Jeju Island's Initiative to Construct an Offshore Financial Center

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<ABSTRACT>

Jeju Island is pushing for an OFC as an alternative industry strategy for the long term growth of the economy. It also fits perfectly into the vision of a free international city and is expected to help Jeju tourism turn from the low value industry to the high value industry. OFCs now have been growing from a remote place in the world where small scale financial activities used to be made to a central place which plays the role of major international financial hubs. Jeju already started the OFC business by accepting the ship registration in 2002. Most of the major cities in the Northeast Asia will be benefited from the success of Jeju offshore financial Center(JOFC) through its support function. Three policy directions for the successful OFC are suggested.

JEL classification : F02, G15, O16

Key words : free international city, offshore financial center, ship registration, tax competition.

Ⅰ. Background

Jeju established the vision of a free international city, eying for the free flow of people, capital and products in 2002. The vision came out of a long term sustainable development strategy for a tourist resort island to capitalize on the geopolitical advantage, located at the center of the Northeast Asia, and a clean natural environment. Jeju has tried to develop an internationally competitive tourism industry since the early 1960s, but attained a very limited success. Especially Jeju has continued to lose competitiveness compared to the low cost resorts in China and the Southeast Asia.

In order to carry out this vision a special act was introduced by the Korean Parliament in 2002. Various schemes were devised to exempt or lower tax for the foreign capital participating in the development projects and to allow foreigners to visit the island for a certain period without visa. In 2006 the act was reinforced as the Jeju Special Self Governing Province Act to give more legislative power to the local government. Many licensing authorities and organizations of the central government were delegated to the local government.

On the other hand Jeju economy has continued to show a stagnation since the Asian crisis. When we compare the annual growth rate of per capita GRDP(Gross Regional Domestic Product) of Jeju with the national average, the annual growth rates have been continuously below the national average since 1996 as shown in 〈Table-1〉. Per capita GRDP of Jeju measured in the current price remained at 78.2% of the national average in 2006. This stagnation has largely been due to the sluggish growth of the Jeju traditional industries-tourism and orange growing. Kang(2000) noted that Jeju economy was experiencing not only the growth stagnation but higher volatility at the same time since the financial crisis.

<Table-1> Comparison of per capita GRDP growth rates (1985-2006)

unit: thousand won, %

	1985	1991	annual growth avg.. (85-91)(%)	1996	annual growth avg.. (91-96) (%)	2001	annual growth avg.. (96-01) (%)	2006	annual growth avg.. (01-06) (%)
Nation avg. (a)	2,177	5,442	16.5	10,331	13.6	13,502	5.5	18,227	6.2
Seoul	2,280	5,621	16.2	10,904	14.2	15,211	6.9	19,781	5.4
Jeju (b)	1,628	4,642	19.1	8,972	14.1	10,909	4.0	14,257	5.5
(b/a) (%)	74.8	85.3		87.0		80.8		78.2	

Source: www.kosis.kr

Kang(2004) suspects this as a structural one since Jeju industries are characterized as small scale, domestic market oriented, and non-manufacturing focused, whereas the national industries as large scale, overseas market oriented, and manufacturing focused. Thus Jeju industries have mostly been left out of the major concern of the central government.

Even though Jeju's vision of a free international city was a legitimate and well timed one, the efforts to materialize it had hardly been rewarding, especially in the area of investment attraction. Almost all of the large scale investment MOUs signed by the foreign capitals turned out fruitless. Many attributed them to poor investment environment and limited business opportunity.

As a way to become a hub of free capital flow even with this poor investment environment, Kang(2001, 2002) suggested to set up an offshore financial center(OFC). In 1980s some economists, noting the success of international resorts in developing OFCs, studied the idea but discarded it as unrealistic and uneconomical. Kang argued that, since OFC promotion fit perfectly into the vision of a free international city and not a few firms from Korea, Japan, China, Hong Kong and Taiwan had already been heard to actively utilize OFCs in the Caribbean region and Europe, Jeju had a good chance to make a successful OFC. However, this idea was not materialized, faced with the strong opposition from the financial market authorities of the central government which feared criticism on the harmful tax competition from OECD.

