

**The Barbadian Success Story:
A Case Study of Economic Development in
Barbados**

by

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Abstract

Since independence, Barbados has enjoyed consistent levels of economic success beyond what is typical for a Small Island Developing State (SIDS). This case study investigates the causes of this success and identifies core principles which can be used as a model for SIDSs aiming to increase their economic growth. A combination of good governance; strong taxation treaties and government regulation; and a focus on niche luxury markets are found to have created the foundation of success in Barbados. These factors are shown to have led to the safe and stable environment on the island which has attracted investors and allowed economic activity to thrive. Following the analysis of the causes of economic success, the case study also evaluates the position of the Barbadian economy moving forward and highlights areas that require attention if growth is to continue.

Keywords: Barbados; Economic Development; SIDS; Good Governance; Financial Regulation; Taxation Treaties

Dedication

For my amazing father Gary Hall: research assistant, editor, umbrella carrier and most of all cheerleader. Thank you for all the love and support, I could not have got here without you.

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List of Acronyms

BPW	Barbados Public Workers' Co-operative Credit Union
CARICOM	Caribbean Community
CBB	Central Bank of Barbados
CDMC	Caribbean Digital Media Centre
COB	City of Bridgetown Credit Union
DTA	Double Taxation Agreement
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
GDP	Gross Domestic Product
HNWI	High and Ultra-High Net Worth Individual
IBC	International Business Company
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development
SIDS	Small Island Developing State
SME	Small and Medium Enterprise
TIEA	Tax Information Exchange Agreement
USD	United States Dollar
UWI	University of the West Indies

1. Introduction

This paper aims to serve as a case study examining Barbados's surprising economic success. Barbados's GDP per capita has been steadily rising for 30 years and is currently 23,700 USD placing it sixth in the Americas and fourth in the Caribbean ("Country Comparisons to the World").¹ In addition, on Transparency International's 2011 Corruption Perceptions Index Barbados received a score of 7.8 placing it sixteenth in the world and second in the Americas behind only Canada and eight spots ahead of the United States ("Corruption Perceptions Index 2011").² Despite its status as a Small Island Developing State (SIDS) Barbados has overcome the affliction of poor economic performance that is nearly ubiquitous amongst SIDSs and has emerged as a leader in the Caribbean. The previous figures demonstrate the extent to which Barbados has not only succeeded economically but has also developed a strong and well-respected public sector that is the backbone of its success.

Barbados exists as an outlier to expectations for SIDSs. Across indicators of education,³ health⁴ and financial responsibility⁵ Barbados proves itself above other high income non-OECD states (World Bank). The particular focus of this case study is why Barbados has been successful while most other comparable states struggle. This is an important anomaly because while Barbados shares a common history of colonial

¹ It is worth noting that the three more successful Caribbean states are Bermuda, the Cayman Islands and the Bahamas which all attribute their success to being tax havens, something Barbados has avoided.

² The Corruption Perceptions Index measures the perceived corruption of a state's government on a scale of 0-10. These figures are relevant for investment purposes as they show confidence levels for states' governments.

³ Using indicators of enrolment in primary and secondary education, Barbados shows higher enrolment than average (World Bank).

⁴ Using the indicator of life expectancy, Barbados has an equivalent age of 77 to other high income non-OECD states (World Bank).

⁵ Using indicators examining loans provided to Barbados and the rates and at which they are paid back and the sectors in which they are used Barbados is shown to be a location of financial stability (World Bank).

exploitation and slavery with other Caribbean states, the Barbadian strategy of incorporating the colonial legacy into independence is unique as is the absence of political violence over the past century. In addition, as with other SIDSs, Barbados is a tiny island, only 430 square km,⁶ of which just 37.21% is arable (“Barbados.”). Despite the pattern of small size stunting economies in SIDSs, as a result of their inability to develop competitive advantages on the global scale, Barbados has been able to develop highly successful industries in tourism, finance and manufacturing. This rare success warrants investigation.

Barbados's success can be attributed to three main factors: good governance; advantageous tax treaties and a strong financial system; and a focus on luxury niche markets. It is important to examine the depth and detail of these three areas and to note their interdependence. By analyzing the historical legacy which has contributed to the presence of these factors and the impact they have had on each other it is possible to see how economic success in Barbados has emerged in a stable manner that is likely to continue.

This case study begins with a brief review of the research methodologies used. Next is an examination of the current economic realities in most SIDSs, as well as a literature review of theory surrounding SIDSs. Good governance theory will then be examined followed by a review of theories of taxation and banking regulation. The literature review will conclude with a brief survey of Barbadian history as it helps to explain the process that developed the current environment. The case study will then delve into an analysis of the three sectors identified as the primary causes of economic success. Current problems facing Barbados will be considered and presented alongside suggested actions in order to minimize their potential damaging effects. While the goal of this case study is not to provide a prescriptive model of economic growth for all SIDSs, or even all Caribbean SIDSs, it will close with a consideration of how the themes which emerge can be applied to other cases and how Barbados fits within the current literature regarding governance and taxation.

⁶ Comparatively this is 2.5 times the size of Washington D.C. and places Barbados as the 201st smallest state in the world out of 251 (“Country Comparison: Area.”).

2. Methodology

Research for this case study was conducted through personal interviews and analysis of existing literature. Interviews were conducted over a one month period of field work during April and May of 2012 in Toronto, Ontario and Barbados. Interviewees included individuals in their capacity as representatives of banks, credit unions, government, labour unions and university faculty as well as several individuals who were interviewed in their capacity as Barbadians. Interviews were semi-structured and included questions regarding the involvement of their organization to Barbadian development, Canadian interests, Barbados's position in the global market and their view of the future of the Barbadian economy. These interviews were complemented by extensive research of academic literature regarding development, good governance and regulation. As there is little research directly related to Barbados, research also included examining magazines, web articles and newspapers to glean information about the research topic.

Most original data collected was qualitative in nature and therefore no statistical methods were used in the analysis. Data was analyzed using a colour coding method to separate information. Interviews were recorded and later transcribed before being coded alongside outside research materials. The coding scheme ascribed colours to the various focal points in the paper which are reflected in the major headings of the final write up. Discourse analysis was also used primarily in reviewing the transcriptions of interviews to glean areas of particular interest and bias of interview subjects.

While it would be possible to replicate the results of this case study it is important to acknowledge the context in which the data was collected. During April and May 2012 Barbados continued to feel the effects of a global recession and the economy had been impacted. As a result opinions about future prospects were often negative. In addition, Canadian banks had recently been heralded as the best in the world and Barbadians were largely enthusiastic about the heavy Canadian presence. These opinions are likely

to be fairly fluid as the geopolitical situation changes. While the qualitative and time sensitive nature of the research makes an exact replication of the methodology difficult, the overall findings could be replicated. The central features to which this case study credits the Barbadian economy's success are central tenants in the work of other scholars (see Beckles, ECLAC, Howard, Hoyos) and would be consistent for scholars who might examine the issue in the future.

3. Literature Review

3.1. Current Economic Literature on SIDSs

Currently 52 states are considered SIDSs. They are separated into three distinct regions: the Caribbean with 23 states; the Atlantic, Indian Ocean, Mediterranean, and South China Sea with 9 states; and the Pacific with 20 states (“List of Small Island Developing States.”). These states are most often discussed in relation to their shared environmental concerns; ⁷ however, they also share significant economic concerns. These concerns include “limited population[s], a narrow range of available resources, excessive dependence on international trade and vulnerability to global developments. In addition, they lack economies of scale, have high transportation and communication costs, and have costly public administration and infrastructure.” (“Barbados Programme of Action...”, 2012) While all these factors are important for SIDSs, the most influential is the volatility caused by market openness and dependence on international trade. This section of the literature review will consider the importance of trade openness for SIDSs and will highlight the necessity for governments to strike an appropriate balance of openness in international trade.

SIDSs are forced to find a delicate balance in determining the degree to which they will open their economies to the global market (Read, 365). As SIDSs are particularly dependent upon external sources for imports and capital flow, they cannot afford to have overly protectionist policies. The most economically successful SIDSs have worked to increase specialization in order to be competitive globally (Read, 368). Their products are most often geared to the global market and therefore they are dependent upon external sources to consume their products. Without adequate trade

⁷ It is important to note that this case study does not address Barbados's environmental situation and therefore will not examine current literature regarding environmental concerns for SIDSs. This is a substantial field as rising sea levels and changing weather patterns do disproportionately affect SIDSs but is beyond the scope of this case study.

openness, SIDSs will fail to have access to necessary export markets for their goods. In addition, both by nature of the composition of SIDSs and the economic specialization they require, SIDSs must import goods in significant quantities. Finally, many successful SIDSs are recipients of foreign direct investment and without adequate openness to global markets, this flow of foreign capital would be extinguished (Jackman et al., 136).

