

OFFSHORES AND THEIR RELEVANCE IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT: CONTRADICTIONS

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Abstract. This scientific article explores offshore zones and their types, pros and cons. Also, as attractive features of the offshore zone, it is mentioned that the process of registration of non-residents is simplified, in cases where the personal income tax rates are low, they are paid by non-residents, the confidentiality of the activities of offshore companies is guaranteed, and they are exempted from state control.

Keywords: offshore zones, Andorra, Aruba, Barbados, Malta, Monaco, Brunei, Singapore, tax incentives, tax havens, financial crime.

Introduction

At the current stage, the development of international economic relations is taking place under the influence of globalization processes, which, in particular, is manifested in the increase in the number of subjects of world economic relations, the increase in the intensity of the interaction of economic relations. One of the most important components of the phenomenon of globalization is the global movement of capital. Throughout the economic history of mankind, the movement of capital has played a unifying and internationalizing role.

Offshore is a country or territory with special business conditions for foreign companies. These include low or zero taxes, simple corporate reporting and governance rules, and the ability to hide the true owners of the business. Today, one of the main elements of the world financial system is offshore business in the form of various offshore companies (corporate units, banks specializing in this field) and offshore regimes (special regions, states and various administrative-territorial structures). In the global economy, offshore companies are often considered to be convenient areas for committing crimes and financial crimes, and criminal money laundering, state corruption, and fraud operations are carried out through these areas [1].

About 80 offshore zones operate in the world. 12 of them are located in the British Virgin Islands, 22 in Luxembourg, 13 in Hong Kong, and 5 in the Netherlands. These offshores include Andorra, Aruba, Barbados, Malta, Monaco, Brunei, Singapore, and others.

Although offshores have been used in the world economy for more than 3 centuries, and offshores in modern form have been in operation for more than half a century, they are one of the objects in

the center of discussions. In this respect, in this scientific article, we will explore the specific aspects, positive and negative aspects of offshoring.

literature review

In modern economics, offshore business is a phenomenon of international economic relations, which has not yet been sufficiently studied, and at the same time, a unified scientific theory has not been formulated.

As part of the process of internationalization of capital movement, offshore centers act as a transmission link that accelerates capital circulation internationally and contributes to the optimization of global financial flows.

According to the Cambridge dictionary, offshore is an area located far from or at a distance from the coast, based on the possibility of conducting activities based on the tax jurisdiction of another country [2].

According to Adam Hayes, offshore is a risk reduction tool and the most effective way to reduce costs in business [3].

According to Yuhan Chen Heyun Lin, offshores play an important role in the development of green economy and efficient use of wind and water energy in the conditions of sustainable development. In order to expand the use of wind energy in China, it is recommended to use offshore methods [4].

Daniele Morganti, Petro de Giovanni's research studies 172 European companies and shows that the use of offshoring can save energy, manpower and financial resources [5].

Toru Kikuchi, Ngo Van Long states that offshores should be supported and calculates that the attractiveness of offshores is influenced by privileges and preferences as well as transport and communication infrastructure [6].

According to the arguments put forward by economists such as Joseph Stiglitz, the existence of offshore territories is a global problem. It is assumed that their activity in the world economy is an important factor in the increase of economic crimes.

However, despite the opinions and suggestions of countries and scientists against offshore areas, such areas still operate in the world economy.

Research methodology

In this scientific article, along with theoretical research methods, comparative analysis, analysis and synthesis methods were used in researching the positive and negative situation of offshore areas.

Analysis and results

Modern offshore zones can be divided into 3 types: luxury, classic and others. Regions that are most attractive for business and provide regular reporting and payment of taxes can be called luxury regions. Classic zones are distinguished by the fact that reporting is not established here and taxes are not paid. Offshore areas in the world economy can be divided into 5 groups:

The first group includes the Caribbean. The main advantages of this zone: you can carry out simple transactions, it is not controlled by inspection authorities, it is not subject to reporting and taxation.

All transactions carried out here are completely confidential, and it is not necessary to provide information about the owner of the companies.

