
Selectivity and the Economics of Independence for Today's Overseas Territories

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Abstract

Why do today's overseas territories enjoy higher living standards than independent microstates? In analyzing the role that independence had on the per capita income of territories, I hypothesize that in the 1970s, metropolitan powers chose to retain the territories that were strongest in terms of economic performance and to let go the weakest. Both qualitative and quantitative analyses show (1) that today's overseas territories' inherent economic advantages have played a significant role in their current privileged situation; (2) that generally there are both economic gains and losses associated with independence for territories; and finally, (3) that the ways in which metropolises developed their colonies also influenced the latter's economic performance after their independence.

Introduction

Sixty-three territories still bear the status of “dependencies and areas of special sovereignty” (CIA, 2003). Despite the waning of independence campaigns in the 1990s, their special status is a potential time-bomb in geopolitics. As Aldrich and Connell (1998) put it, “the continued existence of such outposts, and their intermittently problematic nature, poses questions about independence and dependence, just as steps towards closer integration of the European Union alongside legislatures in Scotland and Wales challenge notions of sovereignty and national identity” (p. 1).

Hence it is important to understand why these micro-territories still bear the flag of the metropolis when, since 1943, more than 140 others have gained sovereignty. Will they become independent? Logically, this question is two-fold and involves both the metropolis and the micro-territory. In other words, for both entities, what are the benefits and the losses associated with independence?

One way to treat this issue has been to ascertain the impact of independence on the territories' economic performance. Most of the economic literature has agreed that the remaining dependencies, thanks

to their dependency status, enjoy higher living standards than the newly independent states. Using an ordinary least squares panel regression dating back to 1970, Bertram and Karagedikli (2002) find that remaining dependencies exhibit per capita incomes (PPP) ten times greater than newly independent microstates. Using a similar method and controlling for other factors, Armstrong and Read (2000) show for 1994 the regression of per capita GNP associated with independence for 105 territories, and conclude that “there appear to be benefits to being a dependency that more than compensate for other inherent advantages experienced by the tiny, fragmented nature of most of the remaining dependent territories” (p. 303).

While these analysts correctly point out that the gap between the GDPs of remaining dependencies and newly independent microstates in 2000 is considerable, they directly attribute it to the independence of the latter and do not explain the similar income inequality before 1970, when all examined territories were dependencies. In this analysis I take a new approach and account for the metropolises’ assessments of the strategic value of their territories. I find that, in the 1970s, metropolitan powers chose to retain the territories that were strongest in terms of economic performance and to let go the weakest, a move in line with their rational self-interests. Accounting for the territories’ economic performance in 1970 through IV-instrument regressions has the result of showing that independence on average does not significantly impact the territories’ economic performance. This conclusion implies that the inherent economic advantages of today’s overseas territories’ have also played a significant role in their current privileged situation and that, for the territories, there are both economic gains and losses associated with independence. The extent to which territories gain or lose from becoming independent, however, varies according to the ways in which the metropolises developed those territories

A New Approach: The Selection Process Hypothesis

THE INHERENT ADVANTAGES OF REMAINING DEPENDENCIES IN 1970

Definitions of microstates are numerous. According to the United Nations, the term “microstate” denotes a state with a population numbering one million or fewer. For this analysis, I extend the population size to 5 million to include Papua New Guinea and Puerto Rico. However, these two territories aside, among the 32 territories sampled in 2000, the average population is 207,415 and the median is 137,130. I refer to microstates that became independent after 1970 as newly independent states (NISs). These microstates share nothing in common with the former Communist republics, also commonly referred to as newly independent states. Due to a lack of available data, Djibouti and Suriname were not included in the dataset. A micro-territory is a microstate that has not declared independence, and is referred to in this essay as a remaining dependency (RD). Due to lack of available data, my analysis does not include many small RDs such as Wallis and Futuna, Niue, and Cocos Islands. Very few of these territories deliver their statistics to international institutions such as the World Bank and the United Nations.

