

# **TOURISM AND SMALL ISLAND DEVELOPING STATES: PATH DEPENDENCE, LOCK-IN AND HISTORY**

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**Abstract:** The aim of this article is to demonstrate how the conception of path dependence can be applied in island economy research, how it can be correlated with the already worked out models of SIDS economic development: MIRAB, SITE and PROFIT. The application of path dependence conception shows the models in dynamic perspective.

**Keywords:** MIRAB, SITE, PROFIT, SIDS, path dependence.

## **Introduction**

Such global tendencies as decolonization and the spread of international tourism have undoubtedly left some imprints on small island developing states (SIDS) in the past fifty years. The idea of basing the economic development on the tourism industry seemed for some newly independent island states to be the only possibility of international economic exchange. In the light of dependence theories, international division of labour pushed them to further specialization in tourism. Although they are aware of threats resulting from this specialization, more and more SIDS have been entering the international tourism market since mid seventies in the 20<sup>th</sup> century.

The aim of this article is not, however, to present the overall picture of island economies and the role of tourism in these economies, as this would be impossible within the formal limits of this paper. Therefore, the focus is only on the issue of demonstrating how the conception of path dependence can be applied in island economy research and how it can be correlated with the already worked out models of SIDS economic development: MIRAB, SITE and PROFIT. The application of path dependence conception will show the models in dynamic perspective. The study presented in this article is an introduction to further research devoted to a wider area of tourist colonization as an element SIDS economic development.

## **Basic concepts in path dependence analysis**

Although the path dependence conception is growing in popularity in social sciences there is no clear interpretation for its full understanding. There are two approaches to this conception: the wide one and the narrow one.

The first approach holds that the path dependence conception is a form of analysis explaining the contemporary set of phenomena in terms of temporally antecedent events. This approach limits the interpretation to the claim that

“history matters”. It is also common for this approach to identify the path dependence with the process of maintaining the previously selected direction which means reproduction and inertia of the existing trajectory of development [12].

A country or an island, having chosen a particular development path will not abandon it due to high, already incurred costs. Spatial economy and geography research shows that it is particularly true for the so called traditional industry regions, which were locked in fixed development trajectories because their dependence on the existing structures (assets, competences, institutional patterns and power relations) significantly hinders their adjusting capacity in new conditions. The path dependence conceptions adherents define this phenomenon as lock-in effect [10].

The weakness of the first, wide approach is that it does not bring much theoretical input. It only stresses the limiting role of history which in social sciences was expressed by earlier theories: cumulative causation theory [18] or layers of investment theory [15].

In the narrow approach to the path dependence conception two types of problems are being considered: what events are responsible for the beginning of a certain process and what is the cause of reproducing a particular solution. This approach argues that a process may be started by contingent and insignificant events, but the reinforcement of the development direction is predictable and easily explained. This more precise approach claims that the existence of path dependence is possible only when a contingent event gives a new direction to a certain phenomenon. The concept of contingent event requires further defining, as in literature other equivalents may be found (e.g. chance or small/insignificant event). Therefore, contingent event is conceptualized in this paper, as any circumstance, the effect of which is not included in the accepted explicating pattern, thus should be treated as external to that pattern. In this view, contingent events could have the form of an individual decision, not significant enough to have any impact in standard conditions, as well as large scale phenomena: wars, natural disasters or financial crunches. It is worth stressing that a contingent event is not an event without cause, it is only unpredictable within the framework of commonly accepted explicating model [14, 12, 10].

An important aspect of path dependence conception is the fact that the a given process susceptibility to changes depends on the stage it is in. The changes are possible when the structure responsible for a specific direction development is non-convex. In other words, there are two possible, diverse states of balance. The moment in which the phenomenon is in the state of instability is defined as a turning point or critical juncture, which has two aspects: selecting one of the options and reinforcing the selected direction. Thus the sequence of path dependence occurs when there are critical junctures, in which one of the selected solutions is reinforced by cumulative effects. There is no path dependence, however, if it impossible to identify alternative options or if the selected option has not directed the phenomenon on the sustainable trajectory. The concept of

critical juncture is distinctly useful, because it defines the beginning of a given development sequence. [14, 12, 10].

