

AIS General Research Fund (GRF) and Early Career Scheme (ECS) Success Round 2016-17

Project Title:

Accommodating Global Finance: The Integration of Emerging Markets within the Offshore Economy

Brief Abstract:

Does continuity with previous practices mark global finance today, or have significant ruptures taken place in global finance processes since the crisis of 2007-2008? The offshore economy represents an important test case since one of the central features of global finance in recent years has been the use of tax havens by individuals and companies to move capital across borders at minimal—sometimes zero—tax rates. This project will examine the participation of two key emerging markets, China and India, in the offshore financial system and determine whether the offshore connections of these economies have enlarged, stayed the same or declined. Particular attention will be paid to how actors from these jurisdictions engage with the offshore economy of Mauritius. New information will be presented on the motivations and actions of Chinese and Indian firms, especially Chinese state-owned enterprises (SOEs), as well as government institutions in these two countries.

The project posits that among emerging markets, recipient countries will accommodate offshore capital in the belief that such a choice is necessary to attract foreign capital, particularly given capital deficits locally. At the same time, global finance—despite the efforts of NGOs to showcase it—assumes a relatively low and technical profile. The project also posits that outbound capital from China and India is following established offshore models resulting from the exposure that firms from these countries have had to the cost, speed and legal advantages of offshore structures. Other South-South investment processes do not, as yet, offer an alternative financing source.

If confirmed through the proposed research programme, these findings would be surprising given several dynamics: the “China model” and “South-South” ties are widely seen as offering different terms of globalization; the global financial crisis (GFC) prompted significant pressures for regulatory change; tax collection is a growing societal issue in emerging markets; and governments in these countries forego tax revenue when they accommodate offshore investments.

The research material will be derived from a mixed methodology comprising of macro data points and trends, elite interviews and case studies. Hong Kong is ideally suited to capitalize on its deep pool of offshore experts, especially accountants and lawyers, and evidence will be collected in Hong Kong as well as the following fieldwork locations: Beijing, Delhi, Mauritius and Mumbai. Mauritius has assumed a central position in the globalization of capital and it serves as a crucial node in the offshore network of emerging markets. Preliminary research in Mauritius during 2014 demonstrated the importance of its links to China, India and, by extension, to Africa.

Marshaling a broad set of data on the offshore linkages of emerging markets, the project will capture the integration of China and India in to the offshore world. The findings will contribute in a number of ways to the discipline of International Political Economy (IPE): by offering a clearer picture of the motives of new agents; and by presenting an opportunity to reflect on continuity and change in global finance, South-South relations and the compatibility between state capitalism and the offshore sector.

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