric is here and will work for us! [2] ICT– skills VIP. Scholarship programme a success but few return to St Maarten! Data base in order to locate these students would be important – many willing to return if opportunities available and encouragement given. Education policies vital and need restructuring.
- **Group 3** – Suggested three target sectors – [1] Agricultural, [2] creative industries and [3] marine activities. SXM tourism sector needs to diversify. Import nearly everything – agriculture to complement tourism. Does not need land (much of it anyway!) Use modern technologies – requires minimum amount of land. Education system – is it helping us diversify? Marine – also VIP part of development (Tourism) – Training require in all aspects of marine sector; from shipyards to fishing. EEZ issue. Creative industries – also linked to Tourism, but vast majority of items sold come from off-island Arts.
- **Group 4- Transshipment and logistics**. STRATEGIC LOCATION (harbour and airport expansion – ALREADY taking place). Tourism assets – We must reduce leakage. Agric [not an industry can stand on its own – MUST spin off the tourism industry. Creative industries – arts and craft foreign imports, unless can change this, perhaps little value in promoting. Marine industry – A tourism spin off again. SUPPORT need Education / training vital. Industry MUST participate – and work with public sector to get more local people into the sector.

6 Economic Diversification Strategy

KEY MESSAGES OF THIS CHAPTER:

- **Economic diversification and the development of the tourism industry (via the Tour Map) must go ‘hand-in-hand’, at least during the initial years of diversification**
- **At present, there is little reason for any investor, foreign and domestic, to fund any major development that is not related to the tourism economy of the Island (the opportunity costs are too high)**
- **The aim is to create an environment which does attract investors into diversified activities and which will allow investors to generate returns equal to or exceeding those in the tourism sector**
- **Economic diversification in St. Maarten will require a strengthening of the existing governance institutions; at present, the private and public sectors are aligned on too few issues relating to the economic well-being of the Island**
- **It is recommended that a Joint Economic Council is established on the Island, modelled on the JEC of Mauritius**
- **It is further recommended that the JEC should oversee the development of a holistic economic development plan for the Island (termed the ‘Economy Map’ and subsuming the ‘Tour Map’)**
- **There is a huge opportunity to strengthen institutions and implement policies which not only encourage economic diversification but which also improve the overall management of the economy of St. Maarten**
- **When the institutions of governance are ‘working’, enabling policies are in place and facilitating infrastructure provided, there is every reason to believe that St. Maarten can evolve into a strong and diversified business location**
- **This will take time (perhaps some 3-7 years) and effort on behalf of the private and public sectors working together to achieve agreed objectives. In seeking diversification there is also a huge opportunity to accelerate collaborative and collective working on the Island.**

Nature of the Economic Diversification Strategy

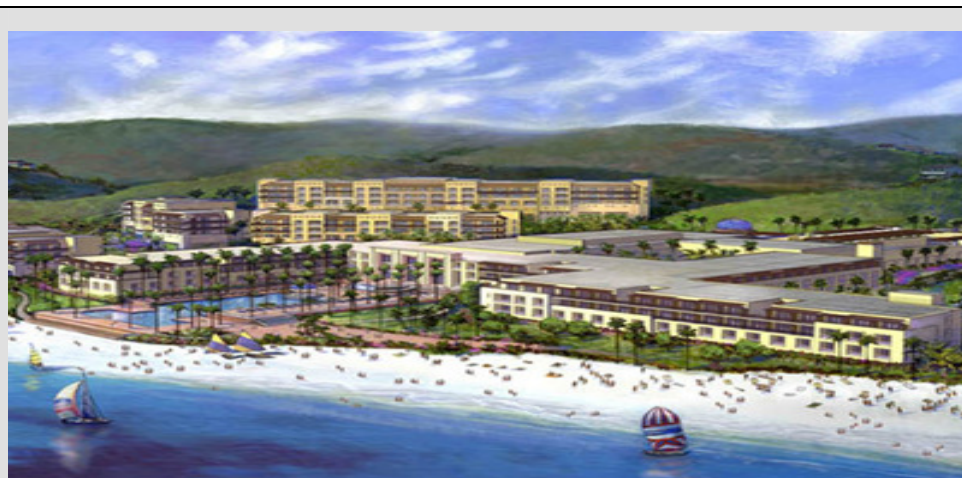
6.1 The recommended guiding principles of an economic diversification strategy for St. Maarten are as follows:

