

# Tourism and Development in the Senian Context: Does It Help or Hurt SIDS? The Case of Aruba

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Tourism is the lifeblood of many small island independent states and those that are categorized as small non-independent jurisdictions (SNIJs) such as Aruba. The question that this paper proposes to address is whether and how tourism helps or hinders island development. Research has been conducted on the economic effects of tourism in a global context; however, our approach is to look at its effect in one destination, Aruba, and to contextualize this research by situating it among other Caribbean islands. The rationale is that tourism is of more significance to the Caribbean in terms of economic dependence and tourism intensity. Because of the density of tourism in Aruba and its mono-economical development paradigm this makes for an ideal case study.<sup>1</sup> Our methodology is based on an ontological review of the relationship between tourism and economic development utilizing a contextualized definition of development that fits within the philosophical position of Amartya Sen. In that context defined not just in terms of GDP growth but the enhanced social welfare of its citizens also in the Senian sense as distance from unfreedom. The concept of unfreedom for purposes of this paper is based on the extent to which there is an inertia to shift paradigms even if the existing paradigm enhances vulnerability, fragility and restricts opportunities to its citizenry. Therefore, despite its impact on the economy in terms of foreign exchange, investments, and employment, there are considerable and pervasive externalities which should be considered in conceptualizing the totality of tourism's effect on economic and social development. In this essay, we consider Sen's (2000) definition of development as freedom and situate it in that context and introduce the work of envelopment theory as conceptualized by Sankatsing (2016).

*Keywords:* economic development, freedom, unfreedom, envelopment

## Introduction and Context

Tourism development has been a significant factor in the economic growth of Aruba since the closing of its oil refinery in 1986 and the recognition of its status within the Dutch Kingdom. It has ostensibly increased economic growth, the economic welfare of its citizens and contributes substantially to gross domestic product (GDP). In 2016, tourism accounted for 88.1% of Aruba's GDP and directly or indirectly supported 15,000 jobs (World Travel and Tourism Council [WTTC], 2017). Tourist arrivals are an integral component of that growth and its attractiveness is highlighted by its comparative advantage to other Caribbean destinations. Therefore, as GDP has grown, there is a broader wealth growth that reflects the impact of tourism within society which has enabled Aruba to become one of the few Caribbean countries with nominal GDP per capita of over USD 22,000.00. This has been remarkable considering that this has occurred within a generation.

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<sup>1</sup> IMF Report, IMF Country Report No. 17/155, June 2017, Article IV Consultation.

Table 1

*Economic Growth in Aruba: 2002-2010*

Selected economic indicators									
Real sector	2002	2003	2004	2005	2006	2007	2008	2009	2010
Mid-year population (× 1,000)	92.1	93.1	95.1	97.6	99.4	100.1	100.9	101.6	101.9
GDP at market prices in USD	1,930	2,010	2,216	2,318	2,411	2,601	2,730	2,485	2,377
Real GDP in USD	1,749	1,783	1,924	1,948	1,968	2,008	2,011	1,783	1,724
Real GDP growth (in percent)	-3.3	2.0	7.9	1.2	1.1	2.0	0.2	-11.3	-3.3
Nominal GDP per capita (× USD 1,000)	21.0	21.6	23.3	23.7	24.3	26.0	27.1	24.5	23.3
Real GDP per capita (× USD 1,000)	19.0	19.1	20.2	19.9	19.8	20.1	19.9	17.6	16.9
Tourist stay-over visitors (× 1,000)	642.6	641.9	728.2	732.5	694.4	771.8	826.2	810.1	822.3
Cruise visitors (× 1,000)	582.2	542.3	576.3	552.8	591.5	481.8	556.1	606.8	569.4
Cruise ship calls	337	315	318	311	314	315	299	327	314
Unemployment rate (%)	8.1	11.4	9.5	8.8	9.3	7.1	6.9	10.3	10.6
Consumer inflation (end of period, in percent)	4.2	2.3	2.8	3.8	2.5	9.9	-1.9	6.8	-0.7
Consumer inflation (period average, in percent)	3.3	3.7	2.5	3.4	3.6	5.4	9.0	-2.1	2.1

*Note.* Source: Central Bank of Aruba.

