

WORLD TRADE ORGANIZATION

WT/L/349
2 May 2000

(00-1772)

Original: English

THE BAHAMAS – REQUEST FOR OBSERVER STATUS

Communication from The Bahamas

The following communication dated 18 April 2000, addressed to the Director-General, has been received from the Minister of Finance of The Bahamas.

On behalf of the Government of the Commonwealth of The Bahamas, I have the honour to submit the application of the Government of The Bahamas for Observer Status in the General Council of the World Trade Organization (WTO) and its subsidiary bodies.

In this connection, I should like to state that it is the intention of the Government of The Bahamas to apply for accession to the WTO Agreement in the near future. In the meantime, the Observer Status would help the Government of The Bahamas familiarize itself with the WTO and its rules and procedures.

In accordance with the Rules of Procedure of the General Council, I am enclosing herewith a memorandum on the economy and foreign trade regime of The Bahamas.

I should like to place this application and the accompanying document before the General Council at its next meeting.

I. INTRODUCTION

A. THE COUNTRY

1 The Commonwealth of The Bahamas is an archipelago of approximately 700 islands, located in the North Atlantic Ocean, Southeast of Florida. The two main centres of economic activity are New Providence Island (83 square miles), on which the capital Nassau is situated, and Grand Bahama (530 square miles).

2 Approximately two thirds of the population (1999 est.: 300,000) reside on New Providence and about 16 per cent in Grand Bahama. The population is relatively young, with over 70 per cent under 35 years of age and approximately one-third under 15 years of age.

3 The country's official language is English and its currency is the Bahamian dollar (divided into 100 cents), which has been on par with the United States' dollar since 1973.

4 The estimated adult literacy rate of over 95 per cent is among the highest in the Western Hemisphere. The Bahamas' high level of social development is underscored by its ranking of 30th in the United Nation's Development Programme Human Development Index in 1999, the second highest in Latin American and the Caribbean.

5 The Bahamas, formerly a British colony, became independent on 10 July 1973 and is a member of the United Nations, the British Commonwealth of Nations, the Organization of American States, the Caribbean Community (CARICOM), the International Monetary Fund, the World Bank and other international organizations. The Bahamas recognizes the British monarch as its head of state. An appointed Governor-General serves as the Monarch's representative in The Bahamas. There is a Prime Minister, who is the Head of Government, and Cabinet Ministers constituting the executive arm of Government. The Parliament consists of a House of Assembly and a Senate.

6 According to the World Bank, The Bahamas is a middle-income country. Nominal per capita GDP in 1999 was approximately US\$15,000, the third highest among independent territories in the Western Hemisphere, after the United States and Canada. The economy, which is highly service oriented, derives about 40 per cent of its GDP from tourism, 15 per cent from financial services, 10 per cent from construction, 8 per cent from light manufacturing and 5 per cent from agriculture and fisheries.

7 The tourism sector, which is among the most competitive in the Caribbean region, is growing strongly, linked with significant foreign investment in the renovation and expansion of room capacity.

8 Since the early 1960s, The Bahamas has successfully emerged as a choice destination for conducting financial services, ranging from offshore banking, asset protection trusts, international business companies and estate planning, to captive insurance and ship registration. Offshore financial services are also experiencing renewed growth as a result of modernized legislation, enhanced marketing efforts and a widening array of products and services.

9 The thrust of current development initiatives is to broaden the economy's foreign exchange earnings base, strengthen and deepen the financial services sector and enhance private sector participation in the economy.

B. THE ECONOMY

10 In 1999, real GDP grew by an estimated 5.8 per cent, after increasing by 3.0 per cent in 1998 and by 3.3 per cent in 1997.

11 There has been strong growth in net foreign direct investments, which reached an estimated \$1,936 million or approximately 43 per cent of the GDP over the last five years. Investments have been primarily concentrated in the expansion of the hotel industry in New Providence, construction of luxury homes, the development of a transshipment facility on Grand Bahama and additional light manufacture infrastructure.

12 Construction has contributed to GDP at a rate moderately above its long-run trend in each of the last three years, and in 1999 tourism output recovered strongly, benefiting from the increase in room capacity and product improvements. In 1999, The Bahamas welcomed 3,648,291 visitors, some 9.0 per cent more than it did in 1998. Indicators of the industry's competitiveness-average length of stay and rooms sold-all registered improvements.

13 Employment conditions have registered steady improvements, with the jobless rate declining from a high of 14.9 per cent in 1992 to 7 per cent in 1999.

