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1982

NETHERLANDS ANTILLES

This preliminary version of the *Economic Survey of Latin America*, 1982 is being distributed in the form of a general introduction, under the symbol E/CEPAL/L.286, and a number of addenda, each containing a study of the economic evolution of a country of the region. The complete Survey will be published later.

Notes and explanation of symbols

The following symbols have been used in the tables in this Survey:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amounts is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.

Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.

References to "tons" mean metric tons, and to "dollars" United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual growth rates or rates of variation mean cumulative annual rates.

Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

NETHERLANDS ANTILLES¹

1. Recent economic trends: Introduction and summary

The Netherlands Antilles comprises six islands physically separated into two groups: the Leewards, consisting of Aruba, Bonaire and Curaçao, and the Windwards six hundred miles to the north-east, comprising St. Maarten, St. Eustatius and Saba. Of the six, two islands—Curaçao, the site of the capital, and Aruba, with populations of 161 000 and 63 000 respectively—account for over 90% of the total population (see table 1).

While legally and administratively a unified State, conceptually the islands may be considered as six small economies. The fact of their significant geographic separation has resulted in each island having its own harbour, airport, electricity plant, and other major elements of infrastructure. The small size of the domestic markets has also precluded the establishment of any substantial number of domestically-oriented industrial establishments.

Although no recent National Accounts data are available, indications are that the rate of economic growth has been declining over the last four or five years, although real National Income nevertheless seems to have increased in 1982. The recession in the world economy and the decline in oil production and consumption, as well as changes in the petroleum policy of major consuming countries, have thrown into sharp focus the vulnerability of the economy to events in the rest of the world.

The Netherlands Antilles depends to a great extent, for its economic viability, on the refining of oil and on tourism. Petroleum refining has been of paramount importance since World War I. The two refineries, one in Aruba and the other on Curaçao, have processed crude oil for export to the United States and account for a significant portion of the gross domestic product (GDP). Refining has declined since 1973, partly because of the United States policy change that resulted in increased protection of refineries in the United States and the United States Virgin Islands, and partly because of a general reduction in consumption in that market. Production fell by 1981 to 88% of the 1978 level and has shown a declining trend since 1973. Crude oil transshipment has developed significantly since the mid-1970s, but the contribution of this activity to the economy is still small.

Apart from oil refining, the manufacturing sector is still at an early stage of development. Its major activity is ship repair, which by its very nature is externally oriented. A variety of vessels, including oil tankers and ore carriers, are repaired in the dry dock, but towards the end of 1982 it had become apparent that ship-repair activity would decline, adding to the unemployment problem.

Tourism has grown rapidly since the 1960s and is now the largest employer after the government sector, while it is second only to oil refining as an earner of foreign exchange. It is a diversified sector, with the various islands offering different attractions and drawing tourists from varying sources. A slight contraction in tourism earnings was registered in 1982.

Next to the above activities is a substantial offshore sector, the main importance of which lies in its contribution to tax and foreign exchange receipts. Companies operating as financial subsidiaries or investment firms, banking, shipping and trading institutions, and holders of real estate and patents comprise the main elements of the offshore activity. Changes in tax legislation currently being negotiated with the United States have cast some uncertainty on the future of this sector.

¹The currency of the Netherlands Antilles is the guilder (NAf) exchanged in 1982 at the rate of US\$ = NAf 1.79.

Given this orientation, the commerce sector has become a major employer in the islands, performing a distribution function for both households and the tourist sector. Free zones have been created in both Aruba and Curaçao, and their capacity is being expanded.

The agricultural sector, so far relatively small, is now recognized as having a more important role to perform in the economy. Several projects proposed for funding bear testimony to this fact.

Unemployment is distributed unevenly among the various islands, ranging from virtually full employment on St. Maarten to a rate of unemployment of some 20% on Curaçao. This is related to the fact that industry, which tends not to be as great an employer of labour as the tourism or other service-oriented sectors, is concentrated on Curaçao, while tourism is of great importance on Aruba and St. Maarten.

International inflation and exchange rate movements are major determinants of domestic prices, because of the open nature of the economy. The currency is tied to the United States dollar, and any movement of the latter exerts an impact on import prices. As a consequence, the internal rate of inflation, which is largely influenced by the rate of inflation in the developed economies, fell to less than 6% in 1982.

Despite the generally inauspicious economic environment and the apparent vulnerability of these islands, growth has remained positive. The foreign exchange reserves increased in 1981 by about 20%, but are estimated to have fallen in 1982 in response to the movement of several items of the balance of payments account, although figures available for the first three quarters of 1982 initially showed increased reserves. Moreover, the deterioration in foreign earnings from the main sectors and the increased money supply during this period give cause for some concern for 1983.

Public policy has so far recognized that openness provides benefits as well as risks, and has sought to maximize the benefits rather than to forego them in an effort to eliminate risk.

