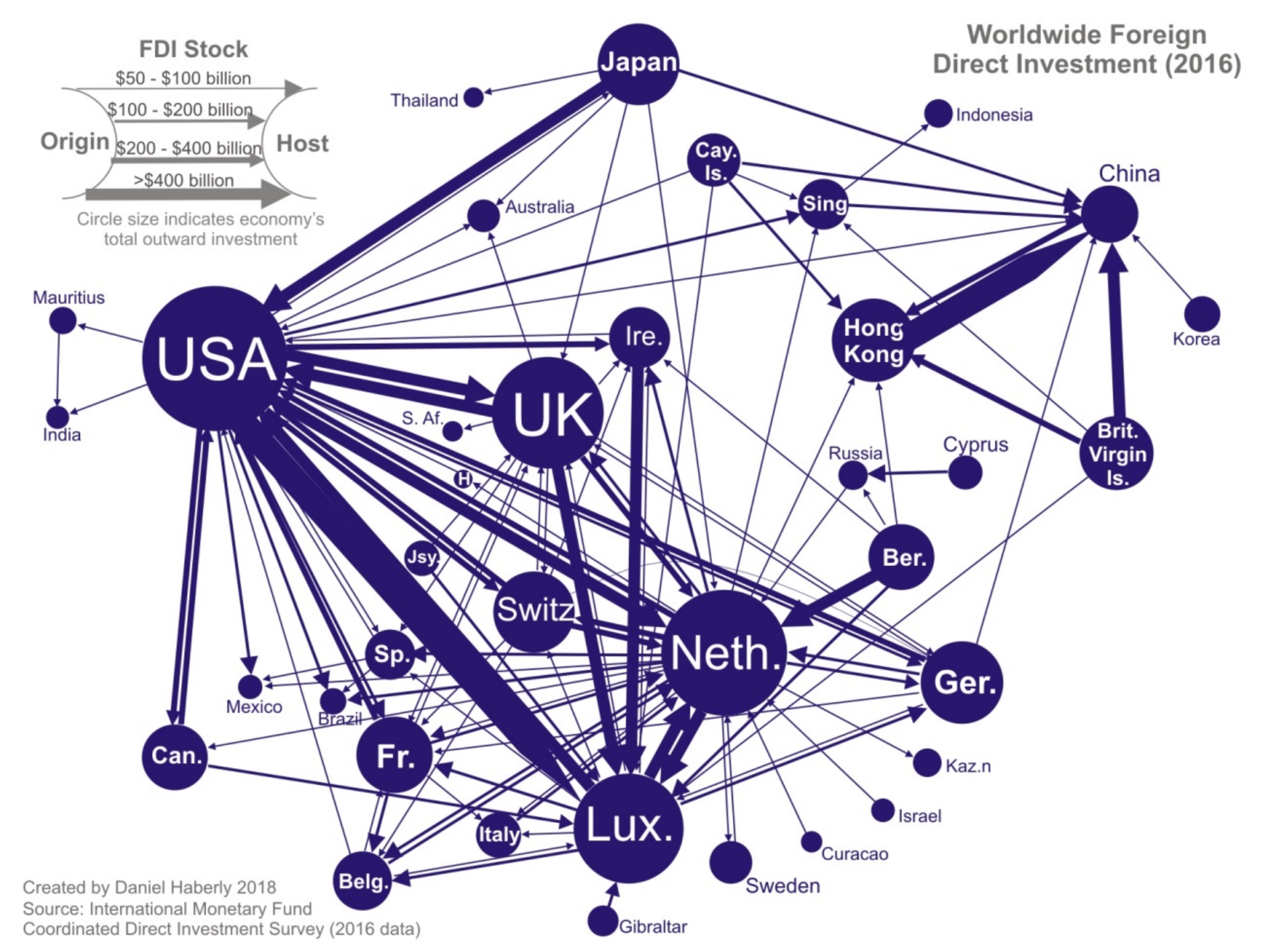
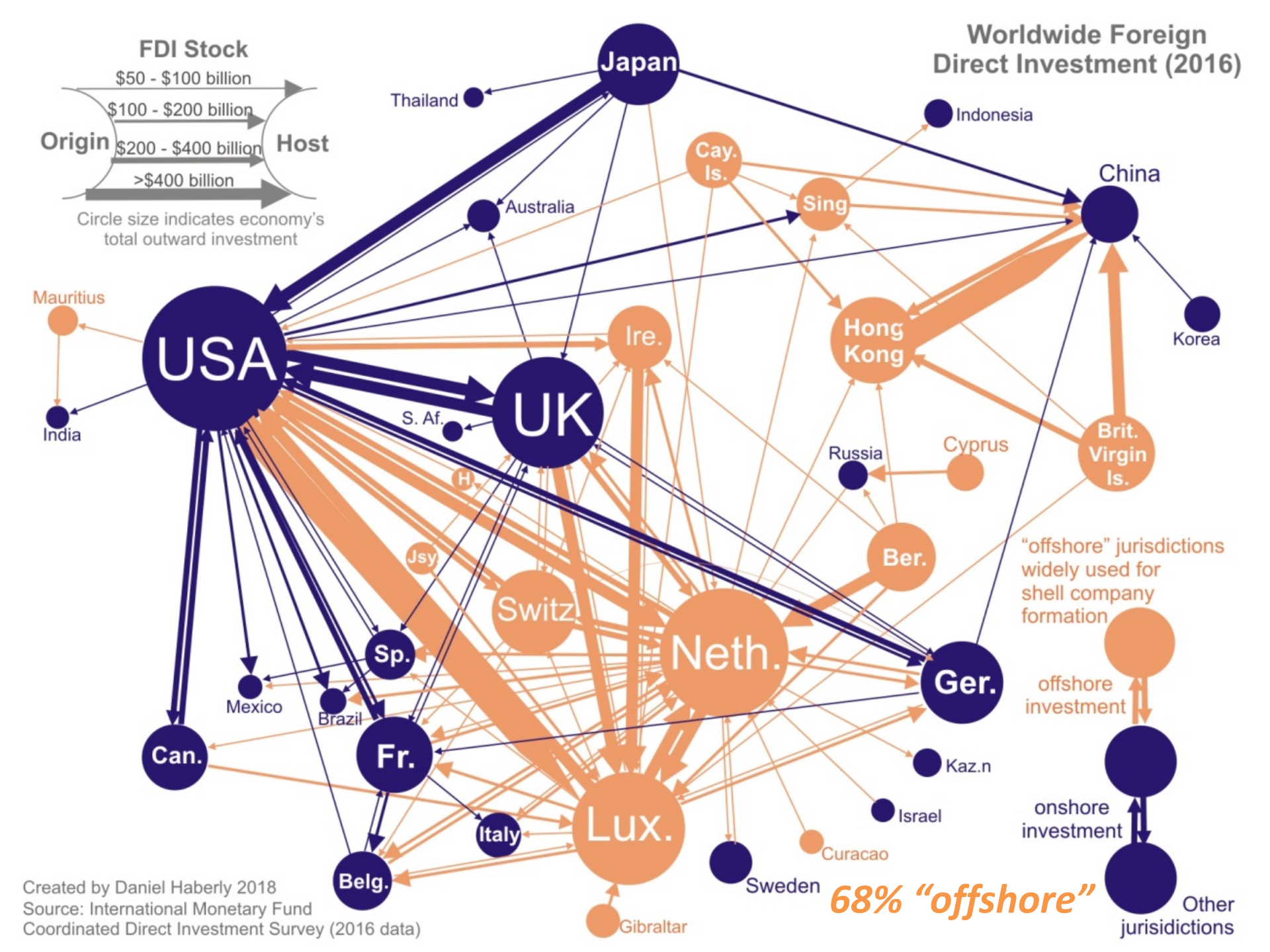
Methods of empirical analysis of tax havens and offshore FDI

Daniel Haberly,
University of Sussex


Worldwide Foreign Direct Investment (2016)
FDI Stock
$50 - $100 billion
$100 - $200 billion
$200 - $400 billion
>$400 billion
Origin
Host
Circle size indicates economy's total outward investment
Japan
Thailand
Indonesia
Cay. Is.
China
Sing
Australia
Mauritius
USA
Ire.
Hong Kong
Korea
India
UK
S. Af.
Brit. Virgin Is.
Russia
Cyprus
H
Jsy.
Ber.
Switz.
Neth.
Sp.
Ger.
Mexico
Brazil
Can.
Fr.
Kaz.n
Israel
Italy
Lux.
Curacao
Belg.
Sweden
Gibraltar
Created by Daniel Haberly 2018
Source: International Monetary Fund
Coordinated Direct Investment Survey (2016 data)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"offshore" jurisdictions widely used for shell company formation
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Other jurisidictions
68% "offshore"
Created by Daniel Haberly 2018
Source: International Monetary Fund Coordinated Direct Investment Survey (2016 data)

Key Questions:

Who does offshore FDI belong to, what is it doing where and why?

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Agenda:

- Construction of new FDI dataset through integration of macro & micro-level sources
- Analysis of determinants of offshore FDI (preliminary with new data, & older with existing data)
- Concluding thoughts

The Atlas of Offshore FDI

Collaboration between University of Sussex School of Global Studies (PI Daniel Haberly and Research Assistant Di Song), International Centre for Tax and Development (co-I Mick Moore) Tax Justice Network (external impact partner Alex Cobham), and Jonathan Gray (KCL/Public Data Lab), Chris Anderson (University of Leeds), and Michele Mauri and Angeles Briones (DensityDesign) (interactive visualization collaboration)

The Atlas of Offshore FDI

Two key components:

1) Construct the first database of 3D/trilateral (home-conduit-host) and 4D FDI ("real" home-nominal home-conduit-host) in major economies

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   - Integrate multiple macro and micro-level datasets to estimate who bilateral aggregate offshore FDI positions actually belong to / where they actually originate (including where data is relatively poor)
   - Quantify the residual uncertainty

The Atlas of Offshore FDI

Two key components:

1) Construct the first database of 3D/trilateral (home-conduit-host) and 4D FDI ("real" home-nominal home-conduit-host) in major economies
2) Construct a user-friendly online interactive mapping tool ("Atlas")

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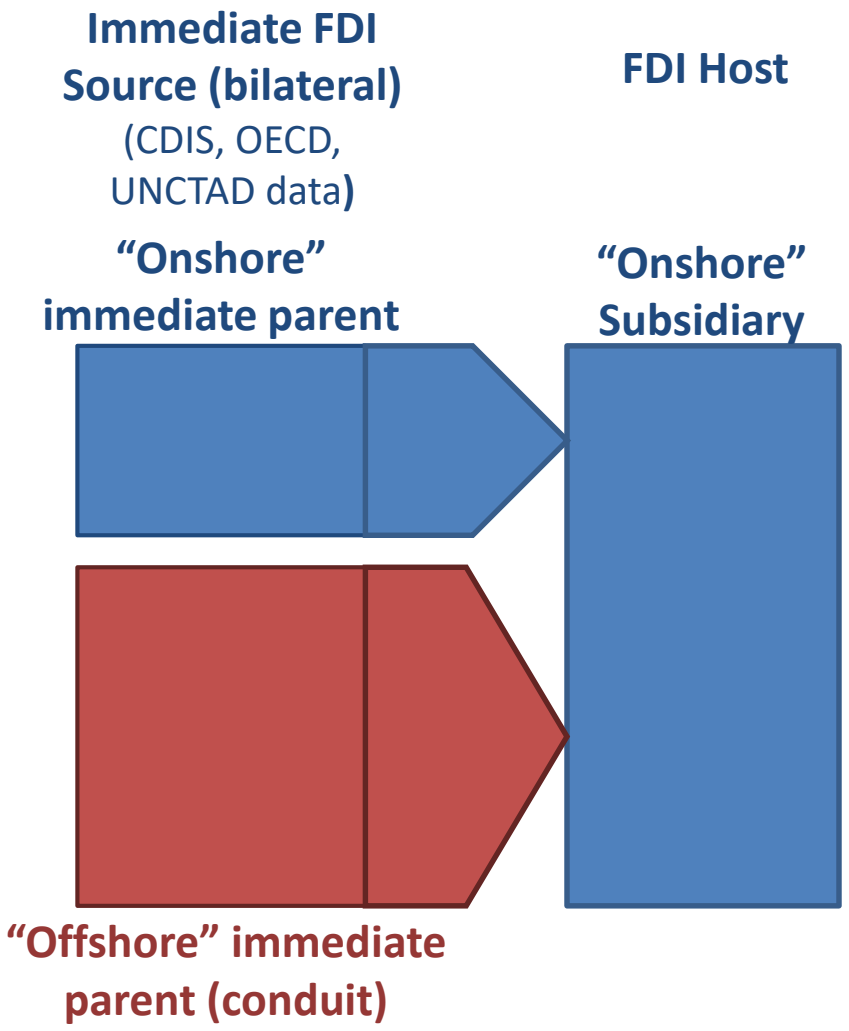
From bilateral to trilateral (3D) FDI



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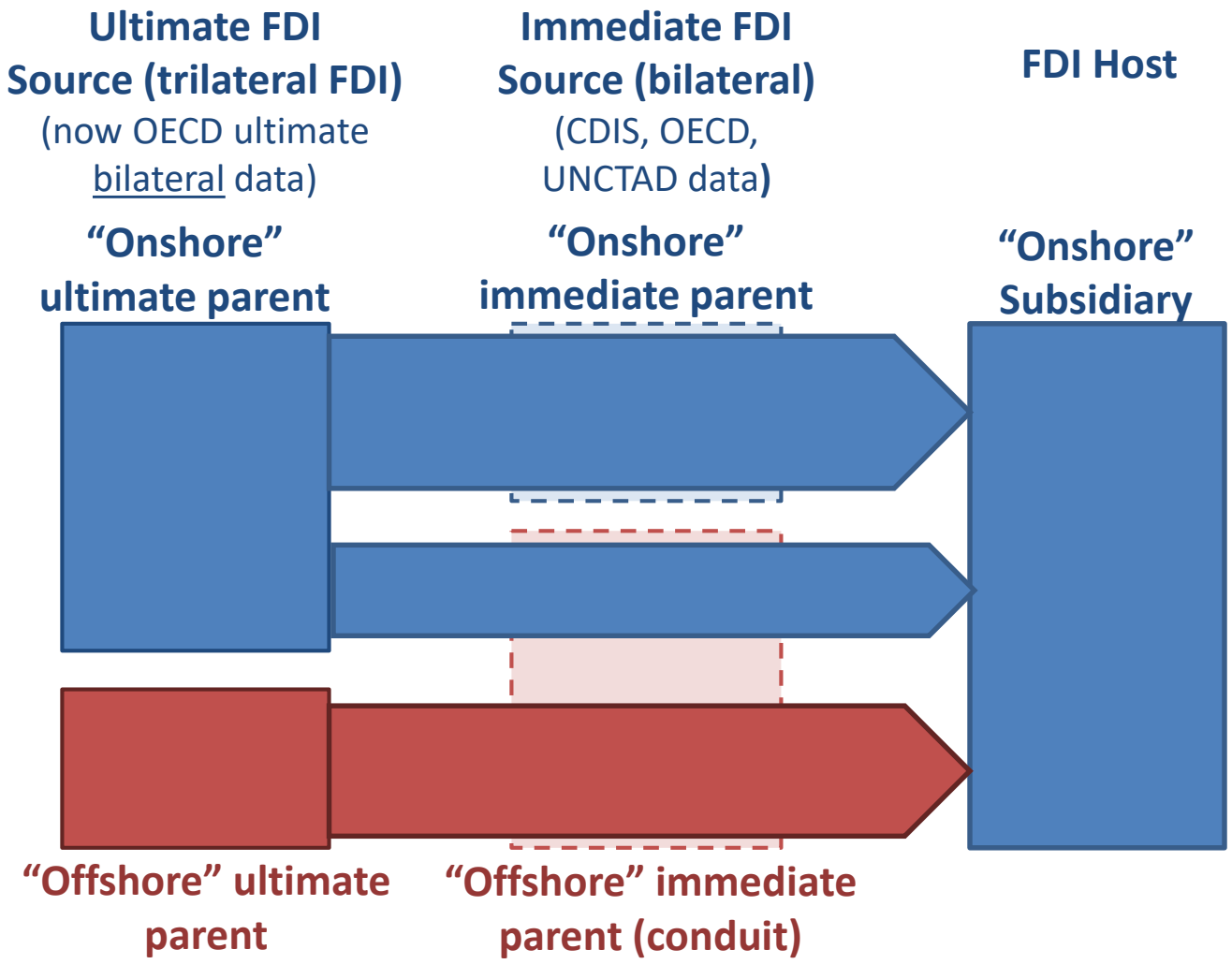
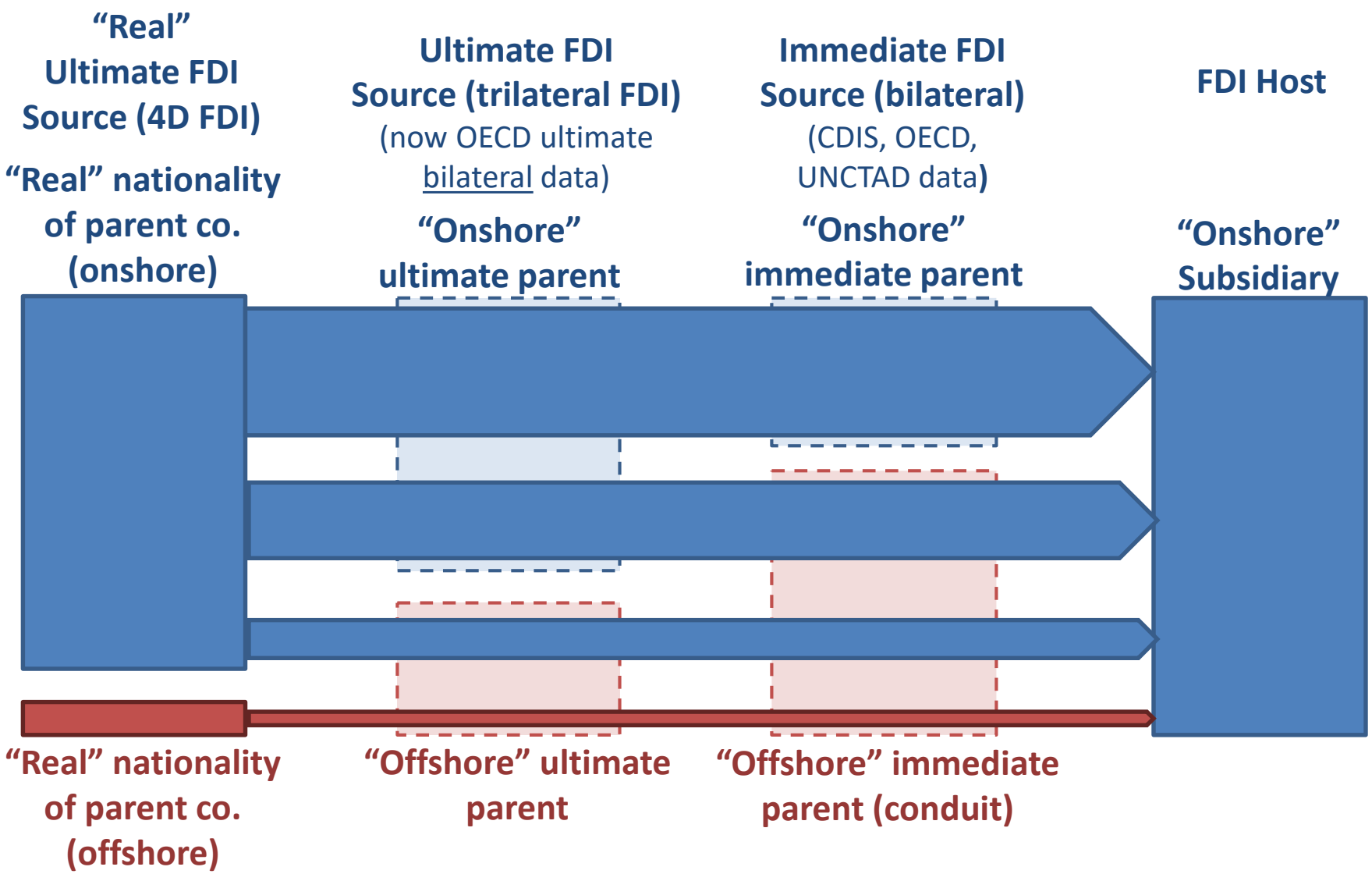


