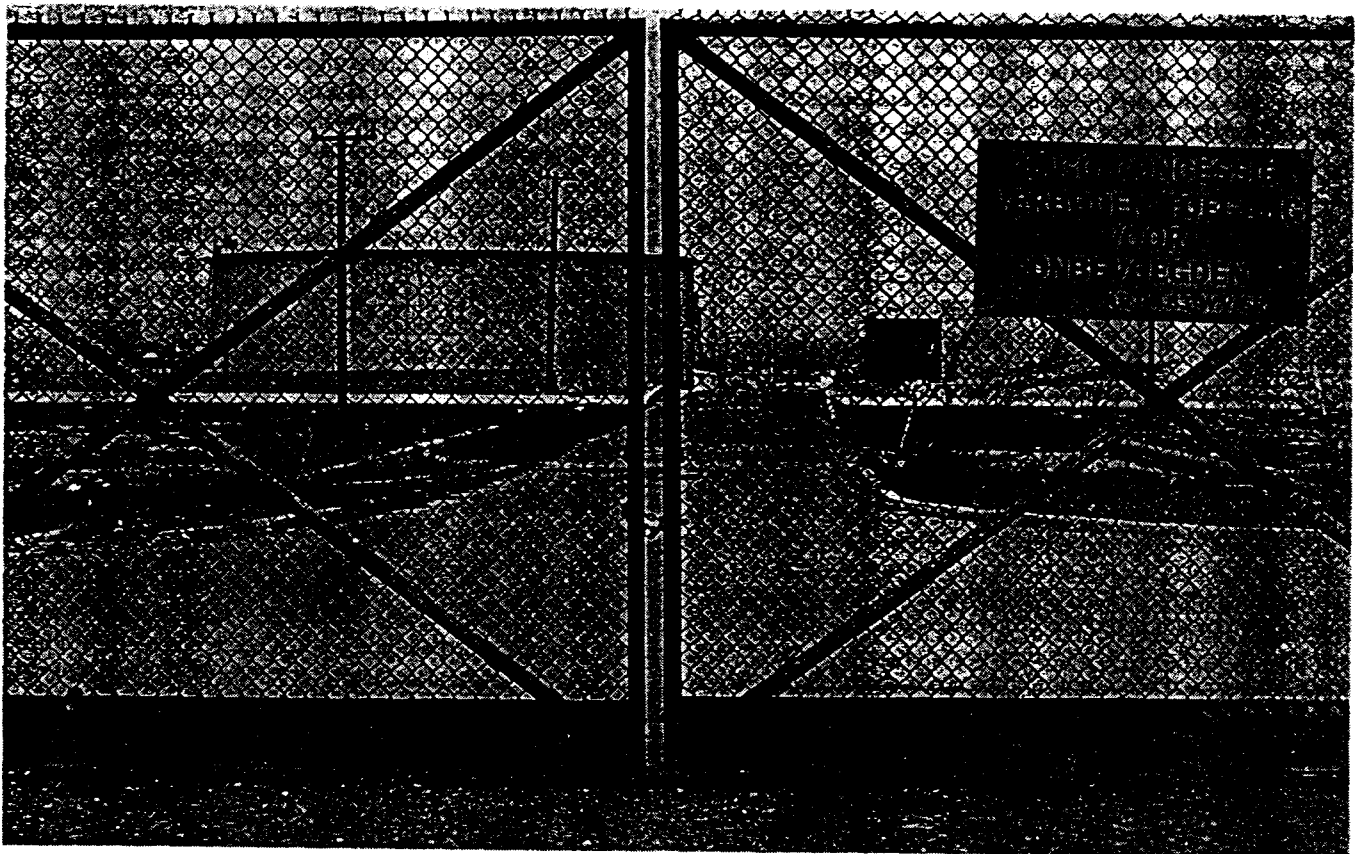


## THE TRAGEDY OF ARUBA

# LESSONS FOR SMALL ISLAND DEVELOPMENT

By Sam Cole



The chilling truth, that a total economic collapse might well be the country's fate in two years, has at last dawned upon a wide spectrum of the nation's decision makers'. So wrote the *Antillien Review* (quoted in Time Magazine) as the Lago oil refinery in Aruba finally ceased to 'belch smoke into the luminous tropical air'. Trade Union organizations in Aruba are reporting that there will be between 6,000 and 8,000 unemployed (out of a labour force of around twenty three thousand) by the middle of 1985. The crisis of the refinery closure is of awesome dimensions for Aruba, but the lack of foresight and preparedness by the Island's administration is a greater tragedy. This article considers some of the events, both internal and external to the Island, which are relevant to the crisis and how it may now be dealt with.

