

Tax Havens as an Inseparable Element of Regional and Global Economy

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Abstract: The three recent major tax scandals, dubbed ‘Lux Leaks’ (2014), ‘Panama Papers’ (2016) and ‘Paradise Papers’ (2017), were on the front pages of the world’s most popular newspapers and the topic of prime time discussion on leading TV and radio stations. The reports spoke of hundreds of influential people from all over the world, as well as thousands of well-known companies and institutions with international reach. The common element between these businesses, companies, institutions and prominent persons from more than fifty countries was money; more specifically, each of the scandals involved hundreds of billions of dollars in unpaid taxes lost by treasuries of countries across five continents. Interestingly enough, the problem remains unsolved despite official efforts to curtail practices used in tax havens and the public outrage against concealing income by members of the establishment or well-liked actors and sportspeople. Have tax havens become an inherent part of regional and global economy? What do these countries really do? What is their role in the modern world? Who benefits from their existence and activities and who loses? Why is it such a difficult endeavour to reduce the scale of their operations, influence and reach? It appears interesting to attempt to provide at least a brief answer to these questions.

Keywords: Classification, Lux Leaks, Panama Papers, Paradise Papers, Tax haven.

1. Introduction

The existence of modern tax havens is undeniable proof of the age-old human drive to improve one’s own material situation. Seemingly, the simplest way of achieving this goal is to reduce the cumbersome taxes one must pay and tax havens meet precisely this need in society. Through their activities and the services they provide, they allow people, corporations, institutions and various financial organisations to avoid unnecessary fiscal obligations. It is all greatly facilitated in the global information era due to the ability to instantly send and receive data via electronic information carriers. Nowadays, it is possible to transfer capital and money without the need to physically store or transport it. Thus tax havens have become an integral element of the modern world’s economic activity, both regionally and on the global scale. Their services entail more than financial services, even in the broadest sense; due to their largely attractive location and their significant presence in some media, they also try to generate profit in other areas, such as tourism and recreation, architecture, undergraduate and postgraduate education, manufacturing and distribution of alcoholic products, industrial-scale production of gifts and souvenirs, production of numismatic products, printing postage stamps, creating and maintaining nature reserves, agriculture and farm animal breeding, legal and counselling services or advertising. They also profit significantly from staffing and servicing airplanes and cruise ships on local, national, international and sometimes even intercontinental routes. Despite the world economic powers declaring sanctions and restrictions to be imposed upon tax havens, they have mostly proved to be empty threats. The number of tax havens is increasing worldwide, the range of their services is growing and their political and economic state seems very promising and devoid of any major threats for the near future.

2. The Inception and Development of Tax Havens

The desire for liberty and freedom from taxation has long since driven countless people to seek out places where the burden of tributes and feudal taxes would be little to non-existent. Emigrating from one’s current residence could make