From bilateral to 4D FDI



Levels of Offshore FDI Analysis

Macro-level
(CDIS, OECD, UNCTAD, etc.)

Low Resolution
country-bilateral (2D) aggregate

High Accuracy
official

Meso-level/ Hybrid
(Atlas of Offshore FDI)

Medium Resolution
3D (country-trilateral) to 4D aggregate

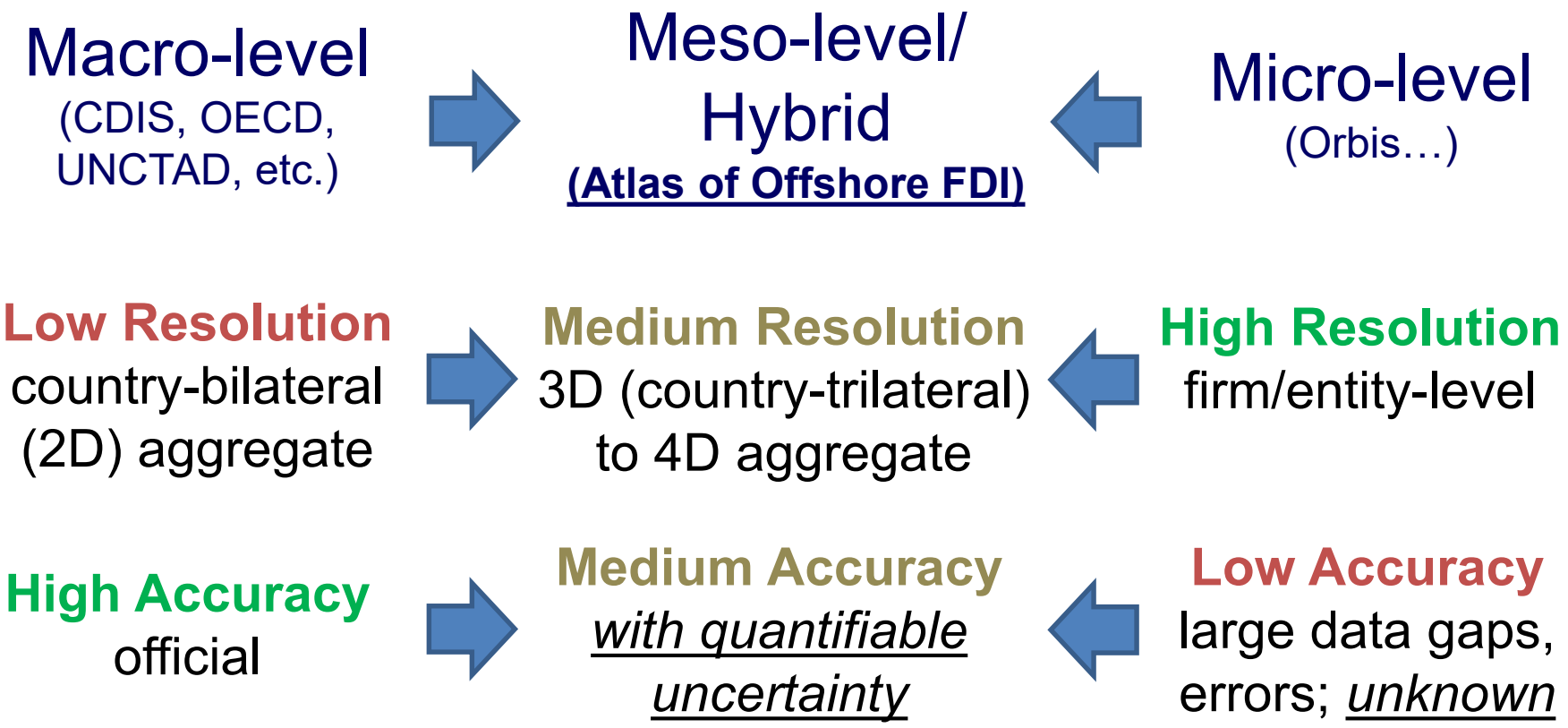
Medium Accuracy
with quantifiable uncertainty

Micro-level
(Orbis…)

High Resolution
firm/entity-level

Low Accuracy
large data gaps, errors; *unknown*

Levels of Offshore FDI Analysis



Triangulation Approach

Generating 4D FDI matrix: Methodology

Monte Carlo simulation of what FDI could be based on “triangulation” between micro (Orbis) and macro (bilateral OECD and IMF) data

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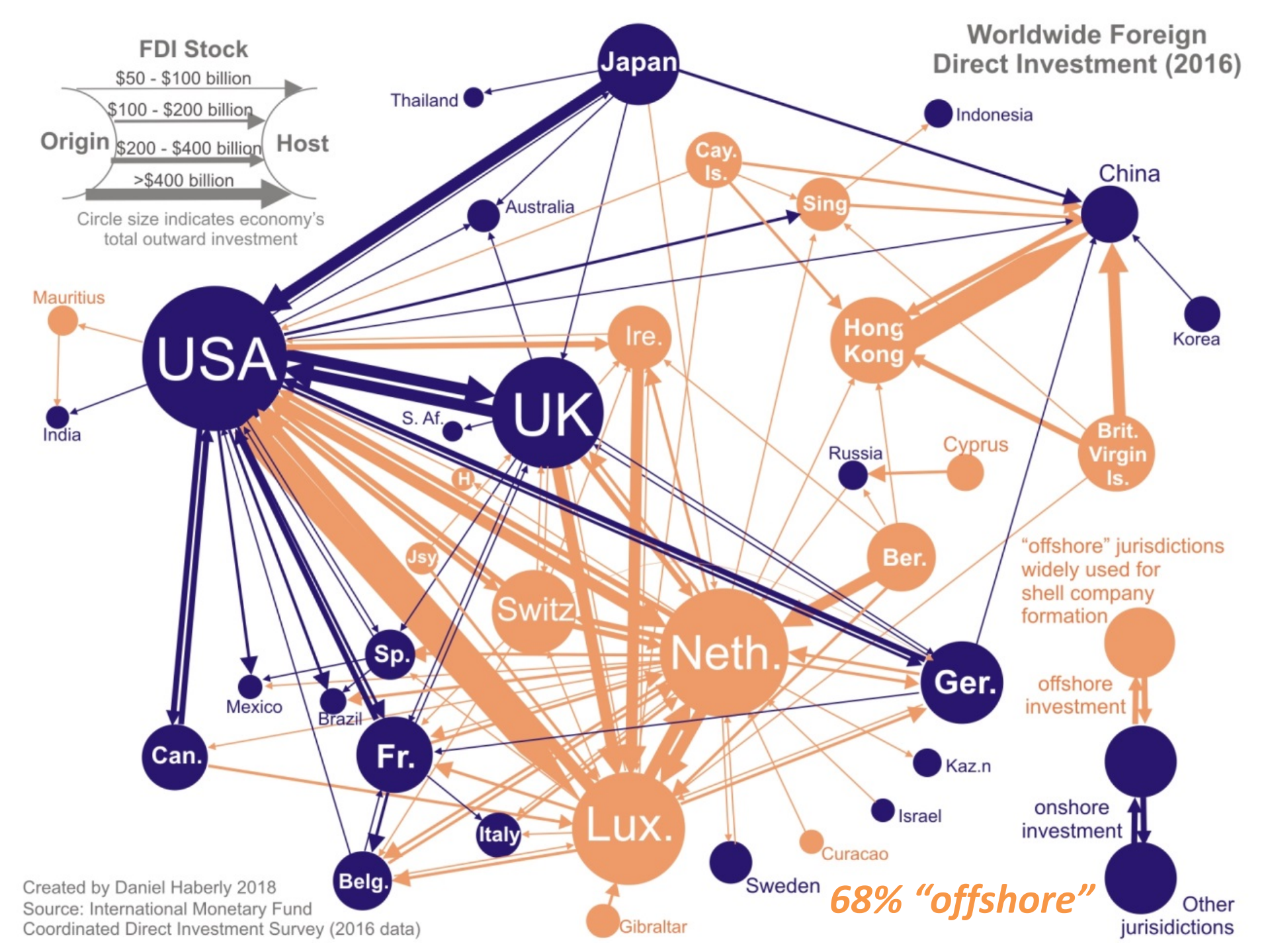
- **Step 5:** Adjust values in matrices to force convergence on known (officially-reported) bilateral IMF and OECD FDI data (by immediate investor, or immediate and ultimate investor simultaneously)

