

## OFFSHORE BUSINESS AND INTERNATIONAL EXPERIENCE OF ITS REGULATION

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**Abstract:** The importance of researching this issue lies in the fact that in the modern world, offshore business has gained global proportions, one helps to open a new business, another to avoid large taxes, and a third to keep their organization in secret. In modern society, both in politics and in business, the term "offshore" has no clear meaning. The use of offshore zones can not be called a modern phenomenon, as the history and formation of this activity began in the late 1950s, but despite that period, it has gained international recognition. The urgency of this issue is also due to the influence of offshore companies on the redistribution of financial resources. Currently, offshore zones have become an integral part of the global economic system and the national economies of many, including highly developed countries. Based on the study, it is determined, that offshore areas will continue to develop under constant political and economic pressure.

**Keywords:** offshore, economy, financial market, free economic zone, money laundering, terrorism.

**JEL code:** F23

**Research aim:** present features of offshore business and their impact on the country's economy

**Research novelty:** a grouping of the positive and negative results of offshore business was carried out and the risks and opportunities of the socio-economic impact of each group on the country's economy were interpreted.

### **Introduction**

Offshore zones and the ways in which economic activities are conducted are closely related to the modern economy, and offshore business has reached global proportions. Today, offshore zones have become an integral part of the global economic system and the national economies of many, including highly developed countries. Based on the study, we can conclude that offshore areas will continue to develop under constant political and economic pressure, because they have demand and customers. In the past, offshore companies served only to carry out such activities as construction, trade, etc. Now offshore is a way of implementing investment projects and other important operations, it attracts the attention of buyers, legally avoids taxes, etc.

Huge financial resources are invested in offshore zones. If that money did not go to offshore countries, poor countries could pay off their foreign debts and seriously accelerate economic development. Residents of underdeveloped countries (85% of the world's population) could live completely differently if this money remained in their economies. However, these assets belong to a small group of the rich, and the debts of the government remain

on the shoulders of all citizens. The experience of the years shows that it is not possible to completely eliminate the existence of offshores, because each country pursues certain selfish considerations from the given sphere.

### **Research results**

Huge financial resources are concentrated in offshore zones, which are generated in both legal and illegal ways. In addition, they have a great influence on the processes taking place around the world. A convincing example is the Cayman Islands, which is considered the fifth financial center in the world, after London, New York, Tokyo and Hong Kong. The number of companies registered in these islands exceeds the population, and the working capital is more than 500 billion USD.

In modern economic literature, offshore centers are defined as a set of territories and countries where foreign organizations are registered and whose activities are carried out with tax discounts. Organizations that register in offshore centers are responsible for local laws.

In the literature, the term offshore defines both the offshore zone and the processes taking place in it. The term offshore is used to describe international financial markets as well as certain banking operations. Mainly, this category is presented as an area where there is a preferential regime (tax reduction, exemption from currency control, etc.) for foreign participants and financial credit operations in foreign currency. James Henry, a former employee of

the McKinsey consulting company, presented an assessment of the scale of the world's offshore activities. In his study, he calculated the amount of offshore funds on accounts and focuses on the damage done to the global economy and developing markets as a result of offshore exposure[1].

With the development of global capital markets, financial mobility is increasing, which allows more active redistribution of investments between countries and regions. The legal liberalization of the international movement of capital in many countries of the world, as well as the development of information technologies, played an important role in this process. The free movement of capital in the world creates competition between the investing country. Using its sovereignty, offshore territories with more favorable conditions for non-residents are more attractive for company registration and conducting international financial transactions. According to some estimates, 14-17% of international financial assets and liabilities are located offshore [2].

Most of the transfer of offshore funds comes from global financial centers: New York, London, Zurich, Hong Kong, Tokyo. Offshore services are especially actively used by the United States and the United Kingdom. Only 2 of the UK's 100 largest companies do not use offshore services, the rest have more than 8,000 subsidiaries worldwide. The islands of Guernsey, Jersey and Maine have been the offshore territories of Great Britain for several centuries [3]. Moreover, 83 of the 100 largest American corporations have subsidiaries in offshore zones. Offshore funds

also flow from countries that export a large amount of raw materials and finished products, primarily oil-producing countries. 1970-2020, according to TJN research, billions of dollars were withdrawn from Kuwait: 496; 308 from Saudi Arabia, 306 from Nigeria. One of the leaders in the world is Russia, from which about \$798 billion was exported from the country in 1990-2019. The strengthening of offshores in the world economy causes serious economic and social problems and at least three of them can be distinguished.