From 1981 to 1983 I lived in Aruba as Senior Economist Planner leading a small team in the preparation of a medium and long term economic development plan for the Island. This was an especially interesting time in the history of

Aruba's development: the Island Government had recently begun 'final' negotiations for independence from Holland (the 'Colonial Power'), and from Curaçao. In 1981 it seemed that the economy of the Island was about as healthy as any small island might expect to be, given all the uncertainties in external and local affairs characteristic of small economies. Problems of poverty and unemployment on the Island were relatively few by any standards, let alone those of the Caribbean. This does not mean that there were no internal social problems, nor that the Island as an independent state could automatically support and protect herself; but, unlike for many other developing nations where single issues such as malnutrition or massive unemployment are individually so overwhelming that all effort must be devoted to their amelioration, in Aruba, a more balanced view of the society and its future could be adopted. Because the relative wealth of the Island was due historically to the presence of the Lago refinery, the future of the refinery was obviously of critical importance to the Is-▶

land's economic prospects. Even though the Aruban population prospered during the recession and the Second World War, and afterwards adjusted to the extensive 'rationalisation' in the oil industry by becoming a favoured tourist paradise, there were enough signals for one to be cautious about the economic situation in Aruba, and the oil industry in particular.

**I**n any case, whatever their current circumstances, the history of many small islands demonstrates a vulnerability to changes most often beyond their population's control. The international economy or superpower and regional politics create situations in which small societies have little choice. The experiences of both the Falklands-Malvinas and Grenada have provided recent examples. Almost inevitably these external forces become entangled with the internal dynamics of a society, leading often to impossible situations, wrong choices, and sometimes to social disaster.

**E**ven in the most satisfactory of current circumstances small societies can be faced by a formidable range of alternatives. The possibilities for Aruba ranged across a very broad spectrum of attractive and unattractive alternatives, economically, socially and politically. When I arrived in Aruba in early 1981, the belief was that within the 'territorial' waters of the Island lay considerable oil reserves. Indeed one explanation given for Aruba's haste in wishing to leave the Antilles was that she did not want to share this wealth with the less fortunate and more populous Curaçao, or subsidise the yet smaller, more distant Windward Islands. As is well known, the revenue from this unproven oil deposit was reckoned to secure Aruba's future and a development bank was set up to allocate and invest the money. An alternative possibility, equally likely but potentially disastrous, was that the oil refinery would simply close — after all, there was overcapacity in the world and the economics of refinery location had changed. At the time of our arrival, these were but two of the possibilities for Aruba. On reading the official documents of Dutch experts and World Bank officials, several other 'development strategies' emerged for the Island (or rather for the Antilles, since few of these exercises distinguished well between the islands). Such documents dwelt long on the need to develop export markets, to diversify the economy, for development aid from Holland, and the possible future economic relations between the islands.

But conversations with Arubans revealed a much wider range of desires, fears and alternatives, concerned with their political and cultural future as well as their economic possibilities. Although not always expressed directly, many questions arose. What, for example, was the future relationship with Venezuela, the United States or the wider Caribbean? Would independence make the Island vulnerable to regional pressures of changes in local politics? Would another 'oil boom' in Aruba, or greatly expanded tourism destroy further the 'Aruban way of life'? And from this arose a further question: what was the Aruban way of life? With so many cultural orientations (in 1950, some forty nationalities were represented among the population) and with so many contradictory external norms through tourism, television as well as immigration — there was no single way of life, any more than there was a homogeneous set of aspirations. It was clear that just as in the distant and recent past, economic change has differentially favoured the various ethnic groups and nationalities so, it

would in any other future development.

