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John Christensen
Tax Justice Network
Mark Hampton
Kent Business School

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John Christensen[1] and **Mark P. Hampton**[2]

1. Tax Justice Network

3 Jonathan Street

London SE11 5NH, UK.

Email: christensen.tjn@neweconomics.org

2. Contact Author

Kent Business School

University of Kent

Canterbury

Kent CT2 7PE UK.

Tel: +44 (0)1227 827726 (General Office)

Fax: +44 (0)1227 761187

Email: m.hampton@kent.ac.uk

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Abstract.

Many islands host tourism and offshore finance but research tends to focus on either industry without examining the nature of the relationship(s) between these two where they co-exist. This paper examines the nature of the relationships using a case study of the British Channel Island of Jersey. Both industries demand labour, land and capital that are frequently scarce in small islands. Given their common characteristics and, drawing lessons from Jersey, the paper then considers the nature and the dynamics of their relationship, and the issue of resource competition between the two sectors.

In light of the unusual context of small polities and the political power of external actors, the paper also analyses the dynamics of the central relationship between tourism, offshore finance and the state in islands. Finally, the paper considers the overall impact of the relationship between tourism and offshore finance and how it affects the economic development trajectory of small islands.

Key words: Tax havens; island tourism; island development

1. Introduction

This paper examines what are arguably the two largest global service industries in advanced capitalism, international tourism and offshore finance, and their role in small islands. Tourism has been estimated as being one of the world's fastest growing industries with over 702 million international arrivals in 2002 and an estimated one in four of the global labour force is engaged in tourism-related employment (WTO, 2005). Offshore finance is also a significant global industry with an estimated US $12 trillion held offshore in the over 70 tax havens around the world (Tax Justice Network, 2005). Other estimates suggests that perhaps as much as a quarter of the world's total money supply is now held in offshore finance centres (OFCs), and over one half of the gross value of world trade is

transacted through offshore centres.

Many SIEs in the Caribbean, the Pacific and on the European periphery host both of these major service industries. Many island OFCs also host a significant tourism industry as measured by staying visitors, cruise ship arrivals, share of direct employment or contribution to national income. In many Caribbean SIEs tourism accounts for 20-50 per cent of GNP, and in some islands it may contribute as much as 75 per cent of GNP (Weaver, 2001)[1]

Some SIEs have a higher income per capita than some large OECD counties. For example, Bermuda has a higher Gross National Income (GNI) per capita than that of the US, and the Cayman Islands' GNI is higher than that of Sweden (World Bank, 2002). Existing research on the impacts of hosting these activities in SIEs has tended to focus either on tourism or offshore finance. Both industries have common characteristics including a high degree of mobility; rising global demand; and labour-intensive customer services operations. Furthermore, both require advanced transport and telecommunications infrastructure.

It is unclear, however, from the existing literature whether the relationship between these two industries in small islands goes beyond having certain characteristics in common. This paper seeks to examine this fundamental issue. It has been asserted, for example by government policy-makers in islands (see Powell, 1971 for example), that there is a broadly positive, even symbiotic, relationship between these two sectors. This paper considers a new research question: whether an economic relationship exists between tourism and offshore finance in small islands, and, if so, is there any discernable inter-dependence that may be identified, or might the nature of the relationship be one of intense competition between two powerful industries vying for scarce resources?

Tourism and offshore finance may be seen as highly advanced global forms of capitalism. Both tend to be dominated by trans-national corporations (TNCs) that are typically owned and headquartered off-island. Post-tax profits generated in the SIEs are normally repatriated to shareholders elsewhere. Also, both industries demand labour, land and capital that are frequently in short supply in SIEs. In light of these common characteristics, this paper uses a case study of the

British Channel Island of Jersey to illustrate the nature of these relationships and examine the issue of competition between the two sectors and how this may change as a result of the different growth dynamics of the two industries.

In view of the unusual context of small island politics and the political power of external actors, the paper analyses the dynamics of the central relationship between tourism, offshore finance and the state in SIEs, and the different types of linkages to the state. The paper also considers the overall impact of the relationship between tourism and offshore finance in SIEs and how this may affect the economic development of the small islands that host both industries. Small islands are defined as being those with a total population of under 1.5 million (Commonwealth Secretariat, 1997). It has also been previously argued that SIEs, like the majority of remote and peripheral areas, are characterized by profound economic disadvantages, including restricted comparative advantages; diseconomies of scale; dysfunctional market structures; high transport costs; high level of openness to international trade; tendencies to be price-takers not price-makers; limited natural resources; and small labour markets with deficiencies in professional and institutional knowledge and experience (Armstrong et al, 1998; Briguglio, 1995; Royle, 2001).

International tourism in islands has generated a large body of work from the seminal research of Hills and Lundgren on the Caribbean (1977) and Archer's study of the economic effects of tourism, most notably multiplier analysis (1977). More recent research has focused on applying Butler's resort cycle model (1980) to island tourism (Debbage, 1990; Weaver 1990); environmental impacts and sustainability in islands (de Kadt, 1979; Wilkinson, 1989; de Albuquerque and McElroy, 1992; Briguglio et al 1996; Ratter, 1997; Knight et al, 1997; McElroy and de Albuquerque, 1998; Bardolet, 2001; McElroy, 2002); small-scale and backpacker tourism in islands (Hamzah, 1995, Hampton, 1998); resort development in islands including the Maldives (Domroes, 1985), the Seychelles (Wilson, 1997), Fiji (Burns, 1995; King, 1997), Bintan (Shaw and Shaw, 1999) and regional comparisons for the Caribbean (Pattullo, 1996; Weaver, 2001), Mediterranean (Ioannides, 2001) and Pacific (WTO, 2001). In addition to the large body of

literature on tropical and warm-water island tourism there is a smaller but growing area of research on cold-water island tourism including islands in the Baltic sea, Prince Edward Island, etc (Baum 1996; Twining-Ward and Twining-Ward 1996; Royle, 2001).

In contrast, however, despite the large literature concerning international finance, offshore finance was effectively unexplored until the 1980s when Johns (1983) applied a neo-classical analysis to the economics of offshore finance and discussed the British OFCs islands (the Channel Islands and Isle of Man). During the 1990s the political and economic geography of 'offshore' was analysed using the Cayman Islands (Roberts, 1994, 1999; Hudson 1998); the Isle of Man (Cobb, 1998) and Jersey (Hampton, 1994, 1996). Other research focused on the social anthropology of OFCs using the British Virgin Islands as a case study (Maurer, 1995); the role of OFCs in development policy for small developing countries in the Caribbean (Possekel, 1996; Marshall, 1996); South-east Asia (Abbott, 2000) and in the Pacific (Van Fossen, 1998). More recent studies explore the regulatory and economic issues surrounding offshore finance (Le Marchant, 1999; Latu and Biswas, 2000; Powell, 2002; Palan 2002 and 2003; Sharman, 2003; Rawlings, 2004), the sociology of OFCs (Donaghy and Clarke, 2003) and the relations between the OFC and the state in small islands (Christensen and Hampton, 1999; Mitchell et al, 2002; Hampton and Christensen, 2002; Van Fossen 2002).

