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COMPETING INDUSTRIES IN ISLANDS
A New Tourism Approach

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Abstract: Many islands host both tourism and offshore finance, but their coexistence has been little researched. This paper examines their relationship via a case study of the British Channel Island of Jersey. Both sectors require labor, land, and capital—all frequently scarce in small islands. The study considers the nature of the relationship and resource competition. In light of the unusual context of small polities and the political power of external actors, it also analyzes the dynamics of tourism, offshore finance, and the state in islands. The overall impact of the relationship between tourism and offshore finance is further examined, to suggest how this affects islands' economic development. **Keywords:** island tourism, Jersey, political economy, state theory. © 2007 Elsevier Ltd. All rights reserved.

Résumé: Industries en concurrence dans des îles: une nouvelle approche de tourisme. Beaucoup d'îles accueillent le tourisme et la finance offshore, mais leur coexistence a été peu étudiée. Cet article examine leur rapport au moyen d'une étude de cas de l'île anglo-normande de Jersey. Les deux secteurs exigent de la main-d'œuvre, de la terre et du capital – qui sont souvent limités dans les petites îles. L'étude considère la nature de la relation et de la compétition pour des ressources. En vue du contexte inhabituel des petits États et du pouvoir politique des acteurs extérieurs, l'étude analyse aussi les dynamiques du tourisme, de la finance offshore et de l'État. L'impact global du lien entre le tourisme et la finance offshore est examiné davantage afin d'indiquer de quelle manière cet impact affecte le développement économique des îles. **Mots-clés:**: tourisme insulaire, Jersey, économie politique, théorie de l'État. © 2007 Elsevier Ltd. All rights reserved.

INTRODUCTION

Tourism is the engine that drives many islands' economies; in many it accounts for 20–50% of Gross National Product and in some Caribbean cases, up to 75% (Weaver 2001). However, a second global service industry, offshore finance, also operates in islands and often is found alongside tourism in the Caribbean, the Pacific and Indian Oceans, and Europe. Like international tourism, offshore finance is large and rapidly growing, with an estimated US$11.5 trillion held offshore in

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the over 70 tax havens around the world (Tax Justice Network 2005). Other estimates suggest that a quarter of the world's total money supply is held in offshore finance centers (OFCs), and over half of the gross value of world trade is transacted through them. Many of the host small island economies (SIEs) have higher incomes per capita than OECD countries. For example, Bermuda has a higher gross national income per capita than the United States, and the Cayman Islands' per capita income is higher than Sweden's (World Bank 2004b).

Research on SIEs has tended to focus either on tourism or offshore finance. Both industries have common characteristics including high mobility, rising global demand, and labor-intensive customer-services operations. Furthermore, both require advanced transport and telecommunications infrastructure. It is unclear, however, whether the relationship between these two industries goes beyond having shared characteristics. It has been asserted by policymakers on islands that a positive, even symbiotic, relationship exists between them (Powell 1971). This paper considers an alternative possibility: that beyond a certain stage of development the link between tourism and offshore finance becomes one of intense competition for scarce resources. Using a case study of the British Channel Island of Jersey, this paper explores the nature of the relationship between tourism and offshore finance and examines the different growth dynamics of the two industries. Considering the unusual context of small island politics and the political power of external actors, the study analyzes the dynamics of the relationship among tourism, offshore finance, and the state in SIEs, and the different types of linkages to the state.

Small islands are defined as those with a total population of under 1.5 million (Commonwealth Secretariat 1997). It has also been previously argued that SIEs, like most remote and peripheral areas, are characterized by profound economic disadvantages, including restricted comparative advantages, diseconomies of scale, dysfunctional market structures, high transport costs, high levels of openness to international trade, tendencies to be price-takers not price-makers, limited natural resources, and small labor markets with deficiencies in professional, managerial, and institutional knowledge and experience (Armstrong, de Kervenoael, Read and Li 1998; Briguglio, Butler, Harrison and Filho, 1996; Royle 1998, 2001). Theorists have also highlighted the creative tension between islands as ''vulnerable'' to exogenous factors and islands as exemplars of ''resilience'' in the context of globalization pressures (Armstrong and Read 2002; Pelling and Uitto 2001).

