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GLOBALIZATION, REGULATION AND GEOGRAPHY:
THE DEVELOPMENT OF
THE BAHAMAS AND THE CAYMAN ISLANDS
OFFSHORE FINANCIAL CENTRES

A dissertation submitted for the degree of Doctor of Philosophy

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Abstract

This dissertation explores the development of the Bahamas and Cayman offshore financial centres (OFCs) as places in the regulatory landscape of international finance. It aims to move towards an understanding of processes of financial globalization.

Chapter one asks: what explains the emergence of these new places - offshore financial centres - on the map of international political economy?, and introduces the Bahamas and Cayman. Chapter two critically reviews the literature around the themes of globalization, regulation and geography, arguing that conceptualizations of global financial integration as “the end of geography” (O’Brien, 1992), neglect the role of states in processes of globalization and take too narrow a view of geography, a view which falls into the “territorial trap” (Agnew, 1994). Chapter three is a “methodology” chapter.

Chapter four begins to explore the development of the Bahamas and Cayman OFCs, describing the regulatory construction of place. A series of questions are addressed: why construct a place for offshore finance; who constructs a place for offshore finance?; how is a place constructed for offshore finance; and, what are the local impacts of constructing a place for offshore finance? Chapter five expands the focus to consider how the relationship between the Bahamas and Cayman OFCs has affected their development. Chapter six expands the focus again, looking at the relationship of the Bahamas and Cayman OFCs with the USA and at their place within the regulatory framework for international banking provided by the Basle Committee.

Chapter seven brings together some of the insights gleaned from earlier chapters and seeks to put the “regulatory landscape” metaphor to work, moving towards an explanation for the development of OFCs and processes of financial globalization. It is argued that the development of stateless monies produced an economic space of flows, increasingly divorced from the political space of states and the productive economy. The OFCs, through the practice of unbundling sovereignty, articulate the economic and political spaces of capitalism.

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This dissertation is my own work and includes nothing which is the outcome of work done in collaboration.

Alan Hudson, May 1996

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Abbreviations

| | |
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| AIBT | Association of International Banks and Trust Companies (Bahamas) |
| BATELCO | Bahamas Telecommunications Corporation |
| BCCI | Bank of Credit and Commerce International |
| BIS | Bank for International Settlements |
| BMA | Bahamas Monetary Authority |
| BNS | Bank of Nova Scotia |
| BVI | British Virgin Islands |
| CBB | Central Bank of The Bahamas |
| CBI | Caribbean Basin Initiative |
| CBS | Columbia Broadcasting Service (CBS) |
| CIBA | Cayman Islands Bankers Association |
| CRPL | Confidential Relationships (Preservation) Law (Cayman) |
| EU | European Union |
| EXCO | Executive Council (Cayman) |
| FINCOCO | Financial Community Council (Cayman) |
| FNM | Free National Movement (Bahamas) |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| HNWI | High-Net-Worth-Individual |
| IBF | International Banking Facility (USA) |
| IET | Interest Equalization Tax (USA) |
| IMF | International Monetary Fund |
| IPE | International Political Economy |
| IR | International Relations |
| IRS | Internal Revenue Service (USA) |
| MLAT | Mutual Legal Assistance Treaty (US with Bahamas and Cayman) |
| NBC | National Broadcasting Corporation (USA) |
| OECD | Organization for Economic Cooperation and Development |
| OFC | Offshore Financial Centre |
| OGBS | Offshore Group of Banking Supervisors |
| PLP | Progressive Liberal Party (Bahamas) |
| SEC | Securities Exchange Commission (USA) |
| TCI | Turks and Caicos Islands |
| UBP | United Bahamian Party (Bahamas) |
| UN | United Nations |

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WTO World Trade Organization

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Preface

Whilst in New York City, meeting bankers to talk about international finance and the development of offshore financial centres as part of my fieldwork I took the opportunity of visiting the Guggenheim Museum. The Guggenheim Museum is laid out as a wide spiral ramp with exhibits in alcoves just off the ramp. I strolled up the ramp enjoying the exhibits, a bit confused at times - unsure as to whether an object was an exhibit or simply a chair or a thermometer - but finding much to interest me. Once I reached the top of the ramp I began to wonder whether it would have made any difference if I had started at the top of the ramp; perhaps it would have been an easier, less confusing, more interesting and informative route? Pondering this, at the very top of the ramp, I came across a sign advising visitors that we should begin our tour of the museum by taking a lift to the top of the ramp and then gently stroll down and around the museum's spiral.

At times during my research this event has popped up in my mind; the process of doing a Ph.D. is interesting but can be confusing and only really begins to make sense once you get to the end. And then you may feel that you ought to have started at the top of the ramp rather than the bottom. But, there is no lift to the top of a Ph.D. However, my research has taken me on a tour of some interesting exhibits and in this dissertation I'll offer you my preferred route around some of them.

CHAPTER 1

THE PLACE OF OFFSHORE FINANCIAL CENTRES IN PROCESSES OF FINANCIAL GLOBALIZATION

“if we are to look for anything truly distinctive (as opposed to ‘capitalism as usual’) in the present situation, then it is upon the financial aspects of capitalist organization and on the role of credit that we should concentrate our gaze” (Harvey, 1989, p.196).

1.1. NEW PLACES ON THE MAP: OFFSHORE FINANCIAL CENTRES AND FINANCIAL GLOBALIZATION

Over the last thirty years one of the more interesting developments in the geography of the international political economy has been the appearance of “new places” on the map.¹ These places are offshore financial centres (OFCs); places which host banking, insurance, and other financial activities, away from the onshore regulatory authorities. Such centres include the Bahamas and Cayman in the Caribbean, Gibraltar and Jersey in Western Europe, Bahrain in the Middle East, Singapore and Hong Kong in East Asia, and Vanuatu in the South Pacific (see Figure 1.1). The appearance of these new places on the map of international finance poses interesting questions: why did they develop as OFCs?; what role do they play?; are the various OFCs part of a general process of financial globalization or is the development of each centre explicable only in its own terms?; how does the development of OFCs relate to the wider international political economy? Curiosity about the development of OFCs leads to efforts to find an explanation for their development; how are we to explain or interpret the development of OFCs?

A useful starting point in developing an explanation of new phenomena is to consider what other processes were going on at the same time: what might have caused the development of OFCs? Given that OFCs are involved in finance, developments in the financial and monetary spheres seem a good place to start. The development of OFCs has largely taken place since the late 1960s, a period which has seen the collapse of the Bretton Woods monetary system and a re-shaping of the landscape of international finance.

¹ By “new places” I mean places which have only recently become important to the workings of the international political economy.

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Figure 1.1 - World distribution of offshore financial centres

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The Bretton Woods system, with the dollar at its centre, was based upon the hegemony of the US economy, and the US promise to exchange dollars for gold at a fixed rate of \$35 per ounce (Strange, 1986; Helleiner, 1994; Corbridge, 1994). This hierarchical monetary framework provided stability for the post-war reconstruction of Europe and Japan, the internationalization of production and the growth of world trade, but the dynamics of economic development in turn undermined the rigid monetary framework. The fluidity of capitalism undermined the fixity of the states-based monetary system (Harvey, 1989; Leyshon, 1992).

There were several factors leading to the collapse of the Bretton Woods system. The value of the dollar was guaranteed by the US Government and its promise to redeem dollars for gold; this guarantee was based upon the hegemony of the US economy and the ability of the US Government to exchange dollars for gold; the Bretton Woods system was predicated on the link between a strong US territorial economy and the US dollar. This link was stretched and broken by processes of globalization. As international trade grew, as US multinationals expanded their dollar-denominated operations overseas, as dollars were increasingly held overseas and traded in Eurodollar markets, as dollars were printed to finance the Vietnam war, the credibility of the US promise to redeem dollars for gold - the basis of the Bretton Woods system - was brought into question.

It was in this context that Nixon acted in August 1971 to break the link between the dollar and gold. This move signalled the beginning of the end of the Bretton Woods system and a shift to a new monetary system where the value of the dollar was neither formally guaranteed by the US Government, nor backed by gold. The monetary system based on relationships between territorial states had been shattered by the extension of economic activity beyond states' borders. Monetary relations were flexible and privatized; but, what was the dollar worth? The space of economic activity increasingly transcended the territorial spaces of political authority; there was no guarantor of the currency in a globalizing economic space.

Might the collapse of the Bretton Woods system and the development of offshore financial centres be somehow related? Might both developments be part of a wider dynamic and explicable within a common theoretical framework? Might the development of OFCs be connected with processes of financial globalization, the collapse of Bretton Woods, and the mismatch between economic and political

spaces? It is these questions, among others, which I address in this dissertation.

This dissertation is an effort to explain the development of OFCs and to see how their development fits in with wider processes of financial globalization. How, then, are we to explain the processes of financial globalization? For some commentators the development of global financial markets is due to technological developments and the power of market forces. In this interpretation financial activity increasingly transcends political boundaries leading ultimately to the “end of geography”, a scenario in which location and regulation no longer matter, or matter less (O’Brien, 1992). For Harvey and other commentators financial globalization is part of the dynamics of capitalism; the latest effort by capitalism to avoid its contradictions through the creation of credit and expansion into new spaces (Harvey, 1982). Although on the surface these interpretations are similar - they both point to the changing geographies of the international political economy - they are different in important ways. For O’Brien geography - as spatial difference - comes to an end as space is homogenized and equilibrium is reached. For Harvey financial globalization (re)produces uneven development; new geographies - spatial differences and spatialities of power and social relations - are produced to avoid the fixity of existing geographies. The question is, then: “how are geographies implicated in processes of financial globalization?” Is geography annihilated, or are geographies both destroyed and created in an ongoing process of uneven development?²

I could select a theoretical framework now and then fit my analysis of the development of OFCs into that framework. However, that would be to prejudge matters; how would I choose the theoretical framework? Rather, I intend to gradually develop an explanation through my exploration of the development of the Bahamas and Cayman OFCs, and return to more abstract theoretical concerns in conclusion. As Harvey has argued “at some point or other tangible connections must be made between the weft of theory and the woof of historical geography” (Harvey, 1982, p.451). Geographies may or may not be important in processes of financial globalization; whether they are, and if so how, is an empirical question. For, as Swyngedouw has suggested: “the difference that place makes lies exactly in the fact that different places are different ... But the nature of these differences can in essence only be

² My two-sided definition of geography - spatial difference and spatialities of power and social relations - is quite deliberate. It is this tension, which is captured by the concept of regulated and regulatory geographies, that my dissertation works with.

detailed empirically. Nothing a priori can be said about the difference(s) embodied in and constructed through space” (Swyngedouw, 1991, p.158).

The development of OFCs provides a window through which to consider processes of financial globalization. Dealing in intangible, mobile and freely-convertible assets, OFCs provide a particularly interesting window to look through. The development of OFCs is a *hard case* through which certain processes of financial globalization, and the importance, or not, of geographies should become clear. In my dissertation I look at and through the development of two particular OFCs, the Bahamas and Cayman, seeking to analyze how and why these places are different, and what difference this makes to the workings of the international political economy.

1.2. THE BAHAMAS AND THE CAYMAN ISLANDS

The Commonwealth of The Bahamas is an archipelago of over 700 islands in the Caribbean basin, of which 29 are inhabited, encompassing a total land area of 9000 square km.³ The island-chain stretches for 1300 km. from 80 km. east of Florida to 80 km. north of Haiti on a north-west to south-east axis. Nassau is the capital city, communications hub, business centre, and main population centre of The Bahamas. Nassau is on the small island of New Providence which is home to approximately 172,000 people from a total population of 255,000 (Bahamas Government, 1994; see Figure 1.2).

The Bahamas were “discovered” by Columbus in 1492, with San Salvador probably being Columbus’ first landfall in the West Indies. Spanish settlers took indigenous Lucayans to work on plantations elsewhere but it was not until the mid-seventeenth century that the first permanent settlers arrived, from Bermuda in search of salt, and from Britain setting up plantations on Eleuthera and New Providence. The Bahamas were made a British Protectorate in 1718 and a representative House of Assembly was established in 1729. The eighteenth century saw the importation of African slaves to work the plantations, a key phase in the development of Bahamian society.

³ Information for this potted historical geography of The Bahamas is drawn mainly from Blum (1984); Brown (1981); CCH International (1992); Doggart (1985); Stonehouse (1985); Thorndike (1993); Government publications and guidebooks; and fieldwork.

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The plantation economy did not take root in the Bahamas and since the nineteenth century the economic fortunes of the Bahamas have been closely tied to events in the nearby USA. The Bahamas prospered from blockade running during the American Civil War and from smuggling during the prohibition years of the 1920s before developing its natural resources as a major tourist centre for wealthy

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Figure 1.2 - The Bahamas and The Cayman Islands

Americans. In 1908 the Royal Bank of Canada established the first foreign bank conducting public business.

This was followed in 1936 by the first trust company, the Canadian-owned Bahamas General Trust Company, and in 1942 by the first private bank. This haphazard development of financial facilities was consolidated from the late 1960s as the Bahamas Government adopted an offshore financial development strategy. The Bahamas gained Independence from Britain in 1973.

The Cayman Islands are a group of three islands in the Caribbean Sea, 180 miles north-west of Jamaica and 750 km. south of Miami.⁴ The two smaller islands, Little Cayman and Cayman Brac, are sparsely populated: Grand Cayman is the main population centre, focus of tourism, financial activity and employment. Grand Cayman is 35 km. long and 12 km. wide at its widest point. The population of the Cayman Islands in 1991 was 27000 (Cayman Islands Government), having risen from 18000 in 1980, with all but 1500 living on Grand Cayman (see Figure 1.2).

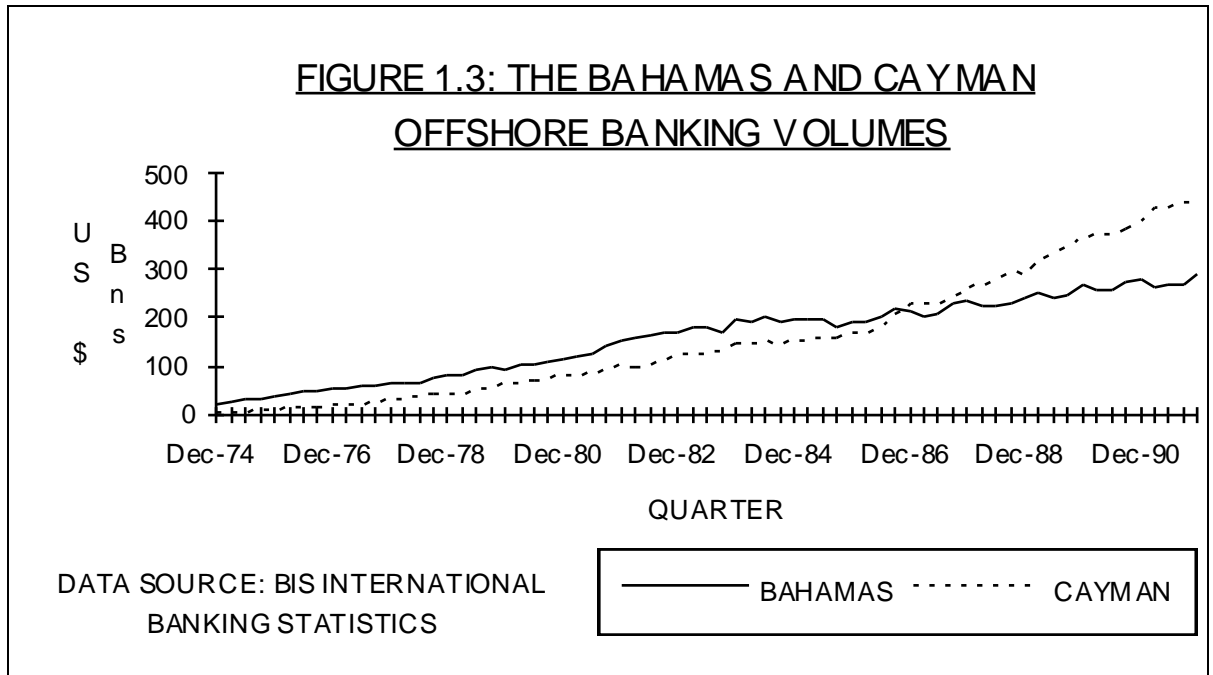
The Cayman Islands were first mapped by Columbus in 1503 and named “Las Tortugas” because of the large numbers of turtles in their vicinity. Sir Francis Drake was the first Englishman to visit Cayman in 1586. The Treaty of Madrid in 1670 shared out the Caribbean possessions of Spain and England with the result that England gained The Cayman Islands; they have remained a British colony ever since. The Cayman Islands, unsuitable for agriculture because of the infertile soils, were unoccupied for many years except for deserters, debtors, buccaneers, and some settlers from Jamaica. The inhabitants of Cayman survived by making rope, catching turtles and working as merchant seamen until local elites began to pursue a development strategy based firstly on tourism, and secondly on finance. Fundamental to this strategy was the opening of Owen Roberts International Airport in 1952 and the increasing availability of electrical power. Barclays opened the first bank in Cayman in 1953, beginning the island’s development as an OFC.

By 1991 the Bahamas hosted \$287 billion of offshore financial activity and almost 400, banks whilst Cayman played host to 544 banks and \$442 billion of offshore banking activity (Bank for International Settlements, 1993). The volume of offshore banking activity hosted by

⁴ Information for this potted historical geography of The Cayman Islands is drawn mainly from CCH International (1992); Gallagher (1990); Maples and Calder (1994); Paget-Brown (1994); Thorndike (1993); Government publications and guidebooks; and fieldwork.

[Type text]

the two centres had risen since 1974 from \$23 billion and \$3 billion for the Bahamas and Cayman respectively (see Figure 1.3). My task in this dissertation is to explain how such apparently marginal places have developed as important OFCs, and as important places in the landscape of international finance.



1.3. A MAP OF THE DISSERTATION

A study of the development of the Bahamas and Cayman OFCs could have been many things. Before explaining what my dissertation is, it is worthwhile mentioning what it is not. In particular, it is not three things. Firstly, it is not a guide for financiers and potential investors looking for a way to use the uneven geographies of regulation and taxation to increase their profits and to hide their money. Such guides are readily available elsewhere (Spitz, 1994; CCH International, 1992). Secondly, it is not a traditional “development” dissertation. My aim in this dissertation is not primarily to document and analyze the impact of offshore financial development on the peoples of the Bahamas and Cayman (see Hampton, 1994). Thirdly, my dissertation is not a traditional “economic geography” dissertation. My aim is not simply to map the changing distributions of banks, clients and monies in the OFCs. Such a dissertation would have been made near-impossible by the confidentiality upon which the centres’ success as places for offshore finance is built.

[Type text]

More positively, my dissertation is an effort to understand both the development of the Bahamas and Cayman OFCs and their position in processes of financial globalization. Rather than providing a simple mapping or description of the development of the Bahamas and Cayman OFCs my aim is to understand their development, to contribute to an explanation of the map of international finance. With my focus on a specific case in its wider context, and my effort to write a theoretically-informed and theoretically-informing dissertation, my study may be seen as a “new regional geography” (see section 3.2). With my attention to the social relations, practices and processes of offshore finance it may also be seen as a “new economic geography” (see section 3.2.2). In essence, my dissertation is an effort to write a geopolitical-economy of offshore financial development which avoids the territorial trap of mainstream international relations theory by historicizing geography and looking in detail at the place of OFCs in processes of financial globalization (Agnew, 1994; see also section 2.4.4).

In chapter 2 I provide a review of the existing literatures around the themes of globalization, regulation and geography, using these literatures to prepare the ground for my thesis. Through this review I consider the meaning of “globalization”, look at financial globalization as a *hard case*, assess some treatments of money and finance in social science, and offer a brief history of financial globalization. I then address the question of whether financial globalization has led to the “end of geography” and the demise of states as important regulatory authorities in the international political economy. I argue that states retain an important role in processes of financial globalization, and further suggest that there is more to geography than states as fixed territorial containers. In concluding chapter 2 I argue that in order to understand the processes of financial globalization, and the development of the Bahamas and Cayman OFCs, a geopolitical-economy which considers the sites, practices and processes of regulation is needed.

Chapter 3 is a “methodology” chapter in which I explain how I have conducted my geopolitical-economy. I argue that it is important to reveal the ways in which research is produced in order to facilitate its evaluation, and suggest that if we are to understand the processes of financial globalization and offshore financial development we need to adopt a “new regional geography” approach. To understand geographies of flows we require flexible research strategies. I begin with a discussion of the emergence of a new regional geography, before considering the impact of the reflexive turn on economic geography, and the role of case studies in a new regional geography. I then describe the processes of my

research, my research strategies, and the ways in which I collected and analyzed data.

In chapter 4 I begin to write a geopolitical-economy of the development of the Bahamas and Cayman OFCs, focusing initially on the regulatory construction of the Bahamas and Cayman as places for offshore finance, and working with ethnographic data collected during fieldwork. I begin with a brief discussion of the apparent placelessness of offshore finance, before addressing a series of questions about the regulatory construction of place: why construct a place for offshore finance?; who constructs a place for offshore finance?; how is a place constructed for offshore finance; and what is the local impact of constructing a place for offshore finance? I argue that the Bahamas and Cayman are constructed as places for offshore financial activity through regulation, sets of social practices. I conclude with the suggestion that the regulatory construction of any one place cannot be understood in isolation from other places, a point I take up in chapter 5.

In chapter 5 I consider the relationship between the Bahamas and Cayman as places in competition to host offshore financial activity in the Caribbean. My purpose is to consider how their relationship affects the construction of the Bahamas and Cayman as places for offshore finance. I begin by discussing the competitive environment in which the two centres are positioned, before considering their competitive strategies. I address the question of whether they are locked into a cycle of competitive deregulation, and look in detail at the Bahamas' move to Independence in 1973 and the opportunity that this offered Cayman. I then consider the ways in which the Bahamas and Cayman increasingly compete through representing themselves as stable and reputable places for offshore finance, and address the impact that multinational banks have on the centres' competitive strategies.⁵ That is, does the presence of multinational banks with a presence in both centres introduce a further element of complexity? I conclude with the suggestion that the development of the Bahamas and Cayman as places for offshore finance, and their relationship, cannot be understood without looking at the wider context for their development, a point I take up in chapter 6.

In chapter 6 I expand my focus to consider the wider regulatory landscape in which the Bahamas and Cayman are placed, particularly the relationships of the OFCs with the USA, and their position within the

⁵ I address the question of what sense it might make to refer to "the Bahamas" and "Cayman" as actors in section 4.4.

regulatory framework for international banking provided by the Basle Committee on banking regulations and supervisory practices (Basle Committee). I examine the relationship of the “onshore” with the “offshore”, through an historical analysis. I begin by considering the initial development of the Bahamas and Cayman as, in part, a result of onshore regulatory practices and then consider the efforts of US regulatory authorities to regain control over dollar-denominated banking and to extend their control over the offshore centres, beyond US territorial space. In particular, I look at the development of International Banking Facilities (IBFs), the Castle Bank and Bank of Nova Scotia cases, and the development of Mutual Legal Assistance Treaties (MLATs). Finally I examine the reconstruction of the Bahamas and Cayman as places for offshore finance, and the impact of the Basle Committee’s regulatory framework on their development.

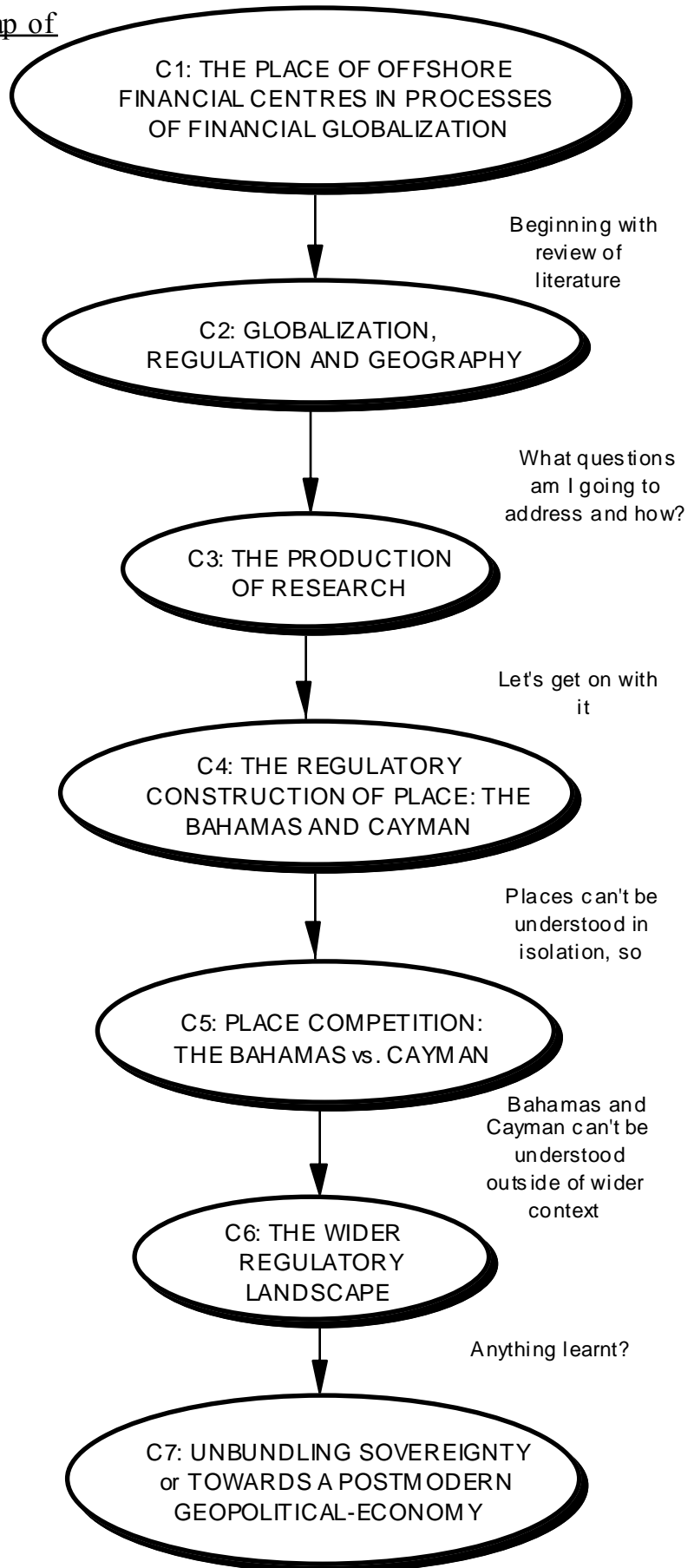
In chapter 7 I bring together some of the insights gleaned from my analysis of the development of the Bahamas and Cayman and put the “regulatory landscape” metaphor, a metaphor developed throughout the dissertation, to work. My aim is to move beyond a redescription of processes of financial globalization and offshore financial development, towards an explanation. I consider a Marxian account of financial globalization (Harvey, 1982), and argue that explaining the development of OFCs in these terms - suggesting that OFCs are “on the margins and at the centre of global capitalism’s displacement of crisis” (Roberts, 1994, p.111) - might be coherent and convincing, but, I argue, it fails to specify *the ways in which* the development of OFCs is related to processes of financial globalization. After a brief detour to the middle ages to pick up some conceptual tools I offer a fuller explanation of the development of OFCs and their place in processes of financial globalization. I argue that the development of stateless monies and Euromarkets reconfigured power/space, producing an economic space of flows, increasingly divorced from the political space of states and the productive economy. I argue that OFCs, which were developed through the actions of offshore elites and onshore financiers, articulate the economic and political spaces of capitalism, providing a link between the economic space of flows and the political space of states and the territorial productive economy. In this way OFCs partially resolve the paradox of absolute globalization. The OFCs articulate the spaces of capitalism through the practice of “unbundling sovereignty”, the separation of sovereignty into sovereignty over physical space and sovereignty over access to the space of flows. It is through the practice of unbundling sovereignty that the Bahamas and Cayman OFCs are

[Type text]

central to processes of financial globalization. Geographies are regulated and regulatory.

[Type text]

Figure 1.4: A map of the dissertation



CHAPTER 2

GLOBALIZATION, REGULATION AND GEOGRAPHY

“In creating a global financial market-place the banks altered the geography of the world system. The basic geographical dimensions of space and time were warped to suit the banks operating needs. ... Nations attempted to control the system through regulation or taxes: tax havens, dots in geographic space but substantial territories in the bankers’ world, enabled such restrictions to be bypassed. ... Time and space in the bankers’ world were pliable, moveable, profitable constructions which might or might not correspond with the mundane geography of national territories” (Daly and Logan, 1989, p.103).

2.1. INTRODUCTION

In this chapter I provide a critical review of the literature which addresses the themes of globalization, regulation and geography. Rather than attempting a comprehensive review of debates around globalization - a task which would be enormous - I use the existing literature to prepare the ground for the contribution which my dissertation makes to these debates. This chapter is necessarily selective; there are other literatures which I could have reviewed, other issues I could have emphasized, and other vocabularies I could have drawn on. I could have analyzed the role of international regimes in the globalization of finance (Porter, 1993; Cerny, 1993), considered the utility of game-theoretic analyses of offshore financial development, or explored the similarities between conceptions of place and *habitus* (Bourdieu, 1990). However some focus and selectivity is essential. I feel that my selection is useful; it allows me to develop my own thesis and introduce the themes and vocabularies which I find most useful for understanding the development of the Bahamas and Cayman Islands as OFCs. I trust that the reader will be similarly convinced.

I begin this chapter with a discussion of globalization, considering what globalization is, explaining the ways in which globalization is a new and qualitatively different set of processes, and outlining various aspects of globalization. I then focus on the financial sphere as a “hard case” of globalization, look to Economic Geography and International Political Economy (IPE) for their treatments of money and finance, and suggest that each has something to offer to the development of a more useful “geopolitical-economy” approach. I provide a brief history of financial globalization before considering the suggestion that financial

globalization has led to the “end of geography” (O’Brien, 1992). This leads me on to explore the impact of financial globalization on the regulatory power of states and the possibility that states are outflanked by processes of financial globalization. Adopting a political-economy approach I argue that much of the existing literature has wrongly marginalized the role of states in the globalization of finance, and attempt to bring the state, the inter-states system, and sovereignty back in. Financial globalization does not signal the end of the territorial state, rather it changes the context in which states act and undermines approaches which conceptualize states as fixed autonomous territorial spaces (Agnew, 1994). The challenge to states as sole regulatory powers over fixed territorial spaces is not the end of geography, rather it demands a rethinking of geography or the spatialities of regulation as dynamic, relational, and exercised at a variety of overlapping scales. In concluding this chapter I develop my thesis further, arguing for a geopolitical-economy of offshore finance which maintains that geographies are both regulated and regulatory, and outlining clearly the issues that I will explore in the remaining chapters. It is not my intention in this chapter to fully develop my thesis, conceptual progress requires empirical work too; I will do that in the remaining chapters as I simultaneously employ and further develop the vocabularies introduced in this chapter through an exploration of the development of the Bahamas and Cayman OFCs.

2.2. GLOBALIZATION

2.2.1. WHAT IN THE WORLD IS GLOBALIZATION?

“Globalization” is up there with “postmodernism” in the league table of pseudo-academic buzzwords, and, as with postmodernism, commentators struggle to say what it means. As Cox remarks: “a conception of the impact of globalization on populations organized at national, regional or more local scales has become something of an article of faith in some social science circles” (Cox, 1992, p.427). It is hard to think of a social science that has not adopted this article of faith. Politics, International Relations, Economics, Sociology, Cultural Studies, and Geography have all had their say about globalization (McGrew and Lewis, 1992; Gill, 1992; Hirst and Thompson, 1992; Giddens, 1990; Robertson, 1990; Harvey, 1989). Globalization is, as Jones suggests: “among the most abused and misused terms in popular usage. Ambiguous in usage, and vague in referent ... [meaning] many quite different things to different people” (Jones, 1995, p.3).

The sense of confusion surrounding globalization is evident in Mittelman's questions: "what explains globalisation? What are its causes, mechanisms, and possibilities for transformation? Where to focus an analysis? On the inner workings and logic of capital itself? On strategies and actors seeking to optimise their positions? On empirical indicators or trends said to comprise this process? On the complementary and contradictory interactions among localisation, regionalisation and globalisation? On the social and political consequences?" (Mittelman, 1994, p.427). Amidst such confusion it is tempting to sit on the fence, complain about the difficulties inherent in using the concept of globalization, and stop using it. However I do not think that such an approach is necessary or helpful in our efforts to understand contemporary processes of social change; although "globalization" is just a word, it is a word that refers to important processes of social change. Rather, it is important to explore the geographies of globalization through research which combines theoretical insight and empirical exploration.

The sense of confusion surrounding the concept of globalization stems from two related problems. Firstly globalization is a chaotic concept (Sayer, 1984), and secondly it is an essentially contested concept. It is a chaotic concept because globalization refers to a range of processes and aspects of social change which lack a single cause. A single concept is insufficient for understanding all aspects of social change because there is no single cause. It may be more useful to unpack globalization conceptually and refer to plural globalizations; sets of social processes which are important in different ways in different spheres. It is a contested concept in part because social change is viewed through a range of theoretical lenses. As Jones argues, the problem with notions of globalization is "not only that their empirical referent has been defined in quite different ways, but that divergent usages of the term also reflect contrasting views of the way in which the world works, and ought to work" (Jones, 1995, p.3). For instance, what globalization means depends upon whether it is viewed in atomistic terms as the result of the actions of individual states, or holistic terms as a systemic phenomenon (Jones, 1995, p.10); and depending on whether it is seen as a good or a bad thing. As Cox argues in relation to the economic/financial sphere, the globalization-hypermobility thesis is attractively simple, but too simple and politically dangerous; it represents social change as inevitable, paralyzing politics and efforts to shape social change. It is time for some careful critical scrutiny (Cox, 1992).

At the end of my thesis the reader should have a better grasp of the issues surrounding globalization, particularly financial globalization. At this stage I probe tentatively. Giddens suggests that globalization refers to the stretching of social relations across space and time (Giddens, 1990), and Thrift agrees that globalization refers to the increasingly close intertwining or integration of the world's economies, societies and cultures (Thrift, 1995). I accept this broad definition, but there are many possible mechanisms of intertwining, and some of these mechanisms, international trade for instance, have been operative for centuries. If globalization is simply a re-labelling of centuries-old processes, then why bother using the term? Amin and Thrift distil three common themes from discussions of what globalization means, suggesting that for many commentators it is linked to: the wilting of the idea of a cohesive national economy and society; changes in peoples' everyday lives as a result of greater integration with distant others; and the importance of some sort of global-local dialectic which alters what counts as the local (Amin and Thrift, 1994, p.1). This is useful but does not clearly differentiate globalization from earlier processes of integration. To be a useful concept, although these processes may persist too, globalization must refer to something qualitatively different.

Globalization should be differentiated from imperialism and internationalization, other processes of spatial integration and increasing interdependence. Imperialism and internationalization are processes driven by powerful states or their dominant classes.⁶ This draws attention to one way in which globalization is a new set of processes rather than a re-labelling; it involves some new actors. States and classes certainly have a role to play in globalization but they are actors on an increasingly crowded stage, a stage on which multinational corporations, supranational organizations, new social movements, localities⁷ and individuals all have a part to play. Some actors have bigger parts than others but the story is told through their interaction. Interaction suggests the second way in which globalization is a new set of social processes. To continue the performance metaphor, globalization involves different types of relationships between actors, a different type of play. Globalization is as much about decentralized privatized geo-economic relations as it is about hierarchical inter-national geopolitics. In Agnew and Corbridge's terms, hegemony or power is increasingly exercised

⁶ Internationalization tends to refer to inter-state relations. This in itself is interesting as it reveals the assumed correspondence between the state and the nation, a correspondence that is historically and geographically specific.

⁷ The question of whether localities have a distinct part to play is addressed in chapter 4 with reference to the Bahamas and Cayman, where I draw on the work of Cox and Mair (1991).

through the circuits of capital rather than through inter-state relations (Agnew and Corbridge, 1995). Finally, actors on different parts of the stage may be involved simultaneously in the performance; globalization involves a stretching of social relations through time-space, such that spatially distant actors may be simultaneously linked. Globalization is a useful concept; it refers to a different type of play with a different set of actors.⁸

2.2.2. ASPECTS OF GLOBALIZATION

As one might expect with such a broad concept, globalization is a multi-faceted process. Amin and Thrift outline seven aspects of globalization and the following discussion draws heavily on their analysis (Amin and Thrift, 1994).⁹

The globalization of finance is the first aspect. Amin and Thrift argue, after Strange, that the international financial structure - the mechanisms through which credit money is created, allocated and used - has become increasingly important and, particularly since the collapse of the Bretton Woods system in the early 1970s, increasingly dominates the circuits of production (Strange, 1988). Financial flows include both investment funds and short-term speculative exchanges, and their rapid increase is indicated by the changing volumes of international banking. According to the Bank for International Settlements (BIS) the volume of international banking, recorded as external liabilities, increased from \$392 bn. in 1974, to \$1628 bn. in 1982, reaching \$6440 bn. by 1990 (BIS, 1993). Volumes of Eurobanking, that is banking conducted in currencies other than those of the local market, are another indicator of the integration of distant places and markets through processes of globalization which transcend the regulatory reach of territorial states. Martin notes that the volume of Eurodollars in circulation rose from \$11 bn. in 1964, to \$400 bn. in 1979, and reached \$2800 bn. in 1989 (Martin, 1994a).

A second aspect of globalization noted by Amin and Thrift is the increasing importance of the knowledge structure, or in Giddens' terms expert systems, as knowledge and information become important factors of production, particularly for service industries (Giddens, 1990).

⁸ The extent to which globalization adequately describes reality - it may be more useful as an ideal type - is another question (Hirst and Thompson, 1996).

⁹ Amin and Thrift's analysis illustrates that even the best discussions of globalization fall well short of a coherent explanatory theory and settle for a list of aspects. There is a marked reluctance to fit a simple theory to a messy reality. Harvey provides a notable exception, ascribing everything to the logic of capital (Harvey, 1982 and 1989).

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Knowledge, data, and information are more mobile than inputs such as coal, oil, or steel; they can escape and flow across state boundaries and thus are at the forefront of globalization processes. The development of the internet and E-mail communication is a particularly apposite example, and one which illustrates, through differentials in accessibility, that rather than resulting in a uniform shrinking of time-space globalization reproduces patterns of uneven development (Warf, 1995).

The transnationalization of technology is a related aspect of globalization. New technologies alter the processes of production and provide networks for the flows of information, including money, around the world (Kirsch, 1995). The speed of diffusion of technologies and the pace of innovation has increased as multinationals introduce new technologies to distant parts of the globe, their diffusion shaped more by organizational structures than territorial states. The widespread adoption of “Japanese” production techniques in the international automobile industry provides a useful example here (Dicken, 1992a, pp.281-284). Technology is an important aspect of globalization as it develops and spreads with little reference to state boundaries, and in turn serves to bypass territorial regulations.

The importance of multinational firms, or global oligopolies, is highlighted as Amin and Thrift’s fourth aspect. As Camilleri and Falk note: “in 1960 the top 200 global industrial corporations accounted for 17.7% of GNP in the non-planned economies. By 1980 their share had increased to 28.6%” (Camilleri and Falk, 1992, p.70). These global oligopolies have “gone global” to maintain rates of profit and have become increasingly important in world trade, intra-firm trade accounting for some 30% of US exports, 35 to 40% of US imports, and similar levels for the UK, Germany and Japan (McClintock, 1995). World trade itself is also indicative of increasing global integration. Whilst world GDP levels have increased by 3.4% annually since WWII, volumes of trade have increased by 5.5%, indicating that processes of integration exceed the rate of growth (McClintock, 1995).

Transnational states and other institutions of governance signal a further aspect of globalization. Transnational economic diplomacy through bodies such as the G7, the European Union (EU), the United Nations (UN), the World Trade Organization (WTO), the BIS and the Trilateral Commission (Gill, 1990) has developed, and as Zacher notes the number of Inter-Governmental Organizations has increased from only 37 in 1909, to 337 in 1995 (Zacher, 1992). Such organizations to some extent

shift politics, power and regulation away from the territorial state, and thus are an important aspect of processes of globalization.

Cultural flows are another important aspect of globalization. This label covers a wide range of issues such as the development of global media through satellite, communications and computing technologies; the possibility of global audiences for 'events' such as the Olympic Games and the demolition of the Berlin Wall; the diffusion of Western lifestyles and products; increases in long-distance travel and tourism; and the transnational adoption of neoliberal policies and rhetoric. Such de-territorialized signs (Lash and Urry, 1994), although not resulting in a homogenization of local cultures, may create a hegemonic discourse or ideology which furthers the integration of distant places.

Finally, Amin and Thrift suggest that globalization involves the production of new geographies where places are increasingly globally-local rather than locally-global. This seventh aspect of globalization is the most central. Each of the other aspects - finance, knowledge, technology, trade, politics and culture - involves the transformation of geographies, changing spatialities of power and social relations. To return to the performance metaphor, perhaps there is also a change in the stage on which the play takes place? This is a point I shall return to implicitly throughout the dissertation, and explicitly in chapter 7. At the centre of globalization is something geographical; to understand globalization we must explore its geographies (see Scholte, 1996).

2.3. FINANCIAL GLOBALIZATION

2.3.1. A "HARD CASE"

Given that globalization involves a diverse set of processes, decisions have to be made about the focus of one's research to make it manageable and sensible. So, which aspect of globalization should one concentrate on? Perhaps on a sphere of social life that one might expect to be particularly subject to processes of globalization. Modern money and credit are intangible, convertible, and loosely tied to fixed productive resources and so they may be expected to be the most footloose economic entities, the most likely to escape existing geographies or regulatory frameworks. The financial sphere would appear to be the most globalized, the "high point of that highly problematic intersection of money, time, and space as interlocking elements of social power in the political economy of postmodernity" (Harvey, 1989, p.298), and as such provides a hard case for testing the insights of theories of

globalization (Thrift, 1995). That is, the financial sphere provides a critical test for hypotheses which posit the end of geography and the transcendence of territorial regulation. If such hypotheses can be rejected in the sphere of finance, the counter-argument, that geography matters, gains more credibility, although one would still have to say in what ways geography matters.¹⁰ To reiterate: “if we are to look for anything truly distinctive (as opposed to ‘capitalism as usual’) in the present situation, then it is upon the financial aspects of capitalist organization and on the role of credit that we should concentrate our gaze” (Harvey, 1989, p.196). In the following discussion I take Harvey’s advice, beginning with a review of approaches to money in the social sciences in an effort to find and develop a useful vocabulary.

2.3.2. SOME TREATMENTS OF MONEY IN SOCIAL SCIENCE

Money, and particularly money as a social relation, is noticeable largely by its absence in contemporary social science. The centrality of money to capitalist society was clear to Marx but this insight was obscured by the development of a neoclassical economics which abstracts economic relations from social context. Although money plays a central role in the functioning of society and more specifically the economic sphere, there has been little analysis of what money is, how it works and what impacts it has. Even within economic discourses which prioritize the market, the price mechanism, and the language of money, money is often presented as a neutral medium rather than analyzed as an important social institution.¹¹ Such neglect of money is in part a result of the disciplinary division of labour. Money is seen as the province of economists and so scholars in other disciplines have tended to steer clear, without pausing to consider whether the economists’ treatment of money is adequate.¹²

2.3.2.1. Geographies of money and finance

Geographers too have been guilty of such neglect, as Corbridge and Thrift observe in a recent collection of essays which focus on the themes of money, power and space. They remark that “money has been neglected by many social scientists, or marginalized in their accounts, even though many of the recent crises of global capitalism can be ascribed to the institutions and circuits of national and international

¹⁰ Empirical work in relation to other spheres is crucial; financial globalization provides a useful starting point.

¹¹ Keynesian and post-Keynesian economics is an obvious exception to this neglect of money, but even in such schools of thought money is largely treated as an economic entity rather than a social relation (see especially Davidson, 1991; Davidson, 1992; Lavoie, 1992).

¹² An important exception is Nigel Dodd’s recent work on the sociology of money (Dodd, 1994).

money” (Corbridge and Thrift, 1994, p.1). Some years ago, Thrift lamented that “I simply cannot understand why so little attention is paid to matters of money and finance in human geography” (Thrift, 1990a, p.1135), and the situation has been slow to change (although see Leyshon, 1995). Increasing numbers of geographers have begun to look at issues of finance and money, but no coherent research programme has developed. The geography of money sits uneasily in the sub-disciplinary division of labour, ranging right across human geography, from cultural and social to political and economic geography, and has developed through a combination of individual efforts rather than the establishment of another subdiscipline.¹³

Economic Geography may be seen as the natural home for a geography of money, but the two “posts”, post-Fordism and postmodernity, have been the organizing themes of economic geography in recent years. As Corbridge and Thrift note: “rather more of the work conducted on the two ‘posts’ (post-Fordism and postmodernism) has been about visible fixed points and patterns of production than about the invisible spatial flows that link these nodes together” (Corbridge and Thrift, 1994, p.2). Analyses of ‘restructuring’ have usefully extended the scope of economic geography beyond the traditional focus on industrial location and manufacturing to include such themes as new and small firms (Storey, 1994); services (Daniels, 1991; Daniels, 1993); the labour process and flexible specialization (Scott and Storper, 1986; Scott, 1988); the importance of trust, culture and untraded interdependencies in economic development (Lorenz, 1992; Storper, 1993 and 1995); social divisions of labour (Sayer and Walker, 1992; Massey, 1994); consumption and its privatization in dis-organized capitalism (Lash and Urry, 1987; Gregson, 1995; Jackson and Thrift, 1995); the internationalization of production (Dicken, 1992a); and wider discussions of postmodernity and post-Fordism (Harvey, 1989; Amin, 1994). The neglect of money has continued, however.

There are exceptions of course. Harvey’s “Limits to Capital” (Harvey, 1982) outlined a Marxist political-economy account of the geography of money, with his later work, particularly his essay on “Money, time, space and the city” (Harvey, 1985), and his assessment of “The condition of postmodernity” (Harvey, 1989), providing important boosts. For Harvey the money commodity embodies the contradictions of capitalism - at base the contradiction between use and exchange

¹³ This is not intended as a criticism; the lack of a coherent research programme may in fact foster a useful plurality of approaches. However it may also explain why so little attention continues to be given to money and finance in Geography.

values - contradictions which are reproduced at wider scales as capitalism spreads through space and time in an effort to avoid its contradictions. A small group of scholars, broadly utilizing a political-economy approach, has contributed to the development of a geography of money, resulting in much fruitful collaboration. Corbridge, with the occasional help of Agnew, has attempted to link a geography of money to a re-styled geopolitics, looking, for instance, at the geographies of debt and inflation, and issues of hegemony, stability and order (Corbridge, 1988; Corbridge and Agnew, 1991; Corbridge, 1992a; Corbridge, 1992b; Corbridge, 1994); Thrift, with Leyshon and Amin as sometime-collaborators, has studied the international financial system and the place of the City of London as a node in this global network (Amin and Thrift, 1992; Thrift, 1994a; Thrift and Leyshon, 1994); Leyshon and Tickell, together and separately, have addressed issues such as the European Exchange Rate Mechanism and problems of regulating global economic activity, and have sought to develop regulation theory by attending to the monetary sphere (Leyshon, 1992; Leyshon, 1993; Leyshon and Tickell, 1994); Swyngedouw has studied "the mammon quest" and the politics of scale (Swyngedouw, 1992b); a group of Australian-based scholars have delved into the geographies of mergers and take-overs (Daly and Logan, 1989; Fagan, 1990); Clark has analyzed pensions and corporate restructuring (Clark, 1993); and Roberts has considered the role of offshore financial centres in the international financial system (Roberts, 1994; Roberts 1995).

In addition to such explicit geographies of money other work has afforded money a key role. The global cities literature (King, 1990; Sassen, 1991; Knox and Taylor, 1995); and work on the informational economy (Castells, 1989) are important areas of research which have touched upon money, money being the lifeblood of the global cities and an integral aspect of the informational economy. A further important area of social science research which has taken money seriously is the regulation school, exemplified by the work of Aglietta and Lipietz (Aglietta, 1979; Lipietz, 1987), built on by many others including Dunford, Jessop, Peck and Tickell (Dunford 1990; Jessop, 1990a; Jessop, 1993; Tickell and Peck, 1992; Peck and Tickell, 1994) and reviewed by Boyer and Saillard (Boyer and Saillard, 1995). Finally, a recent collection of essays organized around the themes of "Money, power and space" provides evidence of the increased interest in money in the social sciences (Corbridge, Martin and Thrift, 1994).

The reasons for the neglect of money are various. Disciplinary and sub-disciplinary divisions of labour, with little exchange between cultural

and economic geography, and with many geographers unfamiliar with the relevant literatures of economics and political science, are key factors but there are others. Economic geography has tended to focus on the static and the tangible rather than the dynamic and intangible, as a result of disciplinary history and inertia, and because of the apparent difficulty of studying the dynamic and invisible. A further reason relates to the political inclinations of many geographers and the neglect of money by the left. The left has tended to see money and finance as largely irrelevant in comparison with the importance of production, and has generally avoided looking at what is seen as the dirty and imponderable arena of money and finance (Strange, 1986, pp.84/5).

This marginalization of money is unhelpful. As Corbridge and Thrift argue: “the restructuring of local economies cannot reasonably be understood except in relation to the disciplining of money, and the various disciplines imposed by money capital and the community of money” (Corbridge and Thrift, 1994, p.3). Money, as Keynes clearly appreciated, is not simply the oil which lubricates the wheels of the productive base. Money is fundamental to the workings of capitalism. Those social scientists who have taken money seriously have appreciated its crucial social role. For instance: Giddens explains that money, along with other symbolic tokens such as language, is a means of bracketing time-space and facilitating the distancing of social systems (Giddens, 1990, p.25); Harvey, echoing Simmel and Lefebvre, describes how, through embodying both use value and exchange value, money both separates and brings together individuals (Harvey, 1982; Simmel, 1991; Lefebvre, 1991); and Frisby, re-working Simmel’s ideas, suggests that “money not merely symbolizes movement within society conceived as a labyrinth; its function within exchange also creates the very connections that constitute the economic labyrinth. It is the spider that weaves society’s web” (Frisby, 1985, p.88). Further, the difficulties involved in studying dynamic and invisible monies are not insurmountable, and should not stand in the way of important research efforts.

2.3.2.2. The international political economy of money and finance

Although some social sciences have marginalized money this neglect has not been all-embracing. The development of International Political Economy (IPE) from International Relations and Political Science has afforded money a central place. IPE developed rapidly in the 1970s, especially in the pages of the journal *International Organization*, as

some scholars began to appreciate the importance of increasing economic interdependence and addressed issues of anarchy, order, conflict, cooperation and hegemony. The key texts of IPE all deal with the international political economy of money (Keohane, 1984; Gilpin, 1987; Krasner, 1983; Strange, 1986 and 1988), and the importance of this theme is illustrated by the devotion to it of a large edited collection (Cohen, 1993).

Two factors influenced scholars in IPE to take money seriously: the theoretical framework of IPE, and the disciplinary predominance of North American scholars. Political economy, rather than treating money as simply an economic phenomenon, emphasizes that the economic cannot be divorced from the political. For IPE, money is “the infrastructure of the infrastructure”, a key component of the international political economy (Cerny, 1993). A second reason for IPE’s exceptional interest in money relates to the North American heartland of the discipline. The apparent decline of US (dollar) hegemony has been a major stimulus to the development of IPE, with much work motivated by the question of how international order can be maintained as US hegemony wanes.¹⁴ The collapse of the Bretton Woods system in the early 1970s, and its replacement by a system of flexible exchange rates with the US dollar playing a pivotal role, attracted much attention (Cooper, 1975; Russell, 1977; Odell, 1979; Ruggie, 1982; Cohen, 1982; Tsoukalis, 1985; Eichengreen, 1989). Analyses of the role of the dollar have illustrated that money is political and international, as well as economic and domestic. The dollar’s role as both a domestic and an international currency has created problems and possibilities for the rest of the world and the USA, and has shown that any separation of domestic and international, or of economic and political, is theoretically and empirically untenable.

IPE offers further insights and possibilities for geographies of money and a restyled economic geography concerned with the development of institutions and their role in the regulation and reproduction of society (Amin and Thrift, 1994). The organizing theme of IPE in the last 20 years has been the anarchy problematique (Waltz, 1979; Powell, 1994; Buzan, Jones and Little, 1993; Milner, 1991). The international arena, in contrast to the domestic, is seen as lacking a higher authority to coordinate the activities of individual states. Using the model of the prisoners’ dilemma game, such a situation might be expected to lead to

¹⁴ There has been considerable debate about US hegemony and whether it has declined (see for instance Russett, 1985; Strange, 1987; Agnew and Corbridge, 1995).

worse outcomes than could be achieved through cooperation. However, in the real world, in spite of the formal existence of anarchy - that is, the absence of central coordination - states do sometimes cooperate to achieve desired goals. IPE has devoted considerable energy to explaining how cooperation under anarchy might be achieved, drawing upon and developing ideas of regulatory institutions (Conybeare, 1984; Keohane, 1984; Axelrod and Keohane, 1985; Kindleberger, 1986; Oye, 1986; Caporaso, 1992; Baldwin, 1993).

2.3.2.3. A geopolitical-economy of money and finance

A geopolitical-economy approach might usefully contribute to analyses of the international political economy of money and finance through considering the sites and practices - the geographies - of power, regulation and governance. IPE and contemporary economic geography have similar “political economy” approaches, and similar concerns with the role of institutions in social regulation and reproduction. IPE has begun to question some of its basic concepts, such as sovereignty and the state, terms which cry out for the application of geographical imaginations (Ruggie, 1993). A dialogue between IPE and economic geography is overdue. Thankfully, the conversation between IPE and economic geography has begun (Agnew and Corbridge, 1995; Rosow, Inayatullah and Rupert, 1994). My aim in this dissertation is to develop this conversation further through a consideration of offshore finance, an important aspect of financial globalization. Financial globalization is a theme of great importance to IPE and economic geography, and has proved a slippery customer when handled by either of these approaches. IPE has neglected the spaces and places of globalization, whilst economic geography has largely neglected money and finance, and particularly their politics. A geopolitical-economy approach may improve our understanding of financial globalization through focusing on the sites and practices of “real regulation” (Clark, 1992) and the spatialities of power. In this dissertation I take this approach, developing the thesis that geographies are both regulated and regulatory through a detailed exploration of the geographies of offshore finance.

2.3.3. A BRIEF HISTORY OF FINANCIAL GLOBALIZATION

Histories of globalization, almost without exception, tell stories about the workings, contradictions and collapse of the Bretton Woods system of regulatory institutions (see, for instance: Strange, 1994; Corbridge, 1994; Helleiner, 1994). Such accounts begin by describing the Bretton Woods Agreement and explaining the workings of the IMF, revealing the central role of the US dollar which, in 1944, was linked to gold at

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\$35 per ounce, with other currencies pegged to the dollar. These pegged exchange rates could be changed in the face of fundamental disequilibria but this seldom happened. The next stage of the story outlines the problems inherent in the Bretton Woods system of international money: the Triffin dilemma; the N-1 problem; and tensions due to the dollar serving as both a domestic and an international currency.

The Triffin dilemma (Triffin, 1960), refers to the necessary trade off between expanding liquidity and maintaining confidence in the meaning or value of money: these goals could not be achieved simultaneously under the Bretton Woods System. In order to maintain liquidity as world trade expanded, the amount of dollars in circulation needed to be increased. With a fixed exchange rate of the dollar for gold, and a relatively stable supply of gold, such an increase in liquidity necessarily reduced levels of confidence in the dollar. Holders of dollars began to fear that their money was not backed by adequate supplies of gold - in Harvey's terms money was becoming increasingly fictitious (Harvey, 1982) - this fear leading to runs on gold in the late 1960s.

Gilpin describes the N-1 problem clearly, explaining that, in "a monetary system composed of N countries, N-1 countries are free to change their exchange rate but one country cannot change its exchange rate, because its currency is the standard to which all other countries peg their currency values" (Gilpin, 1987, p.138). This problem made the Bretton Woods system inflexible.

A third and related problem of the Bretton Woods system resulted from the dual role of the dollar as US domestic and international currency. The contradiction was, as Leyshon suggests: "between the role of the US as both governor and guarantor of this regulatory order ... and its position as a competitive geographical-political jurisdiction in its own right" (Leyshon, 1992, p.257; see also Parboni, 1981). Actions such as interest rate changes taken by the US for domestic reasons had international repercussions; and, the US domestic economy was vulnerable to the actions of foreign holders of dollars who sought to exchange dollars for gold.

Descriptions of the collapse of the Bretton Woods mechanisms then focus on the development of the Euromarkets, primarily dealing in dollars outside the US domestic economy. They originated in the late 1940s as they unbundled country and currency risk, allowing the holders of dollars - particularly Communist countries fearing the seizure of their dollar assets by the USA - to have their currency cake (the dollar) and

eat it (be free of US domestic regulations). The Euromarkets were stimulated by efforts to protect the dollar, and contributed to the dollar's problems by making it more difficult for US regulatory authorities to control their currency.¹⁵ Euromarkets provided a way to escape US-territorial regulations on dollar transactions, and served to further undermine these regulations (Hawley, 1986). The development of Euromarkets is a key episode in the de-linking of currencies from state-based territorial regulations, an important moment in the reconfiguration of power/space.

Inevitably then, the Bretton Woods system collapsed under the weight of its own contradictions, with Nixon signalling the end in August 1971 as he "closed the gold window", breaking the unsustainable gold-dollar link and ushering in an era of floating exchange rates.¹⁶ Problems of increased volatility, inflation, the recycling of petrodollars, and the less developed countries' debt crises round off most stories of international money.¹⁷ The collapse of the Bretton Woods system of managed exchange rates and its replacement (by default) by a system of floating exchange rates determined by the markets rather than government policies is a crucial phase of globalization, central to the increasing integration of distant places. The territorial state-based regulatory framework was to some extent bypassed by the privatization of the international financial structure. Processes of financial globalization undermined the link between regulation and the geography of states; geographies were reconfigured.

One approach to explaining the globalization of finance invokes the laws of capitalism (Harvey, 1982; Harvey, 1989). In such accounts globalization is an effort to escape or postpone the inherent contradictions of (national) capitalism(s), particularly the tendency of the rate of profit to fall. Capitalism seeks to avoid crises by restructuring, devaluation and credit creation - in Harvey's terms the development of fictitious capitals which are based on as yet un-realized production. As these options fail and crises loom the expansion and globalization of capitalism provides a "spatial fix". Larger areas of the world are unevenly integrated into the capitalist system, providing larger markets and postponing crises of accumulation and realization. Harvey argues that "global freedom for the movement of capital (in all forms)

¹⁵ These efforts to protect the dollar are detailed in section 6.2.

¹⁶ An alternative "unit-level" account which sees Nixon's actions as due to the primacy of domestic economic concerns over international monetary policy is provided by Gowa (1983).

¹⁷ Fuller accounts of the Bretton Woods system are readily available. See for instance Helleiner, 1994; Gilpin, 1987; Corbridge, 1994; Gill, 1992; Leyshon, 1992; Tew, 1982.

has allowed instant access to the ‘spatial fix’ through geographical expansion within a framework of uneven geographical destruction” (Harvey, 1982, p.24). In this way crises are resolved, or postponed, by shifting the contradictions of capitalism to a higher scale. As Smith suggests “it is possible to conceive of scale as the geographical resolution of contradictory processes of competition and co-operation” (Smith, 1993, p.99; see also Smith, 1992 and 1996).

Such an approach to explaining processes of financial globalization does provide a coherent narrative but risks marginalizing the unevenness and difference that Harvey himself mentions, subsuming the decisions and actions of people, states and institutions within the determining logic of capital and its functional requirements. I would argue that a vocabulary of meso-level concepts which link individual actions with social structures through practices and processes is more useful in understanding the geographies of financial globalization. As Corbridge argued in his critique of radical development theory “an account of the changing dynamics of the modern world system must have recourse to a range of ‘explanatory variables’ which occupies a middle-level between capitalism-in-general and the individual and his or her class” (Corbridge, 1986, p.246). In chapters 4, 5 and 6 of my dissertation I develop such meso-level concepts through an exploration of the development of the Bahamas and Cayman OFCs, returning to more abstract theoretical concerns in chapter 7.

Martin provides such a meso-level account of financial globalization. Building on the work of Cosh, Hughes and Singh, he suggests four factors contributing to the recent globalization of finance (Martin, 1994a; Cosh, Hughes and Singh, 1992).¹⁸ Firstly, there is deregulation, or regulatory change, which may be internal or external to individual states. Internal changes such as “Big Bang” in the City of London in 1986, and the “May Day” changes in New York eleven years earlier, increased the flexibility of financial markets. External changes, such as the abolishment of UK capital controls by the first Thatcher government in 1980, reduced the barriers to global financial integration. A second factor is the development of new financial instruments, such as swaps, options, futures, and complex hedging techniques. Such instruments, and particularly the securitization of debt, enable bigger and riskier transactions, and create possibilities for new types of trading. A third factor is the increased importance of new players in the market,

¹⁸ This discussion brackets off the relationship between the globalization of finance and that of production. Global finance facilitates and is demanded by increasingly global production.

particularly institutional investors such as pension fund managers. Such players have great power in the markets, and with their large resources are able to invest and speculate on a global scale. A fourth factor is the development of telecommunications and information technologies. There are two basic reasons why technology is important to financial globalization. Firstly, money is information and thus information technologies are money technologies, allowing people (and computers!) to do new things with money. Secondly, time is money and thus technologies that save time can also save or generate more money. The role of technology in the process of financial globalization is contested, with some commentators seeing technology as determining and others as facilitative.

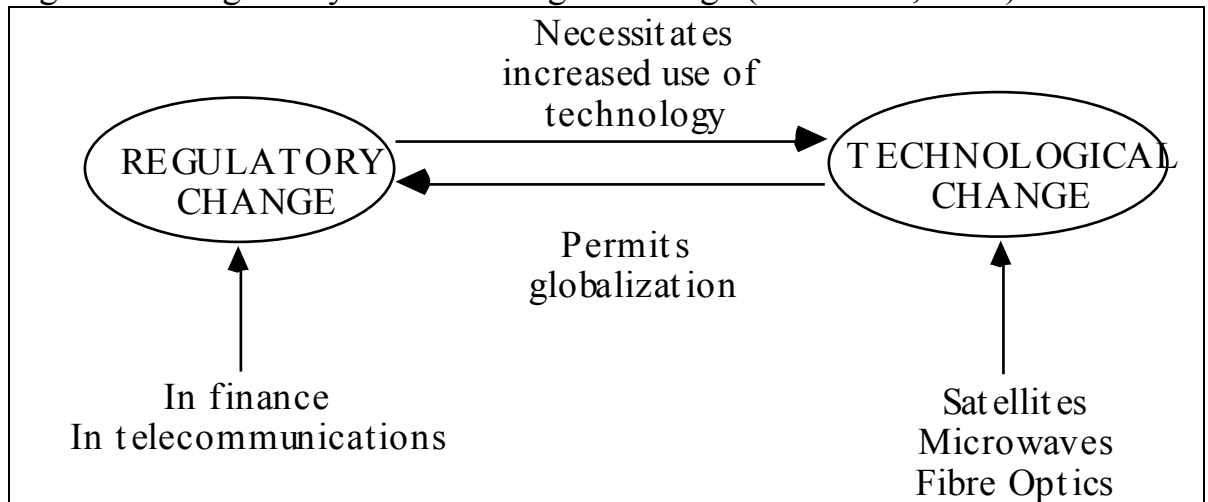
Daly and Logan argue that “no matter how firmly bankers embraced the vision of global banking its transition into reality would have been impossible without a parallel revolution in communications technology” (Daly and Logan, 1989, p.95). Toffler too declares that “a jet-age money system is taking form. A global electronic banking network - impossible before the computer and satellite - now instantaneously links Hong Kong, Manila, or Singapore with the Bahamas, the Cayman Islands, and New York” (Toffler, 1980, p.238). That said, some commentators give technological development a more marginal role. Pringle contends that “the markets take what they want from the ‘shelf’ of technology that is available in any period; carrier pigeon, cable, telephone, and real-time, world-wide, computerized dealing” (Pringle, 1992, p.101).

A middle-ground view sees technological developments as facilitative of globalization, proceeding hand in hand with processes of regulatory change. This is the line taken by Warf who suggests that “in certain sectors ... telecommunications clearly have facilitated the formation of worldwide markets” (Warf, 1989, p.258). Figure 2.1 summarizes Warf’s convincing argument, that regulatory change and technological change are interrelated. On the one hand there are regulatory changes in finance (internal and external deregulation), and in telecommunications (for instance the break up of AT&T or the privatization of British Telecommunications); on the other there are technological developments such as the reduction in costs and increase in speed of communication offered by satellites and optic fibres. Regulatory change has heightened competition in the financial industry making the use of new technologies vital for firms wishing to maintain their positions. Technological change has facilitated the efforts of financial activity to escape state regulation, to some extent making regulatory change inevitable for territories which

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wish to attract financial activity, and for some commentators leading to the “end of geography”.

Figure 2.1: Regulatory and technological change (after Warf, 1989)



2.4. FINANCIAL GLOBALIZATION AND THE END OF GEOGRAPHY?

In this section I explore the impacts of financial globalization, and offer a response to the end of geography thesis (O'Brien, 1992).¹⁹ I begin by outlining the thesis that financial globalization has led to the “end of geography”, before explaining the ways in which financial globalization may undermine the regulatory power of states over their territories by encouraging processes of competitive deregulation. I challenge the end of geography thesis, arguing firstly that it rests on a mistaken understanding of the way the world works - a “two-logics” view which sees economics and politics as separate spheres (Chase-Dunn, 1981). A “one logic” view sees financial globalization as political-economy and emphasizes the role of states and the inter-state system in the globalization of finance. Finally, I argue not only that the end of geography thesis rests on a mistaken view of globalization as a purely economic process, but also that it is based on a limited and limiting conception of geography. This limited conception of geography concentrates exclusively on the state and sees geography as a passive backdrop to social processes, rather than as an active moment in processes of social structuration. With a clearer understanding of what geography is - the spatialities of power and social relations at all scales - the continuing importance of geography becomes clear.

2.4.1. THE END OF GEOGRAPHY

As I suggested in section 2.2.2. at the centre of globalization is something geographical. Globalization involves an increase in the spatial scale of social relations, a stretching of social relations across state boundaries. In order to understand processes of globalization we need to understand their geographies. Does globalization result in the end of geography? Does globalization produce new geographies and what role do new geographies play in the ongoing processes of globalization? Are different aspects of geography becoming more important? How are different scales of geography articulated? In what way are places of continuing importance? Later chapters address these questions; the remainder of this chapter introduces the issues.

¹⁹ The “end of geography” thesis is not a position which is held only by O'Brien; I am not attacking a “straw man” (Hirst and Thompson, 1996, pp.3/4). It is a position held by many champions of global free-markets (see for instance: Ohmae, 1990; Steil, 1992). My reason for focusing on O'Brien is that his account forces us to think clearly about the processes and impacts of financial globalization.

In his provocatively titled book, “Global financial integration: the end of geography” (O’Brien, 1992), O’Brien forces us to think about the geographies of financial globalization. O’Brien’s book contributes to a lively debate about the impact of financial globalization on the autonomy of states (see, for instance: Banuri and Schor, 1992; Camilleri and Falk, 1992; Gill, 1992; Hirst and Thompson, 1992; Martin, 1994a). He argues that in an increasingly integrated financial system the importance of geography is being reduced.²⁰ In fact “all the geographical terms become harder to define and at the extreme become meaningless” (O’Brien, 1992, p.4). By the “end of geography” O’Brien means that telecommunications have resulted in the shrinking and homogenization of space such that geographical location no longer matters, or matters less, to financial firms and their customers. The homogenization of space irons out the differences between places making each place as desirable a location as any other.

For O’Brien such an ironing out of spatial difference results from a decline in the ability of governments to regulate financial activities located within their territories. “The end of geography, as a concept applied to international financial relationships, refers to a state of economic development where geographical location no longer matters in finance, or matters much less than hitherto. In this state, *financial market regulators* no longer hold full sway over their regulatory territory: that is, rules no longer apply solely to specific geographical frameworks, such as the nation-state or other typical regulatory jurisdictional territories” (O’Brien, 1992, p.1). O’Brien’s argument is that the power of regulatory authorities to control what takes place in their jurisdictions is undermined by the shrinking of space and ongoing processes of global financial integration. The link between geography and power/regulation is cut; regulatory power escapes the territorial state; geography no longer matters. O’Brien’s argument may be re-stated as a suggestion that regulation is increasingly de-territorialized, no longer tied to geography.

2.4.2. THE DEMISE OF STATES, THE END OF TERRITORIAL REGULATION?

For O’Brien the end of geography is really about the decline of states’ regulatory powers. In his view there is a conflict between moves to

²⁰ The relationship between the “end of geography” and Fukuyama’s “end of history” thesis (Fukuyama, 1992) is very interesting. Both see the “ends” as inevitable, unchangeable and a triumph of western neo-liberal democracy, and both theses developed as the Soviet Union and its satellites collapsed, rejected communism, and supposedly reached their inevitable end. The two “ends” theses complement and reinforce each other. Challenging the “end of geography” thesis, and seeing globalization as a dynamic historical political process, challenges the “end of history” and helps to sustain the possibility of alternatives to neo-liberalism.

global financial integration and the efforts of states to regulate financial activity. As he explains: “counter to the freedom-of-money force is the fact that governments are the very embodiment of geography, representing the nation-state. The end of geography is, in many respects, all about the end or diminution of sovereignty” (O’Brien, 1992, p.100). This clarifies the argument and provides a link to a wider literature which is concerned with the impact of globalization on the sovereignty or autonomy of states.

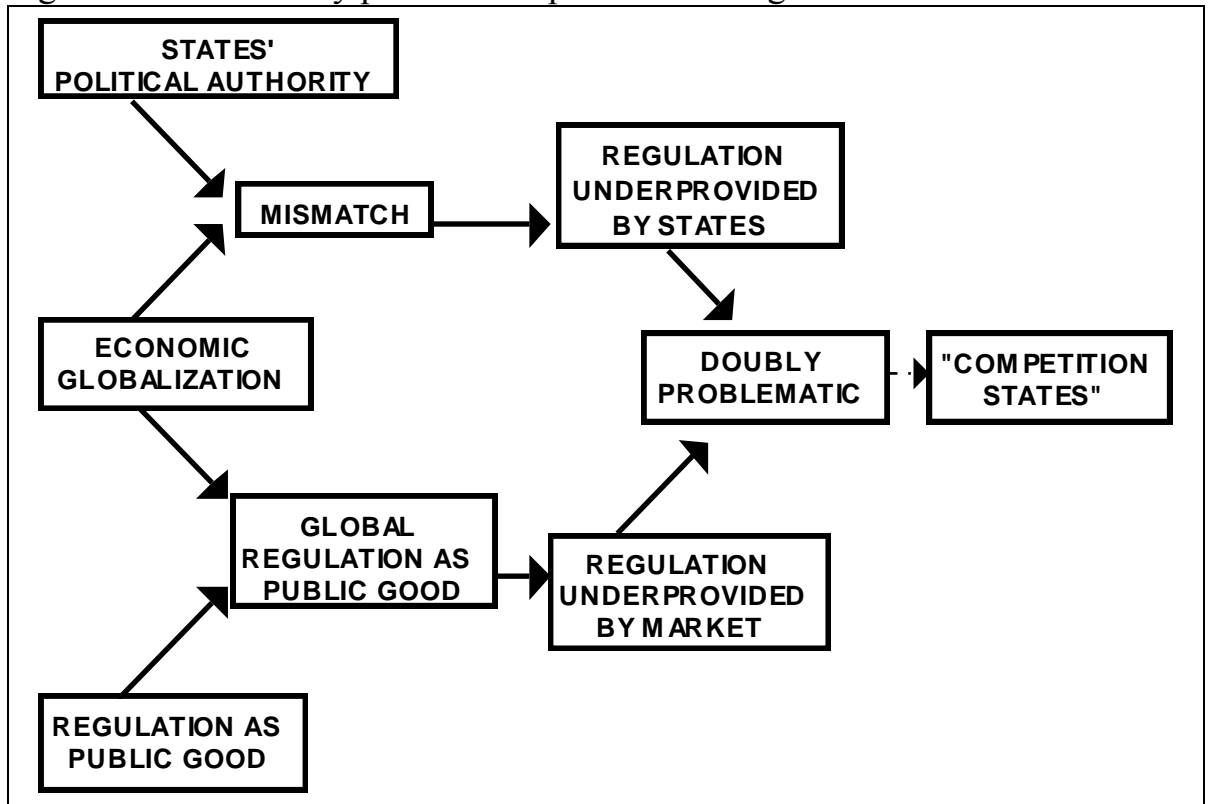
The dominant view on the impact of globalization on states, termed “hyperliberalism” by Cox (Cox, 1991), holds that the position of states as providers of regulation and bases of political authority has been severely weakened, and that states have lost control to processes of globalization. More than twenty-five years ago Kindleberger claimed that “the nation state is just about through as an economic unit” (Kindleberger, 1969, p.207), and such pronouncements have continued (Reich, 1991). Radice suggests that the state is a Keynesian myth, convenient for accounting purposes but basically a fiction (Radice, 1984).

So how is it that states have supposedly lost their regulatory powers? The argument is that states, in an effort to maintain their competitiveness in a globalizing economy, have acted to undermine their own powers. Competing against other states to attract mobile capitals they have progressively deregulated²¹ their financial systems, in effect giving up some of their political sovereignty in an effort to benefit economically. As Cerny explains “the globalization of finance has played a disproportionate role by cutting across structures of state power in such a way as to channel state power into reinforcing the structural power of private financial markets, thereby increasingly undermining state power itself and institutionalizing that of the global marketplace” (Cerny, 1994a, p.322). Agnew encapsulates this situation well, asking: “in this new world of territory-transcending industry and finance who is regulating whom?” (Agnew, 1994, p.68). The loss or trade-off of regulatory powers by states is a result of their position in a dynamic competitive system without central coordination.

²¹ The term “deregulation” is somewhat misleading as it implies - contra the approach of political economy - that markets are “naturally free”. However, as Fagan and Le Heron make clear, “deregulation is just as much an intervention in the capital accumulation process as was the Keynesian regulatory regime which it is designed to replace” (Fagan and Le Heron, 1994, p.281). Unfortunately the term “deregulation” has passed into common usage to mean a shift of regulation from public/state to private/market institutions.

Why then has globalization led to the decline of states according to these commentators? Figure 2.2 illustrates the argument of this section, showing the doubly problematic nature of regulatory provision in a globalizing economy.

Figure 2.2: The doubly problematic provision of regulation



The starting point for this argument is the globalization of economic activity, and the resultant scale mismatch with, or outflanking of, the states' basis of political authority. This makes the provision of territorial regulation by individual states problematic and insufficient for financial activities which span state boundaries. Writing at the time of the collapse of Bretton Woods, Murray drew attention to the "territorial non-coincidence" or mismatch of states' national political authority and capital's global economic reach (Murray, 1971). Globalization challenges the regulatory authority of states: "the globalization of markets and firms has served to undermine the coercive power of regulatory systems which are embedded within particular geographical jurisdictions" (Leyshon, 1992, p.251). The collapse of the Bretton Woods system provides an important example of this challenge. The fundamental problem was that finance was going global whilst the Bretton Woods regulatory framework remained inter-national with the US dollar at the centre; this was a challenge to territorial regulation as the organizing principle of the international political economy. The

Euromarkets, “a set of money and credit markets which existed beyond the effective jurisdiction of any national or international regulatory authority” (Leyshon, 1992, p.260), exacerbated this problem. Leyshon continues that “the postwar model of an international order comprised of a set of interrelated but economically sovereign nation states was finally exploded by an invigorated ... increasingly mobile international financial capitalism” (Leyshon, 1992, p.261). Roberts clearly explains that “as capital has internationalized and globalized, there has been a ‘territorial non-coincidence’ of the economy and the polity: the spatial reach of capital has gone global but politics remains fixed around the unit of the nation-state” (Roberts, 1992, p.158; see also Kuttner, 1991, p.16; Gill, 1992, p.269; Wachtel, 1990, p.xi).²²

This mismatch between national politics and global economics is a result of the fact that “while political systems are boundary-maintaining systems, markets - although dependent for their creation upon political power and economic networks - are not” (Kratochwil, 1986, p.42). Market exchanges link people over space; political boundaries separate people: herein lies the tension. Lash and Urry, after Strange, explain that it is the structural power of modern finance to create and allocate credit monies that is the major basis for the de-territorialization of the world economy (Lash and Urry, 1994, pp.285/6). The global financial structure is largely out of the control of individual states but exerts considerable and increasing power over them; their autonomy or room for macro-economic manoeuvre is constrained. As Strange puts it: “in a nutshell, one may say that the markets are predominantly global, while the authorities are predominantly national” (Strange, 1988, p.89). In such a situation of mismatch, regulation is likely to be underprovided by states: *inter-national* regulation is insufficient for a *globalizing* economy.

Other than states, the market is a further possible mechanism for regulatory provision. Regulation, like other goods, might be provided at an equilibrium price and in sufficient quantity through the interplay of producers (possibly states) and consumers (possibly corporations) in a market. However some goods such as environmental protection, agreements on minimum wages, and regulation of international business may not be suitable for market provision. Such goods are termed public, or collective goods (Kindleberger, 1986; Conybeare, 1984; Olson, 1965; Hardin, 1982). Public goods have two defining characteristics. Firstly, they yield non-rivalrous consumption. That is, the use of a public good

²² An important related strand of research that I do not consider in this dissertation concerns the impact of processes of globalization on democracy (see Held, 1995; Falk, 1995; Hirsch, 1995).

by actor A does not decrease the amount of it available to actor B. Secondly, they are non-excludable. That is, once they have been produced it is not possible to prevent people from using them. Such goods can not easily be provided by the market because it is difficult to price them, and difficult to charge for their consumption. Bryant applies a collective goods framework to international banking regulation, explaining that actors have an incentive to free-ride and not contribute to the provision of international regulation (Bryant, 1987). Therefore the public good of regulation is likely to be underprovided by the market.

Thus it would seem that the provision of international regulation is doubly problematic. It is likely to be underprovided by states due to the mismatch of scales, and underprovided by the market due to problems of collective action. In such a situation, states, unconstrained by an international regulatory framework, may become competition states (Cerny, 1991 and 1993). This idea gets us away from seeing states as passive actors or transmission belts in a turbulent globalizing world and emphasizes that although states may act in a difficult globalizing environment, they, or rather the people who represent states, choose and act nonetheless. With many governments, including the USA, the UK and Canada, adopting a neo-liberal policy stance from the mid-1970s their choices and actions have tended to advance processes of global financial integration; such states have chosen to regulate for rather than against the markets (Helleiner 1994 and 1995b; Corbridge, 1994). O'Brien notes that "in eliminating exchange and capital controls, governments are not only recognizing the power of capital integration (the end of geography in finance), but spurring the process on" (O'Brien, 1992, p.17; see also Lee and Schmidt-Marwede, 1993).

The idea of regulatory dialectics emphasizes the importance of actors' strategies in the globalizing economy (Kane, 1986). Kane suggests that there is an "inherent conflict between attempts to regulate and attempts of regulated parties to lessen the burden of whatever regulations apply to them" (Kane, 1986, p.188). Regulation stimulates regulatory avoidance which in turn provokes re-regulation, and so on. As Kane explains "the divergent interests of financial regulators and their regulatees may be analyzed by viewing them as engaged in a game within a game. ... The principal game is the production and delivery of financial services. The subgame involves regulator-regulatee-customer jostling for position or dominance" (Kane, 1986, p.189). The regulatory dialectics framework "portrays evolving differences in the structure of the market for financial regulatory services as driven by a rivalry between suppliers of financial regulatory services within and across countries"(Kane, 1987, p.113).

Such a framework focuses attention on the actions of regulators and regulatees and as such links back to the idea of active competition states. Kane describes the efforts of regulated parties to avoid regulation as “loophole prospecting and mining” (Kane, 1987), mining which digs around in the regulatory differences or geographies of the inter-state system.

