Global Economic Events impacting the Caribbean

By Sir Ronald Sanders

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I thank the Institute of Chartered Accountants of the Caribbean for the invitation to address this 35th Annual Conference.

I have been asked to consider with you, “Global Economic Events impacting the Caribbean”.

Let me begin by drawing attention to an observation I made in a recently published commentary.

I said, “How these small states of the Caribbean will survive in a global society, where power prevails over principle, will increasingly become the question of this Century for their political leaders, businessmen, diplomats and academics”.

It is also a question for you.

Accountants, Tax Advisers, Auditors, Estate Planners - are now expected to be ‘whistle blowers’ on your own clients and to establish unprecedented machinery to guard against charges of facilitating money laundering, tax evasion and the financing of terrorism.

These requirements have serious implications for how some of your businesses will survive.

For, to survive within the rules, which are being imposed by the two bodies set-up and controlled by the industrialised nations, will be costly and risky.

Those bodies are the Financial Action Task Force (FATF) that sets the rules, euphemistically called ‘recommendations’, for money laundering and counter terrorism financing, and the Global Forum of the Organisation for Economic Co-operation and Development (OECD).

But, before I address the specific areas that impact your profession, it would be appropriate to review the international milieu in which Caribbean countries are operating.

In the words of Richard Haass, President of the US Council for Foreign Relations, “the world is in disarray”, characterised by the growing gap of inequality between developed and developing nations and a further gaping mismatch between global challenges and responses.

In all this, the countries of the Caribbean are deprived of a seat at the table of decision-making with only lip service being paid to their concerns, while, increasingly they are being subjected to the will of more powerful states acting in their own interest.

We should all recognise that when you are not part of the party at the table; it is usually because you are part of the menu!

The most worrying aspect – and one which has now encroached in perilous ways on your profession as Accountants – is the expanding imposition on the financial services sector of Caribbean countries of rules devised by developed countries to serve their own purposes.

The UN Secretary-General, Antonio Gutterres, recently observed that "The tide of globalization has yet to lift all boats. For too many, the path to prosperity has proven elusive". "We also know", he said, "that millions of people are being left behind".

The Commonwealth Caribbean small states certainly fall among the millions of people that globalization has left behind.

The Caribbean and the reality of Globalization

For the Caribbean, globalization has been a one-way street of impositions by powerful countries:

- fiscal sovereignty has been violated by the strong;
- tax competition remains under threat from the mighty;
- economic growth and development have been impeded by unfair and unequal trade arrangements; and
- the real perils that global warming and sea-level rise pose to the very existence of Caribbean islands and countries with low-lying coastal areas, are intensifying.

As a consequence of this many, if not all of them, are unlikely to achieve the much vaunted 17 Sustainable Development Goals set out by the United Nations in 2015 in its '2030 Agenda for Sustainable Development'.

Despite current forecasts by the International Monetary Fund (IMF) of world growth rising from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018, Caribbean countries, with a few exceptions, will continue to face fiscal and structural constraints that will make it hard to manage financial, economic and other forms of volatility.

These are:

- high debt to GDP ratios
- disadvantageous terms of trade; and
- grave constraints on the financial services sector, including the withdrawal of Correspondent Banking relations from Caribbean banks

High Debt to GDP Ratios

Dealing first with high debt to GDP ratio, this phenomenon plagues the majority of Caribbean countries.

The cost of debt service, in some countries, is so high that it severely constrains the spending capacity of governments to provide goods and services immediately needed by their people, and to invest in projects for economic growth.

A study, commissioned by the Canadian think-tank, the Centre for International Governance Innovation (CIGI), projects that, on its present course, by 2020, debt will remain unsustainable in 11 of 13 Caribbean small states, and there will be no change in 2030 when the UN's Agenda for Sustainable Development will have run its course.

It is important to note that the CIGI study found that in seven of the largest debtor countries in the region, debt rose due to the following things:

- infrastructure reconstruction after natural disasters;
- reduction in aid;
- little or no access to concessional financing, forcing governments to borrow on tough commercial terms;
- erosion of European Union trade preferences since the early 1990s; and
- the impact on tourism of the global economic crisis which began in 2008.

