



# CEROM

## Estimation of per capita GDP in Saint-Martin

October 2014

Since the CEROM project was set up in 2003, the partners have made an estimation of a per capita Gross Domestic Product (GDP) for each of the French overseas territories: Saint-Pierre-et-Miquelon, Wallis and Futuna, Saint-Martin, Saint-Barthélemy and Mayotte, which has recently become a Department.

The first estimation of Saint-Martin's per capita GDP was conducted in 2005 on the basis of 1999 data. In 2014, the INSEE, AFD and IEDOM partnership updated the territory's per capita GDP using the methodology adopted in 2005. In view of the latest available data, this new estimation was based on 2010.

### Stability of per capita GDP between 1999 and 2010

Saint-Martin's per capita GDP is estimated at EUR 14,700<sup>1</sup> in 2010, against EUR 14,500 in 1999. In eleven years, the territory has experienced strong population growth, with the number of inhabitants rising from 29,112 to 36,979 (+2.1% a year). Its per capita GDP only rose slightly in view of this increase. The average annual GDP growth in value terms is estimated at 2.3%.

As with the 1999 estimation, the estimation of per capita GDP for 2010 was made using a combination of benchmarking methods.<sup>2</sup> These methods allowed an assessment to be made despite the lack of reliable statistical data. In Saint-Martin, as it is not possible to compile economic accounts with the current statistical information system, it is difficult to calculate the level of the actual wealth per capita. The lack of economic, social and tax information is partly explained by the fact that it is not in the culture to file declarations.

Furthermore, Saint-Martin's exceptional geographical configuration makes the estimation even more difficult. Indeed, the island is composed of two territories with different economic, social and institutional contexts and between which there is free movement: a Dutch part (Sint Maarten) in the south, with a surface area of 34 km<sup>2</sup>, and a French part in the north covering 56 km<sup>2</sup>. All the flows between these two parts cannot be quantified and are marked by a high level of porosity.

Consequently, two benchmarking methods were used: a supply-side approach and a demand-side approach. The final estimation is obtained from the average of the results of these two approaches.

### Supply-side approach

The supply-side approach is based on the strong assumption of an economic comparability of production factors between several territories, which are identified as being sufficiently similar and for which structural quantitative elements are available. In the case of Saint-Martin, this comparability was made possible by the proximity to Guadeloupe and Sint Maarten. The methodology applied remained close to the one used for the 1999 estimation in order to allow an analysis of the results over time.

The apparent per capita productivity of Guadeloupe or Sint Maarten was thus imputed by branch, according to the similarities between the territories and the structural nature of productivity. As a reminder, productivity depends on all the production factors and the way in which they are combined. It is usually measured by comparing the wealth created with the labour factor:

- The wealth created is measured by the added value (assessed in volume);
- Only the volume of work conducted in the production process is taken into account, and it is quantified by the number of people in employment.

Once productivity is considered as being exogenous, the knowledge of the level of employment and its structure by branch determine the production.

In 2010, the working population in Saint-Martin stood at 17,800 people. The activity rate and employment rate fell by 2 points compared to 1999 (73% and 53%, respectively), *de facto* dampening activity. Over half of employed active workers work in the market services sector. The number has, however, fallen sharply compared to 1999 (-8%). This decline mainly benefits the public sector.

In 2010, the public sector employed over a quarter of the workforce (+8% compared to 1999) and its productivity was identical to productivity in Guadeloupe. Furthermore, one in ten employees works in the construction industry and one in twenty in industry. While the difference between the activity

<sup>1</sup> In constant euros.

<sup>2</sup> Comparative analysis methods using specific indicators.

rate for men and women has narrowed over the past ten years, it remains high, and supports the activity of branches where there are more men and which are often associated with lower productivity (agriculture and construction).

Between 1999 and 2010, there was little change in the employment structure by socioprofessional category. Only the number of executives and jobs related to intermediate professions increased by 2%, to the detriment of employees, craftsmen and tradesmen (-2%). Consequently, this trend supports the apparent labour productivity, which is on average higher in these more skilled categories.

## Demand-side approach

The demand-side approach consists in estimating a relationship between per capita GDP and per capita imports, given the strong correlation between these two variables.