Results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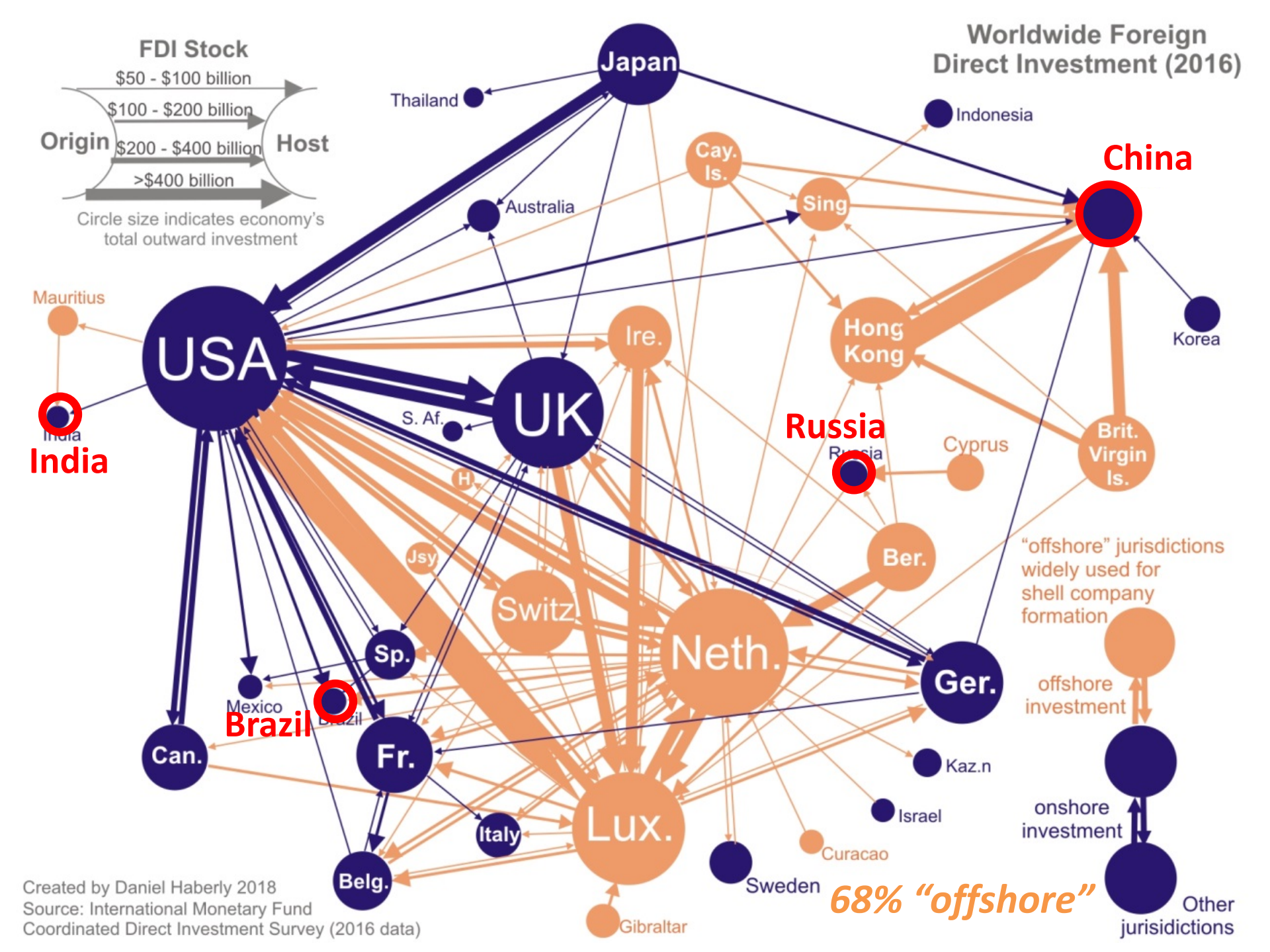
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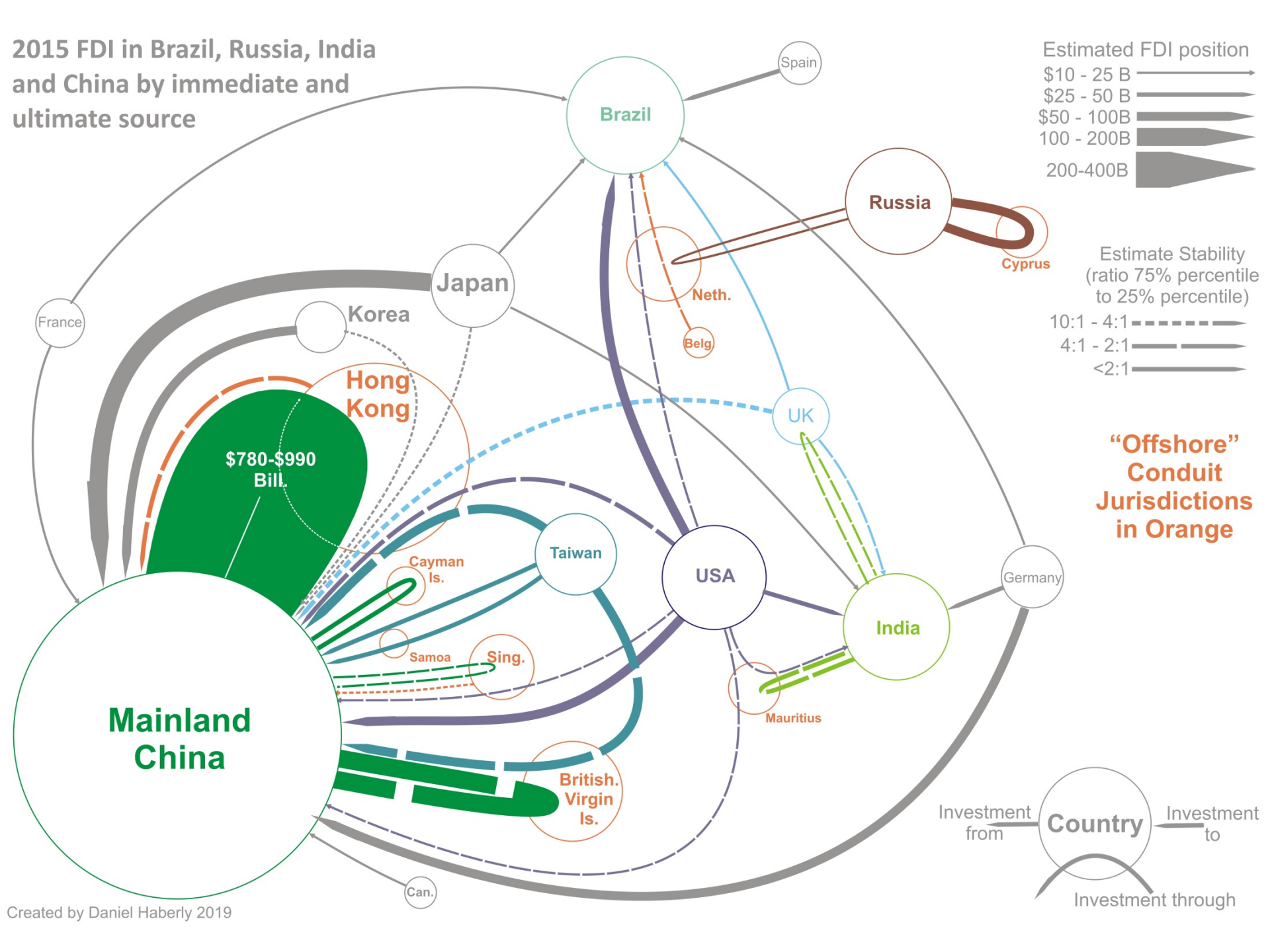
2015 FDI in Brazil, Russia, India and China by immediate and ultimate source
Estimated FDI position
$10 - 25 B
$25 - 50 B
$50 - 100B
100 - 200B
200-400B
Estimate Stability (ratio 75% percentile to 25% percentile)
10:1 - 4:1
4:1 - 2:1
<2:1
"Offshore" Conduit Jurisdictions in Orange
Brazil
Spain
Russia
Cyprus
Japan
Korea
France
Neth.
Belg
Hong Kong
$780-$990 Bill.
UK
Taiwan
USA
Germany
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Can.
Investment from
Country
Investment to
Investment through
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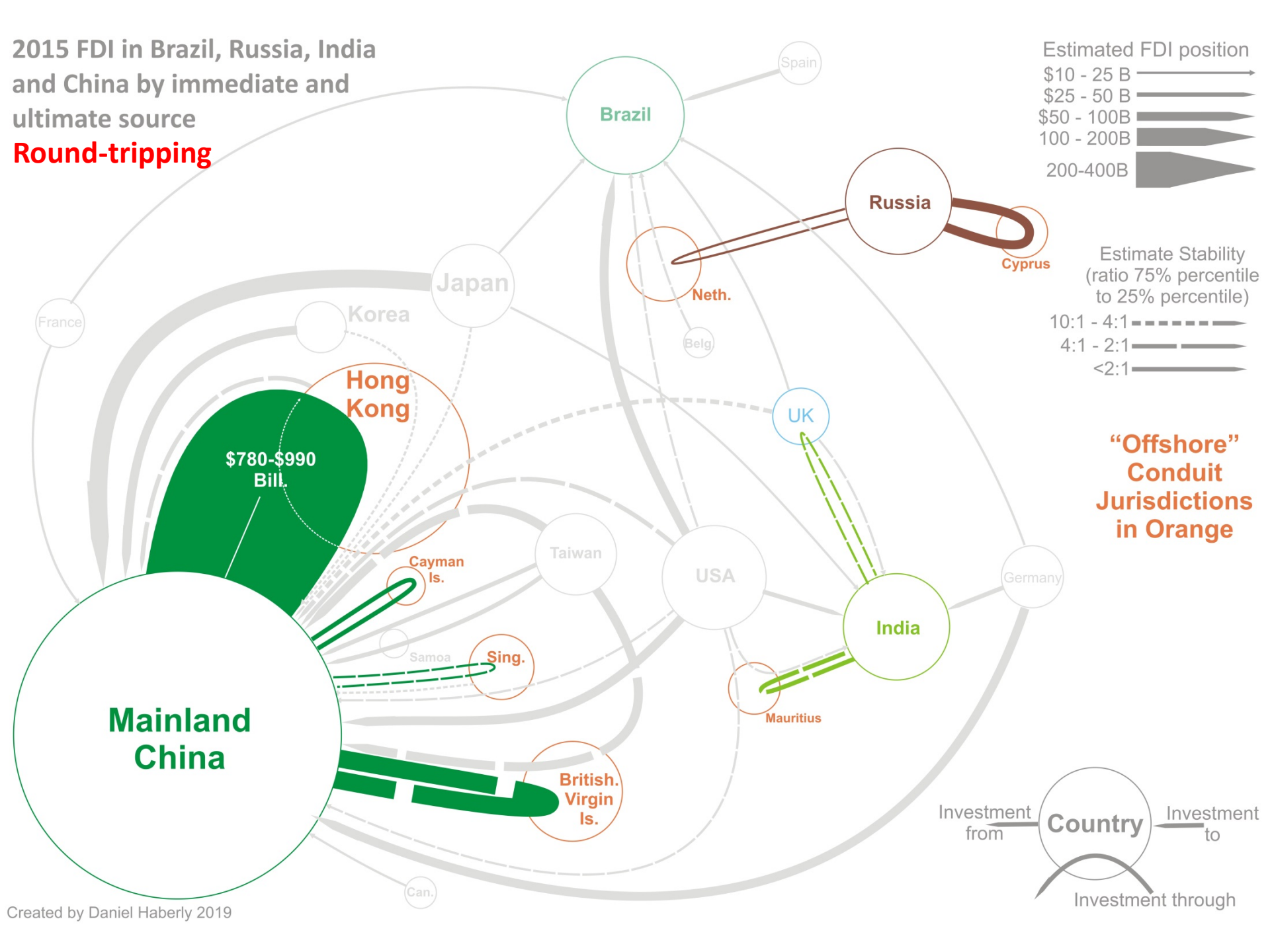
2015 FDI in Brazil, Russia, India and China by immediate and ultimate source
Round-tripping
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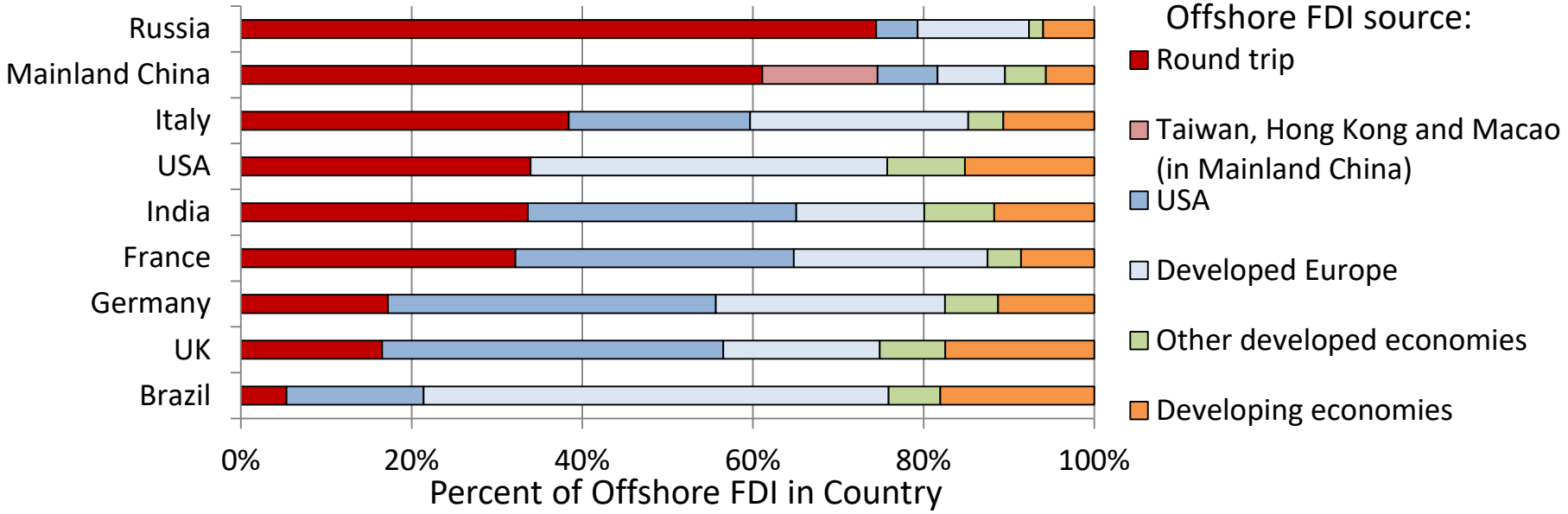
Sources of Offshore FDI in Host Countries



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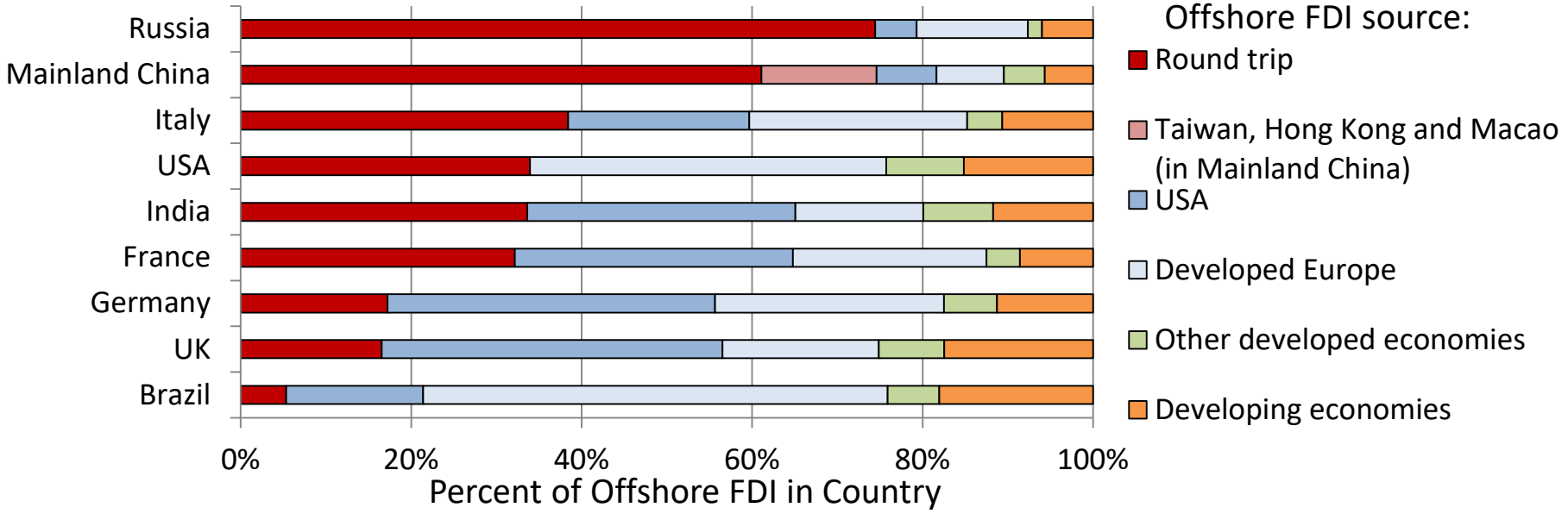
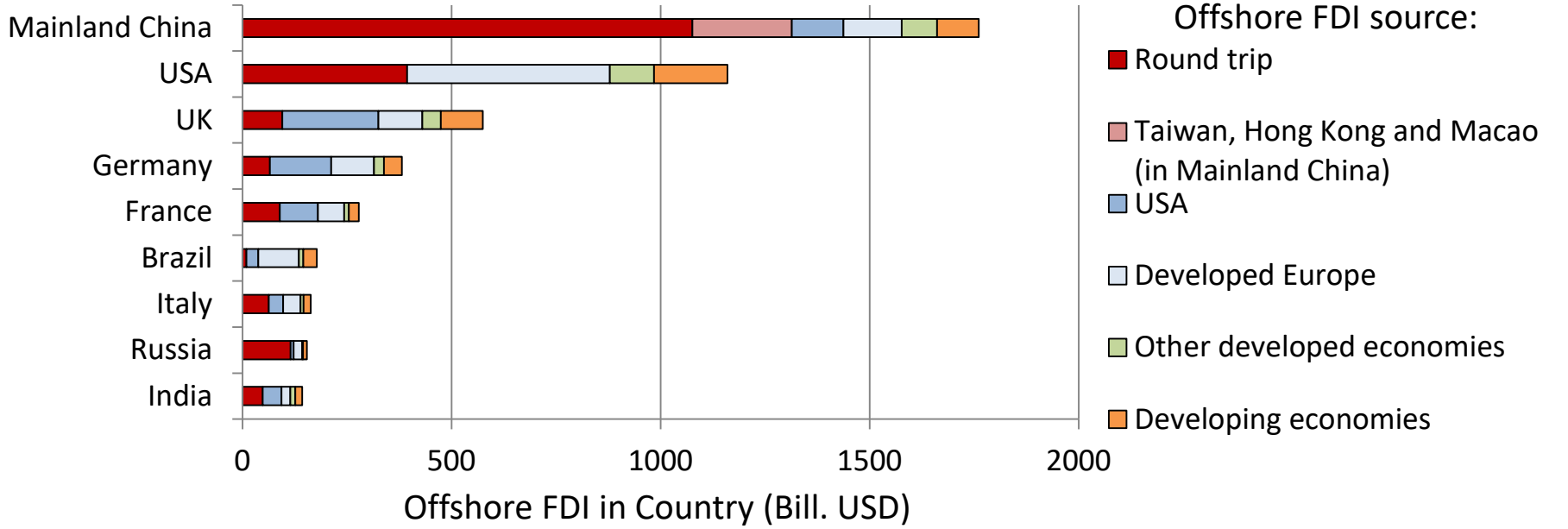
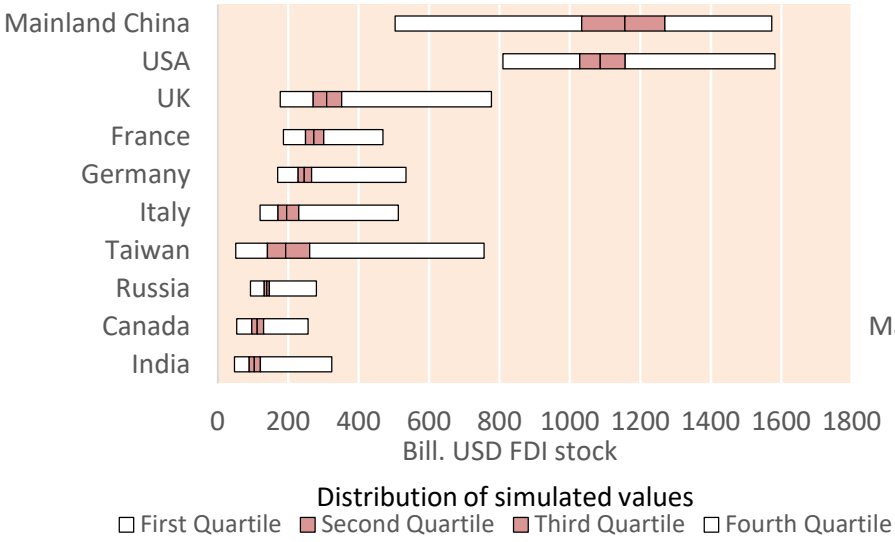