This search for loopholes may result in a process of competitive deregulation. As Bryant suggests: “in a world where cross-border financial transactions are growing rapidly, the disparities in national regulatory and tax environments [one instance of geography] become still more difficult to maintain” (Bryant, 1987, p.128). In their efforts to attract regulatees states may compete through the construction of attractive, relatively liberal regulatory environments. Such regulatory competition may lead to a lowest common denominator level of regulation. Dale explains that “within a multi-jurisdictional regulatory regime there is an inbuilt tendency towards competitive deregulation” (Dale, 1984, p.172). Individual states do not want to lose out by over-regulating, correctly understanding that “[a] unilateral tightening of supervision and regulation by a single nation ... might merely induce a transfer away from its intermediary offices to those of other nations” (Bryant, 1987, p.141). Thus in a multi-jurisdictional regulatory regime, national regulators face a dilemma: should they provide a well-regulated environment and risk losing business or provide a relaxed regulatory environment and risk international financial instability due to the lack of regulation? As McGahey et al. note “regulation has to tread a careful line so that it imposes effective control over the market but is not so restrictive that it encourages the market to move to another (unregulated) location” (McGahey, Malloy, Kazanas and Jacob, 1990, p.67). From an individual state’s point of view the rational strategy is to offer a relaxed regulatory environment to attract business, but if all states make this decision regulation may be under-provided internationally (Kapstein, 1989).²³

With competition states engaging in competitive deregulation, international regulation becomes complex and problematic. As Cerny puts it: “in an ever more interdependent international economy ... deregulation ... shift[s] the burden of regulation in significant ways from the domestic sphere to the transnational, altering the nature of economic policy and policymaking in complex and problematic ways which make

²³ This is the classic prisoners’ dilemma problem of individual rationalities leading to sub-optimal outcomes (see Wagner, 1983; Conybeare, 1984; Snidal, 1985; Hurwitz, 1989).

Bretton Woods look like child's play" (Cerny, 1991, p.179). Hawley argues that "a supranational solution to the regulation and control of capital (even in its own interest) appears to be out of the question due to the inherent competition among different 'denationalized' but still nationally-based capital units" (Hawley, 1979, p.89). In a globalizing economy of mobile capitals, regulations in one place affect those elsewhere, and the balance of power shifts from the regulators to the regulatees. As Steil explains: "economic integration means, however, that national regulations must themselves be subject to foreign regulatory competition, and that ultimately the form and level of regulation will be largely determined by the jurisdictional arbitrage activities of those who are being regulated" (Steil, 1992, p.64).

For competition states in a multi-jurisdictional regulatory environment "the problem becomes one of managing the national economy's insertion into the global economy in the hope of securing some net benefit from internationalization" (Jessop, 1993, p.14).²⁴ Hay and Bell argue that "to ride the turbulent and uncharted seas of globalization, and to preserve tax bases and political livelihoods, states have entered into competition with one another to hold and attract mobile productive investment" (Hay and Bell, 1990, p.322), and further explain that "in the global environment state agents have interpreted the actions of many producers as constituting a search for those locales which allow for the most competitive engagement in productive activity. Accordingly, states wishing to preserve or augment economic and political viability have been obliged to enter into competition with one another to attract mobile investment" (Hay and Bell, 1990, p.325). To summarize: in a globalizing economy, states, wishing to maintain their competitiveness and attract mobile capital are driven to construct their territories as relatively de-regulated places or regulatory environments which are accommodating to capital. De-regulated territories are constructed as similar places; this is the end of geography (see also Peck and Tickell, 1994a and b).

2.4.3. BRINGING STATES BACK INTO THE GLOBALIZATION OF FINANCE

Although the dominant view holds that financial globalization undermines the regulatory powers of states this is not the only view. For some commentators (Hirst and Thompson, 1992, 1995 and 1996; Pooley, 1991) the extent and impact of globalization has been

²⁴ A process that for Jessop, who focuses on labour market regulations, leads to "Schumpeterian workfare states" rather than welfare states (Jessop, 1993).

exaggerated. Globalization may provide a useful ideal type against which to assess changes that have taken place, but the extreme globalization/end of geography thesis is speculation based on flimsy evidence (Hirst and Thompson, 1996). Hirst and Thompson marshal evidence which suggests that the globalization thesis is overdone. They argue that: the strongest interrelationships are between only a few countries²⁵; current financial integration isn't unique and may be temporary; Japan, the USA and the EU bloc still export only around 15% of their GDPs; there are few truly transnational corporations; and the development of regional trading blocs is as significant as global integration. Hirst and Thompson conclude that "if the concept of 'globalization' has had any merit it is as a negative ideal-type that enables us to assess the shifting balance between international governmental regulation and national and bloc level economic management" (Hirst and Thompson, 1992, p.394).

There is a big difference between seeing finance as global and seeing it as subject to processes of globalization. When viewed as a set of processes, globalization is more fluid, contestable, dynamic and changeable. Processes of globalization may move society towards a global end-state; processes of localization may move society away from the end of geography; and these processes may co-exist and work at different rates in different places and times as they are shaped by institutional and individual actions. As Dodd argues: "it is not at all clear that international monetary networks mark the emergence, teleologically as it were, of a market stretching across geopolitical boundaries whose operation approximates more and more closely to a perfection derived from economic reasoning" (Dodd, 1994, p.102).

Dodd argues that the end of geography thesis works with a false opposition, a theoretical framework that sees processes of globalization as necessarily in conflict with the regulatory structures of states. In such a framework financial globalization is market-driven, and markets conflict with state regulation. The end of geography thesis is neoclassical economics on a global scale; economics and politics are separate spheres of social activity, and economics/markets are becoming all-powerful. Giddens warns us however that "we should not imagine that the centralizing of global connections on the one hand, and the sovereignty of states on the other, are always mutually exclusive" (Giddens, 1985, p.291), and Dodd argues that "it is not credible,

²⁵ In 1989 80% of world trade was intra-OECD, and 75% of Foreign Direct Investment was from G5 countries (Hirst and Thompson, 1992).

empirically or conceptually, to contend that money and financial systems have been globalized in such a way as to outstrip geopolitical boundaries altogether. Such an argument rests on a fundamental misunderstanding of the way in which geopolitical boundaries are chronically implicated in international monetary transactions as an integral component of the commercial incentives thereby pursued” (Dodd, 1994, p.103).

The end of geography thesis is based upon a “two logics” view of the way the world works (Chase-Dunn, 1981). For Chase-Dunn and others working with a political-economy approach a “one logic” view which sees markets (economics) and states (politics) as two sides of the capitalist coin is superior to a “two-logic” view because it is more elegant, more powerful and more useful politically, having implications for progressive social change.²⁶ The development of (international) political-economy “is a necessary step in the project to understand (and influence) the directions and potentialities of our present collective history” (Chase-Dunn, 1981, p.42). Martin argues similarly that “in order to assess exactly how far the retreat of the state has been imposed by the technological and competitive forces of globalization, and what the implications for policy autonomy are in an era of global financial integration, we require an approach that does not attribute everything to the imperatives of the market” (Martin, 1994a, p.273).

Chase-Dunn explains the “one-logic” view of capitalist development, arguing that “the state system provides the political underpinning of the mobility of capital, and also the institutional basis for the continuing expansion of capitalist development” (Chase-Dunn, 1981, p.31). In contrast to the views of O’Brien and Steil I would argue, after Smith and Harvey, that in the absence of geography or spatially different regulatory environments, processes of capitalist financial globalization would lose their dynamism (Harvey, 1982; Smith, 1984/90). From this perspective financial globalization does not lead to the end of geography; rather, through the dynamic relations between states and markets it reproduces uneven development and geographical difference. From a one-logic viewpoint “globalization and the making of a social space of the world economy do not so much bypass states as they pass through them and depend on them for their political organization” (Drainville, 1995, pp.58/9). As Picciotto argues: “the extension of international capital has

²⁶ This is not the place to enter into a debate about criteria of theoretical validity. Briefly, although I agree with Chase-Dunn that the political/practical implications of theories are important, without admitting real-world evidence into the equation one’s theoretical position becomes simply politics, possibly of limited use and probably dogmatic.

its own contradictory political logic: utilizing the capitalist state and at the same time trying to avoid the regulatory functions of its own or any other state” (Picciotto, 1991, p.67).

Although I find a political-economy approach more useful for understanding globalization (and more attractive politically), I am not convinced by Chase-Dunn’s assertion of a “one-logic” view. A convincing argument must explain the ways in which the political and economic aspects of capitalism and financial globalization are integrated. It is not sufficient to trot out a “structural articulation” argument without explaining how the economic and the political are articulated. This is the task that Burch attempts (Burch, 1994).

Introducing the Giddensian idea of constitutive principles or sets of social practices (Giddens, 1984; see also Wendt, 1987), Burch explains that property and property rights are the key link between the political and the economic aspects of capitalism. Property, for Burch is a set of rules and resources which mediate between agency and structure in processes of social change. The apparent separation of the political and economic aspects of capitalism is a result of the split of property rights into mobile and immobile property, a split which occurred from the 17th Century with the development of central banks, national monies, credit and joint-stock companies. Mobile property rights - money for instance - mediate between global capitalism and national economies; immobile property rights mediate between states and the inter-state system of sovereignty. As Burch explains: “the split in property (rights) established the conceptual division between the state system (real, tangible property) and the capitalist system (mobile, intangible property). The institution of property rights contributes to the generation and linking of capitalism and the interstate system as articulated structures; differences between real and mobile property contribute to the differences between the two structures” (Burch, 1994, p.47). More concisely: “property was a wedge that split the spheres of society, yet it was also a tie that bound them” (Burch, 1994, p.54). Burch’s explanation of the articulation of states and markets provides strong support for the development of political-economy approaches which see states and markets as intertwined rather than as separate conflictual spheres (Strange, 1988); it is an explanatory framework I shall return to in chapter 7.

Commentators have challenged the end of geography thesis with a political-economy framework which emphasizes that financial globalization has as much to do with states as it does with markets.

Helleiner, for instance, provides a strong corrective to the idea that financial globalization is an inevitable result of market forces and technological developments (Helleiner, 1994 and 1995b). He argues against “the view that the globalization of financial markets has been a product of unstoppable technological and economic developments”, and “challenges such a perspective with the argument that the contemporary open global financial order could never have emerged without the support and blessing of states” (Helleiner, 1994a, p.vii). Helleiner explains that states have played an important role in recent processes of financial globalization in three main ways (Helleiner, 1995b). Firstly, they failed to implement effective capital controls in the wake of the collapse of the Bretton Woods system; secondly, from the mid-1970s major states liberalized their financial sectors in a process of competitive deregulation; and, thirdly, they have acted, often in concert, to prevent major financial crises which could have scared financiers back into national markets. As Strange comments too: “it is very easily forgotten that [international financial] markets exist under the authority and by permission of the state, and are conducted on whatever terms the state may choose to dictate or allow” (Strange, 1986, p.29).

I would argue that a political-economy of financial globalization actually needs to go further than considering the role of states. The role of states is based on their claims to sovereignty - a monopoly of regulatory power over their territories - and can only be understood within the wider system of “interstateness” (Taylor, 1995). To hold such a regulatory monopoly the sovereign state must be recognized as such by other states: sovereign states are “co-constructed units of meaning” (Inayatullah and Blaney, 1995, p.20), which survive only as long as the inter-state system itself remains intact. In this way, sovereignty is conceptualized more accurately as an “ordering principle” rather than something which states possess (Ruggie, 1983). Within this constructivist political-economy approach (Onuf, 1989), it is the interaction between economic/market processes and the inter-state system which drives globalization (Picciotto, 1991). States are not in fundamental conflict with processes of financial globalization; rather they and their relations with each other (the inter-state system) are re-configured: “the international crisis of capital is also a crisis of the international state system” (Picciotto, 1983, p.13). The state is not simply undermined by financial globalization, rather the state is internationalized, or transformed into a transnational state (Poulantzas, 1974). Poulantzas argues that “the current internationalization of capital neither suppresses nor by-passes the nation states, either in the direction of a peaceful integration of capitals ‘above’ the state level ... or in the direction of their extinction. ... This

internationalization, on the other hand, deeply affects the politics and institutional forms of these states by including them in a system of interconnections which is in no way confined to the play of external and mutual pressures between juxtaposed states and capitals” (Poulantzas, 1974, p.73).²⁷ McMichael and Myhre emphasize five aspects of the transnationalization of states. Firstly, states are increasingly integrated with capital circuits of global dimensions. Secondly, states are more responsive to the interests of transnational finance capital. Thirdly, the operating principles of the state system shift away from a focus on national economic coherence. Fourthly, there is an associated reorientation of states’ institutions of policy formulation, and finally, there is a reorganization of social structures consistent with the internationalization of segments of the domestic economy (McMichael and Myhre, 1992). States entwined in processes of financial globalization become competition states (Cerny, 1993).

This approach to financial globalization, an approach which considers the ways in which the inter-state system and the extension of capitals beyond state boundaries are, or can be, mutually constitutive, is the approach I adopt in my exploration of the development of the Bahamas and Cayman Islands OFCs. In Cox’s terms it is a “state capitalism” approach (Cox, 1991). Such a stance retains a role for politics and the state, and makes the consideration of states’ responses to the challenges of globalization crucial. States do not have to submit to the forces of global capital: a range of responses are open to states, with the development of new institutions of regulation or governance to the fore.²⁸ Financial globalization is neither beyond politics, nor apolitical. Approaches to globalization which marginalize politics are inadequate and can be politically paralyzing (Hirst and Thompson, 1996, p.1). As Schor argues:

“global neoclassicism - which emphasizes above all else the inevitability of market-determined outcomes ... is based on a serious misunderstanding of the changes now being wrought in international financial markets. Those changes are first and foremost political. They involve a thoroughgoing restructuring of the international political economy. And this restructuring can in no sense be said to have been ‘caused’ or ‘determined’ by any inexorable forces

²⁷ Perhaps the fact that Poulantzas’ 1974 comments are still relevant to the “globalization and states” debate says something about the length and uncertain destination of the transition from a state-based regulatory system to something else.

²⁸ There is a large literature on alternative institutions of governance. See for instance: Krasner, 1983; Rittberger, 1993; Rosenau and Czempiel, 1992.

emanating from the globalization of financial markets. Its origins lie in the enhanced power of financiers, the rise of conservative politics, and the breakdown of the system of international co-ordination” (Schor, 1992, pp.2/3).

To understand processes of globalization a political-economy perspective is crucial. Further, given that there is something inherently geographical about states - they are after all authorities with a monopoly of regulatory powers over a particular territory (Mann, 1984; Sack 1986; Ruggie, 1993) - I would argue that what is really needed is geopolitical-economy. Processes of financial globalization work with and reshape the spaces and places - the regulatory landscape - of the international political economy. However we need to be careful about how the “geo” is brought back into understandings of financial globalization. In the following section I begin to bring back geography, as spatialities of power and social relations.

2.4.4. BRINGING GEOGRAPHY BACK INTO THE GLOBALIZATION OF FINANCE

O’Brien’s phrase “the end of geography” forces us to consider just what it is about geography that matters. Nonetheless I would argue that his conception of geography is too limited and limiting. For O’Brien the end of geography is about the end of states. We have already seen how this view rests upon a two logics view which sees economics/markets and politics/states as separable, conflictual spheres. However, the challenge to O’Brien’s thesis goes further than this. Equating geography with states’ regulatory powers neglects other scales of geography and their articulation. As Agnew argues: “the prophets of homogenization, of time conquering space, confuse state territoriality with space in its entirety” (Agnew, 1994, p.73). O’Brien, and others who focus exclusively on the impact of financial globalization on states, have fallen into the territorial trap.

Mainstream (Realist) international relations theory works with a representation of space (Lefebvre, 1991), which privileges the national scale, slipping from a “methodological nationalism”²⁹ to an ontological nationalism, as if nation-states are the only important geographies of power (Agnew, 1994, p.69; Agnew and Corbridge, 1995; Drainville, 1995, p.53). The territorial trap involves three elements: a view of the territorial state as a container of society; a polarized view of domestic/international relations; and an equation of state sovereignty

²⁹ Agnew borrows this phrase from A. Smith (1979, p.191).

with the defence of national spaces (see also Walker, 1991 and 1993). Processes of globalization have made such a representation of space problematic. As Agnew argues: “the world that is in the process of emergence cannot adequately be understood in terms of the fixed territorial spaces of mainstream international relations theory” (Agnew, 1994, p.76). Spatialities of power are not confined to the national scale; other scales of geography and their articulation through social practices are important too. In what ways then do other scales of geography and their articulation matter?

Financial globalization, rather than signalling the end of geography, re-configures the spatialities of power, producing new geographies or sites and flows of power and changing the relationship between different scales of geography. As even O’Brien admits “everyone has to be somewhere”(O’Brien, 1992, p.73); as long as it involves people, financial activity has to be grounded in particular places. As Lefebvre put it “the world of commodities would have no reality without such moorings or points of insertion ... the same may be said of banks and banking vis-à-vis the capital market and money transfers” (Lefebvre, 1991, p.403). It may be that financial globalization produces and involves new sites of power - global cities and offshore financial centres perhaps - but these are new geographies rather than the end of geography (Swyngedouw, 1991). Amin and Thrift too suggest that “globalization does not represent the end of territorial distinctions and distinctiveness, but an added set of influences on local economic identities and development capabilities” (Amin and Thrift, 1994, p.2). These answers do not go far enough though: in what way is the meaning and importance of geography altered by processes of globalization?; what are the added set of influences, the moorings or points of insertion?

Amin and Thrift get to the centre of the issue when they ask: “how then should we conceptualize the global-local nexus, that is the nature of the encounter between place and global space, and how should we think about the role of the individual locality in a globalized political economy? In what sense does ‘territoriality’ or place-boundedness matter?” (Amin and Thrift, 1994, p.5). Discussion of the relationship between the global and the local has been ongoing within geography since the mid-1980s³⁰, focusing particularly around the work of Massey and the locality studies, and leading into important methodological debates (Smith, 1987; Cooke, 1989; Duncan and Savage, 1989; Cox and

³⁰ Prior to this, development theory, particularly in its “dependency” guise, was very much about global-local relations (for a review see Corbridge, 1986, chapter 3).

Mair, 1989; Warde, 1989; Massey, 1991b; Sayer, 1991). However, no adequate conceptualization of global-local relations has been developed, a situation which Fagan and Le Heron begin to rectify by linking ideas about the internationalization of capital with those about national restructuring (Fagan and Le Heron, 1994). Fagan and Le Heron suggest that “internationalised processes of accumulation are expressed in, and reproduced through, social, economic and political changes which remain bounded territorially within nation-states” (Fagan and Le Heron, 1994, p.266).

Swyngedouw usefully explores the global-local issue, explicitly tackling it in terms of scale and the politics of scale. Swyngedouw argues that “there is ... a double movement of globalisation on the one hand and devolution, decentralisation or localisation on the other which has been termed ‘glocalisation’. The local/global interplay of contemporary capitalist restructuring processes should be thought of as a single, combined process which involves a de facto recomposition of the articulation of the geographical scales of economic and social life” (Swyngedouw, 1992b, p.40). Peck and Tickell are more wary of interpreting global-local relations in such a dialectical way. They argue that “rather than this realignment representing a new global-local order ... it is a geopolitical manifestation of the continuing crisis. If neoliberalism is the politics of the crisis, global-local disorder is its geography” (Peck and Tickell, 1994b, p.322).³¹

The production and politics of scale are important conceptions but are hard to grapple with in the abstract, a point illustrated by the fact that in his work on the politics of scale in 1996 Smith says little more than he did in 1984 (Smith, 1984/90, 1992, 1993 and 1996). As Jonas comments scale is a contentless abstraction (Jonas, 1994, p.257), which is realized through concrete social practices, practices which produce scale and articulate scales. It is a theme which I return to in chapter 7, having considered the social practices and processes through which the Bahamas and Cayman have developed as OFCs.

The importance of global-local relations is widely recognized, and attention has increasingly been given to conceptualizing this articulation of scales. As Amin and Thrift argue: “whether we see the global economy as a ‘space of flows (Castells, 1989), as almost without a border (Ohmae, 1990), as a necklace of localized production districts

³¹ This points to the problem with discussions of order and disorder: what is seen as disorder at one scale may appear as order at another. For example, anarchic international relations may be seen as disorder but emergent patterns of cooperation may appear as order.

strung out round the world (Storper, 1991), as the centralization of economic power and control within a very small number of global cities (Sassen, 1991), or as something in between these extremes, it is clear that geography is now globally local rather than vice versa” (Amin and Thrift, 1994, p.5). Fair enough, but the use of a new phrase such as “globally local” or “glocalization” does not in itself constitute an improved understanding; it is important to explain what the phrases mean. Amin and Thrift go on to do this, differentiating space from place, developing a clearer conceptualization of place, and highlighting the role of institutions.

Distinguishing between space and place as different aspects of geography is an important response to the end of geography thesis. Many commentators have taken this approach with, for example, Harvey arguing that “the less important the spatial barriers, the greater the sensitivity of capital to variations of place within space” (Harvey, 1989, p.295). Warf echoes this view emphasizing that although improvements in telecommunications may well make geography-as-relative-location less important they do not reduce the importance of other place-based regulatory and political specificities. In fact, by reducing the importance of space as location, technological developments make place-based differences all the more important. Warf suggests that “as the technological barriers to capital flows decline, the importance of political and regulatory ones rises accordingly” (Warf, 1989, p.268). For example, before the days of satellites and optic fibres the chances of Vanuatu, a small island in the South Pacific, developing as an OFC would be severely limited by its isolated location. With the advent of space-shrinking technologies capital “cares” less about Vanuatu’s isolated location, and other criteria such as the regulatory environment and local political stability become important factors.

Differentiating space and place allows for a more subtle if paradoxical response to the end of geography thesis, as the meanings of geography and place are transformed; “far from eliminating the importance of location in the world system, telecommunications have altered the meaning of place” (Warf, 1989, p.264). Martin makes this point too, saying that “while the speed of information communication has annihilated *space* it has by no means undermined the significance of location, of *place*” (Martin, 1994a, p.263). Hay and Bell emphasize the seemingly paradoxical relationship between globalization and geography, suggesting that “globalization is both a harbinger of homogeneity throughout the world and a herald to the new importance of place” (Hay and Bell, 1990, p.328; see also Swyngedouw, 1989).

I endorse this account of the differentiation of space and place wholeheartedly: unpacking the importance of 'geography' is crucial to improving analysis and understanding. However it is not sufficient to leave the matter there without considering just what it is about place that is important. Martin does suggest some place-based factors such as costs, skills, market opportunities, regional affinities, customs, and restrictions (Martin, 1994a), but what is needed is detailed empirical investigation into what it is that matters about places, an investigation that must rest on a clear conceptualization of what place means and how local places relate to the global environment.

There is a growing body of literature which considers the meaning of place, and how places relate to global processes (Agnew, 1987; Agnew and Duncan, 1989; Entrikin, 1991; Massey, 1993 and 1994; Merrifield, 1993; Johnston, 1991; Swyngedouw, 1989; Paasi, 1991). I do not have the space to review all of this literature here but Agnew's contribution is particularly helpful. He suggests that there are three intersecting elements of place: location, locale, and sense of place (Agnew, 1987; Agnew and Duncan, 1989), but that in geographers' efforts to understand place one or the other of these elements has tended to predominate. Agnew maintains that "economic geographers have tended to emphasize location; cultural geographers have been centrally concerned with sense of place; and a few humanistic geographers have concerned themselves with locale. Rarely have the three aspects been brought together" (Agnew, 1993, p.263). Agnew's conception of place combines important aspects of: location in space and the relationship with the wider macro-order; objective setting for social activity and everyday life; and subjective sense of place or identification with a particular place.

However, this model does not in itself clarify the relationship between places and wider global processes. For such clarification we can turn to the work of Massey, particularly to her discussions of "power-geometry" (Massey, 1993) and "a global sense of place" (Massey, 1991a). For Massey, place is nexus. She suggests that "what gives a place its specificity ... is the fact that it is constructed out of a particular constellation of relations, articulated together as a particular locus" (Massey, 1993, p.66). Gregory echoes this view, seeing places as "local condensations and distillations of tremulous global processes that travel through them and whose effects are reworked and inscribed within them" (Gregory, 1994, p.122). Massey suggests that a "progressive sense of place" moves beyond a Heideggerian conception of place as

being, as opposed to the becoming of time; avoids seeing places as bounded and with an essential identity; and yet allows for the specificity of places (Massey, 1993). Although I am uncomfortable with Massey's appeal to relativity theory and quantum theory (not to mention the hasty treatment of Heidegger) it does reinforce the point that space and time should not be viewed as separate spheres, one static, the other dynamic. Massey explains that "the uniqueness of a place ... is constructed out of particular interactions and mutual articulations of social relations, social processes, experiences and understandings, in a situation of co-presence, but where a large proportion of those relations, experiences and understandings are actually constructed on a far larger scale than what we happen to define for that moment as the place" (Massey, 1993, p.66). Places are sites in a wider regulatory landscape.

Geography in this conception is about social relations and the spatialities of power. As Soja suggests: "social life is materially constituted in its spatiality" (Soja, 1985, p.94). This gets to the heart of the issue and reminds us that spatial relations and place(s) are, simultaneously, social and political relations and processes. Such a relational view of place is explored by Robins who declares that "it is important to see the local as a relational and relative concept, which once significant in relation to the national sphere, now ... is being recast in the context of globalization ... as a fluid and relational space, constituted only in and through its relation to the global" (Robins, 1991, p.35). This view of the local is endorsed by Amin and Thrift (Amin and Thrift, 1994, p.8), who delve into what it is about some places³² that enables them to bring together a successful mix of social relations, to "hold down the global" in a particular place.

Emphasizing the importance of institutions Amin and Thrift argue that "what is quite clear is that the problem of institutionalization cannot be put to one side since it is only through the construction of adaptable institutional mixes that places can hold down the global" (Amin and Thrift, 1994, p.260). Social relations are stabilized in social institutions, institutions which are embedded in particular places. Institutions include a wide range of social practices, rules, conventions and knowledges which mediate between the everyday actions of individuals and social processes, and "act to stabilize a range of collective economic [and social, cultural, political] practices in a particular territory" (Amin and Thrift, 1994, p.16). In Giddens' terms the sets of social practices which (re)produce institutions mediate between structure and agency.

³² Again, I will deal with the issue of whether places can be seen as actors in section 4.4.

They are the rules and resources which enable and constrain action, coordinating individuals' actions in society (Giddens, 1984).³³

Embeddedness provides the conceptual link between institutions and place (Granovetter, 1985; Harrison, 1992; Granovetter and Swedberg, 1992). The term 'embeddedness' is problematic because it can be interpreted as meaning that institutions come first and are then put into place, rather than place shaping and being shaped by institutions (Amin and Thrift, 1995). However, it does focus attention on the political, cultural and social aspects of institutionalization, avoiding both an undersocialized view of institutions as merely the result of rational actors working to minimize transactions costs (Scott 1985 and 1988; Williamson 1985), and a functionalist explanation of institutional development. Thrift and Leyshon explain the importance of institutions using the example of the City of London. Although international finance is often seen as abstract, a-social and placeless, Thrift and Leyshon show that institutions are crucial to the practice(s) of international finance. Institutions facilitate the construction of trust, information exchange, and reflexive story-telling about what individuals are doing, practices that reproduce the community of money (Thrift and Leyshon, 1994). If finance was purely economic place would not matter: the fact that finance involves social, cultural and political relations too means that place matters much. Social practices or institutions make a place what it is, link different places and articulate spatial scales.

Although "the analysis of territorial embeddedness has only rarely been related in any systematic way to globalization" (Amin and Thrift, 1994, p.13), this is not because of any fundamental incompatibility between an institutional approach and globalization. An institutional approach offers an important conceptual framework for analyses of the geographies of globalization. As Lash and Urry comment: "this flow of subjects and objects is not as free, not as 'deregulated', as it might seem. Indeed the flows are highly specific to particular times and particular spaces. And these certain times and certain spaces, through which labour, capital and signs flow, are determined by very specific sets of institutions. These latter, which are initially institutions of economic regulation, figure at the same time as institutions of spatial regulation" (Lash and Urry, 1994, p.12). The ways in which OFCs "hold down the global", and institutions of economic regulation are also institutions of spatial regulation, provide important foci for my thesis; a thesis which develops the idea that, in

³³ It is at this point that I could have considered the similarities between Bourdieu's conception of "*habitus*" and geographers' ideas of place (see Bourdieu, 1990).

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ongoing processes of financial globalization and offshore financial development, geographies are both regulated and regulatory.

2.5. CONCLUSIONS: THE GEOPOLITICAL ECONOMY OF FINANCIAL GLOBALIZATION

In this chapter I have discussed globalization, particularly in the financial sphere, and responded to the end of geography thesis. I have argued that processes of financial globalization are not simply economic and that rather than signalling the end of geography they involve a re-configuration of the spatialities of power and social relations, a re-shaping of the regulatory landscape. Geographies are important because financial globalization is not some inevitable unchanging process but takes place (or doesn't) through sets of social practices or regulatory institutions, some of which are importantly geographical. That is, the ways in which they are organized in space make a difference to how they work (see especially Soja 1985; Swyngedouw 1991 and 1992a; Benko and Lipietz, 1995). For instance the state/states system is inherently geographical, being based upon the ordering principle of territoriality - spatial power plays (Sack, 1986; Ruggie, 1983 and 1993). In this way place or territory may usefully be conceptualized as geo-regulatory complex; its geography and its regulation can not be prised apart. My central thesis is that there is an important link between regulation and geography; in an ongoing process geographies are regulated and regulatory. In order to understand financial globalization we need to explore its geographies.

Little more can be said in the abstract - too much may have been said already. Geographies as regulated and regulatory may be a neat concept, but the extent to which regulations shape geographies and geographies shape regulations, the extent to which the concept is useful, is an empirical question. We must now explore the ways in which geographies are regulated and regulatory; the ways in which places are shaped through regulation and regulations are shaped by places; the re-shaping of the regulatory landscape of international and offshore finance.

CHAPTER 3

THE PRODUCTION OF RESEARCH

“a re-visioned ethnography offers the possibility for travelling intellectually and strategically between the macrological structures of power - that is, the global processes of capitalism, imperialism, and patriarchy - and the micrological textures of power played out in the material social practices of everyday life” (Katz, 1992, p.500).

“The research process is more like finding one’s way through a maze. And it is a rather badly kept and complex maze; where paths are not always clearly distinct, and also wind back on one another; and where one can never be entirely certain that one has reached the centre” (Hammersley, 1992, pp.183/4).

3.1. INTRODUCTION: THE PROCESSES AND PRODUCTS OF RESEARCH

Research findings are produced. If they were the natural or inevitable product of an objective research process it would not be important to reveal the processes of research. However, the products of research are not inevitable. Research findings are constructed through the selection of research questions, methodologies, techniques of data collection and analysis, and representational strategies. Decisions about the research process are made by the researcher, who plays a central role in the production of research findings. To conceal the process of research and the role of the researcher obscures the reader’s view, making any reading more partial and reinforcing a view of research as producing True stories. The processes and the products of research are not discrete: they affect each other, and this interaction should be revealed.

Taking this stance does not necessarily result in an acceptance of the view that all research is equally valuable and valid. Research findings are produced through particular practices. Some practices are better than others - more comprehensive, systematic and creative - producing findings which are more coherent, illuminating, persuasive and politically powerful. Research can, and must, be evaluated. The presentation of the research process, the decisions made and the strategies employed, facilitates the evaluation of the research product.

In this chapter I represent my research processes, outlining the ways in which I have explored the geopolitical-economy of the development of the Bahamas and Cayman OFCs. I begin by situating my research methodology within recent debates about the development of a “new regional geography”. I begin here as my research considers the ways in which geographies are shaped through, and in turn shape, the intersection of social relations and processes in particular places or regions. I then consider the reflexive turn and the role of case studies, explain the role of my case study, and describe and explain my research practice: my overall research strategy; my data sources and their collection; and my representational strategies.

3.2. THE “NEW” REGIONAL GEOGRAPHY

“Ever since regional geography was declared to be dead - most fervently by those who had never been much good at it anyway - geographers, to their credit, have kept trying to revive it in one form or another” (Gregory, 1978 - cited in Johnston, 1991, p.38).

3.2.1. DECONSTRUCTING DUALISMS, POSTPONING PROBLEMS

Efforts to revive a regional geography have continued in recent years, with increasing discussion about the emergence of a new regional geography, and its place in a reconstructed human geography (Dear, 1988; Gilbert, 1988; Jonas, 1988; Pudup, 1988; Sayer, 1989; Thrift, 1990b, 1990c, 1991a, 1993, 1994c; Johnston, Hauer and Hoekveld, 1990; Johnston, 1991).³⁴

Although the new regional geography is concerned with the distinctiveness of places, it differs from traditional regional geography in its level of theoretical sophistication. The new regional geography aims to foster theoretically informed and informing explanatory accounts rather than the empiricist descriptions of traditional regional geography. The new regional geography involves a self-conscious engagement with social theory, encourages a renewed appreciation of the importance of empirical work alongside more theoretical pursuits, and tries to

³⁴ “New regional geography” is a broad label, including versions which have developed out of structuration theory, time-geography, critical realism and discussions around postmodernism. My focus is on a critical realist regional geography but I do feel that alternative versions have important similarities - regions are seen as socially constructed - and are not incompatible.

overcome the problems - such as lack of generalizability - that traditional regional geography faced (Sayer 1989 and 1991).

Sayer argues that the problems which traditional regional geography faced are undermined by critical realism. He uses the “locality debate” to illuminate methodological problems within geography and the social sciences.³⁵ He argues that the debate about the suitability of locality studies for examining processes of restructuring, (Smith, 1987; Cooke, 1989; Duncan and Savage, 1989; Cox and Mair, 1989; Warde, 1989; Massey, 1991b; Sayer, 1991), is based upon a conflation of dualisms, such as necessity-contingency with global-local, and that this results in conceptual confusions and a debate producing more heat than light (Sayer, 1991, p.283; Peet and Thrift, 1989, p.22).

Critical realism, argues Sayer, provides tools for the deconstruction of such dualisms. The philosophy of critical realism views social reality as multi-layered and argues that social science should proceed through abstraction to identify the necessary causal powers of “deep” structures which are realized under specific contingent conditions in particular places (Gregory, D., 1994, “Realism” in Dictionary of Human Geography). Thus a new regional geography can explore the distinctiveness of places without becoming an exercise in cataloguing unrelated differences; general tendencies are realized or not in specific places, and the specificities of place are the result of varying combinations of causal mechanisms. Such an approach undermines obstacles such as the idiographic-nomothetic debate which faced traditional regional geography, clearing the way for a new regional geography. However, this undermining of obstacles occurs at a conceptual level, leaving the problems to be faced in the writing of geographies where they re-appear as problems of narrative. In a narrow sense, such problems concern the suitability of “narrative” accounts of society as opposed to “analysis”. Sayer argues that “we should expect theorising [analysis] and storytelling [narrative] to be close cousins in social science” (Sayer, 1991, p.297), but the problem is again postponed until the writing of geographies.

Sayer does not offer a specific solution to this problem, but the general thrust of his argument is that a new regional geography should experiment with a variety of textual strategies, carefully re-consider its methods, and reveal why the research took one path rather than

³⁵ This debate was stimulated by the Changing Urban and Regional Systems (CURS) initiative which involved studies of restructuring in various localities in the UK.

another.³⁶ The problems of narrative remain to be faced in the writing of new regional geographies. For Sayer, the newness of the new regional geography rests in its basis in critical realism, and the methodological tools such an approach provides.

Sayer's discussion of the problems of narrative is part of a wider crisis of representation in the social sciences, (Clifford and Marcus, 1986; Marcus and Fischer, 1986), a crisis which poses the question: "how can we write about other peoples, places and societies?"³⁷ The reflexive turn in the social sciences involves explicit consideration of this question, but thus far has had an uneven impact.

3.2.2. THE REFLEXIVE TURN AND ECONOMIC GEOGRAPHY

The development of a new regional geography must proceed through practice, example, and applications of the reflexive turn. The reflexive turn is an important response to the crisis of representation and entails paying attention to "how one positions and includes oneself in relation to a subject of study" (Marcus, 1992, p.489). Rather than dismissing the crisis of representation as trivial or ignoring it as intractable, the reflexive turn takes seriously the issues raised and attempts to address them. The reflexive turn problematizes the role of the researcher in various ways: how can, and should, he/she represent a society?; what role does the author play in constructing such representations?; how can the author's influence be revealed?; and what textual strategies of representation are most appropriate? In considering such issues the reflexive turn takes on board the insights of the crisis of representation while avoiding its potentially disabling implications.

The reflexive turn has had an uneven impact in the social sciences in various ways. Firstly, it has been considered almost exclusively in terms of particular types of research. The reflexive turn has almost without exception been related to research which is "intensive", "qualitative", "local" and "fieldwork-based"; that is, traditionally "ethnographic". This strikes me as ironic given the rhetoric of deconstructing dualisms and subverting disciplinary boundaries. Such unevenness may be the result of practical considerations - perhaps the importance of the reflexive turn is clearer as regards intensive, qualitative, local fieldwork - but this does not excuse the lack of reflexivity in other varieties of research. A clear

³⁶ Sayer does however warn against "anarchic textual forms which hid[e] poor reasoning and explanation ... confuse[d] the reader or limit[ed] the readership to a tiny number of cognoscenti" (Sayer, 1989, p.270).

³⁷ The crisis of representation refers to the problems of the represented too, but my discussion focuses on the problems faced by the academic representer.

example of such a polarization is seen in a common reading of Sayer's advice about extensive and intensive research. So much attention is given to the importance of intensive research for explanation that extensive research for description is all-but written off as bad. A second example is the deservedly warm reception given to qualitative techniques, which has had as its corollary the near-total neglect of quantitative methods by social and cultural geographers, as if it were not possible to use different tools for different problems. Such polarizations may be the unintended consequence of correctives to the earlier excesses of quantitative economic geography but surely it would be better to use compatible methods and insights carefully where they are helpful. I would concur with Barnes' suggestion that "we must sort through the bag of theoretical concepts at our disposal, take from it what we can, and modify, fashion and invent in accordance with the particular context at hand" (Barnes, 1989, p.310).

A second unevenness in the impact of the reflexive turn concerns the dominance of theoretical discussion over practical application. I would join with Duncan in assuming/hoping "that position papers will in fact lead to new directions in empirical research" (Duncan, 1993, p.376), but this has rarely been the case. This is disappointing as empirically informed work is vital, and crucial in developing the reflexive turn. As Clifford and Marcus argue: "what the appropriate facts of social theory are and how to represent them combining both interpretation and explanation is thus a current topic of widespread interest that can be posed rhetorically and repetitively in theoretical discourse, but can only be pursued in the doing of fieldwork and the writing of ethnography" (Clifford and Marcus, 1986, p.167). In fact, not only must the issues raised by the reflexive turn be dealt with in practice and example, practice and example are needed to persuade the doubters of the importance of the reflexive turn; "in periods when fields are without secure foundations, practice becomes the engine of innovation" (Marcus and Fischer, 1986, p.166).

Economists and economic geographers have been among the doubters in taking on board the reflexive turn, seeing attention to the processes of research and its representation as distant from their material concerns. Given that all social scientists are involved in the representation of societies, and that ethnographic methods can be fruitfully employed in "economic" research, this neglect of the reflexive turn by economic geography is unwarranted and unhelpful, particularly for economic geographies which are concerned with social relations and practices.

The reflexive turn has brought calls for the blurring of genres and the integration of ethnographic and political-economic accounts, but it has had little impact so far on economics and economic geography. Even the rapidly developing fields of “social economics” and the “new institutional evolutionary economics”, which emphasize the social and cultural embeddedness of economic institutions, have as yet paid little attention to the role of the researcher and his/her textual strategies (Hodgson 1988; Friedland and Robertson 1990; Granovetter and Swedberg, 1992; Smelser and Swedberg, 1994).

More promisingly, in the “Methodology of Economics” McCloskey and Klamer have pioneered a rhetorical approach to economics, drawing on Rorty’s philosophy of persuasion (McCloskey, 1986, 1990 and 1994; Klamer, McCloskey and Solow, 1988), and Brown has considered the “economy as text” (Brown, 1994). Further examples of attention to language and reflexivity can be found in the “Economics as Social Theory” series, which aims to reclaim the “theory” label from a-social, a-historical, mathematical “modelling” (Backhouse, 1994; Henderson, Dudley-Evans and Backhouse 1993; Mäki, Gustafsson and Knudsen, 1993). Mäki argues that economic methodology has shifted from a “rules-with-realism” approach, to the instrumental “rules-without-realism” approach codified by Milton Friedman (Friedman, 1953), to the Rorty-inspired “rhetoric-without-realism” of Klamer and McCloskey. Mäki prefers a “rhetoric-with-realism” approach and makes the important point, echoed by Sayer, that rather than an attention to rhetoric being incompatible with realism it is realism that makes rhetoric important (Mäki, 1989; Boylan and O’Gorman, 1995).

Within economic geography increased attention has recently been given to the issues raised by the reflexive turn and the writing of new regional geographies. Thrift, with Leyshon and Amin as sometime-collaborators, has written in support of a new regional geography, arguing that IPE must take on board insights associated with the reflexive turn and that IPE must not exclude social and cultural aspects (Thrift, 1990b, 1990c, 1994a; Thrift and Leyshon, 1994; Amin and Thrift, 1992).³⁸ A second cluster of Barnes, Curry, and Sheppard has usefully explored the role of language in economic geography and encouraged a more contextualist economic geography (Barnes, 1989; Barnes and Curry, 1992; Curry, 1991; Sheppard and Barnes, 1990). Other geographers have made important interventions: McDowell and Schoenberger have had an

³⁸ This message strongly informs the journal, “*Review of International Political Economy*” which appeared in 1994.

interesting conversation about the corporate interview as an ethnographic tool in economic geography (Schoenberger, 1991, 1992; McDowell, 1992); Crang's ethnography of the service economy has provided an encouraging example of research informed by the reflexive turn (Crang, 1993 and 1994); and Cook's work on global agri-business has shown how the reflexive turn can inform research across a variety of scales (Cook, 1994).

Marcus and Fischer note that: "the realization of multilocal ethnographic texts, of even regional analysis as it now exists, may entail a novel kind of fieldwork. Rather than being situated in one, or perhaps two communities for the entire period of research the fieldworker must be mobile, covering a network of sites that encompasses a process, which is in fact the object of study" (Marcus and Fischer, 1986, p.94). Cook's research into the global agro-food system, following the production-retail chain for exotic fruits from plantation to supermarket, takes on board this advice. Cook provides clear evidence of the utility of a new approach to regional and economic geography, and illustrates that ethnography can be part of economic geography, even when the social and economic relations in question span thousands of miles.

Notwithstanding these contributions, the reflexive turn has largely been ignored by economists and economic geographers. Similarly many social-cultural geographers at the centre of excitement/despair about the crisis of representation often seem to be unaware of similar developments in economic geography and economics, limited as they are. In large part economic geographers have ignored the reflexive turn because it is seen as too far removed from their concerns - "we don't do ethnography!" - and is harmful to their search for respect from mainstream economics, an economics that neglects, or abstracts from, social relations and people's everyday lives.³⁹

This ignorance of the reflexive turn is mirrored by the neglect of "the economic" by cultural geographers (Thrift, 1991b; Sayer 1994, 1995). Whether cultural geography is becoming dangerously hegemonic is debatable (see Thrift, 1991b; Duncan, 1993; Barnes, 1995), but there is insufficient exchange across the sub-disciplinary boundaries. Economic/political geography should not necessarily enjoy a privileged status in discussions about globalization for instance, and neither should cultural

³⁹ Neglect and abstraction are not the same; some theoretical abstractions are useful. However, I would argue that many of the abstractions of economics are too far removed from real life and contribute little to our understanding of society.

geography be the sole arena for discussions and applications of the reflexive turn.

The writing of new regional geographies demands greater flexibility from “economic” and “cultural” geographers as regards their methods and topics. The sub-disciplinary polarization can be partially explained by the re-configuration of the politics of representation and polyphony, as displays of reflexivity and sensitivity to the “new ethnography” become an important piece of intellectual capital in the academy (Cragg, 1992). If the important insights of the reflexive turn are to be taken on board and informed by economic geography, cultural and economic geographers must “blur the genres”, sharing and developing the insights of the turn, revealing the role of the researcher, reflecting upon the research process, and experimenting with textual strategies.

There are definite benefits to be gained from a blurring of the genres. Such a blurring would help to break down existing disciplinary barriers, open up new areas of research, and reveal the limitations of existing genres (Cragg, 1992, p.534). From the point of view of economic geography there are benefits to be gained from paying attention to the reflexive turn. An acceptance of the importance of contextually strong accounts, stories or narratives, promises to give life to the analysis, evoking real-world experiences and understandings rather than constructing abstract theoretical models. In a cultural critique of locality studies Jackson argues that “the ‘locality studies’ authors themselves have shown little evidence of such ‘reflexivity’, merely tending to tack on a little ethnographic material (from interviews and other anecdotal evidence) when they enter the murky waters of meaning and interpretation” (Jackson, 1991, p.222). In offering accounts of social processes, economic geography after the reflexive turn must reveal the process of research and the role of the researcher, in contrast to the authoritative “this is what’s really going on” of traditional economic geography. The stories that economic geographers tell are shaped by the process of research - other stories could have been told - and such shaping should be made explicit. There is room for various approaches to economic geography - analyses of foreign exchange flows may not benefit from reflexivity and ethnographic methods for instance - but I feel that the reflexive turn is valuable, particularly for accounts which aim to show how economic activities are socially and culturally embedded, and geographies which centre on peoples and places.

The writing and presenting of research of various styles, informed by the reflexive turn, is important in illustrating this. My dissertation is an

attempt to write a new regional geography and a contribution to the development of a new economic geography which utilizes ethnographic methods and takes on board the reflexive turn. It is a regional geography as I work with a case study to produce a theoretically-informed and informing account. It is an economic geography as I concentrate on commodities, their exchange, use and flow, through and between particular places.

3.2.3. CASE STUDIES AND THE NEW REGIONAL GEOGRAPHY

Case studies have long occupied a central place in geographical research, but there has been little discussion of what case studies are, how they fit in with other aspects of research, and how they work. The new theoretically informed regional geography must address these issues, and is in a strong position to do so.

Discussion about the practicalities of doing research are seldom connected with the more metatheoretical discussions of postmodernism, structuration theory and critical realism which have buffeted the social sciences in recent years. Theorists have been content to deal with issues at a higher level of abstraction; practitioners have concerned themselves with the nitty-gritty of research methods. Sayer complains about this lack of exchange in the second edition of his "Method in Social Science" (Sayer, 1992). Reactions to structuration theory also illustrate this, with Gregson, for instance, questioning the relevance of structuration theory to empirical research (Gregson, 1987 and 1989). Giddens' conceptual salvos have rarely hit their target and thus structuration theory has sensitized researchers to the relationship between structure and agency rather than provided a guide to empirical research. In my view, the metatheoretical and more practically-oriented debates could benefit from a closer connection, a connection best achieved through theoretically informed and informing practice.

Ragin and Becker provide an interesting collection of writings on the role of case studies (Ragin and Becker, 1992). They begin with the simple statement that "every study is a case study because it is an analysis of social phenomena specific to a time and place" (Ragin, 1992, p.2). This is fair enough, but it does not get us very far in considering the role of case studies and their place in the processes of research. Should case studies be the arena from which theory is inductively developed, or the arena in which theories are deductively tested?

Or, is this an unhelpful question? Although it may be useful to contrast these approaches in thinking about research (Layder, 1993), this choice of inductive or deductive research is unrealistic. Research is a messy process combining both inductive and deductive elements, and case studies are best seen in this light. A view of case studies as mediating between theoretical and empirical work, in a continuous process of inductive theory development and deductive theory testing, is more flexible and realistic.

Wieviorka explores the idea of cases as mediating between theoretical and empirical aspects of research (Wieviorka, 1992). He contrasts the synthetic style of historical research with the more analytic style of sociological research, and argues that they can be usefully combined through the use of case studies. Using the interesting example of medical “cases”, such as tuberculosis, Wieviorka shows that cases are necessarily both theoretical and empirical. A case of tuberculosis is empirical in that it is observed in a specific patient. It is theoretical, in that it is viewed through the lens of medical textbooks and diagnoses which may be revised in the light of new cases. The identification and selection of cases rests on theoretical assumptions and interests; the detailed study of processes and situations in a locale is necessarily empirical. Wieviorka stresses that “though necessarily referring to a stock of factual knowledge, a case study cannot be merely empirical. Regardless of the practical approach for studying it, a case is an opportunity for relating facts and concepts, reality and hypotheses” (Wieviorka, 1992, p.160).

Seeing cases as intermediating between theoretical and empirical work seems to be reasonable and tenable: it is certainly better than never-ending discussions about whether cases are theoretical or empirical, and whether research should be inductive or deductive. Research is messier than either/or decisions, and cases provide a way of coping with confusion. Ragin concludes that “in short, ideas and evidence are mutually dependent; we transform evidence into results with the aid of ideas, and we make sense of theoretical ideas and elaborate them by linking them to empirical evidence. Cases figure prominently in both of these relationships” (Ragin, 1992, p.218). As Platt puts it, the use of cases, whether as supporting evidence for theory or as data leading to the construction of a theory, is part of the persuasive strategies, the rhetoric, of research (Platt, 1992, p.21).

Case studies can play an important role in a new regional geography, particularly one which is based in critical realism. A lingering question about case studies has been this: do they reveal or illustrate general

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processes and tendencies, or are their insights specific to the particular situation studied? If their insights are specific, case studies will simply add to the stock of unconnected encyclopaedic knowledge of particular places. A critical realist approach employs rational abstraction to theoretically isolate necessary relations and identify causal structures and processes. Thus case study work informed by critical realism aims to identify the underlying social structures and mechanisms which produce outcomes which vary with the contingencies of particular times and places.

In my research, then, cases intermediate between the more theoretical and more empirical aspects of offshore financial development. The use of cases is a research strategy which is employed at various stages in the research process as the emphasis shifts to and fro between “theoretical” and “empirical” work in an iterative manner. It may therefore be better to talk of “casing” as a strategy. As Ragin argues, casing “is selectively invoked at many different junctures in the research process, usually to resolve difficult issues in linking ideas and evidence” (Ragin, 1992, p.217).

As with many other apparently tricky dualisms in the social sciences - global/local, structure/agency, analysis/narrative - the theoretical/empirical and inductive/deductive dualisms are deconstructed once a dynamic, process-oriented outlook is adopted and the missing middle term of practice introduced (Sayer, 1991). Place-based casing achieves the deconstruction of these dualisms, and as such is an important research tool for the new theoretically informed regional geography.

3.3. MY CASE STUDY: THE DEVELOPMENT OF THE BAHAMAS AND CAYMAN OFFSHORE FINANCIAL CENTRES

3.3.1. A CASE OF CASING

The development of the Bahamas and Cayman OFCs provides the substantive focus of my research. Research foci, or case studies, may be chosen for a variety of reasons: relatively simple situations as social laboratories; supposedly representative or exemplary cases; critical cases to test bold conjectures; convenient examples for practical reasons. Realistically, a variety of criteria, motives, and chance events, lead to the selection of cases. The selection of my research focus is best explained through the notion of “casing” as a research practice and process. Throughout my research, casing has been employed to selectively narrow down my research focus. Figure 3.1. shows the hierarchy of

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casings used in my research. It is important to note that the hierarchy is not fixed, it is simply an attempt at a conceptual mapping.

Before commencing my research I had decided to look at processes of globalization. This decision was based on my interest in international affairs; inspiration from an undergraduate course on “The geography of the world economy”; my feeling that globalization was likely to be an important feature of international affairs; and my belief that this was an exciting area of social science with much scope for further research.

FIGURE 3.1. : THE HIERARCHY OF “CASINGS” IN MY RESEARCH
(after Ragin, 1992, p.221)

A case study of globalization
- theoretical debates and changing realities

A case study of international finance
- most globalized aspect of world economy

A case study of offshore financial centres
- important and interesting aspect of international finance

A case study of the Bahamas and the Cayman Islands development
- importance, proximity to each other and US, community size

A case study of 1965-91
- long enough to see trends, period of growth, data availability

A case study of International Banking Facilities, the Bank of Nova Scotia, and Mutual Legal Assistance Treaties episodes
- important and illuminating episodes

My second casing selected international finance as my topical area of interest. This casing was due largely to undergraduate experience, and a feeling that international finance was perhaps the most important arena for processes of globalization. Globalization is often viewed as a purely economic, abstract, a-social, placeless process; international finance is frequently cited as the area of economic activity which fits this vision most closely. As Thrift comments, international finance “is often regarded as the most telling example of a brave new world of flows: abstract, complex, instantaneous” (Thrift, 1995, p.24). Therefore international finance provides a favourable case for proponents of the

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extreme globalization and end of geography theses. If there is no “end of geography” in a sphere that deals with fungible, convertible and mobile commodities, geography is unlikely to be rendered irrelevant in other spheres.

My third casing narrowed down my research focus to the offshore financial sector. The offshore sector seemed an important, interesting, and neglected area of the international financial system: as Abbott and Palan emphasize offshore financial centres have become “nothing less than the cornerstone of the process of globalization” (Abbott and Palan, 1995, p.19). The development of offshore finance seemed to be intertwined with processes of financial globalization and the shift from a state-centred international monetary system to a more decentralized flexible system. In this way offshore financial development offered a useful window through which to view processes of financial globalization. In addition, within the hard case of finance, offshore finance provided a harder case. The importance or not, of geographies should be particularly clear in the sphere of offshore finance. As Dodd argues in a similar vein:

“Offshore transactions, according to more alarmist analyses, have developed on the basis of a historical separation of commercial and political dimensions. This is implicit in the very concept of an ‘offshore’ transaction. ... much of the literature on international monetary integration holds that nation-state borders are becoming irrelevant to the commercial imperatives pursued by international banks. For this reason, offshore transactions present something of a ‘hard case’ against which to evaluate whether the separation of politics and markets which the market-driven model of monetary integration implies is empirically and conceptually tenable” (Dodd, 1994, p.96).

The selection of the Bahamas and Cayman OFCs was my fourth casing. These centres were selected for a variety of reasons. Firstly, the Bahamas and Cayman have played an important role in the development of international finance in the last 30 years, and have been among the most important OFCs in terms of volume of activity hosted. Secondly, the selection of two OFCs and their interaction offered a way of getting away from a focus on either the local or the global, making a relationship, processes, and interaction central to my research. I felt that such a relationship would be best observed between two countries in close proximity; such as the Bahamas and Cayman. The close proximity of the US also promised to make for interesting research, given the powers of the US in the Caribbean and the importance of the US in

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international finance. More pragmatically, the small size of the Bahamas and Cayman would facilitate intensive fieldwork.

My research focuses on the period from the 1960s to 1991. The OFCs' development began to accelerate rapidly from the 1960s, and a 1991 cut-off point facilitated the collection of data - data which would sometimes be published with a lag of a couple of years. The length of this period also facilitates the identification of important trends and processes, something that would be more difficult with a static focus or a shorter time-span.

A sixth casing focused on specific episodes and events seen as important, by my interviewees and me, in the development of the OFCs. This casing enabled me to collect a lot of detail about such episodes rather than thinly spreading my research efforts over the whole time period.

3.3.2. RESEARCH STRATEGY

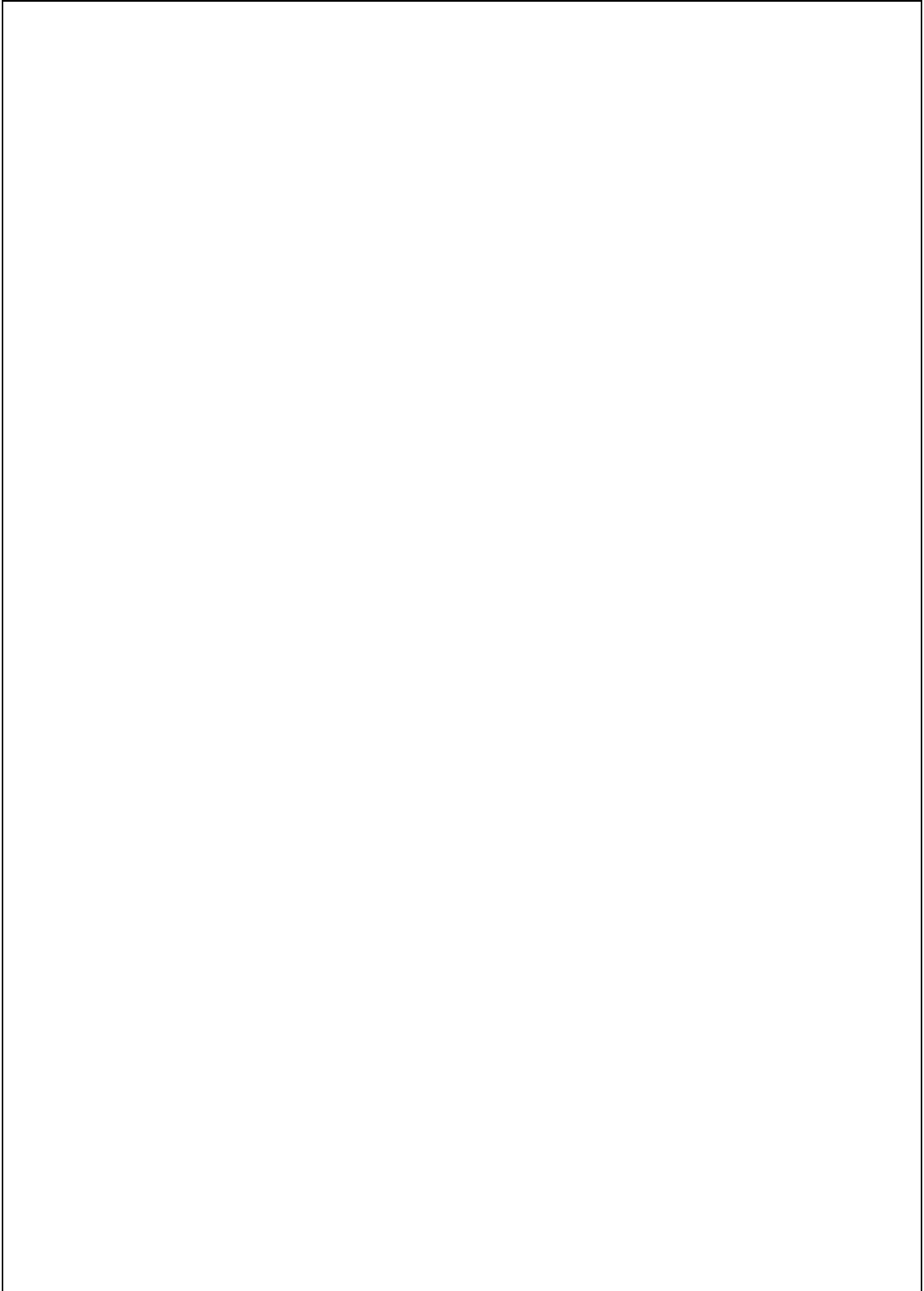
Figure 3.2., which I produced in early 1993 for my own use, illustrates the relationships, interactions and processes which are the focus of my research into the development of the Bahamas and Cayman OFCs. Within each centre relations between “bankers” or the offshore financial sector, and between local regulators and politicians are of particular interest. Regulators develop legislation which impacts upon the bankers, and bankers seek to lobby and persuade the regulators to introduce the legislation that they want.

A second set of relationships involves the interaction between the Bahamas and Cayman OFCs. As each other's main competitor their development trajectories are likely to be connected; the construction of their regulatory environments is interactive. Widening the focus, relationships between the OFCs and internationally mobile capital, represented by international banks and clients, would seem to be important. Mobile capital would seem to be in a strong position to play off one offshore centre against another, persuading the centres to make themselves attractive to capital. The USA and other OFCs also compete to attract capital and as such are important actors in the development of the Bahamas and Cayman. Providing the context for the actions of all the actors is the international regulatory environment. The international regulatory environment, which is itself produced through political negotiation and interaction, sets the rules of the game of international finance.

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The aim of my research is to gain a better understanding of the development of the Bahamas and Cayman OFCs by considering their development in a wider context. This case study is informed by, and in turn illuminates, theoretical debates around the themes of globalization, regulation and geography. To this end my research

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strategy is one of iterative hypothesis testing, constantly moving between more theoretical and more empirical concerns.⁴⁰ Such a strategy also emphasizes the way in which later stages of research are informed by earlier ones. My research focus and methods are constantly modified as the insights and lessons of earlier stages are employed.

Figure 3.3. illustrates my research strategy. My research strategy has been one of progressive hypothesis testing employing both extensive research to produce background information and generate more detailed ideas, and intensive research to test and further develop these ideas. My research strategy does not involve strictly accepting or rejecting hypotheses. The topic of my research, the data available, and my approach to social science make such a research strategy unsuitable and impossible. Thus my research is more akin to qualitative hypothesis testing, resulting in new modified hypotheses presented in narrative form.

My initial ideas or hypotheses were generated from considering the development of the OFCs and how this relates to theoretical debates about globalization. These initial hypotheses were then specified in more detail and interrogated with empirical data: data about the volume of financial activity hosted by the centres; and data about regulatory and political developments in the OFCs, the USA and the international arena. The resultant more detailed hypotheses were then tested through interviews with international bankers in London. A further stage of hypothesis testing and refinement employed a postal questionnaire survey with banks in the Bahamas and Cayman. Interviews in the USA, the Bahamas and Cayman provided further insights and allowed me to assess and develop my understanding and explanation of the centres' development. Finally, I produced a story about the development of the Bahamas and Cayman through reflection on my hypotheses, my data, and relevant theoretical debates.

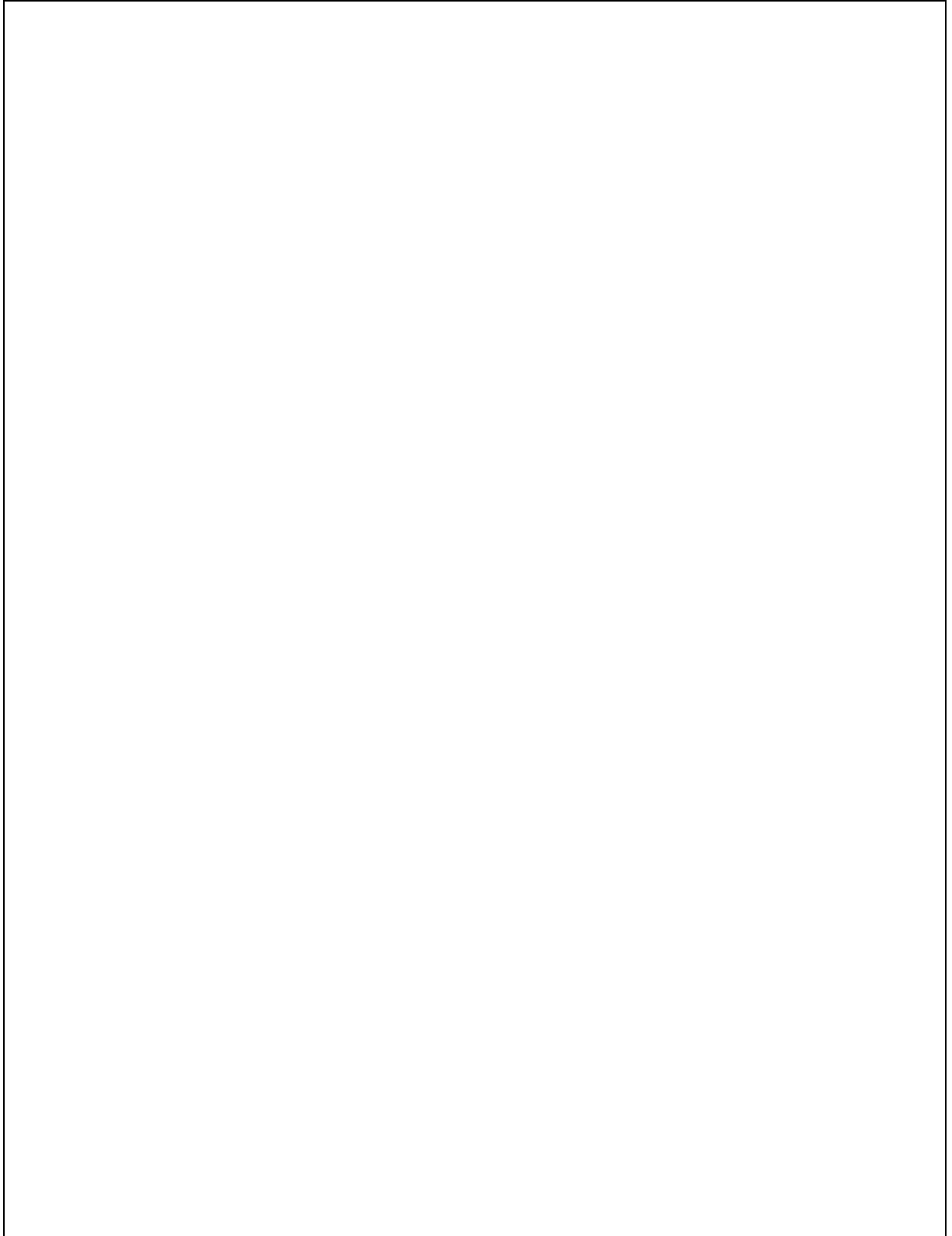
3.3.3.1. Data Sources and Collection

My research has employed a wide variety of data, of different types, collected in different ways from a range of sources. The range of data includes basic historical data, quantitative financial data, chronologies of regulatory and political developments, and the views of practitioners and actors involved in the development of the Bahamas and Cayman OFCs.

⁴⁰ By "hypotheses" I mean ideas formulated as questions.

[Type text]

Figure 3.3: Research Strategy



Basic Historical Data

My basic data provides background information about: population trends; GNP, GDP, and per capita income levels; economic contributions by sector; employment; and historical information about the Bahamas and Cayman. For Cayman this data has been drawn from: the Statistical Office; the Financial Services Supervision Department; the Currency Board; and assorted Cayman Government publications such as year-books and business directories. For the Bahamas data comes from their Statistical Office; Monetary Authority; Central Bank; and Governmental publications and year-books.

Quantitative financial data

My quantitative data records the volumes of offshore banking activity hosted by the OFCs, that hosted by other centres, and the total volume of international banking. The main source for this data is the Bank for International Settlements, with other data provided by the IMF, the US Federal Reserve Board, and individual offshore financial centres.⁴¹ The United States Federal Reserve Board has collected data on the external positions of branches of US banks in the Bahamas and Cayman since 1970, publishing this information in aggregate form as “Bahamas and Cayman” (US Federal Reserve Board). The IMF collects and publishes data on the offshore banking activity hosted by the Bahamas but not by Cayman which, as it is a British colony is not a separate member of the IMF.

The most comprehensive financial data set is provided by the BIS (BIS Annual Reports; BIS International Banking and Financial Markets, quarterly reports; BIS International Banking Statistics). The BIS publishes quarterly data on the external positions (liabilities and assets) of banks whose headquarters are in the BIS reporting area. The reporting area includes Switzerland, Austria, Denmark, and Ireland and the G10 countries: the USA, the UK, Germany, France, Belgium, the Netherlands, Italy, Sweden, Canada and Japan. This data set runs from 1973/4 and allows for cross-country comparisons. All data are expressed in billions of US \$ in current (non-inflation-adjusted) prices. There are some analytical difficulties, as the data only include reporting area banks, and there are breaks in the time-series as the reporting area is extended to reflect the dynamics of international banking, but these are

⁴¹ For The Bahamas important sources of information were: The Bahamas Statistical Abstracts; The Bahamas Monetary Authority Reports; Central bank of The Bahamas, Annual Reports; Central Bank of The Bahamas, Quarterly Economic Review; and, The Central Bank of The Bahamas, Quarterly Statistical Digest. For Cayman the Government’s Statistical Abstract and Compendium of Statistics were particularly important.

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not insurmountable. My main quantitative data set refers to “external positions of reporting banks, *vis-à-vis* individual countries”.

In using the BIS data set I have decided not to attach any significance to differences between assets and liabilities figures. Such differences could be used to infer the direction of capital flows - when Bahamas assets exceed Bahamas liabilities more funds are flowing from the reporting area than to it, perhaps reflecting a North to South flow of funds - but the data-set is problematic enough without introducing further uncertainty through inference and speculation. Therefore I have added “assets” and “liabilities” together. If I was looking at real deposits and loans this double-counting would make little sense, but for my purposes it is valid. My aim is to look at the volume of activity taking place in the OFCs, not to infer its origins or destinations. The OFCs provide a conduit for funds rather than a source or sink, and as such whether the funds are deposits or loans, assets or liabilities, matters little from the point of view of the developing OFC.

Regulatory and political developments

A third set of data records significant regulatory and political developments in the Bahamas, in Cayman, and in the international financial arena. For example it includes the dates and results of elections, the introduction of legislation, changes in license fees and other important political-economic events relevant to the OFCs’ development. This data was collected from a wide variety of newspapers and other publications which I spent much time searching through: the Financial Times; Euromoney; the Economist; the Wall Street Journal; the Nassau Guardian; the Tribune (Bahamas); the Caymanian Compass; and many other guidebooks and reports in the Bahamas and Cayman. Looking at regulatory and political developments in conjunction with quantitative data on the volumes of offshore banking activity hosted generated ideas about the importance and impact of particular events and episodes, ideas which were then tested qualitatively during more intensive research.

Ethnographic data

My fourth data set was collected through communication with practitioners and actors involved in the development of the Bahamas and Cayman, and international finance more generally. It allowed me to explore the OFCs’ development in the international context, paying particular attention to episodes and events seen as important by my interviewees, and enabled me to explore the social practices and processes through which OFCs develop and “hold down the global”

(Amin and Thrift, 1994). Interviews and questionnaires with bankers, lawyers, accountants, regulators, politicians and other business people were conducted to generate this data. This data set is particularly important in allowing me to develop hypotheses with the assistance of people who were actually involved in the development of the Bahamas and Cayman OFCs. The London Interviews stage of my research provided some initial insights into the practice of offshore finance, and the Caribbean Questionnaires stage enabled me to gain more information about offshore finance in the Bahamas and Cayman. Through interviews in the US I explored the relationship between the USA and the OFCs: through interviews in the Bahamas and Cayman I analyzed local developments, competing jurisdictions, and the wider context.

In planning the London Interviews stage of my research in the Summer of 1993 I wrote to banks in London with a presence in the Bahamas or Cayman, sending them a summary of my research and requesting an interview. I conducted semi-structured interviews which covered various themes but which allowed the interviewee to have a large influence on the direction of the conversation. Prior to the first interview I considered the themes to be covered, and how to deal with them. Six interviews were conducted, lasting about an hour each. Interviews were not taped; rather I took notes during the interview and typed them up as soon as possible, including my comments on how the interview went and what modifications could be made. Noting seemed to be sufficient and I also felt that taping could inhibit or annoy the interviewees, particularly when talking about secrecy, drugs and money laundering. Transcripts were sent to the interviewees for their comments or correction, and thanks were offered again. Each successive interview was conducted in the light of previous interviews. In some cases the structure and content of the interview plan was altered, for example to avoid repetition, or to emphasize a different aspect.

In the Caribbean Questionnaires stage of my research, conducted in the Autumn of 1993 I sent summaries of my research, a questionnaire (see Appendix B), and a request for assistance with my research. I also requested a follow-up interview to take place during my overseas fieldwork stage. I received 30 completed questionnaires, with 17 respondents agreeing to a follow-up interview.

In the Caribbean and the USA from February to September 1994 I arranged interviews with regulators, politicians, lawyers, and other financiers in addition to the follow-up interviews from the earlier Caribbean Questionnaires. Interviewees were selected on the basis of

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extensive background reading, through which I had become familiar with the names of key players in the local communities, players who I hoped would have something interesting to say. Efforts were made to interview a range of people, in different occupations and from different political groupings. In total I interviewed more than 50 key actors (see Appendix A for a list of interviewees). I also endeavoured to speak to people who though no longer key actors in the Bahamas and Cayman had been important players in earlier years. Once an interview was arranged I sent a “Caribbean Conjectures: Preliminary Survey” (see Appendix B). This survey contained around 40 pairs of statements about particular themes or episodes in the OFC’s development and required respondents to choose one statement from each pair or note that the choice was difficult.

This was very useful in that it allowed me to see, prior to the interview, what issues the respondent knew about, had interesting views about, and wanted to talk about. This made the interviews extremely productive as we could focus on areas of common interest in detail rather than simply repeating the same set of questions with each interviewee. After receipt of the completed “Caribbean Conjectures” an interview agenda was prepared for each interview to guide the conversation through particular themes. If the interviewee agreed interviews were taped, a decision made in the light of the London interviews stage; I felt I had lost some information by not taping the London interviews. Two other tactics for eliciting information were cross-referencing and the presentation of stories. In cross-referencing I would provoke an interviewee saying: “a lawyer the other day said that ... do you agree?”, or “the newspapers at the time reported the event as one of US extraterritoriality ... do you think that’s fair?”. The presentation of stories was a tactic employed at a later stage in my fieldwork, when I had a clear view of the centres’ development. I produced a brief summary explanation of the centre’s development and requested that the interviewee read it, comment on it, and tell me what was wrong with it. These stories were revised as progress was made and an example can be found in Appendix B.

During the qualitative stages of my research problems of confidentiality, prompting, and selective memories were apparent. Some interviewees would not discuss certain themes, or requested that I not tape them due to reasons of confidentiality. However, problems associated with confidentiality were much less significant than I had feared at the start of my research. When conducting semi-structured interviews which took the form of conversations around selected themes there was a thin line between guiding the conversation and imposing my own structure on

respondents' views. This problem was most marked later on in the research when my ideas and explanations had begun to crystallize. Problems were minimized by recognizing them and by giving respondents the chance to disagree with, and reject, my theories. Some interviewees would put a particular spin on an episode, perhaps to show themselves or their political friends in a favourable light, and others would have selective memories of episodes. These problems are unavoidable but can be minimized through comparing interviewees' accounts with each other, and with contemporary newspaper reports and other published information. The format of this dissertation in fact conceals the processes of research such that it may appear that I uncritically accept my interviewees' accounts; this is not the case. My use of ethnographic material is not based simply on the selection of suitable quotes, rather the analysis/narrative is developed through careful systematic analysis of the ethnographic material and its relationship with other historical and quantitative data (see section 3.3.3.2).

Thus my research employs both extensive and intensive research methods, and quantitative and qualitative varieties of data and analyses. The type of research and data used at different stages of my research is driven by the issues in question and the data available. Some issues are best addressed through qualitative data, others are more amenable to quantitative analyses. There is no need to choose between types of analyses, it is better to be flexible and systematic. Layder refers to such research as "multi-strategy" (Layder, 1993). By using several approaches the insights from various partial viewpoints and ways of seeing can be combined resulting in theoretically richer and empirically denser analyses. Such an approach, making many analytical cuts through reality, works with the multi-faceted nature of the development of the Bahamas and Cayman, and allows some triangulation and checking of viewpoints.

3.3.3.2. Data Analysis

A range of data sets requires a range of analyses. My analyses of the quantitative financial data took the form of the production of a range of time-series graphs, looking at trends in the volumes of offshore banking activity hosted by the Bahamas and Cayman, and situating such trends in the wider development of offshore and international banking. My analyses of qualitative data were more complicated. While collecting my qualitative data I became increasingly concerned about what I would do with my data. I could imagine myself selecting quotes and anecdotes to support or refute my ideas, but felt that this would be making poor use of

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the data. I wanted to be able to analyze my data systematically, even though it was not quantitative.

There is little discussion of qualitative analysis in the geographical literature (although see Cook and Crang 1995; Eyles and Smith, 1988), so sociology and anthropology provided my starting points. I began by reading about content analysis, thinking that this would provide a way of systematically analyzing my data. However, I decided that in attempting to quantify qualitative data I would lose the meaning of the data for slight returns. I then discovered grounded theory - a framework for building theory from empirical observation - with the help of Glaser and Strauss (1967), which led to a series of books on the analysis of qualitative data (Strauss, 1987; Strauss and Corbin, 1990; Wolcott, 1990). I was immediately attracted to the “grounded theory” of Glaser and Strauss; it seemed to set out a relatively straightforward method of analyzing qualitative data. On reflection, there are various problems with their initial formulation. Particularly problematic are the issues of the analyst supposedly approaching his/her data without prejudices, testing a theory using the data used to construct it, and their simplification of analysis into a linear sequence. Although these issues are addressed in more recent work (Strauss and Corbin, 1990), in retrospect it is the attitude, spirit, and general techniques suggested by grounded theory that are appealing rather than the total method. An attempt to rigidly follow the recipe of “grounded theory” would be unrealistic and against the exploratory, iterative, exciting, and rather messy nature of qualitative analysis.

In addition to setting out more clearly the processes of analysis and thus boosting my confidence in my ability to deal with my data, grounded theory and its descendants serve usefully to emphasize the goals of qualitative analysis. The methods suggested for qualitative analysis take on various names depending upon the versions considered. Such terms include coding, categorizing, constant comparison, tagging, linking and sorting.

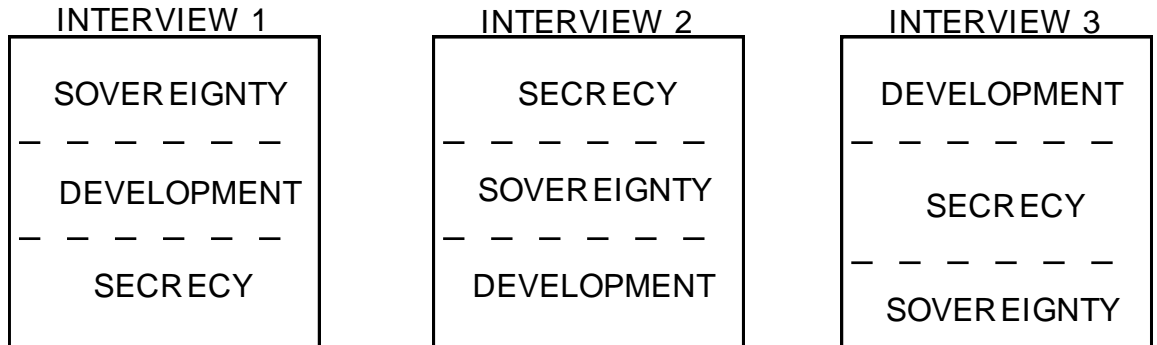
Basically, the researcher needs to de-contextualize and then re-contextualize the data (Tesch 1990). Data from a set of interviews are broken up (coded or tagged) into sections, and then considered with similar sections from other interviews (categorizing or sorting), the analyst constantly checking that the sections are similar (constant comparison). These thematic sections are then linked to other thematic sections as theory is gradually built. Figure 3.4. illustrates this process for a very simple example. In practice the process is iterative as codes

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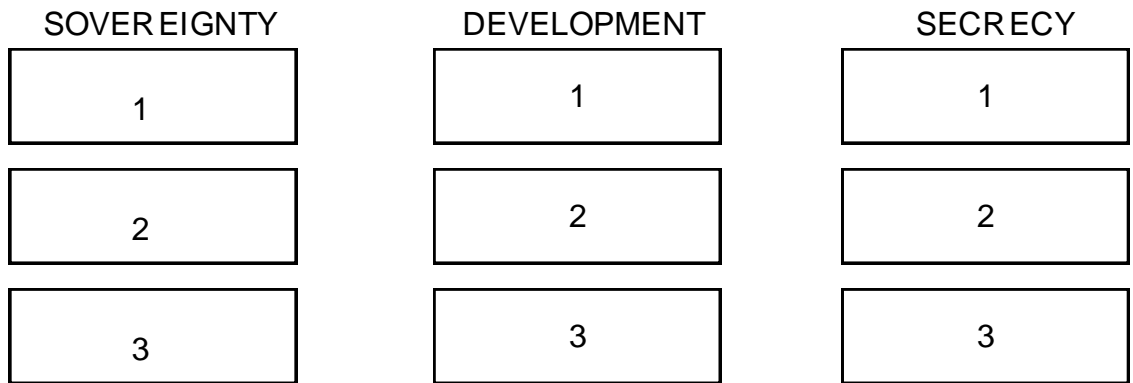
and categories are checked, modified, or discarded as the analysis proceeds. Categories and codes are at various levels of abstraction and so their inter-relationships are further complicated.

