Can the Bahamas Continue to Be “Powered by Sunshine”?

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Over the last year, the Bahamas has been featured in the news disproportionately. After reviewing the island’s vital statistics and some important physical, economic and financial events, this paper highlights the economy’s vulnerability to external shocks and extreme weather-related events. On the one hand, the island nation of less than 400,000 people—and the Caribbean region, in general—faces major challenges triggered by the intensification of global climate change. On the other hand, in order to mitigate the costs these events have had on the economy over the years, successive governments have repeatedly endorsed hosting dubious economic and financial activities. The enthusiastic reception given to FTX in fall 2021 is only the most recent example of the island’s encouragement of these questionable enterprises. Considering the economy’s performance over the last decade, an unorthodox proposal is recommended to support the future political stability and economic security of the Bahamas.

Keywords: the Bahamas, off-shore finance, global climate change, Canada

INTRODUCTION

The immediate impetus to study and write a full-length paper about a country that is literally and figuratively only a “speck” in an ocean (of nations) was triggered by the meteoric collapse of Sam Bankman-Fried’s (SBF) $32 billion crypto-trading empire in November 2022 and his conviction on seven criminal counts one year later. The conviction carries “a potential maximum prison sentence of 110 years” (Ramey and Fanelli, 2023). Even before this crisis erupted several natural disasters wreaked catastrophic damage on some of the islets and cays that comprise the archipelago of the Bahamas.

The first was the weather-related—and, arguably, climate-change-induced—hurricane Dorian which tore through the Bahamas in September 2019 as a Category 5 storm, inflicting massive damage on the tourist- and property development-intensive economy that was estimated at 25 percent of the nation’s Gross Domestic Product (GDP) (Tooze, 2023).

A few months later, a once-in-a-century external shock—the COVID pandemic—shuttered the global tourism sector, a critical component of the island’s economy. The nation’s GDP fell by more than 16 percent in 2020, propelling the debt-to-GDP ratio above 100 percent. Riding the crypto-currency wave, the government invited SBF to set up shop in the Bahamas, hoping “to get in on the ground floor” of the flourishing crypto-currency universe, even though FTX Trading was incorporated in Antigua (Brown, Ostroff, and Berber, 2022). And, as we shall see below, as one commentator wrote, “for centuries the island nation has been defined by its close ties to dodgy, even criminal finance. Far from being an anomaly, FTX was simply the latest in a long line of sketchy enterprises” (Mihm, 2022).
That said, it is important to note at the outset that the Bahamas is only one of many small island nations that is attempting to attract “crypto businesses” to fuel its economic growth and development. For example, the tiny Pacific island-nation of Palau, known for its world-class diving spots, recently sold “digital residency” for a year to individuals without ever needing to set foot on the island. Establishing “digital residency” allows crypto-traders “to access trading platforms banned in their countries of residence, enabling these traders to access certain unregistered exchanges and risky investment products” (Kowsmann and Ostroff, 2023).

For over three decades, I have been interested in economic and financial reform in Latin America and the Caribbean and—since the 9/11/2001 terrorist attacks on the United States—in the fledgling field of international financial crime (tax evasion, money laundering, and terrorist financing). It was only logical to explore the extent to which these two areas of interest intersected in the Bahamas.

The Latin America and Caribbean region—of which, according to international organizations such as the United Nations, the Bahamas is a part despite being firmly anchored in the Atlantic Ocean like the island of Bermuda to its northeast—experienced impressive annual growth of 3.8% over the decade from 2004-2013, with only a brief downturn, caused by the Great Recession, in 2009. However, in the ten years between 2014 and 2023, GDP growth in Latin America and the Caribbean was approximately 0.9% per year, a rate lower than during the “lost decade” of the 1980s (Macrotrends, 2023).

According to the World Bank, economic growth in the twelve jurisdictions that make up the Caribbean region (excluding Guyana, which is currently experiencing “super-normal” economic growth resulting from its emergence as an energy powerhouse) registered annual growth rates in GDP of 2.2% during the 2004-2013 interval, but only 0.3% during the 2014-2022 period. The annual growth rate in GDP in the Bahamas, from 2004-2013 was 0.4% per year and 0.9% per year from 2014-2022, considerably below the Caribbean average in the earlier interval, though higher—but still anemic—during the later interval (World Bank-GDP Growth, 2023).

