THE POTENTIAL FOR FOOD INDUSTRY DEVELOPMENT IN THE BAHAMAS: THE CHALLENGE OF THE DEVELOPMENTAL STATE APPROACH

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Abstract

Introduction

The Bahamian economy exhibits all of the characteristics of a Caribbean-type economy (i.e., "small, open and under-developed" in nature). The country's economy depends on the activity of two main sectors: Tourism and international financial services. These sectors have given The Bahamas a relatively high standard of living and employment to a sizeable proportion of the population. However, both sectors have subjected the economy to almost total outside dependence, making it open and vulnerable. The result of openness makes the Bahamian economy more susceptible to external shocks as well as more dependent on foreign exchange (Higgins 1994: 5). In addition, this twofold dependence exacerbates "the general instability in employment and national income levels" (ibid.).

In The Bahamas the growth of Tourism and Financial Services have had very negligible effects on the development of manufacturing industry. As a consequence, there are few linkages between the sectors of the Bahamian economy and a serious lack of diversification in production. Further, The Bahamas, as a result of the expansion in the service sector and the proximity to the large North American markets, exhibits high consumption which is an extreme case of rising expectations (ibid: 1). The result is a high propensity to import.

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The structure of this paper is as follows. It first seeks to provide sufficient theoretical background on Developmental State policies. The paper next considers the potential of food industry development in The Bahamas on the grounds of long-term dynamic efficiency, endogenous development and export growth. The final main section discusses 'strategic requirements' and policy considerations for a 'realistic' industrial development in the case of the Bahamian economy.

The East Asian Experience

Japan and Newly Industrialized Countries offer a new and different approach to the promotion of industrial development. The spectacular growth of East Asian economies is well known, even though they have experienced difficulties in the last years.

Some argue that East Asian economic success is to be ascribed to economic openness and small government, and see efficiency in resource use as the principal general force for the economic growth of these countries. As a consequence, resources flowed to their most efficient uses and the limitations of small domestic markets were overcome by exporting manufactured goods at competitive prices. Other interpreters support the view that state intervention was an important factor but only insofar as it promoted exports and offset market failures. Therefore, according to the 'market-friendly' views

- Let markets work unless it is demonstrably better to step in. It is usually a mistake for the state to carry out physical production, or to protect the domestic production of a good that can be imported more cheaply and whose local production offers few spillover benefits.
- Put interventions continually to the discipline of international and domestic markets.
- Make interventions simple, transparent and subject to rules rather than official discretion (Singh 1998: 61).

The above theoretical issues have been the main recent policy 'gospel' for developing countries which are recommended to seek their comparative advantage, to get the prices right, and to have free markets as far as possible.

The unorthodox line of argument holds that East Asian success should be ascribed to 'States principal-director' or "government leadership and steerage of the market." This type of State (i.e., the Developmental State) is organised and concerned with promoting a forceful and aggressive industrial strategy while, at the same time, purposefully guiding the market economy. The role of the state in promoting dynamic industries of high potential and bringing about the structural transformation of the Japanese economy has been so crucial that, as Nino (1973: x) remarked, "whereas the USA is said to be a country of the military industrial complex [...] in this sense, Japan may be called a country of the Government industrial complex" (my italics).

Therefore, Japan and other newly industrialized countries do not seem to have followed the 'market-supremacy' approach to development. The experience of these countries is certainly an argument against the
hands-off ‘market-friendly’ approach as enunciated by Neo-liberal and ‘New Right’ scientists; on the other hand, it does not provide any support for a Soviet-type ‘command planning’ of production. The governments of these countries followed an industrial strategy and a highly proactive state intervention. All the above are clearly important issues in the Bahamian context and discussion.