Suddenly there came a fortune for Jeju to start an offshore business in 2002. The Ministry of Marine and Fishery suggested to include a section in the Special Act of Jeju Free International City to accommodate the registration of Korean commercial ships whose overseas registration were soon to expire. Following this legislation change more than 700 large size vessels registered at Jeju. Central government officials didn't realize that ship registration was one of the main businesses of OFCs. Up to now all the registered ships are Korean owned commercial ships but foreign ships are allowed to register at Jeju. In 2006 Jeju started to accept the registration for the ship investment fund. Total revenues from this offshore registration amounted to 4.5 billion won(4.5 million US dollars) in 2007.

Nowadays Jeju local government is promoting OFC as an alternative industry strategy for the long term growth of Jeju economy. It expects operating an OFC will help Jeju tourism turn from the low value industry to the high value industry. Still the central government opposes to constructing a domestic OFC, based on the belief that it might encourage illegal money laundering and bring in criticism on the harmful tax competition from OECD and EU. They also worry about increased speculation on the domestic financial markets by the international hot money.

II. New developments

After international organizations like OECD, BIS, IMF, etc began to strengthen regulation on OFCs it was generally anticipated that OFCs would wither away.(IMF(2000)) Contrary to this anticipation, however, OFCs now have been growing from a remote place in the world where small scale financial activities used to be made to a central place which plays the role of major international financial hubs, responding actively to the new structural changes in international financial markets.

Specifically, OFCs have grown to a major power group in international financial markets, whose banks take 12.1% and 16.5% of the external assets and liabilities, respectively, of the total BIS reported banks in 2006. The growth rates are further expanding after the Asian financial crisis.(BIS(2007)). According to <Table-2>, Cayman Islands whose population just exceeds 50,000 ranked 4th after US, UK, and France in terms of the external liabilities of the banks registered there. Ireland which runs an OFC in Dublin ranked 7th.

In addition more than 90% of international funds are being set up in the OFCs and Bermuda is challenging the number one position of New York in the reinsurance market.

〈Table-2〉 Comparison of the market share of major international banking centers

rank	international center	market share(%)	OFCs(*)
1	UK	22.1	
2	US	12.9	
3	France	6.6	
4	Cayman Islands	6.1	*
5	Germany	5.6	
6	Switzerland	4.5	
7	Ireland	3.6	*
8	Netherlands	3.5	
9	Belgium	2.9	
10	Italy	2.8	
11	Spain	2.6	
12	Japan	2.6	
13	Luxembourg	2.5	*
14	Singapore	2.0	*
15	Australia	1.7	

Source: Goetz von Peter, "International banking centers: a network perspective", BIS Quarterly Review, December 2007.

In the Korean stock market investors from OFCs took 23% of the total foreigner stock holdings as of the end of 2007. The amount was about 67 tril. won(67 bil. US dollars)[1]. In the US securities market OFCs took 22% and the amount reached 2.2 tril. dollars as of the end of 2007[2]. In fact it would not be of a great meaning to distinguish investors by nationality. When an Arab investor puts money in an UK registered fund which invests in US stocks, this investment is classified as UK investment in the US market. UK investment in the US

1) FSC, "Foreign investor's domestic stock holdings (End of 2007)".

2) Department of the Treasury, Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System, *Report on Foreign Portfolio Holdings of U.S. Securities, as of June 30, 2007*, April 2008.

securities increased by 280 bil. dollars even though UK trade balance showed a slight deficit in 2007. On the other hand China's investment in the US securities was up by 220 bil. dollars[3].