- economic diversification and the development of the tourism industry must go ‘hand-in-hand’, at least during the initial years of diversification:
 - early diversification will be based on ‘stretching’ and complementing the tourism sector (existing and planned as described in the ‘Tour Map’).
 - once the diversified activities are firmly established, options unrelated to the tourism sector are likely to become available²⁰
- economic diversification must be seen as an opportunity to evaluate the dynamics and trajectory of the economy:
 - maximising the benefits generated from the tourism sector (and reducing economic ‘leakage’) should be a priority (see Box 6.1 overleaf)
 - formulating an over-arching economic development strategy that can take St. Maarten from a narrowly based tourism economy (relying to a large extent on timeshare and cruise ship passengers) to a viable and robust business location in the Caribbean should be undertaken (see Figures 6.1 to 6.3.)
 - the economic development strategy should subsume the ‘Tour Map’
- the Economic Diversification Strategy (EDS) should be driven by a public-private partnership:
 - a critical success factor for many economic development and diversification strategies is effective public-private collaboration
 - governance issues in St. Maarten must be addressed; it is proposed that a strong public-private sector joint committee is established modelled on the JEC of Mauritius
 - the critical actions that can be taken by the private-public partnership organisation relate to efficiency gains introduced into the existing

²⁰ For example, marine activities which primarily serve the expanding yachting tourism sub-sector in St. Maarten, will in future years serve and help to support the growth of general shipping, transportation and logistics activities on the Island

institutional framework of governance, and the associated policy interventions.

Evidence Box 6.1: Maximising the benefits of tourism (A case study of the Westin Resort, Spa and Condos)



Dawn Beach lies on the North East coast of St. Maarten, an area badly damaged by hurricanes in the late 1990s. Since then, the site has been acquired by Columbia Sussex, a large US/Kentucky-based property developer. Permission has been granted to develop a new luxury hotel and condo resort which will operate under the Westin franchise.

The Westin Resort, Spa and Condos will include:

- A 5* hotel with 310 guest rooms and suites
- 100 Condominiums covering 18,000 square feet
- An on-site casino
- Meeting event capacity for up to 1,100 delegates
- Swimming pools, fitness centre, spa, restaurants and retail outlets

It has been estimated by Columbia Sussex that the development will generate between **400-500** new employment opportunities across a range of occupational groups.

Employment opportunities:

- Executive management
- Middle management
- Operational management
- Office staff
- Chefs
- Barmen/women
- Cleaners
- Security
- Customer service staff
- Pool attendants
- Gaming assistants

The construction of the resort is well underway and due for completion in late 2006. In addition, therefore, to the end-use employment opportunities, the construction of the resort is also generating significant demand for foremen, skilled tradesmen and labourer occupations and for material and equipment suppliers.

Despite these substantial opportunities, the majority of both construction-related employment and end-use employment will be imported from overseas. With respect to construction, some opportunities have been taken by St. Maarten residents, but these have tended to be for the lower skilled, manual labour categories. It was reported that a local plumbing contractor was trying to develop a partnership with the Island's vocational school to employ local youths. However, this attempt to link residents into construction employment opportunities was isolated and not widespread.

Whilst the opportunity to maximise the potential of the construction phase of the development appears to be passing by, the developers have cited a strong interest to work with the Island's education department and other appropriate bodies to try and ensure that local people have the skills and necessary attributes to compete for the end use employment opportunities. If half of these employment opportunities could be secured by St. Maarten's unemployed youth, this would dramatically reduce the current youth unemployment rate of 32%. Like many of the other developments on the Island, the opportunity is there - the challenge is to work in partnership to proactively grasp it.

