

# Researching Africa and the Offshore World

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Starting in the 1960s with the rise of the Eurodollar market and wider liberalization of financial markets, a constantly innovating capitalism in which money flows are deregulated, informalized and globalised has transformed the world economy. One of its key features is an “offshore world” of financial structures, institutions and techniques designed to provide secrecy, asset protection and tax exemption. Although often associated with small states, the expansion of offshore has been fostered by the global financial industry and associated service providers and long benefited from the support of major industrial states as well as rising powers. The offshore world is thus not a “peripheral development but is structurally related to, and indeed enables, the globalizing tendencies of the modern economy” (Palan, 2005: 12). While disputes on offshore data are rife, notably on the definition and measurement of financial flows<sup>2</sup>, the economist Gabriel Zucman claims that \$7.8 trillion, or about 8 percent of global wealth (and 40 percent of corporate profits), is hidden in tax havens.<sup>3</sup>

The impact of offshore is even greater in particular regions. Although data on this subject needs to be approached cautiously, UNCTAD (2020) estimates that \$88.6 billion per year leave Africa in the form of capital flight.<sup>4</sup> By contrast, African countries only received \$45 billion in FDI in 2019 and will likely have received half of that in 2020. The significance and consequences of the offshore world for Africa have been further illustrated by investigative efforts such as the Panama Papers and Luanda Leaks, among others, that reveal massive engagement by foreign investors as well as African regimes and High Net Worth Individuals (HNWI) in offshoring strategies that impact negatively on African development.<sup>5</sup> The insights from these investigations confirm the portrait established by myriad policy and advocacy work on Africa. Together they present Africa as a continent affected to an unusual extent by the strategies of tax avoidance/evasion, outward financial flows (both legal and illegal) and corruption enabled by the offshore world.

The offshore world’s limited presence in the study of contemporary African political economy is therefore striking. The purpose of this exploratory paper is to highlight this gap, provide a preliminary analysis, and suggest that the politics of African insertion in the global offshore economy merits more attention from Africa scholars. The aim here is diagnostic and analytical, and the working paper is concerned with reviewing the extant work and examining areas where further research is necessary. The structures and relationships outlined in this paper are essentially global ones into which Africa is incorporated. Such a research agenda is therefore about more than adding an African perspective to the study of global offshore processes: as Adam Hanieh suggests in his study of Persian Gulf capitalism, the goal is to learn about “global capitalism and its spatio-temporal dynamics” (2019: 4) from the vantage point of the African experience.

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<sup>2</sup> The very definition of illicit financial flows (IFF) is contested. For NGOs such as the Tax Justice Network (Cobham, 2014), it means “cross-border movement of money illegally earned, transferred or used”. UNECA, which accepts this definition, sees three categories of IFFs: those resulting from a) corruption, b) criminal activities and c) commercial activities. However, the World Bank adopts a more restrictive definition that includes only those practices which are illegal in the country of origin, notably leaving out many forms of transfer pricing which are not explicitly outlawed in some countries (World Bank, 2016). This narrower definition is shared by the OECD, where key debates on tax avoidance take place and relevant policy is formed. Moreover, it has proven difficult not just to quantify IFFs but also ascertaining the “relative importance” of such flows in individual country contexts as well as the “many channels within which IFFs may occur” (Abugre *et al*, 2019).

<sup>3</sup> See Zucman (2015: xi) and Torslov, Wier and Zucman (2020).

<sup>4</sup> Already in the 1990s, Collier, Hoeffler and Patillo (1998) estimated that 40 percent of African wealth was held abroad (this contrasted with their estimate of 5 percent for South Asia).

<sup>5</sup> Using data from aid recipients across the global South, including Africa, Andersen, Johannesen and Rijkers (2020) document that “aid disbursements to highly aid-dependent countries coincide with sharp increases in bank deposits in offshore financial centres known for bank secrecy and private wealth management”.

The paper proceeds as follows. Section one discusses the advent of the offshore world and its impact on the global economy. It notes the Eurocentric character of much of the scholarship on offshore as well as its lack of systematic engagement with African experiences. While acknowledging the importance of pioneering work by economists on African capital flight and illicit financial flows, the paper proceeds to show that the political dimensions of offshore are insufficiently addressed in the Africanist literature.<sup>6</sup> I argue that experts of African politics, political economy and international relations should play a vital role in this research agenda. Our field possesses a sophisticated *political* understanding of regional and national dynamics that is vital for both detailed corroboration and grasping variance across different African societies.

Section two places the encounter of African economies with the offshore world within the longer span of the continent's history before outlining the exogenous shocks of recent decades. Often discussed in the literature in terms of global delinking, the late twentieth century economic crisis was also the harbinger of structural change. This entailed the opening and liberalization of African economies, the professionalization of financial governance, and the growth of globally connected financial sectors. African elites eventually became deft at exploiting the novel options and diversified geographies of the offshore world and joined the continent's foreign investors, extractive industries and trade partners in this new dispensation.

Section three provides the empirical core of the paper. It outlines a number of themes where relevant questions about Africa and the offshore world can be investigated. These are the politics of finance and banking; the extractive industries and commodity trading; the political economy of metropolitan service providers; the engagement of African elites with the offshore world; and the increased salience of Asian financial centres in Africa's global offshore linkages. While in no way exhaustive, these themes allow an initial exploration of Africa's engagements with the offshore world and their impacts on domestic politics, state-society relations, the international relations of African states and the continent's insertion in the global political economy. An exploration of these themes also demonstrates the significant variation in the impacts of offshoring according to different states' contemporary politics, institutional legacies, and resource endowments. The concluding remarks highlight the working paper's key insights and make a case for taking this research agenda further.

## 1. The advent of the offshore world

The offshore world is the result of shifts in the global economy owing to the rise of the Eurodollar (i.e. US dollar-denominated deposits held abroad and not subject to US banking regulations) market and wider liberalization of financial markets from the 1960s. The existence of jurisdictions that designed their "financial regime to offer international financial services to non-resident firms and individuals" (Sharman, 2010: 4) through financial structures, institutions and techniques providing secrecy, asset protection and tax exemption dates back to the period between the two world wars.<sup>7</sup> The Bretton Woods limits on capital mobility meant that offshore structures played an ancillary role until the early 1960s. At that stage, the creation of a Eurodollar market in London became the first step in a broad process of liberalization of western financial sectors that led to worldwide cross-border lending and an end to capital controls.<sup>8</sup> From the

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<sup>6</sup> Vlcek (2011), which makes the case for the development of an IFC in Ghana, is one of the few papers on offshore in a major Africanist journal of the last decade.

<sup>7</sup> Liechtenstein, Switzerland and Monaco, for instance, have long offshore histories.

<sup>8</sup> In her innovative work, Ogle (2020) argues that decolonization was a powerful early factor here, with capital flight from newly independent states flowing disproportionately to offshore financial centres.

1970s, a large number of jurisdictions (typically micro-states and lingering outposts of European empires) proceeded to establish financial centres to take advantage of these opportunities. Over time, these changes produced a highly financialised and constantly innovating capitalism where money flows became more and more deregulated, informalized and globalised. By the 1990s, this pattern had come to encompass much of the world's financial system, including former members of the Eastern Bloc and liberalising developing states. According to the OECD, an estimated 10 trillion Euros are currently held in offshore accounts.<sup>9</sup> Far from being peripheral to the global economy, these are now “the most important instruments in the contemporary, globalised financial system” (Palan, Murphy and Chavagneux, 2010: 4).

Some analyses explain the rise of the offshore world through market and technological developments which states were unable to keep up with. Offshore can instead primarily be seen as an exercise in state power in the context of a changing state system. Far from coterminous with post-war capitalism, unregulated financial flows were initially severely curtailed and there was little by way of international lending until the 1960s. In his classic study, Helleiner (1994) emphasised the roles of the United Kingdom, the USA and Japan in pushing for financial liberalization (continental Europe only belatedly joined in in the late 1980s). These key states sought for different reasons to end capital controls. In the case of the UK, the goal of maintaining London as a global financial centre despite its relative decline was pursued through liberalising policies as well as the harnessing of British Overseas Territories into a global offshore network that remains disproportionately important today.<sup>10</sup> That being said, the offshore world is not only nurtured by western states and their current or former dependencies. States such as China, Russia and India have also been de facto supportive of its arrangements,<sup>11</sup> and their elites avid users of offshore strategies.<sup>12</sup>

Today, the concept of “offshore” remains somewhat contested.<sup>13</sup> In its widest sense, it refers to business activity pursued through “devices and structures that involve using the laws or facilities of another country”<sup>14</sup> to access conditions that are more favourable than in the home country. Companies and individuals often move their business or assets offshore in search of low taxation, asset protection, light regulation and secrecy. While offshore services are legal, they can be and are often used for illicit activities.<sup>15</sup> The definition adopted by the international financial institutions and some of the relevant financial scholarship focuses on the workings of offshore financial centres (also known as tax havens) and emphasises their catering to non-residents, low

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<sup>9</sup> <http://www.oecd.org/ctp/exchange-of-tax-information/international-community-continues-making-progress-against-offshore-tax-evasion.htm> (accessed 19 November 2020).