The paper begins with a summary of the vital statistics of the Bahamas, followed by a review of the main political, economic, and weather-related events—pre- and post-independence (1973)—that provide the context required to understand the repeated inclination by successive governments to encourage activities that have regularly run afoul of accepted norms and/or of breaching bilateral and international guidelines and agreements. These activities range from being the most important base in the Caribbean for piracy in the 17th century, running guns to the Confederate Army during the US Civil War in the 19th century, bootlegging rum to the United States during prohibition early in the 20th century, and later that century and into the 21st century becoming a haven for smuggling drugs and facilitating international financial crime. With its extremely lax regulatory environment for crypto-currency, the Bahamas became a natural entrepôt for this innovative, unconventional—and highly speculative—financial instrument.

**Vital Statistics**

Lying to the north of Cuba and Hispaniola, the Bahamas archipelago comprises nearly 700 islands and cays, of which only about 30 are inhabited. It stretches more than 500 miles (800 km) northwest to southeast between Grand Bahama Island, which lies about 60 miles (100 km) off the southeastern coast of Florida, and Great Inagua Island, some 50 miles (80 km) from the eastern tip of Cuba. The Bahamas is a gateway to the Gulf of Mexico, the Caribbean Sea, and the entire Central American region.

In 2023, the population was estimated at approximately 360,000 people, of which over 90% are of African descent and about 5% are White, and the annual growth rate of the population is 0.8%. The Bahamas’ economy heavily depends on tourism, property development, and international financial services. GDP per capita, at approximately $30,000 a year, is one of the highest in the region, though income inequality indices are high (Our World in Data-Bahamas, 2023). Life expectancy peaked at 73.8 in 2018 (about five years lower than in the United States) before declining by two years, as was the case with the US, most likely a consequence of the global pandemic. However, the decline in the US was, in part, attributed to the ongoing opioid epidemic and, more generally and increasingly, from the effects of “diseases of despair” (Our World in Data, Life Expectancy, 2023).
According to the World Bank, in 2021, the manufacturing sector in the Bahamas contributed less than 2% to GDP (Our World in Data, Industry, Innovation and Infrastructure, 2023), and agriculture accounted for less than 0.5% of annual GDP (Our World in Data, Employment in Agriculture, 2023), with the service sector playing the dominant role in economic activity and employment in the Bahamas. Tourism accounts for more than one-third of GDP and employs about 40% of the labor force, with most tourists coming from the United States. Several hundred banks and trust companies are domiciled in the Bahamas because there are no income or corporate taxes, and the secrecy of financial transactions is guaranteed. As a result, public expenditure is constrained by revenue generated through indirect taxes, primarily levied on tourism and external trade (Our World in Data, Industry, Innovation and Infrastructure, 2023).

A Summary of the Political and Economic History of the Bahamas

The first inhabitants of the islands were the Lucayans, an Arawakan-speaking Taino people, who arrived between 500 and 800 AD from other islands in the Caribbean. By the time Columbus arrived in the Bahamas in 1492—and claimed it for Spain—the Lucayans expanded throughout the Bahamas, growing to a population of about 40,000. Nearly the entire Lucayan population was transported to other islands over the next 30 years and deployed as slave labor. The Spanish abandoned and depopulated the Bahamas for the next century and a half. However, they retained nominal claim to the islands until the Peace Treaty of Paris in 1783, when the Bahamas was ceded to Britain in exchange for East Florida (History of the Bahamas, 2023).

In the years before ceding the islands to Britain, a British colony was founded in 1648 by a group of Puritans and republicans seeking religious and political freedom and, not least, economic opportunity. Since the Bahamas were located close to the sailing routes between Europe and the Caribbean, and shipwrecks in the islands were common, wrecking soon became the most lucrative occupation available in the Bahamas.

In the closing years of the 17th century, with the Spanish, French, and British economically active in the Caribbean, the ongoing conflicts among these countries in Europe inevitably spilled over into the New World as well. The British commissioned privateers to disrupt Spanish shipping in the area, and they eventually evolved into full-fledged pirates, writ large. One estimate put at least 1,000 pirates in the Bahamas in 1713, outnumbering the 200 families of more permanent settlers that transformed the “privateers’ republic” in the Bahamas into a “Pirates’ republic” (History of the Bahamas, 2023). To end the “Pirates’ republic” and to establish orderly government, Britain made the Bahamas a crown colony in 1718. Spanish attacks continued in the Bahamas until the agreed “land swap” of the Bahamas for East Florida was included in the above-mentioned 1783 Treaty of Paris. The following year the Bahamas was formally declared a colony of Great Britain.

Following US independence, the British resettled some 7,300 Loyalists with their African slaves in the Bahamas. The government granted land to the planters to help compensate for losses on the American continent, who established plantations on several islands and became a political force in the capital. European Americans were outnumbered by the African-American slaves they brought with them.

