From Road Town to Shanghai: Situating the Caribbean in Global Capital Flows to China

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Research Highlights and Abstract
This article:

• Assesses the role of Caribbean offshore financial centres (OFCs) in FDI flows to China.
• Argues the OFC provides financial intermediation services beyond simply tax minimisation.
• Demonstrates a similar use of the OFC in other developing economies.
• Suggests the position of the OFC in global finance continues to evolve.

This article examines the prominent location of offshore financial centres (OFCs) among the leading origin and destination points for foreign direct investment (FDI) to China. The OFC (characterised as a tax haven) frequently has been ignored or assumed out of analyses on Chinese FDI as simply servicing tax arbitrage practices. This article challenges that assumption and emphasises the financial intermediation role performed by the Caribbean OFC beyond practices of tax arbitrage. Through the use of an international business company (IBC) registered in an OFC these jurisdictions perform several functions for investors, to include providing access to foreign capital markets, reducing tax obligations across multiple jurisdictions and concealing potential politically-sensitive beneficial ownership of the investment. This assessment for the role of the OFC in circuits of global capital involving FDI to China demonstrates that China’s relationship with the OFC is different from that experienced by Europe and North America.

Keywords: offshore finance; foreign direct investment; British Virgin Islands; Hong Kong

Introduction
Road Town is the capital of the British Virgin Islands (BVI) and in 2009 the BVI was the number-two source for foreign direct investment (FDI) to China as it had been in 2008 and it was also one of the top five destination jurisdictions for overseas direct investment from China over the period from 2004 to 2010. This very curious circumstance involves the offshore financial centre (OFC) and its international business company (IBC) registry as a critical component in the pattern of capital flowing in and out of China. The BVI maintains one of the largest corporate registries in the world and notwithstanding the extensive and varied literature on FDI and China, the role and function of it and the other OFCs is little considered. Beyond generalisations surrounding their designation as ‘tax havens’, the presence
of the BVI, Cayman Islands and other OFCs as the (initial) source and destination for cross-border flows of direct investment to and from China highlights the intermediary functions performed by the offshore financial centre. The specific case of investment to China is examined here because China is identified as the predominant destination for direct investment outside of the OECD (Sung 2005, 2; United Nations Conference on Trade and Development 2006, xviii). And one motivation to highlight the role of the Caribbean jurisdictions in flows of capital serves to counter the practice in some literature to erase the OFC from the analysis in an effort to remove this intermediary role from Chinese corporate structural practices with the intention to clarify or rationalise direct investment patterns for the purpose of that specific analysis (e.g. Hurst 2011, 84–85; Kolstad and Wiig 2012, 28). For the purposes of this article, an OFC is recognised as 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 both sovereign (Bahamas) and non-self-governing (British Virgin Islands) territories host an OFC (Vlcek 2008, 18–25).

Until recently, China’s national legislation and regulatory structure had been designed to attract flows of FDI (Chen 2011; Wang 2011). In March 2007, the National People’s Congress (China) passed legislation enacting a new Enterprise Income Tax Law, with effect from 1 January 2008, which changed some of the dynamics behind the attraction and use of FDI in China. Significantly, the law equalised corporate tax rates between domestic-owned corporations and foreign-owned corporations (Chen 2011, 93). No longer would foreign investment receive the preferential tax status that helped draw increasing amounts of FDI to China over the past two decades. Recognise, however, that as with most any tax law this one also contains exceptions, in this case measures to support investment in the environment, public infrastructure and technology transfer (Chen 2011, 94). 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. 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 that preferential treatment. This assessment of the role of round tripping in China challenges the conventional wisdom in that conclusions reached based on gross figures for FDI to China become suspect (Wu 2003). Without accounting for round trip capital flows in a meaningful way it is not possible to use the FDI figures for China to reach conclusions about foreign investments because of the difficulty to separate the domestic and foreign beneficial interests behind these investments (World Bank 2002, 41; United Nations Conference on Trade and Development 2006, 114–115). The role of round tripping as one motivation behind the presence of OFCs in direct investment to China is discussed further below.

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.

Foreign direct investment is net inflows of investment to acquire a lasting management interest (10 per cent 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. (World Bank 2005, 304)

This definition is based on the international standard established by the International Monetary Fund’s Balance of Payments Manual, however, this standard is not uniformly applied. The data collected and reported by China uses 25 per cent as the criterion to determine foreign ownership and therefore whether or not an investment is recorded and reported as FDI (Huang 2003, 5). 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 (International Monetary Fund 1993, 86). However, as explored in more detail elsewhere and further examined for the case of FDI to China in the following analysis, national identity is malleable (Vlcek 2009). Consequently, China’s Ministry of Commerce has begun attempting to look through the ‘free ports’ of Barbados, BVI, Cayman Islands, Mauritius and Samoa in an effort to assign credit to the ultimate source of investment capital (e.g. MOFCOM 2012).

