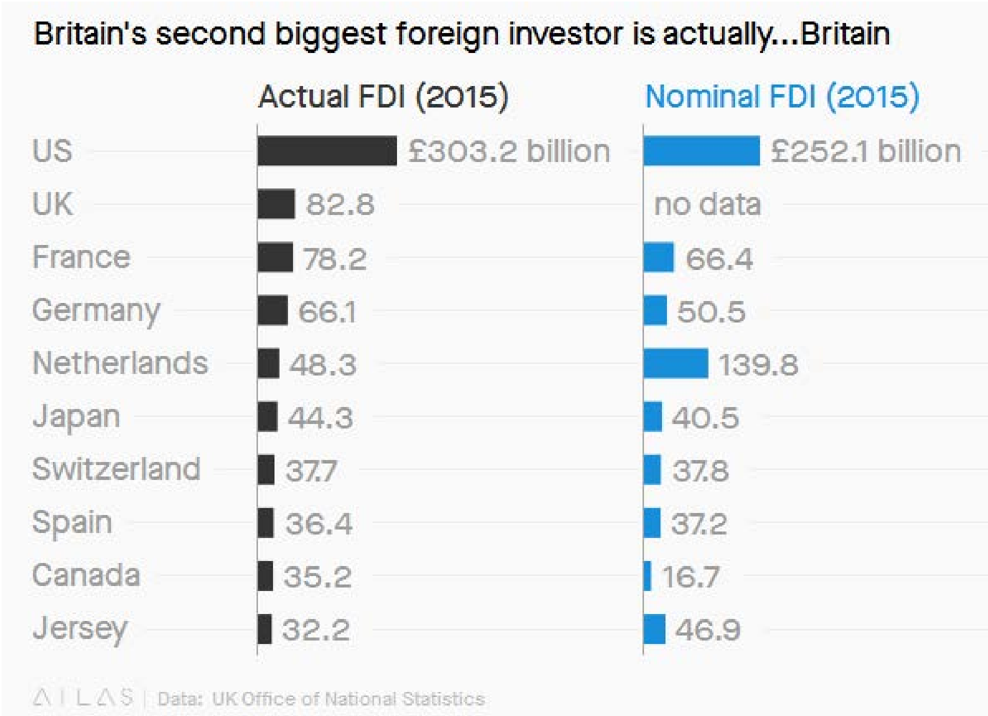
How tax havens turn economic statistics into nonsense

qz.com/1300880/tax-havens-mean-40-of-foreign-direct-investments-are-artificial

Max de Haldevang, **qz.com, June 11, 2018**



It's no secret that tax havens help launder money, hide what powerful people own, and let giant corporations pay negligible taxes. One thing that's not often mentioned is how they skew a lot of economic data.

A recent IMF article reveals a perfect example: "A stunning $12 trillion—almost 40% of all foreign direct investment positions globally—is completely artificial," write economists Jannick Damgaard, Thomas Elkjaer, and Niels Johannesen. These are investments with no substance, where the money "invested" quickly moves on to another jurisdiction.

What's really going on with that cash? The secretive nature of these transactions means it's hard to say for sure. But Elkjaer, a senior IMF economist, says it's likely that most of the payments have little purpose other than hiding the owner's identity and avoiding tax or domestic regulation. That can mean a corporate giant moves money from shell companies in one country to another in order to shrink their tax bills. Or a plutocrat shifting cash around secretive islands to obscure the trail of what they actually own.

That leads to some pretty crazy statistics. In India, China, and Brazil, 50% to 90% of outward FDI "goes through a foreign entity with no economic substance," the authors write. In the US and UK, that figure is 50% to 60%.

As Quartz has previously reported, country-by-country investment datastart to get even weirder. For example, according to the UK Treasury, on the surface it looks like Britain's second biggest investor is the Netherlands. But the UK Treasury has admitted most of those investments actually consist of British cash that has been send to Holland for tax purposes and rerouted back home. So, Britain's second biggest foreign investor is itself.

Similarly, America's third-biggest investor is technically the tiny tax haven of Luxembourg. Hong Kong alone supposedly provides nearly half of investment into China. And eight of Russia's top ten investors are tax havens, with Cyprus—a notorious Russian money-laundering hole—making up 29% of its FDI.

Elkjaer says a lot of the mistakes we see in reading this data come from an outdated understanding of the global economy. "As the world has become more globalized and digitalized, more assets have become intangible and the place of physical location becomes less relevant to understanding the importance and impact of investments," he wrote in an email. "Financial statistics and more generally economic statistics… need to adapt and evolve to stay relevant."