**L**ike many other islands in the Caribbean and elsewhere, Aruba has a complex cultural structure, built up through successive immigrations. Because of her relative prosperity and, as much through historical accident as conscious design, Aruba has evolved a relatively harmonious society. Her population mix is regarded as unusual in the Caribbean with a significant Arawak Indian heritage, as well as people of European, African and latterly of Asian origin. At each new watershed in her history, new cultures and industries have arrived leading to a distinctive division of labour among the population, between sectors, between the regions and in the social hierarchies. Despite a good deal of integration and assimilation, some striking differences related to ethnic origins remain. Some relate superficially to race with every gradation of colour, others more fundamentally to lifestyles and social experience. Most Europeans and Asians have been socialised in what might be termed a 'metropolitan' manner, their overt social values are far removed from the traditional pre-industrial revolution societies. By contrast the Arawak Indian descended people of the Island have not yet fully confronted the changes mandated by industrial society. To some degree, they survive in a limbo between traditional values and those of the modern world. Finally, the African descended populations who have experienced the trauma of plantation slavery, are themselves unusual, in part because of their relationship with the oil refinery.

**I**n the broadest sense, the planning exercise for the Island should have dealt with the twin dilemmas of how to cope with the very wide range of alternatives arising from outside forces, and how to set up a path of development which supports the different cultures, lifestyles and aspirations of the Island. Even in the immediate context of the Island's forthcoming independence and new found problems, these same considerations of the relationship between the internal and the external economic, cultural, social and political dimensions remain; indeed they become more urgent.

#### No Surprise

**F**rom the Island administration's perspective, in October 1984, and 'without warning', Exxon announced that the refinery was to close within the year. Despite protests and a slight stay of execution the Island must now bear the impact. This is likely to mean unemployment for a third of the Island's workforce, a dramatic decline in government revenues and a reduction in the 'strategic' cover implied by being host to a major United States corporation. Worse than this, because of the particular dependence of one township, Sint Nicolas, on the refinery, the impact will be very unevenly spread, regionally, ethnically and sectorally. This could portend a very difficult social climate, and if this materialises, the Island's favoured position in the Caribbean as a haven of relatively safe investment will be further undermined; and so on. This spiral of events could well lead to the 'total' collapse of the Aruban society suggested by the Antillen Review.

In some respects the closure should have been no surprise. Certainly it was a contingency to be prepared for, just as was the wealth of off-shore oil. Various reports had pointed to the changing economics and politics of the industry, and also the over-capacity and actual closure of other refineries in the

Caribbean. The refinery itself had given very mixed signals, alternating over recent years between huge losses and profits, using rapidly deteriorating equipment, but hinting of and then cancelling major reinvestment plans. Reports by oil industry experts to the Antillean Government in the late 1970's had questioned the viability of so many oil refineries in the Caribbean, doubts had been expressed explicitly about the situation of both Lago and the Shell refinery in Curaçao, noting especially the changing economics of oil refinery location (in relation to supply and demand), the increasingly antiquated equipment, lack of new investment and so on.

In the light of such reports, and after discussions with the parties concerned (including representatives of Lago), the possibility of the refinery's closure and estimates of the impact were highlighted in the draft Preliminary Development Plan presented in April 1982 one year before the final Round Table negotiations for Aruba's independence. These calculations based on a simple computer model of the Aruban economy showed roughly that if 1,300 jobs were lost *directly* from the refinery, then another 6,000 would be lost *indirectly* from the private sector and depending on how the government responded another 2 — 3,000 might disappear from the public sector also; and that with progressive collapse yet more jobs would be lost. It is possible that the estimates reported by the trade unions in Aruba are based on these figures. (If so they certainly should be revised). Corresponding estimates were made as to the changes in the levels of income, balance of payments and other variables of interest. This draft report also covered more attractive possibilities, the aim overall being to provide some understanding of the *dynamics* of the Aruban economy and to show how scarce resources could be best used to provide employment and strengthen the economy. The purpose was not to show how vulnerable the economy was, but to show how it might be *protected* against its vulnerability. The administration's response to this document, however, was that it was 'a plan for the Dutch'.

For many reasons such calculations are never accurate, but this does not matter since common sense must tell us that the magnitude of the impact is bound to be large, and that if there is a reasonable likelihood of such an event it *has* to be taken in explicit consideration. Such events as a collapse of the oil refinery cannot be predicted as certainties (nor do I pretend that the calculation was presented as such), but such possibilities seldom go away.