In a study on ‘small international financial centres’ the authors emphasise that while they are not the original source or final destination for investment capital the role of these financial centres to provide intermediation services is important to understand. As they termed it, ‘a non-trivial fraction of global capital flows pass through entities in these countries’ (Lane and Milesi-Ferretti 2011, 302). The research puzzle motivating the following analysis is to help elucidate that intermediation role and to assess whether the presence of OFCs in China’s direct investment is simply explained as a strategy for tax minimisation or not. One common assumption is that the Caribbean-registered IBC is present in the investment structure merely for tax minimisation purposes, and provides a rationale to remove them from the analysis of FDI to China in that literature. This article challenges that presumption and offers several alternative explanations beyond the practice of round tripping already identified to indicate a more complex role for the OFC in cross-border investments. This objective is similar to that made by J. C. Sharman, who argues that FDI flows via an OFC reduces transaction costs while the investor benefits from the efficient institutions established by the OFC to facilitate its operations (Sharman 2012b). The next section looks at the role of OFCs, with a focus on the Caribbean financial centres, in the flow of investment capital to China. It introduces one ‘accidental circumstance’ behind the emergence of Caribbean OFCs for intermediation services in FDI to China, the corporate response over the pending return of Hong Kong to China (cf. Maurer and Martin 2012). The third section of the article looks at additional explanations for FDI flows to China via an OFC beyond the commonly declared tax minimisation explanation. One common theme in these explanations is the access to investment capital in conjunction with the structures of China’s economy. The fourth section expands on the financial
intermediation role performed by the OFC for direct investment in China and the similar case with India. The experience of India demonstrates that the intermediary role of the OFC with FDI flows is not specific to China. The final section provides a concluding assessment for the continued function of the OFC in global capital beyond the case of China.

A Caribbean Nexus

The popular image of an offshore financial centre is a location (represented frequently by a picture showing palm trees and a sandy beach) used by the wealthy as a tax haven. Yet it should be recognised that an OFC offers more than just a foreign bank account as the means to collect interest on savings and investments while minimising tax obligations. Repeated references to ‘tax havens’ in the literature on FDI in China obscures the fact that tax minimisation is not necessarily a sufficient explanation for the use of an OFC to route FDI into China and the return on investment out of China. This point will become clear in the following discussion, as OFCs, particularly in the Caribbean, have developed specialist capabilities in the efficient creation of new corporate entities and the provision of corporate finance facilities all the while residing in jurisdictions with stable political systems and a legal tradition of strong property rights (Antoine 1999). The story connecting the Caribbean to China begins with Hong Kong, which remains the leading source and destination jurisdiction for direct investment to China (see the accompanying tables). Following the announcement of Hong Kong’s return to China, a leading Hong Kong-based and -registered corporation, Jardine Matheson, transferred the registration of its holding companies (Jardine Matheson Holdings Ltd and Jardine Strategic Holdings Ltd.) from Hong Kong to Bermuda in 1984 and 1986 respectively (Chan and Fong 2000, 636). In response to this move, the Stock Exchange of Hong Kong had to change its rules and for the first time permit foreign-registered firms to list with the exchange in order to keep Jardine Matheson’s business and by 1997 ‘nearly 60 per cent of the 567 companies currently listed’ on the exchange were foreign-registered corporations (Neoh 1997, 34). 3

As an indication for the relative importance of the Jardine group of firms for the stock exchange and the Hong Kong economy more generally, prior to 1994 when five subsidiaries of the Jardine group were delisted from the exchange it ‘accounted for more than 10 per cent of the stock market capitalization in Hong Kong’ (Chan et al. 2003, 1222) Further, even though the delisted firms had been listed simultaneously on other stock exchanges (London, Singapore and Sydney) they had accounted for ‘more than 95 per cent of trading volume’ on the Stock Exchange of Hong Kong (Chan et al. 2003, 1222). The explanation provided for the transfer of the stock exchange listing from Hong Kong to Singapore in 1994 was similar to the earlier transfer of corporate registration to Bermuda, concerns held by the family that own a controlling share of Jardine Matheson over new information disclosure rules proposed by the stock exchange and the impact increased public exposure might hold for their relations with business rivals and the government of China (Carverhill and Chan 2006, 214).

The transfer of Jardine Matheson’s corporate registration to Bermuda was the fore-runner for a wider movement of Hong Kong firms unsure for the conse-
quences from the transfer of sovereignty to China, and with this movement there were other adjustments in the Hong Kong economy (Cheng 1985; Wu and Jao 1988). The list provided by Chan and Fong (2000, Table 1) predominantly identified Bermuda as the location for the new corporate registrations, with a handful of firms

