

Expanding the Production Possibilities of the Bahamas

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Abstract

The current economic crisis and other international developments have not spared fiscal paradises such as The Bahamas. Both tourism and financial services, the two main pillars of the Bahamian economy, have been affected. Along with the country's upcoming membership in the World Trade Organization, these events call for a policy change. The main task of this paper is to examine promising sectors and activities that can expand the production possibilities of the Bahamian economy and to identify policy arenas on which a "national purpose" framework may focus if fostering of endogenous development in the country is to be achieved.

Keywords: Production possibilities, developmental strategy, industrial targeting, The Bahamas

1. Introduction

The Bahamas is an archipelago of approximately 700 islands, cays, and islets covering 100,000 square miles in the Atlantic Ocean. The country has a politically stable climate and a democratic government, and derives its political and legal traditions from the United Kingdom (UK). It constitutes a tax haven where no personal, corporate income, capital gains, sales or inheritance taxes apply (Karagiannis, 2002a). These important factors coupled with the country's proximity to the United States have brought about notable economic gains, i.e., a significant increase in the level of national income and living standards, which places it among the highest per capita income countries in the Western Hemisphere (Higgins, 1994). However, the recent economic crisis and other international developments clearly affect the economic reality in The Bahamas so that exploring alternatives that will foster local development for the country becomes once again imperative.

The paper comprises four main parts. Part II offers an overview of past development efforts in The Bahamas. Part III explains how some international developments affect The Bahamas or will affect it in the near future. Part IV examines promising sectors and activities that can expand the production possibilities of the Bahamian economy. Part V identifies development promoting policy arenas on which a "national purpose" framework must focus if significant growth of local production lines is to be achieved. Some brief conclusions end the paper.

2. Past Development Efforts

Development efforts in The Bahamas are far from new. From the latter part of the 18th century until the early 20th century, The Bahamas successfully demonstrated the capability to produce large volumes of produce for both the domestic and foreign markets, and Bahamian agriculture became a successful competitor in the world market. Before 1960, farming in The Bahamas was referred to as a peasant industry. But in the 1960s, the agricultural and agro-industrial sectors were viewed as important economic activities. However, although agriculture was seen as the sector to absorb an expanding labor force, the country concerned the British Colonial Office since agriculture was not producing the staple food supply of the mass of the people nor could it accommodate the surplus manpower (Eneas, 1998, p. 45).

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Also in the 1950s, the attraction of offshore US multinational corporations to the islands of the northern Bahamas was critical in terms of providing employment in the lumber industry and cash crop production on the islands of Andros, Abaco, and Grand Bahama (Eneas, 1998, p. 24). In fact, since the early 1950s, apart from subsistence and small cash crop farming, there were several large offshore companies –highly capitalised and commercial agro-industrial firms in operation. These foreign-owned companies represented large-scale commercial farming in The Bahamas (Eneas, 1998, p. 17). They employed substantial numbers of Bahamian workers, introduced new technologies, displayed new management skills and expertise, and generated foreign exchange for the colony, particularly those businesses which were engaged in exporting. The export market was supplied by several American offshore corporations. After 1960, more companies joined the ranks of the large-scale agricultural enterprises (e.g., fruits and vegetables, dairy products and poultry). The hope was that these companies over time would turn towards agro-processing activities, or by their presence encourage foreign interest in this sector. The trend continued with very limited success through the 1970s, 1980s and 1990s (Eneas, 1998, pp. 42-43).

However, these foreign-owned companies engaged in little processing and established few linkages with the other sectors of the Bahamian economy. Foreign capital really could not objectively promote significant industrial development in The Bahamas because of the way in which the social elite, government and merchants bestrode the local economy. Besides, Britain, and later the USA, have never encouraged industrial development in The Bahamas.

After World War II, the country entered a new era of economic development, as tourism became the engine that propelled the Bahamian economy. With the emergence of tourism in the 1960s, and given the relatively lower returns from agricultural activities, “there has occurred a natural and rapid movement of manpower resources away from the latter to the former” (Ramsaran, 1983, p. 32). Consequently, both agriculture and manufacturing were downgraded within the new development thrust, while commerce dominated production (Marshall, 1998, p. 70).

Still, successive governments of The Bahamas have realised that the local economy is extremely vulnerable to foreign activities and external factors as a result of its heavy dependence on tourism and financial services. Thus, although economic decision and policy-makers in The Bahamas believe that tourism will remain the “engine” which drives the Bahamian economy, the growth of primary production has also been taken into consideration. Indeed, since the late 1960s, the government enunciated various efforts and policies, which were:

1. to sustain and improve local production of food stuffs for the benefit of primary producers and to diversify the economy; and,
2. to plan the future development of agriculture and fisheries in order to secure a greater measure of national security in food supplies consistent with keeping living costs as low as possible (Eneas, 1998, p. 48).

Besides, deliberate government attempts to foster industrial development and attract foreign direct investments by offering various tax incentives can be traced back to 1951 (*Industries Encouragement Act No 27 of 1951*), with a view to encouraging manufactures, aiming mainly at foreign markets. In 1955, more incentives were provided in the form of the *Hawksbill Creek Agreement*, which offers exemption from taxes on income, capital gains, real estate and property until 1990 as well as exemption from customs duties (except on imports for personal use), excise and stamp duties until 2054 (Ramsaran, 1983, p. 23). In 1970, in the wake of growing concern over the heavy dependence on tourism, the government adopted a new *Industries Encouragement Act (No 10 of 1970)* which, in addition to granting freedom from import taxes and duties on essential means of production (e.g., plant machinery, tools, equipment, raw materials), offers complete exemption on all earnings for 15 years to approved enterprises. But given the absence of income and corporation taxes in The Bahamas, this latter incentive is rather a guarantee (Ramsaran, 1983, p. 23).