2. Tourism and Offshore Finance in Islands.

Since 1945 over 80 small states have become independent or have secured increased autonomy from their former colonial masters (de Albuquerque and McElroy, 1992). Of these, Weaver (2001) notes the existence of a sub-set of islands that are dependent to some degree on tourism, grouped in the Caribbean, the Pacific, the Mediterranean, and mid-Indian Ocean. A smaller grouping is located around the periphery of the British Isles. Apart from the final group the majority have tropical or sub-tropical climates. This raises an interesting question about why tourism has become so important in these SIEs? De Albuquerque and McElroy (1992) point to three main factors: resource scarcity in

islands; limited policy choices available to island governments; and the increase in regional tourism.

Significant flows of foreign investment, both private and public, have financed the expansion of tourism in many islands. Private capital took the form of foreign direct investment (FDI), principally from American, Japanese and European TNCs, and public capital as grant aid or loans from governmental and multinational agencies. Much of the FDI into SIEs was invested into hotels and transport, whereas governmental aid was often channelled into the construction of infrastructure such as airports, harbours or roads (de Albuquerque and McElroy, 1992: 621). An underlying assumption behind these aid flows was that tourism development would promote long-term economic growth within economies that had a natural comparative advantage in tourism. Further, organizations such as the OECD, the IMF and World Bank have promoted international tourism since the 1960s as an effective tool for economic development and 'modernization' (OECD, 1967) and the international donor community provided hundreds of millions of dollars to finance large tourism projects in the 1970s including the Nusa Dua resort in Bali, Indonesia, the Bintan Beach resort near Singapore and the massive loans to the Maldives (Picard, 1996; Shaw and Shaw, 1999; World Bank, 2001).

However, this somewhat uncritical acceptance of tourism's economic benefits has been challenged on the grounds of the negative environmental and social impacts observed in some islands (de Kadt, 1979; Wilkinson, 1989; de Albuquerque and McElroy, 1992; Simpson and Wall, 1999; Weaver, 2001).

Whilst international tourism is arguably the better known of the two industries, offshore finance is less well known though it is clearly of great (if not greater significance) for many SIEs providing a major contribution to GDP, government revenue and direct employment. Many SIEs have become dependent upon hosting OFC and tax haven activities with extreme examples such as the British Channel Island of Jersey having over 90 per cent of its government revenues originating from such activities, and 23 per cent of the local labour force directly engaged in financial services.[2]

The two principal users of offshore are TNCs and the world's wealthiest individuals. Since

the 1960s a range of offshore services have been devised including global asset management for wealthy individuals using a variety of asset holding trusts and offshore companies; captive insurance and offshore funds. Some OFCs now specialize in areas such as captive insurance for onshore companies (Bermuda and the Cayman Islands), offshore company registration (the British Virgin Islands with over 400,000 offshore companies) and trust management and securitization (Jersey). However, in most islands that presently host OFCs, tourism preceded offshore finance by twenty or thirty years at least. Before we discuss the characteristics that both industries have in common it is useful to discuss the pre-requisites for their development.

2.1 Pre-requisites for Tourism and Offshore Finance

Tourism and offshore finance in SIEs share certain pre-requisites including location; good transport and communications links; and political stability. Favourable location plays an important role both for tourism and offshore finance. The majority of SIEs are located in what Turner and Ash (1975: 11) called the 'pleasure periphery' of the developed economies:

> ". . .the tourist belt which surrounds the great industrialized zones of the world. Normally it lies some two to four hours' flying distance from the big urban centres; sometimes to the West or East, but generally towards the equator and the sun."

Thus spatial location and relative proximity to developed economies is significant for tourism in SIEs. Nevertheless, it could be argued that transport technology minimizes the importance of location relative to the industrial countries as jet aircraft reduce travel times to the holiday destination, thus overcoming remote island location and stimulating the so-called 'end of geography' thesis (O'Brien, 1992).

In fact, the tourism literature suggests that despite rising demand for long-haul travel, including the recent innovation of long-haul charter flights, a significant volume of tourism – particularly the expanding market for short visits - remains regional rather than international. Favourable location therefore remains significant. Examples of regional tourism include substantial

North American tourist flows to the Caribbean; Northern European flows to the Mediterranean (Ioannides 2001); Japanese tourists heading towards Pacific islands (Choy, 1992); and, since liberalization, Chinese tourists gravitating towards South-east Asia. This may be partially due to factors such as personal preference, targeted advertising, and historic cultural links. Island destinations, particularly those with an agreeable climate and extensive coastlines (a function of islandness) are enormously attractive to tourism investors.

The distribution of tourist destinations in close proximity to mainland countries (2-4 hours flying time) is paralleled by the distribution of island-based OFCs. Although there are some examples of remote mid-ocean OFCs such as Mauritius, the largest and most functional OFCs are located within 2-4 hours flying time of large countries, particularly the OFC clusters in the Caribbean and around the European periphery. Thus, despite the existence of information and communications technology that could spell the 'end of geography' (O'Brien, 1992) it appears that the role of face-to-face meetings and phone calls which do not involve one participant being awake in the middle of the night means that location remains a prerequisite for OFCs.

This leads to a second important point. Good transport and communications links are fundamental for both tourism and offshore finance in SIEs. Without regular and inexpensive access, preferably by air, tourism investment remains nominal or non-existent. The precarious situation of the island of Saint Helena in the South Atlantic illustrates the importance of transport links. Extremely limited sea links and non-existent air access have severely constrained tourism development on an island with great tourism potential given its natural assets and Napoleonic heritage (WTO, 1997; Hampton, Christensen and Royle, 2000; Royle, 2001). Saint Helena's remoteness and severe transport difficulties also effectively eliminate offshore finance as a potential development option.

In many SIEs' economic development, tourism has generally preceded offshore finance by several decades, raising the question whether or not offshore finance was able to free-ride on the pre-existing transport and communications infrastructure. Government investment in the SIE in transport and communications infrastructure was initially intended to promote tourism development.

Bryden (1972) observed that approximately 80 per cent of the capital demand of a new hotel or tourist resort arises from the cost of installing infrastructure, the majority of which is normally borne by the island's government (or externally funded via aid from foreign governments). However, the lumpy nature of new harbours, airports, water treatment plants and power generation facilities means that the benefits of such investments are not exclusive to tourism activity, and serve other sectors within the economy (Hampton, 1996). As a relative latecomer to many island economies, financial services have been able to utilize the existing infrastructure and associated services including airline services. As a result of the economics of agglomeration, the ability to take advantage of pre-existing infrastructure provided significant savings in operational start-up costs.