Figure 6.1: The Past and Planned Trajectory of the Economy of St. Maarten

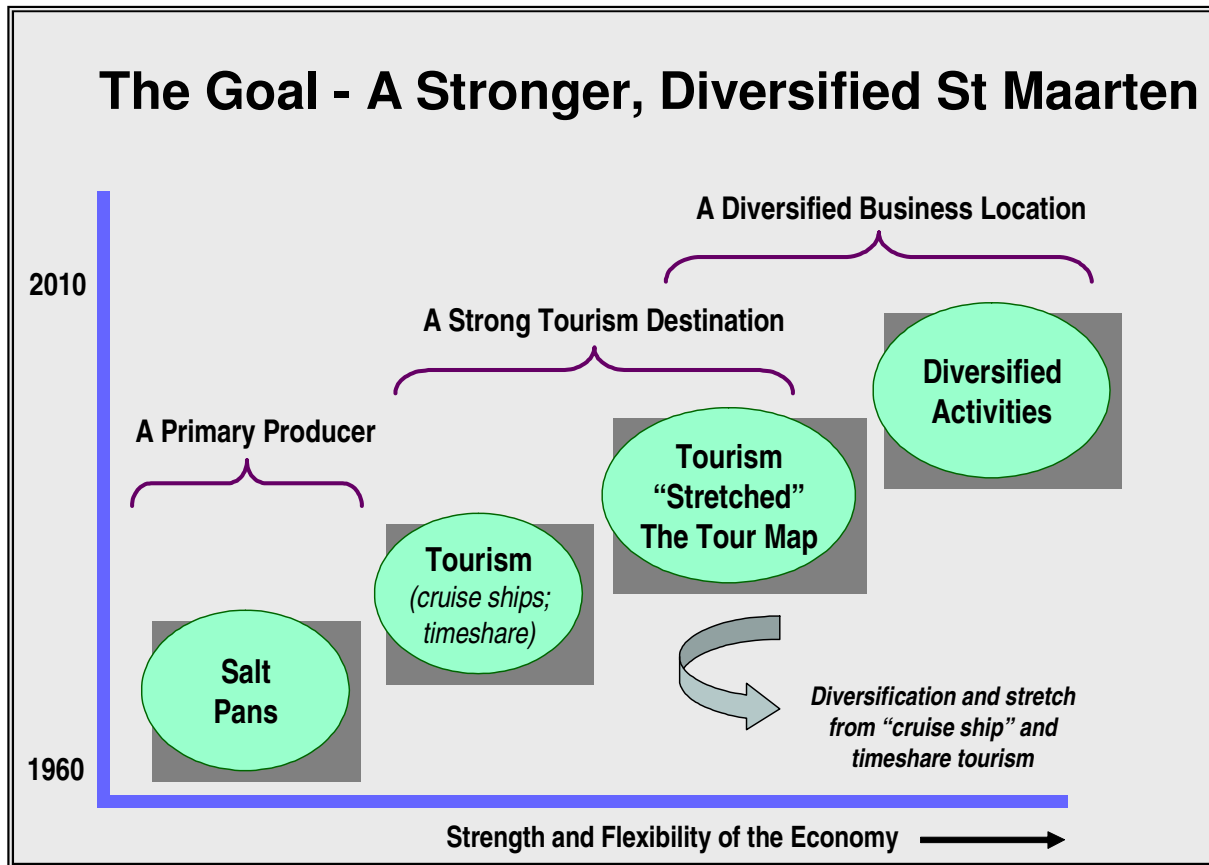
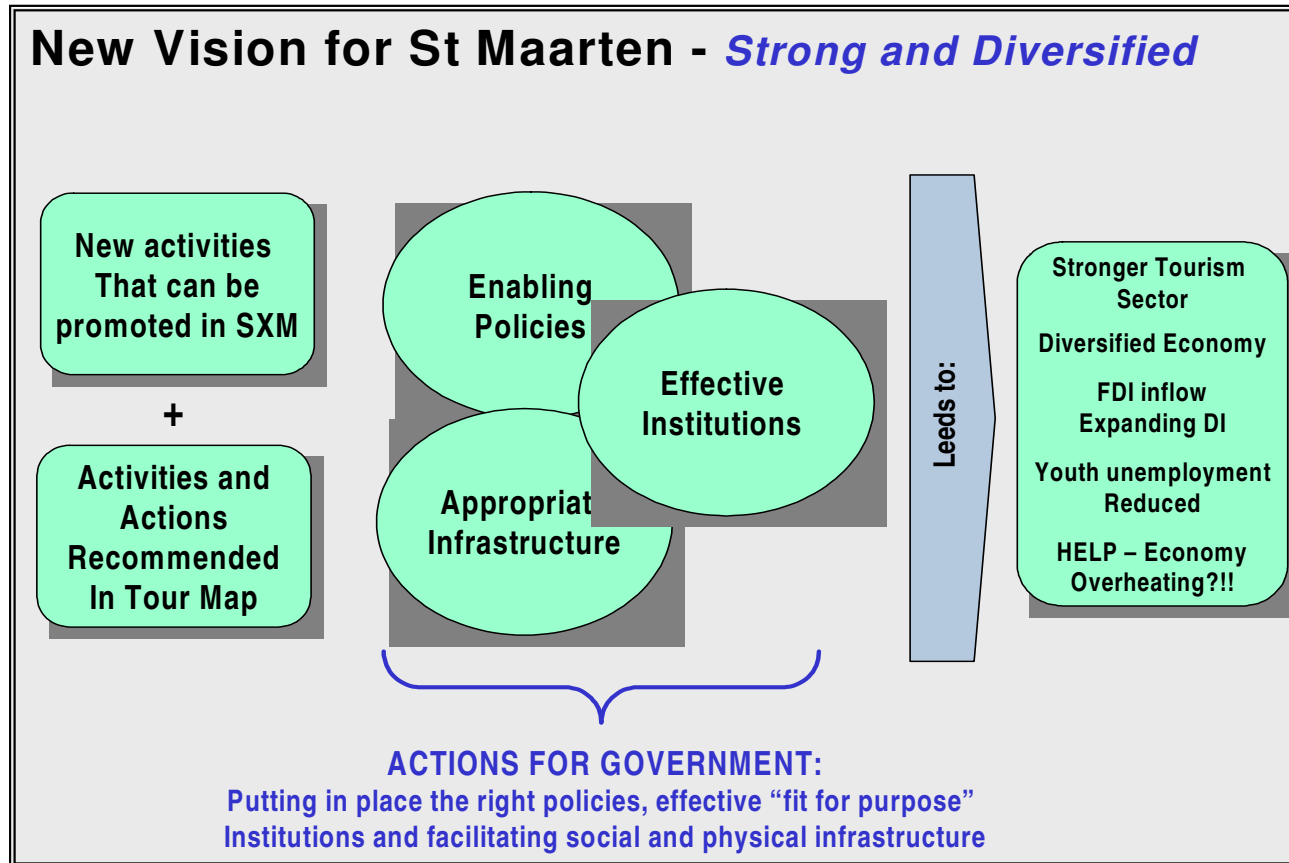


