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From Road Town (BVI) to Shanghai: FDI, IBCs and global capital flows

This paper examines a case study involving the governance of offshore financial centres (OFCs) and the use of international business companies (IBCs) registered in the British Virgin Islands (BVI) to provide foreign direct investment (FDI) to China. The question posed is 'how and why have the Caribbean offshore financial centres become a major source of FDI to China?' and subsequently, 'what are the implications of this state of affairs for global capital flows more generally?' An answer to these questions is developed through an explanation of Caribbean OFCs as a nexus in FDI flows to China, followed by an assessment of the composition of that FDI and the presence of 'round trip' capital, that is domestic capital that departed China and is now returning disguised as foreign capital. The location of the OFC in global finance is evaluated in the context of these FDI flows, reinforcing an argument that the OFCs of the Caribbean (along with those in the Pacific, Asia and the Middle East) exist as a semiperipheral space within the core-periphery relationships of global finance. The paper closes with a consideration for the developmental role performed by the OFC in Asia and the possibilities for crafting global governance to guide the use and supervision of IBCs in transnational trade and investment.

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Introduction

In 2006 the number two source for foreign direct investment (FDI) to China was the British Virgin Islands (BVI), the same was true in 2005 when it was also the number three recipient for overseas direct investment from China (after Hong Kong and the Cayman Islands). This very curious circumstance involves the offshore financial centre (OFC) and its international business company (IBC) registry as a critical component in the circuits of capital flowing in and out of China. Notwithstanding the extensive and varied literature on FDI and China, the role and function of these offshore centres is not well represented. It seems a clear case that the OFC in the BVI operates as a semiperipheral location for global finance capital.[1] World systems analysis is utilised here as a means to understand a structural dynamic of the world economy, specifically with regards to the finance capital categorised as foreign direct investment. This approach serves to highlight the nature of cross-border flows of investment between developed economies (core) and developing or emerging economies (periphery) through the intermediary functions performed by offshore financial centres (semiperiphery). The case of investment in Greater China (Mainland, Hong Kong, Macao, and Taiwan) is used both for the pivotal role of the OFC in these flows and the fact that Mainland China is widely identified as the predominant destination for direct investment outside of the OECD.[2] For the purposes of this analysis, an offshore financial centre is understood to be a jurisdiction that possesses a legal and regulatory regime evolved and/or designed to facilitate the international financial activity of non-domestic capital. The use of the term jurisdiction recognises that

[1] William Vlcek, "A semi-periphery to global capital: Global governance and lines of flight for Caribbean offshore financial centres," *Globalisation and the Semi-periphery*, (eds) Owen Worth and Phoebe Moore (Basingstoke: Palgrave Macmillan, forthcoming).

[2] Yun-Wing Sung, *The Emergence of Greater China: The Economic Integration of Mainland China, Taiwan and Hong Kong* (Basingstoke: Palgrave Macmillan, 2005), 2; Harry Harding, "The Concept of "Greater China": Themes, Variations and Reservations," *The China Quarterly*, 136 (1993); United Nations Conference on Trade and Development, *World Investment Report - FDI from Developing and Transition Economies: Implications for Development* (Geneva: United Nations Publication, 2006), xvii.

both sovereign (Bahamas) and non-self-governing/semi-sovereign (British Virgin Islands) territories host an OFC.[3]

Until recently, China's national legislation and regulatory structure had been designed to attract these flows of FDI. In March 2007, however, the National People's Congress (China) passed legislation enacting the Enterprise Income Tax Law. This new tax law, with effect from 1 January 2008, is expected to change the dynamics for the attraction and use of FDI in China because it will equalise corporate tax rates between domestic-owned corporations and foreign-owned corporations. No longer will foreign investment receive the preferential tax status that helped draw increasing amounts of FDI to China over the past two decades.[4] The impact from the new law extends beyond foreign firms investing in China, for it also eliminates the differential national tax rate that was one motivation for domestic capital to make a 'round trip' visit to some foreign location in order to change its national identity and return to China as *foreign* capital.[5] A variety of sources identify the fact that *foreign* direct investment in China is to some extent *domestic* capital that has been re-routed through offshore locations in order to conceal its domestic origins and to return to China as FDI, thereby benefiting from the preferential treatment afforded to FDI. This point is found more often in the specialist economics literature than popular commentaries on the world economy and capital flows.[6] Significantly, this assessment challenges the conventional wisdom in that

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[3] William Vlcek, *Offshore Finance and Small States: Sovereignty, Size and Money* (Basingstoke: Palgrave Macmillan, 2008).

[4] With a few exceptions involving the environment, public infrastructure and technology transfer, see KPMG Huazhen, *PRC Enterprise Income Tax Law*, April 2007, PDF file, KPMG, <http://www.kpmg.com.cn/en/virtual_library/Tax/PRCtaxLawBook.pdf> accessed on 31 August 2007, 11.

[5] Louise de Rosario, *China's FDI merry-go-round*, 3 April 2003, <http://www.fdimagazine.com/news/fullstory.php/aid/215/China%92s_FDI_merry-go-round.html> accessed on 30 June 2007.

[6] Shaun Breslin, "China and the Political Economy of Global Engagement," *Political Economy and the Changing Global Order*, (eds) Richard Stubbs and Geoffrey R. D. Underhill, 3rd ed. (Oxford: Oxford University Press, 2006); Edward K. Y. Chen, "Hong Kong as a Source of FDI: Experience and Significance," *Multinationals and Economic Growth in East Asia: Foreign direct investment, corporate strategies and national economic development*, (eds) Shujiro Uranta, Chia Siow Yue and Fukunari Kimura (London and New York: Routledge, 2006); Sung, *The Emergence of Greater China;* Jing Zhong, *Offshore financial centers affect cross-border capital flow in China*, 7 June 2004, Web page, China Economic Net, <http://en.ce.cn/Insight/t20040607_1016937.shtml> accessed on 28 June 2004; Friedrich Wu, "Chinese

conclusions reached based on gross figures of FDI to China become suspect. Without accounting for round tripping in a meaningful way it is not possible to use FDI figures for China to reach conclusions about *foreign* investments because of the difficulty to distinguish between the domestic and foreign beneficial interests behind these investments.[7]

The fact that several recognised OFCs are among the top ten sources of FDI to China certainly supports the contention, though the use of a corporate vehicle registered in an OFC for investing in China equally serves the investor from North America and Europe as much as it does the investor from within China. For the Chinese investor the motivation behind these manoeuvres is clearly a desire to benefit from the preferential tax treatment accorded FDI as compared to the constraints placed on domestic investment. Consequently, the British Virgin Islands is second on the list of sources for FDI to China behind Hong Kong in 2003 where it was joined by the Cayman Islands and Bermuda in the list of the top ten sources.[8] In 2006, Hong Kong was still the leading source of FDI, together with the offshore centres of the British Virgin Islands (#2), Singapore (#7), Cayman Islands (#8) and Western Samoa (#10) in the list for the top ten sources of FDI to China.[9] (See Table 1 for data on selected FDI sources to China during the period 2001-2006.)

In order to more fully appreciate this distinction a clear understanding for what qualifies as FDI is important. Foreign investment exists in several forms, including the purchase of equity shares in a domestic firm, debt instruments (bonds) of a domestic firm, and providing capital to a domestic investment firm for investing in the local markets. These activities are generally representative of foreign portfolio investment, whereas direct investment is more specific, as in the following definition from the World Bank's *World Development Report 2006*.