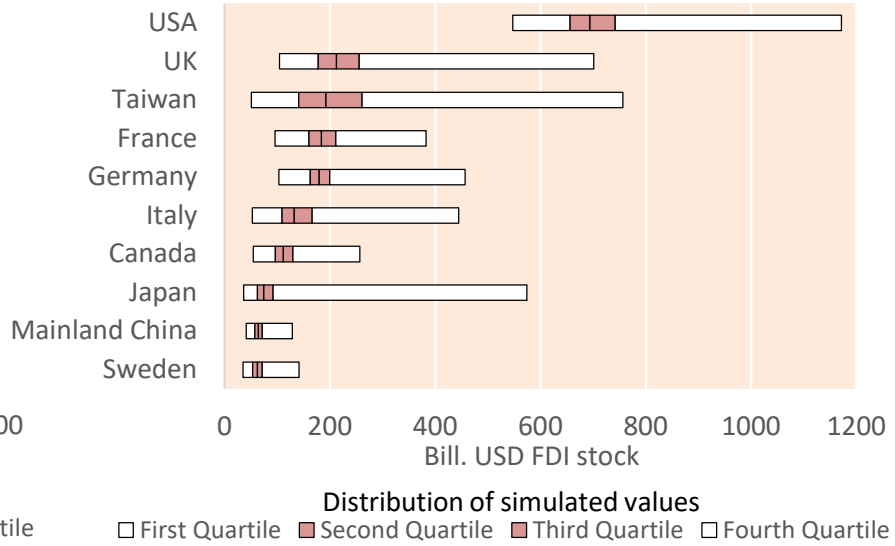


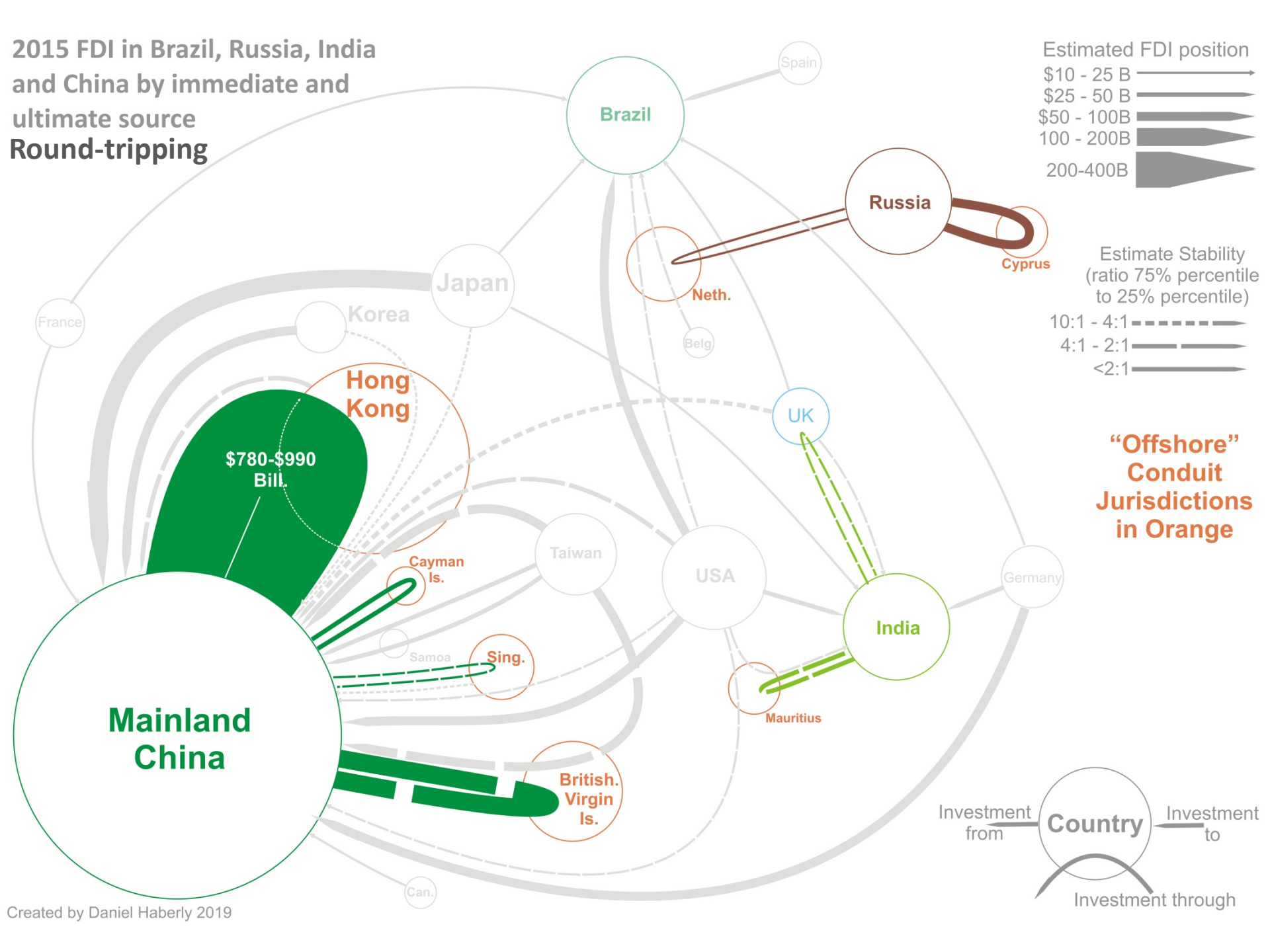
Largest overall sources of offshore FDI

Top-10 Sources of Offshore FDI in Brazil, Russia. India, China, USA, UK, France, Germany, and Italy, 2015



Top-10 Sources of Offshore FDI *Excluding Round-Tripping* in BR, RU, IN, CN, US, GB, FR, DE, and IT, 2015

