

The background of the entire image is a dark, intricate spiderweb. Several spiders are positioned at various points on the web. In the lower right quadrant, several US one hundred dollar bills are shown floating in a pool of water, partially submerged. The bills are slightly tilted and appear to be caught in the web's structure.

Spiderweb Capitalism: The Secret Financial Webs Built by the Ultra-Wealthy

Dr Kimberly Kay Hoang

SPIDERWEB CAPITALISM: THE SECRET FINANCIAL WEBS BUILT BY THE ULTRA-WEALTHY

The anonymous leak of the Panama Papers in 2016 revealed how the exceptionally wealthy (such as politicians, celebrities and business leaders) hide their money and exploit secretive offshore tax regimes.

Dr Kimberly Kay Hoang is a Professor of Sociology at the University of Chicago, and after six years of research, hundreds of interviews and travelling 350,000 miles, she published *Spiderweb Capitalism: How Global Elites Exploit Frontier Markets*. She uncovered the mechanisms behind the movement of money into and out of Southeast Asia, and how that money travels all over the world.

The Journey to Spiderweb Capitalism

In writing her book *Spiderweb Capitalism*, Dr Kimberly Kay Hoang, a Professor of Sociology at the University of Chicago, started with a small research question about how foreign investors navigate new frontier markets. A frontier market is a country, such as Vietnam, that is more established than the least developed countries but still less established than the emerging markets, such as China.

One afternoon, she had lunch with a lawyer who brought the topic of special purpose vehicles and holding companies to her attention. Special Purpose Vehicles are passive holding companies established for the purpose of isolating financial and legal risk by protecting certain liabilities and assets.

It was in this conversation that her award-winning book took seed, and Dr Hoang found herself immersed in the world of offshoring, the web of anonymous paper companies and finance professionals. She changed her research course and

embarked on a global ethnography spanning networks of people and all countries of the world to expose the inner workings of the wealthiest people and how they hide wealth to create more wealth.

Dr Hoang believes two factors were critical in how she gained access to wealthy people and spaces. First, her academic appointment is at the University of Chicago, an institution with global reach and a highly regarded reputation. Second, after publishing her award-winning first book, *Dealing in Desire*, she was promoted within the University and benefitted from invites to international lectures and networking meetings. At these events, she met people who introduced her to wealthy international finance figures.

A major challenge Dr Hoang encountered conducting her interviews was avoiding hearing or witnessing any deal-making activity that might be illegal under the U.S Foreign Corrupt Practices Act. Had this occurred, she could potentially be



considered an accessory to criminal activity and so would often leave the room when this seemed a possibility. She also consulted heavily with lawyers at the University of Chicago.

What is the Spiderweb?

The spiderweb consists of a complicated web of subsidiaries that are interconnected across multiple countries and are virtually impossible to identify. For years, offshore financial centres, such as the Cayman Islands and the British Virgin Islands, have enabled economic and political elites, 'who in less-developed economies are often one and the same—to secure exclusive and quasi-legal opportunities for the private accumulation of wealth', she explains. Dr Hoang refers to the ultra-high-net-



worth individuals who control the web as the 'big spiders'. The 'smaller spiders' are then used by the 'bigger spiders' as agents or fixers to cover close connections to transactions that would be considered dirty or corrupt.

The web is so vastly intricate and complex, comprising so many layers and actors, that it becomes challenging to trace. Every strand in the network is connected by other network branches of financial, legal, business and public relations professionals, all of whom are hidden from one another; they purposefully conceal their relations with other parts of the web to keep their transactions 'clean'.

While doing research on investments in Southeast Asia, Dr Hoang met with the chief executive officer (CEO) of a large asset management firm in Vietnam. She asked how difficult it is to make money in countries with lax regulation and high levels of corruption. To Dr Hoang's surprise, he openly expressed that to be successful in a frontier Asian market, an investor has to tow the line between legal and illegal and successfully stay ahead of regulators.

Playing in the Grey

Global elites capitalise on risky frontier markets by mastering the art of 'playing in the grey', explains Dr Hoang. Playing in the grey means finding the grey or ambiguous areas between what is deemed legal and illegal activity, exploiting countries or states with weak regulatory regimes, and creating complex and purposefully opaque webs of financial professionals.