this dream into a reality – under certain conditions. Either completely uninhabited or scarcely populated regions are a good fit, as the necessary condition is the lack of well-established administration to levy taxes. Historically, hostile climates and peripheral locations and thus large distances from main communication routes did not seem to deter migrants, nor did even significant risk undertaken to reach the destination in the first place. An example of such a process is the expansion of the Nordic peoples to the Faroe Islands in the Middle Ages or the settling of the Vikings in Greenland and Iceland. Today, historians know that one of the reasons behind such ventures into the unknown was indeed excess taxation in Scandinavia. Similar phenomena happened in Eastern Europe beginning at the turn of the 16th century, when a new population was born, commonly called the Cossacks, which settled in the scarcely populated steppes to the south of today's Kiev, between the northern coast of the Black Sea and the rivers Dniester in Ukraine and Don in Russia. They were mostly fugitive feudal peasants trying to avoid tributes, servants who had fled from their masters, as well as criminals and unjustly convicted innocents. They came mostly from the territories of Lithuania, the Russian Empire, Moldavia, Wallachia and Poland. The Cossacks formed a classless, military-administrative society, organised like a military democracy. During the entirety of its existence, it fiercely guarded its rights and liberties, including by paying only a symbolic tributes to the state. In fact it was a dispute over the level of taxation that sparked conflict between the Cossacks and Moscow and, as a result of a Russian military intervention, led to the fall of the Zaporozhian Sich - the Cossacks' polity – in 1775. The aforementioned Faroe Islands, Iceland, Greenland and the Ukrainian „Wild Fields” – the territory of the Zaporozhian Sich – were areas where taxes had not existed for a long period of time, mostly due to lack of efficient administration to enforce them. As mentioned before, it qualified these regions as optimal migration territory, a safe asylum free of all tributes and tithes. Nowadays, a tax haven also functions as such an asylum, but the basis of its operation is not lack of fiscal laws, but rather the existence of very specific ones, as well as efficient cooperation between many financial institutions along with leniency of the local administrative services. Tax havens became an efficient administrative and political system only recently, near the end of the 19th century. The first instances of a tax haven to have developed were the U.S. states of New Jersey and Delaware and ironically, all the indications suggest that they are likely to be among the last to be dismantled. Both were not, and still are not, strictly speaking, tax havens, but may be credited as the originators of the technique of 'easy incorporation' which is used by all modern tax havens. Easy incorporation rules, to the point that today one can buy a company 'off the shelf' and begin trading in less than twenty four hours is one of the key aspects of the tax haven strategy. The concept began to develop during the 1880s. New Jersey was in dire need of funds. A corporate lawyer from New York, a certain Mr Dill, persuaded New Jersey's Governor, Leon Abbet, to back his scheme of raising revenue by imposing a franchise tax on all corporations headquartered in New Jersey. Laws of incorporations were at that time still highly restrictive in Anglo-Saxon countries (a long term effect of the 1720 South Sea bubble). Corporate headquarters were attracted to New Jersey primarily due to its liberal incorporation laws, and to some extent by its relatively low rate of corporate taxation. When the Delaware legislature debated the drafting of a new General Incorporation Act in 1898, it sought to emulate the success of New Jersey. Here, again, a group of lawyers from New York played a prominent role in drafting the proposed act. It was obvious at the time that Delaware was enacting 'liberal' laws to attract corporate business (Palan R., 2009). Soon several other states followed New Jersey and Delaware in legislating liberal fiscal law, effective until this day: Wyoming, Alaska, South Dakota, Nevada, Arizona, Louisiana and Mississippi. (Bloc S., Muhlbaum D., 2017). These American states may have in fact invented the technique of attracting non-resident companies by offering amenable regulatory environments. Since the 1920s, some Swiss cantons have copied this practice. Threatened by the depression of 1929 and in particular by the series of bankruptcies in Austria and Germany in the early 1930s, the Swiss assembly began to debate an Amendment to the Bank Law to safeguard the Swiss banking system. Contrary to original intention, the Banking Act of 1934, in article 47, strengthened the principle of bank secrecy by placing it under the protection of criminal law. The new Swiss law demanded 'absolute silence in respect to a professional secret', that is, absolute silence in respect to any accounts held in Swiss banks – 'absolute' here means protection from any government, including the Swiss. The law makes enquiry or research into the 'trade secrets' of banks and other organizations a criminal offence. The law ensured that once past the borders, capital entered an inviolable legal sanctuary guaranteed by the criminal code and backed by the might of the Swiss state (Palan R., 2009). Soon after WW2, the London government followed the example of the Swiss and created their own tax haven in their then-colonies Bermuda and the Bahamas. Ever since, the process of establishing new tax havens started intensifying. While back at the end of the 19th century there were only two areas whose legal structure resembled that of an imperfect tax havens (the US states of New Jersey and Delaware), in 1934 the first such actual territory was created in Switzerland, and by the end of the 1940s there were three or four of them. In the 1960s, either six or seven areas worldwide could be considered active tax havens, and at the beginning of the second decade of the 21st century, in 2011, there were 66 of them. Today, in 2018, their number is estimated to 73 and new ones are arising as we speak. They currently exist on all continents or in their immediate vicinity (e.g. the Kingdom of Tonga,

Niue or the Republic of Vanuatu, all located close to Australia on the Pacific Ocean), with the exception of the frigid, uninhabited Antarctica.

3. The Concept and Characteristics of a Tax Haven

Since the name ‘tax haven’, while accurate, carries a very negative connotation to the broader public, the countries or dependent areas to which it refers strongly prefer to call themselves ‘international finance centres’. Practically speaking, however, they are typically referred to as either ‘offshore areas’ or ‘offshore jurisdictions’. As the name implies, offshore firm, while typically registered on a tax haven’s territory, in reality operate outside its borders (Grzywacz J., 2011) and their legal status is most often a company. Both production and services can be offshored. Banks, insurance companies, hedge funds, private trusts, manufacturing companies and various commercial firms are often offshore companies. Conventionally, to qualify as a tax haven, an area should have several specific characteristics and fulfil certain requirements, at least for the foreign investor. The most important of them are (Gluchowski J., 1996):

- low tax rates – most importantly;
- a stable political and economic situation;
- strict financial and banking secrecy legally and functionally enforced;
- no foreign exchange controls;
- the possession of modern telecommunication and digital transmission media;
- reliable transport connections to the entire globe;
- a convenient and liberal legal system;
- the ability to cater to an investor’s individual needs.

