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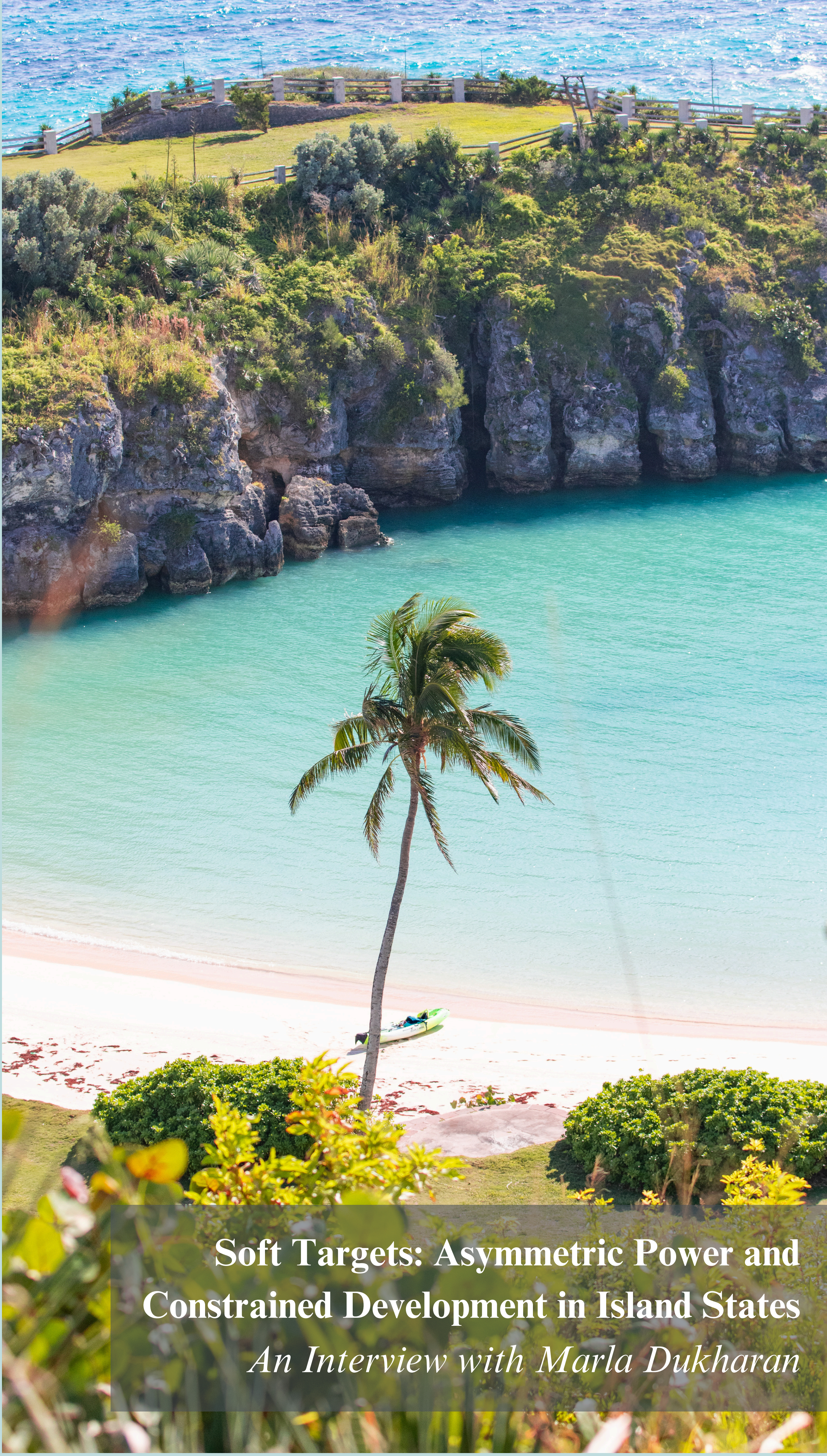

Soft Targets: Asymmetric Power and Constrained Development in Island States

An Interview with Marla Dukharan

About the Interviewee

[Photograph of Marla Dukharan]

Marla Dukharan

Economist & Caribbean Policy Advisor
Non-Executive Director, Tax Justice Network

Marla Dukharan is a renowned economist and advisor with a deep commitment to making a profound impact in the Caribbean. With her unwavering dedication, she strives to address the economic and social challenges faced by the region. Marla's expertise and insightful analysis on the regional implications of global events have earned her widespread recognition. She actively drives discussions, contributes to shaping public policy, and inspires leaders to take actions that build economic resilience and pave the way for a more prosperous and sustainable future for the Caribbean.