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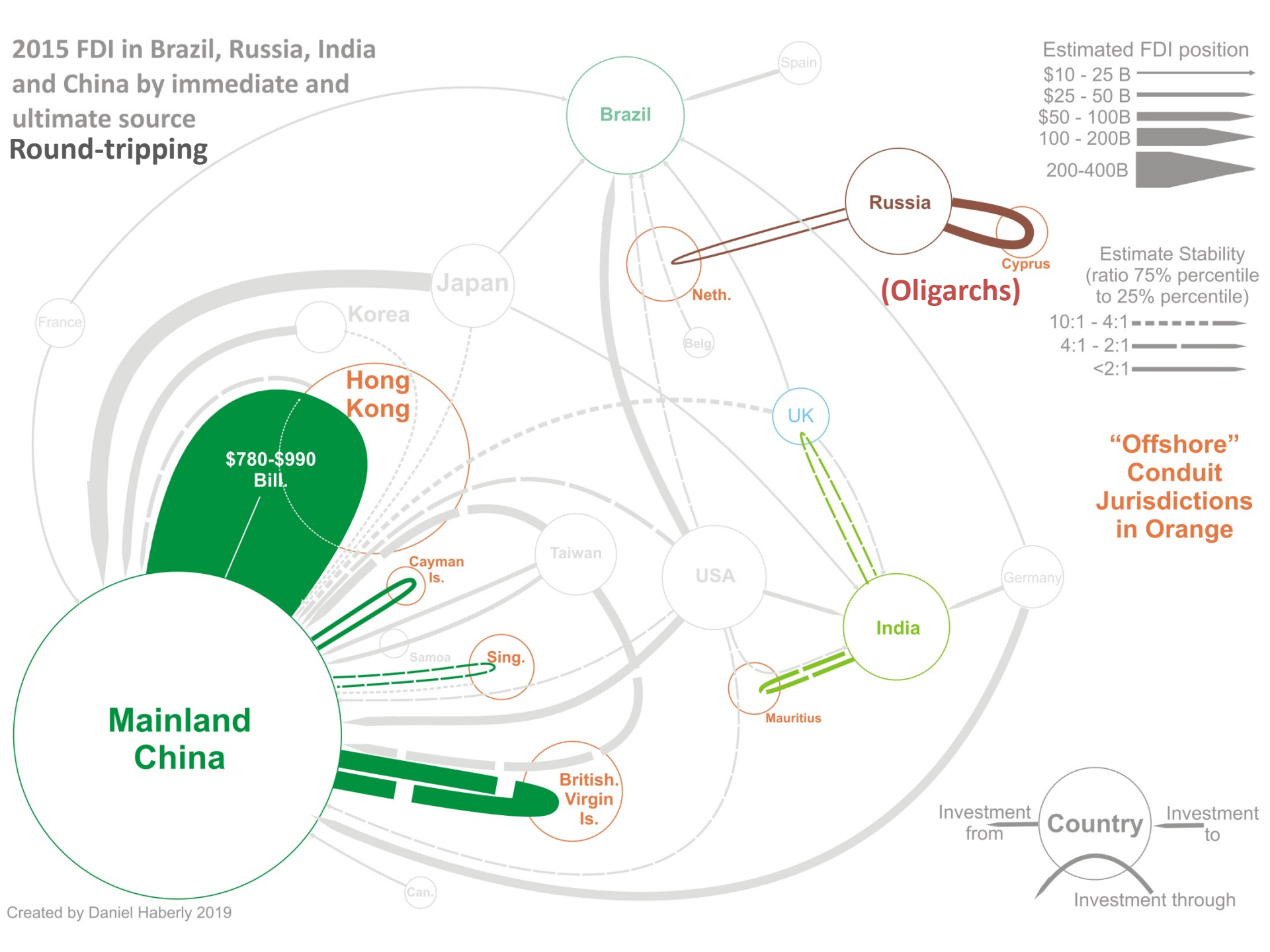
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Russia
Cyprus
(Oligarchs)
Neth.
Belg
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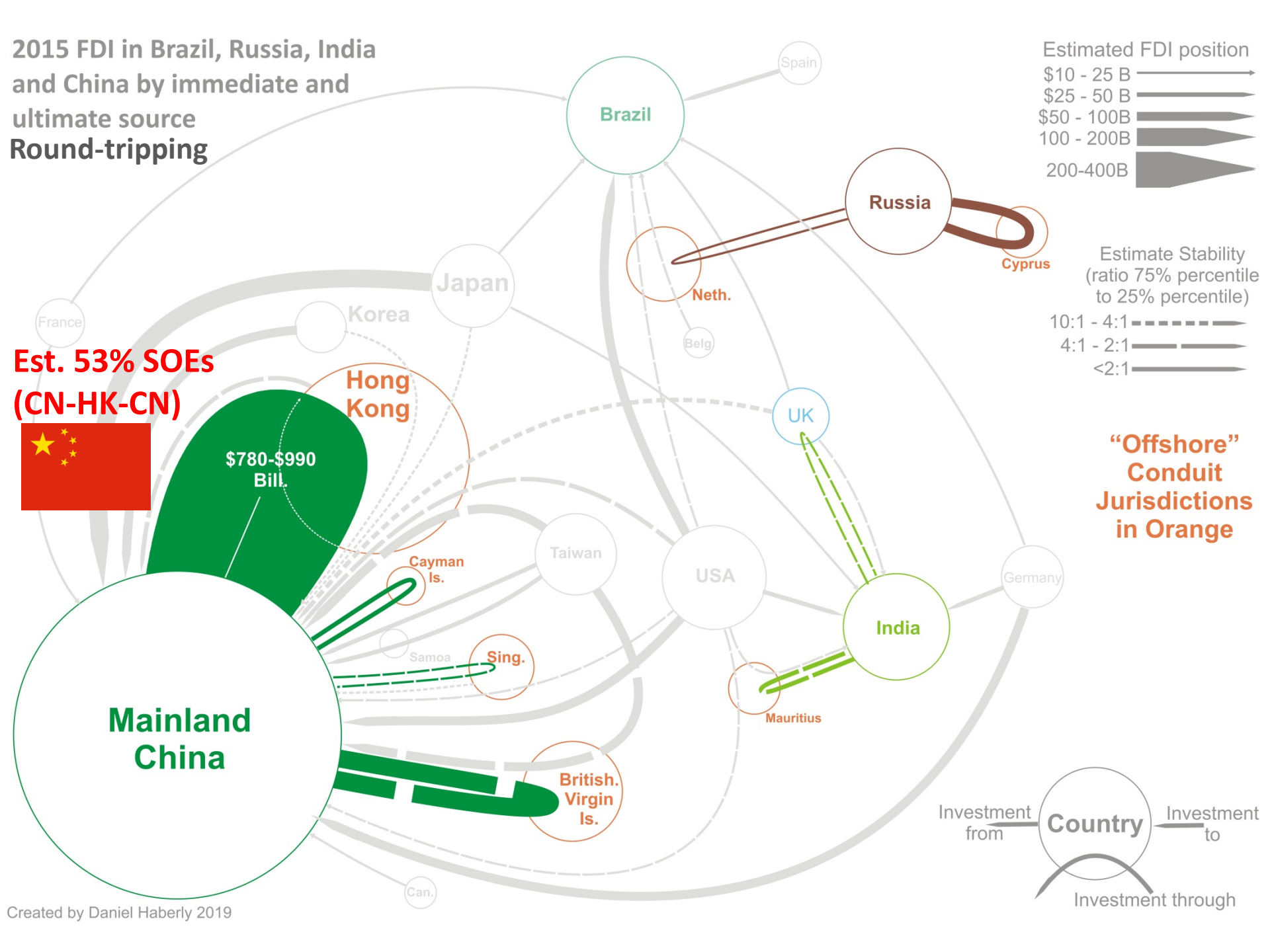
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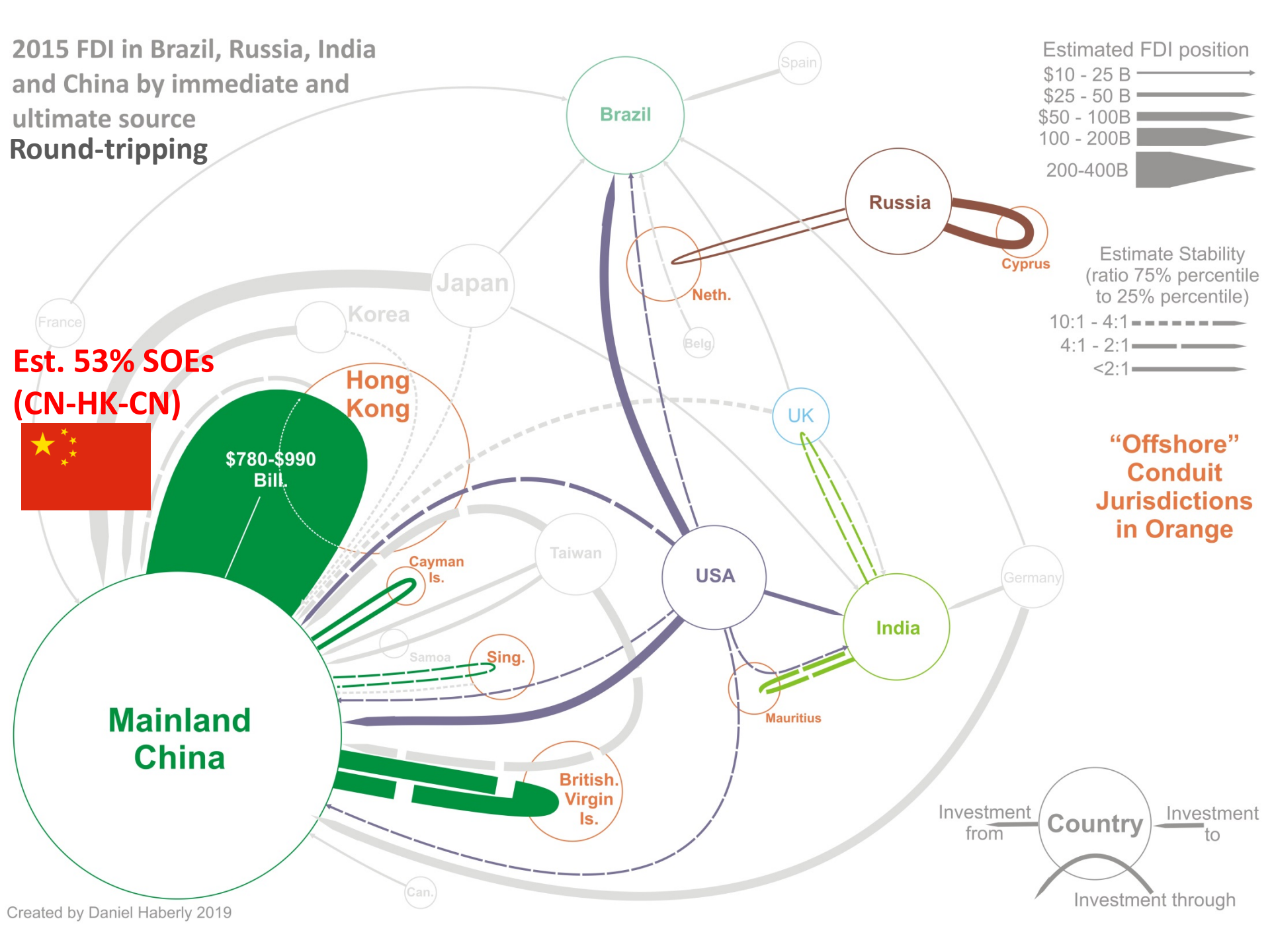
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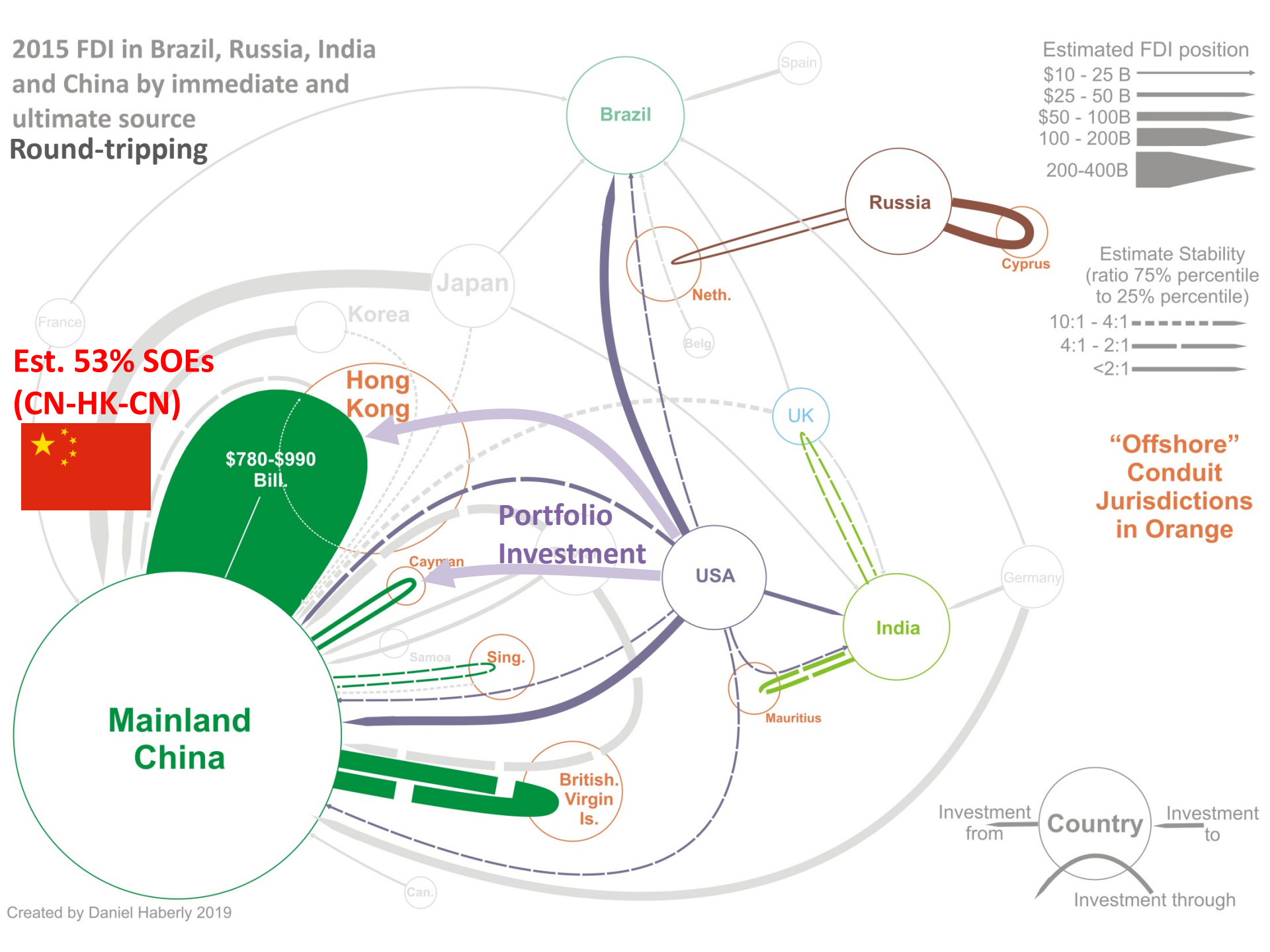
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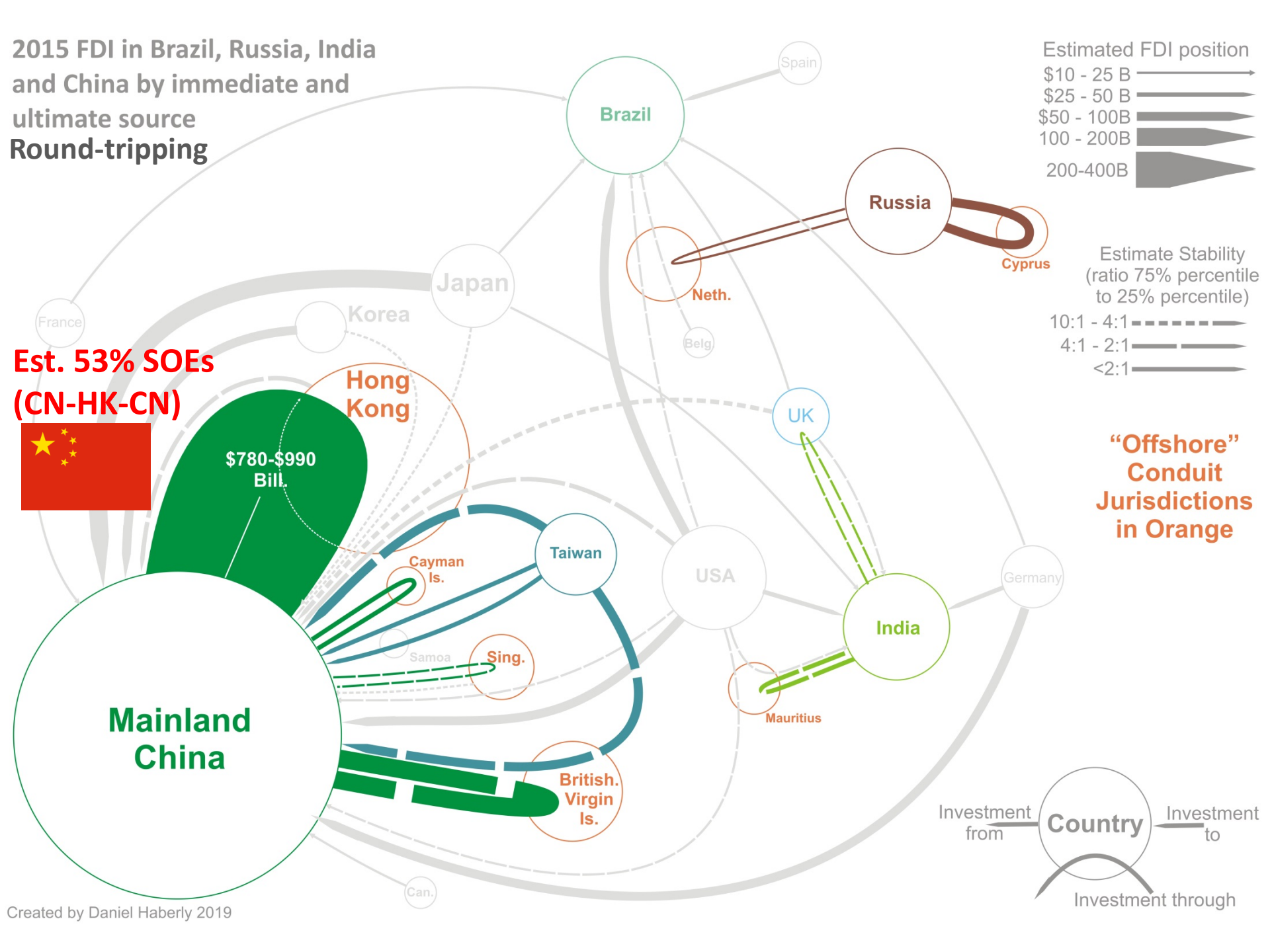
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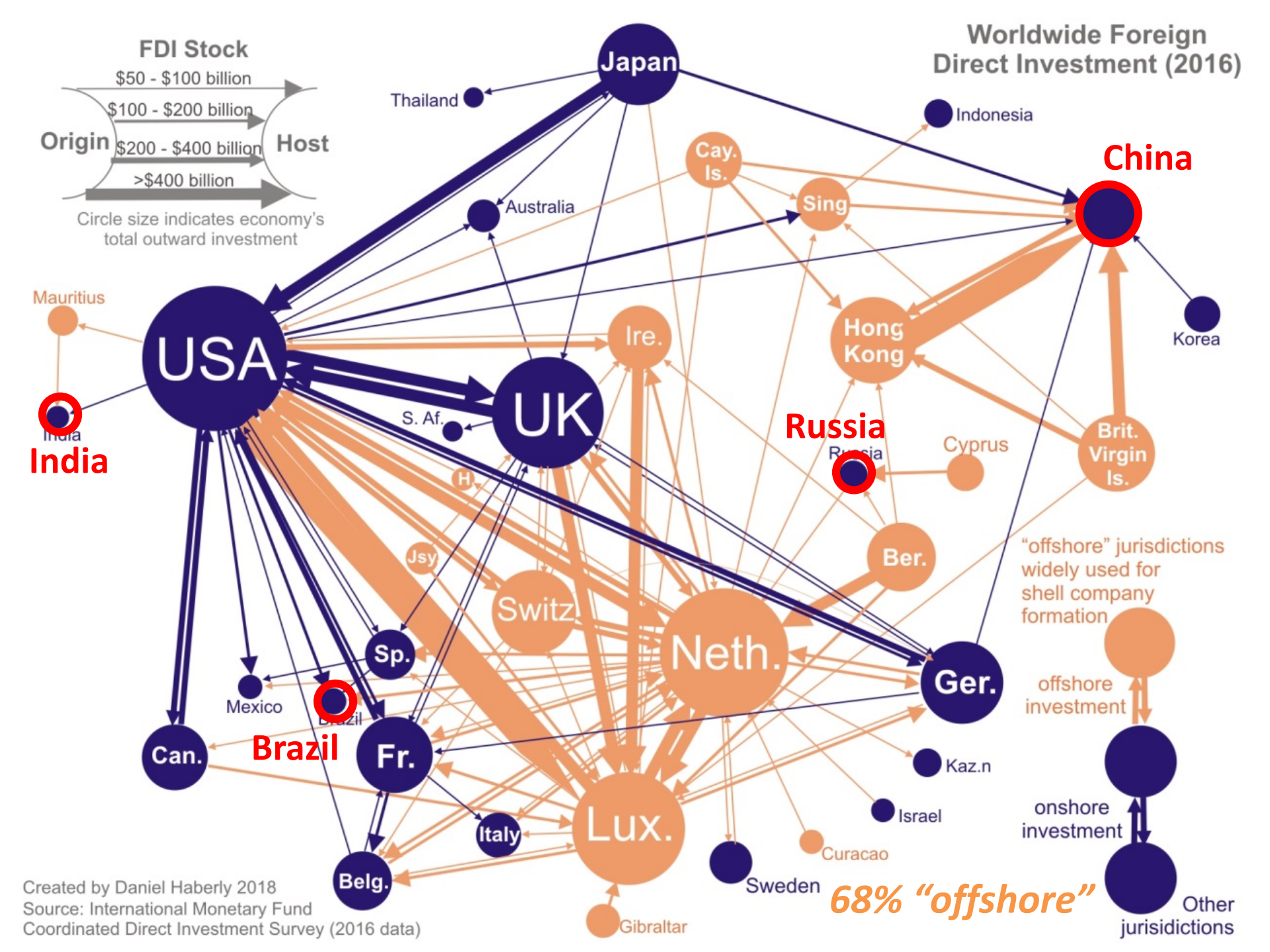
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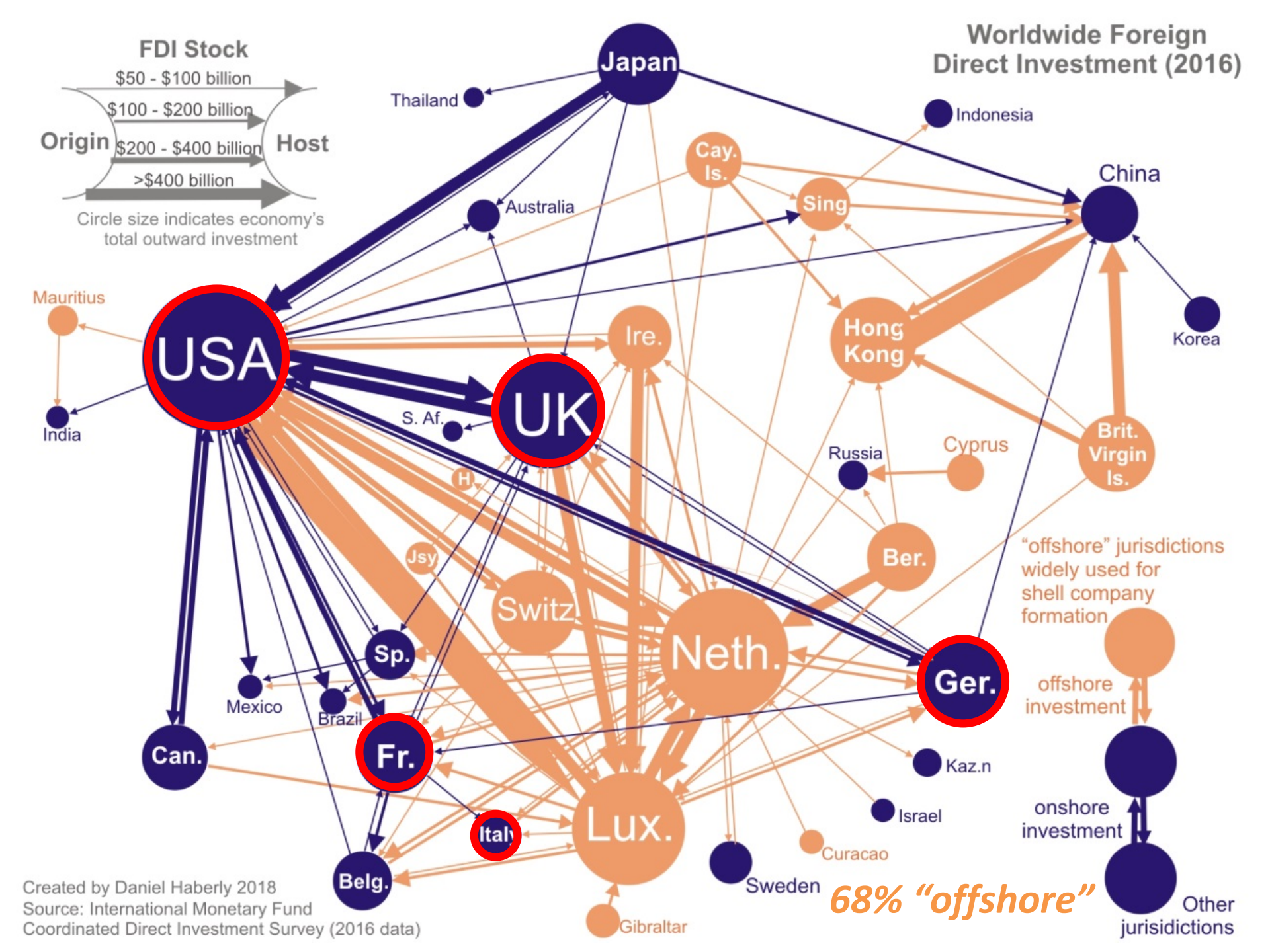
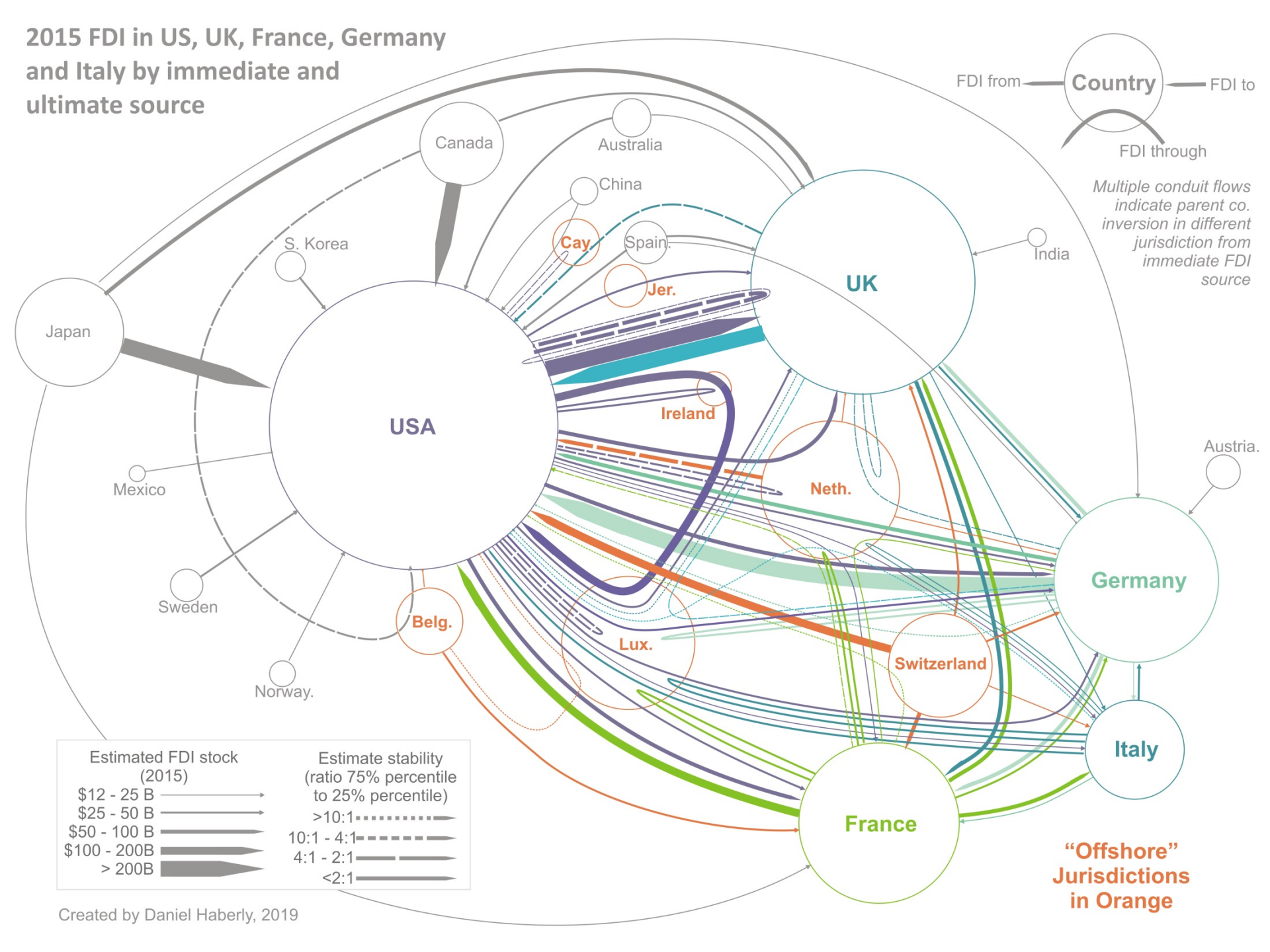
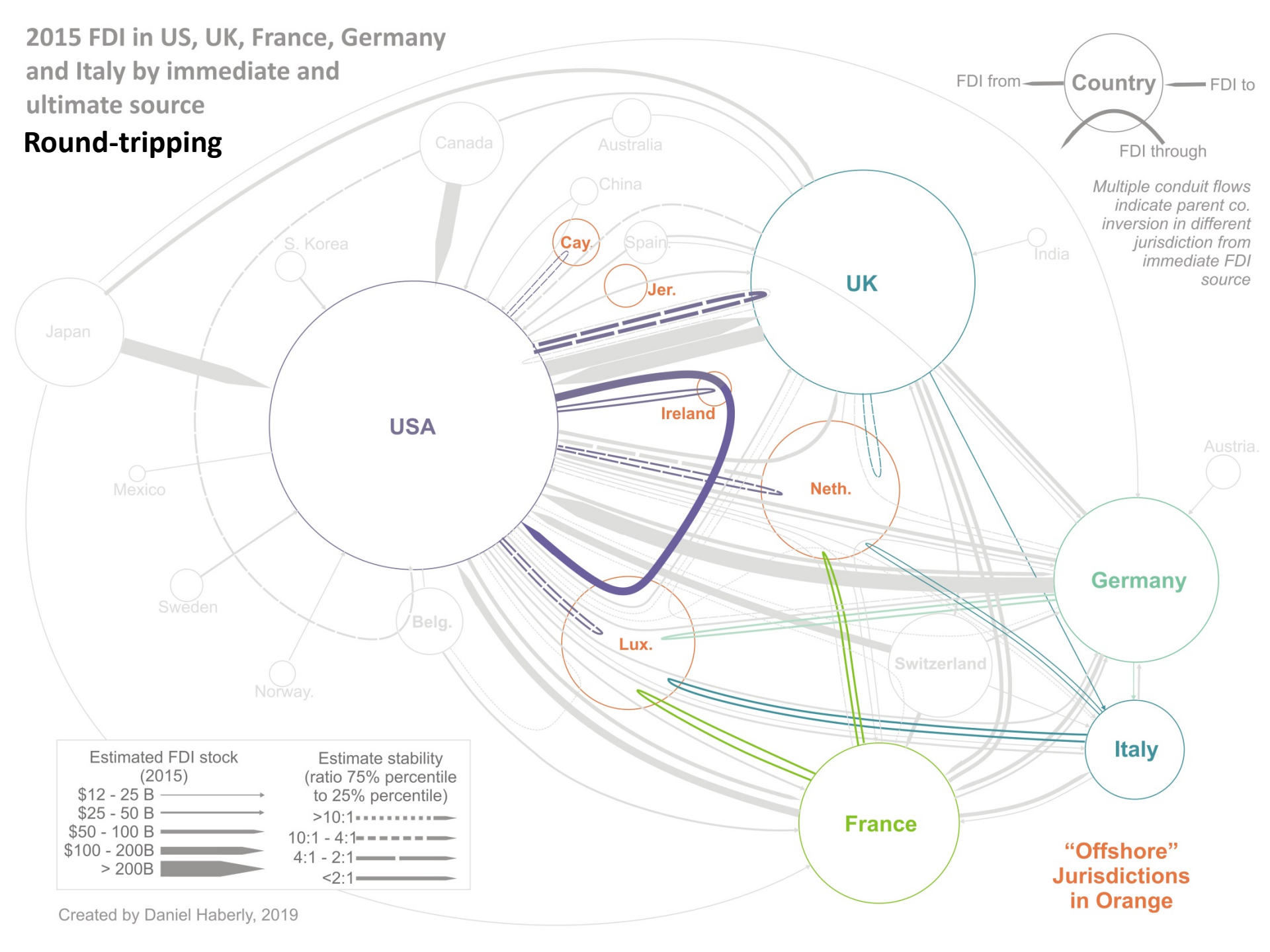

