

## Key Data Reports

### 2: Share of Financial Services in GDP

Markus Meinzer

#### What is measured?

This report concerns the contribution of the financial services sector to the overall economy of each jurisdiction surveyed by the Mapping the Faultlines project<sup>1</sup>. It is stated as a percentage-share of the Gross Domestic Product (GDP) of the jurisdiction.

The data is usually extracted from secondary sources such as the US-INCSR report<sup>2</sup> (2008) and IMF or FATF<sup>3</sup> assessments. These have been used where possible to mitigate potential problems resulting from a lack of inter-country consistency between the figures. If these sources did not contain the information we sought we also considered information that was available on private websites such as Lowtax.net.

It is important to bear in mind when assessing reported data that financial services as defined by the IMF and the UN-statistics division<sup>4</sup> cover only financial services conducted between resident entities and non-residents<sup>5</sup>. This is the data with which we are concerned in the Mapping the Faultlines project. It is important to stress, however, that financial services can come in a variety of forms.

Perhaps the most common charge for financial services is that paid to banks for account operating but almost certainly more important overall are fees for foreign exchange transactions, brokerage services, placement of issues (raising debt), dealing in swaps and options and other derivatives, trust management, commissions of commodity futures traders, etc.<sup>6</sup>. In addition, financial services fees include the charges for the advice of those arranging these transactions such as legal and accountancy fees.

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<sup>1</sup> See [http://www.secrecyjurisdictions.com/PDF/SJ\\_Mapping.pdf](http://www.secrecyjurisdictions.com/PDF/SJ_Mapping.pdf).

<sup>2</sup> This stands for “International Narcotics Control Strategy Report”, an annual publication issued by the US-State Department (see Glossary for more details).

<sup>3</sup> IMF stands for “International Monetary Fund” and FATF for “Financial Action Task Force” (see Glossary for more details).

<sup>4</sup> An overview of the widely respected UN-system of national accounts 1993 can be found here: <http://unstats.un.org/unsd/sna1993/toctop.asp?L1=4> (24-8-09).

<sup>5</sup> <http://unstats.un.org/unsd/sna1993/Paragraphs.asp?L1=14&L2=4&Pnr=14.115.&strsrch=%22financial+intermediation+services%22> (24-8-09).

<sup>6</sup> These examples are derived to a large extent from the IMF’s 5<sup>th</sup> Balance of Payments Manual of 1993 (page 67; <http://www.imf.org/external/np/sta/bop/bopman.pdf>; 22-8-09).

We tried to include the most recent and most reliable data available, two criteria that were, happily, seldom at odds with each other. The data refers mostly to the years 2005 onwards, but on a few occasions dates back to 2003, and on one single occasion to 2001.

### Why is this data important?

A high share of financial services in the overall economic activity of a country is likely to indicate the presence of considerable political influence by the financial services industry on the government of the jurisdiction. It is almost universally true that the more reliant a territory is upon a particular economic activity the more deferential it is likely to be to the demands of that sector. Such influence can undermine democratic decision making processes, can facilitate corruption, in the case of financial services can create a strong orientation towards the needs of those outside the territory who would not normally be the prime concern of its government, and can be (but we stress, is not always) conducive to a criminogenic environment.

This ratio is also important since many individuals working in the financial services sector face incentives that are at odds with the interests of society and a democratically elected government. Democratic governments and societies have an interest in ensuring law enforcement and preventing money laundering. While the financial services sector may share this concern, individual companies and traders have an interest in attracting funds from which they can generate their own income. This puts their own self interest in conflict with that of their industry as a whole and society at large and there is clear evidence, despite the massive secrecy that surrounds the operation of the financial services sector in many secrecy jurisdictions, that some succumb to temptation. This is at cost to society at large. This risk increases as the size of the sector in proportion to GDP rises and the consequent capacity of any government to challenge its operation declines.

This risk is exacerbated in small jurisdictions. In these locations local GDP can be small e.g. that of the UK's Crown Dependencies combined is less than the forecast profits of just one UK bank in 2009<sup>7</sup>. This implies that the power-balance, even for well-intentioned governments, is often tipped in favour of financial corporations whose profit-seeking intentions may not necessarily align with the interests of the ordinary people living in secrecy jurisdictions.

