10. Poverty in Paradise

The so-called "Paradise papers" revealed the vast scope of some small tropical nations roll in international money laundering and tax evasion. The impact of these tax havens includes funding terrorist violence, drug dealing, government corruption, etc. However, these small, generally poor nations find these banking practices useful for luring lucrative investments. France has publicly called for tax haven nations to be cut off from financial development and humanitarian support.

In 2016 the world's wealthiest nations spent 142.6 billion dollars in development aid. Aid includes refugee resettlement, grants, grant-assisted loans, and the provision of technical assistance to nations with per-capita yearly incomes under 12,000 dollars. These programs aim to ease the pains of colonialism, alleviate poverty, and, provide for economic growth. However, development aid still represents an average of less than .4% of Development Assistance Committee member countries gross national incomes. [48]

Despite development aid in the hundreds of billions, a recent analysis of net resource transfers between wealthy and poor nations shows there is an imbalance favoring the wealthy. According to the report from US-based Global Financial Integrity (GFI) and the Norwegian School of Economics "developing countries have effectively served as net-creditors to the rest of the world."[49] The Guardian reports "The usual development narrative has it backwards. Aid is effectively flowing in reverse. Rich countries aren't developing poor countries; poor countries are developing rich ones."[50]

Capital outflow from developing countries is complex but according to the GFI report consists primarily of three dominant streams of loss. First, development loans need to be repaid with interest—these payments have totaled more than $4.2tn since 1980. Second, resource extraction from developing nations in the form of copper, gold, diamonds, oil, etc. provides benefits primarily for corporations in developed nations. Finally, earnings in developed nations are regularly siphoned off through false invoicing to evade taxation and housed in tax haven countries. This sheltering of earnings reportedly costs developing nations trillions of dollars per year—many times the amount of foreign aid.

In the context of rampant poverty, limited development aid, and, widespread capital flight many nations have found control over domestic tax laws to be a lucrative opportunity. Small nations like Panama, the Bahamas, the Cayman Islands and protectorates like the British Virgin Islands, the Isle of Man, and Guam have little control over global financing. However, these states can legally control their domestic tax policy and often do so in ways that are beneficial to foreigners.

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[48] Organization for Economic Cooperation and Development (2018), Net ODA (indicator). https://doi.org/10.1787/33346549-en

[49] "New Report on Unrecorded Capital Flight Finds Developing Countries are Net-Creditors to the Rest of the World", Global Financial Integrity; December 5th, 2016 http://www.gfintegrity.org/press-release/new-report-on-unrecorded-capital-flight-finds-developing-countries-are-net-creditors-to-the-rest-of-the-world/

[50] Jason Hickel, "Aid in reverse: how poor countries develop rich countries." The Guardian, Jan 14, 2017 https://www.theguardian.com/global-development-professionals-network/2017/jan/14/aid-in-reverse-how-poor-countries-develop-rich-countries

This allows wealthy individuals and companies to avoid higher tax rates at home and provides a much need resource for such nations.