Theoretically, a tax haven is supposed to offer companies, institutions and individuals more favourable financial terms than their home country would, and as recognised by international fiscal law, this is their economic area of operation. There are various legal offices, counselling companies and brokers that can assist one in this endeavour. It is no secret, however, that these businesses step far outside the bounds of international law with the help of liberal laws, favourable attitudes of local governments, as well as banking and financial secrecy, and will miss no opportunity to quickly make a large profit for their customer. The ‘Lux Leaks’ (2014), ‘Panama Papers’ (2016) and ‘Paradise Papers’ (2017) scandals have clearly shown that tax havens are indeed very far from simply a fiscal relief for individuals and international companies. Instead, their real objectives are to help obfuscate their clients’ actual earnings, conceal large amounts of illegally acquired funds and launder then immediately recirculate dirty money – the latter being the most profitable. Dirty money typically comes from illegal activity, such as drug dealing, organ trafficking, antique and general smuggling, human trafficking or prostitution. However, services of tax havens are employed also by the governments of international political giants – for gun trade, bribing politicians, financing revolutions in countries with the ‘incorrect’ political orientation, securing lucrative construction contracts, offering bribes or ‘gifts’ in exchange for the ability to place favourable orders for national industry, financing political oppositions, supporting various radical organisations, getting together right-wing quasi-guerrilla groups, engaging in hybrid warfare or ransoming hostages.

4. The Classification of Tax Havens

Efforts to clearly and consistently classify tax havens go in tandem with the rapid process of their formation. To date, there are a dozen or so different but consistent classifications. These divisions are made along the lines of the most characteristic criteria of tax havens, and several examples are given in subsequent chapters; by no means do they include all the relevant territories, they merely exemplify the subject.

4.1. Tax Havens by Geographical Location

Nowadays, tax havens exist everywhere on the planet, with the exception of the inhospitable Antarctica; this is to be expected, however, as it is an uninhabitable land. Below is a list of examples of tax havens on each of the other continents:

- Africa: Botswana, Djibouti, Gambia, Liberia, Mauritius, Morocco (a free economic zone in Tangier), Namibia, South Africa, Senegal, Swaziland, Tunisia.

- Northern and Central America / The Caribbean: the Netherlands Antilles, Belize, Barbados, the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands, Panama, Saint Lucia, Saint Pierre and Miquelon, the US (Arizona, Delaware, New Jersey, Oregon and Nevada).
- South America: Bolivia, the Republic of Guyana, the Falkland Islands, Peru, Uruguay.
- Australia and Oceania: the Cook Islands, the Republic of Fiji, Guam, the Republic of Kiribati, Samoa, the Kingdom of Tonga, the Republic Nauru, Niue, the Republic of Palau, Solomon Islands, Tokelau, the Republic of Vanuatu.
- Asia: Bahrain, the Nation of Brunei, Hong Kong, the Kingdom of Jordan, Kuwait, Macau, Mongolia, Singapore, Lebanon, Labuan (a federal territory of Malaysia), Qatar, United Arab Emirates.
- Europe: Andorra, The Channel Islands (Jersey, Guernsey, Alderney), Gibraltar, Liechtenstein, Malta, the Isle of Mann, Madeira, Monaco, Switzerland, Svalbard, the Grand Duchy of Luxembourg.

There are reasons behind the fact that tax havens are located even in the furthest parts of the Earth. Firstly, they often form a symbiotic relationship with global financial hubs. Secondly, they contribute to rapid economic growth of their territories, and in consequence, of neighbouring territories as well – often underdeveloped themselves. Finally, they improve the local economic situation in a constant and balanced manner and even in unfavourable times.

4.2. Tax Havens by their Fiscal Situation

Tax havens can be divided into six different groups based on their fiscal situation as per their current laws (Gluchowski J., 1996). This classification included a variety of state organisms: sovereign countries, dependent territories, autonomous areas, as well as certain still existing dependencies and colonies.

Group 1: Countries which do not impose any taxes upon residents. By their nature, they are closest to the epitome of a ‘tax haven’ to those for whom they would provide services and economic security. There are two such areas, where no tax is levied by the state – the Bahamas and the Principality of Andorra, a country in the Pyrenees.

Group 2: Countries and territories where only profits made domestically are taxed, while foreign profits are tax-free. This category includes Costa Rica and Hong Kong (officially the Hong Kong Special Administrative Region of the People's Republic of China, which will benefit from privileges it gained during the British rule at least until 2047).

Group 3: Countries which do not impose tax on domestic profits or capital, but do on foreign profits. An example of this is Monaco. All companies established there are treated as residents of Monaco, but even foreign firms can be ran and administered via local companies, which then does not impose any tax burdens upon the foreign company itself (Lipowski T., 2002).