The final negotiations for independence were held in April 1983 (with the author as one economic advisor). One month later I departed the Island, leaving a completed draft 'final' Development Plan. This plan played down the situation at the refinery and presented a hopeful view of the Island's future based on exploitation of its oil wealth, and a variety of other suggestions as to how to diversify the Aruban economy so as to make it less vulnerable to foreseeable but possibly unavoidable changes.

**I**f the possibility of the refinery's closing was raised in the draft plan and its impact spelled out, why then did the administration choose to ignore it? One part of the answer lies in the special circumstances of the Island's striving for independence and the need to demonstrate economic strength and stability. In this sense only is it true the plan was 'for the Dutch'. Unfortunately, this is only part of the story and in this lies the real tragedy of Aruba.

#### External Manipulation

**T**he recommendation for the Island to prepare a plan (beyond the general post-war pressures for planning which development agencies and ex-colonial powers exerted on developing nations) came from a proposal to the Bestuurscollege in 1975 and a subsequent recommendation of the Dutch Advisory Committee on Development Aid. This latter body apparently considered that the project funding sought by the six islands of the Antilles was overly ad hoc, and based on filial jealousies between the Antillean islands as much as on a systematic appraisal of the islands' developmental needs by the respective local governments. The Council concluded that 'The volume of future Dutch aid to the Antilles must depend not only on the quality of the proposals included in the integrated social and economic plan... but also on the contribution that the islands themselves are prepared to make to the plan's implementation'. A subsequent report by the Mixed Commission on the Future of the Antilles reiterated this position. Not surprisingly, perhaps, a primary objective of the plan expressed by some members of the Island administration was to provide a rationalisation for new substantial development aid projects from Holland.

Work on the plan proceeded on this basis. But with the run-up to the independence negotiations, a new question was raised. Was not Holland trying to trap the Island? Surely, they would argue, an Island in need of so much development aid

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cannot be a legitimate candidate for independence. If this was the case then the Island must demonstrate economic strength rather than economic weakness; and political and social unity of interest and purpose rather than internal divisions or even cultural diversity if this suggested social inequality or racial strife. Thus the preparation of the plan became a game of cat and mouse, with Holland as the cat attempting (perhaps as Holland saw it) to guide the future of the Island, or (as some Arubans perceived) to manipulate the territory beyond independence, just as they had succeeded in Surinam. As one Surinamese planner, Sedoc-Dahlberg, has written of post-independence, 'It would be difficult to find a politically independent country that is so controlled in its planning system by a metropolitan power'.

Even outside the context of independence, in the turbulent Caribbean, any hint of instability can deter potential investors and tourists. To have shown vulnerability at the independence negotiations would have invited the criticism that the Island could not sustain independence. In this situation, Holland would not have granted Aruba even the semblance of a separate political independence, but instead, have insisted that she remain part of the Antilles. While the Dutch Government was not unhappy to lose her Caribbean islands, it preferred that rich Aruba should take over as paymaster for the poorer islands. In addition, there was considerable pressure from the United States and Venezuela (reported, for example in the *Antillen Review*), for reasons of security and influence, to keep the Antillean 'constellation' together.

At the negotiations the Dutch strategy was to manipulate the Arubans into a monetary union with Curaçao, a device which, whatever the apparent degree of freedom in the 'independence' awarded, would leave Aruba even more closely bound to the economic fortunes of Curaçao than before.

Although in principle some freedom for independent economic policy might seem possible, the economic literature on the subject emphasises how difficult it is to maintain an independent fiscal and social policy within a monetary union. In parenthesis it should be said that this tactic by Holland was quite misguided. An appraisal of the Aruban and Curaçao economies reveals striking differences; although they are so often parcelled together, in terms of levels of unemployment, the distribution of value added (between wage and profits), the export earnings of different sectors and so on, there are features which demand different treatment if policy is to be most effective. The policy was based on an exercise of 'will' so characteristic of Holland's attitude (and other European powers') to its former colonies.