Easterly and Kraay challenge the commonly held view that small states are fundamentally economically different from large states and suffer as a result. Using a sample of 33 small states they show that small states in fact have a higher GDP per capita than their larger counterparts (Easterly & Kraay, 2012). While they acknowledge that small states do suffer more severe economic shocks from greater openness, they claim that overall this openness creates positive net growth and therefore small states should open themselves economically as much as possible (Easterly & Kraay, 2012). However, there are some aspects of Easterly and Kraay's work that limit its relevance to the study of SIDSs. First, their sample of 33 states is not composed exclusively of island states and therefore their findings do not necessarily transfer directly to SIDSs (2014). In addition, they do not adequately acknowledge that there are a few outlier small states that significantly increase the revenue figures (2018). These states largely enjoy higher than average wealth either because of the presence of oil,⁸ or because they are operating as tax havens. Finally, as Read argues, while increased global and regional relations can strengthen the economies of SIDSs they also expose them to the potential for massive shocks (366). While Easterly and Kraay state that there is a net positive growth effect to full trade openness, thereby claiming the shocks are acceptable, this does not consider that the benefits and losses of such economic cycles are not spread evenly across societies and due to high inequality in many SIDSs these crashes can have devastating effects for already disadvantaged individuals.

In summary, economic literature on SIDSs is predominantly focused on their interaction with the global market and the degree to which trade openness should be pursued. The importance of trade openness is clearly shown by the high dependence of SIDSs on global markets through the use of foreign states as markets for goods,

8 Trinidad and Tobago has a much higher GDP per capita than the rest of the Caribbean due to their oil reserves.

sources of imports and sources of foreign capital. These benefits are counterbalanced by the problems of foreign domination and the extreme economic vulnerability of SIDSs to global trends when there is excessive trade openness. This analysis is relevant both in how it helps to explain the economic success in Barbados, as a result of their striking an effective balance of openness, and to illuminate how Barbados differs from many other SIDSs.

3.2. Governance Theory

It is widely accepted in contemporary development theory that the mere presence of specific institutions or policies is inadequate to guarantee economic success in a state; what is important is good governance. Good governance is critical to economic success as it lays the foundation upon which the rest of the state is built. The requirements of good governance include government's capacity, ability to coordinate actors within their territory and accountability.

3.2.1. State Capacity

A state's capacity has a tremendous impact on the quality of governance. It requires governments to prioritize action based on the realistic capabilities of their states. This involves a serious analysis of the state's ability to bring in and manage revenue. A substantial challenge for many developing states is the absence of an effective taxation agency that permeates society. For former colonies, this is often a result of weak bureaucratic institutions established during the colonial period as well as mismanaged transition periods from colonies to independent states (Kohli). As Kohli highlights, post-colonial South Korea was largely successful because of the heavy Japanese presence during the colonial period which made establishing a well-functioning bureaucracy a priority (Kohli, 306). Compared to the extractive colonial model of the British in Nigeria, it is clear why the South Korean experience would lead to a more successful post-colonial situation.

It is interesting to note that former Japanese colonies, such as South Korea and Taiwan, were well-served by their colonial masters and have well developed

bureaucracies as a result.⁹ This can be contrasted with former European colonies which have had much more diverse results. Former colonies' success largely revolves around whether they were established for predominantly extractive purposes. As seen with the British in Nigeria, extractive colonies involve little to no bureaucratic set up and result in chaotic disorganized states. When examining the Barbadian case it is important to note that the colonial experience began as an extractive endeavour but that changed before independence. Barbados pursued a relationship with the British and collaborated closely in establishing solid bureaucracies pre-independence (Beckles, 202). As a result the capacity of the Barbadian government is considerably higher than might be expected.

In addition to having well-functioning institutions, it is important for governments to have a realistic perception of their capacity (Cammack, 44). Governments that recognize their shortcomings and mobilize individuals and civil society within their states are more likely to be successful than those that attempt to single-handedly achieve more than is realistic (Tendler, 34). By mobilizing technocrats within government and hearing their opinions rather than stubbornly following pre-selected ideology governments are more able to achieve success (Cammack & Kelsall, 92). The suggestions presented in the literature are seen in Barbados as the government fully engages the private sector along with civil society to realize goals and advance the state.

3.2.2. *Internal Coordination*

While a state's capacity is critical to achieving good governance and overall success, their ability to effectively coordinate action is equally fundamental. Many governments seem to view corporations in black and white terms either as economic saviours or parasites. Conservative proponents of corporations often tout them as the best means to create jobs and spur growth. As a result they often encourage governments to employ laissez-faire policies to their full extent and allow corporations to act freely. Those opposed to corporations are often wary of their motivations believing all corporations to be self-interested bodies with no regard for the environment they operate

⁹ This is not to imply that former Japanese colonies had a net positive experience during colonialism, merely that strong institutions were established which have contributed to current economic success.

in. It is the grey zone in between these two opinions that highlights the importance of government coordination. To be effective a state must be able to coordinate with the private sector in order to maximize benefits for all interested parties. This has clearly been the case in Barbados where the financial sector and private corporations have been well-regulated but are frequently consulted regarding governmental policies to ensure their needs are addressed (Howard, 149). In addition, Barbadian trade unions have been included in these discussions to provide a third perspective allowing for better overall coordination (Howard, 149). The end result has been a state where businesses can thrive but where citizens are protected as employees and consumers.

In the area of coordination, SIDSs hold an advantage over larger states because of their small size. Kohli notes that successful governance is based on coordination but that it is difficult to compare states such as South Korea and India because of the differences of scale (Kohli). The South Korean government was able to effectively penetrate all levels of society and ensure coordinated efforts were being followed as planned (Kohli, 87). On the other hand, the Indian government struggled with multiple levels of governance, intricacies at each level, and differences in each region (Kohli). Once again Barbados shares great similarity to South Korea as its small size allows the government to closely monitor the behaviour of coordinating partners to ensure that policies are being properly followed.

3.2.3. *Accountability*

The final important factor for ensuring good governance in a state is that actors within the society are accountable for their actions. While a degree of corruption is expected in all governments, typically the closer a government gets to operating completely transparently the more successful it will be. While some states thrive in situations with high levels of corruption, usually governments that believe they will be held accountable for their actions are less likely to abuse the system for their own gain (Pritchett & Woolcock, 24). Transparency in government is also important because of the effect it has on the behaviour of other societal actors. Citizens who believe their government can be held accountable and is responsive to their needs are more likely to get involved and contribute to the advancement of their society (Putnam, 19-20). Transparency also builds trust within the international investment community who are

more likely to engage with a state they believe to be trustworthy and stable (Putnam, 19-20). Barbados's high ranking from Transparency International is a testament to the level of trust and respect its government receives. This is a major factor in the economic success they have enjoyed.

Accountability is often judged on the strength of a state's judiciary system, law enforcement institutions and the perception of elections as fair and legitimate (Evans, 1127). Law enforcement is one of the most difficult institutions to properly establish within a society and, in combination with the military, must be seen as a protective force for all society and not as personal henchmen of government officials or corrupt self-serving institutions (Putnam, 19-20). Colonizers often failed to incorporate locals into law enforcement bureaucracies during the colonial period due to their lack of trust and respect for locals (Kohli). The result was an experiential gap during the transitional period. Colonial states such as South Korea were more successful because Koreans had been incorporated into these institutions by the Japanese colonizers prior to the transition and they were paid fair wages which decreased the occurrence of rent seeking (Kohli). Accountability of elections is also critical to good governance. If citizens do not believe their votes determine their leaders then faith in state legitimacy breaks down. For example, the neo-patrimonial system in many former African colonies lacks legitimacy and is undermining the economic success of those states (Kohli). Once again the importance of the perception of governments as legitimate can not be underestimated in evaluating their success both domestically and abroad.

3.3. Theories of Corporate Taxation and Banking Regulation

A review of current opinions regarding corporate taxation is valuable in analyzing the Barbadian approach to foreign investment. While some view the presence of foreign investors as a selling out of the state, others devalue completely the benefit of domestic control. The balance between overly protectionist policies and tax haven realities is difficult to strike. This section reviews opinions regarding the effects of different corporate tax policies on both states where investment occurs and within the states of investor origin. In addition, as this case study has a focus on the role of banking, there

will be a review of current literature concerning banking regulation and in particular, the literature following the financial crisis of 2007/2008 (the Financial Crisis).

3.3.1. Corporate Taxation Theory

The acceptability of the presence of offshore financial centres remains a hotly debated issue in the global sphere. Offshore financial centres often face two criticisms: they act as a conduit for illegal enterprises to funnel their investments; and they create a net loss in revenue and employment for states from which the capital is being invested. In analyzing these debates it is important to note the difference between low-tax jurisdictions and tax havens (Hejazi, 1).¹⁰ As Barbados is a low-tax jurisdiction and not a tax haven the discussion will focus on low-tax jurisdictions.