The studies of Armstrong and Read (2000) and of Bertram and Karagedikli (2002) attribute the current income inequality between RDs and NISs solely to the benefits accrued by RDs from their dependency status. But in so doing, they do not explain the similar income inequality in 1970, when all the examined territories were dependencies. I base my analysis on the “1999 United Nations National Accounts Statistics: Analysis of Main Aggregates.” The data are converted from nominal to real \$US, with base year 1990, using the GDP implicit price deflator. Figure 1 sets the stage by comparing average per capita incomes of 14 RDs and 19 NISs over 5-year intervals from 1970 to 2000.¹ In 1970, the mean per capita income of the 14 RDs was about \$7,147, whereas that of the 19 NISs approximated \$2,042. That is to say, when all territories were dependent, the per capita income of the RDs was already 3.5 times larger than that of the NISs.

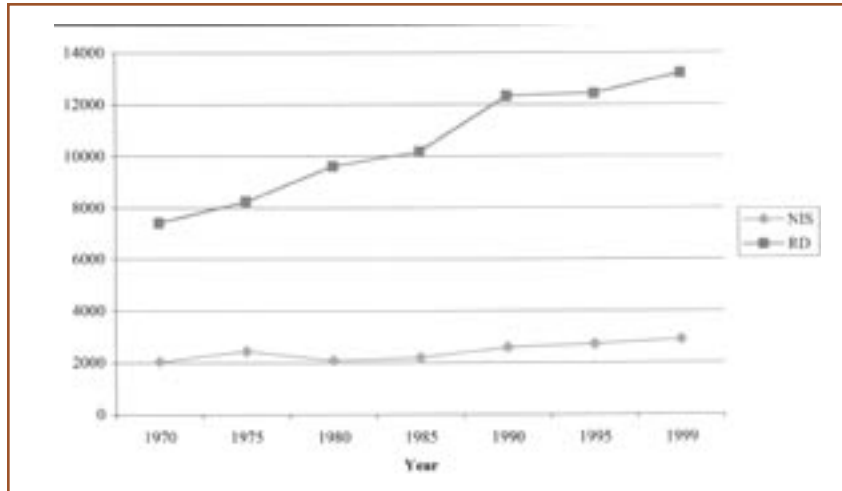


Figure 1. Average real GDP/cap for RDs and NISs, 1970-2000.

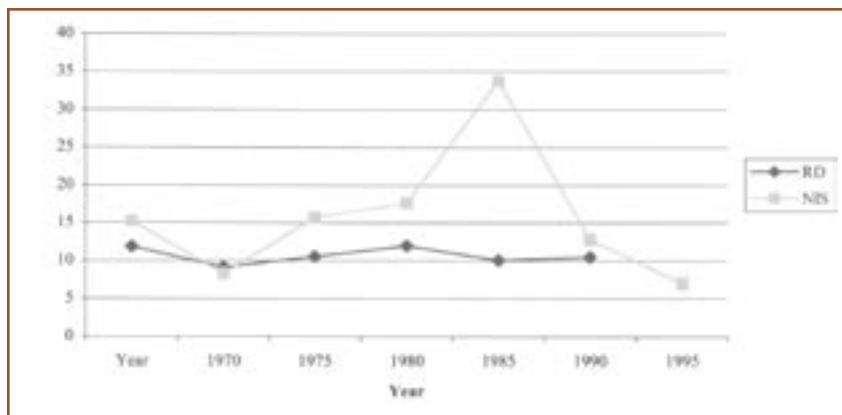


Figure 2. Foreign aid as a percentage of income for RDs and NISs, 1970-2000.

These figures raise a key question: Why were the economies of the RDs stronger than those of the NISs in 1970? Were they helped more by their metropolises? Or did they have inherent economic advantages? All territories received the same rights to migrate to the metropolises and were governed by similar fiscal policies. Only the amount of foreign aid provided differed across territories. In examining this factor, I looked at the amount of net overseas development assistance per capita provided to 9 RDs and 14 NISs, according to the United Nations Yearbooks from 1970 to 2000. The data include both bilateral aid and multilateral aid from international organizations such as the World Bank, the U.N. and the I.M.F., but do not include other forms of aid, such as currency arrangements that involve valuing the currency at a different rate from what the market would dictate.

