

Funding the Future

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I expect to be on Newsnight tonight to discuss the British Virgin Islands and why it appears to be used by so many Chinese people who appear to own companies located there. The [issue is already in the Guardian](#). It's worth looking at the evidence.

According [to one BVI company formation agent](#):

Such is the dominance of the British Virgin Islands as an offshore corporate domicile, that in many regions of the Far East International Business Companies are called simply as "BVI's".

I suspect that is true. According to the BVI there are [480,000 BVI companies at present](#). Actually, I will tell you they simply really do not know. At one time they said it was more than 800,000. Then we discovered that was the cumulative total formed and it as impossible they were all still operating so they halved the number, arbitrarily. The fact is that no one knows how many BVI companies there are, including the BVI.

What is fairly certain is that with a population [of just under 32,000](#) BVI is the most densely populated country by companies per head of population at more than fifteen a person.

[My research in 2010](#) also showed it to be the place with the most Big 4 offices per head of population. KPMG, PWC and Deloitte are all there - giving one office for less than 11,000 people. You can be sure it's not the local market they're serving.

So why form a company in the BVI? [Because there are not taxes, at all](#). There is no documentation filed on public record for the company, at all. there is no need to have accounting records in the BVI, which for all practical purposes then means there is no need to do so, anywhere. There is almost absolute secrecy.

And so good, or bad as the view may be, at the BVI at securing any data on the companies that are recorded as existing there that it failed the (in my opinion) fairly lax tests that the PECD applies to tax havens - being one of the few places [to do so in its latest assessment](#). The failures were for not being able to tell who owned companies, not being able to secure accounts, not having the right to access information and not taking part in effective information exchange when requested to do so. In other words,

even when international organisations demand that it be cooperative it is not and appears to have no intention of being so.

So if you want to organise illicit financial flows - that is, moving money out of a state to avoid regulations without that fact being detected - then the BVI is the place to use.

And the Chinese seem to want to move money out of China in phenomenal amounts. Global Financial Integrity, an organisation with whom I have worked, estimate that [more than \\$100 billion has left China each year for more than a decade now](#) - making it the biggest source of illicit financial flows in the world. In that same period about [\\$60 billion also returned illicitly](#) annually to China via Hong Kong according to GFI. In other words, this money 'round trips' out of and back into China where it is then used for speculative purposes - in no small part to fuel the Chinese house price boom. The rest, of course, ends up invested in 'off plan' housing investment in London.

So the BVI is the epicentre of the world's illicit financial flows - although very little of the cash will, of course, ever see the place at all. What it provides is a front behind which illegal actions can be hidden. And at the end of the day this is a British territory. The Queen has her head on their stamps. There is a British Governor. [We are responsible for good government and upholding the rule of law](#). And we could intervene if we wished. And we don't.

The biggest question is then, why don't we do that? That's the biggest question of all about the BVI. And George Osborne has to answer it.