FIGURE 3.4: DE AND RE-CONTEXTUALIZATION

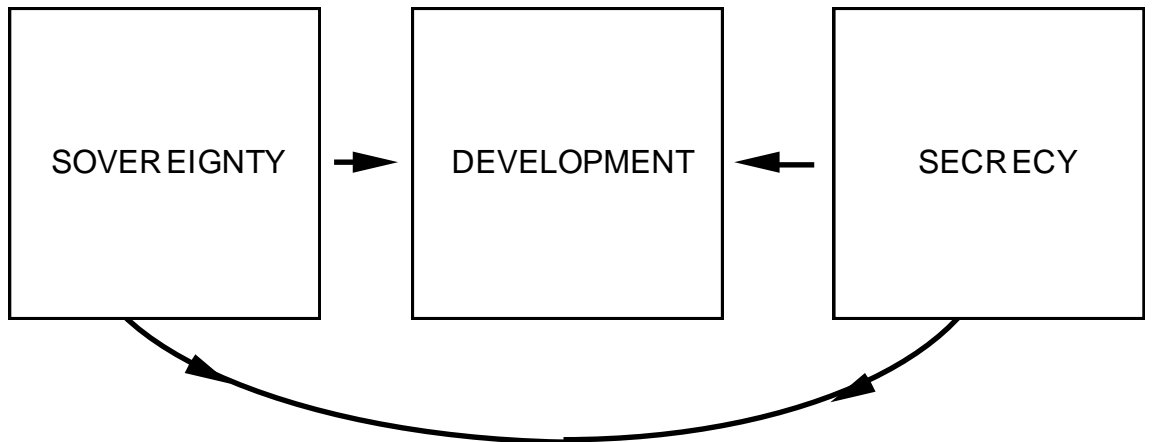
DECONTEXTUALIZATION: CODING



RECONTEXTUALIZATION: CATEGORIZING



THEORY BUILDING



A related issue arising from a reading of the literature on qualitative analysis is the use of computers. I was very keen on this possibility and thus read extensively on this issue (Tesch, 1990; Dey, 1993; Fielding and Lee, 1991). The use of computers offers a way of reducing the time spent on largely clerical tasks of filing, coding, cutting, and pasting.⁴² The software available facilitates the coding, filing, sorting, and searching of qualitative data. Relevant programmes include “The Ethnograph”, “HyperQual”, “Hypersoft”, “Nudist” and “Atlas.ti”.

In my research I adopted a grounded theory methodology of sorts, extensively using diagrams such as matrices, tables, and concept trees to think about relationships between codes and categories. Throughout the analysis memos were made as ideas came to me, memos which were subsequently used in developing my theory. I began the process of analysis by reading the transcripts very carefully and annotating them extensively, in effect de-constructing the data and asking questions of it, which prompted further questions of me and the data. I then wrote short notes or codes in the transcript margins, trying to keep the coding constant and comparable across transcripts, and modifying codes and coding when necessary. The codes described the theme covered rather than being a summary of what was said. Codes came from the theoretical literature or directly from the data. For instance, codes in my analysis included “sovereignty”, “development” and “secrecy”. An issue at this stage was what level of abstraction the codes should be at, quite a difficult decision to say the least!

Another tactic employed was to consider for each section of transcript the following questions: who/what are the actors?; what are their motives?; what are their decisions?; what are their actions?; what are their interactions?; and what are the consequences? Similar codes were grouped together into categories and the inter-relationships between categories considered. For example the codes of “sovereignty”, “secrecy” and “extraterritoriality” all fed into the category of “US-OFCs relations”. Categories and codes that did not seem to fit were checked against the data, altered, and sometimes discarded. By this stage I began to arrive at a picture of the data with inter-related themes at various levels of abstraction. The resultant picture may not be regarded as “theory” by the standards of orthodox social science - my theory is unlikely to have much predictive success - but what matters, in my

⁴² There are also potential problems with the use of computers in qualitative analysis. The software used structures the analysis and there is a danger of the “tool” taking control of the analyst, but if software is used carefully and not over-extended I feel it can be very helpful (see Crang, Hinchliffe, Hudson and Reimer, 1997a and 1997b).

opinion, is whether the “theory” or abstraction produced improves our understanding of social processes.

3.3.3.4. Story-telling tangles

Throughout my analyses I have become increasingly aware of the inter-relationships between research questions, research methodology, types of data, methods of analysis, and graphical and narrative re-presentation. Rather than the research process progressing in a straightforward linear fashion, all of the stages are tangled up. Thus the type of data affects the ways it can be analyzed and re-presented. The methods of analysis affect how the data is seen and how it is re-presented. The story to be re-presented affects the importance attached to the data, and the methods of analysis regarded as valuable.

With such complexity, confusion can easily reign. No aspect of the whole process is necessarily fundamental. Rather, the author must decide which is to take priority for him/her. During the process of research it is possible and probably quite fruitful to allow complexity to reign and to follow up leads as they come to mind. However, in writing up a re-presentation some order has to be given to the story, if only because writing is linear while reality is not (Gregory, 1989; Soja, 1989). Although the stages of data collection, analysis and representation are inevitably inter-linked and this should not be concealed, at some stage a decision has to be made about how to tell the story. Once this decision has been made, the data and analysis must be used to tell the story. The story to be told must be the driving force behind what data is used, what analyses are given priority, and what re-presentations are used. This offers the best opportunity to construct a well-argued, well-structured, interesting and informative account. As with cooking a cake, so with writing a dissertation: the cook/author does not present all the ingredients/data. Rather, the data is selected as ingredients for the cake that the cook wants to make. Of course the author still has to decide what cake to bake, a decision which depends on the ingredients and utensils available, and the occasion or audience for which the cake is being baked.

A related issue concerns textual strategies of representation. How can the complexity of reality be represented through a linear narrative? Fitting a story involving many actors, multiple themes, and a period of time, into a narrative is a tricky problem with no set rules. For instance, how should the various themes of the story be inter-linked? In reality everything is interconnected, but writing about it involves difficult

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decisions. Conceptual cuts have to be made and thus issues of rational abstractions and the avoidance of chaotic concepts come to the fore. Concepts, categories, and themes are abstractions removed from the reality to which they refer. It is therefore problematic to decide which themes are most important, and which are secondary. Should an account be structured chronologically or thematically, or using a combination of approaches? How can multiple and sometimes conflicting opinions be re-presented within a single-authored narrative? These issues can be discussed theoretically but the only way to make any progress in answering them is to attempt to write a story.

3.4. CONCLUSIONS

Research findings are produced through research practice, with the researcher playing a central role. The products of research must be evaluated, and looking at the process of research is one way of evaluating the product. The reflexive turn, a response to the crisis of representation, suggests that the researcher ought to make his/her role in the research process explicit, a suggestion which the new economic geography and new regional geographies take on board. In my approach to studying the development of the Bahamas and Cayman OFCs the social practices and processes through which the places develop in a globalizing economy are all-important. These practices are best investigated through a combination of ethnographic and other methods. Such an approach demands reflexivity as the processes of research shape the products of research, and ought, therefore, to be revealed. That said, issues of reflexivity can only really be dealt with in research practice. The practice of casing allows and encourages such reflexivity as casings mediate between theoretical and empirical work. In the following chapters I present the products of my research, beginning with the regulatory construction of the Bahamas and Cayman as places for offshore finance, places which are part of a wider regulatory landscape.

CHAPTER 4

THE REGULATORY CONSTRUCTION OF PLACE: THE BAHAMAS AND CAYMAN

“The world economy does not operate somewhere offshore, but instead functions within the political framework provided by nation-states” (Kapstein, 1994, p.184).

4.1. INTRODUCTION: A GEOPOLITICAL ECONOMY OF OFFSHORE FINANCE

In his provocatively titled book “Global financial integration: the end of geography”, O’Brien argues that “as markets and rules become integrated, the relevance of geography and the need to base decisions on geography will alter and often diminish. Money, being fungible, will continue to try to avoid, and will largely succeed in escaping, the confines of the existing geography” (O’Brien, 1992, p.2). O’Brien argues further that “counter to the freedom-of-money force is the fact that governments are the very embodiment of geography, representing the nation-state. The end of geography is, in many respects, all about the end or diminution of sovereignty” (O’Brien, 1992, p.100). Why, and how, then have the Bahamas and Cayman OFCs emerged as new places on the map of international political economy?

To address these questions I examine the development of the Bahamas and Cayman OFCs, looking at the ways in which they are constructed as places for offshore finance. Detailed empirical work is important; through focusing on social practices and “real regulation” (Clark, 1992), I avoid a functionalist argument that OFCs develop because “capitalism” requires them to. I begin this chapter with a discussion of the apparent placelessness of offshore finance, a discussion which builds on the views of offshore financiers. I then work with a series of questions: why are places constructed for offshore finance?; who constructs places for offshore finance?; how are places constructed for offshore finance?; and, what are the local impacts of constructing a place for offshore finance?

The wider questions that I begin to address in this chapter are: does sovereignty remain an important element in the workings of the international political economy?; and, do geographies - regulated spatial patterns of difference and regulatory spatialities of power and social

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relations - matter or not, and if so, in what ways? In this chapter I focus on the Bahamas and Cayman as individual places, widening my focus to their interaction, their relationships with the US, and their position in the wider regulatory landscape of international finance in chapters 5 and 6.

4.2. THE PLACELESSNESS OF OFFSHORE FINANCE?

The “end of geography” theme has an interesting parallel in the idea that offshore finance is in some way fictional and placeless. However, offshore financial activity is concentrated in particular places.

Telecommunications may have shrunk space, enabling physically isolated places to host offshore financial activity, but only certain places have been successful in attracting such activity. The question is: why these places and not others? In what ways do the characteristics of these places matter?

I tackled these issues in interviews with practitioners of offshore finance, trying to find out whether they felt that place mattered, and if so, in what way. Many interviewees did note that developments in telecommunications and computing technology had shrunk space, making many places potential sites for offshore financial activity. The Governor of the Central Bank of the Bahamas commented that:

“We certainly know that the globalization of financial markets could not have taken place unless there was this huge quantum leap in telecommunications. The OFCs have piggy-backed this development because it’s literally possible to take a computer and sit on the beach and conduct massive financial transactions as though you were sitting in an office in London. It brought, in terms of technology, the offshore company onshore” (Smith, Bahamas).

Another interviewee, realizing the somewhat fictional nature of offshore finance, but also appreciating the importance of “somewhere”, argued that:

“banking is basically, what’s called in economics, a footloose industry ... You’re dealing with computers now and hi-tech, and you can transact business, and book it and deal it, somewhere that doesn’t put reserve requirements on it. If you’ve got a corporation in New York and a bank in Chicago or whatever, nobody ever needs to be in the Caymans. It’s just a computer entry. I mean it’s a little bit of a fiction” (Simons, USA).

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Other interviewees felt that place was still important, because of differences between local regulatory environments, for example as regards political stability, and because of clients' perceptions that place and the politics of a place matters. I approached this issue with my interviewees by asking them if country risk, and perceptions of a place's level of political stability were important in affecting clients' decisions about which OFC to use. Some interviewees, often citing the example of Panama and the exodus of funds from Panama following Noriega's arrest in 1989, felt that place was still very important, as illustrated in the following extract:

AH: It's been suggested to me that country risk is not really a relevant factor in offshore finance because the assets are not actually offshore at all and if there were a problem, a hurricane or a coup, none of the assets would be affected.

Bould: I don't agree. Country risk is a big factor. A lot of the banks who want to operate in offshore jurisdictions look at the jurisdiction itself to see how stable it is. They're not going to set up in a jurisdiction which has a lot of political instability. Plus, those people living in areas which have a lot of country risk, where Governments are being removed every day, or every year, they want to get their money out and put it in a stable jurisdiction like the Bahamas. Despite the fact that the money is only really booked here⁴³, you have banks which are physically present, where people actually come down and do banking business. They want that as well. They want to come down to a place where it's warm and friendly, be it the political climate as well as the weather. So I would say that country risk is a point of consideration.

(Bould, Bahamas)

Other interviewees, although agreeing that assets were not really in the Bahamas or Cayman and would not be lost in the event of local political instability did feel that stable places were more attractive as they reduced the risk of clients incurring administrative costs in getting at their assets in the event of problems. Significantly these potential administrative costs relate to the disruption to networks of social relations through which offshore finance works, networks which are grounded in particular places. As one interviewee explained:

⁴³ "Booking" means that for tax and other legal purposes the money is recorded as being in the offshore jurisdiction, even though it may not physically be there. This suggests there is a difference between the "real" space and the "legal" space of the Bahamas and Cayman OFCs. This is a point I shall return to.

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“I think the political stability is something that is promoted for more reasons than just the potential loss of tangible assets in the process of instability. What it says is that the cost of disruption in your administrative programme because of instability is less here. Whether or not those assets are in the Bahamas, if there is civil war or unrest that means that the networking that happens on an international level is broken which means, now I have to sort out my books, sort out the administrative aspects of my trusts etc. So what it says is that you don’t have that added risk here in the Bahamas” (Smart, Bahamas).

The Bahamas and Cayman as distinct places are also important as they provide the access points to the “cyberspace” world of global finance. Differences between such access points are important because access is regulated by laws, laws which refer to real places. In addition the regulatory or legislative environment of OFCs provides a buffer for a client who wishes to be removed from his/her home environment. The following extract illustrates this point:

AH: One thing that’s puzzled me a bit is the fact that low country-risk and political stability is used as a marketing factor by OFCs and is seen as important for a client’s choice of jurisdiction. The reason this puzzles me is because in actual fact all the assets are actually elsewhere anyway.

Nicholas: Yes but it becomes an issue of the concept of fiduciary relationship. Sure, the monies are not physically located here. It is true that the funds are really resident in the US or Switzerland or London, but political stability becomes important in that the access to that money is via the Bahamas or Cayman. So while the money is physically elsewhere international law protects the fiduciary relationship between the Bahamian entity and its counterpart in New York whereas if as an individual that individual had the funds in the US he may not necessarily have that same protection. So there is an added intermediary between the client and his funds being onshore in the US. So from that perspective the political stability becomes important because if for example there was mayhem and the government of the day decided that they were going to seize or nationalize the assets of the bank then the unsuspecting client could find himself in a quagmire. He may ultimately be able to claim his funds but with much difficulty so from that perspective it does become an important factor.
(Nicholas, Bahamas)

Other interviewees felt that differences between places and their country risk shouldn’t matter, but that if clients thought that the safety of their assets would be affected by political instability in their chosen OFC then

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place would matter. An international banker in the Bahamas explained that:

“offshore banking means that there are no funds in the Bahamas. All the funds we manage are abroad, not in the Bahamas. So for clients there is no Bahamas country risk. It’s an offshore country risk, a Swiss risk if it is a Swiss bank” (Schmidt, Bahamas).

I then asked if clients care about country risk when they are selecting their offshore jurisdiction. He went on, saying that:

“They don’t know. We have to tell them. They think coming to the Bahamas they have a Bahamas country risk. If the Bahamas, politically, goes under, the only risk is that we, the bank’s furniture and people and building, are at risk. No money is at risk. Book-keeping wise we have double accounting. If we are destroyed by a hurricane we can work tomorrow, normally. There’s nothing lost” (Schmidt, Bahamas).

Bankers I interviewed felt that it was difficult to explain to clients that their money wasn’t really in the OFC, and often it was not worth the effort. One banker remarked that:

“The perception would be that if there’s any political instability it’s going to spill over into banking. In point of fact the money that’s on deposit in the Bahamas isn’t on deposit in the Bahamas at all. It’s on deposit in the Bahamas, but of course we wouldn’t even have the absorptive capacity for the billions of dollars. But you can’t talk reasonably to people who have lot’s of money, they’re very emotional with their money. So you can’t sit down and say, ‘well listen your money is really on deposit with XYZ bank in New York or Zurich’ ” (Cobb, Bahamas).

Although the political stability of a place may not actually affect the safety of the clients’ assets, if the client doesn’t realize this s/he may well attach great importance to the country risk factor. A further conversation I had with a banker hammered home this point:

AH: But if in the client’s mind his money is here, that’s what matters?

Bould: That’s right. He assumes his money is in the Bahamas and he wants to have peace of mind. You know we’ve had people come down who indicate that as the Bahamas is not located in the trouble spots of the world and there’s little threat of

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nuclear war etc. they feel more comfortable having their money here, or having it booked through the Bahamas, or having their operations in the Bahamas.

AH: And if they have that opinion there's no point ...

Bould: Yes, that's right.

(Bould, Bahamas)

So, local political stability is used as a selling point by competing offshore jurisdictions. As a US-based banker explained:

“If you're a depositor [country risk rating] shouldn't matter. If you look at the global system and the structure of banks it shouldn't matter. On the other hand if a country is considered to be better in terms of risk, both political and financial, than another country, the tendency is that they will use that to market their particular centre as being better than somebody else's” (Brooke, USA).

I asked bankers whether promoting a place as politically stable might actually sway a client's decision in choosing a jurisdiction, to which a Bahamas-based banker responded:

“Well, a client's perceptions become reality. You can do a certain amount of changing the client's perceptions but a lot of the time it's better to roll with it and set him up with something that does make him happy. There's any number of ways to skin a cat. You can try to explain that the Bahamas is not unstable. A few weeks ago I was in Mexico and this feisty Mexican lawyer says to me ‘but the Bahamas is unstable.’ I thought, well look at you, a fucking Mexican telling me that the Bahamas is unstable. [laughs] So someone like that it's just not worth arguing with. In that case you'd say, OK, we'll set it up in this way then” (Williams, Bahamas).

If the client perceives the place to be stable and safe for her/his assets, bankers in the Bahamas or Cayman will often not bother explaining that the assets are actually elsewhere. As an ex-Central Banker of the Bahamas spelled out:

“nobody wants to put their money in a place which they think is politically unstable, although in point of fact their money wouldn't be affected by it but this is perception. As one philosophy professor said, perception some times does become reality” (Cobb, Bahamas).

Such conversations suggested that, contra the end of geography thesis, place does matter in international and offshore finance: place matters in terms of regulatory environment; places matter as nodes in networks of social relations; places matter as different access points to the global financial system; and, place matters in terms of the perceived level of local political stability. Places for offshore finance are not fictional and incidental. However there is something more interesting about the importance of place in processes of financial globalization and the development of the Bahamas and Cayman OFCs. The importance of the places comes not from their spatial location but from their position in the regulatory landscape of international finance, a landscape which is constructed through regulatory practices which are re-worked in particular places. The importance of the Bahamas and Cayman OFCs appears to come primarily from their “legal” space, rather than their physical space. Put another way, what matters is what the places are rather than where they are: in some ways the meaning, the importance, the value of place, is deferred or displaced. There is a certain resonance here with Harvey’s account of the development of fictitious capitals which are divorced from the productive sphere (Harvey, 1982, pp.266-270). Perhaps OFCs are “fictitious spaces” in a similar way? This is an idea I shall return to in chapter 7.

4.3. WHY CONSTRUCT A PLACE FOR OFFSHORE FINANCE?

Why then, are some places constructed as places for offshore finance? This is an important question; addressing it may help us to avoid a functionalist trap in explaining the development of the Bahamas and Cayman OFCs. One opening into this question is to consider what an offshore financial centre is. As Aliber suggests: “in any consideration of offshore [finance] ... one is immediately confronted by semantics” (Aliber, 1979, p.19). The problems of defining “off-shore” stem from the fact that it is a relative term. The “off” part is pretty obvious, referring to the separation of, and the differences between, onshore and offshore. As Aliber explains: “the necessary condition for the development of an offshore market ... is that a particular transaction is less extensively regulated there than ... in a domestic market” (Aliber, 1980, p.512). However, the “shore” part begs the question: “which shore?” One person’s offshore is another’s onshore, such that London is offshore to an American but not to a Briton. This focuses attention on the fact that OFCs are somehow removed from the client’s home country (Central Bank of the Bahamas, 1988), but it also reduces the term’s explanatory value as it makes everywhere off-some-shore. A different

approach to “offshore” starts, not from the client’s perspective, but from the offshore centre itself. Thus, the Bahamas is not an OFC simply because it is off-the-shore of the USA, rather it is an OFC because its facilities are employed by non-domestic corporations and individuals, based off-the-shore of the Bahamas. This idea of “offshore” focuses attention on the actions of the OFCs themselves rather than seeing them as simply reactive to onshore developments. These two aspects of “offshoreness” - being removed from the onshore, and being concerned with non-domestic banking - suggest two sets of answers to the question of why some places are constructed for offshore finance: external factors and internal factors. The development of OFCs may be stimulated by external factors but the development of particular OFCs depends upon the combination of internal and external factors. The development of the Bahamas and Cayman OFCs may be seen as a result of the combination of internal and external factors in particular places. As a banker in London commented: “there are two aspects to consider in the creation of OFCs. Firstly the perception of an opportunity, for example by The Bahamas, and secondly the imposition of regulations in the USA” (Gilling, London).

4.3.1. MICROSTATES’ DEVELOPMENT: LIMITATIONS, OPTIONS AND AIMS

One set of reasons for the development of some places as offshore financial centres is provided by the host countries themselves, their limited development options, and local perceptions of offshore finance as a development opportunity. Many OFCs are located in microstates and many microstates have attempted to develop as OFCs.⁴⁴ In Roberts’ list of 43 OFCs there are at least 32 microstates, including: Cayman, the Bahamas, Anguilla and Barbados in the Caribbean; Jersey, Andorra and San Marino in Europe; Bahrain and Cyprus in the Middle East; and Singapore, Vanuatu and the Cook Islands in East Asia and the Pacific (Roberts, 1992). The basic characteristic of microstates is, unsurprisingly, that they are small: often both in terms of land area and population. This smallness imposes constraints on their options for development (Connell, 1988). Their small population often means that the range of skills available in the local labour market, the size of the local market for products and services, and the availability of local investment capital, are limited. Their small economies and limited resource bases mean that most microstates rely on a narrow range of

⁴⁴ Almost all microstates have populations of less than 1 million with many having less than 100000, and small land areas. Most microstates are either small islands or landlocked countries perched on the border between two larger countries.

products, cannot gain economies of scale, and are heavily reliant on imports to increase their levels of consumption. In summary, microstates are extremely open to, and dependent on, external events, actors and investment.

Baldacchino suggests that microstates are treated as anomalous or deviant, and have been neglected by mainstream development theory with its focus on industrialization (Baldacchino, 1993). He describes the strategies of microstates as “pseudo-development”, arguing that they adopt a rentier development strategy of insertion into the world economy. For microstates “economic development is a problem of management - of timing, sequencing, and manipulating in an unending effort to perceive or create, and in any case to exploit, a multiplicity of little openings and opportunities” (Best, 1971, p.30 - cited in Baldacchino, 1993, p.37). For Abbott and Palan such behaviour is parasitical (Abbott and Palan, 1995), but in my view it is not so different from the behaviour of most states in a globalizing economy.

Many microstates, realizing the difficulty of achieving development through industrialization, have adopted other strategies such as tourism, the hosting of export-processing and assembly activity, and the development of OFCs. Such strategies are less limited by the size of microstates and their smallness can even be an advantage. Formal sovereignty in the international system is held by all states, micro or not, and is a resource which microstates have put to use and defended strongly.⁴⁵ The smallness and nature of microstates’ economies, lacking internal linkages, can also mean that “there is little difficulty in designing a set of tax advantages which not only do not weaken the domestic tax base but actually widen it beyond what the local economy itself could achieve” (Dommen and Hein, 1985, p.12).

So, offshore finance would seem to offer an opportunity for microstates to increase the living standards of their populations. McKee reminds us however that “from the point of view of a potential host country, some hard questions need to be asked concerning both the feasibility and the advisability of encouraging offshore banking activities. For Third World nations, perhaps the most important question is whether or not the industry can be used as a vehicle for development” (McKee, 1988, p.78). There has been some work on the costs and benefits of hosting an OFC, beginning with McCarthy’s study in which he makes an important

⁴⁵ In a similar vein Krasner refers to the preference of small states for non-market allocation, and the power of the apparently powerless (Krasner, 1985).

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distinction between booking centres which provide merely postal addresses, and more functional centres which host countries might expect to deliver more benefits (McCarthy, 1979). In a recent case study of Jersey's development, which assesses whether offshore financial development is "fool's gold" or a "treasure island", Hampton provides a comprehensive list of potential costs and benefits (Hampton, 1994). Hampton outlines the direct costs as the provision of: telecommunications and related infrastructure; regulation and supervisory activities; and education and training. Indirect costs can include: a loss of control over monetary policy; tax evasion by residents; the penetration of the local banking sector by foreign banks; increased pressure on resources; links to international crime; and costs to other countries by facilitating capital flight. On the benefits side there can be: increased government revenues; local investment and expenditure by foreign financial firms; and increased employment opportunities. Potential indirect benefits include: the provision of a low or no-tax regime for residents; a more efficient local financial system through increased competition; improved access to international capital markets; training opportunities for local staff; linkages and spin-offs to other sectors of the economy; and the internationalization of the local economy.

The aims of the OFCs in pursuing offshore financial development are generally rather vague, amounting to nothing more precise than providing employment, raising revenues, and improving standards of living. The broad development aims of The Cayman Islands Government are clearly stated in the Economic Development Plan of 1986. The stated aims include: preserving and protecting the stability upon which the country's role as a major financial centre depends; preserving the environment; diversifying the economy and providing more work opportunities for Caymanians; developing and training Caymanians to fill as many current or anticipated posts as possible; continuing to improve the standard of living of Caymanians; and, preserving the Caymanian way of life as far as possible (The Cayman Islands Government, 1986). The compatibility of these various aims is open to question, a question addressed in part by my assessment of the costs and benefits of development in section 4.6.

Countries have varying characteristics - in terms of resources, population levels, and economic structures for instance - and thus have different development aims, different views of what 'development' is and how it should be measured, and different criteria of 'success'. A Cayman interviewee suggested that whereas the amount of employment

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generated by the OFC may be most important for the Bahamas with a population of 270000, for Cayman, with 30000 people in near-full employment, job-creation is less important. This allowed her to claim that although Cayman's offshore financial sector may provide less employment this does not mean that the Bahamas is more successful: rather, she saw the Bahamas as differently successful (Fry, Cayman).

The Bahamas and Cayman both adopted offshore finance as a development strategy, in the context of limited options, through a combination of luck and skilful planning. Cayman had earlier relied on remittances from its sea-faring men, but with changes in shipping technology such employment possibilities were reduced. Cayman needed a different source of income, the Bahamas too. An interviewee commented that "the Bahamas lacked the traditional resources for development, and so we were driven, almost, to find other innovative means of developing our economy, and the natural inclination was services" (Smith, Bahamas). In both countries the selection of offshore finance as a development strategy was by default, followed by deliberate planning. Governments in both countries stumbled upon offshore finance as a result of limited options, and events beyond their control which created the demand for places for offshore finance.

4.3.2. THE DEMAND FOR OFFSHORE FINANCIAL CENTRES

The demand for offshore financial centres provides the second set of answers as to why some places were constructed for offshore finance. Sir Lynden Pindling recalled:

"I think we almost stumbled onto [offshore finance]. In the 1960s the US had something called an Interest Equalization Tax which was giving them [US banks] problems, and at the same time there was the rise of the Eurodollar. Those two factors combined to create the need, in the minds of American businessmen, that they needed a western hemisphere offshore place where some of those Eurodollars can be utilized for other investments overseas and they can make some arrangements whereby they can counterbalance the Interest Equalization Tax in the US. I think that started the growth of the use of the Bahamas as an offshore financial centre" (Pindling, Bahamas).

So, what is it that the purchasers of offshore financial services are looking for, and in what ways do the OFCs' products fulfil these needs? My research uncovered a variety of features that the buyers of offshore financial services are looking for (or rather that governments and banks

think their clients want), features that can usefully be grouped under two headings, profitability and safety. Buyers are looking for greater profitability and/or safety than they could obtain in other markets, and thus the attractiveness of the service offered by an OFC varies, depending on the services offered in competing jurisdictions, as well as on the nature of the OFC's own products.

In terms of profitability, lower taxes are the most important factor. A variety of taxes can be avoided by conducting business in or through an OFC, the particular taxes avoided depending upon the nature of the business. A further feature of offshore finance which is a tax-issue from the banks' viewpoint, is the absence of reserve requirements. In places where there are reserve requirements, banks are limited as regards the proportion of deposits that they can re-lend, and thus their opportunity to make profits is curtailed. The absence of reserve requirements allows banks in OFCs to increase their profits, and perhaps pass a share of this gain on to customers in the form of more favourable interest rates. The avoidance of interest rate ceilings, as imposed in the USA in the 1960s, is a further profitability feature of OFCs that banks may choose to utilize.⁴⁶ The use of OFCs also provides access to markets that are otherwise inaccessible. For instance, US citizens may be able to invest in non-SEC (Securities and Exchange Commission) registered Mutual Funds.

Safety and security are the other features that buyers of offshore financial services are looking for. These may relate to a variety of forms of risk: economic and political instability, inflation, war, or nationalization and confiscation of assets. The OFC customer chooses to conduct business "in what he perceives to be a politically, economically, safe and secure location" (Simpson, Cayman). By purchasing offshore financial services customers feel they are gaining stability and reducing uncertainty. One interviewee referred to the safety motive as safety from prying eyes, suggesting that "the OFC deals with people who are trying to conceal, and I hope that that doesn't give a bad connotation, but to keep their money away from public eyes and private, and that's the reason it is here" (Manley, Bahamas).

The balance of profitability/safety requirements depends upon the particular transaction and customer. Whereas costs and profitability were the prime concern in the 1960s and 1970s, in later years it is safety and security that the average buyer of offshore financial services is looking

⁴⁶ Restrictions imposed in the USA in the 1960s are discussed further in section 6.2.

for. Political stability and secrecy have become more important buying/selling points than low levels of regulation and taxation. Such a shift in priorities is shaped in part by developments onshore and the resultant shift in comparative advantage enjoyed by the OFCs, as I will show be in chapter 6. OFCs respond to the needs of their clients, the banks and individuals, with the offshore banks responding in turn to their clients. In an era of private banking for high-net-worth individuals (HNWIs), banks are increasingly driven by the demands of their powerful clients. Such a client-driven situation makes the development of an attractive regulatory environment crucial to the success of offshore banks and their host OFCs. However, before considering how places are constructed for offshore finance we will address the question: “who constructs a place for offshore finance?”

4.4. WHO CONSTRUCTS A PLACE FOR OFFSHORE FINANCE?

4.4.1. LOCALITIES AS AGENTS?

In the late 1980s the locality studies debate exercised many geographers, providing a focus for various methodological questions: what is a locality?; are localities a suitable scale for research?; does a focus on localities necessarily lead to the production of descriptive narratives rather than theoretical analyses? (Smith, 1987; Cooke, 1989; Duncan and Savage, 1989; Cox and Mair, 1989; Warde, 1989; Massey, 1991b; Sayer, 1991). An important aspect of the locality debate was to consider what a locality is and whether it makes sense to speak of localities as actors. Geographers who speak of places or localities as actors leave themselves open to the charge of spatial fetishism, of reifying an entity and endowing it with agency. However, to say that a place acts - in the same way as speaking of the working class, the third world, the rural, women, or any other social or spatial grouping - is a convenient shorthand; the problem is to unpack the label and explain what the shorthand means.⁴⁷

In response to the charges of spatial fetishism made by Duncan and Savage (Duncan and Savage, 1989), Cox and Mair attempted, successfully in my view, to justify their shorthand of places as actors (Cox and Mair, 1991; see also Paasi, 1986 and 1991). Their argument proceeds in two stages, from localised social structures to localities as

⁴⁷ Harvey makes exactly this point, in relation to the charge of “spatial fetishism”, saying that “the problem still arises as to *how and when it is useful* to consider antagonisms between spatial categories ... as important attributes of capitalism” (Harvey, 1982, pp.337/338, footnote 4, my emphasis).

agents. Firstly, introducing the idea of scale divisions of labour, Cox and Mair argue that a locality is a set of social relations at a particular spatial scale. Social relations tend to be localized due to: a tendency for certain activities to be constrained to local-scale territories; a tendency to immobility; and, a wider geographical instability. If social relations or structures are localized, Cox and Mair argue that it makes sense, for instance, to talk about “the Bahamas’ economy”, “Cayman’s politics”, or “Columbus’ race relations”.

The second stage of their argument, which relies on the first (locality as localized social structure) but does not necessarily follow from it, is to see localities as agents. They explain that it only makes sense to speak of locality-as-agent if, through local mobilization, the localized social relations create emergent powers which are greater than the sum of the local parts.⁴⁸ If local alliances produce a cooperative and harmonious business environment that couldn’t be created by the public or private sectors acting alone, and this relationship fosters a unified local development strategy, it makes sense to say that localities act. One could always choose to talk about the actions of individuals instead but the emergence of local powers does make locality as agent a sensible shorthand. Cox and Mair further explain that the local state may use the idea of the locality as a way to suggest and build a local unity of purpose, often by invoking traditional rivals to stir the passions.⁴⁹

In summary, Cox and Mair make the sensible argument that “if people interpret localised social structures in explicitly territorial terms, come to view their interests and identities as ‘local’, and then act upon that view by mobilising locally defined organisation to further their interests in a manner that would not be possible were they to act separately, then it seems eminently reasonable to talk about ‘locality as agent’ ” (Cox and Mair, 1991, p.198). This suggests an important task for the researcher employing a local focus; before adopting the shorthand of places as actors we must look at local social relations and see whether there are any locally emergent powers to assess whether the locality can reasonably be seen as an agent.

⁴⁸ Similarly it makes sense to speak of “water” rather than “two atoms of hydrogen and one of oxygen”, because water has properties which hydrogen and oxygen do not. It is wet for instance!

⁴⁹ As I will discuss in chapter 5 The Bahamas and Cayman Governments both employ this strategy, using each other as the traditional rival.

4.4.2. THE BAHAMAS AND CAYMAN AS AGENTS?

4.4.2.1. Localized social relations?

The fact that the Bahamas and Cayman are island microstates might suggest that social relations are necessarily localized, and to a large extent they are. Although people in the Bahamas and Cayman are involved in networks of social relations which span the globe, with particularly strong links to the US and the UK (particularly for Cayman), their primary social arenas are the territories of the Bahamas and Cayman. In my research I began to tackle the question of how coherent the places are as hosts for offshore financial activity by asking interviewees about local attitudes to the offshore sector. If there was widespread local opposition to the offshore sector it would make little sense to speak of the Bahamas or Cayman as semi-coherent localities.

Local attitudes to the offshore financial sector are crucial. If the electorate are unhappy with the strategy and results of offshore financial development the political stability which is so important to the OFCs' success will be threatened. As the Cayman Islands Bankers Association recognizes, Cayman "is a micro-state of only a few thousand people - almost half of them foreigners. It would not do for only the banks to prosper; an attitude of that sort would soon prove self-destructive" (CIBA Guide, 1989). Similarly, Johns comments that "it is essential that ... the offshore sector complement and harmonize with the other constituent parts of their indigenous industrial superstructures if incipient nationalist feelings are not to be awakened" (Johns, 1983, p.53).

Tensions between locals and expatriates are the clearest signs of local unease with offshore finance. One interviewee suggested that offshore finance is "seen by a lot of Bahamians as a world apart, something which they are quite happy to support but they really don't see themselves as being an integral part" (Peterson, Bahamas). Such views go some way to explaining the ambivalence of Bahamians and Caymanians to offshore financial development, and the interesting mix of general support for the offshore sector and specific opposition to the expatriates' shares of the benefits.

"On the one hand there are many [Caymanians] that are extremely happy and promote offshore development. They see it as the right way to go, this is the only thing that we have to offer, and we've got to let it grow. There are those on the other hand who are extremely nationalistic and I think in many cases jealous over what

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they see happening. Like it or not there are expats who come in here and make a lot of money. Some segments of the country are extremely jealous of that and believe, whether that's right or wrong, that really that wealth should be for them, and that Caymanians are being kept back from enjoying that wealth" (Hanson, Cayman).

Ambivalence towards offshore finance is also explained by the fact that many of the benefits are indirect with few locals directly employed in the offshore financial sector. Any opposition to offshore financial development is focused upon the employment practices of banks and the related immigration policies of the Government.

"As a conceptual matter I think almost without exception everyone in the Cayman Islands who is Caymanian or long term resident is supportive of the financial industry and keen to see it develop because they can appreciate very easily what it does for Cayman in terms of economic benefit and spin-offs. However, on a more specific level those people can disagree with the immigration policies that are in place, and as they relate to the offshore financial industry, and that's where the friction is" (Dean, Cayman).

So, there tends to be general support for offshore finance in recognition of the limited options open to the Bahamas and Cayman. Support may be more universal in Cayman than the Bahamas because of the narrower tourism/finance basis of the Cayman economy. Although there is limited opposition to the distribution of benefits from the offshore financial sector in both the Bahamas and Cayman, there is little, if any, opposition to the offshore sector itself. Thus there is a strong sense of local unity in pursuing development as an offshore financial centre.

A further step in assessing whether it makes sense to speak of the Bahamas and Cayman as actors is to consider local politics. If the existence of the offshore sector were a divisive political issue, with, say, an opposition party strongly against such development, it would make little sense to see a territory as a coherent active locality. Politics in the Bahamas and Cayman is especially important as it may be expected to have a major impact on their success as places for offshore finance; local politics is part of the regulatory construction of place.

The Bahamian political system is based on that of its former British colonial masters. The Governor-General represents, and is appointed by, the UK's monarch on the advice of the Bahamas' Prime Minister. The Prime Minister and his/her cabinet form the executive branch of

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government. The House of Assembly is the lower house of Parliament with members elected every five years. The Senators of the upper house are appointed by the Governor General at the recommendation of the Prime Minister and, to a lesser extent, the Leader of the Opposition.

The “Bay Street Boys”, a merchant-based white Bahamian elite named after the main street in Nassau, maintained a strong grip on power until the 1960s. In 1956 they organized themselves politically into the United Bahamian Party (UBP), three years after the formation of their rival Progressive Liberal Party (PLP). In the 1960s the predominantly black and pro-independence PLP gained strength and support, eventually coming to power in the closely fought 1967 and 1968 elections under the leadership of Lynden Pindling. The 1962 election had been the first to be contested under universal adult suffrage. Internal self-government was achieved in 1964; the PLP led The Bahamas to Independence in 1973; and held on to power until they were replaced in Government by the Free National Movement (FNM) in 1992. The FNM had been formed in 1971 from the remnants of the Bay Street Boys’ UBP and the “Free-PLP” splinter group.

The Cayman Islands have been a British Colony or Dependent Territory since the 17th Century. Until 1959 they were governed from Jamaica, itself a British Colony, after which point they were governed separately as Jamaica prepared for independence in 1962 while Cayman opted to remain a British Colony. This decision is seen as crucial in the development of the Cayman OFC, and a situation that very few Caymanians wish to see changed. A formal constitution was introduced in 1972. Under the constitution the Governor of The Cayman Islands is appointed by the UK’s monarch with the advice of the Foreign and Commonwealth Office. The Governor appoints three official members of the local Legislative Assembly: the Chief Secretary; the Financial Secretary; and the Attorney General. Twelve other members of the Legislative Assembly are elected on a four-yearly basis.⁵⁰ The Cabinet-like Executive Council or EXCO consists of the official members and four of the elected members with the Governor presiding. The Governor is obliged to consult EXCO in running the country. There are no formal political parties; rather elections are contested by independents grouped into relatively fluid teams.

⁵⁰ From 1992 the mix in the Legislative Assembly was modified to 4 official members and 15 elected members.

Local politics are particularly interesting because although political factors - the political stance of the Government, and the prospects for political stability - are seen as important by competing jurisdictions, offshore finance is seen as largely apolitical in the OFCs themselves. Interestingly, this view of offshore finance is mirrored by the “global strategic vision” which sees the world as an apolitical playing field for business (Roberts, 1997). One could argue that politics is seen as unimportant because the close involvement of the Bahamas and Cayman in processes of financial globalization severely constrains their room for political manoeuvre; the Bahamas and Cayman are disciplined by the markets. The feeling that politics matters was however clearly expressed by an international financier: “whatever the picture may be at the time that you paint it, it is ultimately the political authority of the country concerned which is in a position either to maintain or to change out of recognition the existing scenario” (quoted in McKee, 1988, p.80). Perhaps one reason why local political developments are seemingly unimportant in the Bahamas is that the PLP was the ruling party, with Pindling as its leader, from 1967 to 1992, and so “internal” politics have been quite stable. The PLP is liberal, the FNM is conservative, and there is no relevant difference as far as offshore finance is concerned (Jennings, Bahamas). That said, “internal” events such as the transition from white-rule to black-rule, the gaining of independence in 1973, and associated uncertainty are very important episodes in the development of the Bahamas’ and Cayman OFCs, and their relations with the USA.⁵¹ One interviewee warned me against the tendency to put a political interpretation on everything, while another clearly stated that offshore finance was not a local political issue:

AH: Do you think there has been much politicization of offshore financial development here? Has there been much difference between the PLP and the FNM?

Pindling: No.

AH: It’s not used as a political issue then?

Pindling: No, it’s never been.

AH: In the other direction, do you think offshore development is affected by local political events and changes?

⁵¹ Such episodes will be explored in detail in chapters 5 and 6.

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Pindling: I don't think it has been.

(Pindling, Bahamas)

However, there is some politicization of offshore financial activity, particularly as it relates to the distribution of benefits: the employment of Bahamians, and the contribution of banks to the local economy. One interviewee recalled that:

“Under the previous [PLP] Government I would read articles in the newspaper from time to time that seemed to be politically motivated, which seemed to be saying: a) there were too many expatriates and it wasn't good for the country; and b) more importantly that the offshore sector was simply using the Bahamas in order to make huge amounts of profits, putting nothing back, and sending the profits abroad, and that this was a bad thing” (Williamson, Bahamas).

An important example of the impact of local politics and politicians on the development of the Bahamas is Prime Minister Pindling's (in)famous “Bend or Break” speech of 1969 in which he moved to intervene in the development of Freeport by international business.⁵² As a former member of the UBP told me:

“The Prime Minister made a speech in which he said that in this dispute Freeport will either bend or break. I think legislation was introduced which had the effect, maybe not directly, of shearing some of the wool from off the sheep. That startled the international banking and investment community in the Bahamas, because they said: ‘oh my God, it's just another one of these little former colonial territories flexing their muscles and going the way of an African country or a South American banana republic.’ A lot of business left the Bahamas. I know very well because we were at a peak then. The Bahamas was so busy the lawyers couldn't keep up with it and so on. I would have clients coming to me in those years saying: ‘I'm worried about what's happening here, do you think I should move to Cayman?’ Now that's a difficult question. I said that the very fact that you've asked the question is evidence that you should go. I couldn't say what was going to happen in the Bahamas. I didn't think it was going to be serious but ... (Dixon, Bahamas).

Once again the importance of ‘domestic’ politics is clearer in relation to the international business community and competing jurisdictions, a

⁵² The Freeport project was an effort to develop a second concentration of industry and employment in the Bahamas, based initially on tax breaks for international investors.

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point which Cox and Mair refer to as the paradox of local politics (Cox and Mair, 1991). There was some uncertainty in the international financial community around the time of Bahamian independence, and also when Prime Minister Pindling occasionally made calls for greater contributions from the offshore sector towards the local social and cultural infrastructure. However, such calls were defended: “the Government has a larger responsibility to the electorate” as one interviewee put it to me. Another interviewee made the following defence of Pindling’s calls for contributions:

AH: So what about Pindling’s calls in the late 1980s for the banks to make more contributions, and the banks being upset at this?

Smith: Neither then or now are the banks contributing anywhere near what other similar institutions do. I think that in the UK Barclays or NatWest contribute 1/4 or 1/2 % of their profits towards charities. The total banking system would never approach that here. So I think it was a legitimate call then and it will probably be another call now. I think any Government seeing a large sector like that, and then you compare it to say tourism which does much more ... I think a politician has a right to look around and decide whether or not any sector is contributing or carrying its full weight, and they ought to comment on it. It’s their job.

(Smith, Bahamas)

If offshore finance is largely seen as apolitical in the Bahamas, this is nothing as compared to the political invisibility of offshore finance in Cayman. In Cayman there are no political parties, rather there are flexible “Teams” of individuals. There is little variation in attitudes to offshore finance, partly in recognition of its importance to the local economy, and almost no momentum towards political change. For instance, in the 1992 General Election there were more than 30 candidates and not one of them called for Independence from Britain (Cayman interviews).⁵³ There is some discussion of staffing and immigration issues but opposition to offshore financial development is never expressed by people with any political influence: “they wouldn’t dare”, as one interviewee put it; they are politically constrained by their dependence on processes of financial globalization. Politics, for Cayman, is the “grubby business” that takes place in the Bahamas.⁵⁴ The

⁵³ Interestingly another British OFC, Bermuda, held a referendum on Independence in August 1995, resulting in a “No” vote of 74%, a vote explained by the need to maintain (an image of) stability to attract offshore financial business.

⁵⁴ The Bahamas is the “Other” for many in Cayman - that which defines Cayman through contrast.

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apparent absence of politics contributes to the idea that Cayman is a changeless and stable place for offshore financial activity.

4.4.2.2. Emergent local powers?: Government-Offshore sector relations

Local politics are certainly important in the development of the Bahamas and Cayman as places for offshore finance. However, we have yet to see much evidence of the emergent local powers which would make “locality-as-agent” a sensible shorthand. Are there any local social relations which mobilize people on a local scale and create emergent powers?

Politics with a small “p” seems important in this regard. By “small-p-politics” I mean the relationships between the offshore financial sectors and their local Government. Such relationships provide a clear example of the importance of institutions and social relationships in the development of nodes in the international financial system (Amin and Thrift, 1992), and the role of such institutions in local mobilization and the emergence of local powers. The quality of relationship between the government and the offshore financial sector is an important factor in the success of the Bahamas and Cayman OFCs. A better relationship gives the locality more power to act and to compete with other localities to host offshore financial activity. In Amin and Thrift’s terms institutional thickness fosters the emergence of local powers, powers that may enable a locality to successfully position itself in the network or regulatory landscape of international finance, and “hold down the global” (Amin and Thrift, 1994).

In the Bahamas, many interviewees noted that the relationship between the Government and the offshore sector is symbiotic; “we need them, and they need us” as a banker suggested. Another interviewee remarked that:

“The Government is absolutely aware that a lot of the better paid Bahamians are that simply because of the financial sector, and if that disappeared, which it could do very easily - it would be very easy to move it all to Cayman or the Isle of Man or wherever - the Bahamas would suffer very badly in term of economic contribution” (Jennings, Bahamas).

The Association of International Banks and Trust Companies (AIBT), set up in the early 1970s to give the offshore banks and trusts a voice,

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remains the main channel for Government-Offshore Sector contact. The function of the AIBT is to lobby for changes of legislation, and to promote the Bahamas as an OFC. The role of the AIBT in Government-Offshore sector relations was summarized by one knowledgeable interviewee thus:

“Certainly in my experience, when I was Governor of the Central Bank, what we have is really a constant dialogue, much like the Bank of England has with the financial sector in London. There is an organized group called the AIBT, and what they do from time to time is endeavour to sensitise a government, either directly to the Minister of Finance, or through the Central Bank, as to what adjustments may be necessary to law in order to keep the Bahamas competitive with other places” (Cobb, Bahamas).

The AIBT has also played a key role in the development of a code of conduct for offshore banks in the Bahamas, a move which aims to improve their reputation and competitive position. The importance of informal contacts was also emphasized, contacts which are particularly strong as many Ministers have previously moved in legal and banking circles. Players in the offshore sector are in close social and spatial proximity, and are tightly embedded in social and cultural networks which may foster the development of trust.⁵⁵ The quality of the relationship between the Government and the offshore sector in the Bahamas was described as good: “they listen, we listen, and it has a good impact on the laws we have in the Bahamas” (Schmidt, Bahamas). A Central Banker illustrated the quality of relations, recounting that:

“The government is very accommodating and tries very hard to respond to their legitimate needs by passing enabling legislation, or intervening on their behalf, for example in influencing BATELCO [The Bahamas Telecommunications Corporation]. An example is the banks coming to see me to ask about a business companies act a few years ago. I told them to go to see the Minister of Finance, Pindling. They were somewhat reluctant but I said, ‘I think he will receive you because it’s in his interest’. The head of the AIBT went and they met and he said, ‘sure we’ll help’, and through the legal department they hired an expert who went

⁵⁵ The importance of embeddedness and social and cultural relations is an important theme of the new economic geography which draws heavily on economic sociology (See Granovetter, 1985; Swedberg et al. 1990; Lorenz, 1992; Smelser and Swedberg, 1994; Amin and Thrift, 1995; Storper, 1995)

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and researched the laws in these areas and handed it back, and then the legal department drafted a version of it, and there we were”⁵⁶ (Smith, Bahamas).

However, a helpful and cooperative relationship between the offshore sector and the Government was seen as a relatively new phenomenon. Much of the blame for previously poor relations was directed towards individuals, including Prime Minister Pindling, and some-time Immigration Minister Hanna. One interviewee complained that:

“The Prime Minister, Pindling, demonstrated a sulky, belligerent, hectoring attitude towards the financial sector of the community. Things like his speech calling for more contributions, and sticking up the bank license fees to \$100000 a year for the commercial banks. And the tone - the sort of sulky, pouting tone with which he addressed them and so on - that really was very bad” (Dixon, Bahamas).

Many interviewees felt that the relationship between the offshore sector and the Government had been one of ‘mutual suspicion’. Relations were ‘tense’, ‘confrontational’ and ‘antagonistic’ until the late 1980s, when Prime Minister Pindling was credited with turning things around, having been blamed for many of the previous problems (Bahamas interviews). As one interviewee commented:

Young: The Government, or more correctly, the Central Bank of the time ... Really they were two poles, both on their high horses, the AIBT and the Central Bank, and neither of the two would step down and meet. The AIBT was getting frustrated because we weren’t heading anywhere in terms of development of the OFC. Hence, they lobbied directly to the Prime Minister, Pindling, and he was then the one who said, we will create a new entity [Financial Services Secretariat] which will be the direct liaison between you, and that can also act as a sounding board for the Central Bank. It was foreshadowed in 1989, and created in 1990.

AH: So do you think that relations between the financial sector and the government or the Central Bank were problematic before that then?

Young: I think they were. Not insurmountably so, it’s just that neither seemed to be listening. Both were talking but neither was listening. The other aspect to it, from the banks’ position, was that the legislation was not being kept abreast of the other jurisdictions to be competitive, and so we and they were losing ground.

⁵⁶ The International Business Companies Act, a key piece of legislation in the recent development of the Bahamas OFC, was passed in 1989.

(Young, Bahamas)

The importance of developing a good relationship between Government and the private sector was clearly expressed by Prime Minister Pindling in a comment about the new Financial Services Secretariat: “It is my hope that the unit would eventually function as a joint public and private sector operation geared towards the active promotion of the Bahamas as a financial centre of the highest order” (Bahamas Handbook, 1991, p.146).

Thus in the Bahamas, although relations between the Government and the offshore sector, with the Central Bank in an intermediary position, are felt to be good now, particularly after the change of Government in 1992, memories of problems in the past are fresh and are felt to have damaged the offshore sector’s competitive position and development in the 1980s.

In Cayman there were very few complaints from the offshore sector about the Government: relations were felt to be good, and almost without exception to have always been so.⁵⁷ There is little, if any, policy change with changes in Government as “everybody recognizes the value of the offshore business here and I don’t think any politician would rock the boat” (Howe, Cayman). One prominent banker explained:

“We have a close working relationship which functions well. We really do. I think the reason is that we have common interests. The Government here only has tourism and finance. There’s no rum factories⁵⁸, there’s no light engineering, there’s no industry, nothing. If we lose, if we don’t get the financial industry right we’ve got a real problem - somebody else will, and every week there’s a new emerging centre. You know about the Caribbean ones but there’s Vanuatu, the Maldives, Mauritius, the Marshall Islands. It’s coming up and they want to make some money out of it. So we are pushing ourselves as the premier offshore centre, certainly in this part of the world. It’s a partnership with Government. Obviously Governments work in their own mysterious ways, we don’t know everything that they do, but we do talk to them, and we’re very close with them. I mean it’s a very small island so we know almost what they’re thinking and they know what we want” (Brown, Cayman).

⁵⁷ The one exception to the generally excellent relations between the Government and the offshore sector concerned the negotiations leading to the Narcotics Agreement and the MLAT in the early 1980s, episodes that we will consider in chapter 6.

⁵⁸ This was meant as a contrast with the Bahamas, where Bacardi Rum have their production facilities.

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The small size of Cayman, and the close-knit nature of the offshore financial community makes informal contacts very important in Government-Offshore sector relations, but there are more formal points of contact too. In the 1970s a joint Government-financial sector body called the Financial Community Council (FINCOCO) existed “for the purpose of guiding the Islands in the direction of responsible legislation and administration of the burgeoning financial-services industry” (CIBA Guide, 1989). A Government official recalled:

“special quarterly meeting[s] with the large international banks here, the managers and myself. We used to get together, no notes, nothing. We used to sit down and discuss all interesting things that were taking place in the banking community, and Government, and so we always had co-ordinated that information together so we all knew exactly what was happening at all times” (Davies, Cayman).

More recently, important fora include the Chamber of Commerce, the Bankers Association⁵⁹, and private sector advisory committees. Offshore banks are encouraged as partners in the development of Cayman, a partnership that has been important since the earliest days. The quality of Government-Offshore sector relations is seen as key to the success of Cayman: “one of the strong points about Cayman is that relationship. Mainly driven by size. It’s such a small place that you can talk to people and they will talk to you” (Dean, Cayman). A prominent lawyer argued that:

“one of Cayman’s strengths is that we are such a small community and that if you were sitting here and you felt that you had a problem or needed to make an inquiry you could ring up and go and see someone, unlike in other jurisdictions where they wouldn’t see you. I think it’s a very close-knit group of people and we’re all trying to do the same thing” (Dean, Cayman).

Another interviewee, in response to my question “how would you describe the relationship between the offshore sector and the Government?” proclaimed:

“Excellent, absolutely excellent. To my mind this is one of the reasons for Cayman’s success. Government has always been willing to talk to the private sector, to respond to requests for particular pieces of legislation, even to the extent of having the private sector prepare draft legislation for review by the legal department here.

⁵⁹ The Cayman Islands Bankers Association, as with the Bahamas AIBT, introduced a code of conduct for its members in the late 1980s, a code which focuses attention on the importance of “knowing your customer”.

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Government are aware that they really have two major industries here, tourism and offshore finance. Tourism is perhaps a fickle industry to the extent that one cannot dictate where the tourist spends his dollar. The financial sector is something that Government can do to ensure that a) our price structure remains competitive, and b) that we have, on our statute books, the modern legislation that is required today by corporations looking for a place to avoid payment of taxes” (Carver, Cayman).

The quality of relations between the private offshore sector and relevant government departments play a key role in constructing the Bahamas and Cayman as places for offshore financial activity. The formal and informal contacts between the private and public sectors work to create local emergent powers, powers which can then be employed in the regulatory construction of place. As McGahey et al. comment: “policy makers must understand the new competitive environment in financial services, and fashion their policies accordingly. As the trends in convergence and globalization intensify, competition for markets and jobs will increase. Locations that can provide the most sophisticated, responsive, and stable environment for financial markets and institutions will capture the largest share of employment and economic gains from the industry’s presence and future growth. A coordinated government strategy that reflects these dynamics will be essential for a location to be successful in this competition” (McGahey et al., 1990, p.281).

Steadier and better relations between the Government and the private sector in Cayman have undoubtedly contributed to its success, in contrast to the problems suffered by the Bahamas since the mid-1970s. More cooperative and harmonious relations in Cayman have resulted in a more coherent, more powerful locality, better able to construct itself as a place for offshore finance through regulation, and to position itself in a globalizing economy.⁶⁰ We must now consider the ways in which the Bahamas and Cayman, as semi-coherent localities, have acted to construct themselves as places for offshore finance.

4.5. HOW IS A PLACE CONSTRUCTED FOR OFFSHORE FINANCE?

4.5.1. THE REGULATION OF PLACE AND PLACES OF REGULATION

Offshore finance is not a purely economic activity. As economic sociology since Polanyi, and political economy since Marx, have made clear, markets are always and everywhere embedded institutions, with

⁶⁰ In chapter 5 I will consider the differences between the Bahamas and Cayman in more detail.

social, cultural and political foundations. Offshore finance is no different in this regard. Offshore financial markets are embedded in networks of social and cultural relations, and are shaped by laws and politics. Offshore finance is thus regulated in two ways: firstly in terms of the laws, rules or *réglémentations* which structure offshore finance; and secondly in terms of the habits, conventions and *régulations* which develop within an offshore financial centre (for this distinction, see Jessop, 1995). Rather than being abstract economic nodes, the places of offshore finance are social spaces.

Regulations as both *régulations* and *réglémentations* are inherently geographical. The social and cultural relations which shape offshore financial centres through *régulation* are embedded and practised in particular places; the laws or *réglémentations* which structure offshore financial activity define, and refer to, particular territories. In this way regulation can be seen not simply as a constraint, but as a constructive social practice which plays a key role in the production of space and the construction of places for offshore finance. As Clark has suggested: “in so defining ‘real’ regulation as a set of social practices located in overlapping but not necessarily rationalized contests for power, the claim made is that regulation is a constructive social activity” (Clark, 1992, p.622; see also Dicken, 1992b).

The importance of regulation and the local regulatory environment to offshore financial centres is widely recognised. Paradoxically, the mobility of offshore finance heightens the importance of the local regulatory environment or place. As Bryant argues:

“financial intermediation is more ‘footloose’ than most other economic activities. It can shift locations with less difficulty and without incurring prohibitively large costs. The many innovations in electronic communications and data processing have probably enhanced this differential mobility. Even more than for industry in general, therefore, the scope exists for an individual locality or nation to try to lure financial activity within its borders by imposing less stringent regulation, taxation, and supervision than that prevailing elsewhere. When framing their policies, the governments of the offshore financial centers have been very much aware of this relocation possibility. And, almost surely, a major part of the rapid expansion of banking in most offshore centers is attributable to the differential location incentives created by governmental policies” (Bryant, 1987, p.139).

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One interviewee in Cayman talked of the importance of the local regulatory environment, saying that:

“offshore centres do compete and compete increasingly aggressively in terms of their regulatory environment, in terms of the flexibility and the sophistication of those regulatory environments ... you have to create a better mouse-trap. If you have a regulatory environment that is exactly the same as Luxembourg or the City of London nobody’s going to come here” (Dean, Cayman).

Governments in the Bahamas and Cayman also appreciate the importance of constructing their regulatory environments to attract offshore financial activity, as the Cayman Islands’ Economic Development plan makes clear:

“Unlike certain older established offshore financial centres which have developed naturally because of their proximity to major financial and trading markets, the offshore centre in the Cayman Islands is an artificial creation brought about by the introduction of specific commercial and allied legislation designed to enhance the attractiveness of the Islands’ traditional tax-free status” (CIG, 1986-90 Economic Development Plan, p.101).

My argument is that place matters in offshore finance because regulation matters and regulation is geographical. As Hancher and Moran assert: “*place* matters in determining the nature of regulation” (Hancher and Moran, 1989, p.279). In Painter and Goodwin’s terms, the Bahamas and Cayman are sites of regulation (Painter and Goodwin, 1995). Although the demise of the state has been heralded by many commentators it has been much exaggerated: society is regulated; many important regulations are legal; the state retains a virtual monopoly on law-making. The state still matters. As Hancher and Moran continue: “regulation occurs, it is a truism to observe, in particular places, and therefore place matters. The most important delineation of place is provided by the boundaries of the nation-state. Nations arrange their regulatory spaces in distinctive ways” (Hancher and Moran, 1989, p.283). Although offshore finance is a mobile phantom “the phantom state is always in danger of being trapped by nation states which control territories, and are able to regulate what goes on within them” (Thrift, 1995, p.27). In our rush to analyse the global economy as a set of global processes we ought not to neglect the continuing importance of regulatory differences between places, differences which are in part maintained through states’ sovereignty. As Christopherson has reminded us: “in moving towards

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analytical frameworks which view the world economy in terms of global processes and local outcomes, however, we may have neglected a critical source of the divergence and diversity reflected in the international space economy, that is, national market institutions” (Christopherson, 1993, p.286).

Geographies are regulated and regulatory. *Réglémentations* or laws define particular territories and set the rules of the game within the territory; *régulations* or sets of place-based social practices structure offshore finance through the continual development of rules of the game. Regulation is central to processes of financial globalization; geographies are regulated and regulatory; there is no end of geography. However, regulation, geographies and the relationship between regulation and geography may be reconfigured in processes of financial globalization: in the Bahamas and Cayman, sovereignty - the link between regulation and geography, power and space - may be unbundled.

4.5.2. SOVEREIGNTY: INSIDE/OUTSIDE

The discourse of sovereignty sets up a dichotomy of inside/outside: inside is the domestic arena of politics and community; outside is characterized by anarchy and international relations (Walker, 1993). Relying on a spatial metaphor of inside/outside, sovereignty, as a concept and practice, “looks both ways”. On the one hand territories are defined (externally) through mutual recognition in the inter-state system; on the other, sovereignty allows the state to shape (internally) what goes on within its territory. As Held and McGrew explain: “sovereignty is understood here to mean the political authority within a community which has the undisputed right to determine the framework of rules, regulations and policies within a given territory and to govern accordingly” (Held and McGrew, 1993, p.265). Discourses and practices of sovereignty regulate geographies and give geographies - spatialities of power and social relations - their regulatory powers; discourses of sovereignty mark out territories in space and confer the power to regulate what takes place within them.

Walker and Ruggie have emphasized that sovereignty is not a natural phenomenon. Rather, it is a historically specific ordering principle of international relations (Walker, 1991, 1993; Ruggie, 1993). In medieval Europe power was exercised through the church and non-territorial institutions resulting in overlapping sovereignties. Contemporary globalization may be ushering in a “new medievalism” where power is deterritorialized and sovereignty unbundled (Bull, 1977; Anderson,

1995; Kobrin, 1996).⁶¹ I accept that sovereignty is an historically specific practice or ordering principle and would argue further that one cannot decide a priori whether it has disappeared, whether a new ordering principle has been developed; empirical work is important to see whether, and if so, how, sovereignty remains important to the workings of the international political economy. Through my explorations of the development of the Bahamas and Cayman OFCs I will argue that sovereignty remains important, even though, as I will argue in detail in chapter 7, sovereignty is being “unbundled” (Ruggie, 1993). It is sovereignty which allows the Bahamas and Cayman to position themselves as particular places in the regulatory landscape of international finance, places which articulate the economic and political spaces of capitalism in processes of financial globalization (see also section 2.4.3).

The geography of sovereignty has been neglected. Geographers have seldom looked at sovereignty, and scholars in International Relations have rarely concerned themselves with space, place and territoriality. Given that sovereignty is a discourse and practice of territorial power this neglect is unhelpful. As Ruggie complains: “it is truly astonishing that the concept of territoriality has been so little studied by students of international politics; its neglect is akin to never looking at the ground that one is walking on” (Ruggie, 1993, p.174). Territoriality, and sovereignty as a specific instance, is a spatial power play which works through classification, communication and control (Sack, 1986). Sack explains that territoriality is “the attempt by an individual or a group to affect, influence, or control people, phenomena, and relationships, by delimiting and asserting control over a geographic area” (Sack, 1986, p.19), once again revealing the “looking both ways” nature of territoriality and sovereignty. Territoriality “is the key geographical component in understanding how society and space are interconnected” (Sack, 1986, p.3), and as such ought to be a key concept in efforts to understand the structuration of society and space. “The relationship between the defining and controlling of space on the one hand and the construction and maintenance of social power on the other is at the very heart of political geography” (Steinberg, 1994, p.4), and ought to be at the heart of geo-political economy.

The discourse and practice of law provides an important instance of territorial regulation; laws tend to define and refer to particular

⁶¹ “New medievalism” draws attention to the possibility that contemporary processes of globalization are leading to a “medieval” situation of overlapping sovereignties. Clearly there are many ways in which the late twentieth-century is radically different from the medieval period (see Anderson, 1995).

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territories. As Johnston has argued: “the ability to exercise sovereign power over a defined area is the hallmark of a state, so laws as its means of exercising that power are territorial too” (Johnston, 1991, pp.195/6). As laws are important in regulating economic activity, and laws are often territorial, territories or regulated spaces remain of crucial importance in the structuration of society. States, as the masters of spaces or territories, retain an important role in the development of laws (Hirst and Thompson, 1995).

Such a focus on legal geographies is encouraged by recent work around the Law/Geography nexus (Clark, 1989 and 1992; Blomley, 1989 and 1994; Blomley and Bakan, 1992). As Blomley and Bakan argue: “once geographers accept that space is not a backdrop to political and social action but is, instead, a product of such action, the role of law becomes central to the analysis of space” (Blomley and Bakan, 1992, p.687). Indeed Blomley argues that “the very *becoming* of place ... is seen as inseparable from local legality” (Blomley, 1994, p.113). Law is a particularly important set of social practices or rules and resources which play a key role in processes of social structuration, a set of practices which are at once geographical and regulatory.

The importance of law and legal regulations in constructing places for offshore finance is also recognized by practitioners in the Bahamas and Cayman. In response to a postal questionnaire a Bahamian banker explained that,

“the Bahamas has traditionally been known as a top financial center and the most important events to establish us as such are probably our bank secrecy laws, and our decision to establish a totally tax free environment” (Bahamas questionnaire).

Similarly, for Cayman, the importance of law in the regulatory construction of Cayman as a place for offshore finance was recognized. One respondent argued that,

“the government established the supporting laws and legislation approximately 30+ years ago with the sole purpose of creating a financial center. Over the years they have fine tuned the legislation to remain one of the leading financial centers in the world” (Cayman questionnaire).

It would seem that laws as territorial regulations are important in the construction of places. I will now explore this idea with specific

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reference to the construction of the Bahamas and Cayman as places for offshore finance.

4.5.3. THE LAW OF THE LAND: THE REGULATORY CONSTRUCTION OF THE BAHAMAS AND CAYMAN

The Bahamas and Cayman are constructed as places for offshore finance through two sets of laws relating to secrecy and taxation, and their interpretation and application by lawyers and financiers. Other important factors which I will consider include the licensing policies for offshore banks in the Bahamas and Cayman, and local labour markets. To begin however, it is worth outlining their basic legal infrastructure.

4.5.3.1. Legal infrastructure

Figure 4.1.: The Bahamas - legal infrastructure for offshore finance

| | |
|------|--|
| 1965 | Banks and Trust Companies Regulation Act |
| 1965 | Currency Board Act |
| 1968 | Bahamas Monetary Authority Act |
| 1969 | Amendment to Banks and Trust Companies Regulation Act (license fees) |
| 1969 | Insurance Act |
| 1971 | Securities Act |
| 1974 | Central Bank of The Bahamas Act |
| 1980 | Amendment to Banks and Trust Companies Regulation Act (secrecy) |
| 1989 | MLAT ratified by USA |

Following a period of rapid expansion in financial activity, in 1965 the Government of the Bahamas introduced the Banks and Trust Companies Regulation Act, requiring all commercial banks and trust companies to be licensed. The 1969 amendment established license fees as a source of revenue. The Currency Board Act of 1965 allowed for the decimalization of the Bahamian currency, and changed its designation from British Pounds to Bahamian Dollars. The fixed link to the Pound Sterling was retained until the re-scheduling of the Sterling area in 1972 following the collapse of the Bretton Woods Agreement. The Bahamas Monetary Authority (BMA) was established in 1968 as it “became increasingly evident that closer control over the financial system was essential” (Stephens, 1982, p.7). The objectives of the BMA were to: issue and redeem currency; supervise banks and trust companies; foster close relations between banks and the Government; advise Government on banking and monetary matters; administer exchange controls; and to

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perform such activities as necessary to achieve these objectives (Bahamas Monetary Authority Act, 1968). The Monetary Authority, in time and in purpose, was a half-way house between the Currency Board and an established Central Bank of The Bahamas (CBB). The Central Bank began operations on June 1st 1974, its functions including the management of capital and reserves, currency, foreign exchange, external reserves and the regulation and supervision of financial institutions in The Bahamas. The role of the CBB is “to promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the economy” (Central Bank of The Bahamas Act, 1974).

The Cayman Islands developed a legal infrastructure for finance from the 1960s. Much of their legislation was taken from UK Law, or Bahamian Law where that was more appropriate. The first piece of legislation, the 1961 Companies Law, permitted the registration of “ordinary”, “ordinary non-resident”, and “exempted” companies, the latter two categories being especially attractive for offshore operations. The 1966 Banks and Trust Companies Regulation Law, the 1967 Trusts Law, and the 1979 Insurance Law further developed the regulatory framework for offshore financial development. There is no Central Bank in Cayman as the Bank of England retains ultimate control at a distance. Until 1975 the Financial Secretary was in charge of the supervision and regulation of financial institutions. In 1975 his responsibilities were delegated, partly, to three new regulatory bodies: The Currency Board; The Superintendent of Insurance; and the Inspector of Banks and Trust Companies. The heads of these three agencies report to the Financial Secretary.⁶²

⁶² In June 1993 the regulatory structure was altered with a unified Financial Services Supervision Department reporting to the Financial Secretary.

Figure 4.2: Cayman - Legal infrastructure for offshore finance

| | |
|------|--|
| 1961 | Companies Law |
| 1963 | Tax concessions Law |
| 1966 | Banks and Trust Companies Regulation Law |
| 1967 | Cayman Trust Law |
| 1976 | Confidential Relationships (Preservation) Law |
| 1979 | Amendment to Confidential Relationships (Preservation) Law |
| 1979 | Insurance Law |
| 1984 | Narcotics Agreement with USA |
| 1984 | Companies Management Law |
| 1986 | Signing of Mutual Legal Assistance Treaty (MLAT) |
| 1987 | Amendment to Insurance Law |
| 1989 | Amendment to Banks and Trust Companies Regulation Law |
| 1990 | Revised Companies Law |
| 1990 | MLAT ratified by USA. |

4.5.3.2. Secrecy laws

Secrecy or confidentiality laws are the cornerstone of the regulatory construction of the Bahamas and Cayman as places for offshore finance. The basis of their confidentiality laws is to be found in their history as British colonies and the 1924 *Tournier vs. National Provincial and Union Bank of England* case which established the confidentiality duty of bankers. In the Bahamas the Banks and Trust Companies Regulation Act of 1965, section 10, provides for statutory confidentiality, making disclosure of information obtained about a licensee a criminal offence. The punishment for such disclosure was set at £1000 and/or a year's imprisonment. The 1980 Amendment to the Banks and Trust Companies Regulation Act tightened up the confidentiality law and increased the punishment for unlawful disclosure to \$15000 and/or 2 years imprisonment. In Cayman, confidentiality requirements were included in the 1966 Banks and Trust Companies Regulations Law which stated that:

“Except for the purpose of the performance of his duties or the exercise of his functions under this law or when lawfully required to do so by any court of competent jurisdiction within the Islands or under the provision of any law of the Islands, no person shall disclose any information relating to any application by any person under the provisions of this law or to the affairs of a licensee or of any customer of a licensee which he has acquired in the performance of his function under the law” (The Cayman Islands' Banks and Trust Companies Regulation Law, 1966).

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Such confidentiality was strengthened by the 1976 Confidential Relationships (Preservation) Law which made disclosure a criminal offence punishable by a CI\$2000 fine and/or 1 years imprisonment. The 1979 Amendment attempted to clarify the law to include people other than the Inspector of Banks and Trust Companies, and increased the punishment for disclosure to CI\$5000 and/or 2 years imprisonment.⁶³

For one US commentator the attraction of Caribbean OFCs resembles their earlier attraction to pirates. Calling for a tougher US stance towards OFCs Senator Vanik (Republican, Ohio) explains that:

“The Cayman Islands abound with legends and tales of pirates ... The Cayman Islands were remote, low-lying, and therefore difficult to spot at a distance. Their myriad caves provided an ideal place to shelter their booty. Today, the Cayman Islands provides a haven for a new generation of pirates” (Vanik in US Congressional Record, 25/6/76).

Laws against disclosure of confidential banking information, as embodied in the Banks and Trust Companies Regulation Laws, are seen by some commentators as the modern-day equivalent of caves where assets, sometimes of questionable origin, can be hidden. The importance of secrecy to the early development of the OFCs is widely acknowledged, with many interviewees describing the rigidity of secrecy jurisdiction as the “major attraction” of OFCs. In recent years the language used to talk about secrecy has been modified but the reality of rigid secrecy or confidentiality laws is little changed. As a Cayman financier suggested:

“the secrecy laws still exist but I think that we now like to talk about privacy of affairs, and the privacy of a client’s transactions is more important than secrecy. There’s a subtle difference. Secrecy invokes this idea of cloak and dagger type, smoke and mirrors structures, with hundreds of underlying things to stop people finding out who is the ultimate owner” (Brown, Cayman).

The difference between secrecy and privacy is too subtle for me to grasp. Although talk of secrecy has been toned down since the 1980s, offshore financiers:

⁶³ I detail the development of Mutual Legal Assistance Treaties, which allow disclosure in some instances, in chapter 6.

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“still maintain that in any civilized country ... there are certain things inherent in the old common law, and you know that bank secrecy, the relationship between your banker, and your priest, and your doctor, all these are confidential relationships. So we have taken a common law and we have built on it to sort of codify it, as a buttress” (Cobb, Bahamas).

Institutional secrecy is important to the OFCs as it attracts business from individuals and corporations who value their privacy.⁶⁴ As one interviewee commented:

“there also is, and we have been told, a high degree of belief out there by corporations that dealing with secrecy jurisdictions allows you to hide behind some veil under the belief that regulators, tax authorities, law enforcement authorities, can’t get a hold of books or records, or can’t get a hold of transactions” (Lane, USA).

Such a belief is justified according to regulators of international banking who, in describing the impact of OFCs on their investigations, noted that they “make it a pain in the arse. Because of the secrecy jurisdictions one has to find other ways to get information from the bank” (Lane, USA). The users of OFCs may value secrecy or privacy for a variety of reasons but the avoidance or evasion of taxation is certainly key.

4.5.3.3. Tax laws

In O’Brien’s celebration of the end of geography he singles out tax as being particularly “geographical”. He argues that “many location decisions also have a deliberate geographical rationale, such as the booking of business in offshore financial centres for tax reasons, tax jurisdiction being a particularly ‘geographical’ concept” (O’Brien, 1992, p.2). Although, I would argue that many other laws are “geographical” and that therefore geography matters more than O’Brien seems to accept, this recognition of the importance of geography is a start at least. Tax laws certainly play an important role in the construction of the Bahamas and Cayman as places for offshore finance.

In the Bahamas there are no taxes on personal income, capital gains, profits, gifts, inheritance or estates. Non-resident companies, including those in the offshore sector, pay no tax and are not subject to exchange controls; there are no withholding taxes levied on dividends, interest or royalties; and there is no payroll tax. There are no double taxation

⁶⁴ Privacy or secrecy may be valued for a variety of reasons (see Walter, 1990, especially chapters 3,4,5,6).

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agreements so, although there is the possibility of withholding tax being levied at source, autonomy is retained. Government revenues are not earned from direct taxes but from indirect taxes: import tax, stamp tax, real property tax, hotel guest tax and license fees.

There are no direct taxes in Cayman either. That is, there are no taxes on income, corporations, capital gains, wealth, or inheritances, and no death duties on income, profits, dividends or wealth. There are no withholding taxes, but as Cayman is not party to any Tax Treaty or double-taxation agreements there is the possibility of withholding taxes being levied at source. In March 1980, following the election of the Conservative Government in the UK, exchange controls were formally abolished, having been enforced only loosely previously. The Government raises revenue through indirect taxes: import duty, rooms tax, departure tax, motor vehicle tax, licenses for financial institutions, stamp duties and work permits.

The OFCs are not at all happy to be labelled “tax havens”, but to the question “what sort of places are the Bahamas and Cayman?” this seems the best answer.⁶⁵ A Cayman-based financier complained that “tax haven is an old term, going back to the 1950s. It’s not one that we would encourage the use of nowadays - we call ourselves offshore financial centres” (Wood, Cayman). Although the change in terminology is as much a matter of image as reality, (as Figure 4.3 sarcastically suggests), it can be argued that OFCs do have a more varied economic base, and wider attractions, than simply the absence of taxation (Hampton, 1994).

The attraction of a low or no-tax jurisdiction is clear and simply relates to enhanced profitability through tax avoidance. As Bhattacharya notes, in relation to the Bahamas and Cayman: “offshore profits of banks are not taxed at all in these islands, and this tax advantage contrasts with a 14.3 percent tax rate in New York, 4 percent in London, 20 percent in Bahrain, 10 percent in Singapore, and 15 percent in Hong Kong” (Bhattacharya, 1980, p.41). One interviewee estimated that 40% of business using OFCs does so primarily for tax reasons, and another explained that “the reason users choose the Cayman Islands is because it’s a no-tax jurisdiction. If we had a tax system that was as bad as their home jurisdiction, they wouldn’t come here in the first place” (Wood, Cayman). The importance of the tax environment in the early days of the

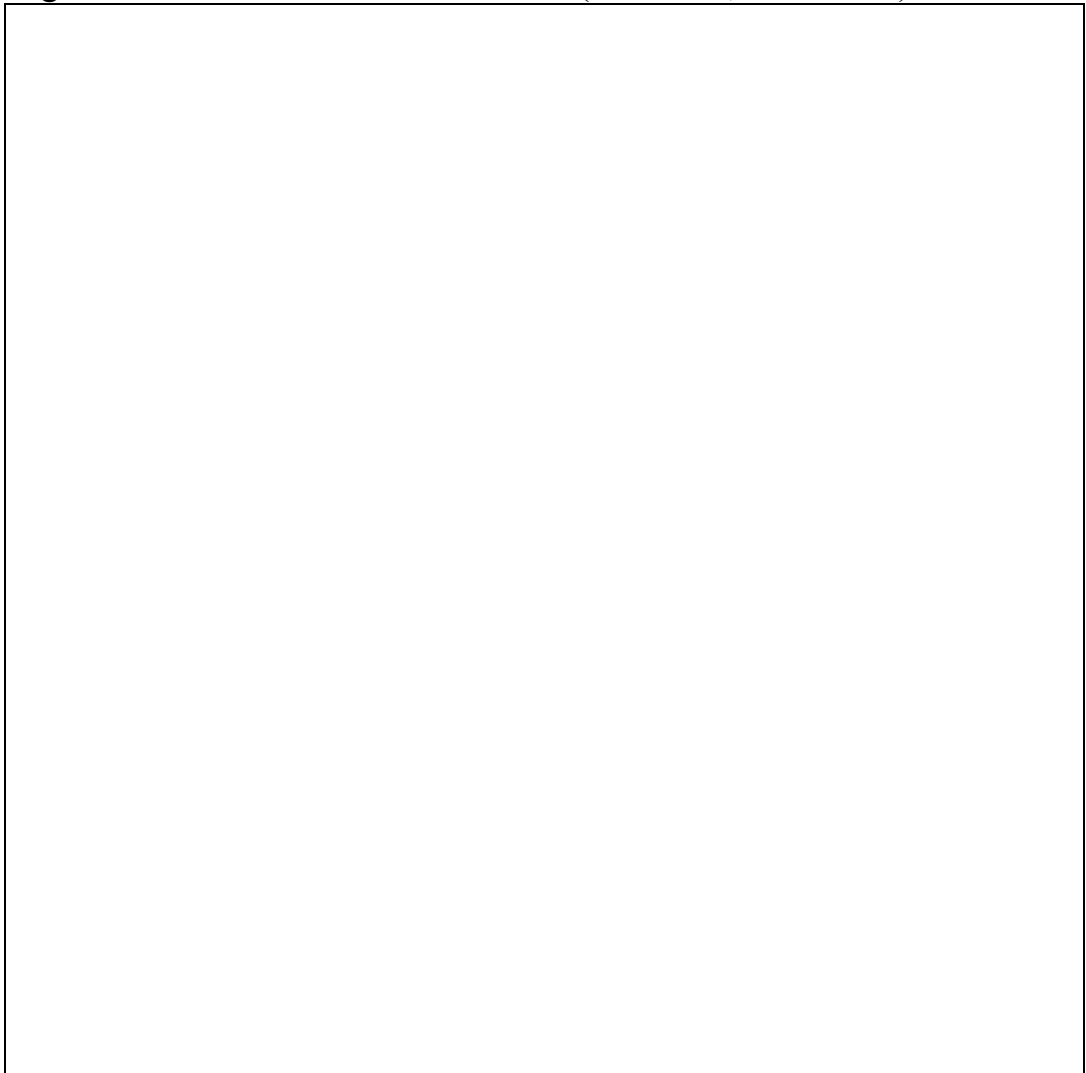
⁶⁵ This is a clear example of the way in which a place is defined by the social activities which go on there; where I am sitting now is a study, in 12 hours time it will be a bedroom! Social space is produced, or given meaning by, social practice.