Island tourism has generated substantial work from the seminal research of Hills and Lundgren in the Caribbean (1977) and Archer's study of economic impacts, most notably multiplier analysis (1977). Later research applied Butler's lifecycle model (1980) to islands (Choy 1992; Debbage 1990; Weaver 1990); environmental impacts and sustainability (Bardolet 2001; Briguglio et al 1996; De Albuquerque and McElroy 1992, 1998; de Kadt 1979; Gössling 2001; Knight, Mitchell and Wall 1997; McElroy 2002; Ratter 1997; Wilkinson 1989); small-scale and backpacker tourism (Cohen 1982; Hampton 1998; Hamzah 1995); resort development including the Maldives (Domroes 2001), the

Seychelles (Wilson 1997), Fiji (Burns 1995; Harrison 2004; King 1997), Indonesia (Shaw and Shaw 1999; Simpson and Wall 1999; Wong 2001), and increasing research on the Caribbean (Croes 2006; Duval 2004; Pattullo 1996; Weaver 2001), Mediterranean (Buhalis 1999; Ioannides et al 2001) and Pacific (WTO 2001).

Some researchers (Baldacchino 2006) distinguish between the development trajectories of 3S (sun, sea, sand) destinations in tropical and warm-water islands, and cold-water destinations including islands in the Baltic sea, Prince Edward Island, and so on (Baum 1996, 2006; Cooper 1995; Royle 2001; Twining-Ward and Twining-Ward 1996). It remains the subject of debate within the tourism literature whether the distinctions are sufficient in themselves to make a convincing case for separating islands into warm- or cold-water categories (Butler 2006).

In contrast, despite the large international finance literature, offshore finance was relatively unexplored until the 90s. Recent research has discussed offshore finance in the Caribbean (Hudson 1998; Marshall 1996; Maurer 1995; Possekel 1996; Roberts 1994, 1999), the British Isles (Cobb 1998; Hampton 1994, 1996; Johns and Le Marchant 1993; Le Marchant 1999), and Asia-Pacific (Abbott 2000; Van Fossen 1998, 2002). Others have discussed the sociology of offshore (Donaghy and Clarke 2003) and the relations between the OFC and the state in islands (Hampton and Christensen 1999, 2002; Mitchell, Sikka, Christensen, Morris, and Filling 2002).

TOURISM AND OFFSHORE FINANCE IN ISLANDS

Since 1945, over 80 small states have become independent or have increased autonomy from the former colonial powers (De Albuquerque and McElroy 1992). Of these, Weaver (2001) highlights certain Caribbean, Pacific, Mediterranean, and mid-Indian Ocean islands that are dependent to some degree on tourism. This raises an interesting question about why this industry has become so important in these SIEs. De Albuquerque and McElroy (1992) suggest three main factors: resource scarcity in islands, limited policy choices available to their governments, and growing regional tourism.

Significant flows of foreign investment, both private and public, financed the expansion of many islands' tourism. Private capital took the form of foreign direct investment, principally from United States, Japanese, and European transnational corporations, and public capital as grant aid or loans from governmental and multinational agencies. External investors typically invested in hotels and transport, whereas public money was typically channeled into transport infrastructure (De Albuquerque and McElroy 1992:621). An underlying assumption behind aid flows was that tourism development would stimulate economic growth in islands with comparative advantages in this industry. Organizations such as the OECD, the IMF, and World Bank have promoted international tourism since the 60s as an effective economic development tool (OECD 1967), and the international donor community provided hundreds of millions of dollars to finance large projects in the 70s including the Nusa Dua resort in Bali, Indonesia, the Bintan Beach resort near Singapore, and massive loans to the Maldives (Picard 1996; Shaw and Shaw 1999; World Bank 2004a). However, tourism's economic benefits have been challenged because of the negative environmental and social impacts observed in some islands (De Albuquerque and McElroy 1992; de Kadt 1979; Gössling 2001; Simpson and Wall 1999; Weaver 2001; Wilkinson 1989).

While international tourism has been the focus of extensive academic research, this has not been the case until recently for the offshore finance industry, though it is clear that many SIEs rely heavily on the latter's contribution to GDP, government revenue, and direct employment. Some have become dependent upon hosting tax haven activities with extreme examples such as the British Channel Island of Jersey having over 90% of government revenues originating from such activities, and 23% of the local laborforce directly engaged in financial services (2001 Census).