Economic Statistics--Caveat Emptor!," *Post-Communist Economies* 15, 1 (2003); Yasheng Huang, *Selling China: Foreign Direct Investment during the Reform Era* (Cambridge: Cambridge University Press, 2003).

[7] United Nations Conference on Trade and Development, *World Investment Report (2006)*, 114 - 115; World Bank, *Global Development Finance: Financing the Poorest Countries*, vol. I, II vols. (Washington, D.C.: IBRD/World Bank, 2002), 41.

[8] de Rosario, *China's FDI merry-go-round*.

[9] US-China Business Council, *Foreign Investment in China*, February 2007, Web page, US-China Business Council, <http://www.uschina.org/info/forecast/2007/foreign-investment.html> accessed on 24 July 2007.

> Foreign direct investment is net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, re-investment of earnings, other long-term capital, and short-term capital, as shown in the balance of payments.[10]

This definition is based on the international standard established by the International Monetary Fund's Balance of Payments Manual, however, the data collected and reported by China uses 25 percent as the criterion to determine foreign ownership and therefore whether or not an investment is recorded and reported as FDI.[11] The distinctly 'foreign' aspect of the World Bank/IMF definition concerns the residence of the investing person (natural or legal) as different from the residence of the corporate entity receiving the investment.[12] However, as explored elsewhere and as will be further examined for the case of FDI to China in the following analysis, national identity is malleable.[13] The next section of the paper looks at the role of offshore financial centres, with special reference to those located in the Caribbean, in the flow of investment to China. The third section of the paper looks at FDI flows to China and those aspects particularly relevant to the use of an OFC. With this presentation of FDI flows and offshore financial centres, the fourth section explains the location of the OFC as the semiperiphery of global finance. In the fifth section the paper concludes with suggestions for topics of further research involving the development role of the OFC and the potential for governance of IBC activity.

A Caribbean nexus

The popular image of an offshore financial centre is one of a location (represented frequently by a tropical island) used by the wealthy as a tax haven. Yet it should be recognised that an

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[10] World Bank, *World Development Report 2006: Equity and Development* (Washington, D.C.: The World Bank and Oxford University Press, 2005), 304, Available: www.worldbank.org [accessed 12 May 2006].

[11] Huang, *Selling China,* 5. Hong Kong meanwhile follows the World Bank/IMF convention of 10%, which further increases the difficulties with disaggregating round trip capital out of FDI flows between Hong Kong and China. National Bureau of Statistics of China, *China Statistical Yearbook,* vol. 25 (Beijing: China Statistics Press, 2006), 973.

[12] International Monetary Fund, *Balance of Payments Manual,* 5th ed. (Washington, D.C.: International Monetary Fund, 1993), 86, Available: http://www.imf.org/external/np/sta/di/index.htm [accessed 17 September 2007].

[13] William Vlcek, "Behind an offshore mask: the nomad and the sovereign in global finance" (paper presented at the conference *The Politics of Virtual States,* University of Durham, 20 - 21 March 2008).

OFC offers more than just a foreign bank account as the means to minimise tax obligations.[14] An OFC may include mutual (hedge) funds, captive insurance and re-insurance firms, trust companies, and shipping registries, as well as IBC registries. Moreover, in the context of international flows of investment capital (and in particular for this study flows of FDI) it is the fact that passage through an OFC serves to transform the national residency of the investment capital. The IBC or special purpose vehicle takes on the national identity of the registry. This circumstance helps to explain how the BVI emerges as a leading source of FDI for China, through the registration of corporations that are capitalised to (re)invest in China. There were over 65,284 new incorporations in the BVI during 2006 bringing the total number of active companies registered in these small islands to 774,573.[15] At the same time, the Cayman Islands maintains a registry of 62,000 active companies, and had over 10,700 new registrations in 2006.[16]

One example for the use of an OFC-registered IBC in China involves an Asia Development Bank (ADB) project. ADB project number 38908 provided capital to Credit Orienwise Group Limited, a Chinese credit guarantee company. It in turn would use those funds to guarantee bank loans that facilitate credit access for small and medium enterprises (SME) in China. This project served to satisfy one of the ADB's business objectives, to promote SMEs, because it believes SMEs 'play a significant role' in employment and economic development.[17] This example brings to our attention the legal nature of Credit Orienwise

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[14] The repeated references to 'tax havens' in this literature on FDI in China obscures the fact that tax minimisation is not necessarily a sufficient explanation for the use of OFCs to route FDI into China and the return on investment (ROI) out of China. This point will be made clear in the following discussion, as these OFCs have developed specialist capabilities in the efficient creation of new corporate entities and reside in jurisdictions with stable political systems and a legal tradition of strong property rights. Rose-Marie Belle Antoine, *Commonwealth Caribbean Law and Legal Systems* (London: Cavendish Publishing Limited, 1999).

[15] BVI Financial Services Commission, *Statistical Bulletin,* Volume 5 (British Virgin Islands: 2006), 3, Available: http://www.bvifsc.vg/ [accessed 18 July 2007].

[16] Economics and Statistics Office, *Statistical Compendium 2006,* (George Town, Grand Cayman: 2006), 43, Available: http://www.eso.ky [accessed 20 April 2008]. 'Active' is understood here to mean that all fees are paid and the registration is current, and not that the firm is actively engaged in any current business transaction or relationship.

[17] Asia Development Bank, *Report and Recommendations of the President to the Board of Directors on Proposed Equity Investment Credit Orienwise Group Limited (Project Number: 38908),* January 2007, PDF file, Manila, <http://www.adb.org/Documents/RRPs/PRC/38908-PRC-RRP.pdf> accessed on 28 August 2007, 6.

Group Limited and the rationale for it, which is found in the footnotes of the ADB report. Credit Orienwise Group Ltd. is in fact a 'holding company domiciled in the Cayman Islands, which is in line with standard Hong Kong market practice for listings by PRC [People's Republic of China] companies.'[18] The ADB project makes visible the external (yet official) assessment of financial governance within the Cayman Islands. The report notes the fact that the Cayman Islands is compliant with FATF standards to counter money laundering and terrorist financing. It also referred to the advance commitment the Cayman Islands provided to the OECD in order to avoid being listed as a tax haven by 'the "harmful tax practice" initiative'.[19] The report explained that many companies in China incorporate in the Cayman Islands in order to then list their shares on the Hong Kong Stock Exchange, partly because establishing a company in China 'involves a highly bureaucratic process' that encourages the use of offshore company registries. Finally, the ADB noted that its external legal counsel as well as the external counsel for Credit Orienwise Group Ltd had reviewed this business practice.[20]

The business practice of incorporating firms offshore for use in China arose for reasons beyond simple regulatory arbitrage, which is the use of a foreign regulatory regime to work around any perceived limitations or constraints in a domestic regulatory structure (as implied about China in the ADB example above). The history of the role of offshore financial centres for business activity in China parallels the history of the opening of the modern Chinese economy to global markets. Mainland China began to open up to the world economy and foreign investment in 1979. At this point in time Hong Kong provided the financial interface between the Mainland and the world. Hong Kong already possessed a well-developed

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[18] Asia Development Bank, *Proposed Equity Investment Credit Orienwise Group Limited*, 5.

[19] For more extensive analysis of the OECD initiative and OFCs in general, see J. C. Sharman, *Havens in a Storm: The Struggle for Global Tax Regulation* (Ithaca and London: Cornell University Press, 2006). And for an analysis specifically focused on the OECD and the Caribbean OFCs, see Vlcek, *Offshore Finance and Small States*.

