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## REGULATION OF OFFSHORE CENTERS AS A MECHANISM FOR DE-SHADOWING INTERNATIONAL BUSINESS

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**Abstract.** *The article examines the key problems of economic security caused by the shadowing of global business. The place of offshoring in international financial security is determined, and the impact of offshore centers on the growth of the shadow economy is analyzed. The authors identify the main directions of countries' struggle against the negative impact of offshoring. The study specifies the threats of offshoring and shadowing to economic security. At the same time, the results of the analysis demonstrated positive effects on national economies. The article provides a generalized scheme of regulation of offshore financial centers at the global level and suggests priority areas of anti-offshore regulation.*

**Keywords:** *offshorization, offshoring, global offshore centers, shadow economy, international economic security, business operations, capital outflow.*

### **Introduction.**

Currently, an active policy of combating offshore jurisdictions is being pursued at the global level. It is because tax-free and low-tax offshore zones (mainly island states) create significant competition for Euro-Asian countries with higher tax rates in the international market. They also pose a criminal threat due to the lack of disclosure and reporting requirements, which attracts individuals with the goal of illegal tax evasion and money laundering.

Sovereignty does not allow for interference in the state's internal politics, and each country has the right to set its own "rules of the game" on its territory. As a result, it is hard to resist offshores, but the more tools are found to influence these territories, the more diverse the methods of struggle. Let's look at the main areas of "anti-offshore" regulation, follow their development, and analyze the prospects for the near future.

### **Main text.**

To date, governments of several countries have tightened their policies related to the fight against offshore zones in two areas:

- Reducing the use of tax optimization schemes by companies through offshore zones;

- Increasing the role of cooperation between countries in exchanging information on the actual beneficiaries of offshore companies.

The biggest threat to the functioning of offshore centers and offshore zones is precisely the privileges and preferences provided by these territories, such as:

1) low taxation in offshore zones undermines the fiscal base of countries whose residents use offshore services. According to the most conservative estimates, the budgets of all countries of the world are deprived of at least USD 3 trillion hidden in offshore zones per year;

2) laundering of illegally obtained funds contributes to the growth of crime in all its manifestations, such as drug trafficking, human trafficking, terrorist financing, and crime. Offshore centers and zones encourage the shadowing of the economy and the expansion of international organized economic crime;

3) due to weak regulation of offshore financial transactions, the risk of uncontrolled flows of so-called hot money is growing, destabilizing the global financial system

4) harmful tax competition, profiteering from onshore countries to create an element of instability in the global economy and finance due to high potential capital accumulation in offshore zones, especially speculative ones;

5) contributing to unstable trends in the global economy and financial system due to the high potential for capital accumulation in offshore areas;

6) stimulation of negative social and economic situations in donor countries;

7) intensification of capital withdrawal, which leads to an aggravation of the shadow economy and a decrease in the development of social and industrial infrastructure;

8) granting unjustified privileges and preferences to certain companies resulting in unfair competitive conditions for medium-sized businesses.

Despite some negative aspects of doing business through offshore zones and offshore financial centers, this scheme has many advantages, namely:

1) intensification of cross-border financial flows and acceleration of the circulation of financial assets internationally;

2) stimulating financial flows and creating conditions for investment diversification;

3) increased access to loans and better transformation of capital, an incentive to reduce the level of tax pressure, which leads to a deepening of international financial flows;

4) reducing the risk of expropriation and ensuring the protection of property rights, which, in turn, can boost economic growth, especially in donor countries, contributing to the prosperity of those countries where offshore zones are located.

It contributes to a more harmonious development of the global economy as a whole and the competitiveness of companies at the national and global levels through the use of more flexible development strategies.

Offshore zones are becoming part of the financialization process that has spread through transnational banks and international financial markets not only to develop but also to developing economies [1, p. 356-357; 2]. Not only investment, foreign trade, and other ordinary transactions, but also the results of laundering the proceeds of corruption, drug trafficking, the slave trade, and other prohibited activities were conducted through international investment banks with branches in offshore jurisdictions that were not controlled by national regulators. This was demonstrated in the widely publicized case of HSBC, the world's largest investment bank. The English bank, accused of using a financial scheme for money laundering, terrorist financing, and drug trafficking, was fined \$1 billion out of a profit of \$22 billion.