GDP growth has slowed substantially after the recent recession because of the impact of the economy of the closure of the revived oil refinery which provided the only alternative to a total dependence economy. This means that the Aruban economy is essentially a mono-economic entity with tourism as its only economic base and that is significant because that the level of dependency exacerbates the island's fragility and vulnerability to external shocks. It also implies that unlike other Caribbean islands with a non-mono-economic base, there is an imperative to drill further down into the tourism space in order to secure its competitive position. This is reflected in efforts to diversify and reinforce the tourism economy within the same paradigmatic framework that seeks to reinforce the country's economic and development dependency and vulnerability. Significant and sustained efforts are not being made to substantially diversify the economy away from the tourism paradigm towards a more sustainable and robust economic development model. However, beyond robustness and sustainability, the challenge is whether tourism growth has translated into economic development that is reflected in increasing freedom for the society.

According to Sen (2000), the focus on the economics of development with its emphasis on GDP, GDP growth, and per capita income is the wrong set of measures in which development should be judged. These are hard economic and objective assessments of development that omit the essential freedoms such as educational capacities and opportunities to exploit the potentialities of the society, the fairness and justice of the legal system that treats all members of society equally and fairly, and the distribution of wealth within that society. This also includes access to health and welfare benefits within the economy. Sen was not the first economist to highlight the schism between economic neoliberalism and economic development. Soedjatmoko (1985) also noted that there was too much emphasis on classical economic growth models in the developing world when attention should also be focused on institutional and structural issues along with broader socio-cultural and historical concerns.

This paper intends to critically review Aruba's dependence on tourism and highlight its impact on development and levels of freedom according to Sen's (2000) perspective. The paper is structured as follows: in part two, we will critically outline the depth of tourism's penetration in the economy and society. In part three, we will apply Sen's (2000) analysis to determine the depth of the linkage between tourist arrivals and economic development. In part four, we will introduce the concept of envelopment theory and relate it to the Aruban context. Finally in part five, we will conclude the paper by making some policy suggestions and recommendations for further research.

### Market Depth of Aruba's Tourism

Tables 2-3 indicate the extent to which Aruba's economy is structurally dependent on tourism and the pervasiveness of tourism as the driver of economic activity compared to other Caribbean islands. In this context, there is a structural overdependence on tourism that goes beyond the Caribbean norm. This in turn limits the potential for structural innovation outside the tourism sector and reinforces the dependency paradigm because it channels existing capacity and capability to the dominant and only significant economic sector. Alternative models of economic development are stifled as available resources are channeled or allocated to the primary driver of the current economic model. This results in policy making that seeks stability rather than disruption inherent in developing innovative economic models.

Table 2

#### *Tourism Depth in Aruba*

Caribbean Islands' comparative analysis	Travel & tourism contribution to GDP (%)	Contribution to employment (%)	Contribution to total investments (%)	Visitor exports contribution to total exports (%)
Aruba	88.1	89.3	32.0	65.7
Antigua and Barbuda	60.4	54.3	41.6	67.4
Bahamas	44.8	52.9	18.9	62.2
St Lucia	39.6	46.5	24.2	51.5
St. Kitts and Nevis	25.1	23.9	17.7	27.6
Grenada	20.2	18.5	13.8	39.2
Bermuda	13.9	17.3	4.9	15.3
Caribbean	14.9	13.4	12.3	20.7

Note. Source: WTTC Report.

Table 3

#### *Tourism's Contribution to GDP in Aruba*

Aruba	2016	2016	2017	2027		
	USD mn	% of total	Growth	USD mn	% of total	Growth
Direct contribution to GDP	790.5	28.6	4.1	1,033.10	31.7	2.3
Total contribution to GDP	2,434.5	88.1	3.8	3,178.20	97.4	2.3
Direct contribution to employment ('000)	15.0	31.3	1.9	15.00	31.1	(0.4)
Total contribution to employment ('000)	42.0	89.3	2.7	44.00	94.3	0.1
Visitor exports	1,656.7	65.7	4.4	2,218.50	69.2	2.5
Domestic spending	154.6	5.6	0.7	179.20	5.5	1.4
Leisure spending	1,669.5	26.1	4.4	2,222.40	29.1	2.5
Business spending	141.8	2.2	1.3	175.30	2.3	2.0
Capital investment	197.1	32	1.9	260.60	35.6	2.6

Note. Source: WTTC.