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

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>37,619.86</td>
<td>35,718.89</td>
<td>35,084.87</td>
<td>42,117.35</td>
<td>56,345.12</td>
<td>60,622.89</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>18,998.30</td>
<td>17,948.79</td>
<td>20,232.92</td>
<td>27,703.42</td>
<td>41,036.40</td>
<td>46,075.47</td>
</tr>
<tr>
<td>Macao SAR</td>
<td>546.39</td>
<td>600.46</td>
<td>602.90</td>
<td>637.00</td>
<td>581.61</td>
<td>814.71</td>
</tr>
<tr>
<td>Malaysia</td>
<td>385.04</td>
<td>361.39</td>
<td>393.48</td>
<td>397.25</td>
<td>246.96</td>
<td>428.74</td>
</tr>
<tr>
<td>Philippines</td>
<td>233.24</td>
<td>188.90</td>
<td>134.34</td>
<td>195.32</td>
<td>126.87</td>
<td>111.01</td>
</tr>
<tr>
<td>Singapore</td>
<td>2,008.14</td>
<td>2,204.32</td>
<td>2,260.46</td>
<td>3,184.57</td>
<td>4,435.29</td>
<td>3,604.84</td>
</tr>
<tr>
<td>Taiwan</td>
<td>3,117.49</td>
<td>2,151.71</td>
<td>2,135.83</td>
<td>1,774.37</td>
<td>1,898.68</td>
<td>1,880.55</td>
</tr>
<tr>
<td>Africa</td>
<td>775.68</td>
<td>1,070.86</td>
<td>1,217.35</td>
<td>1,486.83</td>
<td>1,667.88</td>
<td>1,309.69</td>
</tr>
<tr>
<td>Mauritius</td>
<td>602.32</td>
<td>907.77</td>
<td>1,032.71</td>
<td>1,332.50</td>
<td>1,493.71</td>
<td>1,103.78</td>
</tr>
<tr>
<td>Europe</td>
<td>4,798.30</td>
<td>5,643.10</td>
<td>5,711.56</td>
<td>4,365.11</td>
<td>5,459.37</td>
<td>5,517.71</td>
</tr>
<tr>
<td>Liechtenstein</td>
<td>47.80</td>
<td>2.86</td>
<td>0.28</td>
<td>0.75</td>
<td>4.96</td>
<td>0.07</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>28.78</td>
<td>142.00</td>
<td>94.66</td>
<td>82.46</td>
<td>132.83</td>
<td>160.60</td>
</tr>
<tr>
<td>Switzerland</td>
<td>203.12</td>
<td>205.88</td>
<td>196.63</td>
<td>299.32</td>
<td>242.59</td>
<td>301.69</td>
</tr>
<tr>
<td>North America</td>
<td>4,977.59</td>
<td>3,729.96</td>
<td>3,686.99</td>
<td>3,390.27</td>
<td>3,957.80</td>
<td>3,676.72</td>
</tr>
<tr>
<td>Bermuda</td>
<td>422.77</td>
<td>214.00</td>
<td>394.81</td>
<td>376.84</td>
<td>468.98</td>
<td>257.71</td>
</tr>
<tr>
<td>Latin America and</td>
<td>9,043.53</td>
<td>11,293.33</td>
<td>14,162.62</td>
<td>20,117.99</td>
<td>20,903.44</td>
<td>14,684.33</td>
</tr>
<tr>
<td>Caribbean</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bahamas</td>
<td>48.00</td>
<td>74.67</td>
<td>83.94</td>
<td>134.93</td>
<td>351.41</td>
<td>98.68</td>
</tr>
<tr>
<td>Barbados</td>
<td>31.29</td>
<td>97.01</td>
<td>535.48</td>
<td>709.58</td>
<td>1,255.20</td>
<td>557.54</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>2,042.58</td>
<td>1,947.54</td>
<td>2,095.46</td>
<td>2,570.78</td>
<td>3,144.97</td>
<td>2,581.89</td>
</tr>
<tr>
<td>Dominica</td>
<td>0.35</td>
<td>1.02</td>
<td>0.35</td>
<td>0.16</td>
<td>1.19</td>
<td>1.76</td>
</tr>
<tr>
<td>Jamaica</td>
<td>3.60</td>
<td>1.00</td>
<td>0.79</td>
<td>0.29</td>
<td>1.10</td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td>35.92</td>
<td>42.91</td>
<td>59.56</td>
<td>25.80</td>
<td>35.39</td>
<td>17.97</td>
</tr>
<tr>
<td>Turks and Caicos</td>
<td>1.27</td>
<td>3.50</td>
<td>0.52</td>
<td>1.14</td>
<td>1.30</td>
<td>0.92</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>6,730.30</td>
<td>9,021.67</td>
<td>11,247.58</td>
<td>16,552.44</td>
<td>15,953.84</td>
<td>11,298.58</td>
</tr>
<tr>
<td>St Kitts—Nevis</td>
<td>10.57</td>
<td>6.23</td>
<td>10.07</td>
<td>15.77</td>
<td>13.63</td>
<td>1.93</td>
</tr>
<tr>
<td>St Vincent and the</td>
<td>1.27</td>
<td>1.66</td>
<td>4.78</td>
<td>3.20</td>
<td>5.07</td>
<td></td>
</tr>
<tr>
<td>Grenadines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oceanic and Pacific Islands</td>
<td>1,974.37</td>
<td>1,998.98</td>
<td>2,260.24</td>
<td>2,742.90</td>
<td>3,169.87</td>
<td>2,528.77</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>6.37</td>
<td>4.57</td>
<td>2.71</td>
<td>26.14</td>
<td>20.30</td>
<td></td>
</tr>
<tr>
<td>Nauru</td>
<td>7.00</td>
<td>0.64</td>
<td>0.10</td>
<td>3.00</td>
<td>4.00</td>
<td>0.07</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>1.71</td>
<td>2.98</td>
<td>2.83</td>
<td>0.16</td>
<td>1.47</td>
<td></td>
</tr>
<tr>
<td>Samoa</td>
<td>1,128.85</td>
<td>1,351.87</td>
<td>1,537.54</td>
<td>2,169.88</td>
<td>2,549.75</td>
<td>2,020.03</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>15.43</td>
<td>45.80</td>
<td>30.57</td>
<td>73.91</td>
<td>94.56</td>
<td>10.63</td>
</tr>
<tr>
<td>World Total</td>
<td>60,629.98</td>
<td>60,324.59</td>
<td>63,020.53</td>
<td>74,767.89</td>
<td>92,395.44</td>
<td>90,032.67</td>
</tr>
</tbody>
</table>

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
registered in the Cayman Islands (pp. 636–637). These authors found that a leading motivation behind redomiciling corporate registration was a fear for expropriation, however, similar to the points discussed further in the next section they also noted the reduction in tax obligations in Hong Kong; the consistency and continuity provided by English common law in Bermuda and Cayman; and improved access to international markets afforded by the Caribbean registration (Chan and Fong 2000, 638).