Figure 6.2: A New Economic Development Strategy for St. Maarten



From diversification to economic development

- 6.2 There is a significant opportunity for the strengthened institutions to form the base for an enhanced overall management of the economy of St. Maarten. Indeed, the recommended St. Maarten Joint Economic Council (SXM-JEC) should not confine its remit and activities to economic diversification, but should broaden its field of operation to encompass the whole economy.

7 Action Plan

7.1 Figure 7.1 outlines the recommended implementation schedule for the economic diversification strategy for St Maarten. This action plan is divided into two parts:

- general actions that apply to all target economic diversification activities
- specific actions which are focused on the diversification segment in question

General actions

7.2 Before any specific actions are undertaken, it is recommended that the proposed institutional strengthening measures are introduced. The most important measure of those is the establishment of the joint Economic Council of St Maarten (SXM-JEC).

7.3 SXM-JEC should consist of an equal number of senior representatives from the private and the public sector. It should consist of key “movers and shakers”, people who have experience of “getting things done”. It should not be seen as an administrative body but as a grouping with an executive mandate, to move the development of the Island forward.

7.4 SXM-JEC should meet at least quarterly. It should discuss the vision for the Island and, once the overall framework and objectives have been set, establish groupings tasked with exploring specific issues, either cross-cutting themes (such as infrastructure, education, training, skills, taxation and incentives) or sector-specific themes emerging from the diversification structure.

7.5 SXM-JEC will need a secretariat to help with its day-to-day operation. This could be hosted by a body such as the CoC. In the first instance, the funding necessary for SXM-JEC will be small (mainly the time involved for its participants and any administrative expenses to run it).

7.6 One of the first actions of the SXM-JEC should be to review and validate the target list of economic diversification options. During subsequent months, the process whereby the over-arching economic development vision for the Island is discussed and agreed will need to be managed. As stated in preceding chapters, the over-arching vision should address:

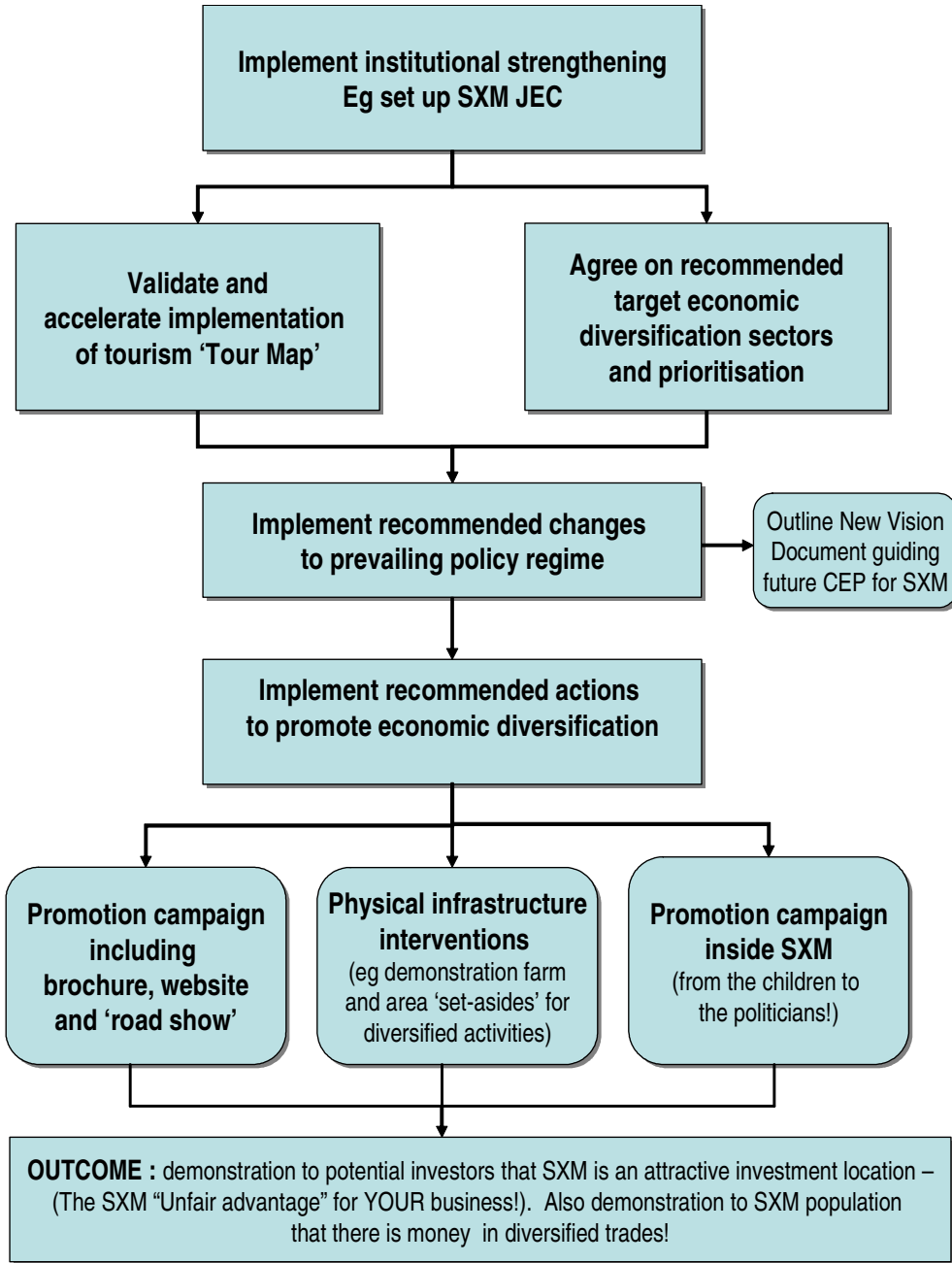
- the way in which existing tourism assets can be sweated (including the development and implementation of a training strategy to meet the needs of planned and anticipated developments such as Mullet Bay re-development and Dawn Beach hotel investment)
- how leakage from the tourism sector can be reduced
- how the Tour Map and the EDS complement each other, both evolving into an ‘Economy Map’, an economic development plan for the Island