14 In 1999 National Debt as a ratio to GDP was 44.0 per cent. Public sector foreign currency debt was \$374.0 million, representing a ratio to GDP of 8.4 per cent. Servicing of the foreign currency debt absorbed an estimated 4.0 per cent of export earnings in 1999.

15 The Government's prudent debt management practices, supported by the sound, sustainable and growth oriented economic policy framework, have earned the country a stable investment grade rating of A3 on foreign sovereign debt and A1 on domestic debt.

16 Inflation in The Bahamas has been historically correlated with trends in the United States, The Bahamas' main trading partner, averaging less than 2.0 per cent per annum since 1993.

II. GLOBAL DEVELOPMENT STRATEGY

17 Recent improvements in economic performance derive in large measure from the structural reforms embarked upon in the nineties. The introduction of a new investment policy, coupled with a comprehensive programme of investment incentives sparked renewed developments in tourism, light manufacturing and agriculture. Steps taken to modernize the regulatory framework of the financial services sector have facilitated further product diversification, and fiscal performance has benefited from privatization of a number of government concerns, primarily in the tourism sector.

18 In 1993, the Government published its new National Investment Policy; this policy is aimed at attracting high quality productive private investment, reducing state ownership within the economy and creating more transparent and fair regulatory mechanisms to facilitate private sector development. The policy also targeted the promotion of stronger sectoral linkages, particularly between tourism and financial services, with the objective of expanding the contributions of agriculture, fisheries and light manufacturing to output growth.

A. FINANCIAL SECTOR

19 Financial sector policy initiatives emphasize the Government's objective of promoting employment and incomes growth, together with a deepening of the domestic intermediation process and expansion of offshore financial services in the context of sound regulatory frameworks.

20 The emphasis in the banking sector has been to ensure that regulatory and supervisory standards at least equal those recommended by the G7, particularly as regard capital adequacy, risk management and anti-crime measures.

21 Among the pertinent statistics for the financial services industry, as at end-December 1999, the sector consisted of 415 insurance companies, and 596 licensed mutual funds. Although exchange control regulations legally separate domestic offshore business, both sectors are equally open to foreign participation.

III. MONETARY POLICY AND CURRENCY CONVERTIBILITY

22 Monetary policy, as conducted by the Central Bank of The Bahamas, serves to promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the economy. Maintaining credit conditions and cross-border flows that are supportive of the fixed parity of the Bahamian dollar with the U.S. dollar that has existed since 1973 is a key objective of the authorities.

23 Exchange controls administered by the Central Bank do not impose restrictions on current account transactions and are used to monitor developments in this area. On capital account transactions, all transfers to countries outside The Bahamas require exchange control approval, and outflows of resident-owned capital are restricted.

IV. CURRENT TAX REGIME

24 With very limited exceptions, The Bahamas' taxation policies are uniformly applied to both Bahamians and foreigners. The Bahamas has never had a system of direct taxation; the major source of revenue are indirect taxes, mainly customs duties, stamp taxes, real property taxes and taxes on tourism activities. Except in very limited cases, import duties are not an instrument of trade policy for The Bahamas and tariffs do not discriminate between the country of origin. Moreover, preferential treatments, which once discriminated against various food products (poultry and vegetables), have been almost completely eliminated, placing relevant tariffs within the same general range as those applied to articles in which there is no local production.

25 Preliminary estimates of the 1998/99 budget outcome indicate that tariffs and stamp taxes on imports account for a combined 56 per cent of total revenues.

26 The combined tariff and stamp charges on imports represented an average levy of 25.5 per cent during 1997 ~ 1999, as compared to around 30 per cent in 1995 and 1996. Most imported non-food articles attract *ad valorem* duty rates of 25-35 per cent in increments of 5 per cent, and a supplementary stamp tax of 7 per cent. As a matter of policy, the lowest *ad valorem* tariffs are applicable to basic food, medical and health goods (ranging between less than 0 per cent – 15 per cent on average). Reflecting priority development goals, essential building materials and electronic items, including computers and computer software, are taxed within the 0 per cent to 25 per cent range. On the higher end of the spectrum, the automobile tax contains a luxury component, with the duty rate on new vehicles (equivalent to exercises) ranging between 55 per cent and 65 per cent.

27 On 1 July, 1996, the Government introduced the "Harmonized Commodity Description and Coding System" of the World Customs Organization. The number of tariff rates was reduced from 123 to 29 and all customs rates were rounded down to the nearest multiple of 5 per cent, placing the majority of tariffs within the 25 per cent to 35 per cent range. This simplification generated important administrative efficiency gains as well as more buoyancy in the tax yield. Since 1996, the tariff structure has not been materially altered.