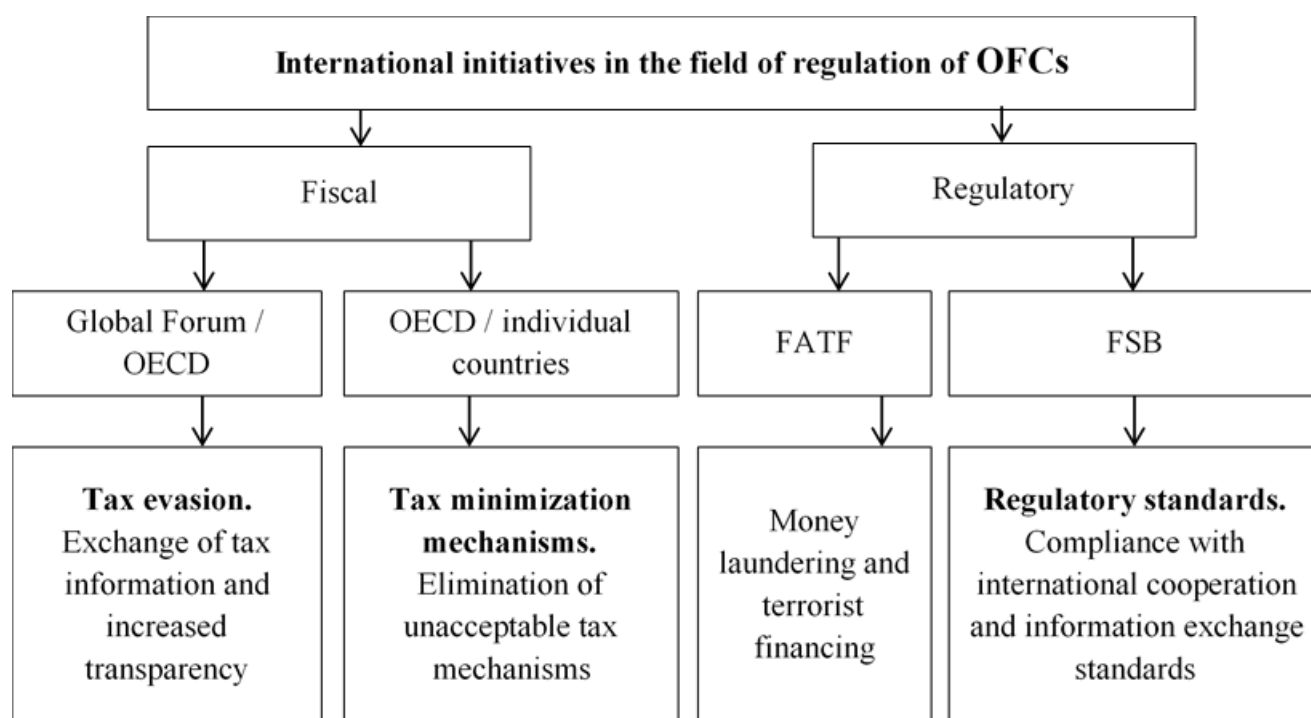
Thus, the relocation by multinational companies of some of their labor-intensive and non-environmentally friendly production to free economic zones, and then to offshore countries with cheap labor and low social standards, has mixed consequences in the developed economies themselves. First of all, it led to a reduction in the number of jobs. Then, based on the further growth of production in these centers, competition with more expensive products and services in developed economies has intensified. For example, in the case of the growth of the automotive industry in China, the market for medium-tech, but at the same time relatively labor-intensive finished products is shifting through free economic zones and offshore zones where transit companies are located to developing economies. It is one of the reasons why Western countries continue to oppose the growth of offshore economies, as the growing production uncontrolled by them, the emergence of qualitatively new products and services changes the balance of foreign trade flows, investments, and services in favor of developing economies.

The international regulation of offshore financial centers (OFCs) can be represented schematically (Figure 1).

The current international anti-offshore policy is carried out in the following priority areas:

- combating illegal tax evasion, increasing transparency, and expanding international cooperation in the exchange of tax and financial information (an initiative of the Global Forum on Tax Transparency and Exchange of Information);
- taking measures to develop a unified global tax policy (an initiative of the largest economies of the G20 and the OECD);
- ensuring financial stability and eliminating loopholes in financial legislation (IMF 7 & FSB initiatives);

- strengthening the fight against money laundering and terrorist financing (FATF initiative with the support of the IMF).



**Figure 1 - Scheme of modern international initiatives in the field of regulation of FCMs**

Source: developed by the authors based on [3].

### Summary and conclusions.

It is the states that play a key role in the fight against tax havens, and it depends on them whether offshore companies will remain "black holes" for capital flight and money laundering or they will turn into elements of the global economy mechanism that will contribute to international competitiveness. The activities of international organizations to combat tax havens create the appearance of a successful coordinated attack on offshore zones. However, a more detailed study of the position of individual states concerning offshore zones can significantly adjust this image. We are talking about the duality of the offshore policy pursued by the world's leading countries.

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