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OFCs’/tax havens’ development is clearly put by another interviewee. Referring to the early 1970s he explained that:

“at that time, and for probably the next five or six years, it focused on a need that international investors had to limit their tax situations. That was the over-riding principle at that time. They found that they could put money, or invest money through various types of vehicles in the Cayman Islands, or the Channel Islands, or Bermuda, or the Bahamas and so on, and they could do so in a relatively simple and stable environment, and they could do it in such a way that there was no tax payable in those particular countries” (Brown, Cayman).

Figure 4.3 - “Never-never land lives” (Guardian, 18/2/1995)



The absence of direct taxation in the Bahamas and Cayman is very attractive to individuals and corporations, but in addition the absence of tax laws means that tax evasion is not considered a crime in the two OFCs. A Cayman financier commented that “it’s impossible for Cayman

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to include an issue like tax evasion [in exchange of information agreements] because it's not a crime here" (Neill, Cayman). Such an attitude may enable financiers to turn a blind eye to tax evasion, feeling that it's not their concern (interviews with author).

The use of OFCs for tax evasion and avoidance is widespread. In practice the distinction between evasion and avoidance is hazy; in theory evasion is that which is illegal in the client's home country, while avoidance is legal.

"Tax evasion is the fact of having an account here and when you fill in your tax return you don't disclose any knowledge of that account. Tax avoidance is a legitimate method by which you can establish an account in the Cayman Islands without having to report it to the IRS or the Internal Revenue" (Carver, Cayman).

In reality the definition may not concern the offshore financier too much: "if you use your brain you know that many of the clients are engaged in tax evasion. It's quite simple. You can talk forever about what you define as tax evasion or avoidance, but both happen" (Neill, Cayman). One interviewee candidly revealed that "if it's simply a matter of tax evasion or avoidance then it's not a problem. Certainly that would seem to be the common decision in all these places whether it's BVI, Curacao, and so on" (Neill, Cayman).

One interesting feature of the tax-attraction of OFCs is its relational nature. The tax laws in the OFCs have remained constant for many years, but their appeal and the scope for foreigners to use them has changed as a result of changes to tax laws elsewhere. Thus, not only do local laws construct place; changes in "external" laws also construct place. Two examples will suffice. Firstly, changes in US tax laws in 1976 and 1986 radically reduced the legitimate use that US citizens could make of OFCs. As a Cayman-based financier fondly recalled:

"up until changes in the [US] tax laws in 1976 there were benefits for a US citizen establishing a trust offshore in a place like Cayman. In 1976 you'd be hard pressed to say that this was an OFC. [was simply a tax-haven] But up until 1986 when the tax reform act was issued it was possible to set up a corporation here, which as long as you had more than 11 US investors, all owning one voting share, you had a non-controlled foreign corporation under which no tax was levied on the individuals owning those shares or on the corporation. So you could roll up your investment income and your profits tax free, and they would only be taxed in the hands of the

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individual when the dividend was distributed. That was a tremendous structure’ (Green, Cayman).

The pattern of tax-loophole use followed by legislative changes to close the loophole fits the idea of “regulatory dialectics”, introduced in chapter 2, very well. A second example relates to the issue of “mind and management”, and the impact of changes in US tax laws. The “mind and management” issue is that a bank will now only be considered to be in an OFC for US tax purposes if it has a significant presence - not just a brass plaque - in the OFC; “if you want to accrue the true advantages of being in an offshore centre, then you’ve got to be in an offshore centre, not pretend to be there” (Brown, Cayman). In this way changes to tax laws in the US, for instance, change the importance of having a physical presence in the OFC.⁶⁶ To be legally considered as located offshore a bank has to physically be offshore; this change in the US tax law may be seen as an effort to reconnect the legal and physical meanings of “offshore”, a reworking of the regulatory landscape of international finance.

The attitudes of offshore financiers to tax avoidance and evasion are revealing of what actually goes on. One interviewee declared that:

“I regard tax evasion as a very serious offence. It actually goes to the lifeblood of everybody’s economy and I don’t really draw much distinction between the guy that knocks off a shop and the guy who knocks off a couple of hundred million through not paying taxes. But that’s what the economy is based on” (Lonsdale, Cayman).

Such a dim view of tax evasion and avoidance was, unsurprisingly, rare. Among financiers that are prepared to admit that tax evasion takes place, as well as legitimate avoidance, I uncovered four attitudes. The first stance argues that taxes are there to be avoided. A common refrain is: “I think it’s every man’s right to limit the numbers of dollars in taxes he has to pay. If he can do this in a legal manner, and if Cayman in some manner can assist in that, then I have no problem with that” (Price, Cayman). A second and related position holds that “we’re also not charities here, neither are we agents or collectors for the various tax regimes of the world. We have no obligation to the Inland Revenue, the IRS, or any other agency, so we can only go so far” (Brown, Cayman). Such an attitude has as its result the fact that “there are a lot of

⁶⁶ Partly as a result of this change in US tax laws the numbers of banks and trust companies with a physical presence in Cayman increased from 65 in 1987, to 72 in 1991, and 84 in 1993 (Cayman Islands, Financial Services Supervision Department).

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institutions here that don't go into their [clients'] background or ask questions about where the money comes from, or whether it is affecting them legally in their own countries" (Davies, Cayman).

The whole issue revolves around the word "knowingly" as in the assertion that banks will not knowingly assist in tax evasion. Some financiers accepted, that with the omission of certain questions they can easily find themselves more or less unwittingly assisting in tax evasion.

AH: The use of the word "knowingly" would suggest to someone who was cynical that banks could offer potential clients a way of getting into doing tax evasion business such that the banker would not knowingly be facilitating tax evasion. Do you think that is realistic?

Simpson: I think, realistically and I am being realistic, if somebody comes to us with travellers cheques for \$10000, or a personal cheque for \$15000, that sort of sum, and he says he'd like to open a deposit account and he's from the medical profession in the US, and he raises the question of tax we would say, 'look, you have to declare this and pay tax on it. Whether you do or not is your business. I'm really totally disinterested in whether you do or not.' Now somebody comes along and says, 'look I'm trying to get \$3m out of the US without anybody knowing. How do I go about that Mr. Banker?' I would say, 'I really don't want to know', because that's trouble. In my book that's aggressively attempting, knowingly, to evade taxes.
(Simpson, Cayman)

The use of deposit accounts in OFCs by individual US citizens and the apparent lack of legitimate tax benefits is a circle squared only by the reality of "unwitting" financiers. I am unable to come to any other conclusion, despite giving many offshore financiers the opportunity to explain things to me in another way. That said, there are financial activities other than deposit accounts, and motives other than tax minimization for using OFCs; so I am not claiming that OFCs' only role is to facilitate tax evasion. However, rigid secrecy laws do mean that once a prospective client has told a financier that s/he is not breaking the law in his home country, and as long as the financier does not 'know' that laws are being broken, illegal and legal transactions can proceed.

A third stance taken on the issue of facilitating tax evasion is apparently based on moral decisions:

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“There’s always a focus on tax, and on the morality of whether one should pay their taxes, and yes, I believe one should pay one’s taxes. If people are avoiding customs duty in the Cayman Islands they ought to be brought to justice in the same way. But, when the offshore jurisdictions got their start you had high taxation in the UK, very high taxation in the US, and ridiculous taxation in places like Sweden. Then morally one feels a degree of sympathy for anybody who’s not paying those taxes” (Simpson, Cayman).

Morality is invoked more specifically in deciding whether what the client wants to do is fair, a decision which may depend on circumstances in his/her home country. As one interviewee argued:

“Again it depends on the jurisdiction. Say if a Haitian wants to get some money out of Haiti, I think he would be very prudent to do so. Then you’ve got questions like, should you place your services at the disposal of someone who is trying to circumvent the embargo with Haiti? The answer is no, but would you like to facilitate something that enables inward investment into Cuba, notwithstanding the American embargo against Cuba? That’s something we might take a slightly different look at because I think the US are in a minority on that one. So you get some sort of moral shots that you have to call” (Simpson, Cayman).

In my view a more realistic approach, the fourth stance toward tax evasion/avoidance, recognizes that “morality” is flexible, and perhaps has a distance-decay function, reflecting fear of getting caught rather than any moral principles. One interviewee explained that “people won’t ask the questions, or won’t feel any obligation to refuse the business, the further away the jurisdiction is from where they are sitting” (Dean, Cayman). As this Cayman-based lawyer continued, ignorance is bliss:

“I think people apply different tests depending on where the business is coming from, and I know this is the same in the UK. You always tend to take greater care when you know something about the system the person is coming from. Most people here are pretty familiar with the US tax system, they’re relatively familiar with the UK, they will be much less familiar with the tax system in Afghanistan, or even Venezuela or Brazil. Ditto for exchange control. People are more likely to be questioning or uncomfortable about clients from the US or the UK, or one of the sophisticated places that they know something about by experience or reading, whereas if somebody pitches up from Brazil they’re not going to ask any questions at all. They’re going to say, ‘why should I care about Brazil, Brazil’s not my problem’ ” (Dean, Cayman).

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A further element of flexibility is the varying attitudes of banks to questionable business from their own home countries. A Bahamas-based financier put this clearly:

“We have a sort of flexible morality offshore whereby it’s OK for clients to avoid or evade Brazilian tax, or German tax, or whatever it is, but for a Canadian bank it’s not OK for clients to evade Canadian tax or American tax. The reason it’s not alright to evade American tax is because everyone’s terrified of the IRS [Internal Revenue Service] ... We’re supposed to be a good corporate citizen and all this sort of crap. It’s like if you go to Coutts they’ll tell you that they’re not very happy helping people to evade British taxes, but they’re blissfully happy helping people to evade Canadian taxes. So, you don’t like shitting on your own doorstep or whatever. Everyone’s terrified of the IRS because they have such enormous powers and are such an aggressive organization. So to some extent peoples’ attitude towards tax evasion is dictated by practicalities of it all, not the morality or anything like that. It’s a business decision” (Williams, Bahamas).

In their practice of offshore finance bankers and lawyers draw upon and interpret local secrecy and taxation laws, laws which contribute to the regulatory construction of the Bahamas and Cayman as attractive places for offshore finance.

4.5.3.4. Licensing

In the Bahamas licensing of financial institutions is conducted by the Central Bank. Institutions must pay an annual license fee to cover the range of their activities, more expensive licenses covering a wider range of business. In 1987 license fees included \$100,000 for an “Authorized Dealer”, \$2,500 for a “Restricted Trust”, and \$25,000 for “Resident or Non-Resident Public Bank, Trust, or Bank and Trust”, the license held by the majority of foreign-owned branches and subsidiaries.

In Cayman there are two types of banking license, types A and B. Type A licenses permit unrestricted domestic and offshore business. They are issued to, and held by, major international institutions and their subsidiaries. Type B licensees may only conduct offshore business. Restricted B licensees may conduct offshore business with specified clients only. Type B licensees without a physical presence must have a type A local representative. License fees and minimum paid-up capital requirements have been revised regularly. In 1991 an A license cost CI \$ 42000 (US \$ 50000), a B license CI \$ 12600 (US \$ 15000), and a restricted B license CI \$ 6000 (US \$ 7200).

4.5.3.5. Labour markets

Although the numbers of people employed in the offshore financial sector in the Bahamas and Cayman are quite small⁶⁷ - only as many as employed by one large hotel - local labour markets are very important to the success of the OFCs. Offshore finance demands quality staff and the banks' decision-makers are themselves affected by labour and immigration laws, a factor I shall return to when considering the rise of Cayman at the expense of the Bahamas in chapter 5. The interaction between local labour markets and immigration laws is complex and crucial in microstates as it can be difficult and costly to find suitable employees in a small labour pool. As a Cayman banker explained: "the reality is that it's a simple supply and demand situation. Demand exceeds supply and so wages are unbelievably high here for bank staff" (Harris, Cayman). This situation is made worse by what is seen as the poor quality of local tertiary education, particularly in Cayman, meaning that skill levels are not up to the banks' needs. A Cayman banker explained that:

"it is very very difficult, because of the education system, which is not particularly good at the upper levels, and because salaries and starting wages are so high, to get good quality people. If you're 15 or 16 and a school-leaver, and you can go out and become a teller at a bank and earn CI \$13000 a year, tax free, get benefits from the firm, live at home, rather than going off and pursuing a tertiary education, what are you going to do? So we have a situation where the skills levels are not as good as you would find in markets where there is a healthy supply of labour" (Harris, Cayman).

The tactics pursued by the Bahamas and Cayman Governments to deal with such problems have differed somewhat with the Bahamas adopting a deliberate, and at times strong, policy of Bahamianization combined with investments in education. Bahamianization is not a specific piece of legislation. Rather it is a general approach which aims to increase the involvement of Bahamians in their economy. One interviewee explained that "the idea behind Bahamianization is fundamentally the development idea. Development in its broadest sense meaning not only increasing the GNP but getting everybody involved. So development means involving indigenous people, local people, in the economic enterprises and activities" (Adams, Bahamas). Sir Lynden Pindling recalled that:

⁶⁷ The offshore banking sector employs directly around 2000 people in the Bahamas and 1300 in Cayman.

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“we had to make a decision. We had to decide the extent to which Bahamians were going to be admitted into, and involved in this business. We saw the social and economic benefits that could accrue. Those benefits would only be realized if Bahamians were engaged in the industry, and the Bahamianization policy was designed to help force the pace of introduction and development” (Pindling, Bahamas).

The policy of Bahamianization was criticized by some Bahamas-based financiers who resent the interference of the Immigration Service in the running of their businesses, but other bankers recognized a reasonable policy that, over time, had produced a pool of high quality labour. Cayman, on the other hand, has relied more heavily on expatriate staff, particularly at the higher levels, although there is a requirement to advertise all jobs and interview all Caymanian applicants before employing an expatriate (Cayman interviews).⁶⁸

Labour market and immigration issues link into concerns about racism. Many bankers, especially but not exclusively Bahamians and Caymanians rather than expatriates, complained of invisible ceilings holding back the promotion prospects of locals. Expatriates tended to dismiss such concerns as unwarranted, arguing that with adequate experience, training and education there are no glass ceilings.⁶⁹ However, local and expatriate financiers talked of the ‘comfort levels’ of mainly white clients from North America, South America and Europe. A black Bahamian lawyer noted that:

“You have a lot of Bahamians employed, but you can go from institution to institution and you will find that there is an invisible cut-off point above which they can’t ascend, and that is due to a variety of very complex factors. One is definitely I suppose an unspoken racial aspect to it. There is a certain amount of discomfort with a North American or European coming into a ‘third world’ country for the first time. I think there is a comfort level in dealing with someone who you can immediately ethnically and culturally relate. I think the banks here are very very aware of that, and you will find that the front-line people, the marketing people, the persons who sit down and assemble the trust structures and so on, are almost without exception, American or Canadian or European. I think the Government itself, or successive Governments, have acknowledged this with some measure of chagrin. That’s

⁶⁸ In Cayman around 35% of offshore financial employees are expatriates, whereas in the Bahamas the figure is 10%.

⁶⁹ It was also held that there were no barriers to the promotion of women and that the fact that I hadn’t come across many in managerial positions was because few women applied.

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reflected in the fact that the immigration policy has always been very liberally applied to the offshore banking community. You can basically get a work permit for anybody you want” (Peterson, Bahamas).

A white Cayman-based financier argued that such apparent racism “is not our doing. If you’re a white businessman in New York, and you’re faced with the prospect of doing business with a black man who you don’t feel comfortable with, or a white man that you do because of your similar backgrounds, where are you going to go? That’s not racism as such” (Wood, Cayman).

Whether or not such attitudes and resultant employment practices amount to racism, and if so on whose part, is an important question. There is no doubt that the colour of the local labour market and related immigration policies play an important part in constructing the Bahamas and Cayman as places and competitors for offshore financial activity, a point that I will return to in chapter 5.

4.5.4. SOVEREIGNTY: USING IT AND LOSING IT?

The power to construct the Bahamas and Cayman as places through regulation is held by a variety of actors including local governments, local public-private partnerships, multinational banks, foreign governments and international bodies.⁷⁰ The Bahamas and Cayman as specific localities with emergent powers - as discussed in section 4.4 - are important actors in this regard. To some extent the regulatory powers of the Bahamas and Cayman governments are conferred and supported by the discourse of sovereignty, a discourse which has both internal and external aspects. Internal sovereignty indicates that there is a body, the state, which has the authority to set the rules of the game within its territory through legislation. External sovereignty refers to the mutual recognition of one sovereign state by others; the authority of a state within its territory is accepted by other states.

Sovereignty, both internal and external, gives the governments of the Bahamas and Cayman the power to construct their territories as places for offshore finance; sovereignty is a key resource in the development of the Bahamas and Cayman OFCs.⁷¹ As one commentator argued:

⁷⁰ I will consider the roles of multinational banks, foreign governments and international bodies in chapters 5 and 6.

⁷¹ An important difference between the Bahamas and Cayman is their political status. The Bahamas is a sovereign country, whilst Cayman is a British colony which retains local legislative power; laws relating to offshore finance are passed in Cayman, not the UK. The impact of this difference in political status will be

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“offshore transactors rely on the strength and consistency of the monetary and fiscal sovereignty of individual states. It is from differences between individual regulatory environments - which are based on the sovereign right of each state to legislate independently - that commercial incentives are derived” (Dodd, 1994, p.100).

Other commentators have complained, in my view unfairly singling OFCs out for criticism, that “sovereignty appears to have become little more than an excuse to implement laws that are explicitly aimed at attracting business from their neighbours” (Abbott and Palan, 1995, p.3). This is particularly interesting as contemporary processes of globalization have arguably led to the end of sovereignty (Camilleri and Falk, 1992). So what is going on? Does sovereignty remain an important resource for the OFCs’ development, or have they in fact lost their sovereignty by becoming nodes in an interdependent global economy?

One way to approach this issue is to unpack “sovereignty” and specify more clearly what it means. As Jackson’s work about quasi-states in Africa makes clear, states may possess formal sovereignty but in reality have little control over what goes on in their territories (Jackson, 1990). States may retain legal sovereignty, the authority to enact laws which refer to their territories, but may not possess real sovereignty, or autonomy, “the actual capacity to act independently in the articulation and pursuit of domestic and international policy objectives” (Held, 1991, p.213).

The Bahamas and Cayman certainly make use of their formal legal sovereignty to construct themselves as places, but how much real sovereignty do they retain? As microstates in a globalizing economy their capacity to determine their own development trajectories is severely curtailed. An offshore development strategy, although built upon formal sovereignty, actually surrenders real sovereignty by tying the centres into the global economy in asymmetrical relations of dependency (McKee, 1988). As one interviewee recognized:

“at the end of the day, as much as they [Bahamian politicians] might protest ‘we’re a sovereign nation’ it’s a case of proximity to the US and absolute reliance on the US economy. If the US switched off the spigot this place would die” (Jennings, Bahamas).

considered in some detail in chapter 5, but briefly, political status is used as a selling point for each OFC in comparison to the other, and is important as regards relations with the USA.

Another interviewee noted a trend towards the erosion of real sovereignty, explaining that:

“the trend is for total internationalization where information will become freely available and the concept of sovereignty is being eroded. The fact that you live in one jurisdiction and do something in another jurisdiction, over a period of time that will become of less and less significance. You won’t be able to obtain protection just because you live in another country and already information is extremely available throughout the international financial system” (Williams, Bahamas).

Sovereignty, however, has not disappeared as an important factor in the development of the Bahamas and Cayman OFCs, rather sovereignty has become unbundled and used in different ways. By allowing transnational actors who operate in economic space to make use of their regulatory environment the OFCs have partially surrendered their sovereignty. For Johns and Le Marchant, OFCs have “exemplified internationally the regional phenomenon within countries of the ‘branch plant’ economy, as internally their economic activity became substantially geared to the special needs of externally controlled enterprise and non-resident investment” (Johns and Le Marchant, 1993a, p.19). In this way their sovereignty has been unbundled. As the Governor of the Central Bank of The Bahamas suggested: “the trade-off between territorial sovereignty and economic survival will loom large in the minds of political leaders in these offshore jurisdictions” (Smith, J., 1990). Processes of financial globalization problematize territoriality as the organizing principle of the international system, causing a “re-articulation of international political space” (Ruggie, 1993), and modifying the meaning of sovereignty (Camilleri and Falk, 1992). As Walker argues “with global flows of capital and the internationalisation of production, we live in a world in which the complexity of spatial relations is more obvious than the simple legalistic maps of state sovereignty” (Walker, 1993, p.46). However the “legalistic maps of state sovereignty” remain important; it is through such maps that the Bahamas and Cayman are able to position themselves, in the regulatory landscape of international finance, as places which host the practices through which the economic and political spaces of capitalism are articulated. I will return to these issues in chapter 7.

Dependency and vulnerability to external factors is recognized by the Cayman Islands Government, as the following extract from their development plan shows:

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“The country’s position as a major international offshore financial centre is of a tenuous and fragile nature being dependent upon a number of factors outside its own control and the extent to which it can retain the confidence of outside concerns in its stability, policies and international relationships, with particular reference to the financial world” (CIG, 1986-90 Economic Development Plan, p.21).

The development plan continued, realistically emphasizing the relational nature of Cayman and other OFCs as places which are partially constructed by laws and regulations in other places:

“The future development of the offshore sector is, unfortunately, largely dependent upon factors outside domestic control. While the Government will continue to provide the right legislative and structural environment to attract business, the ability and willingness of institutions to avail themselves of the facilities will be dictated by events and policies overseas. Potentially the most damaging effect in the short term would be a change in foreign bank regulatory attitudes towards the type of booking branch arrangement that is predominant in Cayman. In most cases the establishment of such operations requires the approval of the bank’s domestic supervisors and, therefore, the future of a sizeable part of the system depends upon the regulators’ continuing goodwill” (CIG, 1986-90 Economic Development Plan, p.102).

However, concern about dependency and vulnerability is tempered by the apparent lack of alternatives. One conversation about the dependence of Cayman on offshore finance and tourism, two sectors which are very much affected by external factors, went like this:

AH: Is there much concern about the fact that there is such reliance on the two sectors?

Morton: No. There’s no concern on our end.

AH: Why not? That surprises me a bit.

Morton: Why should we? What else would we have?

AH: So that’s why there’s no concern - what else would you have?

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Morton: You tell me what else we would have? What we have is good weather, sunshine primarily, all year round, temperatures ranging between 70s and high 90s in August, good diving.

AH: But I mean it wouldn't take much to damage that quite badly.

Morton: Damage which one?

AH: Well either of them. With tourism say, an oil slick could damage it quite badly, or an upsurge in the mosquito population say. I mean isn't there a feeling that they are both quite vulnerable sectors?

Morton: Oh there's no doubt about that. If you have an island which is really highly dependent on external forces you're vulnerable certainly.

AH: Yes, but there's not a lot you can do...

Morton: No, I mean they say tourism is fickle and offshore business is fickle but [laughs] you check the stats on the Cayman Islands versus all these other countries that make those statements. They have come full circle. I've attended Commonwealth Finance Ministers meetings from about 1984 and in those days it was manufacturing, industrial activity in your economy was the way to go because the agricultural side was fading away because the prices on the markets wasn't putting enough money into the country. And they all said, 'oh tourism, forget about that, you're not going to be able to attract direct investment coming from the outside'. I think if you look at the countries who are involved in it you will find that in the Western hemisphere they are the leaders today: Bermuda, Bahamas, Cayman".
(Morton, Cayman)

So, the potential vulnerability of Cayman to external shocks as a result of its reliance on tourism and finance was recognized, but there seemed to be little alternative, and such development had been quite successful, contrary to some predictions. In the Bahamas too there was "a great concern about diversifying the economy" but little progress in doing so (Peterson, Bahamas). Few opportunities for diversification were seen in either place and few efforts were made.⁷² This seems a high-risk strategy

⁷² The Hunt Report was prepared for the Cayman Islands Government in 1986 in an effort to identify possibilities for economic diversification but little action was taken, largely because tourism and finance were doing well.

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to me but perhaps such microstates really do have little choice other than to adopt “pseudo-development” strategies such as offshore finance (Baldacchino, 1993). As one survey of Cayman concluded: “while the islands clearly do have economic problems, they are the sort that many of their Caribbean neighbours would gladly swap for their own” (Financial Times, Cayman Islands Survey, 25/10/90).

The Bahamas and Cayman are clearly in a vulnerable position, with their most important sectors, tourism and finance, dependent on external pressures. Although their success as OFCs is in part due to their use of legal sovereignty to construct themselves as places for offshore finance, their autonomy or real sovereignty to direct their development is severely limited by their position in an interdependent globalizing economy. The Bahamas and Cayman OFCs are constructed through processes of regulation and the powers that control these regulatory practices are not only local. Dependency is one outcome of their development as OFCs, we will now consider the other consequences of such development: what are the local impacts of constructing a place for offshore finance?

4.6. THE LOCAL IMPACT OF OFFSHORE FINANCE

4.6.1. ASSESSING THE LOCAL IMPACT OF DEVELOPMENT

The importance of assessing the local impacts of efforts to construct a place for offshore finance is matched by the difficulties of making such an assessment. Given that the Bahamas and Cayman have continued in their efforts to develop as OFCs, and many other microstates have endeavoured to gain the benefits of offshore finance one could simply conclude that it must be a good development strategy. However, even though this is not the focus of my dissertation, some effort to assess the impacts of offshore financial development in the Bahamas and Cayman is important.

The first set of problems any assessment faces concerns the meaning of development, and the development aims of different peoples and places. Asked to compare the success of the Bahamas and Cayman, a Bahamian interviewee commented that,

“it depends on what we measure. I don’t think Cayman ever came close to the Bahamas in terms of the value of the system. It ended up with a number of banks, but is that really a measure? Or the size of the balance sheets of those banks when

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basically it's book entries? No, that couldn't be it [a suitable measure]. I think the measure ought to be the technology transfer taking place between the foreign population and the resident, the training, the value of the taxes paid, and the general economic activity generated by the presence of the offshore financial sector. If one measures on that Cayman never really came close" (Smith, Bahamas).

On the other hand a Caymanian interviewee argued that asset positions were a good measure of success, as the following extract illustrates:

AH: But if I were a Bahamian I might say that the total asset position doesn't really matter, it's more about how much employment it creates locally.

Fry: I don't agree at all. I mean we're fully employed in Cayman, and if you know the nature of international banking nothing needs to be anywhere. If you've got a computer terminal you're in direct link with New York or Argentina or Brazil, so you can't really measure it as how many people you have sitting in an office.
(Fry, Cayman)

This is an interesting passage as the interviewee appears to have forgotten what the point of hosting offshore financial activity is and to have accepted that Cayman is an a-social node in an abstract financial system. An alternative explanation of this interviewees' stance is that OFCs promote themselves to attract additional offshore business by emphasizing how important they already are, an importance which may be indicated by the current volume of business hosted.

A second set of problems in assessing the impact of offshore financial development concerns data problems. As confidentiality is a cornerstone of OFCs' development, disaggregated data on asset positions is hard to come by. Data sets are incomplete and to some extent incomparable between countries. In addition the rapidity of capital flows, and the explosion of offshore activity in the late 1960s, mean, firstly that annual or even quarterly data series may fail to capture what's going on, and secondly that little data is available for the early years of development. However, some assessment of the impact of offshore financial development in the Bahamas and Cayman must be made.

4.6.2. THE LOCAL IMPACTS OF OFC DEVELOPMENT

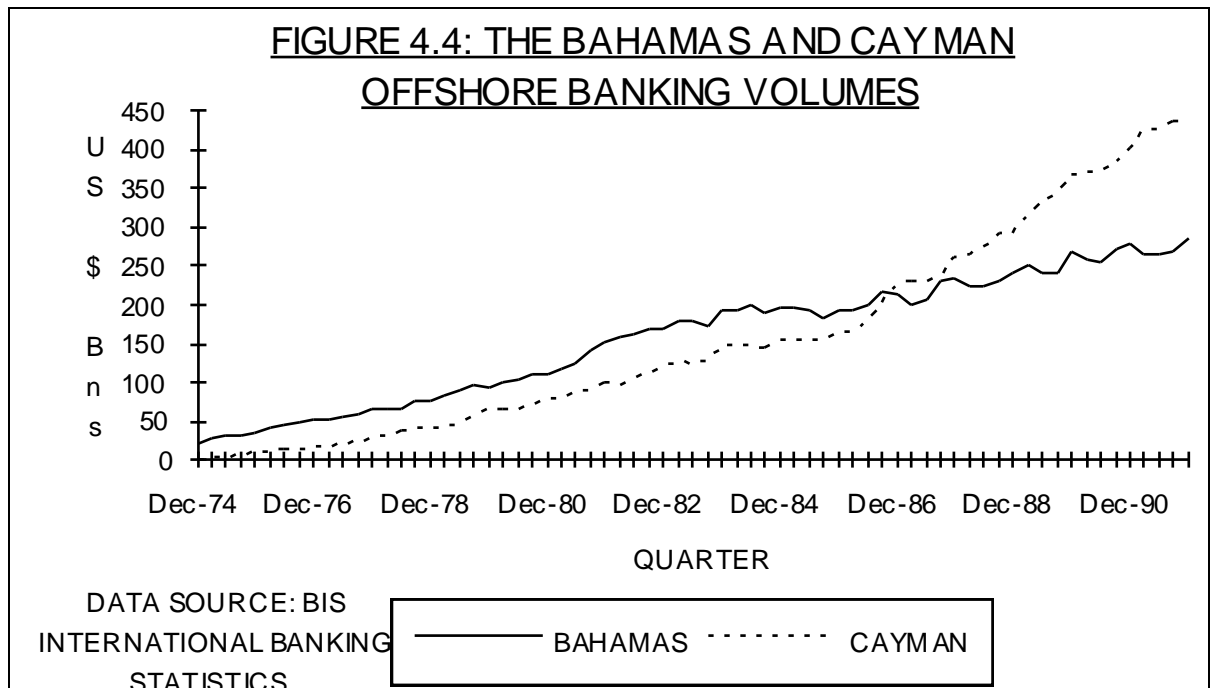
As Francis explains in regard to the Bahamas, the monetary costs for a government of hosting an OFC are slight. Direct costs of telecommunications, training, and supervision and regulation are

limited: telecommunications developments have been heavily subsidized by private users; training is paid for by the banks themselves; and, supervision and regulation costs little. Potential indirect costs of the loss of control over monetary policy and increased tax evasion by locals are avoided: an exchange control policy which separates domestic and offshore monies allows monetary policy to maintain its grip; and there are no taxes to be evaded anyway (Francis, 1985). Francis argues that as the costs of offshore financial development are low the net benefits are much the same as the gross benefits. This assessment is equally applicable to Cayman.

4.6.2.1. Volumes of offshore banking

One way of assessing the success of the Bahamas and Cayman in their efforts to develop OFCs is to look at the volumes of offshore banking activity hosted by the centres. The volumes of offshore banking hosted by the Bahamas and Cayman have increased massively since the early 1970s (Figure 4.4). The Bahamas' development preceded that of Cayman, with the volume of banking hosted by The Bahamas exceeding that in Cayman by \$20 bn. in 1974. This dominance was maintained by the Bahamas until the early 1980s with a gap of \$47 bn. in December 1983. From 1974 to 1983 the Bahamas' growth was slightly more erratic than Cayman's but both centres enjoyed steady growth. During 1983 and 1984 both centres' growth began to falter; the Bahamas lost \$2 bn. of banking activity in this period whilst Cayman gained only \$19 bn. By 1986 Cayman had resumed and accelerated its upward trend whilst the Bahamas' growth continued to be erratic and slow. For the first time, in December 1986, the volume of offshore banking activity hosted by Cayman (\$227 bn.) exceeded that hosted by the Bahamas (\$215 bn.). From then on, and particularly from 1988, Cayman surged ahead of the Bahamas.

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The Bahamas' problems continued with many quarterly declines in business; Cayman suffered few and shallow declines. Thus by December 1991 offshore banking activity in Cayman exceeded that in the Bahamas by \$155 bn., Cayman hosting \$442 bn.

Figure 4.5 provides further illustration of the development of the Bahamas and Cayman as OFCs, revealing quarterly changes in the volumes of offshore banking activity hosted. The differing fortunes of the Bahamas and Cayman, particularly from the early 1980s, can be seen clearly. From 1975 to the early 1980s the Bahamas' quarterly gains tended to exceed those of Cayman. From the early 1980s however there were many quarters when Cayman's growth exceeded the Bahamas'. There were also quarters such as March 1987, March 1988, June 1989, March 1990 and March 1991 when although Cayman's activity increased, the Bahamas' decreased. It is also clear that the Bahamas suffered more, and more severe, quarterly declines than Cayman in the 1980s.

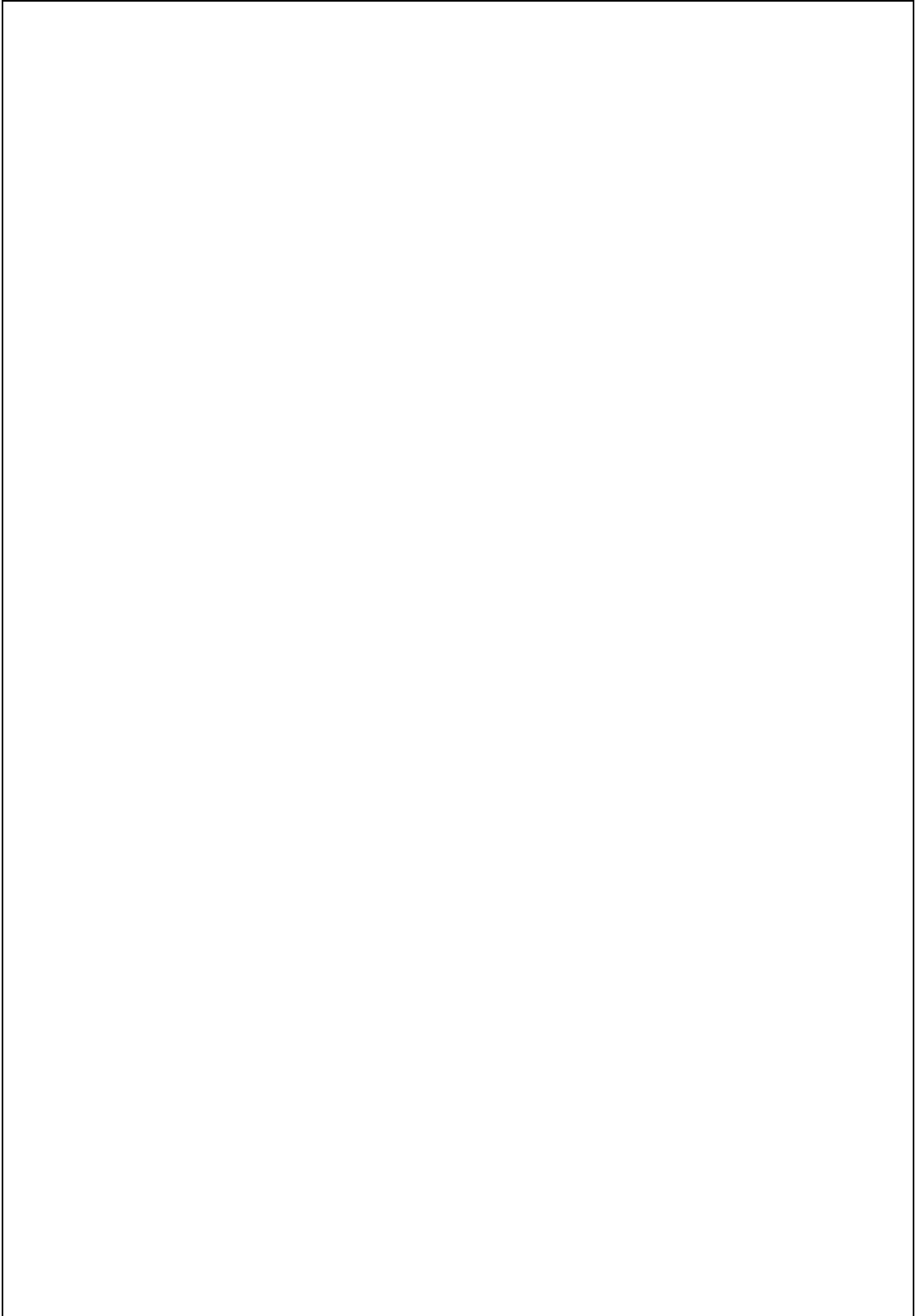
Although Figures 4.4 and 4.5 give some indication of the rise of the Bahamas and Cayman OFCs, they do not provide any context for looking at their development. Figure 4.6 begins to provide some context, illustrating the growth of international banking from 1974 to 1991. The total volume of international banking as recorded by the BIS rose from \$750 bn. in December 1974 to \$12500 bn. in December 1991, peaking at \$12700 bn. in December 1990, an increase of more than 1500%. Absolute annual growth was highest in the late 1980s with an average

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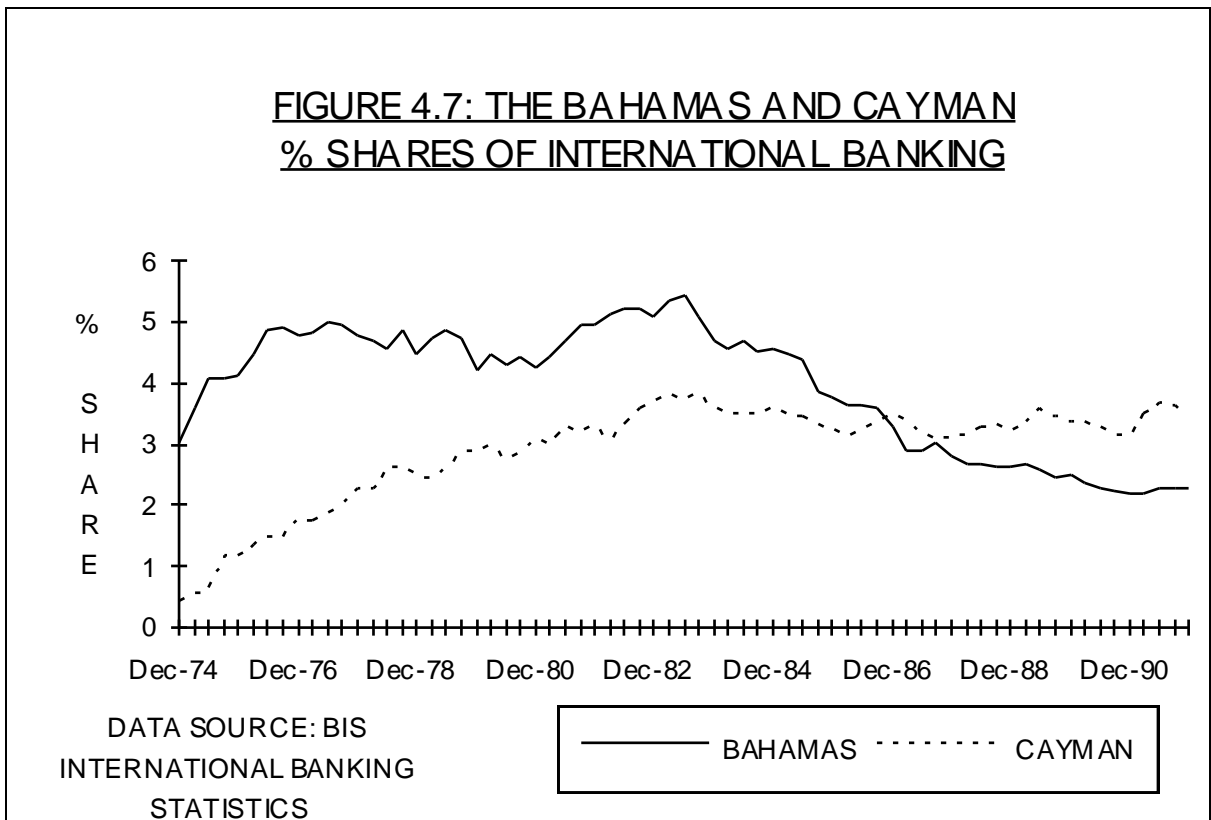
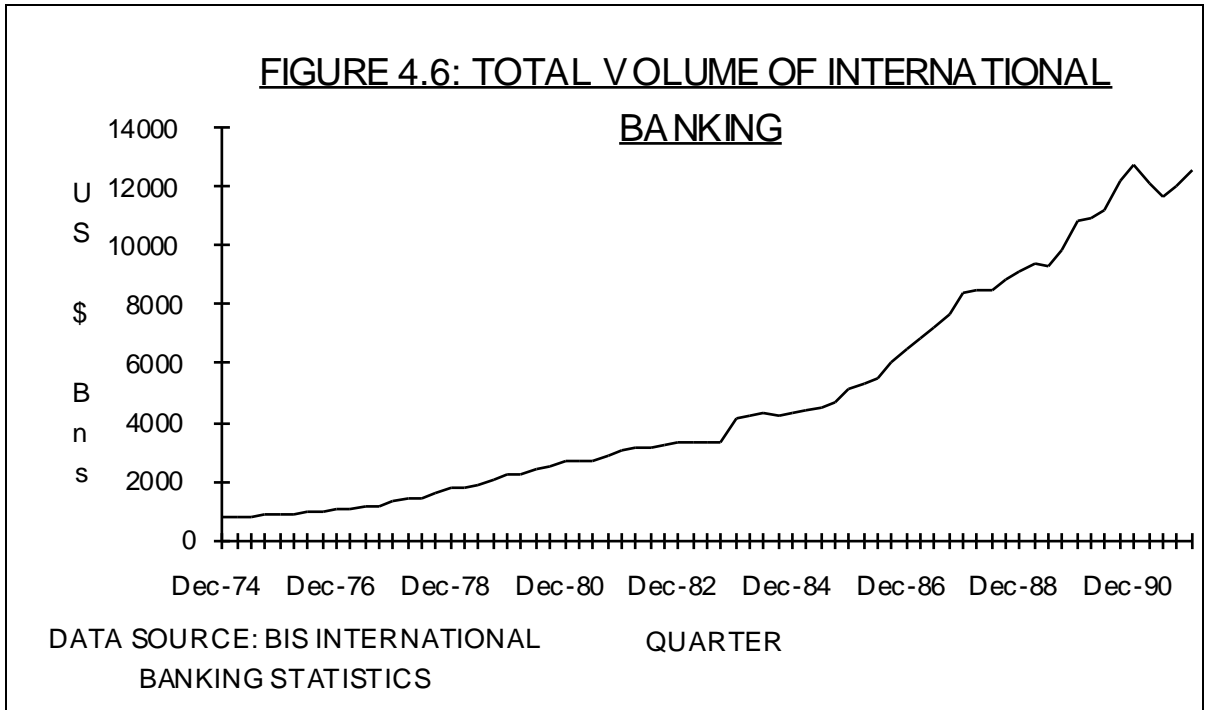
annual increase of \$1441 bn. from 1985 to 1990. This contrasts with an average annual growth of \$334 bn. from 1974 to 1985, and particularly sluggish growth in the early 1980s as the international debt crisis unfolded. The annual rate of growth in international banking varied from -1.1% for the year 1990-91 to 29.6% for the year December 1986-87.

Figure 4.7 puts the development of the Bahamas and Cayman OFCs in the context of wider trends in international banking, showing their percentage shares of international banking. Given the size of the Bahamas and Cayman in terms of population and economic activity the first point to note is that their shares of international banking are quite remarkable; they are clearly important nodes in the international financial system. In 1974 the Bahamas hosted 3% of international banking and Cayman less than 0.5%. Cayman's share gradually increased to almost 4% in 1983, before fluctuating within a narrow range around 3.5%.

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The Bahamas' share, after erratic movements in the 1970s, peaked at 5.5% in 1983 before beginning a steady decline. By 1991 the Bahamas hosted less than 2.5% of international banking activity. Cayman's share first exceeded the Bahamas' in December 1986.

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An alternative contextualization of the success of the Bahamas and Cayman OFCs is to compare their development with that of other OFCs. Figure 4.8 shows the volume of offshore banking hosted by the top 5 offshore banking centres (Bahamas, Cayman, Hong Kong, Panama, Singapore) from 1974 to 1991. In December 1974 the total volume was \$48 bn. (6% of total international banking); in December 1991 the total volume was \$1893 bn. (15% of international banking). This represents an increase of 3843%. The pattern of change over the 17 years closely follows that of international banking.

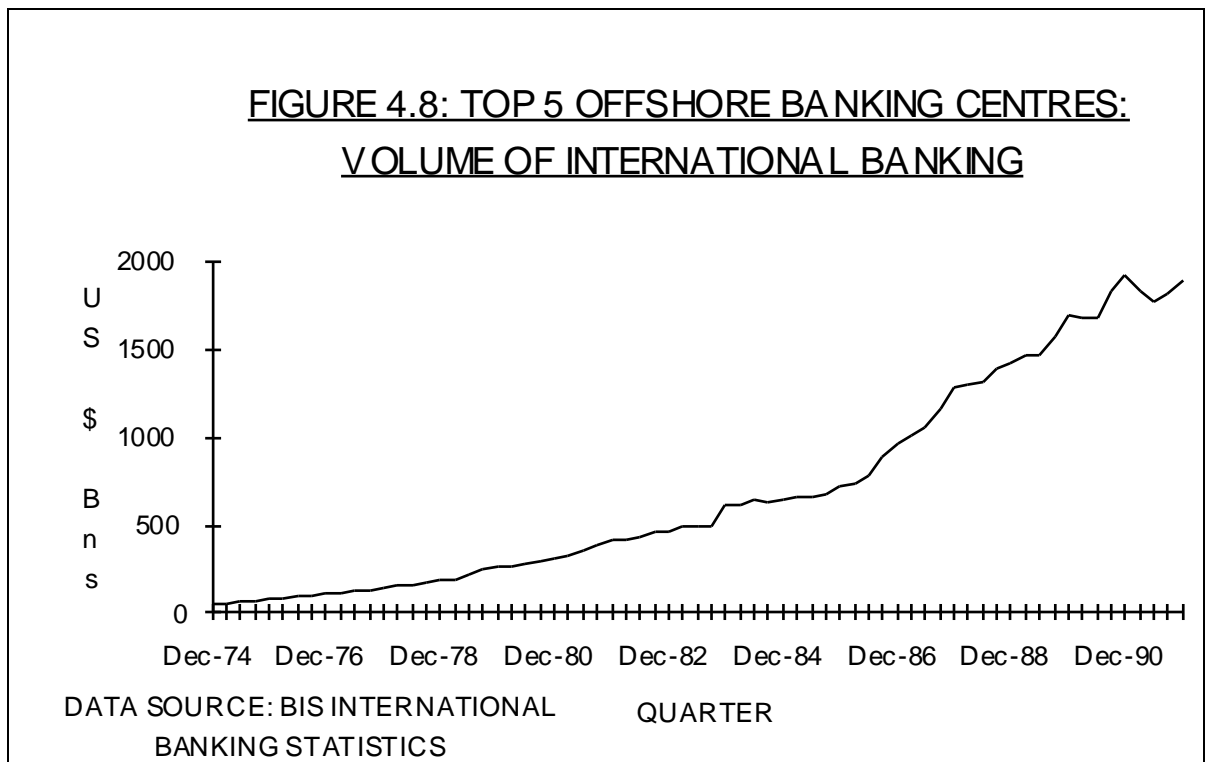
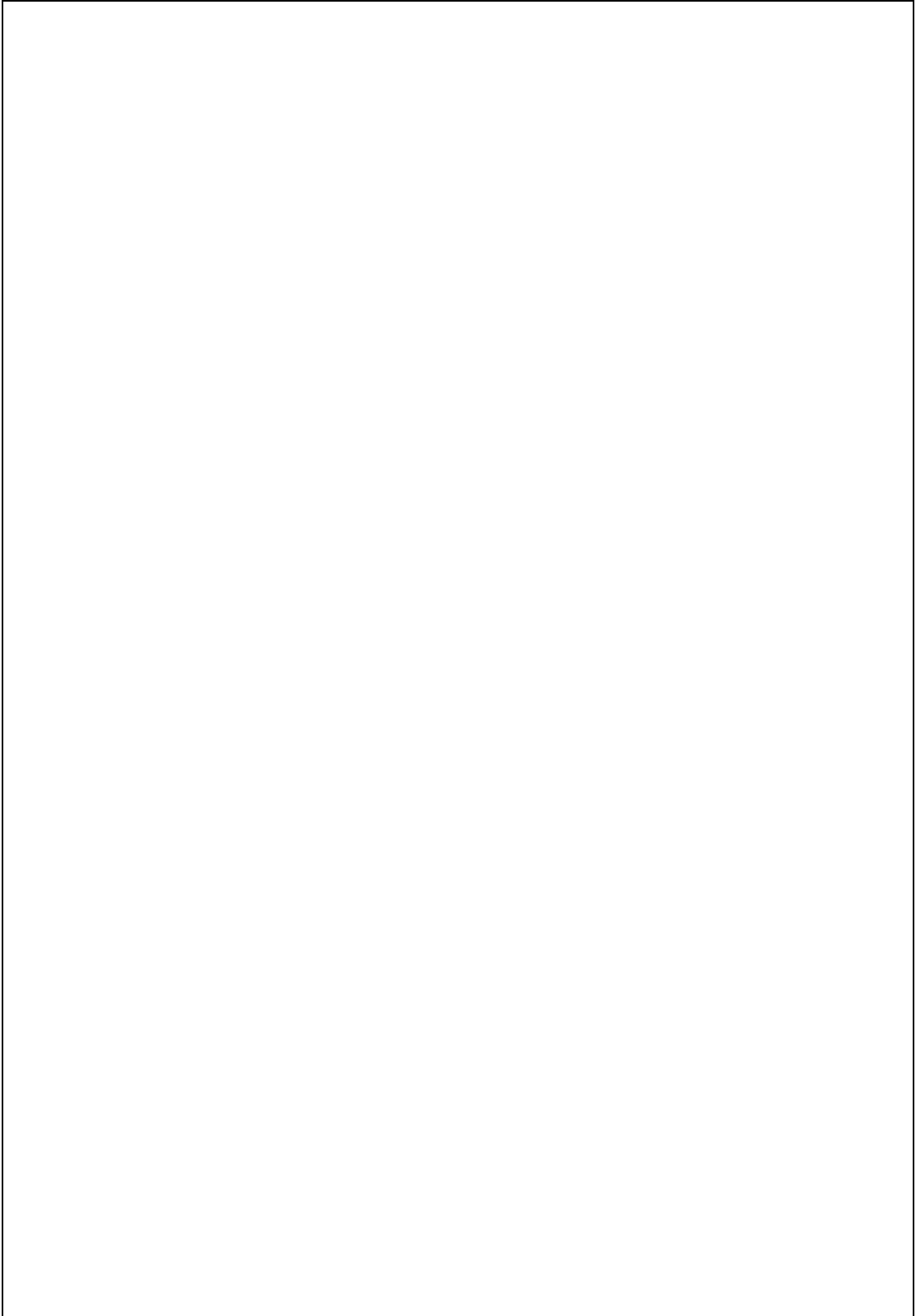


Figure 4.9 contextualizes further the growth of activity in the Bahamas and Cayman, showing the development trajectories of the top 5 offshore banking centres. Although the top 5 centres have remained the same their ranking has varied over time, with some beginning their development earlier than others and later being caught up by newer and more dynamic centres. In December 1976 the Bahamas clearly led the other 4 centres, hosting \$65 bn. of banking business out of a total of \$150 bn. The development of Cayman began to gain pace from the late 1970s as Cayman took second place behind the Bahamas and retained it until 1986. The Asian centres of Hong Kong and Singapore began their rise from the early 1980s and Panama was left behind in fifth place. The rankings changed significantly in 1985 and 1986 such that by 1988 Hong Kong was the clear leader, with Singapore and Cayman vying for second place, and the Bahamas dropping to fourth place.

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By 1991 Hong Kong had a lead of \$286 bn. over its nearest rival Cayman; Cayman led Singapore by \$81 bn.; Singapore led The Bahamas by \$87 bn.; and Panama trailed The Bahamas by \$212 bn.

4.6.2.2. Capturing the benefits

Although quantitative financial data on the volumes of offshore banking activity hosted give some indication of the success of the Bahamas and Cayman in their efforts to develop OFCs it does not give a clear indication of the development impact; there is no direct relationship between the volume of banking activity and the benefits captured. To get a better picture we need to consider how the benefits of hosting offshore financial activity are captured. The benefits of offshore finance are captured through the annual license fees which the offshore banks have to pay⁷³, the local expenditures of offshore banks and resulting multiplier effects, and the employment generated.

Looking at the numbers of banks located in the Bahamas and Cayman gets us closer to a meaningful assessment of the development impact of offshore finance. Figure 4.10 shows the number of offshore banking licensees in the Bahamas and Cayman. As regards the Bahamas, from 1968 to 1972 there was a rapid increase in the number of licenses issued, reaching 339 in 1972. There was then a rapid decline until 1976 before gradual growth became the norm, growth that levelled off at around 400 licenses by 1991. The data series for the number of licenses issued by Cayman begins in 1972, with only 81 licenses issued. Cayman licensees then increased rapidly, possibly at the expense of the Bahamas, with the number of Cayman licenses exceeding the Bahamas for the first time in 1980.⁷⁴ There was then a rapid increase in Cayman licenses in the early 1980s before a slowing of growth as the total number of licenses reached 544 in 1991.

Data on the numbers of offshore bank licensees, however, fail to differentiate between banks of different size and type, their levels of spending in the local economy, and their employment generating effects. Efforts to assess more clearly the economic contribution of the offshore sector in the Bahamas and Cayman have been made. Unfortunately, such efforts are patchy and do not allow easy comparison between the

⁷³ Typical license fees for offshore banks were US \$25000 in the Bahamas in 1987, and US \$15000 in Cayman in 1991.

⁷⁴ Revoked licenses numbered 35, 37, 32, 23, 10, 5 and 2 for the years 1973 to 1979 in the Bahamas, suggesting that banks did leave the Bahamas in large numbers in the years after Bahamian Independence in 1973.

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Bahamas and Cayman as they employ slightly different definitions. For instance the Bahamas' statistics sometimes differentiate between the offshore and domestic banking sectors, whilst Cayman's statistics do not. However some useful information is provided.

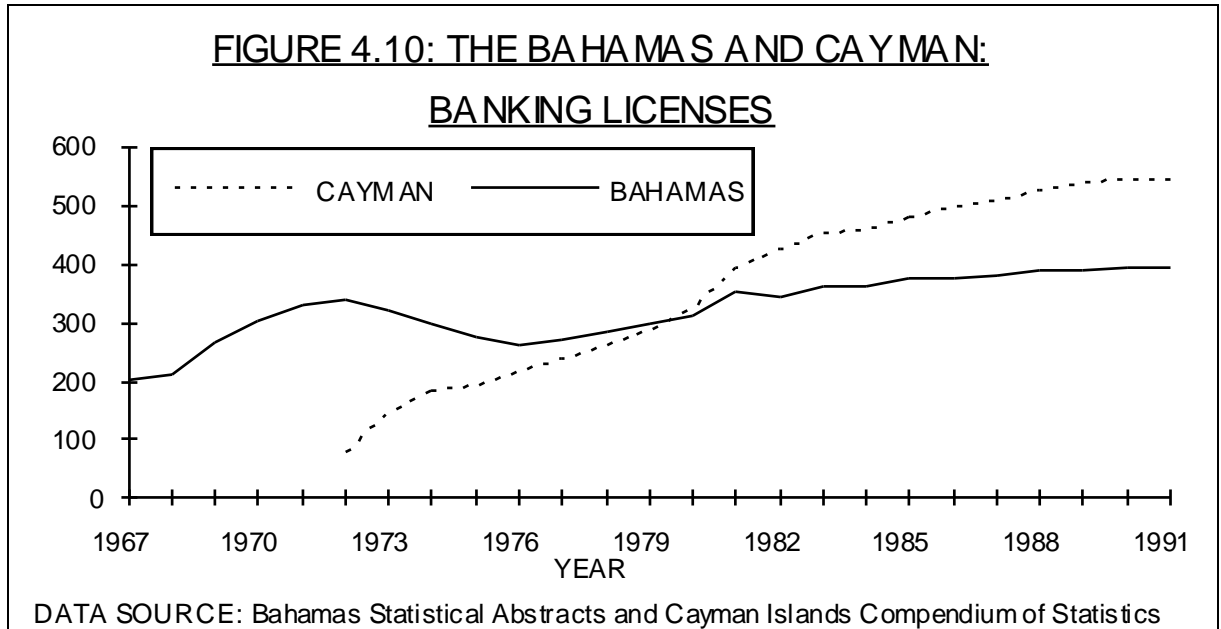


Figure 4.11 shows the revenue gained by the Bahamas Government from license fees for offshore banks. There is a clear increase in the revenue gained in this way, from \$300,000 in 1973 to a peak of \$6mn in 1989. A further interesting feature revealed by this figure is the sudden increase in revenue earned in 1988 as a result of a doubling of license fees, and the fact that revenues remained high in subsequent years; few banks fled the Bahamas. The number of bank licenses revoked in the Bahamas was 13 (1988) and 15 (1989). This was slightly higher than the 8 licenses revoked in 1986 and the 5 licenses revoked in 1990, but hardly a mass exodus. This suggests that banks are not as footloose as some accounts would have us believe.

Figure 4.12 shows the revenue which the Cayman Islands' Government earns from bank and trust licenses. Once again there is a steady increase in the revenue earned from less than US \$4000 in 1970 to a 1991 peak of almost \$9.5 mn., more than 7% of total Government revenue.

Efforts to assess the local expenditures of offshore banks in the Bahamas have been made by the Central Bank of the Bahamas. The total expenditure of offshore banks in the local economy includes salaries, government fees, administrative and training costs, and capital expenditure on the construction and purchase of premises (Francis, 1985). Figure 4.13 shows the local

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expenditure of offshore banks in the Bahamas from 1973 to 1991. Spending increased from less than \$10 mn. in 1973 to almost \$70 mn. in the late 1980s.

FIGURE 4.11: THE BAHAMAS: REVENUE FROM OFFSHORE BANKING LICENSE FEES

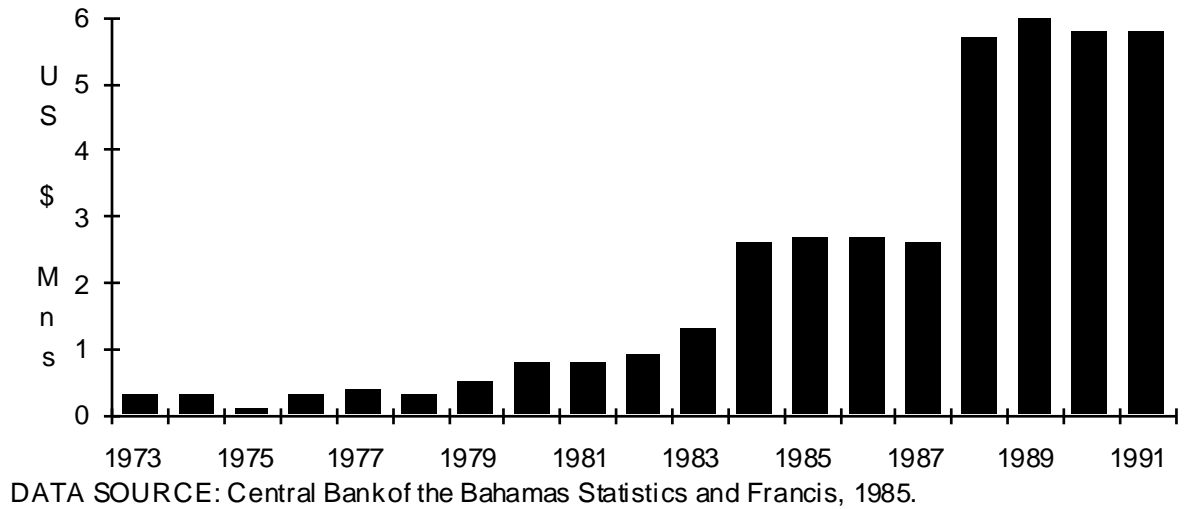
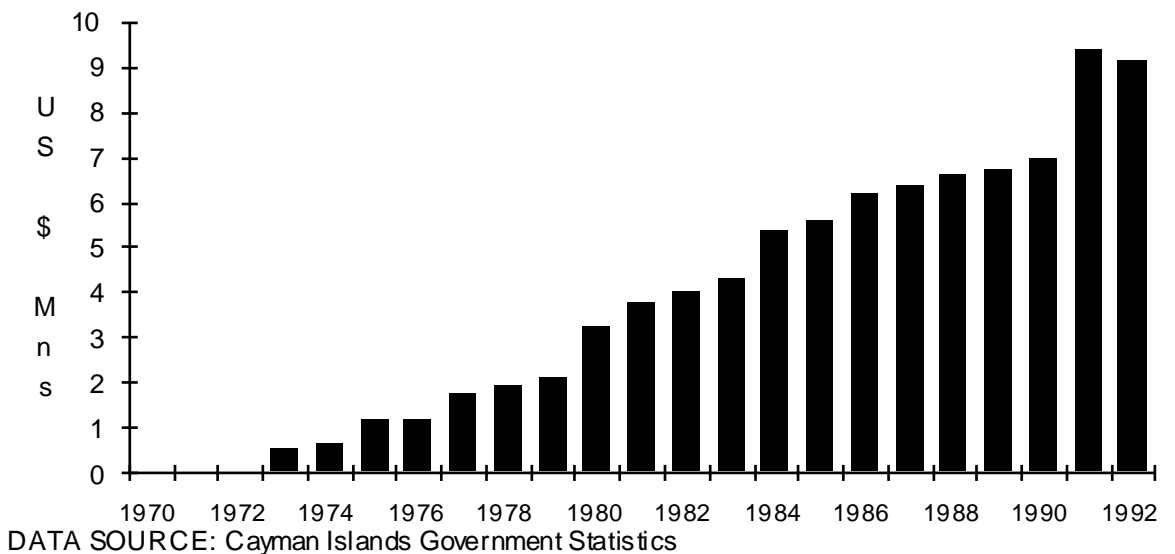
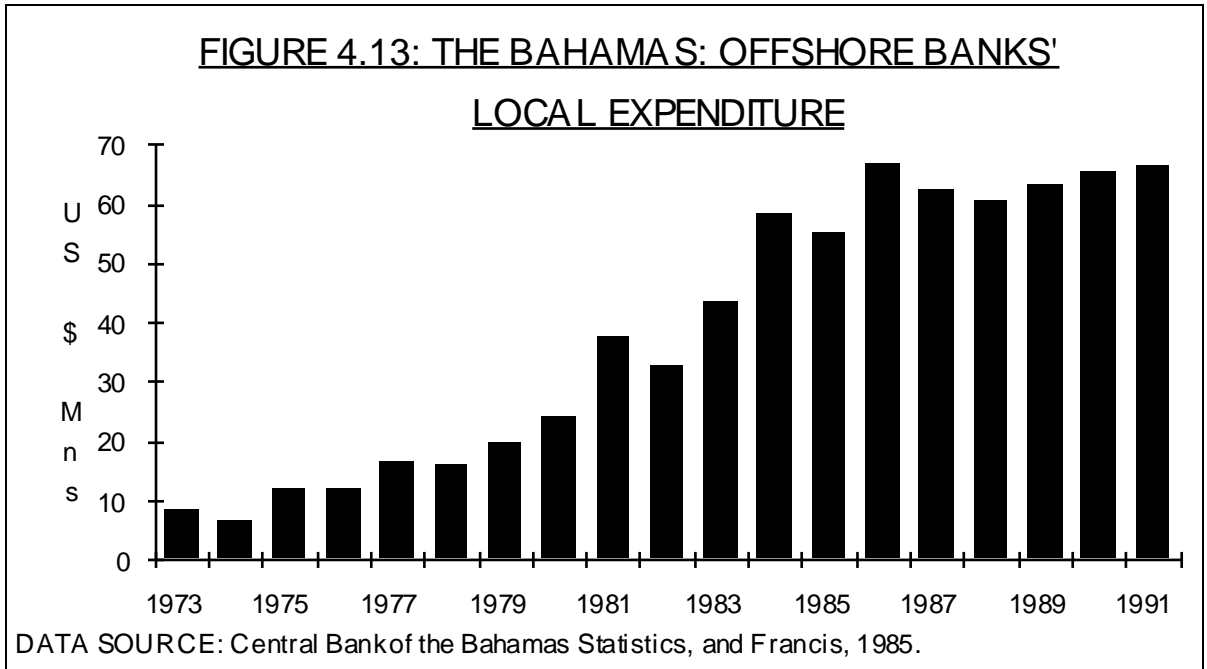


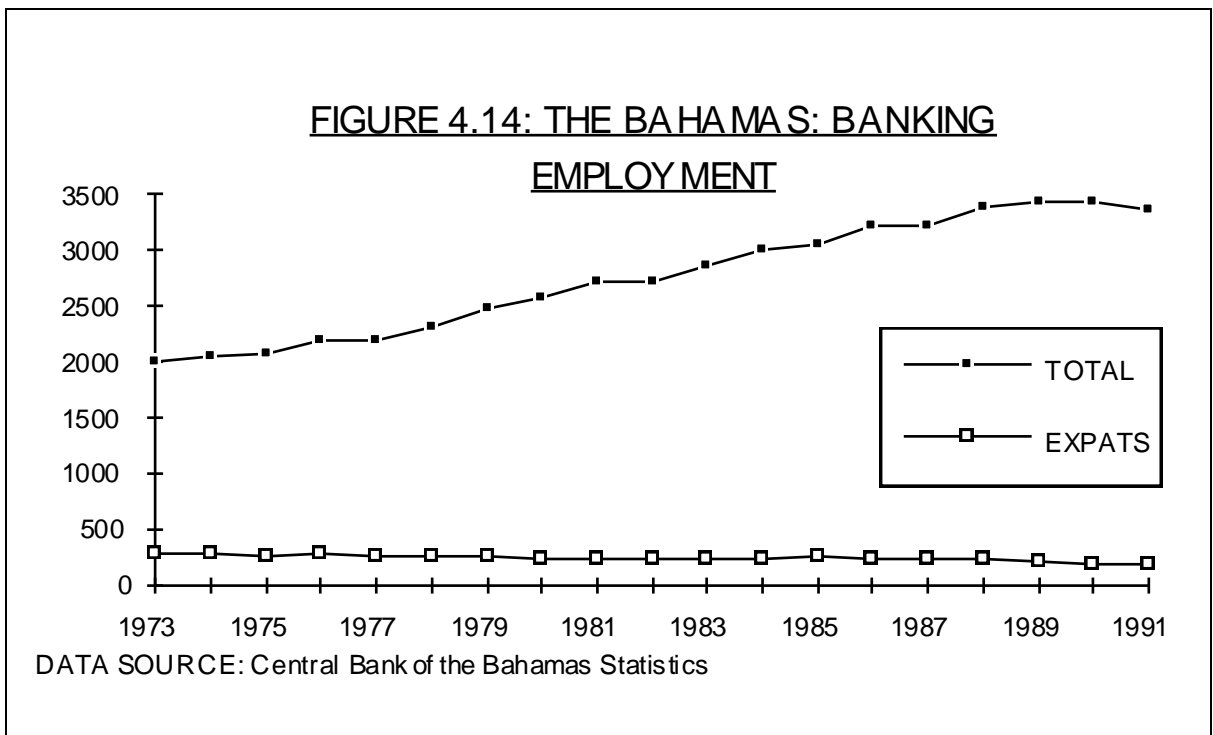
FIGURE 4.12: CAYMAN: REVENUE FROM BANK AND TRUST LICENSE FEES



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For the residents of the Bahamas and Cayman the employment generated by offshore finance may be a more obvious benefit derived from offshore financial activity. Figure 4.14 shows the numbers of people employed in the banking sector (offshore and domestic) in the Bahamas. The total number employed has risen steadily from 2000 in 1973 to almost 3500 in 1991.



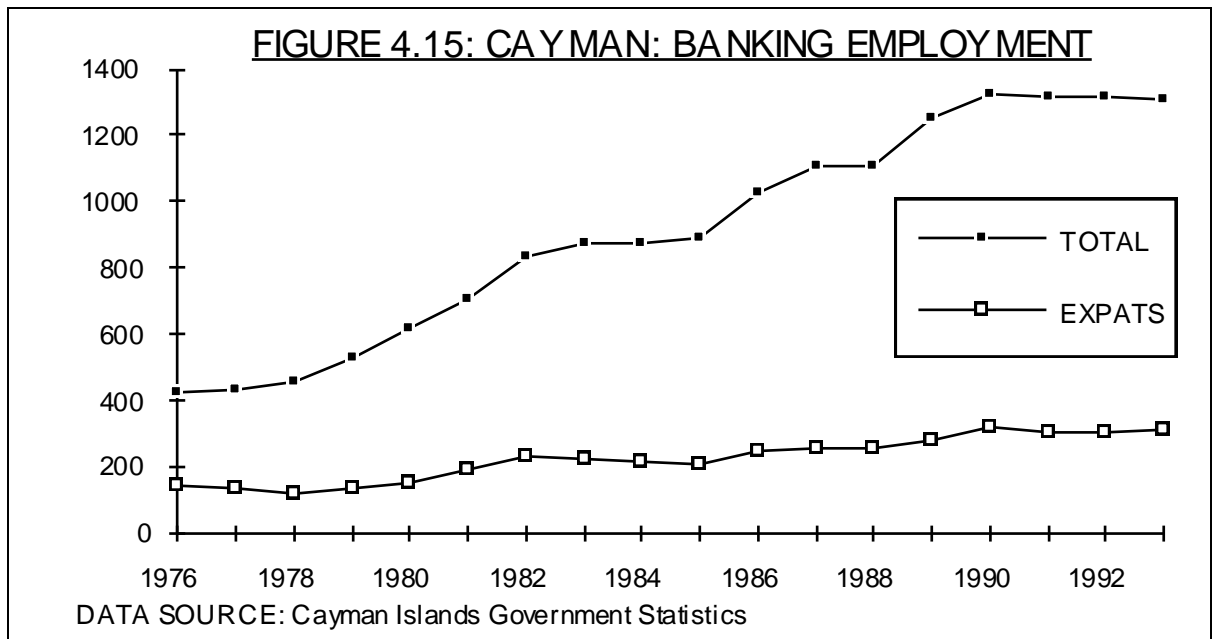
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Given that average salaries in the banking sector were \$28800 in 1991, although the banking sector directly employs only 5% of the Bahamas' workforce, such levels of employment and earnings have significant multiplier effects in the local economy. As the Governor of the Central Bank explained,

“We've done an analysis of the contribution of the banking sector over the last few years. To the Bahamas it represents about 12 to 15% of GDP. The direct benefit is a little over \$200m. That would be the fees, onshore payment for utilities” (Smith, Bahamas).

Another feature illustrated by figure 4.14 is the decreasing numbers of expatriates employed in the Bahamas' banking sector, in part a result of the policy of Bahamianization. Employment data disaggregated by sex proved impossible to obtain for either the Bahamas or Cayman. Interviewees suggested that women make up around 60% of the banking workforce, and are particularly predominant in the lower levels of the banking hierarchy.

Figure 4.15 shows the employment generated by the banking sector in Cayman. Once again there has been a rapid, and somewhat jumpy increase in employment, with the total increasing from 425 in 1976 to more than 1300 in the early 1990s. In something of a contrast with the Bahamas the numbers of expatriates employed has continued to rise, from 144 in 1976 to 315 in 1993. Given that expatriates tend to hold positions at the top of banking hierarchies it is not surprising that such a trend has created some tensions in Cayman.



The employment effects of the offshore sectors were widely recognized, not only in terms of the numbers of jobs created, but also in terms of the range of skills required and the quality of jobs created. One interviewee explained that offshore finance “provides an economic outlet ... a means by which persons who have been able to get higher education can find gainful employment at home at levels of remuneration that would be satisfying” (Pindling, Bahamas). This interviewee argues that offshore financial development had limited the brain drain from the Bahamas, and contributed to the development of middle class employment.

Data on the expenditure of banks in Cayman is not available but recent data provide some indication of the multiplier effects. In 1991 the average annual salary in the banking sector was US \$33000. The insurance, finance, banking, real estate, and business services sector employed a total of 2730 persons; 49.5% of this employment was in banking; 42.7% in legal, accountancy, computing, consulting, real estate and business services; and, 7.9% in insurance (Cayman Islands Government, 1993). In 1990 the Financial services sector contributed 17.2% of Cayman’s GDP, and Business services provided another 16.5% (see also Gallagher, 1990).

Qualitatively, interviewees in the Bahamas and Cayman described the benefits of hosting an OFC as: increased taxes and revenues; employment, wages and training; technology transfer; and a general boost to the economy. The offshore sectors were seen as contributing to the general economic health and wealth of the Bahamas and Cayman, with little cost. One interviewee argued that “the quality of life here is a

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lot better than anywhere else in the Caribbean that I know of. The OFC has increased the level of wealth which is really the main reason why things are better here” (Manley, Bahamas). The Cayman Islands Bankers Association declares that the financial sector “develops an ever more qualified workforce without needing unskilled immigrants; it is ecologically friendly; its products enhance the host community’s quality of life” (CIBA Guide, 1989). A further benefit of hosting offshore financial activity mentioned by interviewees was the training provided to employees, and transfers of technologies such as computing and telecommunications facilities.

Many of my interviewees recognized that the benefits of offshore financial development were felt unevenly by the population with only a small segment of the population benefiting directly.⁷⁵ It was argued that industrial development was needed to benefit the entire population. However, another interviewee argued that:

“I would think that all Bahamians would have benefited because ... well they would have benefited directly or indirectly. Direct benefit would have gone to the people who were actually involved in the industry, and indirect benefit would have accrued to the rest because those people still live here, circulate here, and their families are here. So I would have thought that the benefit was right across the board. And, the social phenomena in the Bahamas is that the people directly involved in the offshore financial sector are what you would call the children of working class people. Our education policy moved them rapidly through an educational development programme to put them in a position where they can take advantage of this. So again it has benefited right across the board” (Pindling, Bahamas).

In the case of Cayman the distribution of benefits was also seen as uneven, although it was held that the whole community had benefited:

“The people who are in the non-finance industry type of jobs haven’t benefited as much. Overall I think it’s fair to say that the community has benefited. You’ve only got to look around. There’s far less poverty on this island than there is on the majority of other West Indian islands. I think the poorer sections of the community have not really benefited. As usual it’s always the fat cats who cream it all off for themselves” (Taylor, Cayman).

⁷⁵ Quantitative data on the distribution of benefits from offshore finance proved impossible to obtain in the Bahamas or Cayman.

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Another Cayman-based interviewee explained that offshore financial development had resulted in disparities in wealth as compared to the 1970s, with expatriates reaping most of the benefits, and felt that such disparities could be damaging to the future success of the OFC:

“I think that what is significant is the difference between the haves and the have-nots here. In the old days when I came 23 years ago we were all have-nots, however affluent the same people are today, and the expatriate didn’t own land. Not for any particular reason, just because he didn’t have the money to. So you had the Caymanians being the landowners, the Caymanians seeing the financial industry bringing in local business, more people to purchase things. So it was all very gradual. But where it could stop is if you end up with a large young Caymanian workforce with no jobs” (Lonsdale, Cayman).

In addition to the development of a more divided society, other costs of rapid development based on offshore finance were recognized, with some interviewees endorsing Ramsaran’s view that “in their eagerness to adopt what they see as a relatively easy path to development, critical considerations relating to the nature of the activity or its social and economic consequences in the context of long term objectives tend to be easily ignored by policy makers” (Ramsaran, 1989, p.95). One interviewee suggested that rapid development had:

“disrupted the Caymanian society. In a way it’s something like Russia going straight from being agrarian, straight into Sputnik, and of course we are seeing the results of that now. Cayman went from being a little sleepy fishing village into a first-class financial centre, but it’s being supported, all its services, by non-Caymanians” (Smith, Bahamas).

Such views were not confined to Bahamas-based interviewees looking at and criticising Cayman. A key player in the construction of Cayman as an OFC explained that:

“Rapid development in any country will certainly put a test to both the population and the Government because rapid development means a greater volume of imported labour. Imported labour has the tendency of upsetting the social balance which is something that you have to be very cautious with. So this had to be taken into consideration very strongly by the Immigration Board so that it’s not everybody who asks for a work permit that will get one. You have to make a good case out. The Government structure itself has got to constantly be upgraded and structured so as to

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be able to handle that growing volume of business. The population growth is also very important. The streets are congested with traffic, and if the Government doesn't increase the roadway you're coming near to almost a standstill in the peak hours of the day. So there are many things that are affected in this rapid growth and it is for Government to be aware of what is happening and how they can alleviate the congestions that it will bring about. We had always been cognisant of this from the earliest days. We didn't sit down and wait to be engulfed by development" (Davies, Cayman).

Again in relation to Cayman, which perhaps has suffered more development costs than the Bahamas as a result of its smaller size and more rapid development, an interviewee lamented the social changes brought about:

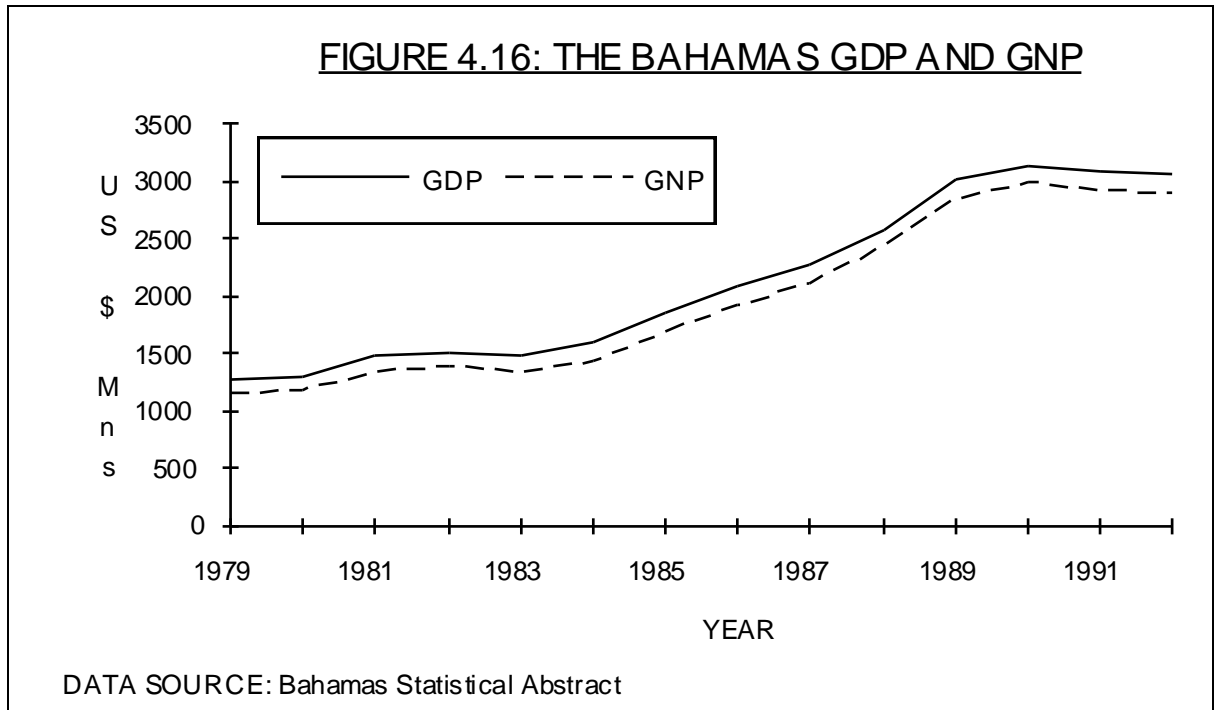
"development has impacted on social life in Cayman negatively, and by that I mean probably the family unit. It's been changed. Cayman used to be a place where the family unit was revered. You had basically one person working, normally the husband. Those things have changed to the point where both parents are out working, children are left to be supervised by day care centres or home-help. Some parents are holding down two or three jobs a week. As a result I think the family has suffered in Cayman to a great degree. I think some of the social problems we're seeing now, with the increases in crime, are a direct result of that. So I think it's definitely had a negative impact on it" (Hanson, Cayman).

Although the rapidity of economic development in Cayman was widely recognized as having been problematic many interviewees did feel that "its amazing how a small community like this has succeeded in absorbing as much change as it has with as little in the way of problems as it has" (Simpson, Cayman).