In addition, policy making tends to be substantially driven by a national authority with a limited focus on increasing tourist arrivals and therefore economic growth rather than challenging the existing paradigm. Responsibility for tourism branding and tourism arrivals is substantially in the purview of the Aruba Tourism Authority, a semi-autonomous government entity which seeks to maximize tourist arrivals and tourism expenditure. The challenge is that innovative models and the emergence of alternative development models will not emerge from the narrow contextual focus of such entities given the paramouncy of the tourism sector as the only viable economic model for Aruba. In addition, there is no sense of urgency to develop such alternative economic models and a general inertia in any attempts to do so from policy makers.

Aruba is considered a high income country as illustrated in Table 4 below extracted from the IMF database.

Table 4

*Aruba's Position as High Income Country*

Long name	Aruba
Income group	High income
Region	Latin America & Caribbean
Currency unit	Aruban florin
Latest population census	2010
Special notes	SNA data for 2000-2011 are updated from official government statistics; 1994-1999 from UN databases. Base year has changed
National accounts base year	2000
System of National Accounts	Country uses the 1993 System of National Accounts methodology
SNA price valuation	Value added at basic prices (VAB)
PPP survey year	2011
Balance of payments manual in US dollars	IMF Balance of Payments Manual (6th ed.)
System of trade	General trade system
Vital registration complete	Yes
Latest trade data	2015
2-alpha code	AW
WB-2 code	AW
Table name	Aruba
Short name	Aruba

*Note.* Source: IMF.

This implies that critical assessment tools of poverty are not normally applied to the country such as the Gini index which is one of the single best measures of income inequality (Gastwirth, 1972).

### **Degrees of Freedom**

The essence of Sen's (2000) argument is that real freedom provides policymakers with the power to choose the best option in a series of options that maximizes societal welfare. That welfare is reflected in increased individual autonomy and opportunities that expands welfare benefits and passes it on to future generations. For the individual member in this social frame, this can be interpreted as the possibility to exercise the best of those options that allows for the individual to attain their fullest potential. However, given the degree of dependence that Aruba has on tourism, this means that despite its apparent wealth and GDP per capita, there are limited options that are available as a consequence of its structural dependency. As a matter of policy, the lack of interest by policymakers to diversify the economy and to develop alternative economic models means that there is a high degree of unfreedom in those seeking to develop their full potential within society.

Development in the context of Sen's (2000) philosophical framework is the critical discourse that requires elimination of societal and structural challenges to economic opportunities for all citizens. This includes looking at freedom as the foundational basis to have open political choice, to be free of deprivation, to have access to adequate health care, and to have aspirational goals that are reflective of the potentialities of the citizenry.

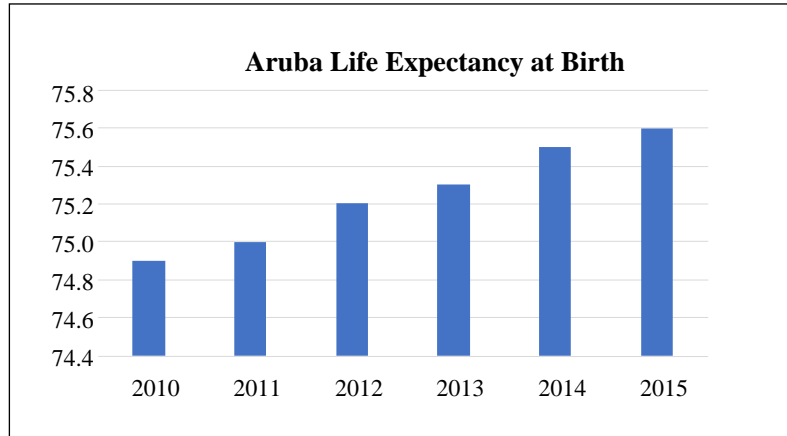


Figure 1. Aruba life expectancy at birth. Source: World Development Indicators.

Figure 1 above is a strong indication that one measure of the level of well-being in Aruba is high, that is, the potential and capacity to live a long life and where average life expectancy is consistent with some countries in the Caribbean (see Table 5).

