



Meeting the Challenges Facing the International Business and Financial Services Centre

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Foreign exchange earnings from Barbados' non-tourism services have risen continuously over the past several years, and these activities have maintained their share of earnings at over 20 percent of the total. This growth reflects, in large part, the inherent competitiveness of Barbados' international business and financial services sector. Three years ago the Central Bank of Barbados hosted an international conference on the role of small international financial centres in a world of globalized finance. Papers presented at that conference demonstrated the role that centres such as Barbados play in enhancing the international competitiveness of companies that set up subsidiaries in their centre. Barbados has many competitive advantages, including health, education, public services and communications that are up to international standards; our regulatory and compliance systems are highly regarded. There is security of person and property, and our climate and geographical location offer us natural advantages. All these factors contribute to the profitability and competitiveness of international companies with subsidiaries operating from Barbados. They provide benefits for the home country, in terms of increased wealth, for the company's global clientele, who get better value for their money, and for Barbados, which earns foreign exchange and adds high quality jobs.

However, the Barbados international business and financial services sector faces challenges, internal and external. The internal challenges are the under-performance and excessive cost of public administration. I recently commented on the World Economic Forum's report on global competitiveness, which identified the factors that contributed to a decline in Barbados' global competitiveness ranking. "The main reason for our declining competitiveness is the worsening fiscal performance. The large budget deficit, the fact that Government's current spending exceeds tax receipts, and the rising debt levels are especially worrying for investors.

"Moreover, there has been a decline in the performance of public sector institutions, according to the respondents to the World Economic Forum's annual survey. The public's trust in politicians has waned, and there is an increasing concern about bias in the decisions of Government and officials. Government regulation has become more burdensome, and our legal framework has become less efficient. Survey respondents believe that Government has been wasteful in its spending, and that the situation has been getting worse" (www.delisleworrell.com/newsletter).

The external challenges are anti-competitive forces, which have appeared under cover of national and international measures against tax avoidance, money laundering and illegal finance. From the birth of Barbados' modern international business sector, our Government has been at pains to ensure that the services provided by companies and subsidiaries located in Barbados should be fully in accordance with applicable laws, rules and regulations, both internationally and in the home countries of the international companies. Government has been unwavering in its commitment to this principle. Barbados is not, and has never been a tax-exempt haven; companies pay applicable corporation taxes on

value added in Barbados, and a network of double taxation agreements is used to ensure that companies are not taxed a second time on that income. The regulatory regime in Barbados is kept up to date with international guidance, and this is certified by the IMF, the World Bank, the OECD and the Financial Action Task Force (FATF). The reports of the Financial Sector Assessment Programmes, peer reviews of the FATF, and mutual evaluations of the Global Forum of the OECD, are all public documents which attest to the quality of Barbados' regulatory and compliance regime.

Challenges arise because the openness of the international financial market is under threat from several directions. A major challenge for Barbados is changes in practices and guidelines in the administration of the Canadian tax code. A second challenge derives from the initiatives to address "base erosion and profit shifting". Added complications arise because of tightening information requirements for compliance with anti-money laundering guidelines, and exhaustive data requirements for customer information imposed by a number of regulatory authorities. Compounding everything is the release and widespread dissemination of private information on individuals and corporations, in ways which give the impression that open market cross-border financial transfers are somehow detrimental to the global economy, and unfair to some interests. In fact, the very opposite is true. Open financial markets, well supervised, contribute to an increase in global wealth. If international supervision is administered in a fair and unbiased manner everywhere, the benefits of that increase will be shared equitably across nations and income groups. A problem arises because of the prevalence of anti-competitive forces and discriminatory practices in advanced economies.

This complex of factors has resulted in widespread market distortions, limitations on market access, and harm to the interests of international companies, their home countries, the consumers of their output, and small international financial centres like Barbados. It is remarkable that Barbados' non-tourism services have held their own in recent years, under these circumstances. That speaks to the inherent competitiveness of our sector, in the face of these odds.

Barbados needs to persist with efforts to surmount the challenges and accelerate the growth of the international business and financial sector. Successful responses will liberate the inherent dynamism of the sector, and allow its growth to fully reflect the extent of Barbados' international competitive advantage.

In response to the internal challenge I had this to say in my Economic Letter of May this year: "In order to restore confidence and secure the [exchange rate] peg, decisive action is needed to reduce government's ongoing expenditure to the amount of tax revenues" (www.delisleworrell.com/newsletter). In that letter I also recommended an approach to the IMF for financial support, for a programme of fiscal consolidation of Government's own design. IMF support would be invaluable in lending credibility to the adjustment programme.

In response to the challenges to international financial transactions, Barbados needs to continue and intensify a multifaceted approach, including pursuing the search for equitable rules for international finance through the Regional Consultative Group for the Americas, of which we are a member. Barbados needs to have a focussed, strategic and practical strategy for engagement with the FATF and Global Forum, and with the nations with whom there are Double Taxation Agreements (DTAs) or Bilateral Investment Treaties. In addition, promotional, administrative and financial resources must be concentrated on the new markets that offer the richest potential.

I am confident that the Barbadian economy can be returned to a path of growing prosperity in short order, once decisive action is taken to address the public finances and the low productivity of the public sector. In a few weeks I will publish a paper outlining the main components of an appropriate strategy to address both the excessive cost of Government operations and the low levels of effectiveness of many Government services. As I pointed out in my June newsletter, we have several recent examples of countries with fiscal challenges far more severe than our own, who have returned to robust growth within three to five years of decisive fiscal correction. The examples I cited were Ireland, Iceland, Latvia and Cyprus, all countries that have maintained their status in the UNDP's highest category of human development. Addressing the government's cash deficit will restore investor confidence and release resources than can be devoted to better support for tourism, international business and other foreign exchange earning activities.

The restoration of investor confidence and a well-documented strategy of engagement with international regulatory agencies are the most essential elements of a strategy to support the IBFS sector. These elements will serve to build on the foundation of Barbados' established international standing, to further the growth of the international services activities. Barbados' inherent competitiveness, documented in the *Global Competitiveness Report*, may be further enhanced by well crafted Government support, including such steps as fortifying the network of Double Taxation Agreements and Bilateral Investment Treaties and improving the efficiency of licensing and other administrative procedures.

There is no question that the challenges Barbados faces in sustaining the growth of the IBFS sector are formidable, but we are well equipped to address them, because of our reputation, the quality of our regulation, our strict adherence to international norms and our world class expertise in this area. In the current climate of international uncertainty and disinformation, we may be confident that we will prevail because we are on the right side of history. Global trade and finance will eventually emerge from the current upheavals, which threaten to destroy wealth. The countries that will emerge soonest are those that play to their competitive strengths and focus on the long term. There is no doubt that we will have a rocky ride for some time, but if we stick to our guns and continue to play the cards we have skillfully, the future of the Barbados international business and financial centre is assured.