Table 1
NETHERLANDS ANTILLES: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981
A. Basic economic indicators				
GNP at market prices (millions of US dollars) ^a	...	1 280.6	...	...
Population (thousands)	251.0	252.0	253.0	...
Per capita GNP (US\$) ^a	...	5 156.0	...	...
Growth rates				
B. Short-term economic indicators				
Current value of exports of goods	-0.8	43.4	41.1	...
Current value of imports of goods	0.7	33.6	45.2	...
Consumer price index December-December	9.7	12.2	16.0	8.6
Variation between annual averages	...	...	...	12.2
Money supply	12.6	3.3	12.6	18.1
Current income of government	...	8.4	(3.6)	(16.2)
Total expenditure of government	...	...	-1.1	...
Overall deficit (central government)	...	...	...	...
Millions of N.A. guilders				
C. External sector				
Trade balance (merchandise)	-895.3	-667.6	-1 290.3	...
Balance on current account	-47.0	34.5	-7.8	...
Total international reserves (minus gold)	139.8	152.4	204.6	300.7

Source: ECLA, on the basis of official data, and *Central Bank Quarterly Bulletin*, Vol. 9.3 - 9.4.

^aAppropriate conversion rate not available at time of writing.

Table 2

NETHERLANDS ANTILLES: PRODUCT AND INCOME BY
KINDS OF ECONOMIC ACTIVITY, 1979

	Thousands of N.A. guilders	Percentage
GDP at market prices	3 155 397	100.0
Of which:		
Agriculture, mining, fishing and industry ^a	1 195 492	37.9
Utilities	40 671	1.3
Construction	115 628	3.7
Trade and tourism	753 416	23.9
Transport, storage and communications	370 938	11.8
Services	339 174	10.8
Public sector	340 078	10.8
Gross National Income (at market prices)	2 303 297	
Net National Income (at market prices)	2 068 059	

Source: *National Accounts, 1979.*

^aMainly industry (oil refining).

2. Trends in economic activity

a) *Evolution of the main sectors*

Despite the natural drawbacks to agriculture in the Netherlands Antilles, recent indications are that the sector is receiving more official support than in the past. In the absence of a well developed manufacturing sector, wholesale and retail trade continue to influence economic activity and the balance of payments (see table 2).

i) *Agriculture.* The agricultural sector has never been a major component of the economy of the Netherlands Antilles. Indications are, however, that in the past the sector made a greater contribution to the economy than it does today. The main bottlenecks in agriculture continue to be the climate, lack of knowledge and experience, lack of financing, and lack of market structure.

Over the years, the few farmers have received limited assistance from the island governments. The rapid development of the oil industry has been another explanatory factor behind the drift away from agriculture. At present, 0.7% of the labour force of the Netherlands Antilles consists of full-time agricultural workers. No comparative figure in respect of an earlier date is available. In view of the fact that conditions are not propitious for agriculture, an estimated 95% of the agricultural products locally consumed are imported. Both quantum and average unit value indexes of imports of food and beverages are considerably higher than the composite indexes of which they are subsets.

Agriculture in the Netherlands Antilles is narrowly circumscribed by a number of drawbacks deriving from the physical, commercial, technical, legal, administrative and financial environments. Water is not available in sufficient quantities for agricultural purposes. The runoff rate of water is high, and can be remedied only by the construction of catchment areas. The groundwater has a high salt content, and cannot be used extensively without detriment to the soil and the crops. The wind adversely affects crops, and it is estimated that adequate protection against it could improve the production of some vegetables by 50%.

The absorption capacity of the Netherlands Antilles market for agricultural products is high, and local food producers could find bigger local markets if greater planning and marketing efforts were made, while the transfer of technology could help combat the physical problems that confront agriculture. In the past, credit to the agricultural sector has been very limited, but since 1975 some improvements in the planning, management and financing of the sector have occurred.

At the legal and administrative level, there is at present no control over the use of ground water and it is feared that if restrictions are not imposed on its use, soil quality will deteriorate. The general pattern of ownership of land is in favour of private ownership, which has tended to be a brake on the allocation of land for agricultural purposes (see table 3).

There are approximately 4 000 dams on the island of Curaçao, most of them in poor condition. If financing from the island government for the rehabilitation of some of those dams were forthcoming, the supply of water for agricultural purposes would be increased. Feasibility tests on the use of a water purification plant for agricultural purposes are also being conducted, while greenhouses are being installed to overcome the problem of wind damage. Some hydroponic farms have already been established in Curaçao and Aruba. A re-forestation programme in the Leeward islands will replant 2 000 hectares. This should contribute to a better physical environment by halting erosion, increasing water reserves and reducing the destruction due to the wind.

In the area of marketing, the island governments should make efforts to promote the health aspects of fresh fruit and vegetable production, and they should identify possibilities for establishing agro-industries after the problem of production is settled. Official action in the areas of technology, research, extension and administration could do much to boost agriculture in the islands.

Comprehensive statistics on agricultural production are not at present available, but production estimates for 1982 are given in table 4.

A number of projects involving the island governments or private enterprise have been inaugurated or planned with a view to boosting local production of agricultural commodities (see tables 5 and 6).

Table 3

**NETHERLANDS ANTILLES: PERCENTAGE DISTRIBUTION
OF LAND OWNERSHIP - PUBLIC AND PRIVATE**

Island	Public	Private
Aruba	83.9	16.1
Bonaire	55.2	44.8
Curaçao	37.7	62.3
St. Eustatius	39.8	60.2
St. Maarten	11.5	88.5
Saba	5.0	95.0

Source: Data supplied to ECLA.