The data reveal that some dependencies profit from massive financial transfers from their metropolises, led by the 880 million dollars a year received by New Caledonia. Since 1976, Mayotte's economy has soared relative to Comoros', but Mayotte received more than 100 million dollars from France every year since, or ten times what Comoros collected yearly. Greenland and the Faroe Islands as well receive more than 500 million dollars each year from Denmark. Following a disastrous volcanic eruption in Montserrat in 1995, the islands were granted a 122 million dollars "rescue package" from the United Kingdom to rebuild its tiny economy.

But the aid factor alone does not explain the large income gap in 1970. Even though RDs received amounts of foreign aid (largely bilateral) that were greater (in absolute terms) than that received by NISs (mostly multilateral), the percentage of per capita foreign aid has followed the opposite path. As Figure 2 illustrates, whereas foreign aid per capita represented on average 16% of the per capita GDP of NISs in 1970, it only made up 11.8% of the per capita GDP of RDs. Soon after the microstates gained independence, the associated loss of bilateral foreign aid was offset by an increase in multilateral aid. In their study, Armstrong and Read (2000) regress per capita GNP on the net overseas development assistance

per capita (ODAPC) in 1994, controlling for other exogenous factors, and find that, despite its negative coefficient, its level of significance is very low ($p=.229$). Hence it is unlikely that the economies of RDs were performing better in 1970 due to a higher level of foreign aid.

Instead, it would appear that many RDs possess unique characteristics allowing them to enjoy larger economic growth. Due to its geographical position, French Guyana, for instance, is one of the few ideal spots in the world to launch rockets into space. The large number of geographically isolated atolls in French Polynesia and the Marshall Islands provides good opportunities for France and the United States, respectively, to execute their nuclear tests. Finally, some territories may host potential sea-bottom mineral resources. Many studies find that the Pacific Ocean sea-crust floor contains tremendous amounts of mineral resources enclosed in nodules that lie near tectonic rifts. Even though we have not yet found ways to exploit these nodules, future technology may yield great economic growth, and the metropolises of territories such as the Cook Islands, French Polynesia, and the Northern Mariana Islands, whose 200-Mile Exclusive Economic Zone (EEZ) hosts mineral resources, might gain particularly from retaining these territories.

THE EXISTENCE OF A SELECTION PROCESS

I have suggested that the 1970 income gap was due primarily to inherent differences among the economies of territories. If true, then why did only the worst performing territories gain independence? I argue that the metropolises engaged in a selection process, which took place because the power relationship between metropolises and territories is both uneven and unique, for reasons detailed in this section.

Reflecting upon the key question of why the independence of most micro-territories took place relatively late enlightens the matter. Out of the 26 states with fewer than one million inhabitants, only 5 became independent before 1970. There are two possible explanations for this fact: (1) the small population size of these micro-territories prevented them from fighting effectively for independence, or (2) micro-territories proved to have some strategic value to their metropolises and thus were worthwhile to retain.

The first explanation, focusing on the conditions within the territory, has been accounted for in numerous histories of de-colonization. According to this viewpoint, nations with a large population size gained solid leverage power and became independent first, starting with India in 1947. A deeper analysis, however, suggests that the political fate of a territory is determined by a complex game model² between the people from the territory and those from the metropolis. Despite this dynamic, as the population size of the territory diminishes, the capacity of the metropolis to influence the territory's status (as dependent or not) increases, whereas that of the territory decreases. It becomes much easier for the metropolis to bribe leaders, control the allocation of resources, and mold the social and political reactions within the small territories. In the case of micro-territories, this means that the metropolitan power has retained relatively high control over the political fate of the territories. Historical evidence shows that metropolises have generally acted in subtle ways to influence the territories' political status. Only when metropolises gradually lost interest in some of their colonies did they display some enthusiasm in negotiating with the territories' pro-independence parties; this was the case for the United Kingdom, for example (Arby, 1975). Migdal (1998) argues that, as a result of the metropolises' strategies, "many long-standing values necessary to maintain a cohesive social and community order in specific societies were disturbed, often beyond redemption."