Recognising the need for change, Marla initiated a series of change-inspiring webinars on key regional topics, aiming to support solutions to the Caribbean's economic and social challenges. Her monthly *Caribbean Economic Report* has become a critical resource for monitoring the region's economic landscape. Through these initiatives, Marla empowers individuals and organisations with the knowledge and tools needed to navigate and overcome the unique challenges faced by the Caribbean.

Marla's passion lies in addressing the paradox of sluggish economic growth in a region brimming with boundless potential. She fearlessly tackles topics that directly impede growth, including the region's burdensome debt, financial exclusion, gender and income inequality, and susceptibility to climate change and natural disasters. Through her relentless efforts, Marla seeks to empower the region to overcome these challenges and unlock its true potential for sustained prosperity.

Marla's expertise has made her a highly sought-after speaker at prominent industry, multilateral, and academic conferences on a global scale. Her insights into the region provide a clear vision for multinationals and investors seeking to navigate the Caribbean landscape. Additionally, Marla serves as a trusted advisor to private-sector Boards of Directors across the Caribbean, offering invaluable guidance and strategic counsel.

Soft Targets: Asymmetric Power and Constrained Development in Island States

An Interview with Marla Dukharan

Conducted by Kaya Montarsolo and Ywione Darrell
Written by Ayana Lomas and Ywione Darrell

We interviewed Marla Dukharan, a leading economist specialising in small-island developing states (SIDSs) and a Non-Executive Director of the Tax Justice Network, to discuss how contemporary global tax governance structures shape the economic development and political economy of island states, particularly in the Caribbean. Our discussion covered two areas: the characterisation of many SIDSs as tax or secrecy havens and the related harms attributed to them, and how SIDSs, given their unique development challenges, may mitigate these harms with intraregional cooperation. The central themes emerging from the discussion were that limited developmental capacity in SIDSs implies vulnerability to external pressures, both geopolitical and economic, and that resilience lies in realigning our perspective on development and intraregional support. First, we dissected the external political and regulatory pressures facing SIDSs with offshore financial centres (OFCs). This section highlighted the harms of external sanctions and the adverse narratives surrounding this finance-oriented development strategy. Second, we broadened our discussion to challenges facing all island states. This section emphasised that attention must be paid to the distribution of welfare on island states and intraregional interdependence.

External Political and Financial Pressures

We began our discussion by highlighting the role of 'name-and-shame' strategies in sanctioning non-compliant jurisdictions. Particularly, we focused on the *EU List of Non-Cooperative Jurisdictions for Tax Purposes*, which identifies jurisdictions deemed non-compliant with standards of tax transparency, exchange of information, and fair tax competition. As of February 2026, the list comprises ten jurisdictions, many of which are SIDSs. In parallel, the EU operates a separate high-risk third-country list under its anti-money laundering and countering the financing of terrorism (AML/CFT) framework, requiring enhanced due diligence for transactions involving listed jurisdictions. This list similarly includes several SIDSs.

Dukharan contends that these mechanisms do not function purely as neutral compliance assessments but operate as instruments of asymmetric regulatory power. The lists are disproportionately populated by countries in the Global South, while major financial centres in advanced economies have historically avoided comparable designation. This pattern, she argues, suggests that listing practices reflect geopolitical leverage rather than objective governance benchmarks. She drew attention to the inclusion of Russia following its invasion of Ukraine in 2022. Russia was added to the EU tax blacklist on grounds of harmful tax practices rather than money laundering or terrorism financing. The timing and framing of this inclusion, she suggested, illustrate how listing decisions may be shaped by political context. While not denying the legitimacy of regulatory standards, this example raises questions regarding consistency and selectivity in enforcement.

The asymmetry becomes more pronounced when considered alongside data on global financial secrecy. Dukharan references the Tax Justice Network's *Global Financial Secrecy Index* in further support of this argument. This measure routinely ranks major Global North jurisdictions, including the United States and Switzerland, among the largest contributors to global financial secrecy (Tax Justice Network, 2026). She contends that the comparative volume of financial services provided by SIDS OFCs constitutes only a fraction of that channelled through these major economies, yet these jurisdictions do not appear on either of the European Union compliance assessment lists nearly as frequently as SIDSs do.