Table 4

**NETHERLANDS ANTILLES: ESTIMATED AGRICULTURAL
PRODUCTION, 1982**

(N.A. guilders)

Items	Curaçao	Bonaire	Windward Islands
Fruit and vegetables	2 600 000	...	250 000
Pork	1 250 000	...	...
Goat	425 000	...	130 000
Chicken	450 000	...	2 000
Eggs	3 600 000	263 000	...
Fish	5 100 000	1 100 000	4 800 000

Source: DEZ-LVV.

Table 5

NETHERLANDS ANTILLES: PROJECTS SPONSORED BY THE PUBLIC SECTOR

Activity	Location	Amount of financing required (est.) (N.A. guilders)	Starting date
Pig breeding project	Curaçao	1 000 000	Jan. 1983
Conch project	Bonaire	60 000	1981
Fishery project	St. Eustatius	500 000	1983
Slaughterhouse	Curaçao	4 000 000	1983
Distribution centre for vegetables	Curaçao	...	...
Slaughterhouse	Bonaire	1 000 000	1983
Slaughterhouse	St. Eustatius	...	1983
Open market (BELINAH)	St. Maarten	...	...
Agricultural centre	Saba	...	1980

Source: DEZ.

Table 6

NETHERLANDS ANTILLES: PROJECTS SPONSORED BY THE PRIVATE SECTOR

Activity	Location	Amount of financing required (est.) (N.A. guilders)	Starting date
Egg production project	Curaçao	40 000	1983
Chicken hatchery	Curaçao	130 000	1983
Horticultural projects	Curaçao	200 000	1983
Hydroponic project	Curaçao	5 000 000	1983
Hydroponic project	Bonaire	2 000 000	1983
Shrimp project	Bonaire	...	1983
Horticultural project	St. Maarten	40 000	1983
Fruit tree project	St. Eustatius	50 000	1983
Fish project	St. Maarten	80 000	1983
Water tanks	Saba	31 500	1983

Source: DEZ.

In the area of hydroponics, the main problem is the supply of water. A recycling plant is providing water for the project, but the cost of production of this water is at present high. A number of crops are produced by the hydroponics method, including tomatoes, beans, cucumbers, gherkins, melons and lettuce.

With the recent resurgence of support for the agricultural sector, production is expected to increase, and the sector should contribute more to total GDP.

ii) *Manufacturing and oil refining.* Oil refining capacity in the Netherlands Antilles is approximately 800 000 b/d from two refineries, Shell Curaçao N.V. with a capacity of 360 000 b/d and Lago Aruba (EXXON), 440 000 b/d. The output of both refineries is oriented to provide petroleum products, mainly heavy fuel oil using heavy crudes from Venezuela, to the Eastern United States. The Shell Curaçao facility has the capacity to process a variety of crudes and products, and this versatility is being increased, but because of the international economic environment and the shifting demand pattern for petroleum products in the United States, output of these refineries has been declining.

Refining throughput in the Netherlands Antilles peaked in the early 1970s at 90% of rated capacity. By 1979 throughput had fallen to 62% of the 1973 level as a result of energy conservation measures and policies designed to increase domestic production and refining in the

United States. Since 1979, the economic recession has further depressed demand and shifted it to favour those refineries capable of producing lighter products and distillates; factors which have been detrimental to the Netherlands Antilles refineries. As regards the longer term, market pressures are forcing refineries to be located in closer proximity to the consumer, while political pressures are being brought to bear to locate them closer to the source of crude petroleum. In either scenario, intermediate refineries such as those in the Netherlands Antilles are in an unpromising position.

In the early 1950s the oil sector provided employment for over 21 000 workers and contributed 40% of GDP. Since that time, as a result of rationalization and changing technology, employment has fallen to just over 4 000 and the contribution to GDP has fallen to less than one half of the previous figure.

Table 7 gives some idea of the contribution of this sector to the balance of payments, though it does not show the value of petroleum imports used for local transportation or electricity generation, nor does it show the amounts used for bunkering.

The production index has declined considerably since 1973, when it stood at 149. Between 1975 and 1978 it remained relatively stable, but it has fallen steadily since that time.

Seismic exploration is currently underway around the islands of Curaçao, Aruba and Bonaire and the Saba bank. Any petroleum which might be found will be distributed on a production-sharing basis with a 50:50 split between the company and the government for wells with an output of up to 24 999 b/d and an 80:20 split in favour of the government for wells with a production capacity in excess of that figure.

Table 7
NETHERLANDS ANTILLES: PETROLEUM IMPORTS,
EXPORTS AND NET BALANCE

(Millions of N.A. guilders)

	1978	1979	1980	1981
Oil exports	5 187.7	7 533.4	10 672.4	10 346.3 ^a
Oil imports	5 057.6	7 063.1	10 559.6	10 131.2
Net oil balance	130.1	470.3	112.8	215.1
Production index (1975 = 100)	100.0	92.0	91.0	88.0

Source: *Central Bank Quarterly Bulletin*, Vol. 9.3 - 9.4.

^aFigures for 1981 measured on a cash flow basis.