The concern of investment of illegitimately gotten gains being funnelled through low-tax jurisdictions is a difficult concern to substantiate. As transparency and information sharing are key requirements for low-tax jurisdictions, regulations exist which undermine the ability of criminal enterprises to invest (Hejazi, 1). In addition, financial institutions are required by governments to tightly monitor those moving funds out of the country in an effort to further combat illegal activity (Drakes). In Barbados money can only be transferred out of the state through accredited financial institutions and the institutions are required to receive proof of where the funds being transferred were gained (Drakes). Through these types of policies, low-tax jurisdictions make money laundering so inefficient for criminal enterprises that they look elsewhere. It is important to note that in the case of Barbados this is helped by the existence of poorly regulated tax havens within the region such as the Cayman Islands and Bermuda. Criminal organizations are simply seeking the path of least resistance for their criminal activities not ceasing them all together as a result of regulation. For Barbados, keeping criminals at bay is facilitated by the presence of numerous surrounding states with particularly lax regulation. Therefore it is important to note that turning all states into low-tax jurisdictions will not eradicate the problem of money laundering.

¹⁰ Tax havens are locations where unfair tax advantages are given for money laundering or tax evasion and therefore Harmful Tax Practices exist (Killian, 1073). Low-tax jurisdictions on the other hand do not have Harmful Tax Practices, are transparent and share information about their tax collection (Hejazi, 1).

The issue of net economic benefits arising from low-tax jurisdictions is more hotly contested. Those opposed argue that low-tax jurisdictions are economically detrimental to all states involved while proponents believe the opposite. Those opposed view their impact on regional economics as equivalent to tax havens: they create a race to the bottom mentality of low corporate taxation (Killian, 1074). Killian identifies corporate tax rates as the most important factor in assessing economic incentives for the relocation and earnings management of multinationals (1071). In relation to SIDSs, production relocation is often not possible as the small size of SIDSs limits the accommodation of large production facilities. So it is in the area of earnings management that SIDSs are more often involved.¹¹ In the era of globalization, capital mobility facilitates the process of geographical earnings management (Killian, 1074). This creates a race to the bottom where states attempt to undercut each other's tax rates. Killian argues that the endpoint will be a situation where all states have a zero-corporate tax rate and therefore an important global revenue stream will be lost (1074). This will place unfair pressure on individuals who will be subjected to higher labour tax rates to compensate for lost corporate tax revenue within states. The process of increasing labour taxes is likely to become the target of governments because labour has much lower mobility than capital (Killian, 1073).

While the concern over the taxation race to the bottom seems to show clear consequences for all actors, Hejazi argues that this opinion is misinformed and that in fact both low-tax jurisdictions and the states of investment origin benefit from the process. Hejazi particularly focuses on the impact of Canadian investments in Barbados. His findings reveal that not only does Barbados benefit from the interaction, but Canadian trade, employment and capital formation also increase as a result of the relationship (Hejazi, 16). For trade, Hejazi analyzed levels of trade between Canada and the states with which there existed an off shore investment relationship and he found that in all cases the level of actual trade was higher than would have been predicted under normal circumstances (Hejazi, 24). Further testing also showed that the relationship with Barbados not only increased Canadian exports to Barbados but also

¹¹ The process of geographical earnings management refers to the process by which multinationals transfer their income rather than production from a highly taxed location to a low-tax jurisdiction (Killian, 1071).

created a net increase in exports to other states in the region (Hejazi, 27). This increase in exports naturally leads to an increase in domestic employment as domestic production increases (Hejazi, 23). Finally, exports increase state capital formation as additional profits lead to additional revenue from the taxation of increased sales and employment (Hejazi, 25).

The relationship is also beneficial for Barbados as it establishes stable, legitimate industries. The off-shore banking sector is a substantial employer providing quality employment to Barbadians (Howard). Operating as a low-tax jurisdiction provides legitimacy to Barbadian industries and benefits the state both in an increase in quality employment as well as an increase of capital formation. This case study helps to show that where low-tax jurisdictions exist, and not tax havens, tax treaties can help create net benefits for all states involved. However, it is necessary to acknowledge regional context. In the past, Barbados has lacked any real regional competition from low-tax jurisdictions but as zero-tax states become more accepted by investor states and treaties are signed with states such as the Cayman Islands and Bermuda, there is concern that the market will not be able to support multiple players (Kirton). Wayne Kirton, the C.E.O. of Invest Barbados,¹² cited reacting to this rising competition as a primary focus of the organization (Kirton). As other Caribbean states sign similar treaties, regional competition will drastically increase forcing Barbados to compete.

3.3.2. *Banking Regulation Theory*

Following the Financial Crisis there has been a focus on the role of global banking and the effects of regulation. Contemporary international banking is predominantly conducted through two models: branches and subsidiaries. Following the crisis there has been substantial debate regarding the effects of each model on global financial stability. Branches, or agency banks, require parent banks to accept responsibility for operations abroad and follow the same standards as branches which exist in the parent banks' state (Cerutti et al., 1670). Subsidiaries bear greater

¹² Invest Barbados is an economic development agency of the government of Barbados responsible for attracting and sustaining international investment in Barbados (“About Invest Barbados.”).

resemblance to traditional representative banks and require no legal connection between the parent bank and subsidiary (Cerutti et al., 1670). The two main implications of the differences between branches and subsidiaries are the markets they target and the level of responsibility they accept.

In targeting markets, subsidiaries are more likely to act in direct competition with local banks while branches more often target specific aspects of the market such as global investing (Cerutti et al., 1670). Because of their specified market focus, foreign branches often operate with limited effects on the local banking system. Subsidiaries, however, directly compete with local banks and this has an impact on the development of local systems (Cerutti et al., 1670). This is particularly important as the absence of local banks often decreases access to capital for locals, which then potentially has negative effects on the development of Small and Medium Enterprises (SMEs).

Most important is the difference in responsibility required by the two systems. The IMF defines a subsidiary as a “separate legal entity, which is licensed and supervised by local regulators, with the parents having *no legal obligation* to support it if it falls into distress.” (Fiechter et al., 7, emphasis added) Therefore, if any problems emerge with the subsidiary or there is a substantial impact by a financial crisis, the parent branch can leave the local economy to bear the brunt of the failing banks (Cerutti et al., 1670). The Financial Crisis emphasized the repercussions of this banking model as poorly regulated local economies were forced to deal with the fall-out of the collapse of foreign banks and local savings were often lost in the process (Fiechter et al., 13). In contrast, the IMF defines branches as “legally inseparable from the parent, which is *fully responsible* for its financial commitments.” (Fiechter et al., 13, emphasis added) This makes it clear why developing states often prefer branches to subsidiaries.

While the differences between branches and subsidiaries are important, it is also necessary to investigate the specific regulations of the home state of the parent bank and the state in which investment is occurring. Canadian banking regulation has received significant recognition since 2008 and Canada has been ranked as having the world's soundest banking system by the World Economic Forum (Schwab). Many attribute this to the high level of regulation dictated by the Bank Act (S.C. 1991, c. 46). This extends Canadian banking regulation onto both branches and subsidiaries of

Canadian banks operating internationally (“Bank Act S.C. 1991, c. 46”). While subsidiaries remain more difficult to regulate than branches, the Canadian system is considered the best in the world for dealing with this issue (Schwab). For the purposes of this case study, it is important to note that Canadian banks dominate the banking industry in Barbados and that Barbadian banking regulations are modelled after Canadian regulations (Belgrave, Downes).

3.4. Barbadian History

In addition to understanding the theory surrounding SIDSs and financial regulation, it is important to appreciate Barbados’s historical context in order to analyze the causes of success in Barbados. Barbados was settled by the British in 1627 and unlike many other Caribbean islands, the lack of an indigenous Amerindian population allowed colonization to occur with relative ease (Freeman, 68). This is an important factor for current economic success in Barbados as British culture was accepted as the foundation of Barbadian culture and, most importantly, English was established as the dominant language (Freeman, 34). The acceptance of this cultural foundation has led to Barbados being nicknamed 'Little England' and considered less 'exotic' than other Caribbean states therefore generating greater confidence from Western investors (Freeman, 22).

Factor endowments in Barbados favoured the development of a plantation style agricultural system and labour was originally recruited through indentured labour from England, Ireland, Scotland and Wales (Hoyos, 38). Eventually word spread that treatment of labour in Barbados was so poor that the British were forced to import African slaves and by 1800 there were 70,000 African slaves and 20,000 Europeans in Barbados (Hoyos, 44). Sokoloff and Engerman show that the factor endowments of the Caribbean states are what led to the pyramidal plantation model requiring substantial labour but only a few managing elites (219). In addition, they note that landed European elites actively discouraged further settlement of the islands in an effort to maximize profits for themselves (Sokoloff & Engerman, 219).

In 1807 Barbados eliminated the slave trade and efforts to 'breed' creole slaves led to an increase in the living standards of slaves (Beckles, 77).¹³ A slave rebellion in Barbados in 1816 has come to be viewed as an important first push towards equality.¹⁴ The slave rebellion led to greater freedoms and in 1878 the Education Act required the government to provide all children under the age of twelve access to education (Beckles, 138). While this policy was not fully abided by it did drastically increase the number of black children attending school and set the path towards universal education. The move towards universal education is particularly important as a well-educated labour force is one of contemporary Barbados's greatest strengths. Currently it is one of the greatest sources of pride for Barbadians and education is free to the tertiary level.

