BVI Finance
your international business partner

Beyond globalisation

The British Virgin Islands' contribution to global prosperity in an uncertain world

SUMMARY REPORT

A report for BVI Finance

March 2023

pragmatix advisory

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contribution to global prosperity in
an uncertain world

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Foreword

As we turn the pages to the next chapter, the last few years have taught us that the future though unpredictable at times, can yet be inspiring. Five years ago, the predecessor to this report was described as a "line in the sand". Few could have predicted how the sands would shift in the intervening years.

Since 2017, we have witnessed one unprecedented event after another: devastating climate events, the Covid-19 pandemic, the war in Europe, global political tensions and geo-economic challenges, and more.

Yet, through these extraordinary times, the British Virgin Islands (BVI) international business and finance centre's resilience has been nothing less than inspiring. The British Virgin Islands has remained steadfast, attracting companies and individuals from around the world to do business, supporting the domestic economy and enabling investment around the world.

This continued success lies in the expertise and services that the British Virgin Islands offers across the whole lifecycle of a company, from incorporation, through mergers and acquisitions, public listings, privatisation, digitalisation, restructuring, litigation, insolvency, and liquidation. These services are provided by a network of BVI-specialised practitioners from the world's leading corporate firms, trust companies, law firms and accounting firms. The jurisdiction's tax neutrality, agile corporate framework, low administrative costs, and strong legal sector have long created the perfect ecosystem to conduct business. The jurisdiction's commitment to a robust regulatory framework and international standards, in lock step with its dedication to driving innovation in financial services, have also been key components of its success.

The experts doing business in the British Virgin Islands' international business and finance centre are engaged in the types of substantive, high-value transactions essential to the functioning of global markets. Our financial services sector's ability to remain resilient and prosper while operating in a shifting economic and regulatory landscape has enabled the jurisdiction to remain competitive and consolidate its position as one of the world's leading offshore centres.

But given the complexities of the work of our international business and finance centre, misunderstandings can arise both at home and abroad about what it is the BVI does. For this reason, BVI Finance commissioned independent United Kingdom-based economics and strategy research consultancy Pragmatix Advisory to undertake this work.

Beyond globalisation: the British Virgin Islands' contribution to global prosperity in an uncertain world demonstrates the significant and ongoing contribution we make to the world economy, as well as to employment and government revenues at home. It sets out the ongoing and future challenges we are facing as a jurisdiction, both domestically and internationally.

Our financial services industry and its success were born of globalisation and the benefits of cross-border trade and mobility. Still, we recognise those benefits have yet to be universally felt. Pressure has been building since the global financial crisis, and the events of the last five years have only increased pushback. The findings of this report set out three indicative scenarios for the future of globalisation and, in turn, for what the future may look like for the BVI. There are important discussions for us all to have on how we navigate these changes and how best to take advantage of the opportunities that arise. The climate, new technology, and the rise of digital and economic blocs will all feature heavily in those discussions.

Whatever form the next evolution of globalisation takes, international financial centres like the British Virgin Islands will remain vital cogs in boosting the global economy by enabling investment, facilitating sophisticated transactions, and making for a more efficient global marketplace. To remain a leading offshore centre, however, we will all need to work together to build our future, evolve and innovate, ensuring our offer is just as attractive to clients as it has been for decades.

Elise Donovan
Chief Executive Officer
BVI Finance Limited

Key findings

Pragmatix Advisory has been commissioned by BVI Finance to assess the role and value of the British Virgin Islands and its international business and finance centre to the global economy in what are increasingly uncertain times.

- **The British Virgin Islands' economy is sound, balanced and sustainable**. With gross domestic product of US$43,000 per capita, levels of prosperity are among the highest in the Caribbean and its sound fiscal position has been maintained despite the impacts of Hurricane Irma and the global pandemic.

- **The islands are home to a globally respected, unique international business and finance centre**, which employs directly around 2,000 people and supports an additional 2,600 jobs. It generates US$469 million of gross value added for the domestic economy and accounts for two-thirds of all government revenues.