Disadvantageous Terms of Trade

The problem is exacerbated by the poor terms of trade that Caribbean countries experience.

It is significant that while the present administration in the United States complains of the high balance of trade deficit that the US experiences with the rest of the world in total, it enjoys a huge balance of trade surplus with the Caribbean, and particularly with the small island states.

In 2016, the US balance of trade surplus with the 14 independent states of the Caribbean Community (CARICOM) was US$5.2 billion, an increase of US$600 million over the 2015 figure of US$4.6 billion.

The US is the largest trading partner of Caribbean states, accounting for approximately 60% of their total trade.

A similar situation exists with the Caribbean's second largest trading partner, the now 28 member states of the European Union (EU).

In 2008, the 14 CARICOM countries plus the Dominican Republic each signed an Economic Partnership Agreement (EPA) with the EU collectively.

The relationship, therefore, is not between the two regions; it is between the EU as a whole and each Caribbean country individually – a relationship between a huge elephant and tiny mice.

In 2015, the EU balance of trade surplus with these countries was €2.8 billion; in 2016, the surplus rose to €3.3 billion.

The EU claims that the "purpose of the agreement is to make it easier for people and businesses from the two regions to invest in and trade with each other and thus to help Caribbean countries grow their economies and create jobs".

But, figures show that this objective was not achieved.

Notwithstanding the EPA, signed by the EU Commission on behalf of each of its member states, non-tariff barriers and 'national' laws, still prohibit ease of exports of goods and services to the EU market.

Further, a five-year review of the EPA indicated that the level of EU investment into Caribbean territories was low and there was no concrete example of EU investment.

In international trade, under World Trade Organisation (WTO) rules, terms are imposed on Caribbean small states as if each of them is equal in physical space, market size, and resources as the US, China, India or Japan.

Small Caribbean countries enjoy no special and differential treatment despite their small land space, their small populations, their limited human capital, and their susceptibility to shocks that originate from outside their borders.

Yet, in the case of every small Caribbean country, its global market share of trade is under 0.12 percent.

Withdrawal of Correspondent Banking Relations

It is against this troubling background that adverse occurrences in the Caribbean's financial services sector has to be considered.

The member states of CARICOM – all 15 of them – are now faced with what has been described as a greater danger to their economies "than a Category 5 hurricane".

The danger is the effect of the withdrawal of correspondent banking relations (CBRs) by global banks in the US and the UK from banks in this region.

As I speak, several banks across several countries in the Caribbean (including Barbados, The Bahamas, Belize, the six smaller Eastern Caribbean countries, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago) have lost some or all of their CBRs.

Frightened by the huge fines and forfeitures with which they are threatened, particularly by regulators, and conscious of the branding of the Caribbean as a 'high risk area' for financial services, banks in the US and the UK that have done business in the region for over a century, are taking the view that the risk is not worth the rewards of the business.

But what is the risk?

The OECD Global Forum places all but one Caribbean country in the same categories of compliance as the US, the UK and many other EU nations.

And, the Financial Action Task Force (FATF), created by the G7 countries to set standards for anti-money laundering and countering terrorism financing (AML/CTF), does not name a single Caribbean country on its current list of 'high risk jurisdictions'.

Additionally, 8 CARICOM countries plus 5 other Caribbean jurisdictions, including Bermuda and Cayman Islands, are in the process of conducting National Risk Assessments to improve AML/CTF systems through a methodology developed by the World Bank.

What is more all Caribbean countries are obliged to establish and enforce FATF and OECD rules.

Here is a list of the obligations that many Caribbean countries, with very scarce resources, have to finance:

- The FATF's rules on anti-money laundering and counter terrorism financing;
- The OECD's common reporting standards;
- The US Foreign Account Tax Compliance Act (FATCA), under which financial institutions are required to report to the American Inland Revenue Service on accounts and other financial assets held by US persons and entities;
- Operation of Tax Information Exchange Agreements with over 25 countries;
- Operation of Mutual Legal Assistance Treaties with almost 90 countries.

