

Going for Global Growth: Why China Chooses the BVI



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TODAY, UNDER THE LEADERSHIP OF PRESIDENT XI JINPING, China aims to transform itself into 'a mighty force' that could lead the world on political, economic, military and environmental issues. President Xi made this agenda clear at the start of China's 19th Communist Party Congress in Beijing in October 2017.

Interestingly, the British Virgin Islands (BVI), a Caribbean offshore centre, is one of the financial hubs that China has chosen to utilise to push through its global economic strategy.

China has long made significant inroads in broadening its horizons across the globe through economic diplomacy. It has been the driving force behind many large infrastructural projects in Asia, Africa and the Americas, including in small-island Caribbean nations previously considered of more strategic political importance to the United States (particularly during the Cold War era).

Since 2008, China has invested millions of US dollars in large Caribbean infrastructure projects, such as a US\$720 million four-lane highway stretching north to south across the island of Jamaica. China plans to operate the toll road and build three luxury hotels on land granted to Chinese companies along the length of the road. In addition, the China Harbour Engineering Company has agreed to build a deep-water port in Jamaica that will serve as a trans-shipment hub for giant Chinese container ships arriving through an expanded Panama Canal.

Other notable Chinese infrastructure investments in the Caribbean include the Bahamas, where Chinese companies are developing port facilities along with a

major casino and hotel complex. A Chinese construction company is also modernising an airport terminal in Guyana. Throughout the Caribbean archipelago, whether in Grenada, Dominica, Antigua, St. Kitts & Nevis or Trinidad & Tobago, there are visible signs of Chinese imprints on these small-island economies.

Even so, China's most significant partnerships in the region are perhaps with the non-independent British Overseas Territories specialising in providing corporate structures to facilitate global trade and finance.

Most prominent among these is the BVI, which has for many years been China's most important investment partner after Hong Kong. According to UNCTAD World Investment Reports, the BVI was the second largest investor in China from 2006 to 2012, providing US\$7.72 billion of inward foreign direct investment (FDI) into China in 2012. In terms of China's outward FDI, in 2012 the BVI was the fifth largest recipient.

According to the June 2017 Capital Economics report, *Creating Value: The BVI's Global Contribution*, as of December 2016, two-fifths of all BVI Business Companies were located in China, including Hong Kong and Macau, while 75 per cent of Hong Kong's Hang Seng Index was made up of companies with direct linkages to the BVI.

Mainland Chinese and Hong Kong companies accounted for more than 40 per cent of the US\$1.5 trillion in assets mediated through the BVI, underscoring the offshore investment centre's growing status as a hub for Chinese overseas investment.

Outward investment in 2015 mediated via BVI business companies from China and Hong Kong stood at US\$608 billion, almost seven fold more than North America's US\$87 billion, 3.6 times the UK's US\$169 billion, and 86 per cent higher than Europe's US\$327 billion.

In addition, the investment mediated by BVI companies supported around 2.2 million jobs worldwide in 2015, with mainland China and Hong Kong accounting for nearly 40 per cent of these, while Europe accounted for another 10 per cent, according to the Capital Economics report.

Demand among Chinese companies for offshore centres to facilitate their cross-border business and investment continues to grow. Appeals by China's senior leadership for companies to invest globally (in priority sectors), as well as the need to help support the mainland's ambitious infrastructure investment scheme were among the catalysts. The BVI has been successful in facilitating cross-border business because it is popular and has flexible corporate structures. Key attributes, such as a familiar legal system based on English common law, internationally compliant regulations and jurisdictional and tax neutrality also make the BVI an especially attractive jurisdiction for pooling capital globally and investing it in markets where legal barriers or political risks would otherwise deter investment.

The BVI's long and successful relationship with China appears set to intensify because of China's Belt and Road initiative (BRI). The Silk Road Economic Belt and the 21st Century Maritime Silk Road, proposed by Xi in 2013, aim to revitalise trade and

investment links between Asia, Europe and Africa. The Silk Road Economic Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean. The 21st Century Maritime Silk Road is designed to go from China's coast through the South China Sea and the Indian Ocean, and from China's coast through the South China Sea to the South Pacific.

The network passes through more than 70 countries and regions with a total population of 3.5 billion (close to half of the world's population). The countries along those routes account for about 40 per cent of the world's gross domestic product. The sheer scale of funding required for China's BRI promises to be in the trillions of dollars and requires mobilising the world's capital markets.

According to one of the lead economists, China's BRI is and will continue to be the most important and impactful macro-economic undertaking in the world, for at least the next 10 years. Also, based on Baker McKenzie's latest report, an estimated US\$350 billion will be committed to BRI projects by China by 2022. Currently there are already more than 1,700 BRI projects, either completed or in development.

The BRI provides enormous opportunities to participate for a wide range of businesses, from small and medium-sized enterprises to multinational corporations. Investors everywhere are devising ways to incorporate the strategy into their development plans.

The BRI represents a great opportunity for the BVI and its business companies, which for three decades has proven successful for Chinese investors and corporations doing cross-border trade. Today, the BVI stands at the forefront of international corporate

structuring for cross-border transactions and investment worldwide and assists Chinese clients in structuring outbound investment across various priority sectors – among them energy, infrastructure, technology and agriculture.

The wave of development sweeping across China and the Belt and Road countries will surely bolster the strong and unabated preference to incorporate structures in the BVI. The Vistra 2020 report, published in 2017, which examines trends in the offshore finance industry, stated that, when it comes to China, "the BVI is an 'embedded brand' and still the go-to for most structuring conduits."

China will continue to choose the BVI as one of its leading investment partners in its drive toward global economic dominance. And, despite the damage inflicted by last summer's hurricane, the BVI is very much open for business, with demand for its services and products stronger than ever. ■

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