As offshore finance is part of a general development strategy a wider picture of the impact of offshore financial development in the Bahamas and Cayman can be gained by looking at their economic development more broadly. Figure 4.16 shows the steady growth of GNP and GDP in the Bahamas from 1979 to 1990, with a levelling off in the early 1990s. Figure 4.17 shows the growth of per capita incomes in the Bahamas, from less than \$6000 in 1979 to almost \$12000 in 1990. Figure 4.18 and 4.19 show similar information for Cayman, covering the period from 1983 to 1991. Over this period, per capita income rose from US \$ 11000 to \$25000.

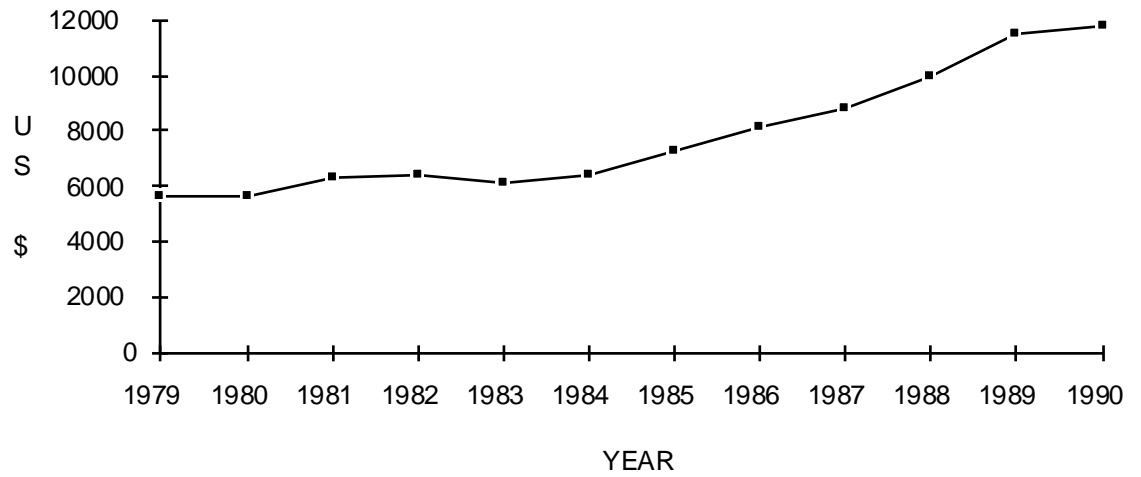
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Some context for these levels of per capita income is provided by figure 4.20 which shows, for selected countries (other Caribbean countries, offshore centres, the US, and the UK) 1991 per capita income levels. By this measure residents of Cayman earn more than US and UK residents, and the Bahamas, although lagging slightly behind the Asian offshore centres of Hong Kong and Singapore, is much more prosperous than its Caribbean and Central American neighbours (EA 3D World Atlas CD ROM, 1994).



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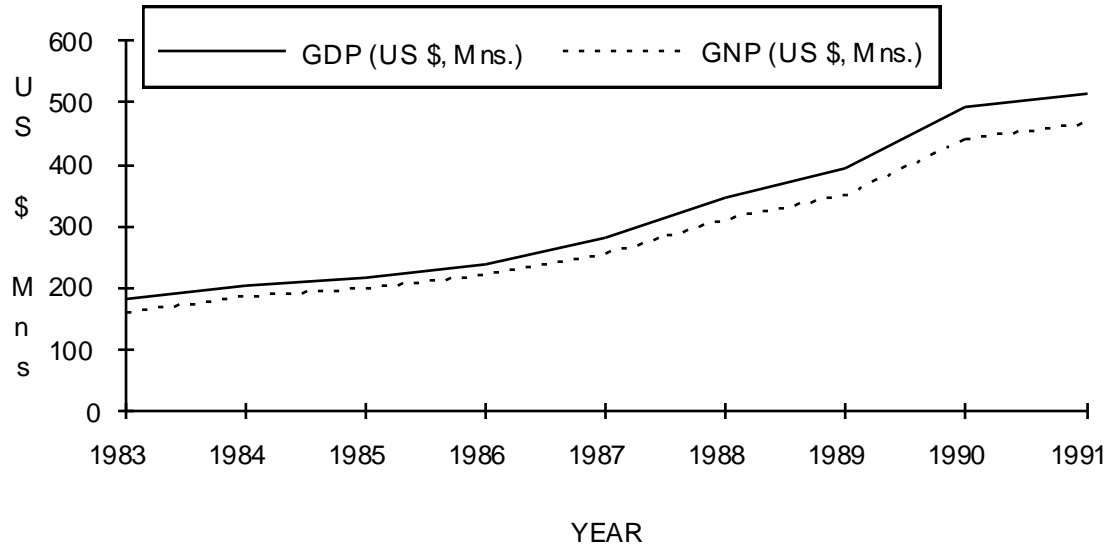
**FIGURE 4.17: THE BAHAMAS PER CAPITA INCOME
(GNP/POPN.)**



DATA SOURCE: Bahamas Statistical Abstract

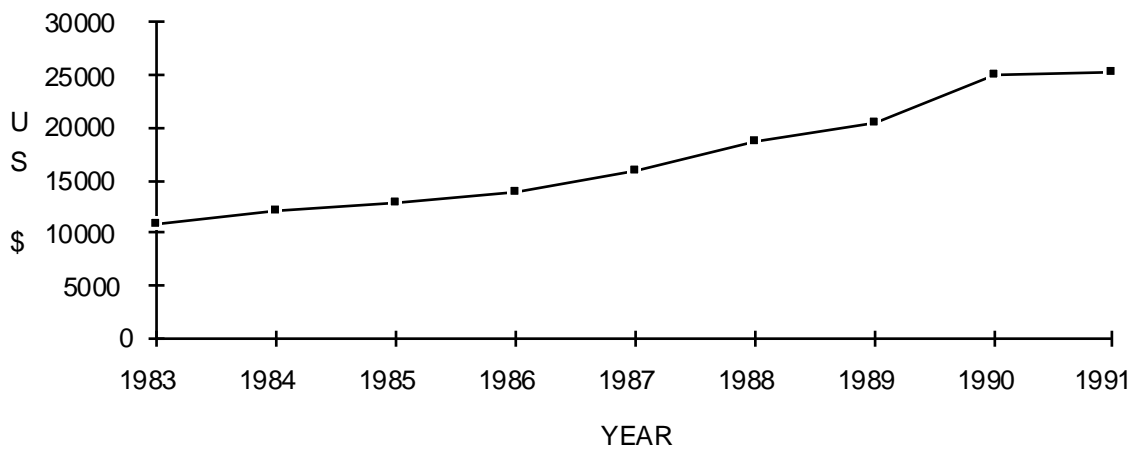
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FIGURE 4.18: CAYMAN: GDP AND GNP

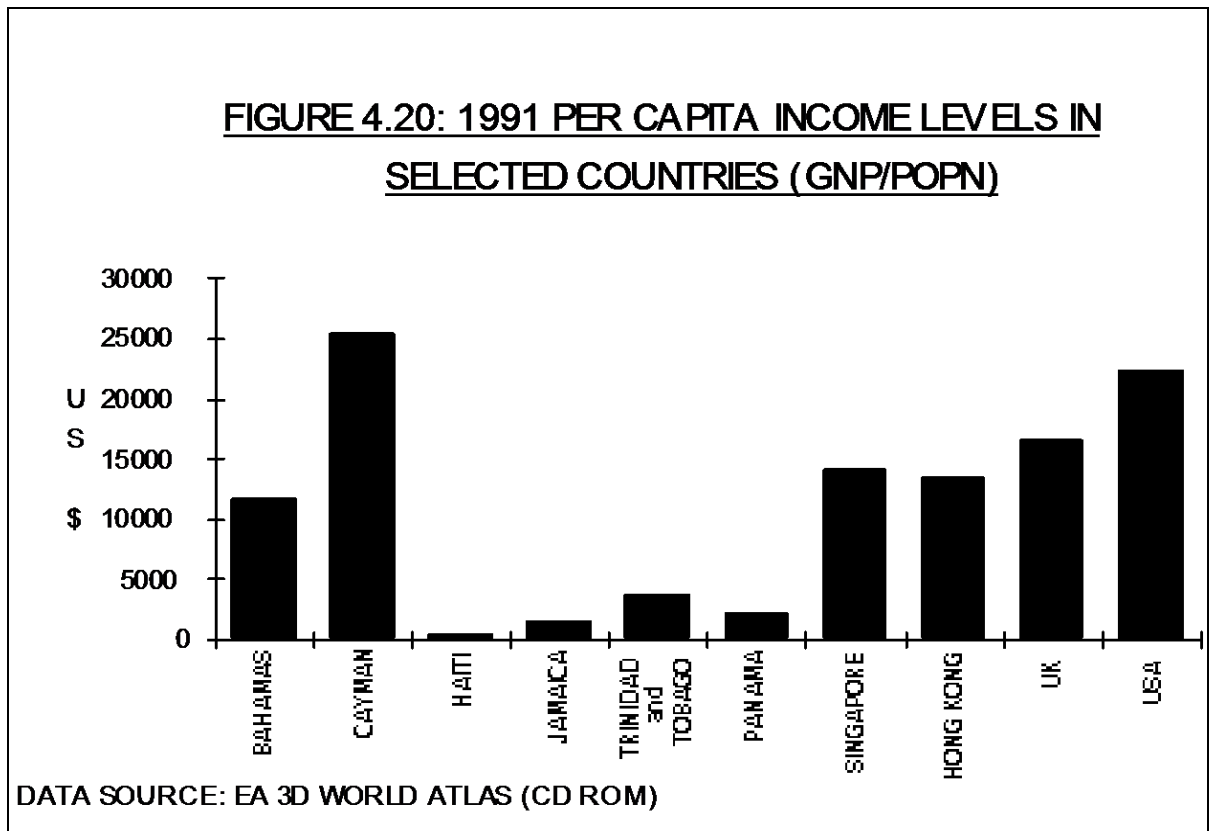


DATA SOURCE: Cayman Islands Compendium of Statistics

**FIGURE 4.19: CAYMAN PER CAPITA INCOME
(GNP/POPN.)**



DATA SOURCE: Cayman Islands Compendium of Statistics



4.6.3. SUMMARY

It is difficult to assess the impact of offshore financial development due to lack of data, and, as I explained in section 1.3. my dissertation is not intended as a “development” dissertation. It is for this reason that my research and interviews in the Bahamas and Cayman did not focus on the impacts of development. That said, some assessment is important, using the data available. Even the Central Banks and Governments of the Bahamas and Cayman are unable to assess accurately the impacts of offshore finance on their countries. However, with the limited data available, I have illustrated that offshore finance has produced benefits for the residents of the Bahamas and Cayman. Although employing relatively small numbers of people, the multiplier effects of the offshore sectors are widely felt in areas such as tourism, construction, business services and communications. In both places offshore finance is a central plank of a broader development strategy, development strategies which - as comparison with other Caribbean countries makes clear - have been remarkably successful in fostering the economic development of the Bahamas and Cayman. The regulatory construction of the Bahamas and Cayman as places for offshore finance has significantly contributed to their development at little cost.

4.7. CONCLUSIONS

The development of the Bahamas and Cayman OFCs poses a challenge to the end of geography thesis: why and how have these new places emerged on the map of international political economy? In this chapter I have explored the regulatory construction of the Bahamas and Cayman as places for offshore finance, and outlined the local impact of offshore financial development. I have argued that although offshore finance may in theory be footloose and able to locate anywhere, in practice the characteristics of particular places are all important. Offshore finance is far from placeless.

I examined the regulatory construction of the Bahamas and Cayman as places for offshore finance and showed that local social relations - relationships between the offshore financial sectors and their local governments are particularly important. A better relationship gives the locality more power to successfully position itself in the wider regulatory landscape of international finance. Laws, particularly tax and secrecy laws, are the most important set of regulatory practices in the construction of the Bahamas and Cayman OFCs. For the OFCs, it is not where they are in physical space that matters, rather it is where they are in the regulatory landscape of international finance. Although the OFCs appear to surrender their sovereignty to processes of financial globalization, their sovereignty - their ability to enact laws which refer to their territorial space - lies behind the regulatory construction of the Bahamas and Cayman OFCs as places in a wider regulatory landscape. It is to the wider regulatory landscape, and particularly to competition between the Bahamas and Cayman within this landscape, that we now turn our attention.

CHAPTER 5

PLACE COMPETITION: THE BAHAMAS vs. CAYMAN

“If capitalists become increasingly sensitive to the spatially differentiated qualities of which the world’s geography is composed, then it is possible for the peoples and powers that command those spaces to alter them in such a way as to be more rather than less attractive to highly mobile capital” (Harvey, 1989, p.295).

5.1. INTRODUCTION

In this chapter I continue to explore the development of the Bahamas and Cayman OFCs and their place in processes of financial globalization. As I argued in chapter 4, the Bahamas and Cayman OFCs are constructed as places for offshore finance through sets of regulatory practices. In this chapter I build upon that argument, showing that the regulatory practices through which the Bahamas and Cayman OFCs are shaped, and which they in turn shape, are not only local. Regulatory practices, although held down in particular places, are not confined to any one place. The Bahamas and Cayman OFCs are places in a wider regulatory landscape; their development cannot be understood by looking at each centre in isolation.

My argument in this chapter revolves around the theme of place competition. In an increasingly globalized world of rapid financial flows, distance and space may be less important but arguably, differences of place and regulatory environment are increasingly important. To reiterate: “the less important the spatial barriers, the greater the sensitivity of capital to variations of place within space and the greater the incentive for places to be differentiated in ways attractive to capital” (Harvey, 1989, p.295). Mobile capital can search out the best locations to invest in; the flip side of this is that places are driven to construct themselves as attractive to capital.⁷⁶ Such a development is one of degree rather than an entirely new feature of the global economy, but organized competition between places for capital has become increasingly important. Cities and regions compete: firstly to attract public and private investment (competitions for City Challenge funds and Japanese investment in the automobile industry are recent examples

⁷⁶ I am using “place” as a shorthand to refer to localized social relations and locality as agent in the manner explained, after Cox and Mair (1991), in chapter 4.

in the UK); and secondly to host spectacles such as Olympic Games and World's Fairs which may attract further investment (Ashworth and Voogd, 1990; Gold and Ward, 1994; Kearns and Philo, 1993; Leitner, 1990; Logan and Molotch, 1987).⁷⁷

As places competitively construct themselves to attract fractions of capital, capital may play off one place against another to get the best deal possible; such competition between places may result in a 'race for the bottom'. That is, competition between places to play host to capital may result in places bending over backwards to make themselves attractive to capital, a result that may have harmful consequences for the locality and the wider global environment. The hypothesis, reminiscent of the one-shot prisoner's dilemma, is that: places will compete to attract mobile capital through the construction of attractive regulatory environments; and, in the absence of coordination, such competition will result in a lower collective level of regulation than any single place would choose (Peck and Tickell, 1994b). Competition between offshore financial centres to host apparently footloose business provides an arena to explore this hypothesis.

Place competition is an important part of the development of the Bahamas and Cayman OFCs as places in the wider regulatory landscape. In this chapter I develop three themes about place competition. The first theme concerns the relational nature of places. As places compete to attract fractions of capital, any one place is, in effect, defined by the ways in which it differs from competing places. That is, the attractiveness of the Bahamas OFC depends upon how attractive other competing OFCs are. My second theme explores the strategies of competition employed by the Bahamas and Cayman to attract mobile capital, looking at how they construct themselves as different from, and more attractive than, their competitors.⁷⁸ A third theme complicates the idea of states competing in an anarchic world, by recognizing the role of multinational corporations in a globalizing economy and by suggesting that their allegiances are unlikely to be with a particular place for long. Once again, extra-local regulatory powers play an important role in the

⁷⁷ Details of expenditures on such place promotion activities are very difficult to obtain. However Birmingham City Council spent £1.5m in their unsuccessful mid 1980s efforts to host the Olympic Games (Fetter, 1993); Glasgow District Council and Strathclyde Regional Council had a budget of £50m for the 1991 European City of Culture (Boyle and Hughes, 1994); the London Docklands Development Corporation spent £28m on publicity and promotion from 1981 to 1992 (Brownill, 1994); and British Columbia spent (Canadian) \$1.5bn in hosting the 1986 World's Fair in Vancouver, an effort which reaped a \$300m deficit (Ley and Olds, 1988).

⁷⁸ An important part of this story, which I will address in detail in chapter 6, concerns the wider geopolitical environment in which OFCs act, and how changes in this context might alter the strategies open to, and selected by, OFCs.

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construction of the Bahamas and Cayman OFCs as places in a regulatory landscape.

5.2. A COMPETITIVE ENVIRONMENT

The offshore financial industry is highly competitive. Many governments, eyeing developments in the Bahamas and Cayman, have concluded that hosting offshore financial activity is a promising route toward development and have sought to get in on the act. As a Bahamas-based banker noted: “everybody in the region really wants to get a piece of the offshore business. They see it as being a diversification of the local economy” (Williamson, Bahamas). Entry costs for new players in the offshore finance game might appear to be low; it might seem that a country needs only to enact appropriate legislation and wait for business to flood in. There is a flaw in this argument in that the amount of business looking for an offshore haven is not unlimited and one might expect the market to become saturated with offshore centres offering their services, but this has not prevented many places, especially small island micro-states with limited development options, trying to become involved.

Interviewees in the Bahamas and Cayman, talking about their major competitors, almost exclusively mentioned other Caribbean centres. The Asian centres of Hong Kong and Singapore, or European centres such as Jersey, Malta and Cyprus, rarely figured in their accounts of the Bahamas’ and Cayman’s key competitors. This focus can be explained through the idea of a geographically-differentiated market for offshore services, with clusters of offshore centres serving each of the three powerful economic regions centred on Tokyo, London and New York (Roberts, 1992).⁷⁹ This “adjunct relationship”, in Roberts’ terms (Roberts, 1994), between OFCs and powerful economic regions reveals something interesting about OFCs. In Marxian terms financial capitals which make use of OFCs need to gain access to productive economies onshore if they are to accrue value through the labour process. In a manner reminiscent of Harvey’s account of fictitious capital (Harvey, 1982), OFCs - divorced from, and yet reliant on, real productive activities - may be seen as “fictitious spaces”. This is an idea I shall return to in chapter 7.

The Asian centres compete largely with each other, as do the European centres and the Caribbean centres, each OFC competing to attract business that has already chosen which regional cluster to use. This regionalization of competition is in part a result of the division of the global business day into three eight hour blocks, as well as the existence of cultural and linguistic differences. The difficulties of conducting

⁷⁹ Figure 1.1, shows the world distribution of offshore financial centres, clearly showing 5 clusters in the Caribbean, Western Europe, the Middle East, South-East Asia and the South-Pacific.

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business outside one's own time-zone and cultural/linguistic zone make the decision to use an OFC in one's own region a sensible choice. Thus, business from

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Japan may make an initial choice to use an Asian centre, while North American business may only consider a Caribbean centre. As a Bahamian Central Banker explained:

“you are deciding whether you are going to operate in the Western hemisphere, in the centre, or in the east. Bearing in mind that we have about 37 OFCs now, ranging from the Pacific Islands, Vanuatu in that group and Hong Kong; coming in the centre to the Mediterranean, Cyprus, and Mauritius off Africa. So usually it may be geographical location. If you’re near an area in which there is flight capital, like Panama would have picked up a lot of flight capital out of Latin America, Cayman and Bahamas would have taken a lot of flows coming out of North America, and the Eastern coast of South America. Jersey, Channel Islands, and Ireland would take most UK traffic, and Madeira, off Portugal. It tends to reflect that sort of thing” (Smith, Bahamas).

This picture of a geographically-segmented market is a simplification as the Caribbean centres do attract some business from the East Asia and Europe.⁸⁰ For instance, an Asian company wishing to invest in the USA may use the Caribbean OFCs to route its investments. However, the idea of a geographically-segmented market does help to explain why the Bahamas and Cayman see their competition as coming from the Caribbean. If a client has already decided to use a Caribbean centre the existence of an attractive regulatory environment in Singapore is of little concern to Cayman.

Within the Caribbean there are many centres vying to host offshore financial activity, as Figure 5.1 illustrates. A London banker noted that “for twenty years competition in the Caribbean has been strong as similar offshore centres aimed for the same market” (Gilling, London). Centres specialize in different aspects of offshore finance in efforts to find their own market niche. Bermuda specializes in the captive insurance business in which it leads the world; the British Virgin Islands offer attractive legislation for the incorporation of tax-exempt international business companies; the Netherlands Antilles and Barbados offer an attractive tax environment built upon double-taxation treaties with the US; Montserrat offers offshore banking facilities; the Turks and Caicos offer a range of banking, insurance

⁸⁰ Data on the origins of business are hard to obtain, in part due to the strict confidentiality surrounding offshore banking, but 1982 figures for the percentage of Eurocurrency transactions booked in Cayman *vis-à-vis* residents of particular countries are: USA 54.6%; UK 8.5%; Brazil 4.5%; Canada 1.9%; France 2.7%; Mexico 1.7%; West Germany 1.4%; Switzerland 1.4%; Venezuela 1.0%; Japan 0.9%; Netherlands 0.7%; Spain 0.4%; Denmark 0.4%; other 20% (Cayman Islands Inspector of Banks and Trust Companies).

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and offshore company services; and other smaller players such as Grenada and Anguilla take whatever business they can. However, with the exception of Bermuda for insurance, the Bahamas and Cayman are the most important centres in the Caribbean with the other centres trying to capture a share of the market by offering specialized services.⁸¹ These other centres have had a hard time breaking into a market already dominated by the Bahamas and Cayman. As a US interviewee commented: “they all wanted to get into it and found that you couldn’t penetrate it” (Lane, USA). Once a set of places are established as OFCs and have a grip on the market it is difficult for new places to emerge. Customers become used to their OFC and are reluctant to try a new centre which has not had time to build up a good reputation, and which they know little about. OFCs are not purely economic nodes; even in this favourable case the extreme globalization/end of geography thesis fails.

The Bahamas and Cayman each regard the other as their main competitor in the provision of offshore financial services. One commentator simply states that “in the Caribbean, the Cayman Islands have played the role of competitor with the Bahamas” (Gorostiaga, 1984, p.48), a statement which is supported by the views of financiers I interviewed in the Caribbean. A Bahamian lawyer noted that “Cayman is, I think, the one we see as the jurisdiction that we are, in a very frontal sense, in competition with” (Peterson, Bahamas).

A Bahamian banker told of a recent meeting between representatives of the offshore sector and the Central Bank:

Williamson: There was a roundtable recently called by the Central Bank and the Governor and the Deputy Governor gave presentations and statistics, and the whole of the theme when they’re talking about regional competition is, ‘what is Cayman doing, and what is Nassau [The Bahamas] doing? How do their laws give them any advantage? What advantages do we have?’ So the Government perceives Cayman to be its principal competition.

AH: Do you get the impression that that has been the case for a long time?

⁸¹ BIS data for the end of 1991 show the external positions of reporting banks *vis-à-vis* individual countries as: Barbados \$2661m; Bermuda \$28312m; Grenada \$42m; Netherlands Antilles \$66326m; Turks and Caicos \$296m; whilst the Bahamas and Cayman are most heavily used by the international banks with outstanding positions of \$287027m and \$441712m respectively (BIS, 1993).

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Williamson: It certainly has been the case for a long time. If you go back ten years you will see that the Bahamas had something in the order of ... perhaps 20 years ... was 3rd, 4th, or 5th in the order of offshore assets booked, and Cayman was practically nothing. Now if you look at it I think we've fallen behind Cayman.
(Williamson, Bahamas)

Similar sentiments were expressed by Cayman-based financiers, although they were more likely to be dismissive of the Bahamas. Interviewees in both the Bahamas and Cayman tended to be very dismissive of other offshore centres in the region, making derogatory references to their small size, lack of infrastructure and staff, and generally treating them as unthreatening. As well as perhaps being an honest assessment, such a dismissive attitude works to keep the Bahamas and Cayman at the top of the pile; one can be sure that potential investors are also told not to take the other centres seriously. The ways in which offshore financiers talk about their own and other centres are part of their competitive strategies; in effect they compete partly through discourse.

The offshore centres, including the Bahamas and Cayman, compete vigorously to attract business. Some commentators have noted the similarity between the behaviour of Governments in competing for market share, with the behaviour of firms: “just as producers compete for market shares of consumer expenditures, so too countries compete for market shares of new foreign investment ventures” (Encarnation and Wells, in Porter, 1986, p.269). Encarnation and Wells continue:

“Competition among governments in the market for foreign investment is analogous, we have argued, to competition among producers for market share. Just as corporations formulate and implement strategies designed to gain a relative advantage over competitors, governments adopt strategies to attract politically valued or socially profitable foreign investment projects. As in product markets, some ‘buyers’ (foreign investors) are very sensitive to ‘price’; others, to the distinctive features of the ‘product’ (the investment site)” (Encarnation and Wells, in Porter, 1986, p.269).

Such a distinction between competing through price or through product differentiation is an important theme in the work of Michael Porter, and is suggestive of how the Bahamas and Cayman compete. Porter suggests that competition on the basis of product differentiation may be a more sustainable competitive strategy than competition on the basis of price

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(Porter, 1986 and 1990), a suggestion that we might usefully remember when considering changes in the strategies of the Bahamas and Cayman. Encarnation and Wells also make the point that investors are in a strong position *vis-à-vis* potential host governments when they use factors of production that are easily substitutable across countries; business can play one place off against another to gain additional incentives. Attractive tax and secrecy laws, factors of production in offshore finance, exist in many places so we should not be surprised to find strong competition between places in the offshore sector. Another commentator tells the story of Singapore's development as an offshore financial centre; this story may be an extreme case, but it is indicative of the power of international financial business:

“The Singapore government, for instance, asked the large banks of the world to prepare a wish-list of regulatory and tax concessions needed to make them establish a presence there. After some bargaining and strategic decisions, many of these concessions were granted and Singapore today has a flourishing multinational banking industry where previously it had none” (Enderwick, 1989, p.70).

The competitiveness of the offshore sector and the constraints this puts on each individual centre is widely recognized in the centres. As a Bahamas-based banker clearly stated: “there is no reason whatever to suppose that if this country introduced a tax, Cayman or Bermuda would follow such an example and thereby forfeit the advantages which would accrue to them from the elimination of the Bahamas as a competitor” (Murray, 1981, p.112, Chairman of Nassau branch of Nova Scotia bank in 1976 address to Bahamas' Chamber of commerce). Offshore financial business is seen as footloose and fickle, able and likely to leave a centre at the first sign of trouble, trouble which may include changes to the secrecy laws, political instability, labour problems, increased license fees, and problems with work permits (Bahamas and Cayman interviews with author).

A notable absence from this dissertation is any mention of unionization - which might be seen by the banks as a “labour problem” - in the Bahamas and Cayman OFCs; this is because there is no unionization. The one occasion when labour problems came up as an issue in my research was when 6 recently-sacked employees of the Bahamas International Trust Company made moves to create a union, the National Association of Bank Employees. The response of the local press and financial community was to remind employees that they could move

their business to Cayman. As a banker was reported as saying: “Why come to the Bahamas where there is a union, when you can go to the Caymans, where there is no union?” (Nassau Guardian, 16/11/88 - “Bank heads uneasy over new group).

An interviewee in the Bahamas accepted that banks “don’t have to be here, they really could do it anywhere else” (Pindling, Bahamas). This is a familiar story; the Financial Times provides a typical rendition: “as long as the banking industry is confident over the political stability of The Bahamas and as long as there are adequate incentives The Bahamas will retain their position as an international financial centre. But the big banks would not think twice to move out to other neighbouring offshore centres if they really got worried” (Financial Times, 17/3/81).

Through such stories, and through looking at events such as capital flight from Panama following Noriega’s arrest, the offshore financial centres are reminded of their vulnerable position *vis-à-vis* mobile financial capital, and reminded that they must be amenable to the wants of international finance. As Walter Wriston, one-time Chairman of Citibank, explained: “even though markets are now blips on a screen and not geographic locations, sovereigns still try to protect that part of the market which functions within its jurisdiction. Yet even this becomes increasingly difficult, for if one sovereign becomes unreasonable in the severity of its regulatory demands, the market node in that country withers and is replaced by the node ‘residing’ in more hospitable climes” (Wriston, 1992, p.80 - cited in Roberts, 1995, p.32). Any offshore centre considering a strengthening of its regulations has clearly been warned; once again the discursive and practical construction of the offshore financial centres’ competitive environment is clear.

5.3. COMPETITIVE STRATEGIES

5.3.1. PLACES IN A REGULATORY LANDSCAPE

The OFCs have some power to shape their development but there are important extra-local regulatory powers involved too; particularly the competition offered by other centres. The offshore centres, in seeking to attract offshore financial business, can be seen as places constructing and positioning themselves in a regulatory landscape. They construct themselves through the creation of regulatory environments which offer advantages to businesses which choose to use them. The competing jurisdictions have different characteristics and try to construct themselves as more attractive to offshore business than their

competitors. In Johns' terms, offshore centres engage in processes of "frictioneering", competing by offering relatively frictionless environments where financial activity can take place with the minimum of interference from government (Johns, 1983). In such a situation, offshore centres rarely cooperate with each other in the construction of their regulatory environments, for fear of losing their competitive edge. All of my interviewees felt that the relationship between the Bahamas and Cayman is, and always has been, one of competition rather than cooperation, a finding that comes as no great surprise given that they are both after the same business.⁸²

5.3.2. THE RACE FOR THE BOTTOM?

One might expect that competition between two offshore centres to host offshore business, footloose business that is attracted in part by the relative absence of regulation in the offshore centres, would lead to competitive deregulation or a "race for the bottom". The argument here is that as the centres strive to create themselves as more attractive to offshore financial activity they end up undercutting each other, offering looser and looser regulatory environments. Gorostiaga explains that "this competition between International Financial Centres in the same geographical area weakens their position *vis-à-vis* the Trans-National Banks. It makes them highly vulnerable, forcing them to become even more liberal" (Gorostiaga, 1984, p.48). Bryant similarly notes that "the regulatory, tax, and supervisory incentives designed to attract financial activity to offshore centres can be described ... as a 'competition in laxity'" (Bryant, 1987, p.139).

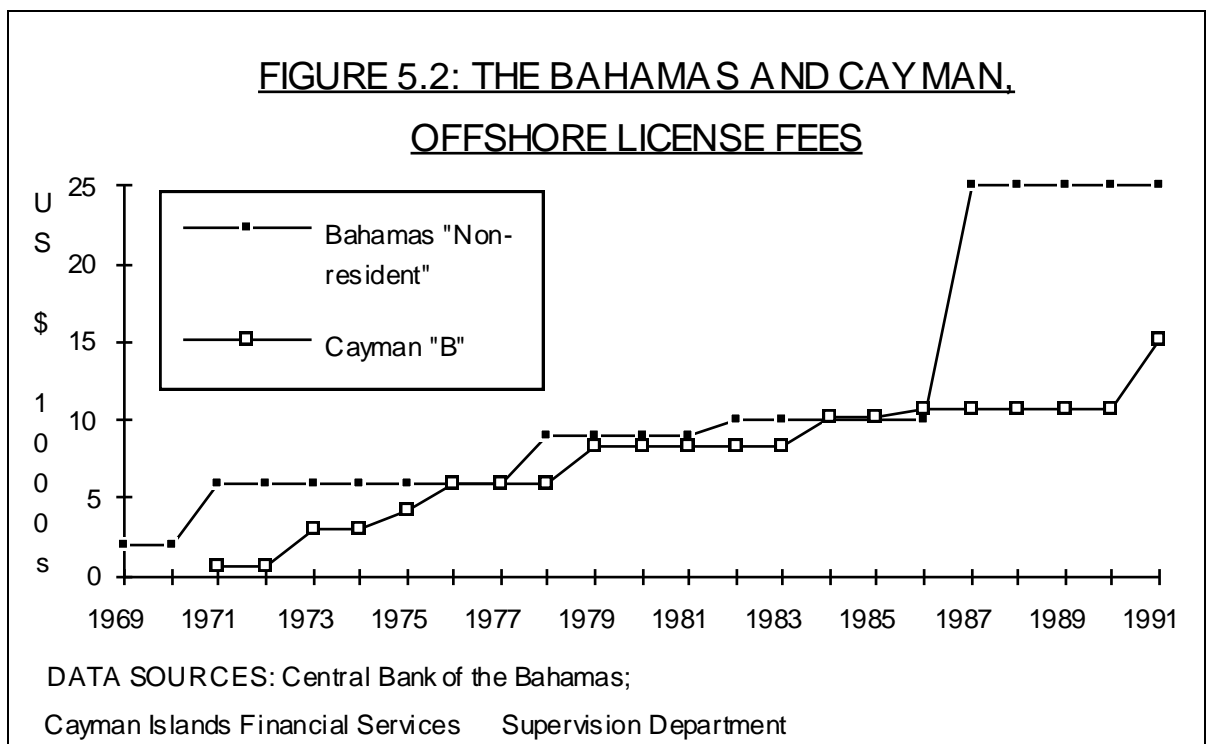
So, when I interviewed financiers in the Caribbean I looked for evidence of such competitive deregulation between the Bahamas and Cayman. I expected to discover that the centres had, say, progressively reduced their license fees in response and counter-response to the actions of their competitor.⁸³ "Reality" failed to offer such clear-cut evidence. Figure 5.2 shows the fees charged for offshore banking licenses in the Bahamas and Cayman from the late 1960s to 1991. Cayman "B" licenses allow only offshore banking, whilst "Non-Resident" licenses are the Bahamas' equivalent.

⁸² The Bahamas and Cayman may cooperate indirectly through a third-party, as will be seen in chapter 6 where I discuss the role of the Basle Committee and the Offshore Group of Banking Supervisors.

⁸³ License-fee reductions are not strictly "competitive deregulation", but license fees are an important aspect of the regulatory environment of the Bahamas and Cayman and therefore license fee changes ought to be considered within the framework of competitive deregulation.

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This graph reveals that in the early years of its development Cayman offered significantly cheaper offshore banking licenses than were available in the Bahamas; in fact Cayman did not even introduce license fees until 1971. From 1976 until 1986 the fees charged by the two centres were very similar, at between \$6000 and \$11000, with Bahamas licenses tending to be marginally more expensive. From 1987 offshore license fees in the Bahamas were \$25000, more than double the fee charged by Cayman until Cayman increased its license fees to \$15000 in 1991. It would seem that although cheap licenses may initially have been part of Cayman's development strategy, from the mid-1970s there is little evidence of competition in terms of license fees. The two centres offered offshore banking licenses at similar prices which would suggest that fees were one aspect of their competitive strategies, but the expected "race for the bottom" is not apparent.



However the possibility of competitive deregulation, and its occurrence in the early years of the centres' development was mentioned by some of my interviewees. A Cayman lawyer explained that:

"the first step for Cayman was to have legislation which was even easier than the Bahamas, and less restrictions on who could come here to work ... that then drew the business in the late 1960s and 1970s. When I came there was very little activity. It drew activity from the Bahamas in the first place" (Lonsdale, Cayman).

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A Bahamas-based financier also argued that “in the early days in Cayman they were able to have cost levels which were considerably lower than in the Bahamas. It’s a small country and a lot of factors contributed to the fact that ... it wasn’t a very sophisticated place, and the cost of living was lower, and so on” (Dixon, Bahamas).

Although offshore financiers felt that competitive deregulation is not common nowadays it was clearly seen in a legislative move by the Cayman Islands in 1994 to reduce company incorporation fees. A banker explained that the Government “saw it as a way to position Cayman so that we do maintain our competitive edge” (Hanson, Cayman). Interviewees in Cayman who spoke of this reduction in license fees tended to regret the move on the part of the Government. Although they understood the rationale of maintaining a competitive edge they were unhappy with the move, feeling that Cayman should have kept its license fees high and sought to attract quality business rather than competing on price. Most of my interviewees were adamant that competitive deregulation did not take place. I asked many of them directly whether such a strategy had ever been employed. A Cayman regulator said:

“I don’t think that that decision was ever taken. I don’t think we ever said we’d establish ourselves and we would offer less regulation. I think it’s just a matter of development. In the 1970s the Financial Secretary was the Inspector of Banks, we didn’t even have a separate office, and as things grew it just developed. I don’t think there was ever any conscious decision that we would be an area of less supervision or scrutiny” (Fry, Cayman).

Interviewees in the Bahamas also rejected the idea that competitive deregulation had been part of the centre’s strategy for attracting business. In response to my questioning about whether there had been a strategy of competitive deregulation, one Central Banker said:

“Oh I don’t know about that. I disagree with that. Certainly not from the Bahamas’ point of view. We probably were in the vanguard ... having more and more regulations because what we found out was when we passed the Banks and Trust Companies Regulation Act of 1965 that the only way to have a gentlemen’s club is to only let gentlemen in, and the way you let gentlemen in is to make sure you research their bloodline and everything else before you let them in, and thus we had the act of 1965 which we have improved upon. So from our point of view it wasn’t less and less regulation at all” (Donaldson, Bahamas).

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Another Bahamas-based interviewee argued that cost differences had never been an important aspect of competition:

“I never heard costs discussed as an issue. What most people said was that things got done more quickly in Cayman than the Bahamas, so we spent an enormous amount of time over the last five years trying to increase our efficiency, in terms of the speed at which our legal system and registration system deals with applications, in order to compete with this reputation that Cayman had for dealing with things more efficiently. I’d never heard cost as a factor” (Manley, Bahamas).

Why then wasn’t there much evidence of competitive deregulation through price competition? In part this reflects a problem in my research strategy; interviewees generally tell stories that show themselves and their centre in the best light, and which focus on their recent history rather than their distant past. Interviewees were unlikely to recount, remember or choose to remember periods of competitive deregulation. However, my archival research also revealed that competition between the Bahamas and Cayman rarely takes the form of deregulation *vis-à-vis* each other. The centres certainly offered a loose regulatory environment in comparison to the US and the other major economies from which much of their business originated, but such competitive deregulation did not extend to their competition with each other.

One Bahamas financier talked of a reputational barrier to competitive deregulation:

“amongst the jurisdictions themselves, being deregulated ... Well first of all there’s no central regulation of all the various OFCs so they’re each doing the same thing. What you will find is that the market literally dictates, in the first instance in any event, what one does. Hence what you find is that when some legislation goes into a place, say Cayman or BVI [British Virgin Islands], if the Bahamas wants to compete it will quickly follow in line with that, and probably refine the legislation to go a step further and better it. Hence the element of competition comes into play, and then it’s up to the others to decide whether to go one step further. Normally that doesn’t happen, so I think in practice the idea of competitive deregulation can exist, but there’s only so far that any jurisdiction is going to go in the first instance. You do have an artificial, invisible barrier there, namely in terms of reputation, and how you’re going to be able to deal with the other regulatory authorities around the world. You’re going to have to keep some type of regulation. There is a reputation

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baseline, below which competitive deregulation is unlikely to take place” (Young, Bahamas).

This passage illustrates an important point. If the Bahamas and Cayman were simply involved in a two-player game to attract offshore financial activity which preferred a loose regulatory environment, then a process of competitive deregulation may develop. However, the picture of such a game between the Bahamas and Cayman abstracts from the wider context of regional geopolitical pressures and international regulatory bodies. This wider context structures the competition between the Bahamas and Cayman and sets limits on their options, providing “a reputation baseline”. Looking at competition between the Bahamas and Cayman is a start, but we must remember that such competition is shaped by regional and international relationships and institutions. The Bahamas and Cayman OFCs are part of a wider regulatory landscape.⁸⁴

Although there is little evidence of competitive deregulation, competition between the Bahamas and Cayman seems to make regulatory harmonization, the setting up of a common legal framework, difficult to achieve. Centres dare not risk losing business by increasing their prices or levels of regulation. One of my Bahamian interviewees was involved in preparing proposals to harmonize business laws across the Caribbean, and had earlier argued that “the harmonization of business laws would make service, not cost or legislation, the primary incentive for attracting offshore companies” (Nassau Guardian, 11/10/89). In an interview with me, the same person explained that:

“if all the countries in the region offer more or less the same thing then the only thing that’s going to make a difference is the service offered by the people themselves, the human factor. If our legislation is pretty much the same, and in some areas it’s approaching that ... once the legislative framework is very close then the only thing that’s going to make a difference really is the service. As far as price is concerned that’s also coming close. For example with IBCs [International Business Companies] there is a sort of cut-throat competition going on in terms of bringing the price down for IBCs. Presumably if they all bottom out at the same price for the financial service the only thing that will make a difference will be the human factor” (Adams, Bahamas).

⁸⁴ Chapter 6 takes this message on board, looking at relations between the OFCs and the USA, and the international regulatory environment.

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In the early 1980s there was even a proposal to begin taxing offshore banks at a “reasonable rate”, a rate that would maintain the tax advantages of an offshore location but earn the hosts more revenue.⁸⁵ One commentator realistically noted that:

“the imposition of such a tax would require that competing islands in the Caribbean Basin (Barbados, Bermuda, St. Vincent, Netherlands Antilles, and the others) would agree to standardize ‘minimal regulation-maximum incentive’ packages offered to offshore banks ... In view of the paltry resource base of the Caribbean islands, the higher labor costs relative to those in the Far East, and the lack of a closely-knit community, it would be difficult, if not impossible, for the Caribbean basin to forge a political agreement to charge a ‘cartel tax’ on offshore banks” (Bhattacharya, 1980, pp.43/4).

Regulators in the OFCs are constantly reminded of the possibility of losing business to a competing centre by altering local regulations and prices. A 1988 increase in bank fees in the Bahamas met a barrage of criticism from the local banking community. Local newspapers reported fears that “this legislation may trigger a flight to the Cayman Islands where fees are now much lower” (Tribune, 22/1/88); described an “exodus of banks from the Bahamas ... Some European banks are reportedly preparing to leave the Bahamas in search of other Caribbean locations” (The Bahamas Journal, 19/3/88); and posed the question, “another boost for the Caymans?” (Tribune, 28/3/88). The competitive threat posed by Cayman was always felt in the Bahamas, and local financiers would remind the Bahamas’ Government of this fact whenever an increase in bank fees was contemplated.⁸⁶

Competition between the offshore centres is much more complex than the idea of competitive deregulation through cutting prices suggests. If the sole aim of business in using offshore centres was to maximize profits by avoiding taxes and searching out the lowest costs, competitive deregulation may be more of a reality. However, equally important in attracting business to the offshore centres is the stability and confidentiality offered, features that can not be measured through looking at the costs of doing business and license fee schedules.

⁸⁵ Bhattacharya (1980) describes this proposal as existing in “certain quarters”. I have not been able to discover which quarters these are.

⁸⁶ The threatened “exodus” of banks did not materialize following the rise in license fees, as I suggested in section 4.6.2.2.

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However, the centres' construction of their legislative environments is certainly affected by the fact of competition. Many interviewees talked of processes of legislative copying whereby one centre would introduce a piece of legislation which would give them a temporary competitive advantage until it was soon copied by a competitor. Such processes of competition were described by one interviewee as natural and healthy. He explained:

“I take the view ... that in a free economy healthy competition is very good. People want to know that they're shopping around, whether it's for a suit or for a plan for your estate, that they're getting the best thing possible. So the fact that there are other people out there trying to do what we do really doesn't disturb me at all, and I don't think that we hold any brief for the Cayman Islands, or BVI, or anyone else that's doing it. As a matter of fact it's very good for us because it makes us constantly want to improve our product, and any product you have really lends itself to improvement” (Cobb, Bahamas).

The original Banks and Trust Companies legislation in Cayman was copied directly from that in the Bahamas, according to one interviewee to the extent that the words “Nassau” and “The Bahamas” appeared by mistake in the Cayman legislation! A Cayman-based banker noted that “competitors observe us closely ... and it is nothing to see newly introduced legislation in Cayman appearing shortly afterwards in another jurisdiction” (Crutchley, 1992, p.57). A Bahamas-based lawyer also recalled processes of competitive legislative development:

“I was Attorney General at the time when all of this new financial legislation came into force. Nearly all of it came into force between 1989-91. That was exemplified by the IBC [International Business Companies] act, the Trusts Choice of Governing Law act, the Fraudulent Dispositions act, and all of these pieces of legislation were calculated to augment and diversify the range of financial products available in the OFC. That was frankly a reaction to the very rapid development of Cayman as an offshore jurisdiction of choice. Various ratings were being issued from various bodies indicating that the Bahamas was experiencing very significant slippage.⁸⁷ We'd gone from number 2 or 3 to about 11 in the space of a 10 or 15 year period. I think that was mainly because other jurisdictions were much more aggressively attuning themselves to the needs of the marketplace and were introducing these new

⁸⁷ Particularly prominent among these “various ratings” were those published by the industry journal *Euromoney*. In 1989 *Euromoney* reported that the Bahamas had slipped from 3rd place in 1982 to 11th in 1989 in terms of market share of international banking, whilst Cayman remained in 6th place (*Euromoney*, May 1989).

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products much more rapidly than we were. So in a pretty tight time frame we caught up, at least legislatively, with what the other centres were doing” (Peterson, Bahamas).

So, rather than the process of competition between the Bahamas and Cayman simply being one of competitive deregulation and price-cutting, the centres compete in terms of their wider regulatory and legislative environments. The construction of their regulatory environments involves more than the license-fee structure and includes features such as the condition of the local labour market, political stability, the strength of secrecy laws, the ability to get work permits, the quality of relations between the offshore sector and the government, the financial services available, and the general efficiency and speed of business in the offshore centre. As many interviewees noted, marginal price differences of a few thousand dollars are unlikely to be very important to businesses dealing with millions of dollars. The idea of competition states racing for the bottom is far too simplistic.

That said, competition between offshore centres and their reluctance to impose more stringent regulations than their competitors do has resulted in some problems. The centres may be, or may have been, reluctant to refuse questionable business as they know that a competitor may accept it. I asked some of my interviewees about why BCCI [Bank of Credit and Commerce International] had been allowed to use the offshore centres. Here’s an extract from one such interview:

AH: If you say that BCCI was known to be questionable in the 1970s isn’t it surprising that OFCs like the Bahamas and Cayman allowed them to set up here?

Wright: I think it would be very surprising for it to happen today but at the time everybody was so keen to see a new bank open that they said ‘well, we don’t know what they do but there’s no proof that they’re engaged in illegal activity, and the auditors reports are fine.’ So I think at that time it was par for the course to accept it. OK, you didn’t know what some banks did but if there was nothing untoward written down anywhere you would accept them.

(Wright, Bahamas)

The acceptance of BCCI in the offshore centres is far from the only example of problems arising as a result of the centres offering a loose regulatory environment. A banker in the Bahamas, looking back some years later, noted that:

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“There’s no doubt that from the early 1960s to the mid-1970s there was a dearth of regulation in the Bahamas. To prove that all you have to do is go and look at the legislation to see that the real heavy stuff didn’t come until the late 1960s and early 1970s.⁸⁸ So because of this lack of regulation we attracted the good with the bad. Unfortunately it’s the bad apples that get the most publicity and of course they’re the ones that hurt you the most. One of the results of this absence of regulation was that we had a lot of busts in the early 1970s. Big banks here went belly-up. Insurance companies too” (Peterson, Bahamas).

A US Senate Staff Study on Crime and Secrecy of 1983 noted that “the same conditions which facilitate international commerce also create criminal opportunities” (US Senate Staff Study, 1983, p.6), and suggested that the offshore centres were driven by mobile capital to have loose regulatory environments. As one contributor to the study suggested, banks such as Citicorp “chose to play off one regulatory jurisdiction against another” (US Senate Staff Study, 1983, p.21), resulting in a lower level of regulation and supervision in each centre. This clearly illustrates one way in which non-local actors play an important part in constructing the Bahamas and Cayman as places for offshore finance. Another commentator noted that what attracts business to the offshore centres may also attract more questionable activities:

“The facility of secrecy which all the centres offer is a double-edged sword. The stronger the secrecy provisions offered by the various legislations, the more attractive the centre may be to certain types of banks, particularly those wishing to engage in illegal trade. This very secrecy, however, may work against the jurisdiction in that it may encourage the authorities to be very lax in investigative requirements, and thus allow questionable entities to slip through, which become known only after some embarrassing episode” (Ramsaran, 1989, p.108).

The Bahamas and Cayman have rarely suffered when banks using their relatively loose regulatory environments have collapsed and created problems for the international financial system. Rather, the major centres such as the USA have tended to pick up the pieces of banks that have collapsed. The OFCs have had little incentive to tighten up their regulations. However, an interviewee in the US noted that with the recent growth of banking networks in the Caribbean there was an

⁸⁸ Section 4.5.3.1. shows the dates of relevant legislation and supports this interviewee’s assertion.

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increased chance of Caribbean nations having to deal with the fallout from a bank failure. Such a possibility might induce the OFCs to ensure that they are satisfied with the regulatory and supervisory frameworks offered by their competitors, and perhaps result in a levelling-up of regulation and supervision. Talking about a meeting between Caribbean and US regulators and supervisors this US regulator explained that:

“for the first time we were stressing ‘you’ve got to look to your left and look to your right’, and say ‘do I trust these guys to supervise things adequately?’ I think a lot of people came up with a distasteful answer, so you start to get a crystallization of thinking saying ‘look, we need to strengthen our supervisory system. There’s no question we’re going to have banks expanding and they’re going to get an accident on St. Kitt’s or Aruba or some other center. Somebody’s going to have to bail that thing out, and we’re a very poor country so don’t have the resources.’ It’s no longer just an indigenous problem” (Lane, USA).

5.3.3. BAHAMAS’ INDEPENDENCE: CAYMAN’S OPPORTUNITY

The Bahamas and Cayman OFCs are universally seen as very much in competition with each other to attract offshore financial activity. Various episodes in their development illustrate such competition, none more so than the Bahamas’ gaining of independence and the impact this had on the development of Cayman. Once again the relational nature of places in a wider regulatory landscape is clear: the apparently domestic politics of the Bahamas strongly influences the development of Cayman.⁸⁹

During the 1960s the PLP and Bahamian nationalist sentiment became increasingly vocal and influential in the Bahamas, highlighting the fact that the benefits of tourism and financial development flowed to a small group of white Bahamians and expatriates known as the Bay Street Boys and represented politically by the UBP. The 1967 election was a turning point in the development of the Bahamas, as the PLP, under the leadership of Lynden Pindling, came to power and promised to lead the Bahamas to independence. The PLP and their supporters took the view that independence from the United Kingdom was the natural next step for the Bahamas and would give them more autonomy to make their own decisions about development. The 1972 Green Paper on Independence put it this way:

⁸⁹ Figure 4.4 shows the volumes of offshore banking activity hosted by the Bahamas and Cayman offshore financial centres. Although not providing conclusive proof of the impact of the gaining of independence by the Bahamas on Cayman’s development, it does show that Cayman’s development began to take off after this episode.

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“It is believed that only through independence will the country be able to fulfil its development ideals, completing the transition from traditional society to social and economic modernity ... It would be unnatural if the Bahamas did not achieve independence at this time, just as it would be abnormal for an adolescent to fail to reach manhood” (Bahamas Government, 1972).

Such sentiments were stirred by incidents such as the nerve gas incident of 1970 when Britain used the Bahamas as a dumping ground for toxic waste (Nassau Guardian, 18/8/70), providing clear illustration for many Bahamians of the exploitative nature of their colonial relationship. The re-scheduling of the Sterling area in 1972, to the exclusion of the Bahamas, reinforced the importance of gaining independence and autonomy. In a phrase that could be part of an IPE text of the 1970s, the Green Paper argued that “no country today is commercially self-sufficient. There exists a complex network of interdependence in which all nations are involved. For new states in particular, this necessitates that level of negotiating and bargaining power that comes only with government autonomy” (Bahamas Government, 1972). With such strong statements and optimism the Bahamas, under the guidance of the PLP and the charismatic Pindling, moved rapidly towards Independence, which was finally achieved in 1973.

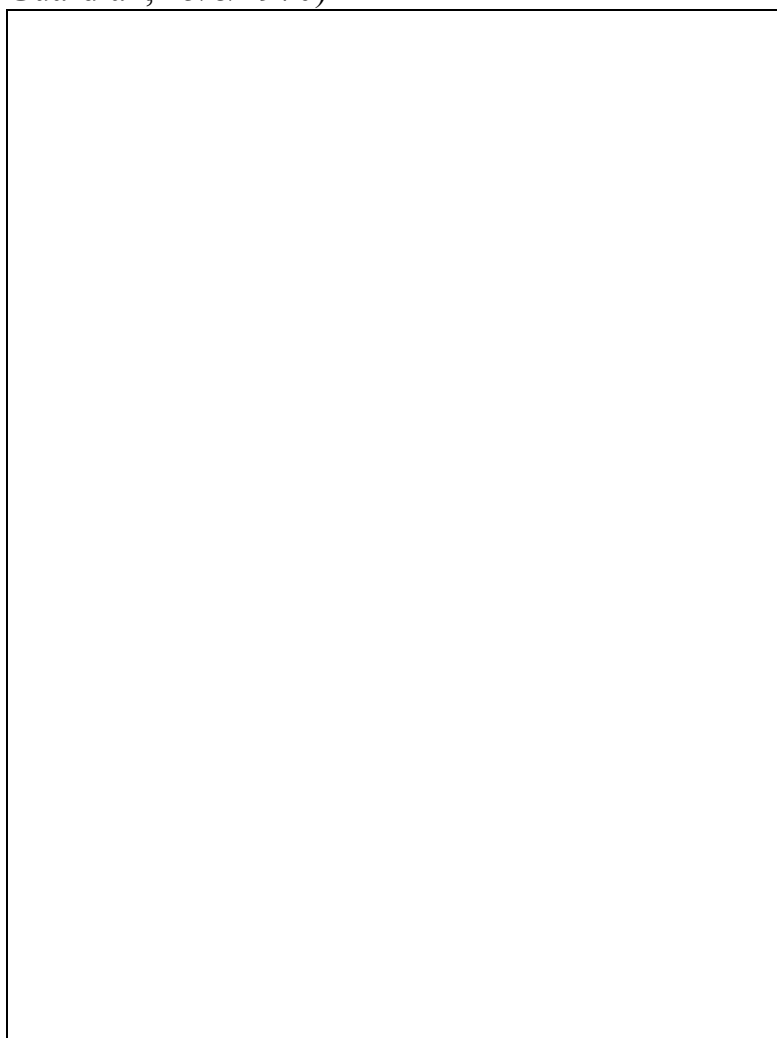
Throughout the years preceding and following independence, there was much concern in the offshore sector based in the Bahamas. Having been used to dealing with a white Bahamian government in which expatriates had much influence, international business faced the prospect of a black Bahamian nationalist government with fear. An interviewee in London with first-hand experience explained that, “my main impression of that time is that everybody, especially the financial community, was very apprehensive about the 10th of July 1973, that is, Independence” (Wilberforce, London). Even among Bahamian interviewees who saw Independence as a good thing, there was a recognition that international business felt uncertain about what the impact would be. There were fears of asset freezing and forfeiture, the nationalization of the banking system, and wider political instability and uncertainty; fears that made the offshore sector wonder whether the Bahamas would remain a suitable place for offshore business which relies upon stability and security. A former Governor of the Central Bank explained that “the fact that we went through Independence and became an independent territory certainly had the effect among some of raising questions about the continuity and stability of these kinds of things” (Talbot, Bahamas).

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Figure 5.3 illustrates this uncertainty about the stability of the Bahamas following Pindling's election victory, as seen by the Nassau Guardian.

Looking back to the early 1970s the Central Bank and the AIBT note that "when the Bahamas became independent in 1973 some banks undoubtedly adopted a 'wait and see' attitude to observe whether the Government would continue its encouraging policies toward international finance" (Bahamas Central Bank and AIBT, 1986, p.6).

Figure 5.3: "A new circus came to town ... it takes time to perfect a new act" (Source: Nassau Guardian, 15/8/1970)



Sir Lynden Pindling also described the attitudes of the offshore sector towards the gaining of Independence in terms of uncertainty and apprehension. He recalled that:

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“I would think that they were perhaps a little worried at the time as to what we might have done. I don’t think they expressed it openly, but the political facts of life would have suggested that they would say, ‘well, we don’t know these fellas, we don’t know what they would do, we don’t know whether to trust them. So let’s not take any precipitous action but let’s wait and see and then make up our minds later.’ That’s how prudent businessmen operate anywhere. After a while I think they were satisfied that there was not going to be any adverse action taken to throw them out in the worst scenario, or curtail or restrict their operations” (Pindling, Bahamas).

The offshore sector’s confidence in the stability of the Bahamas and the suitability of the environment for offshore business did return “after a while”, but the years of uncertainty provided a window of opportunity for Cayman’s take-off as a competing centre. As the Bahamas moved toward independence from 1967, Cayman positioned itself to take advantage of the uncertainty surrounding the Bahamas’ political status. A Bahamian Central Banker saw the actions of Cayman in taking advantage of uncertainty in the Bahamas as good competitive strategy:

“Oh yes, well this is normal business. Cayman made the most of the uncertainties about what we would do with banking at independence, and when the government pursued fairly harsh immigration laws and Bahamianization, the Cayman Islands, rightly so, made the most of it. If they saw a crack in the wall they’re entitled to try and jump through it. If you’re running a business and see your competitor faulting on something you’re going to bring out a product that will compete with him. That’s part of doing business, I would do the same thing” (Cobb, Bahamas).

Setting up its legislative environment to attract offshore business that was uncertain about the Bahamas, Cayman pronounced itself as “ready, willing and able to provide them with an alternative jurisdiction” (Wood, Cayman). The Cayman Islands Bankers Association records the history of offshore finance in Cayman as the search for an alternative jurisdiction by international business. They record that:

“The Caribbean was the obvious place for a serious search since it was the Bahamian trust companies that were most anxious about the current situation. Jamaica and Barbados put in tentative bids; Curaçao gathered in some of the business but was considered too bureaucratic in general. Of the British colonies in the region, only Cayman had a Government Treasurer (later Financial Secretary) who was willing and able to swing the whole weight of the local administration to the support of the tax haven concept. With the

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active cooperation of local lawyers and accountants, certain Bahamian trust companies and the Bank of England, the Treasurer (Mr. Vassell Johnson) prepared the Cayman Islands for its future as an offshore financial centre.

The Chinese Cultural Revolution ran its course and Hong Kong's fright abated. In the Bahamas, however, the years just before and after political independence produced outbreaks of intemperate nationalism that scared a large amount of custom to Cayman. We have never looked back" (CIBA, 1989).

Whether the architects of Cayman's OFC were skilful or lucky in preparing their jurisdiction for business at a time when there were concerns about the Bahamas is unclear. Most of my interviewees regarded Cayman as fortunate, although some did recall that "the writing had been on the wall in the Bahamas for a number of years" (Wood, Cayman), and felt that the design of Cayman as an OFC was conducted with the Bahamas' problems clearly in mind. A Cayman banker explained that the "timing was immaculate, with significant political change in the Bahamas evident and perceived uncertainty as to that jurisdiction's future" (Crutchley, 1990, p.59). A Cayman interviewee also recalled that "the timing was ideal for Cayman. We had just got our legislation in place. So when they said we don't like what's happening in the Bahamas we said, 'here we are' " (Simpson, Cayman).

Without exception, interviewees in the Bahamas and Cayman saw the development of Cayman as an OFC as inextricably connected with, even caused by, political changes in the Bahamas. One commentator says quite simply that "there is no reason for the Caymans to exist were it not for the mistakes the Bahamas has made" (Ireland, 1981, p.55). Interviewees in Cayman also described the early development of Cayman as a result of mistakes made by the Bahamas: "there's no doubt that the move to Independence in the Bahamas was a significant accelerator of the development of Cayman" (Dean, Cayman). The rapid development of Cayman in the early 1970s was seen as due to a combination of Bahamian mistakes and skilful Cayman positioning. A Caymanian interviewee explained that:

"our development in Cayman was the result of careful planning, some right decisions, and a lot of luck. I mean we benefited from the Bahamians' problems. When they screwed up, which is what they did, in the middle/late 1970s, the banks and business flocked here" (Fry, Cayman).

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The Economist at the time attributed the flight of offshore financial business from the Bahamas to Cayman to Pindling's policies: "The banks and international money men, whom Mr. Pindling has criticized for being mere birds of passage, proved his point by advising clients to lay their golden eggs in rival tax havens like the Cayman Islands" (The Economist, 14/7/73).⁹⁰

Cayman benefited from the Bahamas' problems in two interconnected ways. Offshore financial firms became nervous about the future of the offshore sector in the Bahamas, and their clients too became interested in alternative jurisdictions. What tended to happen is that an offshore bank or trust company, based in the Bahamas, would set up an additional Cayman entity as a bolt-hole just in case the environment in the Bahamas became unsuitable for their business: "some banks established a contingency presence in Cayman in case the Bahamas situation became too difficult" (Gilling, London). Another commentator noted that "much of the initial impetus for development [in Cayman] came from a number of companies that either abandoned the Bahamas or, together with Bahamian companies, set up 'shell' companies in the Caymans as a bolthole in case the political climate of the Bahamas deteriorated" (Johns, 1983, pp.197/8). A Bahamas banker who had personal experience of the period recalled:

"well the reason we set up our office in Cayman was basically in case there was a lot of political turbulence at the time of Independence. So we set up our Cayman office as a place where, if necessary, we could transfer our assets to a different jurisdiction" (Williamson, Bahamas).

Once Cayman offices had been set up as bolt-holes business could easily be transferred from the Bahamas to Cayman. Throughout the 1970s Cayman gained business from the Bahamas as more clients and firms moved their business to Cayman. As an interviewee in the Bahamas recalled:

"there's no doubt that that was the turning point for Cayman, when we became independent. I don't think that Cayman needed to market the fact that we had just gone independent, it was just everybody was a bit apprehensive about us going

⁹⁰ Although facts to support such a story are hard to come by there is some supporting evidence. In the years 1973 and 1974 the Bahamas lost 42 banks (72 revoked licenses and 30 new arrivals), whilst Cayman gained 105 new ones (Central Bank of the Bahamas; Cayman Islands Financial Services Supervision Department).

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independent, and a lot of the business automatically flowed to Cayman” (Rice, Bahamas).

A major factor in the loss of business from the Bahamas was the labour/immigration policy of the newly independent Bahamas. The policy of Bahamianization was strictly enforced in an effort to allow Bahamians to reap the benefits of economic growth rather than simply producing a wealthy expatriate community. The Governor of the Central Bank of the Bahamas explained that:

“because of the Bahamianization programme that was going on, the government was insisting, in all sectors of the economy, that [you could have a work permit] only where you can show that there was a need for an expatriate. This forced the banks to look inward for their staff. Some of the guest-workers around that period resented this, and so when their time was up they decided, well we’ll stay in the same time zone, and of course they couldn’t go to Bermuda, nor were there any other British protectorates available, so they literally built Cayman up. Most of the foreign workers moved to Cayman, and bad-mouthed the Bahamas in order to get business. They took some business with them” (Smith, Bahamas).

Caymanian interviewees also told of how Bahamianization had pushed businessmen and their business out of the Bahamas and into the welcoming arms of Cayman. A lawyer in Cayman explained that “there was no way Cayman ever would have competed if it hadn’t been for the political instability and the Bahamianization of, you know so-and-so’s been there ten years and is told to leave because they want a Bahamian as a substitute. That’s how Cayman got started” (Lonsdale, Cayman).

Figures 5.4, 5.5 and 5.6 illustrate the way in which Bahamianization and its impact on investment in the Bahamas was seen by the Nassau Guardian. Figure 5.4 shows the Immigration Minister, Arthur Hanna, installing a new policy and throwing work permit applications in the bin; figure 5.5 suggests that Hanna’s Bahamianization/Immigration policy was irresponsible and detrimental to the commercial development of the Bahamas; and figure 5.6 graphically shows the struggle of big business against the policy of Bahamianization.

In contrast to the Bahamas, expatriates and international businessmen in Cayman were treated as partners rather than reluctantly admitted guest-workers. Such a partnership - the development of locally emergent

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powers - was seen as important in facilitating joint efforts to boost Cayman's OFC. One interviewee recalled that:

“when the Pindling Government took over of course they adopted a different attitude, and you know investors are people who take a lot into consideration in thinking about a country, and people's attitude to outside people has a great deal to do with it. We were never like that. The fact is we told investors who came here that they must consider themselves partners and we must work together like that. One must not pull against the other otherwise we could never make a success of it” (Davies, Cayman).

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Figure 5.4: “Department of
Deportation” (Source:
Nassau Guardian, 20/9/1972)

expatriates,
commerce” (Source:
26/11/1971).

Figure 5.5: “Expel
restore

Nassau Guardian,

Figure 5.6: “The fight for
Bahamianization” (Source:
Nassau Guardian, 10/2/1972)

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Even as the Bahamianization policy was relaxed in the 1980s Cayman continued to benefit from perceived problems in the Bahamas. In fact many interviewees felt that it wasn't really independence itself which had resulted in the loss of business to Cayman. Rather they attributed the shift of business more specifically to the Prime Ministership of Lynden Pindling in the Bahamas. A banker in the Bahamas alleged that "it wasn't the Independence that was problematic really, it was Pindling. In the 1980s there was vast amounts being laundered and the Bahamians were taking commissions off various drugs deals. So that did a lot to harm the reputation of the Bahamas" (Williams, Bahamas). A popular joke in Cayman tells of plans to erect a statue to the man who had built the offshore sector in Cayman, the punch-line being that it would be a statue of Lynden Pindling. Throughout much of the 1980s the Pindling government and Pindling himself were plagued with allegations of corruption and involvement with drugs smugglers. An interviewee in the Bahamas explained the impact of such allegations:

"I guess it gave the Bahamas the reputation that obviously, our Prime Minister, and if our Prime Minister then probably the other Government Ministers, were corrupt. I think that is very harmful to any country. People, honest substantial clients, don't want to deal in a country that they think is corrupt. If the Prime Minister and the Government officials are corrupt then they automatically assume that the entire country is corrupt which is a fair assumption I would say. So I think that did have a very negative effect" (Rice, Bahamas).

Throughout the 1980s the development of the Bahamas, and that of Cayman as its main competitor, was very much influenced by the image of Pindling. A Bahamian Central Banker told me that:

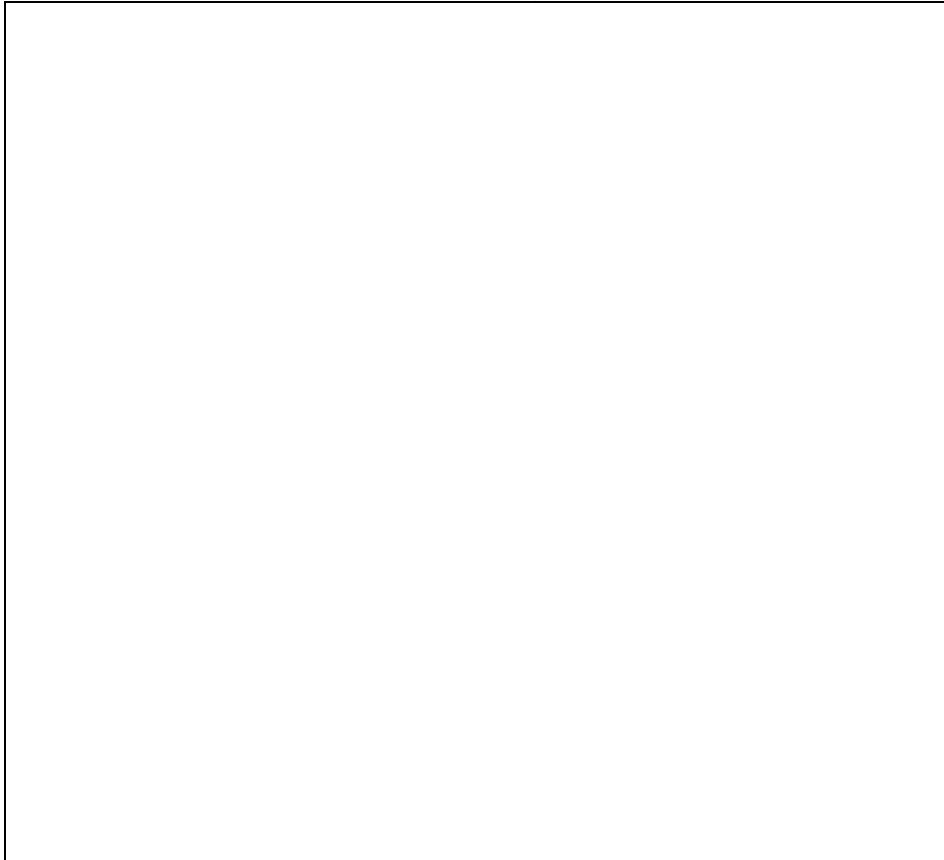
"the image problem we had was always very difficult to overcome, and it was a very painful thing to overcome because of all the allegations, some of them truths, half-truths, against him and members of his government. A lot of people who we were trying to get in were very hesitant about coming because the stench of corruption and the various allegations of corruption that reached all the way up to his office were just more than people wanted to bear. So it did have a negative impact ... I was out there as a banker trying to promote my country, and it was very difficult at times to do it because of the negativism" (Cobb, Bahamas).

Some Bahamian interviewees were keen to remind me that Pindling had never actually been found guilty of any wrongdoing. The Commission of Inquiry report in 1984, although raising questions about where Pindling

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had got the money to build himself a \$5m. house in the exclusive enclave of Lyford Cay, could not find sufficient evidence to prove that his money had come from drugs smugglers.⁹¹ As Figure 5.7, a cartoon from the Nassau Guardian, illustrates there was some doubt about the make up of the Commission, the suggestion being made that the three members were selected by Lynden Pindling, and further, that only Bishop Drexel Gomez had eyes to see what was really going on.

Figure 5.7: “Ping’s premature commission of inquiry?”
(Source: Nassau Guardian, 26/9/83)



Although the Commission was unable to prove any wrongdoing by Prime Minister Pindling, one of its three members, Bishop Drexel Gomez, insisted on including his dissenting view - that it was likely that Pindling was involved in illegal activities - in the final report. Some financiers in the Bahamas suggested that such allegations would not make existing business leave the Bahamas but may make potential business look to alternative jurisdictions such as Cayman. This illustrates the importance of image and reputation to the success of

⁹¹ “Report of the commission of inquiry appointed to inquire into the illegal use of the Bahamas for the trans-shipment of dangerous drugs destined for the United States of America. November 1983 - December 1984”. Nassau, Bahamas, 1984.

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OFCs. Throughout its development as an OFC Cayman has enjoyed an image advantage over the Bahamas, as we will see shortly.

5.3.4. REPRESENTATIONS OF PLACE: REPUTATION AND STABILITY

5.3.4.1. “Our reputation is our most important asset”

“When the rest of the audience who had watched Tom Cruise’s smash-hit film ‘The Firm’ were starting to leave the cinema, the Governor of the Cayman Islands hung around to watch the credits roll” (Daily Telegraph, 6/11/93).

Although the representation of Cayman in ‘The Firm’, a film about a Memphis law firm using banks in Cayman to launder Mafia funds, no doubt did much to enhance its image as a paradise of sun, sea and sand, the Governor of The Cayman Islands lingered at the end of the film as he was concerned about the representation of Cayman as a place for money launderers. Thus, at the end of the credits, at the Governor’s insistence, the producers of the film acknowledged that “the Cayman Islands have strict anti-money laundering laws which are rigorously enforced”. This acknowledgement reflects the importance OFCs attach to their representation, image and reputation, echoing the comments of many of my interviewees.⁹² A Government official in Cayman remarked:

“Well I would say to you that image is everything. If you don’t project the right image to a person who is considering investing in your country or setting up a bank or a multinational corporation branch or an insurance company, if he’s not turned on by your image, there’s very little chance that you’re going to get him” (Morton, Cayman).

Similarly the Nassau Guardian reported the comments of a local banker about the Bahamas’ “perception nightmare” of the 1980s:

“There are only three things that matter in this thin-skinned and fickle business: perception, perception, and perception ... It never really mattered whether the allegations [about Pindling and corruption] were true or false, only that they were made. And it seems in journalism that the further away you get from the original story the more bizarre the re-telling. The impact of

⁹² By the terms “representation” and “image” I am not simply referring to pictures of the Bahamas and Cayman; rather I mean the ways in which the Bahamas and Cayman are discussed, written and talked about in the international financial community and the media. It is for this reason that I am not primarily concerned in this chapter with the analysis of pictorial representations of the Bahamas and Cayman.

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such stories is that when the board of some international bank meets to discuss expansion into new markets, all you need is one voice at the table to say, ‘you know I read that ...’, and being bankers they are no longer interested. And that is how we are affected here. Bankers do not want to have to worry about anything that taints the environment in which they have to do business. You are dealing with other people’s money. They must be able to trust you” (Huggins, C., Nassau Guardian, 1991).

Other interviewees, although recognizing the importance of an OFC’s image in its efforts to attract offshore financial activity, emphasized that a convincing image must be anchored in reality. As a Bahamian Government Official commented:

“I’ll tell you what though, the Government is of the view now that what sells is product. So we are perhaps not as interested now in just selling an image that may not be the reality, as much as making certain that we have an image to sell. So our approach has been to strengthen our institutional framework and regulations. That really makes our jurisdiction one that, when we go to the public and say ‘this is the choice jurisdiction’ it is the choice jurisdiction. These people are reasonable and sensible. When they’re looking for somewhere to put their money they make the kind of observations that tell them this is the place. So we are basing our promotions on that reality” (Smart, Bahamas).

Another Bahamian interviewee explained that “perceptions play a part but I don’t think people react entirely upon information which can be, in so many cases, mis-information” (Adams, Bahamas). He held that international business-persons would look into the reality of the facilities offered by an OFC rather than be swayed too quickly by an attractive image. I agree that the reality of a place’s regulatory environment is crucial to the success of an OFC, but this does not mean that image is insignificant.

I asked interviewees about whether they felt the importance of image had changed in recent years. Here’s an extract from an interview with a lawyer in Cayman:

AH: You talk about how image is important particularly to institutional business. Is it reasonable to say that image has become more important relatively as the real difference between places has become less?

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Lonsdale: I think that's very very true. I mean it's the areas where somebody has a scandal. BCCI for example was not our problem; it was England's or Luxembourg's which we happened to end up with. But other jurisdictions immediately attacked Cayman for that. So reputation, it seems to me, is the sole selling feature. That it's a crime-free environment, that there is international cooperation on criminal offences to keep it that way, that it's relatively easy to get good people into the jurisdiction. That's what sells Cayman.

(Lonsdale, Cayman)

Having argued that "reputation" - which is largely developed through discourses and representations of the OFCs in the international financial community⁹³, financial newspapers and the wider media - is the sole selling feature the same interviewee suggested that corporate business was likely to be more concerned than individuals with the image of a place, so, as the relative importance of corporate business increased, the importance of a good image to the OFCs increased:

"for a business group, the kind of business that Cayman wants to attract - it's no longer Mr. or Mrs., it's the corporation - for the New York corporation or the Japanese corporation to want to do business in or through Cayman it's got to be a good address. They don't want themselves to be seen as in the wrong jurisdiction and unless the image and reputation of the host country, the Cayman Islands, is such that it's a first class address they'll go elsewhere. That's all pressure because through public relations the US can give the illustration of whether you're a good location or a bad location. The statement, 'we're very happy with our relationships with the UK and Cayman and their first class efforts in fighting international crime', is what you want them to say" (Lonsdale, Cayman).

As well as explaining the importance of image to corporate clients this passage also tells of the power of the US media to produce images of the Caribbean OFCs, images which influence the OFCs' success by influencing how they are represented and seen. This illustrates another way in which non-local actors play an important role in the construction of the Bahamas and Cayman as places for offshore finance The USA, through the statements of its politicians, news media and financial

⁹³ Many of my interviewees explained the importance of their participation in conferences, exhibitions and seminars in important markets such as New York, Miami, Dallas, Toronto, London, East Asia and Latin America.

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publications plays a central role in the production and distribution of representations of the Bahamas and Cayman OFCs.⁹⁴

Other interviewees also argued that image was of increasing importance to the OFCs. A Bahamian ex-Central Banker explained that the advent of global media has made image increasingly important:

“The world has become a global village. When you can sit down in your living room and watch what’s happening in Bosnia, and South Africa, it’s changed not only banking, it’s changed the whole world. Communications as they exist now did not exist two decades ago. Twenty years ago we didn’t have the satellite television beaming into everybody’s home. So of course, if something happens, in Grenada as it did the other day, or something happens in St. Kitt’s, or the Bahamas, the world can know about it right now, almost instantaneously. I mean CNN will have a down-link, an up-link, to the rest of the world in five minutes, trust me. And this has changed the way all of us behave. It’s changed, not because of anything inherent in what we do, but because world communications have changed. Things appear in your living room much quicker” (Cobb, Bahamas)

So an attractive image is an important selling point for the OFCs. Interviewees in the Caribbean talked of three main themes that they saw as contributing to a good image. The three interconnected themes were “stability”; “a genuine centre”; and “a reputable centre”. Here’s an extract from an interview with the former Attorney General of the Bahamas:

AH: What image does/did the Bahamas try to portray?

Adderley: Stability, stability, stability, stability, stability.

Interviewees in both centres highlighted the importance of their centres being seen as “genuine” OFCs, in contrast to arriviste places such as Vanuatu and the Cook Islands which were unworthy of the tag, and also in contrast to the Bahamas and Cayman in earlier years. An English banker in the Bahamas explained that “they all want to be treated as genuine OFCs which have certain products and services to offer which are more effective and better for their international clientele. They don’t just want to be used for laundering money” (Williamson, Bahamas). It

⁹⁴ The impact of the USA on the Bahamas and Cayman OFCs and their representations will be considered further in chapter 6.

was the ability to provide financial services other than secrecy for money-launderers which provided the criterion to differentiate genuine and non-genuine centres. The same interviewee explained the image that the Bahamas tries to maintain, saying that “it tries to give an image of being somewhere where you can genuinely do business, not just somewhere for money laundering. It wants to be clean” (Williamson, Bahamas).

Even an interviewee who rejected my suggestion that image had become all important accepted that “today the emphasis truly is on stability, reputation, quality, and service”, rather than laxity of regulation and low prices (Smart, Bahamas). “Reputation” was the term used most frequently by my interviewees to describe what image they used as a selling point. So, if reputation is the selling point for places in competition, how can reputation be enhanced or maintained? A Bahamian banker talked of the importance of avoiding upsetting large countries such as the US, explaining that the OFC may then be subject to the production of some less-than-flattering images: “essentially one has to be careful of going totally afoul of any of the major players, because then they send out a ‘red alert’ about the country and then people may say ‘it’s blemished, let’s not go there’ ” (Young, Bahamas). A commentator with some foresight argued that “the challenge facing the Caribbean offshore banking centres will be to maintain an image of respectability, because a series of bank failures would drive business elsewhere” (Bhattacharya, 1980, p.44).

The importance the OFCs attach to a clean image and a good reputation makes their competitive relationship and the impact of this relationship on their development more complex than a simple “race for the bottom” cycle of competitive deregulation. Although a cut in license fees, for instance, may give an OFC an initial boost, it may also have the longer-term side effect of harming the reputation of the centre if questionable business and scandal is attracted. A good reputation is quickly lost, and slowly regained. The ways in which reputation has become more of an issue as a result of scandals, and the increased attention of the US media and politicians in the 1980s, are explored more in chapter 6, but it is clear already that reputational concerns alter the game of regulatory competition between OFCs in important ways. As a Bahamian ex-Central Banker observed, the Bahamas, “tries to persuade the world that it is regulating properly and well. *I mean that’s promotion nowadays: to be a good regulator is now a promotion*” (Talbot, Bahamas, my emphasis). An interviewee in London also explained how the game of competition between OFCs changed in the 1980s:

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“There has been a change since the 1970s, especially due to drugs issues, money laundering, and the Basle agreement. Things have certainly tightened up, although mistakes are still made, BCCI for example. These OFCs interact by talking, which results in a standardization of regulation and supervision. They tend to use the best practices. Yes, it's definitely a levelling up. There is less competitive deregulation due to the need to maintain reputation” (Robinson, London).

Whereas the Bahamas and Cayman were once reluctant to tighten up their regulation and supervision, fearing the loss of business to their competitors, in the 1980s they felt that “the increased supervision has had the effect, not of chasing banks away, but of enhancing Cayman’s reputation as a reputable offshore centre and probably encouraging good banks to establish a Cayman branch or subsidiary” (Cayman Islands Currency Board Report, 1987). Other commentators agree that having a well-regulated environment is not incompatible with having a thriving OFC. Johns and Le Marchant argue that the OFCs have “nothing to fear from the process of prudential reregulation and global supervisory harmonisation so long as they continue to enhance their reputation with new best-practice but flexible legislative frameworks and if their economies remain politically stable and independent” (Johns and Le Marchant, 1993b, p.66). They note that some, but not all, offshore centres have opted for the “good reputation” path to success, saying that “some offshore centres [such as the Bahamas, Barbados, Bermuda, The Cayman Islands, Cyprus, the three British Isle centres and Malta] have had the confidence to become increasingly ‘mainstream’ in their attitudes to regulation and supervision, thereby enhancing their reputation for ‘quality’ business” (Johns and Le Marchant, 1993a, p.251 - brackets in original).