The two principal users of offshore are transnational corporations and the world's wealthiest individuals. Since the 60s a range of offshore services has been devised, including global asset management for wealthy individuals using a variety of options, 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), or trust management (Jersey).

Prerequisites for Tourism and Offshore Finance

Tourism and offshore finance in SIEs share prerequisites, including favorable location, good transport and communications links, and political stability. The majority are located in the "pleasure periphery" of the developed economies (Turner and Ash 1975). In fact, the literature suggests that despite rising demand for long-haul travel, a significant volume of tourism—particularly the expanding short-break market—remains regional.

The distribution of destinations in close proximity to mainland countries parallels that of island OFCs. Although examples exist of remote mid-ocean ones (Mauritius) the largest OFCs lie 2–4 hours flying time from large countries, particularly the Caribbean and European clusters. Thus, despite information and communications technology that could spell the "end of geography" (O'Brien 1992), face-to-face meetings remain a prerequisite. Therefore, good transport and communications links are fundamental for both tourism and finance.

The development of tourism in many islands has generally preceded offshore finance, providing opportunities for the latter to free-ride on pre-existing infrastructure. Bryden (1972) observed that approximately 80% of the capital demand of a new hotel or resort arises from the cost of infrastructure, the majority of which is normally funded by the state. However, investment in harbors, airports, and other infrastructure tends by its very nature to be "lumpy" and the benefits are not exclusive to tourism (Hampton 1996). This enabled incoming financial services businesses to take advantage of existing infrastructure, thereby saving significant operational start-up costs and benefiting from agglomeration economics.

The success of both tourism and offshore finance is dependent on external perceptions of political stability. Negative risk perceptions affect both tourism demand and wealth holders' willingness to use an island as a tax haven. Turner and Ash (1975) observed that early tourism development was often linked to the uptake of islands as wealthy individuals' playgrounds, as occurred in many Caribbean locations in the 20s and 30s. Once settled, this first wave created demand for a ''pinstripe infrastructure'' of specialist legal and financial services. From the late 19th century onwards, this pattern of development was discernible in Bermuda, the Bahamas, and the Channel Islands. The expansion of the pinstripe infrastructure within the insular economy created a skills platform for the subsequent development of an OFC. This linkage between first-wave immigrants and financial services illustrates the early interrelation of tourism, wealthy immigrants, and the subsequent offshore development on islands. The synergy between the needs of the wealthy for both an exotic playground and a sophisticated financial infrastructure generates a positive form of ''cumulative causation'' (Myrdal 1944), reinforcing the growth potential of particular islands.

Labor, Land, and Capital: Evidence from the Jersey Case Study

Before proceeding further with the theoretical argument, it is useful to draw on the case study of the British Channel Island of Jersey to examine the characteristics that tourism and offshore finance share in the context of a small island economy. Although primarily conceived as a theoretical ''think-piece'', this paper also draws upon fieldwork conducted using ''key informants'' in a sequence of semi-structured face-to-face and telephone interviews. The authors also have extensive previous experience of the research area, what Pagdin calls ''pre-knowledge''(1989:248). Further, in addition to the usual literature review and the use of (limited) secondary sources, background discussions were held with local politicians, civil society groups, other academics, Jersey Tourism, and consultants.

Jersey is a mature destination and major OFC located 135 kilometers south of mainland Britain and only 22 kilometers from France. It is the largest Channel Island with an area of 116 square kilometers and, based on 2001 census, a population of 87,186. In 2004, the island had 377,900 leisure tourists, 60,900 business tourists, 147,500 day-trippers, 13,710 registered tourism beds, and an average length of stay for leisure tourists of 4.9 days (Jersey Tourism 2005). The main generating markets are mainland Britain (around 80% of leisure tourists) and northern Europe (France, Germany, Scandinavia, Ireland).The OFC has bank deposits of over $249 billion, an estimated $500 billion held in offshore trusts, and around $153 billion in managed offshore funds. The island hosts around 50 international banks plus the largest accountancy firms, and fund and trust managers (JFSC 2004).

Labor. Scarcity of local labor in Jersey has resulted in an inflow of immigrants into hospitality and tourism businesses, and as domestic staff for the wealthier residents. Historically, the unskilled and semi-skilled were imported from Brittany, mainland Britain, and Ireland. More recently labor from Portugal and the Balearic islands replaced the Bretons, and since the 90s hoteliers and other employers of the laborforce have looked further afield to Poland and even East Africa. In addition, the shortage of islanders with high level international experience means that senior OFC positions are frequently filled by British expatriates.

