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The offshore state

A first large-scale inquiry into the state's utilization of offshore constructs

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Abstract

As a consequence of globalization and financialization, it has become common practice for transnational corporations to develop offshore constructs in order to maximize income and minimize costs and accountability. Offshore constructs allow companies to transfer financial resources across borders to the most advantageous places. The common conception is that this puts states in a game of economic competition. The state's strategy to deal with this situation is to lower regulatory and fiscal standards in order to develop an inviting destination for capital. This way they facilitate the use of offshore constructs. However, piecemeal evidence suggests that states do not only facilitate offshore constructs, but that they also actively utilize them as owners of capital themselves. This research uses large-scale quantitative data on ownership relations to develop a global image of state's offshore constructs. The findings indicate that states indeed use offshore constructs on a considerable scale, but that 90% of them belongs to a group of 20 states. It is the first large-scale evidence for the state's usage of offshore constructs.

Keywords: State ownership; offshore; offshore construct; corporate structures; transnational state investments; offshore jurisdictions; offshore financial centres

1. Introduction

In 2015, a group of shopkeepers from a village in Wales called Crickhowell came together and took the whole village offshore (Van der Velden, 2015). Not in a physical sense, but offshore in a legal sense. With the help of tax advisors and a camera crew from the BBC the 'Powys tax rebellion' intensively studied and copied a variety of offshore constructs used by several of the world's largest transnational corporations (TNCs). The result? A ready-to-use tax avoidance scheme that could easily be applied by other villages. Their goal? Waking up the British government. The movement did not seriously aim at avoiding the payment of their taxes. They wanted to express their discontent with their larger competitors that spent excessive resources on circumventing their obligations as taxpayers.

Because of the globalization and financialization of the global economy over the past decades, it has become common practice for large TNCs to develop offshore constructs. These constructs refer to complex networks of subsidiaries that cover multiple jurisdictions and separate financial capital from the economic activity underlying it. Ultimately, this allows TNCs to maximize their income while minimizing their costs and accountability (Seabrooke & Wigan, 2017). All TNCs together shift about 40% of their profits through such offshore constructs (Zucman, 2018). It is because of these practices that one of the local shop owners of Crickhowell payed seven times more tax than Facebook, which

had only paid £5,000 the year before. Another company that the local entrepreneurs perceived as an unfair player was Caffè Nero. Despite its £1,2 billion in revenues the London based company had paid zero taxation since 2008. Its profits were being shifted to Luxembourg and Isle of Man. According to the locals of Crickhowell, it is the British government that can and must prevent such malpractice.

While globalization and financialization provided TNCs with the freedom to move capital across borders, they have put states in a situation that forces them to compete with each other for this same capital (Palan, Murphy, & Chavagneux, 2010). In order to attract and retain capital in their domestic economies they are required to develop inviting legal and fiscal regimes. What follows is that states use their regulatory capacities to create lenient fiscal rules and regulatory loopholes that can be exploited by the offshore constructs of TNCs (Zucman, 2018). Offshore jurisdictions (OJs), such as Luxembourg or the Isle of Man, even made it their business model (Palan, 2002). The local shopkeepers are therefore correct in addressing their government, because it plays a considerable role in facilitating the abusive practices of TNCs. But what if not only large corporations benefit from offshore constructs? What if the governments that facilitate them discovered they could use them as well?

Research on the offshore world is rapidly developing and our knowledge keeps expanding. It has, for example, become clear that it does not only facilitate tax avoidance but serves a variety of purposes that help maximize the results of TNCs (Palan et al., 2010). Moreover, since several years the role of finance and offshore constructs is being integrated in more comprehensive frameworks on the workings of globalized economic processes and corporate strategies (Coe, Lai, & Wójcik, 2013; Seabrooke & Wigan, 2017). But the possibility always exists that new dynamics develop or that certain elements remain overlooked. Although not explicitly stated, there seems to be a general assumption that TNCs engaged with the offshore world are privately owned. While this may count for most firms, some piecemeal evidence hints at the existence of state-owned enterprises (SOEs) that demonstrate similar behaviour. Wójcik and Camilleri (2015) provide a detailed case study that illustrates how the state-owned telecom giant China Mobil became heavily integrated with global financial markets by developing an offshore construct that covers OJs such as the British Virgin Islands and the Cayman Islands. In addition, they hint at several other cases of large Chinese SOEs that have affiliates located in such jurisdictions.

The transnationalization of the state as an investor and owner of corporations has received much attention over the past years (Babic, Garcia-Bernardo, & Heemskerk, forthcoming; Cuervo-Cazurra, 2018; Nölke, 2014). Yet, no word has been spoken about the state expanding its business relations to other jurisdictions with the goal of developing an offshore construct. Similarly, the

literature on the offshore world is unfamiliar with the state fulfilling a role as an economic agent. This means that the findings of Wójcik and Camilleri (2015) could present an anomaly, an exception instead of the rule. But it is equally possible that they have touched upon a phenomenon that has been entirely overlooked so far and takes place on a structural level. This would imply a significant theoretical and empirical lacuna in the literature and a huge potential for future research. Furthermore, this could have large consequences for the locals of Crickhowell and other social movements such as the Tax Justice Network. If this is indeed a structural phenomenon, they may have to reconsider the role played by the actors to whom they appeal for change. It is therefore that I intent to further investigate the state's utilization of offshore constructs with this paper and pose the following question:

To what extent do states utilize offshore constructs?

In order to provide an answer to this question I structure the rest of this paper as follows. The chapter that comes after this introduction covers an extensive discussion of the relevant literature. The first part considers itself with the corporate strategies of TNCs and the offshore constructs they develop. This is followed by the second part that covers how the state relates to such practices. Especially offshore jurisdictions are discussed extensively. The third part emphasises the role of the state as an economic agent and forms a bridge to the article of Wójcik and Camilleri (2015). The chapter that comes next discusses the empirical approach to answering the research question. To explore the offshore constructs of SOEs on a global level I borrow from earlier research on corporate ownership networks. Firm-level data on ownership relations allow me to scrutinize the ownership structures of SOEs that travel to and through OJs. After having discussed the approach, the next section presents the findings that answer the research question. The paper closes off with a summary and a conclusion and discusses the results in light of the broader literature.

2. Corporations, the state and the state

Transnational corporations and mobile capital

Over the past half century, we have seen corporations change radically. To maximize their competitive advantage and market position, they constantly reinvent themselves in response to changing circumstances and opportunities. The result has been that corporate structures have increased in size and complexity. Corporations, and particularly the subsidiaries of TNCs, are generally controlled through hierarchical ownership networks that involve a myriad of entities. According to UNCTAD (2016): "More than 40 per cent of foreign affiliates are owned through complex vertical chains with

multiple cross-border links involving on average three jurisdictions” (p. 124). Two preeminent examples of this development are the banking and financial services provider HSBC and Anheuser-Busch InBev, the world’s largest brewing company. HSBC’s corporate structure comprises at least 828 affiliates, spread over 71 countries. Anheuser-Busch InBev does the same with 680 corporate entities across 60 different countries (Garcia-Bernardo, Fichtner, Takes, & Heemskerk, 2017).

Corporate strategies

The growing size and complexity of corporate structures is partially explained by the changes in international trade and production. Technological advancements and reduced costs in transport have boosted the global operations of TNCs (UNCTAD, 2013). They have expanded in scale and scope, entered new markets and rapidly added new businesses. In addition to this, the gradual rise of *Global Production Networks* and *Global Value Chains* (GVCs) brought the fragmentation and international dispersion of production processes (Gereffi, Humphrey, & Sturgeon, 2005; Henderson, Dicken, Hess, Coe, & Yeung, 2002). TNCs have disaggregated and reallocated their activities across countries to exploit differences in terms of costs and production factors. The changes in production methods often required them to engage with third parties in various forms of partnerships, such as non-equity relationships and joint ventures. Additionally, as global production systems made them more susceptible to the dynamics of global markets, TNCs more frequently updated their portfolios through mergers and acquisitions (M&As). Growth, fragmentation, partnerships, and M&As together produced ever deeper and more complex corporate structures, dispersed shareholding of affiliates, cross-shareholdings and shared ownership (UNCTAD, 2016).

The globalization of production and trade, however, tells only half of the story explaining the transformation of corporate structures. Parallel to this development has been the growing importance and influence of finance in the global economy. Finance has significantly extended its reach and its boundary with the productive economy has often become blurred (Van der Zwan, 2014). The production of goods and services is being dominated by financial actors and principles, and as a result “...more and more non-financial (e.g. manufacturing) firms are now driven by motives of financialization” (Dicken, 2011, p. 58). What follows is that TNCs do not predicate their corporate structures and strategies exclusively upon the idea of creating an efficient production process. Part of their considerations is the creation of an optimal financial situation, i.e. maximum income and minimal costs. Seabrooke and Wigan (2014) therefore make a legitimate remark that our understanding of the dynamics behind TNCs’ global structures and strategies remains incomplete as long as the legal and financial aspects that influence them are not taken into account.

The way different countries and locations offer dissimilar production factors is comparable to how they provide different sets of regulation. Locations could diverge for example in how they treat hybrid financial instruments, their definition of residence for tax purposes or their rates of corporate taxation. Like different production factors can increase the efficiency of the production process, variegated regulatory and fiscal environments can positively impact a firm's income and lower its costs and accountability. It is therefore that the typical TNC nowadays develops complex and sophisticated strategies to manage its capital through a range of corporate entities in such a way that it can exploit the financial advantages that different locations offer (Seabrooke & Wigan, 2017). This means that, on the one hand, the complexity and expansion of corporate structures is caused by factors related to the production of goods and services. But on the other hand, TNCs will always keep their financial assets in mind when it comes to changes in their operations. Extra elements are therefore added to their structures that exploit the legal and financial differences in their business environment, which adds to structural size and complexity.

Managing mobile capital

With the growing importance of financial markets, financial actors and financial principles came the increased mobility of capital. Capital account liberalization, technological change and financial innovations have made economic actors more than ever capable of transferring mobile forms of capital such as assets, costs, profits, and liabilities between entities and across borders (Seabrook & Wigan, 2017). This has not limited itself to financial firms. The rise of intangible assets such as intellectual property rights have also created immense possibilities for non-financial firms (Bryan, Rafferty, & Wigan, 2017). What follows from this enhanced mobility of capital is that corporations are better than ever able to transfer it across jurisdictions and to benefit from the differences between regulatory and fiscal regimes.

To understand how TNCs manage these mobile forms of capital, it is required to approach a TNC from a legal point of view. While it operates as a unified economic entity, it consists of legally separated affiliates (Picciotto, 1992). Because they are legally separate, each affiliate is subjected to the rules of the jurisdiction in which it is domiciled. This means that those that are located in a single jurisdiction are subjected to the same rules and institutions. But once they are split across jurisdictions, each is subject to the different fiscal, regulatory and institutional conditions that characterise the particular jurisdiction in which they find themselves. What follows is that a TNC can enjoy advantageous locations and avoid those that constrain by carefully designing a corporate structure that locates its affiliates, and its mobile capital, in specific jurisdictions. Today, such offshore constructs

are a substantial element of TNCs' corporate structures. They are 'offshore' in the sense that they function as booking devices through which financial claims can be transferred and traded. They are physically separated from the economic activity that underlies these claims (Palan, 2002).

Offshore constructs consist of a variety of corporate entities that have been designed for this specific purpose (Wójcik, 2013). These offshore affiliates come in a broad variety and have specific functions. For example, they can be used to legally isolate certain assets. Separating assets from other capital protects a TNC from liability and bankruptcy or obscures its relationship with the assets. Affiliates fulfilling such purposes are for instance trusts or special purpose entities (SPE). SPEs have become especially popular these days and host the majority of offshore capital flows (UNCTAD, 2016). Other entities are used by TNCs to pool funds from various sources and to collectively invest in whatever project or investment portfolio. Mutual funds and hedge funds form common examples. There are also several entities that are used for the ownership of a broad range of assets and securities. Holding companies are entities that are used to own stocks in other companies in order to control multiple companies and to form a corporate group. They have become a fundamental component of complex corporate structures and are indispensable to intra-firm transfer of capital (UNCTAD, 2016). Besides these examples there exists a variety of other entities such as international business companies (IBCs), cell companies (PCCs), foundations, etc.