The desire to improve the reputation of their centres was an important theme of my interviews with financiers in the Bahamas and Cayman. A Bahamian Central Banker explained that:

“the important thing for a successful OFC is to be reputable. We have no desire to become a vehicle for illegal trading, money laundering, and so on. That’s the perception of scandal rags. Bearing in mind that most reputable OFCs have in their midst the branches and subsidiaries of top world-class banks, who themselves have very stringent internal guidelines with regards the operations, internal audits, and basically keeping the operations clean. So we would wish to buy into anything that would help in this process of enhancing the reputation” (Smith, Bahamas)

A British banker in Cayman, talking about the Cayman Islands Bankers Association Code of Conduct, introduced in the late 1980s, explained that “it’s become fashionable to pronounce formally that we have a code of ethics and we’re as pure as the driven snow” (Simpson, Cayman).⁹⁵ A Caymanian businessman contrasted the attitude of Cayman in the 1980s to that of its early years of development:

“When Cayman’s offshore centre first started to develop we had sort of open doors to anyone who wanted to come in. There probably was not that much of a vetting of clients, a vetting of business coming on to the island. We just took anyone probably who came in. That changed primarily I think in the 1980s, when the pressure started to increase. We had a reputation I would say that Cayman was just a place to launder your money, and people could walk in with suitcases of money, and they’d be alright. That’s changed. I think now the image that we want to portray is one that Cayman is a regime or a place where it’s safe to do business, where it’s well regulated, and everything is above board”⁹⁶ (Hanson, Cayman).

A Caymanian regulator, maintaining her competitive stance towards the Bahamas, explained that “Cayman at least has taken the stance that the cleaner the image, the more regulated, the better it is. If the Bahamas doesn’t feel that and they feel that they’ll be more relaxed that’s up to them, but our position is that that’s the route we want to take” (Fry, Cayman). This opinion, that Cayman has moved to clean itself and its image up, is retold throughout Cayman’s offshore sector: “the Cayman Islands are moving aggressively to eradicate the image of drug-related money laundering from their institutions” (Cayman Islands Currency Board Report, 1990). It was also substantiated by the UK-commissioned Gallagher report which commented that “the Cayman Islands are an example for all in regard to the efforts made to introduce sensible and relevant procedures for regulation and supervision of the off-shore financial sector” (Gallagher, 1990, p.3). The importance of image to Cayman was recognized at the start of the 1980s by the then Financial Secretary and architect of the Cayman OFC, Vassel Johnson. In his 1981 Budget Speech he emphasized that “The value to the Cayman Islands of the financial industry is far more than the sum total of its institutions, the services offered and the income to the country. The most valuable asset

⁹⁵ The role of international treaties for information exchange and cooperation regarding criminal matters in enhancing the centres’ reputation is very important and will be considered further in terms of relations between the US and the offshore centres in chapter 6.

⁹⁶ It is interesting that this interviewee sees Cayman as a “regime or a place”. This echoes my argument that place for the OFCs is regulatory environment.

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is the confidence of the international financial community. We must therefore do everything to protect our good name and build on it” (Financial Secretary Vassel Johnson’s Budget Speech, 1981).

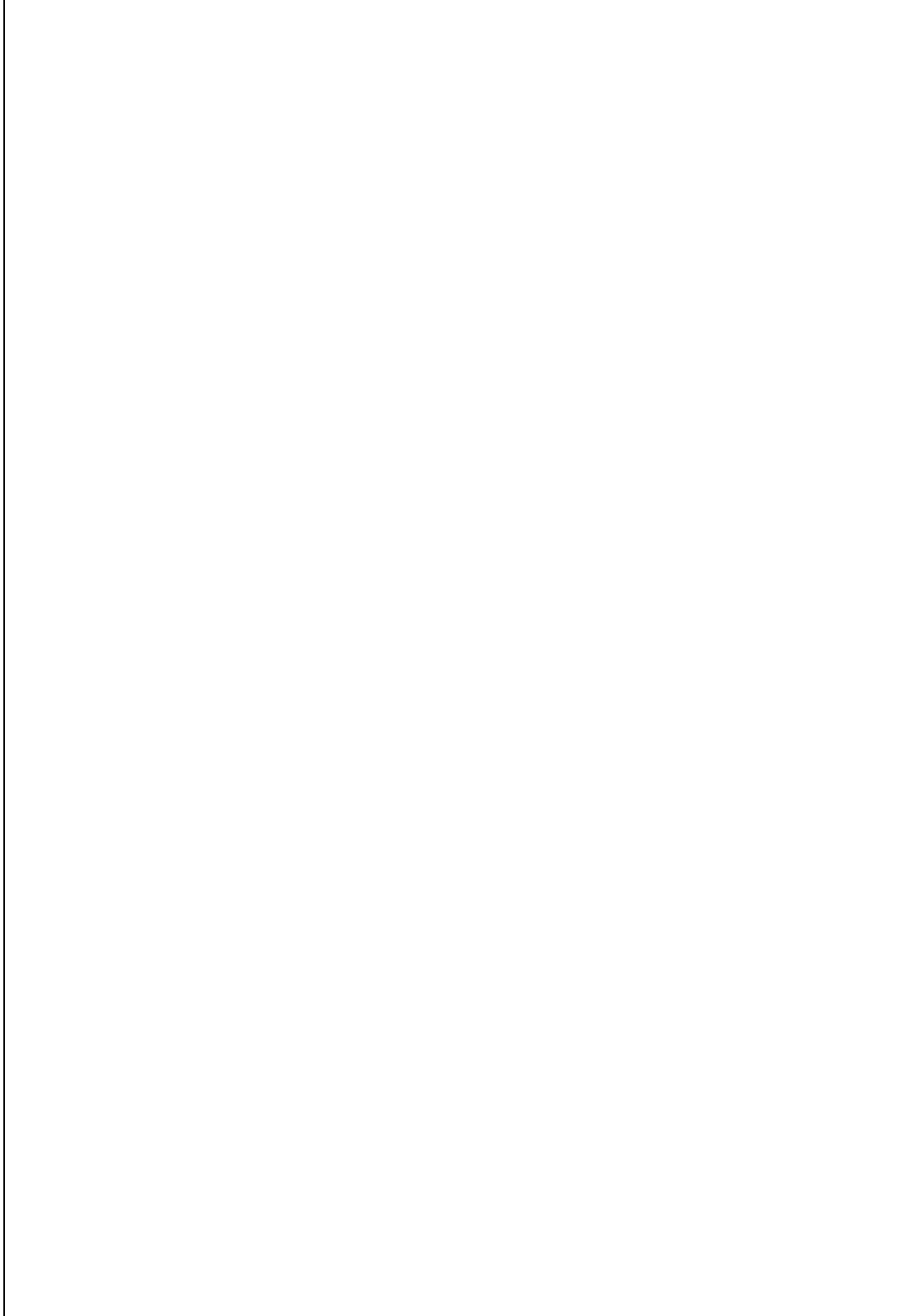
Further evidence of the importance which the Cayman Islands’ Government attaches to its reputation as a clean OFC was seen in the rapid response to an article about financial fraud which mentioned the Cayman Islands and appeared in the Guardian on the 8th September 1995. Thomas Russell, the UK representative of the Cayman Islands’ Government replied to the Guardian the very next day, explaining that:

“Those Guardian readers disillusioned by the National Lottery may well try to make their fortunes by following the practices quoted in your article “How to con a million” (September 8). However, I would like to point out that potential fraudsters will find it difficult to carry out their dealings in the Cayman Islands. The legal and financial professions recognise that our banking confidentiality law, far from encouraging fraudsters, acts as a gateway to criminal investigation, not as a hindrance. Investigators find it easier to gain information on possible fraudulent activity than they do in the UK or the US. And for the record, the UK Serious Fraud Office has confirmed that none of the banks or companies involved in the Devon and Cornwall case reported this week was registered in the Cayman Islands” (Thomas Russell, UK Representative of the Governor of the Cayman Islands, Guardian Letters, 9/9/95).

Figure 5.8, taken from an advert placed in the Daily Telegraph on November 6th 1993 by the Cayman Islands Government, clearly shows the importance they attach to their reputation. The Bahamas too has sought to maintain and rebuild its reputation as a genuine, clean and stable OFC, a task which was not made easy in the 1980s by the use of the Bahamas by drugs smugglers and money launderers, and the international attention that this attracted from the US and international media. In the mid-1980s allegations about Pindling and corruption in the Bahamas were reported by newspapers including the Financial Times, the London Times and the New York Times. They were particularly vigorously pursued by the Miami Herald and the US National Broadcasting Corporation (NBC), although the Sunday Times too had a special feature on corruption in the Bahamas and, at the time of the 16th Commonwealth Conference in the Bahamas, an unambiguous front-page headline reporting the FNM’s suggestion that “Queen’s host ‘is a corrupt liar’ ” (Sunday Times, 29/9/85).

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Figure 5.8: Cayman: “Our reputation is our most important asset”
(Source: Daily Telegraph, 6/11/93)



Shortly after the publication of the Commission of Inquiry’s Report in 1984, the Bahamas Ministry of Tourism employed the prestigious New York / Washington D.C. public relations firm of Black, Manafort and

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Stone to help to improve the image of Pindling and the Bahamas, at a cost of \$800000. An English banker, talking about efforts to improve the Bahamas' image, explained that:

“Because of our proximity to the US, because of our geographical location, which is primarily the reason why drugs ever flowed through the Bahamas, we've had a very very negative press indeed. We're now trying to come back and show that it is a stable financial haven, and we only deal with bona fide people. But it takes a lot more than just a few adverts to convince people. Some of the changes in the legislation have helped, as has the change of Government, considerably, and then it's up to the Government as well to try to promote the Bahamas” (Campbell, Bahamas).

A Bahamian banker also talked at length about the image of the Bahamas in the 1980s, and more recent efforts to improve it:

“Perhaps you are aware that in the mid-to-late 1980s the Bahamas suffered what I consider to be a black-eye with all the publicity of the drug trafficking. There was a perception I believe in the wider market that perhaps the due diligence and the checks and balances in the system were not as stringent as they ought to have been. Quite a bit of that was media frenzy but there's no denying that there were some things that could have been done better. The publicity of it gave the Bahamas the perception of being a facilitator of illicit activities. While that may have been true in the minority of cases, and I can't say for a fact that it was, it certainly did not typify what was happening in the wider financial community. What has happened since then is both the government and the private sector, sometimes jointly, sometimes separately, have made a concerted effort to demonstrate to the wider public the integrity of the financial institutions in the Bahamas. As a result of that I think there has been a shift in public opinion about the image of the Bahamas and that has significantly affected our ability to market the services in the Bahamas. Our experience has been, certainly since the change of Government, there has been a resurgence of business flowing to the Bahamas. I think today the Bahamas enjoys as prestigious an image as any of the financial centres, if not better” (Nicholas, Bahamas).

One might expect a Bahamian to tell of the Bahamas' prestigious image in comparison to other centres, but such an impression was confirmed, to my surprise, by interviewees in the USA. I had expected the Bahamas to be the *bête-noire* of regulators in the US but discovered that Cayman was often considered to be more questionable as a result of its greater proportion of small private banks as opposed to branches and

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subsidiaries of major international banks. A US regulator explained to me that “you’ve got the Bahamas articulating the view - they weren’t the only ones but were leading the movement - that offshore centers clearly only have one way to go, and that is to clean up their act and dispel this perception of being a haven for crooks and criminals” (Lane, USA).

Interviewees in the Bahamas felt that the Central Bank of the Bahamas had recognized the importance of proper regulation as long ago as the 1970s, as a result of earlier problems. A Bahamian lawyer explained that:

“The Central Bank is very selective about who it lets in as a bank now, same thing with insurance companies. I think that can be traced to the very bad experiences we had in the late 1960s and early 1970s: the collapse of IOS [Investors Overseas Services], the collapse of banks like British-American bank, the collapse of Gramco, the collapse of major insurance companies. There was a realization that unless stringent regulations were brought in we were going to be finished, and our reputation would be destroyed. That I think has been pretty much the motif of regulatory policy ever since” (Peterson, Bahamas).

An English banker in the Bahamas also talked of the role of the Central Bank in helping to maintain the reputation of the Bahamas. He remarked that:

“the Central Bank here are very aware that they stand as the guardian of the banks here. I mean they’ve got a bit of an inflated opinion of themselves but they do say ‘we’ve got a good reputation for making sure the banks comply with all the things they’re supposed to comply with.’ They are very proud of the fact that they threw BCCI out of here about 4 years ago, before it all hit the fan. So they want to say ‘we’re offshore, but for the right reasons. We’re properly regulated’ ” (Jennings, Bahamas).

5.3.4.2. Flying the (British) flag or going it alone?

So, in the Bahamas, the Central Bank, the Government and the offshore sector have sought to improve the image of the Bahamas, representing themselves as reputable, genuine, stable and clean, and as more attractive to offshore business than their rivals.⁹⁷ However the chances of

⁹⁷ One might think that the dual role of a central bank as both promoter and regulator of a jurisdiction would produce a conflict of interest. Interviewees in the Bahamas and Cayman suggested to me that such a conflict did not exist as the regulations imposed by the Central Bank or Financial Services Supervision Department

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the Bahamas out-trumping Cayman in the game of image competition are slim because the images do refer to a reality, a reality which for Cayman includes its political status as a colony of the United Kingdom.

This situation was neatly captured by a Bahamian lawyer's comment about the Bahamas and Cayman:

“I think the main difference would be the fact that they are a colony and we are an independent country, and secondly that the British presence is much more pronounced there than it is here. I think those two factors add up to an image of stability which is superior to any image that we can project here” (Peterson, Bahamas).

An extract from an interview with a European banker in Cayman also makes this point:

AH: Do you think being a British colony is an advantage or a disadvantage for Cayman?

Howe: Oh, a huge advantage. It's one of perception. It's British, and it's not Independent.

AH: And you think that's a stability thing again?

Howe: I do indeed.
(Howe, Cayman)

Cayman's political status as a British Dependent Territory was generally seen as advantageous in terms of the stability of the regulatory environment provided for offshore financial business. A Canadian banker in Cayman talked of the game of offshore finance:

“the Cayman Islands is a dependent country and mother Britain stands behind us with all her force and her abilities around the world, and the Bahamas is a small independent country who can change the rules in the middle of a game and have been known to have done so, that probably if you weighed up all the other pros and cons and you came to that then a lot of people would say, ‘hey, I'd rather be in Cayman' for that reason” (Price, Cayman).

were clearly set out, transparent, and could not be altered to attract financial business. In retrospect I could have explored this issue in more depth.

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Colonial status was seen as inspiring greater confidence in Cayman on the part of existing and potential clients, and as an important part of the “Cayman” package sold to the international financial community. A Caymanian regulator said that “we use the fact that we are a dependent territory as part of our sell for being politically stable” (Fry, Cayman), and a South African banker in Cayman explained that “the major difference is that we are a British crown colony, and for a potential investor we give greater confidence than would the Commonwealth of the Bahamas being independent. I think that’s the main area that we try to sell Cayman” (Carver, Cayman).

The importance of political stability imparted by colonial status was felt to be particularly important in attracting clients from countries and regions such as Latin America with a history of political instability. Clients from such places were seeking to escape from uncertainty and instability and so the colonial status of Cayman was especially attractive to them, more attractive than a small independent country such as the Bahamas. A Dutch banker in Cayman observed that “people always perceive small independent countries, especially in this area of the world, to be banana republics. I know that is a very simple generalization but many people make very simple generalizations” (Neill, Cayman). A Bahamian lawyer, talking of the differences between the Bahamas and Cayman remarked that:

“the differences principally revolve around the fact that one of them is a small independent country and the other one is a small dependency of the UK. Cayman gets a lot of business from people who comfort themselves: look it’s a British colony, the UK isn’t going to let them go down the tube, they’re going to keep an eye on, and so on. A lot of people feel a little safer with the British being in there. Latin Americans feel that way, and some Americans do” (Dixon, Cayman).

Financiers in Cayman and the Bahamas suggested that potential clients may prefer to use an OFC such as Cayman rather than an independent state such as the Bahamas because “people are a little apprehensive of a nation being independent because being independent it’s possible that we could become a Cuba or a Haiti overnight, whereas that won’t happen in Cayman or BVI [British Virgin Islands]” (Dixon, Cayman). On the other hand some interviewees in the Bahamas did suggest that the Bahamas’ Independent status was attractive to potential offshore customers in terms of simplicity, autonomy and the clear location of

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regulatory power. An interviewee in the Bahamas suggested that Independence had:

“allowed the Bahamas to sell itself as a country dependent on its own policies and initiatives. What that has meant in some instances is that people didn’t have their eyes on both England and the Bahamas to try and sort out what was going to happen. They only had one place to look at in terms of what was going to be the parameter for what happens in the Bahamas as a jurisdiction. Our Independence has enabled us to say, listen we direct the policies of this country and its financial services sector and you rely on us” (Smart, Bahamas).

Another interviewee suggested that “there are a number of consumers who don’t like the idea of dealing with a colony because there’s always a fear that there may be some intervention by the Metropolitan Government which could unravel everything” (Peterson, Bahamas). That is, in Cayman there could be external interference in the regulatory construction of place whereas the Bahamas is responsible for its own policies and regulatory environment.

However, even in the Bahamas, independent political status was seen as a double-edged sword. Independence is only a good selling-point if clients have confidence in the local Government; if there is a lack of confidence clients may be happier knowing that there is an external regulatory power keeping an eye on things and ensuring stability. As one interviewee admitted:

“Independence for the Bahamas is both positive and negative. Positively, presumably, we answer only to ourselves. If there’s any need for a change in regulation or legislation it can be done without answering to a higher authority. The negative side is that we stand on our own and unless we are well known and have a good reputation - and hence the whole thing about having to clean up the act about drug-trafficking etc. - ... we don’t have a central authority behind us to say, yes we will make sure they get in shape and are good boys, and who we can rely on” (Young, Bahamas).

Some financiers in Cayman recalled that the Falklands War provided an important boost to their business as it illustrated the UK’s support of its dependent territories. One banker also noted that Argentinean funds quickly moved to the Netherlands Antilles but the general feeling is captured in the following extract:

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“We’ve always made a lot of capital out of the fact that this is a British Dependent Territory, and Britain looks after us. The Falkland Islands did us no harm at all, when the British Government stood behind it. I think we were lucky, because if it had been a Labour Government I’m not sure whether they would have moved to the same extent. They did, and therefore people say, ‘oh gosh, isn’t it wonderful. We can trust the Cayman Islands.’ You know, if Cuba invades, Maggie [The British Prime Minister at the time of the conflict in 1982, Margaret Thatcher] will be in there. I think a lot depends upon the jurisdiction itself. We’re a small country, we’re obviously open to attack. If a nation is so minded we couldn’t really defend this island. We need the British Government for that if it’s perceived as a threat, and a lot of Latin Americans do consider those sorts of things. They’re used to it in their own jurisdiction ... The British Government has moved in dependent territories, Montserrat, Anguilla, TCI [Turks and Caicos Islands]. They’ve moved in to defuse political situations. If such a thing were to happen here then I think the British Government would do that sort of thing. If Castro invaded, I don’t know [laughs]” (Wood, Cayman).

In addition to emphasizing the benefits of colonial status, interviewees in Cayman also stressed that there was no possibility of any move to independence. Here’s an extract from an interview with a long-term resident of Cayman:

AH: Have there ever been any moves towards Independence in Cayman?

Carver: No no. Prior to 1962 Cayman was governed through Jamaica by the British Government. In 1962 when Jamaica went independent Cayman was given the option of staying with Jamaica as a Jamaican colony or becoming a direct Crown colony of the UK. The late Dr. Roy Hanson was the main instigator behind Cayman coming directly under the Queen of England. That was done in 1962 and ever since then there have been no moves toward Independence.

(Carver, Cayman)

The political stability of Cayman was celebrated through the recounting of stories about the visit of the UN Committee on Decolonization to Cayman in 1977. One banker described the UN as full of cranks and other reports were hardly less excitable. Here’s the version from the Handbook and Business Guide, an important volume for the distribution of images about Cayman to potential clients:

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“The message they got loud and clear wherever they went was that Cayman did not want or need at the present moment constitutional change, and that when it did Caymanians were perfectly capable of asking for and obtaining it from Britain without any interference, well meaning or otherwise, from any outside agency like the United Nations. Cayman Islands 1- United Nations 0” (Cayman Islands Handbook and Business Guide, 1978).

The hostile reception given to the UN was contrasted to the loyal devotion displayed when the Queen visited. A banker in Cayman recalled that “the UN team that came down here in 1977 ... were told in no uncertain terms to go back where they came from, and since then Her Majesty the Queen has visited twice and has met with a tremendous response from the Caymanian people” (Carver, Cayman).

Interviewees in the Bahamas and Cayman recognized that Cayman’s colonial status contributed to the image of Cayman in other ways as well as in terms of political stability. Here’s a British banker in Cayman talking about the benefits of being a colony:

“It’s very good for Cayman. This is why they stayed British. This is why they tell the UN Committee on Independence, ‘look we don’t want you to come down here, there’s no point’. They’re not stupid and they know it’s a good selling point. If you spoke to most Brazilian clients of mine, they’ve never been here, but most of them have been told that it’s British, and the fact that it is British is a big selling point. I have to say also I think the question of colour influences it partly. In lots of these Latin countries, colour and sex ... they’re not used to female bank managers and executives. The blacks in Panama are basically descended from the Jamaican slaves that were taken over to dig the canal. So there is quite a lot of anti-black feeling. And you go to Nassau and most of the staff are black” (Jones, Cayman).

Interviewees in the Bahamas also talked about the racial element of images of the Bahamas and Cayman. A Bahamian lawyer, comparing the Bahamas and Cayman, suggested that “the fact that it’s a British colony conjures up an image of stability which an independent nation, *an independent black nation*, doesn’t have. Their expatriate community has a much higher profile in the affairs of the community than is the case here. Again that is a reassuring factor to an investor coming in for the first time” (Peterson, Bahamas, his emphasis). Once the issue of race had been mentioned by this interviewee I probed further:

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AH: I want to explore the issue of racism a bit more, the racial differences between the OFCs, and the way these are projected as images. How important do you think these are? Do you think Cayman uses that as a selling point?

Peterson: I think so. I don't know with what degree of subtlety they do it. I would think it's pretty subtle but I think anybody visiting Cayman, although it's aesthetically less attractive than the Bahamas, the fact is that you immediately have the assurance that you're dealing with a very solid English crowd which is almost a home away from home to somebody coming from England. The influence can be seen, not only in the offshore sector itself, but it radiates. There's clearly a very strong influence over economic policy, fiscal policy. That influence clearly emanates from the offshore financial community. Added to which the Union Jack is flying. I think that gives them a promotional advantage. There's no question about that. Unfortunately we live in a time when there's a great deal of international concern about the stability of black governments everywhere. The Caribbean may be one of the exceptions to that phenomenon but if you look at Africa in particular there's going to be this concern for black governments. That's a simple fact of life and I'm sure Cayman trades up on that, as in fact Bermuda does.

(Peterson, Bahamas)

In my discussions with interviewees about the image of their OFC many of them made comparisons with their chief competitor, that is, the Bahamas or Cayman. It struck me, for instance, that the Bahamas is seen as Cayman's Other, Cayman defining itself in comparison to what it is not. A Caymanian businessman explained that:

“The fact that we're a British colony gives us a sense of stability, and you know, confidence. We only look around what's happened in other jurisdictions. Just take for instance the Bahamas. In the early 1970s, people who've been around long enough, say that Cayman really took off to the detriment of the Bahamas. The Bahamas just took a bad turn after they got their Independence, and we profited from it. So I do think it benefits us” (Hanson, Cayman).

Other interviewees talked of the need to distance themselves from the Bahamas and the negative press coverage endured by them. With an analogy appropriate to a nation of sea-farers a Caymanian politician, talking about the 1970s, recalled that “we said we're charting a course so we don't get close to you because we don't want to get tarnished with that same brush if we can avoid it” (Morton, Cayman). Other interviewees in Cayman told of how the Bahamas is often “held up as an

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example” of how not to behave (Green, Cayman), and explained that it was important “not to get the stinking reputation that the Bahamas have got for themselves” (Taylor, Cayman). I asked a British financier in Cayman about attitudes toward the Bahamas. Here’s his response and a bit more from the interview:

Green: I suppose we see ourselves as being superior to the Bahamas.

AH: Why do you think that Cayman feels superior?

Green: Probably because of Government. I mean the Commission of Inquiry that was looking into corruption and drugs in the Bahamas ... The Judge who was chairing it asked Pindling a few questions, one of which was, ‘how can you afford to build a \$5m home on \$50000 salary?’ He said he’d got some very kind friends, and the judge decided that as these friends were apparently not dealing in drugs, reviewing this particular feature was not within his ambit. [laughs]. There were several Ministers who came out of that very badly indeed. So from a corruption aspect I think that we see ourselves as superior.

(Green, Cayman)

A Canadian banker in Cayman also emphasized the difference between the Bahamas and Cayman in terms of social problems. He proclaimed that “you’ve only got to go to the Bahamas, you’ve been there, just have a look round and see how the place looks and you can see that they’ve got social problems, they’ve got a level of crime that we couldn’t, touch wood, get to in fifty years” (Brown, Cayman).

Although disparaging comments about their main competitor were more common from Cayman, they were not all one-way. Interviewees in the Bahamas favourably contrasted their OFC in terms of its character, maturity and size. I asked a Bahamian politician about whether he feared that business would flee to Cayman in the event of problems in the Bahamas. His optimistic response was:

“No, they wouldn’t just go to Cayman. Cayman’s only as big as this table. [laughs] Cayman just wouldn’t be able to do it. Cayman hasn’t got the manpower resources to do it. Cayman might have a larger number of banks on paper but much of that real work is done here. This is where the lawyers, the accountants, the actuaries are. Cayman just hasn’t got the bodies, and the same thing would be true of Turks and Caicos, or BVI” (Pindling, Bahamas).

A British banker also talked of the greater sophistication of the Bahamas as opposed to Cayman. He observed:

“It’s very small. Total population around 20000 [27000]. It is an L-shaped island with George Town at the bottom of the L, and up one side runs a beach, and that’s where it all is. It’s a very very small society, and even that has boomed in the last ten years. It’s only just recently got a golf course for example. I don’t know how many golf courses there are in the Bahamas. There’s lots of them. It’s a much bigger country. There’s many more flights coming here. Communications are good. It’s only 2 hours from New York. It’s close to Miami to get flights to London. So this is a better location. It’s also not as hot. It’s much hotter in Cayman, 1000 miles further south. You’ll notice that this time of year. So it’s more sophisticated here. Much much older, more historic, and more charming. There’s much more here. Cayman is just a small town, and a road that runs along a beach. There’s nothing there, not a lot of character, so the Bahamas does have its advantages” (Jennings, Bahamas).

I would go along with this sentiment. Cayman, for me, was a clinical and rather boring place; efficient perhaps - “Miami without the guns” as one interviewee remarked - but lacking in character and a distinct culture. This is not surprising given the rapid pace of development, and the large influx of expatriates to Cayman. I would agree with the comments of a Bahamian Government official who suggested that “the Bahamas has a higher overall level of societal maturity than Cayman so I think that when people know of the Bahamas they have more to know of than with Cayman. I think that’s an essential and beneficial thing to the Bahamas” (Smart, Bahamas).⁹⁸

Given that the Bahamas and Cayman are each other’s main competitors in the game of attracting offshore financial activity, and that interviewees compared their centre favourably to the other, one might expect that competitive comparative advertizing of the form “the Bahamas is rubbish, Cayman is great, come to Cayman”, would be an important feature of the centres’ competitive strategies, particularly given their proximity to the USA where this style of advertizing is common. I asked financiers in both centres about whether such competitive comparative advertizing was important. A lawyer in Cayman observed:

⁹⁸ Although many of the OFCs’ customers seldom visit, discourses about the Bahamas and Cayman clearly do make reference to what the places are really like, as my interviews illustrate. Customers who do visit the Bahamas and Cayman play an important part in the development of discourses about the places in the wider non-visiting customer base.

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“There are all sorts of conferences that people go to to sell their product where they stand up and say ‘this is what we do best’, and there are some people who will rubbish the competition. There are others who won’t. Yes, there are people I’ve heard stand up and rubbish the competition. I don’t personally think that’s the best approach to sell, but ...” (Wood, Cayman).

A banker in the Bahamas accepted that such competitive advertizing did take place but said that he would not knock Cayman. Here’s an extract from the interview:

AH: When you’re selling MoneyBank Bahamas do you ever make direct comparisons with other OFCs?

Williams: I don’t generally knock Cayman as I think it’s a pretty good place to do business. I’m quite happy to knock Bermuda.

AH: So you will knock some places?

Williams: Oh yes, I’ll knock Bermuda because I think it’s bloody expensive, and I’ll knock the Cook Islands because they’re a bunch of crooks and charlatans, and Gibraltar I’ll have a go at. But Cayman and the Channel Islands I’ll leave alone because they’re quite good places.

AH: Do you think Cayman would have a go at the Bahamas?

Williams: I think it varies from person to person, and depends on whether the bank has offices in the place concerned. I suppose I could knock Cayman if I wanted to but there’s not much point. The Cook Islands I could definitely have a go at because they’re pretty flighty.

(Williams, Bahamas)

In fact very few of my interviewees said that they would knock their Cayman or Bahamas competitor, so I questioned further to find out why. A variety of reasons were given. One of the most important reasons given was that such competitive advertizing was unnecessary if your centre had a good product to offer, and there was always a danger of retaliation. Here’s an extract from an interview with a Canadian banker in Cayman:

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AH: Why do you think Cayman has never engaged in aggressive negative advertizing against the Bahamas?

Price: The Cayman Islands is a tiny country and it has a limited budget. The Bahamas GNP is probably 8 to 10 times larger [about 4 in 1991], and I think that if you attempted to slur their name as one of the ways of attracting business they might very well come back, and who knows what kind of publicity would shoot back at you, and with their greater resources it could hurt. Not only that but Cayman, historically, the Financial Secretary and the Government have been consistent in the view that we have two major commodities in this country in tourism and finance. They don't sully either one of them no matter which political party or which side of the house you're on. So I think that they have purposefully decided that if you fly straight, are squeaky clean, and have nothing in the way of corruption or dirty laundry about Cayman, then that sells itself. That, coupled with the fact that you're a British Crown colony, have very little poverty, not a lot of crime, a clean place ... It's not like the Bahamas. I don't think you have to start talking about their problems.

(Price, Cayman)

A Government official whose duties included promoting the Bahamas talked of the problem of naming your competitors. He explained:

“I really can't speak for the philosophies of those who may have conducted promotional campaigns in the past but I would imagine that there are disadvantages in naming your competitors. It is a problem for us. For instance when we go to conferences people come to us and ask us for Bermuda banks. [laughs]. So it could be a mistake to put Bermuda on any of our material even though the Bahamas is there. So that might be one reason. Another reason would be that in some areas there are some jurisdictions that have a competitive advantage and you don't want to highlight or accentuate those. You want to do what is necessary to be competitive yourself” (Smart, Bahamas).

A related reason why naming your competitors in an aggressive advertizing campaign is seen as problematic is that it gives publicity to your competitors. A Cayman banker explained that:

“one of the other things is that publicity, whether it is good or bad, somehow helps promote a place. During the years that the Bahamas was on the front pages of the Wall Street Journal and so on it had tremendous exposure. While you would think that the negative exposure is going to be detrimental in fact it isn't. People who

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hadn't even thought about it, learned something that they didn't know before and it probably helped them".

(Price, Cayman)

Although the possibility of retaliation, the problem of naming your competitors, and the feeling that aggressive advertizing was unnecessary, were important reasons for the absence of competitive comparative advertizing between the Bahamas and Cayman, the most important reason relates to the complications introduced into the "two-competing-places" model by the presence of many multinational banks as powerful players in the wider regulatory landscape.

5.4. COMPLEXITIES OF COMPETITION: MULTINATIONAL BANKS IN THE REGULATORY LANDSCAPE

An important criticism of mainstream International Relations theory has been that its focus on states as unified rational actors in the international system is unrealistic, and increasingly so (Keohane and Nye, 1977; Keohane, 1986; Ashley, 1984 and 1988). Critics have argued that the presence of non-state actors such as international organizations and multinational corporations alters significantly the picture of states competing in an anarchic world. IPE has taken this insight on board in different ways (Stopford and Strange, 1991). In terms of my case study the Bahamas and Cayman OFCs are constructed as places through regulation but the regulatory powers to construct the OFCs are held by extra-local actors as well as by local actors. The Bahamas and Cayman OFCs are places in a wider regulatory landscape, a landscape which is partially shaped through the actions of multi-national banks.

This insight is illustrated in the case of the development of the Bahamas and Cayman as OFCs. Whereas at first glance one might assume that it's simply a case of two places competing with each other for market share, on closer inspection it is apparent that the presence of multinational banks with operations in both centres significantly complicates matters.⁹⁹ In my research I approached this issue in two ways, firstly considering whether multinational banks had any allegiance to a particular centre, and secondly whether branches of the same bank in different places would compete with each other.

⁹⁹ In 1993 many of the big-name banks had entities in both centres. Such banks included: Barclays Bank; Royal Bank of Canada; Bank of Nova Scotia; Canadian Imperial Bank of Commerce; Citibank; Lloyds Bank; Coutts and Co.; Swiss Bank; Banco Bilbao Vizcaya; Banco do Brasil; and Bank of America

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Other commentators have noted the complicating factor of multinational banks. Johns and Le Marchant argue that the offshore sector's "allegiance is to the wider global company advantage and not to any narrow specific national territorial advantage" (Johns and Le Marchant, 1993a, p.69), an observation echoed by the Manager of a Bahamas branch of a US Multinational bank:

"Being a multinational bank, as many of our competitors are, we're not primarily concerned whether it's Cayman or the Bahamas as long as we get the business. To make that equation even more muddy if somebody wants to go to Cayman and they want say mutual funds administered from the Bahamas that can be done" (Campbell, Bahamas).

Given such a situation one would expect multinational banks to be reluctant to participate in the promotion of a specific jurisdiction. The logic is: if a bank has branches in both Cayman and the Bahamas, funds spent promoting each centre would simply cancel each other out. I asked several of my interviewees whether this logic held in reality. Here's an extract from an interview with a Bahamian Government official:

AH: Then thinking about the private sector's promotional activities, why don't banks with entities in competitor offshore centres just say to the Government when they are asked to contribute to promotions, 'We have presences elsewhere, we don't care whether business goes to Cayman or comes here, so we're not funding promotions'?

Smart: That's a reality yes. As a matter of fact when we approached the AIBT they were very frank and let us know that they might not contribute to this particular promotional campaign because many of their members have branches or arms in other jurisdictions, and so really they would not necessarily say 'come to the Bahamas', they would just say try this bank or that bank. So that's a fact. But then of course there are those who don't [have other entities], for whom the Bahamas is the choice.

(Smart, Bahamas)

An interview with a leading British banker in the Bahamas recalled the same request from the Government to the AIBT for funds for promotional activities:

AH: Before you said that most of the big banks are concerned with getting business, no matter where, whereas the Government is concerned specifically with promoting

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the Bahamas as an OFC. Does this produce a conflict? Why do the big banks get involved in helping the Government to promote the Bahamas?

Campbell: The offshore banks, and we sometimes have to say this to the Government, we are somewhat fickle. If things change here and go wrong then we're out of here. We've only got the furniture here really. But bearing that in mind, that it is somewhat fickle, we are here in a tax-free jurisdiction and we want to be good corporate citizens and help to develop the country. There are very good reasons why we are here. It's one of the cheaper centres. We have a good pool of local labour so we don't have to bring in a lot of costly expatriates, and our communications, while not the best, are very good. So we would be very keen on seeing that promotion. Like any other smart businessman, if you've got a foot in either camp then you can move either way you want and keep your options open.
(Campbell, Bahamas)

The multinational banks are in a powerful position in relation to their host governments, having a foot in both camps. In Smith's terms the multinational banks are in a powerful position *vis-à-vis* the Bahamas and Cayman OFCs because through their mobility they operate at a higher scale, or in longer network (Smith, 1992 and 1993; Thrift, 1996, p.5). Through their mastery of space - their power in, or over, the regulatory landscape - multinational banks can, to some extent, control place.

Other bankers I interviewed emphasized that their bank would not promote the Bahamas, Cayman or any other centre *per se*, rather they would promote their bank. A Bahamian central banker explained:

"The advertizing, its effect, comes from the players themselves, the banks. What you will see is, say, Coutts & Co. would have an advertisement running in a major publication, and below it they would list their offices in Cayman, the Bahamas, Hong Kong and so on. What they're saying is, 'we're a global bank, wherever you wish to have your business done, we can do it for you.' So they're pushing the Coutts capability and logo as opposed to the place"¹⁰⁰ (Smith, Bahamas).

Once again, from the other side of the Government - offshore sector relationship here's a banker talking about the advertizing policy of his bank:

¹⁰⁰ Coutts and Co. is a prestigious British bank with branches in the Bahamas, Cayman and many other financial centres. Figure 5.9 reproduces a typical advert for a multinational bank, promoting the bank rather than a particular branch or subsidiary of it in a specific place.

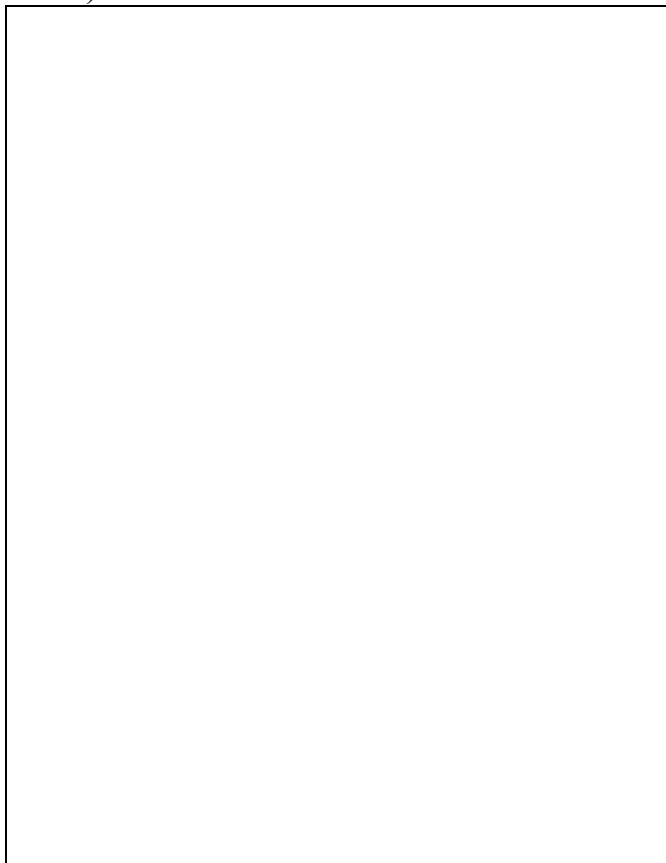
[Type text]

AH: In terms of who promotes the Bahamas why should a bank with entities in competing jurisdictions bother promoting the Bahamas?

Nicholas: Well that is an integral part of our bank's philosophy which may differentiate us from our competitors. We do not market particular jurisdictions. What we do is we try to satisfy our clients needs. I think the advantage of having a selection of jurisdictions is that it gives us the flexibility to tailor our product offering to meet the needs of the client and not the other way around. What we do is we tailor our product offering and marketing to the needs of the client. So we do not promote the Bahamas to the exclusion of other jurisdictions. We market our service as a global international private banking institution with offices in all of the key financial markets around the world which enables us to tailor our products to meet the needs of our clients no matter what the diversity is. So from that perspective it is not the case that we are promoting the Bahamas or Cayman or Uruguay.

(Nicholas, Bahamas)

Figure 5.9 Coutts advert (Source: Cayman Islands Yearbook and Business Directory, 1994)



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A Bahamian Central Banker maintained that “the ultimate beneficiaries [of promotional activities] are the players themselves, so they should bankroll this, rather than the Government” (Smith, Bahamas). Another Bahamian Government official explained that it is difficult to separate promotion of a bank in the Bahamas, from promotion of the Bahamas:

“I think in terms of the national promotion, in terms of presenting the Bahamas as an offshore jurisdiction, primarily the Government of the Bahamas does that. But individual institutions within the financial services sector also do their promotions, and inasmuch as the success of their individual promotions is linked to what we are as a country then they also promote the Bahamas” (Smart, Bahamas).

Related to the idea of being a “good corporate citizen”, some financiers said that multinational banks would promote specific places, and, in a manner reminiscent of Cox and Mair’s discussion of emergent local powers (Cox and Mair, 1991), talked of a “dual concerted effort” by the private and public sectors (Bould, Bahamas). I rehearsed the logic of a multinational bank not promoting a specific jurisdiction, and playing off host centres, to which the manager of a Canadian bank in Nassau responded:

“Well there are virtues in having a presence here. For example BankAmerica did this. They got pissed off with the Government five years ago and moved their trust operation to Cayman. So they went from about 50 staff to 15. But now they’re up at about 50 again because the reality is that there are various good reasons for coming to the Bahamas. So, people have closed down here from time to time, but there’s a particular type of client that likes to use the Bahamas, there is money to be made here, so they stay here” (Williams, Bahamas).

It is not possible to generalize about the attitudes of multinational banks to promoting specific jurisdictions. Most of my interviewees accepted the logic of multinational banks not promoting a place but then resorted to ideas of corporate citizenship to justify their apparently irrational action. This finding meshes well with contemporary currents in economic geography which emphasize that economic activities are embedded in social and cultural relations, and that “untraded interdependencies” can be as important as the pursuit of profit in processes of local economic development (Storper, 1995; Amin and Thrift, 1995; Lorenz, 1992). What goes on in reality has as much to do with the personalities and friendships of individual decision-makers as it does with an assumed economic rationality. The presence of

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multinational banks in the OFCs certainly complicates the idea of states competing for business, but not in any simple predictable way, as the following extract suggests:

AH: So if the government says to a bank with entities in competitor jurisdictions, ‘please help with promoting the Bahamas’, would that bank be likely to say, ‘no we are not bothered about selling the jurisdiction’?

Nicholas: Well that’s interesting. It might well be that some general benefits could be gained from a joint venture or promotion with the government. Obviously to the extent that the Bahamas or Cayman is attractive for business the potential for CashBank to benefit from that is enhanced. So it falls into the context of image advertizing as opposed to specific organization or product advertizing. So if such a proposal was put to us we’d have to weigh the costs and benefits of participating but I don’t think we would dismiss it out of school before assessing the potential benefits.

(Nicholas, Bahamas)

A second aspect of complexity introduced by the presence of multinational banks in the competing OFCs relates to the policies of the multinational firms. That is, do sister branches in the Bahamas and Cayman compete with each other? The logic of this situation, making the assumption that the corporation is globally rational, suggests that branches in different centres will not compete with each other. I asked the Bahamian manager of a bank with entities in the Bahamas and Cayman whether the branches competed with each other. He explained that:

“I think competition from an efficiency stand-point is good. It’s good for the clients who are the end-users of the product. To the extent that companies within a particular group compete on efficiency and quality of product there is an incentive for them to improve both. On the other hand outright competition for business is counter-productive ... To my mind it would be very short-sighted and selfish. It’s not something that I would say happens in CashBank. We try to market our business along the line of ‘Country Market Management’ teams who basically are located in different geographical jurisdictions around the world. Basically a manager is responsible for marketing the products to a particular country of clients. So the marketing is not a local marketing effort, it’s a global marketing thrust that permits us to focus our attention more on the needs of the client rather than on the individual jurisdiction” (Nicholas, Bahamas).

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This idea of multinational banks being organized so that branches complement rather than compete with each other was echoed in other interviews. A British manager of a US bank with entities in both centres explained:

“Most of the international banks are represented in both places. They are not necessarily staffed up to the same levels in both jurisdictions, and what tends to be the case is that rather than being in competition with one another, which actually hurt both of us [Nassau and Cayman branches], because we tend to be bidding against each other for the same piece of business and reducing our fees [laughs], we’ve developed a strategy so that there are different private banking services run out of Cayman and here” (Campbell, Bahamas)

Financiers explained to me that different jurisdictions offer different services, and so a client who wanted to set up an International Business Company, say, might be directed to the Nassau branch, whereas someone interested in setting up a Captive Insurance Company may be directed to Cayman. This reflects the ways in which banks in the offshore centres get their business. That is, much of their business is referred from representative offices in say, New York, London, Mexico City and Caracas, which will channel business to the appropriate offshore jurisdiction. In this way entities of the same bank in different centres may be complementary rather than competitive. Here’s an extract from an interview in Cayman with the manager of a European bank with entities around the Caribbean:

AH: Does AssetBank get business channelled to the different centres from representative offices in NY and Amsterdam, or will clients travel round the centres?

Neill: Most of it is channelled through our representative offices in Mexico, New York, Venezuela, Amsterdam.

AH: So your representative offices know what the specialities of the centres are and channel business accordingly?

Neill: Yes. Most of our clients come to us because of referral and personal contacts and very much rely on our advice.

(Neill, Cayman)

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Such a complementary business strategy certainly seems to make more sense than branches competing with, and undercutting each other to the detriment of the corporation's global profits. However some interviewees admitted that the behaviour of branches was sometimes less rational. A banker in London explained that "banks often have a presence in both centres and these branches will compete against each other. It is basically the survival of the fittest and the branches know this" (Pascoe, London). A Swiss banker in the Bahamas also acknowledged that "some of the Swiss and European banks are very competitive in terms of the Bahamian and Cayman branches" (Schmidt, Bahamas), as they want to show a better profit than their sister branch. An extract from an interview with a British banker in the Bahamas is richly illustrative of the fact that reality is much messier than our theories about it:

AH: Now I want to think about competition, either between the Bahamas and Cayman, or between the banks within each place, or the same bank in different places. For example, when MoneyBank is advertizing would it advertize the Bahamas specifically as a jurisdiction or would it say 'MoneyBank. We are in Bahamas, Cayman, everywhere.' ?

Williams: A very good question. In MoneyBank private banking, over the last year or so, we've been having a big discussion about the fact that MoneyBank Cayman competes with MoneyBank Bahamas competes with MoneyBank Guernsey, and we're not supposed to be doing that. So I decided, in the name of teamwork, to put the names of all our presences on my business card. This has caused an unbelievable furore. I proposed this in January and I'm still waiting for my new business cards. So the answer is that when we advertize, if we do anything public, then we'll mention all the jurisdictions. But in reality [laughs] we compete like hell with one another. I think it's human nature.

AH: So it's your head office that doesn't think that's very good?

Williams: Yes. In the Bahamas we are less parochial than the guys in Guernsey and Cayman, in MoneyBank anyway. For example I get paid part salary and part commission, and I get the commission even if the business goes to MoneyBank Cayman or Guernsey whereas the guys in Cayman and Guernsey don't get the commissions if the business comes to the Bahamas so there's no incentive for them.

AH: That's odd for them to get paid on a different basis.

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Williams: That's right. My boss is very fair. Malcolm Money in Guernsey is rabid anti-Bahamas so ... I mean we have an issue at the moment - we have a lot of business referred out of Hong Kong and it used to go to Guernsey but the Managing Director in Guernsey and the Managing Director in Hong Kong had a row so now it all comes here because we get on well with Derek Deposit in Hong Kong.

AH: So it's all personality driven and depends on personalities?

Williams: Absolutely.
(Williams, Bahamas)

As with the issue of whether multinational banks are interested in promoting specific jurisdictions, what really goes on is the product of individual decisions, personalities, and episodes rather than something that can be predicted by a simple model of rationality. Simple theories may be elegant but detailed empirical work is crucial to understanding what really takes place. However there is a general point that can be made: multinational banks, through their mobility in the regulatory landscape of international finance, are in a powerful position in relation to individual OFCs.

5.5. CONCLUSIONS

In this chapter I have explored the competitive relationship between the Bahamas and Cayman OFCs. The two offshore centres compete to attract offshore business through the construction of their regulatory environments, and through the presentation of themselves as stable, reputable and genuine offshore centres. Places, space divided into the particular jurisdictions and regulatory environments of the Bahamas and Cayman, have been handy units for regulatory discourses and images to refer to.

However, the model of two states vigorously competing to attract business, and predictions of competitive deregulation between the centres, are too simplistic. Analysis at the level of states provides a partial picture, a picture which falls into the territorial trap (Agnew, 1994). The simple two-player game is complicated internally by the presence within the Bahamas and Cayman of actors with different agendas: Governments, the offshore sector, multinational banks, and individual decision-makers. The game is complicated externally because

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of its occurrence in wider contexts, a wider regulatory landscape, and particularly because of the presence of multinational banks in the regulatory landscape. In fact the conceptual boundary between internal and external is problematized by the fact that social relations and processes do not stop at state borders.

Context is important, as Axelrod and Keohane remind us: “If the issue is neither isolated nor all-consuming, the context within which it takes place may have a decisive impact on its politics and its outcomes” (Axelrod and Keohane, 1986, p.227). The Bahamas and Cayman OFCs are competing places, but they are competing places in a wider regulatory landscape, a landscape which shapes their interaction. In the following chapter I explore the role of the USA and international regulatory regimes in constructing the context or wider regulatory landscape for the development of the Bahamas and Cayman OFCs.

CHAPTER 6

THE WIDER REGULATORY LANDSCAPE

6.1. INTRODUCTION

In this chapter I explore further the development of the Bahamas and Cayman OFCs, building upon my argument in chapters 4 and 5. In chapter 4 I considered the regulatory construction of both OFCs as places; in chapter 5 I considered their interaction and competition and the role of multinational banks. I have argued that the OFCs can be usefully conceptualized as places in a regulatory landscape. This landscape, and the OFCs as particular places within it, are shaped by regulatory practices which cross state boundaries but which are held down or practised in particular places. To understand the development of a particular place it is important to consider its position in the wider regulatory landscape. The geographies of the OFCs - the spatialities of power and social relations - are shaped by regulation, which is, in turn, re-shaped by their geographies. In this chapter I situate their development and interaction within the wider regional and global geopolitical economy, the wider regulatory landscape.

Located in the Caribbean basin and dealing in dollars, the development of the Bahamas and Cayman OFCs takes place within the geographical and financial spheres of influence of the USA and within the structures of international financial regulation, which are themselves shaped by the USA as the dominant or hegemonic financial power. My argument is not that the development of the Caribbean OFCs is fully determined by structures at wider scales; rather I plan to explore the processes and rules through which the OFCs and the wider global political economy shape each other, the ways in which this aspect of the world is made (Onuf, 1989).

I begin by outlining briefly how the initial development of the OFCs was stimulated by the actions of the USA, before exploring the more recent actions of the USA and the consequent impacts on the OFCs. I discuss the regulatory “carrot” tactics of the USA in seeking to attract business from the OFCs by establishing International Banking Facilities (IBFs) and then consider its regulatory “stick” tactics, looking in detail at episodes such as: the Castle Bank case; the allegations made by the National Broadcasting Corporation (NBC) against Prime Minister Pindling of the Bahamas; the Bank of Nova Scotia case; and the development of Mutual Legal Assistance Treaties (MLATs). I also draw

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out some of the themes illustrated by these episodes - themes such as extraterritoriality, sovereignty and dependency - and consider the results of US actions. Finally I explore the development of international regulatory regimes, particularly the Basle Committee on the regulation of international banking, the role of OFCs in such regimes, and the ways in which the Basle Committee's regulatory framework has shaped the OFCs' development. To reiterate, my argument is that the Bahamas and Cayman OFCs are particular places, but they are places in a wider regulatory landscape. In this chapter I explore the wider regulatory landscape.

6.2. ONSHORE REGULATION AND OFFSHORE DEVELOPMENT

As the term "off-shore" suggests, the development of the OFCs is affected by "on-shore" policies and events. For the Caribbean OFCs, policies enacted in the USA are most important. This is apparent from the early development of the Bahamas and Cayman OFCs in the 1960s. Here's an extract from an interview with a US banker:

AH: What factors drove the development of OFCs in the late 1960s and early 1970s?

Thompson: There were a number of things. The restrictions enacted in the US: limitations on interest rates that banks could pay on deposits; reserve requirements on bank deposits; a lot of costs to doing banking business in the US, that banks could get away from by going offshore.

(Thompson, USA)

As Triffin had predicted in 1960, the Bretton Woods international monetary system was bedevilled by contradictions: how could the dual goals of lubricating increasing volumes of international trade, and maintaining confidence in the dollar as the international measure of value be achieved when the dollar was backed by a relatively inelastic stock of gold?¹⁰¹ (Triffin, 1960). Such contradictions were heightened by the increasing internationalization of business, dollar investments abroad, US expenditures on the Vietnam war, and the resultant growth of dollar holdings outside the regulatory reach of the USA.¹⁰²

¹⁰¹ This contradiction is, in effect, explained by Harvey in terms of a tension between the roles that money performs as money capital, embodying both use value (lubricating) and exchange value (measuring) aspects (Harvey, 1982).

¹⁰² By 1964 the value of foreign holdings of US dollars exceeded the value of US gold reserves (Volcker and Gyohten, 1992).

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Hawley explains that from the early 1960s the US sought to resolve the problems it faced in the international monetary system by the progressive and increasingly desperate introduction of capital controls (Hawley, 1986). The US faced the related problems of an increasing balance of payments deficit¹⁰³ and doubts about the stability of the dollar; to finance the balance of payments deficit more dollars were printed, thus making holders of dollars more doubtful that their holdings could and would be redeemed for gold. The US enacted a series of capital controls in an effort to deal with these problems; by restricting the outflow of dollars the US hoped to regain control of its currency, address its balance of payments deficit, and restore confidence in the dollar.

The first measure considered, by the Kennedy administration in 1961 and 1962, was a tax reform. This was intended to strengthen US trade and goods exports at the expense of capital export growth by eliminating foreign tax credits. However, it was strongly opposed by US multinationals and never implemented. The second measure, enacted in 1963, was the Interest Equalization Tax (IET). The IET acted as a tariff, influencing the supply and demand of capital indirectly through the market by increasing the costs of new US issues of foreign equities in an effort to minimize capital outflows. The IET was intended as a temporary measure but was renewed every two years until 1973, with vigorous opposition from the transnational banks at each renewal. Hawley explains that:

“The IET stimulated the initial rapid growth of the Eurocurrency system in 1963, promoting the internationalization of finance. In so doing the IET aided in denationalizing the Eurocurrency system by placing it beyond the effective control of national governments and international agencies, ultimately creating a financial structure which was instrumental in the downfall of the dollar in 1971” (Hawley, 1986, p.62).

Hawley goes on to describe the capital controls program which was instituted on a voluntary basis by Johnson in 1964 and made mandatory in 1968. The capital controls program aimed to limit: US foreign direct investments; US deposits in foreign banks; and the holdings of foreign assets by US transnational banks and the largest US transnational corporations.

¹⁰³ By current standards the balance of payments deficits of around \$2bn per year seem insignificant, but at the time they were large and a threat to the stability of the international monetary system and the position of the US within it (Volcker and Gyohten, 1992).

These capital controls shaped the development of international finance from the mid-1960s until they were cancelled in 1974 in belated realization that the regulations had been circumvented. One commentator laments that “banks did not invent the Euromarket. Governments created it by seeking to control the natural flow of money” (Aliber, 1979, p.19). In addition to these capital controls, Johns explains how “national friction structures and distortions” in the US regulatory environment stimulated the development of the Euromarkets and offshore finance (Johns, 1983). Prohibitions on inter-state banking (McFadden Act, 1927), the divide between commercial and investment banking (Glass-Steagall Act, 1933), and the existence of interest rate ceilings (Regulation Q) and reserve requirements (Regulation D), hindered the competitiveness of major US banks and pushed them offshore. Thus the Euromarkets, dollar-denominated business based chiefly in London, developed rapidly. Some of the smaller banks, faced with the high infrastructural costs of a London base realized that the Caribbean OFCs offered a cheaper and equally attractive regulatory environment - free of exchange controls, reserve requirements and interest rate ceilings, and in the same time zone as New York - and moved their Euromarket operations to the Caribbean. The number of overseas branches of US banks increased from 180 in 1965 to 732 in 1975; the Caribbean component increasing from 5 to 164 branches (Johns, 1983, p.29).

As well as providing further evidence of the role of states in the globalization of finance (Helleiner, 1994), and showing that onshore regulatory developments have impacts offshore, the capital controls programmes illustrate two other important points. Firstly, policies enacted by the USA which appear to be the actions of a unified actor - a “billiard ball” in a Realist model of international relations - are the result of complex negotiations and battles within the US between politicians, business and labour leaders, and countless other interest groups. A strict distinction between domestic and international political-economies is untenable and unhelpful. Secondly, it is increasingly difficult to define the boundaries and content of the US, or any, ‘national’ economy. Should “the US economy” be defined in territorial terms, or should the transnationals’ argument when opposing capital controls - that their investments abroad are part of the US economy - be accepted?

6.3. OUT OF THE US REGULATORY BOTTLE

Regulations in the US stimulated the development of the Euromarkets and US overseas banking, some of which, having left New York for London, returned across the Atlantic to the Bahamas and Cayman providing a boost to the business of these offshore centres in the late 1960s and early 1970s. The offshore centres provided other facilities such as private banking and trusts in addition to the booking of Eurodollars, but the Eurodollar migration increased significantly the role of the offshore centres in the global economy, and their importance to the USA.

The dollars' escape from the regulatory and supervisory clutches of the US authorities, although initially for reasons of profitability and competitiveness, led to further problems for the US, particularly as the activities hosted by the OFCs were largely hidden by strong secrecy laws. Many of my interviewees talked in general terms of the opposition of the US to the activities of the OFCs and one commentator explained that,

“The Bahamas [and other OFCs] must do things which are not allowed in the US because to do things which are allowed in the US is non-competitive, since in every instance the US does it better than the Bahamas do. The Bahamas are therefore compelled in banking and trust operations to appeal to unallowable activities and by inference to appeal to activities disallowed in the US” (Blum, pp.144/5).

A Canadian banker in Cayman explained US opposition saying: “I think they're just generally opposed to it because they [OFCs] are too bloody successful” (Harris, Cayman). I pressed other interviewees to explain why the US is opposed to the activities of the OFCs and got two sets of responses, both of which relate to the US' loss of control of their currency. Firstly there is the issue of tax evasion and avoidance; secondly, there is the problem of money laundering, particularly laundering the proceeds of the drugs trade. I asked a Bahamian lawyer about the attitude of the US to the OFCs, and he responded:

“I can tell you from my own experience of banking in the Bahamas, and a lot of it applies to other banking centres like Cayman and so on. They're [the US Government] opposed to it, and impatient to it, for two basic reasons. One is that the centres are obviously a facilitator of tax evasion. Secondly they've been greatly opposed to it, certainly as far as the Bahamas is concerned, because of the enormous

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volume of drug trafficking that went through the Bahamas. They have pressurized the Bahamas over that and sought to get evidence. They have tried to prevent the Bahamas ... They've tried to persuade, cajole, or threaten the Bahamas into relaxing or disposing of their bank secrecy legislation" (Dixon, Bahamas).

A British banker in the Bahamas backed up his assertion that the US is opposed to the OFCs' activities, arguing that:

"The reason that we can unequivocally come out and make that statement is the fact that they openly state in the press that the Bahamas, and other OFCs, are involved in money-laundering activities, with drug connected activities, and other criminal acts. They have openly said that if the OFCs didn't accommodate these people to do it, many of whom are Americans, then there would be no budget deficit" (Campbell, Bahamas).

Talking about the tax evasion aspect of US opposition, some interviewees explained that what they saw as a rather naive view had gained popularity in the US. A Bahamian Central Banker observed:

"A rather simplistic notion was aired ... where it was decided that the amount of tax avoided in the US is almost equivalent to the national deficit. From there the equation went, most of that tax has found itself in OFCs, therefore if we [US] were to get the OFCs to release [laughs] the taxpayers then we can deal with the deficit problem. From that point on you had this series of pressures being applied from different agencies of the US towards OFCs" (Smith, Bahamas).

Given that the US, or more accurately its regulatory and enforcement agencies, is generally opposed to the actions of the OFCs, we now need to consider the actions taken by the US. In deciding how to act against the OFCs, US agencies must take many factors into consideration. A lengthy passage from a book by an influential American lawyer/investigator is of great interest here:

"At heart is a cost-benefit evaluation to be tested against US interests defined clearly. For that cost-benefit ratio, calculate the cost to the United States of crime that is successful because of the use of Bahamian financial facilities. Calculate the likelihood that rigorous sanctions (à la Gordon¹⁰⁴) would eliminate rather than simply displace that criminal utilization of offshore facilities. (That is, would it

¹⁰⁴ The Gordon Report (1981) threatened the closure of all US bank branches; the taxing of all loans from OFCs as income; and the elimination of airline links to the US.

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simply move elsewhere, the Caymans or Panama?) Calculate the likely costs of severe sanctions to the Bahamian economy and the associated risk of social instability, poverty, anger and the replacement of a moderate democratic government with a hostile, possibly Soviet-sponsored, one. Calculate what such a leftist government would do: Close our military bases? Provide Soviet submarine service facilities? At what defensive cost to us? For the intermediate span, calculate costs to US banking and Euromarket transactions if the largest offshore center in the Americas were put out of business (acknowledging that many competitors wait in the wings). In contrast, as the benefit, calculate the gain from the likely reduction in US criminal success if the Bahamas was no longer available as one among many offshore centers. In so doing, be sure to calculate whether criminality in the United States would disappear as long as offender predilection, user demand, and infrastructure continue to exist.... The principle is that criminal issues must be considered in the larger context of socioeconomic matters, against a long-range time perspective” (Blum, 1984, pp.145/6).

This passage clearly shows that the relationships between the US and the OFCs must be considered in the wider context of regional and global geo-political economies, and, as a range of factors enters into the decision of how to act, suggests that the actions taken by the US may vary over time. This is precisely what the historical record reveals, as we will see below. Once again though, it is important to be careful not to leap to attributing to the USA a “master plan” against the OFCs. The USA includes diverse groups, and there are internal tensions between regulatory, enforcement and business interests, and even within individual agencies such as the IRS.¹⁰⁵

6.4. THE REGULATORY CARROT: INTERNATIONAL BANKING FACILITIES

Given that one major attraction of Bahamas and Cayman OFCs is the relatively unregulated environment that they offer, and that financial capital is highly mobile, an exploration of their development must look at the regulatory environment offered by competing jurisdictions, other places in the regulatory landscape of which the OFCs are a part. One might expect onshore deregulation to erode the competitive advantage of offshore jurisdictions. As the Governor of the Central Bank of The Bahamas commented: “technological advances together with global deregulation and liberalization of financial markets have undoubtedly intensified competition and may well reshape the contours of offshore

¹⁰⁵ Such tensions will be discussed in the context of the Castle Bank case in section 6.5.1.

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financial activities permanently” (Smith, J., 1990). The OFCs’ positions as places in a relational regulatory landscape are modified by regulatory changes elsewhere.

Since the mid-1970s and the “Mayday” deregulation of the New York Stock Exchange, a deregulatory trend has swept across international financial markets leading to, for instance, London’s “Big Bang” of 1986.¹⁰⁶ Also in 1986 a Japanese Offshore Market was established, offering a liberal regulatory environment based in Tokyo. This facility proved to be attractive to international financial business attracting \$400 bn of funds in its first two years (Johns and Le Marchant, 1993b, p.77), but in terms of impact on the Caribbean OFCs a similar move to establish International Banking Facilities (IBFs) was of greater importance, a move which was described by the Financial Times as a “carrot” to entice offshore business to US shores (Financial Times, 28/11/83).

IBFs came into existence on the 3rd of December 1981 and permitted the establishment of banking entities, in reality another column in a spreadsheet rather than a physical bank, in the United States, which would be subject to less stringent regulations than international banks in the US were used to. Specifically there would be no reserve requirements (in contrast to the 3% imposed by regulation D), no interest rate ceilings, and banks would be exempted from the 48 hour “notice-of-withdrawal” requirement. Foreign banks and official institutions were permitted to place “overnight funds” in IBFs to take advantage of short term interest-rate differentials. As two officials from the Federal Reserve Board recalled: “the purpose was to allow these banking offices to conduct a deposit and loan business with foreign residents, including foreign banks, without being subject to reserve requirements or to the interest rate ceilings then in effect” (Key and Terrell, 1988, abstract). IBFs offered an escape from some of the regulations that had pushed banking offshore in the 1960s and 1970s. In order to ensure that the IBFs remained an international wholesale banking market, individual and small-scale clients were discouraged from using them; a minimum withdrawal/deposit limit of \$100000 was set; and individual clients had to give 48 hours notice of withdrawals; and, most significantly US citizens were not permitted to use them.

¹⁰⁶ The key feature of New York’s “Mayday” deregulation and London’s “Big Bang” was the abolishment of fixed commissions on securities, purchases and sales.

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The idea of facilitating “offshore” banking onshore, complicating the relationship between territorial states and their regulatory jurisdictions, in effect reconfiguring power/space, had been around for a long time before the establishment of IBFs in 1981. A “foreign window” for international banks based in New York had been proposed by one Governor of the Federal Reserve Board in 1969 as a way of avoiding the restrictions imposed by the capital controls programme, but this was rejected by the Federal Reserve Board due to concern about the potential effect on monetary policy (Key and Terrell, 1988; Johns, 1983). In 1977, the Chairman of Citibank, Walter Wriston, revived the idea of IBFs and in 1978 the idea received the support of the New York Clearing House Association and the New York State and City authorities who agreed to free international banking from their taxes if the Federal Reserve Board would approve IBFs. Approval was given in 1979, and detailed legislation was drawn up and passed in June 1981.

This brief history of the IBFs proposal hints at the complexity of negotiations, actors, and motives that led to their establishment. Prior to 1981 no agreement could be reached between the interested parties - the Federal Reserve Board, international banks, and City and State authorities - but eventually all parties felt that they could get something out of IBFs. Hawley describes the mixture of motives behind the IBFs, saying that “while transnational banks wanted to use the IBF as a wedge for deregulation, Federal Reserve officials saw it as a way to make the best out of a bad Eurocurrency situation” (Hawley, 1986, p.139).

I asked several interviewees about the development of IBFs and the motives that lay behind their establishment. Here’s an extract from a very informative interview I conducted in Washington D.C. with an official of the Federal Reserve Board:

AH: Thinking about IBFs, why were they set up, and who wanted them set up, federal or state government, the banks?

Simons: Briefly, the large US money center banks had been down here for five years previous asking us to do it. They had this grand vision that London was going to migrate to New York, and all the jobs. We didn’t quite see it that way and kind of dragged our heels on it. We thought, you know, we’d lose control of the monetary aggregates if you had all this reserve free banking going on in the US. Ultimately they wore us down ... New York State passed some tax legislation, contingent on us approving IBFs. To give the banks relief they would basically say that IBFs are not a

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part of New York's tax base. And that pushed us a little harder. You know, if New York State was going to go that far it was hard for us to stand in the way.

(Simons, USA)

The US banks, and particularly the New York-based ones, supported the IBFs proposal as they wanted to maintain their competitiveness and that of New York as a financial centre. They wanted to be able to conduct international banking business from the US rather than having to go overseas. The motive of the New York State and City authorities in supporting the IBFs proposal was to generate employment. An interview with one of the architects of the IBFs illustrates this:

Hughes: In New York State it was a fairly simple proposition. Who was behind it? The State was behind it because the burdens of operating in New York State, the taxes etc., were very high compared to say Chicago. By creating an IBF you lower the tax structure, and all kinds of things happen. So in this case it was a desire to keep New York the centre of the financial community in this time zone, and to make the cost structure as reasonable as possible for the participating banks. That's really what happened. There were lots of other reasons but that's what it came down to.

AH: And what benefits was it thought they would bring?

Hughes: Employment, keeping the banks here instead of moving offshore. You see, for example, if you're a foreign bank here, with the taxes and all the other costs that are involved, you might say 'whoa, I don't do that much business, I'll use the Cayman Islands or go to the Bahamas.' So it's employment, taxes, and so forth. There are a lot of benefits.

(Hughes, USA)

A banking regulator at the Federal Reserve Board also talked about the motives of New York State in supporting the IBFs proposal. He said:

"Well there was first this notion that you could attract this business here onshore. The Federal authorities were basically ambivalent although supportive of the notion of these IBFs. The effort was really driven by the States, especially the State of New York, who believed that this would lead to increased employment, increased business" (Lane, USA).

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Other interviewees argued that the Federal Reserve Board eventually supported the proposal as a way to enhance their regulatory powers. A representative of the American Banking Association argued that:

“The feeling was that US banks were going outside the US, were escaping oversight and regulation, so there was concern by the bank regulators that maybe there were things going on that were being pushed outside the US, out of the view of their safety and soundness attempts, that it was better to loosen the regulations in the US, on a restricted entity basis, so you can keep a closer watch on them. So for that it had to be the regulators that were driving these moves” (Thompson, USA).

A further regulatory motive was assigned to Federal support for IBFs, with some interviewees suggesting that they were intended to sort out the offshore wheat from the chaff, as legitimate business would now have no reason to use the OFCs. Here’s what a Federal Reserve official said:

“We installed in the US an international banking programme about five, seven, maybe ten years ago, which was designed to provide the benefits of an offshore centre as it relates to taxes, reserve requirements, and depository insurance relief, under the mis-guided belief that we could attract all this business right here in the US. It would then differentiate between those conducting legitimate, loosely, versus illegitimate business” (Lane, USA).

In his detailed history of US efforts to limit capital outflows Hawley suggests that the Federal Reserve Board’s shift of position to supporting the IBF proposal in the late 1970s was linked to negotiations with the UK about the international regulation of banking. Hawley argues that the Federal Reserve Board hoped to use the IBFs proposal to pressure the UK to accept internationally coordinated banking supervision. The development of IBFs was certainly a complex process, and a somewhat bizarre situation. One commentator asked rhetorically: “how do we find ourselves in the extraordinary position of having to create special banking facilities to repatriate to the US a gigantic financial market whose principal commodity is none other than our own currency?” (Edwards, 1981, p.6). The answer to this question lies in the de-linking of US dollars from US territorial regulation since the development of the Euromarkets.

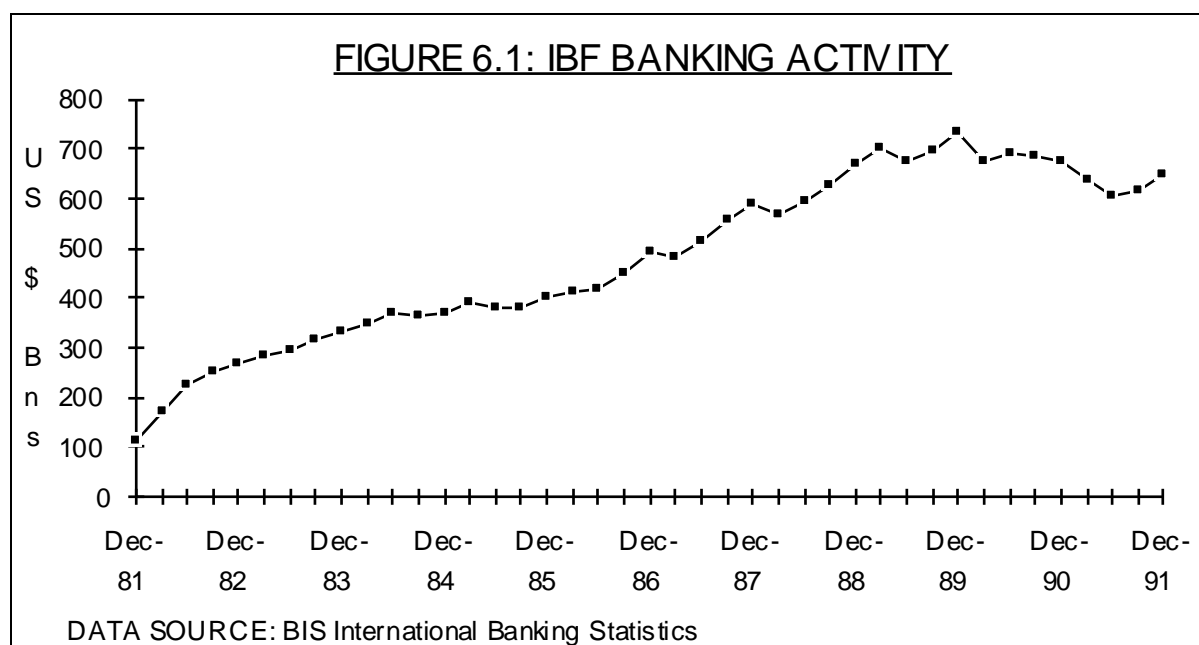
Many commentators predicted that the introduction of IBFs would result in the return of much of the Eurodollar business that took place in

London and the Caribbean to the US. Ashby estimated that by the end of the 1980s London's share of the Eurodollar market would decline from 32% to 20%, that of the Bahamas/Cayman would fall from 11% to 2%, and New York's share would increase from 0% to 18% (Ashby, 1981; Johns, 1983, p.235). Such quantitative predictions of the decline of offshore centres were complemented by the gleeful hopes of many US commentators. Ashby suggested that "the main effect of the introduction of IBFs ... will be to dull the shine on those brass plates, as US Banks will shift their Eurocurrency operations back home" (Ashby, 1981, p.97), and Ireland remarked that "the US Federal Reserve Board's decision to grant permission for the establishment of offshore banking facilities in New York has sent a small frisson through those Caribbean central banks which currently host the Eurocurrency operations of US banks" (Ireland, 1981, p.51). Another commentator, (obviously not accepting the Polanyian argument that all markets are regulated institutions!), argued prematurely that "this result is not surprising since the Caribbean markets are more the result of US regulation than the result of market forces" (Campbell, 1982, p.537). While many US commentators predicted and hoped that IBFs would signal the end of OFCs, financiers in the Bahamas, although worried, did not entirely accept such views. The Governor of the Central Bank of the Bahamas, William Allen, told the Financial Times that "New York clearly poses a threat. But at present we are more worried by Miami. In any event a big hole could be knocked in our offshore banking business as we know it today. And we are well aware of the need to respond to a changing situation" (Financial Times, 17/3/81: "Nassau steels itself for an exodus of Eurodollar business").

The Nassau Guardian reported Allen's comment that "the position that the international banking facility spells doom for offshore activity in the Bahamas appears, however, not to be substantiated". Backing up this assertion he explained: "It seems therefore that foreign banks operating in the Bahamas are hardly likely to be keen on moving their operations from their Bahamian locations to US offices where they would deny themselves the advantages and benefits which motivated them to establish operations in the Bahamas in the first place" (Nassau Guardian, 28/1/81: "NY Banking plan no 'real' threat to offshore business").

Many IBFs were established in a short time from the 3rd December 1981, the first day when they were permitted. By the 1st of September 1982, 395 IBFs had been established in the USA, of which 176 were in New York (Johns and Le Marchant, 1993b, p.76). The initial rapid growth of IBFs, with assets of \$63 bn. and liabilities of \$48 bn. by the

end of the first month, was due to the repatriation of funds from London, Luxembourg and Nassau (Walmsley, 1983). Walmsley estimates that US banks' funds deposited in London and Caribbean branches fell, respectively, by 11% and 40% between November 1981 and July 1982 (Walmsley, 1983, p.85). But this initial rapid growth did not continue. By December 1987, 540 banking institutions had established IBFs, with external assets of \$277 bn. This compared with London's \$876 bn. and the offshore¹⁰⁷ centres' \$879 bn., of which \$111 bn. and \$116 bn. of assets were booked in the Bahamas and Cayman respectively (Key and Terrell, 1988; BIS International Banking Statistics). New York IBFs accounted for 75% of IBF funds. In contrast to Ashby's prediction of 18% of Eurodollar business being based in New York by the end of the decade, Key and Terrell record that by 1988 IBFs hosted only 7% of total international banking. Figure 6.1 shows the amount of banking activity - assets and liabilities - hosted by the International Banking Facilities from 1981 to 1991.



The IBFs neither persuaded the London Eurodollar market to migrate to New York, nor spelled the end for traditional offshore centres. However, there was certainly some loss of business from the Bahamas and Cayman. Representatives of the Bahamas offshore financial community accepted that “unquestionably US banks, and possibly some others, have transferred part of their external positions from the books of their Nassau branches to the books of their IBFs, preferring central administration of

¹⁰⁷ In this case “offshore” includes all banks operating in the Bahamas, Bahrain, Cayman, Hong Kong, the Netherlands Antilles, Singapore, and US banks' branches in Panama.

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assets and liabilities from a base such as New York” (Central Bank of the Bahamas and AIBT, 1986, p.10).

The transfer of business by some of the major American banks with Eurodollar booking centres in the Caribbean was described by an ex-Governor of the Central Bank of The Bahamas as a “political” move. Here’s an extract from my interview with him:

“one of the banks that played a very important role, an important political role, in the development of IBFs, was Citibank. Citibank was in the Bahamas. Once the legislation was approved Citibank had almost to make a political response to it, to move to NY from the Bahamas. It did this and as a result some of the American banks pulled their offshore operations back to the US. Certainly the New York banks did that to a great extent, and so obviously the footings changed. But the Swiss banks and the other non-American financial operations, they didn’t feel the need to respond to the IBFs” (Talbot, Bahamas).

The impact of the IBFs on the OFCs was far from simple; in fact, as US residents were not permitted to use them it resulted in a rather strange situation, as a Federal Reserve Board publication noted that “the current regulatory situation has produced a paradox: non-US residents are now encouraged to conduct their banking transactions in the United States, while US residents have incentives to book their transactions, particularly their deposit accounts, offshore” (Terrell and Mills, 1983, p.12).

Therefore, even though many US banks established IBFs they tended to retain their Caribbean entities too. A Central Banker in London told me that “lots of IBFs were set up but few banks closed their Caribbean presence. In many cases IBFs and the Caribbean operations were both operated from New York anyway, by the same people as two books, so the entities were used selectively depending upon the specific case” (Gilling, London). Without exception, interviewees in London, the US and the Caribbean centres acknowledged that the impact of the IBFs had been less than expected. Key and Terrell conclude that “IBFs have not turned out to be the dramatic innovation that some had predicted and that IBFs simply provide another center for booking transactions with foreign residents in a regulatory environment broadly similar to that of the Euromarket” (Key and Terrell, 1988, abstract).

A variety of reasons were given for the IBFs’ failure: continuing restrictions, uncertainty, and the complexity of the IBFs’ tax status. A

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Federal Reserve report acknowledged that the IBFs still impose more restrictions on international banking than other Euromarket centres do. These restrictions include: the fact that IBFs can not do business with US residents; a minimum maturity period of 2 days for non-bank foreign residents; a minimum transaction of \$100000 for non-bank customers; and the fact that IBFs cannot issue negotiable instruments (Key and Terrell, 1988; see also Financial Times 29/5/84: “Business picks up after IBF blow”). A regulator in the US explained to me that “banks can do more things and they have more flexibility in the Bahamas” (Evans, USA).

One of the supposed key attractions of IBFs was that they would avoid restrictive onshore regulations (which we have seen to be only partly true), and yet offered US country risk. However, a Federal Reserve Board report explained that the attraction of US country risk was slight in a context of globally consolidated supervision:

“The view that depositors would perceive clear advantages in the sovereign risk associated with deposits subject to US law does not seem justified. Sophisticated international depositors do not appear to perceive a significant difference in sovereign risk between deposits at branches of a US bank located in other major international financial centers and deposits at that bank’s IBF in the US; in both cases the deposits are backed by the US bank, which is supervised on a worldwide consolidated basis by US bank regulatory authorities” (Key and Terrell, 1988, p.28).

A second set of reasons given for the failure of IBFs to attract business from the offshore centres was concern about US authorities’ access to account information. The Governor of the Central Bank of The Bahamas explained that “the idea behind the IBFs was to bring onshore the offshore dollar. It has not worked. It has not worked for a very simple reason. The banks don’t want full disclosure. The banks don’t care about the money being back onshore, the Federal government want it back onshore. They want to be able to control that money” (Smith, Bahamas).