1. Low taxation in offshore zones reduces the fiscal base of countries whose residents use the services of offshore companies. According to some estimates, the budgets of all the countries of the world are deprived of at least 3 trillion dollars every year, which are hidden offshore.

2. Making anonymous transactions are prerequisites for laundering illegal profits and financing global terrorism through offshore companies.

3. As a result of the deterioration of offshore financial transactions, the risk of uncontrolled flows of so-called "hot money" is increased, which destabilizes the global financial system [4].

James Henry explained that not only such exotic places as the Cayman Islands, where capital can be effectively hidden, but also some American states, such as Delaware, where foreign investors have the opportunity to open a company, are chosen as "tax havens". , without clearly specifying the owner [5].

The impact of offshore on the world economy is not unambiguous, we can distinguish several main positive aspects:

intensification of cross-border financial flows, acceleration of capital circulation, allocation of capital, reducing the total tax burden in the world and thereby stimulating economic activity, development of offshore states, redistribution of wealth in the world. increasing the competitiveness of companies using offshore, reducing the risk of confiscation for importers in countries with weak protection of property rights [6].

The negative impact on the global economy may result in: unfair tax competition, violation of the rights of residents of the countries of origin of capital, stimulating the flight of capital from national economies, therefore, a decrease in investment activity in the countries of origin of capital, support for the shadow and criminal economy, so-called its "gray" and "black" sectors, as well as the legalization of incomes, which were obtained in a criminal way, financing of extremist activities. The negative impact on the global economy may result in: unfair tax competition, violation of the rights of residents of the countries of origin of capital, decrease in investment activity in the countries of origin of capital, support for the shadow and criminal economy, so-called its "gray" and "black" sectors, as well as the legalization of incomes that were obtained criminally by way of financing extremist activities. The role of offshores in the global economy is ambiguous, as dubious functions related to money laundering can be carried out here.

At the international level, anti-offshore regulation measures are taken by international organizations such as OECD, FATF. The main areas of this kind of regulation are:

1. Conclusion of agreements on exchange of information between non-offshore and offshore countries.

2. Compilation of "black" and "gray" lists of offshore jurisdictions (entering such a list requires various restrictions on companies by the regulatory bodies of non-offshore countries).

3. Encourage non-offshore countries to limit offshore use.

The FATF is an independent audit organization that promotes and develops the global financial system to protect against the threats of money laundering, mass weapons proliferation and terrorist financing. FATF's recommendations have generally been recognized by international standards for combating money laundering and terrorist financing.

The FATF was created by the G7 with the participation of the European Commission in 1989. In July, during the G7 Paris meeting.

The creation of the group was a response to the increase in criminal income worldwide. Given the difficulty of detecting dirty money in the international financial system, there is a shared understanding of the urgency of developing collective measures to counter financial crime.

FATF establishes relations with the United Nations, the Council of Europe, the World Bank, the European Bank for Reconstruction and Development, the International Monetary Fund, Interpol, Europol, the Customs Cooperation Council and other international organizations, as well as with the International Professional Association of Financial Institutions.

FATF issues include [7]:

1. Development of recommendations in the field of combating money laundering and terrorist financing.

2. To conduct mutual assessments in the participating states, with the recommendations of the FATF, for the compliance of existing national legislation and current practices in the field of combating money laundering and terrorist financing.

3. Study of the situation in countries that are actively used for laundering the proceeds of crime and financing terrorism.

The FATF is constantly working to improve measures to combat money laundering and terrorist financing. In particular, in 2006 In October, it was decided to establish the International Cooperation Evaluation Working Group (ICRG).

According to the goals set in the program documents, the FATF is committed to increasing the number of its members with the involvement of strategically important countries that can use their influence in the region to increase the effectiveness of the fight against money laundering and terrorist financing.