Pay and working conditions vary considerably between the two economic sectors. Tourism is typically poorly paid relative to others, whereas earnings in financial services are high, and include perks such as annual bonuses, access to lower interest rate mortgages, subsidized flights, and so on. Tourism employment here, 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 provide 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 airconditioned offices.

The high cost bases of SIEs are also of significance. In Jersey the cost of technical, managerial, and professional labor (and the high cost of its housing) is comparable to the most expensive parts of southeast 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 of crowding out develops, tourism finds itself unable to compete within the labor market for increasingly scarce human resources, and is forced to retrench, as Jersey's recent history demonstrates.

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

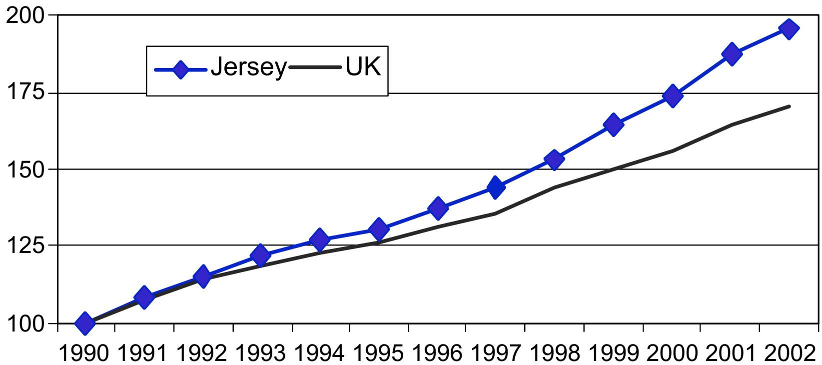
The development of Jersey's OFC during the 70s and 80s reversed the relative positions of the two industries, while also stimulating rapid growth of demand in the labor and housing markets, and a concomitant rise in the total population. Between 1971 and 2001 this increased by 25% from 69,329 to 87,186, pushing the density from 598 to 752 persons per square kilometer (States of Jersey Census 1971, 2001). The majority of this growth was attributable to inwards migration of labor 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 to 141 per thousand, while employment in hotels, guest houses, and other hospitality businesses fell from 98 per thousand (estimate for 1971) to 54 per thousand in 2001. Jersey's national income data show that by 1996 the financial services sector contributed 56% of GDP, while this for hospitality had fallen to 24%, although a significant proportion of the latter is now dependent upon trade generated by the financial services sector rather than by leisure tourism.

Tourism's decline has been mirrored by a similar decline in agriculture, 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% to Jersey's domestic income and in peak season employed approximately 12% of the laborforce (Powell 1971). Between 1971 and 2003 the number of functional farms fell from 1,164 to 80 (States of Jersey Statistical Digest 1996; Jersey Evening Post 2003) and agriculture's contribution to island's GDP fell to 5% in 1996 (States of Jersey 1997).

The rapid growth of its offshore finance sector stimulated enormous demand throughout the economy. GDP grew by approximately 11% annually between 1971 and 1999 (at current prices), developing enormous demand pressures within the labor 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 analyze trends prior to that date. Since 1990, however, its average earnings index has risen at a consistently faster rate than its British equivalent (Figure 1). In 2001, for example, the overall average increase in earnings was 8.1%, compared with 4.8% for the United Kingdom's economy, but in both finance and hospitality, Jersey's index showed above-trend increases of 8.4% and 10.7%, respectively. Unless matched by comparable growth in productivity, which is hard to achieve in a labor intensive sector such as tourism, such cost increases inevitably undermine the island's competitiveness. The available statistics support the argument that Jersey's tourism industry has indeed been crowded-out by high labor costs relative to comparable destinations. Many firms in tourism have sought to overcome this disadvantage by sourcing labor from low cost supplies, such as Poland, though this carries significantly higher staff turnover rates.