The third pre-requisite is that both industries are predicated upon external perceptions of political stability. The image of the SIE and perceptions of its political stability appear fundamental to whether it can attract (and retain) these globally footloose industries. The negative image of being perceived as politically risky will effect both tourism demand and wealth holders' willingness to use an island as a tax haven. In response to the attacks on the US on September 11, 2001, global will to counter money-laundering has hardened and some regulatory authorities even consider the movement of assets from one OFC to another as potential money-laundering. In consequence, banks have become more liable to being forced to open their books at short notice, exposing their offshore investors and businesses to grave reputational risk. According to the *Financial Times*, offshore practitioners are increasingly applying a 'sniff test' to the OFCs in which they operate, with clients being considerably more concerned about regulatory effectiveness than was previously the case. This is likely to lead to a rapid decrease in the number of OFCs and the range of services they offer, with Bruce Weatherill, head of wealth management at transnational PriceWaterhouseCoopers, predicting that "only the top 10 or so will survive" (Davis, 2004).

Turner and Ash (1975) observed that early tourism development was often linked to the discovery of the island as a playground for wealthy individuals, as seen in many Caribbean islands in the 1920s and 1930s. Once settled, this 'first wave' creates a demand for specialist services,

including sophisticated legal and financial services, that can be termed a 'pin-stripe infrastructure'. This pattern can be seen in Bermuda, The Bahamas and the Channel Islands beginning in the late nineteenth century (Hampton, 1996). The expansion of the pin-stripe infrastructure within the island economy creates a skills platform that incoming offshore financial institutions can build upon. This linkage between first wave immigrants and financial services illustrates the early interrelation of tourism, wealthy immigrants and the subsequent development of an OFC on the island. What is unclear at present, is whether all island OFCs may have had such interactions.[3] The issue of political stability and the role of the local state in constructing and maintaining the perception of stability and probity will be returned to later.

2.2 Peripheral industries?

It can be argued that both tourism and offshore finance are peripheral in the sense that they operate on the margin of modern capitalism. Tourism, as Turner and Ash, (1975) argued, provides a 'pleasure periphery' for workers from industrial countries to replenish their energy, and thereby plays an indirect part within the capitalist world system. Mowforth and Munt (2003) and this paper's authors extend the argument, seeing international tourism as a significant example of advanced capitalism displaying both fordist forms of production (mass produced, mass marketed) and post-fordist production (so-called 'new' tourism including various niche forms such as cultural and heritage tourism, backpacker tourism, some types of eco-tourism etc). Similarly, island OFCs form part of the chain of finance centres that facilitate the global circulation and accumulation of financial capital. Whilst initially appearing to be peripheral to the large OECD economies in terms of both their spatial location and small size, in practice OFCs represent an integral element of the internationalization of capital (Thrift and Leyshon, 1994; Picciotto, 1999; Sikka, 2003). As such, they increasingly play a fundamental role in the global circulation of financial capital despite their frequent location in small places such as islands (Roberts, 1994; Hudson, 1998; Hampton and Christensen, 2002). Paradoxically, OFCs are "at once on the margins and the centre of global

capitalism's displacement of crisis" (Roberts, 1994: 111). The sheer volume of funds now 'residing' offshore, estimated to be as high as one quarter of the world's total money supply, means that that offshore finance cannot be treated as merely a 'peripheral' activity.

Neo-classical economists such as Johns (1983) contend that OFCs act as conduits for investment flows and thus have an indirect impact on investment patterns within large industrial economies. However, analysis of transactions via OFCs to global financial centres such as London and New York suggests that the value-added gained from diverting capital through an OFC stems from the fiscal and secrecy space that these centres provide. In other words, the routing of capital through OFCs serves no productive economic function, and if the tax and secrecy advantages of OFCs were to be removed, capital would flow directly to its destination.

3. Labour, Land and Capital: evidence from the Jersey Case Study.

Before the argument can proceed it is useful to consider what characteristics tourism and offshore finance in small islands may have in common. The British Channel Island of Jersey will be examined as a case study. Jersey is a long-established large OFC located 135 kilometres south of mainland UK and 22 kilometres from France. It is the largest of the Channel Islands with an area of 116 square kilometres and a population of 87,186 (2001 Census). The OFC has bank deposits of over $249 billion, an estimated $500 billion held in offshore trusts, and manages around $153 billion in offshore funds. The island hosts around 50 international banks plus the largest accountancy firms, fund and trust mangers (JFSC, 2004). Jersey is a large, functional OFC with a variety of actual offshore operations located in the island, and the following discussion of the issues of labour, land and access to capital pertain to such substantive offshore centres rather than to notional or brass-plate OFCs such as the Turks and Caicos Islands or Nauru.

3.1 Labour

In many SIEs there is intense competition for scarce labour resources both between the main

industries and between the private and public sectors. As noted earlier the problem of dysfunctional local labour markets (plus in some SIEs' cases extensive historical migration to larger mainland economies[4]) creates a reliance on immigrant labour from larger countries. This may be observed in both low skilled and also in highly skilled or professional employment. In Jersey's case, scarce local labour has resulted in an inflow of immigrant labour into the hospitality and tourism industries, and as domestic staff for the island's wealthy. Historically, unskilled and semi-skilled labour was imported from the northern European region, including Brittany, Ireland and northern Britain. From the 1960s labour from Portugal and the Balearic islands replaced Breton labour, which became increasingly expensive as the economy of north-west France improved[5]. Since the late 1990s Portuguese labour has similarly become more expensive as a result of the strengthening home economy, and Jersey hoteliers and other employers of unskilled and semi-skilled have looked further afield to Eastern Europe and even East Africa.

In addition, the shortage of islanders with high level international experience means that most senior OFC positions are frequently filled by British expatriates. In the Cayman Islands OFC, it is common to find local Cayman islanders (often black) working at the reception desk or in very junior managerial positions, whilst the senior management positions are often occupied by (typically white) North American or British expatriates. This situation is reflected in many OFCs' regulatory authorities.[6]

The differences in pay and conditions between the two sectors is an important issue. Tourism is typically poorly paid relative to other industries, whereas earnings in financial services are high, and include perks such as annual bonuses, access to lower interest rate mortgages, subsidized flights etc. Tourism in small islands, as in most destinations, is highly seasonal. It is common for staff to be laid-off in the low season, or to be under-employed. In contrast, financial services provides year-round employment. The conditions of work also differ, with tourism involving hard, physical work and long, anti-social hours, whereas employment in most OFC firms consists of 9 to 5 work in air-conditioned offices.

The high cost bases of SIEs are also of significance. In the Channel Islands of Jersey and Guernsey, the cost of technical, managerial and professional labour (and the high cost of housing the labour) are comparable to the most expensive parts of south-east England (Kemeny and Llewellyn-Wilson, 1998). High costs 'crowd out' the scope for the development of other sectors apart from those servicing the downstream needs of either the OFC or the public sector, such as information services. As this process develops, the island's labour market restructures to meet the increased demands of the financial services sector and the industries that serve its downstream needs, which range from information services providers to retail distribution and household services. The vacation tourism industry, however, is unable to compete within the labour market for increasingly scarce labour resources, and is forced to retrench accordingly, as Jersey's recent history demonstrates.