The second explanation focuses on the metropolis and its assessment of the strategic value of overseas territories. In general, colonies have served as mines of primary economic resources or as outlets for excess of unwanted population. In the late 1800s and early 1900s, big territories such as today's Democratic Republic of the Congo and Australia fulfilled these respective purposes and indeed largely

contributed to the growth of the metropolises' economies. The military effort that France expended to retain Algeria before 1962 and that Britain expended in India before 1947 clearly reflects the attachment of the metropolises toward these productive dependencies.

On the other hand, micro-territories such as Montserrat and Niue could not provide the same kind of colonial value to metropolises. Many studies have examined the economic problems faced by microstates and have found that they are often insular and remote, are endowed with only limited natural resources, depend on a narrow range of products and on export markets, cannot generate economies of scale, have limitations on domestic competitiveness, struggle with problems of public administration, depend on foreign sources of finance, and are prone to natural disasters (Briguglio, 1995). Conditions such as these make it easier for the metropolis to release its control of the territory. This was the case when a 1960 hurricane in Niue resulted in the homelessness of 4000 out of a population of 4780 people and wiped out copra production for two years, and when in 1979 tidal surges destroyed hundreds of homes on Majuro in the Marshall Islands (Knapman, 1994). Finally, Armstrong and Read (2000) define the concept of sub-optimality, and contend that the sub-optimal size of microstates' home markets means that domestic demand for many goods and services lies below their minimum efficient scale (MES) of output.

Nevertheless, micro-territories often possessed a unique type of colonial value: their geographic locations allowed for communications between the metropolis and other bigger territories. Particularly during the 19th century, most micro-territories served as ports of call for boats that traveled along the famous Silk Trail. As Uhlig (Coletta, 1985) remarks, the need for a coaling station was among the reasons for American interest in acquiring the Hawaiian Islands and Samoa. Guam was a refueling stop for the commercial airliners crossing the Pacific with troops bound for World War II. Moreover, many of these territories, especially the Dutch Antilles, often served as hubs for the huge and profitable slave trade. By the early 1900s, technological advances, especially in the aeronautic industry, as well as the worldwide abolishment of slavery, had diminished somewhat the colonial reliance on these micro-territories, even though many of the islands (French Polynesia and Guam, for example) still hosted important military bases for metropolitan powers.

These factors explain why the independence of microstates took place after that of big and more resourceful territories. On the whole, the situation of micro-territories is atypical. Not only does their small population size often restrain them from fighting for independence, but also their geographic location creates a crucial link for increased trade and communications between the metropolis and more resourceful territories, and thus provides a powerful incentive for the metropolis to retain them as dependencies. For the larger territories, then, this set of circumstances suggests that, as independence was gained, intra-colonial trade declined and the metropolises no longer saw as much interest in retaining micro-territories.

Hence, together with the income gap between NISs and RDs in 1970, it is likely that metropolises chose to retain the best performing territories and to let go the weakest. In an article on the prospects of Puerto Rico's independence, Ingram (2001) points out, "we have found no example of an imperial power casting off a colony or territory against the latter's wishes, or of a colony declaring its independence and becoming an independent nation without either a revolution or the consent of the imperial nation" (p. 93).