Land. The crowding-out effect of these cost differentials is most apparent in the housing market. The limited supply of land, with its high price in most SIEs, results in intense competition between the island's major industries, most notably in the housing markets where workers from different industries contend directly for the limited supply of housing stock. This competition is inevitably made uneven by the differential between the purchasing power of financial services workers and tourism employees, a situation which exacerbates the problem of trying to retain local labor in the lower paid sectors. Unable to compete with the higher salaries of financial services employees, other employers find it increasingly difficult to retain



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

Figure 1. Changes in Average Earnings (1990 to 2002)

trained labor which does not earn enough to afford decent quality accommodation. Unable to compete in the labor 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:

> When we were selling up [the guest house], a couple of the banks came round to look at buying our place. They were saying ''sell now, you've no chance in hell in making it work here''(former guest house owner B, Jersey interviews).

Jersey clearly illustrates this process, 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 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:

> Tourism [department] said they wanted to upgrade the island, clean up the image of the island, not guest houses. They said this openly quite a few times, they wanted a few Three Diamond [grade] ones, the rest could go. They wanted four or five star hotels. They missed the boat actually. Most of our neighbors sold out and left the island. Their guest houses are going to be flats (former guest house owner A, Jersey interviews).

The transition from a predominantly tourism-and-agriculture-based economy to one dominated by financial services has been particularly rapid in Jersey and the changing occupational structures exacerbated the chronic housing shortages and supply side imbalances. Demand was stimulated by the rapid growth of the financial services laborforce and the rising affluence of a population with high salaries and access to cheap loans 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), resulted in house price inflation that is high even by comparison with London and southeast England.

Jersey government data for house price inflation from 1985 through 2002 shows the cost of housing increasing at an average of 25% annually over that period (Table 1). The average price for a three- or four-bedroom semidetached property in 2002 was $476,800 (£298,000) which compares with $270, 846 (£169,279) for a comparable property in Greater London. With house prices at such high levels (and little supply of the flats and apartments that predominate in the housing markets of many European and North American economies), workers in low-paid industries such as hospitality are unable to find affordable accommodation. As a result, employers suffer from exceptionally high turnover rates among employees (in some recent seasons around 150%), with the majority 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 OFC, where some employers have transferred activities to the lower cost Isle of Man, but it applies particularly to tourism which is generally dependent upon the British market (approximately 80% of tourists). Despite efforts to broaden the market outside the summer peak season, tourism remains largely concentrated in the summer months and thus competes directly with resorts in England's southwest region, where house prices have risen at about half the rate in Jersey, and tourism has not been crowded out to the same extent.

Access to Capital. Early in their development, investment in both industries is largely drawn from local capital resources. As both grow, there tends to be an increasing concentration of capital and a correspondingly larger role played by externally owned firms, the majority of whom are transnational corporations based in large countries, often

Table 1. Housing Price Inflation in Jersey and the United Kingdom

Year	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 (%)	25	14	13	13

Sources: Jersey House Prices Index; Nationwide Building Society; weighted national average and regional indices.

OECD economies. Small-scale island tourism typically involves family-owned guesthouses or small hotels with modest capital requirements. Capital may be available from local banks, personal savings or family sources, as was the case in Jersey during the early growth phase of tourism in the 50s and 60s. As the industry 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 investment. This may be supplied in some cases by re-investment of profits from the existing business, bank loans, or equity investment from third parties.

Park argued that hosting an OFC would promote the internationalization of the local economy by attracting foreign direct investment and generating specialist knowledge, thereby ''helping local industry become internationally competitive''(1982:34). 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 industry, unless dramatic steps are taken within the domestic political economy to prevent it from becoming overly dominant.

Many other OFCs appear have followed similar patterns. The first entrants to the British Crown Dependencies and Overseas Territories were banks, which initially operated alongside the small number of locally-owned financial institutions (Johns 1983). Capital was provided from within the firm or from the group parent company. Increased concentration of bank ownership has led to a situation in which most banks are now internationally owned and operate transnationally, and new investment capital is almost invariably provided by the group parent company, as became the case in Jersey during the late 80s and 90s.

For other OFC firms such as accounting 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, PricewaterhouseCoopers, 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 Mossack Fonseca and Company now operating in the Pacific (Van Fossen 2002).

The Nature of the Relations between Offshore Finance and Tourism

At a high level of abstraction, Fine (1984) argued that the fractions of capital (industrial, agricultural, and financial) compete for a share in the surplus value created, whether as profits or as interest. Financial capital has distinctive characteristics, most importantly its high degree of liquidity and hence mobility, which allows it to operate without the constraint of government regulation. Ironically, a complete lack of regulation would be fatal to financial capital since chaos would ensue from the unleashed competition between capitals.