#### Internal Self-Deceptions

A second part of the answer lies in the political system of the Island and its interaction with these 'external' forces. The Island government is led by a party which has risen to power some eight years before principally on the slogan of Aruban nationhood. In order to persuade an electorate, who had become accustomed to the 'motherly' apron strings of Holland, of the wisdom of the independence adventure, it had to appear safe and rewarding, hence the emphasis on oil wealth. With the independence negotiations timed by Holland one month before the elections, the Government could afford no risk that

the negotiation would be seen to have failed. It had to deliver the symbols of independence, even if the actual bargain struck would ultimately result in less autonomy. Other political parties were caught in the same trap. So successful had been the propaganda for independence that they too could not afford to gainsay the exercise. For the politicians the stakes were very high; with the expectation of considerable oil wealth, the party that led the Island into independence might hope to stay in power for some extended time. The tension was also high; two months before the election, the leader of the Island Government was 'accidentally' shot by a policeman at an election rally.

One may ask also why the advisors to the Island Government did not bring forward a wider view. Again the answer lies in the political structure of the Island and its history. Although Aruba is a democracy based on the Dutch system, this was superimposed after World War II on top of a political system firmly based on kinship. The administration centres on the power of the government leader, and many civil servants are political appointees, not unreasonably caught up also in the enthusiasm for national independence. Populated as she is by 'insiders' and 'outsiders' — those who belong to the old Aruba and those who do not. 'Outsiders' among the government officials, even in high places and born on the Island, do not want to be the carriers of 'bad news', and risk political marginalisation. It was consequently simply 'inadmissible' to question the viability of the oil refinery or the credibility of off-shore wealth.

The last part of the answer also lies in the ethnic complexities and historical experiences of the Antilles. Most recently, when in the late fifties, the Lago and then Shell refineries began to 'rationalise' their operations, massive lay-offs resulted. The crisis was in some sense comparable to that faced by Aruba today but violence was avoided, partly through the expedience of repatriating non-Aruban workers. However, some of the policies adopted then (such as repatriation) may not exist today. In Curaçao, the change sparked 'unemployment' riots in which race was a prominent issue. The less sensitive approach adopted by Shell, the fact that fewer workers in Curaçao were 'temporary' immigrants, and the opportunity to learn from the treatment of the Lago workforce, all appear to have contributed to the more calamitous situation in Curaçao. Dutch marines were sent to Curaçao and the beautiful capital city of Willemstad was literally set on fire. Such experiences have a long term effect on perceptions of an Island. As we have suggested, even the premonition of them creates unease.

#### After the Event

The closing of the refinery becomes then only one part of the crisis of Aruba. As the above discussion suggests, greater tragedy is perhaps that Aruba is trapped by a combination of external and internal forces which prevent her from facing up to the difficulties and the opportunities which inevitably present themselves. It is possible that, as the *Antillen Review* article suggests, a realisation has now dawned about the urgency of the present situation, but unfortunately this is slightly 'after the event' and does not take account of all its dimensions. The experience of the sixties and the warnings of the seventies could have been heeded.

It would be misleading to suggest that vulnerability of Aruba's economy to the caprice of the oil company was

ignored by the Island Government or by the various studies from Holland and international institutions such as the World Bank. There have been suggestions from all sides that the economy should 'diversify' — indeed Aruba has been considerably better off than many other Island economies with its two major economic legs of oil and tourism (itself an after—the—event response to earlier rationalisation in the oil industry), and the crutch of 'development assistance' provided by Holland. But few of the attempts at diversification have been successful: the great hopes expressed for the chemical industry at its inauguration in the late 1950's came to nothing. Even present efforts to promote Arubanisation of the economy through governmental support of small locally owned businesses are suspect on economic grounds. Here again, one can find explanations as to why earlier enterprises failed, and more importantly, why some succeeded, but this too means looking more deeply into the internal and external relations of the society than is presently done.

**It is of course easy to criticise policies after the event, and it is also reasonable to ask what further could have been done. This question goes beyond the purpose of the present paper, but we can illustrate here some of the steps which might have been important in softening the present blow.**

**F**irst, it is evident that in Aruba practically all efforts at diversification, whether touristic, industrial, commercial or financial, have taken place in the vicinity of the capital, Oranjestad, with the result that Sint Nicolas is still depressed from the crisis of the fifties. The reasoning for this concentration of activity seems to be that potential investors and tourists on their arrival on the Island should experience a 'shiny' entrance. Apparent prosperity inspires confidence and attracts more prosperity, some of which will then 'trickle down' to less shiny parts of the Island. Such a policy is not naive, but it has drawbacks. Because of it the Island is due for a re-run of the earlier experience with the impact regionally and ethnically being unnecessarily uneven.

