Report exposes Chinese elite’s offshore tax havens

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A report by the International Consortium of Investigative Journalists (ICIJ), based on leaked financial documents, has exposed the Chinese political and corporate elite’s use of offshore companies based in the British Virgin Islands (BVI) to secretly store their personal fortunes.

The consignment of riches to the BVI, one of the world’s major tax havens, provides a glimpse into the extraordinary growth of social inequality in Chinese society, and the intimate nexus between the Chinese Communist Party (CCP) leadership, their relatives, and a burgeoning layer of ultra-wealthy entrepreneurs.

The report is part of a two-year project by the ICIJ, based on files from just two of the global financial firms—Singapore-based Portcullis TrustNat and BVI-based Commonwealth Trust Limited—that help clients create offshore companies, trusts and bank accounts.

According to the report, nearly 22,000 Chinese citizens, including some living in Hong Kong, have accounts in the BVI. Among them are the relatives of at least five current or former members of the CCP’s politburo, including a brother-in-law of Chinese president Xi Jinping, and the son of ex-premier Wen Jiabao, along with others with close family ties to the regime.

Significantly, the list also features the son-in-law of Deng Xiaoping, the principal architect of capitalist restoration in China from 1978 onward.

An estimated one to four trillion dollars in untraced assets has reportedly been moved out of China since 2000, through a complex web of companies and intermediaries. Leading European and American-based banks, such as UBS, PricewaterhouseCooper and Credit Suisse, work as middlemen for Chinese clients in these arrangements.

The ICIJ profiled a number of the “princelings,” as the wealthy relatives of the Chinese leaders and top bureaucrats are popularly known. The interests of these figures are a tightly guarded secret, with no requirement for officials or their relatives to publicly disclose their finances. Nevertheless, from the report a clear picture emerges of a grasping and parasitic social layer that has made its money through the looting of state assets, deals with transnationals and outright corruption.

The list includes the following details:

* Deng Jiagui, President Xi Jinping’s brother-in-law, has a 50 percent stake in a BVI-incorporated property development firm. The other two major shareholders are property tycoons. Deng has styled himself publicly as an anti-corruption fighter—in line with Xi’s campaign against official corruption, which is aimed at justifying further sweeping pro-market restructuring and eliminating political rivals.

* Former premier Wen Jiabao’s son, Wen Yunsong, established a BVI-based company named Trend Gold Consultants in 2006, with the assistance of Credit Suisse. He was the only director or shareholder, and the company apparently ceased operating in 2008. The ICIJ report noted: “Bare-bones company structures are often created to open bank accounts in the offshore firm’s name, helping obscure the relationship to the real account owner.” Wen Yunsong went on to establish a private equity firm, before becoming chairman of a state-owned satellite communication firm in 2012.

* Wen’s daughter, Wen Runchun is associated with a BVI company, Fullmark Consultants, which was paid some $1.8 million in consultancy fees by JPMorgan Chase. According to the ICIJ, the company “appears to have been set up in a manner that obscured Wen Runchun’s relationship to the firm.” The company was established in 2004 by her husband, who was sole

shareholder until 2006, when he was appointed as a banking regulator. He transferred the company to Zhang Yuhong, a businesswoman and family friend who allegedly assisted in the control of Wen family assets.

* Fu Liang, the son of Peng Zhen, a prominent figure in the 1949 Chinese revolution, and a senior leader in the National People's Congress in the 1980s, transitioned from a career in the state rail sector, into a major player in the leisure industry, investing heavily in yachting and golf courses. He controlled at least five BVI companies between 1997 and 2000.

* Two current delegates to the National People's Congress are linked to BVI companies. Wei Jianghong, the chairman of a state-owned metals company, was director of a BVI company, established in 2006, that made major investments in a copper processing project in Chile. Ma Huateng, who founded the chat web site Tencent and is worth some $10 billion, became co-director of a BVI-based company.

Others on the list include the daughter of former premier Li Peng, and a second cousin of former president Hu Jintao.

The report notes the direct plunder of state resources, via offshore accounts, including the theft of $2.8 billion by a senior railway executive, who pleaded guilty in September. An internal government report from the Bank of China revealed the embezzlement of some $120 billion since the 1980s, all funnelled into BVI accounts. China's three largest state-owned oil companies are reported to have ties to dozens of companies in the BVI.

The policies of capitalist restoration pursued by the CCP regime since the late 1970s have produced a staggering social chasm. According to figures cited in the *Guardian*, the 100 richest men in China are worth around $300 billion, while the poorest 300 million people live on less than $2 a day.

Acutely sensitive to any of the details of its hidden wealth becoming known to the Chinese working class, the Beijing regime apparently went to great lengths to block the *Guardian's* online story about the ICIJ figures last week.

According to the *Guardian*, which collaborated with the ICIJ's "Offshore Secrets" project, Chinese access to its article was stopped on January 22, while access to the front page and other stories on the site was intermittent. The ICIJ web site, and the Spanish publication, *El Pais* which published a story on the report, also appeared to be suppressed, while the search term "ICIJ" was blocked on the popular Weibo social networking site.

In 2012, a *New York Times* story documenting the $2.7 billion "hidden fortune" of then premier Wen Jiabao's family provoked a political crisis, and was the subject of broad discussion on social media. The Chinese regime responded by blocking the NYT's web site and declining visa applications by its correspondents.

At the beginning of this year, in an attempt to assuage public anger over the issue, the Chinese government announced new rules requiring citizens to report their offshore holdings. Given the high-level political figures involved in the financial transfers, this is unlikely to substantially stem the secret outflow.

The findings of the ICIJ report point to the fundamental character of the Chinese regime. Resting on the revenues generated by the cheap labour that it provides to global capitalism, it has become a vehicle for the enrichment of a narrow caste of oligarchs and a political elite centred around the CCP's top leadership.

At the same time, the report paints a picture of an isolated social layer, squirreling away ill-gotten gains in overseas markets, and heavily dependent on the operations of the major European and American financial institutions. And as its repressive response to the report's publication demonstrates, the Chinese elite is deeply fearful that the glaring growth of inequality will produce major social upheavals that will threaten the very basis of its obscene wealth.