〈Table-3〉 Per capita income of the major countries (2006)

rank	countries	per capita income (US dollars)	OFCs(*)
1	Luxembourg	71,240	*
2	Norway	68,440	
3	Bermuda	67,853	*
4	Liechtenstein	90,528	*
5	Channel Islands	n.a.	*
6	Switzerland	58,050	
7	Denmark	52,110	
8	Iceland	49,960	
9	San Marino	45,130	*
10	Ireland	44,830	*
11	United States	44,710	
12	Sweden	43,530	
13	Netherlands	43,530	
14	Qatar	43,050	*
15	Isle of Man	40,600	*
16	Finland	41,360	
17	United Kingdom	40,560	
18	Austria	39,750	
19	Japan	38,630	
20	Belgium	38,460	
51	Republic of Korea	17,690	

Source: World Bank, *World Development Indicators 2008*, May 2008.

〈Table-3〉 shows that six out of the 10 highest income countries in the world are OFC countries in 2006. Channel Islands, Cayman Islands, Isle of Man, so called UK Crown Territories and Dependencies, are making higher per capita income than their mother land, UK. Especially

3) ibid., p.12.

in Jersey which is part of Channel Islands, the financial industry produces more than half of its GNP.[4]

We can confirm the position of OFCs among the world major financial cities by the rankings of GFCI(Global Financial Center Index), compiled by the City of London. In ⟨Table-4⟩ offshore financial center cities take 13 out of the top 50 cities in the GFCI statistics, published in March 2008. Seoul ranked only 51st, trailing behind Shanghai, Peking, and Osaka[5].

⟨Table-4⟩ Rankings of GFCI of major financial cities

rank	cities	OFCs(*)	rank	cities	OFCs(*)
1	London		21	Isle of Man	*
2	New York		24	Dubai	
3	Hong Kong	*	25	Cayman Island	*
4	Singapore	*	26	Gibralta	*
5	Zurich		27	BVI	*
6	Frankfurt		28	Bermuda	*
9	Tokyo		31	Shanghai	
10	Sydney		36	Bahama	*
13	Dublin	*	37	Monaco	*
16	Jersey	*	46	Peking	
17	Luxembourg	*	50	Osaka	
19	Guernsey	*	51	Seoul	

Source: City of London, Global Financial Center Index, March 2008.

Today OFCs are commonly regarded as tax havens. However, people in general believe that tax havens were originated from the Caribbean Islands, not recognizing that the quintessential tax haven schemes were mostly invented from US, UK, and Switzerland. For example, New

4) See www.jerseyfinance.je.

5) www.cityoflondon.gov.uk/economicresearch 참조.

Jersey and Delaware in the US competitively introduced a corporate tax system to lower tax and regulation to attract corporations into their states in the 19th century, providing the origin of offshore company. UK courts established the practice of exempting tax on the offshore income in 1928. Switzerland is the forerunner of tax haven in terms of banking secrecy, developing the numbered accounts in the late 19th century and applying them to the offshore company scheme introduced by New Jersey and Delaware. Switzerland also made the legislation to put the leakage of the customer's banking transaction information under the criminal penalty in 1934. In addition tax evasion was dealt in civil lawsuit, not as a criminal case.

It's a well known fact in international politics that OECD countries have been eager to introduce tax haven schemes into their domestic financial system to attract foreign capital and encourage investment, just wishing them not to be detected by outside watchers.

We also note that after the strengthening of international regulations on OFCs academic interest to figure out the economic function of the OFCs in the international financial markets and the economic development has been growing.

Dhamapala and Hines(2006) found that the probability of becoming a successful tax haven depends crucially upon the good governance. 'Rogue' countries cannot become tax havens.

International criticism on the harmful tax competition has also changed since the US Treasury Secretary Paul O'Neill raised the question on the OECD's initiative in July 2000. He insisted that the choice of one country's tax structure and rates belongs to the national sovereignty, opposing the international tax harmonization. Instead he emphasized the importance of transparency and the income information exchange between countries.[6] The Progress Report of OECD issued in 2001 clarified as the basis of identifying non-cooperative tax havens to use the above two factors, dropping off the conditions of low tax, substantial activities and ring-fencing.[7]

Furthermore, Hines(2006) presents empirical findings that international tax competition needs not reduce taxes and thus social welfare expenditures. According to his study, over the past 25 years corporate tax collections in the OECD countries have remained high as fractions of GDP and total taxes. Economic globalization improves the ability of government to afford social welfare programmes.