**S**econd, *discussion* of alternatives is important as a way of preparing for, and mitigating, the impact of foreseeable events. Despite the rationalisation for not doing so (of frightening away investors and tourists), a view which is widely shared in the social psychology literature is that preparation for events, both good and bad, makes them easier to deal with if they do materialise. I emphasise good as well as bad here because the equally dramatic opportunity of oil wealth is one of the possibilities which still has to be examined in a very thorough way. The experience of practically all 'oil rich' countries (neighbouring Venezuela among them) shows how easy it is to squander the income, undermine other key aspects of development, and worsen social distribution.

**T**hird, the Island must learn to read better the signals put out by the many major external actors whose behaviour affects Aruba and provides the context, constraints and opportunities for the Island's further development. While it would have been impossible to *predict* unequivocally the oil companies' behaviour (even the United States government has trouble with that), the strategy and objectives of the company may have been less obscure. The very mixed messages in the erratic performance of the refinery over the last decade could be interpreted in the light of several factors, not least Vene-

zuela's relationship with the oil producer's cartel, the efforts to make the refinery look to a prospective purchaser like an attractive bargain, the realisation that the Aruban off-shore oil is still a distant dream (given the present oil glut and demand recession) and so there is no point staying around. If a government does not want to confront the issues, or does not appear to read the signals well (if only because it does not want to frighten the population with them), it may increase the perception of risk among the very people it wishes to impress with the Island's stability.

**T**his is ironic since so many of the topics to be considered are the currency of every day discourse at some level anyway. When one looks at the Caribbean as a whole, it is evident that people perceive the risks, and probably also exaggerate them for the reason just given. Some entrepreneurs, for example, diversify their operations to become 'mini-transnationalists' within the Caribbean system. Most expect 'payback' on investment in a matter of very few years. Among the Caribbean labour force, 'migration' is an intrinsic component of culture. In Aruba the various social and economic groups adopt their own 'risk-averting' strategies depending on their income and opportunities; the wealthy own property in Miami or open overseas bank accounts; the 'insurance policy' for other people may be less secure, consisting of small farming and goats, migration, welfare and perhaps above all, kinship and clientism.

#### A Way Forward

**T**his need to take account of such factors in order to achieve the 'target' set for planning, is common to small islands and localised communities anywhere. They share the same characteristics; their economies are dominated by a small number of sectors, the largest firms and political events are controlled and manipulated from outside; and a cultural division of labour which is closely identified with the social hierarchy. While sociological and anthropological understanding of the dynamics of these complex multi-cultural societies is improving, and there are some efforts by economists to deal with cultural diversity, it is by no means clear yet what is meant by the 'viability' of such economies. However, it is evident that in many parts of the Caribbean and the developing world this topic has been increasingly addressed. These studies show the only credible way forward.

**W**hy are there no equivalent studies for Aruba? Partly this is explained by the fact that while the Netherlands Antilles is part of the Kingdom of the Netherlands, it is, nevertheless, perceived as a de facto colony. It therefore appears to be something of an embarrassment to many people in Holland, a country which prides itself on appearing as a 'like minded' friend of developing nations. Many of even the best studies by Dutch Caribbeanists such as Hoetink and Goslinga are strangely sanitised with respect to the Dutch connection. In particular, the only extensive historical text on Aruba by Johan Hartog, *Aruba-Past and Present* gives an extraordinarily bland account of cultural divisions in Aruba especially from the time of slave emancipation in the middle of the last century. Although an otherwise excellent history, it leaves us with a myth about the past which generates a myth about the future. All this is related to the legacy of colonialism, and the imposition of an alien culture, through education and otherwise, that for the Dutch colonies meant seeing Amsterdam as the 'centre of the universe'. Even though this

influence was usurped by the United States and even by Venezuela does not change the fact of a misplaced focus.