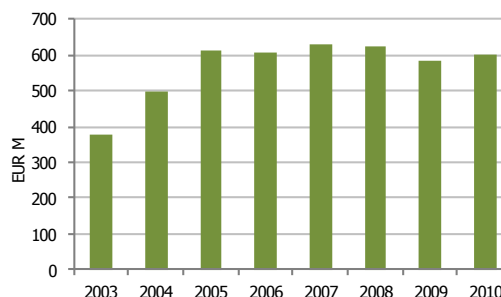
For the 1999 estimation, this relationship was established using data from 22 Caribbean economies. For the 2010 estimation, the sample was extended to 28 Caribbean economies as a result of the development of statistical systems in the region.

Due to the specific characteristics of Saint-Martin, it is not possible to directly obtain the value of imports required for the calculation of per capita GDP. The bulk of imports destined for the French part of the island come from the Port of Philipsburg, which is located on the Dutch side. In view of the free movement of persons and goods between the two sides of the island, the approach used to obtain the per capita level of imports for Saint-Martin consisted in taking into account all imports (Saint-Martin and Sint Maarten) in proportion to the total population of the island.

According to local actors, the share of goods arriving at the Port of Galisbay, which is located in the French part, is marginal and remains difficult to quantify. A comparison of arrivals of twenty-foot equivalent unit (TEU) containers in both ports made it possible to estimate the share of goods arriving in the Port of Galisbay at 10% of the goods arriving in Sint Maarten.

Between 2003 and 2010, the amount of the island's imports rose by an annual average of 6%, and levelled off at some EUR 600m between 2005 and 2010.

## Trend in the amount of the island's imports\*



\* with the assumption of the value of Saint-Martin's imports being estimated at 10% of imports in Sint Maarten.  
Source: Central bank of Curacao and St. Maarten, IEDOM.

## Per capita GDP remains stable given the strong population growth

The overseas territory of Saint-Martin had 36,979 inhabitants in 2010, *i.e.* 7,867 more people than in 1999. The population has increased by an annual average of 2.1% since 1999.

The apparent balance of entries and exits has a negative impact (-0.2%) on the population trend. The natural balance is the only driver of population growth. The high natural balance is due to a high birth rate and low mortality rate. The average crude birth rate between 1999 and 2010 stood at 26.3‰ (12.9‰ in mainland France) and the mortality rate at 3.2‰ (8.5‰ in mainland France).

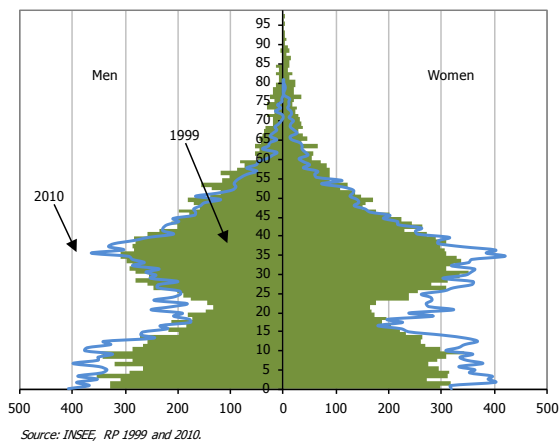
## Demographic indicators for Saint-Martin

	1990 to 1999	1999 to 2010
Average annual change in population (%)	0.2	2.1
due to natural balance (%)	2.2	2.3
due to the apparent balance of entries and exits (%)	-2.0	-0.2
Birth rate (‰)	25.0	26.3
Mortality rate (‰)	3.2	3.2

Sources: INSEE, 1990 population census count, 1999 population census and 2010 population census main exploitation - Civil Registry.

The age structure of the population is changing slowly. As the school system stops at high school, students must leave the territory to continue their studies. This phenomenon leads to a deficit of young people aged between 20 and 24. This deficit, which was observed in 2010, already existed in 1999. In 2010, young people under the age of 15 accounted for three people in ten, as was the case in 1999. The changes mainly occur in the older age brackets. People between the age of 45 and 59 accounted for 18% of the population in 2010 (13% in 1999), and the proportion of people between 60 and 74 rose from 4% to 7%. In 1999, one person in two was under 28, against a median age which stood at 30 in 2010.

## Age pyramids at 1<sup>st</sup> January 1999 and 2010



## Territory's key sectors

The trend in wealth creation in Saint-Martin can be seen more clearly by looking at the activity of the key sectors between 1999 and 2010.