Motives

While maximization of profits is the ultimate goal, the specific purposes behind an offshore construct are manifold and probably not all known in detail to the literature. The most common motive for transferring capital offshore is to protect it from other actors, including states, stakeholders and shareholders. Especially the fiscal claims of states are a key driver of corporate financial strategies (Palan et al., 2010). The international transfer of capital is managed by international principles such as source-based taxation, transfer-pricing and bilateral tax treaties. The intention behind such principles was to create a system that governs the fair taxation of internationally operating companies. Whether these intentions were honest or not, the product has been an international web of inconsistent rules and regulatory loopholes that can be carefully exploited by TNCs. Complex tax avoidance schemes such as the 'double Irish Dutch sandwich' allows TNCs to allocate their capital in such a way that it ends up in a regulatory no man's land (Zucman, 2014). The following quote from Zucman (2014) demonstrates the effects of such schemes in the case of Google:

The end result is that from the viewpoint of the United States tax authorities, 'Ireland Limited' and 'Google BV' do not exist, but for Europe they are real. For Ireland, 'Google

Holdings' is Bermudian but for the United States it is Irish. Playing tax treaties against each other—and in particular exploiting their inconsistent definitions of residency—Google thus generates stateless income, nowhere taxed in the year it is generated (...). In recent years, according to Google's company filings, its effective tax rate on foreign profits has ranged from 2 to 8 percent (p. 126).

It is not only Google that benefits from such tax avoidance schemes. Apple effectively reduced its corporate tax rate from 1% in 2003 to 0.005% in 2014 and this way avoided a total of €13 billion in taxes (European Commission, 2016). Similar tactics have resulted in Starbucks paying minimal corporate taxation in the UK for a certain period (Selby-Green, 2018).

Although most capital flows moving through offshore constructs are in accordance with the letter of the law, a part exists of illicit capital flows. Flows that are "...illegally earned, illegally transferred, or illegally utilized if it breaks the laws in its origin, movement, or use" (Baker, 2005, p. 23). This is what, for example, makes the difference between tax avoidance and tax evasion. A major component of such flows travels through the same channels through which legal flows travel but are caused by fraudulent transfer pricing techniques that misreport the actual value that is being transferred (Palan et al, 2010). This brings us to the second major purpose of offshore constructs, which is creating obscurity. Obscurity can help reduce corporate accountability and the public scrutiny of financial strategies, whether these are legit or fraudulent (Seabrooke & Wigan, 2017).

One way of obscuring capital flows is through the complexity of offshore constructs itself. A complex structure that covers multiple countries makes it difficult for a tax authority to understand and requires several jurisdictions to cooperate in an investigation (Wagener & Watrin, 2014). However, obscuring offshore capital is also one of the central services provided by OJs. These jurisdictions offer high level protection against others scrutinizing the operations of their clients (Palan et al., 2010). Their methods are being discussed in the following section. In addition, techniques such as 'round tripping' can alter the identity of capital (Ledyeva, Karhunen, Kosonen, & Whalley, 2015). Round tripping returns local capital as foreign direct investment (FDI) by channelling it through another jurisdiction. While this may facilitate corrupt practices such as money laundering, the preferential treatment that is often granted to foreign investors also provides a great incentive to engage in this technique. This is for instance the case in China. "Foreign investors typically enjoy lower tax rates, favourable land use rights, convenient administrative supports, and even favourable financial services. They also enjoy superior protection of their property rights" (Palan et al, 2010, p. 181).

Next to reducing the exposure to the claims of others or to obscure financial strategies, many other reasons exist for TNCs to transfer their capital offshore. They could be in search of less regulatory

oversight or stable corporate law and low compliance costs. Especially the motives of TNCs in developing countries may be multi-dimensional. Developing economies often suffer from various institutional deficiencies, such as regulatory uncertainty, underdeveloped intellectual property rights protection, governmental interference, weak legal systems or marginal access to international capital markets (Witt and Lewin 2007; Luo, Xue and Han 2010). An offshore construct may help them overcome these diverse constraints, making it an important instrument to such actors.

The international mobility of capital has given its owners the power to allocate it between entities, across borders and to locations worldwide. Driven by a financial logic, it has given them the possibility to benefit from different regulatory circumstances and to create a situation in which they experience minimal regulatory and fiscal constraints. However, what has been the effect of the unchaining of capital on those that create the constraints to which it is being subjected? How do states relate to the international mobility of capital and the financial strategies of TNCs?

States, economic competition and offshore jurisdictions

After centuries, the state remains an important organizing principle in the global economy. Based on the ideas of territoriality and sovereignty a state has the ability to govern economic relations within its territorial boundaries. Governments have always used this ability to support their economies. They help successful sectors to retain their position or stimulate the development of new ones (Schwartz, 2008). However, globalization and the expansion of cross-border capital movement corroded their capacities and they became confronted with the challenge of attracting and retaining the unsettled resources. Nowadays, states have to offer an inviting destination and find themselves in constant competition with others (Kenyon, 1997). In many cases they use a combination of fiscal benefits, reductions in taxation and the loosening of regulation to attain this goal. Such regulatory packages to attract capital come by the name of Preferential Tax Regimes (PTRs). Different PTRs are used by states worldwide as part of their economic policy to attract foreign investment (Tuomi, 2012). Globally decreasing rates of corporate taxation have made some claim that we are in a global 'race to the bottom' (Genschel & Schwarz, 2011). Yet, where most states use PTRs to develop their manufacturing sector or improve their position in global trade, certain states consciously and intentionally develop sets of regulation for the commercial purposes of capturing 'rent' from mobile capital (Palan et al., 2010). These jurisdictions are referred to as OJs.

The ideal typical offshore jurisdiction

OJs deliberately create legislation to ease the burden of capital owned by foreign entities and function primarily as repositories of financial claims. They serve almost entirely as booking devices and it rarely happens that the activity behind a claim is really taking place in the OJ itself. OJs "... are like the sovereign equivalent of parking lot proprietors: they could not care less about the business of their customers, only that they pay for parking their vehicles there" (Palan, 2002, p. 152). They are therefore better described as 'virtual' or legislative spaces (Palan, 1998; Palan et al., 2010). Like offshore entities, the claims booked in OJs are 'offshore' in the sense that they are legally decoupled from the location in which the actual economic activity takes place. This way they experience minimal regulation and are shrouded in secrecy so that they cannot be related to the one booking them. The way OJs use their sovereignty to provide privileges to foreign capital owners is by some understood as a legal strategy to economic development and an opportunity for states to benefit from transnational capital forces in a pragmatic manner (Palan, 2002). However, it is acknowledged that the strategy is founded on the extraction of rent surpluses that would otherwise be accrued by other states (Hampton, 1996). It is for this reason that others describe these strategies as an abuse of state sovereignty (Picciotto, 1992).

While this makes the role of an OJ clear, distinguishing them from other jurisdictions is a complicated task. It is incredibly hard to draw a hard line that separates OJs. This is because their defining characteristics are often shared to some degree by most states, but also due to them being a diverse group of jurisdictions. They come in many types and shapes and the archetypical OJ seems not to exist. Nevertheless, Palan et al. (2010) make an attempt at capturing the essence of an OJ by developing an ideal type that covers typical features that are shared by most of them. The first feature is minimal or zero tax rates. It should be emphasised that these tax rates apply in most cases exclusively to non-residents. Those jurisdictions that are truly tax-free are often dysfunctional states. The government of an OJ requires some form of income to secure its proper functioning. Most successful OJs are therefore very strict on the taxation of their residents. Of course, non-residents are not completely free from any payment as OJs aim at extracting rent from their capital. They generate an income flow through licensing and registration fees that non-residents pay for making use of their jurisdiction. In other cases, OJs are broadly reliant on larger states that support them with subsidies. Additionally, such 'patrons' are also important for their security, diplomatic relations, and broader monetary and macro-economic environment (Wójcik, 2012). Examples are the close connections between the UK and its Crown Dependencies, or Monaco and Andorra, which rely on the French state. But in whatever way an OJ secures its revenues, it is capable of sustaining low tax rates for non-residents exactly because of those revenues (Palan et al., 2010).

Although the taxation regime is the main characterising element of an OJ, it is an element that many other states share. As already mentioned, most states in the world offer many different fiscal incentives to particular industries and economic sectors. The PTRs upheld by OJs are not clearly distinguishable from other PTRs, except for them possibly being more aggressive. However, besides a minimal tax regime, a second feature that Palan et al. (2010) state as being characterising for many OJs is the secrecy they provide to surround the operations of foreign entities. There are three ways through which an OJ obscures entities and their financial claims. The most common method is through law. Secrecy laws make it a criminal offence to disclose information for whatever reason and they often limit the right to information of governments as well. Next to law, OJs actively facilitate the creation of financial entities whose ownership and purpose is difficult to determine. Offshore affiliates located in OJs are generally limited by shares and their governance structure, ownership, and purpose are in most cases obscured. Trusts do not even require official registration on several locations. In addition to law and corporate entities, OJs create a curtain of opacity simply by remaining inactive or through intentional negligence. They usually do not perform serious due diligence and are experts in developing regulation with calculated flaws (Palan et al., 2010).

While secrecy forms an aspect that seems better capable of distinguishing OJs, it still does not entirely exclude other jurisdictions. Again, most states offer a variety of different secrecy provisions. These do not only apply to issues of national security, but to the commercial world as well. The last component of Palan et al.'s (2010) ideal type refers to the flexibility and lightness with which corporate entities can be set up in an OJ. A company, trust or even a bank can be set up very simply and with high speed and low cost. It is literally the case that in many OJs a company can be bought 'off the shelf' for a minimal price. The opacity surrounding such vehicles is easily secured and most OJs do not require the actual presence of the financial institutions or corporations that own them.

Variety among offshore jurisdictions

Minimal taxation, secrecy, cheap and fast incorporation mechanisms, these are all common features of OJs but certainly not shared by all. OJs are characterised by other aspects as well, such as the ease by which funds can be raised, cheaper access to capital markets, and the provision of reliable legal frameworks (Coe et al., 2013). Some of them even host an offshore financial centre (OFC). An OFC refers to a financial centre that specializes in non-resident transactions (Zoromé, 2007). OFCs generally experience minimal forms of financial supervision and regulation. Examples of OFCs are the City of London in the United Kingdom (UK), the International Banking Facilities (IBFs) in the United States, and the Japanese Offshore Market (JOM). Some OFCs could qualify as an OJ and some OJs even developed

an OFC themselves as it was in line with many of the activities that they already facilitated (Palan et al., 2010). These are often referred to as ‘booking’ or funding centres.

Table 1
Niche strategies of offshore jurisdictions

Type	Function	Example(s)
<i>Incorporation location</i>	Registration with minimal regulation	Montserrat, Anguilla
<i>Registration centre</i>	Round tripping and local expertise	The British Virgin Islands
<i>Secrecy Havens</i>	High level secrecy	Singapore, Switzerland
<i>Specialist service provider</i>	Emphasis on a particular sector	Cayman Islands
<i>Market entry conduit</i>	Routing capital transactions	Malta, Cyprus, Mauritius, Netherlands
<i>High net worth provider</i>	Managing the funds of the wealthiest	London
<i>Tax raiders</i>	Low tax, financial security and minimal traceability	Ireland

OJs probably share more differences than commonalities. In fact, the increased competition between jurisdictions to capture mobile capital has caused OJs to differentiate themselves from others. They developed niche strategies in regard to their regulatory environment to capture the claims of particular sectors and actors (Palan et al., 2010, pp. 35-38) (Table 1). Some, for example, present themselves as ‘incorporation locations’ that specialize in the registration of offshore companies used to store financial claims and offer minimal effective regulation (Montserrat, Anguilla). Others could be identified as ‘registration centres’ that facilitate round tripping and offer local expertise to service costumers. The British Virgin Islands (BVI), for example, fulfils this role in relation to China (Sharman, 2012). A number of OJs are ‘secrecy havens’ as they perceive secrecy as their top priority. Switzerland and Singapore, for example, are renowned for their banking secrecy laws (Fiechter, 2010). Another type of OJs are deemed ‘specialist service providers’ that focus their energy on a specific segment of the market. This is exemplified by the Cayman Islands, which are an important OJ to the hedge fund industry (Fichtner, 2016). A separate group of OJs could better be characterised as ‘market entry conduits’ that have made it their trade to make a profit on the routing of capital transactions through their domain. Malta and Cyprus, for example, function as the developing world’s gateways to the European Union (EU). Mauritius is the same to India, and the Netherlands forms a hub for holding companies that invest throughout Europe (Weyzig, 2013). Large tax treaty networks are what puts these OJs in this position. Then there are also the ‘high net worth providers’, OJs that

developed the resources needed to manage the funds of the wealthiest on earth, such as London (Hay & Beaverstock, 2016). Finally, 'Tax raiders' are the ones that attract profits to their domain, offer them low tax rates, financial security and minimize the chance that others can trace them. Ireland and its financial services centre in Dublin fall under this category (Stewart, 2005).

