establishing such enterprises to a large extent. The lack of an appropriate infrastructure and well-trained computer experts, especially when remote island VSC are concerned, may be two promising explanations for the slow development in these areas.

It is however astonishing that the existence of a strong financial service sector is a bad device to distinguish between high-income and low-income VSC. In other words, many VSC try to specialize in financial services, but only a few are truly successful. This means that a specialization in financial services and banking may result in high levels of welfare, but it is far from guaranteeing high income. One therefore has to be cautious in advising less developed VSC to promote only the financial service sector and to follow strategies which are solely tailored to the needs of this sector.

It is even more surprising that those countries which are on the above-mentioned FATF-GAFI list and therefore suspected of not combating money laundering adequately are far from being the ones with the highest per capita GDP. Seven of the 17 countries listed by FATF-GAFI (2001) are VSC or SAR, none of them are among the selected eight high-income VSC, and some have even been disregarded in our set of 21 due to their low GDP per capita.[127] The removal of the Bahamas, the Cayman Islands and Liechtenstein in June 2000 is a clear indication that these countries put in a lot of political effort in addressing the deficiencies identified by the FATF through the enactment of legal reforms. This proves that high-income VSC are very much concerned about their international reputation. A listing by the FATF would not comply with their image of a safe and reputable place for financial services, based on a rather long tradition and on credibility. Advising a low-income VSC to develop the financial service sector would, if done at all, include a remark on the importance of confidentiality and compliance with international rules. Note however that there are a remarkable number of VSC on the OECD list of harmful tax practices. This list reads like the «Who's who» of VSC and clearly shows the specialization of many VSC.[128]

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127 Listed are the following VSC and SAR: Cook Islands, Dominica, Marshall Islands, Nauru, Niue, St. Kitts and Nevis, St. Vincent and the Grenadines. In June 2000 the Bahamas, the Cayman Islands and Liechtenstein were removed.

128 33 of 37 countries listed are VSC or SAR according to the definition used in this study.