Interviewees in the Bahamas and Cayman explained to me that clients, particularly those from Latin America who are familiar with the heavy-handed approach of the US, were very wary of placing funds in the US, even if for regulatory purposes they were supposedly offshore. A Bahamian lawyer clearly described why a client might not wish to use an IBF:

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“If people are looking at moving away from their regulatory authorities they don’t go in the same country to set up entities. If you’re within their borders you’re still subject to their control, their disclosure, and to their ability to penetrate the system. You’re literally right in their yard. So those who are still looking to have funds which are coming from international sources, not be subject to possible disclosure or knowledge of their [US] authorities, will not use the IBFs. They will use the OFCs or other countries outside of the US” (Young, Bahamas).

Although the IBFs were supposed to provide “offshore” facilities from New York and other US cities, a regulator in Cayman clearly explained the fear that other US regulatory and enforcement authorities would gain access to account information:

“It didn’t work because people don’t have confidence in the US system in being able to separate out different zones. They don’t have confidence in the fact that they can have an IBF that can have information in it that can’t go to other sections. If the Department of Justice has something then of course the IRS has it etc. Unfortunately the US doesn’t have that good a record with being able to streamline and isolate their different departments [laughs]” (Fry, Cayman).

The Governor of the Central Bank of The Bahamas explained another concern, namely the reversibility of the IBFs legislation:

“Some of them would open an IBF but they kept their same operation offshore because if one government brought in the legislation, another government could take it out, and that has been the history of banking legislation.¹⁰⁸ The very large banks, always, as a matter of hedging technique would have a branch or subsidiary in the Bahamas, Cayman, Panama, Jersey, Hong Kong. It’s their nature” (Smith, Bahamas).

A regulator at the Federal Reserve Board in Washington D.C. got to the heart of the matter, explaining that IBFs are purely fictional entities created by legislation:

“Well banks had been operating the Nassau books, or the Cayman Islands books, or the Netherlands Antilles books on premises for years. I mean they already had a structure in place to do this. All you offered them is a different title on top of the

¹⁰⁸ Legislation could clearly be altered in the OFCs too, but the point is that the legislative history of the offshore centres does not include such swings in policy.

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spreadsheet, computer run, listing of customer business. So for these banks they didn't need a whole cadre of people to come in and do something they were already doing" (Lane, USA).

A representative of the American Bankers Association described the IBFs as "no big deal" and, invoking a path-dependence argument, said that "these bases have been well established for international monetary flows and, perhaps if we'd always had IBFs in the US they wouldn't have started in these OFCs, but since we haven't they've been very functional" (Thompson, USA). The (financial) genie was pushed out of the (US regulatory) bottle in the 1960s and could not now be persuaded to return.

The impact of IBFs on the OFCs was less than predicted, partly because those predictions were based on a misunderstanding of the activities of OFCs. A Dutch banker in the Bahamas explained that "they, the US authorities, are under the misapprehension of the type of services we provide, and who we provide these services for. I must admit we also had fears in the banking industry when this [establishment of IBFs] was happening that there would be problems but they never materialized" (Rice, Bahamas).

It was not simply a case of misapprehension; the business of offshore finance was changing rapidly in the early 1980s, in part as a result of the debt crisis and the reduction in sovereign lending, from booking Eurodollars to providing facilities for high-net-worth individuals. IBFs, as an effort to hit the business of OFCs, were shooting at a moving target. An American banker in London suggested that IBFs fulfilled a different function to OFCs and hence did not destroy the OFCs. He said: "they have not had a lot of effect on OFCs, as they serve a different function. Offshore centres serve private clients, whilst IBFs are for interbank international banking activities" (Clutton, London).

Interviewees in the Bahamas and Cayman were confident that their centres had a particular niche, as a Bahamian lawyer explained: "talking to bankers you get the feeling that there is a definite niche that OFCs have, and that no matter how much deregulation takes place elsewhere there's always going to be a demand for setting up these structures offshore, for tax reasons, regulatory reasons, and any other reasons" (Peterson, Bahamas).

Thus the impact of IBFs on the OFCs was lessened by increases in non-Eurodollar business, such as Latin American flight capital (Helleiner,

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1995a). The IBFs' impact in terms of the numbers of banks and employment generated in the offshore sector of the Bahamas and Cayman was also slight as the relationship between the volume of funds booked, and the numbers of banks and staff employed is not linear. Banks which transferred say 30% of their assets to their IBF books were not able to cut their staffing requirements by a similar amount; for the OFCs this is the upside of the fact that the booking of Eurodollars doesn't directly generate much employment!

The development of IBFs is an important episode in the development of the Bahamas' and Cayman's OFCs. It also raises interesting issues about the nature of much financial activity, such that it can be "offshore" for regulatory purposes whilst still booked in an onshore bank. It seems that there has been some sort of reconfiguration of power/space, such that money is legally offshore and yet physically onshore. I will return to this idea in chapter 7. The IBFs episode also illustrates that without a clear understanding of the processes of offshore finance, measures taken to change it are likely to fail. IBFs were established after lengthy negotiations between parties with different motives; they offered something for everyone and as a result produced little for anybody. IBFs were only in part intended to hit the OFCs business but this was not achieved. The development of IBFs modified the regulatory landscape but not in a way that significantly undermined the attractiveness of the Bahamas and Cayman OFCs as places within the landscape. The Bahamas and Cayman, through the use of their legal sovereignty, retained attractive features, particularly low taxation and secrecy.

6.5. THE REGULATORY STICK(S)

After the failure of the IBFs to limit the loss of US tax revenues through the OFCs, the Financial Times reported that "having failed with the carrot approach, the US authorities are wielding the stick" (Financial Times, 28/11/83). A Bahamian politician recalled changes in the tactics of the US in the early 1980s:

"I only go by the experience of this country. Our offshore sector was threatened by pressure from the US, mainly, and other developed countries. The US Embassy at one point had guys coming over here every week saying that the offshore business was dead, and that it would no longer exist, and that tax centres offshore were finished" (Manley, Bahamas).

In 1981 the IRS Gordon Report into tax havens and their use by US tax(non)-payers suggested that the US might adopt more aggressive

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tactics (Gordon, 1981). The report threatened drastic measures against the OFCs in the event of their not submitting to key US tax laws, including: the closure of all offshore US bank branches; the taxing of all loans from OFCs as income; and the elimination of airline links to the US. Such strong threats continued through the 1980s, and were illustrated in a speech made in the Bahamas by the prominent US lawyer Lloyd Cutler. A local Bahamas newspaper, The Tribune, reported on his speech:

“To maintain ‘legitimate offshore banking’, an influential Washington lawyer strongly urged the Bahamian government to enter into a reciprocal agreement with the US. Lloyd Cutler acknowledged the US’s determination to ‘penetrate’ off-shore bank secrecy and said the US was an 800 pound gorilla which might not show proper deference to smaller animals. Critics of his remarks called him an ‘ugly American’ (Tribune, 15/3/86).

Such exchanges were typical of relations between the US and the OFCs in the 1980s. Even in 1988, after MLATs had been agreed, the US Congress passed the Kerry (Democrat, Massachusetts) amendment to the Anti-Drug Abuse Act. The amendment instructed the US Federal Government to reach enforcement agreements with offshore havens and urged harsh penalties for non-compliance with US tax laws, including measures such as exclusion from the US \$ clearing system and stopping the transfer of funds electronically to and from the OFCs (New York Times, 29/3/92: “Where the money washes up”). Such drastic measures would have destroyed the OFCs, but were seen by many of my interviewees firstly as idle threats, and secondly as a continuation of heavy-handed US tactics against OFCs in the region, tactics which went back to at least the mid-1970s.

6.5.1. EARLY WARNINGS: CASTLE BANK AND THE NBC ALLEGATIONS

Caribbean OFCs received early warnings of the US’s determination to penetrate their secrecy laws and reduce their role in facilitating tax evasion and money laundering in the 1970s. In 1965 the IRS Intelligence Division, headed by Richard Jaffe, established ‘Operation Tradewinds’ “to gather relevant information about American criminals’ illicit activities in The Bahamas” (Block, 1991, p.6). This operation continued into the 1970s, with its main success being the penetration of Castle Bank, a small bank-cum-trust company with entities in the Bahamas and Cayman. In a fascinating account of “*The Masters of Paradise: Organized crime and the IRS in the Bahamas*”, based on extensive

interviews and archival work, Block details the events surrounding Castle Bank.¹⁰⁹ Castle Bank was involved in a complex web of financial transactions, laundering money from the Mafia, hiding funds from the IRS, and counted clients such as the eccentric billionaire Howard Hughes, the casino operator Meyer Lansky, the Colombian drug baron Robert Vesco, the Bahamas' Prime Minister Lynden Pindling, the CIA, and possibly Richard Nixon. In Block's view Castle Bank was "a tireless engine of criminality secretly owned and run by American attorneys from Chicago and Miami" (Block, 1991, p.13). Castle Bank was an important gateway for the IRS; Block proclaims that "getting inside Castle Bank was the Intelligence Division's alpha and omega. For the first time ever, it possessed the inner workings of a functioning tax haven" (Block, 1991, p.179). One highlight of the Castle Bank investigation subsequently became known as the "Castle Bank caper". In this episode, a bank employee was set up to go out with a female IRS agent in Miami, on an evening when he was on his way to see his clients in Chicago and carrying confidential account information in his briefcase. The agent had given a set of keys to her apartment to fellow IRS agents, and whilst she was at dinner with the bank employee these agents went into her apartment, took the briefcase, photocopied its contents and returned it before the couple's return. This episode illustrated the questionable tactics the IRS Intelligence Division would employ in their determination to find out more about Castle Bank and the OFCs.

The Castle Bank affair also revealed internal tensions within the IRS, once again showing that conceptualizing the US as a unified actor is unrealistic. Following his appointment by Nixon as Commissioner of the IRS in 1973, in the midst of the Watergate affair, Donald Alexander gradually reduced the activities of the IRS Intelligence Division. A bitter internal war developed between Alexander and Jaffe, the head of the Intelligence Division. Jaffe felt that results were around the corner in the Castle Bank investigation, an investigation which had spawned its own Project Haven, and was suspicious of Alexander's (and Nixon's) motives in down-sizing the Intelligence Division. As Block describes: "under Alexander's stewardship, the IRS underwent a long, complicated, and bitter struggle over what and who the Internal Revenue should investigate and recommend for prosecution" (Block, 1991, p.215). Whereas Jaffe was happy to turn a blind eye to tactics such as those in the "briefcase caper", Alexander was not.

¹⁰⁹ Coming across this book was particularly interesting as it threw new light on events that I had discussed with interviewees, some of whom played roles which warranted a mention in Block's book.

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Although US investigations were centred on the Bahamas, the key impact of the Castle Bank case on the OFCs concerned the Cayman entity. In the early 1970s there was an internal debate within Castle Bank as to whether they should move their operations to Cayman following Bahamian Independence. A compromise was reached involving the duplication of documents and their placement in Cayman so that operations could be moved at a moment's notice. The Resident Manager of Castle in Cayman was Tony Field, and he was required to secure top-secret documents, something achieved (or attempted) through buying a strong safe, depositing this with a British lawyer in Cayman (Paget-Brown) and depositing the key to the safe with a second lawyer.

On the 12th of January 1976, as a result of IRS investigations of Castle Bank, Tony Field was subpoenaed as he waited to board a Cayman-bound flight at Miami airport. He was required by the US to testify in cases which the IRS would bring to court. Citing the Fifth Amendment he said he could not testify as he would be incriminating himself. When the US granted him immunity from prosecution, he explained that he still couldn't testify as he would be breaking the laws of Cayman. A banker in Cayman explained this situation to me:

“this was the situation where any banker, attorney, anybody in the financial industry, once stepping into US territory, was liable to subpoena to appear before a grand jury. And of course under our legislation at the time, and indeed today, the financial professional is caught between the devil and the deep blue sea. He has to appear before the grand jury because otherwise he's in contempt and can never return to the US, which means he is then in contravention of the Confidentiality Relationships Preservation Act in the Cayman Islands.¹¹⁰ It's a no-win situation for the banker, and that really came out with the Castle Bank situation” (Carver, Cayman).

Tony Field really was in a bind: the US insisted he testify; Cayman, although not enjoying the publicity, did not want him to testify as that would illustrate the permeability of its secrecy laws; and worst of all for Field, his bosses in Castle Bank did not want him to testify. A further twist to this story is that his lawyer was also his boss at Castle Bank, a situation which led to a massive conflict of interest. When the Cayman Government informed Field's lawyer that he would be allowed to testify

¹¹⁰ The Confidential Relationships (Preservation) Act was a result of the Castle Bank affair, and thus did not exist at the time. However, Field was in a similar bind as he was directed by the Banks and Trusts Companies Regulation Act not to reveal confidential information.

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in the US and wouldn't be prosecuted by Cayman, the lawyer withheld this information from Field and the Court.

The US insisted that Field testify, acknowledging the attempted extraterritorial application of its laws, but stating that:

“We regret that our decision requires Mr. Field to violate the legal commands of the Cayman Islands, his country of residence. In a world where commercial transactions are international in scope, conflicts are inevitable ... This court simply cannot acquiesce in the proposition that US criminal investigations must be thwarted whenever there is conflict with the interest of other states” (US vs. Field case, US Court of Appeal, Congressional Record, 25/6/76).

The Field case illustrated that the laws surrounding confidentiality, and the circumstances in which confidentiality could be breached were not at all clear. Many of the lawyers and bankers I interviewed recalled the Castle Bank/Tony Field affair as a significant episode in the development of the OFCs, more for what it illustrated and led to rather than of itself. A British lawyer in Cayman suggested that “it was the first time that the US Government had started to flex its muscles to try and get information” (Wood, Cayman). A Bahamian lawyer concurred:

“Up until the time of the Castle Bank affair the posture of the American courts on this question of bank secrecy had been a lot softer than was the judgement handed down in the Castle Bank affair. The posture of the American courts, up until that time, was: if a defendant in a matter of this kind, or a witness, if he demonstrates to the court that the law in his own country will put him in jeopardy of a criminal offence, as opposed to just being liable to an action in damages, then we will not put him in double jeopardy. We will not force him to give evidence and compel him to face the jeopardy that he will have in his own country” (Dixon, Bahamas).

This interviewee continued:

“The Castle Bank case said, well the devil take that. We say that the American courts, in matters of this kind, are superior and the interests of the USA will prevail over the interests of this witness, and the interests of other countries. Now that's a bit bald, but not far off. That's what they did and that was really the first departure from the previous rather hesitant and somewhat gentle approach of the American courts” (Dixon, Bahamas).

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A British Cayman-based lawyer explained that “the Field decision was a political decision that the function of the courts of the United States will not be frustrated by the unilateral legislation of a nation with whom the United States has no reciprocal legal arrangements” (Paget-Brown, 1977, p.28), and described Project Haven as “the most significant event of the decade for the financial community of the Cayman Islands” (Paget-Brown, 1977, p.36). The episode was seen as particularly important because of the response it provoked, almost immediately, from the Cayman Islands Government. The response was the clarification, or toughening up, of its secrecy laws through the passing of the Confidential Relationships (Preservation) Law Act (CRPL). The actions of the US had undermined Cayman’s place as a secrecy haven and the Government sought to reinforce this aspect of Cayman, asserting their sovereignty and re-constructing Cayman through legislation. The 1976 Act made clear that the confidentiality requirement applied to bank employees as well as the Inspector of Banks and Trust Companies, and made disclosure a criminal, rather than just a civil, offence, a modification achieved in the Bahamas through the 1980 amendment to the Banks and Trust Companies Regulation Act.

A prominent Irish banker in Cayman explained to me that the Castle Bank case:

“was the thing that led directly to the introduction of the Confidential Relationships Preservation Law in the Cayman Islands in about 1976. I personally believe that that was a very negative move as far as Cayman was concerned because I think it was an indication to the world at large that people, or was interpreted, that people could come and hide their money here and not face disclosure regardless of where the money emanated from, which was wrong. It was a crooks’ charter I think” (Howe, Cayman).

Thus, although the CRPL successfully reconstructed Cayman as a secrecy haven, it harmed the image of Cayman. A British lawyer in Cayman explained in detail:

“I agree that the CRPL did send, and does send the wrong message. It sends the wrong message partly because it has been promoted in the wrong way by the Cayman Government, and certainly parts of the private sector, but also because it’s misunderstood and deliberately misunderstood by people in other jurisdictions who have their own agendas. It was in retrospect, and we as a firm for a number of years have soft-pedalled that law and felt that in many circumstances it was more of an

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embarrassment than a benefit. Because of the very poor reception that it got in the world when everybody said that confidentiality laws are used simply to cover crime particularly money laundering and drug activities, which became very much political and high profile, everybody forgot that the law to a large extent reflects the common law obligations of bankers and fiduciaries and had a perfectly proper role to play in protecting private citizens' and businesses' information from prying eyes. However it was not seen as that, it was seen purely as a protection for drug runners, money-launderers etc. So I think in retrospect it probably was a mistake and could have been handled better" (Dean, Cayman).

Most of my interviewees, with the exception of those who had drafted the CRPL, felt that it was an over-reaction and a mistake, and that Cayman should have demonstrated its willingness to cooperate with the US in eliminating illicit activities from its financial institutions. By enacting the CRPL Cayman aggravated the US, as one interviewee explained that "the reaction to Castle Bank by the Cayman Government and the legislation in some ways caused more problems than existed before ... contributed to the huge friction that developed with the US ... started the ball rolling with the personal harassment, subpoenas, and all of that" (Dean, Cayman).

One aspect of the Castle Bank affair that I have mentioned briefly is the damage it did to the image of the OFCs. In 1976 Columbia Broadcasting Service's (CBS) "60 Minutes" programme broadcast a feature on "The Castle Bank Caper", a programme which brought the OFCs unwelcome US-nation-wide exposure. The image of the OFCs, their representation as places, is shaped by the US media, with the television channels, the New York Times, the Wall Street Journal, and the Miami Herald all playing important roles through the 1970s and 1980s. In some instances the US news media have played crucial roles in developments in the Bahamas and Cayman.¹¹¹

In 1983, following the publication of a special supplement - "A nation for sale: corruption in the Bahamas" - by the Miami Herald, NBC broadcast a similar story, making allegations about the use of the Bahamas by drugs smugglers such as Robert Vesco, and the payoffs given to the Bahamas Government and Prime Minister for protection from investigation. This broadcast on the 5th September 1983, produced an immediate and angry response from the Bahamas Government. Prime Minister Pindling and the Attorney General (Paul Adderley) travelled to

¹¹¹ See also section 5.3.4. on representations of place.

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New York and Washington D.C., appearing on national TV and meeting politicians in an effort to limit the damage and refute the allegations. The allegations were seen in the Bahamas as “part of a coordinated effort by US law enforcement to discredit the Pindling Government and force relaxation of the Bahamas’ tough secrecy laws” (Financial Times, 8/9/83: “Bahamas calls for inquiry into bribery allegations”). Pindling angrily suggested that the US Justice Department had provided the information for the NBC programme and included others in his conspiracy theory, stating that “I have no doubt in my mind that NBC, the FNM¹¹², and the Tribune¹¹³ are in this together” (Nassau Guardian, 10/9/83). In an effort to make the best of a bad situation the Attorney General sought to put an anti-imperialist spin on events, telling the Miami Herald that “we’re just too small and black for some people in the Justice Department ... some Justice Department officials want to bring the Bahamas to its knees ... they want a small country like the Bahamas to be a suburb of Dade County.¹¹⁴ We don’t see ourselves that way” (Nassau Guardian, 15/9/83).

Adderley recalled US Senate Hearings when the US Assistant Attorney General had said: “where problem bank secrecy jurisdictions fail to reach a reasonable compromise ... other measures will be aggressively pursued”. He argued that the Bahamas had tried to reach a compromise but that the NBC allegations were a third stage of “other measures” (Nassau Guardian, 19/9/83: “Adderley accuses US of conceiving a criminal plot”). The NBC allegations tarnished the reputation of the Bahamas for many years to come and many of my interviewees felt that Cayman benefited as a result. They also led to the Commission of Inquiry on Drugs; as Block notes, the NBC story “forced Pindling into a corner. He simply had to agree to an impartial investigation” (Block, 1991, p.299). An investigation, of debatable impartiality, took place and exposed a very active drugs transshipment industry in the Bahamas, but failed to show conclusively that Pindling had taken money from the drugs smugglers. The whole NBC episode showed the damage that can be done to an OFC through bad publicity. That said, Pindling still went on to win the 1987 election, playing a strong nationalistic card. Relationships between the US and the Bahamas, and between the US and Cayman were tense as the US and the offshore authorities battled for regulatory control over the offshore jurisdictions and the financial

¹¹² The Free National Movement (FNM) was the opposition party in 1983.

¹¹³ The Tribune is one of two local Bahamas newspapers the other being the Nassau Guardian.

¹¹⁴ Dade County is a County of the State of Florida, a county which includes Miami.

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activity hosted by them, a battle clearly illustrated in the Bank of Nova Scotia case.

6.5.2. THE BANK OF NOVA SCOTIA CASE

Throughout the 1980s the US persuaded and pressured the OFCs to relax their bank secrecy laws which the US felt facilitated money laundering and tax evasion. The Bank of Nova Scotia case was seen by many of my interviewees as part of the US effort to break down bank secrecy. In 1982 as part of an investigation into a tax fraud and narcotics case the US wanted to get hold of confidential account information from the Bank of Nova Scotia's Nassau (Bahamas) and Cayman branches. In order to get this information the US agencies subpoenaed the Bank's Miami agency for the documents and when the offshore branches refused, citing local confidentiality laws, the agency was fined \$50000 a day, a fine which was later increased to \$100000. The Bank of Nova Scotia was in a bind: they risked prosecution in the Bahamas and Cayman if they provided the information to the US authorities, and they were subject to the fine for contempt of court, and adverse publicity, if they withheld the information. Following two unsuccessful appeals in the US the bank eventually - after 18 months - paid the fine, which had reached \$1.8 million, and produced the documents. The following extract provides a description of the Bank of Nova Scotia case:

“I mean what it boiled down to was the US was looking for information on a reputed drug dealer and they needed access to account information. Not only here, but in Nassau as well. Basically what they did was they went to our Miami agency which didn't do any banking business as such. It didn't operate accounts, take deposits. They just put our guy in jail there, put him in overnight and said ‘we want information’. We [BNS Miami] said ‘well we have no idea, it's not us.’ They [US] said ‘I'm sorry you're all the same bank. Give us the information.’ And notwithstanding appeals and so forth it ended up that we were being fined \$100000 a day for contempt of court for not providing the information. We went to the local authorities here and asked for their permission to give this information. They refused to do so because they were concerned that this would be the end of the OFC in the Cayman Islands. There was no mechanism. There were no laws. There was no provision for the exchange of information in criminal cases” (Harris, Cayman).

Interviewees in the Bahamas and Cayman explained the significance of the case in their development. For many of them it illustrated the lengths the US would go to break down the OFCs' walls of secrecy and was a

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clear case of the extraterritorial application of US law.¹¹⁵ The OFCs' sovereignty, a key resource for their development, was threatened. A Bahamian lawyer explained:

“Well it created quite a flap here. You see the Americans have an idea of what we call ‘frontier justice’, which I suppose is the legacy of the old wild-west. That’s the belief that there’s more than one way to skin a cat. You can try it the orthodox above-board way. If that doesn’t work there are other more nefarious ways of accomplishing the objective. I think that the Bank of Nova Scotia case was seen in that light. It was really dirty pool in the sense that instead of coming through the front door and getting what they wanted through established channels, they decided that the way to achieve the objective was to forget about the Bahamas, but to apply pressure to the Bank of Nova Scotia in its own jurisdiction. I mean it’s a clever, effective way of doing it, but it also rides rough-shod over established norms” (Peterson, Bahamas).

The Attorney General of the Bahamas was reported as saying that the case “violates fundamental principles of international law and threatens relations between the US and other sovereign nations” (Nassau Guardian, 14/9/83), and told me that it was “basically an assault on their Nassau branch by the USA. It was clearly outside of their jurisdiction, and as such was a clear case of extra-territoriality” (Adderley, Bahamas). Figure 6.2 illustrates a typical view of the Bank of Nova Scotia case in the Bahamas with the US authorities portrayed as a nosey neighbour.

A British banker in the Bahamas explained that:

“what it says to me is that if the US write a law then the authorities in the US consider that that law is applicable worldwide, and that if an entity has any assets or business operations in their jurisdiction they consider that entity to be fair game against any claims that they might have under their local legislation” (Williamson, Bahamas).

Figure 6.2: “Nosey neighbour” (Source: Nassau Guardian, 14/9/1983)

¹¹⁵ An interesting silence in this case - the dog that did not bark - comes from the Basle Committee. By not condemning or commenting on the actions of the US the Committee in effect legitimated the extraterritorial application of US law to offshore jurisdictions, a practice which would subsequently be codified in the Committee’s “dual key” system of regulation (see section 6.7).

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The behaviour of the US in the Bank of Nova Scotia case was seen as part of its efforts to break down the secrecy of the OFCs. An interviewee in London suggested that the US had pursued the Bank of Nova Scotia case for the publicity, to warn the OFCs, banks and clients of what they could and would do to uncover information. A Canadian banker in Cayman described it as follows:

“Well it finally brought the whole thing to a head ... it was in the days of the US Government attempting to have a treaty with tax haven countries, and I’m sure that that was just a further bit of pressure that they brought to bear on the other countries to say, ‘listen, this is what we will do, so you’d better start signing these things.’ So the negotiations possibly speeded up and resulted in the ultimate document [MLAT] between the UK, the US, and Cayman being part of that process” (Price, Cayman).

A US regulator explained that as the US was such an important market for international banks they could exert pressure through threatening banks with exclusion from the US: “We are very fortunate in being a large business centre where banks have to have a meaningful presence. If it happened in another jurisdiction like Panama you can tell them all ‘well go to hell, I’m out of here.’ That’s not likely to happen in the US

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so they had to find some resolution to this and they end up disgorging the information” (Lane, USA).

The Bank of Nova Scotia case also raised interesting questions about the structure and legal status of multinational banks. The US was able to gain access to information from within a formally sovereign state in part because that sovereign state hosted part of the bank’s activities. The idea of states as impermeable containers is clearly challenged by the internationalization of banking and the resultant conflict between different national laws. Although the actions of the US were seen as extraterritorial by the OFCs, some interviewees tacitly acknowledged the US’s justification of its actions. A Bahamian politician/lawyer said: “the judge’s order as I understand it was that the fact that it was a branch over here was irrelevant. Bank of Nova Scotia’s one legal entity so the bank should disclose what it had in the branch over here” (Manley, Bahamas). A US regulator also justified the US actions with reference to the territoriality of law (Johnston, 1990), explaining that:

“I’ve come to look at this as saying ‘look, you did the transaction here. It wasn’t like there was no nexus whatsoever, that the transaction happened in Canada and it went through the Bahamas and we just suspect this individual of doing this.’ The transaction actually went through the US and in that context we have a right, I think, to ensure that our laws are abided by, and to get information along the lines of an investigative agent when we need to make those kinds of determinations” (Lane, USA).

Some interviewees saw the case as in part a result of the US investigative system with Federal prosecutors acting on their own initiative, competing with each other to prosecute big cases, without central coordination from Washington. Such a system also produced tensions within the US, with the State Department sometimes being unhappy with the actions of the Justice Department in its relations with the Bahamas (Washington Post, 12/1/86: “Global role of Justice Department is irritant at State”).

The OFCs and the Bank of Nova Scotia found themselves in a tricky situation, which led to complex discussions between the bank, the offshore regulatory authorities, and the governments of the UK, Canada (the bank’s home country), and the US. The regulatory authorities, the UK and Canadian governments, all supported the bank’s position and argued to the US that its actions were unreasonable and extraterritorial. The offshore authorities faced their own dilemma. They did not want

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continuing adverse publicity, but neither did they want to concede that their secrecy laws were vulnerable to the extraterritorial application of US law. Here's an extract from an interview with a banker in Cayman:

“Well of course the bank tried to bring pressure to bear. I'm not quite sure, but I heard that the Government were saying to the bank that if you give up the records then you're going to be subject to all sorts of actions in the Cayman Islands, none of which of course ever materialized. It was obviously a difficult decision for Government because they don't want to lose a major Canadian banking player, but by the same token they want to try and ensure that their laws are enforced” (Carver, Cayman).

A lawyer in Cayman suggested that the Government, in sympathy with the bank's predicament, had agreed, prior to the bank's disclosure, not to prosecute the bank. One interviewee even suggested that Cayman, or the UK, had subsidized the bank's fine but this idea was vigorously denied by other interviewees and I failed to find further evidence of this allegation. As with the Castle Bank case the Bank of Nova Scotia case was more important in terms of what it illustrated and led to, rather than in and of itself. A Canadian banker in Cayman explained that “it highlighted the fact that there were no mechanisms by which the Cayman Islands financial centre could exchange information, give information outside of the Cayman Islands in cases where crimes had been committed elsewhere. There was no mechanism for doing it at the time. The MLAT didn't exist” (Harris, Cayman).

Another Cayman banker suggested that the case “drove a coach and four through the secrecy laws, both in Cayman and Nassau. It eliminated them and showed what could be done with a determined effort” (Howe, Cayman). There was little hope for the OFCs in resisting the powerful demands of the US, as a British banker in Cayman observed:

“I think it exposed the Confidential Relationships Law for the weak weapon that it was. I mean it's all very well for you to sit here and say 'it's a criminal offence in the Cayman Islands so I can't tell you', but the US courts just rode roughshod over the whole of that and said 'OK, if you don't want to tell us you will pay a fine.' The fine was something phenomenal, nobody's balance sheet can stand that for long, and therefore, what happens? The bank says 'to hell with it. If we have to leave the Cayman Islands, its cheaper.' And it was within the power of the courts to make that order. So I think it made a lot of people re-examine what they were doing, why they were actually fighting these requests for information, you know, is it economically

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sensible? You're taking on Uncle Sam who has a hell of a lot of muscle. You either pull yourself away from him altogether or recognize that you're going to have to run your business in a way that's not going to expose you to this sort of activity" (Wood, Cayman).

So, from the US point of view the Bank of Nova Scotia case was a great success. It encouraged the OFCs' regulatory authorities to reach a compromise with the US to ensure their continued status as financial centres (Financial Times, 11/11/83: "Caymans ask UK to help settle bank row"). A British banker in Cayman described the impact of the case:

"I think the case was important in terms of it focusing the minds of both the private financial community here, and the Government, about how serious the US Government and the agencies were in pursuing information in offshore jurisdictions, and the extent to which they were prepared to go to enforce their writ overseas. I think it brought people up with a short, sharp, halt. The banks realized what the Americans could do and they turned to the Government and said, 'do you realize what the US Government can do? You'd better bail us out.' So yes, it was very significant" (Dean, Cayman).

Another impact was that it made US clients less desirable, such that few banks will now take on US clients, and those that do insist that the client sign a confidentiality waiver to prevent the bank being caught in a bind in the event of a request for information.¹¹⁶ After the Bank of Nova Scotia complied with the US subpoena, thus breaking the Bahamas' and Cayman's confidentiality laws, no prosecutions were brought for the disclosure of information in the Bahamas or Cayman and thus the OFCs acknowledged the hegemony of US law. In effect, US extraterritoriality was recognized and accepted as the wrong precedent was set. Interestingly, the case made banks without a US presence which could potentially be held hostage more attractive offshore entities for customers wishing to avoid US regulatory authorities.

Banks were reminded of the importance of tight procedures for accepting new clients, with "know your client" being the key phrase. Here's an extract from an interview with a representative of the Cayman Islands' Bankers Association:

¹¹⁶ Most of my interviewees explained that such waivers would probably not stand up in court and therefore might not make disclosure easier, but waivers might deter potential criminal clients and would illustrate that the bank was not deliberately abusing the secrecy laws.

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AH: What issues do you think the Bank of Nova Scotia affair raised here?

Brown: You know this is always thrown up, the Bank of Nova Scotia issue. You're going back into history now. If you think of the offshore industry as having been going 20 or 25 years you're really going right back in history. Everything has moved on. If you're looking at the book of the offshore tax havens and the offshore centres you're looking at chapter 2 in a 20 chapter book.

AH: But it's an important chapter?

Brown: Very important chapter. All I can tell you about it, it's not this bank, is that they didn't comply to my knowledge with the elements that the Bankers Association Code of Conduct recommends strongly bank members comply with. They didn't do that. Had they done that they wouldn't have had the clients that they had, and if they didn't have those clients they wouldn't have put themselves in the position that they were in. It's very easy to say it now but know your customer, and going through the due diligence process would have eliminated a lot of that. Of course it's a very celebrated case and it's a nightmare to bankers to be given the option of paying \$50000 a day, or breaking the law, is not an easy situation to be in. But again, it was in the embryonic times when people took business that probably today they wouldn't even look at, and they paid the price for it. Again it focused everybody on the pitfalls and the dangers of operating an offshore centre which was not a first-class centre, which I believe we are now.

(Brown, Cayman)

The most important impact of the Bank of Nova Scotia case was its contribution to the development of MLATs between the OFCs and the US. Illustrating the determination of the US, and the tactics that could be employed, the case pressured the OFCs to reach some form of agreement with the US, agreement which eventually developed into the MLATs of the late 1980s.

6.5.3. MUTUAL LEGAL ASSISTANCE TREATIES (MLATS)

The ratification by the US Congress in 1989 of MLATs with the Bahamas and Cayman completed several years of negotiations between the US, the OFCs, and the UK as Cayman's sovereign. MLATs were signed in 1986 and 1987 by Cayman and the Bahamas respectively, following an earlier MLAT between the US and Switzerland. Through the establishment of a Central Authority to deal with requests for

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information the treaties facilitate the exchange of information in investigations of activities which are considered crimes in both the US and the OFCs. Significantly, this excludes pure tax cases. The MLAT authority must be used in the first instance when information is required, thus reducing the use of subpoenas and grand juries. As the MLAT itself outlines, the types of assistance included are: administrative and judicial action; taking of testimony and statements; production of documents for evidence; assisting in forfeiture, restitution and collecting fines; serving judicial documents; effecting appearance of witnesses; locating persons; and, providing judicial records (MLAT between the US and Cayman, 1986).

The US developed the MLATs with the offshore centres as part of its effort to reduce the role of the OFCs in facilitating money laundering, and hiding proceeds of drug trafficking and white-collar crime. The OFCs were targeted as part of Reagan's "War on drugs". Coding the drug problem as one of supply, trans-shipment, and the recycling of profits, rather than of demand, focused attention on the Latin American producers and Caribbean offshore centres, which were seen as weak links in the international drugs trade. Ramharack records that "in recognition of the growing internationalisation of drug and non-drug money laundering, the United States signed a number of Mutual Legal Assistance Treaties with several countries known to be heavily caught up in money laundering activities" (Ramharack, 1995, p.333). A US official also commented that "the drug enforcement effort has driven particularly the treaties with the Bahamas and the Caymans. We have pushed those jurisdictions very hard and very far to break down their walls of financial and bank secrecy" (Mr. Williamson, Former Director of the Office of International Affairs, Department of Justice, in MLAT Executive Report for US Congress, 1988, p.182). In the early 1980s, after the experiences of the Castle Bank and Bank of Nova Scotia cases, the US Assistant Attorney General had stated that "we do not view this costly, time-consuming method to offer a viable, long-term solution to the problem of obtaining foreign bank records. This is wholly unsatisfactory and altogether too expensive" (15/3/83, USA Assistant Attorney General, evidence to US Senate permanent subcommittee concerning the law enforcement problems arising from foreign bank secrecy laws and proposed remedies - cited in Paget-Brown, 1989). The enthusiasm of the US to break down the secrecy laws of the offshore centres was recognized in the OFCs too. Vassel Johnson recalled that "I was quite aware from sometime ago, a number of years ago, that the Americans were becoming very restless about the operation of tax havens, and the Cayman Islands was one of those centres marked by the

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American authorities” (Johnson, MLAT Bill Debate, Cayman Hansard, 1986, p.35).

The OFCs were also unhappy with the state of affairs before the MLATs: they felt threatened by the efforts of the US to break down their secrecy laws and breach their sovereignty through unilateral actions; relations with the US were strained; their reputation was tarnished; financiers were scared of being caught between the conflicting laws of the US and their OFC; and there were concerns about the US authorities’ “fishing expeditions” in search of information. Vassel Johnson argued that with the MLAT “the days of worrying; of harassment; of discrimination; of unlimited, uncontrolled service and enforcement of subpoenas, is at an end” (Johnson, MLAT Bill Debate, Cayman Hansard, 1986). The OFCs were also concerned about the use made of their facilities by criminals, as an English banker in Cayman explained to me:

“I think they wanted to stay on friendly terms with the US. I think also, quite properly, the Cayman Government was against its good name being utilized to assist in any form of crime. So why should they object to it? I mean, OK it’s the US playing big brother and it’s a bit of a bloody cheek, but at the same time if it’s preventing crime, particularly crimes which are recognized as such in the Cayman Islands, then why shouldn’t the Cayman Islands participate? If they want to be taken seriously as tax haven, and not get the stinking reputation that the Bahamas have got for themselves ...” (Taylor, Cayman).

The Bahamas and Cayman both appreciated that some compromise with the US was necessary to improve relations and combat international criminal activity. A British banker in Cayman explained to me that:

“We would prefer to do our own thing. We would prefer to say to the Americans ‘look, we will make our own rules. We will decide what is legal and what is not, and if you want to come into our jurisdiction you must come with your cap in hand.’ That would be Cayman’s preference but reality dictated that we had to develop a modus vivendi with the Americans in order to survive. Having made that determination it was a question of cutting the best deal. You know, being pragmatic” (Simpson, Cayman).

The Attorney General of Cayman, who played a key role in developing the MLAT spoke to the parliament of the Cayman Islands:

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“A perfect Treaty, in the eyes of some, would be a Treaty whereby the United States, for all time, ceased making any enquiries whatsoever in the Cayman Islands in respect of any activity carried on here. But we must be realists, Sir. Our aim is to keep these islands what they have been and what we believe they will be in the future, not despite, but because of this Treaty and this legislation, and that is a firm secure reputable offshore financial base, diversifying its activities, having the respect of the world because it has shown and has led the world in entering into treaty obligations that say to international commercial crime, to international drug activity, to international criminal organisations: ‘We do not want you here. We do not need you here. We have respectability’. We want integrity from our investors as we have integrity in the conduct of our affairs here, as we have integrity in the people of the Cayman Islands” (Bradley, Attorney General, Debate on MLAT Bill, Cayman Hansard, 1986, p.27).

Other interviewees saw the MLATs as part of an international tightening up on money laundering and criminal activity. A Bahamian lawyer spoke of “an increasing tendency, not only by the US but by all civilized states, to work out on a bilateral or sometimes multi-lateral basis, modalities of cooperation to combat crime” (Peterson, Bahamas), and a prominent English lawyer in Cayman explained that:

“it coincided with a global tightening up. The regulatory authorities and police forces throughout the world generally operated pretty much independently of each other and jealously guarded their turf, other than through Interpol. And I think the way crime was operating they were outsmarting everybody so there became a need for international cooperation in exchange of information, both on a regulatory side, you know insurance company A in one jurisdiction, bank in another, ... that one has a global approach. And I think the only way to fight white collar crime, and worse, is through a global approach. I think that was the philosophy behind the MLATs that the US negotiated” (Lonsdale, Cayman).

The negotiations leading to the MLATs are an important and interesting episode in the development of the Bahamas and Cayman OFCs, an episode which illustrates: the OFCs’ fears about the role and motives of the US; OFCs’ concern about their competitiveness; and concerns about the impact on the negotiations of their differing political status and leverage with the US. Interviewees explained to me that it was the US, not the OFCs, that really wanted the MLATs, and that considerable

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direct and indirect pressure was exerted on the OFCs to agree to the MLATs. An Irish banker in Cayman told me that:

“Cayman didn’t take the initiative but once it was suggested by both the UK and the US that this was going to happen then they were very cooperative but there was pressure exercised at the outset ... serious pressure. Threats that the airline wouldn’t be allowed to fly into the US, that bank accounts would be frozen. Generally, isolation. Oh, serious big-stick stuff” (Howe, Cayman).

In both centres there was significant resistance to the MLAT within the offshore financial community; the Law Society in Cayman for instance strongly opposed the treaty. One opponent of the MLAT waxed lyrical in the Cayman Parliament suggesting that the treaty should be called “Destruction of the Cayman Islands Economy”, and proclaiming that “the Americans came down like a wolf on the fold, and his cohorts were gleaming in purple and gold” (G.H.Bodden, Cayman MLAT Bill Debate, Cayman Hansard, 1986, p.25). Opposition was also expressed in the Bahamas, and reported in the Tribune: “bankers are worried about the proposed legislation to bring the MLAT into effect ... the right to privacy is guaranteed by the Constitution, and some fear that this will be violated if the treaty is put into effect” (Tribune, 26/1/88: “Banks wary of MLAT, private banks may leave”).

Opposition to the MLAT was due to uncertainty about what its impact would be. A prominent English lawyer in Cayman recalled these fears: “Would the Americans abuse the treaty? Would they respect it? Would they actually back off the harassment and the threats or would they simply use the MLAT as the next stage in whatever their agenda was, and we would have given away ... on the MLAT and have got nothing from it?” (Dean, Cayman).

Financiers in the OFCs feared that the MLATs would threaten their very existence, and that the US would use it as a way to fish for information about tax cases which were not part of the treaty. An opponent of the treaty in Cayman suggested that this was the US plan, quoting an IRS official’s words: “if you can wrap a tax evasion case with narcotics dealing or mail fraud, there will be pretty good chances of catching United States tax evaders” (Bush, Hansard on Cayman MLAT Bill debate, p.19 - citing article in Miami Herald). Amidst such fears, and to preserve some semblance of mutuality in the treaty, the OFCs insisted that tax matters be excluded from the treaty. A Bahamian politician explained that:

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“We made it quite clear that we wanted to have an exclusion, that it could not be used for tax-related matters, unless those tax matters were ancillary to some larger criminal enterprise like drug-trafficking. That was the concern that the Bahamas had, because when the issue was first raised locally there was naturally a very high degree of concern in the international banking community that this might be abused. But once it was made known that this exclusion was there it ceased to be an issue” (Peterson, Bahamas).

A second area of concern, common to the Bahamas and Cayman, related to their competitiveness and the sequencing of the treaties.¹¹⁷ According to a Bahamian politician the US adopted a range of tactics in their efforts to reach agreements with the OFCs:

“At one time they thought they would have been able to do more with the Bahamas being on its own [Independent] than with the others. Then that didn’t work. Then at another time they thought they would have been able to persuade the British to permit them to do more about Cayman and BVI. And that didn’t work [hearty laugh]. So they’re [US] adopting various tactics from time to time” (Pindling, Bahamas).

Each centre feared that if it signed before the other it would put itself at a competitive disadvantage. Sir Lynden Pindling recalled such concerns:

“It wasn’t until the UK government agreed on a formula that was acceptable to Cayman that we then said ‘Well fine. We can model our own along similar lines.’ What we were always afraid of was any move that would put us in a position that would leave us as the least attractive jurisdiction and result in our business fleeing for that reason. If you [US] want to establish a regime that was applicable to all of us, no problem, and then we’ll all compete on an equal basis. We don’t want, ‘well this is going to apply to you, and the others are doing something else’. We will never agree to that. You’ll just have knock us down and sit on us, but we’ll never agree to that” (Pindling, Bahamas).

Bankers in Cayman feared that an independent Bahamas may be able to withstand US pressure for longer, and exert leverage through its strategic location in Reagan’s “War on drugs” and its provision of submarine

¹¹⁷ The issue of sequencing in cooperation between nation-states is an important one which is addressed by ideas of international regimes, and will be considered in section 6.7 in relation to the Basle Committee.

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facilities to the US. An English lawyer in Cayman expressed such concerns about sequencing, competitiveness, and leverage:

“I think what happened is the Americans very openly said that they would like to have MLATs with every country in the world, and they were already negotiating with Canada, Mexico, Turkey, and they’d made it pretty clear the sort of MLAT they wanted. They may have said they were going to get one from the Bahamas, but it certainly wasn’t a, ‘yes we’re going to get them at the same time’ or anything. There was certainly concern that because the Bahamas was independent and had other leverage with the Americans, whether it was a submarine base or locking up drug runners and having American planes over there... Every country has slightly different issues and slightly different means of leverage and there was concern that we would end up disadvantaged” (Dean, Cayman).

This issue linked with concerns in Cayman about the role of the UK in the MLAT negotiations. I asked many interviewees about this, trying to discover whether the UK had protected, or sold out, Cayman. Some financiers and politicians, perhaps stirring up calls for Independence and launching their bids to become the first Prime Minister of Cayman, had argued that Britain had a different agenda from Cayman. Haig Bodden, one of five objectors to the MLAT in a twelve-member Executive Council or Cabinet, maintained that “we have been sold by the UK. We have been bargained, we have been pawns and we have been used so that the UK could get what they wanted”, and pleaded: “why did they strike first at a defenceless little nation whose Mother Country held us on the stakes while we were being whipped, why?” (G.H.Bodden, MLAT Bill Debate, Cayman Hansard, 1986, pp.30 and 37). Such opponents suggested that Britain was sacrificing Cayman for an extradition treaty with the US, or to ensure British Airways’ access into the US. Some interviewees felt that there had been little local consultation or input and that the treaty was forced upon Cayman, having been set up by the US and the UK. A British banker explained that:

“At the end of the day the local politicians will pretend that it was all their idea when an awful lot of it, I am sure, will have come from discussions that took place between the UK Foreign Office and the US State Department and then when the bozos in Government here get to hear about it it’s put to them, ‘wouldn’t it be a good idea for you to do it, take some credit, and get some votes for it, to be shown being strong in cleaning up the act?’ ” (Taylor, Cayman).

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An ex-Central Banker of the Bahamas felt that Bahamian Independence had given them more leeway and autonomous negotiating power. Here's an extract from an interview with him, where he talks about the UK's role in Cayman's MLAT:

Cobb: They were two giants agreeing on something. The British and Americans, the two giants could sit down and agree.

AH: So you think the Cayman one was the US and Britain, and Britain said to Cayman you've got to accept this?

Cobb: Oh yes. Cayman is a colony. Britain decides something and Cayman had no voice in it at all. With us we decided that there were certain things in the treaty that we didn't like so it's a matter of negotiations. In any treaty it's a matter of negotiations. It's a matter of negotiating what we would do and that would take much longer.

(Cobb, Bahamas)

The Bahamas did face other complications in the negotiating process though, particularly as they occurred in the heat of allegations of corruption. A Bahamian lawyer explained to me that:

“The government of the day was compromised because of its own problems in relation to drug trafficking and its approach towards drugs, so even if they wanted to resist they couldn't. They felt that the US government had reached the point where they would actively seek to get rid of them by fair means or foul, and as a protection to that I think they wanted to ensure that the image in the US for them was a better one so they had to be seen to be cooperating on all fronts, and I think that's when MLAT came along” (Manley, Bahamas).

A further twist to the MLAT negotiations in the Bahamas was provided by the local politics of the 1987 General Election. One story that was told by some interviewees, one with direct experience, was that the MLAT signing had been hurried through by the PLP days before the election to prevent its non-signing being used as a political weapon by the opposition FNM, or US agencies.

Not all interviewees in Cayman regretted the role of the UK in the negotiations; some were glad of external assistance. A British banker in

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Cayman felt that with the British behind them Cayman was in a better position than the Bahamas:

“It’s easier for them to exert pressure on the Bahamas than here in a way. We’ve got big brother the UK. For instance, there’s no way that the Government of the US would freeze all Caymanian bank accounts. I could conceivably see them freezing all Bahamian bank accounts because when Pindling was in ... and every week in the Miami Herald there was always scandals about drugs in the Bahamas and Cabinet Ministers being jailed and so on. So I would say that with the Brits being there still we’re in a much stronger position” (Roberts, Cayman).

Interviewees explained that Cayman officials received constant advice from the Foreign Office throughout the negotiations, and a Canadian banker recalled:

“I think, from the various meetings that I attended, that the UK protected, stood up to the US. They listened to Cayman, and I’m sure that the people that were negotiating such as Truman Bodden, I don’t think they had any criticism at all of the part the UK played. In fact I think they felt thank God they were there, because if they weren’t there then these people [US] would shove it right down their [Cayman] throats” (Price, Cayman).

An English lawyer in Cayman offered his carefully considered judgement on the impact of Cayman’s Dependent Status on the MLAT negotiations, changing his mind half-way through his response:

“In terms of how it affected Cayman at the time of the MLAT I think overall [pause], I think overall it was probably beneficial that the UK was in there [Dean wasn’t sure about this]. I think that it enabled Cayman access through the Embassy in Washington, it did enable them to get the UK on their side on some things. So I think it was helpful. Had Cayman been doing it on its own ... well you know the Bahamas did it on its own and the MLATs look very much the same. Maybe the end result would not be hugely different” (Dean, Cayman).

It is very difficult to say whether the UK’s role in the negotiations was beneficial or harmful for Cayman; however, given Cayman’s continuing success as an OFC I feel that it was beneficial. One could even argue that the cooperative stance that Cayman was persuaded to take was an important factor in their greater success. Cayman found it easier to

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reconstruct itself as a reputable place and subsequently attracted more business than the Bahamas in the late 1980s.

Without exception, interviewees in both OFCs felt that the MLAT had ultimately been beneficial. The MLAT provided a mechanism for the release of confidential information in criminal investigations, thus preventing financiers being caught between two sets of laws. A British banker in Cayman remarked that the MLAT “was a significant step forward in avoiding the sort of horrible exercise that everybody went through with the Bank of Nova Scotia case” (Green, Cayman). The US too was happy with the treaties, describing them as “a major breakthrough in United States efforts to enlist the cooperation of Caribbean ‘bank secrecy’ jurisdictions in the investigation and prosecution of transborder crime” (MLAT concerning Cayman, 1986, p.v). An extract from the US Congress debate on MLAT ratification shows their enthusiasm for the treaties:

Senator Kerry: The Cayman Islands and the Bahamas have both been major offshore financial secrecy jurisdictions. Do these treaties in a specific way assist our law enforcement efforts with respect to those two places and bank secrecy?

Richard [Justice Department]: Yes...

Senator Kerry: Do you know of specific requests that we expect to make of both of those places in the near future?

Richard [Justice Department]: I am not sure...

Arena [Justice Department]: Mr. Chairman, yes. We have prosecutors waiting for ...

Senator Kerry: Lining up, I hope?

Arena [Justice Department]: Lining up, Senator.

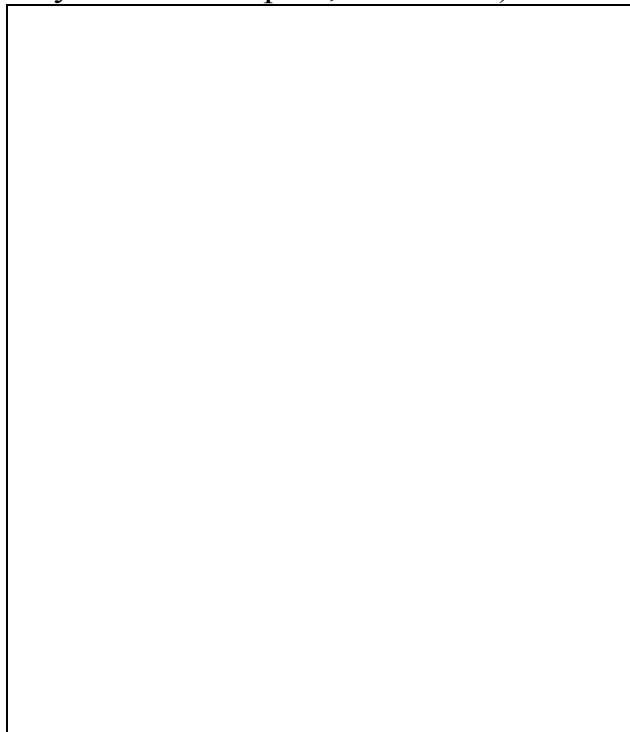
(MLAT concerning the Cayman Islands: Executive report, together with additional views. For US Congress, Senate, Committee on Foreign Relations. 30/9/88. Chaired by Senator Kerry).

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It is interesting to note that the US delayed ratification of the treaties until 1989, suggesting that part of the US motive in pursuing them was to illustrate what they could do to the OFCs. Many interviewees felt that this was the case, and argued that the MLATs were really nothing new and were simply a formalization of procedures for information exchange that had been available before. Figure 6.3 illustrates the confusion that people in Cayman felt about the delay in US ratification of the MLAT.

Why then had the OFCs bothered to sign the MLATs? Perhaps the real value of the MLATs to the OFCs was as a demonstration of their cleanliness and willingness to cooperate, as part of their efforts to rebuild their images as reputable, genuine financial centres. Such a reading was endorsed by my interviewees, and their descriptions of the MLATs as both “successful” and “rarely used”.

Figure 6.3: MLAT wedding (Source: Caymanian Compass, 17/2/1988)



The Cayman Islands Bankers Association stated that “the very signing of this treaty gives a great boost to our Islands’ image as the cleanest of the offshore financial centres” (Cayman Islands Bankers Association, 1989), and a lawyer in Cayman explained that the MLAT:

“was a first indication that we were displaying cleanliness to the world because when we entered into that treaty it meant that the US could come here and extract any confidential information provided it was not relating to tax offences. Because of

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that we opened ourselves to everybody. I mean the Americans got up on the floor of the Senate and praised Cayman to the hilt” (Davies, Cayman).

The signing of the MLATs was also seen as having a further direct and positive impact on the image of the OFCs. A British lawyer in Cayman argued that:

“Immediately the treaty was signed the huge amount of bad publicity that was obviously being fed to the press in America really came to a halt. The articles in the Wall Street Journal, the adverse press, that declined significantly, partly because, we reckon, the tap from the Justice Department was turned off, but also because it ceased to be an issue. You know, the treaty has been signed, it does what it does, and everybody has got to get on with life” (Dean, Cayman).

The OFCs’ fears that the US would abuse the treaty and continue their fishing expeditions for tax-related information were not realized. This was a potential problem because as the MLAT excluded tax issues, its preclusion of subpoenas in the first instance didn’t apply to tax issues. Interviewees agreed however that there had been a reduction in subpoenas and harassment from the US since the MLATs, a reduction explained to me by a former Financial Secretary in Cayman: “If you’re getting 95% cooperation from a Government in all the cases that you want are you going to jeopardise that for one case that you might find, that we can’t give you information on, when in essence you can use a different methodology to deal with that case?” (Morton, Cayman).

The US was pleased with the operation of the MLATs and did not want to damage relations by continuing in its use of subpoenas for tax cases, and anyway, as a British lawyer in Cayman told me, the US could always wrap a tax case up as a wire or mail fraud case.¹¹⁸ The development of MLATs was an important episode in the development of the Bahamas and Cayman OFCs, their image-building activities, and their relations with the US. The treaties were seen as a success all round, with Paget-Brown, a British lawyer in Cayman, concluding that “the interests of the United States in fighting white collar crime have been advanced and the integrity and reputation of the Cayman Islands have been advanced” (Paget-Brown, 1989, p.246).

¹¹⁸ Knowledgeable interviewees in the Bahamas and Cayman told me that the MLAT mechanism was used around 20 times each year in each jurisdiction.

6.6. RECONSTRUCTING THE BAHAMAS AND CAYMAN

As we have seen, throughout the 1980s the Bahamas and Cayman and the offshore financial activities they hosted were subject to a variety of incentives and punishments as the US sought to reshape the regulatory landscape and establish control over places where its dollars passed through. Supporting the thesis that the OFCs as places are constructed through regulation and legislation, the most important episodes in their recent development - the Castle Bank case, the Bank of Nova Scotia case, and the development of MLATs - have involved legal challenges to their authority to construct themselves as places for offshore finance. Other key episodes - the NBC allegations for instance - illustrated the importance of image in constructing the OFCs and in making governments toe the US's line. The OFCs were encouraged to reconstruct themselves as places which were not in conflict with the policies of the US.

Another way of looking at the development of the OFCs and their changed behaviours - emphasizing and competing through reputation rather than laxity of regulation - is in terms of the actions of rational actors in a dynamic environment. In order to survive and prosper in an environment where the US controls the rules of the game, the OFCs modified their behaviour, and resisted the pressures to competitively deregulate. Thus the shift in OFCs' behaviours can be seen as part of a long-run survival instinct rather than a fundamental change. A bank regulator in London explained that the Bahamas and Cayman:

“are competitors, but they have learnt not to knock each other. For example they have signed MLATs with the USA. They now see a common threat. For example, some US senators would like to send a couple of Tomahawks to The Bahamas and The Caymans. They cooperate by not being destructive to each other. They have a common interest, and have realized that there is enough cake for everybody” (Wilberforce, London).

Many interviewees in the Bahamas and Cayman talked about the altered behaviour of the OFCs in terms of self-interest, and survival in a dynamic environment. Johns and Le Marchant argue that “as for reputation, in the emergent politico-economic business climate of the 1980s, it became internationally ‘politically correct’ for local systems of regulatory control not only to be seen to exist but to be rigorously applied” (Johns and Le Marchant, 1993b, p.58). They further suggest that “in these circumstances, it seemed possible that the newly emergent extraterritorial global ‘level playing-field’ approach to regulation

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standards might undermine the previously presumed indestructibility of the sovereign economic separatism of offshore financial centres within the global trading system” (Johns and Le Marchant, 1993a, p.70).

Although US pressure was certainly important in affecting the OFCs’ strategies, interviewees were reluctant to give all the credit to the US; there was also an internal recognition of the problems of money laundering and criminal activity. A banker in the Bahamas explained:

“I wouldn’t want to give too much credit to the US tactics. I think it was also an internal recognition of the damage that it can bring. The countries that have that significant dependence on the financial sector, it’s important for them to make sure that there is a reputable existence. So I think it’s largely an internal recognition of what needed to be done to ... The scandals that would have surfaced in every jurisdiction, the pressures from the US ... these things clearly helped but I wouldn’t have said that any pressure from the US was the driving-force. So at the end of the day those countries are going to say, well it’s our livelihood that’s being affected, and decide what to do on that basis” (Young, Bahamas).

It is neither possible nor particularly important to say whether US actions or those of the OFCs were of primary importance; the OFCs act in a context which is shaped by the US, which is affected by the OFCs, and so on. The impact of modifications in the environment and actions of the OFCs is more clear. There was some slowdown in the growth of financial activity hosted by the OFCs in the late 1980s, particularly in the Bahamas, as questionable business that did not welcome the compromises reached with the US fled to alternative jurisdictions. However, business that fled was largely offset by new business that appreciated the new, improved, cleaner image of the Bahamas and Cayman. Cayman, with its white, British connection, benefited more than the Bahamas in the new environment of competition through reputation, surging ahead of the Bahamas in terms of volume of offshore banking activity hosted, and being held up as an example of good practice (Gallagher, 1990). The Bahamas still struggled to rebuild its image, certainly until 1992 when Pindling was finally defeated at the polls by Hubert Ingraham of the FNM.

Throughout my fieldwork it was unclear to me, firstly, whether US actions in the various episodes described above were part of a Governmental master plan and, secondly, why, if the US Government was so strongly opposed to the OFCs, they didn’t take any of the drastic measures that were threatened in the Gordon Report. Some interviewees,

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particularly in the Bahamas, did feel that the episodes were part of a US strategy against the OFCs, but, given the internal tensions apparent within the US, between and within the agencies involved in the various episodes, and the lack of coordination between the agencies, I am not so sure. It does provide a convincing narrative but fails to take account of the complexities of relations between the OFCs and the US. Seen from the OFCs, US actions may seem like a conspiracy against them, but this ignores the wider picture.

I asked some interviewees why the US had not taken more drastic action against the OFCs, and got a range of responses. Here's an extract from an interview with a Caymanian politician:

AH: If the US thinks that Cayman is used for tax evasion, this is probably a naive question, why don't they just shut Cayman down?

Morton: You think it's as easy as all that? [laughs]

AH: Well they could do what they've done to Haiti and close off wire transfers.

Morton: Well I have to argue with your question. Do we look like Haiti? Are we behaving like Haiti?

AH: No, but they could do that.

Morton: Naah. [emphatically] I don't believe they could.

AH: Why not?

Morton: In the technical sense? Maybe they could. In the eyes of the international world? They couldn't. Because we have an arrangement with them that is even being boasted about on the floor of the House of Representatives and the Senate. How are they going to convince these people to shoot it down or shut it down? We have a working relationship with the FBI, the customs, the DEA that is equal to any in the world.

AH: I mean I was taking an extreme example but in the early 1980s at least those sorts of threats were made, or stopping flights to the US?

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Morton: My friend, politicians make all kinds of threats. Carrying out the threat is a different story.

(Morton, Cayman)

US policies towards the Bahamas and Cayman as OFCS cannot be considered in isolation. The Bahamas are important geopolitically to the US, and Cayman's relationship with the US is mixed up with the "special relationship" between the UK and the US. As Sutton and Payne argue in an interesting paper about the "off-limits Caribbean": "the United States was inevitably drawn to take an increasing interest in the affairs of the European dependent territories but has had to come to terms with the fact that it cannot regulate the offshore Caribbean without the consent of sovereign European governments" (Sutton and Payne, 1994, p.87).

This suggests that US policies towards Cayman were modified by the latter's UK-Dependent status; on the other hand interviewees in the Bahamas trumpeted their sovereignty as beneficial, contrasting themselves with Cayman. The Governor of the Central Bank of The Bahamas suggested to me that:

"London will get together with Washington to impose a new regulation so that's a down for Cayman, because Cayman itself may not wish at that point to do it. We, as an independent territory would speak to Washington ourselves and decide whether or not this is the appropriate time to do something, and whether we should do it or not. So that sovereignty tends to help somewhat in an OFC" (Smith, Bahamas).

A further factor in modifying the actions of the US toward the OFCs - making them more complex than a Realist theory of countervailing powers would suggest - is the use of the OFCs by US business, and by US-inward investment; the interests of the US are not confined to US territory. Although politicians in the US may threaten the OFCs to please their domestic constituencies, a British banker in the Bahamas suggested to me that:

"the reality is that the USA could close down Cayman and the Bahamas tomorrow as OFCs, but if they did that they would cut off a massive amount of inward investment into the US. A large proportion of the foreign investment in the New York Stock Exchange, and US mutual funds and so on, is done through the offshore centres. The Japanese and the Germans wouldn't invest in the US if they had to cope with the US taxation system. Offshore mutual funds are allowed to exist because the US needs

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that capital. The US tacitly allows the existence of places like the Bahamas to encourage capital and inward investment into the US” (Williams, Bahamas).

This clearly illustrates the paradoxical relationship between onshore and offshore. The OFCs irritate US authorities, and yet the US allows the OFCs to continue to operate as they channel capital into the US productive economy. Offshore and onshore are intertwined. This is a point I will return to in chapter 7.

The relationships between the US and the Bahamas and Cayman OFCs in the 1980s illuminate empirically some interesting theoretical issues. OFCs are constructed as particular places through regulation and legislation but all places are part of wider regulatory landscape. One of the main tools for the construction of places is legislation, which refers to pre-defined spaces.¹¹⁹ The position of the Bahamas and Cayman OFCs in the regulatory landscape, and their relationship with the US is particularly interesting as financial capitals must circulate from the fictitious offshore spaces into the onshore productive economy in order to accumulate value. As financial activity and other business spreads increasingly across the borders which have marked the limits of national laws, these laws are likely to come into conflict. A state such as the US, which exports financial activity through the Eurodollar and offshore market for instance, may well seek to extend its laws outside its territory. The US, in defining its interests as regional or global, comes into conflict with local jurisdictions which are keen to defend their sovereignty and regard US efforts to regulate their places as unnecessary interference.

Many commentators have noted the mismatch between globalizing economic activity and territorial state based regulation, and suggested that such a situation may lead to competitive deregulation as the scale of economic activity exceeds that of regulation (see section 2.4.2). Few commentators have noted the other side of the problem; that efforts by states to extend their laws extra-territorially produce conflicts of legal authority. Whereas the problem of competitive deregulation is illustrated in the early development of the OFCs, that of conflicting laws is apparent in the 1980s as the US sought to regulate the Caribbean OFCs. Interviewees in the Bahamas and Cayman complained about extra-territoriality and felt that their sovereignty - once more, “the political authority ... to determine the framework of rules, regulations and

¹¹⁹ The Law of the Sea is a clear instance of law not referring to a territory or pre-defined space, but this is the exception that proves the rule.

policies within a given territory” (Held and McGrew, 1993, p.265) - was being undermined.

US efforts to regulate the Bahamas and Cayman, to catch up with its dollars, produced conflicts over sovereignty. The Commission of Inquiry into Drugs in the Bahamas argued that “the fundamental problem ... is the absence of a working relationship between two sovereign States where the sovereignty and integrity of each is accepted and respected” (Commission of Inquiry, 1984, p.353). Echoing Lefebvre, there is a battle over the production of space (Lefebvre, 1991), a contest to regulate and construct places in different ways: more or less secret, more or less tax-efficient. In Hancher and Moran’s words “regulatory space may be furiously contested” (Hancher and Moran, 1989, p.277), and this contest has shaped the development of the OFCs. The OFCs wanted control over the regulatory construction of their places but the US felt that this had resulted in competitive deregulation and problems for the US in terms of money laundering and white-collar crime. A former Financial Secretary of Cayman described this battle:

“The years 1983 and 1984 however, saw the financial community in serious problems when a large neighbouring country [doesn’t actually say USA!!] launched an attack against the Cayman Islands on purported money-laundering resulting from drug-trafficking. The Cayman Islands had no intention of supporting white-collar or drug crimes but had much reservation on the manner and method of foreign countries challenging local laws and upsetting confidentiality, the foundation on which the financial industry was built” (Johnson, 1990, p.151).

The globalization of business and efforts to extend laws beyond territorial boundaries call into question the modern division of the world into sovereign states. Changes in the real world problematize state territoriality as the organizing principle of the international system, causing a “re-articulation of international political space” (Ruggie, 1993), and modifying the meaning of sovereignty (Camilleri and Falk, 1992). However, regulators in the Bahamas and Cayman OFCs defend their sovereignty strongly; it is through their sovereignty that they retain some power to construct the Bahamas and Cayman as places for offshore finance. Despite the interpenetration of states through the globalization of business, states, which retain the power to enact legislation, remain important actors. They retain legal sovereignty to construct their territories in particular ways, and yet seem to surrender sovereignty to processes of financial globalization. There seems to be

some sort of unbundling of sovereignty. This is an idea I shall return to in chapter 7.

Although the OFCs retain their legislative powers they clearly recognize their dependence on the powerful US. A British lawyer in Cayman remarked that “Cayman realized that you cannot sit 550 miles south of Miami and be an economic success and behave like Castro, and say [to the US] ‘we’re not going to take any notice of you’ ” (Dean, Cayman). A prominent politician in the Bahamas told me that the US views the Bahamas as a suburb of Miami, and jokingly described the Bahamas foreign policy: “our foreign policy is that the government of the Bahamas does nothing to stop Bahamians from going to Miami to shop” (Manley, Bahamas). The need for compromise with the US was felt clearly by the OFCs. In a 1990 speech the Governor of the Central Bank of The Bahamas expressed this, commenting that “the trade-off between territorial sovereignty and economic survival will loom large in the minds of political leaders in these offshore jurisdictions” (Smith, J., 1990).

Although the power of the US, and the dependence of the OFCs was clear, some commentators still felt that “the United States should ... suppress a distinct inclination to regard the operation of offshore financial centres as a two-person zero-sum conflict between the Caribbean and the United States” (Blackman¹²⁰ - cited in Sutton and Payne, 1994, p.99). Sure enough, US efforts to regulate the OFCs had increasingly extended into multi-player games, such as the Basle Committee and their regulatory efforts.

6.7. INTERNATIONAL REGULATORY REGIMES: THE BASLE COMMITTEE

The globalization of economic activity generally outstrips the scale of states’ regulation; if governments are to retain any control they are compelled to cooperate internationally. Cerny describes the changing logic of collective action, and argues that there is a need for new “political economies of scale”. He explains that “as the scale of markets widens and as economic organization becomes more complex, the institutional scale of political structures can become insufficient for the provision of an appropriate range of public goods” (Cerny, 1995, abstract; see also Peck and Tickell, 1994a and 1994b; Taylor, 1994). Although one might argue that free markets achieve their own spontaneous order (Hayek, 1960 and 1990) and do not require any

¹²⁰ Blackman is a former Governor of the Central Bank of Barbados.

governmental regulation or control, this stance is in my view unrealistic given the tendency of markets to underprovide public goods, some of which - the acceptance of the institution of property rights for instance - are necessary for markets to work. The provision of regulatory public goods, stability and confidence in the international banking system for instance, is particularly important as “inefficiencies in their provision ... have much wider ramifications than merely for the provision of public goods *per se*, because they constitute the framework, the playing field, within which *private* goods as well as other public goods are provided in the wider economy and society” (Cerny, 1995, p.19 - original emphasis). The achievement of coordination or cooperation among states in an anarchic world is difficult, a point explored by International Relations (IR) and IPE scholars over the last 20 years. Kindleberger argues that “harmonization is difficult to achieve in a world of sovereign states. It involves ganging up on the Luxembourgs, Liechtensteins, Bahamas and the like to undermine their advantage as tax havens emanating from the sovereign right to set levels of taxation and to protect business dealing within the jurisdiction with laws ensuring secrecy” (Kindleberger, 1987, p.73).

States are reluctant to surrender unilaterally their sovereignty and the competitive advantage gained through their authority to create their own regulatory environment. It is difficult to reach agreement on regulatory harmonization, and difficult to enact and enforce agreements. As a large literature in IR has made clear, international regimes - “principles, norms, rules, and decision-making procedures” (Krasner, 198, p.5) - may be developed to foster cooperation.¹²¹ The problem of establishing cooperation and the development of institutions to foster cooperation and maintain confidence is echoed in Harvey’s discussion of a hierarchy of institutions - banks, Central Banks, World Bank - which develop to guarantee the value of money, but which simply shift the problem up a scale; who will regulate the regulators? (Harvey, 1982). International finance, as the “infrastructure of the infrastructure” (Cerny, 1993), has seen a variety of efforts to develop international regulatory regimes and cooperation including moves through the G7, the Financial Action Task Force on Money Laundering, the G10, the International Organization of Securities Commissions (Underhill, 1995) and the Basle Committee (Filipovic, 1994).

¹²¹ The literature on international regimes is large and diverse. See, for starters: Krasner, 1983; Rittberger, 1993.

The Basle Committee has been the focus of efforts to encourage international cooperation in banking supervision and regulation (Cooke, 1981, 1983; Norton, 1991; Johns, 1983). The 1970s saw rapid developments in international finance with new international markets, types of banks, financial instruments, and financial centres.¹²² Such developments introduced new types of risk such as sovereign and foreign exchange risk into the international banking system (Pecchioli, 1983). The explosion of international banking linked countries together; a problem in one country could be transmitted quickly to another in a domino effect. This point was emphasized by the collapse of Franklin National Bank (Spero, 1980), and Herstatt Bankhaus in 1974 with losses of \$450 million. In this context national regulators increasingly appreciated the need for some degree of international coordination to ensure the safety and soundness of the international banking system.

The Governors of the Central Banks of the G10 countries, plus Switzerland, established the Committee on Banking Regulations and Supervisory Practices (later called the Cooke Committee or the Basle Committee) in 1974, and in 1975 produced the Basle Concordat on the supervision of banks' foreign establishments. The Concordat "proposed guidelines for the respective responsibilities of different bank supervisory authorities regarding the supervision of banks where those entities were operating in more than one national jurisdiction" (Norton, 1991, p.83/4). The basic recommendation was that no bank should be able to evade supervision; to this end a division of supervisory responsibilities was suggested between the host and home authorities such that host country supervisors would be responsible for liquidity, and home countries for solvency (Johns, 1983).¹²³ The Concordat also suggested areas of practical cooperation, information exchange, and inspections, issues developed further in the 1990 supplement.

The Basle Committee met regularly throughout the 1970s, gradually developing new recommendations, which, following the failure of Banco Ambrosiano in 1982 due to gaps in international supervision, resulted in the revised Concordat of 1983. This revision tried to plug some supervisory gaps, expressly incorporating the principle of globally consolidated supervision by the home country regulatory authority, and

¹²² Porter records that from 1964 to 1985 international banking, measured by net international bank credit, grew at a compound rate of 26% per year, and from 1960 to 1986 the number of US foreign bank branches exploded from 131 to 899 (Porter, 1993).

¹²³ Filipovic explains that liquidity is the ability of a bank to convert assets into money to satisfy depositors; solvency is the ability of a bank to secure a level of income which exceeds its operating costs and provides a normal rate of return (Filipovic, 1994).

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clarifying the roles of host and home authorities. In conjunction with the principle of globally consolidated supervision the principle of “dual key regulation” was introduced. This says that a bank can only operate in a country if both the host and home regulatory authorities are happy that the bank is adequately supervised. Access to a market is locked; the lock requires two keys to open it. This principle is ingenious; by changing the rules of the game in international banking it reverses the tendency toward competitive deregulation among national regulatory authorities (Financial Times, 22/7/91: “Someone must be in charge”).¹²⁴

For example, if a Uruguayan bank wishes to operate in the US, the Federal Reserve Board must be happy that the Uruguayan authorities provide adequate supervision, and the Uruguayan Central Bank must be happy with the standard of US supervision. If, for instance, one of these keys is missing and the Federal Reserve is not satisfied with Uruguayan supervision, firstly the bank will not be allowed into the US, and secondly the bank may encourage the Central Bank of Uruguay to improve its standards of regulation to boost the international competitiveness of Uruguayan banks by facilitating their access to important markets. In this way supervisory standards should enter a virtuous circle, a levelling up, rather than being subject to a competition in laxity. The revised accord also suggested that, if a home country regulator is unhappy with the level of supervision in a host country where its banks operate, extraterritorial supervision may be desirable. As Norton explains: “the Concordats have given effect (in some instances, extra-territorial) and legitimacy to what otherwise might have been questionable extensions of legal jurisdiction by either parent or host country banking authorities over a non-domestic subject matter or entity” (Norton, 1991, p.85).¹²⁵ The Basle Committee continued to respond to developments in international banking, making additional recommendations in 1992 following the BCCI debacle which illuminated gaps in forms of international supervision which lack a single lead regulator.

Here’s a lengthy extract from a very informative interview with a US banker, talking about the development of the Concordats:

¹²⁴ This case illustrates clearly that all markets are regulated or structured through rules and institutions, and these rules affect the way the market works. The rules which regulate a market can be altered to produce different, and perhaps more favourable, outcomes (see Corbridge and Hudson, 1996).

¹²⁵ This was the case for instance in the Bank of Nova Scotia case discussed in section 6.5.2., where the US applied its laws extraterritorially and the Basle Committee went along with this.

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Hughes: it's a combination of things that happened. It starts more than anything else with Herstatt because that's the first time ... that everybody realized that unless there was some coordination and cooperation you're going to have a real mess on your hands in the banking system. So you had, because of Herstatt, the banking supervisors getting together, because that's when the Basle Committee was formed. Most banking supervisors are very thoughtful. They want a safe system in their country, that's what they're in charge of. And as they began to realize that the way to have a safe system in your country, where the world was linked by all these financial institutions, was to start talking to your fellow regulators around the world and setting up some kinds of common denominators that you could rely on. It came from a very practical concern on the part of the banking supervisors who recognized that the intertwining of the world's financial system, because of technology and the rapid transfer of large sums of money between countries, between banks between countries etc., that the old fashioned system of national safeguards simply wasn't good enough. So it wasn't something that happened overnight. It's like most things in life. There's a problem or series of problems, then a recognition, then a search for solutions, and so you've built up since Herstatt in 1974 a quite sophisticated international supervisory system linked through the BIS. It's not that the US, or the English, or the German bank supervisor can tell the supervisor of another country what to do. And it's not that the BIS has the power to enforce that, but if you assume that most banking supervisors are trying to have a safe and sound system they are brothers in arms regardless of what country they come from. So this grew up as these persons, who were charged with a public responsibility, came logically to the conclusion that by working together they would be doing a better job at home for a safe and sound system.

AH: So it's like enlightened self-interest?

Hughes: It's enlightened self-interest. Exactly, that's what it was. And what you did in there, you created trust between the supervisors who never knew each other. So that if you thought you had a problem, now there was someone you could call up in another country and say 'I think I have a problem that concerns one of your banks'. You could talk about it and maybe the fellow would say 'I think that might be a problem', and would go and have a look at that bank while you were looking at this one, and you could find if there was a problem. That wasn't possible before 1975.
(Hughes, USA)

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I asked regulators in the Bahamas and Cayman about their role in the development of international regulation and supervision. They emphasized their enthusiasm for such moves, their contribution and membership in a range of international regulatory regimes. Here's an extract from an interview with an official of the Financial Services Supervision Department in Cayman:

AH: What sort of input does Cayman have to international and/or regional supervisory bodies? What ones do you take part in?

Fry: On the banking side we are a member of the Offshore Group of Banking Supervisors, and they report to the Basle Committee. We also belong to the Caribbean group of banking supervisors. We also attend meetings of the Latin American and Caribbean group of banking supervisors. On the insurance side there's similar, the international organization, the Caribbean organization. We aren't a member of IOSCO at this point but it's something I'm looking into. We're looking at whether that is something that we should be a part of. We also take part in the Caribbean Action Task Force on money laundering. So we really try to keep in the international arena.

(Fry, Cayman)

However, banking supervisors in the Bahamas and Cayman were also realistic about their impact in such international bodies. A Bahamian Central banker told me that "the BIS and the G10 supervisory bodies basically get together and decide on what level of regulation ought to be adopted globally and the OFCs are obliged to fall in line because they can tighten the screws in very subtle ways" (Smith, Bahamas), and a Bahamian lawyer said: "there's a realization that in the overall scheme of things we're very small fish in the pond" (Peterson, Bahamas).

In October 1980, a smaller pond was established to give the offshore centres their own arena and a stronger voice to speak to the Basle Committee. This offshoot of the Basle Committee is the Offshore Group of Banking Supervisors (OGBS). Initially it had 12 members, and by 1993 its membership had grown to 19.¹²⁶ The Group provides a forum for the exchange of views and information, and the cross-fertilization of best supervisory practices. Membership of the OGBS signifies a certain level of supervisory adequacy in the offshore centre as a member must

¹²⁶ In 1993 the members were Aruba, the Bahamas, Bahrain, Barbados, Bermuda, Cayman, Cyprus, Gibraltar, Guernsey, Hong Kong, the Isle of Man, Jersey, Lebanon, Malta, Mauritius, Netherlands Antilles, Panama, Singapore and Vanuatu (Personal communication from Colin Powell, Chair of OGBS, to author).

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have the necessary legislation in place to provide for the principles of effective banking supervision to be implemented, must have made a clear commitment to the principles as set out in the Basle Concordats, and must have the necessary administration in place to effect the commitment to the principles (OGBS, 1993).

In addition to the crisis management recommendations of the Basle Accords, the Basle Committee has attempted to develop measures to prevent bank failures and threats to the stability of the international financial system (Kapstein, 1989; Filipovic, 1994). As a result of negotiations from the early 1980s the Committee published the Capital Accord, “*International convergence of capital measurement and capital standards*”, in 1988. The Committee had been concerned about declining capital:asset ratios (the amount of capital held in reserve by banks in order to cope with problems), and the increase in risky off-balance-sheet-activities which were not backed by adequate reserves. Countries were reluctant to increase the capital requirements for their banks unilaterally as this would put them at a competitive disadvantage; multilateral coordinated action was needed to create a safe and level playing field. Following a US-UK agreement in 1987 the other G10 members were brought on board, as a consensus developed among the epistemic community of national bank regulators.¹²⁷ The Accord reached a common definition of capital; established a system of risk-weighting for different types of asset including off-balance-sheet-assets; and stated that a capital:assets ratio of 8% must be achieved by 1992. It was seen as a landmark in international regulatory cooperation (Kapstein, 1989 and 1994; Filipovic, 1994; Porter, 1993).

A New York banker told me about the development of the capital adequacy guidelines:

“The Japanese had very low capital, the French banks had low capital as they had government support, but the Brits, Germans, and Americans had much higher levels of capital. The American banks were saying ‘we’re not competitive etc.’ and the argument was ‘drive down our capital standards’ so they could compete with the Japanese. Well the problem with that is that you can get ever declining standards. The BIS, because of the setting up of the committee and the strength of this growing bond if you will, were able to right that whole process” (Hughes, USA).

¹²⁷ Peter Haas defines an epistemic community as, “a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area” (P. Haas, 1992, p.3).