[20] Asia Development Bank, *Proposed Equity Investment Credit Orienwise Group Limited*, 5. This approach is somewhat at odds with the analysis contained in an ADB-commissioned Economic Research Report, Brent L. Bartlett, *The Negative Effects of Money Laundering on Economic Development*, Regional Technical Assistance Project No. 5967, (Manila: Asian Development Bank, 2002), 29 - 33, Available: http://www.adb.org/Documents/Others/OGC-Toolkits/Anti-Money-Laundering/documents/money_laundering_neg_effects.pdf [accessed 12 June 2007].

financial centre and it provided the skills and expertise with financial services and intermediation that were lacking in the centrally-directed socialist economy of the Mainland.[21] This situation changed in 1982 with the announcement that Hong Kong would revert to China in 1997. As a defensive measure against expropriation and nationalisation, many Hong Kong firms relocated their corporate domicile (registration) to other jurisdictions, in many cases OFCs with familiar legal systems including the BVI and the Cayman Islands.[22] Yun-Wing Sung reported that 60 percent of all Hong Kong-listed firms had relocated their corporate registration by mid-1993.[23] As seen in Table 2, in 2005 the British Virgin Islands held 31 percent of Hong Kong’s position for all inbound direct investment while it was the destination location for 44 percent of the outbound direct investment position (Table 3).

As already suggested, the use of OFCs to gain access to preferential tax rates in China and to reduce the risk from expropriation are not the only reasons for their significant presence in the FDI league table for China. There are a number of other legal and political reasons motivating efforts to obscure the beneficial ownership for FDI in this fashion. One legal reason was that FDI, or more specifically the firm created or controlled via FDI, also received preferential treatment with respect to property rights until 1999.[24] The Chinese Constitution was revised in 2004 by the National People’s Congress to more explicitly protect private property rights by citizens and private businesses.[25] Another motivation was the need or desire to obscure the jurisdiction of origin on the part of Taiwanese investments. Initially, the preferred jurisdiction for incorporation by Taiwanese investors was Hong Kong, but with the imminent return of Hong Kong to the Mainland these firms also re-domiciled their corporate

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[21] Y. C. Jao, "Hong Kong as a Financial Centre of China and the World," *China, Hong Kong and the World Economy: Studies in Globalization*, (eds) Lok Sang Ho and Robert Ash (Basingstoke: Palgrave Macmillan, 2006); Y. C. Jao, "The Rise of Hong Kong as a Financial Center," *Asian Survey* 19, 7 (1979), 674 - 694.

[22] In addition to the relocation of corporate registrations from Hong Kong growth in the BVI’s IBC registry at this time also benefited from corporate relocations from Panama (due to political instability) and the Isle of Man and the Channel Islands (due to increased registration fees). Reginald Darius and Oral Williams, "Impact of Growth in International Business Companies on the British Virgin Islands Economy: Lessons for the ECCB Area," *Social and Economic Studies* 46, 2 (1997), 176 - 177.

[23] Sung, *The Emergence of Greater China*, 26.

[24] Murali Patibandla, "Pattern of foreign direct investment in developing economies: a comparative analysis of China and India," *International Journal of Management and Decision Making* 8, 2-4 (2007), 363.

[25] Kellee S. Tsai, "Adaptive informal institutions and endogenous institutional change in China," *World Politics* 59, 1 (2006), 137.

registration. As the politics of relations between Taiwan and the Mainland ebb and flow, the impetus to obscure the source of the investment may change; nonetheless the routing of Taiwanese investment via an OFC serves to further cloud the true picture of FDI flows into the Mainland.[26] The next section further investigates the implications of this activity.

Around the world – domestic capital returns as a foreigner to China

The nature and composition of FDI into China serves to challenge analysis of the role of FDI in Chinese development and the validity of the Chinese experience as a model for development in India or elsewhere. Rough estimates on the size of round tripping as a factor in FDI to China range from 10 to 50 percent, with one author suggesting that measures imposed by the Chinese government following the Asian financial crisis reduced ‘unauthorized capital flows’ and, relatedly, round tripping.[27] The World Bank suggested in 2002 that round tripping accounted for approximately 17 percent of FDI, basing their estimate on the ‘net errors and omissions’ present in China’s balance of payments data.[28] The nature of FDI into China and direct investment out of China argues that rough estimates fail to capture the full complexity of the relationship.[29]

On the other hand, the authors of an International Monetary Fund (IMF) working paper suggested that these FDI inflows may not be as much a case of round tripping as indicated by the preceding references. Their analysis did acknowledge ‘that a significant portion of these flows could potentially represent round-tripping’, while they placed their doubts concerning the impact of round tripping in a footnote. ‘A more likely possibility is that those could be flows from sources such as Japan, Taiwan Province of China, and the United States that are channeled through such offshore financial centers in order to evade taxes in the source

[26] Sung, *The Emergence of Greater China*, 29.

[27] Chen, "Hong Kong as a Source of FDI: Experience and Significance," 133.

[28] World Bank, *Global Development Finance (2002)*, 41.

[29] One wide-ranging effort is Geng Xiao, *Round-Tripping Foreign Direct Investment in the People’s Republic of China: Scale, Causes and Implications,* Discussion Paper No. 7 (Tokyo: ADB Institute, 2004), Available: http://www.adbi.org/files/07_roundtrippingfdi_prc.pdf [accessed 25 September 2007].

countries.'[30] It should be possible to confirm or deny this supposition by looking at inflows to those locations matched against outflows to China and elsewhere. The difficulties to desegregate the reported data, given that investments are structured in this fashion in order to become covert, are essentially insurmountable. At the same time the IMF working paper documented the extensive use of tax incentives by the Chinese central government and a multitude of subnational jurisdictions to attract and retain foreign investment. The problem with this analysis, and in particular the footnoted remark, is the substantial presence of IBCs in the BVI created by Chinese investors.[31] While the tax incentives must be offset by the 'many implicit disincentives as well as explicit legal restrictions' imposed on firms investing in China, the latter factors have much more consequence for the truly foreign investor than they do for the domestic investor masquerading as foreign.[32] For example, the US-China Business Council reported in February 2007 that outbound Chinese investment in 2006 was substantially directed at offshore financial centres, 'Hong Kong and tax havens, such as the Cayman Islands and the British Virgin Islands, received 81 percent ($9.93 billion) of total Chinese outbound investment' and noted that these flows could be involved in 'round-tripping' activities.[33]

The figures on significant direct investment from China to other locations for 2004 - 2006 are shown in Table 4. This table should be considered with Tables 2 and 3 alongside it as most analysts feel that a substantial portion of Hong Kong's received investment moves on to yet another location, including Taiwan.[34] Another point to consider is that direct investment from China to Hong Kong may not depart Hong Kong as a direct investment, rather it may be

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[30] Eswar Prasad and Shang-Jin Wei, *The Chinese Approach to Capital Inflows: Patterns and Possible Explanations*, Working Paper of the International Monetary Fund, WP/05/79 (Washington, D.C.: International Monetary Fund, 2005), 5.

[31] This point may also be reflected in the authors' earlier observation, 'It is interesting to note that FDI inflows were only marginally affected during the Asian crisis.' (p. 5) This observation suggests perhaps that those same FDI flows were not so-called 'hot money' that would take flight in response to fears of a losing investment (as might be the response of US or EU investment capital), but were rather re-routed domestic capital with better information on local conditions. It may all be a case of the observer seeing and identifying the economic features that satisfy pre-conceived expectations.

[32] Prasad and Wei, *The Chinese Approach to Capital Inflows: Patterns and Possible Explanations*, 22.

[33] US-China Business Council, *Foreign Investment in China*.

