

A Bahamian Balancing Act: International Organizations Role in Shaping Tax Policies and

National Sovereignty

Matthew Williams

University of The Bahamas

Author Note

This paper was submitted for the Financial Services Student of the Year Essay Competition 2024 conducted by the University of The Bahamas in partnership with Bahamas Financial Services Board. It aims to analyze the implications of The Bahamas participation in international organizations as it pertains to tax policies and national sovereignty.

## **Introduction**

Known for attracting numerous investors and businesses, one of the key advantages of The Bahamas is being a tax haven. This attribute of The Bahamas is the byproduct of its national sovereignty. Being a tax haven is beneficial to by governments of The Bahamas, however, others argue that it isn't sufficient (Constantin & Constanta, 2015). To mitigate risk and ensure financial protection The Bahamas signed a Mutual Legal Assistance Treaty (MLAT) with the United States of America (USA) to allow the USA access to information for selected crimes. As a result of The Bahamas being a tax haven, often individuals would transfer their profits there due to lower taxes (Mihaila, 2021; Igbinenikaro & Adewusi, 2024). The Bahamas benefits from this however researchers believe that a relationship between national sovereignty and participation in international organizations exists. Researchers believe that a dynamic process occurs when sovereignty is transferred from national to international organizations through three phases (Martinez, 1996). With this in mind, a theory can be formulated stating that as countries' participation in international organizations surges their national sovereignty declines. This paper aims to analyze if this theory applies to The Bahamas and the implications of participation in international organizations as it relates to tax policies.

## **Literature Review**

### **National Sovereignty**

The Bahamas gained its national sovereignty on July 10<sup>th</sup>, 1973 as the by-product of numerous events with the support of the labor movement. Prior to this time, it was governed by Great Britain, which resulted in numerous challenges due to a distant land being leaders of a nation that was more capable of resolving its own matters (Saunders, 2016). As the country approaches its 51<sup>st</sup> year of independence it attempts to address shortcomings by joining

international organizations. Chief negotiator for the World Trade Organization (WTO) agreement, Zhivargo Laing believes the chances of the current administration of the government gaining full WTO membership is unlikely however it sees it being beneficial for the future of the nation. However, an activist like Pastor Eddie Victor sees the aspiration to gain full membership as a threat to the Bahamian economy (Kemp, 2020; Maycock, 2019). This scenario demonstrates the influence of international organizations while also some of the repercussions.

### **International Organizations**

During the first phase of addressing international affairs the countries that were recognized as the “Big Powers” had created a system that provided solutions to international conflicts until 1914. These countries included Austria, France, Great Britain, Russia and Prussia. This led to the second phase which commenced in 1919. The majority of international organizations which exist today were established after World War II. Organizations created at this time were created to increase peace and security among international societies. Eventually, the third phase occurred with the establishment of the United Nations in 1945. Following this the Organization for Economic Co-operation and Development (OECD) was established in 1960, with the European Union established in 1993. Lastly, the World Trade Organization was established in 1995. These organizations all served different roles in addressing world issues (Martinez, 1996; Faber & Dijck, 1996; Princen & Lelieveldt, 2023; Lang, et al., 2022; Hurd, 2024; Craig & De Burca, 2011).

#### **United Nations (UN)**

Since its establishment in 1945 on October 24<sup>th</sup> the United Nations (UN) with its headquarters located in New York serves multiple roles ranging from addressing global challenges to conflict resolution and even providing emergency response. The UN membership

is made up of six “principal organs” which results in 193 members, including The Bahamas. This includes the General Assembly (all members), and Security Council (five permanent members being France, China, the Russian Federation, the United Kingdom, and the USA with ten non-permanent members), International Court of Justice, the Secretariat, the Trusteeship Council, and Economic and Social Council. Members of the United Nations come to an agreement that results in them carrying out decisions made by the Security Council; which includes financial and economic decisions. Aside from the six principal organs, there are other independent specialized agencies, including the World Health Organization, World Trade Organization, and the International Monetary Fund that assist the UN with its matters. The UN currently does not impose tax laws on its members; however, it does assist with promoting international cooperation for said matters. Additionally, it has committees of experts who develop guidelines and recommendations for its members (Martinez, 1996; Mingst, Karns, & Lyon, 2022).