<sup>10</sup> As *The Economist* accurately notes, “London is at the centre of a vast hub-and-spoke system, with the offshore territories acting as feeders” (“Not a palm tree in sight”, *The Economist* 16 February 2013). Some of the major offshore centres are British Overseas Territories or former colonies, including Bermuda, the Cayman Islands, the Bahamas, Gibraltar, Jersey, Guernsey, the British Virgin Islands, etc. On the Cayman Islands see e.g. Brittain-Caitlin (2005). Shaxson further argues that a number of Asian offshore centres such as Singapore and Hong Kong, now self-standing concerns, were developed as offshore “satellites” of the City of London system (2011: 15).

<sup>11</sup> India, Russia and China all see noteworthy amounts of “round-tripping” investment, in which domestic capital is funnelled through an offshore centre and returns as FDI to qualify for privileges that are only available to foreign investors. An earlier assumption that this was a matter of qualifying for FDI tax breaks should be qualified by the continuation of round-tripping even in contexts where FDI tax breaks were discontinued.

<sup>12</sup> David Pegg and Juliette Garside, “Panama papers reveal offshore secrets of China’s red nobility”, *Guardian* 6 April 2016.

<sup>13</sup> It is worth reading the 2018 debate between Sol Picciotto (<https://www.ictd.ac/blog/why-tax-avoidance-is-illicit/>), who has a more expansive view of the offshore system, and Maya Forester’s narrower view (<https://www.ictd.ac/blog/why-illicit-financial-flows-and-multinational-tax-avoidance-are-not-the-same-thing/>)

<sup>14</sup> This is Sol Picciotto’s definition in <https://www.taxjustice.net/2018/02/08/illicit-financial-flows-tax-haven-offshore-secrecy-system/> (accessed 3 February 2021).

<sup>15</sup> This is based on <https://www.investopedia.com/terms/o/offshore.asp> (accessed 5 October 2020).

to non-existent taxation and low regulatory environment (Zoromé, 2007). The image of offshore financial centres is often associated with the micro-states that use their formal sovereignty to carve out outsized roles in private banking, beneficiary ownership registries, captive insurance, tax planning, estate management and other thriving offshore sectors. This is accurate as far as it goes, but only captures part of the reality of offshore, for the powerful states that were pivotal from the onset in the process of deregulation and financial liberalization remain central to the offshore world. As the *Economist* notes, “offshore is not so much a geographical concept as a set of activities and offerings” available across the globe and whose greatest providers include “firmly onshore” economies such as the USA and the UK.<sup>16</sup> “Some of these offshore enclaves are territorial in nature”, writes Palan, “while others are virtual juridical enclaves that have no physical boundaries” (2005: 19). In sum, offshore is not a place, but a worldwide range of “juridical realms” in which onshore and offshore live in close articulation.

The singular focus on the financial, as opposed to the political, dimensions of offshore is equally limiting, as Susan Strange noted presciently a generation ago (1998: 126-137). Following Palan (2005), I discuss the offshore world in this wider sense, and seek to understand the broader (i.e., including non-financial) impacts of offshore innovation. This is because the offshore world has spawned an alternative transnational space in which corporations and wealthy individuals can break free from the tax and legal obligations of “onshore” existence. This affluent sphere is peopled by an array of enablers from the core of the international system that includes, among others, bankers, accountants, asset managers, lawyers, real estate agents, management consultants and PR firms. In this “parallel world of selective lawlessness”, the powerful can easily acquire foreign passports, straddle different jurisdictions and “enjoy the benefits of laws that suit their interests while ignoring laws that inconvenience them” (Harrington, 2016: 295-97). Through the mechanisms of the offshore world, their lives now have an unprecedented geographical footprint and influence. The far-reaching political consequences of this need to be at the centre of any research agenda on offshore.

The rise of offshore has not proceeded unimpeded. There have been periodic attempts at reform since the 1990s, usually in the aftermath of major corporate scandals involving tax avoidance or outright fraud, financial crises such as in 2008, or tragic events like 9/11. A review of these varied efforts by states, international organizations and advocacy organizations is beyond the ambit of this working paper. Areas of recurrent focus include first and foremost tax evasion, followed by anti-money laundering, the recovery of stolen assets, increased transparency in the extractive industries, the fight against terrorism and organised crime and, more recently, the curtailing of secrecy tools such as concealed beneficiary ownership. The outcome of most of these reform efforts tend to be piecemeal and ambivalent, impacted as they are by powerful economies where offshore interests loom large.<sup>17</sup> Perhaps for this reason, demands for transparency and reform (and threats of blacklisting) are mostly targeted at the smaller tax havens. OECD economies and the dependencies of major economies such as Hong Kong, which engage in similar practices, are subjected to less scrutiny. Reforms are thus best seen as an evolution within the global financial economy rather than a decisive attempt to shut down offshore mechanisms (Sharman, 2017). Whether articulated by bodies such as the US Treasury Department (Zarate, 2013) or the Paris-based Financial Action Task Force (FATF), reform drives have mostly concentrated on stemming the provision of financial services to so-called rogue states, terrorist groups and

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<sup>16</sup> See “Not a palm tree in sight”, *The Economist* 16 February 2013, which is part of a special report on offshore finance.

<sup>17</sup> Powerful non-western states have also put forward policies to curtail some offshore strategies. This is the case of Russia’s “de-offshorization” initiatives since 2011, even while Russian elites continue to benefit from offshore access (Nesvetailova, 2020).

criminal organizations. Politically Exposed Persons (PEPs) or the interests of incumbent kleptocratic regimes have received much less scrutiny. Moreover, reform tends to proceed slowly enough for offshore ingenuity to circumvent it, sometimes acting as a spur to further innovation and geographic diversification.

Two further aspects of the offshore world need to be highlighted. The first pertains to the relationship between the legal and the illegal. There is little doubt that financial deregulation “has enormously increased the scope and profitability of transnational organised crime” (Ellis, 2016: 218).<sup>18</sup> As explained below, one of the most vibrant policy and scholarly dimensions of the study of offshore pertains to illicit financial flows. However, on account of the centrality of offshore to the global economy, much of which is entirely legal, the relationship between legal and illegal is in fact a “symbiotic” one (Glenny, 2009). Wealthy individuals and corporations engaged in legal “tax planning” sometimes use the same structures, human resources and processes as criminal actors. Pliable legal frameworks, regulatory loopholes and the creativity of enablers constantly muddy already elusive and ever shifting legal boundaries. It is therefore best to think about the offshore world as straddling them, rather than along binary lines. As Eva Joly notes, offshore is not “a violation of the system, but the system itself”.<sup>19</sup>

The second aspect is that the offshore world did not come into being over time as the implementation of a blueprint: “ruling classes do not set up structures and institutions in anticipation of what may happen fifty years hence” (Palan, 2005: 182). Western states did pursue self-interested financial liberalization policies but the outcomes over recent decades owe much to unpredictable innovations by actors of the offshore world (Harrington, 2016). This holds true both in terms of the financial and secrecy instruments developed by offshore professionals and the political uses of the offshore system by the powerful worldwide. As Palan notes, “disparate policies, tactics, and state forms, apparently unrelated geographically or thematically, became locked together [...] ending up in the later decades of the twentieth century as an integrated offshore economy” (2005: 182).<sup>20</sup> The centrality of resourceful improvisation in the making of the offshore world attests to its shape-shifting pragmatism and the constant innovation that is at its core.

### *The study of the offshore world in African IPE*

The general IPE literature on the offshore world is rigorous and extensive, as attested by the bibliography cited in this paper.<sup>21</sup> However, with few exceptions<sup>22</sup> it tends to pay scant attention to Africa. This is partly related to the frequent critique that most IPE research has concentrated on the industrialised world (Hanieh, 2019). The study of offshore has also tended to focus on offshore financial centres rather than on their sources of capital, especially those outside the major economies. This research gap is compounded by the fact that while studies of the offshore world have mostly ignored Africa, most IR, IPE and political science scholarship on

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<sup>18</sup> On transnational organised crime in Africa see, e.g., Akyeampong (2005), Mazzitelli (2007), World Bank (2013), Shaw (2017), OECD (2018) and Bird *et al* (2021).

<sup>19</sup> Quoted in Shaxson (2011: 15).

<sup>20</sup> Sol Picciotto also remarks that offshore emerged “as a result of deep historical forces, but also in a groping and undirected manner owing a great deal to local legal improvisations, contested redefinitions and unforeseen effects” [...] it is the interaction and friction between the system of states and the international market that has been crucial for the expansion of offshore” (quoted in Sharman, 2010: 13).

<sup>21</sup> The discipline of Geography has of course made a noteworthy contribution to the study of offshore, but here too, Africa-specific work is scarce.