III. Rationale for Jeju Offshore Financial Center(JOFC)

(1) Contributions to the Northeast Asian countries

Even though Jeju already started offshore center business by accepting ship and ship investment fund registration, there is still a long way ahead before it becomes a full-blown OFC, recognised by the international financial community. It needs not only to overcome one-sided perception on OFCs in general but to contrive a scheme to control the negative effects arising from an OFC operation. However, the most important task is to show that the benefits from it will outweigh the costs and

6) US Treasury, 'STATEMENT OF PAUL H. O'NEILL BEFORE THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS PERMANENT SUBCOMMITTEE ON INVESTIGATIONS. OECD HARMFUL TAX PRACTICES INITIATIVE.' July 18 2001.

7) OECD, 'The OECD's Project on Harmful Tax Practices: The 2001 Progress Report,' Center for Tax Policy and Administration, 14 November 2001.

that these benefits are not limited to Jeju island alone but can be extended to the whole Korean economy in the end. It also needs to carry a common cause for China and Japan not to stand against it.

For this purpose we can examine the financial market development function of an OFC.[8] This function can be seen from the following two aspects. First, it reduces financial transaction costs. About 30% of the companies listed on the New York Stock Exchange are registered at Delaware to save the listing management costs. US multinational corporations tend to set up subsidiaries at tax havens to reduce the tax burden of the affiliates located at non-tax haven regions. Fund management companies operating in New York choose Cayman Islands for their fund establishment to save regulation costs and taxes. Desai et al. (2006a) measured empirically the economic effects of OFCs, using the financial statement data of the US multinationals. According to their research, the increase in the business activities of subsidiaries at the tax haven region leads to the increase in the activities of companies located at nearby non-tax haven regions, contrary to the common belief that the expansion of multinationals to the tax havens causes the transfer of business activities out of non-tax haven regions to the tax haven regions.[9]

Major financial centers in the world maintain intimate relationship with the OFCs in their neighborhood to support themselves. For example, London receives support from Channel Islands, Isle of Man, and Dublin. New York rests upon Bermuda, Delaware, Cayman Island, Panama, and Bahama. Paris and Frankfurt are helped by Switzerland, Luxembourg,

8) For more explanation on this function, see Park and Kang(2008).

9) Desai, Mihir A. C. Fritz Foley, and James R. Hines, Jr. (2006), "Do Tax Havens Divert Economic Activity?", *Economic Letters* 90, 219-224.

Lichtenstein, and Belgium. Even Italy has an OFC, San Marino, to assist it. Rose and Spiegel(2007) present a model which predicts empirically that proximity to an OFC is associated with a more competitive domestic banking system and greater overall financial depth.

There is an important thing to note. Offshore financial activities or offshore businesses are for non-residents and can be carried out both on on-shore markets and on off-shore centers. They are not solely earmarked for OFCs. The more the OFCs are equipped with appropriate facilities and professional human resources, the more real businesses are executed there. Without proper facilities and human resources, an OFC remains to be selling 'domicile registration' for non-residents. Domicile registration service by an OFC saves costs for the neighboring on-shore markets. There will be an equilibrium for an OFC to choose the level of investment in the resources to accomodate the real activity delegated by the on-shore markets.

For the financial markets in the Northeast Asia such as Tokyo, Seoul. Shanghai, Peking, and Taipei, there is only one OFC available at near hand, Hong Kong. However, Hong Kong has long invested to carry out real businesses and is not anymore a 'cheap domicile registration' center. Therefore, companies operating at these cities have to travel far away to seek OFCs such as Cayman Island, BVI, Dublin, etc, incurring higher costs than the cities using nearby OFCs.