Table 8
NETHERLANDS ANTILLES: STOPOVER TOURISTS, 1981

Visitors by origin/ destination	Curaçao	Aruba	St. Maarten	Bonaire	Total
United States	29 101	124 031	122 922	9 885	285 939
Venezuela	78 149	66 299	4 569	3 281	152 298
Latin America and the Caribbean	40 189	16 905	19 839	6 206	83 139
Netherlands	8 865	5 590	2 561	2 143	19 159
Other Europe	5 000	2 633	24 040	270	31 943
Rest of World	4 925	5 867	16 522	4 166	31 480
Total	166 229	221 325	190 453	25 951	603 958
(Percentage)	(27.5)	(36.6)	(31.5)	(4.3)	

Source: *Central Bank*, 1981.

Table 9

NETHERLANDS ANTILLES: SELECTED TOURISM STATISTICS

	1980	1981	1982 ^a	Growth rate		
				1980	1981	1982 ^a
Stopover visitors ^b	595.0	603.9	...	-0.6	1.5	...
Aruba	188.9	221.3	220.2	2.0	17.2	-0.5
Curaçao	178.6	166.2	...	0.2	-6.9	...
Bonaire	22.8	25.9	...	15.7	13.6	...
St. Maarten	204.7	190.5	258.1	-4.7	-6.9	13.2
Cruise ship visitors ^b	350.8	293.1	...	-10.4	-16.4	...
Aruba	73.4	54.7	51.1	-23.2	-25.1	-7.0
Curaçao	169.0	128.4	110.0	-2.9	-24.0	-14.3
Bonaire	2.9	12.0	...	-42.0	313.8	...
St. Maarten	105.5	106.0	...	-10.0	0.5	...
Cruise ship calls						
Aruba	110.0	79.0	84.0	-25.1	-28.2	6.3
Curaçao	253.0	195.0	183.0	2.8	-22.9	-6.2
Bonaire	5.0	23.0	...	16.6	360.0	...
St. Maarten	213.0	148.0	...	9.8	-30.5	...
Average length of stay ^c						
Aruba	6.2	6.2	6.2	-6.0	-	-
Curaçao	4.8	4.2	...	-4.0	-12.5	...
Bonaire	4.7	4.6	...	-4.0	-2.1	...
St. Maarten	...	...	...	...	...	...
Hotel occupancy rate ^d						
Aruba	77.4	86.2	...	...	...	...
Curaçao	70.6	72.6	...	...	...	...
Bonaire	...	...	...	...	...	...
St. Maarten	...	58.2	...	...	...	...
Estimated tourist expenditure ^e (Naf. millions)	578.8	655.2	486.2 ^f	21.6	13.1	-5.4 ^f

Source: *Central Bank Quarterly Bulletin*, Vol. 9:3 - 9:4; Central Government of the Netherlands Antilles; and data supplied to ECLA.

Note: The negative growth rate of 5.4% observed in 1982 was based on the comparison of January-September figures for 1981 and 1982.

^aPreliminary figures.

^bThousands.

^cDays.

^dPercentage.

^eContribution to balance of payments measured on a cash flow basis.

^fFigures for January-September.

iii) *Tourism*. Tourism is a major economic activity in the Netherlands Antilles and is estimated by the Central Bank, together with its related activities, to have contributed about 20% to both employment and the domestic product in 1981. Preliminary indications are that earnings from this sector contracted slightly in 1982.

Due to the wide geographic spread of the Netherlands Antilles, the tourism offered is diversified, catering to the needs of different types of tourist and drawing its clients from various parts of the world (see table 8).

Thus, whereas Curaçao caters mainly for shoppers, the sister island of Aruba combines shopping with beach resort facilities. Bonaire, on the other hand, mainly attracts scuba divers and provides an altogether less "commercial" resort for its visitors. St. Maarten being separated by 600 miles from the Southern islands mentioned, has a different character and will be considered by the traveller rather as an alternative destination to Puerto Rico or the Virgin Islands.

In broad aggregates, the United States was the country of origin of 47% of all tourists to the Netherlands Antilles in 1981. Venezuela contributed 25% and the rest of Latin America and the Caribbean accounted for 14%.

Tourism in the region has in general been severely affected by the international recession. The Netherlands Antilles has, however, managed to contain these effects well in so far as the number of stopover visitors actually increased by 1% compared with 1979-1981. Preliminary figures for 1982 show a decrease of 0.5% for Aruba but an increase of 13.2% for St. Maarten (see table 9). Figures available for Curacao (January to September 1982) show a decrease of 8.5% in the number of stopover visitors compared with the same period in 1981. During the period considered, the average length of stay for all islands registered a small decrease from 6.6 to 6.2 days.

Cruise ship visitors have declined in numbers by 25% over the period 1979-1981, and the trend is expected to continue in 1982 because the location of Curaçao and Aruba, away from other major tourist destinations, makes them no longer attractive due to the high cost of fuel. This argument should, however, work in favour of St. Maarten, which has increased cruise ship arrivals between 1980-1981.

