

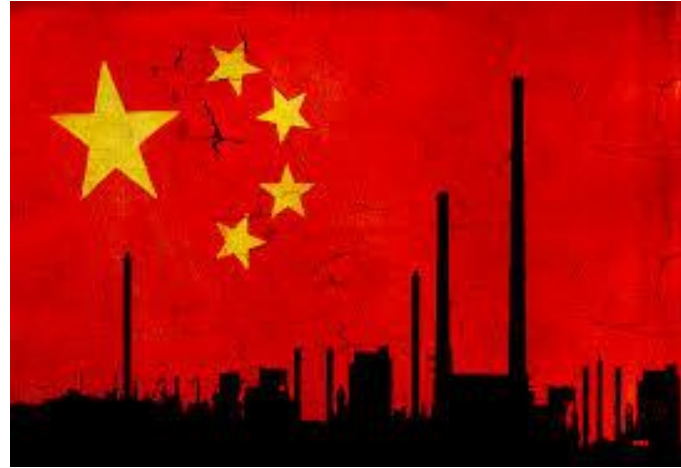
# A global financial partnership – BVI & China

This is a brief overview of the absolutely startling role that the British Virgin Islands (BVI) has played and continues to play in China's meteoric economic growth.

*"To end poverty, build a road"*, is a Chinese proverb, and that's just what China has been doing as shown below.

## China's Economic Historical Snapshot

- From its founding in 1949 until late 1978, the People's Republic of China was a Soviet-style, centrally-planned economy.
- In 1977, Deng Xiaoping came to power and economic reform began.
- He recognised that outside investment or Foreign Direct Investment (FDI) was necessary. These funds were used to help finance the nation's vast infrastructure and manufacturing projects, particularly in newly developed Special Economic Zones.
- At the end of 2013, the People's Bank of China reported that the FDI had reached US\$118 billion.
- Once this inward investment started to make enormous amounts of money, it was soon time for the Chinese to start investing outside their own country: the "Go Global" strategy.
- The statistics relating to China's Outward FDI (OFDI) are quite remarkable. Between 1982 and 1989, the average OFDI was less than US\$0.5 million pa, but by 2013, this had grown to in excess of US\$90 billion.



- Much of the OFDI is in mining, oil and agriculture right across the world from Africa to America.
- Since 1978, China has been among the world's fastest-growing economies, relying largely on investment and export-led growth.
- China's annual average GDP growth between 2001 and 2010 was 10.5%.
- China's economy is now the second largest after the United States.

## BVI's Role in China's Economic Growth

FDI in to China came from all over the world, but particularly the United States. However, it didn't take the investment experts long to realise that it was easier to raise capital and certainly more convenient and cost effective if the investment in China was owned by a holding company based elsewhere. For many reasons, mentioned below, BVI was the favoured location for the establishment of these holding companies, and it was this event which really put BVI on the global financial stage for the first time, and helps explain why the jurisdiction is currently home to over 450,000 separate and active corporate entities.

In terms of inward investment to China, BVI provided US\$7.72 billion between 2006 and 2012, and is now the second largest investor in the world and is the fifth largest recipient of outward investment. The number and size of individual contracts are enormous.



As a result of BVI's crucial role as a facilitator for providing capital from West to East and now East to West, it is constantly looking to improve the selection of financial services it can offer and to develop its legislation to meet ever-changing and modern demands.

## What Does BVI Offer?

In addition to its reputation as an experienced, cost-effective, secure and proven financial centre, BVI has introduced a number of innovative pieces of legislation based on English Common Law that are internationally acclaimed.

BVI's sophisticated and modern commercial laws are attractive and very popular with law firms and businesses across the world, wishing to put together efficient and robust corporate structures. These include laws designed to facilitate initial public offerings, and mergers and acquisitions which have for many years provided a platform for Chinese companies wishing to access foreign capital.

BVI's trust legislation is ideally suited to provide wealth planning solutions for estate planning and asset protection purposes. In particular, the introduction of Virgin Islands Special Trusts (or VISTA trusts) and Private Trust Companies (or

PTCs) are the envy of many other jurisdictions. Both of these are ground-breaking pieces of legislation, designed to make the whole trust concept more readily acceptable, especially for high net worth individuals from Asia.

BVI's introduction of segregated portfolio company (SPC) legislation has helped make BVI the second largest domicile of investment funds in the world. In addition to modern company, funds and trust legislation, BVI also has comprehensive captive insurance legislation.

## Captive Insurance

Simply put, a captive insurance company is an insurance company established and owned by its parent to insure that parent company's risks. The main benefit is that if there are no claims, the profits in that insurance company can be returned to the parent by way of a dividend. This is in stark contrast to traditional insurance where as soon as the insured pays his premium to the insurer, he will never see it again.

Due to BVI having the requisite legislation and regulation in place, there are currently 145 captive insurance companies domiciled there. Although the BVI authorities have never actively promoted captives in Asia, it is an exciting option and addition to the many thousands of Chinese and Hong Kong owned companies presently in BVI. There is, for example, no reason why a Hong Kong owned company already based in BVI could not also set up a subsidiary captive insurance company thus saving their group countless dollars in insurance costs.

For more information about the benefits of captive insurance, please contact your insurance broker or the author direct.

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