In the wake of the 1807 Slave Trade Act abolishing slave trading in British possessions—including the Bahamas—thousands of Africans liberated from slave ships by the Royal Navy were resettled in the Bahamas. Also, in the 1820s, hundreds of North American slaves and Seminoles escaped from Florida to the Bahamas. They were freed following the 1818 Home Office decree stating “any slave brought to the Bahamas from outside the British West Indies would be manumitted” (The Bahamas History, 2023). With slavery abolished in the British Empire in 1838, well before the American Civil War that ended slavery in the United States, tension increased between the United States and the United Kingdom on the issue of American slaves being transported between “slave states” who accidentally or temporarily landed in the Bahamas as a result of a shipwreck or an on-board slave revolt. The British insisted that any slave who wished to remain in the Bahamas, according to British law, would be declared free. Therefore, between 1830-1842, about 500 slaves belonging to US nationals were freed. During the American Civil War in the 1860s, the Bahamas briefly engaged as a “blockade runner,” providing the Confederate States with guns.

Once slavery was abolished in the Bahamas the local White elites—for years engaged in plantation agriculture that was now threatened by slave emancipation—re-introduced a century-old enterprise:
salvaging ships that ran aground on the island and plundering their valuable cargos. The ships were lured to the islands through decoy lights and bribes paid to captains. Between 1858 and 1864, over 300 ships ran aground on the Bahamas, and their cargos were confiscated. After the American Civil War, the islands became a natural assembly point for smugglers eager to evade US tariffs.

As Prohibition took hold in the US in the 1920s, the islands became a staging area for bootleggers shipping rum to the US. These illicit ventures gave rise to a ruling class of White merchants and property owners dubbed the “Bay Street Boys,” who, according to one commentator, were “the most reactionary group of businessmen in the colonial Caribbean”. This clique disenfranchised the Black inhabitants while exempting themselves from corporate and property taxes” (Mihm, 2022).

This penchant for attracting (at best) questionable financial activities began in the 20th century and has been amplified in successive decades. If US Prohibition brought bootlegged rum to the US, with the ratification of the 16th Amendment to the US Constitution in 1913 that established a constitutional basis for a tax on income, the search for acceptable off-shore tax havens—first introduced for mainly wealthy and tax-averse Europeans during the interwar years in Luxembourg and Lichtenstein—spawned the first wealth management offices in Nassau in the 1930s. As a reaction to the increasingly intrusive fiscal and regulatory demands of the 20th century—such as the infamous Regulation Q of 1933 that imposed restrictions on interest payments on checking accounts and the onerous provisions embedded in the post-war Bretton Woods architecture that included foreign exchange and capital controls—eventually led the Bahamas to establish a flourishing off-shore Eurodollar market in the 1970s that escaped the reach of US Treasury regulations.

In the 1930s, the Bay Street Boys developed a new scheme to help wealthy Americans evade the higher income taxes accompanying Franklin D. Roosevelt’s New Deal legislation. One example of these new financial institutions was the so-called Bahamas Insurance Company. One observer characterized it as “an insurance company which had no invested capital, no income, no assets, which [had] nothing, it was just a shell”. This was complemented by establishing a personal holding company that permitted individuals to direct their income to a “nameplate on a building owned by the Bay Street Boys” (Mihm, 2022).

As the reputation of the Bahamas grew as a venue for hiding money, the island’s attraction for organized crime to operate (with virtual impunity) followed logically. Mafia accountant Meir Lansky, who had major interests in Cuban casinos, moved his casino operations to the Bahamas following the Castro-led Communist Revolution in the 1950s. Along with the casinos came a spike in money laundering through local financial institutions, which naturally attracted drug traffickers to the Bahamas.

In the early 1970s, Pablo Escobar’s Colombian cartel seized control of the supply of cocaine from Peru. With increased US demand for cocaine, more efficient supply routes were needed than the existing drug-running practices that were in place in Mexico to move the drugs across the southern US border. The cartel’s solution was to upgrade the transport technologies to include fast boats and small planes operating from the Bahamas. “By 1988, it was estimated that between 40 and 80 percent of all cocaine and marihuana entering the United States passed through the Bahamas”, and “according to a 1979 Ford Foundation study, drug money and tax evasion flushed $20 billion per year into the Bahamas from the United States” (Tooze, 2023).

The drugs and “drug money” were so ubiquitous in the economy and in its penetration into society that it was corrupting the State’s institutions, from politicians to policemen. The most vulnerable segments of the population—young people and the unemployed—turned to crime and drug addiction. A similar environment is unfolding today in Ecuador (Turkewitz, 2023).