- the relationship between the Economy Map and the Island Development Plan (EMOP) the aim of which is to determine what type of services should be delivering and to what standards²¹.

7.7 It is expected that the SXM-JEC will recommended a range of policy interventions and development initiatives. Given below are those interventions and initiatives that the consultants recommend.

²¹ EMOP is scheduled to be implemented in 2007. There is a PRE-MOP (pre Island Development Plan) scheduled to be implemented in 2006. The PRE-EMOP focuses on integrating existing work with Other studies e.g. the Tour Map, the Social Development Programme, the Carrying Capacity Study and the Economic Diversification Study. The SXM-JEC Should be fully involved in the PRE-MOP.

Figure 7.1: Implementing the “Economic Diversification Strategy”, EDS



GENERAL ACTION 1: ESTABLISH JOINT ECONOMIC COUNCIL (JEC)

- Key stakeholders (including Government, Chamber of Commerce, Unions) to discuss and agree on composition and modus operandi (and devise Memorandum of articles) of the JEC

GENERAL ACTION 2: HOLD 'ECONOMIC DIVERSIFICATION STRATEGY' (EDS) CONFERENCE

- Validate recommended target economic diversification sectors
- Validate recommended prioritisation of sectors
- Discuss and agree on the stretching the JEC to consider the over-arching management and development of St. Maarten

GENERAL ACTION 3: DESIGN AND OPERATIONALISE INVESTMENT WEBSITE

- Decide on messages and content
- Set linkages to other key sites
- Commission good quality website producer
- Maintain content up-to-date

GENERAL ACTION 4: DRAFT PROMOTIONAL BROCHURES

- In the light of the chosen diversification path, produce a set of brochures marketing and promoting St. Maarten to the international investment community
- The chosen diversification sectors need to be featured in separate, more specific and targeted individual brochures

GENERAL ACTION 5: EDUCATION AND TRAINING REVIEW

- Education Department, Department of Economic Policy and Research and the Department of Social Welfare and Labour to map all organisations funding and providing education, unemployment support and addressing anti-social behaviour. This should include organisations such as WAVE and Caribcert and programmes such as the Support to the Netherlands Antilles Youth Development Programme (SNAYDP) and the Federal Ordinance on Social Reformation.
- In partnership, discuss how better to align the education system with the needs of the economy
- In partnership, discuss how to address the main issues faced by the Education Department (such as scope to influence the curriculum, funding constraints, the under supply of trained teaching staff and the education of illegal immigrants)
- In partnership, ensure that the Federal Ordinance on Social Reformation - the initiative that will implement the Dutch Kingdom's compulsory education policy through the 'Social Reformation' and 'Communities that Care' programmes – is successfully implemented.
- Report to the JEC on the role government and businesses can play in helping overcome these issues and with the aim of improving the alignment of education and St. Maarten's economic objectives
- Host a vocational fair attended by government, parents, pupils, schools and businesses
- Business from the key employment opportunity sectors (construction, marine, hotel and hospitality) should be invited to come along and talk and promote their sectors and explain the types of occupational opportunities available
- Careers guidance, Chambers of Commerce the Education Department should all attend to learn how they can help to prepare pupils for work. Pupils and parents apprehensions and misinformed perceptions towards these sectors could also be discussed and addressed
- Finally, and most importantly, the fair could inspire youths and increase their confidence that they could potentially make a valuable contribute to the St. Maarten economy.