If the ultra-wealthy play the grey successfully, they mitigate criminal and reputational risks while simultaneously creating

more wealth. In an interview with an individual she refers to as 'Will' (a previous Wall Street 'fat cat' and now a 'dominant spider'), Dr Hoang heard about how he had lost count of the number of offshore structures his financial firm had set up for each of its investments.

Throughout her book, Dr Hoang demonstrates the significant lengths that the ultra-wealthy will go to to ensure no virtual or physical paper trails of financial transactions are left behind, including hiring fixers to remove any traces if needed. She adds that most of the people she interviewed preferred to lay low and operate with the strategy of staying hidden behind these financial webs.

She quotes one source saying that 'behind every CEO is a Chairman. The Chairmen are people in this world so rich they never appear in newspapers or public lists like Forbes... the Chairmen are nowhere and everywhere and accountable to no one'. And to the best of her knowledge, not a single person Dr Hoang interviewed has been charged with criminal activity.

The Moral Dilemma

One of the most eye-opening revelations from Dr Hoang is the marked divide between ultra-high-net-worth individuals, who have liquid assets of at least \$30 million, and high-net-worth individuals, with between \$1 million and \$30 million. The legal and reputational risks between these two groups are not shared equally. The ultra-rich are shielded from public scrutiny by offshoring and creating webs of holding companies.



While the high-net-worth individuals, like fund managers, legal professionals and accountants, are heavily compensated for their services, if something goes wrong, 'they're the face of the deal... they're the fall guy', Dr Hoang explains.

One of the other morally reprehensible goals of those who are playing the grey is to engage in tax avoidance. For example, one person Dr Hoang interviewed pointed out that as a professor, she pays more taxes as a percentage of her income than the ultra-rich do on their profits, despite the profit being passed through many borders. This essentially means that the income tax system in many countries is regressive, as the top 1% pay less tax.

The ultra-rich are also able to avoid the fallout of investments gone wrong. For example, a billionaire's net worth may go down, and they may suffer public embarrassment if an infrastructure project fails. However, it is the local population that suffers the loss of hundreds of jobs and feels the consequences to the economy and environment, and may even end up paying for the repair work through taxation.

Another legal but morally wrong practice is 'front-running the law' – that is, taking strategies that were highly lucrative pre-regulation in developed economies, and applying them to frontier markets where that regulation doesn't exist yet.

Where Do We Go from Here?

The Occupy Wall Street movement after the 2008 financial collapse successfully brought to light the issue of income inequality, but Dr Hoang explains that 'it has not changed the political and economic structures that create this inequality'. Although she doesn't provide a clear solution to the corruption and inequality problems identified in her book, she does view them as a systemic challenge for society to resolve.

A big takeaway from her book is that no country can escape 'the grey'; whether the money originated in Southeast Asia or China, at some point, it finds its way back to the West as it travels through the financial web. Given this, Dr Hoang questions why we have not uncovered financial markets in this way before, noting that 'while the frontier markets and certainly new areas for spiders to expand their webs, these strategies have been in use since the late 1800s'.

Dr Hoang asserts that in Europe and the West, political and economic power often overlap and reinforce one another. She points to the need to identify effective mechanisms to regulate the regulators. Dr Hoang also urges more sociologists to study elites and the systems that allow them to accumulate wealth. She also raises the question as to whether social scientists and economists are objective researchers or whether they are consciously or subconsciously working in a shadowy role that serves to maintain the status quo, inadvertently legitimising institutions of power and furthering these financial webs.



Meet the Researcher


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Dr Kimberly Kay Hoang is Professor of Sociology at the University of Chicago. She received her PhD in Sociology from University of California, Berkeley, her MA in Sociology from Stanford University and her BA from the University of California, Santa Barbara. Her research examines deal-making in frontier and emerging economies, and her interests include the sociology of gender, global sociology, economic sociology, and qualitative/ethnographic research methods. Dr Hoang is the author of two award-winning books: *Spiderweb Capitalism and Dealing in Desire*. Between 2017 and 2020, Dr Hoang was an associate editor at the *American Journal of Sociology*, and over the years, her work has been published in highly rated academic journals. Her work has led to the award of over 26 prizes from professional associations, including the Association of American Publishers, Sociologists for Women in Society, and the American Sociological Association.

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FUNDING

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FURTHER READING

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