For the period 1980-1981 estimated tourist expenditure rose in nominal figures by 37.8%. The rate of inflation for the period was computed at 25.9%.

iv) *Construction.* Construction activity provides over 5 000 jobs. At present most of the construction firms are small establishments which lack the expertise and capacity to undertake larger-size projects. Because of the nature of the construction industry, it is subject to large fluctuations in numbers employed and value of work done. The sector's percentage contribution to GDP was estimated at 4% at market prices in 1979.

v) *Public utilities.* The distribution of water and electricity on the island of Curaçao is effected by a Curaçao Government-owned company, KODELA. Prior to 1 July 1977, this company was privately owned by an enterprise in Rotterdam. Electricity is purchased by the company from another which produces electricity and water.

The OGEM private company controls the distribution of electricity on Aruba, while the Island Government is responsible for the production of electricity and water, and for the distribution of the latter. In Bonaire, the distribution of water is effected by the Island Government, but in Saba and St. Eustatius, because of high rainfall, the abundant surface water is caught in cisterns and is sufficient for the relatively small population.

Electricity rates for all the islands are fixed by the Minister of Economic Affairs of the Central Government. Water rates are set by the Island Governments. Overall, less than 1% of the population of the Netherlands Antilles is without electricity, and in the islands of Aruba, Bonaire and Curaçao, about 99% of the households are supplied with running water.

Table 10

NETHERLANDS ANTILLES (ARUBA AND CURACAO):
IMPORTS AND EXPORTS BY SITC SECTIONS^a

(Millions of N.A. guilders)

SITC section	Imports		Exports	
	1976	1977	1976	1977
Food	199.0	222.0	52.4	50.7
Beverages and tobacco	15.0	18.0	0.1	0.1
Crude materials inedible, except fuels	7.0	10.0	16.6	13.8
Animal and vegetable oils and fats	2.0	3.0	...	...
Chemical products	78.0	113.0	87.3	60.9
Manufactured goods	134.0	153.0	4.1	4.4
Machinery and transport equip.	170.0	228.0	21.9	19.9
Miscellaneous and other articles	198.0	205.0	9.1	9.0
Total	804.0	953.0		158.8

Source: *Statistical Yearbook of the Netherlands Antilles*, 1981, Central Bureau of Statistics, Curacao.

^aExcluding oil and oil products.

3. The external sector

As the Netherlands Antilles are not richly endowed with indigenous raw materials, do not have a well-developed manufacturing sector, and moreover face a severe shortage of water on the main islands which has limited agricultural development, the islands have had to use their ingenuity to develop a wide range of service industries to generate enough foreign exchange for their needs. External dependence is a common characteristic of the Caribbean economies, and it is even more marked in the Netherlands Antilles (see table 10).

i) *External trade.* In 1980, the last year for which complete data are available, the islands had a deficit on merchandise trade of NAf 1 290.3 million. Non-oil merchandise exports earned NAf 224.3 million or enough to cover only 14% of non-oil imports, while net earnings on the services account were NAf 1 207.9 million or equivalent to approximately 74% of the non-oil imports.

Estimates for 1981 show a slight (2%) decline of the deficit compared with 1980, but for 1982 (based on estimates for the first three quarters) it grew by 10% over the same period in 1981. The earnings from the services sector increased by 9.6% in 1981 over 1980, but for the period January-September 1982 they registered a small decline of 0.5% compared with the corresponding period in 1981.

Primary earners on the service account are bunkering and tourism, with ship maintenance and repair, revenues from offshore finance companies and storage fees all adding significant sums to the sector.

ii) *Balance of payments.* In the Netherlands Antilles there is a close interconnection between monetary policy, public finance and the balance of payments. This degree of interconnection derives from the smallness and open nature of the economy and the narrowness of its resource base.

The balance-of-payments account for these islands is characterized by large transactions of the oil sector, a high value of goods imported, low export earnings, net inflows on the services account from travel and transportation receipts, and net capital inflows (see table 11).

A decline in international reserves took place as a result of the balance-of-payments deficits of 1978 and 1979, as may be seen from the balance-of-payments figures on a cash flow basis. Large outflows of capital took place, while at the same time the inflow of foreign loans and grants decreased.

The cash flow approach to the measurement of the balance of payments does not include all the payments of the two oil refineries, "Shell" and "Lago". The statement includes only the amounts transferred by these companies from their bank accounts abroad to Netherlands Antilles banks, and to this extent, the merchandise trade account does not include the sale and purchase of oil and oil products effected through the intermediary of Shell or Lago. The cash flow has the added disadvantage that it does not afford a proper comparison of the balance of payments in different years.

The balance-of-payments account is also presented on a transaction basis. This approach differs from the cash flow basis in that it reflects the transactions that have actually taken place. The most important differences are found in the merchandise account and investment income.

Another method of presentation of the balance of payments is that based on the fundamental balance-of-payments account. This gives a better insight into the relevant developments in the economic relations of the Netherlands Antilles with other countries.

Indications are that the level of international reserves deteriorated in 1982.

iii) *Offshore financial institutions.* The Netherlands Antilles has developed a comprehensive range of financial institutions to service clients in other areas of the world, particularly the United States, the EEC and Venezuela. These so-called offshore services comprise banking, finance companies, subsidiaries of international companies, insurance and re-insurance, and investment funds, as well as a variety of holding, royalty and copyright and patent holding companies. It is estimated that these offshore activities employ over 1 000 high income professionals.