Over the past three decades the Jersey economy has undergone a rapid transformation. In 1971 tourism was the island's major industry both in terms of its contribution to gross domestic product and seasonal employment. Powell (1971) estimates vacation tourism expenditure at 52 per cent of GDP and summer season employment in the hospitality sector at 16.7 per cent. Banking and related activities was a relatively minor feature of the island's economy at that time, contributing 9 per cent of GDP and 3.3 per cent of total employment.

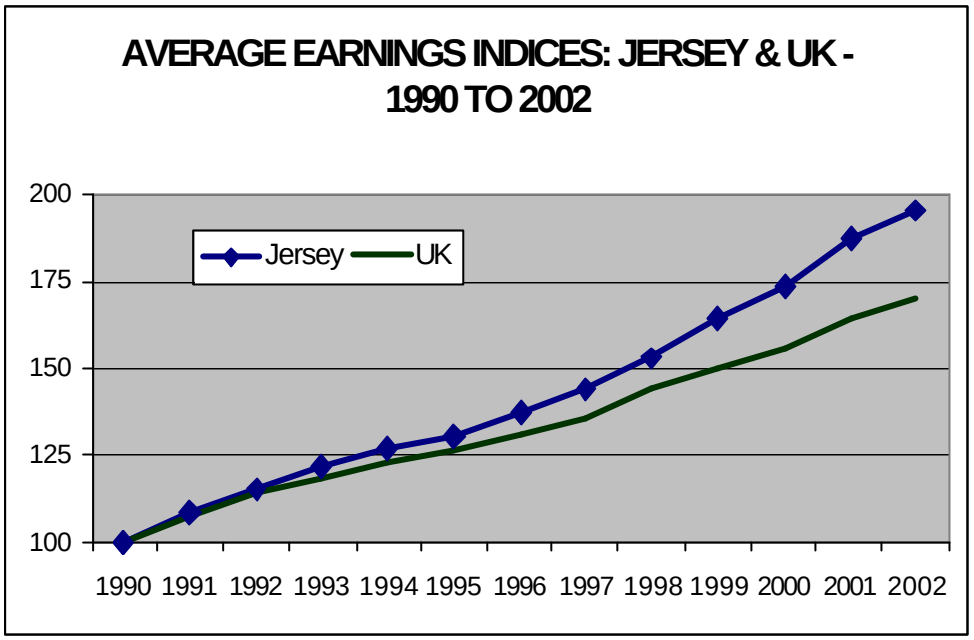
The development of Jersey's OFC during the 1970s and 1980s reversed the relative positions of the two industries, whilst also stimulating rapid growth of demand in the labour and housing markets, and a concomitant rise in the total population. Between 1971 and 2001 Jersey's resident population increased by 25 per cent from 69,329 to 87, 186, pushing the population density from 598 to 752 persons per square kilometre (States of Jersey Census, 1971 and 2001). The majority of this population growth was attributable to inwards migration of labour to meet the ever-increasing demand of the expanding economy. Over the same period the proportion of financial services employees rose from 37 per thousand of the total population to 141 per thousand, whilst employment in hotels, guest houses and other parts of the hospitality sector fell from 98 per thousand (estimate for 1971) to 54 per thousand population in 2001. Jersey's national income data show that

by 1996 the financial services sector contributed 56 per cent of the island's GDP, whilst the hospitality sector had fallen to 24 per cent, although it should be noted, that a significant proportion of the island's hospitality sector is now dependent upon trade generated by the financial services sector rather than by vacation tourism.

Tourism's decline has been mirrored by a similar decline in the agricultural sector, which saw a rapid reduction in the numbers of islanders wanting careers in farming, and a concomitant fall in investment. In 1971, agriculture contributed an estimated 10 per cent to Jersey's domestic income and in peak season employed approximately 12 per cent of the island's labour force (Powell, 1971). Between 1971 and 2003 the number of functional farms fell from 1,164 to 80,[7] and agriculture's contribution to Jersey's GDP fell to 5 per cent in 1996 (States of Jersey, 1997).

The rapid growth of Jersey's offshore finance sector stimulated enormous demand throughout the economy. GDP grew by approximately 11 per cent annually between 1971 and 1999 (at current prices), developing enormous demand pressures within the labour market, which in turn fed through to earnings inflation pressures. Jersey did not introduce an average earnings index until 1990 so it is not possible to analyse trends prior to that date. Since 1990, however, the Jersey average earnings index has risen at a consistently faster rate than its UK equivalent (Figure 1). In 2001, for example, the overall average increase in earnings was 8.1 per cent, compared with 4.8 per cent for the UK economy, but in the cases of both finance and the hospitality sectors, Jersey's index showed above trend increases of 8.4 per cent and 10.7 per cent respectively. Unless matched by comparable growth in productivity, such cost increases inevitably undermine the island's competitiveness, which has clearly been the case in the tourism sector.

Figure 1. Changes in average earnings – Jersey and UK: 1990 to 2002.



Source: Jersey Average Earnings Index, 2002; and UK Average Earnings Index, ONS, 2003.

3.2 Land

The 'crowding-out' effect of these cost differentials is most apparent in the housing market. The limited supply of land, and its high price in most SIEs results in intense competition for land between the island's major industries, most notably in the housing markets where workers from different industries compete directly for a limited supply of housing stock. This competition is inevitably made uneven by the differential between the purchasing power of financial services workers and that of tourism employees, which exacerbates the problem of trying to retain local labour in the lower paid employment sectors. Unable to compete with the higher remuneration paid to financial services employees, employers in the other sectors find it increasingly difficult to retain trained labour which does not earn sufficient to afford decent quality accommodation. Unable to compete in the labour market and also affected by the high costs of building and maintenance, guest house and hotel owners find that their land and buildings could be more profitably converted to meet the rising demand for accommodation for employees in the financial services sector, which is the final stage of the crowding-out process.

This process is clearly illustrated in Jersey, where the number of tourism bed spaces fell from

24,490 in 1986 to 16,388 in 2001 (a decline of one third). Over the same period the number of guest houses fell from 354 to 68 (one fifth of the number 15 years earlier), and the number of hotels has also diminished significantly, reflecting a long-term change of use from hospitality services to residential accommodation and commercial offices.

The transition from a predominantly tourism and agriculture based economy to one dominated by financial services has been particularly rapid and notable in the case of Jersey and the change in occupational structure has exacerbated the island's chronic housing shortages and supply side imbalances. Demand has been stimulated by the rapid growth of the financial services labour force and the rising affluence of a population with high salaries and access to cheap loan finance through employment in the banking sector. Rising real incomes and a government housing policy of stimulating owner occupation through direct and indirect subsidies (including unlimited tax relief on mortgage interest payments), have resulted in house price inflation that is high even by comparison with London and the south-east of England.