The Potential for Food Industry in The Bahamas

Initially it is very important to differentiate between sectors which are important in the functioning of a dynamic economy but which may be left to their own devices, and those which are strategically important but require significant guidance by the state if their strategic role is to be fully developed (Cowling 1990: 19). Thus, we limit strategic intervention to those sectors of The Bahamian economy where state intervention is going to have its most significant potential impact on the dynamism of the economy as a whole. “Conceptually and technically it is quite possible to develop a programme of industrial modelling which would allow us to identify key sectors,” whose rapid growth would have substantial, long-term effects on the national development of the Bahamian economy. “The criteria are obviously dynamic and forward-looking” (ibid.: 21). With this background in mind, there is a potential - determined by the history of the Bahamian economy, its current stage of development and its future prospects - for the development of a food industry which appears viable, warranted, advantageous and indeed strategically important in a long-term perspective, and which will set up incentives and open up possibilities for a wide range of new economic activities, for the following reasons:

- there is an increasing demand for a range of food products (domestic demand plus exports to U.S.A, Canada, etc. - both countries are close to The Bahamas), particularly processed products, not currently produced in The Bahamas and the Caribbean. It will significantly enhance domestic food production capabilities and reduce the food import bill;
- it will allow the local capture of a high percentage of value-added, and thus generate profits and contribute to the process of capital accumulation;
- the Bahamian economy will have some significant prospective competitive advantage in this industry - higher capability to compete internationally will be responsible for the export increase (in order to establish an expanding market share and contribute to the balance of payments);
- it will better utilise domestic resources and offer solutions to the serious

1. The development of food industry will cover a whole range of economic activities from growing food through to processing and final sale. Besides, ‘organic farming’ has a rigorous basis in science and should be seriously considered.
problems in the traditional sectors (i.e., those engaged in primary production) of The Bahamian economy. In other words, the food industry growth will be accompanied by a higher degree of domestic resource utilisation and higher exports of food products,

- it will give a great boost to the structural transformation and diversification of the Bahamian economy and will contribute, to a large extent, to the development of linkages between all sectors of the domestic economy, with multiple short- and, especially, long-run productive effects resulting from investments on infrastructures and the 'accelerators';

- Food industry can be the sector which will provide the necessary infrastructure for a dynamic industrial base, stimulate technological progress, introduce the know-how and innovations, enhance the local skill/knowledge base, and increase productivity and, in turn, will impart - through its linkages with the Tourism sector - the momentum for "Economic Take-Off";

- we can assess the potential importance of food industry development by modelling the consequences for the Bahamian economy as a whole and, therefore, it is a realistic and feasible suggestion for domestic development which can be successful (robot or electronics, for example, is neither a realistic nor feasible suggestion and therefore it will not be successful); and,

- the commodities will have a high value to weight ratio in order to overcome the problem of the high transport costs associated with island production. It is relatively cost-effective and does not require much; rather, it requires employment of existing resources in different ways, a 'wiser' public finance and different State policy choices (for example, some scholarships for food science/food technology instead of law, business and administrative studies).

The development of food production in The Bahamas requires nurturing and a strong developmental role for the State in order to raise the momentum of industrial development, shape thorough investment strategies and eliminate possible dis-economies of scale and technical inefficiencies. A proactive Developmental State should give priority to the establishment and promotion of food industry in The Bahamas, which is seen as a vital component in the evolution of its self-sustaining growth path. Such an industry - which can significantly expand the narrow production base of the Bahamian economy - has to be provided with the resources (investment spending from the budget on buildings, machinery and equipment, training, technology and its implementation) and commitment to allow it to grow and mature,

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2. The infant industry argument for intervention is very important and relevant here, as full exposure to competition is likely to precipitate a dramatic reduction in the size of these industries.
so that in the longer term the degree of intervention can be progressively reduced and the focus switched to other complementary economic activities. Furthermore, the Developmental State can successfully contribute to long-term supply-side initiatives aimed at establishing growth poles (say, in Andros and Freeport, in order to counterbalance the “power of attraction of the centre,” i.e., Nassau) and, hence, at restructuring or promoting the activities of particular firms, sectors and regions, particularly those where resources are inefficiently utilised which would aid overall national growth.\(^3\) Indeed, the Developmental State view can be closely linked to the concept and policy of growth poles (or centres), in favour of efforts to force-feed economic growth, by defining development goals not only aggregatively but also by sectors and regions and by coordinating development programmes by sectors and regions. State economic policies designed to invest wisely in infrastructures and accelerators and to encourage the establishment of new or particular industries (food industry in the case of the Bahamian economy) might have a better prospect of increasing and/or improving the productive capacity and stimulating economic expansion, given that technological change and human resource development are key elements in increasing both productivity and output. Efficiency of production may be limited by the size of the market. However, the growth process is expected to lead to a widening of the domestic market, which in turn will require and/or bring about a better transportation and communications system. Hence, after resources have been developed and/or put to use, changes in technology will broaden the industrial base.