<sup>22</sup> Sharman (2017) and Chaikin and Sharman (2009), for instance, are global treatments of money laundering and corruption in which attention is paid to African experiences, especially Nigeria’s.

contemporary Africa has not studied the consequences of offshore for the political economy of African states and their linkages to the world economy. A significant reason for this lies in the particular difficulties of data collection as well as access to the major political and professional constituencies active in the offshore world. This goes some way to explain the centrality of investigative journalists to much of the existing work. These methodological and data gathering problems are considerable but not insurmountable and, I argue, should not prevent Africa scholars from engaging with this pressing research agenda.<sup>23</sup>

A partial exception to this lack of attention is the emerging literature on illicit financial flows (IFF)<sup>24</sup> and capital flight from Africa. Foundational contributions include the investigative and advocacy work of NGOs such as the Tax Justice Network, Global Financial Integrity and Global Witness,<sup>25</sup> and the pioneering academic work of Leonce Ndikumana and James Boyce<sup>26</sup> and Odd-Helge Fjelstad, especially the project “Taxation, Institutions and Participation (TIP): The dynamics of capital flows from Africa”.<sup>27</sup> Despite the data limitations, IFF research has produced major results. First, it has shown that IFFs have considerable impact on the economies of developing countries, and to a higher extent than is the case with OECD countries<sup>28</sup> (e.g., Cobham, 2014; Cobham and Jansky, 2020). For a number of African countries, the volume of IFFs as percentage of their GDP is indeed substantial. While vulnerability can variously occur through trade, FDI, portfolio investment and bank deposits, IFF research has identified secrecy as the common denominator enabling IFFs away from Africa (UNECA, 2015). Second, IFF research has belatedly impacted the work of organizations such as the African Union and UNECA (whose 2015 *Panel on illicit financial flows out of Africa* briefly placed IFFs on the African policy agenda, though there has been little follow-up), the former DFID, the World Bank and the OECD, which have commissioned some of the most important research in this field, as well as the research and advocacy agendas of global civil society organizations. In short, the impact of IFF research on the policy agenda is undeniable, even if policy change is slow-moving.

However, the broader scholarly impact of this IFF literature is less than one would expect. This is for reasons having to do with its own characteristics as well as the reaction to it from mainstream work on African politics, political economy and IR. On the former, while indispensable in terms of generating influential estimates of African IFFs and therefore contributing to an understanding of the scale of the problem, the IFF literature tends not to consistently focus on the political and social dimensions of IFFs, their domestic-global linkages, and on how they impact the internal politics of African states.<sup>29</sup> With only a few exceptions, the IFF literature emanates primarily from either outside academia or from Economics and Business scholars who are invaluable experts of capital flight and tax evasion, but not of the politics of individual African countries and their external connections. Alternatively, this paper argues that one needs to look beyond the

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<sup>23</sup> See Ellis and MacGaffey (1996) for a useful discussion on the difficulties of studying African unrecorded trade that highlights related concerns.

<sup>24</sup> See footnote 2 for the debates around what constitutes illicit financial flows.

<sup>25</sup> For early examples see, e.g., Kar and Cartwright-Smith (2010) and Christensen (2009).

<sup>26</sup> Of many relevant publications, see, e.g., Ndikumana and Boyce (2003) and Ndikumana and Boyce (2018).

<sup>27</sup> I thank Odd-Helge Fjelstad for inviting me to join this project in 2014. Among several publications, see Fjelstad *et al* (2017) and Ennes Ferreira and Soares de Oliveira (2019).

<sup>28</sup> This is notably the case with aggressive tax avoidance, due to many developing countries’ higher reliance on corporate income tax relative to OECD countries.

<sup>29</sup> A recent exception is Shaxson (2021), which does bring the technical and the political together in a manner that reveals a sophisticated understanding of the intricacies of Angolan domestic politics. This will be included in a promising edited volume by Ndikumana and Boyce, forthcoming with Oxford University Press in 2022.

quantitative measures and study the impact of these flows on the political economy, domestic institutions and international politics of African countries.

The reception of the IFF literature by African political economy, international relations and political science has also been muted. The sheer scale of capital flight out of Africa revealed by even the most modest estimates makes it a compelling political economy topic. The fact that this has not been the case is partly explained by the modest amount of political economy work on African finance more generally, especially if one excludes the study of sovereign debt.<sup>30</sup> Political economy experts have preferred to focus on the extractive industries (this is the case of much of my own work), commercial agriculture and fledgling attempts at African diversification and industrialization. Much research on African financial sectors, and the financial linkages of the sectors just mentioned, steers clear from political questions.<sup>31</sup> Even vibrant strands of African political economy work have paid only limited attention to IFFs. Political Settlements Analysis (PSA), for instance, has not seen this as a significant preoccupation. Blankenburg and Khan (2012) question the above negative assumptions about IFFs, claiming instead that notions of “illicit” vary according to context and that mere state law may contradict social legitimacy, especially in cases where minorities are persecuted or assets confiscated. They further argue that one cannot assume that financial resources staying in-country would lead to development. The subsequent, residual PSA work on IFFs (though the more recent Khan, Andreoni and Roy (2019) may herald future empirical work) and the scarce references to IFFs in general PSA work shows scant engagement thus far.

This paper argues instead that the insights of IFF research are vital for the production of knowledge about African economies and their links to the rest of the world. Research shows that IFFs are detrimental for African states, moving African capital towards financial centres outside Africa rather than within the continent (UNECA, 2015; Abugre *et al*, 2019; Cobham, 2014), with little evidence of African reinvestment through so-called roundtripping.<sup>32</sup> However, the PE research agenda foregrounded in this paper does not necessitate a normative view about IFFs or the postulating of counterfactuals whereby African capital would have been put to good use if left at home. The same applies to a singular focus on IFFs in terms of criminality, when we are in fact dealing with the broad consequences of financial globalization, an epochal shift that cannot be reduced to its illegal or negative dimensions. As stated above, a sole focus on illegality risks narrowing the analysis and missing out on important changes (institutional, economic, sociological, and in patterns of international relations) which are neither intrinsically good nor bad, nor necessarily illegal, but are nonetheless considerable. In short, scholars do not need to share definite views on the developmental impact of Africa’s engagement with the offshore world. It will suffice to accept that IFFs are a matter of systemic importance and that we need to better understand how Africa’s links with the offshore world work and in which directions they are evolving.

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<sup>30</sup> Important work on the politics of African financial sectors by scholars such as Boone (2005), Vallée (2008, 2011) and Lewis and Stein (1997) seems yet to be taken up by most political economy scholarship. Arriola (2013) discusses banking and access to credit in African competitive politics. For more recent work auguring renewed interest in the politics of finance, see, e.g., the Africa chapters in the excellent Jones (2020); Engebretsen and Soares de Oliveira (2020); Ennes Ferreira and Soares de Oliveira (2019); Pitcher (2018); Behuria (2020); and Dafe (2019, 2020).

<sup>31</sup> There is, in this regard, an apolitical and sometimes inadequate literature on African banking.

<sup>32</sup> See footnote 79.



## 2. Understanding Africa's links with the offshore world

Africa is an episodic presence in all but a few system-wide accounts of global politics, political economy and international relations. Even deliberate attempts to transcend Eurocentrism, as best embodied in the scholarly enterprise of global/world history, have been criticized for their insufficient concern for African history.<sup>33</sup> In contrast, Africanists have long acknowledged the importance of extra-African links for the continent's internal politics, international relations and economic life and argued that African history can only be understood in a global and comparative context.<sup>34</sup> Historical accounts of medieval and early modern Africa have focused on long distance trade and the importance of political, religious and artistic connections across the Sahara, the Indian Ocean and later, the Atlantic.<sup>35</sup> Interpretations of Africa's external relationships have varied. Some scholars have highlighted African initiative. Others, particularly in the last decades of the twentieth century, saw the continent's poor states as primarily dependent on external dynamics, sometimes blamed for a "great divergence" that underdeveloped African economies.<sup>36</sup> More nuanced accounts attempted to marry the continent's asymmetrical rapports with the outside with an emphasis on African agency in shaping external relationships in the interest of its elites.<sup>37</sup>

What these different readings share is a sense that Africa's trajectory must be understood in global-systemic terms. The three decades of African economic growth from the end of the Second World War to the mid-1970s were a product of a positive global conjuncture (Cooper, 2002), while the subsequent oil crisis and stagflation in the major industrial economies resulted in an unprecedented economic shock for Africa (van de Walle, 2002). Faced with a massive fiscal deficit on account of the collapse in the global price for their export commodities, most African states borrowed heavily to keep up their expensive administrative and patronage setups. But by the early 1980s many were verging on bankruptcy and had to accept substantial intrusion from the international financial institutions in the form of structural adjustment programmes (SAPs) whose aim was the liberalization and de-regulation of African economies. Western donors and financial institutions explained the crisis with reference to the pathologies of domestic governance and had little to say about the impact on Africa of global structural change. Their critics instead presented the disappointing outcomes of earlier developmental agendas as the result of structural asymmetry in the world economy. This latter view certainly underestimated the importance of poor domestic choices, mismanagement and political instability in early postcolonial Africa.<sup>38</sup> However, it is no longer contentious to state that powerful structural shifts were a major contribution towards the "bifurcation of destinies" of different economies across the globe (Arrighi, 2002). For many western as well as East Asian economies, the initial pain of the crisis led to innovation and success in the 1980s and beyond. For narrow commodity exporters, and especially African ones, it resulted in more than twenty years of acute crisis and decline until the turn of the century.