GENERAL ACTION 6: INVESTIGATE THE FEASIBILITY OF ESTABLISHING A DIVERSIFICATION PARK

- To meet the property needs of companies in the target diversification sectors, it might be advantageous to establish a “park” which will provide sites, buildings and facilities to interested companies
- The Park should cater both for small and medium sized occupants as well as for larger companies
- It could help in attracting businesses to St. Maarten
- One of the key target groups could be the marine sector
- Links with educational and academic institutions should be explored
- The Park should have a first class telecommunications infrastructure

SPECIFIC ACTION 1: FOR THE MARINE ACTIVITY TARGET SECTOR

- Understand the infrastructure requirements of the sector and , if feasible, act upon them
- Explore the best mechanism for destination marketing involving industry and Government
- Address the labour market needs of the industry
- Government, Education Department and employers to work in partnership to ensure that the attitudes of youths and employers change, so that the former are interested in marine life at an early age and so the latter are more willing to employ and train youths
- develop a recognised and respected marine proficiency certificate which youths can use as evidence that they understand the basics of yachting. Ideally, link up with recognised international bodies in this field
- Encourage specialist training: over time, more pupils need to be encouraged to take scholarships to study marine skills abroad, particularly those related to emerging markets such as the mega yachting sector
- Diffuse knowledge: the analysis already undertaken by the industry on trends, future opportunities and skills etc must be disseminated, understood and acted upon
- Explore sub-regional collaboration: St. Maarten will benefit from a wider positioning of the Eastern Caribbean as a marine hub. Collaboration with other islands in the sub-region could help to achieve synergies and economies of scale.

SPECIFIC ACTION 2: FOR THE AGRICULTURE AND FISHING TARGET SECTOR

- Make a Policy Decision! The Government and the SXM-JEC must take a firm policy decision to support the sector. For such a decision to be taken, it requires a senior politician / commissioner to “throw their weight behind the sector”.
- If the government does feel that it is worth supporting the sector, then a mini conference should be held to explore the options and possibilities described in this report. In particular representatives of the university and the schools should attend and focus on how culinary courses at the university can underpin the promotion of culinary tourism in St Maarten
- Allocate Land: The government and the SXM-JEC need to make land available
- Different ways to make land available are (a) extending the pond-infill to provide land for agriculture / aquaponics, (b) negotiating with private land owners and those wishing to establish an agricultural/ aquaponics operations; (c) working with existing farmers to extend their operations
- Establish Demonstration Operations: Establish an agricultural aquaponics demonstration operation to show the benefits and mechanisms to a larger group

SPECIFIC ACTION 3: FOR THE CREATIVE INDUSTRIES TARGET SECTOR

- **Further develop and promote a St. Maarten style and talent:** there are a number of artists and crafts people working on the Island but they are isolate at present. There is need to promote more widespread activities in this field through education and competitions
- Raise the **quality** of products and services in this sector; in addition to education and training, there could be a wide range of measures such as quality standards, competitions and events to improve quality levels
- **Address property problems of craft businesses:** In order for small local firms to have a presence at key strategic sites, there needs to be affordable accommodation and subletting problems have to be addressed
- **Focus on skill development:** In the longer term, colleges and schools need to work with businesses and the Government to encourage and develop skills in crafts and arts, combine these skills with business management training, and encourage employers to engage in training – both of students and employees