Moreover, the second largest city of the country, Freeport in Grand Bahama, is the place where almost all the industries are located. Freeport, as the name implies, was first conceived as a “free port” by the American citizen Wallace Groves, who saw enough potential for a major venture (due to the proximity to North American, Caribbean and Latin American markets). To carry out his plans in 1955, the government gave to his company (the Grand Bahama Port Authority) “exclusive rights to develop 50,000 acres of unused Crown lands, control over employment, special powers to administer the free trade zone until August 2054, and tax incentives as were provided under the Hawksbill Creek Agreement” (Ramsaran, 1983, p. 30).

However, within five years of the signing of the original agreement, not only did the area under the Port's control increase to 138,000 acres (about 40% of the island of Grand Bahama), but the project itself took on a more ambitious dimension, extending its scope from a more or less strictly industrial and commercial complex to the construction of resort facilities and residential and shopping areas including the development of golf courses and other social amenities. With the introduction of casino gambling in the early 1960s and the construction of a deep water harbour in addition to the provision of certain basic infrastructure such as water, electricity and telephone services, the area soon developed a phenomenal momentum which continued until the end of the 1960s.

The number of visitors to Freeport increased from (around) 27,000 in 1963 to more than half a million in 1971, while the population itself swelled from as estimated 150 in 1956 to over 15,000 in 1970. Of the latter figure, it should be noted, more than half are of foreign origin, brought in to run the industrial and commercial concerns located in the area (Ramsaran, 1983, pp. 30-31). In the late 1960s, the new political administration gave notice of its intention to re-establish control over immigration in the Freeport Area and to amend the Hawksbill Creek Agreement, if found necessary to do so. This decision however, not unexpectedly, created a great furor, the reverberations of which are still being heard, as the critics of the administration seek to attribute the downturn in activities in the area (and the loss of momentum during the 1970s in this industrial enclave) directly to the government's action which was carried out in 1970 (Ramsaran, 1983, p. 31).

Overall, production-oriented endogenous competency programmes for the agriculture and agro-industrial sector have been few, and the elements of a successful agricultural sector in The Bahamas are still absent. Since the early 1970s, figures and statistics show that the share of the foreign-dominated manufacturing sector in the country's total domestic exports is extremely high and, therefore, clearly illustrate the importance of these industries in the export trade of The Bahamas. Indeed, the contribution of the manufacturing sector *vis-à-vis* tourist related activities is undoubtedly very insignificant. Besides, available statistics clearly suggest a disappointing performance of the Bahamian agricultural and agro-industrial sectors during the last five decades or so, which has been bedevilled by superficial (in scope and nature), partial, inconsistent and unsuccessful policy-making as well as harmful political interference.

3. International Developments Affecting the Bahamas

Several international developments affect The Bahamas, including the country's upcoming membership in the World Trade Organization, its excessive reliance on tourism, and the impact of Tax Information Exchange Agreements on its financial services.

3.1 Upcoming Membership of the Bahamas in the World Trade Organization (WTO)

The WTO is an international organization dealing with rules of trade between nations. Its objective is the elimination of trade barriers. The majority of countries in the world (153 in number) are members of this organization (World Trade Organization, 2008). The Bahamas is not a member of the WTO but is applying to obtain member status. Although its application is still pending since 2001, progress in this direction has been made (World Trade Organization, 2010).

When The Bahamas joins the WTO however, it will be obliged to significantly reduce its trade barriers, including its import duties since the organization requires its members to do so in order to facilitate international trade (Lowe, 2010a). This will result in a drastic decrease of import tariffs and fees which currently constitute the major source of government revenue (US Department of State, 2010). Most countries acceding to WTO membership have an average import tariff rate of between 9 and 20%; the average tariff rate for The Bahamas is 33% (Lowe, 2010a). This difference is currently justifiable if we consider that the country imposes no taxes on incomes or on corporate profits.

How will the Bahamian government compensate for its loss of income after becoming a member of the WTO? Most people think that this will lead to a drastic tax reform at the domestic level. Some talk about the imposition of personal and corporate income taxes while others opine that the latter solution is less likely and that, instead, there will be imposition of a consumption or a sales tax on purchased goods. In a certain way, The Bahamas has already been slowly introduced to the WTO reality with the Economic Partnership Agreements (EPAs) (European Commission, 2010) which was signed with the European Commission of the European Union regarding the trade of goods (2008) and the trade of services (2010) (Coward, 2010a). Other Caribbean Forum (CARIFORUM) countries have done likewise (European Union, 2010).

These agreements are the result of the “Banana wars” between the European Union and the United States since the 1990s. They are intended to eliminate, in the long run, trade preferences accorded by the European Union to the African, Caribbean and Pacific (ACP) group of countries on the basis of the Lomé Convention in order to comply with the rules of the WTO. Although the EPAs are not expected to affect significantly the Bahamian economy, they are an introductory step to the WTO reality (Lowe, 2010b).