[34] Sung, *The Emergence of Greater China;* Xiao, *Round-Tripping Foreign Direct Investment in the People's Republic of China: Scale, Causes and Implications*.

transformed into some other form of investment or financial instrument. In this case the capital flow that it represents when departing Hong Kong will be listed elsewhere in the national statistical data set and is just as likely to return to China as it is to travel onward.[35] Thus, the reader will note that Mainland China was the number two source/destination for direct investment from Hong Kong, while the number one source/destination was the BVI. This situation is not the same for the Mainland, where the Cayman Islands ranked second after Hong Kong, followed by the BVI.[36] And while some portion of these investments will remain in Hong Kong as a final destination, that is most certainly not the case for the BVI, the Cayman Islands or the Bahamas. In the case of these OFCs the investment capital will move on to some other jurisdiction (unless of course it was invested in a hotel or other property in the islands). Ultimately, for the purposes of Prasad and Wei's analysis, the actual extent of round trip capital concealed within FDI flows is irrelevant. At the same time, however, the identification of OFCs as a source/destination for FDI flows in and out of China does complicate efforts to employ FDI quantities in any analysis of finance and trade balances between China and any other economy. The purpose of their analysis was not to explain any specific instance of financial exchange between China and another economy, it was rather to provide a descriptive analysis of capital inflows to China more generally.[37]

There are several likely sources for the FDI, first that it is domestic capital that has successfully escaped the barriers established by the government (for example via over-/under-invoicing trade practices) to find a resting place outside of China before returning as FDI; second, that it represents the profits from other investments (either repatriated out of China or created outside of China) that is then reinvested as FDI in China; third, that it represents investments from other locations (e.g. – North America or Europe) which in turn

[35] For an analysis of international portfolio investment and the probable impact of these transformations, see Nick Coates and Mike Rafferty, "Offshore Financial Centres, Hot Money and Hedge Funds: A Network Analysis of International Capital Flows," *Global Finance in the New Century: Beyond Deregulation*, (eds) Libby Assassi, Anastasia Nesvetailova and Duncan Wigan (Basingstoke: Palgrave Macmillan, 2007).

[36] Note for the data contained in Table 4 that 2006 was the first instance when the National Bureau of Statistics of China reported outward direct investment in the *China Statistical Yearbook*. Prasad and Wei contained a table, 'Total Outward Foreign Direct Investment', listing ten jurisdictions for the period 1995 - 2003. The significant differences between Table 4 here and Table 4 in Prasad and Wei are the presence in 2004 - 2005 of the Cayman Islands, BVI, Bahamas and Singapore.

[37] Prasad and Wei, *The Chinese Approach to Capital Inflows: Patterns and Possible Explanations*, 4.

are using an OFC in order to minimise corporate income tax in their home state. The argument made by Yasheng Huang is that large FDI flows to China indicated inherent weaknesses in the Chinese economy, that the allocation of domestic capital is not satisfying domestic business demand and as a result those firms unable to attract domestic financing are using FDI as the alternative. The debate over the validity of this particular claim will be left to the economists, however, it does highlight an interesting point concerning individual desires for investment and business (entrepreneurial) opportunity. If the domestic situation cannot support the demand, then capital will not only be attracted inward, but domestic capital pursuing an efficient return on investment in turn may be impelled outward. Huang raised a further relevant point concerning FDI to China when he highlighted the fact that these flows originate substantially from SMEs. Rather than major capital investments by large multinational corporations, as expected by most of the literature analysing FDI, individual FDI projects in China were small as compared to similar projects in other Asian economies. Huang's analysis found that this situation holds true when controlling for source country of FDI, the size of the investing firm, and the industry sector, further supporting his argument that FDI in China was structurally different from that expected of FDI in a developing economy.[38] The difference is a result of a number of factors, of which round trip capital is only one, however, it is one factor that connects the Caribbean OFC to China. Huang's argument involved the institutional structures for economic development and finance in China, which reflect the political structure and government approaches to development and economic planning. These factors will likely continue to motivate the existing pattern of FDI and other investment in China even after the removal of existing tax incentives.

The OFC as the semiperiphery in global capital

The preceding discussion covering offshore financial centres and their provision of a variety of services to global capital demonstrates the role of the OFC as a nexus in the circuits of global capital flows. As such, the OFC serves a far more extensive function in the international political economy than suggested by some prior analysis of the offshore world. Alan Hudson described it as part of a 'regulatory landscape', attributing the varied characteristics of a physical landscape to the contours, connections and flows of the

[38] Huang, *Selling China*, 32 - 35.

international political economy.[39] In a similar fashion, the landscape metaphor has been extended elsewhere as a variegated landscape consisting of spaces of onshore and offshore finance connected by liquidity pipelines. Thus, in an analysis concerned with the tax-related features of OFCs, the ‘liquidity pipelines serve to convey the flows of global capital from one domain to the other, but they are not metered and do not contribute (via *appropriate* taxes) towards the maintenance of the state institutions that provide a peaceful global environment and its infrastructure.’[40] Hudson developed his metaphor as the basis for a 2 by 2 matrix relating economic accumulation to political regulation. The existence and extent of regulation in the OFCs are not of primary interest in this study. Rather, in the extended metaphor, it is the fact that the ‘liquidity pipelines’ are not metered that is important. In other words, there are no accounting procedures conducted on the passage of financial flows and consequently no distinction between peak usage and off-peak usage, as is the case with electricity for example, nor is there a determination for the type of investment as expected in Balance of Payments accounting. Beyond reporting figures to the World Bank, IMF and UNCTAD, such specifics also would be necessary in order to implement some form of ‘Tobin Tax’ on international financial transactions.[41]

More to the point, the OFC functions as a semiperipheral location in the exchange and movement of capital between the developed states (core) and the developing states (periphery). In general, taking a world systems analytic, the relationship of core-semiperiphery-periphery is demarked by measurements of the national economy, of the extent of industrial capacity located in a particular territory.[42] This definitional approach is

[39] Alan C. Hudson, "Reshaping the regulatory landscape: border skirmishes around the Bahamas and Cayman offshore financial centres," *Review of International Political Economy* 5, 3 (1998), 536.

[40] Vlcek, *Offshore Finance and Small States*, 20. (emphasis in the original)

[41] Daphné Josselin, "Between Europe and a Hard Place: French Financial Diplomacy from 1995 to 2002," *French Politics, Culture & Society* 22, 1 (2004); John Grahl and Photis Lysandrou, "Sand in the wheels or spanner in the works? The Tobin tax and global finance," *Cambridge Journal of Economics* 27, 4 (2003); Heikki Patomakki, "The Tobin Tax: A New Phase in the Politics of Globalization?," *Theory, Culture & Society* 17, 4 (2000); Barry Eichengreen, James Tobin and Charles Wyplosz, "Two Cases for Sand in the Wheels of International Finance," *The Economic Journal* 105, 428 (1995).

[42] Thomas Richard Shannon, *An Introduction to the World-System Perspective* (Boulder, San Francisco & London: Westview Press, 1989), 32; Ziya Önis and Ahmet Faruk Aysan, "Neoliberal globalisation, the nation-state and financial crises in the semi-periphery: a comparative analysis," *Third World Quarterly* 21, 1 (2000), 120.

not especially suitable for considering finance capital and the relative rankings of financial centres between jurisdictions. Christopher Chase-Dunn refined the definition of the semiperiphery and provided four different characteristics for identifying the 'semiperipheral region'. His third characteristic brings to the fore the role and function of an OFC in global finance, 'Mediating activities between core and peripheral areas may be carried out there.'[43] In his study of *Tax Havens and Offshore Finance* Richard Johns emphasised the fact that OFCs had 'evolved as international intermediate economies, interposed between the main onshore centres of wealth' while they also served to shelter capital extracted from peripheral economies.[44] At that time the OFC substantially served as a nodal point for core-to-core financial flows, used to arbitrage taxation, capital controls and financial regulation. In more recent years, increasing global economic liberalisation has broadened the range and quantity of financial flows, leading to the notional structure depicted in Figure 1 for the connections between China and the Caribbean analysed in this paper.