Besides the various roles and functions of OJs on a jurisdictional level, it is also worth mentioning how they can be distinguished on a structural level. Garcia-Bernardo et al. (2017) were able to divide OJs as conduits or sinks based on their position in the global offshore network. Conduits are the nodes that facilitate the channelling of capital to other OJs and states. This is particularly done by mid-sized OJs such as the Netherlands and the UK. These do not necessarily have a low-tax regime but provide broad tax treaty networks and regulatory loopholes to channel capital with minimal regulatory and fiscal constraints. The capital is channelled either to other countries or to so called sinks. Within the networked flows of offshore capital sinks are the nodes that attract and retain capital. This is a position primarily claimed by smaller jurisdictions such as the Cayman Islands and the BVI. OJs thus specialize in certain niche strategies but are also marked by their position in the broader picture of global offshore capital flows.

The enhanced mobility of capital has put pressure on the state as an organizing structure in the global economy. States have been put in a situation in which they are pressured to compete for a share of global economic resources. A specific group of states has made clever use of the current circumstances. OJs made it their business model to attract mobile forms of capital and come in many forms and shapes. However, so far, the state has only been considered as an immobile facilitator and regulator of economic relations, bounded to and limited by its territory, and outplayed by the mobility of capital. However, as discussed in the following section, the state fulfils another role in relation to capital.

The state as an economic agent

The state's role in capitalist economies is diverse and may differ from context to context, but overall, the state can fulfil three roles in relation to capital within and outside its borders (van Apeldoorn, de Graaff, & Overbeek, 2012). First, the state functions as a market creator. The idea of a self-regulating market was pointed out by Polanyi (1996) as a utopia because the state has always played a fundamental role in establishing capitalist markets. It is the state that provides the institutional and political preconditions on which capitalist markets can emerge and prosper. It does this for example through the creation and upholding of property rights, issuing money and sustaining its value, and securing the proper functioning of market relations through, for instance, competition law (van

Apeldoorn et al., 2012, p. 474). The role of market creator is fundamental to whatever capitalist economy, even in their most liberal forms.

This first role of the state in capitalist economies is often supplemented by its second role as market corrector, or regulator. As a regulator of markets, the state acquires a more visible and direct role in economic affairs. The logic behind this role is to prevent the market from creating unwanted outcomes, or in the worst case from destroying the social fundamentals on which it is build, through 'extra economic regulation' (van Apeldoorn et al., 2012, p. 475). Such regulation is exemplified by the welfare state and the collection of social regulation that aims at mitigating capitalist markets' socially disrupting effects. The second role therefore goes beyond the constitution of markets.

The first and second roles have been covered in the previous section on the state's responses to a world of mobile capital. The idea behind economic competition is that states minimise their second role relative to corporate operations. To attract mobile forms of capital the state abolishes taxation and regulation which have been established to mitigate the excesses of economic activities. Within the literature on the offshore world the state's role has thus far not been discussed beyond its first and second function. Its relationship with mobile capital is being described as one in which the state struggles from its position as a regulator. Yet, the state is also known for having a third role in capitalist economies. The role of fostering, directing and supervising capitalist processes, "...not through the establishment of markets and the freeing up of market forces but by taking up a role of its own as an agent of capital accumulation" (van Apeldoorn et al., 2012, p. 475).

Statist capitalism

The extent to which the state not only curbs the negative effects of the market but also aims at coordinating it differs between historical periods and contexts. However, it is likely possible to find at least some examples of the state coordinating the market in every economy. Even in liberal economies such as the UK or the U.S. the state coordinates the market in the form of infrastructural investments or the provision of certain utilities. However, in certain cases the state's third role is more prominently pronounced and features as an important element in economic relations. These cases are in the literature referred to as 'state' or 'statist' capitalism (Kurlantzick, 2016; van Apeldoorn et al., 2012). In the case of statist capitalism, the state preserves sufficient private control and ownership of capital to maintain the functioning of capitalist competition. However, within this boundary it significantly extends its grip on the economy through public control and ownership of capital resources. In practice this articulates itself through state-owned or controlled market actors that the state uses for the

allocation and coordination of capital. The figurehead of these state-controlled entities is probably the state-owned enterprise (SOE).

Statist capitalism is in the majority of cases linked with economic 'catch-up' strategies pursued by states that started their industrialization process at a relatively late moment in time. Taken from a broad historical perspective, successful latecomer economies have always used interventionist methods to protect and stimulate their economies and help them integrate in the global economy (Schwartz, 2008). To prevent being overwhelmed by the economies that dominate at the moment of integration, a late industrializer requires a certain catch-up process directed by the state (Nölke, 2014). The extensiveness and shape of the state's role in such catch-up strategies depends on the size and level of economic development, but also on the timing at which a state starts industrializing.

Nölke (2014) distinguishes at least three large waves in which the state arose as a coordinator of economic affairs on a globally significant scale. The first wave took place in the second half of the 19th century when countries such as the U.S., Germany, parts of Scandinavia, and later Japan implemented protectionist policies and used central banks to invest in infrastructural projects to help develop domestic industries. The second wave developed after the Great Depression in the U.S., Europe and the Soviet Union together with several East Asian developmental states after the Second World War. In comparison to the first wave, the second wave knew more far-reaching forms of state intervention and economic planning. It was not only considered with the protection of the domestic economy, but also included active coordination of business activity in various domains.

The third wave distinguished by Nölke (2014) came on steam after the Great Recession of 2008 and is currently taking place in emerging economies such as China, India or Brazil. This wave of state intervention does not identify itself through protectionist measures or centralized direction. It is different from its predecessors because of the more complex formal and informal cooperative relationships between multiple public authorities and individual market actors. Instead of the traditional SOE and central bank, the state may invest through a diversity of entities, including state agencies, sovereign wealth funds (SWFs), state pension funds, state banks, and fully, majority and minority owned firms (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014). But more important, the state capitalist of today is strategically and selectively using both inward and outward FDI to support domestic economies (Nölke, 2014). While the state as an investor and owner of corporations remains mainly focussed on the domestic, it simultaneously shows signs of a more outward-looking, economically expansionist attitude.

Adapting to globalization

Over the past decade there has been a rapid increase in various forms of cross-border state investments that have reasserted the state's role as an economic agent on the international stage. Several of the SOEs from previous eras that were bounded to the domestic economy have faded, but their transnational versions (TSOEs) have proliferated on an unexpected scale. TSOEs nowadays heavily engage in cross-border mergers & acquisitions to expand their presence in the global economy (Clò, Fiorio, & Florio, 2017; Karolyi & Liao, 2017). According to Musacchio and Lazzarini (2018), 27 of the world's 100 largest firms by revenue in 2016 were TSOEs. 16 of them belonged to the state-capitalistic government of China. Particularly TSOEs active in the energy sector outmatch their private competitors on several aspects (De Graaff, 2011). Moreover, globally operating SWFs have seen an enormous upswing in value and numbers and continue to grow (Haberly, 2011). Together they exceeded a total value of US\$ 8.1 trillion in October 2018, which is a doubling since 2007 (Sovereign Wealth Fund Institute, 2019).

This surge in transnational state investments is mostly explained by the moment at which the current generation of state capitalists integrates in the global economy. The way Germany and Japan responded with protectionist measures in accordance to the economic circumstances of the 19th century and South Korea's statist development model was influenced by the rise of Fordism, the current trend in state intervention focusses heavily on transnational capital flows because it takes place within the intensively globalized economic system of today (Nölke, 2014). State investors are integrating themselves into transnational circuits of capitalist production and finance to support their domestic economies. For the time being, this means that they act in correspondence to the rules of the game as defined by Western capitalism (van Apeldoorn et al., 2012).

But although this transnationalization of state investments is a fundamental element of emerging economies, states belonging to the Western core also expand their economic activity beyond the domestic border. Babic, Garcia-Bernardo and Heemskerk (forthcoming) provide an extensive analysis of transnational state investments in which both developed and developing economies are represented. Besides China and Russia, countries such as Norway, France and Sweden feature prominently as global state investors. The transnationalization of the state's economic agency could therefore be seen as being part of a broader development in which the state tries to adapt to its intensively globalized and financialized surroundings. To maintain its influence on the domestic economy the state develops new extra-territorial methods that supplement domestic interventionist measures that lost some of their power. These methods utilize globalized production and financial

networks in order to strengthen the domestic economy (Haberly, 2011). Simply said, the state copes with globalization by exploiting its third role and imitating transnational capital forces.

This imitation expresses itself more specifically in areas and domains thus far characterised as the primary examples of corporate globalization. Horner (2016), for instance, emphasises how the state not only limits itself to facilitating GVCs, but also actively participates in them as an economic agent itself. This is also something illustrated by the case study of Adolf, Bush and Vellema (2016), who emphasise the role of state ownership and strategies in the GVC of MSC certified skipjack tuna. The state's observed participation is also being integrated on the conceptual level, as the GVC approach is gradually being adapted to the rising presence of transnational state agency (Mayer & Philips, 2017). However, the previous sections of this paper have made clear that corporate strategies do not limit themselves to the domain of production. GVCs are complemented by financial strategies and offshore constructs that have the purpose of optimizing income and minimizing costs and do not involve any productive activities. While SOEs are generally perceived as less efficient than private firms, capital maximization does play a role (see Megginson (2017) for an overview). If the state can circumvent certain fiscal and regulatory constraints of the jurisdictions in which it operates in order to maximize economic performance, it is a logical move to make. Piecemeal evidence suggests that this move is indeed being made and that the state's imitation of transnational private actors goes beyond what is so far being considered.

Wójcik and Camilleri (2015) provide a detailed case study of state-owned telecom giant China Mobil. They describe how the SOE gradually expanded in its operations and subsequently required access to international capital markets. For this reason, it broadened its corporate structure and became heavily integrated with the offshore world. As part of its financial strategy, it developed an offshore construct that included the establishment of subsidiaries in OJs, including Hong Kong, the BVI, and the Cayman Islands. Besides China Mobile, Wójcik and Camilleri (2015) provided several other examples of large Chinese SOEs that own affiliates in these OJs. In other words, they illustrate how the state uses offshore constructs to structure its business operations. While these findings may form an anomaly, the possibility exists that the state imitates the financial strategies of private TNCs to an extent that is so far not considered in the literature except for this single article. When it comes to the literature on the offshore world, the state has only been studied performing its first and second role. With this paper I am building on the piecemeal evidence collected by Wójcik and Camilleri (2015) to determine whether they touched upon a structural phenomenon in which the state displays economic agency in a fashion previously only associated with large private TNCs. I am researching to what extent states themselves utilize offshore constructs.

3. Conceptualisation, empirical approach and data

The first part of the previous chapter discussed the corporate strategies of TNCs and how they develop offshore constructs to maximize income and minimize costs and accountability. The second part demonstrated how states responded to such practices and developed their own strategies to cope with the situation. The third part then reviewed the state's role as an owner and investor of capital and how it is gradually entering the transnational stage. It demonstrated how the state operates in GVCs and discussed piecemeal evidence that hints at the incorporation of financial strategies and the use of offshore constructs. The following chapter moves on to developing an empirical approach suited to the interests of this research. Wójcik and Camilleri (2015) provided a small glimpse of how a state engages in establishing offshore ownership structures that avoid regulatory and fiscal constraints. In the following sections I describe how my approach similarly focusses on state ownership relations that travel to and through OJs but how it scales it up to such an extent that it involves all state owners worldwide. This way it provides a structural snapshot of states' utilization of offshore constructs on a global level.

State ownership relations

Research on the offshore world that aims at observing the flows of capital to and through OJs proves time on time that this is incredibly difficult and that overall the results are inaccurate of reality (Palan et al., 2010). After all, one of the purposes of offshore constructs is to obscure capital flows and OJs generally contribute to this by upholding high levels of secrecy. This obscurity combined with capital's fluid and diverse forms makes it extremely hard, if not impossible, to label and track most offshore capital flows.