3.2 Excessive Reliance on Tourism

Today, the two pillars of the Bahamian economy are tourism and financial services. Tourism and tourism-related construction and manufacturing provide an estimated 60% of the gross domestic product (GDP). In 2010, 4.5 million tourists visited The Bahamas, 85% of whom came from the United States. The mentioned percentage is quite representative of the country’s dependence on U.S. tourists. Generally stated, the Bahamian economy is inextricably linked to the economy of the United States. Tourism employs, directly and indirectly, about half the Bahamian work force (US Department of State, 2010). Or at least it did, since the sector has suffered greatly beginning in 2008 due to the financial crisis in the U.S. and worldwide. As a result, many people working in tourism lost their jobs (Caribarena, 2009). The effect of the heavy dependence of The Bahamas on U.S. tourism and economy is that any financial, political or other agitation in the USA is immediately felt in the Bahamian economy through a decrease in tourism, investment and loss of jobs. This is particularly true now that the U.S. is going through a severe economic crisis (Economic Commission for Latin America and the Caribbean, 2009).

Tourism has not always been as developed as today in The Bahamas. Before the Second World War, about a third of all Bahamians were farmers –a figure which fell to about 10% by the 1950s (Smith, 2008a). In the years after 1945, tourism was heralded as the avenue to prosperity. As a result of the shift in policy, people started seeking employment in the tourism sector rather than working in the field and, with time, farmers were diminishing in numbers. Indeed, in 2005, there were only about 1200 people classified as farmers in the entire country (Smith, 2008a). Today, agriculture and fisheries together account for about 2% of the Bahamian GDP (US Department of State, 2011).

3.3 Financial Services and Tax Information Exchange Agreements (TIEAs)

Financial services constitute the second main pillar of the Bahamian economy, accounting for up to 15% of GDP, due to the country’s status as a tax haven and offshore banking center (US Department of State, 2011). The chain of islands is strategically placed to offer offshore financial services. Located close to the USA, and not far from Canada and neighboring South America, it is attractive in the eyes of many.

The Bahamas has always viewed bank secrecy as necessary for economic development and any weakening of it threatens essential public interest (Erbstein, 1995). In effect, bankers in the island chain have common law and statutory duties of non-disclosure of their client’s bank-related information to the extent that disclosure is not compelled by other domestic laws.

Bank secrecy laws create an obstacle to the supervision of securities markets. Countries try to protect investors’ confidence in the integrity of their securities market by enacting laws that enable public or judicial authorities to conduct investigations into alleged securities violations. In this way, in the case of an alleged violation, any trading record from any broker and dealer located within the territorial limits of these countries can be obtained. With the globalization of securities markets, investors are placing their money in foreign jurisdictions. The danger of securities violations at the international level becomes obvious. In order to deal with such violations, national authorities need the tools to investigate claims against investors in foreign countries such as tax havens. However, when trying to gather the same information from haven jurisdictions, non-disclosure barriers are encountered in the form of laws or principles that shield bank secrecy and the information in bank trading records.

The international community responded to the internationalization of markets and the necessity to prevent fraud beyond territorial limits by the signing of tax information exchange agreements (TIEAs) (Organization for Economic Cooperation and Development, 2011). A tax information exchange agreement is a bilateral agreement pursuant to which two countries undertake to exchange tax information that is relevant to the administration and enforcement of the domestic tax laws of each country (Department of Finance Canada, 2011a). The initiative was taken by the Organization for Economic Cooperation and Development (OECD) in order to promote international co-operation in tax matters through exchange of information and avoid harmful tax practices. TIEAs hurt tax havens and their secrecy laws by imposing transparency.

Under pressure from the international community, many jurisdictions signed the TIEAs, including The Bahamas (Organization for Economic Cooperation and Development, 2011).

For tax havens such as The Bahamas, TIEAs invite a change in the domestic policy. What should a change in policy involve? Answers focus on the need to seek new areas that will attract foreign investment and, perhaps, the possibility of imposing low personal and corporate income tax. These possible answers along with endogenous development options are being discussed in the following sections.

4. Searching for Promising Sectors and Activities

It is necessary to specify key dynamic propulsive sectors and activities towards expanding local production lines and improving endogenous competency and competitiveness of the Bahamian economy as the situation we have presented so far does not paint a pretty picture of the current economic reality in The Bahamas. Presently, Bahamians feel the economic crisis through a reduction in tourism, investment and jobs. The signing of the TIEAs hurts The Bahamas as a fiscal paradise and the upcoming membership of the country in the WTO would reduce government revenue. The path that The Bahamas is following calls for a change in policy. What could change? Which areas can foster development in the country? The suggestions made herein emphasize a rigorous sectoral targeting and are intended to serve as a tool of diversification of the Bahamian economy alongside further development of tourism and financial services.

4.1 The Maritime Bahamas –A Vision of a Major International Maritime Crossroad

The Bahamas relies heavily on maritime transportation for importing-exporting goods and for serving its tourist industry. Virtually all imports in The Bahamas arrive by sea from Florida ports given that sea transportation is the slowest but the most cost effective means of transportation of cargo world-wide (Coulson, 2003). Although most of the vessels in the Bahamas are foreign-owned, a substantial Bahamian owned industry has developed to provide container handling, stevedoring, customs brokerage, and local delivery. Foreign interests have also put money in the development of container ports in The Bahamas. This is the case of the Hutchison Whampoa Group from China and its major investment in Grand Bahama which is transforming the harbor area and adjacent airport by creating a multi-acre container port, cruise-ship terminal and repair facility with floating dry-docks, to be followed by a duty-free limited-access warehouse and transshipment zone.