Group 4: Territories which do tax foreign profits of resident companies, but the tax is extremely low – even below 1%. This category includes the Channel Islands (Jersey, Guernsey, Sark and Alderney), located near the French coast. However, companies registered there must employ local residents as fake bosses in order to observe the current laws.

Group 5: Countries where tax is levied upon accumulated wealth (material goods) and not on current profits. This category includes Uruguay, located near Rio de la Plata.

Group 6: Areas where a combination of beneficial fiscal laws applies to natural persons. In southern Spain, for example, taxpayers who are also retired register their companies. This way, they are free from income tax and at the same time can run their business in Gibraltar, the nearby British colony. On this island there is no tax on stock profits or dividends, and neither is there VAT. Resident companies’ foreign profits are not taxed, either, while local income is taxed at a relatively low rate of 10%. (Turalinski K., 2014).

4.3. Tax Havens According to their Reputation

Another interesting criterion of division of tax havens can be established by considering the international reputation they have. Two major groups can be outlined this way. Areas classifiable as tax havens can be divided into the following (Turalinski K., 2014):

Group 1: Those discriminated against by the OECD countries (the Organisation for Economic Co-operation and Development). Infamy with the OECD can be gained by any of the following: laundering dirty money, unfair tax

competition, keeping deposit accounts of people discredited in the public eye (e.g. dictators or leaders of pro-terrorist countries), lack of transparency in regard to current fiscal laws, lack of compulsory disclosure of information about personal accounts, breaking the terms of exchange of tax information agreements enforced by the current legal system. This category includes Barbados, the Bahamas, Belize, Brunei, the Dominican Republic, Gambia, Gibraltar, Hong Kong, the Cayman Islands, Costa Rica, Liberia, the Grand Duchy of Liechtenstein, Macau, Panama, Samoa, Saint Lucia, Saint Vincent and the Grenadines, Turks and Caicos Islands, the Republic of Seychelles and the Channel Islands. Switzerland is also often listed as part of this rather dishonourable collective.

Group 2: Those uncontroversial but which de facto either actually offer lucrative taxation to businesses with foreign capital or are gateways between tax havens and target markets. Countries from this group arouse justifiable suspicions as to whether they operate outside the bounds of international sales law, but the actions of financial institutions there are more transparent. They are also not officially blacklisted by the OECD. This category includes the USA (the states of Nevada, Delaware, New Jersey, Wyoming, Florida and Alaska), Great Britain (the City of London), the Republic of Ireland, Northern Ireland, Bulgaria, the Principality of Monaco, Lithuania, the Grand Duchy of Luxembourg, the Netherlands, United Arab Emirates.

5. A New Approach to the Classification of Tax Havens

Existing economic theories can be used to describe the current events taking place in the area of operation of tax havens. Regional policy and regional growth theories seem particularly useful in framing data and accounting for phenomena occurring around tax havens after fitting them to current conditions and adjusting for the specifics of the area of interest. One such idea which, after necessary modifications, may be useful to describe how tax havens operate, is Raúl Prebisch's core-periphery theory.

5.1. Raúl Prebisch's Core-Periphery Theory

Raúl Prebisch, a German-born Argentinian, is credited as the originator of the core-periphery theory in economy. Both economist and politician, he focused his attention on the issue of growth of South American countries. He laid the foundation for his new theory in the second half of the 1940s, after which it became the basis of another theory – the dependency theory, very popular in the in the 1950s and 60s. It described the process of economic growth of developed countries (ex-colonial metropolises and industrial powers) by acquisition of goods and materials from developing countries (Przygoda M., 2013). Dependent development as described in the theory means that the form and functioning of peripheral countries is subordinate to the needs of the core countries (Hryniewicz J. T., 2010). Indeed, the very growth of peripheral areas is dependent on the growth of the core (Kundera J., Szmyt W., 2008). Prebisch's theory is universal in that the mechanisms conditioning the core-periphery relationship are fractal, that is – observable on every scale: local, regional, national, international and global. Prebisch drew his conclusions by analysing the influence of the developed US economy on the entirety of South America, focusing particularly on outflow of elements such as capital and employment. According to Prebisch's theory, the core can influence the periphery both positively and negatively. The phenomena related to the core's positive influence have been grouped under the umbrella of 'diffusion' (or 'spread'), while the negative are termed 'suction' (or 'backwash'). Spread may include, for example, transfer of know-how to the periphery, new technologies, the positive influence of innovation, the inflow of capital, new investments, the introduction of higher and more uniform standards, higher quality of production and services. The core's optimal economic situation and growth of the generally influences positively the periphery's situation to the point where even territories with no capacity for self-improvement may develop if they grasp opportunities for growth provided by the core. On the other hand, examples of backwash may include unequal trade, economic and political dependence, the outflow of the intellectual and enterprise elites, disadvantageous division of labour or the core's monopoly on education centres (on many levels of education) and research hubs (Szul R., 2007). Initially, the theory suggested that to avoid backwash, the periphery must break free from the core's dominance. However, with progressing globalisation and the growing perception of its benefits, the idea of separating the periphery from the core has lost its merit.