Jersey government data for house price inflation from 1985 to 2002 shows that the price of housing increased at an average of 25 per cent annually over that period (Table 1). The average price for a 3 or 4 bedroom semi-detached property in 2002 was £298,000 ($476,800) which compares with £169,279 ($270, 846) for a comparable property in the Greater London region of south-east England. With house prices at such a high level (and very little supply of the types of flats and apartments that predominate in the housing markets of many European and North American economies), workers in low paid sectors such as hospitality and retail distribution are unable to find affordable accommodation. As a result, employers in those sectors suffer from exceptionally high turnover rates amongst their employees, the majority of whom are recruited from outside the island.

The phenomenal rate of house price inflation in the Jersey housing market has been accompanied by a general increase in costs throughout the economy and a loss of competitiveness in traditional core markets. This even applies within the financial services sector, where some employers have transferred activities to the lower cost Isle of Man, but it applies in particular to the

island's tourism sector which is generally dependent upon the UK market (accounting for approximately 80 per cent of staying visitors). Despite efforts to broaden the tourism market outside the summer peak season, Jersey tourism remains largely concentrated in the summer months and therefore competes directly with resorts in England's south-west region, where house prices have risen at about one half of the rate experienced in Jersey, and tourism has not been crowded-out to the same extent.

Table 1. Housing price inflation in Jersey and the UK.

	JERSEY	SE England	SW England	UK
1985	**100**	100	100	**100**
1990	**207**	144	156	**155**
1995	**244**	109	139	**142**
2000	**454**	231	229	**236**
2001	**472**	269	262	**266**
2002	**521**	330	326	**318**
Annual average change (per cent)	25	14	13	13

Sources: Jersey House Prices Index, Nationwide, weighted national average and regional indices

3.3 Access to Capital

Early on in their development, investment in both industries is largely drawn from local capital resources. As tourism and offshore finance grow there tends to be an increasing concentration of capital and a correspondingly larger role is played by externally owned firms, the majority of which are TNCs based in large countries.[8]

Small scale island tourism typically involves family-owned guesthouses or small hotels with modest capital requirements. Capital may be available from local banks, from personal savings or from family members. This was the case in Jersey during the 1950s and 1960s, and is currently the

case in parts of the Indonesian, Mauritius and Barbados tourism sectors. As tourism increases in size and complexity, the concentration of capital and increasing scale and vertical integration of operations involving larger hotels and other facilities requires significantly larger levels of investment. This may be supplied in some cases by re-investment of profits from the existing business, from bank loans or via equity investment from third parties.

Park (1982: 34) argued that hosting an OFC would promote the internationalization of the local economy by attracting foreign direct investment and generating specialist knowledge and experience thereby "helping local industry become internationally competitive". But Park and others did not take into account the extent to which the crowding-out effect of a booming sector in a resource constrained SIE would almost inevitably create a situation of over-dependence upon one powerful sector, unless dramatic steps are taken within the domestic political economy to prevent that sector from becoming overly dominant.

Many OFCs appear have often followed similarly discernible patterns. The first new entrants to the British Crown Dependencies and Overseas Territories were UK banks (merchant banks such as Hambros and Hill Samuel; overseas 'colonial' banks such Standard Chartered and specialist parts of the clearing banks such as Barclays DCO), which initially operated alongside the small number of locally-owned financial institutions (Johns, 1983). In some cases pioneer US and Canadian banks were also involved, including Citibank and Bank of Nova Scotia. Capital was provided from within the subsidiary firm itself or from the group parent company. Increased concentration of bank ownership has meant that the majority of banks are now internationally owned and operate on a transnational basis, and new investment capital is almost invariably provided by the group parent company. Such was the case in Jersey during the late 1980s and 1990s.

For other OFC firms such as accountants and law firms, the concentration of capital has frequently resulted in the former being taken over by the 'big four' international accountancy firms (Ernst & Young, KPMG, PWC, Deloitte). Law firms in SIEs have seen some concentration of capital with large OFC law firms emerging such as Mourants in Jersey employing 400 staff or

Panama's powerful Mossack Fonseca & Company operating in the Pacific islands (Van Fossen, 2002).[9]

4. The Nature of the Relations between Offshore Finance and Tourism

Offshore finance can be regarded as an advanced form of financial capitalism, characterized by its high degree of mobility, its liquidity (relative to other forms of capital), and its ability to escape from the regulatory and fiscal reach of the nation state (Lenin, 1965; Hilferding, 1981; Fine, 1984). Christensen and Hampton (1999) discuss the capture of the state by financial capital in an island OFC, and argue that the small scale of the state in an island makes it particularly vulnerable to capture by such vested interests, the more so since small islands are inherently prone to economic dependence, which exerts social controls on the population.

Fine (1984) discussed the notion of the fractions of capital. At this abstract level, the fractions of capital (industrial, agricultural and financial) are seen as being in competition with each other for a share in the surplus value created, whether as profits or as interest. Coakley and Harris (1983) argued that the historical dominance of financial capital over industrial capital in the UK can be linked to the City of London's role as a major finance centre, which partially explains its extensive political influence.

Financial capital has distinctive characteristics, most notably its high degree of liquidity and hence mobility, which distinguish it from industrial capital.[10] This allows financial capital the scope to operate without the constraint of onerous government regulation. Ironically, a complete lack of any regulation would also be fatal to financial capital since chaos would ensue from the unleashed competition between capitals. Hampton (1996) argued that the relative freedom of financial capital in the UK resulted in the development of offshore finance during the 1960s, which was typified by the development of unregulated offshore markets (Eurocurrencies) and the associated creation of OFCs. Both innovations were extremely profitable for financial capital.

This line of analysis can be extended to tourism. Britton's influential paper published in 1985

discussed tourism in LDCs in the context of dependency relations between under-developed periphery and wealthy metropolitan core countries. He argued that control of tourism has become increasingly concentrated in the hands of 'metropolitan tourism capital' (1985: 169) largely consisting of tourism TNCs.

This paper builds on Britton's work on tourism under capitalism. We propose that tourism capital can be conceptualized as a fraction of capital, acting in competition with the other fractions of capital for its share of surplus value (profit). It might be argued, however, that this conceptualization is unhelpful since tourism is too broad to be seen as acting as a single fraction of capital. There has been some discussion in the tourism literature that at the operational level tourism is not a single industry, but instead consists of a complex interaction of several industries including leisure, accommodation, catering, transport, tour operators, travel intermediaries etc (Cooper et al., 1998). Some parts clearly operate solely for vacation tourism such as mass tourism resorts, whilst other parts, such as retailing, might have a tourism component amid other non-tourist functions (Hall, 2000).

If, however, we take the example of financial capital, at the operational level in an OFC it clearly has many components including offshore banking: both retail and wholesale, offshore trusts, fund management and captive insurance but it remains conceptually helpful to construct a single model at this abstract level for the purposes of analysing the workings of advanced capitalism.

