Defining Off Shoring: An Economic Perspective

The Adam Smith Society

June, 28, 2004

International financial markets

- 1) Financial globalization
- 2) Blurring effect
- 1) + 2) do no affect the asymmetric information feature of banking and financial markets

Regulation and Supervision

- National Regulation and Supervision
- Incomplete Harmonization

Consequences:

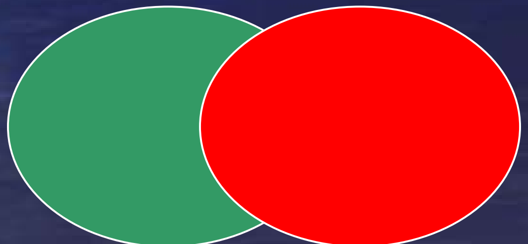
- Economic (legal and illegal) agents: regulation arbitrage
- Policy makers: competition in regulation and information

Consequences: Legal and illegal agents

- Legal agents: portfolio choices and fiscal rules arbitrage
- Illegal agents (criminal and terrorist organizations) banking secrecy arbitrage
- Black money= Money laundering and terrorism finance

Money Laundering and Terrorism Finance

- Money laundering = given illegal income, the agent (criminal) have to minimize the probability of sanction, using formal and informal fin. markets
- Terrorism finance= given an income, the agent (terrorist) in order to do an illegal act have to minimize the probability of sanction, using formal and informal fin. markets
- Two different but overlapping concepts :

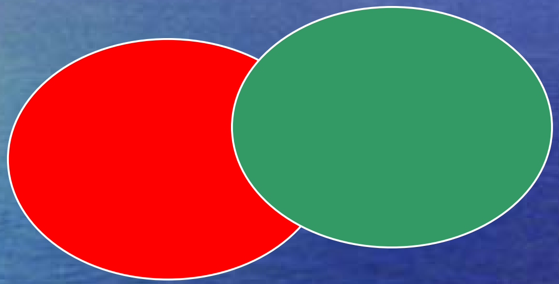


Consequences: Policy makers

- Policy makers: Competition in regulation
- OFCs = regulation design to create advantage in order to max foreign capital flows
- Fiscal advantage
- Banking Secrecy advantage
- Policy makers instruments: regulation and information

Offshore and Onshore

- Offshore centres: Fiscal OFCs, Banking OFCs
- Two different but overlapping concepts :



- Harmful tax competition and financial laxity: national benefits and international externalities
- Onshore countries: the need of cooperation
- Offshore countries: non cooperative attitude

The overall picture: The non cooperative attitude dilemma

- Legal agents:
- Fiscal arbitrage
- Illegal agents:
- Banking secrecy

arbitrage

Formal Financial Markets

Informal Financial Markets

- Fiscal OFCs
- Banking

OFCs

Onshore

Countries

Non cooperative attitude against Black Money: political economy cost benefit analysis

- Hp: Country A (high crime/terrorism, low “banking” GNP)
- Country B (low crime/terrorism, high “banking” GNP)
- Global international financial markets
- National regulation and supervision: policy makers choices

- I Stage: Country A stringency, Country B laxity
- Regulation arbitrage
- Country A= low integrity, low efficiency; Country B= more banking GNP
- II Stage: Regulation competition Country A trade off

Non cooperative attitude: name and shamed approach

- Carrots and sticks approach: benefits and costs from international reputation
- International stigma: black lists.
- Lax regulations = non cooperative attitude
- FATF: from 2000 to 2004, 9 blacklists
- Questions: regulation reform= attitude change?
- black list = stigma?

Non cooperative attitudes: FAFT black lists

Antigua Malta
Barbuda Mauritius
Belize Monaco
Bermuda Poland
British V.I. Samoa
Cyprus Seychelles
Czech Rep. Slovak Rep
Gilbratair St.Lucia
Guernsey Turk & C.
I Man Uruguay
Jersey Vanuatu

Bahamas Russia
Cayman I. St. Kitt &N
Egypt St. Vincent
Grenada Ukraine
Hungary
Israel
Lebanon
Liechtestein
Marshall I.
Niue
Panama

Cook Islands
Guatemala
Indonesia
Myanamar
Nauru
Nigeria
Phillippines

Non cooperative attitude: econometrics

- Ex. Benefits: Hp
- 1) Low GNP country
- 2) High Banking GNP country
- 3) Endowments : language, geography, law, ICT

- Ex. Costs
- 4) Low crime/terrorism

Results: 1,2,4 matter

G8s Role: Improving Cooperation

- 1) Improving and updating international standards
- 2) Imposing Financial Quarantine: test for OFCs as well as ONCs