The Bahamas is also a vessel registration hub. Even though ship registration is a relatively new business, the country is currently one of the largest shipping flags in the world. Many respected international ship-owning companies use the Bahamian flag, including Exxon International, Maersk Line, and Carnival Cruises. The Bahamas Maritime Authority, the body in charge of ship registration in The Bahamas, has offices in Nassau, New York, the U.K. and Hong Kong (the latter office was inaugurated on 25 October 2010) (BIS, 2010). Vessel registration is likely to show strong growth in the future, at a pace of 8-10% per annum (Roy, 2010).

In total, it is estimated that maritime affairs represent today a vital 20% of the Bahamian economy (BIS, 2010). This is substantial for a developing country such as the Bahamas. However, the potential for growth in this sector is enormous as it can benefit the Bahamian economy and can employ many Bahamians. Today, despite the large ship registry, very few Bahamians work in the shipping industry (Birt, 2008).

What we are envisioning when talking about the maritime Bahamas involves taking advantage of the potential for growth of its maritime sector in order to make the country an international maritime crossroad not only for ship registration, import and export of goods and tourism, but also for international cargo transit, services connected to ocean carriage such as freight forwarding, logistics, technical advice, vessel repair, protection of marine environment, maritime security, arbitration of disputes, maritime conferences, and other related activities. We are talking about a vision that involves creating a national maritime policy that will provide the right incentives and the necessary funds to make The Bahamas a major international maritime hub. In effect, a place where foreigners will look for advice on maritime transportation issues because the country has the right infrastructure, competent business providers, technical personnel and research centers to answer any questions and meet all needs arising in these fields. Creating a strong maritime sector in the country will not only be logical for a nation surrounded by sea water but it will also lead to economic development by providing a center that will serve an international clientele, and will attract foreign interests and foreign investment. Making The Bahamas an international maritime crossroads will create an important safety net for the Bahamian economy since international maritime transportation of goods continues to grow even in hard economic times.

In effect, in 2008 and 2009 (United Nations Conference on Trade and Development, 2009; Middle East North Africa Financial Network, 2010) –two years of deep economic crisis worldwide- international seaborne and container trade continued to grow, although at a slower pace than before. Strong growth rates are marked for 2010 while the long term forecast for shipping remains very good as maritime transportation constitutes the most cost effective means for transporting goods worldwide, while world population continues to expand along with the international demand for goods (United Nations Conference on Trade and Development, 2010). In this way, The Bahamas would be like the entrepôts of Hong Kong and Singapore, both of which are among the countries with the highest living standards despite their very limited natural resources.

Investing in maritime transportation, related services, education and research will also create employment for a large number of Bahamians. In 2009, Germany, a coastal port and shipping nation, has confirmed the unlimited potential of the sea, and the country has recently issued guidelines for a “maritime development plan” as part of the integrated German maritime policy to take advantage of the hidden treasures of the sea. The guidelines state (European Union, 2009):

In recent years, there has been increasing general awareness that the seas offer previously undreamt of economic and technological opportunities for securing and creating sustainable employment, not just in coastal regions. The maritime industry and marine research open up prospects for new, highly skilled and secure jobs throughout Germany.

The Bahamas is not Germany in economic terms but has more valid reasons than Germany to develop a national maritime policy given the predominance of the sea in the island chain and the use of ocean traffic for its imports and exports. Moreover, the location of The Bahamas is ideal for catering to international maritime transportation needs. The country is conveniently placed between North and South America, neighbors the Atlantic Ocean which connects to Europe and beyond, and has enough land and natural ports in its different islands to provide the space needed for related maritime activities. Why leave these natural gifts unexploited?

The realization of the maritime sector’s potential for growth is present at the governmental level. The College of The Bahamas (COB) Marine and Environmental Studies Institute focuses on research and monitoring of the marine and environmental resources as well as providing policy options for natural resource management (The College of The Bahamas, 2010). The Bahamas Minister of the Environment, Mr. Earl Deveaux, has recently stated that long-term growth and development in The Bahamas can be achieved through the maritime sector. The recent expansion of the Bahamas Maritime Authority in China and the presence of Chinese investment in Grand Bahama also confirm the interest of the Bahamian government in the maritime sector. Since 2009, the Bahamas Maritime Authority in association with the Bahamas Ministry of the Environment have been hosting the annual Bahamas International Maritime Conference and Trade Show (BIMCATS) seeking to unite industry professionals from all sectors of the maritime industry to make them aware of the boundless opportunities available in the country (Bahamas Financial Services Board, 2010a, b). It is hoped that these initiatives will only constitute a first step towards making The Bahamas a major international maritime crossroad with the necessary affiliated services, policies and educational tools to serve it.

4.2 Solar, Renewable Energy

Renewable energy solutions i.e., the use of solar energy, constitutes another area of interest. Although the use of solar or other renewable energy has been the object of talks and some action for years in The Bahamas, until 2006, the possibility of producing energy from the sun was deemed underexploited (*Developing Renewables*, 2006).