Political mobilization in civil society began in the 1920s with landship movements¹⁵ providing working class individuals a venue through which to express their culture and receive socio-economic assistance (Beckles, 152). At this time the government was controlled by European descendants acting under the direction of the British government. Chrissie Brathwaite was the first black Barbadian to get a seat in the Barbadian government in 1924 (Beckles, 157). This sparked a movement which increased the political activism of black Barbadians and by 1951 universal suffrage had been won and British control of the government had been substantially weakened (Beckles, 170).¹⁶ The 20th century saw a racial change in the demographics of the Barbadian government. As in many other Caribbean states, society shifted to see black citizens take control of the public sector while white citizens retained control of the private sector (Freeman, 83). What is critically different about Barbados however is that

¹³ There was a belief amongst plantation owners that slaves resented giving birth in slavery and therefore were in some way using magic to evade pregnancy. By improving living conditions, plantation owners believed that birth rates of slaves would increase as the women became happier. Eventually this went so far as to include monetary compensation for female slaves having children (Beckles, 77).

¹⁴ This rebellion is particularly important as it shows that in 1816 Barbados's trajectory did not differ from other Caribbean states. The path of racial violence was set and it was from this point onwards that changes were made to alter the course which led to a state of highly respected political stability.

¹⁵ Landship movements are voluntary neighbourhood associations which were predominantly organized by black citizens for black citizens to provide economic assistance. The result was an increase in political activism and engagement amongst black citizens (Beckles, 152).

¹⁶ This process was greatly facilitated by the British's preoccupation with the Second World War granting Barbadians much greater freedoms.

the public and private sectors continued to work together to maximize benefits for all. For example, in most Caribbean states once greater independence was gained the sugarcane industry was immediately nationalized to bring all profits to the state (Freeman, 83). This led to the mismanagement of the industry and its ultimate downfall throughout the Caribbean. Only in Barbados was private ownership protected while taxes were dramatically increased; these taxes ultimately paid for the construction of critical infrastructure which continues to contribute to the Barbadian economy (Freeman, 83).

The Barbadian economy began as a monoculture sugarcane economy (Freeman, 69, 2000). The Barbadian government is credited with having excellent developmental planning and this is largely due to the vision of economic diversification from the pre-independence government (ECLAC). Early economic experience with failed monoculture economies, such as cotton and tobacco, taught Barbadians the importance of diversification. As a result, in the lead up to independence the government created an economic plan focused on transitioning to a tripartite economy based on agriculture, tourism and manufacturing (Freeman, 30). By the time Barbados gained independence in 1966 the focus had shifted from manufacturing to the service industry. This move was incredibly successful as Western industries were attracted to the state due to its educated and culturally familiar population (Freeman, 30). The economic diversification and five year economic plans developed for its success are heralded as the basis for economic success in Barbados (ECLAC).

4. The Causes of Success

This case study attributes the success of the Barbadian economy to three factors: good governance, effective taxation and regulatory policies and a successful focus on luxury niche markets. Their particular importance will be analyzed in the three subsequent sections. The importance of their interdependence will be acknowledged as well as their relevance to the theory covered in the literature review.

4.1. Governance and Barbados

Governance in Barbados is highly touted as responsible and successful. The independent governance structure was built through a long process of development while under colonial control. By independence, Barbados had a well-established government which was stable and adequately advanced to function independently. As a result of the good management during the transition period, no extreme tensions emerged following independence. This has left a legacy of stability and safety for the Barbadian government and Barbados as a whole. Finally, the success of the Barbadian government is clearly shown through insightful investments into infrastructure, human capital and the strategic economic plans of diversification. This section will focus upon the importance of the colonial legacy, the social focus and the economic focus of the Barbadian government to the current success in Barbados.

4.1.1. *The Colonial Legacy*

As discussed in the literature review, Barbados embraced the British foundation established during colonization. This has created several important benefits for the state as a whole both domestically and internationally. The most important areas of influence have been cultural and institutional.

Following independence most Caribbean states rejected the cultural foundations of their colonizers and attempted to reform their societies based on ideology. Unfortunately the lack of bureaucratic experience and low state capacity led to the failure of most post-independence Caribbean governments. At the heart of most of these conflicts lay racial tensions (Howard). The demographic makeup of most Caribbean states at independence had at least two significant racial populations.¹⁷ The racial makeup of Barbados on the other hand was overwhelmingly black descendants of slaves with a minority population, approximately 4%, of European descendants of land owners and indentured labourers (Howard). While no single answer can explain the presence or absence of racial tension, Dr. Howard, along with most Barbadians, points to the overwhelming representation of the descendants of African slaves to explain the lack of racial tensions in Barbados. While slave riots occurred in the 19th century, by the 20th century racial issues in Barbados were handled peacefully and greater rights, and eventually full equality, was won for all citizens without violence. Dr. Howard argues that this absence of political violence in Barbados's recent history is paramount in creating the foundation of economic success the state has enjoyed.

The peaceful transition of the government from a British colony to a strong and democratic state led to the acceptance of the British legacy by Barbadians. Culturally, as noted before, Barbados is described as 'Little England' (Freeman, 22). With English as the dominant language, secular public education and Western values, Barbados is seen as culturally familiar and therefore trustworthy by Western corporations (Freeman, 34). This is critical to the economic success of the state. As the SIDSs literature illuminates, Barbados's size prevents any chance of autonomous economic survival, and therefore trade openness must be embraced (Jackman et al., 136). As a result, economic success in Barbados, as in many SIDSs, is dependent on their ability to attract investment from foreign states. The cultural familiarity and perceived stability and safety of Barbados were consistently highlighted as the most appealing factors to foreign investors by interviewees including Barbadian representatives from banking, tourism and government as well as Canadian officials responsible for trade (Belgrave, Downes, Drakes, Farmer,

¹⁷ While these groups were often former slaves and former colonizers in some cases, such as Trinidad and Tobago, the dominant groups were formed from former slaves of different origins, such as African and Indian.

Freeman, Holland, Howard, Kirton). The history of safety in Barbados is appealing particularly to those whose investments require substantial time to be spent in their state of investment. Representing Canadian trade interests in Barbados, Douglas Holland emphasizes the importance of safety in Barbados, particularly in comparison to other regional investment options such as Trinidad and Tobago, for investors. As a result, Barbados's reputation gives it a significant regional advantage.

The colonial legacy has also had several important institutional effects for Barbados. As highlighted by Kohli, the legitimacy of a state's law enforcement is critical for its domestic and international success. If citizens do not have faith in law enforcement they are less likely to abide by laws and if international investors do not have faith in a state's ability to protect their investments then they are unlikely to invest. Once again the Government of Barbados deferred to its colonial past and fully adopted English common law. The judiciary in Barbados commands significant respect and is considered to be a legitimate institution in the state (Kirton). There is negative perception surrounding favouritism by the police of tourists; however, those who identified this concern also acknowledged the importance of tourism for the economy and the logic and support for this policy decision (Howard, Premdas).

4.1.2. *The Social Focus*

The Barbadian government's focus on improving social conditions for all Barbadians has been conducted with an eye to the economy. Historically, the primary social focus in Barbados has been education and this continues to be the case today. The Anglican Church took a leading role in educating slaves during the 19th century and by 1834 there were a total of 213 schools on the island which was more educational institutions per square mile than in any other Anglo-Caribbean state (Beckles, 90).¹⁸ As discussed above, the 1878 Education Act required all children under the age of twelve to attend school which dramatically decreased rates of child labour and increased the presence of black children in schools (Beckles, 138). The focus on education

¹⁸ While these schools did predominantly target white students there was a spillover effect of educational institutions for black children and their enrolment levels increased throughout the 1800s (Beckles, 90).

strengthened as black citizens gained control of the government as they believed that increasing access to education was the most effective means to decrease inequality (Howard).

The educational focus now includes free education to the tertiary level. This strategic decision has paid off as Barbados now has a highly skilled labour force. The Barbadian government's focus on education was strategic for two reasons. First, the deliberate effort to have a skilled labour force has made them more competitive for international investment than their regional competitors. Hiring ex-patriots is expensive and therefore corporations prefer to expand to states where local labour can be used (Farmer, Small). Representatives from CIBC FirstCaribbean credited the superior quality of human capital in Barbados, compared to other regional options, as the reason for the location of their regional banking headquarters in Barbados (Farmer, Small). While there is concern that moving forward financial institutions will relocate to zero tax states such as the Cayman Islands or Bermuda, representatives from both Invest Barbados and CIBC FirstCaribbean cited the high costs involved in the recruitment and retention of ex-patriots as a significant hurdle for regional competitors (Farmer, Kirton). The strength of Barbadian labour is clearly seen in the regional KPMG office where all staff but one are Barbadian and the one Canadian employee was not actively recruited (Taylor).