Introducing the concept of selectivity, Bertram and Karagedikli (2002) write, "former colonial powers might be argued to have been keen to divest themselves of poor territories such as Papua New Guinea or Kiribati while holding onto more 'worthwhile' possessions such as New Caledonia" (p. 4). Yet they choose to ignore this argument in light of the fact that New Caledonia and Kiribati possess the same level of economic resources. What they do not consider is that metropolises have interests in their territories *beyond* economic resources. More importantly, Bertram and Karagedikli do not compare like territories. Whereas New Caledonia is a French Territory, Kiribati and Papua New Guinea were former UN Trust

Territories of the Pacific. It would be more useful to look at the economic differences among the territories belonging to the same metropolis. For instance, why did the Seychelles Islands gain independence while the Cayman Islands remained a British Overseas Territory?

Some metropolises have also been more anxious than others to retain their territories. France, for example, spent great effort to retain and develop its territories. Following its experience with Comoros, which became independent in 1974, France agreed in the late 1980s to retain and “departmentalize” Mayotte. In its attempt to retain New Caledonia, France sent troops from the early 1980s to 1998 and pressed for the Noumea Agreement, which prevented Kanak secessionists from escalating the conflict. In contrast, the United Kingdom never opposed the independence of the Fiji islands after the 1960s, perhaps because, as Peter Hempenstall (1994) remarks, “A mixture of official ennui, hostile Treasury sentiments and [...] public enthusiasm set the various hues of Britain’s policy toward overseas expansion in mid-century” (p. 31).

In light of my hypothesis about the selection process of metropolises, a revised analysis of the impact of independence on the economic performance of territories is warranted. If the best performing territories remained dependent because of inherent strengths, logic would suggest that, *ceteris paribus*, they should still enjoy greater per capita incomes than NISs. But this is not what we find. Therefore, we should investigate instead the evolution of the territories’ economies, regardless of their pre-independence status.

The Real Impacts of Independence on the Economic Performance of Territories

THE LOSSES

The effects of independence may be misjudged if one ignores the selection process. In fact, as my empirical analysis shows, the impact of independence, given the selection process, is no longer significant on average, although it varies according to the ways metropolises developed their territories. This section outlines the main economic losses and gains associated with independence.

On the one hand, the ratio of per capita income gap between NISs and RDs gradually increased from 3.5 to 4.5 between 1970 and 2000 (as has already been shown in Figure 1). In 2000, the mean per capita income in the 14 RDs was about \$13,220, whereas that in the 20 NISs was approximately \$2,895. NISs experienced their worst economic performance between 1975 and 1985, the period corresponding to the largest number of NISs declaring independence. Why did the average NIS suffer negative growth rates below -3% while RDs enjoyed growth rates exceeding 3% in 1980?

The near-term impact of independence is hard to measure since metropolises did not immediately cut off ties with territories. Moreover, the percentage of total foreign aid for NISs did not decrease after independence, because the loss of bilateral foreign aid was offset by an increase in multilateral aid. NISs, however, gradually lost other important benefits of being dependent.

For instance, NISs suffered from losing what I refer to as the “territory’s financial advantages.” Prior to independence, they profited from the increasingly high fiscal pressure in the metropolises, since most of the territories impose lower tax rates. As a result, as taxes have increased in metropolises since the 1970s, many citizens of the metropolis transferred their assets to the territories, and economic growth in these territories soared. The extreme case applies to the UK, most of whose territories during the 1950s were converted into secure tax havens. The Bermudas, Turks and Caicos Islands, and the Cayman Islands, for example, now enjoy some of the world’s highest per capita income, exceeding \$25,000. In addition, it is likely that independence was associated with a fall in financial investment from foreign firms. As political conditions deteriorated in many territories (e.g., Solomon Islands, Fiji) soon after independence, foreign investors withdrew their financial assets to wait for a more secure financial environment. On the other hand, the backstage presence of the well-developed metropolises in the RDs has always

been a guarantee for foreign investors.

Metropolises also invest a lot in dependent territories in terms of allowing the territorial population to migrate to the metropolis. This investment benefits territories for three primary reasons: first, it allows students from the territories to obtain post-baccalaureate degrees and to migrate back to their territories afterwards; second, these immigration outlets are sources of remittances; and third, the option to migrate back to the metropolis prevents these territories from being affected by the Dutch Disease.