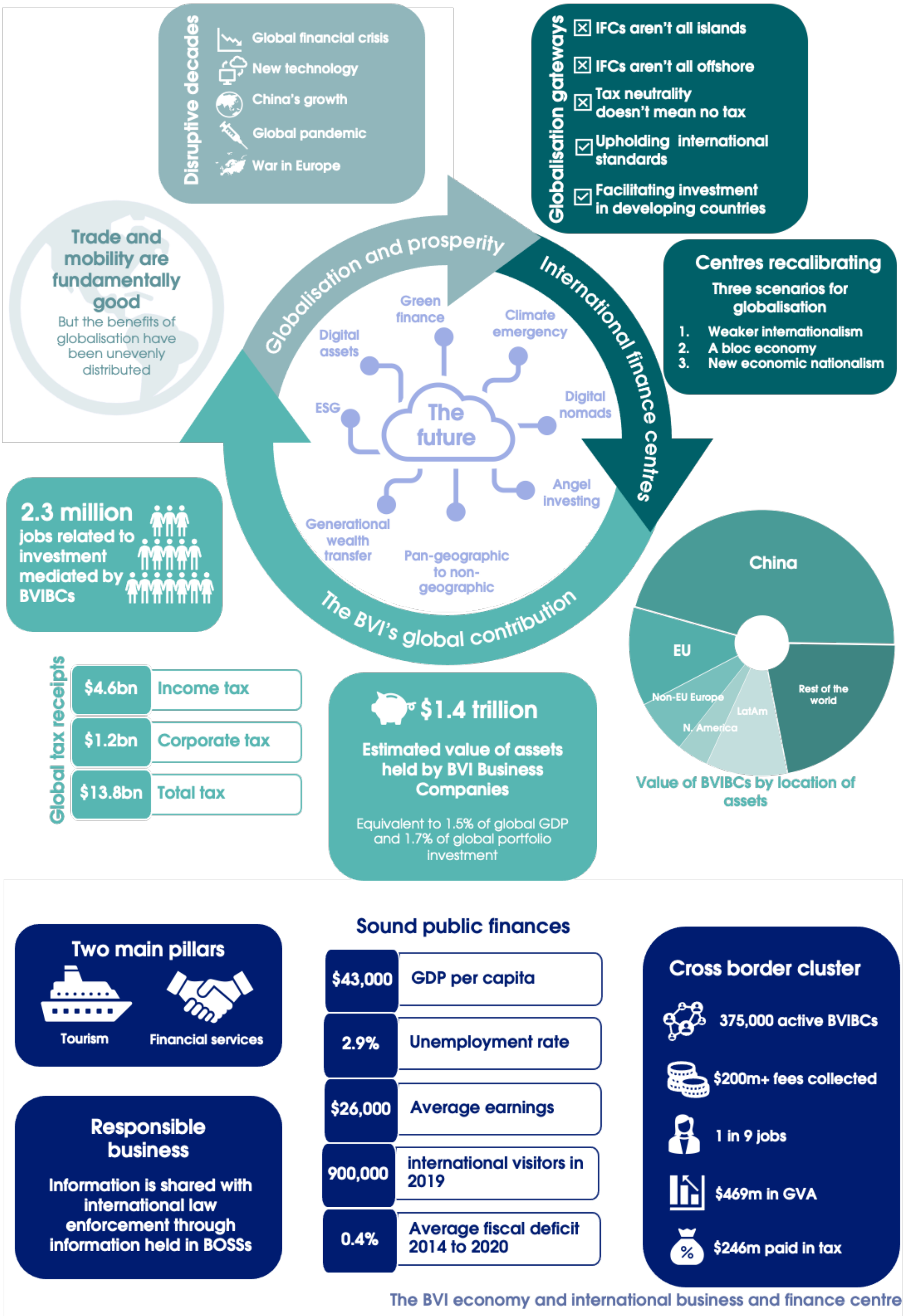
- **The BVI Business Company is a widely used, respected and dependable legal vehicle to facilitate cross-border trade and investment.** There are currently just over 375,000 active BVI Business Companies holding assets with a combined estimated value of US$1.4 trillion.

- **The British Virgin Islands is a constructive, responsive and innovative jurisdiction that supports growth across the world and helps to resolve challenges facing the global economy.** Investment mediated by BVI Business Companies supports around 2.3 million jobs globally and generates an estimated US$14 billion each year in taxes for governments worldwide.

- **The British Virgin Islands is a safe and reliable centre which has worked diligently to meet international standards and regulations. It is not a tax haven.** When compared with other jurisdictions, it performs well in international standards for tax information exchange, transparency, anti-money laundering and in its measures to combat the financing of terrorism. The world-leading Beneficial Ownership Secure Search system established in 2017 ensures its regulatory and enforcement bodies have access to up-to-date beneficial ownership information for all BVI Business Companies. The territory has been instrumental in helping to enforce sanctions implemented in response to the Russian invasion of Ukraine.

- **The international business and finance centre is well-positioned to serve new and developing digital asset and sustainable finance markets**. The total addressable market of digital assets is expected to be worth between US$8 trillion and US$13 trillion by 2030, while the value of the global sustainable fund market could be near 50 times greater by the end of the decade.

- **Looking into an uncertain future and beyond the globalisation of recent decades, there are many different scenarios for geopolitics and economics, but there will remain a need for expert, neutral and innovative centres, like the British Virgin Islands, to support cross-border trade, investment and mobility.**


Disruptive decades
Global financial crisis
New technology
China's growth
Global pandemic
War in Europe
Globalisation gateways
IFCs aren't all islands
IFCs aren't all offshore
Tax neutrality doesn't mean no tax
Upholding international standards
Facilitating investment in developing countries
Trade and mobility are fundamentally good
But the benefits of globalisation have been unevenly distributed
Globalisation and prosperity
International finance centres
The BVI's global contribution
The future
Green finance
Climate emergency
Digital assets
ESG
Digital nomads
Angel investing
Generational wealth transfer
Pan-geographic to non-geographic
Centres recalibrating
Three scenarios for globalisation
1. Weaker internationalism
2. A bloc economy
3. New economic nationalism
2.3 million jobs related to investment mediated by BVIBCs
China
EU
Non-EU Europe
LatAm
N. America
Rest of the world
Value of BVIBCs by location of assets
Global tax receipts
$4.6bn Income tax
$1.2bn Corporate tax
$13.8bn Total tax
$1.4 trillion
Estimated value of assets held by BVI Business Companies
Equivalent to 1.5% of global GDP and 1.7% of global portfolio investment
Two main pillars
Tourism
Financial services
Responsible business
Information is shared with international law enforcement through information held in BOSSs
Sound public finances
$43,000 GDP per capita
2.9% Unemployment rate
$26,000 Average earnings
900,000 international visitors in 2019
0.4% Average fiscal deficit 2014 to 2020
Cross border cluster
375,000 active BVIBCs
$200m+ fees collected
1 in 9 jobs
$469m in GVA
$246m paid in tax
The BVI economy and international business and finance centre

1 Introduction and summary

Pragmatix Advisory have been commissioned by BVI Finance to assess the role and value of the British Virgin Islands and its international business and finance centre in the global economy in what are increasingly uncertain times.