Offshore finance is an advanced form of financial capitalism characterized by its mobility and liquidity relative to other forms, and its ability to escape from the regulatory and fiscal reach of the state (Fine

1984; Hilferding 1981; Lenin 1965). Christensen and Hampton (1999), discussing the capture of the state by financial capital in island OFCs, argue that the small scale of the state in islands renders them particularly vulnerable to capture by vested interests, particularly since they are prone to economic dependence, which exerts social controls on the population.

This form of analysis can be extended to tourism. Britton (1982) discussed this industry in the context of dependency relations between underdeveloped periphery and wealthy metropolitan core countries. He argued that control of it has become increasingly concentrated in the hands of ''metropolitan tourism capital'' largely consisting of trans-national corporations.

This paper builds on Britton's analysis, proposing that tourism capital can be conceptualized as a fraction of the whole, competing with other fractions of capital for a larger share of surplus value (profit). Some might argue, however, that tourism is too broad to be considered a single fraction of capital, consisting of a complex interaction of its several parts, some ''industries'' in their own right, including leisure, accommodation, catering, retailing, transport, tour operators, travel intermediaries, and more (Cooper et al 2004). Some businesses operate solely for leisure tourism, while others, such as retail outlets, might have a tourism component amid many more (Hall 2000).

Similarly, at the operational level in an OFC, financial capital also consists of many components, including offshore banking (retail and wholesale), fund management, trust and company administration, and captive insurance. However, for the purposes of analyzing the workings of advanced capitalism, it is helpful to construct a single model at this abstract level in which the tourism and offshore sectors are conceptualized as distinct fractions of capital competing within a resource-constrained small island economy for scarce land and labor resources.

A key determinant of the battle between these capitals in the SIE is the proportion of local to external capital. The Jersey tourism industry, for example, is largely controlled by small- and medium-sized, mostly locally-owned businesses, that is, local capital. On other islands, however, the industry is dominated by large international companies, particularly transnational corporations, including tour operators, hotel chains, airlines, and cruiseship companies. On islands where tourism predominantly consists of locally-owned businesses, international financial capital is more likely to dominate the 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) which are active in the local political economy, their influence would counterbalance attempts by international financial capital to establish itself as the political hegemon.

However, what about 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 capital would attempt to dominate the island's political economy to protect its interests from the higher costs associated with competing for scarce land and labor. But here the different characteristics of financial versus tourism capital need consideration. The former is more mobile and 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 strength of the financial services sector.

While both forms of international capital compete for the scarce labor and land resources in order to increase their share of surplus value, they superficially might appear to be acting independently. This is complicated by observable behavior at the operational level, where there may even appear to be cooperation between tourism and OFC to extract concessions from government.

Finally, host jurisdictions for OFCs are arguably less substitutable than locations for tourism. They require an expensive state regulatory apparatus to, at the very least, provide a veneer of respectability, making it in the interests of financial capital to cultivate a close relationship with the island's state. Tourism, on the other hand, has a lesser requirement for state involvement, provided there is (perceived) political stability. In the price-sensitive mass tourism market (Poon 1993) destinations are highly substitutable, allowing tourism capital greater geographical flexibility and therefore imposing less need to establish itself as a political hegemon in the small island.

The Role of the State in Small Island Economies

There is a limited but growing literature addressing the fundamental question of the relationship between the state and the emergence of offshore finance (Cameron and Palan 1999; Hampton 1996; Palan 1999, 2003; Picciotto 1999; Sikka 2003), concerning tourism and the state. But while several studies discuss relations (Baum 1996; Deegan and Dineen 1997, 2000; Hall 2000, 2005; Mowforth and Munt 2003; Scheyvens 2002), much state theory remains firmly located within the context of the neoliberal globalization debate.

Cerny (1990) considers the ''competition state'' in which the ideology of ''systems competition'' has become central at the organizing level of the nation-state so that rather than just individual firms competing with each other—the neoclassical worldview—entire nation-states compete to attract mobile investment by advancing supply-side policies. Palan develops this concept and discusses the 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'' (2003:142).