5.2. Tax Havens in the Core-Periphery Paradigm

Capital and funds accumulated in a tax haven's bank accounts are supposed to further increase their owner's wealth. This includes dirty money obtained from arms trade, drug trafficking, human trafficking, prostitution and other illegal activities. To work, these funds should then return to circulation – and they sometimes amount to hundreds of billions of dollars. Therefore after laundering, the money should be transferred to a large and relatively developed market in

order to melt into its surroundings. This is why most tax havens are almost always connected to major global financial hubs; moreover, it is in the best interest of these most economically developed regions to support and take the advantage of the existence of tax havens. One can even discover a sort of a geographical and cultural pattern to the planning and execution of these dealings. When further analysed, this relationship stands out as a classic core-periphery model as described by Prebisch.

5.3. Tax Havens in Core-Periphery Systems

In core-periphery systems involving tax havens, cores consist of former colonial metropolises and current industrial giants, while small countries and the few fiscally friendly colonies and dependent territories that still exist today form the peripheries. Presented below there are several most significant economic systems in terms of core-periphery relationships.

Group 1:

- Core: London (more precisely – the City of London), Great Britain.
- Periphery (geographically nearer): the Isle of Man, the Channel Islands (Jersey, Guernsey, Sark, Alderney), Gibraltar, Northern Ireland, the Republic of Ireland, Malta.
- Periphery (geographically further): Barbados, Bermuda, Saint Lucia, Saint Vincent and the Grenadines, Turks and Caicos Islands, Saint Kitts and Nevis, the Pitcairn Islands, the Cayman Islands, the British Virgin Islands, the Falkland Islands, the Seychelles, the Kingdom of Tonga, the Republic of Fiji.

Commentary: The reason Great Britain could afford Brexit is that it is not economically dependent on the European Union – in London there is a de facto extraterritorial financial enclave regulated by a special bylaw: the City of London (commonly called the Square Mile since that is roughly its territory). It is one of the three most significant financial hubs in the world. The City of London hosts about 80% of European hedge funds and has its own stock exchange and several raw material exchanges. The Square Mile is also home to a great number of legal offices, as well as dozens of banks and insurance companies. Over 50% of all worldwide stock exchange operations take place on the London Stock Exchange. The City of London is considered to be the best organised tax haven in the world, funded with trillions of dollars' worth of capital flowing in from every corner of the planet. It uses its connections to tax haven countries of the former British Empire, as well as the English-speaking Commonwealth tax havens. It is the epitomic core-periphery relationship, based on a diffusion of innovation, financial know-how, investments and knowledge into underdeveloped countries, but with a backwash characterised by suction of capital and of the most qualified specialists, as well as uneven division of labour and economic and political dependency. Still, this decades-old system has made it possible for British overseas territories and colonies to make a giant civilisational leap and drastically improve the living standards of their denizens.

Group 2:

- Core: New York, the United States of America.
- Periphery (nearer – within the USA): Nevada, Delaware, New Jersey, Wyoming, Florida, Alaska, Arizona, Oregon.
- Periphery (further): the Bahamas, Puerto Rico, Guam, the Dominican Republic, the Virgin Islands of the United States, the Territory of American Samoa, the Territory of Guam, Panama, Costa Rica, Liberia, the Republic of Palau.

Commentary: The United States of America is considered to be the greatest economic force in the western world. The New York Stock Exchanges and NASDAQ, as well as banks in the Manhattan and their financial partners, all work in unison to make the US dollar the only global currency. Combined with the USA's political influence and military power, this makes it difficult for anything major in the world to happen without Washington's knowledge and approval. Hundreds of thousands of major American companies exploit the existence of tax havens in order to remain viable competitors and take advantage of all business opportunities. They transform into offshore companies, relocate to somewhere near the American continent and make money hand over fist by paying minimal taxes. Having saved up hundreds of billions of dollars this way, they then transfer it to the financial core of Manhattan. This procedure has flourished entirely legally for decades. Smaller American businesses without the international reach can still conveniently reduced their tax burdens on the national market: should they not want to take the greater risk of offshoring, they can establish their headquarters in a fiscally friendly state – Nevada, Delaware, New Jersey, Wyoming,

Florida, Alaska, Arizona or Oregon. At any rate, American companies' profit margin is ever increasing as they keep successfully and legally offshoring, as illustrated by Figure 1:

Figure 1: The United States Effective Corporate Tax Rate (1947–2011), US Federal Reserve via Wikimedia from <http://qcostarica.com/these-five-countries-are-conduits-for-the-worlds-biggest-tax-havens/>



American companies use clever and legal tactics to offshore profits and reduce their tax burden.