However, although capital is easily lost in the offshore realm, the infrastructure that enables it to manoeuvre is less hidden. Despite the secrecy provided by OJs, many offshore affiliates such as trusts, holdings and funds that are part of offshore constructs are recorded in documents publicly available in other countries. Firms disclose them in their annual reports and filings to public institutions as part of their corporate ownership structures. This is what made it possible for Wójcik and Camilleri (2015) to reveal China Mobile's offshore construct. While it says little about the actual size of states' capital that flows offshore, systematically analysing corporate structures can clarify the pathways through which flows are structured and which jurisdictions are involved.

As discussed in the previous chapter, an offshore construct is defined by its function. It is a booking device through which financial claims can be transferred to circumvent regulatory or fiscal

constraints elsewhere. Essentially, it is possible to develop an offshore construct between all countries that differ in taxation and regulation, and it is therefore not necessarily coupled to particular locations. However, as the previous chapter also made clear, OJs are highly specialized in facilitating offshore constructs in a variety of ways. It is therefore reasonable to assume that the grand majority of international corporate structures moving to or through such jurisdictions fulfil the function of offshore construct. The possibility exists that not every single subsidiary in an OJ fulfils the role of an offshore subsidiary, and that not every single structure moving to and through OJs functions as an offshore construct. Yet, the inclusion of these exceptions is being tolerated in order to enable a global-scale mapping of states' offshore constructs. For this paper I therefore consider a corporate structure moving to and through OJs as an offshore construct.

To capture states' offshore constructs I am focussing my attention on the ownership relations between affiliates and their owners. An ownership relation is a relatively straightforward concept. It is established between a state and a firm once a state acquires some of its shares. The ownership stake a state has may be marginal (< 5%) but could also entail full ownership (100%). A state then becomes a shareholder of the firm. It receives dividends and acquires a certain level of control. In general, but not in every case, this control stands equal to the amount of shares the state holds. Levels above 50% ownership therefore provide a state practically with full control over a firm and its operations. Through this mechanism of ownership states can set up and control offshore entities in OJs that allow them to store, shift and invest capital while avoiding regulatory and fiscal constraints in other jurisdictional spaces. A portion of the resulting offshore ownership relations is empirically determinable. This depends on the disclosure of documents covering information on them, which is mostly limited to larger and publicly listed firms.

Ownership relations are clear-cut when a state directly owns a firm. However, as discussed in the previous chapter, developing long and complex ownership chains to structure productive and financial operations has become common practice for corporations, especially among those active on a transnational level. This is not different in the case of those partially or completely owned by states. Large pyramid structures of ownership relations between state-owned affiliates exist and the complexity increases when the ownership is organised through multiple different state entities such as SWFs, pension funds, government departments and investment banks. No distinction is made in this paper between the specific types of entities through which a state organizes its ownership relations. It is only relevant to determine whether there are ownership relations and if they travel to and through OJs.

Networks of corporate ownership have been studied for a longer time now and it is a tried and tested approach to comprehending global ties of corporate control (Vitali et al., 2011). It has had fruitful bearings in the area of state ownership and investments as well (Babic, Fichtner, & Heemskerk, 2017; Babic et al., forthcoming). Employing the approach in relation to offshore constructs also provides several advantages. For instance, ownership relations allow for an easy distinction between public and private and can be tracked through multiple jurisdictions until the point where they end. This is particularly useful as offshore capital flows are shifted to and through financial vehicles that are in multiple jurisdictions.

It is possible to provide economic weight to an ownership relation by multiplying the ownership stake with the assets or revenues of a company (Babic et al., forthcoming). However, for several reasons this becomes problematic when it comes to offshore constructs. Most of these ownership relations do not represent FDI. Offshore subsidiaries normally function as intermediaries in larger structures that transfer capital. In combination with the secrecy provided by OJs, the information available on assets or other sorts of economic value is very limited and the approach would generate an inaccurate image of reality. Besides, I do not aspire to capture the size of offshore state capital. My focus lays at capturing the offshore constructs that enable state capital flows. The identification of these constructs can serve as a possible indicator of the presence and pathways of such flows.

Mapping offshore ties

Using ownership ties between states and firms as the fundamental building block of my analysis makes it possible to provide a structural image of states' offshore constructs on a global level while using firm level data. Only ownership ties that represent ownership stakes above 50% are considered for the analysis. The threshold is based on the control that comes with such ownership levels. I am assuming that levels above the threshold provide a state with full control over a corporate entity and that it can be held liable for its location and operations. At exactly which level a shareholder has de-facto control over a corporate entity is debatable. Some consider lower levels as sufficient for control over a firm (La Porta, Lopez-De-Silanes, & Shleifer, 1999). Moreover, in the case of an SOE the control of the state is easily underestimated. It does not have to correspond to the amount of shares a state owns and could also be exerted through 'golden' shares, other financial means and social ties (Cuervo-Cazurra et al., 2014). A threshold of 50,01% is thus rather conservative and reassures that the ownership ties indeed represent intentional state activity, instead of some wandered offshore portfolio investment.

The first step in the analysis develops an overview of all ownership relations between states and offshore subsidiaries. This determines whether states even have subsidiaries located in OJs, how many, and in which OJs they can be found. The previous chapter, however, made clear that OJs are a diverse and multipurpose phenomenon and that there is no single definition. This difficulty also problematizes identifying jurisdictions as OJs. A variety of lists have been developed based on different methods, each displaying different rankings and sometimes different jurisdictions. Examples are the lists published by the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD), which build on qualitative assessments of the jurisdictional regulations and taxation frameworks. Differently, Fichtner (2015) used stock data on international banking assets, portfolio investment, and FDI and compared it to the gross domestic product (GDP) of a jurisdiction in order to target OJs. For this paper I prefer to use the list of OJs generated by Garcia-Bernardo et al. (2017), which is based on a network analytical approach that classifies jurisdictions based on their position in the broader network of corporate ownership. In comparison to qualitative assessments, their approach demonstrates the real-world relevance of an OJ. Moreover, because it does not rely on national statistics, it is less susceptible to political preferences and influence (Mügge & Stellinga, 2015). The full list is included in Annex A. It makes the distinction between OJs that characterise as conduits and as sinks. I include both types as OJs in this research.

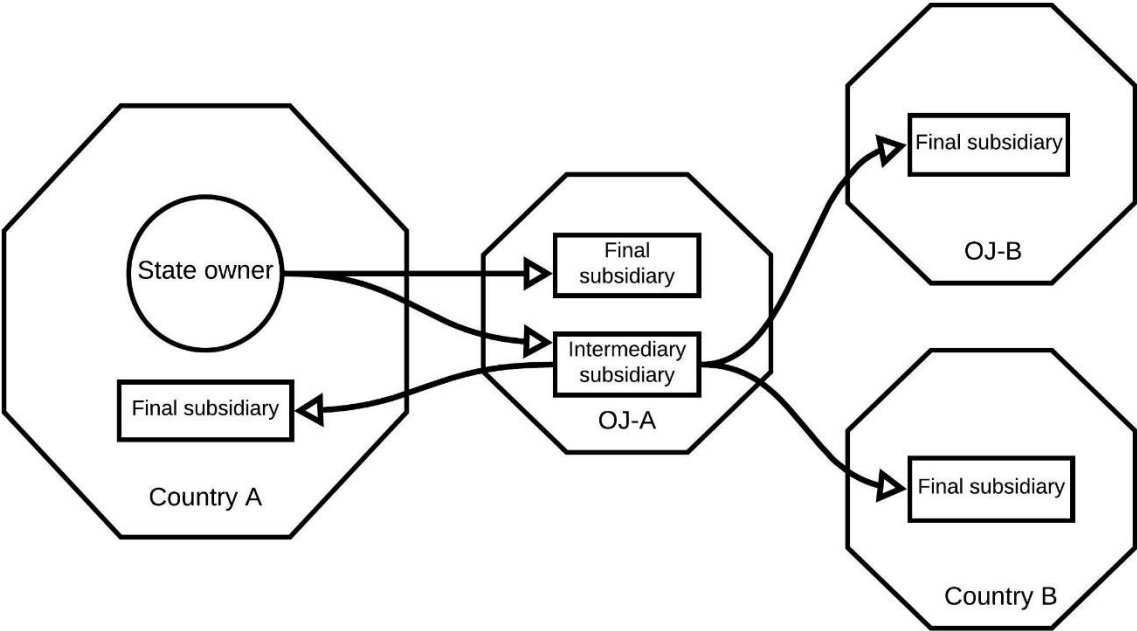


Figure 1. Stylized options for structuring offshore ownership relations

Mapping offshore subsidiaries is an important first step in describing states' usage of offshore constructs. Yet, it results in an unrefined image that leaves out many details of how subsidiaries position themselves in longer ownership chains that cover multiple countries and jurisdictions. It cannot answer whether a subsidiary and the OJ in which it is located are positioned in the middle or the end of an ownership chain and it overlooks non-offshore subsidiaries that are owned by an offshore subsidiary. Does an ownership chain end with the subsidiary in OJ-A? Or is this simply an intermediary that subsequently owns another subsidiary in OJ-B or another country? For this reason, I run through all ownership chains from the beginning to the end to make a distinction between intermediary subsidiaries and final subsidiaries. This provides an improved image through and to which OJs and countries a state builds its offshore constructs. I consider a subsidiary to be a final subsidiary in the following three cases. First, a subsidiary may simply have no subsequent ownership relation. Second, the subsequent ownership relation of a subsidiary falls below the 50,01% threshold. And third, an ownership chain moves from an OJ into a non-OJ jurisdiction. Figure 1 provides a stylized illustration of the possibilities to structure ownership relations between OJs and countries that follow from this approach. Remember that real-world ownership chains can be more complex, involving more subsidiaries and multiple OJs.

Finally, to provide an adequate overview of the extensiveness with which states use offshore constructs, all constructs travelling to and through OJs are aggregated on the state level and visualised as a global network between states and OJs. Such a visualisation is capable of instantly conveying to what extent certain states and OJs form important nodes within the complex reality that the thousands of transnational ownership relations generates.

Data

The data on the ownership relations originates from Bureau van Dijk's Orbis database, which contains a wealth of information on over 200 million corporate entities throughout the world. The dataset used in this paper has been retrieved by Babic et al. (forthcoming) in December 2017 and provides a snapshot of the most up to date information that was available at that moment. All the precise details on the measures I took to clean, filter and select the data are described in the Appendix. The initial dataset contained all corporate entities and organizations that are state-owned in the entire database and covers a total of 1,080,716 entities. This collection has been cleaned and filtered in a variety of ways, including the removal of incomplete data entries, deleting ownership relations under the 50.01% ownership threshold and cutting out entities that are inactive or in other ways irrelevant for the purposes of the paper. This has resulted in a collection of 298,626 entities.

For the first part of the analysis the sample is further reduced to only those entities located in OJs. Moreover, I filter for transnational ownership relations to prevent including homebased SOEs that are owned by the governments of OJs themselves, for these would not count as being offshore. This brings me to a selection of 7,271 entities. As mentioned earlier, it is possible that these relations include regular state investments from one country directly into another, not in any way related to an offshore construct. Such investments are probably negligible for OJs such as the Cayman Islands or the British Virgin Islands, as they minimally engage in economic activity besides facilitating the transfer and storage of financial claims. But it is likely the case with OJs that have larger 'normal' economies and that are surrounded by many close neighbours, such as the UK or Switzerland. Although it is impossible with this data to exactly determine for every entity located in an OJ whether it is indeed used for offshore financial practices or represents regular FDI, I apply several extra filters to minimize the chance that such investments are included. Finally, this brings the number of ownership relations between states and offshore subsidiaries down to 5,107.

For the second step a second set of subsidiaries is isolated from the same initial dataset and covers 8,863 entities. The set is divided into a group of 2,193 intermediary subsidiaries 6,670 final subsidiaries. The various filters that were applied to prevent the inclusion of regular FDI in the previous set of subsidiaries apply in this case to all intermediary subsidiaries and to those final subsidiaries that are located in OJs and that are not owned through an intermediary subsidiary (Figure 1). Again, this limits the chance that such direct ownership relations would represent regular FDI. The filters are loosened in the case of final subsidiaries that come after an intermediary subsidiary (Figure 1). This is because I consider a final subsidiary that is owned through an offshore subsidiary always part of an offshore construct, regardless of its location or its economic activities.