In the case of the US FACTA, small countries in the Caribbean are paying for the dubious privilege of being policemen for the US IRS.

Yet, the prospects for an improvement in the situation is not good.

While banks have been able to cobble together alternative correspondent payment arrangements for some transactions, the costs have risen by as much as 300 per cent.

And, there is no guarantee of the sustainability of these relationships.

What is clear is that if the present trends continue, the region will be in danger of losing even more sovereignty over its fiscal and banking affairs.

There is an argument that the harmful effect of the withdrawal of CBRs from indigenous banks is reduced by the continued operations of Canadian banks who, through their headquarters arrangements, can continue to provide banking services.

However, while the region should welcome and appreciate the role that Canadian banks play, even if all of them choose to remain in the region, effectively the benefit of competition for banking services would be lost.

Locally owned banks, because they are indigenous and know their customers and culture better, are more prepared to take risks involved in funding productive ventures.

That is an important consideration in development terms.

Further, left with a field bereft of competition, foreign banks can control the means of exchange and determine interest rates, lending policies, and sectoral investment.

None of this would be good for the general public or the economies of the region.

A responsible international community should help the Caribbean to address resist this serious problem of the withdrawal of CBR's; other developing countries should be in the forefront of support, for the problem can spread to their shores, as it has already started in the Pacific Islands, small African countries and Central Asia.

No level playing field

The origins of this grave issue date back to the early 1990s – indeed, coinciding with the rise of globalisation – when small countries in the Caribbean and the Pacific sought to take advantage of the promises of globalisation by developing financial services with a global reach.

In doing so, they presented unwelcome competition to industrialised nations that had, hitherto, cornered the global financial services sector.

For more than three decades the major member states of the OECD have been embarked upon a campaign to eliminate competition in financial services from Caribbean countries and other developing states.

That campaign has never waned.

It has gained validation in the international community by seducing or coercing some developing countries into participation in groups, created at the behest of G7 countries, ostensibly to establish globally acceptable rules on tax information exchange, transparency, common reporting standards, anti-money laundering, counter terrorism financing and tax evasion.

Let me emphasise that none of this is to say that the Caribbean region should not play a responsible role in combatting money laundering, countering terrorism financing and curbing tax evasion.

Every Caribbean country has an obligation to the international community to play an effective part, and each is trying its best, with limited resources to do so.

But, the rules that are being applied to small jurisdictions in the Caribbean are onerous and injurious, without being necessary or relevant.

What is more the playing field is not level.

For instance, in 2006, the FATF found the US to be non-compliant with entity transparency and gatekeeper rules.

For ten years, until last year, the FATF chose to do nothing about the it.

A further evaluation in 2016 found the US still not compliant, but nowhere has it been blacklisted or has any action been taken.

And, unlike Caribbean countries, such as Antigua and Barbuda and the Bahamas, the US has not signed-up to the OECD's Common Reporting Standards (CRS) by which it would be

required to report to their country of origin the identities of beneficial owners of Trusts, International Business Corporation and financial assets.

As a result, the US enjoys a global advantage in the establishment of Trust structures that have moved there to avoid disclosure, earning the US millions of dollars.

States in the United States, such as Delaware, South Dakota, Wisconsin, Colorado and Arizona, disregard OECD rules for disclosure and transparency of beneficial owners.

They are tax havens to all intents and purposes.

The US is not alone in this privileged position.

Emeritus Professor of Gresham College, Avinash Persaud, pointed out in a recent publication that last year the Home Affairs Select Committee of the UK parliament “concluded that the London property market was the primary avenue for the laundering of £100bn of illicit money a year”.

Yet, the UK is not on an EU blacklist.

So, it is clear that the doctrine of ‘might is right’ prevails; the principle of transparency applies only to the weak; and the notion of a level playing field for competition is a myth.

Seduction of the International Media

In all this, the powerful nations have seduced the international media into becoming participants in their campaign.