Lobbying activities by Lansky ensured the passage of laws prohibiting the release of financial information to foreign investigators that further protected the corrupt White elites. However, the growing presence of organized crime triggered a populist revolt that was able to dislodge the Bay Street Boys and achieve independence in 1973, with a newly formed government led by Lynden Pindling.

Global corruption in financial institutions is not a recent phenomenon. In 1973, when the US Internal Revenue Service began its investigation of the role of the Bahamas in global tax evasion and money laundering, without providing an explanation the US Department of Justice terminated the investigation because the Bahamas bank under suspicion of these activities was the financing arm of the Central
Intelligence Agency, so naturally, US national security issues were invoked trumping the alleged crimes relating to tax evasion and money laundering (Mihm, 2022).

The level of State-sanctioned corruption intensified in the early 1980s. Miami law enforcement was inclined to indict and, subsequently, extradite Pindling for his collaboration with the cartels. Once again, *pour raisons d'état*, the US government vetoed legal actions against Pindling because in these waning years of the Cold War he was considered to be “a genuine anti-communist eager for the US to maintain its undersea military testing facilities on Andros Island” (Tooze, 2023).

Banks in the Bahamas continued attracting funds—some of which originated from illegal activities—so they could be “laundered” through the banking system and/or funds from abroad that were attempting to evade or avoid taxes in their home countries. By 1990, more than 300 banks operated in the Bahamas (Mihm, 2022).

In 1996, the Paris-based Organization for Economic Cooperation and Development (OECD), an organization consisting (today) of 38—mostly rich—countries, launched a “harmful tax practices initiative aimed at combating international tax evasion by promoting transparency and exchange of information both within and outside the OECD” (Fighting Offshore Tax Evasion, OECD, 2023). In 2000 the Bahamas was placed on a “blacklist” of jurisdictions that were failing to cooperate with other countries on the exchange of financial information that might involve tax evasion.

The Bahamas continued to procrastinate in fulfilling its pledge to comply with the OECD requirements, in part by exploiting loopholes in the Common Reporting Standards, developed in 2014, that called on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis (Automatic Exchange/Common Reporting Standard, OECD, 2023). The European Union recently designated the Bahamas as a “tax haven”, increasing the risk of the island’s financial institutions being denied access to the global banking system. A working definition of a “tax haven” is a “jurisdiction that has very low—or no—taxes and no residency requirements for foreign entities and individuals willing to park money in their financial institutions. A combination of lax regulation and bank secrecy laws enables corporations and individuals to screen some of their income from tax authorities in other nations” (Investopedia, Terms, 2023). Despite the pressure brought by the OECD, the EU, and the US over the years, the Bahamas, in 2021, was still considered to be one of the “top 10 offshore tax havens in the Caribbean” (Maverick, 2021).

The revelations of the Paradise Papers in 2017 exposed the ownership of thousands of offshore vehicles created by Appleby, a law firm whose clients included “European blue bloods, Chinese princelings, Russian oligarchs, and African potentates, as well as thousands of much smaller fry” (Tooze, 2023). Between 1994-2002, it was reported that two off-shore shell companies in the Bahamas laundered nearly $12m of the former dictator and President of Chile, Augusto Pinochet’s money.

During the 1980s, in parallel with the expansion of the Bahamas as an off-shore hub for the (above-mentioned) shady financial services, was the growth in the Island’s main draw—the centerpiece of the real economy—“sunshine”-related activities that incorporate tourism, property-development, casinos, hotels, etc. Restrictive limitations regarding foreign land purchases were relaxed, leading to the construction of “gated communities” which have since hosted the lavish beachfront mansions of super-stars Tom Brady and Michael Jordan.

Recently, cruise lines have been buying or leasing private islands and cays in the Bahamas and the Caribbean to create the “ultimate beach day”. These developments permit cruise lines to enhance customer experience by avoiding docking congestion at the piers, mitigating problems in accessing on-shore transport to beaches, and eliminating over-crowded beaches as other cruise lines disgorge their passengers simultaneously. These private islands often feature a water park with multiple slides, wave pools, restaurants and other amenities for adults and children (Passy, 2023).

With the end of apartheid—and the accompanying sanctions—in South Africa, casino mogul Sol Kerzner was able to freely move money again into the US, and he also acquired the Paradise Island resort—renamed Atlantis—in the Bahamas, with an infusion of $1bn. The resort soon became the single largest private employer in the Bahamas. From 1994-2002, his various projects accounted for 40% of jobs created and 64% of Bahamas’ direct investment during this interval (Tooze, 2022).
Two early 21st-century external shocks temporarily battered the economy. The 9/11 terrorist attacks in New York and Washington temporarily suspended American tourism to the Bahamas, and also triggered a serious effort by international organizations to crack down on money laundering that facilitated the financing of international terrorism. Growth of the economy resumed until it was upended again by the 2007-8 global financial crisis, and the search began again for new ways to grow the economy. This time, the 2014 Ukrainian crisis provided the impetus: The Bahamas became a favored destination of Russian money trying to evade Western sanctions and Russia’s attempts to trap the millions of dollars of oligarchs’ money looking for a safe haven.