A recent report elaborated by Haley & Aldrich, a leading geosciences firm located in the U.S., has shown that out of a half-dozen renewable technologies (including wind, ocean thermal, tidal, ocean current and biomass) using the sun to produce energy is the best bet for The Bahamas. The report has also stated that the amount of solar energy reaching the ground in The Bahamas is higher than that present at locations in Nevada, Spain or Germany, where large-scale solar generating systems have been installed in recent years (Smith, 2007). Between 2001 and 2007, the value of oil imports grew from 273.3 to 802.2 million Bahamian dollars. This solar power or other renewable energy solutions can save the government millions of dollars currently spent on the import of oil used to generate energy (Bahamas Environment, Science, and Technology Commission, 2008). Moreover, investing in renewable energy may considerably reduce unemployment (Lehr, 2008).

These are not unimportant considerations if we take into account that the Bahamas Electricity Corporation (BEC), which supplies with electricity 85% of all Bahamian consumers, uses imported oil to generate electricity.

In 2008, the Bahamas Government National Energy Policy Committee drafted a report on a “National Energy Policy” aimed at inviting written submissions with the vision to stimulate debate on a national energy strategy (Bahamas Environment, Science, and Technology Commission, 2008). In the same year, the BEC, driven by the fear that escalating oil prices and supply problems could disrupt the Bahamian economy, started inviting proposals for renewable energy power purchase agreements in several technologies. This initiative was viewed as a drastic policy shift at the time (Smith, 2008b).

The BEC is still pursuing alternative energy exploration bids, among them, the use of solar energy. The delay is not without justification. It is understandable that it is hard to choose which source of alternative energy will work best given the geography of The Bahamas and also to establish the regulatory, policy and research framework to address such a shift. On the other hand, however, considering the rise in fuel prices and the current state of the Bahamian economy, delaying to make decisions does not constitute a solution (Robards, 2010; BIS, 2010).

In mid-2010, a German consultant concluded, in part, that The Bahamas can benefit from solar energy. His findings persuaded the Bahamian government to sign a contract for the installation of solar photovoltaic cells and solar water heaters on test homes in government communities (Robards, 2010). Efforts are still continuing in this direction through the organization of forums, conferences, and the drafting of reports on renewable energy. This is a step in the right direction. Further change needs to be made so that dependency on foreign oil can be reduced.

4.3 Developing Significant Food Production – New Agriculture

Our third area of interest is food production, not so much because of its potential for growth in The Bahamas but rather because of the need to attain self-sufficiency, an objective that we believe all nations should seek. At present, more than \$250 million in foodstuffs per year, representing about 80% of local food consumption, is being imported to The Bahamas (US Department of State, 2010). The overwhelming majority of food and agricultural products in the country is being sourced from the United States (US Department of Agriculture, 2009).

Agricultural production in The Bahamas focuses on four main areas: crops, livestock, poultry, and dairy. Poultry, winter vegetables and citrus fruits are the mainstay of the agricultural sector, which is concentrated in Abaco. Exports consist mainly of grapefruits, limes, okra, papaya, pineapples, and avocado (*The Bahamas Guide*, “Agriculture in The Bahamas”). As we have already seen, agriculture is not particularly developed in The Bahamas: along with fisheries it represents 2% of the Bahamian GDP. The country relies on imports of agricultural food to feed its people.

Yet, the talk on self-sufficiency is not new. Political parties in The Bahamas come back to it time and again. Several attempts towards developing farming have been made in the past but none of them have been successful either because of the disinterest of locals in this type of business, costly irrigation, natural disasters or other related reasons (Smith, 2008a). However, several of these attempts have worked for quite a long period of time before being abandoned, mismanaged, or hit by a natural disaster or disease.

Apart from these reasons, there is also the realization in The Bahamas that the country cannot produce food cheaper than other big exporters of agricultural commodities such as the USA, the EU, or Latin American countries. Today, governmental subsidies of some agricultural sectors exist in The Bahamas in an attempt to promote self-sufficiency (especially in poultry and pork production), but they result in food production that is more expensive than importation of food (*The Bahamas Guide*, “Agriculture in The Bahamas”). What is the point, then, of trying to develop a vibrant agricultural sector?

Reducing dependency on other nations and providing for the needs of the people are sufficient reasons. There are countries that have learned the lesson of self-sufficiency the hard way. Reference is made here to the development of the European Community (now European Union) Common Agricultural Policy (CAP). The CAP is a policy on agriculture that is determined at the EU level by the governments of member states. Fifty years ago, the emphasis of the European Community was on providing enough food for a Europe emerging from a decade of war-induced food shortages (European Union, 2010). In effect, in the 1950s, societies across Europe had been damaged by years of war, agriculture had been crippled and food supplies could not be guaranteed.

To ensure a stable supply of affordable food and better agricultural productivity the CAP was created. The CAP was very successful in meeting its objective of moving the European Community towards self-sufficiency from the 1980s onwards (European Commission, 2010).

What is the relationship between the situation of the EU in the 1950s and The Bahamas today? At first sight we may fail to see any connection between The Bahamas and the creation of the EU CAP policy. The size, geography, resources and development of the two entities bear no comparison to one another. However, although it may be true that The Bahamas is not a regional entity as the European Union is, the point we want to make does not relate to the size, geographical location or (financial) resources of the European Union but rather to the conditions under which the CAP was developed. National or international calamities such as war or economic crisis may cripple a nation. In case of a food shortage, The Bahamas should be ready to confront it. The EU was not ready fifty years ago and it realized this after it went through a period of serious food shortages. No nation should ever have to deal with such situations but, if they must, they should be prepared to do so.