To acquire capital and funds from across the globe, the New York core uses the connections with its peripheries – federal territories and independent post-colonial countries, either formerly British or Spanish (Barbados, the Bahamas, and Puerto Rico). The NYC also has one more instrument to assist its global financial operations: the stock exchange of Euronext, the former consortium of several stock exchanges (the Paris, Amsterdam, Brussels and Lisbon stock exchanges) working as one for mutual gain. In 2006, the conglomerate was acquired by the New York Exchange, forming NYSE Euronext – which was, of course, headquartered in New York.

Group 3:

- Core: Shanghai (the People's Republic of China).
- Periphery (nearer): Hong Kong, Macau.
- Periphery (further): Mongolia, Russia, Europe.

Commentary: Nowadays one has no choice but to view the People's Republic of China as an economic superpower. Estimates indicate that China's GDP has already matched that of the United States in 2014, although as the data comes from a Chinese website, it is not universally considered trustworthy. As to the nearer periphery, it consists of two 'gateways' to China – firstly, Hong Kong, inherited by China from the British in 1997, with its excellent economic and financial infrastructure; secondly, the small country of Macau, a territory remaining to an extent in the shadow of Hong Kong and having a much smaller economic potential, inherited from the Portuguese in 1999. Both these areas are designated special administrative regions and will retain their economic and political systems for at least several more decades. Shanghai, with a population of over 24 million, is located on the shore of the East China Sea and houses one of the three Chinese stock exchanges, the Bank of China, the New Development Bank, which is connected to the BRICS nations, as well as the Shanghai Gold Exchange (SGE). As opposed to Hong Kong, Shanghai itself is supported by the government of China and the Communist Party of China. It is an economic core of a vast coastline which is basically a special economic district. It also has the advantage of a strategic location: essentially equidistant from Japan, Taiwan and South Korea, it is the home port of dozens of ships which, loaded with products of China, set sail from there every day, outbound to the USA, Australia, New Zealand, other Southeast Asian countries and South America. Mongolia, stuck in the middle of the Asian continent, with no access to the sea, has all but become a satellite country of China, but Beijing's ambitions are far greater. China and Russia have been forming ever-closer economic and political bonds for many years, to the point where the Chinese influence on Russia caused Moscow to turn the

rudder of their national economy and politics from Europe-oriented to Asia-oriented. Still, China's aspirations and expansions are even greater than that – through the New Silk Road, Europe has also found itself in the Middle Kingdom's area of influence.

Group 4:

- Core: Tokyo (Japan)
- Periphery (nearer): South Korea.
- Periphery (further): Singapore, Brunei, the Federal Territory of Labuan (federal territory of Malaysia).

Commentary: Until the global financial crisis of 2007, Japan was the economic leader of Southeast Asia and a model core of a core-periphery system, where Tokyo was the structural centre, while the periphery was made up of the 'Asian tigers' – several quickly developing countries including Taiwan, Thailand, Brunei, the Philippines, Singapore, Hong Kong and South Korea.

However, due to the breakdown of its banking system, Japan was overtaken by China as the leader of the Far East. This is why, after the former Empire's power has waned, merely remnants of what could have been a Japanese economic zone are still functional.

Group 5:

- Core: Moscow (the Russian Federation)
- Periphery (nearer): Lithuania.
- Periphery (further): Bulgaria, Cyprus, the Republic of Nauru (until the end of the 20th century)

Commentary: The Russian Federation suffers from a lack of a proper periphery of their own and though it has for several decades made desperate attempts to establish it somewhere on the globe, these attempts always produce the same negative outcome. Russia's scheme of laundering dirty money in the Republic of Nauru at the end of the 1990s did not succeed, and neither did its later attempt to make Cyprus dependent on the capital fed to it by Russian oligarchy. However, Russian businessmen do appreciate the friendly Cypriot administration and their modest taxation. In 2013, before the collapse of their economy (the banking sector), there were over 40 thousand Russian companies registered on the island and Russian assets in Cypriot banks totalled to about 20 billion dollars. Back in 2004, the Republic of Cyprus was one of the wealthiest new members of the European Union; in 2001, their GDP amounted to 11.9 billion euros (15.600 euro per capita). Their economic growth rate was 2% in 2003 and the unemployment rate was a mere 3.5% and by then, Cyprus was already the second largest foreign investor in Russia – after Germany and just before the US. In 2011, according to the US Department of State, Cyprus invested over 70 billion dollars in Russia, making it – at least on paper – the Federation's largest business partner. Almost 50 thousand Russians either live or work on Cyprus, and in the island's capital – Limassol – they account for about 17% of the 180 thousand Cypriot citizens. Three exclusively Russian papers are published in the country and many shops and restaurants have Cyrillic script signs and traditional Russian products, goods and dishes (Korejba J., 2013). Due to its vicinity, almost 100 thousand Russian tourists visit Cyprus yearly. However, ever since Cyprus became a member of the EU, the condition of Russian interests there slightly deteriorated, as the government of Cyprus is now forced to comply with directives from Berlin and Brussels. Moscow, on the other hand, needs to try their luck with another region. Currently, their eyes are set upon the long-standing area of Russian influence – Lithuania and Bulgaria – although both are also members of the European Union.