In addition to the features listed by Chan and Fong for transferring corporate registration to a Caribbean OFC, corporate registration in an OFC serves to transform the national residency of the firm and its capital assets. The IBC is a privately-held corporation possessing a legal personality and able to own assets, including a corporate bank account. In the BVI and other OFCs the companies law imposes limited regulatory obligations on the IBC and there is little or no corporate income tax (Bickley 2007). Registration of an IBC in the OFC jurisdiction establishes the national identity, the citizenship, for it (also identified in this context as a special purpose vehicle, SPV) and all assets owned by it (Vlcek 2009, 1472). The transformation of national identity provided by the OFC may serve to conceal Taiwanese investment in China, as discussed further below, while in other situations it has been used in efforts to avoid international sanctions, such as those presently imposed on Iran (Becker 2010). It is through the registration of corporations that are capitalised to (re)invest in China that the BVI emerges as a leading source of FDI. There were over 59,624 new incorporations in the BVI during 2010 bringing the total number of active companies registered in these small islands to 459,364 (BVI Financial Services Commission 2010, 1). Similarly, the Cayman Islands maintained a registry of 91,206 active companies, and had 8,157 new registrations in 2010 (Economics and Statistics Office 2011, 34–35). It is important to note here that ‘active’ is understood 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. Thus an IBC may have been registered several years ago by a firm offering corporate registration services, to be ‘sold’ today to a customer that is seeking an ‘aged’ IBC in order to suggest that it is not a brand-new firm but in fact had been in existence for a number of years, according to the company incorporation documents.

One example for the use of a corporate vehicle registered in a Caribbean jurisdiction and engaged in business activity in China is demonstrated by 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 (SMEs) 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 (Asian Development Bank 2007, 6). This example brings to our attention the legal nature of Credit Orienwise 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’ (Asian Development Bank 2007, 5). The ADB project makes visible the external (yet official) assessment of financial
governance within the Cayman Islands. The report noted that the Cayman Islands was compliant with FATF standards to counter money laundering and terrorist financing and referred to the advance commitment provided to the OECD by the Cayman Islands in order to avoid being listed as a tax haven by ‘the “harmful tax practice” initiative’. 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 and found it acceptable (Asian Development Bank 2007, 5).

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. 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 (Tsai 2006, 137). Nonetheless, a newspaper article in 2011 about ‘urban relocation’ activity in Beijing to make way for a new ‘residential housing improvement project’ suggests that property rights in China may not be as comprehensive as expected by outside observers (Hook 2011). Another motivation is the desire to obscure Taiwan as the jurisdiction for the origin of investment capital. Hong Kong was the preferred jurisdiction of Taiwanese investors to incorporate a company, however, after the announcement of Hong Kong’s return to China Taiwanese-owned Hong Kong firms also re-domiciled. As relations between Taiwan and China are subjected to the changing whims of their leadership elites the impetus to obscure the source of the investment may change; nonetheless the routing of Taiwanese investment via an OFC also serves to cloud the true picture for FDI flows to China (Sung 2005, 29). And there are other practical reasons for the inclusion of a Caribbean-registered IBC in the corporate structure of a transnational enterprise. The use of an IBC permits the separation of a new operation from the enterprise’s already existing operations, and it also may facilitate the anticipated sale of a subsidiary firm or asset (Bickley 2007, 138–139). At the same time, while the IBC may be listed on the Stock Exchange of Hong Kong the Caribbean registration also allows the firm to be listed on a US stock exchange. The listing of an IBC on a stock exchange provides one way to raise investment capital in a firm, and it is one of the rationales discussed in the next section for the presence of Caribbean OFCs on the list of source and destination jurisdictions for direct investment with China.

**Situating the OFC for China’s FDI**

There are several likely sources for the investment capital entering China from a Caribbean OFC. First, that it represents round trip domestic capital that successfully escaped the barriers established by the government (using, for example, over-/
under-invoicing trade practices) to find a resting place outside of China before returning as FDI. Similarly, this capital may represent the profits from other investments (either repatriated out of an existing business in China or from a Chinese-owned business operating outside of China) that are then reinvested as FDI in China. Or it may be the case suggested by Prasad and Wei (2005), that it simply represents investment capital originating in other locations (e.g. North America or Europe) and using an OFC in order to minimise any corporate income tax that may be owed in their home jurisdiction once the investment has turned a profit. As indicated above concerning round tripping, a question has been raised over the extent to which FDI to China actually contained domestic capital masquerading as foreign capital. Rough estimates on the size of round tripping as a factor in FDI to China range from 10 to 50 per cent. The World Bank suggested in 2002 that round tripping accounted for approximately 17 per cent of FDI, basing their estimate on the ‘net errors and omissions’ present in China’s balance of payments data (World Bank 2002, 41). 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; see, for example, the wide-ranging analysis conducted for the ADB Institute (Xiao 2004). Furthermore, recurring newspaper headlines on ‘hot money’ flows to China indicate the government’s continuing concern to estimate and manage the issue (Tsang 2008; South China Morning Post 2009; Yiu 2010; Clem 2011; see also Li et al. 2012). Nevertheless, the 2005 International Monetary Fund (IMF) working paper qualified its assessment on the role of round tripping in China’s FDI flows. While ‘a significant portion of these flows could potentially represent round-tripping’, an accompanying footnote observed that it remained more likely a case that developed state capital was ‘channeled through such offshore financial centers in order to evade taxes in the source countries’ (Prasad and Wei 2005, 5).