The Dutch Disease effects are well explained by the Migration Aid Remittances Bureaucracy model (MIRAB) proposed by Bertram (1986) and by Laplagne, Treadgold, and Baldry (2000). One of the central tenets of the MIRAB hypothesis is that the flow of aid may change the structure and diminish the productivity of the economy. The exchange rate appreciates, exports become uncompetitive, and in turn the nation's export industry declines. Laplagne, Treadgold, and Baldry's (2000) empirical study shows that an injection of aid results in the emigration of the former employees of the tradables sector.

In other words, the possibility for the territories' inhabitants to migrate to the metropolis prevents the unemployment rate from rising. In this respect, RDs are benefiting because it is relatively easier for their inhabitants to migrate to the metropolis. In Reunion, for instance, emigration was high and unemployment low until France raised the RMI (Revenu Minimal d'Insertion) and thus reduced incentives to migrate. As a result, the unemployment rate soared to more than 40% (Poirine, 1994). Remittances can also become important sources of income for the territory. Poirine argues that remittances should bring islanders closer to the welfare optimum.

The MIRAB model's other implicit prediction is that a RD is somehow isolated from decreasing industrial competitiveness due to its use of the metropolis' currency and the direct subsidization of its key industries. This subsidization allows the RDs to maintain a greater industrial productivity and a lower unemployment rate than NISs. As Laplagne, Treadgold, and Baldry (2001) write, this RD-advantage is non-negligible, since "there is a real risk that, once deprived of tariff protection and public subsidies, import-competing and export enterprises [in RDs] will not be able to survive inflated production costs" (p. 378).

Meanwhile, RDs sustained a more stable economic growth rate than NISs. As was shown in Figure 2, the RDs' average growth rate remained positive from 1970 to 2000, and their economies remained stable, with a ratio of per capita foreign aid to per capita income that was relatively fixed.

THE GAINS

As previously noted, the economic losses sustained by NISs are due primarily to the unavailability of previous financial benefits and to the decreased opportunity for migration to their metropolises. These losses are associated with a drop in economic stability, especially in the short run following independence. However, NISs have also become more self-reliant and their surprisingly high economic performance in the 1990s reflects various economic gains associated with independence. As Armstrong and Read (2000) argue, "many of the microstates granted independence in the 1950's and 1960's have gone to achieve success and the early pessimistic tone of much of the research literature has now receded" (p. 289).

The reasons are numerous. First, NISs have begun to exploit the various development programs in order to obtain access to a wide range of multilateral development assistance. Bartmann (2000) compares sovereignty to an "international green card," as the NIS discovered new sources of investment, official assistance with development, and diplomatic recognition. Meanwhile, many of them managed to maintain good ties with former metropolises. For example, France continued to be the major aid contributor to Djibouti and Comoros ten years after their independence, accounting for 50-75% of all bilateral assistance (Bartmann, 2000). In the Marshall Islands, Micronesia, and Palau, the US dollar remains the official currency.

Second, the NISs had begun to experience an increase in internal political stability, as political turmoil following independence was frequent in many microstates such as Cape Verde, Fiji, and the Solomon Islands. Although political stability can not be claimed definitively as a source of economic growth, a correlation has been noted. Within the Caribbean, three island countries—St Kitts and Nevis, St Lucia, and Antigua and Barbuda—have been the best performers since 1980, with average annual growth rates ranging from 4.9 to 5.2% (Ramkissoon, 2002).

Finally, both microstates and territories recently reduced their dependence on the public sector, composed mainly of non-tradable goods, in order to boost their export-industry productivity, as predicted by the MIRAB model. In the past, RDs have been more isolated from the Dutch Disease Effects, and therefore cutbacks in their dependence on the public sector did not have much effect. For the NISs, however, this reduction probably contributed to their recent economic growth. Te'o Fairbairn (2002) finds that the Cook Islands—where public expenditure constituted about 86% of the territory's GDP—proposed to reduce public service employment by 60% in 1996. Similarly, Nauru and the Solomon Islands are attempting to cut the size of their public sectors.