Lastly, the network visualisation contains all ownership relations identified as being part of an offshore construct. This results in 9,993 unique ties between 9,464 unique nodes in the network. These nodes and ties are aggregated on the state level and intra-state relations between subsidiaries are removed to create a global network of ownership relations between state owners, OJs and other countries. This results in 6,989 unique relations between 132 states and OJs.

4. States utilizing offshore constructs

Offshore subsidiaries

About 25% of all majority-owned corporate entities that states own outside of their borders are offshore subsidiaries located in OJs. They are owned by a total of 80 different state owners. The distribution among these 80 countries, however, is highly skewed. It is only a small group that the offshore subsidiaries represent. The top 10 largest owners together own more than 75% and the top 20 almost 90% (Table 2). The ratio between offshore and all transnational subsidiaries differs substantially for each state in the top 20. Some demonstrate percentages far below 25%, while others show phenomenal proportions nearing the 50%. But despite the differences each state shows considerable activity in OJs in relation to its overall transnational presence (Figure 2). This implies that the offshore world does not only restrict itself to the affiliates of private TNCs. A considerable part of states' transnational business relations lead to the offshore world. This forms a first indication that Wójcik and Camilleri's (2015) case study touched upon a structural phenomenon of state actors utilizing offshore constructs as economic agents in the global economy.

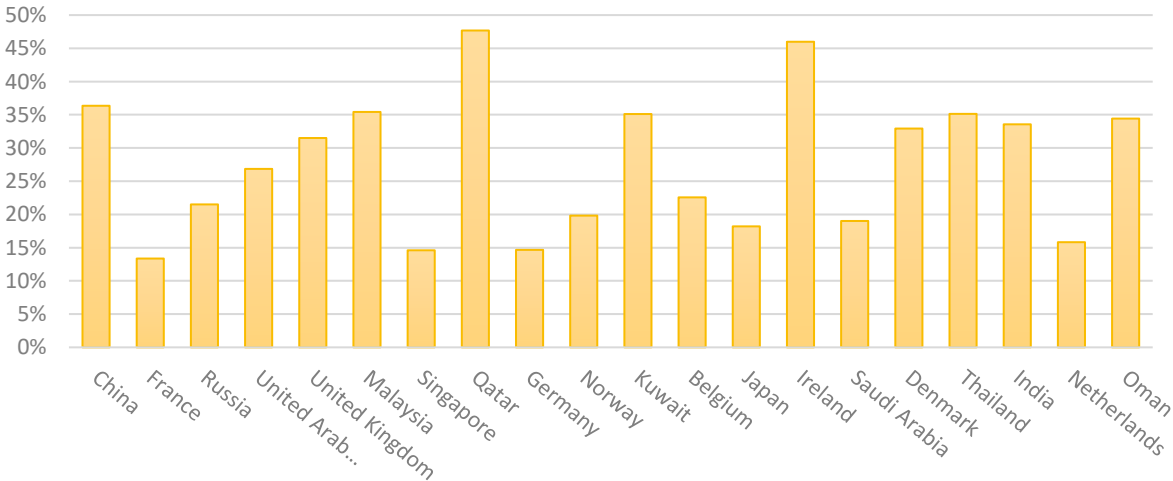


Figure 2. Offshore subsidiaries expressed as percentage of majority-owned transnational subsidiaries

The data used for this analysis also provides information on the economic activity with which a subsidiary considers itself. However, this information is lacking for about half of the offshore subsidiaries. This could be expected as most financial vehicles located in OJs are surrounded by secrecy or function as mere booking devices. This makes it hard for the Orbis database to attribute them to an

economic sector. The other half, however, makes it clear that most subsidiaries have purposes directly or closely related to finance and business services (Figure 3). This supports the idea that the sample consists primarily of financial subsidiaries that facilitate offshore capital flows. A close look at the data on subsidiaries active in other sectors tells that most of them are likely to fulfil the same role but are ascribed to a particular sector due to the activities of their parent companies. It seems therefore very likely that the offshore subsidiaries that states own in OJs are indeed ‘offshore’.

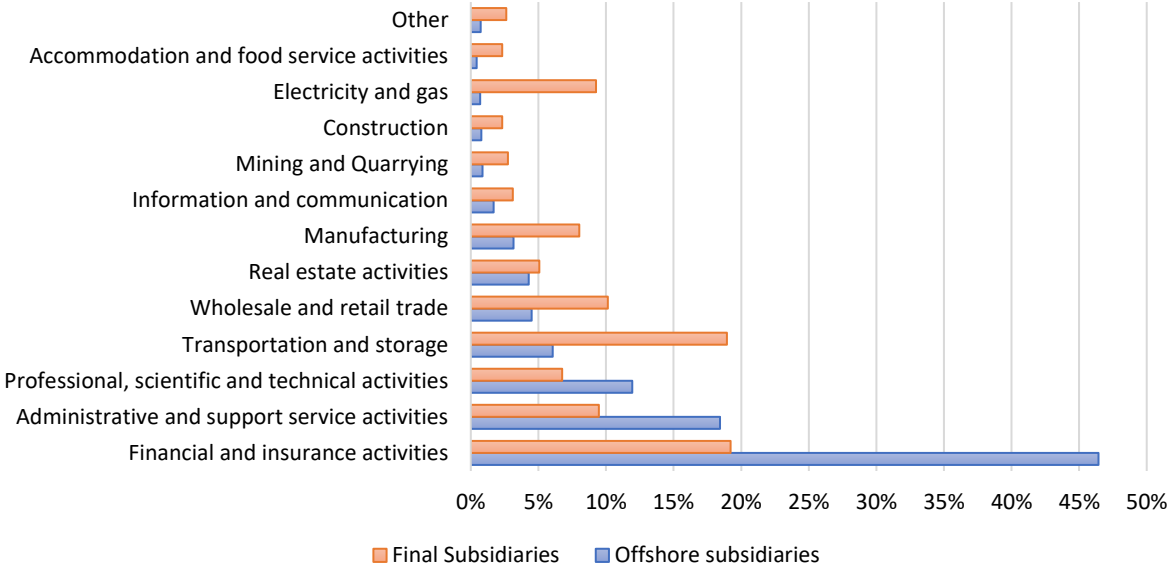


Figure 3. Sectoral distribution of offshore subsidiaries and final subsidiaries

Table 2 lists the top 20 state owners of offshore subsidiaries. The owners seem to represent a mix of two types of states. On the one hand the list contains states that pursue a statist capitalist economic model (Kurlantzick, 2016). China, Russia and to some extent India belong to the third wave of state capitalism as described by Nölke (2014). Because this wave is characterised by state owners that are more adapted to globalization it makes sense that precisely they feature as significant owners of offshore subsidiaries. Additionally, states such as Singapore and the United Arab Emirates (UAE), who do not belong to the third wave, are also well known for their cross-border state investments (Babic et al., forthcoming). On the other hand, the top 20 includes larger (Western) free-market economies. We see France, the UK, Germany and Norway present in the top 10. While these states may come as a surprise, previous research also exposed several of them as prominent transnational state investors (Babic et al., 2017; Babic et al., forthcoming). It seems therefore that exactly those countries behaving as important transnational investors are the ones owning offshore subsidiaries. This is most likely correlated in a way that those adapting to globalization through the exploration of

new extra-territorial interventionist methods are also the ones utilizing and experimenting with offshore strategies.

When looking at individual state owners, it is astonishing how China sticks out above the rest. It owns more than 40% of all offshore subsidiaries, which is about 6.5 times more than France and Russia, ranking second and third place respectively (Table 2). Such substantial differences do not occur between the other 19 countries. China is therefore by far the most extensive user of OJs, also because about 35% of its transnational subsidiaries are offshore. Its exorbitant share relates to several plausible factors. As just mentioned, it is a perfect example of a state capitalist and probably the figurehead of the third wave. It is well known for its transnational investments and forms one of the largest majority state owners of transnational companies throughout the world (Babic et al., forthcoming). Add to this that it is the second largest economy in the world, and it is no surprise that China claims this position. Nevertheless, its share still appears disproportionately large in comparison to other prominent transnational state owners such as France, Russia and the United Arab Emirates (Babic et al, forthcoming). This is mostly explained by the role of Hong Kong in relation to China. Hong Kong forms a crucial gateway to China through which it connects with global financial markets and other OJs and vice versa in the case of foreign investors (Lai, 2012). It functions both as an OJ and as an OFC. Its vital importance to China is reflected by the percentage of China's offshore subsidiaries that it hosts. Half of all Chinese offshore subsidiaries are based in Hong Kong (Table 2). These Chinese subsidiaries form 85% of all offshore subsidiaries situated there, and this while Hong Kong positions itself as the largest host of offshore subsidiaries (24.75%). Although the China - Hong Kong relationship skews the overall image of state-owned offshore subsidiaries, it does indicate its gravity. However, besides Hong Kong, China is extensively integrating with other OJs. Research by Haberly and Wójcik (2015) demonstrates how China is steadily building a sub-network within the global offshore network. In line with the findings of this paper, they point at the BVI fulfilling an important role as well. Preceding works mark the unusual investment patterns between China and these OJs (Sharman, 2012; Vlcek, 2013), yet these are further considered in the next section. Overall, the Chinese authorities seem to establish offshore subsidiaries in OJs that have already been identified as important to Chinese capital flows.

Another noteworthy finding is the UK being ranked fifth as an owner of offshore subsidiaries in the data. The UK is generally depicted in the literature as a home to the neoliberal doctrine, the opposite of a renowned state owner. But apparently, when it comes to offshore subsidiaries, it forms a prominent player. In fact, more than 30% of its transnational ownership relations are directed to OJs (Figure 2). A close look at the data tells that the subsidiaries relate almost explicitly to banking, asset management and various financial services. The UK is for a large part present in its neighbours, the Netherlands and Ireland (Table 2). While the exact reason behind these subsidiaries remains a

question, they do seem to exploit the niche strategies of both OJs. The Netherlands role as a European hub for holding companies is reflected in the data on British subsidiaries as the large majority consists of holdings (Weyzig, 2013). Meanwhile, Ireland is specialized in what Stewart (2005) calls global treasury operation. It facilitates mainly the management of international funds and flows of funds within TNCs. It seems that the UK also utilizes Ireland's specialty, as its Irish subsidiaries are mostly related to banks and asset management firms. Besides its neighbours, the UK is also present in many of its overseas dependencies such as the Cayman Islands, the British Virgin Islands, Guernsey and Jersey. While its close relations with these OJs and its role in the global offshore network are well known, the UK government as an investor and owner of capital also seems to be utilizing this position (Palan et al., 2010; Haberly & Wójcik, 2015). One entity in the data exemplifies this perfectly and accounts for an enormous share of the UK's offshore relations. Using practically all European OJs and the British overseas dependencies, the Bank of Scotland has established a massive offshore network through which it structures its global operations and manages its subsidiaries in other countries.

Besides being an important owner of offshore subsidiaries, the UK also forms their second largest host (17.72%). As can be seen in Table 2, it fulfils this role for a lot of states, yet it is arresting how this is particularly the case for the gulf states, except for Oman. These relations hint at earlier research on Islamic finance. In contrast to other global financial centres such as New York and Tokyo, London functions as an important node in Islamic financial networks (Bassens, Derudder, & Witlox, 2010). It is unusually well connected to other cities in the gulf states that function as hubs of Islamic finance. This happens through the two-way incorporation of Islamic and British financial firms but equally so through corporate board interlocks and elitist ties (Bassens et al., 2010; Bassens, Derudder, & Witlox, 2011). On top of financial services, evidence exists that such relations are equally present in respect to offshore capital flows. The UK's offshore financial network, that encompasses connections with its former colonial empire and the European OJs, extends additionally to the Persian Gulf (Haberly & Wójcik, 2015). The findings in Table 2 add that London's connections with the Islamic world seem to benefit the gulf states' authorities in that it allows them to proceed in offshore financial activities as well.