Globalization clearly demands being competitive in the global marketplace if agro-industrial activity is to survive in a trade liberalized atmosphere. Farming, including organic farming, must be viewed as a business. In essence, agriculture must be synonymous with agri-business, from which agri-food enterprises (be they micro [small], medium or larger) will form the productive units to drive the sector (what Eneas (2009) calls “New Agriculture”). Funding for the sector can be organized on an enterprise basis, thereby impacting individual Family Island Administrative Districts at the community level. This would improve farmer incomes and act as a catalyst to assist in the alleviation of poverty in all Family Islands. To be eligible for Enterprise Funding, specific criteria will have to be met and the enterprise will have to fit in the overall agricultural development plan of the sector. Fundamental qualifications for enterprise funding will be competitiveness, capacity to establish linkages to tourism, and the firm’s ability to be a part in the drive to enhance the national capability to achieve greater food security.

New Agriculture demands a new understanding, a new appreciation for the sector, and new role for Bahamian agriculture in a globalized 21st Century. Agriculture

can no longer be seen only for its economic importance or as a welfare mechanism to protect the inefficient. Forward looking means that the sector is not seen purely in terms of food production but as a sector that has a “multi-functional” role to play. This means that issues such as conservation of the landscape and wildlife, protection of our marine resources, the maintenance of a clean water supply free of chemicals, and co-existing with tourism growth to sustain a clean environment are keys in the maintenance of a multifunctional outlook. Agriculture is the basis for food production; but it also benefits the broader Family Island economies and maintains a balanced environment. In essence, New Agriculture is manpower efficient, technologically-driven, competitive, agribusiness-based, value added-oriented, environmentally sound, ISO certified and community involved, and conforms to WTO guidelines (Eneas, 2009, pp. 66-67).

5. Addressing Development Impediments: An Alternative National Purpose Framework

We will now outline a national development framework for The Bahamas and single out selected, but nevertheless important, policy areas. In such a “national purpose framework”, strategic development action is of paramount importance as it can alter or channel the basic competitive advantage that exists in a country. This means, at times, enhancing existing capacity to be able to capitalize on changes in the world economy that are compatible with these pre-existing advantages or, alternatively, destroying existing competitive advantages to gain new ones when such changes are inimical to the long-term viability of such firms (Karagiannis & Madjd-Sadjadi, 2007). Yet, too often, the former policy is put in place exclusively. Whether it is having too much faith in neoliberal adjustments or a desire not to “rock the boat”, existing Bahamian policy rests on three legs of a stool: expansion of commercial activities, socially-ameliorative programmers to assist the growing population, and tourism as the end-all be-all Bahamian activity. But this “business as usual” approach relies exclusively on ad hoc approaches that sacrifice long-term socio-economic development for the sweet nectar of short-run gains (Marshall, 1998, p. 194). Of course, “in the long run, we may be dead”, but living exclusively in the short-run guarantees decline as circumstances change. The Bahamian society needs policy makers who can think “outside the box” and can restructure existing institutions to promote local agro-industrial development.

But these changes cannot occur without the state working hand in hand with market participants to reshape the economy through targeted sectors. Investment needs to be increased in both quantity and quality and linkages with civil society need to be strengthened so that market and state do not work at cross-purposes with one another and waste valuable factors of production on projects that would further lock The Bahamas into a low-growth mode for some time to come. The impetus for this collaboration would have to come from the strategic partnership between a developmental state and indigenous entrepreneurs themselves if they wish to enter the industrial sector (Marshall, 1998, p. 191, p. 196; Karagiannis, 2002a).

Due to a need to conserve foreign exchange, strategic planning needs to be limited in focus to the promotion of targeted growth sectors (specified before) with a mandate to work towards these objectives (Karagiannis & Nottage, 2009, pp. 76-77):

- to provide a sense of overall direction to the overall evolution of the economy. The vision which should guide a distinctively Bahamian production-oriented approach is summarized as agro-industrial development, industrial upgrading, rejuvenation of the Family Islands and structural transformation;
- to formulate and implement land-use planning measures. To this end, greater local ownership of productive assets as well as a generous land policy in favor of black Bahamians should be of great importance;
- to deploy strong institutional vehicles in order to mobilize industrial financing and channel mainly local capital into those targeted sectors identified for development; and
- to coordinate investment expenditure both to expand local production lines and to strengthen forward and backward linkages between all sectors of the local economy.

To achieve these goals, the state will bring together various interest groups representing the public and private sectors, as well as the broader society, to generate consensus on strategic goals to be supported and implemented by efficient, well-educated and well-trained technocrats. The strategic planning process that takes the country to the next level must be democratic and inclusive at all levels. Participation is one of the defining features of the process itself that allows everyone in society to “buy-in” to the objectives that are defined. In the absence of such participation by “social partners”, marginalized groups will resist change in both the production and political processes (Karagiannis & Madjd-Sadjadi, 2007). The key is to not allow short-term issues get in the way of long-term vision. Unemployment, balance-of-payments problems, asset bubbles and instability, all cause politicians to be tugged to sacrifice the long-term strategic vision for the short-term ad hoc solution (Ramsaran, 1983, p. 378; Karagiannis, 2002a, p. 15). Ironically, the inability to have a coordinated strategy has limited the ability of tourism to contribute to social and economic development in The Bahamas.