As far back as 1834, a US Senator described this with prescient clarity.

He said “power marks its victim; denounces it; and then excites public hatred and odium to conceal its own abuses and encroachments”.

So, the Caribbean has been branded as a ‘tax haven’ and an ‘area of financial risk’.

The truth that dares not speak its name is that “automatic exchange of tax information”; false branding of countries as “tax havens “while the real tax havens continue to thrive and prosper; and sanctions against what is described as “uncooperative jurisdictions”, is an effective form of control by the powerful over the weak.

The Plight of the Accounting Community

The FATF and the OECD Global Forum now require all jurisdictions to identify and name beneficial owners of financial assets.

This has extended to International Business Corporations and companies incorporated in domestic jurisdictions.

The days of bearer shares and numbered accounts are gone, except in some states of the United States such as Delaware and Nevada where the practice continues, and to which a great deal of global business has been moved to avoid disclosure.

In the Caribbean, however, our governments have been pushed into enacting legislation on beneficial ownership or face the pain of being black-listed with grave consequences for doing business in the international community.

As part of this process, the FATF has issued "High level principles and procedures for Accountants" to guide them on 'the risk based approach to combatting money laundering and terrorist financing'.

In effect, Accountants and Lawyers, who have provided services to clients for years, are now required to be 'gatekeepers' and, effectively, they are obliged to report on their own clients if they suspect activities such as money laundering, terrorist financing or tax evasion.

Incidentally, the US Treasury has not applied anti-money laundering laws to 'gatekeepers'.

In Canada, courts have repeatedly said that AML/CTF requirements, such as reporting on clients, violates the Attorney-Client relationship.

But, in our Caribbean jurisdictions, laws to this effect have already been adopted in some jurisdictions or are in the process of being implemented.

So, there is no level playing field in the global community.

But as much as Caribbean jurisdictions complain about the double-standard and hypocrisy of the application of OECD and FATF rules as the Premier of the Cayman Islands and the Chief Minister of the Isle of Man have done, having not fought collectively against this situation from the beginning, they now have to implement the rules or suffer the consequences of black listing and counter measures.

In this connection, huge obligations will be placed on Accountants to know the business of their clients in far greater detail than ever before, and to exercise extreme caution in providing a range of advice, including:

- financial and tax advice
- creation of corporate vehicles
- buying or selling property
- performing financial transactions on behalf of clients; and even
- providing introduction to financial institutions.

FATF and OECD Global Forum rules will require governments to adopt and implement legislation that will hold Accountants responsible for actions of their clients that result in them being charged with facilitating money laundering, terrorist financing and tax evasion by their clients, not only within their own jurisdictions but in cross-border activities.

This imposes a huge challenge on Accountants and Auditors.

Practitioners must now constantly keep abreast of international, regional and national developments to maintain your clients and develop new ones.

You will need to be able to adjust your own practices, including the potential need to invest resources and develop new practice areas for their clients, including those in compliance and enforcement.

or example, you will need to invest in systems, including software, to know and understand their clients' business to protect yourselves.

Increasingly, the costs and risks involved will rise.

Both the costs and risks could well result in a decision by some Accounting firms that the rewards are not worth the risks.

In other words, some small accounting firms could opt for closure, leaving the accounting business in the region only to very large firms that have the capacity to conduct extensive checks on clients and their business.

There would also be the danger that small businesses would not be able to pay the fees charged by large accounting firms, resulting in a large number of small businesses being deprived of accounting services for many activities, including filing tax returns.

What is remarkable in all this is that, in the small communities of many Caribbean jurisdictions, these heavy-handed rules, devised by the OECD and the FATF, are hardly necessary.

The size and range of transactions in the Caribbean are not large enough to pose any grave risk to the world's financial system.

Further, the Caribbean Financial Action Task Force (CFATF), on which I once served as Chairman, is now less an advocate for the interests of the region, and more an implementing instrument of the FATF.

What to do?

So, the question is how is all this to be managed by your profession and by the governments in the Caribbean?