Yet these explanations remain premised on tax minimisation as the rationale for the extensive presence of OFCs as sources for FDI to China, as shown in the selected jurisdictions listed in Table 1. Observe in particular the fact that Mauritius is the source for most of the FDI from Africa, that the small Caribbean jurisdictions provide most of the FDI originating from Latin America and the Caribbean and that Samoa rather remarkably is the source for most of the FDI from the Oceanic and Pacific Islands category. The latter point is remarkable because this category includes the larger economies of Australia and New Zealand. As noted in the introduction, the Enterprise Income Tax Law equalised the corporate tax rate between Chinese-registered firms and foreign-registered firms operating in China and removed one motivation for domestic capital to make the round trip journey via an OFC, but sufficient data is not yet available to demonstrate if it has achieved the anticipated result to reduce round tripping tax avoidance. The figures in Table 1 do show a decline from 2008 to 2009 in the amount of FDI inbound from Caribbean jurisdictions, yet that decline may be explained by the global financial crisis as much as it may be explained by the change to the tax law and especially if this capital in fact is from the developed states most effected by the crisis. Additionally, the Enterprise Income Tax Law contains a five year transition period for those enterprises approved prior to the law’s effective date and any existing ‘tax holidays’ agreed with firms will remain in effect for the agreed period of time (Stoianoff 2011, 10). Consequently, while it may be agreed that the new tax law reduces the tax
arbitrage role behind round tripping, the overall impact of the law remains ‘unclear’ at this time (Chen 2011, 93).

As discussed above, the Stock Exchange of Hong Kong changed its listing rules to permit firms incorporated in specific jurisdictions to list on the exchange, and in doing so it was able to retain the business of Hong Kong-based firms that re-domiciled their corporate registration in advance of the 1997 hand-over of Hong Kong to China. Subsequently, firms found that incorporation in Bermuda, BVI and Cayman permitted listing on other stock exchanges as well. Dylan Sutherland and his co-authors have explored the use of a holding company (an IBC) registered in the BVI or Cayman Islands as a method for raising capital. Because of the difficulties experienced by private firms to gain financing in China these firms instead ‘go out’ in order to find the finance capital they desire for corporate expansion. The firm registered in the Caribbean raises capital by listing and selling shares in a US stock exchange or through corporate bond offerings, again sold in the US market. Given the limited public availability for information on IBCs registered in BVI and Cayman, Sutherland and his co-authors turned to the information required by the US Securities and Exchange Commission (SEC) for listing on a US stock exchange. With this information they identified a data set of 72 Chinese firms with a Caribbean subsidiary listed on a US exchange during 2009 and 2010 (Sutherland et al. 2010, Table 3). In their view this strategy represents a response to ‘market imperfections’ in the domestic economy that leads to a practice of ‘capital augmentation’ abroad which is subsequently transferred from the Caribbean jurisdictions to China as FDI (Sutherland et al. 2010, 24). Their paper also explores a question on Chinese firms’ preference for the Caribbean jurisdictions as compared to other potential corporate registration hosts, for example, Delaware and Nevada in the US or the Channel Islands, Ireland or Luxembourg in Europe. They conclude that a determining factor was ‘the superior institutional environment found in the Caribbean tax havens and OFCs’ (Sutherland et al. 2010, 24). This aspect is central to Sharman’s (2012b) analysis and it was recognised by Jardine Matheson and other Hong Kong firms, noted in the ADB project discussed above and continues to be encouraged by law firms in the US (see, e.g. Greguras et al. 2008) as well as those firms with offices in Hong Kong. In addition to routing the capital raised back to China as FDI, Sutherland and Ning (2011) considered the use of that capital by firms for ‘onward-journeying’. This strategy involves a Chinese firm establishing a Caribbean subsidiary to raise capital for use in the firm’s multinational operations outside of China (Sutherland and Ning 2011, 62). It is a refinement of the Chinese government’s policy to encourage the development of multinational enterprises, in this case by Chinese firms with limited state financing or access to domestic financing for overseas expansion.

The problem of financial market imperfections prompting firms to seek foreign investment capital was a central feature in Yasheng Huang (2003) Selling China: Foreign Direct Investment during the Reform Era. His argument was that large FDI flows to China indicated inherent weaknesses in the Chinese economy, that the allocation of domestic capital was not satisfying domestic business demand and as a result those firms unable to attract domestic financing were using FDI as the alternative. Huang raised a further relevant point concerning FDI to China when he highlighted the fact that the demand for 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 held 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
(Huang 2003, 32–35).

In sum, the different explanations for the presence of the Caribbean OFC in these
FDI flows to China is the result of a number of factors, of which round trip capital
is therefore only one possible explanatory factor. 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. Sutherland et al.’s analyses reinforce Huang’s argument for the
specific cases of Chinese firms listed in the US stock market via a Caribbean-
registered IBC. As Kellee S. Tsai noted, external investment remains an evaluation
criteria for local government officials and they will remain motivated to attract FDI.
Local governments are likely to continue to offer tax incentives for that purpose,
and therefore round trip capital remains ‘likely to continue’ (Tsai 2010, 395). These
factors will likely continue to motivate the existing pattern of FDI and other
investment in China even with the removal of national-level tax incentives, and
consequently the continued use of Caribbean OFCs.