While not a tax haven in the strictest sense, the Netherlands Antilles do provide a preferential tax rate of 2.4% on the first NAf 100 000 of net profit and 3% on the remainder, as an incentive to attract offshore business. This compares with a rate of between 31 and 39%

on similar enterprises engaged in local operations. Liberal foreign exchange regulations, favourable banking regulations, good telecommunications links, and a stable political environment complete this package of incentives. Offshore operators may also benefit from appropriate tax treaties agreed between the Netherlands Antilles and the United States, United Kingdom and the Netherlands, although tax legislation in the United States has been subjected to considerable change in recent years in order to close those loopholes which made it worthwhile for United States enterprises to register abroad.

By its nature, it is difficult to arrive at precise figures as to the size of the sector or its contribution to the local economy. Some indication of its growth may, however, be derived from table 12, which shows an increase of approximately 80% in tax revenues received from the offshore sector as a whole, between 1978 and 1981.

The offshore banking sector provides a full range of banking services for non-Antillean clients. It is dominated by Dutch banks, with strong representation from Venezuelan, United States and Canadian banks, while United Kingdom, Swiss, Arab and Brazilian concerns are also represented.

Table 11

NETHERLANDS ANTILLES: BALANCE OF PAYMENTS: CASH FLOW BASIS

(As at end of December)

	Millions of N.A. guilders	
	1980	1981
Oil exports	10 633.3	10 346.3
Oil imports	10 557.9	10 131.2
Net	105.4	215.1
Non-oil exports	225.0	254.2
Non-oil imports	1 645.9	1 711.0
Net	-1 420.9	-1 456.8
Trade balance	-1 315.5	-1 241.7
Transportation	1 010.5	944.3
Bunkering	587.4	564.5
Storage fees	173.9	188.4
Other	249.2	191.4
Tourism	578.8	655.2
Investment income	-422.6	377.2
Government n.e.s	115.8	146.4
Private remittances	-21.8	-43.0
Other services	13.4	70.8
Services balance	1 274.1	1 396.5
Unrequited transfers	73.0	7.7
Private	-45.3	-50.4
Government	118.3	58.1
Current account	31.6	156.5
Private capital	49.4	-136.0
Securities	-17.7	-56.2
Real estate	2.6	-0.3
Loans	33.4	-6.1
Commercial bank foreign borrowing	13.9	4.6
Short-term capital	6.2	-78.0
Government capital	31.9	53.1
Loans	46.0	38.9
Other	14.1	14.2
Capital account	-17.5	-82.9
Errors and omissions	38.1	22.5
Changes in international reserves ^a	-52.1	-96.1

Source: Central Bank of the Netherlands Antilles.

^aMinus sign indicates and increase.

Table 12

NETHERLANDS ANTILLES: TAX REVENUE FROM
OFFSHORE ENTERPRISES

(Millions of N.A. guilders)

1978	1979	1980	1981
77.0	62.4	100.5	137.0

Source: *Central Bank Quarterly Bulletin*, Vol. 9.3 - 9.4.

Table 13

NETHERLANDS ANTILLES: TOTAL ASSETS/LIABILITIES

(Millions of N.A. guilders)

1978	1979	1980	1981
4 108.5	6 458.8	8 565.4	13 523.3

Source: *Central Bank Quarterly Bulletin*, Vol. 9.3 - 9.4.

A balance sheet for 44 offshore banks, and for the offshore portion of the five domestic deposit banks engaging in such transactions, is set out below (see table 13). It shows an increase of 229% in the business conducted by the banking institutions over the period 1978-1981.

Performance in 1982 is expected to have followed these trends.

iv) *Transportation and ship repair*. These activities cover a range of services including the transport of persons and goods, with the exception of imports, whose value is measured CIF. They also include bunkering, maintenance and repair of foreign aircraft and ships, as well as charges for the storage of goods. The accounts of the National Airline, ALM, and the Curaçao Dry Dock Company are also included, as are harbour dues and pilotage fees.

Earnings from bunkering fluctuate widely, showing a reduction of 10% in 1978 but positive growth of 80% and 5% respectively for 1979 and 1980, while preliminary figures for 1981 show an increase of less than 1%.

The remainder of the items under the ship repair and transportation heading show a more stable trend, with increases of 13% and 18% for 1979 and 1980 respectively. Preliminary figures for 1981 indicate a reduction of 6.5% compared with 1980.

Ship repairing is an important earner of foreign exchange for the Netherlands Antilles and an important employer of labour in Curaçao, but because of the high wage rates prevailing in them, the productivity of Curaçao shipyards will need to be increased if they are to remain competitive.

Significant quantities of foreign exchange are earned through the fees derived from storing goods which are either imported, exported or in transit, the bulk of the earnings under this item being derived from the oil storage facilities in Aruba, Bonaire and Curaçao and more recently in St. Eustatius. Crude oil purchased in the Middle East, Africa and the North Sea is transshipped from large transatlantic tankers to smaller vessels bound for the United States, since the East Coast of the United States has until now been limited to vessels of not more than 60 000 DWT. Competing facilities are now being established, however, particularly the Louisiana Offshore Oil Port (LOOP) which became operational in early 1981, and this, together with a general reduction in the demand for oil in the United States and a switching of sources of supply to Mexico, casts doubts on the future on this sector, which employs about 400 people and had 1980 earnings of NAf 214.8 million.

v) *Distribution*. The lack of a well-developed manufacturing sector, coupled with the substantial size of the tourism sector, has given rise to a vigorous commercial sector, and in 1979 wholesale and retail trade accounted for some 22% of total GDP. Employment data indicate that this sector, coupled with hotel and restaurant activities, absorbs the largest group of workers in the labour force. The trade sector in Aruba and Curaçao includes free-zone activity which consists of transit trade to Latin American importers. Capacity of these free zones is being increased.