In order to better identify the issues related to the economic and social development of Saint-Martin, it is necessary to take into account the territorial continuity with the Dutch part, which gives rise to a particularly competitive situation. Sint Maarten has different regulations and taxation. Similarly, its social policies are not the same as in Saint-Martin. Finally, a proportion of the revenues generated on the French side is spent on the Dutch side where the U.S. dollar is the most common currency.

Saint-Martin's economy is strongly service-oriented. Non-market services play a prominent role: in 2010, they accounted for 45% of employment and their share in added value stood at 39%. However, the economy remains highly dependent on tourism and the construction industry.

## Tourism, engine of the economy

Tourism is the main pillar of the island's development, both on the French side and Dutch side. It comprises a number of activities, including the hotel and catering sector, which employed over 1,400 people on the French side in 2010, *i.e.* 26.7% of the workforce recorded by the National Interprofessional Union for Employment in Industry and Trade (Unédic).

### Tourist visits to the island uneven

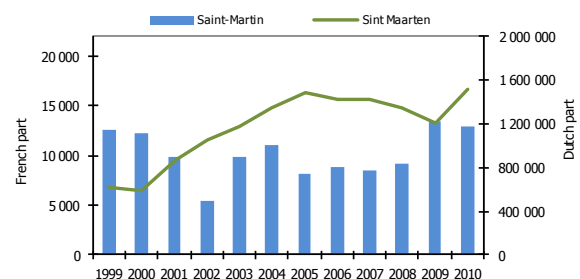
In 2010, there were 2.2 million visitors to the island, with 80% arriving on the Dutch side. With 1.5 million passengers in 2010, the cruise industry was the main source of tourist arrivals on the island of Saint-Martin.

Almost 90% of cruise ships arrive on the Dutch side. This activity has developed considerably since the

deep water capacity of the island's port located in Philipsburg was increased, with the construction of a new quay in 2008, allowing the largest cruise liners to (6,000 passengers) to dock. Between 2000 and 2010, the number of passengers rose by an annual average of 10%, *i.e.* a total of over a million additional passengers over this period. According to the Caribbean Tourism Organisation (CTO), Sint Maarten is a major Caribbean destination, and in 2010 ranked 5<sup>th</sup> in terms of cruise passenger arrivals. Furthermore, the total expenditure of these passengers is estimated<sup>3</sup> at some USD 294m, *i.e.* 20% of total expenditure taking the 21 Caribbean destinations into account. Sint Maarten thus ranks 1<sup>st</sup> in terms of cruise passenger expenditure, ahead of the Virgin Islands and Bahamas. It is important to take into account the expenditure of the 450,000 crew members of the vessels in this expenditure.

As the Port of Marigot in the French part does not have the facilities to accommodate deep draught cruise ships, it has targeted a high-end clientele travelling on smaller vessels (100 to 360 passengers). However, the fact that there is no dedicated quay penalises stopovers. Following the marked decline in the number of cruise passengers between 2000 and 2008, there was an upturn in 2009. In 2010, some 13,000 cruise passengers were recorded on the French side.

## Trend in the number of cruise passengers on the island



Airport passengers also mainly arrive at Princess Juliana Airport, on the Dutch side, which is a major hub with 32 destinations served, 21 regular companies and 13 charter lines. In 2010, the total number of passengers stood at almost 443,000, against almost 445,000 in 1999.

Grand-Case Airport, on the French side, is much smaller in terms of structure and traffic, with 204,700 passengers in 2010. Over the decade, the number of passengers rose by an annual average of 5%.

<sup>3</sup> Estimation for 2011 made by the Florida Caribbean Cruise Association (FCCA).

### **French side benefits little from dynamism**

The French side only benefits marginally from this high volume of passenger traffic. As most of the arrivals are on the Sint Maarten side, the latter benefits from the entry taxes collected.

The situation is similar for the hotel and catering sector. Indeed, as tourists remain accommodated on the Dutch side, the hotel occupancy rate is higher: 61% in Sint Maarten in 2010, against 50% in Saint-Martin. The average length of stay is estimated at three days on the French side, against five days on the Dutch side. In terms of employment, in 2010, the hotel and catering sector employed over 1,400 people in Saint-Martin, against over 2,700 in Sint Maarten. The timeshare activity, which is a major tourist practice in Sint Maarten and does not exist in this form in the French part, is highly developed with 2,100 units in 2010 and an occupancy rate of 72%. The daily expenditure of timeshare owners is significantly higher than the expenditure of visitors staying in hotels. Between 2005 and 2010, the number of rental cars rose by 53% and, according to the CBS,<sup>4</sup> timeshare tourists have made a significant contribution to this development. Sint Maarten also has a large proportion of luxury villas and apartments,<sup>5</sup> which are used as second homes. According to professionals, over 900 of them, which mainly belong to North American owners, are intended for tourist rental. On the French side, according to the Local Authority, the number of second homes on offer for tourists stands at approximately 500.