Providing Intermediation Services to Global Capital

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 (Johns 1983, 38–39). At that time the
OFC substantially served as a nodal point for developed state to developed state
financial flows, used to arbitrage taxation, capital controls and financial regulation.
This historical role of the Caribbean OFC continues to influence perceptions today,
specifically when they are discounted by scholars as ‘tax havens’ in the context of
FDI to China. However, as outlined in the previous section the Caribbean OFC
functions more as a provider of financial intermediation services independent of tax
arbitrage for the firms investing in China, and for Chinese firms seeking investment
capital. Consequently, the case of FDI and China demonstrates how the role of the
Caribbean OFC has evolved beyond the situation studied by Johns, and 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, Hong Kong and the Caribbean analysed in this
article. Concealed within the figure’s crude representation of capital flows is the
nature and substance for that capital. In other words, a loan acquired in one
jurisdiction could be used to purchase stock shares in another jurisdiction that are
used as collateral for a series of hedge instruments in one or more additional
jurisdictions. As described by Nick Coates and Mike Rafferty these transformations
of capital situate the OFC ‘as a sort of “security transfer station” ’ (Coates and
Rafferty 2007).
The construction for Figure 1 is based on a perspective of the FDI flows to China from its major OFC source jurisdictions as developed from the data provided in the accompanying tables. A Bank for International Settlements (BIS) study on ‘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. (McGuire and Tarashev 2006, 30)

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 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 (McGuire and Tarashev 2006, 35). Beyond banking, the wider picture of international portfolio flows was the subject for a geographic network analysis by Coates and Rafferty (2007), motivated by their dissatisfaction with studies solely focused on interbank transactions. In their analysis of cross-border portfolio investments Coates and Rafferty highlighted several limitations with the data available at the international level that hinders our ability to extract
meaningful analysis from inter-state capital flows and in particular the assignment of a national identity to that investment because the OFC serves to mask the nationality of its beneficial owner (Coates and Rafferty 2007, 52).

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 and registered in an OFC, route capital from China to an affiliated IBC offshore. The affiliated IBC holds the capital until it is used for FDI back in China, with subsequent earnings repatriated to the IBC, or, following Sutherland et al. (2010 and 2011), that IBC acquires capital from foreign markets which then either is transferred for use in China, or it is used in a foreign investment by the Chinese firm. A further complexity is reflected by data demonstrating that Hong Kong also operates as an intermediary between China and the Caribbean (Tables 2 and 3). These tables recount the flow of recorded direct investment only and there are additional flows of capital through the OFCs in the form of portfolio investment and liquid assets that may also be used to capitalise an IBC for onward direct investment (Census and Statistics Department 2012). Nonetheless, these data on direct investment flows between China, Hong Kong and the BVI maintain a long-term upward trend (including China’s outbound direct investment, see Table 4), with some limited declines in 2008 and 2009 that may be attributed to the global financial crisis. There is little indication in the Hong Kong data for a reduction in direct investment to China in response to the elimination of preferential national tax rates on enterprise income that has been anticipated by some observers (Stoianoff 2011; Deng et al. 2012).

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>62.0</td>
<td>72.9</td>
<td>108.7</td>
<td>104.2</td>
<td>179.7</td>
<td>192.3</td>
<td>276.3</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>62.7</td>
<td>47.0</td>
<td>78.8</td>
<td>109.3</td>
<td>110.5</td>
<td>126.5</td>
<td>253.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8.8</td>
<td>17.0</td>
<td>28.1</td>
<td>38.0</td>
<td>38.6</td>
<td>48.4</td>
<td>36.7</td>
</tr>
<tr>
<td>Bermuda</td>
<td>8.9</td>
<td>36.0</td>
<td>23.8</td>
<td>27.7</td>
<td>16.9</td>
<td>58.9</td>
<td>24.2</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>6.5</td>
<td>12.0</td>
<td>18.4</td>
<td>10.9</td>
<td>3.8</td>
<td>0.8</td>
<td>19.8</td>
</tr>
<tr>
<td>Japan</td>
<td>10.9</td>
<td>14.1</td>
<td>18.0</td>
<td>14.3</td>
<td>8.3</td>
<td>9.7</td>
<td>17.3</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.2</td>
<td>11.0</td>
<td>8.1</td>
<td>16.4</td>
<td>9.4</td>
<td>9.0</td>
<td>15.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18.2</td>
<td>13.7</td>
<td>15.4</td>
<td>23.0</td>
<td>13.0</td>
<td>15.7</td>
<td>12.3</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>0.9</td>
<td>0.8</td>
<td>7.5</td>
<td>0.1</td>
<td>4.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>48.4</td>
<td>-29.7</td>
<td>51.3</td>
<td>35.8</td>
<td>14.1</td>
<td>-16.4</td>
<td>-154.4</td>
</tr>
<tr>
<td>Taiwan</td>
<td>7.1</td>
<td>3.5</td>
<td>8.7</td>
<td>2.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>28.3</td>
<td>64.0</td>
<td>-10.3</td>
<td>40.8</td>
<td>62.5</td>
<td>-38.8</td>
<td>46.9</td>
</tr>
<tr>
<td>Total</td>
<td>265.1</td>
<td>261.5</td>
<td>350.0</td>
<td>423.9</td>
<td>464.3</td>
<td>406.1</td>
<td>406.1</td>
</tr>
</tbody>
</table>

Source: Census and Statistics Department (various years) Table 2—Position, Flow and Income of Inward Direct Investment by Major Investor Country/Territory, External Direct Investment Statistics of Hong Kong, Hong Kong SAR, available online <http://www.censtatd.gov.hk>

NB, The Hong Kong Monetary Authority has maintained a peg close to 7.80 Hong Kong dollars to the US dollar since 1983.
China is not the only developing economy benefiting from the financial and legal services provided by an OFC. Echoing the explanation found in the ADB project with Credit Orienwise Group, the Norwegian Investment Fund for Developing Countries (Norfund) utilises the financial centres of the BVI, Cayman Islands and Mauritius when routing development aid to projects in Central America, China, Southeast Asia and Sub-Saharan Africa (Government Commission on Capital Flight from Poor Countries 2009, 111–112). One significant concern raised in the report of the Commission on Capital Flight from Poor Countries (which examined the relationship of OFCs with capital flight) was Norfund’s use of Mauritius as the jurisdiction of registration for most investment vehicles used with Sub-Saharan African development projects. The rationale provided by Norfund for the use of these OFCs highlighted the presence of an experienced financial sector operating under ‘a good and stable legal framework’ in a jurisdiction with recognised ‘political stability’ (Government Commission on Capital Flight from Poor Countries 2009, 109–110). In other words, the quality of the institutional environment in the OFC serves to facilitate the development projects financed by Norfund. Moreover, the quality of the legal system and its judicial enforcement structure found in these OFCs also is recognised by Chinese firms ‘going global’ as well as foreign investors who ‘use the islands’ corporate law to improve Chinese firms’ corporate governance’ (Peng et al. 2012, 111; see also Ning and Sutherland 2012, 170).