In addition, the skill level of its labour force allows Barbados to have a luxury focus particularly in its manufacturing sector. Due to its limited physical space Barbados's manufacturing potential is restricted by global economies of scale. However, in luxury products, which are often physically smaller and require skilled labour for production, Barbados is competitive (Kirton). Currently contact lenses are produced on the island and a digital animation studio is being established as a partnership between the University of the West Indies (UWI) Cave Hill and global animation companies (Kirton).

The second reason the Barbadian government's vision on education was strategic is in the institutional framework it chose as a vehicle for education. Three UWI campuses were established by the British in Barbados, Jamaica and Trinidad and Tobago during colonization and the Barbadian government worked hard to preserve the established framework (Howard). In addition, the elementary and secondary school

framework in Barbados is the same as the British system. The decision to continue with secular Western education allows Barbadian graduates to relate to the West and increases their desirability to employers. Barbadian society highly values education and as a result young Barbadians are well-educated and motivated towards academic success. Doctors, lawyers, accountants, and engineers are in good supply on the island (Drakes). Efforts have been so successful in fact that currently Barbados is facing challenges of having an overeducated population without adequate opportunities.

4.1.3. *The Economic Focus*

The economic focus of the Barbadian government has been critical for the success of Barbados. In the mid-20th century Barbados had a monoculture economy focused on the production of sugarcane (Freeman, 30). The historical experience of economic shocks due to a monoculture dependency incentivized the government to turn to diversification. As identified earlier, the focus on diversification has largely been touted as a critical piece of Barbadian economic success (ECLAC). Initially the government focused on an export-oriented tripartite model of growth focusing on agriculture, tourism and manufacturing (Freeman, 30). While the model was mostly successful, the manufacturing industry struggled and following independence the government turned its focus to a service oriented export industry (Howard, 96). The diversified economic approach allowed for both greater stability in the Barbadian economy, as shocks in one industry would not decimate the economy as a whole, and also increased investment in the island as more industries were represented.

The turn to a services based economy has been effective and 2011 data shows that services account for 83.2% of GDP in Barbados, followed by manufacturing with 13.4% and agriculture with 3.4% (“Barbados Country Report.”). The shift from an agrarian to a service based economy is clear. Currently agriculture struggles to remain relevant in Barbados. Within the service sector finance and business services dominate, representing 31% of GDP followed by tourism representing 15% (Business Barbados). The recent economic crisis has caused a decrease in tourism; however, the finance sector has been able to maintain its strength. The growth of these industries highlights the export-oriented nature of the Barbadian economy. The plan for diversification has been successful as the agricultural industry is far from dominating the economy;

however, dependence has now shifted to the service sector. Long-term vision and planning on the part of the Barbadian government allowed this successful growth to occur.

As shown by the SIDSs literature, the Barbadian government was tasked with striking a difficult balance with trade openness. The focus towards diversification shows a clear vision on an export-oriented model illuminating the dependence of Barbados on global markets. In addition, nearly all of the decisions made by the government, from a focus on education to the development of industries connected to global investments, show a vision of increasing foreign investment in Barbados. By positioning their economy in such a way, Barbados has established a presence in global market. Their economic success is due to a balance of strong regulation and incentivizing taxation treaties and investment, which will be discussed in the following section.

4.2. Taxation and Government Regulation

The financial industry in Barbados is an important employer and source of government revenue. From onshore retail banking outfits to the numerous offshore investment banks, each contributes significantly to the economic development of Barbados. In order to understand why this has been the case, one must understand the preferential taxation position Barbados held for decades with Canada and the successful and stringent banking regulations which have produced a safe and stable industry.

4.2.1. Taxation Advantages

There are three central reasons to explain why Canadians have chosen to establish their foreign affiliates in Barbados.¹⁹ They are: the hospitable tax climate created by Barbados; the treaties signed between Barbados and Canada which created

¹⁹ It is important to note that over 30% of offshore businesses in Barbados are Canadian; as such this section will focus on the relationship between Canadian businesses and the Barbadian taxation system (Barbados Offshore Advisor). In the final section *Looking Forward* I will address Barbados's efforts to diversify their foreign investors and the need for these efforts to be successful.

a bias towards Barbados in comparison with other low-tax jurisdictions; and the high quality infrastructure in Barbados (Truster). These factors have been shaped by the historical relationship between the two states and have resulted in a unique taxation structure which benefits both states.

The Tax Climate of Barbados

It is important to recognize that the benefits of the Barbadian taxation system are directed at corporations and not individuals (Truster). This is because taxation agencies in investor states want to limit the transfer of individuals' income offshore but are more tolerant towards the movement of corporate income (Truster). Contrasting Canada's Foreign Accrual Property Income policy, which targets investment income, with their double taxation agreements (DTAs) with Barbados and other states, illuminates this point. The theory here is clear, individuals' are less mobile than corporations and therefore this arrangement allows the government to maintain some control of corporate income, accepting that more constricting action will cause corporations to relocate, and substantial control over individuals, who are far less mobile. This provides background of the system in which Barbados's tax structure is found.

Barbados clearly has positioned itself to attract incorporation by foreign corporations. Compared to the domestic corporate tax rate of 25%, International Business Companies (IBCs) pay between 1 and 2.5% corporate tax in Barbados dependent on their total profits and gains (Hejazi & Zadro). This shows the efforts of the Barbadian government to attract foreign incorporation. The ability of corporations to become IBCs is critical to the success of Barbados's taxation system. The IBC system was created in 1994 by the International Business Companies Act under the Laws of Barbados and allows companies to receive IBC designation if they are "resident in Barbados (meaning incorporated or registered under the laws of Barbados), and carr[y] on, or intend to carr[y] on, the business of international manufacturing or international trade and commerce from within Barbados." (Hejazi & Zadro) This system incentivizes foreign corporate investment in Barbados, as there is a clear system allowing corporations to become IBCs and a substantial taxation benefit for doing so.

Tax Treaties

DTAs are essential for promoting foreign incorporation. They guarantee that if a company incorporates in a state which has signed a DTA and complies with the taxation policies of the state they have incorporated in, their home country – Canada – will not subject them to a secondary round of taxation at home. This allows corporations to repatriate profits to their parent company after paying a lower corporate tax rate abroad.²⁰ From the country of investment – Barbados – it requires total transparency of tax information as well as the requirement of some taxation occurring (Arrindell & Patel). This secondary requirement eliminates competition from states such as Bermuda and the Cayman Islands that have zero-tax rates (Kirton). Since 1980 when Barbados signed a DTA with Canada, Jamaica has been the only other Caribbean state to have a DTA with Canada (“Canada: Double Tax Treaties”). As safety and stability in Barbados are considerably higher than in Jamaica, Barbados holds a clear regional monopoly of foreign incorporation and investment from Canadian businesses (Arrindell & Patel). However, problems are now emerging with the loosening of regulation around Canada's Tax Information Exchange Agreements (TIEAs) that will be discussed in the *Looking Forward* section.

While this section particularly focused on the DTA between Canada and Barbados it is important to note that Barbados has signed DTAs with 31 states and is negotiating to expand that number further (“Barbados: Double Tax Treaties”). Currently Barbados's most important treaties are with Canada, the United Kingdom, and the United States; however, as the global economy changes so is Barbados's focus. They have signed a DTA with China and are currently negotiating with Brazil and India (“Barbados: Double Tax Treaties.”, Kirton).

²⁰ It is important to note that Canadian taxation laws dictate that profits repatriated from foreign affiliates must be actively earned by those affiliates and not simply passive investments from the parent company. This prevents corporations from simply establishing shell corporations abroad and is another difference between legitimate low-tax jurisdictions, like Barbados, and tax havens.

Incentivizing Infrastructure

Strong infrastructure has incentivized foreign investment in Barbados; however, foreign investment has also acted to improve Barbadian infrastructure. The taxation infrastructure itself, such as Barbados's DTAs, occurred because of pressure from the foreign corporate community that existed in Barbados as a result of the colonial period (Kirton). These corporations lobbied the Barbadian government to seek DTAs and they were successful. The history of collaboration between the private and public sectors helped to create the infrastructure which allowed the private sector to flourish in Barbados. In addition, the strict transparency requirements of DTAs have allowed the Barbadian government to retain control over its jurisdiction and forced corporations to accept at least minimal taxation rates. It is important to note the historical role played by colonialism that provided the base of corporations in Barbados. The British colonial presence led to the presence of British and Canadian corporations operating in Barbados. This is particularly the case in the banking sector. Without this colonial base of foreign investment, few corporations would have existed to campaign for greater taxation infrastructure and it may never have occurred.

It is also important to note the importance of infrastructure pursued by the Barbadian government. This is particularly the case in relation to the rule of law and education. The British based legal system in Barbados is perceived as legitimate and in control. Investors need not worry about the legitimacy of their rights or their ability to protect them through the legal system. In addition, Barbados has a substantial advantage over other Caribbean states as heavy recruitment of ex-patriots is not required for IBCs due to adequate local talent (Drakes, Farmer, Kirton, Small). This helps to minimize costs as relocating individuals is expensive and time consuming. It is also important to recognize that Barbados is acknowledged as a low-tax jurisdiction and not a tax haven. The government is recognized as having a true commitment to eliminating money laundering and other criminal activities which is appreciated by investors. This vision helps to complement the island's image as a safe and stable location for business.