### **More difficult context**

Despite the territory's potential and enhanced cooperation, French industry professionals express strong concerns, especially in terms of the Dutch competition.

The attractiveness of the territory of Saint-Martin for tourists would appear to be penalised by a more restrictive legislative environment than in the Dutch part. For example, in Sint Maarten, the nightlife for tourists is a major component of the industry and has been made possible by the development of a full range, with many restaurants, and about fifteen casinos, bars and discotheques. The increase in the number of operating licences is a sign of the good performance in this sector, which employed between 1,500 and 2,000 people in 2010.

According to industry professionals, the Girardin Act<sup>6</sup> related to tax exemption would not appear to have been conducive to tourism development in the French part. Indeed, the substantial tax-free sell-off of apartments resulted in a decline in the tourist accommodation capacity. Furthermore, the sector has to manage with the lack of qualified staff, as well as

<sup>4</sup> CBS: Central Bureau of Statistics, Sint Maarten.

<sup>5</sup> Worth over USD 400,000.

<sup>6</sup> The "Girardin" Act promotes investments in the overseas territories by granting tax reductions to people who buy new housing units under certain conditions, in particular by renting the property bare for 6 years to people who make it their main residence.

inadequate and ageing facilities, and a value for money that professionals deem to be insufficient.

Tourism is the territory's main economic activity, but there are still major difficulties in reaping the benefits generated by the high number of tourist visits to the island. This can be seen in the modest increase in per capita GDP.

### **Construction industry, second pillar of the economy**

The construction industry is the island's other key sector. Until 2008, population growth and the economic development of Saint-Martin contributed to growth in the sector, despite the strong competition from companies established on the Dutch side. The sector is characterised by the predominance of small structures, with a large proportion of companies with no paid employees (80%). In 2010, the construction industry employed almost 400 people, *i.e.* 7.4% of the workforce recorded by Unédic, against 478<sup>7</sup> employees in 1999, *i.e.* 9.7% of the workforce.

Between 1999 and 2010, the number of main residences rose by 37.5%, particularly in response to the needs of a growing population and the phenomenon of separate living. There was also a rapid increase in the number of second homes and occasional residences, driven by tourism development, from some 240 housing units in 1999 to 1,440 in 2010. Finally, social housing construction supports the activity of the construction industry in Saint-Martin. In 2010, there were 1,855 social housing units recorded. They are managed by three companies, which are also involved in the regeneration of certain neighbourhoods and are major actors in slum clearance, another activity in the sector.

### **Public procurement insufficient between 2007 and 2010**

Despite the lack of statistics, certain available qualitative elements show that there has been a marked slowdown in activity in the sector since late 2007, in connection with the first signs of the crisis, and in a context where the Local Authority's financial leeway has been considerably reduced since it changed status.

The number of building permits issued by the Local Authority fell by an annual average of 7.6% between 2000 and 2010, and dropped by 45.3% between 2007 and 2010. On the Dutch side, the trend is similar and the number of residential and commercial building permits fell sharply between 2007 and 2010 (-51.7% of building permits issued).

<sup>7</sup> According to INSEE.

## Role of the Local Authority

### Trend in the number of building permits

(number)	2007	2008	2009	2010	Var 10/07
<b>Saint-Martin</b>					
Requests registered	146	142	130	118	-19,2%
Permits issued	137	127	97	75	-45,3%
<b>Sint Maarten</b>					
Requests registered	395	362	283	234	-40,8%
Permits issued	330	295	196	168	-49,1%

Sources: Local Authority of Saint-Martin, Government of Sint Maarten.

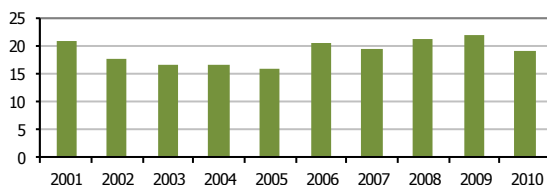
In Sint Maarten, the construction of public infrastructure would appear to have limited the decline in activity in the sector: 3 building permits were issued in 2007, against 10 in 2010. Conversely, on the French side, following the change in status and given the lack of resources and manpower, the Local Authority was unable to play the expected countercyclical role.