Similarly to the Organization for Economic Cooperation and Development (OECD), the UN also has a UN Tax Model Convention which serves as a guideline for its members to prevent double taxation. It does this by balancing rights ultimately allowing one country to relinquish its taxing rights. These guidelines provide security and transparency for international business resulting in fewer complications (Lennard, 2009).

With the introduction of the digital economy both the UN and OECD possess their respective tax models and transfer pricing conventions while also providing separate solutions for the digital aspect. An aspect it suggests is gross-based tax however this can lead to businesses passing the taxes onto consumers thus the UN recognizes it has to be careful when setting its margins (Mehboob, 2020). The UN hopes to continue addressing flaws it recognizes in the

OECD approach, but experts believe it can lead to more complexity with international tax matters (Bunn, 2023).

### **Organization for Economic Co-operation and Development (OECD)**

The successor to the Organization for European Economic Cooperation (OEEC), the OECD was established in 1960 on December 14<sup>th</sup>. With its headquarters located in Paris, its membership consists of the OECD Council, the OECD Secretariat, and various committees. The goal of the OECD is to research, provide, and promote development among its membership, in areas such as economics, environment, policies, and human health. Despite this organization's research and presented frameworks for taxes, the UN is known for arguing against its initiatives as they relate to taxes with the aim of creating a fair field for both developed and developing countries. Despite this, The Bahamas, one of the members, has decided to implement the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS). BEPS is a system created by the OECD that establishes a 15% minimum global tax rate. This approach aims to address the estimate of \$100-\$240 billion in revenue which is shifted among countries. OECD plan is a two-pillar one with Pillar I designed to distribute rights to tax in a fair manner and Pillar II is a 15% minimum global tax on companies with revenues higher than € 750 million annually (Mihaila, 2021; Salzman, 2011; Organization for Economic Cooperation and Development, 2023; Boukerrou & Driscoll, 2023). The Bahamas also has plans to implement a global minimum corporate income tax. Prime Minister Philip Davis penned a letter agreeing with the UN resolution on tax matters stating that those of the European Union (EU) and OECD are “flawed” due to their ever-changing rules (McCartney, Bahamas still proceeding with OECD obligations despite UN vote, 2023). Though the UN and OECD are the main organizations for

The Bahamas as they serve as members of those organizations there are other organizations at hand.

### **European Union (EU)**

Comprising of 27 members the European Union (EU) was established in 1993 on November 1<sup>st</sup>, representing 500 million people resulting in the largest combined income in the world (Biscontini, 2023; Craig & De Burca, 2011). The EU has multiple branches including the executive, legislative, European Central Bank, and European Court of Auditors. The EU provides its members with a single market allowing the transfer of services, people, and goods. Its role is to provide economic growth, peace, and address global issues for its membership. Researchers see three possible scenarios for the EU as it relates to addressing tax concerns, it will either continue its current plans, focus on a single market, or do more than what it is doing now. The latter is significant as it relates to The Bahamas if this option is selected, the use of the EU blacklist and impact on third countries will increase. The Bahamas has previously been placed on the EU blacklist in 2020 due to its “strategic deficiencies in its anti-money laundering/countering the financing of terrorism (AML/CFT) frameworks” which cause a negative impact (McCartney, Bahamas officially added to EU blacklist, 2023). However, when The Bahamas became compliant, they were removed from the list (Directorate-General for Taxation and Customs Union, 2024).

### **World Trade Organization (WTO)**

The Bahamas applied to the WTO for membership in 2001 where it currently has observer status, with the organization consisting of 164 countries equivalent to more than 98% of the total world trade. The role of the WTO which was founded in 1995 aims to increase international trade through its national treatment article. The body also sets limits for government

policies. Bahamas Chamber of Commerce and Employers Confederation (BCCEC) published a report addressing what is required and the implications of gaining full membership. The report concluded that it would be best for policymakers to pursue the WTO, however, some revisions to taxes are recommended (Bahamas Chamber of Commerce and Employers Confederation, 2019; Hurd, 2024; Kemp, 2020; Faber & Dijck, 1996).