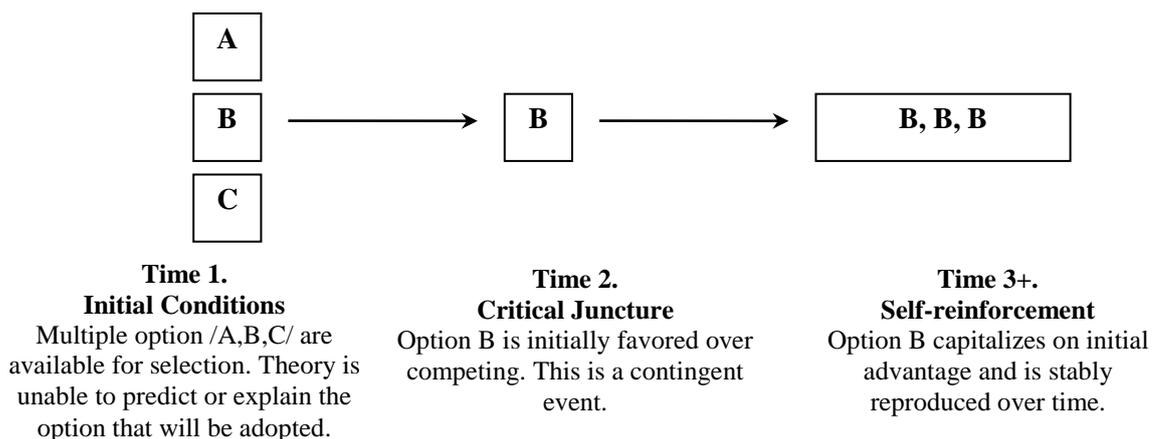
There are two more important concepts in path dependence analysis, namely the concept of self-reinforcing path and the concept of reactive path. The first type of path is “characterized by the formation and long-term reproduction of a given institutional pattern. Self-reinforcing sequences often exhibit what economists call ‘increasing returns’. “With increasing returns, an institutional pattern – once adopted – delivers increasing benefits with its continued adoption, and thus over time it becomes more and more difficult to transform the pattern or select previously available options” [14, p. 508]. The other type of path dependence analysis focuses on reactive sequences, which are chains of temporally arranged and causally interconnected events. This means that each event is, firstly a reaction to a preceding event and secondly the cause of following events. In this case, however, there is no reinforcement of initial events, rather their transposition.

### Path dependence analysis in island economy research

The first type of path (the self-reinforcing one) refers to such situations in which a specific event gives the direction to a phenomenon, a direction which is then reproduced as a result of increasing returns (Fig.1). In this type of sequence the initial choice stimulates a specific development direction, making it difficult or even impossible to leave this direction in the course of time.

Fig. 1.

Illustration of contingency in self-reinforcing sequence



Source: [14, p. 514].

Applying this conceptualization of the self-reinforcing path as a tool in island economy research, it is indispensable to identify the critical juncture, which is followed by the phenomenon of lock-in.

The historically changing economic models of SIDS and their contemporary economic strategies are presented in Tab. 1, which is naturally a

big generalization, because it is easy to find some examples of islands in different stages of economic development, but it is difficult to precisely define the exact moment of the change in the dominating source of income. It is also a kind of simplification that the mining industry (existing only on few islands) is omitted, as well as the processing industry with equally weak representation in the islands.

Tab. 1.

Dominating strategy of SIDS economic development since 15<sup>th</sup> century

Century /years/	Atlantic Ocean		Indian Ocean		Pacific Ocean
	West	East	Mascarene Islands; Seychelles	The rest of islands	
XV.	<b>TA, F</b>	<b>TA, F, PA</b>	-	<b>TA, F</b>	<b>TA, F</b>
XVI.	<b>TA, F</b>	<b>PA</b>	-	<b>TA, F</b>	<b>TA, F</b>
XVII.	<b>TA, F, PA</b>	<b>PA</b>	<b>PA</b>	<b>TA, F</b>	<b>TA, F</b>
XVIII.	<b>PA</b>	<b>PA</b>	<b>PA</b>	<b>TA, F</b>	<b>TA, F</b>
XIX.	<b>PA</b>	<b>PA, TOUR</b>	<b>PA</b>	<b>TA, RP</b>	<b>TA, F, PA</b>
1900-1950	<b>PA, TOUR</b>	<b>PA, TOUR</b>	<b>PA</b>	<b>PA</b>	<b>PA, NSI</b>
1960-1970	<b>PA, TOUR</b>	<b>PA, TOUR</b>	<b>PA</b>	<b>PA</b>	<b>PA, NSI, TOUR</b>
1970-1980	<b>TOUR, NSI</b>	<b>PA, TOUR</b>	<b>PA, TOUR</b>	<b>PA, TOUR</b>	<b>PA, TOUR, NSI</b>
1980-1990	<b>TOUR, NSI</b>	<b>PA, TOUR</b>	<b>PA, TOUR</b>	<b>PA, TOUR</b>	<b>TOUR, NSI</b>
1990-2000	<b>TOUR, NSI</b>	<b>PA, TOUR</b>	<b>PA, TOUR</b>	<b>TOUR</b>	<b>TOUR, NSI</b>
2000-	<b>TOUR, NSI</b>	<b>TOUR</b>	<b>PA, TOUR</b>	<b>TOUR</b>	<b>TOUR, NSI</b>

TA - traditional agriculture; PA - plantation agriculture ; F - fishery; NSI - new source of income /the elements of MIRAB and PROFIT model/; TOUR - tourism /the element of SITE model/; **In bold** - main type strategy of economic development.