1.1 Globalisation and international finance centres

The future of the British Virgin Islands as an economy and as a hub for global business can only be understood in the context of wider international social, political and economic trends, especially globalisation, and the associated development of international finance centres.

While the end of the Cold War marked an acceleration in global trade and a (temporary) period during which the major powers aligned with a rules-based system of international cooperation, the global financial crisis of 2007/8 started a decade-and-more of disruption. Prior norms of economic geography have been up ended by the growth of China and other emerging markets. Geo-political stability has been rocked by a war in Europe. New digital technologies have revolutionised work and lives, and redrawn physical boundaries but created new threats. The covid pandemic has highlighted to the potential frailty of global supply chains. Governments have run up record debts and had to find new ways (including working together) to raise more tax receipts. (See sections 2.2, 2.3 and 2.4.)

But, despite the disruption, globalisation isn't dead. Cross-border trade and mobility are as old as civilization. The logic of trade, freedom of mobility and globalisation remains even if the pace and trajectory changes.

Scenarios for the future of globalisation

Weaker internationalism	Pre-pandemic globalisation trends continue, albeit more slowly and with plenty of political obstacles to navigate
The bloc economy	Economic and regulatory integration between countries continues within geopolitical blocs, but these different groups diverge
New economic nationalism	Partial reversal of globalisation with increased protectionism, less porous borders and more erratic politics

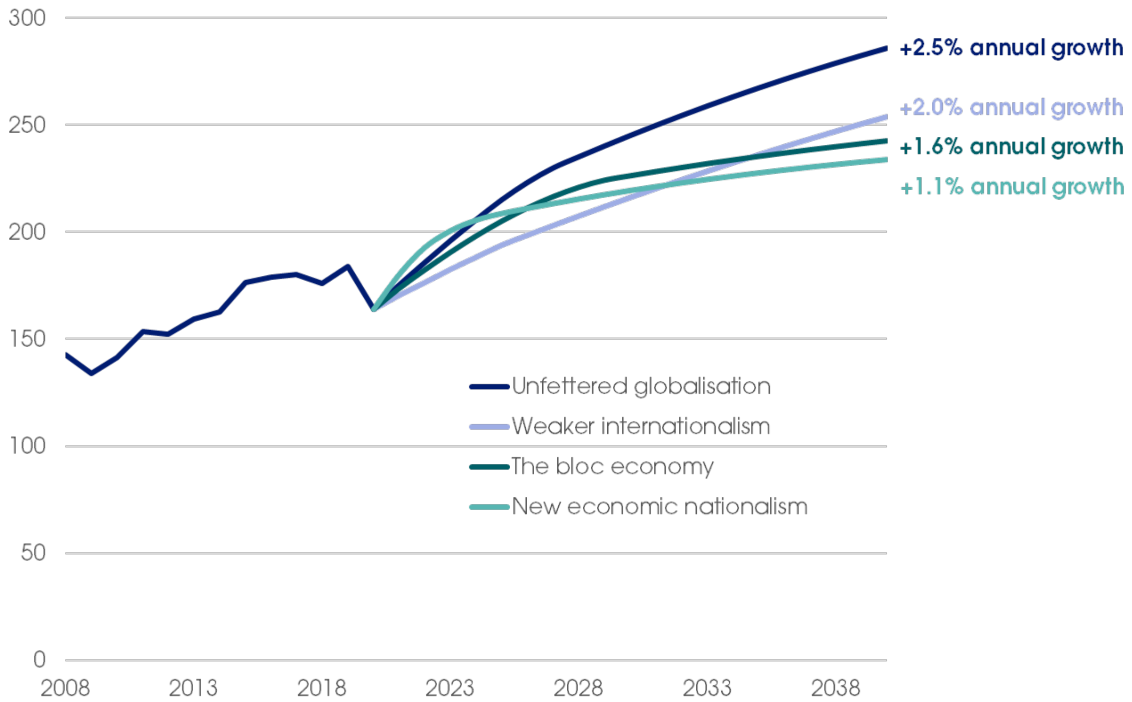
Source: Pragmatix Advisory

To illustrate the range of directions and outcomes, we have developed three narrative scenarios. **The first scenario, which we've called 'weaker internationalism', sees no change in the direction or nature of globalisation** – but these trends continue at a slower pace. It has the most positive outlook for the global economy out of our three scenarios, but it still represents a material reduction on historical growth rates. **The second scenario, 'the bloc economy', envisions continued economic, regulatory and, in some cases, political integration between countries within predominantly regional geopolitical blocs, but with these different groupings diverging from each other.** It offers a less positive outlook for the global economy than the weaker internationalism scenario or recent history. **The third scenario, 'new economic nationalism', sees many of the larger individual nations**

increasingly go their own way and become more protectionist and anti-internationalist. Out of our three scenarios, it would cause the most damage to the future growth of the global economy – potentially pushing growth as low as one percentage point per annum in real terms. None of our three scenarios for the future will deliver as much growth in the world economy as would have occurred with unfettered globalisation, however. Regardless of the geopolitical and economic outlook, the world faces a climate emergency that will impact on all our futures. Major natural disasters are no longer contained to once-in-a-generation events, and their increasing frequency and severity will have far reaching consequences for the global population. (See section 2.4.)

International finance centres, including the cluster of finance, legal and business services providers in the British Virgin Islands, have evolved in response to the changing needs and demands of individuals, families, businesses, financial institutions and governments with interests, operations, customers, investors or assets in more than one country or jurisdiction. **By facilitating cross-border trade, mobility and investment, these offshore centres have developed with, and as a result of, globalisation.** They support investment, jobs and prosperity across the globe, including being catalysts for the economic development of emerging nations. (See sections 3.1 and 3.2.)