The second group includes some islands such as Guernsey, Jersey and Maine. Here, business activities can be carried out in the same way, without reporting and paying taxes. When registering a company, certain information about the owners must be provided.

The third group includes Gibraltar and Cyprus, where certain small tax payments are established. The activities of companies in these areas are subject to mandatory audit. Although starting a business in this zone requires a large amount of capital, these zones are prestigious and popular among businessmen.

The fourth group includes Luxembourg and Switzerland. Some tax burdens are also established here, which can be used for benefits under certain conditions. These offshore zones are also very popular among businessmen of the CIS countries.

The fifth group includes some Asian countries: Singapore, Malaysia and Hong Kong. Registration in this zone and providing information about the owner of the company is also required. Business activities of companies are subject to mandatory audit. Malaysia has a 3 percent tax, while Hong Kong and Singapore have no tax obligation [7].

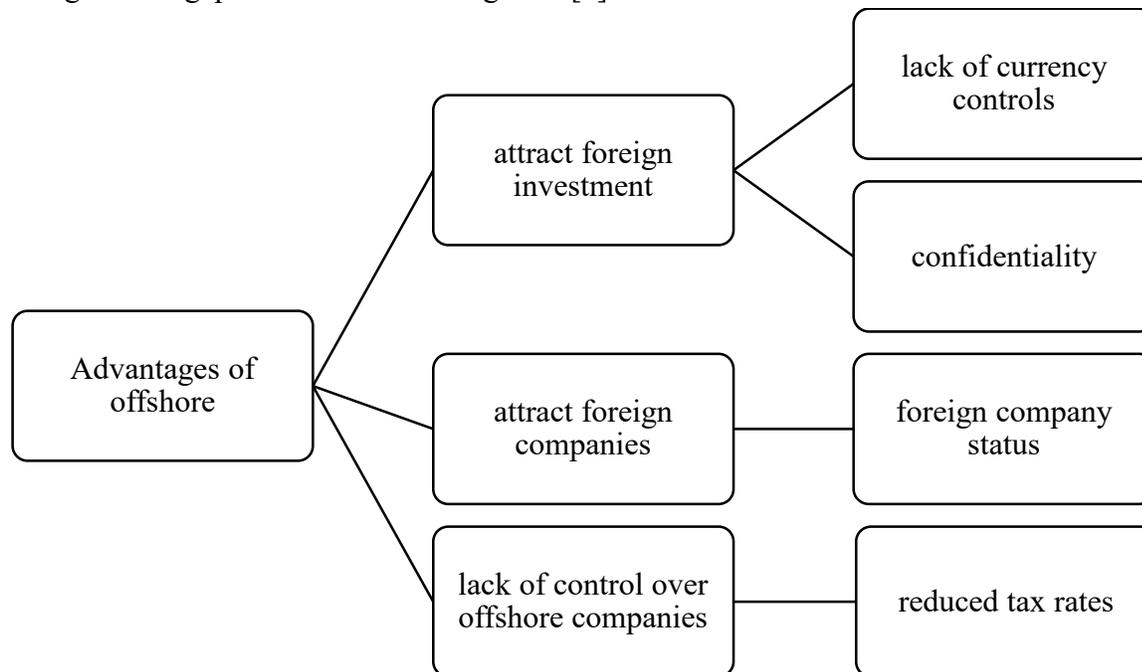


Figure 1. Advantages of offshore [8]

As we have seen above, most scientists talk about the convenience of offshores, citing that it is a convenient space for the use of green technologies in the context of sustainable development. Including:

- Low or zero taxes offshore. One of the most important and popular reasons to offshore your assets, whether personal finance or company corporate accounts, is the absence or reduced taxes in offshore locations. They are also referred to as low tax jurisdictions. This allows to optimize

costs and reduce the tax burden. But on the one hand, this will be legal optimization, on the other hand, tax evasion.

