JERSEY FINANCE

VOICE OF THE INTERNATIONAL FINANCE CENTRE

Jersey's contribution to FDI

Jersey Finance commissioned Investment Consulting Associates (ICA), a global management advisory firm specialising in corporate location strategy, to analyse Jersey's competitiveness in attracting and mobilising foreign direct investment (FDI). The resulting report sets out the strengths of Jersey's finance industry in facilitating flows of FDI and its contribution to the global economy.

What is FDI?

FDI comes in three broad forms:

1. Investment by corporate investors in a company or entity based in another country, establishing or acquiring foreign assets to generate additional revenue. This form includes takeovers as well as investment in new assets. The purpose may be to control more of the same activities (horizontal FDI), to control other parts of the supply chain (vertical FDI) or to invest in completely different sectors (diversifying FDI).
2. Investment by wealthy individuals to optimise their international investment revenues. Ultra High Net Worth Individuals with more than US$50 million in wealth are increasingly active in global FDI.
3. Greenfield investment which creates new physical operations such as factories, distribution centres, service centres and regional headquarters from scratch (as opposed to Brownfield investment which modernises or reconfigures existing facilities).

Cycle in attracting, adding value and redirecting FDI

The diagram above shows Inward FDI from source countries with the value-adding in the IFC executed through activities such as banking, trusts, funds and capital markets which in turn attract Greenfield FDI to the IFC. After the FDI has been pooled, it is ready to be directed as outward FDI to destination countries.

Inward FDI

IFCs also act as a channel and re-distribution function in that they attract, pool and direct flows of FDI (eg equity, intra-company loans) between source and destination jurisdictions enabling international patterns of FDI.

Outward FDI

IFCs act as a channel and re-distribution function in that they attract, pool and direct flows of FDI (eg re-invested earnings) between destination and source jurisdictions, increasing the global volume and profitability of FDI.

For further information, please visit: www.jerseyfinance.je/jerseyforFDI

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The attractiveness of International Finance Centres (IFCs) for FDI

IFCs have proved increasingly attractive to foreign direct investors with the growth of globalisation in the world economy and of financialisation (the greater use of financial services in its operations). These trends have led to the emergence of specialised investment vehicles and associated services to facilitate the flow of capital around the world.

IFCs specialise in providing such vehicles and services, but they also further facilitate the conduct of international business by providing a stable institutional, tax and regulatory environment for cross-border transactions. As a result, almost US$80 billion of FDI flowed through IFCs in 2012, 6% of all global FDI.

Global trends in FDI

The financial crisis in 2008 had a significant impact on FDI, reducing cross-border flows of capital and stalling financial globalisation. There are signs of recovery, with total global FDI by corporate investors increasing 6% from US$1.33 trillion in 2012 to US$1.41 trillion in 2013.

One trend since 2000 continues, however: the proportion of FDI from developing countries is growing, while that from developed countries is shrinking. If this trend continues, developing countries' share of FDI could overtake that of developed regions before the end of this decade. An example of the growth in FDI by developing countries was a 57% increase in outward investment from Africa in 2013.

The attractiveness of Jersey as an IFC for FDI

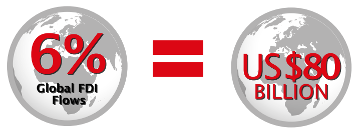
The attractiveness of a particular IFC to foreign investors is determined by the interaction of five factors:

1. **Doing Business Conduct:** Jersey is close to the leading global financial centre of the City of London. It is in the Greenwich time-zone which overlaps the American and Asia-Pacific time-zones, thus linking it with most of the other global financial centres. Its assets include a native English-speaking labour force, sophisticated information and communications technology infrastructure and good air connections to the UK and other European destinations. The rule of law is respected.
2. **Fiscal Conduct:** Jersey is in a currency union with the UK. Sterling is a major and stable currency, enabling investors to operate in a relatively risk-free financial environment. Jersey also enjoys full fiscal autonomy and has favourable low tax rates.
3. **Regulatory Conduct:** Like most small jurisdictions, Jersey has the flexibility to develop rules and regulations to support advanced financial services. The Jersey Financial Services Commission (JFSC), which regulates, licenses and supervises the Island's finance industry, has allowed new businesses and investment vehicles to emerge as markets have changed.