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<sup>33</sup> See, e.g., Manning (2015), Gueye (2018) and Simo (2018).

<sup>34</sup> Hopkins (2019: 19).

<sup>35</sup> A reference to "connections" must not be equated with external "stimulation" of African developments, as African archaeology has shown significant endogenous dynamics, for instance in shaping long distance trade (see, e.g., McIntosh and Cissé (2020).

<sup>36</sup> For discussions of a great divergence or a "reversal of fortune", see e.g., Akyeampong *et al* (2012) and Austin (2008).

<sup>37</sup> For classic statements, see Bayart (1989) and Clapham (1996).

<sup>38</sup> The aim of these brief paragraphs is to provide context for the subsequent discussion of offshore. Accounting for the African crisis of the late twentieth century is a key pillar of the relevant political science literature, and it is not my goal in this working paper to adjudicate between the different arguments and associated, extensive literatures.

This pervasive political and economic turmoil had two major impacts on African political economy scholarship until the early 2000s. The first was a predominant focus on structural adjustment, its key actors (governments and the international financial institutions) and nefarious results for African development and state sovereignty, to the detriment of other consequences for Africa of the ongoing global transformations. The second was the common assumption, explicitly or implicitly informed by dependency theory, that African states endured these exogenous pressures with minimal leeway.<sup>39</sup> Some scholars emphasised Africa's status as a "black hole" where capital did not go to (Castells, 2000), the "end of sovereignty" on the continent on account of IFI intrusion (Plank, 1993) and the "abjection" felt among Africans due to their economies' supposed "delinking" from the world economy (Ferguson, 2007). In fact, Africa's economic crisis was a world-systemic manifestation of the continent's deep connections to the global economy rather than a symptom of its separation from it.<sup>40</sup>

Most important, the decades of crisis and structural adjustment also witnessed the beginning of an ongoing external reconfiguration and internal change in African political economies brought about by financial globalization. Even in the 1980s and 1990s, African economies were not simply enduring hardship: structural adjustment led to deregulation, financialization, a shift in boundaries between public and private realms, and further integration into world markets. This process was messy, deeply contested and (like structural adjustment itself) happened to varying extents across different African states. It accelerated after 2000 with the continent's improved fortunes resulting from a new conjuncture driven by resource-hungry Asian economies<sup>41</sup> that led to a return by most African economies to significant growth until 2014. Despite the dominant rhetoric of these "Africa Rising" years emphasising autonomy from donors and a return of the developmental state, the Washington consensus's "cardinal principles [...] of privatization, liberalization and deregulation" remained robust in most African economies (Péclard, Kernen and Khan-Mohammad, 2020: 17). African states experienced an expansion of inward and outward financial flows, the growth of financial sectors and their greater opening to the global financial economy, an increase in private banking institutions and corresponding bank relationships, a return to international credit markets, emission of Eurobonds, ratings by credit rating agencies and the establishment of new links to less traditional business centres. This was accompanied by the professionalization of financial governance by both states and financial institutions and a steep learning curve for African elites as they came to understand the possibilities of the offshore world. As explained in section three, this "reconnecting with financial globalization" (Vallée, 2011) has restructured not only domestic power dynamics within African countries but also Africa's relations with financial hubs verging from London and Geneva to Dubai and Singapore. The degree of African insertion in the global financial economy increased exponentially and with it, the continent's enmeshment in the offshore world.

The way in which this has occurred is country- and sometimes sector-specific, and there is striking variation across the continent. Factors such as resource endowments, institutional capabilities, the nature of political regimes, and colonial and early postcolonial histories matter for understanding some outcomes. Countries such as Ethiopia, where the role of the state in banking remains significant, do not have the same linkages that, say, Nigerian or South African banks

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<sup>39</sup> Authors such as van de Walle (2002) and Pitcher (2002), for instance, tended to look at the internal sources of crisis and argue that domestic elements also shaped how structural adjustment was implemented.

<sup>40</sup> Arrighi (2002). Work on Africa's criminal networks and civil conflicts understood these linkages and provided insights into dynamic forms of African global interaction during the crisis era. See, e.g., Bayart, Ellis and Hibou (1999), Reno (1999), Ellis (2016) and United Nations (2002), which focuses on the role of transnational "elite networks" in the illegal exploitation of the DRC's natural resources.

<sup>41</sup> Taylor (2009), Alden, Large and Soares de Oliveira (2008), Brautigam (2009).

have with the international financial system.<sup>42</sup> The existence of old links made some connections easier: Anglophone countries establishing links with UK banks and the post-imperial British system of tax havens; the centrality of French networks in West Africa; the choice by Angolan oligarchs of Lisbon as their location for capital flight; the dense connections between the Horn of Africa and the Persian Gulf. However, key characteristics of Africa's engagements with the offshore world are their newness, multiplicity and pragmatic adaptability. In line with the constant improvisation and opportunity-driven innovation of the offshore world, many African countries have therefore established strong connections to regions to which they had been only tenuously related until recently.

One particular trait of Africa's engagement with the offshore world is noteworthy. African states are major "consumers" of offshore, but few if any are offshore themselves, i.e., in contrast with many states in the developing world, African states have by and large not developed international financial centres or tax haven facilities with any amount of success. Two exceptions to this are atypical African island states – Mauritius, which is a major gateway for investment into Africa and has Double Taxation treaties<sup>43</sup> with many other African states;<sup>44</sup> and, to a lesser extent, the Seychelles<sup>45</sup> – that illustrate the rule. Failed attempts by states such as Liberia,<sup>46</sup> Kenya, Gambia and Ghana<sup>47</sup> to set up offshore structures as well as incipient efforts by Cape Verde,<sup>48</sup> Botswana and Rwanda, among others, further underline the near absence of African states in the provision of offshore services. This begs the question: why haven't more African states used offshore as a tool to leapfrog their economic deficiencies?<sup>49</sup> Offshore has worked elsewhere in expanding the sovereignty and wealth of weak and small states.<sup>50</sup>

The following are possible explanations, though the conditions under which African elites have or haven't pursued OFC strategies merit further research. African states lack relatively apolitical financial sectors insulated from the hazards of domestic governance and instead tend to have weak governance capacity, scarce human resources to man a financial centre and poor judicial systems (a key legacy in former British empire Caribbean outposts that enabled their expansion of offshore facilities). Most important, offshore agendas have rarely been purposeful domestic state building strategies for African elites, with the cases mentioned above invariably pursued in a half-hearted and short-lived manner. Most African states have historically seen private sector-unfriendly over-regulation rather than the sort of strategic deregulation characteristic of offshore centres. Many also have histories of political interference, radicalism and expropriation. In short, the conditions that have obtained in many postcolonial African states seem to have mostly

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<sup>42</sup> On Ethiopian banking, see Weis (2020).

<sup>43</sup> Double taxation treaties between two states are aimed at not just preventing double taxation of the same income but, crucially, establishing "a framework for taxation of cross-border activity", including trade and investment. On African tax treaties, see especially Hearson (2015).

<sup>44</sup> For reasons of space this paper cannot explore the Mauritian experience in detail, but see Fitzgibbon (2017) and Fitzgibbon (2019). Pretish Behuria is currently doing research on Mauritius' offshore finance sector which will doubtless be a major contribution to this paper's themes.

<sup>45</sup> See Ellis (1996) for the murky origins of Seychelles offshore finance and Robertson (2020) for its rise and decline.

<sup>46</sup> Liberia's commercial shipping fleet, run by the Liberian International Ship & Corporate Registry which is headquartered in Virginia, USA, is of course an old and successful offshore story, if hardly so for average Liberians. See e.g., Sharife (2010).

<sup>47</sup> On Gambia's attempt to establish offshore facilities, see "Trawling for business?", *The Economist*, 24 August 2013. On Ghana's plan to develop offshore banking with a major role for Barclays Bank, see Bank of Ghana (2008).

<sup>48</sup> In the aftermath of the Luanda Leaks, Cape Verde's government reportedly decided to "shutter" the four banks that provided offshore services (Fitzgibbon, 2020).

<sup>49</sup> A rare contribution is Uche (2010), which explores the reasons why Nigeria did not develop an offshore banking sector as well as the desirability of such a development.

<sup>50</sup> On the Pacific see, e.g., van Fossen (2012).

motivated not only foreigners to keep their money out, but also the (potentially vulnerable) local rich and powerful from wanting to keep their money in.

Africa's lack of an offshore sector underlines the limits of global connectedness. The emphasis of this paper on the political salience of African links to the global financial economy should not create the impression that all African economies, and every sector within individual African economies, are equally implicated in this process or, in other words, that everything is connected to everything else. Global financial flows are not indiscriminate agents of structural change in African societies. They need to be studied with a view to the specificity of connections and of processes that are "large-scale but not universal", through concepts that are "less sweeping" and "more precise" than those posited by global studies (Cooper, 2001: 191-92).<sup>51</sup> Bearing this fully in mind, this paper nonetheless argues that the dynamics it describes are no longer primarily to be studied as narrow connections to the global economy. The links established with the offshore world are now systemically important and often defining of international relations and domestic politics, where they impact the functioning of states and ruling parties and the lives of elites. To illustrate this, the next section explores a wide range of African interactions with the offshore world which constitute five pillars of a possible research agenda. This has no claim to being an exhaustive list but outlines important and relatively under-researched arenas.

