

Decoding the patterns of spiderweb capitalism

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Dr Kimberly Kay Hoang, the Director of Global Studies at the University of Chicago's Department of Sociology, reflects on 'spiderweb capitalism' and her efforts to unravel opaque financial networks worldwide

I am a sociologist interested in deal-making in emerging and frontier markets. I use ethnographic and interview methods to examine highly risky, corrupt markets with no clear rule of law. Introducing the concept of 'spiderweb capitalism,' I build on the work of network scholars by exploring the substantive material that flows between two nodes in a network and by uncovering how totally disparate networks are connected. This is especially important in new frontiers where relationships with state officials are crucial to getting insider access to the most lucrative deals and securing profitable exit opportunities.

To examine this concept, I turn to two new frontiers in Southeast Asia – Vietnam and Myanmar. This is a region where China and the United States have been competing for influence. The data collected for my book *Spiderweb Capitalism* maps out a worldwide network of ultra-high and high-net-worth individuals.

Spiderweb capitalism and financial webs

Spiderweb Capitalism tells a story about massive financial webs built by social spiders who move money across borders, shift legal geographies through offshore vehicles, build relationships with political elites, and make money by playing in the world's legal, financial, and political gray zones. I traveled over 350,000 miles tracing the ownership of global capital by Chinese, Middle Eastern, Russian, and Western elites held in offshore accounts like the British Virgin Islands Seychelles, Singapore, and Hong Kong before those funds were invested 'onshore' in Vietnam and Myanmar. This took me to remote corners of the world like military-controlled zones not marked on maps. In addition, I interviewed over three hundred people to trace a set of patterns and practices for how people broker deals.

The investment deals that I studied range from \$200K to 450m dollars and represent very diverse sectors of the economy, everything from real estate and mining to manufacturing and technology. For those interested in the methods, I would be happy to talk more deeply in the Q&A about how I got permission from various countries to enter for research and how my subject position shaped my access to these different sites.

The common set of patterns among the interview data I gathered

Meet Will, a 42-year-old Vietnamese German who spent many years working in private banking for Lehman Brothers in London before the firm's collapse in 2008. He now runs a 'family office' based in Singapore with a set-up fund to make investments in Southeast Asia. They have \$100m in assets under management and make investments in very diverse sectors of the economy. This is because access to deals has far more to do with who you know than strategic know-how in any one sector of the economy.

Will explained that each investment operates from a separate holding company, and he lost count of the offshore structures he controlled. This is to create a legal firewall between each investment to protect all the other assets offshore; in crony capitalist states, there was a great deal of concern that local governments might arbitrarily intervene in their business affairs.

Will was fully aware that his local partners in Vietnam had to pay out bribes to manage their investments onshore, but he paid no heed to that activity where he sat in Singapore. During our interview, Will explained that none of his firm's activities have appeared in the 2016 Panama Papers leak. What did appear was a 'foundation' created by his local partners in Vietnam to bribe local government officials. The whole thing was 'gray,' Will explained because while they were making highly impactful investments to support women's education and human capital development in Vietnam, it was unclear how much was siphoned off the top of that offshore account. Everyone, he explained, was looking for that sweet spot where the investments were generating reasonable returns on their investments despite what was siphoned off the top.

The investment vehicle was set up for the local partners to manage their relationships with local political officials. On the ground, their primary undertaking is to master the art of 'playing in the gray.' This involves exploiting the space between what's legal and illegal. In transitional local economies like Vietnam and Myanmar, relational work with public administration officials is vital because tax laws are not uniformly enforced, and each bureaucrat handles the distribution of licenses and permits differently. However, investors worldwide are constrained by the different laws around bribery (such as the US Foreign Corrupt Practices Act) that govern their activities abroad.

Give global capital a face

My goal as a sociologist is to give global capital a face by showing how real people construct financial webs in new frontiers where profit-making is messy, irrational, and unpredictable but inherently relational. Spiderweb capitalism isn't only happening 'over there' in small countries and economies like Vietnam and Myanmar. As I pressed interviewees on their offshore structures, they commonly took pains to impress one fact: 'The biggest gangsters on the block are in the United States.' Playing in the gray goes to the top in the US, with former President Donald J. Trump's attorney, Michael Cohen, using a shell company registered in Delaware to receive payments from a firm linked to a Russian oligarch. He chose well, as Delaware is an exemplary case of blurring the boundaries between legal and licit and illegal and illicit.

Spiderweb Capitalism is but a first step in exposing and unraveling these opaque financial webs – a crucial endeavor if we are to disrupt the fiscal predators so heavily invested in ensnaring and draining resources from governments, corporations, and individuals alike. For the prey to fight back, we must become able to spot predatory traps.

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