The crucial problem is a lack of backward and forward linkages to the domestic economy. The tourism industry suffers from a severe compartmentalization that limits the benefits to The Bahamas and exacerbates the exposure to the rest of the world. Essentially, The Bahamas is, in a word, hyperlinked to the rest of the world economy because of its overreliance on imports, whereas sustainable tourism could serve as an engine for growth in other sectors. Exploitation of network externalities and agglomeration economies to spill over into other sectors of the domestic economy would allow for import substitution and the reduction in the need for foreign exchange. In addition, the domestic provision of food and beverage would make The Bahamas more food secure and increase freshness of available products. The upgrading of complementary and related service industries such as maritime services and renewable energy will help aid the development and growth of both tourism and the agro-industrial sector as well as enhance the Bahamian competitiveness in the global knowledge economy. However, it should be noted that these strategies are more inward-focused rather than export oriented in direction, which will serve to dampen the exposure to world crises inherent with utilizing tourism as the principal economic avenue.

Clearly, the mutual benefits between tourism and agro-industrial development linkages can go a long way towards building endogenous competency while developing a supplier base that is stable, reliable and, perhaps, less energy-dependent. This is critical going forward as energy usage will likely have to be retarded in the face of global warming. The need for such linkages is particularly pronounced in The Bahamas due to underutilization and foreign exploitation of domestic resources, which means that the economy is currently operating far below capacity. As such, policies to increase aggregate demand can significantly boost the country’s development. However, to take advantage of this capacity deficit, special consideration needs to be given to the competency and competitiveness of the economy.

This is because it does not make sense for companies, either local or foreign, to source from domestic producers unless those producers either are currently competitive, or can become competitive once guaranteed access to a market, with international producers (Karagiannis, 2002a, p. 61).

A second aspect of any successful intervention strategy must address the fact that to reach a competitive level, businesses require the business confidence and acumen to successfully invest in their workers and machines so as to compete on an equal footing with international firms. Fiscal policy can address this with strategic infrastructural investments and improvements in human capital formation (Karagiannis, 2002a, p. 61). Monetary policy needs to provide capital at internationally competitive rates of interest. The Bahamas is aided in this regard by tying its currency to the US dollar. Still, it can do more by utilizing a directed credit program to ensure preferential rates for critical sectors of the economy. If the development plan is made judiciously, the result should be high output, profits and savings (Karagiannis, 2002a, p. 61 based on Kalecki, 1971; and Kaldor, 1978a).

At the same time, there can be both firm-specific and economy-wide bottlenecks that do not allow for efficient capacity utilization. In both cases, this requires serious study to ensure that these bottlenecks are eliminated and points to the need for an industrial policy to address these concerns. Sector targeting can help in this regard. By concentrating the national resources on a few key areas that have high growth potential and organized around selected firms that have the ability to dynamically address these challenges, the government can accelerate endogenous competency and growth, ensure an adequate supply chain for these companies, and assist in the restructuring of labor agreements. Therefore, government policies need to be coordinated around this national strategy to ensure a smooth transition for endogenous growth and allow for a reconciliation of elements that would impede this progress.

This is not to say that short-term issues should be ignored nor are we arguing that one should “make the perfect the enemy of the good”. Instead, we are suggesting that to ignore long-term realities because of short-term problems is a recipe for disaster. Thus, while we must address short-term economic challenges, we must always do this with an eye to the long-term industrial policy that aims to reduce dependency on foreign imports, strengthens technical capacity, and promotes skills and innovation. Such a policy would allow for improvements in the short-term and allow The Bahamas to become a more structurally efficient economy in the long run. By always keeping national strategy at the forefront of policy-making, such as by investing in labor force skills development that serves the needs of targeted industries, short-run aberrations will be corrected faster and investment growth will accelerate, making it easier to make technological and productivity improvements and to raise capital accumulation rates (Karagiannis, 2002a, p. 62, and for further analysis see Kaldor, 1978a, b).

All of these steps require a competent and effective government sector that has the ability to engage in technically proficient strategic planning. The result of this effort will be to build up the infrastructure and labor force skills to enable the national strategy to succeed. A national purpose plan will work towards self-determined self-sustained growth and development by spurring local productive initiatives to be able to compete effectively on both the local stage and internationally.

However, contrary to neoliberal thought, it is not sufficient to simply work towards export-orientation in narrowly defined sectors based on the current comparative advantage of the nation in view of the fact Bahamian exports have never developed on an initial platform of production for domestic needs and internal requirements. Instead, local production should be oriented towards satisfying domestic demand in industries of high potential in the first instance, with export promotion occurring as an extension of this. More to the point, stopover tourists in The Bahamas significantly expand the size of the local market. Consequently, the growth of demand, stemming from the increase in both population and tourists, can provide the opportunities for the growth of local supply.

The challenge is to actually *change* the comparative advantage of the nation through a dynamic mixture of inward-focus and outward-orientation policies. To do this, The Bahamas must not look to the rest of the world and decide in what “niche market” it can successfully engage. Instead, it needs to look initially to a policy of “Bahamianization” whereby the country can become self-sufficient in at least some of the sectors. If it can do this successfully, exports will come. One of the major reasons why the country needs to take this approach is that the cost of transportation will likely rise with efforts to reign in global warming. As the world moves more in the direction of a “cap and trade” carbon tax regime and with continued issues that cause instability in the world’s oil supply due to terrorism (Middle East), political instability (Nigeria), and geopolitics (Russia), it is becoming more important to have as many localized goods and services as possible.