4.2.2. Banking Regulation

The successful regulation of banking in Barbados must be attributed to the strength of the Central Bank of Barbados (CBB). The CBB has succeeded in establishing a setting where banks are incentivized to operate and can make profits; but, where the government can collect revenue and stability is maintained for the economy as a whole (Belgrave, Downes). The success of the Barbadian banking system is largely attributed both to the strong regulatory bodies as well as the Canadian identity of the largest banks.

Historically, Barbados and Canada have shared a close regulatory connection in the banking sector that is actively continued. As over 50% of banks in Barbados are of Canadian origin, this relationship has been particularly important (Bayne). In 2007 the CBB decided to adopt the risk-based supervisory approach based on the framework used by the Canadian Office of the Superintendent of Financial Institutions (Bayne). This approach allows for some resource allocation towards institutions with a higher risk profile, under strict supervision, to improve the efficiency of resource allocation (Bayne). This focus is possible because of the stability of the dominant low-risk banking activities which occur within Barbados as was proven during the Financial Crisis. Following the Canadian example, banking in Barbados is predominantly low-risk and depends on strong macroeconomic fundamentals (Bayne). The strength of the system was proven by how well the Barbadian financial industry weathered the Financial Crisis.

The combination of Canadian domination in the banking sector and a willingness to buy into a conservative fiscal mentality has allowed for Barbados's success. However, the importance of the Canadian banks themselves cannot be downplayed. With a historical presence of over 100 years the Canadian banks are committed to a long term focus in the Caribbean and particularly in Barbados (Belgrave, Downes, Drakes, Farmer, Small). This commitment to Barbados was emphasized by David Small, the Director of Strategy at CIBC FirstCaribbean, with particular reference to the regulatory strength and stability of the island. While the banks maintain profitability as their primary goal, their commitment to the region has been seen in a willingness to work with regulators and give back to local communities. Each bank has adopted a different focus in the community at large but all enjoy a positive perception amongst Barbadians. Interestingly,

Barbadians view these banks as Canadian despite their long history in Barbados and do so with a great deal of pride. The national sentiment is strongly in support of a well-regulated banking industry and the Canadian system is touted for exactly that. Mr. Kirton also cited the support of the Canadian banks by Barbadians because of their role in attracting Canadian investment to the island (Kirton).

4.3. Luxury Market Focus

A deliberate focus on luxury niches within markets has been a significant part of Barbados's economic vision. Bankers, civil servants and tourism promoters all firmly espouse the idea that Barbados is a destination for luxury visitors – for both business and pleasure (Farmer, Husbands, Kirton, Mostovac, Small). This niche market focus has emerged as a result of Barbados's inability to be competitive with economies of scale due to its small size and population. This focus is particularly helpful in explaining Barbados's economic success in the areas of: finance, tourism and manufacturing. It is critical to remember that without the safety and stability provided by the good governance discussed previously, this luxury focus would be impossible.

4.3.1. *Luxury Finance*

While the global recession has squeezed nearly every demographic, there is one that is actually doing better. Globally, high net worth and ultra-high net worth individuals (HNWIs)²¹ have seen their wealth grow by 10% to reach 42.7 trillion USD, figures above 2007 levels (St. Hill & Cyrus, 30). In addition, the number of HNWIs has increased by 8.3% to 10.9 million globally (St. Hill & Cyrus, 30). With a focus on luxury financial investment, Barbados is actively targeting these individuals.

Wealth management has become an increasingly targeted market by all three Canadian banks in Barbados with CIBC FirstCaribbean acting particularly aggressively in the market. Barbados's reputation of having strong governance, stable politics and

²¹ HNWIs are classified as persons with at least 1 million USD available for investing outside of their residence, collectibles, consumables and consumer durables (St. Hill & Cyrus, 30).

excellent infrastructure helps to attract and retain HNWI while services provided have successfully made tax and estate planning more effective and efficient (St. Hill & Cyrus, 30). The banks have also drawn upon their geographical advantage. As Barbados continues to expand its tax treaties throughout South America they are positioning themselves as middlemen for investment on the continent for both South American and external investors (Barrow, 32).

Finally, Barbados has begun to focus on managing Trusts²² for HNWI individuals and now allows for the creation of Foundations²³ (Harridyal-Sodha, 34). These measures allow HNWI to manage their wealth and invest their assets. Most important have been the recent treaties Barbados has signed with several Latin American states where currently no infrastructure exists for establishing Trusts under the civil law regimes (Harridyal-Sodha, 35). As such, Barbados offers HNWI in these states an opportunity for superior wealth management. This vision shows Barbados's awareness of regional trends and their eye for taking advantage of gaps in the market. So long as they can stay ahead of the regional curve, Barbados will continue to profit in the realm of luxury investing.

4.3.2. *Luxury Tourism*

The focus on luxury tourism has allowed Barbados to set itself apart from other states in the region. Barbados's reputation as a safe destination has been of utmost importance as it has provided a strong foundation for the state in comparison to regional tourism competitors such as Trinidad and Tobago and Jamaica (Husbands). This is particularly important as the Caribbean is considered to be the most tourism dependant region of the world and therefore competition for customers is stiff (ECLAC, 1). As Barbados lacks any significant geographical feature that truly separates it from nearby islands, its reputation for safety and niche focus on luxury tourism are crucial for

²² Trusts are asset management tools which are administered by a trustee who is given title to all of the assets to manage on behalf of the investor who has specified persons and/or purposes for whom the Trust is to be used (Harridyal-Sodha, 34).

²³ Foundations are Trusts which have no owners but instead are legal persons that can bring and defend legal action and have unlimited capacity in their own right (Harridyal-Sodha, 35). A management board is always appointed to act as "the Foundation".

success. As a result the Government of Barbados works in conjunction with private corporations to ensure the island is up to the standards necessary to attract luxury vacationers. The efforts have been successful and in 2009, Barbados was ranked the number one destination for travel and tourism in the Caribbean and Latin America by the World Economic Forum on Travel & Tourism Competitiveness (ECLAC, 3).

Tourism's importance is clear as it forms a significant portion of Barbados's service industry and between 1997 and 2006 contributed over 15% to GDP ("Barbados Country Report."). In addition, in 2010 53.3% of Barbadians were in some way employed in the tourism industry and this number is projected to increase over the next decade (ECLAC, 3). These figures show that the tourism industry is a significant contributor to national revenue and employment. Following the Financial Crisis the tourism industry in Barbados did suffer; however, in 2010 tourist arrivals grew by 2.6% (IMF, 17). It is important to note that while tourists are still coming to the island, they are spending less during their visits which is impacting foreign exchange reserves (IMF, 17). While the difficulties faced by the Barbadian tourism sector can not be ignored it is important to note that tourism has been impacted globally as a result of the recession and Barbados is weathering the storm fairly well (Small).

The success of the tourism industry has largely been dependent on the markets Barbados targets. Due to the highly developed relationships Barbados shares with the United Kingdom, Canada, and the United States, the majority of their tourists originate from these states (IMF, 17).²⁴ This success is largely attributed to the Barbadian government's efforts to maintain strong relationships with these states and the presence of luxury travel priorities, such as hotels and shopping, in Barbados. The Lime Grove Mall located in Holetown is often cited as the epitome of luxury tourism amenities (Farmer, Husbands). Full of high-end designer shops, the mall was constructed with the purpose of serving tourists on the 'silver-coast'²⁵ and has been a successful endeavour. While traditional Western markets have been fruitful for Barbadian tourism, moving forward DeLisle Worrell, Governor of the CBB, has announced a vision to diversify and

²⁴ In 2010 34% of tourists were British, 25% American and 14% Canadian (IMF, 17).

²⁵ The western coast of Barbados has been nicknamed the 'silver-coast' because of its ultra-luxury orientation.

target more regional tourism (Worrell). This will continue to be in line with the luxury focus as regional markets such as Brazil and Mexico are growing economically (Worrell).

4.3.3. *Luxury Manufacturing*

The inclusion of manufacturing in the Barbadian government's plan for economic diversification at independence had mixed results. While manufacturing provides 13.4% of GDP, making it the second largest contributor after services, the size of the island has constrained the emergence of any truly competitive traditional manufacturing on the island ("Barbados Country Report."). Invest Barbados has been working both internationally and within Barbados to assist in all facets of international investment and are currently focusing on expanding the luxury manufacturing industry within Barbados.