While each detail in Table 2 could be discussed and speculated on, there is one other element that deserves to be mentioned before moving on to the next section. Something that draws the attention is how Ireland and Denmark's ownership relations are primarily located in the UK. Although they present exceptionally high percentages, it reflects a general pattern of European countries that locate their offshore subsidiaries primarily in European OJs. As Table 2 shows, most investments are made in the European conduit-OJs (the UK, the Netherlands, Ireland, Belgium, Switzerland and Luxembourg). These jurisdictions have been filtered for normal FDI, but the chance remains that some

is still included. Nevertheless, it is reasonable that these countries structure their offshore capital flows through these jurisdictions. They share good relationships, are in geographical proximity and form crucial gateways to other OJs and the rest of the world. This makes it comparable to the relationship between China and Hong Kong. However, the next section provides further clarification and confirmation of the position of these OJs in the offshore constructs of the European state owners.

Table 2

Top 20 state owners of offshore subsidiaries, their percentage of the total and their most important OJs.

Rank	State owner		Top 3 jurisdictions		Rank	State owner		Top 3 jurisdictions	
1	China	40.9%	Hong Kong	50%	11	Kuwait	1.6%	United Kingdom	52%
			British Virgin Islands	19%				Luxembourg	19%
			United Kingdom	19%				Netherlands	11%
2	France	6.1%	United Kingdom	36%	12	Belgium	1.4%	Luxembourg	39%
			Netherlands	17%				Netherlands	18%
			Luxembourg	9%				United Kingdom	13%
3	Russia	6.0%	Cyprus	32%	13	Japan	1.3%	Hong Kong	39%
			Bermuda	15%				United Kingdom	22%
			Netherlands	11%				Singapore	22%
4	United Arab Emirates	5.0%	United Kingdom	33%	14	Ireland	1.2%	United Kingdom	95%
			Cayman Islands	20%				Cyprus	2%
			Luxembourg	14%				Luxembourg	2%
5	United Kingdom	4.7%	Ireland	19%	15	Saudi Arabia	1.1%	United Kingdom	34%
			Cayman Islands	17%				Netherlands	33%
			Netherlands	15%				Cayman Islands	12%
6	Malaysia	4.3%	Hong Kong	20%	16	Denmark	1.1%	United Kingdom	85%
			Singapore	18%				Netherlands	15%
			United Kingdom	12%					
7	Singapore	4.0%	Hong Kong	29%	17	Thailand	1.0%	Cayman Islands	52%
			United Kingdom	14%				Singapore	15%
			Mauritius	11%				Hong Kong	12%
8	Qatar	2.8%	United Kingdom	48%	18	India	1.0%	Cyprus	27%
			Cayman Islands	17%				United Kingdom	20%
			Netherlands	11%				Netherlands	16%
9	Germany	2.7%	United Kingdom	42%	19	Netherlands	0.9%	United Kingdom	34%
			Luxembourg	21%				Luxembourg	21%
			Ireland	9%				Ireland	13%
10	Norway	1.8%	United Kingdom	52%	20	Oman	0.8%	Luxembourg	38%
			Luxembourg	15%				Panama	26%
			Singapore	12%				Netherlands	19%

Intermediary and final subsidiaries

The previous section demonstrated the extent to which states use offshore subsidiaries, which jurisdictions they use and that it is a significant portion of their transnational ownership relations. However, it remains unclear which subsidiaries position themselves where in the larger offshore construct. Which entities function as intermediaries and which ones as final subsidiaries? With this knowledge it is possible to distil the general pathways that are followed by the offshore constructs developed by states.

Of all state-owned subsidiaries that are part of an offshore construct about 33% function as an intermediary and 67% as a final subsidiary. 57% of the 'final subsidiaries' can be found in OJs, while the other 43% is located in 'normal' countries. The final subsidiaries are more diverse when it comes to the economic sectors to which they are ascribed (Figure 3). While the sectors related to finance and business services are still large, they are evenly matched by sectors such as transportation and storage, wholesale and trade, and manufacturing. The difference with the group of offshore subsidiaries in the previous section is explained by the absence of intermediary investment vehicles and the broader inclusion of 'regular' firms that are owned through offshore constructs. There are no clear patterns recognizable in the sectoral preferences of state owners. The distribution of the economic sectors among countries seems to be evenly spread. When grouping the subsidiaries per destination, OJs are somewhat more inclined to hosting sectors related to finance and business services – which makes sense because of their purpose as repositories for financial claims – but are certainly not limited to them. The same applies the other way around. Most non-OJ destinations attract sectors like manufacturing, and wholesale and retail trade, but again, are not limited to them. The U.S., for example, hosts large segments in both financial and insurance activities and manufacturing. All in all, except for OJs, the strong representation of certain sectors seems to be country specific.

Table 3 largely displays a similar set of state owners compared to those in Table 2 with some minor changes in the percentages and ranks that each one of them holds. With the inclusion of final subsidiaries, China however, now nearly owns half of all subsidiaries in the dataset that are considered part of a state-owned offshore construct. The reason behind this increase becomes clear when its intermediary and final subsidiaries are being compared. While Hong Kong and the British Virgin Islands remain important hosts of both types of subsidiaries, it is astonishing to see how China has appeared with 44% as the dominant host of its own final subsidiaries. While some offshore constructs seem to be destined for Hong Kong and the British Virgin Islands, a major share of the offshore subsidiaries located in these jurisdictions seem to function as intermediaries in ownership relations back to China. This therefore indicates that the Chinese state is an extensive user of offshore constructs that travel

to OJs such as Hong Kong and the British Virgin Islands and of which a large share returns to the mainland. A practice earlier discussed as round tripping. Previous work already noticed deviant investment patterns between China, Hong Kong and various Caribbean OJs (Haberly & Wójcik, 2015). As noted by Sharman (2012), the British Virgin Islands forms a bigger source of FDI into China than the U.S., the European Union and Japan combined. The main explanation given for such anomalies is the role that the British Virgin Islands fulfils as a registration centre that facilitates the round tripping practices of Chinese investors in which also Hong Kong plays an important role. The data in this paper therefore suggests that the investment flows do not only represent private investors but to some extent the Chinese authorities as well. The explanation behind such practices could be manifold. As noted in the previous chapter, foreign investors benefit from several advantages. While this is speculation, it could be that local authorities aim at achieving similar benefits that are granted by higher levels of government. Another explanation for the round tripping pattern could be, as noted by Vlcek (2013), to create access to global capital markets. This argument also applies to Wójcik and Camilleri's (2015) case study of China Mobile. They demonstrated how the Chinese state owns a subsidiary in the British Virgin Islands that subsequently owns the majority of a subsidiary in Hong Kong that is also partially owned by public shareholders. The Hong Kong subsidiary subsequently owns a subsidiary back in the British Virgin Islands that owns all operating subsidiaries of China Mobile and a joint venture with Vodafone in the Cayman Islands (the stylised representation of this construct is included in Annex B). This corporate structure fits the dynamic displayed in Table 3 and could therefore form an example that is followed by many other Chinese SOEs.

The 44% of China's final subsidiaries that are located in the country itself should not cause the other 56% to be forgotten. Considering that China owns near half of all the subsidiaries in the selection, there is a considerable number of offshore constructs that lead to other places beyond the domestic economy. 15% of China's final subsidiaries ends up in 68 non-OJ countries. 41% ends up in OJs. Besides capital market access, reliable institutions or advanced financial instruments that are being offered to Chinese investors by OJs, Vlcek (2013) mentions another important motive that could potentially clarify the patterns in the data. It relates to the obscurity that is generated by offshore constructs and OJs. According to Vlcek (2013) an important driver for Chinese investors to go offshore is to conceal potential politically sensitive beneficial ownership of investments. Investments from China in other countries have been under fire over the past years. Particularly SOEs investing transnationally have caused many to raise concerns about issues of national security (Balbuena, 2016). This has for example resulted in more intensive screening of especially Chinese state-controlled or financed investments made in European Countries (Nienaber & Lawson, 2019). While this remains speculation, the secrecy and obscurity dimension could play an important role in circumventing similar obstacles.

Table 3*Top 20 state owners and their offshore constructs divided into intermediary subsidiaries and final subsidiaries*

Rank	State owner	Percentage	Intermediary Subsidiaries			Final Subsidiaries		
			Percentage	Top 3 jurisdictions		Percentage	Top 3 jurisdictions	
1	China	48.61%	24%	Hong Kong British Virgin Islands United Kingdom	53% 18% 7%	76%	China Hong Kong British Virgin Islands	44% 18% 6%
2	Singapore	5.98%	18%	Hong Kong Mauritius United Kingdom	35% 13% 10%	82%	China India Hong Kong Singapore	50% 10% 8% 2%
3	France	5.74%	26%	United Kingdom Netherlands Belgium	39% 17% 15%	74%	United Kingdom Netherlands Belgium France	33% 20% 13% 3%
4	Russia	4.96%	31%	Cyprus Netherlands Luxembourg	38% 17% 10%	69%	Russia Cyprus Bermuda	22% 16% 14%
5	United Arab Emirates	4.12%	34%	United Kingdom Netherlands Luxembourg	47% 15% 15%	66%	United Kingdom Cayman Islands Netherlands United Arab Emirates	20% 16% 11% 1%
6	United Kingdom	3.64%	24%	Netherlands Ireland Cayman Islands	30% 19% 10%	76%	Cayman Islands Ireland United Kingdom	13% 13% 7%
7	Malaysia	2.84%	19%	Singapore United Kingdom Hong Kong	34% 19% 15%	81%	Hong Kong Singapore Mauritius Malaysia	18% 14% 11% 2%
8	Germany	2.71%	21%	United Kingdom Luxembourg Netherlands	51% 18% 12%	79%	United Kingdom Luxembourg Ireland Germany	57% 11% 5% 3%
9	Qatar	2.22%	41%	United Kingdom Netherlands Luxembourg	65% 11% 7%	59%	United Kingdom Cayman Islands Italy	26% 17% 11%
10	Saudi Arabia	1.70%	12%	Netherlands United Kingdom Hong Kong	56% 17% 11%	88%	United Kingdom Netherlands United States Saudi Arabia	17% 14% 13% 1%
11	Kuwait	1.67%	26%	United Kingdom Luxembourg Cayman Islands / Netherlands	42% 21% 8%	74%	United Kingdom United States France	37% 15% 14%
12	Norway	1.58%	24%	United Kingdom Luxembourg Belgium / Singapore	47% 21% 12%	76%	United Kingdom Luxembourg / Singapore Germany	64% 7% 5%
13	Belgium	1.04%	17%	Luxembourg Netherlands United Kingdom	44% 25% 13%	83%	Luxembourg Netherlands United Kingdom Belgium	28% 26% 11% 7%
14	Japan	1.03%	13%	United Kingdom Singapore / British Virgin Islands Bermuda / Hong Kong / Netherlands	42% 17% 8%	87%	Hong Kong United Kingdom Singapore	32% 24% 22%
15	Oman	0.87%	21%	Luxembourg Netherlands	63% 37%	79%	Germany Panama Luxembourg	33% 18% 10%
16	Thailand	0.87%	34%	Cayman Islands Hong Kong / Netherlands Singapore	38% 19% 15%	66%	Cayman Islands Indonesia Singapore Thailand	33% 20% 10% 6%
17	Ireland	0.86%	38%	United Kingdom	100%	62%	United Kingdom Cyprus / Luxembourg /	94% 2%

18	India	0.73%	22%	Cyprus Netherlands Singapore	57% 29% 14%	78%	Netherlands Russia United Kingdom Mauritius India	27% 20% 14% 4%
19	Denmark	0.69%	25%	United Kingdom Netherlands	80% 20%	75%	United Kingdom Netherlands	85% 15%
20	Finland	0.67%	15%	Netherlands Belgium / Cyprus / United Kingdom / Luxembourg	56% 11%	85%	Netherlands United Kingdom Luxembourg Finland	36% 10% 8% 2%

Note. Countries in bold indicate round-tripping

With China covering half of the sample it logically draws most of the attention. However, the dynamics between the intermediary and final subsidiaries in Table 3 bring up many other noteworthy patterns. Some of them can be coupled to earlier academic works. In other cases, the function of a particular OJ is clearly articulated. The offshore constructs of Russia are such a particular case. One element that immediately draws the attention is that, similarly to China, the Russian authorities seem to be extensively engaging in round tripping as well. 22% of its final subsidiaries are located in its domestic economy. Russian round tripping is also part of discussion in the literature. Many Russian offshore capital flows are considered to be illicit, generated by corruption and reinvested in a legalized form back into the country (Ledyeva et al., 2015). Cyprus' importance as a host to Russian intermediary subsidiaries is therefore not a coincidence. Cyprus is known as a market entry conduit to Europe for the developing world but also as a registration centre that forms the foundation of Russia's round tripping practices (Palan et al., 2010; Ledyeva et al., 2015). The Netherlands' second place as a conduit to Russian offshore constructs also corresponds to the literature (Aykut, Sanghi, & Kosmidou, 2017). The significance of Luxembourg and Bermuda in the strategies of Russian SOEs cannot be denied, but so far there seems to be no connection with earlier works.