Thus, to begin to explore what conceptualizing tourism capital as a fraction of capital might mean, it is helpful to return to our discussion concerning tourism and offshore finance in island economies. It can be proposed that one key element concerns the proportion of local capital in the SIE relative to external capital. The Jersey tourism industry, for example, is largely controlled by small and medium sized, mostly locally-owned businesses, that is, local tourism capital. On other SIEs, however, the tourism sector is dominated by large international companies, particularly the tourism TNCs such as Club Med, MyTravel (formerly Airtours), World of Tui (formerly Thomson) and Carnival Lines. In those cases where tourism predominantly consists of locally-owned

businesses (that is, limited penetration by international tourism capital) international financial capital would be more likely to dominate the island's political economy and might in extreme cases capture the state. Conversely, in SIEs with a significant presence of international tourism firms (a high level of penetration by international tourism capital) that are active in the local political economy, their influence would act as a counterbalance to attempts by international financial capital to establish itself as the political hegemon.

However, what of the case of an island with a small OFC consisting of mainly local financial capital and relatively powerful international tourism capital? In such circumstances international tourism capital would attempt to dominate the island's political economy in order to protect its interests from the higher costs associated with competing for scarce land and labour resources. But here we need to consider the different characteristics of financial versus tourism capital. Financial capital is more mobile, more liquid, and, crucially, often has a closer relationship with powerful elements within the state than tourism capital, the latter frequently being fragmented and lacking the political lobbying power of the banking and legal professional associations.

Whilst at one level both forms of international capital may be seen as being in competition with each other for a larger share in the surplus value created, at another level, they may be acting independently of each other. This is complicated by actual behaviour at the micro level, that is, at the operational level of actual business where, for example, there may even appear to be cooperation between tourism and OFC to extract concessions from government.

Finally, host jurisdictions for OFCs are arguably more substitutable than locations for tourism activities. OFCs require an increasingly large and expensive state regulatory apparatus to - at the very least - provide a veneer of respectability. So it is in financial capital's interests to cultivate and closely manage the relationship with the island's state. International tourism, however, requires a lesser degree of state involvement, provided there is (perceived) political stability in the island. Thus given the substitutability of most destinations for the mass vacation tourist market where demand is driven by low prices (Poon, 1993), tourism capital has less reason than financial capital to establish

itself as a political hegemon within an SIE.

5. The Role of the State in SIEs.

Before discussing further the role of the state in small economies in relation to the fractions of capital, it is useful to briefly consider how the existing body of literature concerning the state relates to the paper's argument thus far. Whilst there is a limited but growing literature that discusses the fundamental question of the relationship between the state and the emergence of offshore finance (Hampton, 1996; Cameron and Palan, 1999; Palan 1999, 2003; Picciotto, 1992, 1999; Sikka 2003), much state theory is located within the context of the now-sizeable neo-liberal globalisation debate. One interesting strand of this debate examines the rise of transnational class strategies (Van Der Pijl, 1998) that circumvent the reach of the nation state. If this is related to the offshore process, when high net wealth individuals (HNWIs) transfer their assets to an OFC (whether physically by establishing residence in the OFC itself, or by placing their assets offshore) this becomes part of the process of 'the revolt of the elites', that is, the withdrawal of the wealthy and powerful from loyalties and duties based upon local, regional or national identity (Lasch, 1994: 35). Symptomatic of this withdrawal from local or national ties is the growth of a culture that permits and even encourages HNWIs and TNCs to establish tax vehicles which place them beyond the reach of the fiscal regimes of the nation state. Thus it is argued that the globalisation of business activity and the mobility of personal assets creates a class of wealthy individuals who see themselves as world citizens, taking advantage of the modern state without accepting the obligations (that is, tax liabilities) that fall upon the 'good citizen.' (Van Der Pijl, 1998; Reich, 1992; Selbourne, 1994).

Concerning the state itself, Cerny (1990) advanced the notion of the 'competition state' where the ideology of competition has become central at the organizing level of the nation state so that rather than just individual firms competing with each other – the neo-classical worldview - entire nation states compete with each other to increase national income and to expand their economies. This works in combination with the increasingly integrated world markets so that given the problems associated with demand-side policies, governments compete with each other by advancing supply-

side policies (the so-called 'race to the bottom'). Palan and Abbott (1996) add that this leads to a blurring of the distinction between domestic and international policies, Palan (2003: 142) develops this and illustrates an irony that "as states increasingly reorientate their policies towards what they take to be global capital – much of it in effect operating through the offshore economy – they reinforce by their action the legal and political infrastructure that supports further globalization….the principles embedded in the offshore economy become institutionalized into the very fabric of the state system." Further, notwithstanding this irony, in another paper, Palan (1999) note that the places that host offshore finance, have in effect 'commercialized' their sovereignty to enable the establishment of an OFCs in their jurisdiction. This approach is echoed by Glassman (1999) who argues that states are becoming increasing 'internationalized' and, as Van Der Pijl (1998) also argues, dominated by shared transnational class interests.

Picciotto (1992, 1999) discusses the rise of the nation state and the origins of offshore finance and argues that the recent construction of offshore 'dislocates' the present system of states in capitalism. Picciotto considers the legal concepts of jurisdiction, citizenship and nationality, arguing that these are contested and somewhat elastic concepts rather than givens and are highly specific over time and space. Further, he talks of 'layers of fiction' especially the key concepts for OFCs of legal 'personality' and corporate 'residence'. This theme of 'fictions' also appears in Roberts' influential work (1994, 1995, 1999) where she considers offshore financial flows as being 'fictitious capital' that inhabits 'fictitious' spaces, i.e. offshore centres.

Within this context of a varied financial and regulatory topography comprising nation states as well as other forms of jurisdictions (colonies, dependencies and peculiarities), the small and unusual nature of many SIEs contributes to their attractiveness as host economies for OFCs. Further, the relations with mainland economies are then typically exploited to extract political and economic privileges from their position, what Baldacchino (1993) calls 'managed dependency'. The British Channel Islands illustrate this point. Although the United Kingdom government is ultimately responsible for the islands' good governance, in practice the Bailiwicks of Guernsey and Jersey[11] are

self-governing in all respects apart from international relations, and their powers of government have "evolved within a process of extracting privileges from the Crown." (Kelleher, 1994: 16). None of the Channel Islands have formalized political parties representing a spectrum of differing values or class interests and the research machinery that goes with them. Electioneering is more concerned with personality politics than with financial or global issues, and elected politicians typically represent narrow sectional interests, predominantly those of the local business elites (Mitchell et al, 2002). Crucially, the systems of government in both Bailiwicks do not allow for general elections and a parliamentary form of opposition. Transcripts of governmental debates are not publicly available. Politicians' personal business affairs frequently overlap with governmental interests, and power is concentrated in a very small circle of power without the democratic checks and balances found in larger polities (Baker, 1992). A member of the States of Jersey (the island's parliament) described the situation:

> "For over a century Jersey's ruling elite has had an unchallenged monopoly on power. . With no clear division between the legislature, judiciary and executive there is an absence of checks and balances." (*The Independent*, 1998: 23).