Therefore, a large contribution by the financial services industry to the overall economic produce of a jurisdiction is likely to create conflicts between competing interests and, in extremis, may result in an overt dependency of a government on the financial services

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<sup>7</sup> Barclays Bank plc is forecast to have profits of £11 billion in 2009. <http://www.dailymail.co.uk/money/article-1226024/Profits-Barclays-hit-record-11bn.html>. The combined GDP of the Crown Dependencies according to the CIA Fact Book amounts to approximately \$10.7 billion or £6.5 billion.

industry. Political scientists call such a situation “state capture”, when narrow and particular interests impose their will onto the state and the society it serves. In this particular case the implications flow well beyond the shores of the domain in question.

The last stage of such a process of state capture occurs when the effects of corruption facilitated by weak regulation and financial secrecy eventually permeate the government of a jurisdiction. At that point civil society ceases to function properly. This does not always remain hidden. The collapse of the government of the Turks and Caicos Islands in 2009 is example of such a situation arising, even though in this case the ratio of financial services to GDP was lower than that of many Caribbean islands<sup>8</sup>.

### What are the crimes that might hide behind a high share of financial services in GDP?

While it is difficult to directly attribute crimes to a high share of financial services, the overall outcome of a dominant financial services sector is likely to be a criminogenic environment in which financial regulations and transparency are kept at the lowest level so as to attract the maximum foreign funds. The crimes thriving in such an environment comprise the entire spectrum of possible crimes: financial fraud, infringement of competition rules, non-payment of debts, bankruptcy fraud, hiding of the proceeds of corruption, organised crime (especially drug trafficking), illegal arms trading, trafficking in human beings, money laundering, the covering of illicit intelligence activity and more besides.

### Results Overview

**Table 1: Share of Financial Services – Overview**

Number of jurisdictions without data:	31
Number of jurisdictions with data:	29
Jurisdictions without data in alphabetical order:	
Antigua & Barbuda, Aruba, Austria, Barbados, Belgium, Belize, Brunei, Costa Rica, Grenada, Hong Kong, Hungary, Ireland, Israel, Latvia, Lebanon, Liberia, Malaysia (Labuan), Maldives, Marshall Islands, Nauru, Netherlands, Philippines, Portugal (Madeira), St Kitts & Nevis, St Lucia, St Vincent & Grenadines, Turks & Caicos Islands, United Arab Emirates (Dubai), Uruguay, US Virgin Islands, USA (Delaware)	
<b>NB:</b> Some of the jurisdictions enlisted here are likely to be among those with the highest share of financial services. Therefore, the graphs may well look different if data was available for all.	

<sup>8</sup> [http://news.bbc.co.uk/1/hi/uk\\_politics/8202339.stm](http://news.bbc.co.uk/1/hi/uk_politics/8202339.stm); 22-8-09.