Second, OFCs are more effective in attracting the so called international hot money or 'stateless' money. International investors looking for international portfolio diversification tend to press financial managers to develop products of special structure, suitable for their specific demands and least affected by individual country's regulations at the same time. Financial managers are apt to resort more to OFCs since OFCs are willing to provide legislation service flexibly enough to meet the requirements of these investors. Limited partnership used widely to set up a venture investment fund, limited liability company employed by law firms and accounting firms, limited life company, and corporate directorship are examples of OFC inventions. (Brown(1999))

During the past 50 years Euro-currency funds which are not under individual sovereign controls have grown to almost 10 tril. dollars due to the continued expansion of overseas investment and multinational corporations. These funds are said to park at OFCs or move through several OFCs because of the reasons mentioned above. There has long been criticism against these funds mobilizing international speculation and encouraging tax competition. Nevertheless, Euro-banks are generating huge revenues in the process of recycling these funds every year.

Not only the funds of the institutional investors from the developed countries but overseas investment funds from the emerging countries such as China, Russia, Brazil, and India, etc. are participating in the pools of international hot money. For example, 45% of foreign investment funds come into india by way of Mauritius, an OFC on the Indian Ocean[10].

Once an OFC in the Northeast Asia starts to operate successfully, the recycling of the international hot money within this region would be more facilitated, eventually leading to the development of regional Euro-currency market. This market will function as an independent pricing center, lowering bid-ask spread for funds as well as producing substantial revenues for the financial companies operating in this region.

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10) Korea EXIM Bank, *Overseas Economic Information System*, 2008.6.12.

Most of the major cities in the Northeast Asia will be benefited from the success of JOFC. Among these Seoul will benefit most since the same market systems and practices will be used.

You may insist upon developing Seoul alone into a financial hub of the Northeast Asia. However, without the support from the nearby OFC like Channel Islands for London or Delaware for New York, Seoul will remain to be a high cost local hub. We also need to keep in mind that Seoul and Tokyo are notorious among international bankers for rigid red tapes given by the regulatory authorities. In order to attract more international funds and increase the volume of money or financial transactions under the Korean sovereignty we have to introduce a scheme overcoming the limitations given by national borders, in the sense of Palan(2006), which must be an OFC. Developing Seoul into a Northeast Asian financial hub may also be desirable to stabilize the imbalance caused by the rapid expansion of the Chinese overseas investment which has been accelerated by the huge trade surplus and FDIs.

China's investment in US securities exceeded 1 tril. dollars at the end of June 2007, which took 10% of the total foreigner's investment in US securities. China is expected to surpass UK to rank number one in 2008.[11] At the same time the use of OFCs by the Chinese capital has been increasing so rapidly that most of the major OFCs in the world began to accept the registration application in Chinese. Hong Kong has been playing a key role in guiding the Chinese capital to foreign OFCs as well as acting as the main gate into the mainland China for

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11) Department of the Treasury, Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System, *Report on Foreign Portfolio Holdings of U.S. Securities, as of June 30, 2007*, April 2008, P.12.

foreign Capitals. China has utilized Hong Kong as a proprietary OFC to overcome the handicap of underdeveloped financial market system.

Korea's direct investment in China amounted to 25 tril. won(25 bil. US dollars) at the end of 2007 and the portfolio investment in the Chinese securities is estimated to be around 30 tril. won.[12]. These investments are under the control of the Chinese government and contribute to the revenues of the financial companies of China and Hong Kong. On the other hand, business opportunities available for Korean financial companies generated from the overseas investment activities of the Chinese capital are minimal.

In near future the Chinese capital will be dominating in the Northeast Asia and we need to develop a well established OFC as a counter-measure to raise the volume of capital under the Korean sovereignty to a comparable level. This OFC can further develop to take the role of integrating the flow of investment funds among the three countries, Korea, Japan, and China, with the least conflict of national interests in this region.

(2) Contributions to Jeju local economy

JOFC's contributions to local economy can be viewed in the following four aspects.