Group 6:

- Core: Frankfurt (the Federal Republic of Germany)
- Periphery (nearer): the Principality of Liechtenstein, the Grand Duchy of Luxembourg, Kleinwalsertal and Jungholz (Austrian exclaves in Germany), Büsingen (German exclave in Switzerland).
- Periphery (further): Switzerland (the canton of Zurich, both Basel half-cantons, the cantons of Bern, Luzern, Zug, Schwyz, Uri, Glarus and St. Gallen).

Commentary: The Federal Republic of Germany is the most developed and economically powerful country of Western Europe. It is the engine driving the entirety of the European Union. Most major decisions concerning the future of the European federation are made in its capital of Berlin. Germany is also home to the Frankfurt Stock Exchange, one of

the four greatest such institutions by market capitalisation. In many areas German companies are unrivalled due to the quality of production, innovation and modernity.

Brands such as Daimler AG (Mercedes vehicles), BMW, Allianz, Siemens AG, Deutsche Telekom, BASF, ThyssenKrupp, Bayer AG, TUI, Man AG, Continental AG or Lufthansa are certainly household names. In 2014, however, a group of individuals associated with the International Consortium of Investigative Journalists (ICIJ) disclosed the results of an investigation into the documents leaked earlier from the consulting company PricewaterhouseCoopers (PwC). The enquiry proved that more than 340 international corporations were avoiding taxes by utilising beneficial fiscal laws in Luxembourg. The group included international businesses such as IKEA, Apple, Pepsi, Citigroup, Credit Suisse, HSBC, J.P. Morgan, Merrill Lynch, Gazprom or Fiat as well as renowned German companies, among others: Bayerische Landesbank, Commerzbank AG, Gildermeister Group, WGZ Bank, IVG Immobilien GmbH, Ärztekammer Westfalen Lippe, the Volkswagen Group and Landesbank Baden-Württemberg (Bird M., 2014). The scandal uncovered by the journalists went down in history by the name of Lux Leaks. The facts clearly showed that even a law-abiding country such as Germany can be home to frauds on a massive scale. Soon after, again thanks to the work of the ICIJ, details of a mass tax avoidance scandal dubbed the Panama Papers came to light. It earned its name due to the fact that the incriminating documents were leaked from an office of the company Mossack Fonseca, based in Panama. This time the issue involved extremely popular and influential people attempting to conceal their funds within tax havens. The list contained names such as Vladimir Putin, the Chinese Prime Minister Li Peng, King Salman of Saudi Arabia, the Syrian president Bashar al-Assad, the masses' favourite star football player Lionel Messi or some family members of the British Prime Minister David Cameron. Unfortunately, German citizens were among some of the names as well. Hundreds of well-respected individuals were named (Panama Papers, 2016). In 2017, another scandal broke out when confidential information concerning individuals' bank accounts was leaked, revealing that they also concealed their funds in tax havens. The scandal is commonly known as Paradise Papers. The list of offenders included people from around the world, including the British Queen Elizabeth II and, unsurprisingly, further German names. Overall, the three scandals show that to lower the tax burden, even citizens of a country like Germany seek out relevant opportunities in the nearby areas (Luxembourg, Liechtenstein, Switzerland) or more remote ones (the Cayman Islands, Panama, Bermuda). The efficient and precise core-periphery is a great temptation to all.

Group 7:

- Core: Paris (France)
- Periphery (nearer): the Principalities of Monaco and Andorra.
- Periphery (further): Saint Pierre and Miquelon, French Polynesia, New Caledonia, Djibouti, Tunisia, Réunion, French Guiana, Lebanon, Switzerland (the cantons of Vaud, Valais, Jura, Geneva, Neuchâtel, Fribourg).