## Results Detail

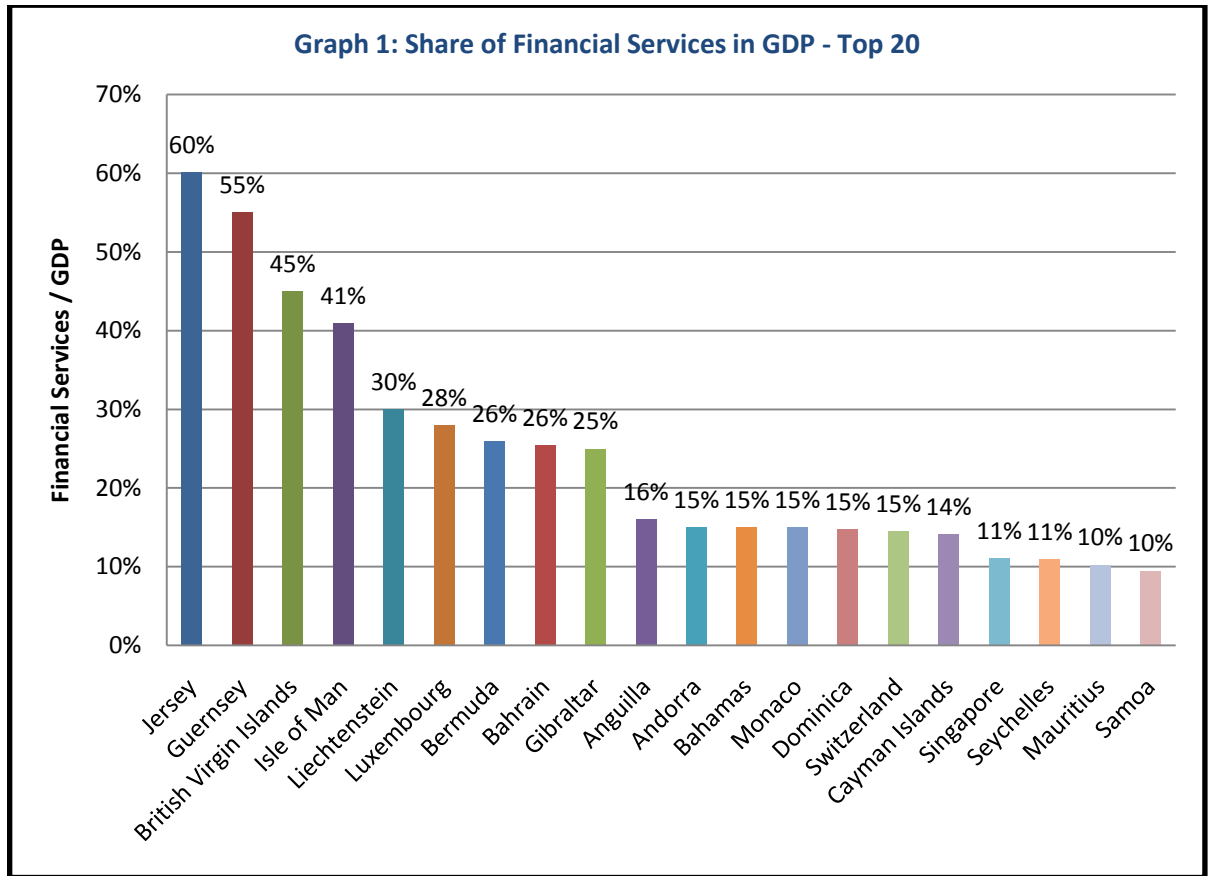


Table 2: Results Details - Share of Financial Services

ID	Jurisdiction	ISO	FS/GDP	ID	Jurisdiction	ISO	FS/GDP
1	Andorra	AD	15%	31	Liechtenstein	LI	30%
2	Anguilla	AI	16%	32	Luxembourg	LU	28%
3	Antigua & Barbuda	AG	unknown	33	Macao	MO	8%
4	Aruba	AW	unknown	34	Malaysia (Labuan)	MY	unknown
5	Austria	AT	unknown	35	Maldives	MV	unknown
6	Bahamas	BS	15%	36	Malta	MT	6%
7	Bahrain	BH	26%	37	Marshall Islands	MH	unknown
8	Barbados	BB	unknown	38	Mauritius	MU	10%
9	Belgium	BE	unknown	39	Monaco	MC	15%
10	Belize	BZ	unknown	40	Montserrat	MS	9%
11	Bermuda	BM	26%	41	Nauru	NR	unknown
12	British Virgin Islands	VG	45%	42	Netherlands	NL	unknown
13	Brunei	BN	unknown	43	Netherlands Antilles	AN	8%
14	Cayman Islands	KY	14%	44	Panama	PA	7%
15	Cook Islands	CK	8%	45	Philippines	PH	unknown
16	Costa Rica	CR	unknown	46	Portugal (Madeira)	PT	unknown
17	Cyprus	CY	6%	47	Samoa	WS	10%
18	Dominica	DM	15%	48	Seychelles	SC	11%
19	Gibraltar	GI	25%	49	Singapore	SG	11%
20	Grenada	GD	unknown	50	St Kitts & Nevis	KN	unknown
21	Guernsey	GG	55%	51	St Lucia	LC	unknown
22	Hong Kong	HK	unknown	52	St Vincent & Grenadines	VC	unknown
23	Hungary	HU	unknown	53	Switzerland	CH	15%
24	Ireland	IE	unknown	54	Turks & Caicos Islands	TC	unknown
25	Isle of Man	IM	41%	55	United Arab Emirates (Dubai)	AE	unknown
26	Israel	IL	unknown	56	United Kingdom (City of London)	GB	7%
27	Jersey	JE	60%	57	Uruguay	UY	unknown
28	Latvia	LV	unknown	58	US Virgin Islands	USVI	unknown
29	Lebanon	LB	unknown	59	USA (Delaware)	US	unknown
30	Liberia	LR	unknown	60	Vanuatu	VU	7%