### **3. Africa and the offshore world: major themes**

#### *Banking and Finance*

The starting point for an inquiry into Africa and the offshore world should be the political consequences of the momentous changes experienced by African financial sectors in recent decades.<sup>52</sup> African states had dissimilar degrees of financial sector development in the 1960s and the 1970s verging from asset size to bank ownership. But the vast majority were relatively small and, after tapping into international financial markets during the 1970s, were effectively cut off until the early twenty first century. Reforms brought about by the adoption of structural adjustment in the 1980s and 1990s, especially the privatization of state banks, the concession of new licenses, and the return of foreign banks, led to an expansion of African financial sectors and of linkages to the global financial economy. This process of "financialization" (Bracking, 2016) has not displaced the centrality of primary commodities in African political economies, but has impacted on political, institutional and socio-cultural realms in a manner that results in "the growing embeddedness of daily [political and economic] life in the global financial system".<sup>53</sup>

These trends were eventually consolidated by African states' return to international credit markets (between 2006 and 2016, 16 countries had issued foreign currency bonds) and the regional expansion of some African banks, primarily from Nigeria, Kenya and South Africa. In

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<sup>51</sup> From this perspective, Global History, with its emphasis on the specificity of local-global links, provides a fertile intellectual pathway for IPE research on Africa's offshore links.

<sup>52</sup> As noted above, this entails not just economic or financial studies, pivotal as they are, but more politically aware IPE, IR and political science work.

<sup>53</sup> Nesvetailova (2012: 67-68) outlines two major, contrasting meanings of the concept of financialisation. The first, which tends to define financialization as "a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production", is arguably of limited use in African contexts overwhelmingly dependent on extraction and the exportation of primary commodities. The second meaning sees "a tightening of links between the "real economy" and finance and "prioritises micro-level drivers of this process, examining the actors, agents, narratives and concrete manifestations of financialization", and is most fitting with the goals of this paper.

the intervening period, many countries had experienced a professionalization of African economic management, with more technical staff in ministries, central banks and private banks sharing the backgrounds of their international counterparts than ever before. The resulting exponential growth of banking is a positive outcome for African economies. Even if African banking remains for the most part reluctant to engage in broad-based lending, the percentage of bankable population in almost all countries has increased since 2000. The rise of African financial sectors cannot be reduced to the offshore dimension, but it nonetheless looms large.

African involvement in the offshore world did not wait for this liberalization of financial sectors. Capital flight to tax havens was a major and still widely under-researched dimension of decolonization (Ogle, 2017 and Ogle, 2020)<sup>54</sup>, and as the sub-section below on the extractive industries shows, the use by foreign corporations of transfer pricing strategies to declare profits in low-taxation financial centres dates back decades. A still to be conducted study of the workings of BCCI, then one of the world's major banks, in the Nigeria of the 1970s and 1980s would show its provision to Nigerian elites of the sort of services we associate with a later period.<sup>55</sup> Gabon-based, French-staffed Banque Française Intercontinentale (FIBA) was a key tool of French national oil company Elf Aquitaine's Africa-wide corrupt networks until its closure in 2000, at which stage the primarily African-staffed BGFI took up a similar role.<sup>56</sup> Stephen Ellis studied the use of Seychelles offshore structures by western and South African intelligence agencies in the 1980s (Ellis, 1996). Despite these precedents, there is little doubt that the later expansion of global links, and especially that of service provision in metropolitan centres (see below) and of correspondent bank relationships with major outside banks, have facilitated access to the international financial system and capital flight out of Africa. Although FDI to Africa saw a major increase in the early twenty-first century, total FDI and total ODA *combined* fall short of the estimated capital flight out of the continent.<sup>57</sup>

Financial governance varies across African states, but most have sought some convergence with international standards (e.g., the adoption of Basel standards, FATF guidelines, AML legislation), while even reluctant ones attempt “mock compliance” (Jones, 2020) in an effort to preserve access to the international financial system, partly because of its role as highway to the offshore world. Kleptocratic regimes in countries such as Angola, Congo Brazzaville and Equatorial Guinea in particular have taken full advantage of money laundering channels.<sup>58</sup> Mozambique has used the emission of a sovereign bond for one of the most brazen corruption scandals in contemporary Africa (see Kroll, 2017; Cortez, Orre *et al*, 2021). In many ways, African economic progress during this period, and especially the expansion of African financial sectors and their worldwide linkages, helped deepen this entanglement with the global offshore economy and therefore diminished the benefits for African economies of recent economic growth (Ennes Ferreira and Soares de Oliveira, 2019).

### *Extractive Industries and commodity trading*

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<sup>54</sup> Ogle's research seeks to cast “the immediate process of decolonization as an economic and financial event” with significant impact on the development of the offshore world (2020).

<sup>55</sup> On BCCI's trail-blazer shenanigans and how they foregrounded the later workings of the offshore world, see Michel and Soares de Oliveira (2020). Another example of a foreign bank playing this role in Nigeria is the London-based Johnson Mathey, which facilitated capital flight in the early 1980s (Ellis, 2016: 116-17).

<sup>56</sup> On FIBA, see e.g., Denis Cosnard, “Elf décide de fermer la Fiba, son encombrante banque gabonaise”, *Les Echos*, 12 January 2000. On BGFI, see Carter (2018: 63-64) and Soares de Oliveira and Vallée (2021).

<sup>57</sup> In their useful survey of relevant literature, Heggstad and Fjelstad (2010: v) conclude that “banks play an active role in facilitating capital flight out of Africa”.

<sup>58</sup> On Angola, see Soares de Oliveira (2015). See Hibou (2006) for a particularly insightful study of Ben Ali's Tunisian kleptocracy where the sophisticated financial sector, including foreign banks, played a key role in regime strategy.

Oil, gas and mining are the most significant economic sectors in contemporary Africa and dominate exports to the rest of the world. Hence, how these industries are structured and governed is defining for most African states. From upstream production to oil services and trading, offshore is central to their functioning (Gillies, 2019). This predated the 2000s. Oil and gas corporations and commodity traders have long engaged in secretive strategies and transfer pricing subterfuges.<sup>59</sup> Recent research shows that a staggering 96.7 percent of independent trading companies use offshore financial centres to register subsidiaries.<sup>60</sup> FDI often flows from offshore jurisdictions and contracts are invariably structured through offshore mechanisms that enable transfer pricing strategies for private firms and discretionary power for African elites, especially through the heavy involvement of national oil companies such as Angola's Sonangol, Nigeria's NNPC and Congo Brazzaville's SNPC in such deals.<sup>61</sup> Resource-rich but indebted African states such as Chad, Equatorial Guinea, Congo Brazzaville and South Sudan have consistently made use of resource-backed loans on the basis of future production whose interest rates, maturities and repayment structures are by definition opaque and unregulated (Public Eye, 2020) and are often run out of offshore financial centres. Such amenable financial centres, primarily in Western Europe and in British Overseas Territories, also long provided an expanded outlet for money laundering mechanisms that enable elite capture of national resources.

In recent decades, however, the scale of such practices increased exponentially<sup>62</sup> and massive revenues from the continent's resource boom flowed to other jurisdictions in the form of both legal capital flows and illegal capital flight. This was intensified during the commodity boom that started circa 2004 and ended in 2014, which resulted in unprecedented revenue streams into the continent (and out again). As the linkages outlined above were by then fully formed, they facilitated capital flight, especially from the countries experiencing the most significant revenue windfalls. The resort to resource-backed loans became central to the financial links established by African partners with both commodity traders and Chinese banks, with exponential growth since the turn of the century despite their "weak governance and opaque conditions".<sup>63</sup> According to NRGI, Africa and Latin America had contracted \$152 billion in such loans by 2020, 77 percent of which was held by the China Development Bank and Eximbank.<sup>64</sup>

Perhaps the least studied dimension of the longstanding nexus between offshore and the extractive industries is the trading of oil and gas through intermediaries often connected to Switzerland and, more recently, Dubai and Singapore. The large academic literature on the politics of natural resources in Africa contains little work dedicated to this.<sup>65</sup> African oil featured disproportionately in the profits of opaque traders such as Glencore, Vitol and Trafigura, with

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<sup>59</sup> UNCTAD (2016) and Sikka and Willmott (2010). For large firms' demand for tax haven operations, see Desai, Foley and Hines (2006).

<sup>60</sup> See the important new paper by Nesvetailova, Palan, Petersen and Phillips (2021). The authors further note that "the average proportion of group subsidiaries owned via OFC-based intermediated holding company among the top 100 was 18%. The figure rises to 29.6% for the large integrated firms in our sample". Interestingly, they note that NOCs "appear to be relatively 'moderate' users of OFC jurisdictions."

<sup>61</sup> See Soares de Oliveira (2007), Private Eye (2017), Gillies, Guéniat and Kummer (2014) and Sayne, Gillies and Katsouris (2015).