- There is still a relatively high level of secrecy offshore. Privacy is another important reason why our global companies and wealthy individuals choose to offshore. They are used in asset protection and privacy system. Since many offshore companies do not have a register of directors and beneficiaries, some degree of protection of personal information, transaction information, etc. can be achieved. In 2013, pressure from major powers forced some offshore companies to compromise their principles. But, despite this, schemes using offshore companies, trusts, funds and other structures are still one of the most reliable in terms of information storage.

- Speed and ease of offshore company registration. It is possible to open or close a company offshore in 1 day.

- Possibility to open a currency account in any country. Once you create a company offshore, you don't need to create an account here. Your working account can be located in any country in the world and you can accept payments in the currency of your choice.

- Lack of offshore reporting. One of the causes of problems in the company is in the accounting department. The difference between many offshore companies is that there is a simplified form of submitting financial statements or it is not necessary to submit it at all, it is limited to paying an annual fee and keeping accounting records in a place known to the registrar [9].

But not all international organizations and integrations positively evaluate the activities of offshore companies. They usually cite the following aspects as negative and dangerous aspects of offshoring for the economy:

Differences in legislation. You cannot go offshore and work under the standard rules for your country. Each state and jurisdiction has its own laws that are unique and suited to specific business objectives. Somewhere it is more profitable to create a company with transportation, somewhere it is more profitable to open an insurance business, and somewhere it is most convenient to protect your personal assets.

Company audit. For example, in Singapore and Hong Kong, you will need to audit your company once a year and use the services of local experts and companies for this.

Only a foreigner can be the owner of an offshore company.

The activity is only offshore. The meaning of all offshore companies is that there is a base in the jurisdiction, but all active activities (services, trade) are carried out outside the country. This means that you cannot work in this country.

Absence of inspections and reports offshore. Usually, a company registering in offshore areas pays one-time or annual fees. Absence of offshore reports leads to the development of illegal business, illegal circulation of money transfers (Table 1).

Table 1. Advantages and disadvantages of offshore areas

Positive aspects of offshore	Disadvantages of offshoring
Low or zero taxes offshore. There is still a relatively high level of secrecy offshore.	Differences in legislation. Company audit.

<p>Speed and ease of registering companies offshore. Absence of offshore inspections and reports</p>	<p>Only a foreigner can be the owner of an offshore company. The activity is only offshore. Absence of inspections and reports offshore. The majority of financial crimes occur offshore due to the fact that most of the countries in the world economy apply prohibitions against them.</p>
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The attractive features of the offshore zone include:

the process of registration of non-residents is simplified and accelerated, in which a simple symbolic amount is paid (for example, in Panama, it is not necessary to indicate the founders of the company, a small amount is paid for annual re-registration) (Fig. 1);
paid by a non-resident in cases where personal income tax rates are low;
the confidentiality of offshore companies' activities is guaranteed, they are exempted from state control [10].

In order to protect national business, offshore companies are prohibited from engaging in any business activities in the offshore territory itself. The main income of the offshore zone comes from registration and re-registration fees, tax revenues, service costs of offshore companies on their permanent missions (secretariat offices). For office workers, these include: building rent, communication, electricity, accommodation and meals, transport, rest, wages and some social payments (for example, medical payments, etc.).

In many offshore areas, local residents are required to be employed in the secretarial office, thereby solving the employment problem. Imported equipment, vehicles and materials for companies are exempt from customs duties. The number of non-resident companies registered in one offshore can reach several tens of thousands.

Companies operating in offshore zones are mainly representatives of medium or large enterprises. It is very expensive for small businesses to register and maintain offshore companies, so they get more benefits to organize activities in their home countries. Offshore zones are a sub-system of service zones of special economic zones.

Classic offshore zones differ from classic EIH in the following ways:

Activities can be carried out in the EEA, but not offshore;

It is possible to obtain resident status in the EU, but is registered as a non-resident offshore;

in offshores, it is enough to pay an annual fee regardless of the scale of operations, while in SEZ they still pay all taxes and fees, that is, there is a relationship between the economic performance of companies and the taxes paid [11].