Along with the infusions of off-shore funds after the global financial crisis abated, large property developments resumed—such as the Cable Beach project that was financed by Chinese bank loans (and built mostly with Chinese labor)—raising the debt/GDP ratio of the Bahamas to excessive levels that resulted in the island’s bonds being downgraded to junk status, accompanied by higher interest rates on any newly issued debt.

By 2018 this alarmed the International Monetary Fund, which advised the country to commit to a “debt anchor”, set at 50% of GDP, in addition to tax increases. The relatively low level of the anchor was an insurance policy to protect the country’s economy against another periodic source of economic instability: the risk of natural disasters, such as a catastrophic hurricane.

With the international regulators “circling”, the Bahamas began exploring ways to attract “new business” to generate foreign investment. Just as the end of Prohibition terminated the shipment of illegal rum to the United States that led to the establishment of the “tax avoidance/evasion industry”, as the “noose was tightening” on its reputation as a tax haven, in 2019, the government passed laws to enable the island to become a “crypto powerhouse” to compete with the Cayman Islands, and it became the first central bank to experiment with a digital currency called “the Sand dollar”.

In September 2019, Hurricane Dorian, a CAT 5 storm, visited the Bahamas for 48 terrifying hours, packing 185mph winds that inflicted massive damage on the tourist- and property development-intensive economy, estimated at 25 percent of the nation’s GDP. Only a few months into the post-hurricane economic recovery phase, in early 2020 the global pandemic paralyzed global tourism. With the Bahamas economy propelled by the hospitality sector, the island’s Debt/GDP ratio soared over 100%. The Bahamas responded with a very liberal Covid policy to attract tourists to promote economic growth.

On a parallel track to reignite economic growth, in November 2020, Parliament endorsed the Digital Assets and Registered Exchanges bill that legalized digital instruments, earning the Bahamas a top ranking for regulating crypto assets. This provided the motive for Sam Bankman-Fried, who landed in the Bahamas in September 2021, to set up his FTX trading platform. Of course, barely a year later, Sam Bankman-Fried’s crypto-trading empire crumbled, followed by his indictment—and conviction—on seven criminal charges that include fraud, money laundering, and campaign finance violations, to which Bankman-Fried pleaded not guilty after being extradited to the US. To be sure, he will be involved with the American criminal justice system for many years to come. While the Bankman-Fried debacle resulted in minimal damage to the island’s economy, it is just another example of a failed foreign investment project of questionable legitimacy.

Since the Bahamas’ economy is “sunshine-driven”, the focus of the island’s political leaders and policy advisors should always be on ways to expand the tourism and property development sectors of the economy. In the aftermath of the damage caused by Hurricane Dorian, as was the case after previous storms, insurance payments were directed to the reconstruction of the affected parts of the country. But with global warming and climate change expected to spawn more Dorian-like hurricanes, the Bahamas—and its economy—is particularly vulnerable to the likely increased intensity and frequency of these super-storms. One of the most serious long-term threats to the Bahamas is the likelihood of rising sea levels since “more than 80% of its land is within one meter of mean sea level” (UNFCCC, 2014). One immediate vulnerability is that property insurers will require the payment of exorbitant and unaffordable premiums and/or refuse to write policies at any price for properties in the Bahamas, which is currently concerning property owners in Florida (Flitter, 2023).
Is the Bahamas doing enough to mitigate the most critical long-term risk to its future prosperity by adopting measures and policies to adapt to the adverse weather-related events that it cannot control? To put this problem in perspective, this question can be framed more generally. Since the turn-of-the-century political leaders and policymakers in virtually every country in the world have been confronted with the same problem: In the wake of widespread political, technological, environmental, and institutional change around the world, for countries that are firmly anchored in the global economy of the 21st century, what adjustments are required in a country’s economic and financial policies that will lead to improvements in material wellbeing for their populations at large? From China to Brazil, Russia to South Africa, Japan to Australia, India to North Africa, and even from the United States to Western Europe, all have struggled, or are struggling, with the same “existential” problem: how can countries increase—or, in the worst case, maintain—living standards for the bulk of their populations, given the “cards they have been dealt” along with, as in the case of the Bahamas, the inability to control the main threat to their standard of living? As we will see below, once again, the island’s politicians and policymakers are continuing to experiment with “pie-in-the-sky” schemes to fund their responses to and adaptations for the expected increase in the frequency and intensity of the weather-related events that cause such disastrous damage to lives and property on the island.