The construction for this figure is based on a perspective of the FDI flows to China from its major OFC source jurisdictions that was developed from the data provided in the accompanying tables. An analysis from the Bank for International Settlements (BIS) that looked at 'Tracking international bank flows' highlighted the role of international banking centres in these operations.

> The United Kingdom has been the largest international banking centre (IBC), a focal point for the lending and depositing of foreign currencies. Asian and Caribbean offshore centres later emerged as regional banking hubs, and currently rival the United Kingdom in terms of overall activity.[45]

The network analysis conducted by McGuire and Tarashev using BIS data showed the substantial size of banking between the major economies, and subsumed those flows to and from China and the other Asian economies (excepting Japan). At the same time, the figure

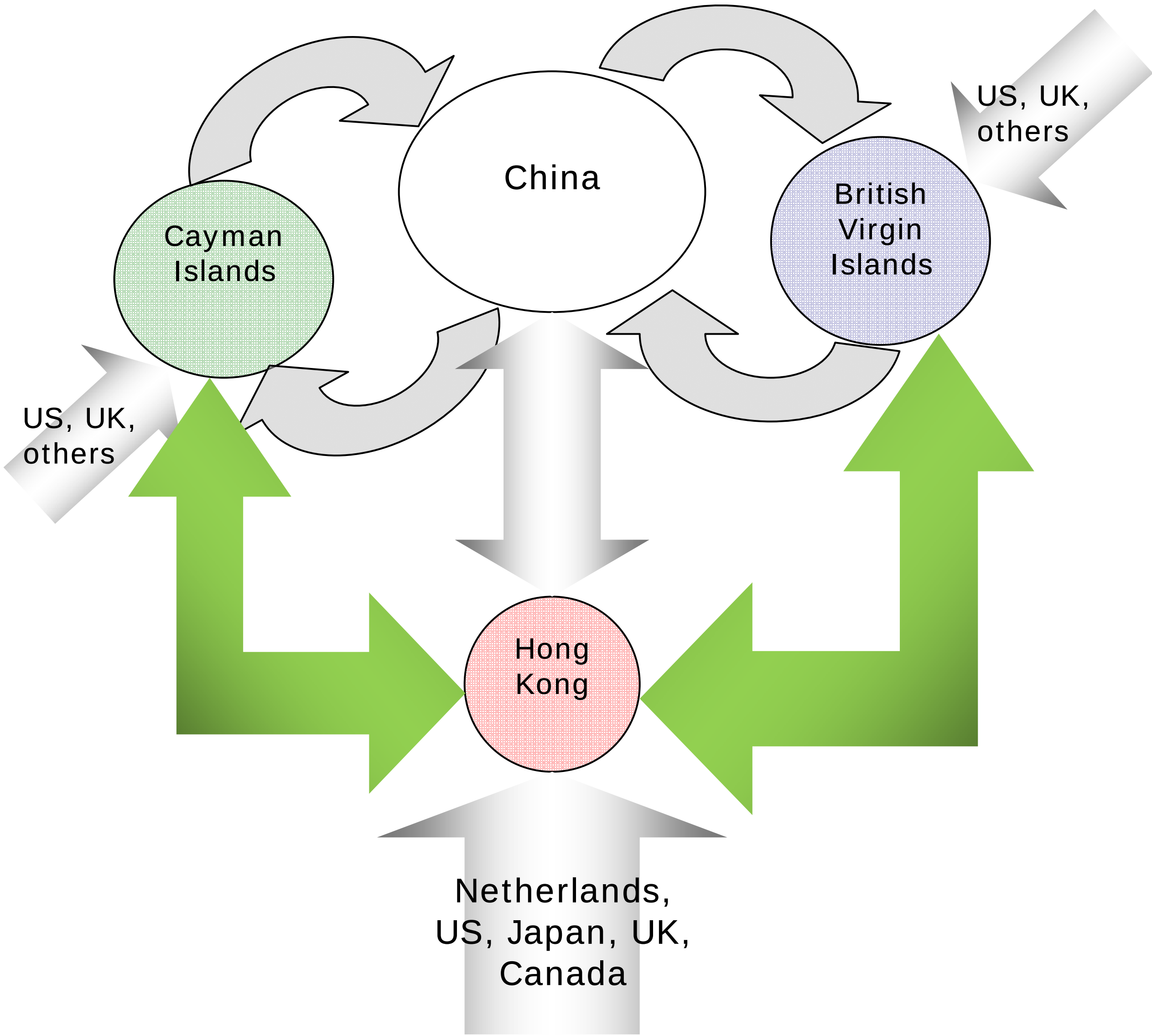
[43] Christopher Chase-Dunn, "Comparing World-Systems: Toward a Theory of Semiperipheral Development," *Comparative Civilizations Review* XIX, Fall (1988), 30.

[44] Richard Anthony Johns, *Tax Havens and Offshore Finance: A Study of Transnational Economic Development* (London: Frances Pinter, 1983), 38 - 39.

[45] Patrick McGuire and Nikola Tarashev, "Tracking international bank flows," *BIS Quarterly Review: International banking and financial market developments,* 4 (2006), 30,<http://www.bis.org/publ/qtrpdf/r_qt0612e.htm [accessed 24 June 2007]>.

that represented the period 1998 - 2006 highlighted the significant growth and importance of Caribbean OFCs in the net flow of bank funds between the major economies.[46]

Figure 1 – Caribbean OFCs as semiperphery



[46] McGuire and Tarashev, "Tracking international bank flows," 35. The Caribbean OFCs represented in their analysis were Aruba, Bahamas, Bermuda, Cayman Islands, Netherlands Antilles and Panama.

In Figure 1, the lines with an arrowhead on each end and the pairs of lines between two jurisdictions represent the bi-directional nature of the subject under analysis. Firms physically located in China, with a registration in one of the OFCs route capital from China into their IBC. That IBC in turn holds the capital until it is used for FDI back in China, with subsequent earnings repatriated to the IBC. A further complexity may be deduced from this data suggesting that Hong Kong also operates as an intermediary between China and the BVI, Cayman Islands and Bermuda (Tables 2 & 3). Again, these tables recount the flow of direct investment, leaving absent from this picture the presence of additional flows of capital into the OFCs (portfolio investment and liquid assets) that may in turn be used to capitalise an IBC for outward direct investment. The aggregate for all of these flows is present in the McGuire and Tarashev analysis of international bank flows. The wider picture of international portfolio flows was the subject of a geographic network analysis by Nick Coates and Mike Rafferty. Their dissatisfaction with studies that focused solely on interbank transactions, or as here with FDI, motivated their effort to capture a more comprehensive picture of the geographic movement of the finance capital present in cross-border portfolio investments. In their analysis Coates and Rafferty highlighted several limitations with the data available at the international level that hinders our ability to extract meaningful analysis of capital flows.[47]

The representation of the OFCs as the semiperiphery in global finance reflects not only the recent past, but also the likely future for direct investment in developing economies. This discussion now turns to that aspect for offshore finance within development, looking past China as it exists today towards China as it may develop in the near future.