The difference between average taxation and classic offshore countries is as follows:

Low-tax countries are usually more transparent than classic offshore companies (they pay little attention to secrecy, financial irregularities, etc.);

Low-tax countries often sign bilateral agreements to avoid double taxation, so there are no classic offshore companies.

Distinctive features:

moderate-tax countries - the practice of many developed countries, in which high-tax, preferential tax regimes apply to a number of activities (so-called onshore and offshore countries);

tax area (classic offshore) — preferential taxation for foreign non-resident companies that have to conduct their business offshore (a feature of classic offshore companies);

Tax havens are internal offshores that provide preferential treatment for companies that must conduct their business within the territory of the country. Often used by companies in a country with tax optimization.

Tax havens are small countries and regions that have a policy of attracting foreign loans by giving tax and other incentives. Typically, these are small European states, developing countries, or self-governing territories separated from developed countries. The same conditions exist in free economic zones created to attract foreign investments, as well as in certain administrative structures with the characteristics of tax administrations. Sometimes the reduction in taxation is applied only to certain types of income. Luxembourg has a preferential tax regime for banks; in Switzerland and Liechtenstein - for holding, intermediary and trading companies; There is no income tax in the Bahamas.

Unlike offshore tax incentives in tax systems, not only foreign, but also local companies are expanding. There are taxpayers in Panama, Costa Rica, Liberia, Bermuda, Cayman Islands, Bahamas and many others. There are more than 70 tax havens in the world. The process of registration in tax systems is simplified as much as possible: the minimum amount of the authorized capital is usually not specified, the identities of the owners of the companies are not disclosed. In some tax bases, it is possible to not disclose the name of the owners of the property, as well as the ability to issue shares of the carrier.

Table 2. The most popular and dangerous offshore

The most popular offshore zones	Dangerous offshores
Belize, British Virgin Islands, Seychelles, Marshall Islands, Nevis, Singapore, Cayman Islands, Panama, Cyprus, Gibraltar, Canada, Serbia, Anguilla, Estonia, Bahamas, Labuan [12]	Cyprus, Malta, Hong Kong, Antilles

Although offshore areas are often criticized for their role in financial crime, they continue to thrive due to the ease of setting up a company and the lack of excessive bureaucracy. For example, it became known that 437,000 companies were registered in the British Virgin Islands, 123,000 in the Bahamas, and more than 20,000 in the Antilles. For comparison, it should be said that the number of enterprises and organizations operating in Uzbekistan is 28,827 according to the data of 2022 [13].

Entrepreneurs of Uzbekistan also have economic and financial relations with offshore zones. For this reason, the state has created legal bases for the implementation of currency operations through offshore zones.

In particular, amendments and additions were made to the "Regulation on the procedure for monitoring the validity of currency transactions by legal entities and individuals". It included American Samoa, Aruba, Guatemala, Dominica, Kiribati, Monaco, Norman Alderney Island, Pitcairn, San Marino, Saint Maarten (Sint Maarten), Uruguay and the Philippines.

A total of 69 regions are listed.

In addition, the tax authorities that receive information from bank branches and regional offices of the customs service were specified - regional state tax offices and the interregional state tax inspectorate for large taxpayers.

With the document, one of the criteria - the amount of money transfer by a resident-natural person to the account sheet of natural persons abroad was corrected. If the amount of the transfer exceeds 100 million soums during one calendar year (previously - equivalent to 10 thousand dollars), banks must report [14].

Conclusions and recommendations

As a result of the conducted research, the following conclusions and proposals were formed:

Offshore zones have a favorable business environment, and tax incentives and zero-rate application of taxes are the attractiveness of these areas. For this reason, most of the large multinational corporations are registered in offshore zones;

Registration in offshore zones allows companies to reduce tax and other financial costs;

Offshore zones have more positive aspects than negative aspects. In particular, they are a source of income for small islands, accelerate the circulation of money in international financial relations, play an important role in maintaining the ecosystem of the offshore area under conditions of sustainable development;

Offshore areas also have harmful aspects for the economy of other countries. For example, it causes large tax-paying companies to leave the country, and it becomes difficult to control international currency transactions.

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