Although Dukharan did not dismiss the existence of compliance deficiencies within SIDSs, she emphasised that their scale and systemic significance are not demonstrably greater than those observable in major financial centres in the Global North. From this perspective, the differential treatment of small island jurisdictions within international compliance regimes appears indicative of asymmetries in geopolitical power, rather than a candid assessment of microprudential risk. Smaller states, lacking the diplomatic influence and economic leverage of larger economies, are more readily subjected to reputational sanctioning and external scrutiny. Consequently, mechanisms such as blacklisting and enhanced monitoring requirements function as instruments through which regulatory authority is exercised unevenly across the international system.

These pressures have tangible economic implications for the development prospects of SIDS. The reputational consequences associated with being categorised as a high-risk or non-cooperative jurisdiction can discourage capital inflows. Kida and Paetzold (2021) find that graylisting by the Financial Action Task Force can reduce inflows by 7.6% of GDP. Cao et al. (2024) illustrate that these harms may spill beyond the financial services sector, as they find that reputational harm caused to Panama following the 2016 Panama Papers harmed the tourism sector as well. In turn, such external political pressure may sufficiently moderate development opportunities available to offshore financial centres and SIDSs in general.

Structural Treaty Asymmetries and the Allocation of Taxing Rights

Beyond the reputational and regulatory pressures associated with international blacklisting practices, Dukharan further argued that the harms associated with SIDSs which operate as international financial centres are overstated. Particularly, she focused on claims that offshore financial centres are principal drivers of tax leakage from developing states, approximately $200 billion annually (Shaxson, 2019). However, Dukharan contends that the more consequential structural issue lies in how taxing rights are allocated through the design of international tax treaties. She argues that these agreements determine which jurisdiction has the primary authority to tax income generated through cross-border economic activity and therefore play a critical role in shaping the distribution of tax revenues across the international system. While offshore financial centres, such as Mauritius, have been credited as having tax treaties which enable tax avoidance, developing countries' fiscal capacities are most eroded by treaties with advanced economies, such as the United Kingdom and Italy (ActionAid, 2016).

Although many SIDSs have fewer and less restrictive taxation treaties with developing states than advanced economies, we caveat this argument. In our review of the literature, we find the relationship between tax havens and tax treaties is more nuanced. First, in absolute terms, the estimated losses via treaties are paled by the estimated annual revenue losses via tax havens. Janský and Šedivý (2018) estimate, for 14 developing countries in sub-Saharan Africa and Asia, that the highest potential tax revenue losses are in the hundreds of millions USD and around 0.1 percent of GDP, with the Philippines incurring the largest losses in both absolute and relative terms; around 95 percent of losses come from dividends, and four investor countries — Japan, the Netherlands, Switzerland and Singapore — together account for more than half of the losses.

Source: Janský and Šedivý (2018)

The analysis by Janský and Šedivý (2018) does highlight an alternative dynamic and critique of the role geopolitical dynamics play in the sanctioning of non-compliance with international standards. Specifically, their identification of major economies, such as the Netherlands, Switzerland, and Singapore, is important because these jurisdictions, in addition to the United Kingdom and Ireland, are classified as conduit international financial centres (Garcia-Bernardo et al., 2017). In Garcia-Bernardo et al. (2017), a conduit jurisdiction is an intermediary between an onshore jurisdiction (i.e. where revenues or capital originate) and a sink jurisdiction (i.e. where revenues are hidden). While this is not a rigid description of the roles jurisdictions play in the flow of international finance, an underlying theme is that conduit jurisdictions are not frequently attributed with the fault of facilitating tax avoidance. Nonetheless, evidence from Fuest, Hugger, and Neumier (2022) indicates that 87% of German MNE tax-haven profits are booked in European conduit OFCs, with only 13% being booked in sink OFCs, which are often SIDSs.

This evidence further solidifies the geopolitical dynamics that shape OFC scrutiny and intensify the vulnerabilities faced by SIDSs. Although tax treaties play a minor role in the losses of developing country revenue, the role of advanced economies in international tax arbitrage and evasion suggests that the harms attributed to SIDSs is a function most sensitive to their weaker geopolitical stature rather than the gross harm they inflict on the tax bases of developing countries.

Exportation of Onshore Political Economy Dynamics

Our discussion then turned to the harms attributed to SIDSs as facilitators of tax and regulatory arbitrage in advanced economies. Dukharan returned to the argument that SIDSs function as scapegoats for fiscal dynamics that originate elsewhere, but extended the analysis into the political economy of advanced-economy governments themselves. She drew on a line of argument associated with Branko Milanović, a leading economist on global inequality, who contends that contemporary inequality is increasingly driven by disparities within countries rather than between them. Milanović (2016) attributes much of this trend in developed economies to globalisation, the rising capital share of income, and *homoploutia* (the growing overlap between high-wage earners and those receiving substantial rents from capital).