<sup>62</sup> See among others, Shaxson (2011), Burgis (2015) and the work of Global Witness and the Tax Justice Network.

<sup>63</sup> <https://www.reuters.com/article/commodities-loans-africa-americas/chinese-commodity-backed-loans-crippling-africa-and-latin-america-report-idUSL5N2AP3NL> (accessed 3 December 2020).

<sup>64</sup> Ibid.

<sup>65</sup> Here again, the pioneering insights are from the investigative work of organizations such as Private Eye, Global Witness and the Natural Resources Governance Institute. A recent paper on the "Swiss extractivism" of commodity traders in Zambia's copper sector by Dobler and Kesselring (2019) shows the potential of academic research on these issues.

African oil producers continuing to make use of such trading companies, instead of direct sales, to a much greater extent than in any other major oil region of the world. The resort to commodity traders for resource-backed loans, precedents for which go back to the 1980s, increased massively since the early 2000s (Soares de Oliveira and Vallée, 2021). In contrast with previous decades, the 2004-2014 boom also saw increasingly prominent African, mostly Nigerian, oil trading ventures, but much of this was run out of Geneva, premised on political access in Nigeria, and in partnership with, rather than in competition with, the established trading companies. Revelations about the extent of corruption underpinning Nigerian oil trading under Minister of Petroleum Resources Diezani Alison-Madueke (2010-15) point to a more brazen use of offshore mechanisms than ever before (Gillies, 2019; Prelec and Soares de Oliveira, forthcoming). The rise of Dubai and Singapore as commodity trading hubs (as well as of commodity traders such as China's state-owned Zhuhai Zhenrong Company) shows the expansion of these strategies beyond its traditional epicentres.

### *The political economy of service providers*

Africa's dealings with the offshore world operate through a wide range of service providers in a global "Moneyland" (Bullough, 2018) for the rich and powerful. These service providers are based not just (or primarily) in tax havens but in the world's major capitals and onshore financial hubs. Importantly, they did not come into existence to service an African clientele. They are first and foremost realities of metropolitan capitalism which have come to provide services to (in addition to western elites) elites from Latin America, the Middle East, the former Soviet Union, etc. There are examples of African elites densely connected with service providers in western capitals dating back decades, especially in resource-rich states. Côte d'Ivoire and Gabon had longstanding proto-offshore world links to Paris,<sup>66</sup> while rich Nigerians in the 1970s "knew that their money was not guaranteed to remain safe [and] smuggled it out of the country any way they could" (Ellis, 2016: 98-99). Nonetheless, the use of enablers only achieved its current spread and depth with Africa's renewed economic health and return to international capital markets in the early 2000s.

Since then, African HNWI's have resorted to lawyers<sup>67</sup>, bankers, accountants, management consultants, lobbyists, real estate agents and public relations experts for help in managing their interests. This assistance goes beyond curating the financial resources of their clients (often through money laundering) to include reputational enhancement and political influence, which in some cases may extend to philanthropic donations to institutions such as museums, think tanks and universities, political party financing, and influence peddling. Such service provision is often strictly legal and enabled by light industry self-regulation. Yet even when the law is broken, this rarely entails personal costs for those involved, establishing incentive structures that firmly encourage these practices (Platt, 2015: 201). The examples and spread of such practices are considerable, from PR company Bell Pottinger producing South African disinformation campaigns around "white monopoly capital" for its clients the Gupta family;<sup>68</sup> to McKinsey, the Boston Consulting Group and PWC establishing close relationships with both the Angolan state

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<sup>66</sup> Of a large and mostly journalistic literature on the proto-offshore world dimension of French-African relations see, e.g., Pean (1983) and Glaser and Smith (1992), while Shaxson (2011) contains insightful discussions.

<sup>67</sup> See Dezalay (2020) for the role of Paris-based, Africa-focused lawyers, especially in relation with Francophone Africa.

<sup>68</sup> See e.g., Myburgh (2017) and Basson and du Toit (2017).

and Isabel dos Santos's private interests<sup>69</sup>; or the Paris PR and media for hire at the service of Denis Sassou Nguesso's and the Bongo family's regimes.<sup>70</sup>

Language and historical links explain some preferences for service hubs: Angolan oligarchs' initial choice of Lisbon as their prime offshore location<sup>71</sup>; the continuing role of Paris for Francophone Africa and London for countries such as Nigeria. However, as explained below, the geography of service provision has radically diversified. Anglophone service provision is the common denominator of the current myriad locations likely to service African HNWI's, including in Asian financial centres as discussed below. Likewise, if some smaller service providers or locations may specialise in African business, the top operators in every segment are engaged with a cosmopolitan range of customers, with African HNWI's inserted in global circuits shared with other elites. Their class status as lucrative clients who are part of a global "super-rich" or "transnational wealth elite" (Fernandez *et al*, 2016), rather than their African-ness, is determinant for these relationships.

Enough data exists to show that such multifarious forms of service provision amount to some of today's most consequential international connections, especially for authoritarian states whose power is at least partly established in the international sphere (see especially Cooley and Heathershaw, 2017, and also Soares de Oliveira, 2015).<sup>72</sup> Indeed, a forthcoming paper theorises this for-profit global support structure for authoritarian states as *transnational uncivil society networks* (TUSN).<sup>73</sup> More generally, the role of enablers shows the importance of transnational links for global corruption and the inappropriateness of speaking in terms of individual countries: "When it comes to grand corruption, it makes more sense to speak of corrupt networks rather than corrupt countries" (Cooley and Sharman, 2017: 746), in a collaborative pattern that transcends the internal-external divide. However, research on these networks in the African context is embryonic.<sup>74</sup> Approaches such as Harrington's study of private wealth managers (2016), among others, provide inspiration for the sort of work that remains to be done. As much else discussed in this paper, a study of enablers would be vital for a full understanding of political economy dynamics pertaining to Africa. It should also provide lessons for understanding the metropolitan capitalisms of which such service provision has become an integral part.

### *African elites and the offshore world*

"Perhaps the most under-researched area of the offshore political economy", noted Jason Sharman a decade ago, "relates to the consumers of offshore services, a gaping hole in our knowledge" (2010). This generally remains the case today, but perhaps nowhere more so than in Africa, where the literature is practically non-existent.<sup>75</sup> There is no doubt that Africans made a belated arrival to the by then fully formed offshore world, though once again, exceptions such as Nigeria and a number of oil-rich countries stand out as much earlier presences. At the turn of the century, however, Africa's integration in financial globalization and the global commodity

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<sup>69</sup> See the ICIJ's January 2020 Luanda Leaks revelations for Isabel dos Santos extensive links, also discussed in <https://www.nytimes.com/2020/01/19/world/africa/isabel-dos-santos-angola.html> (accessed 2 November 2020). Jones, Temouri and Cobham (2018) is a study of the links between tax havens and the Big 4 accountancy firms.

<sup>70</sup> Carter (2018: 60-61).

<sup>71</sup> Soares de Oliveira (2015).

<sup>72</sup> The impact of offshore links on states where electoral politics are competitive features less prominently in the existing research (which tends to focus on authoritarian states) and would merit further research, as explained in the next sub-section.

<sup>73</sup> Cooley, Heathershaw and Soares de Oliveira (forthcoming).

<sup>74</sup> See Prelec and Soares de Oliveira (forthcoming).

<sup>75</sup> Maurer (2007) on South Africa's tax amnesty of offshore money is an interesting if oblique outlier.



boom allowed for the broader diffusion of knowledge about “offshore techniques” (Palan, 2005:185) amongst African elites (taken here to mean those HNWI and families with extensive transnational links). After the crisis years of the late twentieth century, this amounted to a remarkable expansion of opportunities both for HNWI as transnational individuals and for regimes seeking sustenance through international links.

For well-positioned individuals in Africa, the offshore turn afforded the many political, economic and lifestyle options available to elites the world over. This includes the acquisition of foreign passports,<sup>76</sup> the possession of foreign real estate and bank accounts through the concealment of beneficial ownership, and the perpetuation of family wealth through the use of trusts.<sup>77</sup> One of the key motivations why HNWI and corporations in industrial economies resort to offshore strategies– the avoidance of taxation – is also a major reason for their use by foreign corporations in Africa. However, this seems much less relevant for HNWI in the African context, as elites in most African states face little pressure to pay taxes. While there is little research on this subject, it is more plausible that African elites act primarily on account of perceptions of domestic political risk.<sup>78</sup> Domestic capitalists may fear expropriation while politicians worry about retaliation from successors. An additional line of explanation is that African elites may be engaging in a form of institutional arbitrage, “reducing transaction costs by accessing efficient institutions unavailable at home” such as functioning courts and professional financial services in foreign locations.<sup>79</sup> The fact that some of these individuals are partly responsible for the domestic conditions they seek to avoid is but one of the ironies of offshore engagement.