## **Conclusion**

Offshore business is still developing globally and is not clearly perceived in the business environment. Perhaps, in the case of its negative aspects, in the case of offshore transactions, the circulation of capital, investment activity accelerates. But on the other hand, in the case of offshore business, money laundering, tax evasion and even illegal economic transactions are carried out,



which are not controlled by the authorities. Therefore, having an international nature, the regulation of offshore business is still in the process of improvement and requires more flexible and mutually agreed cooperation of international supervisory organizations.

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## ՕՖՇՈՐԱՅԻՆ ԲԻԶՆԵՍԸ ԵՎ ԴՐԱ ԿԱՐԳԱՎՈՐՄԱՆ ՄԻՋԱԶԳԱՅԻՆ ՓՈՐՁԸ

### Վիզեն Բողոյան

Հայաստանի պետական տնտեսագիտական համալսարան  
ասպիրանտ

**Բանալի բառեր** - օֆշոր, տնտեսություն, ֆինանսական շուկա, ազատ տնտեսական գոտի, փողերի լվացում, ահաբեկչություն

Օֆշորային գոտիները և դրանց հետ կապված տնտեսական գործունեության վարման ձևերը ամուր կապված են ժամանակակից տնտեսության հետ, իսկ օֆշորային բիզնեսը ձեռք է բերել համաշխարհային մասշտաբներ: Այսօր օֆշորային գոտիները դարձել են համաշխարհային տնտեսական համակարգի և շատ այդ թվում՝ բարձր զարգացած երկրների ազգային տնտեսությունների անբաժանելի մասը: Ուսումնասիրության հիման վրա կարող ենք եզրակացնել, որ օֆշորային տարածքները կշարունակեն զարգանալ մշտական քաղաքական և տնտեսական ճնշման պայմաններում, քանի որ նրանք պահանջարկ և հաճախորդներ ունեն: Նախկինում օֆշորային ընկերությունները ծառայում էին միայն այնպիսի գործողություններ իրականացնելու համար, ինչպիսիք են շինարարությունը, առևտուրը և այլն: Այժմ օֆշորը ներդրումային ծրագրերի և այլ կարևոր գործառնությունների իրականացման եղանակ է, դրա միջոցով գրավում են գնորդների ուշադրությունը, օրինականորեն խուսափում հարկերից և այլն:

Օֆշորային գոտիներում ներդրվում են հսկայական ֆինանսական ռեսուրսներ: Եթե այդ գումարը չմտնեին օֆշորային երկրներ, աղքատ երկրները կարող էին մարել իրենց արտաքին պարտքերը և լրջորեն արագացնել տնտեսական զարգացումը: Անբավարար զարգացող երկրների բնակիչները (աշխարհի բնակչության 85% -ը) կարող էին ամբողջությամբ այլ կերպ ապրել, եթե այդ գումարները մնային իրենց տնտեսություններում: Սակայն, այդ ակտիվները պատկանում են հարուստների մի փոքր խմբին, իսկ իշխանության պարտքերը մնում են բոլոր քաղաքացիների ուսերին: Տարիների փորձը ցույց է տալիս, որ հնարավոր չէ ի սպառ վերացնել օֆշորների գոյությունը, քանի որ յուրաքանչյուր երկիր էլ հետապնդում է որոշակի շահադիտական նկատառումներ տվյալ ոլորտից:

Օֆշորային բիզնեսը դեռևս զարգացման ակտիվություն է ցուցաբերում ողջ աշխարհում և միանշանակ չի ընկալվում գործարար միջավայրում: Սակայն մյուս կողմից, օֆշորային բիզնեսի պարագայում իրականացվում է փողերի լվացում, հարկերից խուսափում և անգամ հակաիրավական տնտեսական գործարքների իրագործում, որոնք չեն վերահսկվում իշխանությունների կողմից: Ուստի, ունենալով միջազգային բնույթ, օֆշորային բիզնեսի կարգավորումը դեռևս բարելավման փուլում է և պահանջում է միջազգային վերահսկողական կազմակերպությունների առավել ճկուն և փոխհամաձայնեցված համագործակցություն:

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