Two of the luxury manufacturing sectors highlighted by Mr. Kirton are contact lens production and animation (Kirton). By taking advantage of their strengths, a skilled labour force and a geographical and cultural proximity to North America, Barbados is manufacturing these two products. Lenstec is a global medical device company which has incorporated in Barbados to produce contact lenses ("Lenstec (Barbados) Inc. Sets Sights on US Market."). Significant tax exemptions are provided by the Barbadian government for corporations with high rates of export as the Barbadian government wants to encourage these companies to export their products in order to avoid competition with domestic producers ("Manufacturing."). Mr. Kirton argues that these manufacturing companies are not only possible but necessary as they provide the Barbadian government with tax revenue, the Barbadian people with meaningful employment and have limited effects on domestic producers (Kirton).

Drawing on the educational strengths of the island, Barbados has recently established the Caribbean Digital Media Centre (CDMC) Inc. ("Business *Monday*: New Animation Company Launched."). With support from Toon Boom Animation and Bento Box Entertainment, the CDMC is projected to create as many as 3000 jobs on the island ("Business *Monday*: New Animation Company Launched."). This venture is clearly built upon the island's foundation of skilled labour and strong education. This is particularly seen through the involvement of UWI Cave Hill and the planned programs in digital animation to educate students to work in the field ("Business *Monday*: New Animation

Company Launched.”). The skilled labour force in Barbados requires lower wages than their counterparts in North America further incentivizing studios to move their production.

As Barbados finds niche manufacturing markets which build upon their strengths of relatively low-wage highly-skilled labour, the sector is able to grow. It is important for Barbados to focus on the production of relatively small products because of their physical production constraints. In addition, since small items can be easily transported by air instead of shipped, it makes production in Barbados increasingly cost-effective and therefore competitive.

5. Looking to the Future

Through effective planning, hard work, and more than a little luck Barbados has been able to develop far past expectations for a SIDS. However, the future will be challenging as the global recession has slowed growth in many of their primary service industries and regional competition is increasing. In a public speech, Dr. Worrell outlined three areas where Barbados must tweak their approach to face the coming changes (Worrell). These areas include: tourism; banking, taxation and foreign investments; and agriculture (Worrell). In addition, research interviewees identified the need for a cultural change in attitudes towards entrepreneurship and expectations surrounding work ethic.

5.1. Tourism

5.1.1. Strengths

Tourism in Barbados is a well-branded commodity with a loyal following. Their focus on the luxury market has been successful and they have largely been successful in attracting European and Canadian tourists. This loyalty can be seen in the steady numbers of tourists since the global recession and in the increase of cruise tourism by 4.6% between 2010 and 2011 (IMF, 17). However, while the number of tourists visiting has remained constant, there has been a decrease in the length of stays and the amount spent by tourists (IMF, 17). While it is positive to see steady and growing rates of tourism, it is important that tools are in place to bring in tourists who will spend if the economy is to continue to grow.

The Government of Barbados is committed to focusing on luxury tourism and is aware of the changing global demographics (Worrell). Dr. Worrell and the CBB have been involved in efforts to establish direct flights from Brazil, Panama and Mexico and the Barbados Tourism Authority is establishing offices in these states as well (Worrell). Their strategic vision assumes that dependence on the traditional Canadian and

European markets is too volatile moving forward and that the growing Latin American markets will help to diversify Barbados's tourism sector. These signs of global awareness and willingness to adapt on the part of the government are positive indicators that the tourism sector in Barbados may continue to grow despite instability in the global market.

5.1.2. Weaknesses

While the Barbadian government is on the right track with a vision to expand tourist demographics, this may not be enough. The current reality is that tourism in Barbados is latched to the sinking European ship. Currently 34% of tourists to Barbados are British, 25% American and 14% Canadian (IMF, 17). This shows that 73% of tourists to Barbados are from their three traditional markets (IMF, 17). It is worth noting that the 34% refers to simply British tourists and not all European tourists.

Attracting tourists from the emerging upper class in Latin America may also be difficult for Barbados. While boutique hotels have previously been a successful strategy, Latin American tourists have shown a propensity to prefer branded luxury (Farmer, Husbands). While there are name brand hotels in Barbados they are few and far between. If the Barbadian government truly wants to attract these tourists, brand recognized accommodations such as Sandals and the Four Seasons need to be available (Farmer). In addition, many of these luxury tourists are interested in shopping as a primary activity on their vacations, as such Barbados needs to expand their luxury shopping beyond the Lime Grove Mall and provide tourists with the services they desire. These factors all point to the desire of tourists to have a truly five star experience. Currently there is also substantial criticism that in high end hotels, restaurants, and retail locations service is less than the global five star standard (Small). A cultural shift is required to move service quality from a laid-back 'island pace' to globally competitive five star service (Small). It is also important to note that tourists visit Barbados for the natural beauty which is being undermined by poor environmental protection (ECLAC). The Barbadian government acknowledges the importance of environmental protection however real measures to address the issue have yet to be taken.

Finally there are two fundamental dilemmas with increasing tourism. First, no matter how well diversified, tourism is always vulnerable to global markets (Rudder). However, while the industry is far from ideal SIDSs must take advantage of the resources they have and it is not realistic to sustain the Barbadian economy without a serious tourism sector (Rudder, Small). As such it is important that diversification is broadened to try and best mitigate potential future problems. The second issue is the reality that prioritizing tourists' needs may come at the cost of local needs. Public sentiment around tourism is currently positive throughout Barbados and it is important that this is maintained. As such the government must be sure to consider the impact of decisions on locals as well as tourists.²⁶

5.2. Banking, Taxation and Foreign Investment

5.2.1. Strengths

Barbados has clear strengths in their historical relationships and infrastructure in the financial sector. Beneficial DTAs exist with many important countries and the government has prioritized expanding their treaty network. In fact, Dr. Worrell highlighted this as one of the most important measures to ensure the continuous flow of foreign exchange to Barbados (Worrell). The marketing of Barbados has also changed since the Financial Crisis to reflect the stability of the Barbadian market. With strong regulations and government oversight, investments in Barbados have suffered less and recovered faster than global averages. As a result, Invest Barbados is pushing the stability and safety of the Barbadian market to entice further investments (Kirton). Mr. Kirton related this effort as a part of the larger strategy to retain investors in Barbados. There have been encouraging signs as in a post-Financial Crisis world many investors have been willing to forego some profitability to ensure stability (Kirton).

In addition, companies looking to incorporate in Barbados are incentivized by the presence of Canadian banks. This is because they continue the image of safety and

²⁶ Currently all beaches in Barbados are public and this is a source of great pride. To privatize beaches for resort tourists may be an example of a good tourist policy which would not be supported by locals.

stability as well as provide access to significant capital and infrastructure (Drakes, Kirton, Small). Mr. Small noted that moving forward CIBC FirstCaribbean was looking to refocus on corporate banking and move away from retail banking, leaving credit unions to fill the void (Small). The historical legacy of these banks in Barbados provides investors with confidence. The Canadian banks have made it clear that they are committed to operating in the Caribbean and to the Barbadian market in particular (Drakes, Farmer, Small). In addition, Darrin Downes, the Chief Economist of the CBB, confirmed that Barbados is committed to continuing to nurture a positive relationship with the Canadian banks with a long-term vision (Downes).

While there is criticism that the Canadian banks are ignoring the local market and failing to provide loans to SMEs, those in the industry argue that the void is being filled by credit unions. Credit unions have a strong history in Barbados and the Barbados Public Workers' Co-operative Credit Union (BPW) and the City of Bridgetown Credit Union (COB) have emerged as the two largest (Belle, Rudder). The credit unions have a mandate to serve their members and not external shareholders and as a result, they offer more programs aimed at educating and engaging locals and provide more opportunities for access to capital for SMEs (Belle, Downes, Rudder). The credit unions are regulated by the Financial Services Commission which is another highly touted regulatory body. Moving forward, many believe that credit unions should be successful in filling the gaps left by the larger banks.

5.2.2. Weaknesses

While the taxation agreements Barbados currently holds are valuable, they are becoming less of a distinct advantage. Barbados's previous monopoly of treaties in the region was largely based upon both its historical relationship with Canada and the United Kingdom as well as its transparent taxation system and corporate tax rates (Kirton). Unfortunately, the rules have changed and in 2007 Canada altered its requirements for taxation agreements. States such as Bermuda and the Cayman Islands, which are unable to sign DTAs with Canada because they are zero-tax zones, are able to sign TIEAs with Canada which have become significantly more important (Arrindell & Patel). Previously TIEAs only amounted to sharing taxation information; however, in 2007 Canada extended the policy of exempt surplus to Canadian companies

incorporated in affiliated TIEA states thus circumventing the issue (Arrindell & Patel). This has provided the same taxation advantages to corporations in zero-tax jurisdictions as those currently available in Barbados provided a TIAE exists with Canada. This incentivizes corporations to relocate or initially incorporate in zero-tax jurisdictions to avoid the 1 to 2.5% corporate tax rate faced by IBCs in Barbados (Arrindell & Patel). While some argue that Barbados need not worry because of its reputation as stable, safe and legitimate market, from a purely profit perspective, their tax advantage has been removed.