4. Prices, wages and employment

a) *Prices and wages*

As an open economy with a large proportion of the goods it consumes originating abroad, price movements in the Netherlands Antilles reflect, even more than is normally the case in the Caribbean, the rates of inflation prevailing in its major trading partners. The other important determinant for domestic prices is of course the value of the United States dollar (to which the local currency is pegged) relative to the currencies of the major sources of supply.

The consumer price index for the period 1980 to October 1982 is presented in table 14. This index does not include St. Maarten, for which a separate index is compiled (average annual variations for St. Maarten for 1980-1981 are in brackets). It shows an average rate of increase of all prices of 12.2% in 1981 over 1980 but a reduction to 5.7% on average for the 10 months January to October 1982. A new index was started in October 1982, but price changes for the remainder of the year were minimal.

Table 14

NETHERLANDS ANTILLES: EVOLUTION OF CONSUMER PRICE INDEX (LEEWARD ISLANDS)

(April 1975 = 100)

	1980	1981		1982 ^a
Variation December to December				
Total	16.0	6.1		5.6 ^b
Food and beverages	15.9	8.0		6.2
Clothing and footwear	11.7	-30.3		7.7
Housing	25.7	6.6		-42.8
Household supplies	15.2	11.2		9.7
Medical care	11.3	22.7		5.2
Transport and communications	13.2	7.9		12.0
Recreation, entertainment and cultural goods and services	-18.9	3.6		2.6
Education	13.5	7.6		6.0
Miscellaneous	16.0	8.6		-39.5
Variation between annual averages				
Total	...	12.2	(8.8) ^c	5.7
Food and beverages	...	11.7	(10.6)	6.7
Clothing and footwear	...	12.5	(4.6)	8.1
Housing	...	14.3	(2.9)	0.5
Household supplies	...	13.8	(9.5)	9.2
Medical care	...	17.7	(23.5)	12.9
Transport and communications	...	11.8	(14.3)	6.2
Recreation, entertainment and cultural goods and services	...	8.8	(8.0)	3.0
Education	...	3.3	(1.4)	4.1
Miscellaneous	...	9.8	(9.6)	6.3

Source: Data supplied to ECLA.

^a Average for January to October 1982.

^b October to October.

^c Figures for St. Maarten 1981.

Table 15

NETHERLANDS ANTILLES: MINIMUM WAGES

(N.A. guilders per month)

	1979	1980	1981	1982 ^a
Category ^b	633.30	712.46	817.20	921.0
Category ^c	455.20	512.10	587.40	655.0
Category ^d	382.05	429.81	493.00	546.0
Category ^e	182.80	205.65	235.90	280.0

Source: Bank of Netherlands Antilles, *Annual Report 1980*; data provided by the Netherlands Antilles.^a Preliminary figures.^b Manufacturing industry (excluding electronics, textiles and clothing), plus construction.^c Banks, insurance companies, transportation, hotels, restaurants and recreation.^d Agriculture, trade, electronics, textiles, clothing, laundries, etc.^e Household personnel.

Table 16

NETHERLANDS ANTILLES: POPULATION AND LABOUR FORCE (1978)

Island	Population	Labour force	Employed	Unemployed	Percentage of labour force unemployed
Aruba	63 000	24 000	22 500	1 500	6
Bonaire	9 000	3 000	2 500	500	16
Curaçao	161 000	58 000	47 000	11 400	20
Saba	1 000	300	240	60	20
St. Eustatius	1 400	450	380	70	17
St. Maarten	16 000	5 600	5 600	0	0
Total	251 400	91 350	78 220	13 530	15

Source: Central Bank of the Netherlands Antilles.

For all the islands, the largest price increases for the two-year period were in medical care and household supplies followed by clothing and footwear, and food. Housing prices showed above average growth in 1981, but almost no increase for 1982. Price increases in St. Maarten were more moderate overall than in the Leeward islands.

The year 1982 saw a decline in the rate of inflation in line with international trends. To a lesser extent, it also reflected the appreciation in the rate of exchange of the United States dollar *vis-à-vis* European currencies.

The Netherlands Antilles has comprehensive minimum wage legislation which covers all workers over 21 years old. Proposals to cover youth between 16 —the minimum age at which persons can be employed— and 21 have been inhibited by the fear that this would restrict employment in this age group, where a high rate of unemployment prevails. Four categories of minimum wage are considered, as set out in table 15, and relate generally to industry, service enterprises, retail commerce and domestic servants.