**Table 1.**

<b>International Organization</b>	<b>Role</b>	<b>Requirements Imposed</b>	<b>Impact on The Bahamas</b>
United Nations (UN)	Global governance, conflict resolution, emergency response	Cooperation in international matters, adherence to guidelines on taxation and transparency	Enhanced global reputation, contribution to international peace and security, potential influence on national policies
Organization for Economic Co-operation and Development (OECD)	Economic cooperation and development	Implementation of BEPS framework, global minimum tax rate	Pressure to reform tax policies, potential reduction in tax haven attractiveness
World Trade Organization (WTO)	Promotion of international trade	Compliance with trade regulations, national treatment	Improved trade opportunities, need for policy adjustments

European Union (EU)	Economic integration, single market	Adherence to AML/CFT frameworks, compliance with EU blacklist criteria	Potential negative impact if blacklisted, economic opportunities within the single market
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Table 1 summarizes the roles, requirements and impacts of said international organizations on The Bahamas.

### **Analysis**

Throughout the literature, international organizations influence countries' tax policies, thus influencing a nation's national sovereignty, with this in mind implications can be recognized.

### **Implications**

The status of The Bahamas being a tax haven has noticeable implications. Its benefits of being a tax haven are clear, however, its status invites scrutiny from international organizations. The MLAT allows for a balance between national interest and international status, however, The Bahamas' involvement in other organizations such as the UN, OECD, and WTO complicates this balance as the country is pressured to adopt international standards. For example, the BEPS initiative global minimum tax rate seeks to curb tax avoidance to allow fair taxation worldwide. The implication of this on The Bahamas is that without proper measures in place, it can result in a decrease in demand for doing business in The Bahamas, as it is a tax haven that attracts those entities affected. However, if The Bahamas refuses to be compliant it may result in the country being blacklisted again making it difficult to obtain economic assistance and relief when required, while also causing the country economic shocks. These economic shocks can result in a decrease in the Gross Domestic Product (GDP).