Hence, NISs are seeking to immunize themselves from the Dutch Disease Effects. Their recent and “new” economic growth reflects this effort to diversify their economies and to become more self-reliant. In fact, the correlation between the amount of foreign aid and the economic performance of the 18 NISs sampled is approximately -11.2% , a surprisingly low coefficient. On the other hand, the same correlation for the 14 RDs amounts to 31.5% . Assuming that economic growth does not result in increased foreign aid, this high correlation shows that the economic performance of RDs relies more heavily than that of NISs on foreign aid.

On the other hand, it is not likely that all RDs will remain immune to the Dutch Disease effects. For instance, can emigration of the territories' populations always be counted upon to fuel the territories' economies? Jean-Louis Rallu (1986, p. 36) predicts that eventually remittances will level off or even decline, due to “donor fatigue” and to the decline of fertility rates. Since the 1980s, the fertility rates in American Samoa and French Overseas Territories have already declined.

Statistical Determinants of Independence and Per Capita Income

PRESENTATION

It is possible to test empirically the relationship between independence and economic performance. Such analyses, the results of which were presented in the previous section, have been conducted by Armstrong and Read (2002) and by Bertram and Karagedikli (2002). Both studies conclude that becoming independent results in a lowering of per capita income. Armstrong and Read (2002) performed a multivariate cross-section regression to study the impact of independence on per capita GNP in 1994, controlling for exogenous factors such as tourism, manufacture, and offshore banking. Their results are robust, but some regressors appear to be correlated both with the error and with each other. The amount of mineral resources in the microstate, for instance, may have accounted both for the metropolises' rationale in retaining some dependencies and for the economic welfare of the microstates. Furthermore, their discriminant analysis lacks the explanatory power of a regression analysis.

Bertram and Karagedikli (2002) conduct a single-equation panel regression since 1970 and analyze whether sovereignty and the economic performance of the metropolis affect the economic performance of the overseas territory. However, their dataset is incomplete, as data for every time period is not provided for all of the 22 sampled territories. Moreover, they mix currency-exchange values of per capita income with purchasing-power-parity (PPP) values, leading to biased and imprecise results of the income values.

Finally, these two empirical analyses do not take into account the selection process hypothesis. When examining the role of independence on GDP/cap PPP, the challenge is to overcome simultaneous

causality bias. If independence is considered to be the dependent variable and GDP/cap PPP the independent one, perhaps the nations with a very high GDP/cap PPP are the ones most likely to remain integrated with the metropolis, given the selection process. Thus, the Instrument Variables IV Regression model fits this study best. Since independence is endogenous in my case, I isolate the exogenous components of the independence variable in order to then regress GDP/cap on the predicted value of the “exogenous” independence.

The idea of the model is the following. I first use my data to confirm the conclusions of previous studies, such as those by Bertram and Karagedikli (2002) and by Armstrong and Read (2002). That is, I ascertain the impact of endogenous independence on the economic performance of territories in order to show that my data match with those of others and thus should not be ignored. Second, I justify the selection process hypothesis by conducting a probit regression of independence on pre-independence per capita income. Third, I withdraw per capita income from the equation to test the impact of various instrumental variables on independence in probit and logit regressions. Finally, I use these predicted values of “exogenous” independence and plug them back into my first regression in order to find out whether independence really had an impact, positive or negative, on the per capita income of micro-territories. In other words, the model has the following form and steps:

- A. $Y1 = \beta_0 + \beta_1 Y2 + \sum c_i X_i + \epsilon_1$; (Table 1)
- B. $P(\text{Fitted } Y2=1) = [\phi(\pi_0 + \beta_3(Y1) + \sum d_j Z_j)]$; (Table 2)
- C. (a) $P(\text{Fitted } Y2=1) = [\phi(\pi_1 + \sum \pi_i Z_i)]$; (Table 3)
(b) $P(\text{Fitted } Y2=1) = F(\pi_1 + \sum \pi_i Z_i)$;
- D. $Y1 = \beta_4 + \beta_5(\text{Fitted } Y2) + \sum c_i Z_i + \epsilon_2$, for (a) and (b). (Table 4 a-b)

