



Joint press release from IFC Forum and the Commonwealth Secretariat

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International financial centres can boost growth in developing countries

International financial centres can enhance economic growth and alleviate poverty among developing countries according to Professor Jason Sharman.

In a new paper *International Financial Centres and Developing Countries: Providing Institutions for Growth and Poverty Alleviation*, which uses the experiences of China and India, Sharman shows how the services and products provided by IFCs can boost domestic and foreign investment in developing countries.

China is a highly successful example of poverty reduction; China's openness to foreign investment is widely regarded as a key driver of Chinese growth from 1978 to the present. Flows of foreign investment into China have been mainly routed through tax-neutral IFCs and in particular Hong Kong and several Caribbean centres including Cayman.

By routing investment through IFCs, investors can use institutions that lower transaction costs, resulting in larger capital flows and more efficient use of this capital.

Small- and medium-sized businesses from developing countries can often access capital much more efficiently through the stable and well regulated platforms in IFCs than they could do domestically. For foreign investors, IFCs ease the path of entry into developing countries.

Sharman finds that IFCs are rarely final destinations for capital from the developing world and these funds are usually invested back into the larger countries. Such flows allow investors to unite their desire for access to financial services platforms with the need to contribute to national development.

Sharman also finds that there is insufficient evidence to support the two common misconceptions surrounding IFCs; that they drain wealth from developing countries or that they are used for tax avoidance. In fact, the report finds that small IFCs are crucial intermediaries for trade with and investment into developing countries.

Cyrus Rustomjee, Director of the Economic Affairs Division from the Commonwealth Secretariat says:

“The international financial services industry is an important contributor to the livelihoods of people in a number of Commonwealth countries, especially small states with limited economic opportunities.

The Commonwealth Secretariat has worked over a number of years to support the implementation of regulation in these countries and ensure a level playing field between all countries.

In this we have worked to ensure that policy is based on full international consensus and supported by evidence. We welcome this study as an important contribution in enhancing the understanding of the role which these centres play in the global financial system and supporting economic development in developing countries.”

Jonathan Rigby, from the IFC Forum, which supported the Commonwealth Secretariat with the production of Professor Sharman’s paper, says:

“In this current period when the global financial architecture is under review it is important that any prospective changes are fully understood. There is a distinct danger that if IFCs are discriminated against or marginalised this could not only damage the flow of capital around the world, but significantly hamper the economic development of developing nations.”

A copy of the paper is available at: -

[www.ifcforum.org/files/Sharman International Financial Centres and Developing Countries.pdf](http://www.ifcforum.org/files/Sharman_International_Financial_Centres_and_Developing_Countries.pdf)

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