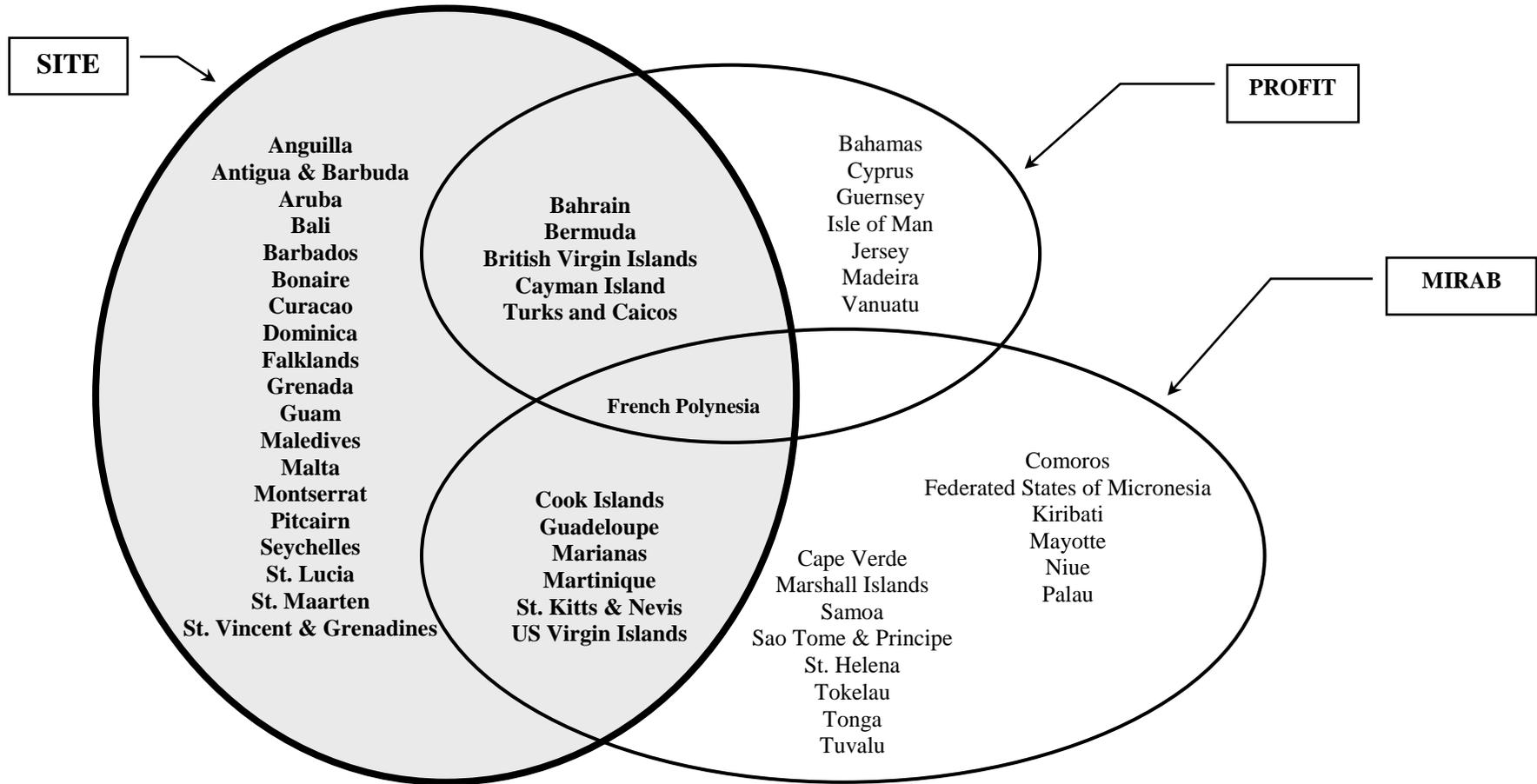
Source: [13, p.171].