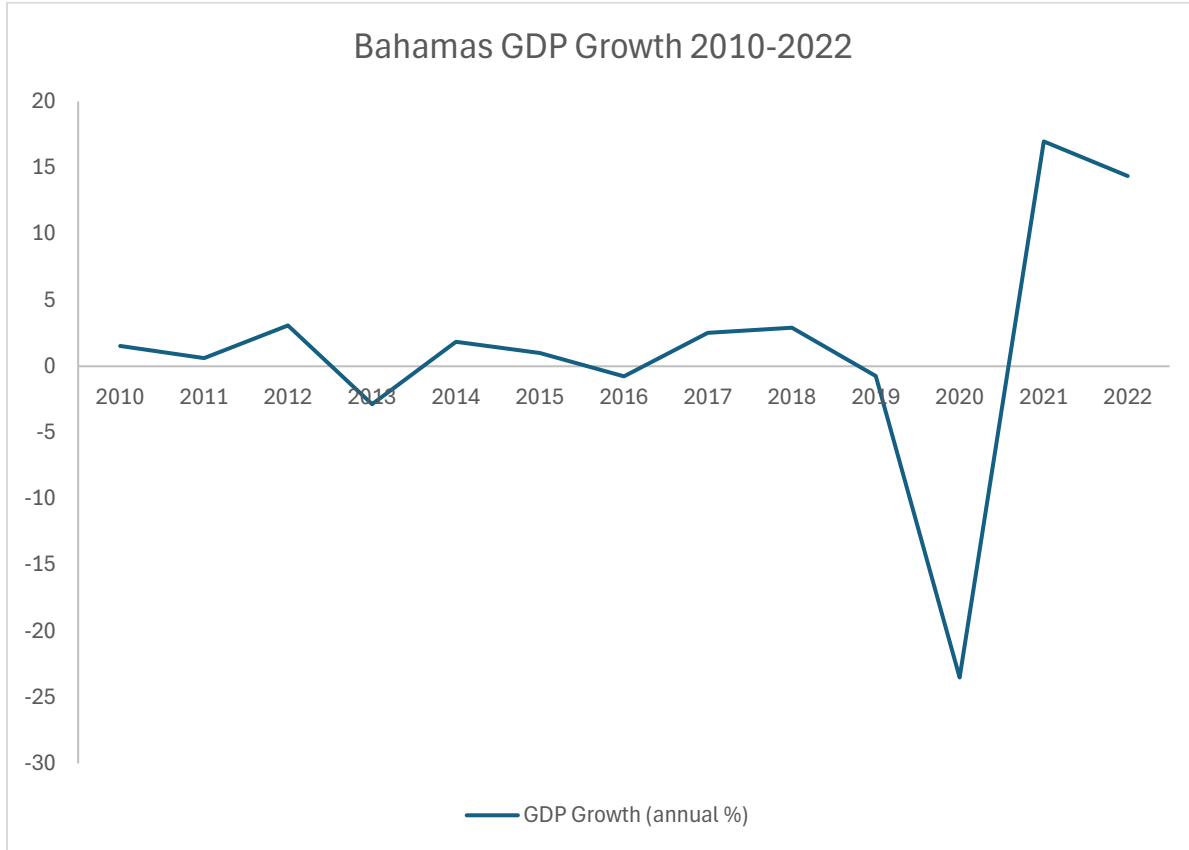
**Figure 1.**

Figure 1 shows the GDP growth in The Bahamas, consequently, the negative side effects of the EU's blacklist which was implemented in 2020, and the pandemic can be seen with a decline occurring 2019-2020. However, The Bahamas' response to the shock which led to them being removed from the blacklist can also be seen in the growth in 2021 (McCartney, Bahamas officially added to EU blacklist, 2023; World Bank Group, 2024).

### **Balancing National Interests and International Standards**

In order to achieve the optimal benefits, The Bahamas will have to perform a balancing act between both its national sovereignty and participation in international organizations. The country's compliance with the BEPS framework and UN guidelines may reduce the tax havens' attractiveness however this aims to prevent money laundering which can benefit the nation

considering recent local FTX cases (Frantz, 2023; Johnson & Wyss, 2023). The Bahamas must also consider its reputation in comparison to its economic model and find a balance in the prevention of being blacklisted while also being attractive to investors by possessing some level of sovereignty, which can be difficult.

### **Conclusion**

The Bahamas faces numerous challenges with the tasks at hand. Its economic model is one of a tax haven, but international organizations aim to create tax transparency. The MLAT demonstrates a strategic approach to how to handle said matters while upholding national sovereignty. Thus, it can be said that the theory that increased participation in international organizations causes a decline in national sovereignty is not fully valid. The Bahamas demonstrates that careful policy adjustments can mitigate catastrophic implications. By balancing both variables, international organizations' participation and national sovereignty it can find benefits in evolving.

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## Appendix

Tables

**Table 2.**

<b>Table Showing GDP for The Bahamas from 1961-2022</b>	
<b>Year</b>	<b>GDP Growth (annual %)</b>
1961	10.66709743
1962	10.45197189
1963	10.5240552
1964	10.5015672
1965	10.42559649
1966	9.07192871
1967	9.598113866
1968	8.421763566
1969	8.981662577
1970	-5.649649519
1971	1.62650874
1972	-3.497335933
1973	7.567568823
1974	-16.75422908
1975	-14.80312631
1976	5.185184971
1977	9.154929221
1978	14.17952014
1979	26.13929577
1980	6.495281921
1981	-9.22640508
1982	6.698897757
1983	3.597051868
1984	14.17114862
1985	4.829180115
1986	1.797000227
1987	2.984519344
1988	2.309707661
1989	6.7273298
1990	-1.596249087
1991	-4.181785022

<b>Table Showing GDP for The Bahamas from 1961-2022</b>	
<b>Year</b>	<b>GDP Growth (annual %)</b>
1992	-3.825582297
1993	0.307806596
1994	3.148915972
1995	4.378752035
1996	4.223530362
1997	1.287753205
1998	4.716798555
1999	7.144103907
2000	4.148419308
2001	2.626009827
2002	2.704956247
2003	-1.264916676
2004	0.882373745
2005	3.396084205
2006	2.516592217
2007	1.446099912
2008	-2.32364807
2009	-4.175428056
2010	1.538662487
2011	0.613170736
2012	3.086377661
2013	-2.862505478
2014	1.847107192
2015	0.996230704
2016	-0.762973445
2017	2.52416174
2018	2.918306927
2019	-0.743661883
2020	-23.50810144
2021	16.98449048
2022	14.36820985

Table 2. shows the GDP growth of The Bahamas from 1961 to 2022 based on the information provided by the World Bank (World Bank Group, 2024).