The expansion of food industry - which should take place within the framework of a thorough development programme - will provide sufficient stimulus to the mobilization of resources of all kinds and/or the inducement to invest and will bring about a net addition to the effective use of resources and, therefore, to the overall growth of The Bahamian economy. The growth of food industry and, thus, overall economic growth will have a serious impact on the growth of demand for food products which, in turn, will lead to the growth of output and to efficiency gains, both in industry and in the economy as a whole.

The stimulus of demand (for food products) from technical progress is obvious: technical change/progress will be expected to influence the volume of investments and open up new and more profitable opportunities for expansion; thus, will influence both growth and capacity utilization. On the other hand, supply-side factors (i.e., capital accumulation, mechanization, learning, R&D, technical change, etc.) are also necessary and needed, will (themselves) be influenced by demand, will induce further growth of demand and so on.

The proposed food industry strategy takes seriously into account the inter-relations among a number of ‘strategic factors’ e.g., domestic resources, capital, social structure, the level of technology and skills, scale and transformation. Such a food industry strategy

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3. Perroux (1968; 1988) stressed the vital role of propulsive industries in growth pole theory.
will successfully contribute to long-term supply-side initiatives aimed at creating and promoting the activities of particular promising firms and sectors and will create external economies and economies of scale, conditions and opportunities, conducive to faster growth of existing and incoming industry (a 'big push'). Economies of scale and learning will bring about multiple effects on, and changes in, the structure of the Bahamian production. The object, of course, would be to attract sectors and specific industries with economic dynamism or high potential, which would then be capable of spilling their expansionary forces into other sectors and depressed areas: the support and development of indigenous resources, firms and industries; the maximum utilization of investments (mainly in R&D and skills); the removal of bottlenecks on the demand side which are imposed by the narrow size of the domestic market and the poor manufacturing base; an improvement in the range of services likely to be available to people and to Tourism (e.g., transportation, information); the exploitation of external economies; the application of new production technologies and new product development so as to raise efficiency and competitiveness; the spatial diversification of economic activity; and, the capacity to withstand the effects of future structural changes and cyclical downswings.

The ‘Strategic Approach’ for The Bahamas: Policy Considerations

Industrial policy has not been seen to be pivotal in The Bahamas and it is, therefore, not developed as an important and necessary part of the Government's approach to economic policy-making. State interventions have usually been of a regulatory type and the policies which flow from these interventions appear to run counter to the Developmental State approach and to be consonant with the 'market failure' approach, the general concept of a developmental role for the State is rather alien to the general economic and political culture in The Bahamas. Whilst appropriate fiscal, monetary and exchange rate policies can contribute much towards enhancing the performance of the Bahamian economy, we need to establish a much sharper focus on the development of manufacturing industry. Such a supply-side strategy is seen to be necessary to resolve the deeper problems of the Bahamian economy. Some development suggestions and policy considerations for the development of the Bahamian economy in general, and of food industry in particular, are outlined below.

(i) Partnership between market and state

A more tenable formulation can, and should, be a synergistic connection between a public system and a mostly private market system with the Government setting rules and influencing decision-making in the private sector in line with its view of an appropriate industrial and trade profile for the Bahamian economy. This public-private cooperation will allow the Bahamian State to develop independent national goals and to translate these broad national goals into effective policy action.

(ii) Competitiveness and ‘developmentalism’

A realistic food industry strategy for The Bahamas must seek to 'strengthen' the national capability first, if the economy is to improve its ability to compete at the international level (i.e., competitiveness). Indeed, The Bahamas must actively trade if
the economy is to be prosperous and successful, and factors such as technological infrastructure and human capital formation must be brought to the fore. This mixture of inward-and outward-oriented development, defined in terms of growth, productivity and competitiveness, should constitute the foremost priority of State action.

(iii) Government investments on the 'accelerators'

Entrepreneurs in The Bahamas appear to have lost their 'spontaneous urge' to invest in longer-term projects and have themselves developed a rentier-like appetite for short-run capital gains. In addition, some support the view that high wages (and, therefore, high total cost of economic activities) in The Bahamas is a serious 'barrier' which discourages investments. The only logical alternative, then, is to consider government investments which are both production-increasing and productivity-increasing expenditures. Indeed, investment spending on human capital, skills, technological capacity and innovation will give a serious boost to the Bahamian economy, towards higher rates of growth and “high wages, high(er) productivity.”

