



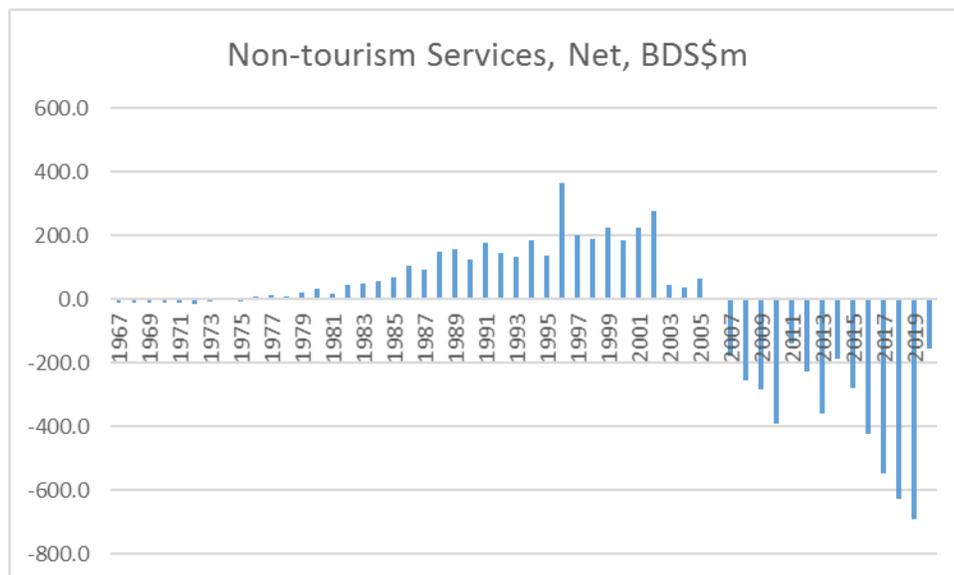
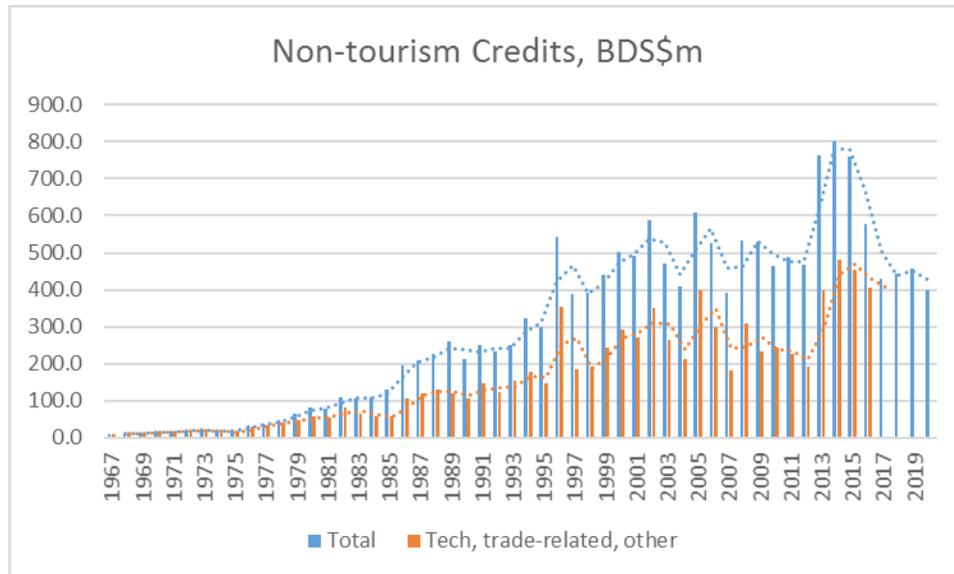
## Economic Letter June 2021



### **The International Business Sector Faces an Uncertain Future**

Barbados' International business and financial services (IBFS) sector showed promise of becoming an important supplement to foreign earnings from tourism, from the mid-1990s until the early years of the last decade. At their peak in 2014, IBFS earnings of \$734 million were 41 percent of tourism earnings for that year. However, by 2019 the contribution of the IBFS sector to foreign earnings was down to just 14 percent of earnings from tourism.

Even more of a concern is the fact that since 2007 the payments for IBF and other foreign services have exceeded the foreign receipts from the IBFS sector, by increasingly wider margins. The net outflow of foreign exchange in 2019 was \$690 million, equivalent of 27 percent of tourism earnings and 13 percent of total foreign earnings for that year.



Prospects that the IBFS sector might grow to become an important pillar in a strategy to diversify the sources of foreign income have receded in the past decade. Changes in the interpretation of Canadian tax codes forced the closure of Canadian-owned private banks, in the aftermath of the 2008/2009 international financial crisis. This was followed by tougher anti-money laundering regulations that made financial and payments transactions more costly, with disproportionate impact on small financial centres like Barbados. The prospects were not helped by the release of the Panama Papers and the Paradise Papers, which publicized confidential documents that cast a shadow on small international financial centres. The most recent challenge has been the initiative of richest countries to secure additional tax revenues from multinational companies, the so-called Base Erosion and Profit Shifting guidelines. The cumulative effect has been to erode the legal framework around which Barbados had constructed its marketing strategy for the IBFS sector, on the basis of a network of double taxation treaties. There now seems little prospect that the IBFS sector will offer significant opportunities for a third foreign exchange source for the country, along with tourism and manufactured goods exports.