Beyond allowing the preservation and oftentimes the legitimation of wealth extracted from home countries, the offshore world accomplishes something else for those African HNWI that use it. Perhaps for the first time, it affords them a form of radical liberation: the enjoyment of lives as global “super-rich” (Beaverstock, Hubbard and Short, 2004) across different geographies released from the stigma and poverty of their home base. A consummate example of such a global trajectory scarcely possible a generation ago is that of the globetrotting Isabel dos Santos, until recently Africa’s richest woman and daughter of Angola’s former president, whose worldwide interests have been mapped out by the International Consortium of Investigative Journalists’ Luanda Leaks<sup>80</sup> and earlier investigative efforts by Rafael Marques de Morais. Many other investigations, such as the *Biens mal acquis* investigation in France,<sup>81</sup> the ICIJ’s Panama Papers and several efforts by the Organized Crime and Corruption Reporting Project (OCCRP),<sup>82</sup> have outlined the actions and interests of wealthy and politically connected Africans, especially from resource-rich states such as South Africa, Congo Brazzaville, Mozambique and

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<sup>76</sup> On the purchase of citizenship by the global wealthy, see Surak (2020); specifically on Nigeria, see Ollie Williams, “The wealthy Nigerians buying citizenship overseas”, *Al Jazeera* 10 December 2020, <https://www.aljazeera.com/features/2020/12/10/wealthy-nigerians-buying-citizenship-overseas>

<sup>77</sup> On private wealth management for the super-rich, see Beaverstock, Hall and Wainwright (2013).

<sup>78</sup> The rational goal of placing money where it will grow faster may also be a motivation, but one shouldn’t underestimate the extent to which a lot of capital is parked idly. As Harrington (2016) mentions, protection and secrecy seem more important than a return on investment.

<sup>79</sup> This argument is put forward by Sharman (2012) in the context of Chinese use of offshores and deserves serious consideration. However, while China reported capital inflows are much larger than its outflows, Africa, as noted above, sees net outflows, with little evidence of elites using external institutions for “round-tripping” investment back into the continent. Collier, Hoeffler and Patillo (1998) similarly point to the “portfolio choices” of African agents, motivated by economic deficiencies of African economies, to explain capital flight from Africa.

<sup>80</sup> <https://www.icij.org/investigations/luanda-leaks/> (accessed 5 September 2020).

<sup>81</sup> This investigation, started in 2007 by the French NGO Comité catholique contre la faim et pour le développement (CCFD), used public documents to list the French assets of 23 dictators and their families. See Perdriel-Vaissière (2017) and Alicante (2019).

<sup>82</sup> <https://www.occrp.org/en> (accessed 5 November 2021).

Equatorial Guinea as these extend to tax havens and major financial centres in the West and in Asia.<sup>83</sup> A noteworthy Carnegie Endowment investigation which one hopes will inspire similar research studies political economy linkages centred on Dubai.<sup>84</sup>

These international links do not mean that African governing elites have become rootless through the mechanisms of the offshore world, for their success often remains harnessed to the sovereignty of the state (and most often, its natural resources and aid flows) that they control and profit from. It is also clear that while they can be sanctioned once they leave power (this was notably the case of the Dos Santos and Abacha families in Angola and Nigeria), incumbency protects officials and their cohorts from worldwide legal troubles or efforts at asset recovery.<sup>85</sup> As mentioned above, offshore links are vital for the survival and consolidation strategies of regimes (Cooley and Heathershaw, 2017). It is also apparent that in African countries with strong militaries, the security sector has major economic interests in defence procurement, the extractive industries and even its own associated corporate sector (what the Pakistani political scientist Ayesha Siddiqua calls “milbus”, i.e., the military’s internal economy that is hidden from public view and not recorded in the defence budget) with significant and mostly unresearched offshore links.<sup>86</sup>

However, the terrain in which offshore links meet the political economy of regimes, dominant political parties, armed forces and electoral competition is mostly unexplored in African political science.<sup>87</sup> The impact of offshore on elite domestic choices is similarly understudied, but arguably holds major consequences for state building and institutional development. By enabling capital flight, access to functioning institutions abroad, and elite lives in different geographies where they can enjoy world class leisure, consumption, schooling and healthcare,<sup>88</sup> the offshore world allows the opting out of some forms of public goods provision at home. It may also perpetuate elite incentives for weakening the rule of law, property rights and the quality of institutions at home (Moore, 2012: 474-375).

In line with much of the work by investigators, activists and scholars in this field, this discussion emphasises actor strategies that hold negative consequences for African development. Yet it is noteworthy that the expansion of Africa’s financial links has also given rise to a class of younger transnational African professionals, especially in the financial sector. Often educated abroad, with experiences in international banking and/or epistemic communities (central banking, finance ministries, IFIs), these talented professionals can now be found in African public and private financial institutions, in every major global financial centre, and increasingly in top financial institutions, including those not African-owned (for now, primarily western and multilateral rather than East Asian, South Asian or Middle Eastern). For these African professionals, the opening of the global economy over the last generation has been a source of extraordinary personal opportunity. They are amongst the winners of the offshore economy. Can African economies reap long-term benefits from the success of this professional group? Can the rise of internationalized African bourgeoisies weaken the stranglehold of authoritarian regimes at home?<sup>89</sup> Or will their talents prove productive elsewhere in the world economy? The closer

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<sup>83</sup> Among others, David Pegg, “Panama Papers reveal scale of offshore firms’ African operations”, *The Guardian*, 25 July 2016, and Ribadu (2016).

<sup>84</sup> Page and Vittori (2020); see also Page (2020) for a study of Nigerian real estate in Dubai.

<sup>85</sup> Even in those circumstances, asset recovery has proven to be a protracted and complex task. See e.g. Sharman (2017: 94-99, 121-26) on the pursuit of Abacha money in Switzerland and the UK.

<sup>86</sup> See Siddiqua (2016). I am indebted to Miles Tendi for raising this point.

<sup>87</sup> Marriage (2018) is one of the few papers establishing links between some of these arenas.

<sup>88</sup> Ogle (2017) rightly emphasises the importance of looking at elite consumption and leisure and not just production.

<sup>89</sup> I thank Didier Péclard for this formulation.

study of such professional communities, important in its own right, may instil some ambivalence in the sometimes over-categorical views of Africa's dealings with the offshore world.

### *An offshore turn to Asia*

Until about a decade ago, Africa's engagement with the offshore world mostly occurred through a variety of onshore financial hubs and offshore financial centres in OECD states and British Overseas Territories. Since then, diversification towards Asian financial centres is noticeable and fits the wider pattern of increased Asian-African economic relations. However, most research on the political economy of African-Asian relations focuses on trade and FDI, with financial sector work mostly focused on debt and ODA. The significance of Dubai is a partial exception. The pioneering work of scholars such as Roland Marchal (1997) acknowledged its growing importance for Africa, and a small but robust tradition of research on East Africa/Horn of Africa relations with the Gulf has long tracked the role of informal finance and transfer systems, contraband and the gold trade. Still, its expansion to include not just traditional Emirati partners in Africa but elites of most African countries is still under-researched, despite Dubai's harbouring the interests of a pan-African array of PEPs verging from former Presidents Kabila of DRC<sup>90</sup> and Zuma of South Africa (as well as his allies the Gupta family), to Angola's Isabel dos Santos and numerous Nigerian politicians such as Dan Etete,<sup>91</sup> among many others.

The cases of Singapore and Hong Kong have received less scrutiny, the latter primarily on account of Chinese protection (Platt, 2015: 64; the same applies to Macao SAR, of course). This has prevented Hong Kong's offshore links from being more loudly exposed by organizations such as the OECD and the EU. The world's third largest financial centre and major hub for the wealth management industry, Hong Kong is a key base for the offshore renminbi trade and conduit for Chinese investors in Africa (as well as a conduit for Mainland capital's access to the offshore world). It has hosted secretive investment vehicles such as the Queensway Group, an equity group with connections to Chinese intelligence and a major presence in Angolan, Zimbabwean and Guinean extractive industries.<sup>92</sup> For its part, Singapore brings together a world-class but lightly regulated financial sector with a strong presence of commodity traders (backed by trade finance) with African links. Through its Global Trader Program (Hoong, 2012: 51), Singapore managed to attract many erstwhile Switzerland-based traders keen to avoid reform in the sector.

The trend towards the "Asianizing" of Africa's offshore engagement owes to three factors.<sup>93</sup> The first is the increased regulatory burden in more traditional financial centres. From multiple Caribbean jurisdictions to the Channel Islands and from Switzerland to Liechtenstein, the nature of the offshore system may not be changing radically, but a rhetorical shift away from secrecy, a much greater degree of investigative scrutiny and genuine legal changes have rerouted some African capital flows into more opaque locations. International businesses active in Africa such as commodity traders have also reacted to bad press in places like Geneva by decamping to light-regulation Dubai and Singapore. Second, by moving to new financial centres, African oligarchs encounter the same service providers discussed above that work for them in London, Lisbon, Paris, Zurich and other traditional centres. Dubai, Hong Kong and Singapore feature the same top-range banks, legal firms, commodity traders, management consultants and all-purpose

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<sup>90</sup> Olivier Vallée, "Du Katanga au souk: l'or de la RDC", *Le Grand Continent* 25 February 2021.

<sup>91</sup> Prelec and Soares de Oliveira (forthcoming).

