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

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

Key words:

- Small states
- offshore finance
- harmful tax competition
- money laundering
- OECD
- FATF

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Notes

1. A brief survey of the literature on the operation of offshore financial centres (see, for example, the survey by the OECD, 2002, and the survey by the FATF, 2003). The topic of this discussion is the operation of offshore financial centres in the Caribbean (see, for example, the survey by the OECD, 2002, and the survey by the FATF, 2003).
2. An offshore financial centre is a jurisdiction that provides financial services to non-residents. The Caribbean has a number of such centres, including the Cayman Islands, the British Virgin Islands, and the Bahamas.
3. This discussion is based on the findings of the OECD (2002) and the FATF (2003). The OECD has suggested that the operation of offshore financial centres is a process that has led to the development of a more efficient financial system.
4. In addition to the above, the OECD has also discussed the operation of offshore financial centres in the Caribbean. The OECD has suggested that the operation of offshore financial centres in the Caribbean is a process that has led to the development of a more efficient financial system.



Virgin Islands, Grenada, and St Kitts and Nevis.

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](#)).

9. As of 2005).



11. Percentage of GDP by economic sector, 2014
Research Institute for Caribbean
dollars, constant prices of 2010



12. The Category ‘B’ Banking and Trust licence is issued specifically to firms providing services to international markets and performing inter-bank transactions.

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