Worldwide Foreign Direct Investment (2016)
FDI Stock
$50 - $100 billion
$100 - $200 billion
$200 - $400 billion
>$400 billion
Origin
Host
Circle size indicates economy's total outward investment
Japan
Thailand
Indonesia
Cay. Is.
China
Sing
Australia
Mauritius
USA
Ire.
Hong Kong
Korea
India
UK
S. Af.
Brit. Virgin Is.
Russia
Cyprus
H
Jsy
Ber.
Switz.
Neth.
Ger.
Sp.
Mexico
Brazil
Can.
Fr.
Kaz.n
Israel
Lux.
Italy
Curacao
Sweden
Belg.
Gibraltar
"offshore" jurisdictions widely used for shell company formation
offshore investment
onshore investment
Other jurisidictions
68% "offshore"
Created by Daniel Haberly 2018
Source: International Monetary Fund Coordinated Direct Investment Survey (2016 data)


2015 FDI in US, UK, France, Germany and Italy by immediate and ultimate source
FDI from
Country
FDI to
FDI through
Multiple conduit flows indicate parent co. inversion in different jurisdiction from immediate FDI source
Canada
Australia
China
S. Korea
Cay.
Spain
India
Jer.
UK
Japan
USA
Ireland
Austria
Mexico
Neth.
Germany
Sweden
Belg.
Lux.
Switzerland
Norway
Italy
France
Estimated FDI stock (2015)
$12 - 25 B
$25 - 50 B
$50 - 100 B
$100 - 200B
> 200B
Estimate stability (ratio 75% percentile to 25% percentile)
>10:1
10:1 - 4:1
4:1 - 2:1
<2:1
"Offshore" Jurisdictions in Orange
Created by Daniel Haberly, 2019

2015 FDI in US, UK, France, Germany and Italy by immediate and ultimate source

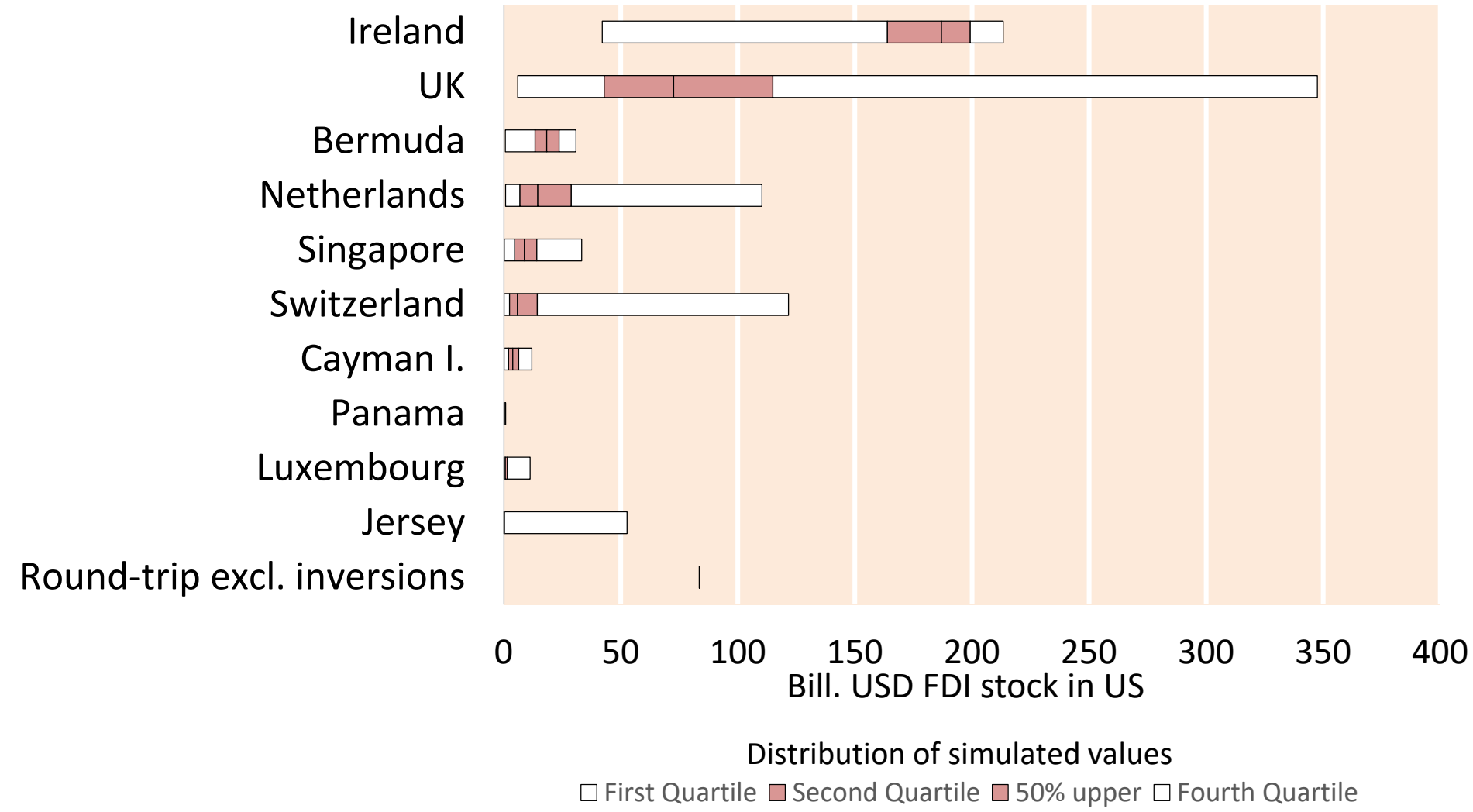
Round-tripping



Created by Daniel Haberly, 2019

Top-US Corporate Inversion Domiciles

(by estimated round-trip FDI in US)



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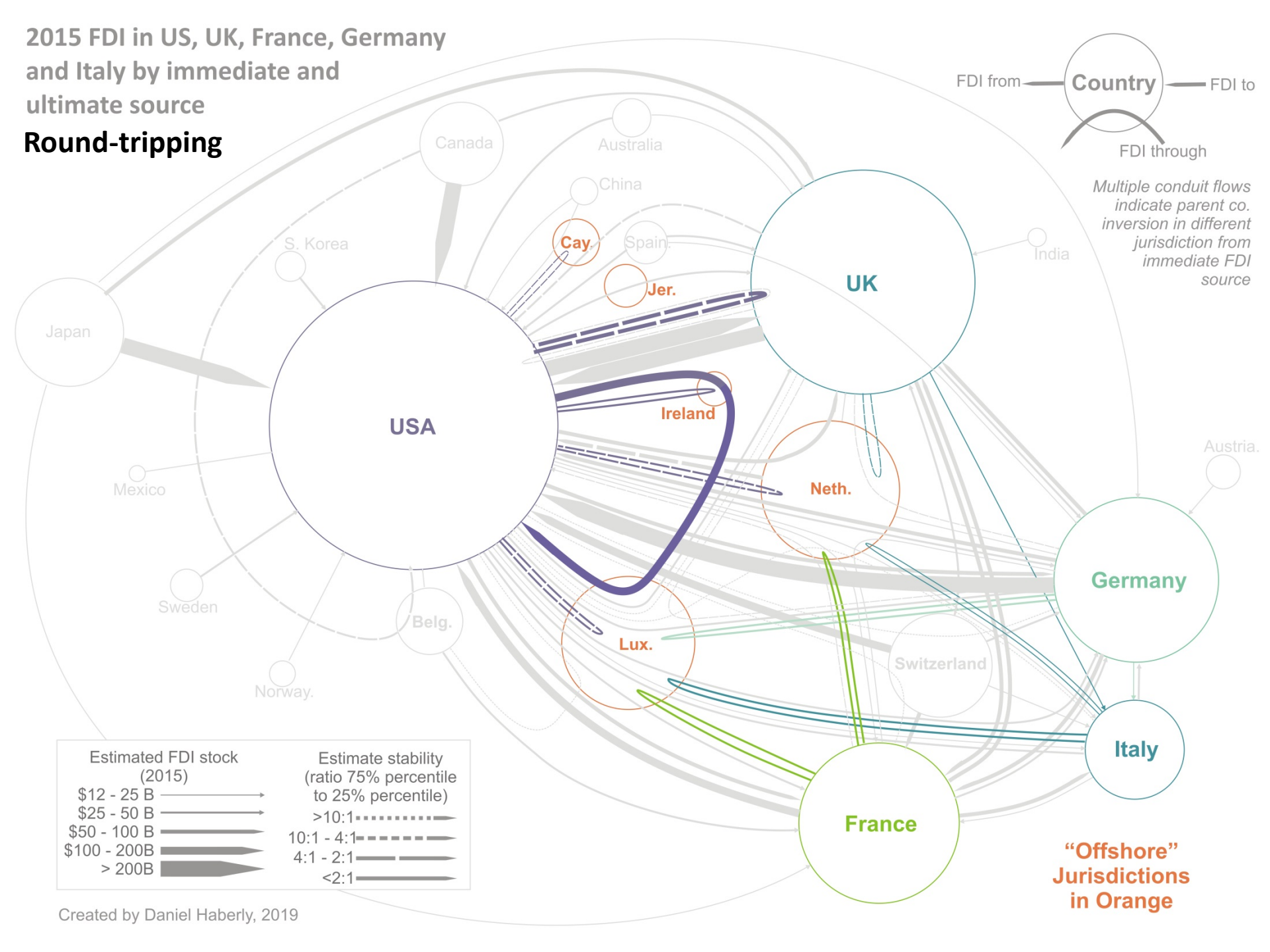

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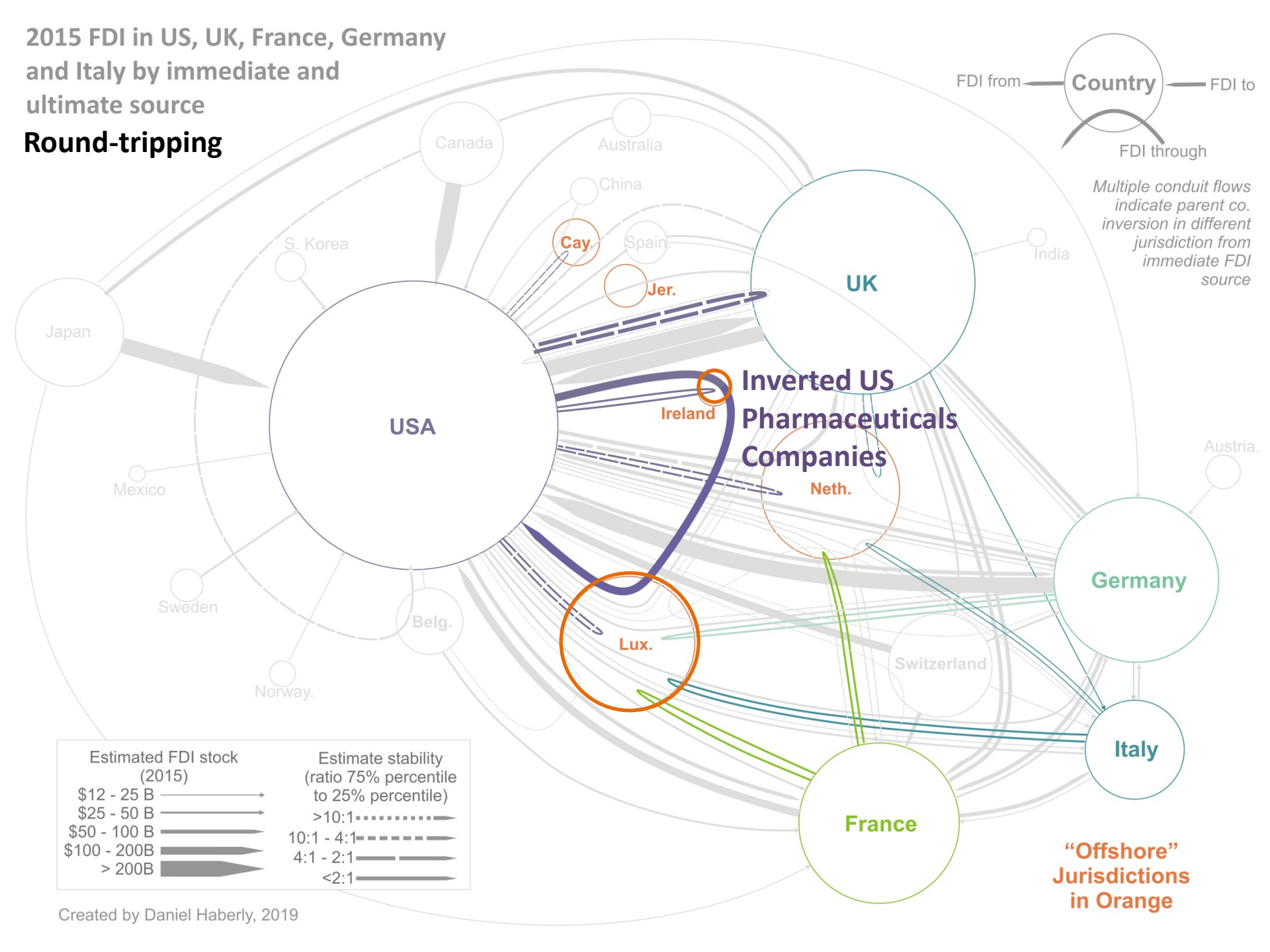
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S. Korea
Cay.
Spain
India
Jer.
Japan
UK
USA
Ireland
Inverted US Pharmaceuticals Companies
Neth.
Austria
Mexico
Germany
Sweden
Belg.
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Switzerland
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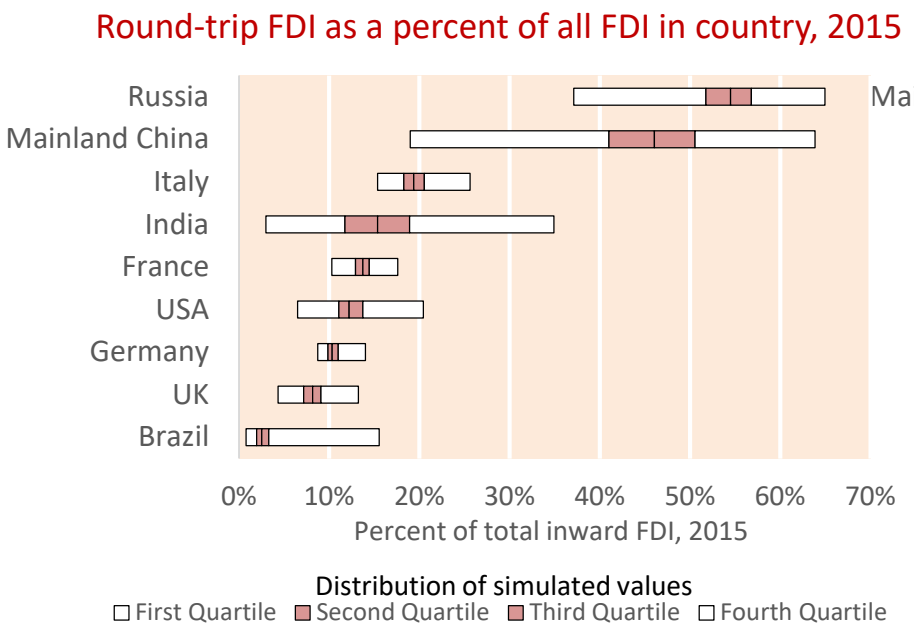
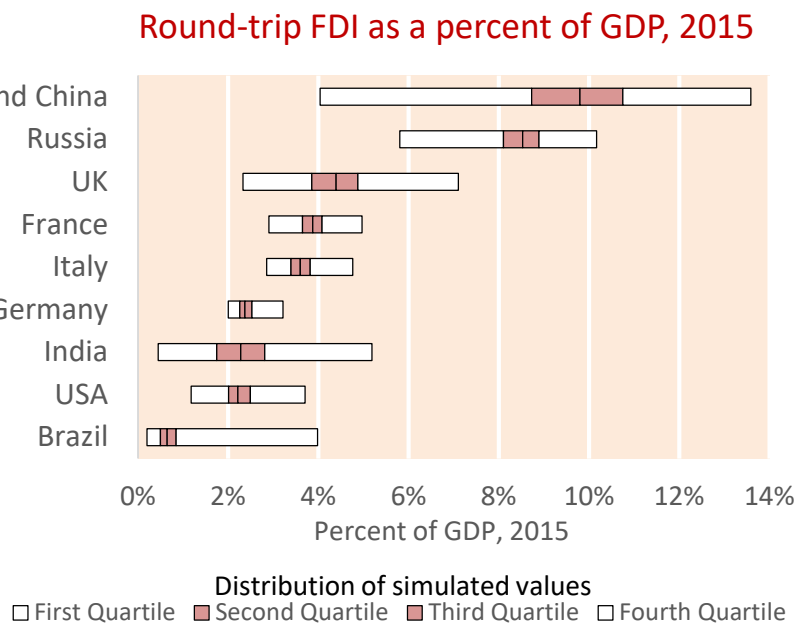
"Offshore" Jurisdictions in Orange
Created by Daniel Haberly, 2019