① Output and income effect

The research, commissioned by the Jeju Provincial government in 2006, estimated that JOFC would contribute to the local output by 494

12) See www.koreaexim.go.kr.

bil. won(494 mil. US dollars) and create jobs by 6,800 for the first 5 years, assuming the business volume of JOFC reaches that of Labuan in the 5th year. Annual local income generated from JOFC activities would amount to 94 bil. won in the 5th year.[13] This may not look fabulous for a 500,000 population economy. In the case of Dublin of Ireland the net economic effect had not been that significant for the first 10 years. However, the research anticipated that businesses generated from JOFC could grow to the level of Jeju orange industry in 10 years.

② Upgrade the Jeju tourism industry

Once JOFC opens, high income professionals' visits to the island will increase and Jeju is expected to turn to a high value tourist resort like Cayman Island. Eventually, cheap low value development can be crowded out to help Jeju preserve the natural environment.

③ Raise local government revenues

According to the research mentioned above, direct revenues from the registration fee and related income would reach 14 bil. won(14 mil. US dollars) annually in the 5th year of JOFC launch. We could also expect increase in the local tax on the income generated from the operation of the firms and organizations housed in JOFC. Overall the self sufficiency ratio of the local government would improve by 5%. The ratio remained at a meager level of 26.4% in 2007.

④ Support local projects of strategic concern

Currently Jeju government are moving forward with several strategic projects: English village, medical industry system renovation, Law school at Cheju National University, etc. JOFC, by creating new demands for resources from these projects, will have a close relationship with these

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13) Koh, et AL.(2006.10), 「Research on the Promotion of Jeju International Financial Center」, Jeju Development Institute. pp.55-59.

projects. Resouces from these projects will constitute very important infra-structure for the successful operation of JOFC, enhancing their strategic values.

Ⅳ. Jeju's advantages and policy directions

(1) Jeju's advantages

Jeju's advantages for promoting an OFC can be summarized as follows.

1) Flexible legislation system

Out of fifteen provinces and metropolitan city governments in Korea, only Jeju province has a Special Self Governing Act which can be used to meet the legislative needs flexibly for the smooth operation of JOFC. In addition, Jeju has small population and business volume of the local financial companies is not significant, helping avoid the conflict of interests with the existing financial companies and industries.

2) Island isolated from the mainland

Most successful OFCs in the world are islands or small city countries. Since Jeju is isolated from the mainland, it is relatively easy to control the transportation of visitors and limit the legislation effect within the boundary. This will help introduce legislations whose effects remains only inside the island.

3) Tourist resort with a clean natural environment

More and more financial professionals select a place with a clean natural environment for their residence or frequent visit. Reflecting this trend financial companies operating at crowded financial center cities are increasingly turning to the nearby resorts with a clean natural environment for their business base or meeting place these days.

4) Geopolitical advantage

Successful OFCs are located within 1-4 hours of flight from the major financial centers. The distances from Jeju to Seoul, Tokyo, Peking, Shanghai, Hong Kong are all within 2 hours flight. Jeju has an international level airport which connects to these cities directly. Jeju Island is located in the South Sea of Korea and thus runs the least geopolitical risk among the Korean cities.

(2) Policy directions

Considering the endowment conditions of Jeju island and the obstacles to overcome, we suggest the following policy directions for the local government.

① Construct an integrated building complex for JOFC as Dublin did.

It would be effective to construct a building complex to combine all the facilities into one place. As Dublin did, by gathering offices, apartments, hotels, conference halls, shopping centers, entertainment facilities, sports center, banks, post offices, etc. in one place, we can keep the initial investment at the minimum as well as make the financing of the building costs easy through the project finance method. It can also minimize the employment of the scarce professionals and secure the effective supervision. Jeju province may designate the complex as the investment promotion area stipulated in the Jeju Special Self Governing Province Act to provide tax benefits for three to five years. Besides it would be crucial not to tax on the offshore income.

② Set up supervisory authority separate from FSS.