Within this context of a varied financial and regulatory topography comprising nation-states as well as jurisdictions (colonies, dependencies, and peculiarities), the small, unique nature of many SIEs contributes to their attractiveness as hosts for OFCs. Furthermore, relations with mainland economies are typically exploited to extract political and financial privileges, a process which Baldacchino (1993) calls ‘‘managed dependency’’. The British Channel Islands illustrate this point. They consist of two administrative units: the Bailiwick of Jersey and the Bailiwick of Guernsey, the latter covering Guernsey, Alderney, Sark and Herm. In the international context, the British government is responsible for the good governance of the Crown Dependencies, though the Bailiwicks are largely self-governing 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 and the research machinery that goes with them. Crucially, the government systems in both Bailiwicks do not allow for general elections and parliamentary opposition along the lines of the Westminster model. Politicians’ personal business affairs frequently overlap with governmental interests, and power is concentrated in a small group without the democratic checks and balances found in larger polities.

Jersey’s Offshore Financial Sector and the State

These governing arrangements create the stable and outwardly respectable conditions that are a prerequisite for attracting capital. They also create the conditions which render the local polities vulnerable to capture by the global interests of the major banks and other powerful financial intermediaries. 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 offshore companies, trusts, and (notoriously) limited liability partnerships, which ultimately caused the island to be described as a ‘‘legislature for hire’’ (Senator Stuart Syvret, quoted in BBC 1996). Sikka 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 (1996:9).

In 2004 the State of Jersey took this process to its logical conclusion when it agreed to proposals from the island’s financial services industry to lower corporate profit tax from 20% to none. This was in response to EU and OECD concerns about differential treatment afforded to non-resident companies. Despite the fact that this will reduce government revenues by approximately one quarter, requiring the introduction of sales tax and various other regressive tax measures, this step was considered necessary to protect Jersey’s ability to compete with other tax havens.

Hence SIEs have played an important part in promoting tax and regulatory competition, and the globalization of financial capitalism as noted earlier (Palan 2003; Sikka 2003). As offshore finance emerged as a dynamic force during the 70s and 80s, it rapidly became a dominant industrial sector in Jersey, and ultimately gained control of the island's political economy, thereby acting as a ''cuckoo in the nest'' (Christensen and Hampton 1999). The small state has also provided a stage for the struggle among different actors engaged in the capital accumulation process (Jessop 1990). Having established predominance, the financial services sector used its political power to secure additional fiscal and regulatory advantages, further tilting the balance of the global economy in favor of financial capitalism. This appears to confirm Pauly and Reich's findings that for small or nonindustrialized societies (such as islands) ''power may be indeed shifting in the direction of a few leading states and increasingly concentrated commercial hierarchies embedded in those states'' (1997:25).

Within the host island economy, however, tourism and other pre-existing industries were unable to compete with either the political or economic interests of the increasingly dominant financial sector. Crucially, key players failed to comprehend the long-term implications of the crowding-out issue and lacked the political power to represent their interests to the island government. Faced with rising costs and chronic under-investment, tourism has adapted to changed circumstances by shifting focus to accommodate the needs of the financial services industry, for example with up-market hotels and restaurants (States of Jersey Statistical Review 1997). Unable to adapt, many tourism businesses have been sold, freeing land for residential accommodation, or have struggled with increasing unprofitability.

Jersey's Tourism Sector and the State

The state plays a major role in shaping tourism development, for example through its regulatory functions, by providing fiscal incentives, investing in infrastructure, and funding marketing and promotional activities. Hall (2000) notes ways the state regulates tourism by giving or withholding planning permission, enacting quality control measures, and more. Frequently the pressure for such intervention originates from outside the islands. Tour operators, for example, establish baseline requirements for hotel quality and health, safety, and environment conditions, and can play one destination off against another to negotiate the installation of new or enlarged facilities.

An example of fiscal incentives was the Hotels Aid legislation adopted by many Caribbean islands in the 50s to encourage inwards investment. These included tax ''holidays'' of up to 10 years and duty-free imports of raw materials or equipment for hotel construction. Bryden (1972) described the intense competition for foreign investment in tourism among different Caribbean destinations, and noted that once one island introduced incentives others quickly followed.

The role of the state in marketing is a third factor common to both industries. Many insular governments form tourism boards both to promote their industry and to provide training for the workforce. This role has also become more noticeable in many island OFCs as competition has increased, and governmental promotion is now a common feature of most OFCs and island destinations.