The ‘political stability’ of Mauritius further intersects with the bilateral tax treaty between Mauritius and India to create a financial relationship that is similar to that between Hong Kong and China. A number of authors have compared the history of economic development in China with that of India (including Henley 2004;
<table>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5,497.99</td>
<td>12,261.17</td>
<td>17,633.97</td>
<td>26,506.09</td>
<td>55,907.17</td>
<td>56,528.99</td>
<td>68,811.31</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2,628.39</td>
<td>3,419.70</td>
<td>6,930.96</td>
<td>13,732.35</td>
<td>38,640.30</td>
<td>35,600.57</td>
<td>38,505.21</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>385.52</td>
<td>1,226.08</td>
<td>538.11</td>
<td>1,876.14</td>
<td>2,104.33</td>
<td>1,612.05</td>
<td>6,119.76</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>1,286.13</td>
<td>5,162.75</td>
<td>7,832.72</td>
<td>2,601.59</td>
<td>1,524.01</td>
<td>5,366.30</td>
<td>3,496.13</td>
</tr>
<tr>
<td>Australia</td>
<td>124.95</td>
<td>193.07</td>
<td>87.60</td>
<td>531.59</td>
<td>1,892.15</td>
<td>2,436.43</td>
<td>1,701.70</td>
</tr>
<tr>
<td>United States</td>
<td>119.93</td>
<td>231.82</td>
<td>198.34</td>
<td>195.73</td>
<td>462.03</td>
<td>908.74</td>
<td>1,308.29</td>
</tr>
<tr>
<td>Singapore</td>
<td>47.98</td>
<td>20.33</td>
<td>132.15</td>
<td>397.73</td>
<td>1,550.95</td>
<td>1,414.25</td>
<td>1,118.50</td>
</tr>
<tr>
<td>Russia</td>
<td>77.31</td>
<td>203.33</td>
<td>452.11</td>
<td>477.61</td>
<td>395.23</td>
<td>348.22</td>
<td>567.72</td>
</tr>
<tr>
<td>Germany</td>
<td>27.50</td>
<td>128.74</td>
<td>76.72</td>
<td>238.66</td>
<td>183.41</td>
<td>179.21</td>
<td>412.35</td>
</tr>
<tr>
<td>Macao</td>
<td>26.58</td>
<td>8.34</td>
<td>-42.51</td>
<td>47.31</td>
<td>643.38</td>
<td>456.34</td>
<td>96.04</td>
</tr>
<tr>
<td>Sudan</td>
<td>146.70</td>
<td>91.13</td>
<td>50.79</td>
<td>65.40</td>
<td>-63.14</td>
<td>19.30</td>
<td>30.96</td>
</tr>
<tr>
<td>Bahamas</td>
<td>43.56</td>
<td>22.95</td>
<td>2.72</td>
<td>38.99</td>
<td>-55.91</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>40.23</td>
<td>588.82</td>
<td>27.32</td>
<td>56.67</td>
<td>96.91</td>
<td>265.12</td>
<td>-721.68</td>
</tr>
</tbody>
</table>

Vasudeva 2004; Wei 2005; Patibandla 2007) and P. K. Vasudeva, for example, 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’ (Vasudeva 2004, 211). 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 OFC 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 (Wei 2005, 727–728; Tsai 2010). Taken together, the presence of these two factors in the case of India may indicate a similar potential for round tripping capital returning to India as FDI. Wei demonstrates otherwise, noting the 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%’ (Wei 2005, 724).

Nevertheless, the financial relationship between Mauritius and India involving the tax treaty has become increasingly contentious. One prominent example in the business press has been the on-going saga of the Indian government’s tax claim against Vodafone for a transaction undertaken between one of its Netherlands-registered subsidiaries with a Cayman Islands-registered subsidiary of the Hong Kong firm Hutchison Whampoa. In this case, the transaction involved the transfer of assets physically located in India between two foreign-registered firms and no tax was paid to the Indian government on any profits generated in the transaction. The Vodafone case represents an argument for rewriting the bilateral tax treaty, however, Mauritius has little interest in doing so as it benefits from the operation of its financial centre under the present treaty, while there are domestic elites in India that similarly have little interest in changing the status quo (‘Ramakrishnan 2012; ‘The tail that wags the elephant’ 2012).