In 1994, the Caribbean island of Barbados hosted the inaugural meeting of the Global Conference on the Sustainable Development of Small Island Developing States (SIDS) which share a common concern: all are extremely vulnerable to the projected climate-related changes expected over the next 50 years. Fast forward to the United Nations Climate Change Conference in Sharm el-Sheikh, Egypt (COP27) in November 2022. At that Conference, Barbadian Prime Minister Mia Mottley proposed The Bridgetown Initiative, whose goal is to devise a new financial architecture that will enable vulnerable small island developing states to access hundreds of billions of dollars in relief funding resulting from natural disasters along with an array of potential investment possibilities designed for climate adaptation and mitigation in these defenseless island states (Osborn, 2022).

One well-established financial instrument, a “catastrophe bond,” is an example of a market-friendly way to access relief funding in the event of a devastating hurricane. “The security pays the issuer when a predefined disaster risk is realized, such as a hurricane causing $500 million in insured losses or an earthquake reaching a magnitude of 7.0 on the Richter scale”. Launched in 1997, CAT bonds give insurers access to broader financial markets and offer institutional investors, such as hedge funds, pension funds, and mutual funds, an opportunity to earn returns on investments that are uncorrelated with the market at large in exchange for assuming insurance risks associated with catastrophes such as major hurricanes (Polacek, 2018; Wallerstein, 2023).

Among the recommendations cited by the Executive Board of the International Monetary Fund (IMF) in its 2022 Article IV Consultation with the Bahamas was the call “for strong efforts to address vulnerabilities to climate change and natural disasters, including a comprehensive disaster resilience strategy, highlighting the important role of the donor community” (International Monetary Fund, 2022). The above mentioned Bridgetown Initiative, designed for vulnerable island nations like the Bahamas, had the IMF’s blessing.

Heretofore, the course of action employed by the Bahamas to address its climate-change concerns was to experiment with marketing “blue carbon” credits “based on the absorptive capacity of the coastal ecosystems of mangrove and seagrass around the Bahamas. Global polluters could purchase these credits, thus offsetting their emissions and providing the Bahamas with a flow of extra revenue” (Tooze, 2022, p.20). While this scheme might—and the word is, might—generate much-needed cash flow on a recurring basis that could be used for economic recovery efforts and towards adaptation measures, politicians and policymakers could easily divert these hypothetical annual cash flows to other purposes for short-term political gain. Also, the rules governing the “carbon credits” program could also be modified to the detriment of the SIDS countries.

While the Bridgetown Initiative may not be the last word on mobilizing funds for these vulnerable islands for the coming climate-change-induced weather-related events, it is winning the verbal backing of the rich, developed countries. Of course, the devil is in the details. The initiative advocates a comprehensive
program of public investment to prepare for and respond to future weather-related disasters. That said, can the rich countries, through the existing array of international organizations complemented by bilateral official lines of credit and private sector flows, deliver the recurring required levels of funding for climate-change adaptation? Can they collectively deploy the funds needed to respond to a major natural disaster event with sufficient speed in these highly vulnerable SIDS jurisdictions? Past experience with global trade negotiations, the “forever” global discussions on carbon emissions, and the torturous negotiations on a global minimum tax deal being coordinated by the Paris-based OECD suggest a more streamlined and secure structure for climate adaptation funding and/or mobilizing disaster relief will be needed by vulnerable states such as Barbados and the Bahamas.

Canada to the Rescue

Given the challenges confronting the Bahamas enumerated above—the increase in weather-related risks resulting from global climate change, the increasingly aggressive oversight by key national and international “watchdogs” regarding inward flows of foreign money to ensure compliance with the increasingly rigorous global regulations concerning tax avoidance/evasion practices, and anti-terrorist/money-laundering activities (The Economist, 2023a; Mbeki, 2023) and the need to sustain growth in employment and living standards to secure the future political and economic security of the Bahamas—I suggest an “outside-the-box”, unorthodox proposal: a formal affiliation of the Bahamas with Canada.