Illustrative scenario forecasts of the volume of cross-border activity, with compound annual growth rates for 2022 to 2040, indexed 2000 = 100



Source: Pragmatix Advisory

Their futures are inextricably linked to that of the global economy. We have used our three scenarios to consider the potential future for international finance centres:

- Weaker internationalism is the least precarious scenario economically. Nonetheless, the industry must change and evolve in response to slower growth and ever tougher political demands.

- In the bloc economy, demand for offshore services could remain robust but international finance centres may struggle to keep simultaneous access to increasingly opposed regimes.

- A new economic nationalism would damage the global economy the most, however perversely this may reinvigorate the *raison d'être* for international finance centres and provide a potentially sizeable albeit temporary fillip to their businesses' revenues. (See section 3.3.)

Beyond the three globalisation scenarios, innovative international finance centres are well-placed to meet the challenges and leverage the opportunities of climate change and new digital technologies. (See section 3.4.)

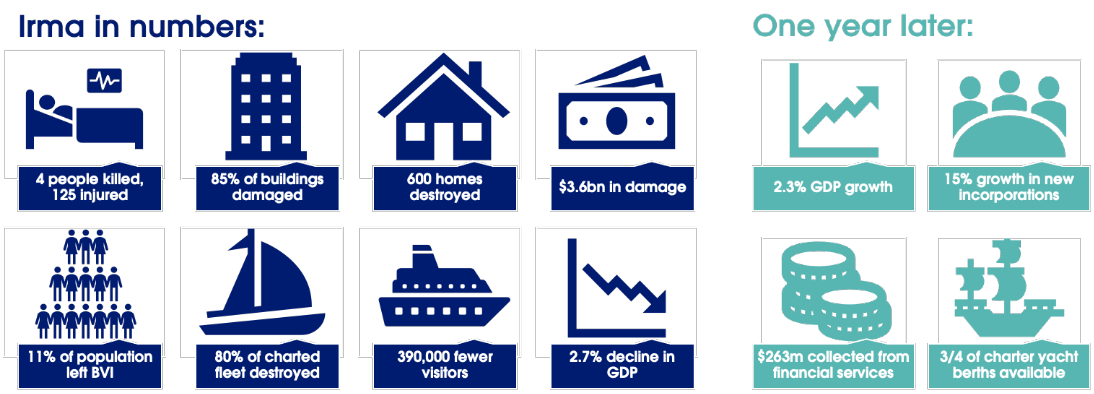
1.2 The BVI's economy and international business and finance centre

The British Virgin Islands, with a population of around 33,000, punches well above its weight with a strong and balanced economy, sound public finances, and a world-class cluster of specialist finance, law and business services firms.

The BVI is a self-governing democracy; it legislates for itself and determines its own taxes and regulations. As a United Kingdom overseas territory, it has partial independence, with authorities in London retaining control over a few aspects of the islands' life and reserve powers over others. **The jurisdiction is a country without sovereignty, and its locally elected government has responsibility without equivalent control.** (See section 4.1.)

The British Virgin Islands' economy outperforms most of its Caribbean and Latin American neighbours. For a small island nation, the mix of businesses is diverse providing stability and resilience. Tourism and cross-border finance are the key pillars. While most goods are imported, their value is more than offset by the export of services. (See sections 4.2, 4.3, 4.4 and 4.5.)

The **BVI benefits from sound public finances**. With little or no recourse to United Kingdom resources, the jurisdiction is fiscally self-reliant. To fund the running of the public services, the territory levies taxes on residents, visitors and businesses with local operations – plus fees, which account for over half of government revenues, on the establishment and maintenance of international businesses registered there. Borrowing is minimal, with any government loans usually tied to specific capital expenditure projects. Meanwhile, the **country's economic and social resilience has been tested and proven in recent years** – both with the impact of Hurricane Irma in 2017 and the covid pandemic that started in 2020. (See sections 4.6, 4.7 and 4.8.)



The British Virgin Islands are a **globally significant hub for cross-border investment**. Over the past four decades, the islands' capital, Road Town, has been home to a cluster of specialist offshore services firms, which we call the 'international business and finance centre'. Central to much of this is use of the 'BVI Business Company', which is a registered company structure established under the territory's long-established and respected legislation providing a flexible and secure legal framework for a wide range of cross-border financial, wealth management and corporate activities. There are currently around 375,000 active BVI Business Companies. The bulk of these are used as contractual vehicles to, for example, hold assets and define their ownership, or to establish robustly the basis for a joint venture; few are trading businesses. (See sections 5.1 and 5.2.)