Round-tripping as % of inward FDI & GDP

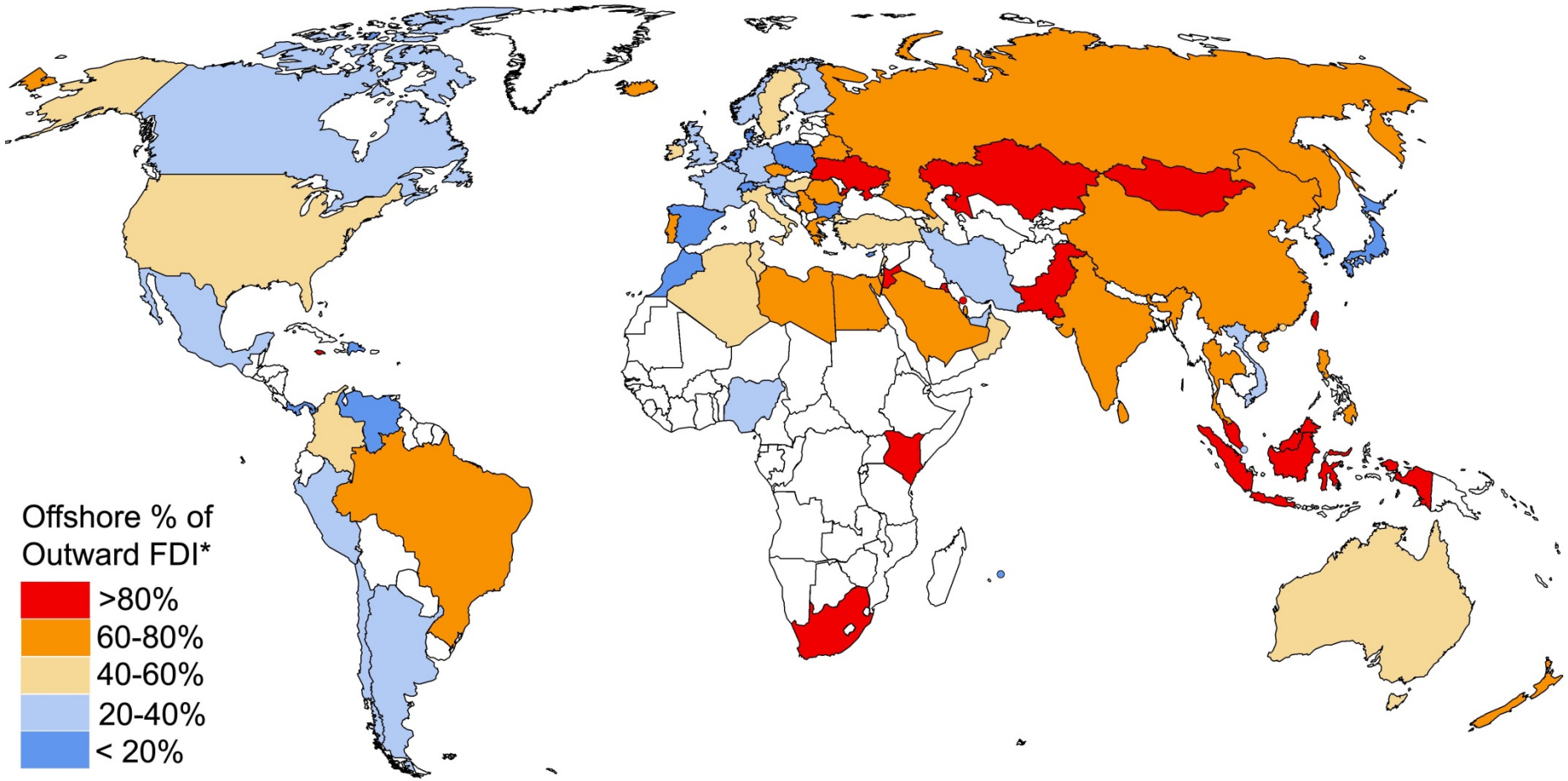




What factors influence use of offshore jurisdictions for FDI?

(preliminary analysis of new dataset)

% of Outward FDI* Passing through Offshore Jurisdictions
(excluding round-tripping)



*in US, UK, France, Germany, Italy, Brazil, Russia, India & China

Determinants of Offshore % of Outward FDI

	Model 1	Model 2	Model 3	Model 4
Adj. r^2	0.078	0.086	0.12	0.26
corruption (CPI)ǂǂ	-0.0040***	-0.0032**	-0.0020	-0.0019
communist history		0.43	0.44*	0.50**
corruption x communism		-0.0090	-0.0094	-0.0089
offshore jurisdiction			-0.17**	-0.24***
"Bamboo network"				0.22**
British colony				0.20***
Constant	0.69***	0.63***	0.60***	0.50***

* >10% significance
** >5% significance
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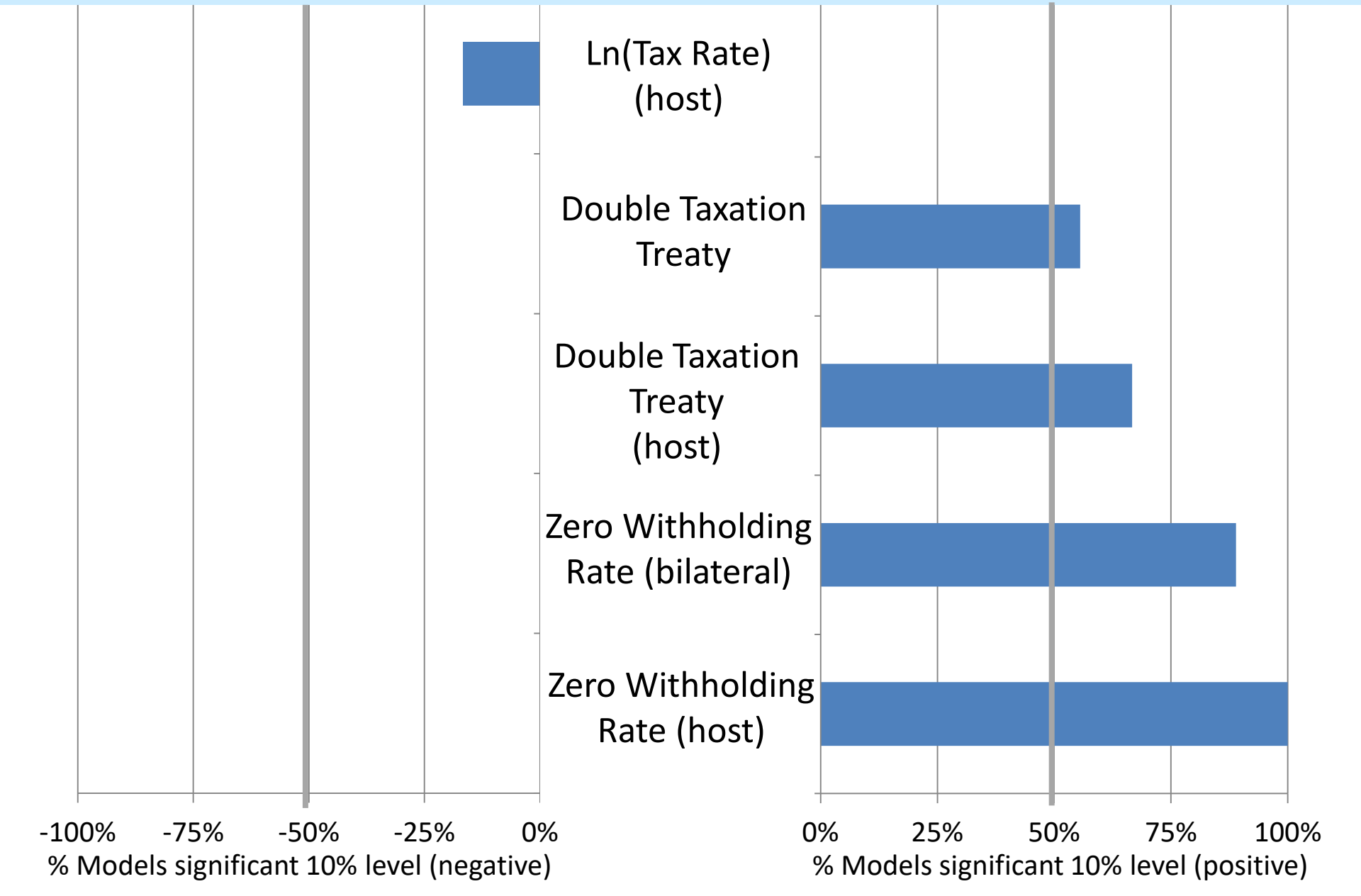
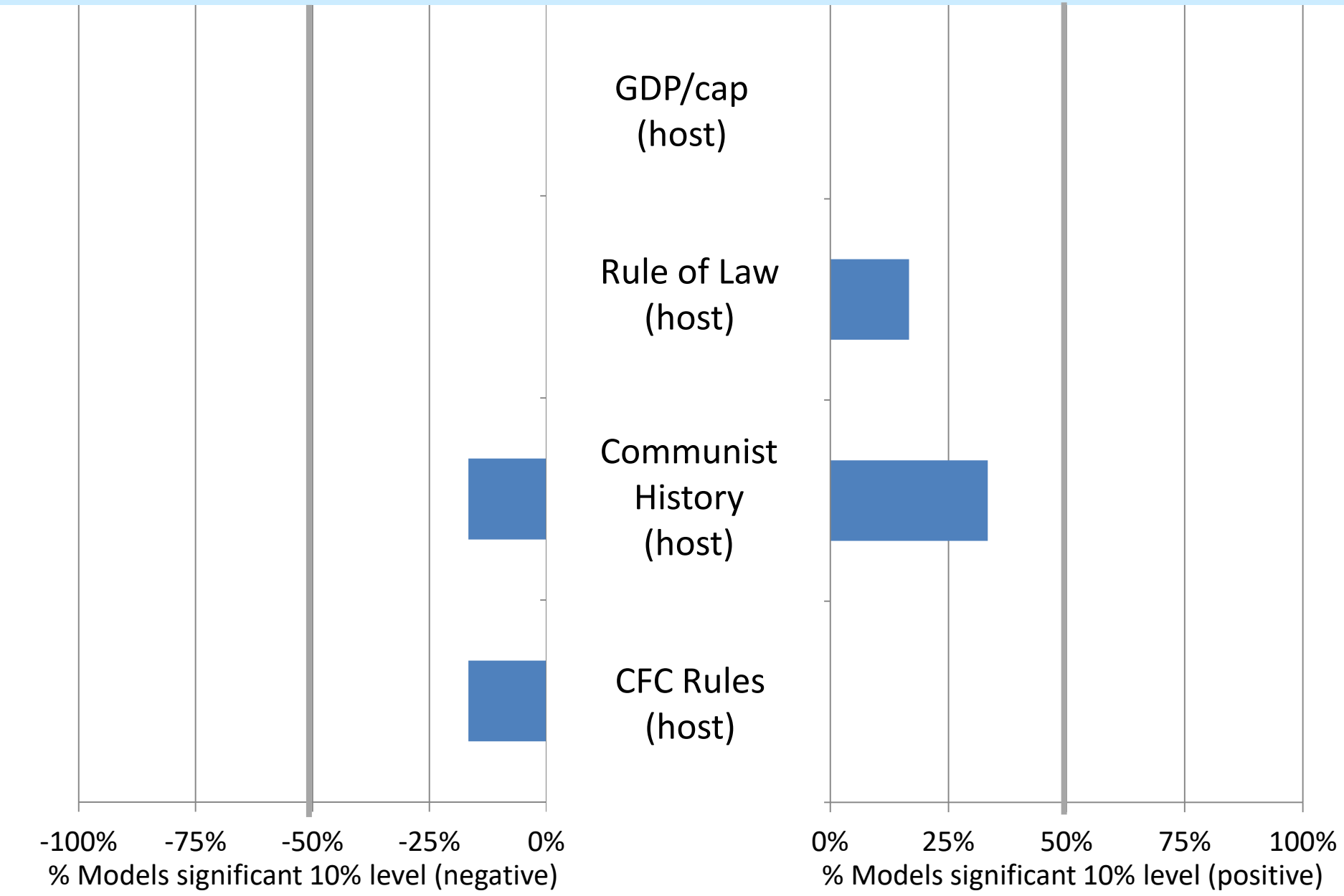
Results of older analysis of determinants of inward offshore FDI using CDIS data
(from Haberly and Wojcik 2015)

Taxation Variables Results

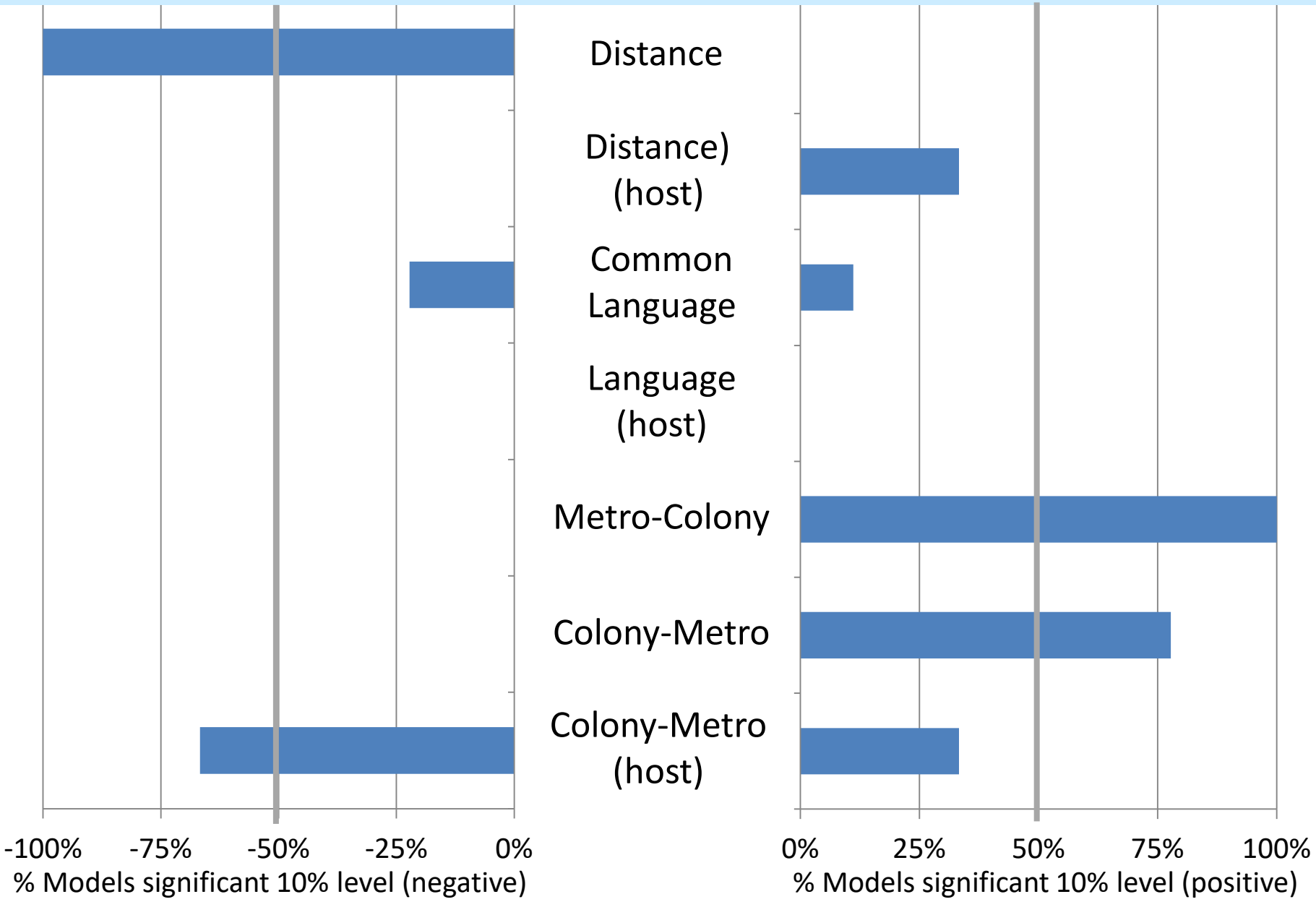


Wealth and Institutions Variables Results

(offshore FDI only)