The past 75 years have seen the creation of many new states (for example, Indonesia, Israel, Malaysia, and Singapore, and most recently, the split between Sudan and South Sudan in 2011); many states that have discarded their colonial masters (particularly in Africa and Asia as well as the Baltic states); “demergers” (for example, Czechoslovakia that separated into two sovereign and independent countries), and the break-up of the Soviet Union in 1991. Regarding “mergers” in Africa, after Tanganyika gained independence from Great Britain in 1961, followed by Zanzibar in 1963, the next year Tanganyika and Zanzibar combined to form the United Republic of Tanzania, with Zanzibar retaining considerable autonomy. In addition, the post-World War II “demerger” of Germany into East and West Germany and the subsequent “re-merger” of the two nations in 1990 is an extreme example of the amorphous nature of national boundaries in the light of changing political environments. The extent of the proposed affiliation between the Bahamas and Canada is explored below.

Canada is the second largest country in the world in land area, with an approximate population of 39 m, about 11% of the US population. Living standards in Canada are similar to the US, with 2021 per capita income (measured in 2017 US dollars) of about $48,000 in Canada and $64,000 in the US (Central Intelligence Agency, 2023). The disparity is partly explained by Canada’s poor productivity record that is challenging the country’s growth prospects. While labor productivity is reported to be 70% of the US level, more ominously, Canada’s relative labor productivity has declined since 2000 (Parikh, 2023).

However, despite its lower per capita income, Canada “ranks high on health, education, and life satisfaction indicators” (Parikh, 2023). According to the United Nations Human Development Report (United Nations, 2022), and the Center for Sustainable Development’s World Happiness Report (2023), Canada ranked above the US in these metrics. With its vast land area, Canada has one of the world’s lowest population densities. As is the case in most developed countries its fertility rate has been declining sharply, and combined with its relatively low labor productivity, Canada’s future growth prospects are being stunted by both. As a result, Canada has implemented several policies over the years to encourage immigration, particularly for skilled foreigners, some of whom are now being lured from the US (Hackman and Vieira, 2023). Even though there has been recent pushback by some Canadians regarding welcoming immigrants, official government policy is to continue absorbing “nearly half a million new permanent residents in 2023, going up to half a million in 2025. By contrast, the annual target in 2015 was 300,000 people” (The Economist, 2023b). As a result, the country consistently ranks among the top destinations for emigrants.

Administratively, Canada comprises ten provinces and three territories (the Northwest Territories, Nunavut, and the Yukon). The country’s legal system, except the province of Quebec, follows Common Law, as does the Bahamas. In addition, both Canada and the Bahamas share the same head of state, Charles III, since both countries are members of the British Commonwealth.
Since Canada lies north of the 49th parallel, most of the country has a boreal or sub-Arctic climate, with short summers and long, cold winters. Ottawa, the capital city, is recognized as the seventh coldest capital in the world. Contrast the Bahamas’s climate with that of Canada: according to the World Bank, the Bahamas has a semi-tropical or subtropical marine climate, which is moderated by the warm waters of the Gulf Stream and average temperatures are fairly high, with the mean daily temperatures fluctuating between 17°C and 32°C (Climate Change Knowledge Portal, 2023). According to the World Bank, Canada’s life expectancy (at birth in pre-pandemic 2018 was 82 years, and 74 in the Bahamas (World Bank, Life Expectancy at Birth, 2023).

Both countries would benefit from a more formal political and economic association than currently exists. The extent of this association could range from the Bahamas becoming a Canadian “département d’outre-mer” (overseas department) or DOM, which in the case of France are islands formally integrated administratively as a part of France, such as the Caribbean island of Martinique and, closer to Canada, Saint Pierre and Miquelon, a self-governing territorial overseas collectivity of France in the northwestern Atlantic Ocean near the Canadian province of Newfoundland and Labrador, whose approximately 6,000 residents are French citizens who participate in France’s presidential and parliamentary elections. A second possibility is for the Bahamas to become a self-governing jurisdiction of Canada, similar to Puerto Rico’s relationship with the US, or a third, less binding status with Canada, similar to the open borders that exist among EU countries that permit the free movement of goods, services, investment, and people. This association maintains the country’s political sovereignty and if it is successful, could be extended to include the adoption of a common monetary policy (with a single currency) as is currently in force among EU countries who have adopted the euro, and even a common fiscal policy (tax and expenditure policy), that has so far eluded the EU countries.

The first two suggested affiliations with Canada would require the Bahamas to relinquish its sovereignty concerning foreign affairs (entering into treaties, immigration, customs and border control), defense, and most economic policies that sovereign countries exercise, such as tax and monetary policy. The third approach would identify with the earlier years of the EU, when it was still referred to as the European Common Market up until the formal adoption of the euro a quarter of a century ago. Without prejudicing the discussion at this time regarding the “strength” of the proposed association to be forged by the two countries, the next section of this paper briefly attempts to identify the “costs” and “benefits” for both countries that result from a closer affiliation. A planned follow-up paper will examine these presumptive costs and benefits in greater detail.