Since 1998, however, Jersey, along with other tax havens elsewhere, has come under increasing international pressure to adopt onshore financial regulation (Le Marchant 1999; Powell 2002). As with tourism regulation, external pressure has been significant in persuading island governments to more effectively protect their OFC industries from international concerns about money-laundering, drug-trafficking, regulatory degradation, and tax-avoidance (Edwards Report 1998; FATF 2000; OECD 1998). The increased visibility that such external interventions bring to the affairs of these small islands, has caused alarm within their OFCs, 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 United Kingdom 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, Jersey politicians appear not to have comprehended the economic implications of the crowding-out effect despite the issue having been belatedly flagged up by their consultants (OXERA 2004). Even the island's low tax regime has not been sufficient to compensate for a cost of living that is estimated at some 20% above that in southeast England. Despite its many attractions, Jersey's tourism potential remains crowded-out by the island's predominant financial services sector.

CONCLUSION

The international tourism and offshore finance industries play key roles in the local economies of a significant number of Caribbean, Pacific, and European islands. This study has analyzed 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. It has also explored some of the processes that are currently underway as advanced capitalism restructures itself in relation to the uneven fiscal and regulatory topography of different nation-states and the liberalization of global capital markets (Cerny 1990; Harvey 1982; Picciotto 1999; Roberts 1994).

The paper makes connections between the development of tourism in islands and the subsequent development of OFCs, despite there appearing to be no dynamic relationship between the two. At the operational level, the former can be the catalyst for attracting wealthy individuals and offshore businesses to an island, and for shaping the overall ''sense of place''. Nevertheless, tourism's emergence in an island appears to be a function of the ''islandness'' of the place, as well as other factors including reliable transport, 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 rather more complex than a coincidence of mutual interests, which Marshall (1996:260) called a ''happy association'' of two international service industries both of which happen to locate in islands. This paper proposes 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 a conceptual tool provides a means for analyzing its relations with financial capital. These relations exist both within islands and in the wider, global context as advanced capitalism restructures 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 seen in relations with the state in small islands. Financial capital operating offshore requires a degree of legitimization that only the state can provide in order to attract external investors and deposits to the 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. The small island state provides the veneer of legitimacy for financial capital's offshore operations. Therefore, the capture of the small states becomes central to the interests of financial capital, which seeks favorable legislation and minimal state ''interference'' or regulation of the offshore financial sector (Christensen and Hampton 1999). This process of financial capital establishing itself as the political hegemon reinforces the process of crowding-out pre-existing competitor industries such as tourism. As such, small island economies 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 favored by the more internationalized fractions of capital'' (Glassman 1999:691).

This study has used the case of the British Channel Island of Jersey to demonstrate how this abstract process translates into reality. Its government has collated and published relatively robust statistics covering a sufficiently long time period to enable examination of the crowding-out process. The statistical data supports this paper's argument that tourism has been crowded out by the island's OFC. This process is revealed by several indicators, including a dramatic reversal between tourism and financial services since the 70s as seen in contribution to GDP, share of direct employment, and contribution to government revenues. Moreover, the macroeconomic consequences of such crowding-out in a small island economy include labor cost inflation, widening income disparity, chronic labor shortages, 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, particularly tourism, to gain dominance within the local political economy.

The logic thus suggests that other small islands might also be vulnerable to the crowding-out process. However, the difficulties of obtaining reliable, or even usable, local economy data for most SIEs means that this has to remain at the level of being a plausible suggestion. In addition, using the concept of the fractions of capital to analyze the relationship between tourism and offshore finance, it is clear that the structural characteristics of each industry are significant. In particular, tourism may be seen as more fractured than financial services, with lower profit margins and less political influence. Financial capital, represented by highly concentrated financial services transnational corporations, has managed to effectively capture the state in many small islands for its own advantage.

Despite their remoteness and lack of comparative advantage, small islands exist simultaneously, and paradoxically, both at the margins of advanced capitalism and at its very center (Roberts 1994). The relationship between international tourism and offshore financial services in small island economies thus raises broader questions about the present restructuring of capitalism, and the relationship between international capital and the state. 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 to globalize. From the perspective of the small islands, however, the potential for crowding-out and capture of the state raises important questions about whether and to what extent it is desirable to allow OFCs to become a dominant political player within the local economy, and to develop mechanisms to protect pre-existing industries, including tourism, from this process. A

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