In this context, the structure of domestic taxation becomes a central determinant of distributive outcomes. Dukharan argued, however, that advanced economies face political economy constraints which make it difficult to raise revenue from high-income individuals and corporations, given the influence of elites and well-resourced interest groups in shaping policy. This dynamic is consistent with the long-standing analyses of Olson (1965) and Stigler (1971), who formalise the principle that concentrated interest groups tend to prevail over more diffuse ones because the per-member benefit of organising and the cost of policy losses are much higher for small groups than for large ones. The implication is that the trajectory of redistributive policy is shaped by the distribution of organised pressure, which systematically favours elite interests.

This dynamic becomes most acute during periods of fiscal stress, when demands for revenue and public spending rise without a corresponding expansion in the political space to meet them through progressive taxation. The decade following the Global Financial Crisis exemplified this tension, particularly in Europe, where stagnant growth and widening inequality coincided with sustained pressure for fiscal consolidation and improved public services. Dukharan's framing suggests that one response to such gaps is to redirect political pressure toward external targets with limited capacity to retaliate. From this purview, SIDSs specialising in international financial services come to be viewed as low-hanging fruit, sanctioning of which can mitigate domestic pressure for reform without direct confrontation with local elites. The timing of the OECD's Base Erosion and Profit Shifting (BEPS) Initiative, launched in 2013, is at least consistent with this pattern, and the broader post-crisis Western turn toward protectionism, including tariffs against China, reflects a similar preference for external rather than domestic redistributive policy. The vulnerabilities differ in scale, however: a large economy can absorb shifts in trading partners' regulatory stance, whereas finance-oriented SIDSs depend on favourable external perceptions for their core economic activity, making such shifts a primary vulnerability (Cao et al., 2024; Kida and Paetzold, 2021).

Dukharan's framing illuminates a structural feature of the dynamics between advanced economies and SIDSs: political economy constraints on advanced-economy governments, imposed by elite dynamics, can manifest as constraints on SIDS growth. The link is indirect, but it captures the asymmetric costs and limited bilateral bargaining capacity that SIDSs face. For jurisdictions which rely on their offshore financial centres as a pillar of development, the cost of resisting advanced-economy mandates is substantial.

Inequality and Resilience in Island States

A common theme throughout our conversation was that island societies face mounting challenges. While the geopolitical pressures she referenced were salient for OFC island states, Dukharan's argument expanded beyond finance-oriented economies to more generally include other vulnerabilities faced by SIDSs. She argues that island economies must focus their development strategies toward redistributive policies and intraregional interdependence.

First, Dukharan challenges the orthodox priority of growth in island states. She argued "[we need to] find ways [to redistribute] the gains... of production that already takes place". Recounting her experiences consulting on policy in the Pacific islands of Fiji and Vanuatu, she argued that policymakers and the polities of these countries focused on sustaining equal living standards across the population. In favour of her argument, there has been growing concern about the maleffects of unequal growth across the globe. As argued previously, the concentration of economic prosperity has negative effects on the fiscal capacity of advanced nations, and this principle is true in island states. With her anecdotes, she argued that greater emphasis should be placed upon the health of society rather than the economy. To do so, reform must be considered for tax, housing, health, and infrastructure policy.

Second, Dukharan elucidates that the inward focus of redistribution should not result in islands placing themselves in siloes. Rather, she argued that resilience is a corresponding issue that island states must concern themselves with. She highlights that the policy levers available to developed states, such as monetary policy interventions, are not feasible for island states. Dukharan argues that there is space for greater intraregional interdependence by island states. She points to the Caribbean Catastrophe Risk Insurance Facility (CCRIF) as a key example of how islands can mitigate their shared vulnerabilities —hurricanes and floods. This was exemplified with the USD 90.1 million payout to the Jamaican Government following Hurricane Melissa. These mutual insurance programmes provide island state governments with necessary liquidity, which improves their responsiveness to ongoing crises and reduces the burden of rebuilding. Dukharan indicated that island state dependence on imports from the Global North, particularly the United States for Caribbean islands, is another area in which resilience may be improved by relying more upon each other. Acknowledging that the size of SIDSs limits their ability to diversify away from imports, Dukharan supported the idea of greater trade with larger countries across the Global South. For the Caribbean, this would include countries across Latin America, including Brazil, Mexico, and Colombia.