Table 5

*Comparative Life Expectancy in the Caribbean*

Country/territory	Life expectancy (M)	Life expectancy (F)
Antigua and Barbuda	N/A	N/A
Bahamas	72	79
Barbados	74	80
Belize	75	78
Cayman Islands	N/A	N/A
Cuba	77	81
Curacao	72	80
Dominica	N/A	N/A
Dominican Republic	71	76
Grenada	74	77
Guyana	67	73
Haiti	61	63
Jamaica	71	76
Puerto Rico	75	83
St Maarten	73	78
St Kitts and Nevis	N/A	N/A
St Lucia	72	77
St Vincent and the Grenadines	70	74
Suriname	67	74
Trinidad and Tobago	67	74
Turks and Caicos Islands	N/A	N/A
US Virgin Islands	76	82

Note. Source: *Caribbean Journal*, October 2013.

This capacity to provide long life for its citizens includes an infrastructure of care and hospitalization<sup>2</sup> that is akin to that of developed countries and is a positive indication of the freedom that its citizens are privy to. In addition, Aruba has a broad structure of social safety nets which include universal healthcare, pensions, unemployment benefits, transport subsidies, and cash transfers to low-income families and single mothers (IMF Report, 2017).

However, freedom is limited by the socio-economic stagnation and lack of socio-economic dynamism that tourism dependency entails. Tourism thrives in a stable environment, where cultural and social symbols do not significantly challenge the status quo and are not considered threatening. For Caribbean tourism, there is a general lack of socio-economic and cultural dynamism where Schumpeter's (1942) forces of creative destruction are dampened by the need to maintain stability. The seasonal and annual volatility of tourism receipts impacts consumer spending and GDP directly and exacerbates the fragility and vulnerability of this economic model as a development framework that sustains the population and provides the maximum level of freedom to the citizens.

The concept of unfreedom is also manifested in the lack of individual autonomy in terms of opportunities for choosing the best personal and professional development path available to other citizens in other high-income countries. The Aruban citizenry is overwhelmed by the emphasis on tourism that no alternative option is presented that is not related to the industry. This constrains individual sovereignty and options to choose self-development paths that do not fit within the broader tourism context. It should be noted that this context has specific roles for the allocation of labor that are very specific to a service-oriented economy. Wages in the tourism industry are traditionally low and reflect the need for low skill labor because of the service intensity of the tourism sector (Steenge & Van De Steeg, 2010).

The tourism product, that is, culture and other natural resources, tolerates a deliberate evolutionary approach to development rather than a revolutionary one where all symbolism of the product is eschewed for a more dynamic interaction in the society and economy. Tourism requires this because of the need to ensure safety, consistent product quality, and cultural experiences within a static paradigm that focuses on enhancing guest experience and escapism. In this context, social and economic dynamism has no space to encourage innovation and socio-economic mobility outside that paradigm. This also encourages a fusion of tourism's overarching organizational and the island's socio-economic structures. It can be argued that social status in the society is more reflective of the status in the industry and is a strong signal for the social stratification within the society. Therefore, the tourism's sector organizational status defines social positioning in society because of the social fusion between the tourism sector and the broader society. At the same time, socio-economic mobility is limited because of the fairly high level of social cohesion in the society, and the opportunities in the sector to grow professionally and intellectually are also limited outside the tourism sector because of the lack of will and economic space to facilitate innovation.

Given the volatility of GDP growth as a consequence of tourism dependency, freedom is further constrained by the limited economic base which impacts Aruba's ability to borrow and service its debt. Aruba's current debt levels are beyond the norm for small open economies and its tourism dependency is a significant constraint in terms of its capacity to effectively service its debt load. The privileging of external debt and interest payments limits policy maker's options in spending on social services and its narrow economic base further deepens the neocolonial dependency on the Netherlands.

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<sup>2</sup> Retrieved from <https://www.umhs-sk.org/blog/health-care-around-world-profile-of-systems-in-3-caribbean-nations/>.

### **Envelopment Theory**

A serious counter-argument to the neoliberal concept of economic development is Glenn Sankatsing's (2016) concept of economic envelopment. Under this concept, Aruba is not so much developed according to the neoliberal economic model but embedded in a global culture and economy within a neoliberal framework which exploits its limited resources and limits the potentialities of its people. In Sankatsing's (2016) view, envelopment has a paternalistic, disempowering influence on the local economy and society that grinds down the internal initiatives of the society and economy that seeks to challenge the external locus of command. Envelopment involves homogenizing the local society and institutional structures to become more dependent and confined within the static framework of the prevailing dominant globalizing ideology that privileges outside influences compared to the natural internal impulses of a society and economy. It is invariably paternalistic, disempowering and transfers the locus of command to external entities or forces that do not have the unique vision of development that context brings to bear.