If current trends continue, even if the country is not yet economically competitive in these areas at the present time, it will likely become so in the future (Karagiannis & Madjd-Sadjadi, 2007).

Although heavy industries still exhibit economies of scale that require manufacturing to have a worldwide basis, light industry does not, and reasonable production costs are possible even in small plants. So long as local firms are dynamic and swift footed and the government apparatus is competent, locally competitive firms can quickly achieve the necessary levels of production to be globally competitive. This will result in both improvements in the balance of payments and productive resource utilization. As the economy becomes more competitive technically and on a human capital basis, and as the product base rises, additional opportunities for industrialization will lend themselves. Essentially, historic antecedents lead to expansion of opportunities later, although the ability to draw on the world stage allows for the Bahamian economy to skip some modernization steps. The result will be an increased ability for the government, firms, and the population as a whole to respond to future economic challenges.

Of course, this will be met with suspicion by the elites who serve their neoliberal masters in the hegemonic countries and by transnational corporations. It is not in the interest of the powers to allow for Bahamian endogenous development because they do not see that economies can and do alter their current competitive advantages through industrial policies. Singapore grew from one of the poorest countries in the world at its founding to one of the richest in less than 50 years (Karagiannis & Madjd-Sadjadi, 2007, pp. 155-180). Likewise, Japan and South Korea dominate the automobile industry although once they were the laughingstocks of world trade (Karagiannis & Madjd-Sadjadi, 2007, pp. 131-154). These countries did not make the mistake of looking at neoliberal solutions for their salvation. They are not suffering from the adversities of declining terms of trade and an inability to compete in an increasingly technologically-driven world. Indeed, one of the ironies of the modern competitive world is that so long as small companies have the infrastructure available to them and a labor force that dovetails nicely with their needs, they can become competitive and eventually slay the Goliaths (witness the many Internet and software companies that now are household words). Yet, only by engaging in national strategic planning that can direct resources effectively can The Bahamas create the conditions necessary to allow for this development pathway (Karagiannis, 2002a).

Even with successful mass tourism, there will still be the even more fundamental need for The Bahamas to diversify the tourism product, which still relies largely on the “sun, sea and sand” model (Boxill and Frederick, 2002; Nurse, 2002) to give a wider range of options and thereby improve the competitive edge of the industry (Hayle, 2002; Karagiannis, 2002b). For example, Bernal (2000, pp. 110-11) suggests tourist destinations should consider heritage tourism, health tourism, cultural tourism and ecotourism (which may require different promotional appeals), while Nurse argues for the entertainment industry, stating that “the experience with festivals and other cultural events is that they tend to create a tourism demand that is resilient and less susceptible to economic downturns” (Nurse, 2002, p. 129).

Clearly, a more diverse product would permit a wider range of business development options and training, thereby helping to secure greater local involvement in the industry. Heritage, cultural, ecological, community and health tourism are all labor-intensive niches which require some level of knowledge and local ownership in order for them to be successfully implemented. This would in turn result in a larger network of stakeholders, a wider distribution of tourism earnings, and the fostering of a more pro-tourism attitude in the country (Boxill and Frederick, 2002; Hayle, 2002).

As noted earlier, the linkages between tourism and local production have been weak. New options such as community and heritage tourism can help to increase consumption of the country’s cuisine and local products, thereby building a mutually beneficial relationship between tourism and agro-industry (Karagiannis, 2002a). These options could also assist local firms to introduce their products to an international market. However, any significant strengthening of these linkages would still require improvements in product quality, more efficient distribution systems, extension training, and access to affordable credit by local producers (Eneas, 2009).

Finally, it is important to understand that an economy is built upon a nation’s social values, codes of behavior and ethics, and these permeate a society’s public and private institutions. When a country lacks clear direction, this is a problem; but it is equally a problem when the direction is placed at odds with the needs of the underlying society.

One reason that East Asia was so successful is that it did not import wholesale the Western capitalist experience. Instead, it adapted it to fit its Confucian, Taoist and Legalist traditions (Karagiannis & Madjd-Sadjadi, 2007, pp. 131-155). Still, The Bahamas cannot adopt the East Asian model wholesale either. Instead, it must work with the stakeholders to develop its own model and change those key economic, social, and politico-institutional factors that provide the necessary underpinning (Clayton, 2001, p. 15). However, the state must be efficient, competent and corruption-free, and this will require vigilance and honesty. This would involve raising the pay of government sector officials to reduce corruptibility and instituting a watchdog organization that can help to ensure compliance with anti-corruption laws and regulations. This is especially important when one sector is the driving engine for economic growth, such as the tourism industry, since rent-seeking behavior tends to manifest itself more when the stakes are higher (Karagiannis, 2002a; Karagiannis & Nottage, 2009).

6. Conclusion

Changing times invite the Bahamian government to shift its policy focus and discover new areas that will foster development for the country. In our analysis, we attempted to identify some areas The Bahamas can focus on in an effort to counter the pernicious effects of the current global economy and other international developments on the nation. The country has an abundance of sea water and renewable resources, both of which can become tools of a purposeful development strategy by working further to make the country an international maritime crossroads and by taking advantage of its renewable resources and its agro-industrial possibilities. These sectors of development target self-sufficiency which can be better achieved by significantly expanding the Bahamian production lines.

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