This general picture shows that the critical juncture for SIDS could be the moment of decolonization when the newly independent states started to look for a new development path, which in the course of time was self-reinforced. It is, however, too big generalization, because path dependence analysis should be applied individually and with other historical considerations. This individual analysis may answer the question whether an airport construction, laying sea-bottom cables, the location of a military base, or the construction of first tourist resorts were the critical junctures, responsible for the reproduction of the process.

Therefore, the aim of this research is not to find a common critical juncture for SIDS development, but to describe the paths in which SIDS were locked in. This description is based on the MIRAB, SITE and PROFIT models of SIDS economic development strategies (Fig. 2).

Fig.2 .

### A taxonomy of SIDS

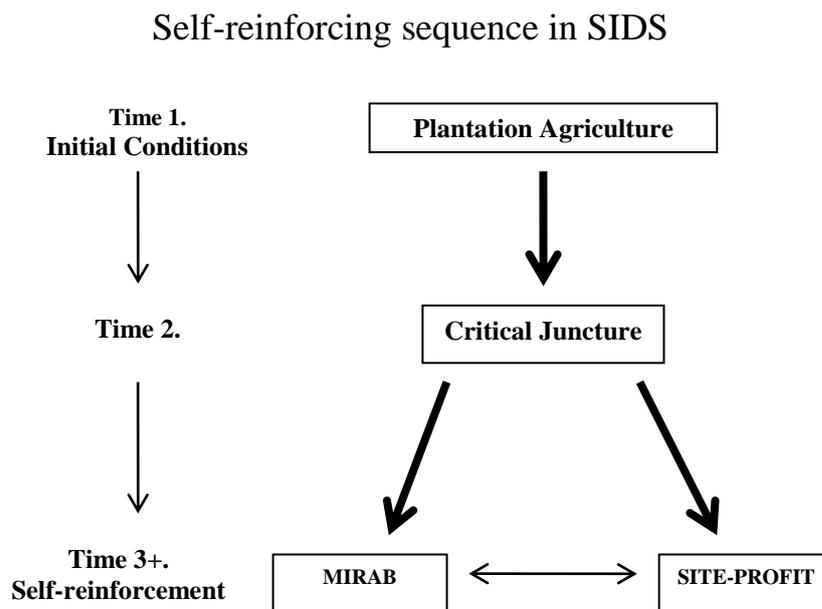


Source: [3, p. 7].

The MIRAB (migration, remittance, aid, bureaucracy) model is built around two levels of relations. The first is the relation between local community and those who migrated and remit money back to the island. The second relation, effected in the form of aid, is between international organizations or metropolitan patrons and the bureaucracy of the independent state [7, 2, 8, 6, 4, 3, 5]. The SITE (small island tourism economies) model is built on tourism development as the dominating source of income [16]. And finally, the PROFIT (people consideration affecting citizenship, residence and employment rights, resources management, overseas engagement and international recognition, finance, insurance and taxation, transportation) model is built on the creation of tax havens and off-shore financial centers [1].

The analysis of the above three models of SIDS economic development may bring us to the conclusion that after the critical juncture, island economies were directed into two opposite paths [17, 19]: one typical for the MIRAB model, and the other, “touristic” path typical for SITE and PROFIT models (Fig. 3).

Fig. 3.



Source: [14, p. 514; 1, p. 55].