The way Russia uses particular OJs as conduits to other destinations is something that is more widely present in Table 3. A good example is Singapore. Singapore is the only large investor in China besides the Chinese state itself. In fact, 50% of Singapore's final subsidiaries are located in the country. The data demonstrates that the final subsidiaries consist mostly of firms related to logistics. This resonates with Singapore's importance as an Asian infrastructural hub in relation to the Chinese economy (Enterprise Singapore, 2018). When we consider that Hong Kong is the main host of Singapore's intermediaries, the connection is easily made. Singaporean authorities seem to use Hong Kong's role as an OFC and main port to China to structure their investments that penetrate the mainland. Similarly, it seems to make use of Mauritius role as a market access conduit to India to repeat the same trick (Aykut et al., 2017; Palan et al., 2010). Another good example is Kuwait whose subsidiaries are primarily located in the UK, Luxembourg and the Netherlands/Cayman Islands. In

comparison, most of its constructs end in the UK, U.S. and France. It is therefore very plausible that OJs such as the UK, Luxembourg and the Netherlands function as conduits for the investments in the U.S. and France, which share good relations with these countries. Moreover, Table 3 seems to suggest that India uses Russia's offshore connections with the Netherlands and Cyprus to invest in the country itself. Lastly, Oman structures all its offshore constructs through the Netherlands and Luxembourg. This again demonstrates how the Netherlands forms a crucial gateway to many different areas of the world and particularly to other European countries. A significant number of Oman's Dutch intermediaries are most likely holding companies that own other firms in Germany. The Netherlands' role as a market access conduit stands out throughout Table 3. As a host of intermediary subsidiaries, it stands in the top 3 of 15 countries in the top 20. Its role is especially significant in the case of the UK, Germany, Qatar, Saudi Arabia, Kuwait, Japan, Oman, Thailand and India, where the Dutch OJ only marginally functions as a host of final subsidiaries.

Many of the European states, including Germany, Belgium, Denmark, Finland, Ireland, France, and Norway, show only marginal differences between the OJs that host their intermediary subsidiaries and the locations of their final subsidiaries. Moreover, these hosts generally seem to be the European OJs. In the case of France, for example, the UK, the Netherlands and Belgium feature as primary hosts of both its intermediary and final subsidiaries. Ireland and Denmark are extreme cases in which the UK almost entirely hosts both subsidiary types. Close examination of the data on these cases nevertheless confirms that the final subsidiaries represent mostly financial companies, financial branches of firms, trusts, holdings and funds. The entities generally belong to large SOEs that are oriented on Europe such as Arriva and Electricité de France (EDF). Another common type of entity in the data seems to be public investment funds. The idea that most of the offshore constructs of these states represent complex tax avoidance schemes should be aborted. The data discloses that these European funds and SOEs are merely structuring their activities and financial branches in countries such as the Netherlands and the UK. This is not to transfer their capital to some faraway place, but most likely to benefit from their position in global financial markets and their regulatory facilities. Although in a less exiting manner, these countries structure their operations through OJs as well.

The previous two sections have provided crucial first insights into the extent with which states use offshore constructs from their position as investors and owners of capital. However, in order to fully grasp the extensiveness with which they engage in such practices and to summarise this section, Figure 4 provides a visualisation of all the offshore constructs owned by states. Hence, it represents the global network of state-owned offshore constructs. It brings several crucial nodes that have been discussed in the findings clearly to the front. The significant size of the China - Hong Kong relation is clear and

the strong relations with the Caribbean OJs cannot be missed. The European OJs find themselves amidst of a jungle of small relations that extent to all parts of the globe. The image shows that the majority of countries throughout the world are in some way part of states' offshore financial constructs and that it is an aspect of the global economy that is worth studying more extensively in the future.

5. Conclusion

Wójcik and Camilleri's (2015) case study that demonstrated the development of China Mobil's offshore construct proved to be only the tip of the iceberg. States that operate as economic agents that control and invest capital seem to be engaged in offshore constructs on a global scale. A significant amount of corporate ownership structures has been found travelling to OJs and in many cases passing through to other countries or back to the investing state. The Chinese state absolutely dominates as the most extensive user of offshore constructs, but other regimes associated with a state-capitalistic economic model are represented in the data as well. Additionally, various Western states also seem to take into account through which jurisdiction they can structure their operations in order to gain certain financial benefits and to circumvent constraints. Overall, many patterns in the data overlapped with the channels and pathways of offshore capital flows described in the literature. This suggests that the state makes use of the tried and tested routes in the offshore world to structure its offshore constructs.

Although the findings are exciting and demonstrate the existence and scale of a phenomenon that hitherto was practically unknown to the academic literature, they should be put in perspective. The reader must be reminded that the vast majority of the offshore constructs found in this paper belonged to only a small group of 20 states. While this may expand in the future, for now it remains a rather limited group that engages in offshore strategies on a notable scale. Furthermore, the majority of state ownership remains bound to the domestic economy. It is only a small portion that is involved in transnational operations. To this should be added that this research only focussed on majority ownership relations. Minority ownership equally forms an important part of contemporary state investments in the global economy (Babic et al., forthcoming; Cuervo-Cazurra et al., 2014). Hence, the offshore constructs identified in this paper represent only a minor component of the total state-owned corporate structures and strategies in the world. At the same time, there is a great possibility that the approach of this paper misses out on a large number of offshore constructs. The relations investigated represent mostly public ownership and direct ownership ties. A broad collection of other relations, complex structures and connections obscured by the offshore domain may very well be overlooked.

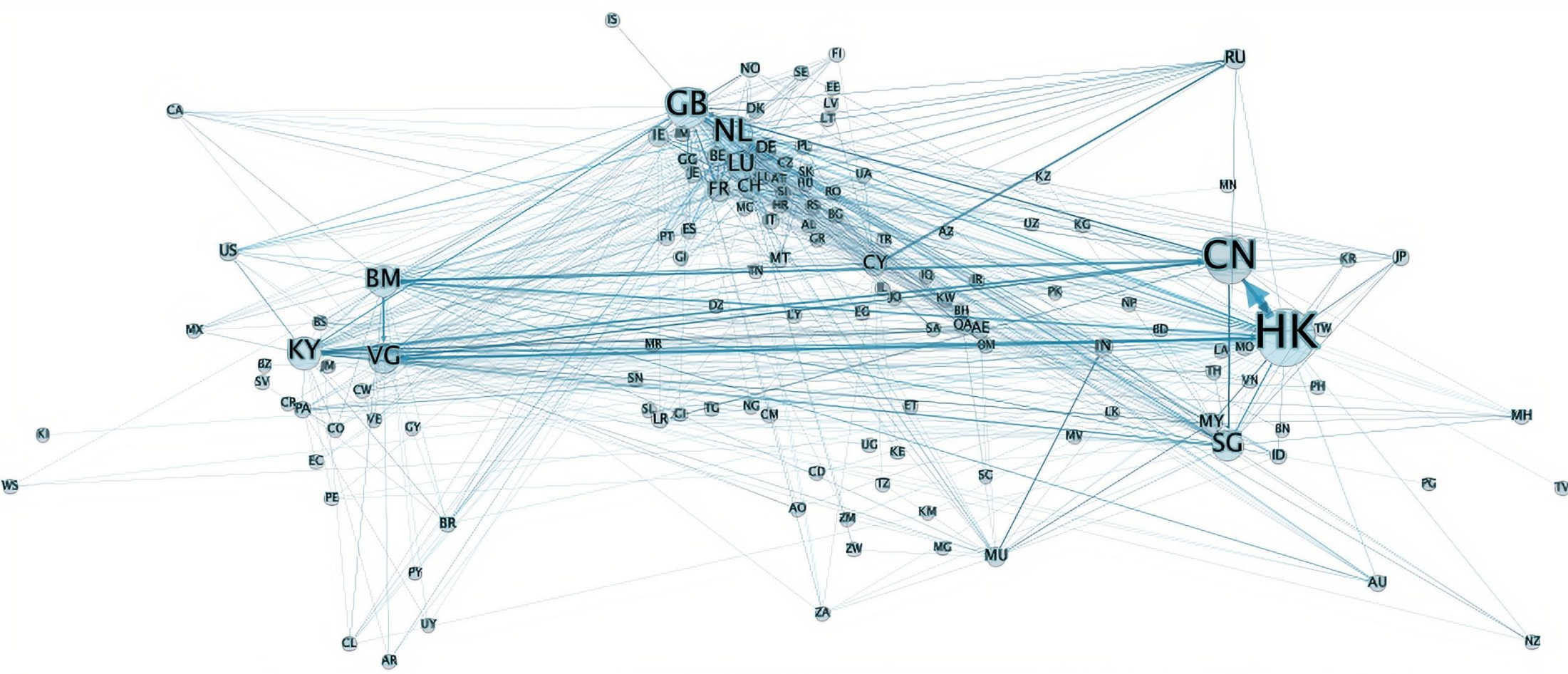


Figure 4. The global network of state-owned offshore constructs. The labels are states and offshore jurisdictions and the ties represent ownership relations. The size of the labels represents the number of ownership ties that flow to and from a state. The edge thickness represents the number of ownership relations that are directed from one country to another. I used a Mercator projection and Gephi's GeoLayout to order the labels according to their geographical location. China and Hong Kong's ownership relations with other countries and with each other have been decreased to create a more balanced image.

In the end, a major purpose of the offshore world is to obscure capital flows. The actual phenomenon may therefore be, and probably is, much larger than presented in this paper.

However, claims about the size of states' offshore activities based on the constructs identified by this research must be made with great care. The findings presented in this paper provide an image of the infrastructure through which capital could flow but do not give any indication of the actual capital that flows through or is stored in certain locations. While ownership relations can be attached to economic value (Babic et al., forthcoming), the obscurity provided by the offshore world severely limits the information available. This is of course the problem with all approaches that aim at quantifying the capital that flows through the offshore realms. For the most part they remain estimations (Palan et al., 2010). Additionally, caution is advised when it comes to making claims about the precise purposes of the constructs developed by states. While the approach made it possible to investigate the phenomenon on a global scale and to include all states in the analysis, it diminishes the possibility of making claims about the exact intentions behind the constructs. The underlying motives could be diverse and especially those of states are so far unknown. Only the case study of Wójcik and Camilleri (2015) has provided some insights about how a state uses a construct to enhance its access to global capital markets.

But despite these remarks, the results of this paper have significant implications for the literature on the offshore world. The state's position in the offshore world has so far been perceived as being limited to its first and second role in capitalist economies as described by van Apeldoorn et al. (2012). The free movement of capital has put states in a situation of economic competition and in the absence of international cooperation their strategy is limited to lowering the regulatory and fiscal constraints on capital. The findings of this paper suggest, however, that this is not the only strategy possible. Instead of facilitating offshore constructs the state can also use them to improve the results of its own cross-border operations. This brings a whole new dimension to how states practice their sovereignty in relation to the offshore world and to each other. Additionally, this paper challenges the current knowledge on the transnational operations of the state as an economic agent. Great advancements are being made in our knowledge about the extent to which states invest beyond their borders (Babic et al., forthcoming). Moreover, we slowly begin to grasp how states adapt to globalization and start to understand the strategies that states employ in globalized circuits of production (Mayer & Philips, 2017). However, it is necessary that we broaden our perspective and extend it beyond the domain of production. The state's imitation of transnational forces of capital now

also includes financial strategies. Great opportunities exist for approaches such as *Global Wealth Chains* (GWCs) to further elaborate on this state behaviour (Seabrooke & Wigan, 2017).

The possibilities for future research are manifold, but for now it seems logical to expand on the findings and patterns discovered in this investigation. Analyses on a smaller scale could further clarify the dynamics that underly the findings of this paper. A lot of empirical exploration is required before any sensible theoretical advancements can be made. States using offshore constructs is an undocumented development in the global economy. I therefore hope that I will draw enough attention with this paper in order to stimulate others to investigate. I think I will. We have seen a village go offshore, but when we thought it could not get any crazier, we are seeing states do the same!