### Low competitiveness of Saint-Martin's companies

In order to compensate for the lack of private demand, the large construction companies in Sint Maarten have geographically diversified by penetrating new markets, such as Saint-Eustache, Saba and Anguilla. On the French side, companies suffer from a lack of competitiveness. According to industry professionals, compliance with European standards and higher minimum salaries affect the competitiveness of companies in Saint-Martin, both on the local and international markets. The minimum hourly wage in Sint Maarten stands at EUR 3.46,<sup>8</sup> against EUR 9.53 on the French side.

The trend for corporate property loans also reflects the sluggishness of the sector. Between 2001 and 2010, the amount of property loans allocated to companies was relatively stable, with an annual average change of -1%.

### Trend for corporate property loans (in EUR million)



Source: IEDOM.

The construction industry is, after tourism, a key activity in Saint-Martin. Its sluggishness partly explains why per capita GDP is more or less stable.

Saint-Martin, a former municipality of Guadeloupe, became an overseas territory (COM) through the French Organic Law of 21<sup>st</sup> February 2007. In 2003, the population of Saint-Martin voted in favour of this change to ensure that better account is taken of the island's geographic, social and economic specificities.

### Transfer of competences and change in governing bodies

Saint-Martin now has the competences of a municipality, department and region, but also certain competences that come under State prerogatives (these include taxation, road transport, seaports, road systems, tourism, the Local Authority's land rights, access to work for foreigners, urban planning, construction, housing, energy, and setting up and organising services and public institutions).

The statutory reform has had a direct impact on the organisation of the administration. As the Municipal Council and function of mayor have disappeared, a direct local democracy has been established and allows the Local Authority to freely manage itself. Four new institutions have thus been created (Territorial Council, Executive Council, Economic, Social and Cultural Council, and District Council). There is also a delegated Prefect representing the State and Government in the COM. The Territorial Council is now the decision-making body for local policies.

At European level, the ratification of the Treaty of Lisbon in 2009 identified the new territory as an Outermost Region (OMR), autonomous from Guadeloupe. While this status of OMR allows it to benefit from structural funds, it imposes the application of all European Community law, which is not the case in Sint Maarten, whose status of OCT gives it greater autonomy. The latter is also not considered as being part of the territory of the European Union.

### Difficult budget management

Saint-Martin's change in status took place within a difficult financial context, with the municipality being placed under the supervision of the Regional Audit Chamber, which proposed various recovery measures. This deterioration in the accounts, which dates back to the early 1990s, partly explains the very subdued increase in per capita GDP between 1999 and 2010. This limits the Local Authority's leeway to revitalise the economy.

Following the statutory reform, the budget management difficulties continued and even worsened in 2010-2011. The fiscal autonomy is one of the main reasons for this deterioration. The simultaneous abolition and introduction of certain

<sup>8</sup> The minimum wage was estimated at 8.56 florins at 1<sup>st</sup> January 2014.

taxes and duties,<sup>9</sup> the change in the rates of other taxes, and the poor quality of the addressing file system have made it difficult to adapt national computer tax processing systems to the specific tax system in Saint-Martin, leading to recovery problems.

The Local Authority's budget has also been adversely affected by the abolition of dock dues (a resource of some EUR 12m in 2008), the end of State advances by 12<sup>ths</sup> on the tax role, and the marked decline in the overall compensation allocation (DGC), which started in 2009. In order to reduce these difficulties and fulfil its role of supporting Saint-Martin's economy, the Local Authority's priority has been to find new resources. Consequently, the principle of the General Turnover Tax (TGCA) was voted in late 2009: EUR 6.3m of income in 2011 and a forecast of EUR 15m in a few years. In addition to the introduction of this tax and repayable advances by the State in 2010 and 2011, a State-Local Authority Memorandum of Understanding, comprising a State advance of EUR 18m and a EUR 25m loan allocated by Agence Française de Développement, were signed in late 2012. The agreements aim to achieve a financial recovery for the Local Authority over the next five years.