Estimated gross value added impact (2018, US$ million) and estimated total impact on employment (2019) of the BVI's international business and finance centre

	Direct GVA	Indirect GVA	Induced GVA	Total GVA	Direct employment	Indirect employment	Induced employment	Total employment
Corporate service providers	136	24	67	**228**	821	315	866	**2,002**
Legal	185	50	87	**323**	493	196	345	**1,035**
Insolvency	24	7	11	**43**	65	26	45	**136**
Accounting	33	4	11	**49**	135	53	151	**338**
Insurance	23	3	7	**33**	98	35	96	**229**
Banks	49	9	16	**73**	252	92	182	**526**
BVI Financial Services Commission	17	3	6	**26**	150	56	112	**318**
Other regulation and support	1	0	0	**1**	39	15	29	**82**
Total	**469**	**100**	**206**	**776**	**2,052**	**788**	**1,825**	**4,665**

The cluster of businesses in the international business and finance centre comprise corporate service providers, and law, accountancy, insolvency and other professional services practice plus insurers and banks (although the British Virgin Islands are not a major location for offshore banking) – as well as judicial, regulatory and public bodies. These businesses and agencies employ more than 2,000 directly, contribute US$469 million to the islands' economic output and pay US$246 million in taxes and fees to the government. In addition, there is the indirect economic impact from those firms' expenditure on local suppliers and the induced effect resulting from their employees spending in the local economy. Factoring in these multiplier effects, **overall, the sector supports one in five jobs in and over half of the economic output of the territory**. The international business and finance centre proved resilient in the aftermath of Hurricane Irma and through the pandemic, and provided support to the territory through its toughest times. (See sections 5.3 to 5.8 inclusive.)

Without the cluster, the islands would be much less prosperous. Gross value added would be substantially lower, the government would need to borrow to finance services, and public debt would quickly grow. **The jurisdiction is more prosperous to the tune of nearly US$8,000 per resident with its offshore cluster than it would be without**. (See section 5.9.)

The international business and finance centre has evolved, developed and innovated over the decades to maintain its relevance and position in global markets. This is ongoing – and developments in technology and digital assets provide a good illustration. **The territory is open to new advances in digital technologies.** Measures have been taken to welcome and support new technologies and the opportunities they bring. Legislation has been implemented to both encourage and manage the growth in digital asset holding in the jurisdiction. (See section 5.10.)

The British Virgin Islands are **home to responsible business**.

The islands are a tax neutral jurisdiction. Residents and domestic businesses are required to pay a variety of taxes, including on their payroll, property and goods and services. However, the islands' policy of tax neutrality means that local taxes are not levied on transactions conducted by a business company or assets held in vehicles undertaking economic activity elsewhere. This has no bearing on tax liabilities in other jurisdictions but does avoid companies facing double taxation. The islands' tax regime does not allow individuals or businesses to avoid or evade their liabilities to other governments. **The islands are not a tax haven.** (See section 6.1.)

The **authorities in Road Town engage fully with other governments' tax and enforcement agencies** to ensure that the islands are not used for money laundering, tax evasion or in contradiction to other nations' tax codes. And they were **world-leaders in the development of a comprehensive and robust electronic record of beneficial owners.** The Beneficial Ownership Secure Search system (BOSSs) stores the details of beneficial owners of registered companies and certain other entities in a central database, accessible to domestic law enforcement, regulators, and international partners. Law requires that registered agents verify this information and carry out customer due diligence, with enhanced requirements for politically exposed persons. (See sections 6.2 and 6.3.)

The strength of the islands' transparent system was demonstrated throughout 2022 as it was able to **help onshore jurisdictions to deliver on their judicial mandates against Russia where their own systems proved insufficient to trace ultimate beneficial owners**. Previously, the territory has helped larger countries uphold sanctions against Iran, and more recently against Belarussian nationals and companies due to the country's role in the invasion of Ukraine. (See section 6.4.)

The **territory engages fully with the international community and quickly adopts relevant common standards and protocols**, including incorporating them into domestic legislation as appropriate**.** For example, it has introduced economic substance requirements in response to obligations set out by the European Union and Organisation for Economic Co-operation and Development to prevent harmful tax practices and profit shifting. (See section 6.5.)

Nonetheless, the international business and finance centre, like other similar hubs, is not without its detractors. Individuals and organisations, including the news media, have long claimed that it is ill-regulated and complicit in international financial crime. Of course, no nation can claim to be completely free of crime and dishonesty, but the supposed evidence against Road Town's offshore industry fails to substantiate the rhetoric. Over the years, various campaigners have attempted to calculate the alleged negative social and economic impact of offshore finance centres, including the British Virgin Islands. However, much of the underpinning data used have been shown to be unreliable, out-of-date, incomplete or misinterpreted, while **many commentators fail to grasp the fundamentally innocuous nature of the islands' tax neutrality**. Too often, the so-called tax justice campaigners suffer confirmation bias having started with the incorrect assumption that all offshore activity is illicit. (See section 6.6.)

Looking ahead, **the international business and finance centre has both opportunities to grasp and challenges to surmount**.

In the short term, the jurisdiction, under the leadership of a new unity government, is dealing constructively with the consequences of and recommendations from the Commission of Inquiry into governance standards in the islands' public services. However, maintaining ongoing access to robust and wide-ranging **international banking facilities are a growing**

concern. The British Virgin Islands, which uses the United States' dollar as its currency, rely on arms-length correspondent banking arrangements with continental North America providers, but these are taking an increasingly cautious attitude to such relationships in the Latin America and Caribbean region. (See sections 7.1 and 7.2.)

Further ahead, our different scenarios for globalisation offer alternative opportunities and challenges for the islands:

- **Under weaker internationalism, the islands' offshore cluster is under no immediate threat** but it will need to evolve and innovate to respond to an increasingly competitive market, especially for volume incorporations. **Success will depend on continuing the shift away from the historical business model** which focused on increasing volumes of incorporations, towards providing a wider and deeper range of higher value advisory and other professional services.

- **Under the bloc economy, it becomes harder to face all markets simultaneously and tough choices must be made.** The costs of compliance with European Union rules make services too expensive for Asian and American customers, while the different blocs take measures to limit activity across regional borders. There will be a role for trade and investment intermediaries between blocs; given its existing global reach, the territory could become such a centre. But this is neither certain nor without risk. Alternatively, the territory must choose between blocs.