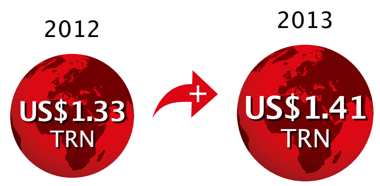
Jersey's contribution to FDI

Global FDI trends

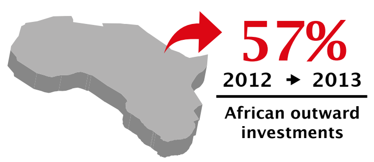
Investments through IFCs in 2012



Total global FDI flows by corporate investors increased



Outward investments from Africa increased



4. **Reputational Conduct:** Jersey is well-known for its stable, predictable and consistent policy regime. Its common law framework enables the establishment of investment vehicles which are attractive to investors, and they can rely with confidence on the certainty provided by an independent judiciary. Meanwhile, the JFSC licences Jersey-based financial services companies, acting as a gatekeeper to preserve the Island's reputation.
5. **Transparency Conduct:** Jersey has no banking secrecy laws, treats tax evasion as a crime and requires financial services providers to declare any suspicious transactions. The Jersey authorities know who the ultimate beneficial owners are, which can be communicated to appropriate authorities on request. And it is in the vanguard of international moves towards tax transparency, a leadership role that has been acknowledged by international regulators.

As an IFC, Jersey has substance and critical mass in the breadth and depth of its financial services, which enable it to act as a major player in the global FDI market. While larger IFCs may handle more business, Jersey attracts higher levels of value-added financial and support services. Its appeal to international investors is the broad range of activities it offers in a tax-neutral fiscal regime.

Jersey's success as an IFC

As of 2011, the most recent year for which data* is available, Jersey's finance industry had attracted over US$1.9 trillion of wealth and provided a base for companies with a total market capitalisation of US$425 billion, distributed among the following activities:

1. **Banking:** US$320 billion of deposits from wealthy individuals and associated corporate and institutional clients.
2. **Trusts settled by private individuals:** US$630 billion of assets managed, attracted by diverse administration services including succession arrangements and the Island's culture of compliant confidentiality.
3. **Trusts settled by companies and institutions:** US$710 billion held for corporate and institutional purposes.
4. **Investment funds:** US$320 billion of funds administered and, to a lesser extent, managed.
5. **Capital markets:** US$430 billion in relation to over 100 Jersey-based companies listed on worldwide stock exchanges.
6. **Advanced financial expertise:** US$13 billion invested in services supporting complex cross-border FDI flows with world-class legal, accountancy, banking and other professional services.

* Source Capital Economics (2013) 'Jersey Value to Britain'

Jersey's success as an IFC

TAX NEUTRALITY

ACCESS TO CAPITAL MARKETS

INVESTMENT POOLING

TIME ZONE AND LANGUAGE

RANGE
of sophisticated services providers

EXPERTISE
and substance

SECURE
and well-regulated

STRONGER, MODERN LEGAL FRAMEWORK
for international philanthropic and charitable enterprise

INTERNATIONAL UPTAKE
from continental Europe and interest from the Far and Middle East

The scale of Jersey’s FDI activities

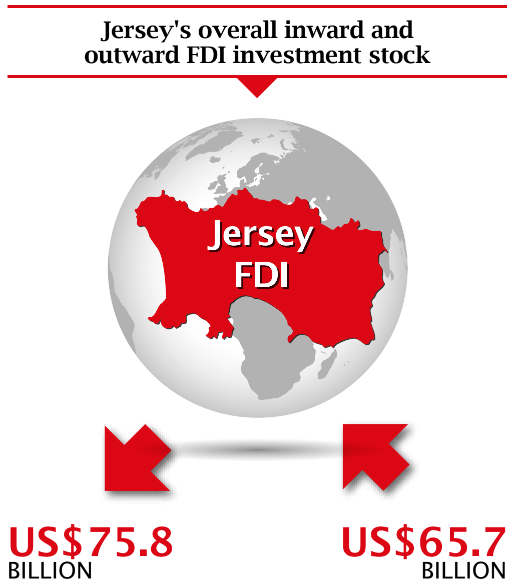
The stock of Jersey’s inbound FDI reached US$65.7 billion in 2012, the most recent year for which data is available. The main source of this was the UK which, at US$36.9 billion, accounted for 56.3% of the total. The next biggest sources were Ireland (14.6%) and Russia (7.8%).

The stock of outbound FDI in 2012 was US$75.8 billion, with the UK again accounting for the largest share at US$33.9 billion – 44.8% of the total. The next biggest destinations were the Netherlands (10.3%) and Germany (7.9%).

Jersey’s limited size means that its finance industry has a relatively low capacity to absorb Greenfield investment from overseas. Yet the US$13.34 billion which has been attracted has created a cluster of leading financial services businesses on the Island.

Conclusion

As capital continues to flow across borders in increasing amounts, IFCs provide investors with essential services that facilitate FDI. Such investors find Jersey a particularly attractive centre because of the strengths of its financial markets and the quality of the services it offers. As a result, the Island has handled very substantial amounts of FDI, adding considerable value to the global economy by supporting the growth in cross-border investment.



Jersey’s inward / outward FDI investment stock 2012