These governing arrangements create the stable and outwardly respectable conditions that are a prerequisite for attracting financial capital. They also create the conditions within which islands that host OFCs can become captive to the global interests of financial capital. The extent to which this 'capture of the state' has occurred is illustrated by the manner in which Jersey has been prepared to adopt new tax haven mechanisms, including exempt company status, the Jersey discretionary trust, the international business corporation, and (notoriously) the limited liability partnership (LLP) which ultimately caused the island to be described as a 'legislature for hire.' (Senator Stuart Syvret, quoted in BBC, 1996). Sikka (1996: 9) commented that:

> "By persuading small states to offer minimal regulation, (major businesses) hope to exert pressure on other states and reconfigure the international regulatory board, achieving minimal regulation and maximum benefits."

In summer 2004 the States of Jersey took this process to its logical conclusion when it agreed to proposals mooted from within the island's financial services industry to drop the rate of tax on corporate profits from 20 per cent to zero per cent. This step was in response to EU and OECD concerns about differential treatment afforded to non-resident companies. Despite the fact that this move will reduce government revenues by approximately one quarter, requiring the introduction of a sales tax and various other regressive tax measures, this step was considered necessary to protect the OFC's ability to compete with other tax havens.

Hence SIEs have played an important part in the 'globalisation' of financial capitalism as noted earlier (Palan, 2003; Sikka, 2003). As offshore finance emerged as a dynamic force during the 1970s and 1980s it rapidly became a dominant industrial sector within the economies of the British Channel Islands, and ultimately gained control of the islands' political economies, thereby acting as a 'cuckoo in the nest' (Christensen and Hampton, 1999). Further, following Jessop (1990) and Glassman (1999), the small state is also the site for the struggle between social actors over the capital accumulation process, so that having established absolute predominance, the financial services sectors of both Guernsey and Jersey were able to use the state as a means of obtaining additional fiscal and regulatory advantages, which have further tilted the balance of the global economy in favour of financial capitalism. This appears to confirm the findings of Pauly and Reich (1997: 25) who argued that for small or non-industrialized societies (such as small islands) "power may be indeed shifting in the direction of a few leading states and increasingly concentrated commercial hierarchies embedded in those states".

Within the host islands' economies, however, the traditional sectors, including tourism, were incapable of effectively competing with either the political or economic interests of the newly dominant finance sectors. Crucially, key players failed to comprehend the long-term implications of the crowding-out issue and lacked the political power to effectively represent their interests to the islands' governments. Faced with rising costs and chronic under-investment, the tourism sectors in both Guernsey and Jersey have become increasingly dependent upon state aid to subsidize their

otherwise unprofitable activities.

5. 1 Tourism, Offshore Finance, and the State.

In the cases of both tourism and offshore finance the local state plays a central role by intervening through regulation; by providing subsidies and incentives; by investing in infrastructure; and through marketing and promotional activities.

Hall (2000) notes that the state regulates tourism in many areas including giving or withholding planning permission, enacting quality control measures etc. Frequently the pressure for such intervention originates from outside the islands, as tour operators, for example, establish baseline requirements for hotel quality and health, safety and environment conditions, and are able to play one destination off against another to negotiate the installation of new or enlarged port facilities.

An example of incentives for island tourism was the Hotels Aid legislation adopted by many Caribbean islands during the 1950s to encourage inwards investment. These included tax 'holidays' of up to ten years and duty-free imports of raw materials or equipment for hotel construction.[12] This parallels the fiscal and other incentives offered by some island governments to attract foreign financial services companies to their OFC (or manufacturing companies to their export processing zone). Bryden (1972) described the intense competition for foreign investment in tourism between different Caribbean islands. Once one island had introduced incentives, other islands copied and passed similar legislation.

The role of the state in marketing is a third factor common to both industries. Many island governments set up tourist boards both to promote their industry and to provide training services to the hospitality sector workforce. This role has also become more noticeable in many island OFCs as competitive pressures have increased, and governmental promotion of OFCs is now a common feature of most OFCs and island tourism destinations.

Competition between island states as tourist destinations mirrors the present competition between islands as OFCs, and in both cases illustrate how mobile international capital is able to

negotiate special terms and conditions from competing states, whilst also exploiting the states of SIEs to wrest fiscal and regulatory concessions from mainland economies. This process of fiscal and regulatory 'degradation' has been a core element of the neo-liberal restructuring process that is widely referred to as 'globalisation' (Cerny, 1990)

Since 1998, however, the Channel Islands, along with other British Overseas Territories and tax havens elsewhere, have come under increasing international pressure to adopt onshore financial regulation (Le Marchant, 1999; Powell, 2002). As with tourism regulation, external pressure has played a significant part in persuading small island governments to more effectively protect their offshore finance industries from international concerns about money-laundering, drug trafficking, regulatory degradation and tax avoidance (OECD, 1998; Home Office, 1998; United Nations Office for Drug Control and Crime Prevention, 1998). The increased visibility that such external interventions bring to the affairs of these small islands, has caused alarm within the islands' finance sectors, as exemplified by a spokesperson for Jersey's finance industry:

> "First and foremost there has been a demand to more effectively respond to the threat posed by external sources. It began primarily with the UK government and its announcements on Edwards [the author of the Home Office report, 1998] and the review that followed. Since then, there has been the Financial Action Task Force, the European Union, the United Nations, and, of course, the OECD. There were also other thorns in the side of the industry, including Austin Mitchell MP, various university professors who seemed to have spent an inordinate amount of time studying the threats posed to the world from offshore jurisdictions, New York Police authorities, new pressure groups such as Attac, and at one time even past and present members of the States of Jersey! . . . This has forced a rethink both by government and the industry." (*Jersey Evening Post*, 2001).

Rethink or no rethink, however, politicians in Jersey have still not comprehended the economic implications of the crowding-out effect despite the issue having been belatedly flagged up by their consultants (OXERA, 2004). Even the comparative advantage of the island's low tax regime is not

sufficient to compensate for a cost of living that is estimated at some 20 per cent above that in south-east England. Despite the island's obvious tourism attractions, Jersey's tourism potential remains crowded-out by the island's predominant financial services sector.

6. Discussion and Conclusions

The international tourism and offshore finance industries play key roles in the local economies of a significant number of SIEs in the Caribbean, the Pacific and around the European periphery. This paper has analysed the relationships between these two global service industries in the context of a particular 'place', that is, the island economy, and has raised questions concerning the economic development strategies and governance of microstates. Beyond that, however, the paper has also argued that the analysis of these industries illustrates some of the current processes that are underway as advanced capitalism re-structures itself in relation to the uneven topography of different nation-states and jurisdictions and the liberalization of global capital markets (Harvey, 1982; Cerny, 1990, Roberts, 1994; Picciotto, 1999, Palan, 2003).