Commentary: Immediately after the British government, France became the second European economic power. The French authorities attempt to gain leverage in deciding the fate of Europe by close economic and political cooperation with Berlin; however, France also has aspirations towards its own independent politics on an international scale. As one of the nuclear-armed states and a standing member of the United Nations Security Council, France continually attempts to actively engage in Asia and Africa using political, economic and military means, mostly successfully. This process is greatly facilitated by the countries of the so-called Francophonie which used to be French colonies or mandate states (e.g. Lebanon). This core-periphery system works especially efficiently when France uses its connections with outside departments, commonwealths and dependent territories still under their control. To avoid taxes, companies and the richest individuals often employ the services of specialised institutions based in the Swiss Confederation. The Swiss cities of Lausanne, Delémont, Bern, Neuchâtel Fribourg and Geneva are financial hubs which are especially strongly focused on servicing French customers.

Group 8:

- Core: Sydney (Australia)
- Periphery (nearer): New Zealand.
- Periphery (further): Samoa, Niue, the Republic of Nauru, Tokelau, Salomon Islands, Cook Islands.

Commentary: Australia and the nearby New Zealand form a tightly knit binary economic system. This pair of nations is currently the dominating political and economic axis in the South Pacific region (Przygoda M., 2017). Common cultural heritage and shared interests, as well as the legacy of British colonialism, have all provided a firm fundament

for a solid core-periphery system. It is currently, however, threatened by very aggressively expansionist policies of China.

Group 9:

- Core: Rome (Italy)
- Periphery (nearer): San Marino, Vatican City, Livigno and Campione d'Italia (Italian enclaves in Switzerland).
- Periphery (further): Switzerland (the cantons of Grisons and Ticino).

Commentary: Due to Italy's economic weakness, the core-periphery system is merely illusory here. Italians will rather use the connections with the neighbouring Switzerland's Italian- or German-speaking cantons than with the tiny Republic of San Marino. The richest Italian citizens and shady Italian companies are also more likely to attempt to avoid taxes through the powerful City of London, as evidenced by the 1983 scandal involving Banco Ambrosiano, an Italian bank connected to the Holy See.

Group 10:

Core: Amsterdam (the Netherlands). Periphery (nearer): none

Periphery (further): the Netherland Antilles (Curaçao, Sint Maarten, Bonaire and Sint Eustatius)

Commentary: The Netherlands is the biggest conduit to offshore tax havens in the world. Only five big countries act as conduit-OFCs (offshore financial centres). Together, these five conduits channel 47% of corporate offshore investment from tax havens. The two biggest conduits by far are the Netherlands – 23% and the United Kingdom – 14%, followed by Switzerland – 6%, Singapore – 2% and Ireland – 1% (Dutch News, 2017). However, the Netherlands typically rather uses the British Virgin Islands and the Cayman Islands to transfer funds. They do use their former Caribbean colonies such as Curaçao and Maarten to acquire their funds, but only to a limited extent; this is a case of a fairly weakly outlined core-periphery system.

Regardless of the strength of relationships between the core-periphery systems, it can certainly be said that they do exist. As outlined by the above examples, for some of the territories the system is in the process of dismantling, while for others it is strengthening by the day. Given the aforementioned facts, it is then certainly true that tax havens are an integral element of modern economy, both global and regional.

6. Conclusion

It is understandably controversial for companies and influential people to employ the services of tax havens. Even though public distaste for such dealings arises mostly due to media reports and commentaries – as the press and broadcasting companies tend to focus more on the sensational aspects of such events – it is nevertheless true that there is a very delicate matter of avoidance of fiscal burdens by the most privileged. Additionally, the line between tax avoidance and tax evasion is very thin. While tax evasion causes millions of dollars' worth of budget holes for various countries and is forbidden by law, tax avoidance, in addition to obviously facilitating the projects and investments of companies employing it, is not illegal. Many countries take individual legal measures and impose economic sanctions against tax havens (Lipowski T., 2004). Well organised activity is undertaken by the OECD countries and the EU, but there are also other international special interest groups consisting of the most important players in the international finance game. Examples include the Group of Four (France, Germany, the UK and the US) or the Federation of Tax Administrators, an organisation with similar goals and mission statement, consisting of Australia, Japan, Canada and the US. However, these bodies seem to largely fail to produce the expected results. The number of tax havens offering their services is increasing at an ever faster rate. In an attempt to explain the phenomenon of a tax haven, I have adapted the core-periphery theory formulated by Raúl Prebisch as far back as the middle of the 20th century. Modified to fit the context of tax havens, it suggests that the development of peripheral countries will depend on the development of the core. However, the reverse is also true: the core grows exponentially by utilising capital and human resources from the periphery – the core and the peripheries are therefore, perhaps non-intuitively, interdependent. Hopefully, I was able to present my improved version of Prebisch's theory clearly and concisely using real-life economic examples.

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