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Appendix

Data cleaning and selection procedure

The initial dataset has been retrieved by Babic et al. (forthcoming) from the Bureau van Dijk's Orbis database (<https://orbis.bvdinfo.com>) in December 2017. The dataset contains a total of 1,080,764 relationships between corporate subsidiaries and states as global ultimate owners (GUOs).

Before making the subsets used for the different parts of the analysis, I perform several data cleaning steps to remove any unwanted entries. These are the following.

- I deleted the country code 'ZZ' from the sample, since it does not indicate a country, but trans-or international institutions (one entry was deleted).
- I dropped all rows with 'II' as country or GUO. 'II' indicates that the subsidiary country or GUO is supranational and thus not a state, which is of no interest to this research (1,080,764 → 1,079,914)
- I dropped the International Bank for Reconstruction and Development as a subsidiary because it is supranational (but for Orbis located in the US) (1,079,914 → 1,079,725)
- I dropped any entries where information about the GUO was missing, because it would not be possible to link them to any state-owner. This includes entries with the country code 'YY', which indicates that the GUO is unknown. (1,079,725 → 1,059,177).
- I also dropped those rows in the dataframe that missed information about the country in which a subsidiary is located. The rows with the country code 'YY' were also removed as it indicates that the location is unknown (1,059,177 → 1,056,501)
- I dropped all rows with inactive firms as reported by Orbis, as these would not represent offshore subsidiaries that are actually used by states (1,056,501 → 666,591)
- I created a variable with the definitive ownership stake used for the analysis. Orbis reports both direct and indirect ('total') ownership stakes. Since the two numbers are sometimes obtained from different sources, part of the ownership can be unaccounted for one or the

other source. To correct for this, I kept the largest of both numbers.

- I deleted all entries of which the ownership stake is missing or below 50,01%. This represents the threshold that guarantees the responsibility of state-owner for the location and operations of a subsidiary (666,591 → 298,626)

All these steps resulted in a sample of 298,626 subsidiaries. For the first step in the analysis, the mapping of offshore subsidiaries, I used the following filters on the cleaned sample:

- I filtered all entries based on which a subsidiary was located. Only those subsidiaries located in OJs were included in the sample. The identification of countries as an OJ was based on the list generated by Garcia-Bernardo et al. (2017) (see also Annex A). Both 'Sinks' and 'Conduits' were included (298,626 → 11,756)
- I filtered for transnational ownership relations by deleting all entries where the location of the firm is identical with the location of the owning entity. Since the government of an OJ can also be a GUO, I delete all the national ownership relations to prevent the inclusion of regular homebased state ownership relations (11,756 → 7,271).
- For the subsidiaries located in the United Kingdom, the Netherlands, Switzerland, Belgium, Ireland and Singapore, I only included those that belong to an economic sector that I deem to be related to offshore activities. These are the subsidiaries with the following NACE codes: K (financial and insurance activities), M (professional, scientific and technical activities) and N (administrative and support service activities). This measure helps reduce the chance of including states' normal direct investments into OJs with large economies (7,271 → 5,810).
- I removed subsidiaries that are described as being marine vessels, as I do not consider these to be part of an offshore construct for the transfer of financial assets (5,107).

The second step of the analysis builds further on the sample of the first step to determine the intermediary and final subsidiaries:

- All offshore subsidiaries identified in the first step were checked for subsequent ownership relations with subsidiaries in the cleaned sample. This gives insight in the ownership relations of a state that travel to an OJ and subsequently stop there or move on to wherever.

- The final subsidiaries consist of two groups of ownership relations. The first group consists of those ownership relations that immediately end after having entered an OJ. The second group is distilled from the subsidiaries with subsequent ownership relations. The ownership relations are being tracked until the ownership relations stop or enter a non-OJ jurisdiction. Those subsidiaries at the end of these ownership chains are also considered final subsidiaries. This results in 6670 final subsidiaries.
- The intermediary subsidiaries are subsequently distilled from the offshore subsidiary sample of step 1. The offshore subsidiaries in this sample that are not included as a final subsidiary are considered as intermediary subsidiaries. This results in 2,193 intermediary subsidiaries.

Annex

A – List of offshore jurisdictions

Table S5. Comparison of different rankings of countries. 'Dest.' corresponds to the value flowing into the jurisdiction. $NN S_c$ corresponds to the non-normalized sink centrality. IMF2000 categories; 1: Non-cooperative 2: Below international standards 3: Generally cooperative. *The centrality of Belgium is based on an incorrect classification of one company by the data provider (see Supplementary Information)

	This study	Indicators		<i>Oxfam</i> ₁₆	<i>FSI</i> ₁₅	<i>EU</i> ₁₅	<i>IMF</i> ₀₀	<i>IMF</i> ₀₈	Fichtner
	sink-OFC	Dest.	$NN S_c$						
Luxembourg	1	$3.2 \cdot 10^{12}$	$8.1 \cdot 10^{11}$	7	6		3	x	5
Hong Kong	2	$1.9 \cdot 10^{12}$	$7.4 \cdot 10^{11}$	9	2		3	x	14
British Virgin Isl.	3	$1.3 \cdot 10^{12}$	$9.4 \cdot 10^{11}$	15	21	x	1	x	1
Bermuda	4	$1.1 \cdot 10^{12}$	$4.1 \cdot 10^{11}$	1	34	x	2	x	3
Cyprus	5	$8.9 \cdot 10^{11}$	$2.8 \cdot 10^{11}$	10	35		1	x	7
Cayman Islands	6	$7.3 \cdot 10^{11}$	$1.5 \cdot 10^{11}$	2	5	x	1	x	2
Jersey	7	$5.5 \cdot 10^{11}$	$4.6 \cdot 10^{11}$	12	16		3	x	11
Taiwan	8	$3.8 \cdot 10^{11}$	$2.3 \cdot 10^{11}$						
Malta	9	$1.7 \cdot 10^{11}$	$1.7 \cdot 10^{11}$		27		2	x	
Mauritius	10	$1.6 \cdot 10^{11}$	$1.6 \cdot 10^{11}$	14	23		1		8
Liechtenstein	11	$1.6 \cdot 10^{11}$	$1.4 \cdot 10^{11}$		36		1	x	
Curaçao	12	$1.5 \cdot 10^{11}$	$6.5 \cdot 10^{10}$	8	70		1	x	6
Bahamas	13	$9.2 \cdot 10^{10}$	$6.5 \cdot 10^{10}$	11	25	x	1	x	9
Samoa	14	$5.7 \cdot 10^{10}$	$3.7 \cdot 10^{10}$		51		1	x	4
Gibraltar	15	$4.9 \cdot 10^{10}$	$1.3 \cdot 10^{10}$		55		2	x	12
Marshall Islands	16	$2.3 \cdot 10^{10}$	$3.7 \cdot 10^9$		14		1	x	
Monaco	17	$1.5 \cdot 10^{10}$	$1.3 \cdot 10^{10}$		76	x	2	x	
Liberia	18	$1.4 \cdot 10^{10}$	$6.2 \cdot 10^9$		33		x		
Seychelles	19	$1.2 \cdot 10^{10}$	$1.2 \cdot 10^{10}$		72		1	x	
Belize	20	$1.2 \cdot 10^{10}$	$1.1 \cdot 10^{10}$		60	x	1	x	
Guyana	21	$8.1 \cdot 10^9$	$8.1 \cdot 10^9$						
St Vincent & Gren.	22	$2.2 \cdot 10^9$	$2.0 \cdot 10^9$		64	x	1	x	
Nauru	23	$1.6 \cdot 10^9$	$1.6 \cdot 10^9$				1	x	
Anguilla	24	$1.0 \cdot 10^9$	$9.3 \cdot 10^8$		63	x	1	x	
	conduit-OFC	Non normalized C_c							
Netherlands	1	$5.3 \cdot 10^{11}$		3	41				15
United Kingdom	2	$2.2 \cdot 10^{11}$			15		x		21
Switzerland	3	$7.9 \cdot 10^{10}$		4	1		3	x	17
Ireland	4	$4.6 \cdot 10^{10}$		6	37		3	x	16
Singapore	5	$4.0 \cdot 10^{10}$		5	4		3	x	20
Belgium*	Small	$2.6 \cdot 10^{11}$			38				19
Panama	Small	$1.6 \cdot 10^9$			13	x	1	x	
Guernsey	Small	$9.6 \cdot 10^8$			17	x	3	x	10
	non-OFCs								
Barbados				13	22	x	2	x	13
Antigua & Barbuda					65	x	1	x	
Grenada					82	x	x	x	
Montserrat					92	x	x	x	
St. Kitts and Nevis					69	x	1	x	
Turks & Caicos Isl.					68	x	1	x	
US Virgin Islands					50	x			

Table is retrieved from:

Garcia-Bernardo, J., Fichtner, J., Takes, F. W., & Heemskerk, E. M. (2017). Uncovering offshore financial centers: Conduits and sinks in the global corporate ownership network. *Scientific Reports*, 7(1), 6246. Retrieved from <https://www.nature.com/articles/s41598-017-06322-9>

B – China Mobile’s offshore construct

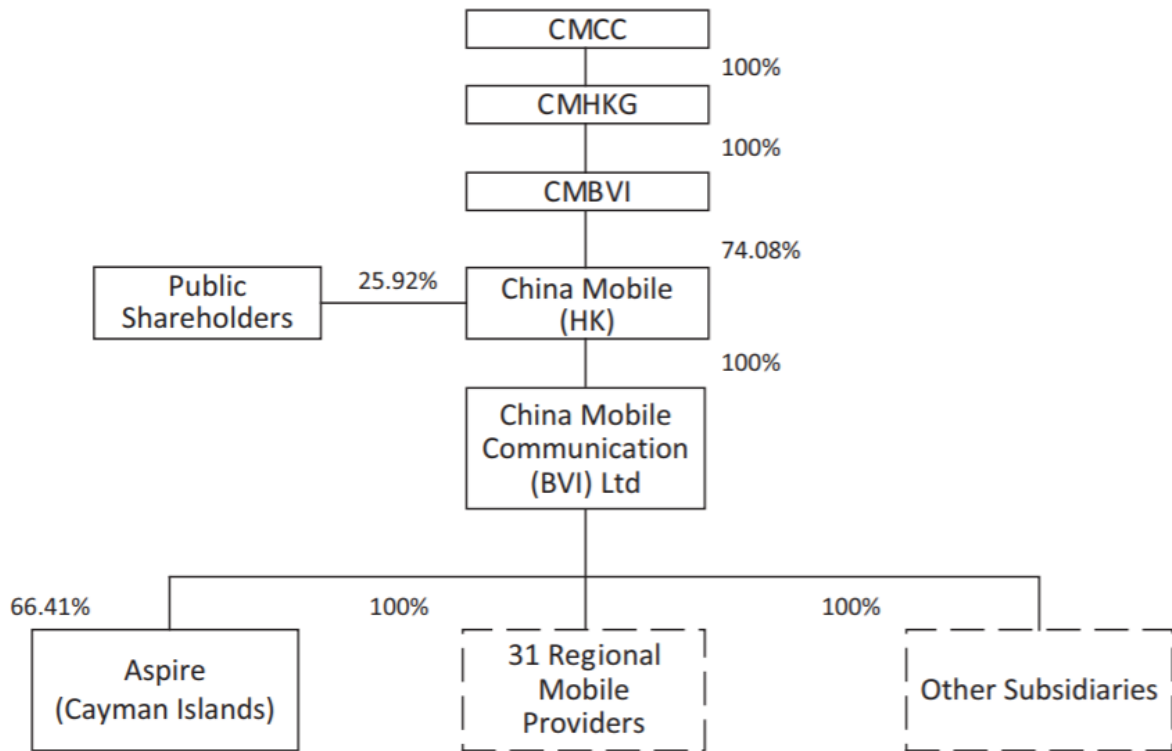


Figure 2 The corporate structure of China Mobile

Figure is retrieved from:

Wójcik, D., & Camilleri, J. (2015). 'Capitalist tools in socialist hands'? China Mobile in global financial networks. *Transactions of the Institute of British Geographers*, 40(4), 464–478. <https://doi.org/10.1111/tran.12089>