The shadow of the future

The role of the IBC in the present state of the international political economy is inherently problematic. First ENRON and then Parmalat demonstrated that IBCs (and their close relative, the Special Purpose Vehicle, SPV) may be used for financial malfeasance activities far greater than simple tax avoidance. The OECD released a report addressing the use of corporate vehicles for illicit purposes around the same time period that ENRON collapsed,

[47] Coates and Rafferty, "Offshore Financial Centres, Hot Money and Hedge Funds."

though its recommendations were not likely to reveal the intentional financial sleight-of-hand performed by the senior management at these two corporations.[48] Furthermore, the OECD report was particularly concerned with IBC registries located in the offshore world, while onshore jurisdictions represent comparable challenges to governance and supervision. A US government report released in 2006 reviewed the US domestic situation, which is regulated at the sub-national state level, and found that there were twenty states with more than 100,000 registered limited liability companies (LLCs) in 2005. Between them, Delaware, California, Florida, New York and Michigan were responsible for over 1.2 million LLCs.[49]

Yet another change to domestic financial control is slowly working its way into the financial markets of China. In addition to equalising corporate tax rates, the government is concerned about the immense quantities of pent-up domestic demand to invest accumulated savings beyond simple interest savings accounts. Increased retail investment in China has led to ever increasing share prices that are propelling Chinese stock exchange indices to worrying heights. This demand for investment is raising fears for ‘irrational exuberance’ in China and of an impending stock market bubble swelling to the bursting point. Concerned at the velocity of the rising share values, the government relaxed regulations limiting retail investment to the domestic market by Chinese citizens in a move intended to reduce domestic demand and also, hopefully, the likelihood of a stock market bubble bursting.[50] At time of writing, government efforts do not appear to be completely successful, as the Chinese stocks declined by 4 percent on 18 April 2008 and bringing the market down by close to 50 percent since its peak in the fall of 2007. In monetary terms, the six month decline in the Chinese

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[48] Organisation for Economic Co-operation and Development, *Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes* (Paris: OECD Publications, 2001), Available: http://www1.oecd.org/publications/e-book/2101131e.pdf [accessed 20 August 2002].

[49] Financial Crimes Enforcement Network, *The Role of Domestic Shell Companies in Financial Crime and Money Laundering: Limited Liability Companies*, (Washington, D.C.: Department of the Treasury, 2006), 7, Available: http://www.fincen.gov/LLCAssessment_FINAL.pdf [accessed 23 September 2007]. The specific governance challenge for the BVI as a representative offshore jurisdiction operating an IBC registry is discussed in more detail in William Vlcek, "Governing the offshore - non-independent Caribbean jurisdictions, the EU and the International" (paper presented at the Governance in the non-independent Caribbean: Challenges and Opportunities Seminar, Bristol, 22-23 November 2007).

[50] China Daily, *More QDII banks set for approval*, 4 July 2006, Web page, People's Daily Online, <http://english.people.com.cn/200607/04/eng20060704_279735.html> accessed on 15 September 2007.

stock markets equates to approximately US$2.5 trillion, affecting the lives of millions of individual small investors.[51]

The initiative to open up of retail investment to pent-up demand via Hong Kong could at the same time further facilitate round trip capital as the increased capital available to these firms in turn is used to increase direct investment back to the Mainland. Admittedly, Chinese government officials have made this regulatory change in conjunction with the Enterprise Income Tax Law, which is intended to remove the preferential national treatment previously accorded to foreign investments. The effectiveness of this law remains to be seen, as bright lawyers and accountants pursue exclusions, exemptions and loopholes in an effort to minimise corporate taxes. The authors of one analysis of the effectiveness of China’s capital controls regime concluded that they ‘remain substantially binding.’[52] However, part of the liberalisation process for the retail investor includes an annual ceiling of US$50,000 that they may convert from renminbi to another currency. Starting from the reasonable assumption that there are 10 million wealthy Chinese residents with the assets required to take advantage of the foreign exchange provision, Ma and McCauley observed out that if all 10 million residents converted their full quota of renminbi into US dollars it would total US$500 billion (25 percent of total household savings in 2006).[53] This sum represents the significant potential for increased capital flows out of China in pursuit of higher returns, as well as business opportunities for wealth management firms.[54]

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[51] James T. Areddy and Craig Karmin, "China Stocks, Once Frothy, Fall by Half in Six Months," *The Wall Street Journal,* 19 April 2008, A1,<http://online.wsj.com/article/SB120856528917628111.html> accessed on. 20 April 2008.

[52] Guonan Ma and Robert N McCauley, *Do China’s capital controls still bind? Implications for monetary autonomy and capital liberalisation,* BIS Working Papers, No. 233 (Basel: Bank for International Settlements, 2007), 22, Available: www.bis.org [accessed 10 October 2007].

[53] Ma and McCauley, *Do China’s capital controls still bind? Implications for monetary autonomy and capital liberalisation,* 21.

[54] Stephan Binder, Joseph Luc Ngai and Yi Wang, "The opportunity in asset management in China," *The McKinsey Quarterly,* October 2007, <http://www.mckinseyquarterly.com/article_abstract.aspx?ar=2060&l2=10&l3=53&srid=27> accessed on. 7 November 2007.

Conclusions

A number of authors have compared the recent history of economic development of China with that of India.[55] Beyond the fact that the prevalence of round tripping in China means that any comparison must adjust Chinese FDI figures accordingly, in the flow of capital to India the role of OFCs also must be considered. For example, P. K. Vasudeva remarked when identifying Mauritius as the number two source of FDI to India in 2001 that Mauritius was ‘reportedly a conduit for many US-based firms as India has a tax avoidance treaty since 1982.’[56] This point must be reconciled, however, with the fact that the leading source of FDI to India in 2001 was the United States. Along with the role of Mauritius as an offshore financial centre in close proximity to India, there is also India’s diaspora community to consider as potentially functioning in a manner similar to that attributed to the overseas Chinese community.[57] Taken together, the presence of these two factors in the case of India could indicate a similar potential for round tripping capital returning to India as FDI, skewing the figures and any resulting policy decisions based on those figures. Wei demonstrated otherwise, noting that differences between these two diaspora communities and their respective investment patterns, as well as citing Reserve Bank of India estimates that round tripping capital for India ‘is almost insignificant, maybe as low as 2-3%.’[58]

A similar pattern of FDI flows may be emerging with respect to Vietnam, identifying this liberalising socialist market economy as an area for future research. Data reported in September 2007 found that the BVI had emerged as the number three source of FDI to

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[55] Including Patibandla, "Pattern of foreign direct investment in developing economies."; P. K. Vasudeva, "Foreign Investment, Foreign Trade and Related Issues: A Case Study for India and China," *Foreign Investment in Developing Countries*, (ed) Harbhajan S. Kehal (Basingstoke: Palgrave Macmillan, 2004). Wenhui Wei, "China and India: Any difference in their FDI performances?," *Journal of Asian Economics* 16, 4 (2005); John S Henley, "Chasing the dragon: accounting for the under-performance of India by comparison with China in attracting foreign direct investment," *Journal of International Development* 16, 7 (2004).

[56] Vasudeva, "Foreign Investment, Foreign Trade and Related Issues: A Case Study for India and China," 211.

[57] Wei, "China and India: Any difference in their FDI performances?," 727 - 728.

[58] Wei, "China and India: Any difference in their FDI performances?," 724.