A second reason for the lack of Aruba specific studies is that the Island has often been viewed very much as a junior partner to Curaçao. Because the Central Government and the University of the Netherlands Antilles are located on Curaçao, most academic study is concentrated there, and when international agencies descend, they concentrate on the problems of the Antillean economy as a whole. Their data and recommendations are naturally weighted by the situation of the dominant economy. This has prevented the situation of Aruba being clearly seen.

The third and most important reason seems to be the different histories of the two islands. The earlier experience of Curaçao alone, and her own narrow escape, might have provided a salutary lesson for Aruba. But while in Curaçao the trauma led to some deeper thinking among the Island community about social relations, in Aruba the response was to close minds to the issue and to view it as a peculiarly Curaçaolean phenomenon — and hope that any latent problems would die away.

There is an urgent need to think this issue through. The collapse of the refinery is a major crisis, but it also presents an opportunity to review the nature of the development process in Aruba, to ask who it is for and what it should consist of. This is not easy since it requires Arubans to re-evaluate their history, to recognise and learn from past mistakes, to accept their diversity of interests and needs and contributions that they can make to the Island's future. Aruba now truly needs a plan which *does* take account of the refinery's demise, but which also demon-

strates clearly that after a number of years there can be a desirable situation for *all* members of the community, and that everyone has a role in its construction. The Island should build forward to an agreed future. Of course there will be uncertainties, but these should not be 'avoided'. Perhaps the exploitation of off-shore oil may still be a realistic opportunity, but the future cannot be built on this alone. Certainly, if the present problem is 'solved' through myth-making or the further polarisation of the community, this is not a solution. ■

The author, Professor S. Cole, presently at the Department of Environmental Design and Planning of the State University of New York at Buffalo, earned his doctorate at the University of Sussex, England and afterwards continued his research at the Cavendish Laboratory, Cambridge. In 1971 he joined the Social and Technological Forecasting Group at Sussex University as Senior Research Fellow, where he co-authored and edited their well known works: *Models of Doom - A Critique of Limits to Growth*, and *World Futures - The Great Debate*. In addition to authoring several books, many articles and research reports, Professor Cole has been consultant to a number of United Nations organizations. He is on the Editorial Board of the journal *FUTURES*, and on the Executive Committee of the World Future Studies Federation.

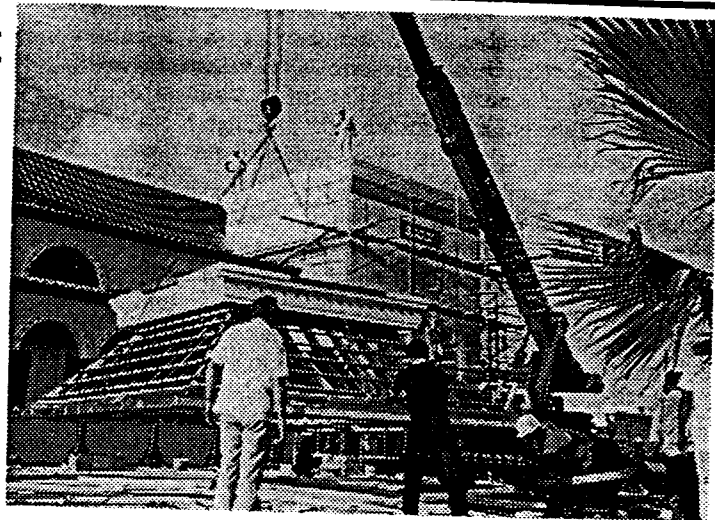
From 1981 - 1983 Professor Cole was in charge of the preparation of the Economic Development Plan for Aruba, and subsequently was economic advisor to the Island Government at her independence negotiations in Holland. His present work in international relations and future studies includes the worldwide regional and distributional impact of new technologies and the problem of planning in a multi-cultural environment.

The article Professor Cole submitted to *Antillen Review* reflects a paper prepared for a seminar on Maui's Economic Future at the University of Hawaii at Kapalua, May 2nd and 3rd 1985. It is based on the introduction to a forthcoming book: *EXXON AND ARUBA - Crisis and Culture in Economic Development*. The views expressed should not be taken to reflect those of any agencies in the Netherlands Antilles with which the author was associated while working in Aruba.

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