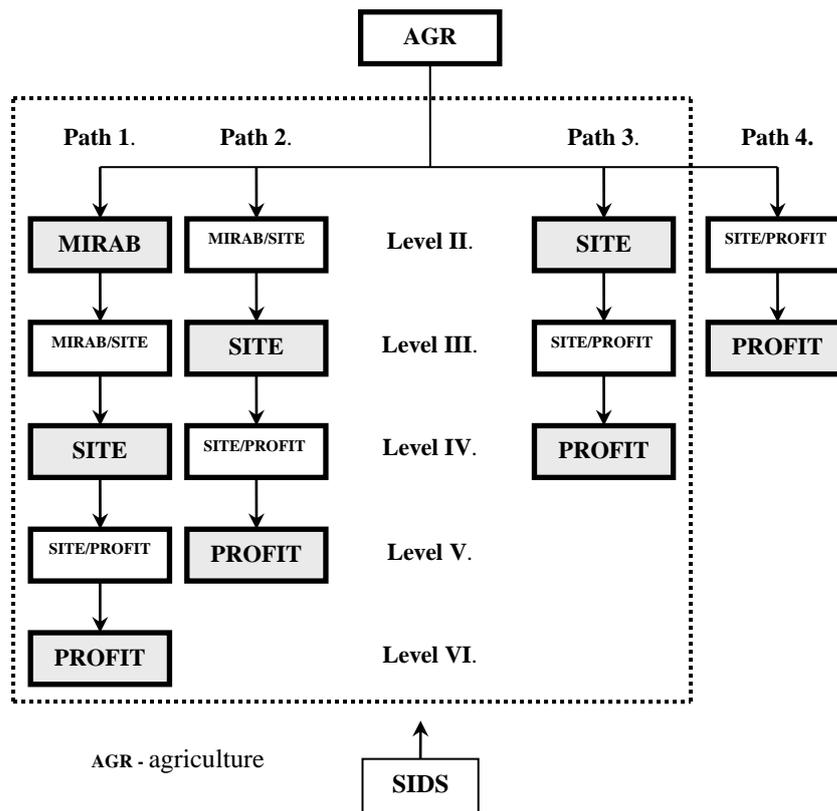
The lock-in of a particular path, especially the “touristic” requires further explanation, in terms of investigating hypothetical economic development paths. The lock-in is a result of once selected solutions (e.g. tourism infrastructure development), which in due course bring more and more profits, at the same time limiting the possibilities of alternative effects. This phenomenon is usually explained in utilitarian terms, because the costs of implementing another solution would exceed the expected benefits. It can be explained in functional terms as well, because the reproduction of existing institutional structure may serve the interests of the elites or authorities or it may have a legitimization power because it is – commonly believed to be right.

The question is, if – in the case of island economies – there are any alternative solutions. Can SIDS really find any alternative solution with their inventory of constraints – “no advantages from economies of scale; a limited range of resource; a narrowly specialized economy; based historically primarily on agricultural commodities; limited ability to adjust to changes in the international economic environment; high transport, infrastructure and administration costs; cultural domination by metropolitan countries”[11, p.64] – Aren’t SIDS automatically put into a form of Dutch Disease [9]? The analysis of SIDS specialization in world economy shows certain specific pattern.

Island territories which have relatively advantageous geographical location (close to the core, i.e. highly developed countries) have relatively quickly and sooner than others followed the cycle from agriculture through tourism to tax havens (Fig.2, Fig. 4). The examples of Guernsey, Jersey and The Isle of Man can be quoted here. However, SIDS covered this cycle later and in a longer period of time. This group includes: Bahamas, Cyprus, Madeira and Vanuatu.

Fig.4.

Hypothetic economic development paths in SIDS



Bahrain, Bermuda, British Virgin Islands, Cayman Island, Turks and Caicos are in the third group, which follow this cycle even later and are currently in the stage between the SITE and PROFIT model. They are supposed to go in the PROFIT direction. The next group of states is currently in the stage of SITE model, including Anguilla, Antigua & Barbuda, Aruba, Bali, Barbados,

Bonaire, Curacao, Dominica, Falklands, Grenada, Guam, Maldives, Malta, Montserrat, Pitcairn, Seychelles, St. Lucia, St. Maarten, St. Vincent & Grenadines. This group, reproducing the “agriculture → tourism → tax havens” pattern will most probably develop services typical for the PROFIT model.

The remaining islands (Cook Islands, Guadeloupe, Marianas, Martinique, St. Kitts & Nevis, US Virgin Islands) are either in the stage of MIRAB/SITE model or are locked in the MIRAB model (Cape Verde, Marshall Islands, Samoa, Sao Tome & Principe, etc.). The latter ones in an attempt to imitate other island states and break the stagnation period are currently waiting for their critical juncture and will most probably follow the same cycle. If they don't, they will be locked in the MIRAB model path.

## **Conclusion**

The aim of this hypothetical and generalized reflection was to show the MIRAB, SITE, and PROFIT models of SIDS economic development in dynamic perspective. These states which are locked in the first model have a much lower economic development than those which have adopted the SITE-PROFIT strategy. Locking in the “touristic path” leads to economic development – financial, banking services etc. typical for the PROFIT model are included in the broadly understood tourist product, thus there is no contradiction, although the two models are separated. This economic development is based on relatively risky specialization – both in the case of “touristic path” and offshore financial centers. It is worth making a rhetorical question here – what else can SIDS specialize in? There are numerous examples of other small states, which have had a sustainable success (high level of economic development) in this specialization – English Channel islands (Guernsey, Isle of Man, Jersey) or continental Monaco, Lichtenstein, San Marino or Switzerland. In spite of varied geographical, historical and social conditions, some economy scholars and economy politicians tend to regard these states as exemplary and worth copying. Therefore the special role of the tourism industry can be seen as an indispensable stage in the economic development.

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