Proximity Variables Results



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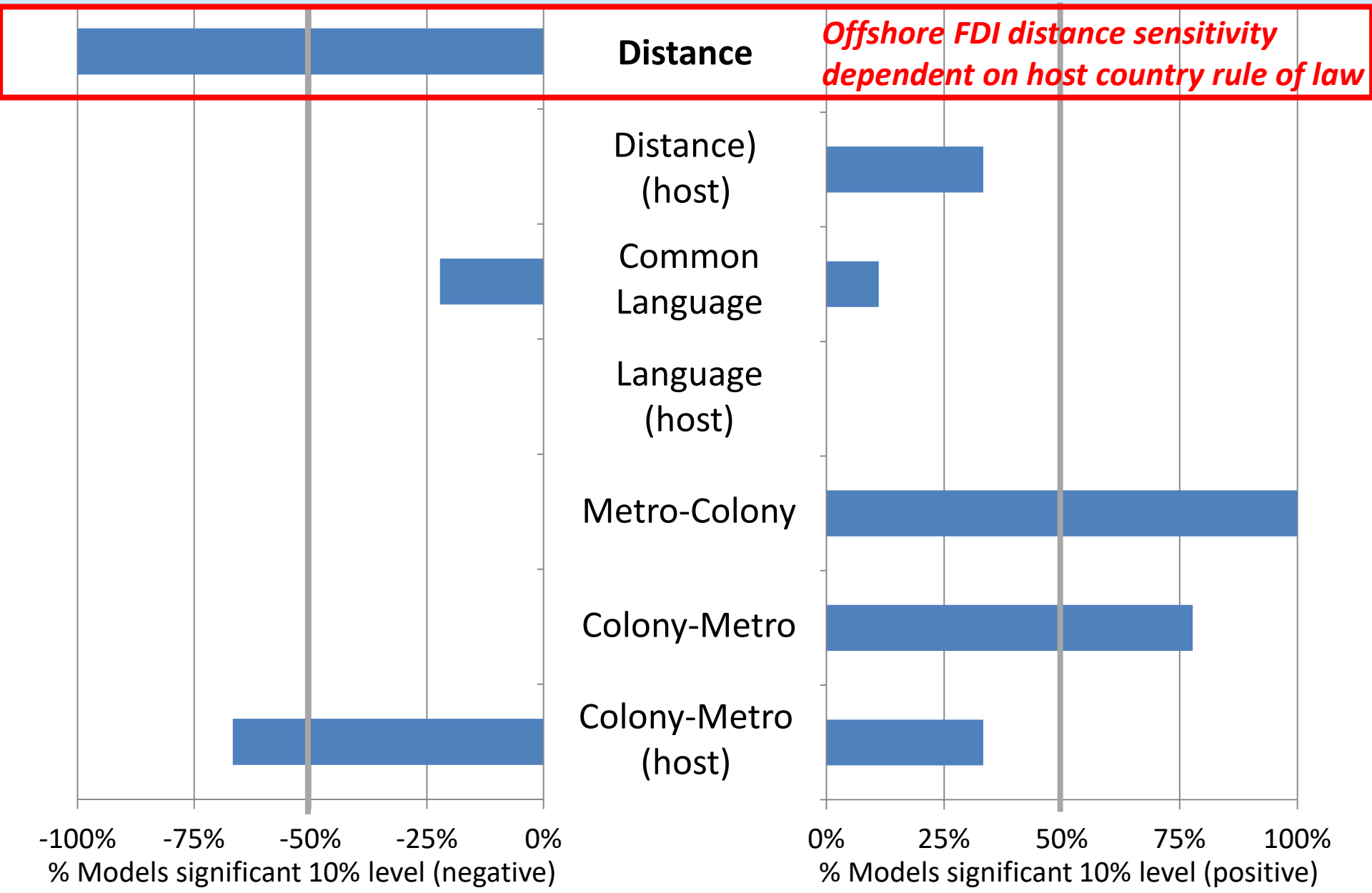
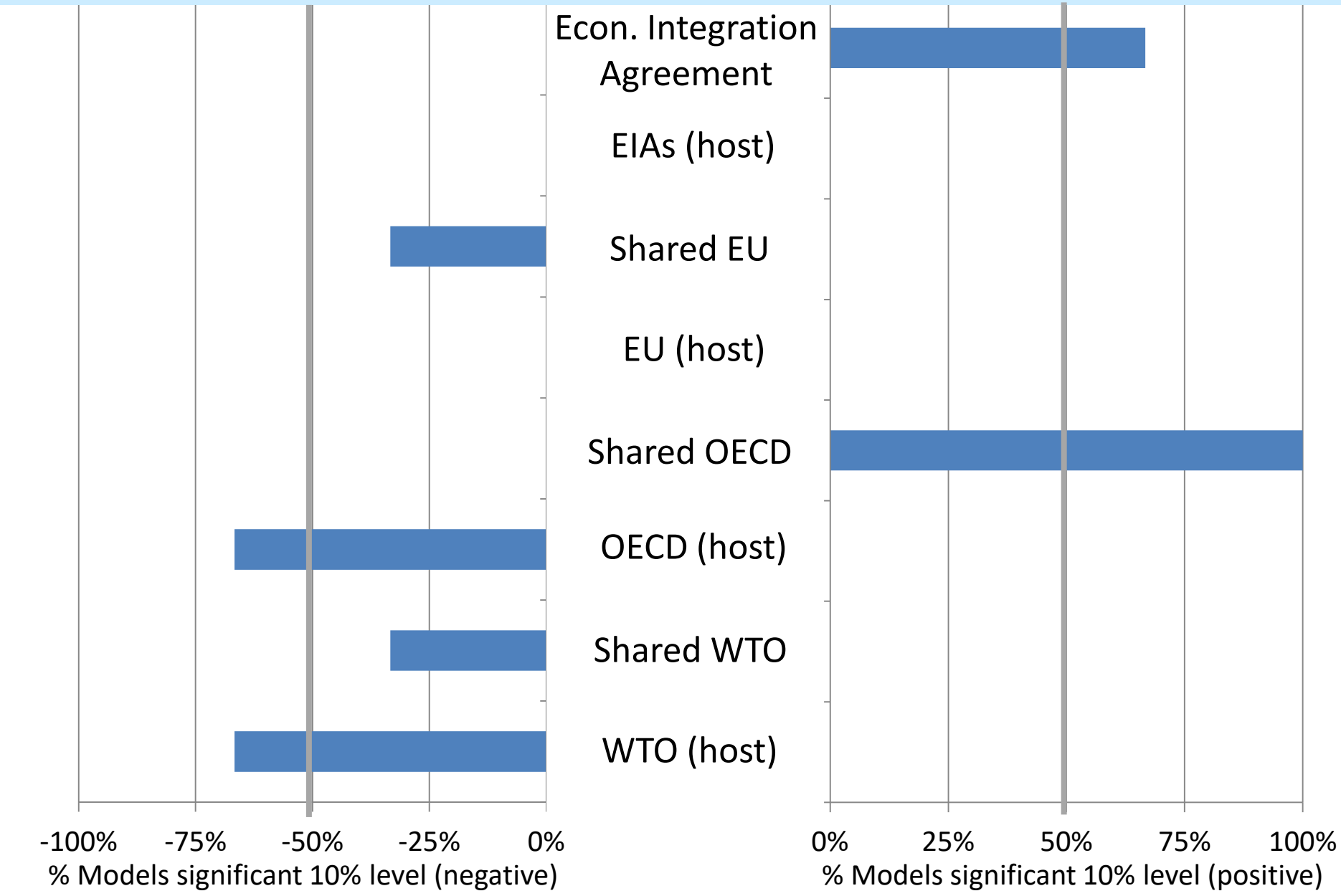


Economic Agreements Variables Results



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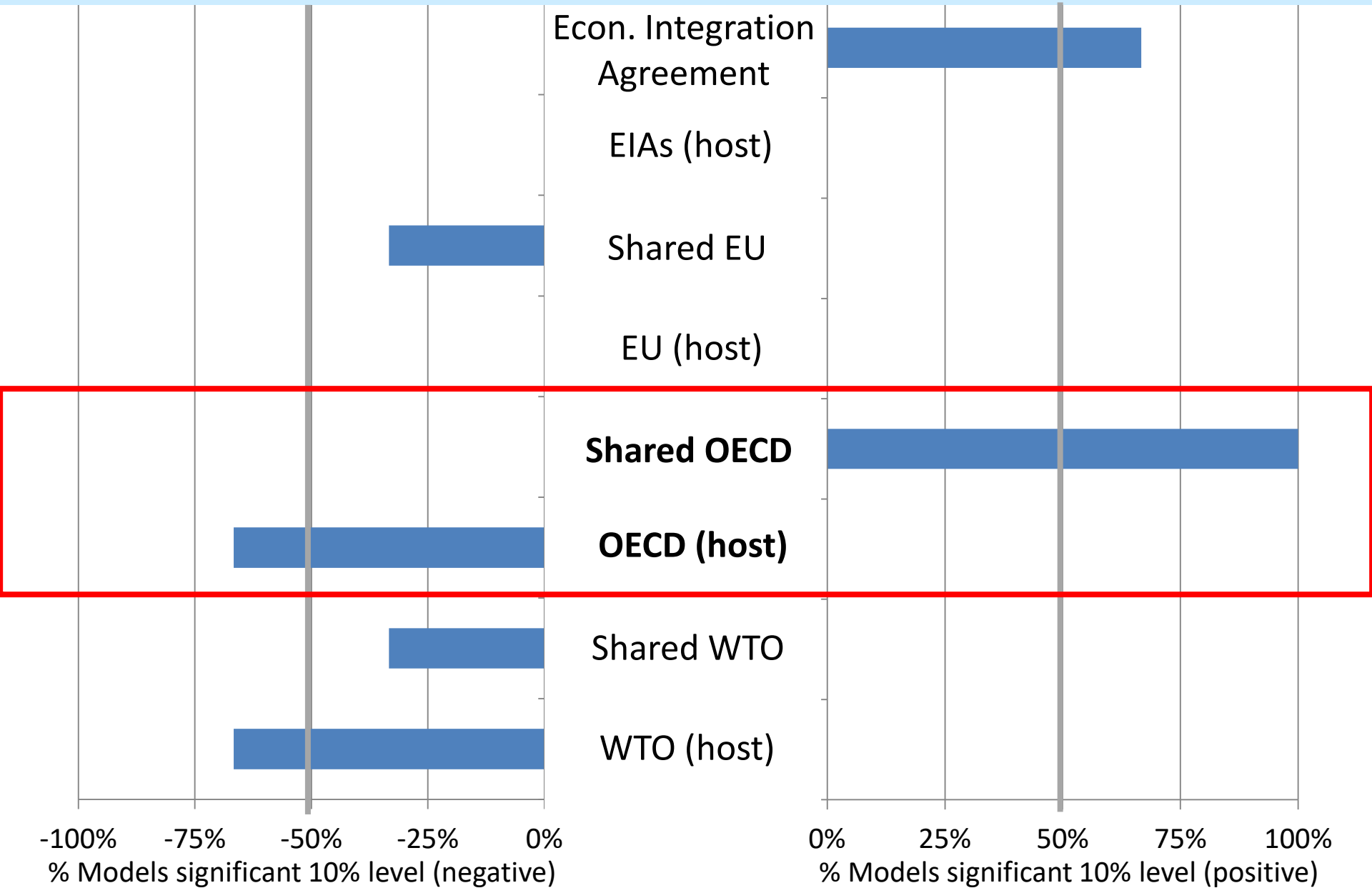

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- Individual data source limitations, but possible to integrate multiple micro and macro-level datasets to make them greater than sum of parts
- **Data issues (some):**
  - Crucial to account for inversions & data errors, but labor intensive
  - Orbis data quality uneven internationally – also potential biases (difficult to account for)
  - Massive outward-inward reporting asymmetries in official FDI data

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  - Convergent evolution of similar structures for divergent purposes (from nefarious to innocuous)
    - Limited “North-South” offshore structural divide in general (except apparent OECD offshore “club” effect)
    - Quantitative impact of communist history, but qualitative diversity in uses and composition
    - Impact of historical and relational path dependency / accretion

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    - Different countries will interpret the same transaction/structure differently

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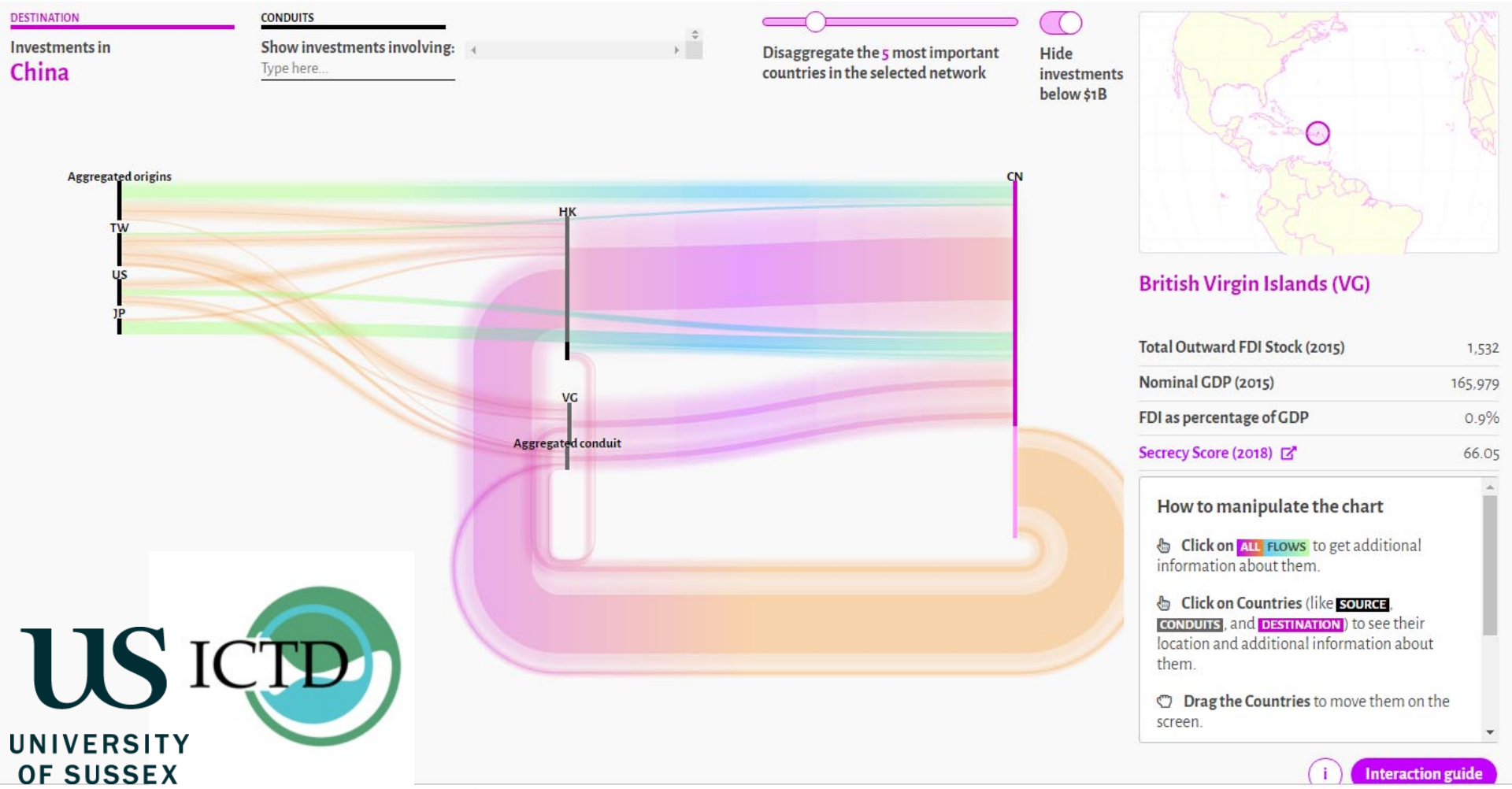
  - Question of how to measure progress in combatting tax-related “illicit” flows also very hard
    - Need to make sure apparent progress on IFF SDG indicators isn’t at cross-purposes to other SDGs
    - Race-to-the-bottom in corporate taxation can cause fall in value of both tax avoidance and tax collection

The Atlas of Offshore FDI



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Coming soon!

Thank You!

d.haberly@sussex.ac.uk