<sup>92</sup> On the Queensway Group, see in particular Mailey (2015) and Burgis (2015).

<sup>93</sup> This sub-section derives from Ricardo Soares de Oliveira, "African oligarchs turn to Asian offshore locations", *Financial Times*, 13 January 2020.

advisers that clients would find in more traditional locations. All three have strong historical as well as present-day links to the City of London. In short, the new Asian settings feature world-class service provision, in places committed to a much greater degree of discretion than is increasingly the case in western financial centres.

The third factor is the proactive role played by Asian governments in attracting new global business away from traditional hubs such as Switzerland (Damgaard *et al*, 2018: 53). As Erie (2020) explains in a study of Asia's new legal hubs, governments promise world-class infrastructure and service provision as well as political stability and the rule of law.<sup>94</sup> Crucially, they also provide the necessary light regulation, low taxation and secrecy. The rule of law is a more credible offering in Singapore and, until recently, Hong Kong, than in Dubai. Yet the autocratic nature of Dubai's government is offset by the autonomy of the courts in the Dubai International Financial Centre as well as the emirate's unique receptivity to characters and types of money flow (especially gold and cash) often shunned by other financial centres.<sup>95</sup> There is, in sum, a noteworthy reorientation of African offshore links to Asian financial centres which should be the subject of further scrutiny.<sup>96</sup>

### **Taking research on Africa and the offshore world further**

This exploratory paper has argued that offshore is a central dimension for understanding Africa's position in the global political economy as well as significant aspects of the internal politics of African states. The continent's fundamentally extractive, natural resource-based economies remain in place and establish a strong undertow of continuity that must not be underestimated. Nonetheless, I argue that Africa's links to the offshore world inaugurated a new phase in its extraverted relationship with the global economy, establishing new flows and structures, diversified patterns of international relations, changes to state-society relations, more options for elites, all across more heterogeneous geographies than ever before. The working paper's key goal is not to put forward a new theory of "Africa in the world" but simply to highlight the empirical and analytical gaps resulting from the scarcity of scholarly work in this field. The paper also seeks to encourage a research agenda that produces, first, new knowledge about matters of which we currently have only a partial grasp and second, a theoretical understanding of the import of the offshore world for both Africa and its place within contemporary capitalism.

In regard to the last point, the systemic position of Africa needs to be clarified. It could be tempting for scholars to revise the widespread marginalisation of Africa in global narratives by recasting the continent as central to global offshore dynamics. This may be so in other contexts, but it is harder to substantiate when discussing financial globalization and especially its offshore dimension. Offshore originated in the strategies of OECD states, corporations, wealthy individuals and financial sectors and long thrived in the West and in Asia. In absolute terms, the offshore centres' flow of capital and business continues to emanate disproportionately from developed and middle-income economies. Africa does not play a substantial role in this dynamic as a site for the provision of offshore services and only belatedly attached itself to the offshore world as a client at the turn of the century, when its reengagement with the international financial system fully resumed. The regulation and curtailment of offshore world practices, a complex and frustrating enterprise even for powerful states (about which, it has already been noted in section

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<sup>94</sup> See also the chapters on Singapore, Dubai and Hong Kong in Bruner (2017).

<sup>95</sup> Tax Justice Network (2013).

<sup>96</sup> This is the goal of a current pilot project with the Oxford Martin School, "The Political Economy of Africa's new links with Asia's International Financial Centres".

one, they have been ambivalent anyway), is especially hard for African states to enact, despite some stirrings of collective action through organizations such as the African Union (UNECA, 2015) and especially through the courageous work of African investigative journalists and activists.<sup>97</sup> The advent of the offshore world and its global spread is therefore a process in which the outside has had more impact on Africa than the other way around.

However, that offshore is a systemic development that Africa did not initiate does not mean that it passively endures its impact. Examples of African offshore engagement going back many decades were already mentioned, especially by entrepreneurial groups with external links, the elites of resource-rich states, and those with strong metropolitan connections (Francophone networks are the forerunners in many ways). The political economy of civil wars after the end of the Cold War also showed sophisticated transnational elite networks extending from resource extraction sites in conflict zones to the industrial states. Nonetheless, the better economic context after the turn of the century and the robust reconnection to the global financial system enabled a much more widespread engagement by African elites with the offshore world. Notions of African agency that emphasise the positive and the emancipatory may be inadequate here, but there is no doubt that empowered African actors have become adept at securing political and economic success through the new relationships,<sup>98</sup> mechanisms and possibilities offered by the offshore world.

How can we advance knowledge and analysis of Africa's links to the offshore world? The working paper contends that experts of African politics, political economy and international relations, with their sophisticated *political* understanding of different African societies, are uniquely placed to do so in a manner that technical experts of finance or generalist/global observers of offshore dynamics (their own vital insights notwithstanding) cannot match. As mentioned earlier, research on IFFs and their mechanisms has been the starting point for much research on these issues. This is partly because such flows are at least in theory quantifiable (though data is scarce and older data barely exists), whereas other dimensions of offshore are even more elusive. Moreover, IFFs provide robust evidence of the harmful character of offshore for African development: the relevance of this body of research for NGOs, IOs and development agencies advocating for reform is incontrovertible. While this must continue to be a major area of work, this paper argues that there are many other areas, five of which were highlighted in section three, that deserve the attention of IR, IPE and political science scholars.

A starting point for such a research agenda is the acknowledgement of how little we know and therefore of the need for empirical work. A recognition of the trailblazing research of investigative journalists and advocacy groups and the systematic aggregation of currently dispersed work, virtually all of it outside academia, are important first steps. Equally vital is the generation of new data regarding the five key themes outlined in section three that will allow for a more precise understanding of these realities. Exemplary instances of this include Global Witness's work on the estimated 87,000 properties in England and Wales held through anonymous companies registered in tax havens,<sup>99</sup> whose beneficial owners are often PEPs, the invaluable investigative work of the ICIJ and its affiliates, and the Carnegie Endowment for International Peace's investigation of Dubai's global linkages (Page and Vittori, 2020). The difficulties of access to

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<sup>97</sup> A non-exhaustive list would include publications like Nigeria's *Premium Times* (<http://premiumtimesng.com>), think tanks such as Mozambique's CIP, and the work of activists such as Rafael Marques de Morais in Angola, among many others.

<sup>98</sup> Harrington (2016) rightly emphasises the role of actors and relationships (and of their improvisations and innovations), rather than the more usual focus on structures.

<sup>99</sup> <https://www.globalwitness.org/en/press-releases/100bn-of-property-in-england-and-wales-is-secretly-owned-estimates-show/> (accessed 5 November 2020).

secretive professional and political actors of the offshore world and of data collection in this field are significant, as is the risk of libel suits by HNWI and their enablers, especially in the UK. Yet publicly available information such as that generated by legal (both civil and criminal) cases and numerous investigations can provide major insights.<sup>100</sup> Whichever data gathering strategy is chosen, the urgency of unearthing more empirical facts about Africa's links with the offshore world cannot be overestimated.

While matters of methodology deserve a detailed treatment that goes beyond the scope of this paper, it should be noted that this research agenda calls for an inclusive, indeed all-encompassing, sense of the possibilities of social science.<sup>101</sup> The impressive examples of non-Africanist academic work on the offshore world quoted throughout this working paper should provide inspiration for ways to pursue such a multifaceted agenda. Ethnographic work based on long term access to foreign enablers and African HNWI is necessary, and so is the use of large-N approaches and survey instruments. Their ethical framing needs careful consideration but field experiments are one of many promising approaches, as evidenced in Findley, Nielson and Sharman's agenda-setting 2014 volume, *Global Shell Games*. Finally, any consideration of research strategies needs to take place in the context of offshore as an "endlessly shifting ecosystem" (Shaxson, 2011: 22): this scholarly endeavour necessitates rigour, imagination and dynamism to keep up with its fast evolving subject.

As this paper sketched its subject on a vast canvas, a cautionary note is in order. Beyond highlighting the major development for Africa that is the offshore world, it is evident that Africa's involvements are the subject of significant variation and unevenness of outcomes. This variance should be the primary focus of future research. Legacies verging from different resource endowments and colonial histories to institutional capabilities mean that the impacts of offshore are dissimilar and have contrasting levels of magnitude in each state, sub-region and economic sector. The overwhelming consensus by the policymakers, activists, investigators and scholars working on this is that the impact of offshore is detrimental for broad-based development on the continent. Without contradicting this assessment, my goal has been to simply highlight that the offshore world is consequential for Africa and therefore worthy of closer study. In this regard, an approach that seeks out the specificity or even uniqueness of each trajectory will be more illuminating than one that subsumes complexity into a homogenous account of pillage and extraction.

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<sup>100</sup> Gillies (2020), for instance, surveys 60 controversies in 17 African countries via such publicly available information to study shifting corruption trends during Africa's oil boom until 2014.

<sup>101</sup> A good example is provided by Global Integrity's Anti-Corruption Evidence Programme (<https://ace.globalintegrity.org>) under which fourteen research partners with a variety of projects relevant for this research agenda deploy a wide range of methodologies.

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