- Although the most damaging to the global economy, the **prospects for the islands under new economic nationalism scenario could be comparatively good (at least initially)**. Offshore expertise is likely to be sought after as cross-border transactions become more complex and costly, and the islands' long history and global breadth of experience will be appealing. (See section 7.2.)

Technological advancements will bring opportunities and risks to the jurisdiction and its international business and finance centre. With the ongoing expansion of the digital world and remote ways of working, geographical barriers will continue to erode. Digital connectivity makes the jurisdiction's financial services industry and the services it provides accessible to clients all around the world, and as investors in developing markets look to expand their portfolios across borders, the jurisdiction is ideally placed to meet those needs. (See section 7.3.)

The incentive to tackle the negative impacts of climate change hits particularly close to home for the British Virgin Islands. Ecologically fragile, the small island state is ground zero for the catastrophic risks of intense hurricanes, rising sea levels and torrential rainfall. The tourism industry in the British Virgin Islands and the jobs that rely on the visitor economy are already threatened by rising sea levels, flooding, drought, erosion, and coral and sargassum bleaching.[1] Recognising this, the jurisdiction is well-placed to position itself as a centre for green finance with a genuine interest in responding to the climate emergency. (See section 7.4.)

1.3 The BVI's global contribution

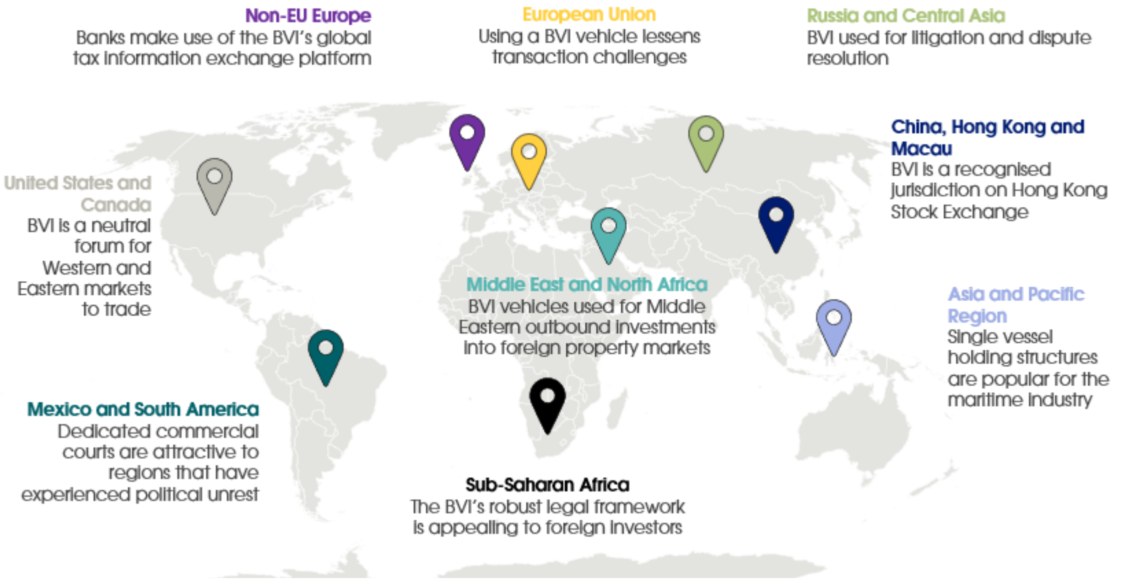
The British Virgin Islands are an attractive location in which to conduct cross-border investment and trade thanks to its robust legal framework, its regulation and compliance in

[1] Murray Simpson et al, *Climate Change's Impact on the Caribbean's Ability to Sustain Tourism, Natural Assets, and Livelihoods* (Inter-American Development Bank, New York), March 2011. pp1-2

line with international directives, and its cohesive and cost-effective administration. The international business and finance centre supports substantial global flows of investment that support jobs throughout the world.

The islands are a significant intermediary for foreign direct investment, and **BVI Business Companies hold an estimated US$1.4 trillion in assets.** The territory is particularly favoured by businesses in Asia. The majority of companies are used for cross-border structuring. (See sections 8.1, 8.2 and 8.3.)

Examples of why international clients choose to use the British Virgin Islands' international business and finance centre



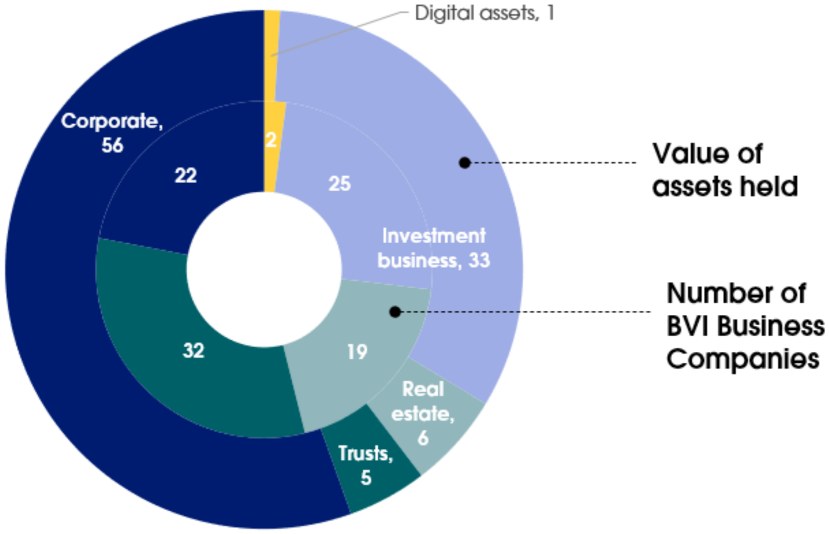
Source: Pragmatix Advisory

BVI entities make popular listing vehicles on international stock exchanges, with BVI Companies listed on the Hong Kong, London, New York and Toronto Stock Exchanges, amongst others. The islands are also an appealing jurisdiction for entities wishing to structure their investment funds. Indeed, **it is the second largest offshore jurisdiction for hedge funds in the world**.[2] A variety of assets are held in BVI Business Companies, and cross-border investment involving real estate, vessels and digital assets will typically use a special purpose vehicle, which can hold a single asset or a portfolio and provides investors with the reassurance of limited liability. (See sections 8.4, 8.5 and 8.6.)