The minimum wage is adjusted at the beginning of each calendar year to reflect the increase in the cost of living over the previous 12-month period. Due to difficulty in collecting data, there is a lag of about five months in the period used. Despite this system of indexation, employees in the more aggressive unions are better paid within each sector than non-unionized employees, since they are usually able to negotiate rates appreciably above the minimum.

Whereas the consumer price index shows an average price increase of 18.6% over the two-year period 1980-1982, the minimum wage figures averaged a 30% increase, the greatest jump being recorded in category (e) at 36%.

b) *Employment*

Table 16 gives a breakdown of the population of the respective islands at the end of 1978. Because of the age profile of the population, the labour force is estimated to grow at between 3% and 4% per annum, and despite the fact that the number of persons employed in Curaçao and Aruba grew by 3.6% and 2% in 1979 and 1980, respectively, and that employment increases have been steady and sustained in St. Maarten, the numbers unemployed are increasing, particularly in Curaçao, where the workless at the end of 1982 estimated at 25% of the labour force.

Table 17 gives an estimate of the proportions of the economically active population employed, by sector, for 1981. It will be noted that the largest proportion—over 20% of the labour force—is employed in the public sector, which has grown rapidly in recent years in response to the perceived need to reduce unemployment. Wholesale and retail trade accounts for 14% of the economically active population but should be viewed in conjunction with tourism, which employs 9% of the labour force directly, since a significant portion of the visitors to the Netherlands Antilles go to shop. Manufacturing, which includes the petroleum sector and ship repairs, is estimated to absorb 12% of the labour force, while finance, insurance and other business services employ approximately 10%. Finally, the unemployed constitute 15% of the economically active population.

5. Monetary and fiscal policy

a) *Monetary policy*

The money supply increased by 18% and 20% in the years 1981 and 1982 respectively (see table 18), thus representing an increase of the money supply in real terms, since the respective rates of inflation were 12.2% and 5.7%. A large part of the monetary expansion can be explained by inflows of foreign exchange, while domestic growth of the money supply exceeded the growth of production in real terms in 1981.

Loans outstanding to the private sector increased by some 20% in 1981, but those outstanding to the central and island governments decreased, partly because of increased receipts of development aid, and especially because of the increase in tax payments by oil refinery in Aruba. By late 1982, claims on the public sector rose by some 26%, as a result of the deteriorating cash position of the central government.

Table 17

NETHERLANDS ANTILLES: STRUCTURE OF ECONOMICALLY ACTIVE POPULATION, 1981

	Percentage
Agriculture and fishing	0.7
Mining	0.4
Manufacturing	12.0
Electricity, gas and water	1.4
Construction	5.4
Wholesale and retail trade	14.1
Restaurants and hotels	8.9
Transport, storage and communications	4.3
Finance, insurance, real estate and business services	9.8
Public administration	20.7
N.E.S.	6.6
Unemployed	15.0
Total	100.0

Source: Economist Intelligence Unit, 1981.

Table 18

NETHERLANDS ANTILLES: INDEX OF THE MONEY SUPPLY
AND LIQUIDITY CREATION

(At 31 December)

	1976	1977	1978	1979	1980	1981	1982 ^a
Money supply (1975 = 100)	112.3	127.9	144.0	148.8	167.5	197.8	237.9
Millions of N.A. guilders at year end							
Liquidity creation							
Domestic	6.3	93.2	176.6	31.6	78.3	99.7	118.1
Foreign	66.1	-1.8	-82.1	1.1	26.2	77.2	123.9
Total	72.4	91.4	94.5	32.7	104.5	176.9	242.0

Source: Central Bank.

^aPreliminary figures.

Table 19

NETHERLANDS ANTILLES: CENTRAL GOVERNMENT
INCOME AND EXPENDITURE

	Millions of N.A. guilders				Annual growth rate		
	1979	1980	1981	1982 ^a	1980	1981	1982 ^a
Current revenue	246.6	255.9	297.3	333.2	3.6	16.2	12.1
Direct taxes	71.6	30.0	36.0	36.5	-58.1	20.0	1.4
Indirect taxes	128.6		107.5	211.0	...	...	96.3
Current expenditure	255.9	259.6	296.9	363.9	1.4	14.4	23.2
Wages and salaries	...	...	148.0	199.0	...	...	34.5
Other	...	...	149.0	165.0	...	...	10.7
Deficit/surplus	-9.4	-3.7	0.4	-30.7	60.6	89.2	
Capital expenditure	19.7	13.1	...	...	-33.5	...	...
Total expenditure	275.6	272.7	...	...	-1.1	...	...
Fiscal deficit	-29.0	-16.8	...	...	42.1	...	...

Source: Data supplied to ECLA.

^aPreliminary figures.b) *Fiscal policy*

The main problem in public finance in the Netherlands Antilles has been the consistently larger growth of government current expenditures over current revenues since 1974 (see table 19). In the last three or four years, another related issue is the fact that the island governments have tended to withhold tax revenues collected, rather than turn them over to the central government. While permitting the island governments to increase their expenditures substantially, this has deprived the central government of a major source of income, and it has therefore been forced to increase its issues of bonds and treasury paper to meet inescapable commitments.

The main reasons for the government's spending in excess of income are the growth in personnel emoluments, the interest payments on domestic government debt, and the high and growing budgetary deficits of the four smaller islands, which are financed by the central government.