This brief consideration of India as a case similar to China highlights the changing role of the OFC in global finance today and points to one observation made by J. C. Sharman, which is that the increased use of OFC services by China, India and other developing economies reduces the influence (leverage) possessed by developed states over the international regulations intended to control and limit offshore financial activity (Sharman 2012a, 502). This assessment is readily apparent from the 2009 G20 Heads of Government meeting in London, when media reports revealed a disagreement between China and the other members of the G20 (specifically France and Germany) over the inclusion of Hong Kong and Macau on a ‘tax haven blacklist’. The explanation provided in those press reports was that the list and any potential sanctions to be imposed against jurisdictions placed on the list would be handled by the OECD, which does not include China in its membership (Fidler and Batson 2009; Robbins 2009). The G20 Communiqué subsequently noted that the OECD had published ‘a list of countries assessed by the Global Forum against the international standard for exchange of tax information’ on that date, 2 April 2009 (G20 2009, 4). On the initial list, titled ‘A Progress Report on the Jurisdictions Surveyed by the OECD Global Forum in Implementing the Internationally Agreed Tax Standard’, Hong Kong and Macau were referenced indirectly in a footnote attached to China as a compliant jurisdiction, indicating that it excluded ‘the Special Administrative Regions, which have committed to implement the
internationally agreed tax standard.’ (Organisation for Economic Co-operation and Development 2009) The most recent list at the time of writing, dated 18 May 2012, now does contain both Hong Kong and Macau as separate entries in the set of ‘Jurisdictions that have substantially implemented the internationally agreed tax standard’. And a further indication for a recognition that such a shift in influence is underway by the OFCs themselves, may be seen with the fact that in 2007 the Cayman Islands changed its financial regulations to permit company registrations be recorded in Arabic, in the hope of attracting Islamic financial products. In conjunction with this regulatory change two law firms based in the Cayman Islands opened offices in Dubai to work with Middle Eastern customers (Reuters 2007). Consequently, the intermediation role performed by the Caribbean OFC continues to evolve and follows the shift in global capital toward Asia in the 21st century, while at the same time it provides a stable institutional environment that includes the legal adjudication capacity of the Eastern Caribbean Commercial Court (Maurer and Martin 2012).

Conclusion

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.8 Rather, the central point here is to appreciate the location of OFCs in these flows of global capital, including capital flows other than FDI, and the varied forms of financial intermediation they perform. The Caribbean nexus in particular is utilised to minimise corporate taxation in either (or both) home and host jurisdictions, and preferential tax treatment was one factor motivating FDI flows to China, as well as for the presence of round trip capital concealed in those flows. The use of IBCs registered in the Caribbean 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 with an OFC is not captured by Figure 1, which is only intended to provide a representation for the pivotal, intermediating role performed by OFCs in global finance. In other words, through a consideration of the location of the OFC in global capital flows to China it becomes apparent that in terms of financial intermediation the relationship with China is not the same as the role played by these jurisdictions in financial relationships with Europe and North America. In fact there are significant additional explanations for these financial flows beyond simply a tax minimisation strategy, including the regulatory arbitrage accomplished with round tripping and gaining access to foreign capital markets. Specifically, these explanations reflect practices of finance geared to the politics of China, in terms of its politics for investment and the privileged status of state-owned enterprises in the domestic capital market.

Such points of differentiation explain the presence of BVI, Cayman, Mauritius, and other OFCs in the accompanying tables and their role needs to be acknowledged when using FDI data to study the Chinese economy. Fundamentally, the OFC should not be erased as merely a ‘tax haven’ in efforts to assess the use of FDI in China. At the same time there exists a contradiction between the work of those
scholars that remove OFC data from their analysis as unknowable and the effort of
government officials in China to look through those same intermediate jurisdictions
in order to make the ultimate destination or point of origin for capital knowable.
The nature of the Caribbean OFC in these capital flows reflects the continuing
evolution of global finance, from tax havens for Western MNCs to more than simply
a tax haven for Asian MNCs. In turn, this evolution will influence efforts at
governing global finance as well as efforts to manage the use of an OFC by
corporations.

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Notes
This is a revised version of a paper, ‘From Road Town (BVI) to Shanghai: FDI, Caribbean OFCs and global
capital flows’ presented at the Third Biennial Oceanic Conference on International Studies (OCIS), School
of Political Science and International Studies, University of Queensland, 2–4 July 2008. This revision has
benefited greatly from the constructive and supportive feedback provided by the journal’s editors and
anonymous referees in addition to a Leverhulme Trust Research Fellowship that facilitated fieldwork in
Hong Kong, including a conversation with Christopher Bickley, a partner in the Hong Kong office of
Conyers Dill & Pearman.

1. 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

2. At the same time, statistics on outbound direct investment from China (see Table 4) continues to
identify the prominent role to the Caribbean OFCs, rather than also looking through them for the
investments’ final destination (MOFCOM 2011, 86).

3. The author of this reference, Anthony Neoh, was Chairman, Hong Kong Securities and Futures
Commission; prior to 2006 the listing of corporations on the Stock Exchange of Hong Kong was
limited to firms registered in Bermuda, Cayman Islands, China and Hong Kong; in 2009 the BVI
was added to the ‘List of Acceptable Overseas Jurisdictions’, for the current list, see http://

4. For more extensive analysis of the OECD initiative and OFCs in general, see Sharman 2006. And for
an analysis specifically focused on the Caribbean OFCs and their response to the OECD project, see
Vlcek 2008.

5. One limited source for information on BVI registered firms is the blog, BVI Companies Worldwide, at
http://bvi-companies.blogspot.co.uk/.

6. The Caribbean OFCs represented in their analysis were Aruba, Bahamas, Bermuda, Cayman Islands,
Netherlands Antilles and Panama.

7. A similar point was made by Mike Peng with respect to Caribbean IBCs established by US firms,
‘presumably for tax haven purposes’, yet these jurisdictions were not in the top of the list for FDI in
and out of the US, which is the case for China (Peng 2012, 103).

8. On these points see Kehal 2004; Mutti 2003; Oman 2000.

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