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**Original Articles** 

# Why worry? The impact of the OECD harmful tax competition initiative on Caribbean offshore financial centres

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## **Abstract**

The economies of small states are vulnerable to a variety of external factors economic, political and environmental. One economic/financial factor confronting those small states with offshore financial centres has been the effort by the OECD to

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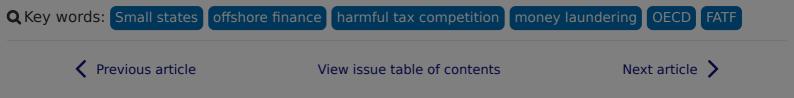
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regulatory Accept All mple for the Essential Onleral nternational Settings dustries. tunities and continued

operation of offshore financial centres as a method towards achieving economic development.



# Acknowledgements

This is a revised version of a paper presented to the Political Economy of International Finance workshop of the Department of International Relations and European Institute, London School of Economics and Political Science on 25 January 2005. My thanks to all of the participants, and particularly Miriam Allam, Manfred Elsig and Andrew Walter, for their comments and observations. The standard disclaimer on content and conclusions applies all the same.

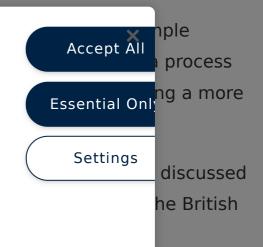
# Notes

- 1. A brief note on terminology. Offshore financial centres are found within sovereign states and non-self-governing territories (such as the Cayman Islands, Jersey and Hong Kong). The term 'jurisdiction' is used when both territorial entities are the topic of discussion.
- 2. An offshore financial centre provides more than just banking services. In the Caribbean various jurisdictions also specialize in providing international business company registrations, insurance company registrations, shipping registrars, and mutual and hedge funds.

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- 5. The remaining jurisdictions are: the sovereign states of Antigua and Barbuda, Barbados, Grenada, St Kitts and Nevis, and St Lucia; the British non-self-governing territories of Anguilla, the British Virgin Islands, Montserrat, and the Turks and Caicos Islands; the Dutch non-self-governing territories of the Netherlands Antilles and Aruba; and the USA-associated Commonwealth of Puerto Rico. To this list of Caribbean offshore financial centres, the North Atlantic island of Bermuda is often added.
- 6. Space does not permit a full exploration of the tax competition literature, which goes back at least to Charles Tiebout's (1956) article 'A pure theory of local expenditures'. Let it simply be noted here that, while there is general agreement on the existence of tax competition, there is no agreement on whether it is in fact harmful, rather than beneficial. See Edwards and Keen (1996); Schulze and Ursprung (1999); and Wilson (1999).
- 7. For example, Oxfam argues that for developing states alone the lost taxes amounted to \$50 billion annually (Oxfam, 2000). More recently the Tax Justice Network has estimated a tax loss of \$255 billion from wealth deposited offshore (Tax Justice Network, 2005).
- 8. The other jurisdictions identified on this first 'blacklist' were Belize, the Cook Islands, Cyprus, Gibraltar, Guernsey, the Isle of Man, Jersey, Israel, Lebanon, Liechtenstein, Malta, the Marshall Islands, Mauritius, Monaco, Nauru, Niue, Panama, the Philippines, Russia and Samoa.
- 9. As of October 2005 the FATF blacklist had been reduced to Burma and Nigeria (FATF, 2005).
- 10. In 1983 Richard Johns identified five major offshore financial centres in the Caribbean basin—Bermuda, the Bahamas, the Cayman Islands, the Netherlands Antilles

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