High net worth individuals still see the islands as an attractive centre in which to hold and manage assets, but **while privacy and security remain considerations, they are no longer main** drivers. The British Virgin Islands are a leading jurisdiction for private trust companies, with over a thousand on its register. (See section 8.7.)

[2] Robert Briant et al, *British Virgin Islands Investment Funds* (Conyers, Road Town), 2022. https://www.conyers.com/services/legal-services/investment-funds/british-virgin-islands-investment-funds/ (Accessed 28 October 2022)

Estimated underlying value of active BVI Business Companies by primary purpose (outer ring) and estimated share of active BVI Business Companies by primary purpose (inner ring), 2021, per cent



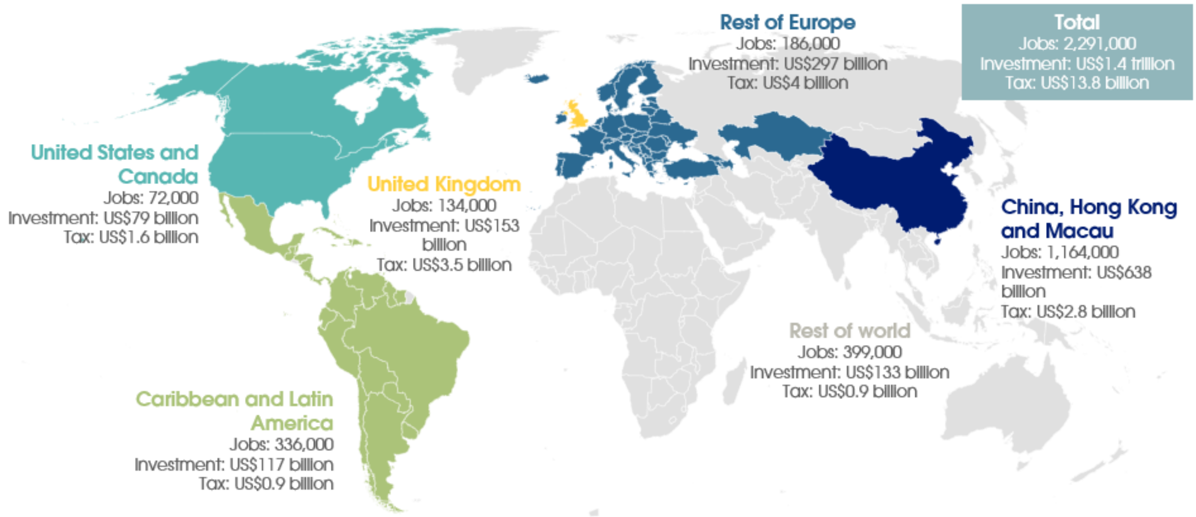
Note: 'Corporate' refers to corporate group structuring; 'Trusts' refers to family, trust and succession planning; 'Real estate' refers to real estate holding; 'Investment business' refers to investment business, joint ventures, listing and vessel or aircraft registration. Source: Pragmatix Advisory industry survey, 2021/22

Investment activity mediated by the British Virgin Islands sustains significant economic growth. We estimate that **assets held in BVI Business Companies are equivalent to 1.5 per cent of annual global gross domestic product**[3] and four per cent of all sectors' total cross-border banking liabilities.[4] More than two million jobs worldwide are supported by the mediated assets, contributing over US$14 billion a year to public sector revenues. There will be some tax lost from larger nations through the use of offshore vehicles such as those incorporated in the islands, but the scale of these losses has been evaluated before and shown to be small – especially when considered against the benefits of investment mediated via the jurisdiction. (See sections 9.1, 9.2 and 9.3.)

[3] World Bank, *Gross domestic product* (World Bank, Washington DC), 2022. https://data.worldbank.org/indicator/NY.GDP.MKTP.CD (Accessed 28 October 2022)

[4] Bank of International Settlements, *BIS international banking statistics and global liquidity indicators at end-March 2022* (Bank of International Settlements, Basel), 28 July 2022. https://www.bis.org/statistics/rppb2207.htm (Accessed 28 October 2022)

Estimated economic and fiscal impact of investment mediated by BVI Business Companies, 2021



Source: Pragmatix Advisory analysis of industry survey 2021/22 and Capital Economics 2017 estimates

The territory is not the only tax neutral jurisdiction with sound government, respected law and a well-developed cluster of financial and professional service providers, but costs in the Crown Dependencies are higher than in the Caribbean – and only certain categories of activity conducted in Road Town would be able to bear them. **If the international business and finance centre didn't exist, much of the investment mediated through it would likely happen anyway – but there would be adverse consequences.** There are several locations where international businesses can be incorporated and run at a lower cost. Typically, these jurisdictions have one or more characteristics that may differentiate them from the British Virgin Islands in the minds of investors, including no access to the British legal system, limited track record of high value dispute resolution and/or predictable jurisprudence, short history of sound government and financial regulation, idiosyncratic or unwieldy company law or limited expertise and capacity in local service providers. (See sections 9.4 and 10.1.)