Barbados also faces substantial issues moving forward regarding access to capital for SMEs. While Canadian banks are claiming that this market is being covered by the credit unions, this is not the case. Steve Belle, CEO of COB, spoke adamantly that moving forward COB's policies are less oriented on providing small loans and financial assistance for SMEs and are more targeted at companies in large emerging industries with the goal of becoming more competitive with the large banks (Belle). While this policy may provide some assistance to the SMEs, it is far from the focus. In addition, all of the credit unions except COB only provide personal accounts to members as their bylaws do not allow for business accounts (Belle, Rudder). This means that individuals must accept personal liability for any loans to their businesses increasing personal risk. While this improves the stability of the credit unions, it acts as a barrier to capital for average Barbadians. The theme of being risk-averse is largely positive within the Barbadian financial sector; however, moving forward a balance needs to be struck between risk-averse lending that continues safety and stability, and lending policies that allow SMEs to develop within Barbados and grow the economy.

5.3. Agriculture

5.3.1. Strengths

Historically the economy of Barbados was built upon the production of sugarcane. However, as times have changed the agricultural sector within Barbados has become increasingly unviable and currently accounts for only 3.4% of GDP ("Barbados

Country Report.”). With a steady decrease in the profitability of sugarcane over the past four decades, Barbados lacks any substantial strength in agriculture.

5.3.2. Weaknesses

The agricultural industry has suffered both because of the impossibility of large scale agriculture on the island and because of the negative cultural associations with farming (Farmer, Hunte, Kirton, Paul). The history of slavery and apprenticeship on the island has made the industry undesirable and society encourages young Barbadians to pursue professional degrees particularly in law, engineering, and medicine (Hunte, Kirton, Paul). This combination of low economic viability and cultural opposition makes development in the agricultural industry challenging.

While the absence of an agricultural industry in itself is not a significant issue, Barbados's food import bill (350 million USD in 2011) is substantial (Hunte, Paul, Worell). Dr. Worrell argues that this is a particularly important issue as it deeply affects the state's foreign currency reserves and therefore needs to be addressed (Worrell). While comparative advantage would argue that the lack of an agricultural industry is irrelevant as there are superior economic options for the state, it fails to consider the drain on foreign currency reserves caused by the massive food import bill (Farmer). In addition, foods which are imported are high in preservatives and are contributing factors of high obesity and other health conditions on the island.

As Barbados is never going to become agriculturally self-sufficient, efforts are being made to increase regional self-sufficiency and societal attitudes. The government is investing in programs such as 4-H Clubs to reengage youth with farming and agriculture (Farmer). In addition, efforts are being made at the university level to encourage technological innovation in the agricultural sector and to find a 'professional' way for Barbadians to re-enter agriculture (Farmer). Most importantly, CARICOM states are coming together to address regional food production. Across the region, states are suffering from high food import bills and the issue is slowly being dealt with at the regional level. This method is promoted as Barbados's support for agricultural development in states such as Guyana would allow for regional development and would avoid the drag on Barbados's foreign exchange reserves (Farmer). While this method

has potential, regional negotiations are always difficult and dominant regional actors must put forth a serious effort if it is going to happen.

5.4. Issues of Cultural Attitudes

While negative cultural attitudes regarding agriculture were discussed above, the more serious attitudes that must be addressed are current attitudes regarding entrepreneurship and expectations regarding work ethic. Interviewees noted that entrepreneurs emerge more out of necessity than choice in Barbados and as a result a stereotype exists amongst Barbadians that entrepreneurs are not intelligent successful individuals (Farmer, Hunte, Kirton, Paul). Instead, the best and brightest are encouraged to pursue traditional professional degrees such as law or medicine with the result of an overqualified workforce with inadequate opportunities (Farmer). The financial industry's lack of support for SMEs also contributes to struggling entrepreneurs and the poor attitudes towards them. COB is moving towards greater support for SMEs in large markets but greater societal and financial support is required if entrepreneurship at all levels is going to succeed in Barbados.

At the Barbados Manufacturing Exhibition entrepreneurs gather from across the island to sell their products and network. Consistently individuals reported feeling that they were fighting an uphill battle trying to get funding from the banks and the credit unions. These entrepreneurs spoke of the arduous loan application process with banks that are too risk-averse and credit unions that do not allow business accounts (Husbands). The result has become entrepreneurs forced to either turn to friends and family for financial support or lack the capital needed to expand their successful business. In an economy that is struggling to expand, support for these entrepreneurs will be a necessity moving forward. The recognition of the need to support entrepreneurs and SMEs is growing. Organizations such as the Angel Investor Network and the Barbados Youth Network provide support to entrepreneurs and SMEs (Farmer). They believe that the primary problem is that individuals lack the business skills required to gain access to loans. These organizations provide individuals with mentors who provide advice on technical aspects of loan applications such as multi-year growth forecasts which are critical documents for banks assessing risk (Farmer). While the services

provided by such organizations, and the growth in number of these organizations, is a positive sign what is most needed is a policy change by lenders. Until capital can be more easily accessed entrepreneurs and SMEs in Barbados will struggle.

Finally, problems are often reported by Western corporations regarding their Barbadian employees and expectations regarding their work ethic (Farmer, Kirton, Premdas). The island mentality of conducting business at a relaxed pace with time for work-life balance is viewed as too slow by many investors. Cultural expectations regarding working hours, work days and employee accessibility need to be readjusted to remain competitive in the region. In addition, Mr. Kirton emphasized the need for this change to permeate to the government level where bureaucracy is heavily criticized by foreigners as being excessive and inefficient (Kirton). To retain current investments in Barbados and incentivize further investments, the speed of day to day interactions as well as larger initiatives must increase. In an increasingly competitive global market, Barbadian workers must focus on increasing their competitiveness.

6. Conclusion

While conducting interviews I found Barbadians were largely proud of what Barbados had achieved but highly sceptical of their chances of prolonged success moving forward. What is important to keep in mind when considering these attitudes is the context in which they were expressed (Small). The timing of the research being conducted is critical to understanding local attitudes, particularly regarding banking and tourism (Small). As tourism suffers with the global recession attitudes around its recovery are relatively negative and as well-regulated banking is being celebrated, risk-averse practices that neglect SMEs are accepted as necessary.

Successful economic development in Barbados has clearly gone against predictions for a SIDS. Successful investments and relationships have allowed for high levels of education and economic development. By focusing on luxury niche markets, Barbados has been able to work within its means and avoid directly competing in economies of scale with global superpowers. Barbados has moved past a resource based economy and competes globally in the service sector. Figures on GDP and government transparency speak for themselves of Barbados's success. Most importantly, Barbados has struck the important balance between domestic protection and global openness which has allowed it to succeed in the global market. With a strong government which has effectively pursued regulations and treaties that boost growth, Barbados has been able to welcome and benefit from foreign investment without losing domestic control. It is this critical balance that is most important to maintain to ensure future success.

Economic success in Barbados cannot be explained without acknowledging the excellent governance which has been present throughout its history. A collaborative approach has resulted in the retention of the best institutions from colonialism to transfer to independence. Since independence, this proclivity towards collaboration has been shown in the strong working relationship between the public and private sectors. This

strength in coordination has been integral to success in Barbados. Good governance and the spirit of collaboration can be seen as direct causes of the exceptional taxation and regulatory policies which exist. While there is concern about growing regional competition, it is acknowledged that Barbados has a reputation for legitimacy and honesty internationally that Bermuda and the Cayman Islands simply do not and that this reputation is significant to investors. The strategic vision of the government to diversify the economy, collaborate with the private sector and focus on luxury markets has been integral to the successful development in Barbados.

It is important to note that while this framework has been successful in Barbados it can not be assumed to be a transferable model for other SIDSs. Barbados's history is unique and their foundation of political stability and commitment to education is rare amongst SIDSs. In addition, this case study shows that for SIDSs to be globally competitive they must identify and aggressively pursue niche markets in which they can thrive. If this model is assumed and all Caribbean SIDSs targeted the same niches that Barbados currently fills, it would undermine the success and development of all involved. As such what this case study shows are more overarching policies for SIDSs to consider. First, clearly emphasized is the importance of governance. Political stability is integral for any state seeking foreign investment and the sooner that history can be said to have begun the better. Legitimate institutions are inseparable from good governance and this is where the initial push must occur. Second, SIDSs must analyze global markets and their own position to uncover niche markets in which they can be successful. This is a difficult and complicated process but is integral for SIDSs which want to experience economic growth. Finally, the case study shows the importance of governments in SIDSs actively creating and pursuing their own development policies. When this vision and control are absent, international organizations often step in and create development plans for states that are seldom as successful as when states complete the task themselves.

Examining economic success in Barbados must take into consideration the current global context as well as the realities surrounding SIDSs. In the turbulent global market, confidence is shaky and many are worried. At the same time suggestions which may be practical for most states are often unsuitable for the size constraints of SIDSs. Despite the challenges which Barbados has faced they have shown that successful

economic development is more than possible in a SIDS. With careful planning and continued attention to global realities Barbados is likely to continue to enjoy economic success into the future.

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