### ***Challenges for the Local Authority***

Despite this strong budgetary concern, the challenge for the Local Authority of Saint-Martin continues to lie in creating conditions for the economic and social development of the island and supporting public procurement in order to foster economic recovery.

While the results of this political will are barely visible for the period studied, it is likely that they will be more significant over the next decade, given the actions undertaken and the projects which have been launched. The perceptible improvement in the Local Authority's financial situation at the end of 2013 should foster this economic recovery.

Indeed, since the Local Authority of Saint-Martin was established, it has been seeking to make the actions conducted on the economic front more coherent and more legible. In this context, in 2009, it created the Interprofessional Consular Chamber of Saint-Martin (CCISM). It has also been working on employment by organising training programmes and with the objective of creating a vocational training service.

More generally, the 2011-2013 Development Contract between the State and the Local Authority (EUR 81m), which includes European funds, aims to promote the creation of infrastructure, actions for training and social cohesion, and to improve living conditions for the residents of Saint-Martin.

As tourism is the driving force for the economy of Saint-Martin, the Local Authority has defined a Territorial Tourism Development and Restructuring

Plan for 2010-2015 (SDAT). This plan comprises several actions, some of which have already been implemented: new classification of establishments conducted in 2013 and incentives to refurbish, which have led to several establishments being upgraded. This strategy is in the process of being updated for 2016-2020.

With regard to exchanges with the Dutch part, a joint committee on cooperation between Saint-Martin and Sint Maarten was set up in 2011. This body places great importance on economic affairs and issues of mutual interest, such as security, transport and health.

### ***Public procurement, a driver for economic recovery***

The Local Authority supports the island's economic activity through public procurement. A number of projects have been launched. Among the recent projects, the most notable are the construction of the media library and territorial archives, works to refurbish and equip the three secondary schools and high school, the construction of two drinking water reservoirs, as well as various road improvement works.

Prospects for public procurement over the next years focus on works concerning the change in Saint-Martin's airline and maritime services. Following the definition of its tourism strategy, the Local Authority targets a high-end clientele, which requires implementing structural projects in the territory for 2014-2017. The development of Marigot Bay, which started in 1997, is the most successful example of this. The Master Plan for this project provides for a marina, with the reception of mid-sized cruise ships, and a complete development of the bay with a number of tourist amenities. This project will be combined with a programme to revitalise the city centre of Marigot. This project has strong economic implications in view of the impact it will have on the future for tourism in Saint-Martin and the Local Authority's aim of making it a key home port for mid-sized cruise ships.

The airport should also be developed, with the aim of promoting visits to the island by high-end tourists, especially because the airport facilities on the Dutch side are not adapted to this client segment. It is planned to extend the runway to receive planes with a larger capacity (an additional 200 to 300 metres), a private parking area, as well as hangars for private planes. Another large-scale project launched by the Local Authority in early 2014 is the construction of the La Savane school complex in Grand-Case.