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The Basle Committee has played an important role in the development of the Bahamas and Cayman OFCs, contributing to their construction as places through regulation at a global scale. It also provides an interesting example of an international regime, as it is concerned with a specific issue area, that of international banking, and is made up of representatives of Central Banks rather than states themselves (Filipovic, 1994; Porter, 1993). Through the development and institutionalization of norms the Basle Committee has fostered international regulatory cooperation with the aim of improving the safety and soundness of the international banking system through the gradual convergence of standards. A representative of the American Bankers Association explained the standards-setting role of the Basle Committee to me:

“There are differences in taxes, in limits on borrowing, in the way that the bank is examined or has to report on its financial position, that make a significant difference in the way banks can operate. Now if one bank is operating under one set of rules and another under another you have to say which is better. One set is likely to give a competitive disadvantage. Are the rules that do this too strict, or are they the right ones? That’s the need for the Basle Committee, to try to determine what the minimal but optimal safety and soundness regulations are” (Thompson, USA).

The main problem in achieving improvements in international regulation is one of coordination and sequencing. Individual states fear that by acting unilaterally they will put themselves at a competitive disadvantage: multilateral agreements that the participants trust enable some coordination of improvements in regulation. A Bahamian Central banker outlined the problem:

“If there is a problem at all it is a problem of sequencing. If they come out with a new regulation, let’s say asking for more transparency in the operations that take place in the OFC, and we believe as an OFC that that’s a good thing for the reputation, then we, most likely, would want to sign onto that around about last rather than first. If not we lose the competitive edge” (Smith, Bahamas).

An ex-Governor of the Central Bank of The Bahamas described how the Basle Committee and the OGBS facilitated improvements in international regulation and supervision:

“In the early days nobody wanted to get out front. Neither the Bahamas, Hong Kong, nor Cayman wanted to be seen as the fellow out front of everybody else. There was a feeling that you’d better all go together. But to the extent that we were able to bring

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most of the OFCs, the respectable ones, into a group, it was good because then the playing field was level among OFCs. To the extent that it was level among the OFCs I think that was good because there had to be some minimum level of regulatory supervision” (Talbot, Bahamas).

Although international regimes can foster cooperation the problem of trust persists.¹²⁸ Without monitoring and enforcement powers, and punishments for renegeing on commitments one might think that the Basle Committee would not work. National regulators may still be able to gain a competitive advantage by breaking their commitment to higher standards of regulation and supervision. However, such a view is based on too narrow an understanding of international regimes. Cooke, the Chairman of the Committee commented that:

“The Committee does not undertake a formal supranational supervisory role; its conclusions do not have, and were never intended to have, legal force. Rather it formulates and recommends broad supervisory principles and guidelines of best practices in the hope and expectation that individual authorities will take steps to implement them through detailed arrangements - statutory or otherwise - which are best suited to their own national systems. In this way the Committee encourages some gradual convergence towards a common approach and common standards without attempting far-reaching harmonisation of member countries’ supervisory techniques” (Cooke, 1984, cited in Norton, 1991, p.83).

Interviewees did not feel that there was a problem with national regulators defaulting on their commitments in the Basle Committee. They argued that the Committee was effective even though it had no formal powers. As Hirst and Thompson note, informality may actually foster the development of trust (Hirst and Thompson, 1996, p.134). A one-time participant of the Basle Committee explained that agreements were reached and enforced through “peer pressure”, and also suggested that there was little reason for countries to go back on their agreements because they were quite straightforward. Here’s an extract from my interview with him:

AH: Are there any problems after the fact of agreements, with countries renegeing on what they said?

¹²⁸ As Giddens explains, the problem of trust, and particularly trust in abstract systems such as those of international banking regulation, is a characteristic of late modernity (Giddens, 1990).

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Hughes: No, I don't think so and doubt it.

AH: Why do you doubt it?

Hughes: What happens is all such common sense and good practice that the only reason why somebody could ... It's not very dramatic stuff, let's face it. I mean, consolidation, it's hardly revolutionary. I mean we're not talking about some really nutty idea. Nutty ideas could never get through the banking supervisory committee because they're very conservative people. [laughs] By being supervisors they're conservative. They're not far reaching revolutionary changes that we're talking about. By the time it's been discussed and modified so it meets the problems of various countries there's virtually no reason to renege from it. Capital standards for example. If you look at the way that the BIS standards are done there are two kinds of capital ... They try to find a way that makes it work in every country, and not try to make every country the same. As long as BIS does that there's every reason to be accommodating, if you agree on the goal.

(Hughes, USA)

The workings of the Basle Committee as an international regime are best understood as working towards such agreement on the goal; a common understanding of the problem of international regulation; and the development of methods to achieve the goal. Interviewees emphasized the role of the committee as a forum for exchanging views, learning, developing trust and consensus, ideas that fit well with the idea of international regimes as epistemic communities. However Porter's warning about "epistemic community" approaches to international regimes is important: "without connecting knowledge more closely to patterns external to the knowledge-producing community itself, the approach retains an element of arbitrariness and has difficulty in accounting for the specific types of knowledge around which consensus develops" (Porter, 1993, p.172). One commentator describes the informal yet effective nature of the Basle Committee:

"Thus, the Basle Committee, although not a formal international organisation in an international law context, has taken on the aura and reality of a substantive and permanent international forum that has been a centrifugal force for creating a worldwide network for the exchange of information and the discussion of issues regarding bank prudential supervision. ... The Committee has created the possibilities and conditions for an evolutionary

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international convergence of prudential supervision practices and standards” (Norton, 1991, pp.85/6).

The OFCs are often seen as the weak link in the regulation and supervision of international banking, particularly as their secrecy laws may hinder the free exchange of information between national regulators. I asked many of my interviewees about the impact of the Basle Committee’s work on the OFCs. Here’s an extract from an interview with a British banker in Cayman:

“I think it’s had quite a lot of impact ... mostly in focusing the regulator on the direction in which the Cayman Islands wants to go. It’s been a way of bringing together the G7, all of the big countries’ regulators to make them realize what the lowest common denominator of bank regulation is. I think as a direct result of that it has to have brought up the level of regulation in a number of countries, probably our own included. You should ask the Inspector of Banks, but my view is that the Basle Concordat did a lot to bring under the microscope individual countries’ bank regulation which is the core control mechanism for any offshore centre” (Brown, Cayman).

An ex-Governor of the Central Bank of The Bahamas emphasized that the Basle Committee enabled regulators, including those of the OFCs, to discuss issues and concerns, and enabled the OFCs to explain their position and give assurances about their standards of regulation to the G10 countries. A British lawyer in Cayman explained that the Basle Committee provided useful standards for regulation in the OFCs. He described the impact of the Basle Committee, saying:

“It has given our banking regulators a standard by which to regulate. They were playing by the seat of their pants before. The rules that are in the Basle Accord are something that no properly run bank has any problem complying with, and as a result we’ve had no difficulty in implementing those standards with the banks that the Government is very happy to have on the books as licensed banks. Those that don’t wish to comply are no longer on the books, and we’re quite glad about that also” (Wood, Cayman).

Interviewees explained that the impact of the Basle Committee’s recommendations is felt in two ways, directly through the development of national regulatory policy, and indirectly through those banks whose home country regulators in the G10 countries comply with the

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recommendations. Porter explains that “since the home offices of most banks were in the member-states of the Basle Committee, the revised Concordat’s emphasis on consolidated supervision gave them an important lever over loosely regulated offshore centres such as the Bahamas or the Cayman Islands” (Porter, 1993, p.59). A British banker in the Bahamas outlined the local result of international agreements, commenting that:

“There’s no doubt the Central Bank is more cautious or conservative than was the case perhaps 10 years ago. That’s a direct result of the Basle agreement, the G7 or G10, certainly are leaning on the offshore centres to be more cautious about how they issue banking licenses, and to whom. The BCCI business was a nail in the coffin of a lot of that. So they’ve actually increased regulation in that sense” (Jennings, Bahamas).

The Chairman of the Basle Committee summarized the beneficial impact of the recommendations on the offshore centres saying that “some years ago ... the offshore centres were felt to be a major Achilles’ heel in the system. Improved supervisory procedures in most of those centres and the increased resort to consolidated supervision by parent banks and parent banks’ supervisors have significantly modified these earlier views” (Cooke, 1983, p.64). The Basle Committee contributed to the construction of “an international legal space” (Santos, 1987, p.287 - cited in Blomley, 1989, p.526), and, through the interpenetration of global and local scales of regulation, impacted upon the OFCs and their regulatory construction as places. Working with the globalization of banking the Basle committee tied local regulations more closely to global standards, narrowing the range of options open to the offshore centres in their regulatory construction of place.

6.8. CONCLUSIONS

In this chapter I have explored the wider regulatory landscape within which the Bahamas and Cayman OFCs have developed. I have argued that to understand the development of the Bahamas and Cayman OFCs we must situate their development within the wider regulatory landscape, a landscape which shapes, and is in turn shaped by, their development. The actions of the US, with a particular geopolitical interest in its dollars and the Caribbean Basin, are particularly important; the actions of the US and its agencies have a major impact on the OFCs. The Castle Bank, Bank of Nova Scotia and MLAT episodes all illustrated that although the OFCs are in part constructed as places

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through local regulatory developments and legislation, they are also constructed by extra-local actors. These episodes support the thesis that laws and legislation are important practices in the regulatory construction of places, and illustrate that the most important events in the development of the Bahamas and Cayman OFCs have been about who has the power to regulate the offshore territories. Law plays a key role in the construction of places, in the relationships between places, and in the relationship between particular places and the wider regulatory landscape.

There has been much discussion of the interplay between the global and the local, between space and place, discussion which invokes the buzzwords of dialectics and structuration, but rather than really considering how the local and the global are intertwined simply asserts that they are. Processes and practices of structuration have been neglected. In this chapter, which resonates with Onuf's approach to international relations (Onuf, 1989), I have suggested that the practices of law and regulation are part of the missing link, the rules and resources, which link the global and the local. The global and the local are linked through the interpenetration of formal and informal laws such as the Basle Accords, and through the fact that transnational banks operate, and global markets are held down, or practised in, particular local regulatory environments or places. In the following chapter I seek to move beyond the metaphor of "regulatory landscape", towards an explanation for the development of OFCs and their place in processes of financial globalization.

CHAPTER 7

UNBUNDLING SOVEREIGNTY or TOWARDS A POSTMODERN GEOPOLITICAL-ECONOMY

“The rapidity with which currency markets fluctuate across the world’s spaces, the extraordinary power of money capital flow in what is now a global stock and financial market, and the volatility of what the purchasing power of money might represent, define, as it were, a high point of that highly problematic intersection of money, time, and space as interlocking elements of social power in the political economy of postmodernity” (Harvey, 1989, p.298).

“because it serves as a way to focus the analysis of social relations, and to capture power relationships where they are constructed, there is something radically important about conceptualizing the world economy as a social space in the making” (Drainville, 1995, p.70).

7.1. INTRODUCTION

In this concluding chapter I gather together, and work with, some of the insights gained through my case study of the development of the Bahamas and Cayman OFCs. I begin with a brief rehearsal of the “regulatory landscape” metaphor which I have developed in earlier chapters and then seek to put the metaphor to work, to develop an explanation for the re-shaping of the regulatory landscape and the development of the Bahamas and Cayman, and other, OFCs.¹²⁹ I examine earlier work on OFCs and consider the possibility that OFCs are another “fix” for capitalism and its contradictions (Harvey, 1982 and 1989), a fix that works in and through OFCs as “fictitious spaces” (Roberts, 1994). I argue that simply extending a Marxian account of capitalist development produces an unsatisfactory explanation of financial globalization and the emergence of OFCs which, because it is couched at a high level of abstraction, excludes social practices and fails to clarify *the ways in which* OFCs provide a fix. Taking a brief historical detour to the development of the modern system of states’ sovereignty to

¹²⁹ By “metaphor” I mean, as does McCloskey (McCloskey, 1994), a way of talking about and conceptualizing the world. I use “regulatory landscape” to suggest that the financial system is in some ways like the physical landscape: it is a landscape of places and actors; a landscape which is re-shaped by actors within it; a landscape made up of individual places and the connections between them; a landscape which is uneven; a landscape in which there are flows of people, information and money.

pick up some conceptual tools (Ruggie, 1983 and 1993; Burch, 1994), I offer a fuller explanation of the development of OFCs.

OFCs are best explained by situating their development in the context of processes of financial globalization. The development of Eurodollars - money which is neither spatially tied to, nor guaranteed by, any one state - has been a momentous event in the development of capitalism. These “stateless monies” (Martin, 1994a), produced a radical cleavage of the economic and political spaces of capitalism as holders of capital sought higher profits by escaping state-based territorial regulations. A new space of flows was produced, partially removed from the space of states (Castells, 1989). The development of stateless monies reconfigured power/space, undermining geographies - spatialities of power and social relations - organized into fixed, mutually exclusive, territorial states (Agnew, 1994).

I argue that OFCs play a central role in the articulation of the economic and political spaces of capitalism and the reconfiguration of power/space. The OFCs “hold down the global” (Amin and Thrift, 1994), providing a gateway which links a seemingly abstract and uncontrollable space of flows with the productive economy and the space of politics. The articulation of the economic and political spaces of capitalism is achieved through the practice of unbundling sovereignty - property rights over territory - into sovereignty over physical space and sovereignty over access to the space of flows (Ruggie, 1993; Burch, 1994). In this way the development of OFCs may be conceptualized as a key moment in the transition from a modern to a postmodern geopolitical-economy, a geopolitical-economy in which the organization of space and power into state-territorial units is increasingly undermined by the mobility of money and the space of flows.¹³⁰

7.2. OFCS IN A REGULATORY LANDSCAPE: A USEFUL METAPHOR

In the preceding chapters of this dissertation I have developed the metaphor of a “regulatory landscape”. I began with a simple question: “what explains the appearance of these new places - OFCs - on the map of international political economy?”, and suggested that we might look to processes of financial globalization for an answer (chapter 1). I then argued that in order to understand the development of OFCs and

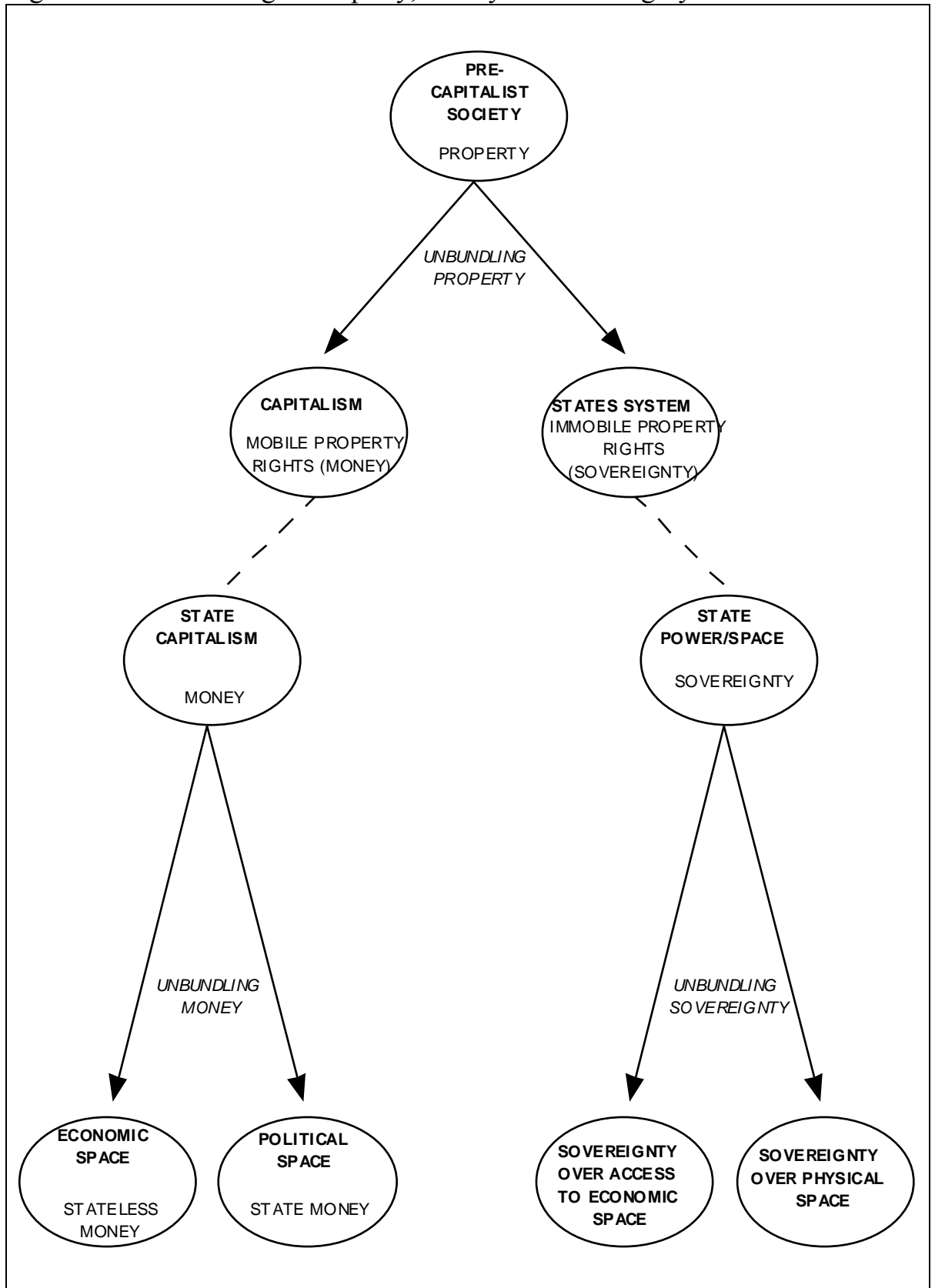
¹³⁰ Figure 7.1 provides a schematic diagram of my argument in this chapter, showing the medieval-to-modern unbundling of property, the unbundling of money creating an economic space of flows, and the unbundling of sovereignty.

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processes of financial globalization a

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Figure 7.1: Unbundlings - Property, money and sovereignty



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geopolitical-economy approach which focuses on the sites, processes and practices of regulation is needed (chapter 2). After describing the ways in which I have produced my geopolitical-economy (chapter 3), I developed gradually the idea of OFCs as places in a regulatory landscape (chapters 4, 5 and 6).

In chapter 4 I argued that the Bahamas and Cayman are constructed as places for offshore finance through regulation, identifiable sets of social practices. The most important social practices in the regulatory construction of the Bahamas and Cayman OFCs are the secrecy and tax laws, laws which in large part make the places what they are. In chapter 5 I argued that the development of either the Bahamas or Cayman OFCs cannot be understood in isolation; their interaction is crucial to their development. The Bahamas and Cayman are constructed as places through regulation, but they are relational places; they adopt regulatory strategies in competition with each other and other places. However their selection of strategies is complicated by the presence of multinational banks in the regulatory landscape and by the wider context for the OFCs' development - OFCs are not the sole regulatory powers, even within their territory. In chapter 6 I explored the wider regulatory landscape, particularly the relationships of the Bahamas and Cayman OFCs with the USA, and their position in the regulatory framework for international banking provided by the Basle Committee. Various episodes were seen to be of particular importance in the development of the OFCs and their relationships with the USA: the establishment of "onshore/offshore" banking through IBFs; the Castle Bank case; the Bank of Nova Scotia case and the development of MLATs. Significantly, the most important episodes have involved contests over who has the power to regulate the offshore territories - they have been about the configuration of power/space. The OFCs are simultaneously the result and the site of a process of regulatory bargaining; geographies are regulated and regulatory.

The "regulatory landscape" metaphor has proved a useful tool in my exploration of the development of the Bahamas and Cayman OFCs; it has been fruitful to conceptualize the development of OFCs as taking place in a wider regulatory landscape. Through my use of the metaphor various important aspects of their development have become apparent. Firstly, the OFCs are produced through regulation, particularly legislation; the OFCs are primarily legal spaces. Secondly, the OFCs are relational places; they are what they are by virtue of their relationship with other places and the "onshore" regulatory environment. Thirdly, there is something odd going on in the development of the OFCs: they

are important places in the international financial system and yet there isn't much money physically there; and, they seem to use sovereignty as a resource in their development, and yet they appear to willingly surrender sovereignty to banks which make use of them. We need to make some sense of this.

The metaphor of “regulatory landscape” has been very useful in drawing attention to these aspects of the development of the Bahamas and Cayman OFCs. By focusing on the social practices of “real regulation” (Clark, 1992), I have avoided the unfruitful question of “what is regulation?”. In the same, apparently circular and yet pragmatic and practice-oriented way as Bourdieu defines “fields”, I would define “regulation” as those social practices without which it would be significantly different.¹³¹ It is neither possible nor useful to delimit “fields”, “regions” or “regulation” in the abstract. They are constructed through specific social practices; the specific practices involved depend upon the object of regulation, the issue-area in question. Through my focus on social practices and processes I hope I have developed a useful account of the development of the Bahamas and Cayman OFCs and made some progress towards understanding processes of financial globalization. My account has broken down unhelpful dualisms: between theoretical and empirical work; between analysis and narrative; between qualitative and quantitative approaches; and, between local and global analyses (Sayer, 1989 and 1991). In these ways my dissertation has been successful.

However, a question lingers: can I do any more than re-state the metaphor? “Places in a regulatory landscape” is a useful redescription of the development of the Bahamas and Cayman OFCs but seems rather weak as an explanation. Can I say any more? Can I develop an explanation, a re-description at a higher level of abstraction? I do not believe that we can derive some general theory *of* globalization in the abstract but I do believe that the metaphor can be put to work to derive a theory *in* globalization.¹³² In the remainder of this chapter this is what I seek to do, developing an explanation for the re-shaping of the regulatory landscape.

¹³¹ Bourdieu suggests that: “the structure of the field, ie. of the space of positions, is nothing other than the structure of the distribution of the capital of specific properties which governs success in the field and the winning of the external or specific profits ... which are at stake in the field” (Bourdieu, 1994, p.51; see also Bourdieu, 1990).

¹³² Ruggie suggests that, “while there may be law-like generalizations *in* the medieval-to-modern transformation, there are none *of* it” (Ruggie, 1993, p.169). I take the same view in relation to the contemporary period.

7.3. RE-SHAPING THE REGULATORY LANDSCAPE

My starting point in seeking an explanation for the re-shaping of the regulatory landscape and the appearance of OFCs as new places on the map of international political economy is the obvious fact that the regulatory landscape is socially produced, a fact that I trust I have convincingly demonstrated in earlier chapters. The question then is, if the regulatory landscape has been re-shaped, what social processes have caused this re-shaping? If the regulatory landscape - the geographies of the international political economy - has been re-shaped there must be something different about the underlying social processes.

7.3.1. ANOTHER FIX FOR CAPITALISM?

There has not been much research conducted on OFCs, and the little that there is tends to be either guides for tax avoiders (Spitz, 1994), or descriptions of OFCs as the result of the playing out of market forces (Johns, 1983 and 1993a). Roberts' work on the place of Cayman in the international financial system, which I have mentioned in earlier chapters, provides a notable exception (Roberts, 1992, 1994 and 1995). In her work Roberts clearly situates the development of the Cayman OFC within wider social processes and provides a very useful account of the development of Cayman. I would argue, however, that the conclusions she reaches are limited, perhaps in part because her focus has tended to be on one OFC rather than relationships between OFCs, but fundamentally because of the Marxian approach she adopts, after Harvey (Harvey, 1982).

Roberts concludes a recent article about the Cayman OFC with the assertion that: "fictitious capital works through and in particular spaces which have come to evince the contradictory global-scale mix of risk and opportunity so typical of present day capitalism. Offshore financial centres are at once on the margins and at the centre of global capitalism's displacement of crisis" (Roberts, 1994, p.111). This is a suggestive conclusion but it, and the article which it concludes, does not explain *the ways in which* OFCs are "on the margins and at the centre". This reflects a wider problem. Although the article is titled "Fictitious capital, fictitious spaces: the geography of offshore financial flows", the meaning of "fictitious spaces" remains unclear. What, then, might the phrase "fictitious spaces" mean? In the remainder of this chapter my aim is to explain the phrase and through this to offer an explanation for the development of OFCs and move towards an understanding of processes of financial globalization.

Roberts works with a Marxian framework of analysis and explanation, and, as a starting point, it is from within such an approach that I will seek to understand what “fictitious spaces” might mean. In a Marxian analysis the development of OFCs is a moment in the development of capitalism. To follow Harvey, and to develop the sketch of his argument I offered in section 2.3.2.1, the development of capitalism may be seen as the progressive working out, or postponing of, its contradictions (Harvey, 1982). At base is the contradiction between use and exchange value, a contradiction which the money commodity internalizes and magnifies. Harvey argues, after Marx, that, as capitalism’s contradictions produce crises, solutions are developed to avoid/postpone these crises. The restructuring of production and the labour process provides an important fix, but the strength of Harvey’s analysis is in detailing a further two fixes - the temporal fix and the spatial fix.¹³³

The temporal fix is the displacement of the contradictions of capitalism through the development of credit; crises are smoothed out over time. Credit, or fictitious capital, is “some kind of money bet on production that does not yet exist” (Harvey, 1989, p.107). Fictitious capital is not divorced entirely from the productive base - it would be worthless if it was - but it is at one remove, in time. However, for the temporal fix to work people must believe that the fictitious capitals do have value; there must be some way of guaranteeing the money’s value. Among other reasons, the state develops, in this account, to act as the guarantor for fictitious capital. In guaranteeing the value of fictitious capital the state, as a territorial regulator, imposes a certain fixity or boundedness on the flow of capital. As Harvey explains: “social barriers arise to money movement because of the different legal, institutional and political arrangements that back the money system. The drive to create a credit system as free as possible from material spatial constraints therefore rests, paradoxically, upon territorial differentiations, which can prevent the movement of money under certain conditions” (Harvey, 1982, p.386). Thus, the contradictions of capitalism are manifest again: “the tension between the fixity (and hence stability) that state regulation imposes, and the fluid motion of capital flow, remains a crucial problem for the social and political organization of capitalism” (Harvey, 1989, p.109). As capitalism expands to fill the space of the state it again reaches its (temporary) limits.

¹³³ Restructuring, temporal and spatial fixes might be combined - witness the extension of credit by Western banks to less developed countries in the 1970s. I have separated them to clarify my exposition.

Reaching its limits within a single state's territory capital searches for another fix; this time it is a spatial fix. The spatial fix involves the displacement of crises and contradiction through space. Capitalism, reaching its limits within a particular territory, expands into new territories where there are more profits to be had. Paradoxically, in seeking to escape the confines of existing geographies capitalism produces new geographies. In this way "the production of spatial configurations can then be treated as an 'active moment' within the overall temporal dynamic of accumulation and social reproduction" (Harvey, 1982, p.374). Or, in my terms, geographies are regulated and regulatory. These new geographies, in turn, become a constraint on the free flow of capital.

Therefore, as Harvey argues, there is a spatial equivalent of the falling rate of profit thesis (Harvey, 1982, p.390). There are spatial limits to capital; capital runs out of space. If capital occupied the whole world and shaped its geographies in its image, producing an absolute space, then the difference and unevenness which drives capitalism would be destroyed.¹³⁴ Spatial equilibrium or the "end of geography" would signal the demise of capitalism as a dynamic social process, Smith extends Harvey's analysis, suggesting that such a demise of capitalism is prevented by the organization of space into parcels of territory which restrict the flows of capital, maintain unevenness, and retain the dynamism of capitalism (Smith, 1984/90; see also Smith, 1992, 1993 and 1996). In this account the production of scale is central to capitalist development. As Smith argues: "there is little doubt about the impossibility of a spatial fix for the internal contradictions of capital, but in the doomed attempt to realize this spatial fix, capital achieves a degree of spatial fixity organized into identifiably separate scales of social activity" (Smith, 1990, p.135). For Smith, following Harvey, the scale of the nation-state is maintained: "the retention of the nation-state at its present scale could be seen, therefore, as a counteracting force to centralization; this has the crucial effect of counteracting the falling rate of profit" (Smith, 1990, p.144).

To extend the argument and to work within the Marxian framework for a moment, what then happens when "identifiably separate scales of social activity", the territorial state for instance, are challenged by processes of globalization which cut across state boundaries? One could argue that OFCs are "secreted" as new spatial forms by the logic of capital; that

¹³⁴ More dialectically, and more pessimistically, Harvey suggests that inter-imperialist rivalry would result in mutually-assured-destruction through nuclear war, "the ultimate form of devaluation" (Harvey, 1982, pp.442-445).

OFCs provide another fix for capitalism - a 'fictitious fix' beyond the constraints of geography and existing regulatory frameworks. This would seem a logical argument, but, in part because of the functionalism of Marxism, a simple extension of the Marxian account fails to explain the ways in which OFCs provide a "fix" for capitalism, the social practices that are involved in such a process. Smith suggests that "capital, the guardians of information flow, information corporations ... may entertain the fantasy of spacelessness and act accordingly, but in practice, every strategy to avoid and supersede 'historically established mechanisms' and territories of social control involves not the extinction of place per se but the reinvention of place at a different scale - a capital-centred jumping of scale" (Smith, 1996, p.72). However, as I have shown through my exploration of the development of the Bahamas and Cayman OFCs, strategies "to avoid and supersede 'historically established mechanisms'" may involve not the reinvention of place at a different scale, but the invention of a different type of place, an "offshore" place. I do not wish to disagree entirely with Smith here - the development of trade blocs for instance may be seen as the reinvention of place at a different scale - rather, I seek to extend his analysis and to offer a slightly different account. In the remainder of this chapter I work towards a fuller explanation, arguing that the way in which OFCs provide a fix - articulating the economic and political spaces of capitalism - is through the practice of unbundling sovereignty. At this point though we must leave the Marxian framework, and, through the work of Ruggie (Ruggie, 1983 and 1993), pay a visit to the middle ages to gather some conceptual tools.

7.3.2. ORDERING POWER/SPACE: THE MEDIEVAL-MODERN TRANSITION

As I suggested in section 7.1, if we want to explain the development of new places on the map, to account for the re-shaping of the regulatory landscape, we must look to underlying social processes. In seeking to develop a vocabulary for understanding a confusing contemporary world Ruggie returns to the middle ages, or more specifically to the transition from medieval to modern times in Western Europe (Ruggie, 1993). Ruggie's aim, and mine too, is not to provide a full explanation of the transition from a medieval to a modern era, rather it is to develop a vocabulary for talking about contemporary processes of social change. Adopting a social constructivist approach (Giddens, 1984; Wendt, 1987; Onuf, 1989), Ruggie argues that if we are to understand social processes we must focus on the mode of differentiation or ordering principles which mediate between the parts of society and the social whole, "the

principles on the basis of which the constituent units are separated from one another” (Ruggie, 1983, p.275; see also Burch, 1994, p.42). The mode of differentiation “is nothing less than the central focus of the epochal study of rule” (Ruggie, 1993, p.168), and further, as rule is about “legitimate dominion over a spatial extension” (Ruggie, 1993, p.148; Giddens, 1981, p.45), the ordering principle is simultaneously a configuration of power/space. One might say: society is power/space; power/space is society.

Ruggie explains that in medieval times the way society was organized in Western Europe, the mode of differentiation, was “a nonexclusive form of territoriality, in which authority was both personalized within and across territorial formations and for which inclusive bases of legitimation prevailed” (Ruggie, 1993, p.150). There was a “heteronomous organization of territorial rights and claims - of political space” (Ruggie, 1983, p.275), a complex spatial patchwork quilt of rights and obligations. The central characteristic of the transition from a medieval to a modern world was the development of a new ordering principle, a development which was based in: material changes - population dynamics, technological progress; strategic behaviours - investment patterns, trade fairs, changing relative factor prices; and epistemic changes - the development of single-point perspective, the increasing linguistic use of the “I” form, the rediscovery of the concept of absolute and exclusive private property from Roman law (Ruggie, 1993, pp.152-160). Ruggie does not privilege any sphere *a priori*. For Ruggie, the source of social change is an empirical matter and in his brief sketch he gives equal priority to material changes, strategic behaviours and epistemic changes, “providing an account of” social change rather than reducing it to one primary cause (Ruggie, 1993, p.152). In this way Ruggie’s approach differs from Harvey’s materialist, productionist, reductionist and, in my opinion, overly abstract accounts of society (Harvey, 1982 and 1989), and moves quickly from abstract theory to the realm of social practice. Ruggie’s account is couched at a lower level of abstraction than Harvey’s, a level of abstraction that, I would argue, allows the development of a fuller account of processes of social change.¹³⁵

The transition to modernity sees the re-organization of power into territorially defined, fixed and mutually exclusive units; this is a

¹³⁵ In fact Harvey’s account of “The condition of postmodernity” (Harvey, 1989), is more similar to Ruggie’s approach (Ruggie, 1983 and 1993) in this way, in marked contrast to the abstract theory of “The limits to capital” (Harvey, 1982). I find Ruggie’s approach to be a useful extension to Harvey’s, rather than an approach which is in fundamental opposition.

reconfiguration of power/space, a reshaping of the regulatory landscape. Ruggie explains that the “modern system of rule consists of the institutionalization of public authority within mutually exclusive jurisdictional domains” (Ruggie, 1983, p.275), and argues that “the central attribute of modernity in international politics has been a peculiar and historically unique configuration of territorial space” (Ruggie, 1993, p.144). This account puts geographies - dynamic spatialities of power and social relations - at the centre of social processes.

In the modern world the ordering principle, the dominant configuration of power/space, has been state sovereignty, an institution which is based on the acceptance of rights to absolute exclusive private property. Although sovereignty describes the modern mode of differentiation, sovereignty is based upon the institution of property. As Burch explains: “sovereign states are first and foremost holders of property rights: holders of a grounded stake in the secular social realm. The crucial terrain is the sovereign state. Arguing that the global system is grounded upon the concept of sovereignty actually misses the fundamental point. Sovereignty is the physical manifestation of sovereign property rights to territorial property” (Burch, 1994, pp.47/8).

However, to continue with this account of the medieval-to-modern reconfiguration of power/space, the new ordering principle of sovereignty resulted in certain problems; there was a tension between a modern ordering principle and a society which was in the process of becoming modern. Ruggie thus asks: “having established territorially fixed state formations, having insisted that these territorial domains were distinct and mutually exclusive, and having accepted these conditions as the constitutive bases of international society, what means were left to the new territorial rulers for dealing with problems of society that could not be reduced to territorial solution?” (Ruggie, 1993, p.164). Ruggie refers to this problem as the paradox of absolute individuation; if society was ordered on the basis of territorial exclusion, how could its constituent parts communicate, how could it continue to be a society?

This tension is clearest in the example of the “embassy chapel problem”: how could a Protestant nation be permitted to hold Protestant services in its embassy chapel in a Catholic state? This problem was dealt with by the (anti)territorial trick of unbundling territoriality. That is, in certain issue-areas the state would surrender its powers to regulate its territory, reducing the scope of its territorial powers. In the case of the “embassy chapel problem”, and diplomatic relations more widely, Ruggie explains that “having so fundamentally redefined and reorganized political space,

states ‘found that they could only communicate with one another by tolerating within themselves little islands of alien sovereignty’ ” (Ruggie, 1983, p.279 - citing Mattingly, 1964, p.244). Such an “unbundling” of territoriality, “over time became a generic contrivance used by states to alleviate the paradox of absolute individuation ... a fictitious space, designated ‘extraterritoriality’, was invented” (Ruggie, 1993, p.165). The importance of this fictitious space comes not from its spatial location in the physical landscape, but from where it lies in the regulatory landscape; the British Embassy in Paris, *physically* in France, is *legally* in Britain. In a phrase which points the way to an explanation of the development of OFCs in terms of “unbundled territoriality”, Ruggie suggests that “this negation of the exclusive territorial form has been the locale in which international society throughout the modern era has been embedded. The terrain of unbundled territoriality, therefore, is the place wherein a rearticulation of international space would be occurring today” (Ruggie, 1993, p.171). It is in this way, I will argue, that the development of OFCs is central to processes of financial globalization.

7.3.3. THE PARADOX OF ABSOLUTE GLOBALIZATION AND THE UNBUNDLING OF SOVEREIGNTY

Burch argues that the development of mobile property rights alongside immobile property rights is fundamental to the development of capitalism, the inter-state system and their articulation. To reiterate: “the split in property (rights) established the conceptual division between the state system (real, tangible property) and the capitalist system (mobile, intangible property). The institution of property rights contributes to the generation and linking of capitalism and the interstate system as articulated structures; differences between real and mobile property contribute to the differences between the two structures” (Burch, 1994, p.47). The split in property rights reconfigured power/space.

I want to suggest that the development of stateless monies involves a further split, of property rights, into state-guaranteed and non state-guaranteed monies. This bifurcation has taken place since the first Eurodollar deposits by a Chinese Government fearful of US seizure of their dollar assets in 1949, and particularly since the collapse of the Bretton Woods monetary system in 1971. In the same way as the medieval-modern split of property rights into immobile and mobile aspects allowed the partial separation of capitalism and the states system, the development of stateless monies has created an economic space, or in Castells’ terms a “space of flows” (Castells, 1989), partially

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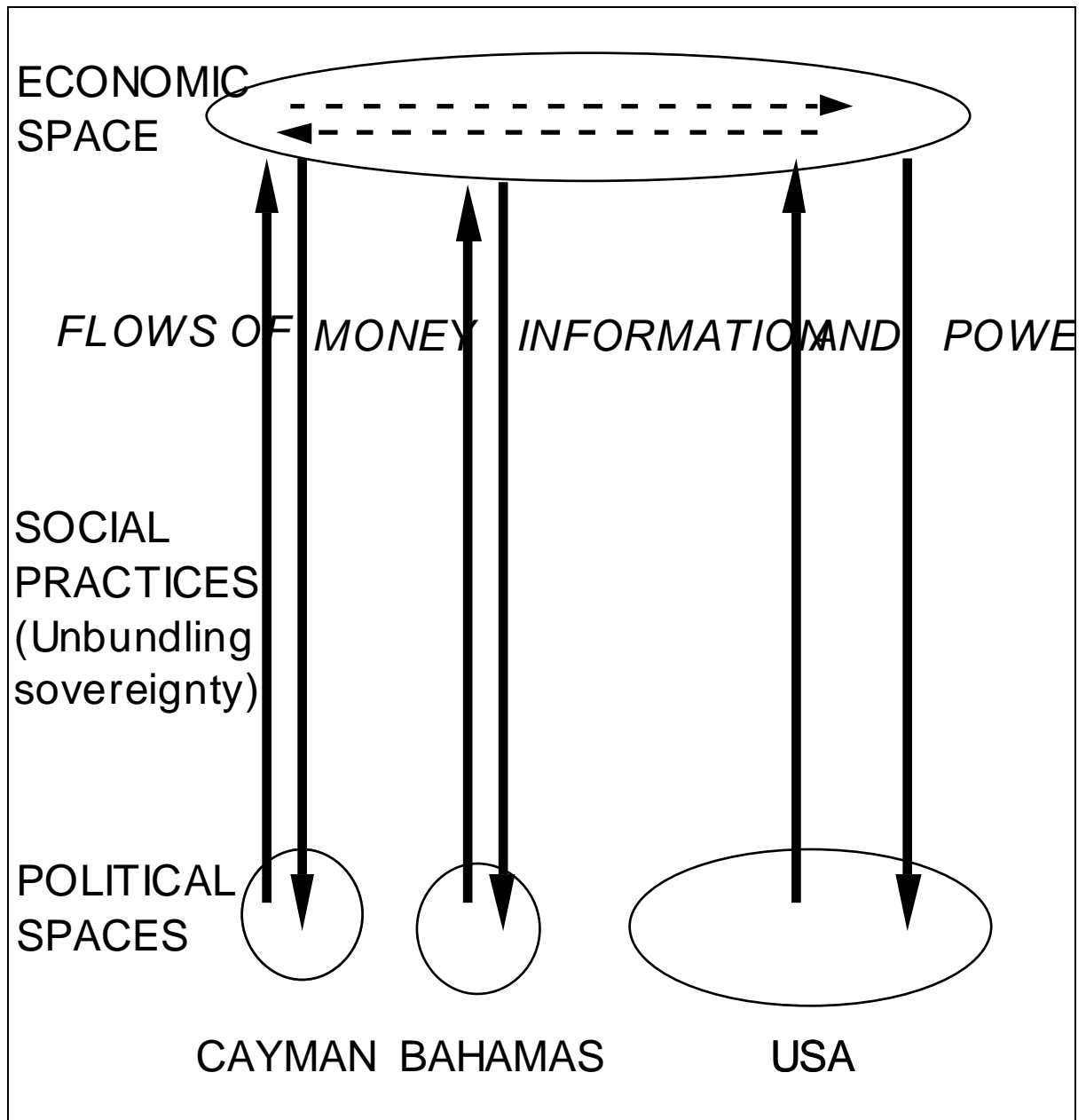
separated from the political space of states. In other words, there has been a reconfiguration of power/space. However, the development of this economic space produces a paradox. To echo Ruggie's analysis of the medieval-modern transition this may be termed the "paradox of absolute globalization". So, what is the paradox of globalization and how do OFCs fit into this account?¹³⁶

I would argue that the separation of economic space from political space results in at least two problems for the reproduction of capitalist society: firstly, how is the economic space of flows to be regulated?; secondly, what is the value of the monies in the economic space if there is no connection to the productive economy?

Figure 7.2: Articulating the spaces of capitalism

¹³⁶ Figure 7.2 provides a schematic diagram or guide, showing the articulation of the economic and political spaces of capitalism, through the unbundling of sovereignty.

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To take the problem of regulation first, there is a clear parallel here with Ruggie's "paradox of absolute individuation". Ruggie asks, following the absolute individuation of society into sovereign state territories: "what means were left to the new territorial rulers for dealing with problems of society that could not be reduced to territorial solution?" (Ruggie, 1993, p.164). We might now ask: having established an economic space, having insisted that this economic space is distinct from the political space of states, and having accepted the economic space as central to capitalist society, what means are left to deal with social problems that can not be solved within the economic space? How is the economic space of flows to be regulated? How are the public goods such

as adequate supervision and the development of a lender of last resort to be provided?

OFCs, it seems, provide a partial solution to this aspect of the paradox of absolute globalization as they provide an access point into economic space for political/regulatory authorities. The desire of the US to extend its control over the Bahamas and Cayman OFCs, and the importance of the Basle Committee's framework including the OFCs, as described in chapter 6, can be explained in this way. OFCs are important places in the financial regulatory landscape, or nodal points in the network, through which states can exert some control, can exercise some power within the economic space of flows and seek to deal with regulatory problems which arise. OFCs provide a link to economic space for political authorities who seek to regulate the space of flows and provide the public goods which actors in the economic space cannot generate for themselves.

Secondly, there is the problem of what flows of money in the economic space might mean. Here I provide an account which is compatible with a Marxian one, but works at a lower level of abstraction. Without a link to the productive economy, stateless monies - mobile capital circulating in the economic space - would be without value. A space of flows only makes sense if the flows are from somewhere to somewhere else. It is in the realm of production and political space, not in the economic space of flows, that value is created. As Merrifield clearly explains, it is practice which gives meaning to the space of flows: "the material landscape and practices of everyday life occurring in different places under capitalism are inextricably embedded within the global capitalist whole. To this extent, the global capitalist system does not occur solely in some abstract space; it has to ground itself and be acted out if it is to have any meaning. The space of the whole thus takes on meaning through place, and each part (ie. each place) in its interconnection with other parts (places) engenders the space of the whole" (Merrifield, 1993, p.520), or places are in a wider regulatory landscape. More concisely, as Lefebvre suggests: "the world of commodities would have no reality without such moorings or points of insertion ... the same may be said of banks and banking *vis-à-vis* the capital market and money transfers" (Lefebvre, 1991, p.403). The OFCs are such moorings or points of insertion, places which articulate the economic and political spaces of capitalism, and partially resolve the paradox of absolute globalization.

As fixed points articulating the space of flows and the productive political space of capitalism, OFCs have helped to speed up the flows of

capital, reducing its turnover time and increasing its profitability (Corbridge, 1992a, p.193). Further, as I showed in chapter 4, through their secrecy and tax laws the OFCs are constructed as places which not only link the political and economic spaces of capitalism, but link them in a tax-efficient and confidential manner. The role of OFCs in articulating the economic and political spaces of capitalism and providing a route from the space of flows towards realization in the productive space of politics explains the adjunct relationship between OFCs and onshore economies that Roberts describes (Roberts, 1994, p.101). Fictitious capitals must be grounded and moved towards realization. This also helps to explain: why the US has not closed down the Bahamas and Cayman OFCs - the US needs the OFCs to channel capital flows from the economic space of flows towards its productive economy; and why there is not much money physically in the Bahamas and Cayman OFCs - they are gateways or transit points for capital flows, not destinations.

It is important to note at this point that I am not suggesting that this reconfiguration of power/space “secretes” these new spatial forms because they are functional for capitalism. The OFCs are functional for fractions of capital, particularly internationally mobile capital, but this is at best one half of an explanation for their development. A fuller account must include the decisions and actions of people, for instance, of elites in the Bahamas and Cayman in pursuing an offshore development strategy (see section 4.3.1) and US bankers in looking for an offshore location (see section 4.3.2 and 6.2). A fuller account must include social practices, and explain *the ways in which* OFCs are functional for capitalism. Practice is the key here. As Merrifield argues: “spatial practices fulfil an ambiguous regulatory role. They become the pressure point in keeping the space-place relationship together, yet apart” (Merrifield, 1993, p.526). It seems to me that the development of OFCs can best be understood as involving the “unbundling” of sovereignty, an unbundling which has the unintended consequence of partially solving the paradox of absolute globalization.¹³⁷ So, what do I mean by “unbundling sovereignty”, and how is it achieved in practice?

As I remarked in sections 6.6 and 7.2 there is something odd going on with sovereignty in the Bahamas and Cayman OFCs: they appear to use sovereignty as a resource and defend this resource vigorously - as seen in the Castle Bank case, the Bank of Nova Scotia case and the

¹³⁷ My “unbundling sovereignty” is in principle the same as Ruggie’s “unbundling territoriality” (Ruggie, 1993); sovereignty is a specific instance of the spatial power play which is “territoriality” (Sack, 1986).

development of MLATs; and yet, they appear happy to surrender their sovereignty to offshore finance and multinational banks which make use of the Bahamas and Cayman OFCs. As Kratochwil notes: “on the one hand, we observe the virtually universal recognition of territorial sovereignty as the organizing principle of international politics. On the other hand, because of the growth of transnational relations and interdependencies, there is a tendency toward erosion of the exclusivity associated with the traditional notion of territoriality” (Kratochwil, 1986, p.27). How can this be? How can it be that the OFCs place a high value on their sovereignty as a resource, and yet simultaneously are willing to surrender their sovereignty?

I would argue that such a situation can be explained through the idea of “unbundling sovereignty”; the OFCs make use of and defend one aspect of their sovereignty (sovereignty over physical space) and willingly surrender another aspect (sovereignty over access to the economic space of flows). As Burch reminds us: “sovereignty is the physical manifestation of sovereign property rights to territorial property” (Burch, 1994, p.48), and it is because of its basis in property that sovereignty can be unbundled. In the OFCs sovereignty is unbundled into what we might call “sovereignty over physical space”, and “sovereignty over access to the economic space of flows”. Sovereignty over physical space is defended as it is through such sovereignty that the OFCs retain the power to construct themselves as tax-efficient, confidential and attractive places in the financial regulatory landscape (chapters 4 and 5). Sovereignty over access to the economic space of flows is willingly surrendered, or, more accurately, sold for the benefits which offshore financial activity and multinational banks bring to the Bahamas and Cayman (see section 4.6). Sovereignty over physical space allows the OFCs to construct themselves as places which articulate the economic and political spaces of capitalism. Sovereignty over access to the economic space of flows is sold to offshore financiers and banks to allow them to move between the economic and political spaces of capitalism. Given that the economic space of capitalism transcends the political spaces of OFCs, multinational banks who operate primarily in economic space are able, to the extent that more powerful actors elsewhere in the regulatory landscape allow it, to play the OFCs off against each other (chapters 5 and 6). The Bahamas and Cayman benefit from their role in articulating the economic and political spaces of capitalism, but also put themselves in a vulnerable position in relation to the space of flows which, in Smith’s terms operates at a higher scale (Smith, 1992 and 1993), or, in the language of actor-network theory,

works through a longer network (Thrift, 1996, p.5, after Latour, 1993, p.122).

It is through the unbundling of sovereignty in OFCs that the political and economic spaces of capitalism are articulated.¹³⁸ As Palan suggests: “with this ingenious device, both the state system and an increasingly integrated market can live comfortably with each other - for a while” (Palan, 1996, p.2). As with the “embassy chapel problem” in the medieval-modern reconfiguration of power/space, OFCs, through their unbundling of sovereignty, resolve a paradox, the paradox of absolute globalization: “the tension between globalisation and the state system can temporarily be alleviated by bracketing out the very source of the tension”(Palan, 1996, p.2).

It is from the social practice of unbundling sovereignty that the importance of the Bahamas and Cayman OFCs is derived. The development of the Bahamas and Cayman OFCs takes place in a regulatory landscape. It is a landscape of flows and fixity, spaces and places, a landscape shaped by the economic and political spaces of capitalism and their articulation. The OFCs are not simply shaped by the regulatory landscape, they play a crucial role in “holding down the global” (Amin and Thrift, 1994), articulating or regulating the economic and political spaces of capitalism. They are simultaneously the site and the outcome of processes of regulatory bargaining. Geographies - spatialities of power and social relations - are regulated and regulatory.

7.4. POSTMODERN GEOPOLITICAL-ECONOMY

I have argued, drawing on insights gained through my case study of the development of the Bahamas and Cayman OFCs, that the appearance of these new places on the map of international political economy can best be understood by situating their development within processes of financial globalization. The development of stateless monies since 1949, and especially since the collapse of the Bretton Woods monetary system, produced a new space of capitalism. This space is an economic space, a space of flows, which is increasingly divorced from the political space of places and production. Processes of financial globalization reconfigured power/space, reshaping the regulatory landscape. Echoing the performance metaphor of globalization I introduced in section 2.2.1,

¹³⁸ I am not arguing that OFCs are unique in this regard; other places too, such as global cities, may unbundle their sovereignty as I described in the development of IBFs as “onshore/offshore” banking in New York and other US financial centres (section 6.4).

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processes of globalization entail “a shift not in the play of power politics but of the stage on which that play is performed ... the modern state system may be yielding in some instances to postmodern forms of organizing political space” (Ruggie, 1993, pp.139/140 and p.144).

However, processes of financial globalization produce a paradox, the paradox of absolute globalization; the OFCs partially resolve this paradox. As places within the regulatory landscape, OFCs articulate the economic and political spaces of capitalism, providing a link to the productive economy and a control point for political authorities who wish to regulate the space of flows. It is through the practice of unbundling sovereignty, a practice which is made possible by the basis of sovereignty in property rights, that OFCs articulate the spaces of capitalism and partially resolve the paradox of absolute globalization. The Bahamas and Cayman OFCs are places in a regulatory landscape; places which through the practice of unbundling sovereignty both split and link the spaces of capitalism. Geographies are regulated and regulatory.

Rather than processes of financial globalization signalling the “end of geography” (O’Brien, 1992), they have re-shaped the regulatory landscape, reconfiguring power/space. The emergence of OFCs as new places on the map of international political economy is an important part of the re-shaping of the regulatory landscape. The OFCs, through the practice of unbundling sovereignty articulate the economic space of flows and the political space of states and the productive economy. Practices of unbundling sovereignty and the reconfiguration of power/space are the key to understanding the development of OFCs and processes of financial globalization. To understand processes of globalization we must explore their geographies.

Afterword: A political coda

Towards a fairer regulatory landscape

As Corbridge suggests: “to change the world it is first necessary to offer an account of the world and then to put into circulation a blueprint for change” (Corbridge, 1993, p.469). In this dissertation I have offered an account of an important aspect of the contemporary world, processes of financial globalization and the development of offshore financial centres. I have not offered a blueprint for change; a dissertation may not be the place for that, and anyway, I don’t have a blueprint! Prior to offering a blueprint for change one must have some understanding of the way the world works. I have made some progress towards developing an understanding in this dissertation.

In this dissertation - and I am uncomfortable with this - I have not even stated my opinion about whether the development of offshore financial centres is a good or a bad thing. Here I do. Offshore financial centres, it seems to me, and the space of flows which increasingly dominates the lived space of people and places, tend to heighten the inequalities of contemporary capitalist society. They enable the holders of money and power - power over people and places - to escape the control of states, to weaken the democratic process, to discipline people and places with the rules of the global market. Although explored in sometimes-abstract academic language in this dissertation, contemporary processes of financial globalization and the development of offshore financial centres are not divorced from the practices of everyday life of people the world over. The development of a space of flows has tended to lead to a landscape of greater unevenness and inequality of life-chances and outcomes. This is morally wrong.

However, markets and processes of globalization and are not all bad. Whether or not they are depends upon the ways in which they are organized. In fact, I would argue, the dynamism of markets and processes of globalization, through the possibilities they offer for bringing spatially distant peoples together, can be harnessed for progressive social change. Such change must begin in daily life. Places and people, although disciplined by processes of market-based globalization, are not powerless. The landscape of modernity is socially constructed; it can, and I would argue should, be constructed differently. In our everyday lives we can and do change the world. The better we understand the way the world works the more chance we have of re-shaping the world, of working towards a fairer regulatory landscape.

[Type text]

Appendix A: List of interviewees - coded names

London Interviewees

| | |
|---------------|---|
| “Clutton” | Bank of Nova Scotia, Private Banking |
| “Gilling” | Bank of England, Banking Supervision Department |
| “Pascoe” | Bank of America |
| “Robinson” | Bank of N.T. Butterfield and Son |
| “Thwaites” | Chase Manhattan Private Bank |
| “Wilberforce” | Coutts and Co. |

USA Interviewees

| | |
|----------------|---|
| “Anderson” | Former director of Financial Crime Enforcement Network |
| “Bowles” | American Bankers Association |
| “Brooke” | Banco Bilbao Vizcaya |
| “Charlesworth” | Bankers Association for Foreign Trade |
| “Cobb” | Bahamas Ambassador to the USA, Former Central Bank Governor |
| “Davidson” | American Bankers Association |
| “Evans” | Office of the Comptroller of the Currency |
| “Glynn” | American Bankers Association |
| “Hughes” | Merrill Lynch, Global Financial Institutions Department |
| “Lane” | Federal Reserve, Banking Supervision and Regulation |
| “Lucock” | Banque Paribas |

[Type text]

“Simons” Federal Reserve, International Banking
Division

“Sullivan” Office of the Comptroller of the Currency

“Thompson” American Bankers Association

Bahamas Interviewees

“Adams” Attorney; Bahamian

“Bould” Central Banker, Banking Supervision
Department; Bahamian

“Campbell” Banker, Bank of America; Chairman of
Association of International Banks and Trust
Companies; Expat

“Dixon” Attorney; Former Politician (UBP); Bahamian

“Henderson” Department of Tourism, Research Department;
Expat

“Jennings” Banker, European Bank and Trust; Expat

“Manley” Attorney; Politician (Independent); Bahamian

“Nicholas” Banker, Coutts and Co.; Bahamian

“Peterson” Attorney; Former Attorney General; Bahamian

“Pyle” Internal Revenue Service (IRS) Attache, US
Embassy

“Rice” Banker, MeesPierson (Bahamas); Expat

“Schmidt” Banker, NordFinanz Bank Zurich; Expat

“Smart” Bahamas Investment Authority; Bahamian

“Talbot” Attorney; Politician (FNM); Minister of
Planning; Former Central Bank Governor;
Bahamian

“Williams” Banker, Canadian Imperial Bank of
Commerce; Expat

[Type text]

| | |
|------------------------|---|
| “Williamson” | Banker, Swiss Bank Corporation; Expat |
| “Wright” | Banker, Lloyds Bank International; Expat |
| “Young” | Former Executive Director of Financial Services Secretariat; Bahamian |
| Adderley, Paul | Attorney; Politician (PLP); Former Attorney General; Bahamian |
| Pindling, Lynden (Sir) | Attorney; Politician (PLP); Former Prime Minister; Leader of the Opposition; Bahamian |
| Smith, James | Central Bank Governor; Bahamian |

Cayman Interviewees

| | |
|----------|---|
| “Black” | Banker, Givens Hall Bank and Trust; Expat |
| “Brown” | Banker, Canadian Imperial Bank of Commerce, President - Cayman Islands Bankers Association; Expat |
| “Carver” | Banker, Cayman International Trust Company; Expat |
| “Davies” | Attorney, Politician, Former Financial Secretary (1965-82); Caymanian |
| “Dean” | Attorney, Maples and Calder; Expat |
| “Fry” | Inspector of Financial Services, Financial Services Supervision Department; Caymanian |
| “Green” | Banker, Midland Bank Trust Corporation; Expat |
| “Hanson” | Chamber of Commerce; Caymanian |
| “Harris” | Banker, Bank of Nova Scotia; Expat |
| “Howe” | Banker, Bank of Butterfield International; Expat |
| “Jones” | Unicorp Bank and Trust Company; Expat |

[Type text]

| | |
|------------|--|
| “Lonsdale” | Attorney, Paget-Brown and Partners; Expat |
| “Morton” | Minister of Tourism; Former Financial Secretary (1982-91); Caymanian |
| “Neill” | Banker, ATC Trustees; Expat |
| “Price” | Banker, Eurobank Corporation; Expat |
| “Simpson” | Banker, Cayman National Bank; Caymanian |
| “Wood” | Attorney, W.S. Walker; Expat |
| “Taylor” | Banker, Morgan Grenfell; Expat |

[Type text]

Appendix B: Development of ideas

THE CAYMAN ISLANDS: QUESTIONNAIRES

(Please write your responses in the spaces below the questions. If you wish to write more, please attach other sheets. If you feel any questions do not apply to your company/ group, feel free to miss them out.)

1a) How long has your company/ group (or its predecessors) had a presence in Cayman?

1b) What is the nature of your company's/ group's presence in Cayman? (branch, subsidiary, partnership etc.)

1c) In which city and country is your company's/ group's headquarters located?

1d) What level of management is represented in your company's/ group's Cayman office?

2a) What benefits do you feel your company/ group gains by locating in Cayman? (Staffing, tax regime, regulations, costs, market access, communications etc.)
(List as many benefits as you wish)

2b) What problems/ difficulties/ hidden costs do you feel your company/ group encounters by locating in Cayman? (Staffing, market access, communications, regulations etc.)
(List as many as you wish)

3a) Has your company/ group (or its predecessors) ever had a presence in Nassau? If so, when?
(If your response is no, proceed to question 4a)

3b) What benefits do you feel your company/ group (or its predecessors) gained/ gains by locating in Nassau? (Staffing, tax regime, regulations,

[Type text]

costs, market access, communications etc.) (*List as many benefits as you wish*)

3c) What problems/ difficulties/ hidden costs do you feel your company/ group (or its predecessors) encountered/ encounters by locating in Nassau? (Staffing, market access, communications, regulations etc.) (*List as many as you wish*)

4a) Can you indicate whether your company/ group (or its predecessors) has ever considered expanding, contracting, or closing, its Cayman operations? If so, please indicate when and why.

4b) Can you indicate whether your company/ group has ever considered relocating elsewhere? If so, when was this, why, and what alternative location(s) were considered?

5) What do you consider as the most important episodes/ events in the development of Cayman as an offshore financial centre? All types of events may be included: local, regional, international, economic, political, legislative, social etc.

6) What are the main fields of your company's/ group's business in Cayman? (Eurocurrency markets; international private banking; trusts; company incorporation and management; other)

Once again, thank you very much for your time and assistance.

Would you be prepared to take part in a follow up interview when I visit Cayman in July/ August/ September 1994?

If so please indicate the name of your company below. This will not affect the confidentiality of the above replies. However, if you wish this section may be detached and returned separately.

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1) Economic and social development of micro-states

- limitations and options for development, tourism and finance
- offshore financial activity as a development option
- decisions and decision-makers
- impacts, benefits and problems of being an offshore financial centre
- labour costs, quality, availability, gender and race issues
- trickle down?

2) Internal relations between finance and government

- links between government and finance
- directionality and strength of influences
- local or metropolitan government

3) Clients, products, activities, business services

- who are the clients, what are the products, how and why have these changed over time, what business services are available
- different types of business, different regulations, different impacts, different US attitudes etc. etc.

4) International regulatory environment

- development of BIS, Offshore Group of Banking Supervision, Financial Action Task Force
- agreements, influential decision-makers
- power of international regulations
- impact of international regulations, and changes over time

5) Information-technology

- implementation decisions by whom, introduction of what when?
- which technologies: fax, SWIFT, satellite, optic fibre, direct dialling?
- impacts

6) The influence of the USA

- influence and actions of USA
- attitudes, actions, motivations, impacts
- any change in attitude, actions, impacts
- influence of International Banking Act, IBFs, money-laundering, drugs, money supply issues, Mutual Legal Assistance Treaties, CBI

[Type text]

7) Bahamas and Caymans actions and interactions

- differences in political status, and impacts of this
- competition: with each other, and elsewhere; in what respects (fees, costs, work permits, minimum paid-up-capital, secrecy etc.); evidence
- co-operation: with each other, and elsewhere; in what respects (supervision, regulation, information-sharing etc.); evidence

8) Representations of the Bahamas and Caymans

- images, produced by whom for whom, saying what, PR and marketing
- locally produced images
- externally produced images eg. from USA
- contested images
- complexity of competition, country risk and stability

CARIBBEAN QUESTIONS

OFCs development and internal issues

Why were OFCs set up, from local point of view?

What circumstances favoured the setting up of an OFC?

Whose idea/decision was it to set up an OFC?

Was/is there any opposition to the OFC development?

Has OFC development been a successful strategy?

What are the benefits of hosting an OFC? Who benefits from hosting an OFC?

What are the problems of hosting an OFC? Who suffers the problems of hosting an OFC?

How would you describe the relationship between the financial sector and government?

Has this relationship changed over time?

What is the relationship between regulators and promoters? Are they the same people?

Activities of FINCOCO in Cayman? and Bahamas equivalent?

Customers, activities

Why do customers/banks choose to use the OFC?

How does the quantity, quality, cost of labour in the OFCs affect their development?

How does the cost of living in the OFCs affect their development and the banks?

What were/are the main business activities of the OFC?

Has the mix of activities and entities changed over time? Why?

Who are the main customers (and banks), what types of actors, and where from?

Has the mix of customers (and banks), types and origins, changed over time? Why?

Why do so many banks bother having a physical presence?

Are there any differences between having a branch/agency or a subsidiary?

Bahamas-Caymans interactions

What are the differences between the Bahamas and Caymans?

How would you describe the relationship between the Bahamas and the Caymans?

Has the nature of this relationship changed over time? If so, in what ways, and why?

In what ways did/do the Bahamas/Cayman compete with each other?

Has there been any change in the type or intensity of competition?

[Type text]

Is there any evidence of competitive de-regulation (secrecy laws, revisions of law, fees, taxes, work permits)?
In what ways did/do the Bahamas/Cayman cooperate with each other?
Has there been any change in the type or intensity of cooperation?
Did the Bahamas/Caymans ever cooperate, perhaps in other settings (Commonwealth) to prevent US incursions on sovereignty?
Why did Cayman opt to remain British?
Does/did their differing political status have any impact on their development as OFCs? (Pros and cons)
What was the impact of the Bahamas gaining independence?
What was the impact of the policy of Bahamianization?
What was the impact of the allegations surrounding PM Pindling?
How would you describe the importance of the image of the Bahamas/Caymans in its development?
Has the importance of the image changed over time? Why?
What image does/did the Bahamas/Caymans portray? Why?
Does/did the Bahamas/Cayman ever compare itself directly with the Bahamas/Caymans? In what respects?
Do the Bahamas/Caymans have any other competitors in the Caribbean?

US attitudes, actions

What is/was the US attitude to OFCs?
How would you describe the relationship between the Bahamas/Caymans and the USA?
Has this relationship changed over time?
Why did US attitudes and actions change?
What issues did the Castle Bank affair raise?
What impacts did the Castle Bank affair have?
Why were IBFs set up (business or law enforcement)?
What has the impact of the IBFs been?
Why has the impact on OFCs been less than expected (by US commentators)?
What issues did the Bank of Nova Scotia affair raise?
What impacts did the Bank of Nova Scotia affair have?
Why were MLATs developed, from US and Caymans/Bahamas point of view?
What has the impact of MLATs been?
Why did the Bahamas sign an MLAT only in 1989 whereas Cayman did in 1986?
Did Cayman have any say in the negotiation of its MLAT?
Why were the Bahamas excluded from the CBI, and from tax exemption on conference bookings?

[Type text]

International regulatory environment

How has de-regulation in other markets eg. USA, Japan, UK, affected the Bahamas/Cayman (volume, type, origins, motives of business)?

How has the international regulatory environment developed in the last 25 years?

Why have changes taken place in international regulation? (competitiveness or safety)

What impact have international regulatory developments had on the Bahamas/Cayman?

Does the Bahamas/Caymans get any say in the international regulatory fora?

How would you describe the role and power of the BIS? Benefits and limitations?

How would you describe the role and power of the FATF/CATF?

Information technology

How have developments in information technology and telecommunications affected the Bahamas/Cayman as an OFC?

Have they affected quantity, types, origins of business?

Are the telecommunications and info-tech facilities in the OFCs adequate?

[Type text]

CARIBBEAN CONJECTURES: PRELIMINARY SURVEY

This preliminary survey deals with a number of issues that I am interested in. The purpose of it is to establish what topics you are interested in, and have something to say about, before the interview, so that the interview will be as productive as possible. Thus I am not seeking "correct" answers but opinions.

For each pair of statements please indicate which of the statements you are most in agreement with by ticking the statement. If neither of the statements adequately summarize your opinion, or if you feel there is more to say, please star the statement and we will discuss it in interview. This may be the case, especially, for statements that say "CHANGES?", where you may feel the truth of the statements has changed significantly over time.

You should also feel free to add any comments, clarifications, or criticisms, and omit any statements which you do not wish to offer an opinion for. Completing this survey should take no more than 15 minutes, and all responses will be treated confidentially.

A) Business, activities, customers, and general

1) Business activities (CHANGES?)

a) The main activity of the offshore financial centre is wholesale banking.

b) The main activity of the offshore financial centre is private banking.

2) Ownership of financial firms (CHANGES?)

a) Most of the firms in the offshore financial sector are North American owned.

b) Few of the firms in the offshore financial sector are North American owned.

3) Customers and users (CHANGES?)

a) Few of the users of the offshore financial centre are North Americans.

b) Most of the users of the offshore financial centre are North Americans.

4) Type of presence

a) There are significant differences between having a branch/agency or a subsidiary presence in an offshore financial centre.

b) There is no significant difference between having a branch/agency or a subsidiary presence in an offshore financial centre.

5) Communications and telecommunications

a) The communications and telecommunications facilities in the Bahamas/Caymans are perfectly adequate for the financial sector.

b) The communications and telecommunications facilities in the Bahamas/Caymans are limited.

6) Staffing

a) The financial sector in the Bahamas/Caymans does not face any staffing problems in terms of quantity, quality, and costs of staff.

[Type text]

b) The financial sector in the Bahamas/Caymans faces significant problems in terms of quantity, quality, and costs of staff.

7) Living costs

a) The cost of living in the Bahamas/Caymans has been problematic for the development of the offshore financial centre.

b) The cost of living in the Bahamas/Caymans has not been problematic for the development of the offshore financial centre.

B) International regulatory environment

1) De-regulation in other markets

a) The trend of de-regulation in other market centres, such as London and New York, has greatly affected the offshore financial centres.

b) The trend of de-regulation in other market centres, such as London and New York, has not greatly affected the offshore financial centres.

2) International regulation and supervision

a) The motive for increased international regulation and supervision has been to “level the playing field” to allow more perfect competition.

b) The motive for increased international regulation and supervision has been one of safety and the stability of the international financial system.

3) Offshore financial centres input

a) The offshore financial centres have significant influence in the formulation of international regulation and supervision.

b) The offshore financial centres have little say in the formulation of international regulation and supervision.

4) Impact of international regulation and supervision

a) The offshore financial centres have been greatly affected by developments in international regulation and supervision such as the Basle agreement.

b) The offshore financial centres have not been greatly affected by developments in international regulation and supervision such as the Basle agreement.

C) USA attitudes and actions

1) Impact of the USA

a) The actions of the USA (Depts. and agencies) have a major impact on the development of the offshore financial centres.

b) The actions of the USA (Depts. and agencies) have little impact on the development of the offshore financial centres.

[Type text]

2) Attitudes of the USA (CHANGES?)

- a) The USA is generally supportive of the offshore financial centres development.
- b) The USA is generally opposed to the offshore financial centres development.

3) Castle Bank affair

- a) The Castle bank affair was not important in the development of offshore financial centres.
- b) The Castle bank affair raised important issues and had a significant impact on the offshore financial centres.

4) Development of US International Banking Facilities

- a) International Banking Facilities were set up in the USA for purely business reasons.
- b) International Banking Facilities were set up in the USA for regulatory and enforcement reasons.

5) Impact of US International Banking Facilities

- a) International Banking Facilities have significantly reduced the business of offshore financial centres.
- b) International Banking Facilities have had little impact on the offshore financial centres.

6) Bank of Nova Scotia affair

- a) The Bank of Nova Scotia affair raised important issues and had a significant impact on the offshore financial centres.
- b) The Bank of Nova Scotia affair was not important in the development of offshore financial centres.

7) Development of MLATs

- a) The offshore financial centres wanted MLATs and were happy to develop them.
- b) The offshore financial centres were pressured into signing MLATs by the USA.

8) Success of MLATs

- a) The MLATs have been successful and unproblematic.
- b) The MLATs have been problematic and unsuccessful.

9) Impact of MLATs

- a) The MLATs have had an adverse impact on the offshore financial centres.
- b) The MLATs have had a beneficial impact on the offshore financial centres.

10) BCCI affair

[Type text]

- a) The BCCI affair has had a major impact on offshore financial centres.
- b) The BCCI affair has had little impact on offshore financial centres.

D) Bahamas-Caymans interactions

1) Bahamas-Caymans differences (CHANGES?)

- a) There are no significant differences between the Bahamas and the Caymans as offshore financial centres.
- b) There are significant differences between the Bahamas and the Caymans as offshore financial centres.

2) Bahamas-Caymans relations (CHANGES?)

- a) The relationship between the Bahamas and the Caymans is one of all out competition.
- b) The relationship between the Bahamas and the Caymans is one of friendly rivalry with cooperation in some areas.

3) Bahamas-Caymans competition (CHANGES?)

- a) The Bahamas and the Caymans compete mainly in terms of costs or price.
- b) The Bahamas and the Caymans compete mainly in terms of service, quality, reliability, and reputation.

4) Bahamas-Caymans cooperation (CHANGES?)

- a) The Bahamas and Caymans cooperate with each other extensively on issues of money laundering and financial crime.
- b) The Bahamas and Caymans do not cooperate with each other on issues of money laundering and financial crime.

5) Bahamas and Caymans political status

- a) The different political status of the Bahamas and the Caymans is not a significant factor in their development as offshore financial centres.
- b) The different political status of the Bahamas and the Caymans is a significant factor in their development as offshore financial centres

6) Political stability

- a) The Bahamas/(Caymans) offshore financial centre has suffered from political instability in the Bahamas/(Caymans).
- b) The Bahamas/(Caymans) offshore financial centre has benefited from political stability in the Bahamas/(Caymans).

7) Bahamas independence

[Type text]

a) The gaining of independence by the Bahamas was beneficial for the development of an offshore financial centre in the Bahamas (Caymans).

b) The gaining of independence by the Bahamas was problematic for the development of an offshore financial centre in the Bahamas (Caymans).

8) Bahamianization

a) The policy of Bahamianization was harmful for the development of an offshore financial centre in the Bahamas (Caymans).

b) The policy of Bahamianization was not harmful for the development of an offshore financial centre in the Bahamas (Caymans).

9) Prime Minister Pindling

a) The allegations and investigations concerning PM Pindling were not harmful for the Bahamas offshore financial centre in the Bahamas (Caymans).

b) The allegations and investigations concerning PM Pindling were harmful for the Bahamas offshore financial centre in the Bahamas (Caymans).

10) Images and advertizing (CHANGES?)

a) The image of the Bahamas/Caymans is extremely important for their development as offshore financial centres.

b) The image of the Bahamas/Caymans is of little importance for their development as offshore financial centres.

11) Competition from other offshore financial centres

a) The Bahamas/Caymans faces strong competition from other offshore financial centres in the Caribbean. (Other than Bahamas/Caymans)

b) The Bahamas/Caymans offshore financial centre does not have any real competitors in the Caribbean. (Other than Bahamas/Caymans)

E) Development as an offshore financial centre

1) Decision to develop offshore financial centre

a) Development as an offshore financial centre was selected by local elites as a development strategy.

b) Development as an offshore financial centre was suggested by foreign (British, American) elites.

2) Local support for offshore financial centre development

a) Development as an offshore financial centre has been supported by all Bahamians/Caymanians.

b) Development as an offshore financial centre has been opposed by many Bahamians/Caymanians.

[Type text]

3) Success of offshore financial centre development strategy

- a) Development as an offshore financial centre has been a very successful strategy.
- b) Development as an offshore financial centre has resulted in many problems and conflicts.

4) Social distribution of benefits

- a) All Bahamians/Caymanians have benefited from offshore financial centre development.
- b) Only some Bahamians/Caymanians have benefited from offshore financial centre development.

5) Government-Financial sector relations (CHANGES?)

- a) The relationship between the financial sector and the government is one of cooperation with the government sympathetic to the needs of the financial sector.
- b) The relationship between the financial sector and the government is uneasy and unhelpful.

[Type text]

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My story

Promotional issues questions

Bahamas - Cayman competition:

Different emphases?

Cayman more pro-active re. legislation and regulation?

Bahamas more functional and value-added?

Racism and promotion?

Telecomm, and C&W US access to information?

Personalization of Pindling problems

BCCI affair and lucky Bahamas?

Greater dependence on OFC than in Bahamas, therefore more desperate?

Local support and opposition to OFC?

Nature of local politics?

Black ball / white ball issue?

Why did Cayman stay British?

Role of Bank of England in setting up and running OFC?

Dependent territory status - pros and cons?

Does link with UK explain Cayman's faster response to US pressure?

[as opposed to Bahamas]

Cayman - UK link: does it prevent, or make unnecessary, US direct and strong pressure on Cayman?

Relationship with UK and Cayman's input to international treaties?

Treaties as potentially affecting competitiveness?

Rapid Cayman transformation leading to problems?

Problems of dependency on one or two sectors?

Dependence on US - how much?

CURRENT ISSUES 19/7/94

GOVERNMENT - FINANCIAL SECTOR RELATIONS

- 1) *What is the Standing Finance Committee of Legislative Assembly and what does it do?*
- 2) What was FINCOCO, who was involved in it, what superseded it?
- 3) When was Bankers Association Code of Conduct established? What does it say? Get a copy.
- 4) How often does Financial Secretary's private sector advisory committee meet, and who is represented on it?

US ATTITUDES AND ACTIONS

- 1) Does US recognize separateness of 100% owned subsidiaries?
- 2) *What was the Castle Bank Affair in Cayman? What were secrecy laws prior to 1976? - see Paget-Brown '89*
- 3) What was reaction of Cayman and Canadian Governments to BNS affair?
- 4) Did BNS affair make MLAT inevitable?

TAX ISSUES

- 1) What are Cayman tax advantages, assuming full reporting to IRS, for:
 - a) a US bank with a presence here - branch and subsidiary.
 - b) a US citizen with a bank account here.
- 2) If there are no tax advantages, what are benefits of an offshore account?
- 3) What is difference between tax avoidance and evasion?
- 4) If a bank says they will not take a client whose purpose in going offshore is reducing his taxes what is stopping the client saying that his motive is to have an account that his spouse doesn't know of, say, and then not reporting interest income?
- 6) What % of OFC business is tax avoidance and/or evasion?
- 7) When did US tax law begin taxing worldwide income?
- 8) In what way were Cayman tax benefits different prior to taxing on worldwide income?

CAYMAN OFC SET UP AND POLITICAL STATUS

- 1) Were Bahamas Independence problems foreseen when Cayman set up?
- 2) Are there any pro-Independence groups in Cayman?
- 3) Why does UK allow Cayman to stay a colony?
- 4) Why did UN want Cayman to become Independent?

SPECIFIC OR TECHNICAL QUESTIONS

[Type text]

- 1) What would “maintaining capital locally” actually mean?
- 2) What are contributions of tourism to GDP in Cayman and Bahamas?
- 3) How dependent are Cayman and Bahamas on USA? - % of imports from US, % of tourists etc.?

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CURRENT RESEARCH ISSUES 1/8/94

TAX ISSUES

- 1) What were the effects of 1976 and 1986 US tax reforms on potential for legitimate use of Cayman for reducing taxes? Which closed most doors? [1976 Tax Reform Act, "Grantor trust" provision, closed door on tax advantages of trusts for US citizens.]
- 2) What % of OFC business is tax avoidance and/or evasion?
- 3) Why does MLAT specifically exclude tax issues when banks say that they will not knowingly assist in tax evasion? (Public image and reality of Cayman)

CAYMAN OFC SET UP AND POLITICAL STATUS

- 1) Were Bahamas Independence problems foreseen when Cayman set up?
- 2) Why did UN want Cayman to become Independent?
- 3) Does Cayman's UK status scare off Argentinians?

SPECIFIC OR TECHNICAL QUESTIONS

- 1) What are contributions of tourism to GDP in Cayman and Bahamas?
- 2) How dependent are Cayman and Bahamas on USA? - % of imports from US, % of tourists etc.?
- 3) Is there any data on the employment of women in the OFC?

BANKERS ASSOCIATION

- 1) When was Bankers Association Code of Conduct established? What does it say?

INTERBANK / DOUCET

- 1) Was Interbank/Jean Doucet episode important?

BNS AFFAIR

- 1) What was reaction of Cayman, UK, and Canadian Governments, to BNS affair?

BUSINESS ACTIVITY

- 1) Has there been a shift from individual to corporate or the other way around?
- 2) Business types: what, who, where, why, shifts?

8/8/94

MLAT ISSUES

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- 1) Why does MLAT specifically exclude tax issues when banks say that they will not knowingly assist in tax evasion? (Public image and reality of Cayman)
- 2) What was the input of the Cayman financial community to the MLAT development?
- 3) Why does the US not have an MLAT with TCI, Montserrat, Anguilla etc.?
- 4) What was attitude of Bankers Association to MLAT?

CAYMAN OFC SET UP AND POLITICAL STATUS

- 1) Were Bahamas Independence problems foreseen when Cayman set up?
- 2) Why did UN want Cayman to become Independent?
- 3) Does Cayman's UK status scare off Argentinians?

SPECIFIC OR TECHNICAL QUESTIONS

- 1) What are contributions of tourism to GDP in Cayman and Bahamas?
- 2) Is there any data on the employment of women in the OFC?
- 3) Was Cayman part of 1975 and 1983 Basle Concordat, through Bank of England?

BNS AFFAIR

- 1) What was reaction of Cayman, UK, and Canadian Governments, to BNS affair?

BUSINESS ACTIVITY

- 1) Has there been a shift from individual to corporate or the other way around?
- 2) Business types: what, who, where, why, shifts?

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A STORY OF THE DEVELOPMENT OF THE BAHAMAS AND
CAYMAN OFFSHORE FINANCIAL CENTRES 26/6/94

From the mid-1960's both the Bahamas and Cayman, facing limited options for development, increased their efforts to develop as offshore financial centres.

In the late 1960's and early 1970's the two centres competed, with each other and the major financial centres, in terms of cost, price, and the existence of liberal regulatory environments, and grew rapidly.

In the 1970's Cayman benefited from uncertainty about how Bahamian Independence would affect the regulatory and legislative environment in Nassau.

From the late 1970's and early 1980's the USA became increasingly concerned, vocal, and interventionist, about the offshore centres. It was felt that their liberal regulatory environments facilitated money laundering and tax avoidance/ evasion. Therefore increased pressure was put on the offshore centres to reduce or dismantle their secrecy legislation and tighten up their regulatory environments. This trend is illustrated by episodes such as the Castle Bank affair, the development of International Banking Facilities, the Bank of Nova Scotia affair, the NBC allegations concerning the Bahamas Prime Minister, and the development of MLATs.

In this context of increased US and international pressure the offshore centres could no longer compete with each other in terms of liberal regulatory environments, and thus began to emphasize their stability, reputation, quality, and legitimacy.

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