The paper argues that there is no direct causal link between the development of tourism in islands and the subsequent development of OFCs although some connections are apparent. At the operational level island tourism can act as the catalyst that initially attracts OFC firms and wealthy individuals to an island, and in particular, the quality of the existing infrastructure that contributes to the overall 'milieu' of the place (Moulaert and Gallouj, 1993). Nevertheless, the emergence of tourism in an island appears to be a function of the 'islandness' of the place, which is associated with other factors including location, reliable transport and telecommunications links, and political stability. The same pre-requisites are demanded by offshore finance.

At a higher level of abstraction, however, the relationship between tourism and offshore finance in islands is demonstrably rather more complex than just being a coincidence of mutual interests or what Marshall (1996: 260) called a "happy association" of two international service industries both of which happen to chose to locate in small islands. In this paper we have proposed

that tourism can be usefully conceptualized as a fraction of capital alongside, and in competition with, industrial, financial and agricultural forms of capital (Cole, Cameron and Edwards, 1991). Using fractions of capital as an analytical tool provides a framework within which to view and analyse tourism's relations with financial capital both within SIEs and within the wider, global context as advanced capitalism re-structures itself as part of the process of what Marx termed the bloody battle between capitals.

The competition between these two fractions of capital is also played out in the arena of relations with the state in the small island. Financial capital operating offshore requires a degree of legitimation that only the state is able to provide in order to attract external investors and deposits to the island OFC. This is largely due to the intangible nature of the financial services 'product' which is built upon external perceptions of 'confidence' and the probity of the financial institutions and regulatory framework. Thus the small island state provides a veneer of legitimacy for financial capital's offshore operations. The capture of the small states therefore becomes central to the interests of financial capital, which will be actively seeking favourable legislation and the imposition of minimal state 'interference' or regulation of the offshore financial sector (Christensen and Hampton, 1999). This process of financial capital establishing itself as a hegemon in the island's political economy reinforces the process of crowding-out of pre-existing industries, including tourism. Thus SIEs have a tendency to become "internationalized states whose apparatus is geared in important ways to the promotion not of national but international accumulation. . .[where] elements or institutions within the state [are] developing the power to push the project of accumulation in the directions favoured by the more internationalized fractions of capital" (Glassman, 1999: 691).

This paper has used the case of the British Channel Island of Jersey to demonstrate how this abstract process translates into reality. Unlike most SIEs, the government of Jersey has collated and published some relatively robust statistics covering a sufficiently long time period to enable examination of the crowding-out process. Unfortunately the majority of SIEs have not published time series that enable such analysis, and it is generally not possible to examine long-term change,

particularly in the all-important labour and housing markets. In the case of Jersey, the process of crowding out appears to be well-established with tourism and agriculture having been almost totally crowded-out by the OFC. This process is revealed in several indicators, including a dramatic reversal between tourism and financial services since the 1970s as seen in contribution to GDP, share of direct employment and contribution to government revenues. Moreover, the serious economic consequences of such crowding-out in a small island economy include labour cost inflation; widening household income disparity; chronic labour shortages; high levels of labour immigration; and severe pressure on the island's land and real estate markets. In other words financial capital appears to be able to out-compete other industries to gain dominance within the local political economy.

This paper suggests that this process - which is highly visible in Jersey, one of the largest and oldest-established OFCs - may also be occurring in other OFCs elsewhere around the world. However, the difficulties already noted of obtaining reliable, or even useable, local economy data for most SIEs means that this has to remain at the level of being a plausible suggestion proposed by this paper. In addition, it is argued that when analysing the two industries using the concept of the fractions of capital, some of the characteristics of each industry are also of significance. In particular, tourism may be seen as a more fractured industry than finance with lower profit margins and less political influence within an island economy. Financial capital, exemplified by highly concentrated financial services TNCs, has managed to effectively capture the state in many small islands for its own advantage.

Despite being physically small and sometimes remote, SIEs exist simultaneously at the margins of advanced capitalism and at the same time at its very centre (Roberts, 1994). This paper has argued that both present forms of tourism and offshore finance may be seen in this light. Therefore the relationship between two forms of advanced capitalism - international tourism and offshore financial services - in small island economies raises broader questions about the present re-structuring of capitalism, and about the relationship between international capital and the state, and suggests a way to begin mapping the areas wherein political and economic power now lies. Exploring

the hidden and intricate mechanisms of international forms of capitalism operating in small island economies reveals the parallels that can be drawn with larger economies as capitalism continues its restructuring process.

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Notes

[1] Many SIEs' GDP figures are of limited use due to problems with small sample sizes and populations for data collection, and limited technical understanding of the effects of income multipliers in small, open (import-dependent) economies. Most SIEs lack specialist staff to analyse the raw data to produce robust GDP figures. Thus in Jersey - a high income SIE - GDP estimates of the relative positions of tourism and the OFC are of debatable utility (Hampton and Christensen, 1999).

[2] 2001 Census of Jersey, States of Jersey.

[3] This lies outside this paper but the relationship between wealthy immigrants and OFC activity in SIEs would be worth pursuing.

[4] Archipelagos may experience labor migration from outer islands to the main island exemplified in The Bahamas with migration from the family islands to New Providence.

[5] Portuguese immigrant labor is mainly from another island, Madeira. For Guernsey tourism, Latvia now provides an alternate labor source (personal communication with Chris Brock, CEO, Guernsey Tourism, 30 May 2002).

[6] In many OFCs including Jersey, Guernsey, and the Isle of Man the most senior regulators are UK expatriates, often former Bank of England or other financial services regulators rather than local islanders.

[7] Sources: States of Jersey Statistical Digest, 1996 and *Jersey Evening Post*, 2003.

[8] Most TNCs continue to be headquartered in the large OECD economies but recently significant

numbers have attempted to move offshore to tax havens, such as US firm Stanley Tools, which moved to Bermuda in 2002.

[9] The role of other financial intermediaries in OFCs has been little researched (apart from Mitchell and Sikka 1999; and Mitchell et al 2002) but lies outside this paper.

[10] Hilferding (1981) [1901] used the term 'finance capital' to describe the integration of banks and industrial companies in the early twentieth century. However his term is less useful for present capitalism as it specifically refers to the integration of financial and productive capital where banks dominate the industrial capital. Whilst this was the case in the US in the early twentieth century, the growth of TNCs with the internationalization of both productive and financial capital makes this definition problematic. Here 'financial capital' refers to a fraction of capital rather than Hilferding's term.

[11] The Channel Islands are divided into two administrative units - the Bailiwick of Jersey and the Bailiwick of Guernsey. The latter consists Guernsey, Alderney, Sark and Herm.

[12.] Another cost was that many hotels became foreign owned. After the tax holiday the owners then sold to avoid capital gains tax in the US (Bryden, 1972).

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