To be a successful OFC it is very important to attract internationally renowned financial institutions into JOFC. To achieve this goal we need to introduce a 'strict' but not 'rigid' supervisory system to obtain confidence from international investors, applying loose regulation for the good guys and prohibitive penalties for the bad guys.

There are several reasons to set up a separate supervisory authority. First, since customers of the companies registered with JOFC are limited in small numbers or restricted to a certain qualifications, regulations intended to protect the general public such as deposit insurance, reserve requirement, disclosure requirements, etc are not necessary.

Second, even though a strict regulation is necessary, regulators need to function as a business promoter at JOFC rather than a rigid controller. They have to move quickly to change existing rules and laws to react to new opportunities and be willing to cooperate with the business community to provide tailor-made regulation service. In Seoul this kind of behavior is apt to be dubbed as collusion with the business.

Third, JOFC's competitiveness will be significantly hurt when we maintain the current Chinese wall inside the financial industry, that is, separation of businesses between banking, securities, and insurance. Also the principle of separation between financial business and industrial business should not be introduced in the JOFC legislation.

Fourth, distinction between foreign currency business and domestic currency business and barriers between resident and nonresident should be applied at the minimum in JOFC as long as real business decisions are not made in Jeju. The former has been severely restricting new businesses, incurring onerous burden for the financial companies operating in Korea. The latter may cause criticism of harmful competition from abroad since lifting a certain regulation at JOFC may result in differential treatment between resident and nonresident. In terms of Jeju island they are the same 'nonresident' as long as they don't live in Jeju. Removing these two regulations will make JOFC legislation much simpler, enhancing its competitiveness.

Lastly we may need to import English law and experts from the British financial institutions as Hong Kong, Singapore, and Dubai did in order to make the practice and the system of JOFC conform to the global standard and thus earn the international recognition. For example appointing a foreign expert as the head of the JOFC supervisory authority would be very difficult under the current Korean government officer appointment system.

③ Gradually expand the established registration system

There are still strong negative opinion against the operation of OFCs in Korea. Since nobody has blamed the ship and the fund registration business of Jeju on account of tax evasion, money laundering, financial speculation, and harmful tax competition-four frequently quoted crimes of OFCs, it is much safer to expand the current registration business gradually, not instigating the opposition group. There are still plenty of business opportunities in the Northeast Asian region: registering hedge funds, project companies, yachts, holding companies, leasing companies, captive insurance companies, etc. This would be enough to satisfy the people who worry about the real benefits of JOFC.

V. Conclusions

When We first suggested to build an offshore financial center in Jeju, some people criticized it as a 'silly' idea because Jeju didn't have sufficient facilities and human resources to carry out business as a financial center like Hong Kong and Singapore. At that time We were 'silly' enough not to notice that these people omitted the word 'offshore' when they were laying the criticism. Due to our silliness, it took about 5 years to persuade them that OFCs don't have to maintain facilities and human resources observed in real business financial centers.

The other group of people criticized it as 'disgraceful' that the Jeju clean environment will be contaminated by tax evaders, money launderers and crime syndicate bosses. We were still 'silly' enough to forget to change the word 'offshore' to 'Euro'. It took another 5 years to persuade them that the development of both Eurodollar and Eurobond markets had not been possible without the use of OFCs, and thus these OFCs are mainly operating for the well known international banks such as Citi, Chase, etc, not for criminal groups.

After 10 years we carried out a comprehensive research project twice, not once, both commissioned by the Jeju local government. We invited two international experts, one from Cayman Island and the other from Dublin. They commonly pointed out that we were doing too much research! We had been obsessed to prove we were not 'silly'. Fortunately, offshore registration income started to jump in 2006. These days nobody forces us to prove we are not silly. Instead they are now forcing us to find a way to make more money. At last building an OFC in Jeju has become an ordinary commercial business project.

What is most required at this time is, therefore, developing products and services to sell at the global market. In this respect, attracting some of internationally renowned financial companies into JOFC is symbolically crucial. For this purpose we have to persuade the financial authorities of the central government to allow Jeju to incorporate a separate supervisory authority for JOFC.

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