Many of the lower cost centres have not kept pace with the Government of the Virgin Islands in the adoption of international standards for transparency, tax information exchange, anti-money laundering and combatting the financing of terrorism. And some, like the US State of Delaware, have wide networks of double taxation agreements that may facilitate corporate profit shifting. For some investors, **the islands' combination of cost effectiveness, sound common law and local specialist expertise will not be matched in other jurisdictions.** Here, investors will opt instead for domestic opportunities with, presumably, lower returns – while the recipients of the investment, often in developing countries, will either go without or have to pay more. (See section 10.1.)

The globalisation of the post-Cold War period, and the stability and certainty it brought, is over. But cross-border trade, mobility and investment will continue – and likely grow (albeit more slowly than over recent decades). The role of the islands will expand both in size and nature and the different scenarios for geopolitics will place new demands on investors and their agents. **Markets are developing and evolving in ways that are in many respects non-geographic**, and the international business and finance centre is well-placed to serve these markets. Technology and the digital environment provide potential new opportunities for the islands' ongoing contribution to the global economy, and as an island territory under regular threat from hurricanes, the international business and finance centre is well placed to support the fight against climate change, as well as contribute constructively to evolving social values worldwide. (See sections 10.1, 10.2 and 10.3.)

It is in the interest (and the responsibility) of the United Kingdom government and the taxpayers they represent to nurture and support the ongoing development of Road Town's international business and finance centre. **Without the cluster, the islands' economy would be weaker, less resilient and less able to support its own public services or raise funding for needed public investment.** Currently the British Virgin Islands is fiscally independent, but it is unclear what demands would be placed on United Kingdom finances and resources without the international business and finance centre supporting the islands' economy. (See section 10.4.)

Efforts to restrict the use of tax neutral and well-run international finance centres in order to fight tax evasion and avoidance or bolster onshore tax bases are not only groundless, they are an act of global economic and fiscal self-harm.

Globalisation scenarios summary

	The weaker internationalism scenario	The bloc economy scenario	The new economic nationalism scenario
Geopolitics	• Current trends of globalisation continue at a slower pace	• Continued economic and regulatory integration between countries with regional geopolitical blocs but with groups diverging from each other	• Larger individual nations become more protectionist and anti-internationalist
The global economy	• Lower rates of growth slow cross-border trade and investment • Tensions between old and emerging economies • Indicative CAGR 2020– 2040: 2.3 per cent • Indicative growth of up to 5.8 per cent in emerging economies, with Europe and the United States lower less than two per cent	• Fissures grow between groups of nations in regards to conflicting economic interests • Rates of growth in worldwide economic output could be less than half of those prior to the pandemic • Indicative CAGR 2020– 2040: 1.5 per cent • Indicative growth of between 2.7 and 3.5 per cent for China and emerging Asia, close to zero per cent for Europe and the United Kingdom	• This scenario causes the most damage to future growth of the global economy – potentially as low as one percentage point per annum in real terms • Global value chains fracture, markets are more volatile and trends less predictable • Indicative CAGR 2020– 2040: 1.0 per cent • Indicative growth of two per cent for China and negative growth for Europe
Global trade and investment	• Efforts to remove trade tariffs, quotas and non-tariff protections continue • Progressing towards freer trade in services • Rates in foreign direct investment will fall compared to pre-covid rates • Plans for a global minimum corporate tax rate continue to move forward, but with geopolitical tensions between China, the European Union and the United States • May see pressure for the fifteen per cent tax rate to increase	• Rise in tariffs and quotas for inter-regional trade • Access to the European market will involve an increased tariff • Blocs will take measures to limit activity across regional borders so there will be a need for investment intermediaries between blocs • An even wider divide on tax and transparency between Washington and Brussels drives a wedge between markets • Faster integration and coordination of tax initiatives within blocs • Different ideas about tax competition will develop between blocs and global minimum corporate tax will be abandoned	• National self-sufficiency take precedence over the gains from trade • Investment relations increasingly decided on a one-to-one basis between nations • The global minimum corporate tax rate will no longer apply • European nations, either individually or aligned to the European Union, will increase protectionist tax rules
Impact on international finance centres	• The market for offshore services grow at modest rates • Existing international standards and tax initiatives to remain largely unchanged	• Demand for services could remain robust, but international finance centres may struggle to keep access to opposed regimes	• Offshore expertise will be sought after as cross-border transactions become more complex and costly • Neutrality of offshore centres is increasingly attractive • However, the initial boost for the industry is likely to be offset by a weaker global economy
Opportunities and threats for the British Virgin Islands'	• Incorporation costs will likely increase • Squeezed margins for the higher volume and lower value end of the market • The industry needs to shift from relying on organic volume growth to focusing on increasing relationships with existing clients • Business model to expand to provide a wider and deeper range of advisory and other professional services • Due to pressure from the West, concerns over how to maintain a successful relationship with Chinese markets will arise	• Simultaneous access to markets will pose a significant challenge – the centre will have to decide whether it chases growth in emerging markets such as Asia and Africa or retain revenues from established markets like North America and Europe • The jurisdiction will have to choose between blocs or reconfigure itself to become an investment intermediary centre, though this is not without its own set of risks	• Initially the islands' long history and global breadth of experience will be appealing • Fee rates will rise as offshore intermediation becomes more complex • The number of incorporations may see an increase as cross-border structures become more convoluted

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