### The Bahamas—Canada Association: Costs and Benefits

Unrestricted access to residency and employment in Canada by Bahamian citizens and vice versa would be consistent with Canada’s official policy of attracting more immigrants. Since Canada is a country with a population of 40m people, the annual flow of people from the Bahamas wishing to take up residency in Canada is not likely to overwhelm Canada’s generous and much-vaunted “safety nets” that provide physical and social infrastructure (housing, transport, health care, education, etc.) to Canadians in need since the population of the Bahamas is only 1% of Canada’s population. It is also important to note that a majority of both populations share a common native language, English, and residents of both countries are familiar with their country’s legal code, which is similar to both countries, facilitating the acclimation of migrants in both directions.

The unrestricted flow of Canadian citizens seeking residency in the Bahamas for reasons of “tax arbitrage” would be severely restrained by the adoption of harmonized tax laws among the two countries that would be part of the overhaul of the “lite” financial regulatory regime in the Bahamas that has drawn so much criticism over the years from the US, the EU, and the OECD. If the proposed affiliation attracts many Canadian migrants, it presumably will trigger greater property development, historically one of the main drivers of economic growth in the Bahamas, greater participation by Canadian investors would partly finance that. Also likely is a boom in the hospitality sector— another critical sector in an economy historically “powered by the sun”. A closer association between the two countries would greatly facilitate the annual migration of Canadian “snowbirds”—people who migrate from the colder northern parts of...
North America to warmer southern locales, typically during the winter, providing additional—and recurring—seasonal spending in the island’s economy. Winter-weary Canadians can escape to summer-like temperatures just as their similarly winter-weary American neighbors avail themselves of seamless travel to, and accommodation in, Florida, Puerto Rico, the Virgin Islands and Hawaii.

In assessing the potential costs and benefits of a tighter and more formal relationship between the two countries, it is important to recognize the “new kid on the block” in the wake of the global pandemic, “remote working”. Like the virus that propelled its adoption, remote working is here to stay, and what remains uncertain are the “final contours” of the innovation: the who, when, and where of remote working (Tett, 2023). Remote working can be adopted by Canadians seeking a respite from their interminably harsh winters and Bahamians seeking relief from the oppressive heat and humidity of their lengthy tropical summers.

In addition, tighter adhesion of the Bahamas to Canada would enable a seamless recurring stream of young Bahamian nationals—“digital natives” all—to train in Canada’s world-class universities, professional schools and hospitals. Acquiring state-of-the-art skills in rapidly expanding fields such as data sciences and artificial intelligence would, over time, increase the skill level of the Bahamian labor force (and its productivity) should they choose to return home.

Concerning securing financial resources for use in climate change adaptation programs discussed earlier, instead of relying on global programs such as the fledgling Bridgetown Initiative, which often are stillborn, or face never-ending delays for approval, for appropriation of funds, and not least, for implementation of the long-delayed projects, forging a tighter association with the Bahamas will unlock prodigious financial capital and engineering talent from Canada that would streamline the time frame of climate adaption projects from conception to realization because the island’s climate adaption program will have become a quasi-domestic project with Canada’s participation. This would also be true for mobilizing funds to reconstruct future hurricane-damaged State infrastructure and private properties.

Concluding Remarks

Are there any precedents for this proposed—and unorthodox—remedy for SIDS countries, such as the Bahamas, likely to face existential problems because of global climate change over the next 50 years? Because of its history of extreme weather-related disasters, the Bahamas has repeatedly supplemented its increasingly uncertain cash flow that fuels its “sun-powered” economy by welcoming questionable economic and financial activities—from 18th-century pirating to 21st-century cryptocurrencies—constantly challenged by international regulators. The “adopt-an-island” proposal outlined above is a complicated “sell” for both countries.

However, a recent agreement between Australia and the Pacific island nation of Tuvalu of 11,000 people provides a prototype for the proposal outlined above. Australia is offering residents of Tuvalu, one of the countries most affected by global warming, the chance to migrate to escape climate change. The agreement allows 280 people affected by climate change to apply for a special visa to resettle in Australia annually. In addition to permitting this annual migration, Australia is committing US $220m to climate change mitigation and/or adapting its climate infrastructure for climate change in the region (Fildes, 2023). In addition, despite the substantial resources Australia has agreed to provide to Tuvalu, because of China’s recent diplomatic maneuvers in the Pacific, the value of the accord to Australia may be greater than the benefits for Tuvalu. The agreement also prohibits the island nation from entering into any other international security arrangement without Australia’s explicit agreement, reducing the likelihood that Tuvalu will form “an alliance with China like the one the Solomon Islands has entered into” (Frost, 2023).
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