Why do CARICOM governments, you might ask, not jointly resist these impositions that disadvantage their jurisdictions and render them uncompetitive in the global financial system?

The reality is that that particular horse has already bolted; trying to close the stable door now will accomplish nothing except a black-listing by any jurisdiction courageous enough to do so.

When the opportunity for a solid CARICOM resistance to the FATF and OECD rules was ripe, governments failed to act in concert.

In beggar-thy-neighbour policies in which countries sought to escape blacklisting, there was little or no solidarity.

Wider alliances with countries in similar circumstances in the Pacific, Africa, the Mediterranean and even Europe, were not effectively forged.

As usual, divide and rule tactics were employed and they were effective

The narrative that governments can do little or nothing to withstand the OECD and FATF juggernauts has become so entrenched that no one questions the fundamental flaw in the rules that are devised – and that is the assumption that one size shoe will fit all the feet, large or small.

Well, we know that to be a false premise.

And, our jurisdictions should be forthright and vigorous in arguing that structures that are required in the countries where more than 90 per cent of the world's financial dealings occur, are inappropriate and burdensome in countries where less than 2% of global transactions take place.

The governments of Caribbean countries could, at the very least, take a more proactive, political stance in the work of the FATF, CFATF and the Global Forum.

Largely, participation of governments in these groups is at the technical level.

Only political representatives can respond to the threat of sanctions and black-listing of jurisdictions that hang over the heads of technicians at these meetings.

But, representation at the meetings of these groups has little political input, and the decisions only become a matter of discourse in public policy when legislation has to be passed in parliament at which point a party-political debate ensues that might delay the proposed legislation, but does not stop it.

Until representation of governments is escalated to the political level backed-up by sound technical work, the more powerful G7 countries will continue to dominate the decision-making of these bodies.

So, Caribbean governments should consider establishing collective machinery for participating in these meetings where they work-out their positions in advance and argue them jointly.

But, even before the governments consider establishing such collective machinery, in each jurisdiction and in the region as a whole, there should be a structure for consultation between governments and the professional organisations, such as yours, on the relevance of these rules and their effects.

After all, while the rules affect the economies and standing of the jurisdictions, they only do because of their impact upon the work of the private sector.

For these reasons, bankers, accountants, auditors, traders in the private sector should all be taking a greater interest in these matters, and urging consultation with governments prior to meetings of these decision-making bodies.

No one jurisdiction in the Caribbean can expect to bring about change on its own; only a collective Caribbean response will achieve it.

And such a response requires industry research, professional experience, and sound argument.

Nothing short of a movement by many countries to wrest control of the rules governing the global financial system from the OECD countries and putting it where it has always properly belonged – the United Nations – can or will change the present unfair structure.

Such a movement would require trust and confidence among the governments that initiate the action.

It would also require political courage and non-partisan political support within countries.

Conclusion

In the meantime, your profession would serve itself best by the following:

- keep abreast of the requirements of the FATF and the OECD Global Forum, and ensure that you are in compliance with the rules that have already been legislated;
- insist on consultations between your professional bodies and governments prior to meetings of the Caribbean Financial Action Task Force, the Paris-based Financial Action Task Force and the OECD Global Forum so that your views contribute to the positions adopted at decision-making meetings; and
- urge governments of all Caribbean jurisdictions to establish machinery for joint Caribbean policy positions that can be collectively argued in the G7 bodies.

Alliances should also be sought with groups within OECD countries that recognise that imposing onerous and unnecessary rules on small jurisdictions and disadvantaging them by allowing unlevel playing fields to prevail, do not make for a prosperous world or a peaceful one.

That, to paraphrase Abraham Lincoln, the world will not survive half-free, and half-enslaved.

There would be good reason for other developing nations and groups within OECD countries to join the Caribbean in such an undertaking.

For, the small are the bully's first victim; they are seldom the last.

But the small must make themselves strong by the unity of their actions.

Your meeting should, at least, determine how best you can help to launch that process of unity in the interest of the Caribbean and yourselves.

Thank you.