Vietnam after Korea and Singapore.[59] Stephen Frost pointed to the role of Chinese direct investment in Vietnam in his analysis of 'Chinese outward direct investment in Southeast Asia'. Frost suggested that the complete extent of Chinese direct investment in Vietnam in 2004 was 'most likely under-represent[ed]' because of the inclusion of the BVI and Hong Kong in the list of the top ten sources of FDI in Vietnam.[60] The observation suggests that Frost suspected that further FDI from China is actually entering Vietnam via Caribbean OFCs. The FDI statistics for Vietnam in September 2007 included Hong Kong, Singapore, BVI, Cayman Islands and British West Indies in the top twenty (out of 78 listed jurisdictions).[61]

The central point here does not involve questions of FDI with regards to host/home country impacts or the contribution of FDI to economic development, that debate will be left to other researchers.[62] Rather, the central point here it to appreciate the *location* of OFCs in these flows of global capital, including capital flows other than FDI. The Caribbean nexus in particular is utilised to minimise corporate taxation in either (or both) home and host jurisdictions. Preferential tax treatment was one motivating factor that attracted FDI flows to China, as well as one factor behind the extensive presence of the round trip capital that is concealed in these flows. The use of IBCs by firms and individual investors residing in OECD states to convey investment capital to China serves to minimise tax obligations in their home jurisdiction, as the ultimate 'home' economy for the FDI. Admittedly, the full complexity of these financial relationships between jurisdictions is not captured by Figure 1,

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[59] Vietnam Economic Times, *Foreign investment reaches US$9.6 billion*, 24 September 2007, Web page, Vietnam Economic Times, <http://www.gda.com.vn/?page=news&code=news&id=1272> accessed on 9 October 2007.

[60] Stephen Frost, "Chinese outward direct investment in Southeast Asia: how big are the flows and what does it mean for the region?," *Pacific Review* 17, 3 (2004), 332.

[61] Ministry of Planning and Investment, *Report FDI to September 2007*, 4 October 2007, XLS file, Vietnam Economic Times, <http://www.gda.com.vn/?page=statistics> accessed on 9 October 2007. Other listed OFCs were Bermuda, Mauritius, Bahamas, Channel Islands, Cook Islands, Barbados, St Kitts and Nevis, Panama, Isle of Man, Dominica, St Vincent, and the Turks and Caicos.

[62] On these points see Kehal, Harbhajan S. Ed. *Foreign Investment in Developing Countries*. Basingstoke: Palgrave Macmillan, 2004; Mutti, John M. *Foreign Direct Investment and Tax Competition*. Washington, D.C.: Institute for International Economics, 2003; Oman, Charles. *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract FDI*. Paris: Development Centre of the Organisation for Economic Co-operation and Development, 2000.

which is only a summary image intended to provide a representation for the pivotal, intermediating role performed by OFCs in global finance. Finally, while the function of FDI in the processes of economic development, for China, India, and other developing states, is amply addressed elsewhere in the FDI literature, in this context it is the *passage* of FDI through on investment vehicle established in an OFC that contributes to the economic development of that small jurisdiction. It is this aspect of the process that explains the motivation of the British Virgin Islands, the Cayman Islands, Mauritius, and any other jurisdiction to host an IBC registry, and subsequently their efforts to maintain the integrity and respectability of the financial centre. These latter efforts involve compliance with international standards designed to counter money laundering and terrorist financing.[63]

More broadly, there are two areas requiring further research and analysis. The first area involves the growth of Islamic finance and its relationship to explicit attempts to establish an offshore financial centre to become the nodal point for Islamic capital flows. Such an OFC was first attempted by Malaysia with the [special status] accorded the financial centre created in Labuan.[64] More recently, there has been an expansion of offshore activities in the United Arab Emirates (Bahrain and Dubai) as part of an explicit strategy to establish a regional financial hub for the Middle East that operates as a major player in global financial flows. Along with Malaysia, these centres are focused in particular on providing Sharia-compliant Islamic financial services for investment and development.[65] The second area for additional study concerns the global or transnational governance of the IBCs and their activities, beyond their usage as conduits of FDI. It is not solely a concern with the explicit use of an IBC (or Delaware LLC) as part of a criminal enterprise, rather it is the opacity created by the IBC which limits the ability of governments to monitor, measure and guide domestic economies along their desired development path to the future. Similar to the conclusions reached by Coates and Rafferty with regards to cross-border portfolio flows, it is important to monitor

[63] J. C. Sharman, *Developmental Implications of Anti-Money Laundering and Taxation Regulations*, Paper for the Commonwealth Secretariat, FMM(06)17 (Colombo, Sri Lanka: Commonwealth Finance Ministers Meeting, 2006).

[64] Jason Abbott, "Treasure Island or Desert Island? Offshore Finance and Economic Development in Small Island Economies: the Case of Labuan," *Development Policy Review* 18 (2000).

[65] *Caymans chases after piece of Islamic finance pie*, 10 September 2007, Web page, Reuters, <http://asia.news.yahoo.com/070910/3/37o3m.html> accessed on 15 September 2007.

types and destinations of investment capital in order to understand how well they satisfy the economic development plans of government agencies.

Table 1 – Sources of FDI to China (selected jurisdictions)
(US$ millions)

Jurisdiction	2001	2002	2003	2004	2005	2006
Asia	29,613.26	32,569.97	34,101.69	37,619.86	35,718.89	35,084.87
Hong Kong SAR	16,717.30	17,860.93	17,700.10	18,998.30	17,948.79	20,232.92
Macao SAR	321.12	468.38	416.60	546.39	600.46	602.90
Malaysia	262.98	367.86	251.03	385.04	361.39	393.48
Philippines	29.39	186.00	220.01	233.24	188.90	134.34
Singapore	2,143.55	2,337.20	2,058.40	2,008.14	2,204.32	2,260.46
Taiwan	2,979.94	3,970.64	3,377.27	3,117.49	2,151.71	2,135.83
Africa	329.77	564.64	617.76	775.68	1,070.86	1,217.35
Mauritius	305.63	483.69	520.98	602.32	907.77	1,032.71
Europe	4,483.98	4,048.91	4,271.97	4,798.30	5,643.10	5,711.56
Liechtenstein			2.29	47.80	2.86	0.28
Luxembourg	28.78	13.53	175.43	28.78	142.00	94.66
Monaco				1.88	0.04	
Switzerland	205.44	199.80	181.34	203.12	205.88	196.63
North America	5,096.85	6,490.32	5,161.35	4,977.59	3,729.96	3,686.99
Bermuda	207.20	478.42	398.20	422.77	214.00	394.81
Latin America & Caribbean	6,308.91	7,549.79	6,906.57	9,043.53	11,293.33	14,162.62
Bahamas	59.60	89.90	87.87	48.00	74.67	83.94
Barbados	12.14	16.11	24.46	31.29	97.01	535.48
Cayman Islands	1,066.71	1,179.54	866.04	2,042.58	1,947.54	2,095.46
Dominica	0.78	0.38		0.35	1.02	0.35
Jamaica	1.23		0.10	3.60	1.00	0.79
Panama	57.84	46.46	32.83	35.92	42.91	59.56
Turks and Caicos		0.80	0.57	1.27	3.50	0.52
Virgin Islands	5,042.34	6,117.39	5,776.96	6,730.30	9,021.67	11,247.58
St Kitts - Nevis			14.00	10.57	6.23	10.07
St Vincent and the Grenadines	0.29			1.27	1.66	4.78
Oceanic and Pacific Islands	1,014.78	1,417.22	1,731.19	1,974.37	1,998.98	2,260.24
Cook Islands	7.28	3.88	2.51	6.37	4.57	2.71
Nauru	0.50	1.19	2.58	7.00	0.64	0.10
Vanuatu					1.71	2.98
Samoa	543.21	879.47	985.72	1,128.85	1,351.87	1,537.54
Marshall Islands	7.79	6.68	11.02	15.43	45.80	30.57
World Total	46,877.59	52,742.86	53,504.67	60,629.98	60,324.59	63,020.53

Source - National Bureau of Statistics of China, *China Statistical Yearbook* (various years).

