

Small is specialised

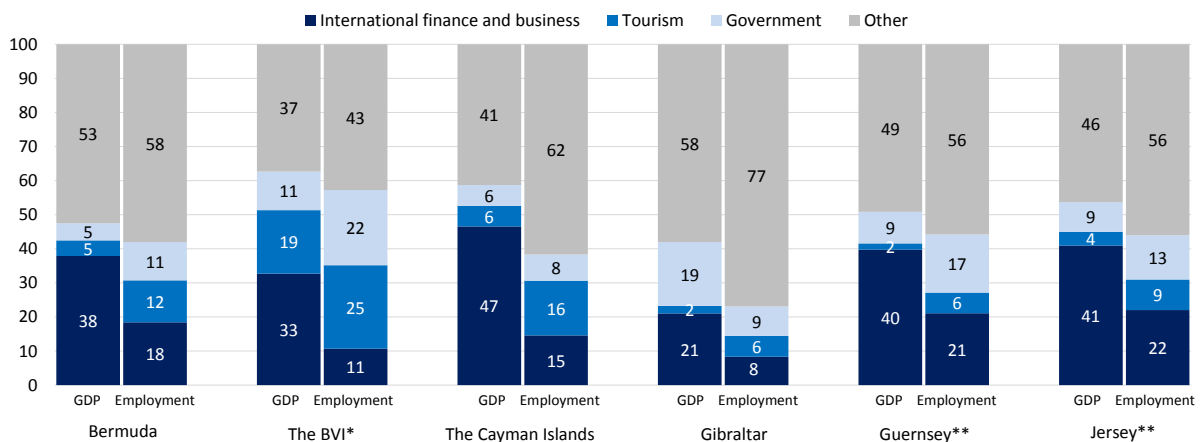
Key points

- The Crown Dependencies and British Overseas Territories specialise in financial services, which is reflected in their labour market and economic activity statistics
- Such concentration on a single sector is unremarkable for small economies, including comparably-sized local authorities in the United Kingdom

1. The Crown Dependencies and Overseas Territories specialise in financial services, which is reflected in their labour market and economic activity statistics

A number of international finance centres (IFCs), including the Crown Dependencies (CDs) and UK Overseas Territories (OTs), specialise in financial services. This specialisation should not be a concern. IFCs have evolved to meet the needs of global businesses and investors. As such, they have developed specialist and highly-personalised services that are attractive to clients around the globe.

Figure 1: Share of tourism, business and financial services, government and other sectors of total gross domestic product and total employment, 2016, per cent



Sources: Capital Economics and individual country statistics departments. *Data for 2014, **Share of gross value added. Note: Gibraltar share of gross domestic product inferred from a 2003 input output study undertaken by Bournemouth University.

IFCs' focus on financial services is reflected in their labour market and economic activity statistics. The finance and business services sectors of IFCs are typically large relative to the size of their overall economies. This can be seen in the Crown Dependencies and British Overseas Territories, where financial services activities account for up to a quarter of all jobs and between a third and half of their gross value added (see Figure 1).

The CDs and OTs have comparable proportions working in financial services to several local districts in the UK of similar size. As well as the City of London (38% of workers) and Tower Hamlets (26%) – whose workforces are more dominated by financial sector than any CD or OT – districts as diverse as Broadland in Norfolk (14%), Reigate & Banstead in Surrey (13%), and Edinburgh (11%) have levels of employment in financial services that are roughly comparable to the Overseas Territories.

2. Concentration on a single sector is unremarkable for small economies, including comparably-sized local authorities in the United Kingdom

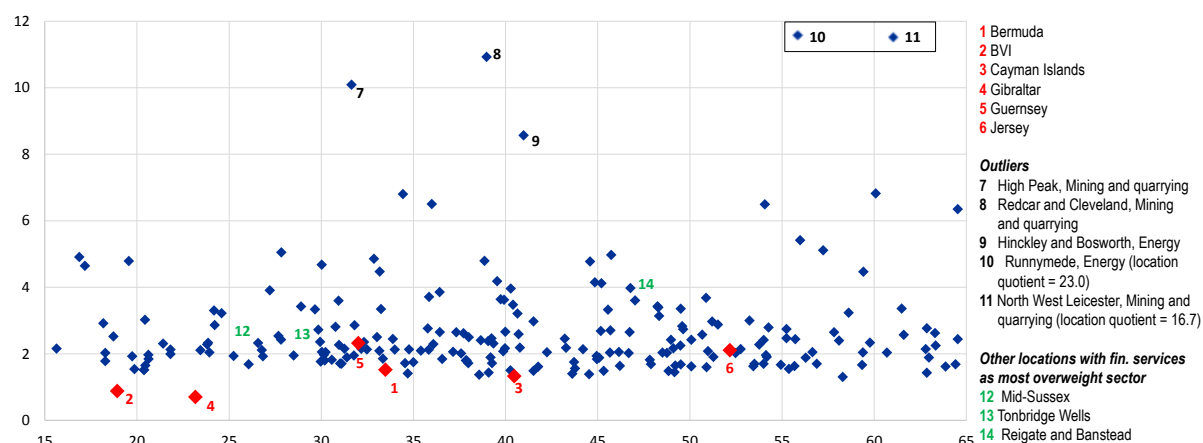
This proportion of employment in financial services is, on average, roughly twice that found in the UK. International financial and business services account for an average of 17% of jobs across Bermuda, BVI, Cayman Islands, Guernsey, and Jersey, compared to 12% in financial services in the UK.¹ Such concentration on a single sector is unremarkable for small economies.

A number of districts have workforces that are far more specialised in certain industries than any of the CDs and OTs are in financial services, including Copeland's energy sector, Watford's HR and corporate services sector, West Somerset's tourism sector, Barrow-in-Furness's shipbuilding industry, South Holland's food manufacturing industry, Welwyn Hatfield's retail trade, and the City of London's financial sector. Indeed, only fifteen districts in the UK do not have a single private-sector industry that by itself makes up a larger proportion of employment than Gibraltar's financial sector.

To illustrate this, we have examined the industrial structure of all local authorities in Great Britain with employment levels similar to the Crown Dependencies and Overseas Territories.² Although the jurisdictions have a higher rate of employment in financial services than the United Kingdom, this degree of specialisation in a single sector is typical of authority areas of a similar size (see Figure 2).

Each UK district's total employment is plotted below against the 'location quotient' for the sector for which that authority has its highest concentration of employment. The location quotient measures how concentrated employment is in a particular sector relative to the national average. Location quotients for the CDs and OTs (in red) are not exceptional for administrative areas of their size.

Figure 2: Location quotient of most overweight sector (vertical), and employment (horizontal) (thousands), 2016



Sources: Capital Economics analysis of labour statistics from the Office for National Statistics and individual jurisdiction statistics departments. Note: Jersey measures private sector employment only.

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¹ Due to differences in data collection and reporting, the comparison is not precisely like-for-like.

² We assessed local authorities in Great Britain with between 15,000 and 65,000 employees.