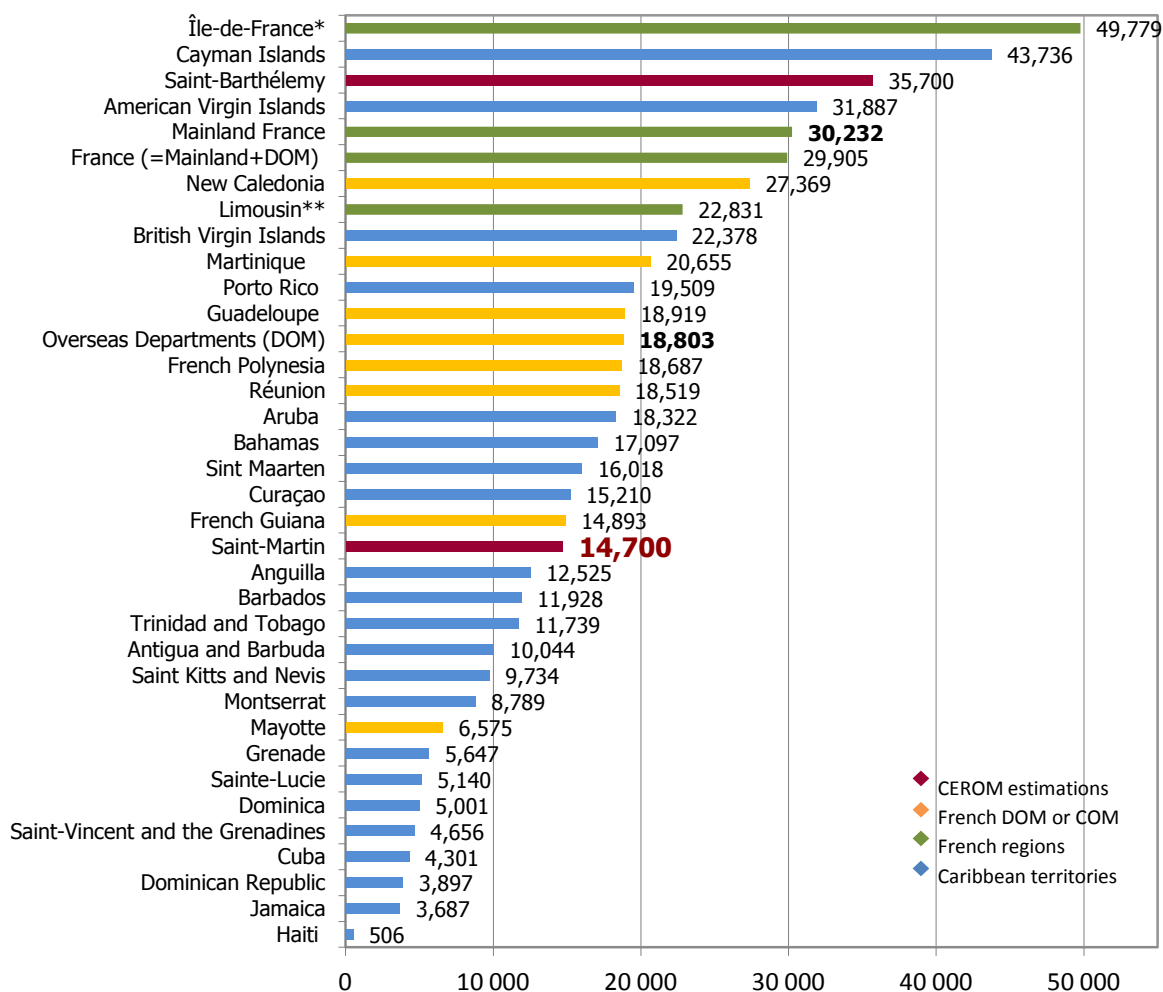
<sup>9</sup> This includes the abolition of the housing tax, wealth tax (ISF), corporate tax, VAT, and the creation of the General Turnover Tax, the licence and patent fee, and the vehicle tax.

It is a complete project (secondary school, high school, sports facilities) covering an area of 6,300 m<sup>2</sup>, with a total cost of EUR 17m.

Thanks to these large-scale projects, the Local Authority aims to play a key role in Saint-Martin's economy by giving impetus to medium and long-term dynamics in key sectors, such as tourism and the construction industry.

## Regional comparison

### Per capita GDP in 2010 (constant EUR)



\*Highest per capita GDP in French

\*\*Lowest per capita GDP in mainland France regions

Sources: CEROM, INSEE, World Bank, United Nations Statistics Division, FWI World Economic Outlook

In 2010, Saint-Martin's per capita GDP was well below the average for France as a whole (EUR 29,905 in 2010). It is at a lower level than in Guadeloupe and Sint Maarten, but close to the level in French Guiana, Anguilla and Barbados. However, it does rank among the ten highest per capita GDPs in the Caribbean.

The per capita GDP in Sint Maarten, estimated at EUR 16,000 in 2010, is higher than in the French part. For the period 2005-2010, its average annual growth is estimated at 2.5%, a result close to the performance of countries in the Eastern Caribbean Currency Union (ECCU) monetary area (average annual growth of 2.3%).



The Rapid Economic Accounts project for overseas France (CEROM) came about in 2003 under the impetus of seven institutions – the Institut National de la Statistique et des Etudes Economiques (INSEE), Agence Française de Développement (AFD), Institut d’Emission des Départements d’Outre-mer (IEDOM), Institut d’Emission d’Outre-mer (IEOM), Institut de Statistique de Polynésie française (ISPF), Service du Plan et de la Prévision Economique de Polynésie française (SPPE) (now dissolved), Institut de la Statistique et des Etudes Economiques de Nouvelle-Calédonie (ISEE).

Its aim is to draw up rapid accounts, model trends in economies, and publish macroeconomic or thematic analyses on the French overseas departments and territories.

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