Sankatsing (2016) described development in essence as context driven and context bound, and in effect proposed a non-deterministic model of development that does not subscribe to the dominant neo-liberal orthodoxy of globalization and global convergence of cultures and values. This model provides the capacity to adapt in a manner that is creative and allows for the self-realization of the individual (Sankatsing, 2016). The essence of development is its ability to sustain itself within the conceptual framework where it is defined and such definition is internal and consistent with the imperative to be internally defined.

Envelopment theory is a different level of interpretive, ontological approach to the concept of development paradigms that resonates and relates to the Aruban condition of tourism dependency. Tourism dependency from this perspective can be viewed as being the mechanism by which Aruba is being "enveloped" to become an integral part of the dominant neoliberal globalizing agenda. The fact of its dominance in the economy and its view among policymakers and society as the only mechanism for economic development is reflective of the lack of innovative thinking and acquiescence to the dominance of neoliberalism economic development models. Tourism development is a context-free model of development that discards parts of the island's history, culture, and resources to best fit the needs of what the tourism market demands. For example, historical reference to the significance of slavery to economic activity on the island is whitewashed (Green, 1973). In essence, tourism in the Aruban context is exploitative of the island's resources and its people and is reflected in the economic dominance of foreign-owned multinational corporations which have primary access to the best of its limited resources (Scheyvens & Momsen, 2008).

While there are several challenges in being a small non-independent jurisdiction (SNIJ), Aruba's size and spatiality allow it opportunities that go beyond the stagnant, paradigmatic positioning of tourism as its only economic development model. Its human capital capacity has been structured to be part of the industry but is just as flexible in other potential economic models and is somewhat underutilized in the tourism sector. The ability of its citizenry to converse fluently in four languages and to have a direct linkage to Europe through the Netherlands provides options for economic growth that few countries in the region possess. Aruba's adherence to a neo-liberal development ethos assumes that economic development can only be attained by being externally focused and continued reliance on exogeneous forces (Scheyvens & Momsen, 2008).

## Conclusion

Aruba can be considered a neo-colonial outpost, a peripheral economy with its primary focus on catering for tourists from developed economies and maintaining its status as an SNIJ. Under Sen's (2000) thesis, the role of the state is ensuring that the best opportunities are available to its citizens that results in enhanced capacity and creates capabilities. Policy makers should then seek in realization of those goals to maximize individual freedom and be socially committed to its citizens to do so. As it stands now, Aruba should evaluate the economic path it is embedded in and aggressively seek robust alternative models of development that expand the freedom of its citizens to choose other options. This is a matter of urgency given its substantial exposure to external shocks. Policymakers by digging deeper into the structural dependency model of tourism have subscribed to a particular development paradigm that does not enhance the welfare of its citizens because it limits the options for the development of their potentialities. Even though it is regarded as a rich country, it has significant exposures to external shocks that could impact its economy in the near term. Apart from those economic shocks, it is also exposed to environmental shocks which is a consequence of global warming and which could substantially impact its attractiveness as a tourist destination. Policymakers need to do more to develop alternative models of growth that enhance long-term societal welfare and seek to minimize their dependence on just one model of development. This is stating the obvious and the foundational basis for such development should be the building of capacities and infrastructure that allows for innovation and experimentation by those sectors of the society with significant ability to risk capital and resources.

Research has shown that such development of innovative capacities does not emanate from government but from the private sector (Furman, Porter, & Stern, 2002). The government as the largest single employer on the island (IMF Report, 2017) is not normally recognized as the primary driver of innovation and its significant involvement in the domestic economy has crowded out private sector innovation. This is the consequence of the pervasive effect of tourism dependency, the inertia to innovate and to pursue a range of viable alternatives. Further research is needed to discuss serious structural reforms and how to develop innovative capacities in order for the island to survive and thrive in an increasingly volatile and uncertain world. Such research should be fact based and be free from political interference and look at some hard truths about the potentialities that exist for Aruba to decouple from the current economic model of development.

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