NB - an empty field indicates data not available or that it amounted to less than US$10,000.

Table 2 – Position and Flow of Inward Direct Investment to Hong Kong
(HK$ 100 millions)

Jurisdiction	Inflow 2003	Position 2003	% of total	Inflow 2004	Position 2004	% of total	Inflow 2005	Position 2005	% of total
British Virgin Islands	198	9,352	31.6%	627	10,293	29.2%	470	12,707	31.3%
Mainland China	380	7,701	26.0%	620	10,201	29.0%	729	12,719	31.4%
Netherlands	247	2,561	8.7%	88	3,072	8.7%	170	3,271	8.1%
Bermuda	-136	2,548	8.6%	89	2,722	7.7%	360	2,715	6.7%
USA	220	1,876	6.3%	484	2,435	6.9%	-297	2,058	5.1%
Japan	142	1,422	4.8%	109	1,482	4.2%	141	1,317	3.2%
Singapore	-99	580	2.0%	32	871	2.5%	110	843	2.1%
United Kingdom	45	481	1.6%	182	700	2.0%	137	885	2.2%
Cayman Islands	29	531	1.8%	65	618	1.8%	120	667	1.6%
Canada	2	199	0.7%	51	291	0.8%	51	291	0.7%
Thailand	-18	51	0.2%	13	65	0.2%	281	332	0.8%
Others	36	2,351	7.9%	303	2,533	7.2%	303	2,533	7.2%
Total	1063	29,604		2651	35,219		2651	35,219	

Source - National Bureau of Statistics of China, *China Statistical Yearbook* (2007, 2006).

NB - The Hong Kong Monetary Authority has maintained a peg close to 7.80 Hong Kong dollars to the US dollar since 1983.

Table 3 – Position and Flow of Outward Direct Investment from Hong Kong
(HK$ 100 millions)

Jurisdiction	Outflow 2003	Position 2003	% of total	Outflow 2004	Position 2004	% of total	Outflow 2005	Position 2005	% of total
British Virgin Islands	248	12,703	48.2%	1368	14,021	44.7%	181	16,093	44.0%
Mainland China	599	9,312	35.3%	1448	12,116	38.7%	1303	14,774	40.4%
Bermuda	-28	884	3.4%	267	1,297	4.1%	125	1,261	3.5%
United Kingdom	46	473	1.8%	49	553	1.8%	49	596	1.6%
Japan	10	152	0.6%	284	421	1.3%	-92	297	0.8%
Singapore	21	300	1.1%	45	342	1.1%	60	400	1.1%
Panama	-91	242	0.9%	-27	286	0.9%	16	297	0.8%
Thailand	-7	216	0.8%	32	248	0.8%	26	230	0.6%
USA	-94	204	0.8%	31	226	0.7%	9	263	0.7%
Malaysia	-28	242	0.9%	15	222	0.7%			
Cayman Islands							148	251	0.7%
Others	-247	1,638	6.2%	50	1,604	5.1%	291	2,077	5.7%
Total	429	26,367		3561	31,336		2115	36,539	

Source - National Bureau of Statistics of China, *China Statistical Yearbook* (2007, 2006).

NB - The Hong Kong Monetary Authority has maintained a peg close to 7.80 Hong Kong dollars to the US dollar since 1983.

Table 4 – Significant Destinations for China's direct investment
(US$ millions)

Jurisdiction	Net ODI 2004	Net ODI 2005	Net ODI 2006	Accumulated Net ODI at end of 2006
Total	5,497.99	12,261.17	17,633.97	75,025.55
Caymans	1,286.13	5,162.75	7,832.72	14,209.19
Hong Kong	2,628.39	3,419.70	6,930.96	42,269.91
Virgin Islands	385.52	1,226.08	538.11	4,750.40
Republic of Korea	40.23	588.82	27.32	949.24
United States	119.93	231.82	198.34	1,237.87
Russia	77.31	203.33	452.11	929.76
Australia	124.95	193.07	87.60	794.35
Germany	27.50	128.74	76.72	472.03
Sudan	146.70	91.13	50.79	497.13
Bahamas	43.56	22.95	2.72	17.52
Singapore	47.98	20.33	132.15	468.01
Macao	26.58	8.34	-42.51	612.47

Source - National Bureau of Statistics of China, *China Statistical Yearbook* (2007, 2006).

Table 5 – Offshore financial centres

Bank for International Settlements*	OECD tax haven list**	
Aruba	Andorra	Monaco
Bahamas	Anguilla	Montserrat
Bahrain	Antigua and Barbuda	Nauru
Barbados	Aruba	Netherlands Antilles
Bermuda	The Bahamas	Niue
Cayman Islands	Bahrain	Panama
Gibraltar	Barbados	Samoa
Guernsey	Belize	Seychelles
Hong Kong SAR	British Virgin Islands	St. Lucia
Isle of Man	Cook Islands	St. Christopher & Nevis
Jersey	Dominica	St. Vincent and the Grenadines
Lebanon	Gibraltar	Tonga
Macau SAR	Grenada	Turks & Caicos
Mauritius	Guernsey/Sark/Alderney	US Virgin Islands
Netherlands Antilles	Isle of Man	Vanuatu
Panama	Jersey	
Samoa	Liberia	
Singapore	Liechtenstein	
Vanuatu	The Maldives	
West Indies UK†	The Marshall Islands	

* Offshore centres - An expression used to describe countries with banking sectors dealing primarily with non-residents and/or in foreign currency on a scale out of proportion to the size of the host economy.[66]

† West Indies UK is a synthetic jurisdiction used by the BIS to aggregate a number of small Caribbean financial centres and is comprised of Anguilla, Antigua and Barbuda, British Virgin Islands, Montserrat, and St Kitts and Nevis.[67]

** Absent from the OECD list were the names of those jurisdictions that had made an advance commitment to eliminate their 'harmful tax practices' in advance of the publication of the report, even if they otherwise met the OECD criteria used to determine a tax haven. Those jurisdictions were Bermuda, Cayman Islands, Cyprus, Malta, Mauritius, and San Marino.[68]

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[66] Monetary and Economic Department, *Guidelines to the international locational banking statistics,* (Basel: Bank for International Settlements, 2006), 60, Available: www.bis.org (accessed 24 June 2007). This list extracted from Bank for International Settlements, *BIS Quarterly Review: International banking and financial market developments* (Basel: Bank for International Settlements, June 2007), Available: www.bis.org (accessed 24 June 2007).

[67] Liz Dixon, "Financial flows via offshore financial centres as part of the international financial system," *Financial Stability Review,* 10 (2001), 107,<http://www.bankofengland.co.uk/publications/fsr/2001/fsr10.htm [accessed 27 July 2005]>. The membership of this synthetic entity remained the same as of July 2007, as verified in personal correspondence with the Bank for International Settlements.

[68] Organisation for Economic Co-operation and Development, *Towards Global Tax Co-operation: Progress in Identifying and Eliminating Harmful Tax Practices* (Paris: OECD Publications, 2000), 17.