SPECIFIC ACTION 4: FOR THE FINANCE TARGET SECTOR

- The SXM –JEC should decide whether St. Maarten should become an ‘**up-market**’ financial centre. If a positive decision is taken, SXM-JEC needs to focus its aims accordingly
- It is recommended that the evolution of more ‘**down-market**’ activities on the Island, such as on-line gambling, are left to the market while effectively regulated by government
- The government should devote all efforts to creating a **strong quality financial centre**. This means that the government must establish a sound, effective and efficient regulatory environment – with vision and panache - that can attract activities from other areas in the region and the world, and then build an endogenous sector on the Island. Key actions that must be taken include:
- The government must adopt a **strongly positive position**, and be seen to adopt such a position. A task force of key private and public sector representatives (perhaps a sub-group of the proposed SXM-JEC) should be established to write within 3-4 months an action plan for the sector. Discussions should be held with the likes of CITCO and AMICOP (two leading firms in the Caribbean Region) as regards the actions that the government can and should take
- In this respect it is encouraging that the Government **has recently decreed** a new “Business and Director’s License Policy for Offshore Companies” which aims to make it easy for companies to be incorporated in St. Maarten
- **Identify associated sector synergies:** As well as actions directly related to the finance sector, the Government must be keenly aware of the broader infrastructure requirements of the finance sector including ICT needs and the quality of life factors that will attract the professional working in and managing the sector
- **Plan and carry out a road show:** Implement promotional campaigns in key targets markets and with key target customers.

SPECIFIC ACTION 5: FOR THE LOGISTICS AND DISTRIBUTION TARGET SECTOR

- **Prepare a logistics strategy:** This should identify key target markets, operators and services that may be attracted to both the port and airport. Particular activities that should be examined are the development of an air/sea distribution hub, the development of a logistics intranet for stock control and consignment tracking, the development of refrigerated storage and distribution and the development of inter-island groupage services
- **Devise training programmes in logistics activities:** These should be particularly targeted at young people and should be identified and implemented in step with new developments at both the port and airport. The strategy should be developed in close dialogue between SXM-JEC, the logistics operators, the university and the unions
- **Establish a web-based trade portal:** This should be devised to allow regional buyers to order goods online from local wholesalers and track the shipping of their consignments in real time.

SPECIFIC ACTION 6: FOR THE ITC SECTOR

- **Develop the skills necessary for this sector:** In conjunction with schools and colleges, devise a strategy to develop literacy, numeracy and computer skills to help attract ICT investors
- Aim to engage **graduates retuning from the Netherlands** in the sector
- **Promotion in key source markets**, particularly in the Netherlands, of St. Maarten as a secure and stable offshore location for BPO, particularly in the financial and business services sector
- **Plan and Carry out a 'Road Show':** Implement promotional campaigns in key source markets, particularly in the Netherlands, of St Maarten as a secure and stable offshore location for BPO, particularly in the financial and business services sector.
- **Develop Logistics and Tourism Portals:** to facilitate online operations. The logistics portal, whose primarily function should be to support the development of the Island as a wholesale distribution hub should enable shipment trace and track as well as online purchase and payment settlement by regional customers.

SPECIFIC ACTION 7: FOR THE EDUCATION SECTOR

- Discussion with the **two key players (University of St.Martin and American University of the Caribbean)** about areas that might complement and strengthen their existing provision
- **Promotion and marketing** of St. Maarten as a conducive location for education
- Promotion of **specialist education and training opportunities** to individuals and small businesses, supported by CoC and SBDF
- Further exploration of **special opportunities** such as the flight instruction segment

Reality Check! – before we get carried away
with ourselves!

- Diversification not easy (*and a moving target*)
- The “market” hasn’t done it to date!
- Need to understand why not.
- Just too much money to be made out of tourism?!
- HIGH Leakage! (US\$ 500 million from tourism nearly 150,000 per person! Where is it going!)
- Need to be realistic and honest with ourselves
- Will take effort and time
- Will require stakeholder alignment
- Will require **commitment**