(iv) The need for a thorough national strategy

The dominance, global perspective and ambitions of the major transnational corporations may cut across the interests of any particular nation state, or any particular community. This is a general phenomenon, which is especially true in the Bahamian case. Thus, there is a basis for recommending a framework of strategic planning within which to approach and position the transnational corporations in The Bahamas. In this regard, the role of the Bahamian State at the national level “should be limited to the strategic oversight of development which is essential in the case of a limited array of key industries or sectors” (e.g., food industry development) (Cowling 1990: 18). In fact, the State in The Bahamas “may withdraw from an operational role within the economy, but should retain a strategic involvement in the market system” taking on a central developmental role without directly owning most of the productive assets (ibid.: 10). Hence, the Bahamian State needs to undertake selective strategic intervention, focus its attention on the “modern factors of development and competitiveness,” and restrict its intervention to the strategic requirements of long-term transformation (i.e., targeted policies).

(v) Cooperation

In the case of Bahamian companies, technical inefficiencies and failures to adequately develop and use new products and processes often occur; but the nature and causes of the failure seem to be unclear. It is not the traditional market failure which can be corrected by ‘traditional’ measures (for example, loans or subsidies) or through regulatory policy. The solution is likely to require cooperation between firms and the government sector in The Bahamas.

4. Private investment spending on the modern factors of competitiveness is also desirable and most welcome. In addition, appropriate monetary and exchange rate policies to facilitate productive investments are also necessary and needed.
**Production & operations quality**

Quality goods and services are strategically important to firms and to countries. Improved quality can lead to both increased market share (market gains) and cost savings; both can affect productivity and profitability. For both Bahamian companies and the Bahamian economy as a whole to compete effectively in the global economy, products and services must meet global quality and price expectations. Inferior products will harm the firms’ profitability and will deteriorate the balance of payments of the Bahamian economy.

**The need for politico-institutional reforms**

The Bahamas has largely suffered from impeding prevailing institutions and a lack of institutional arrangements. Bahamian governance structures lack the ability to prevent arbitrary political action, and rely on clientelism and favouritism. In fact, policies of the ‘weak’ or ‘soft’ Bahamian State (in Myrdal’s (1968) sense are dominated by too many rent-seeking activities of lobbying groups while market-augmenting interventions have been neglected (Ahrens 1997: 119).

Thus, it is unlikely that significant state intervention would be warranted in The Bahamas given the inadequate capacity and competence of public institutions, the institutional deficiencies and impediments to the Country’s economic development. For this reason, the pursuit of Developmental State strategies requires a careful moulding of appropriate institutions, whose task would be to organise the critical interactions between State and industry in The Bahamas. By establishing the appropriate institutional network, policies and strategies can be designed and incentives created to channel resources and decision-makers’ commitment into those productive activities that are compatible with sustained economic development, and prompt private firms and industries to carry out long-term investments (Ahrens 1997: 118).

Hence, Developmental State policies need to be accompanied by institutional reforms, which not only lay the foundation of effective formulation, implementation and/or enforcement of growth-oriented policies but also create the suitable environment for the Bahamian endogenous competency. Without these reforms and commitment, capacity, accountability and effectiveness, such a radical policy for The Bahamas will flounder on short-term expedients, the deficiencies and conservatism of the Civil Service, the power of transnational corporations and foreign interests, or the resistance of the people.

**Conclusion**

This paper has sought to establish the Bahamian case for selective strategic intervention based on the inefficiencies of the market system, described the form a developmental strategy should take; explained important issues surrounding the potential for food industry development; and, finally, made suggestions for alternative development policy-making in The Bahamas.

It would generally be wrong to consider that the Japanese economic policy-making could, or indeed should, be transplanted to the Bahamian economy which is characterized by quite different historical and cultural circumstances. What is important to learn from the Japanese case is the approach to the
problem. There is no need for a vast bureaucratic machinery and procedure: the approach is clearly entrepreneurial. What really matters is the quality of intervention, and this is most likely achieved from Developmental State policies.
References