[All tables can be found in the Appendix]

Here $Y1$ represents GDP/cap and $Y2$ is the binary endogenous independence variable. Fitted $Y2$ is the exogenous independence variable. It is treated in various ways, as explained in each section. The X_i are the exogenous regressors, and the Z_j are the instrumental variables for independence. The coefficients β_i , c_i , d_j , and π_i are the IV regression parameters. In the probit variant, ϕ is the cumulative standard normal distribution function. Since I have more instrument variables (Z_i) than endogenous regressors (only independence) in my model, the problem of under-identification does not apply. In the logit variant, F is the logistic cumulative distribution function.

The data set used is longitudinal. It consists of the economic indicators mentioned later, in both remaining overseas territories and newly independent small-island states since 1970, spread out in five-year intervals. It is similar to the one in the qualitative analysis and is composed of 14 RDs and 20 NISs. In their study, Armstrong and Read (2002) use a larger dataset composed of 105 territories, including 41 RDs. But they conduct a cross-section empirical analysis for 1994 only, a time at which most small territories begin to display statistical information. The sources for all my variables are specified in the “Index of Variables Used” (Appendix).

My six instruments (Z_i) are assumed to affect independence only. First, the share of foreign-born population is a good indicator of the metropolis’ attachment to its territory. Assuming all the foreign-born population comes from the metropolis, I argue that the higher the percentage of foreign-born population, the greater the pressure this population will exert on the metropolis for the territory to stay dependent. In 1975, for instance, 35% of the population in American Samoa (RD) was foreign-born, compared with 1.12% in Cape Verde (NIS). Second, I also include latitude as an indicator of the rate of mortality in these territories. This indicator evidently is imprecise; however, many studies link latitude with the territory’s

susceptibility to certain diseases and hence with the territory's mortality rate. Third, the percentage of arable land reflects the territory's capacity for self-reliance in food production. Less available arable land implies higher subvention costs from the metropolis and consequently a higher likelihood of becoming independent. Fourth, the number of years during which the territory was dependent also represents the social attachment of the metropolis to the territory. The longer the territory is independent, the greater the chance of its becoming integrated. Fifth, the economic situation of the metropolis is represented by its demand (inflation rate - unemployment rate) and supply shocks (inflation rate + unemployment rate). I hypothesize that the more difficult economic times the metropolis undergoes, the less willing it is to support its territories financially, and so the greater the likelihood that the territory will gain independence. Sixth, the territory's population size indicates its leverage power and influence on the territory's political fate. Other relevant instrument variables such as the literacy rate and the territory's readiness to fight for independence were not used due to lack of available data.

Similarly, I chose four exogenous regressors (X_i) for per capita income. The literature on microstates points to their reliance on these regressors: tourism, financial services, natural resources, and workers' remittances (Briguglio, 1995, Armstrong and Read, 2000, Ramkisson, 2002). I was able to gather data for the first two factors. First, the extent to which the territory's environment fosters tourism (climate, lagoon, beaches) is an indicator of the importance of the tourism sector and hence of economic performance. Second, the presence of an offshore banking industry brings in the financial centers of various multinational firms and thus develops the territory's economy. Third, I added a variable concerning the presence of a military base. Often the presence of the military base lowers the unemployment rate in the territory and increases the level of production. This variable is assumed to be unrelated to the independence variable. The United States, for example, profits from military posts not only in its dependencies (such as Guam) but also in various independent states (such as the Philippines). Fourth, the percentage of urban population reflects the industrial level of the territory, even though causality is hard to establish.

A few binary variables—indicating which metropolitan power owns or owned the territories—were included in the regressions. For instance, the French territory binary variable covers territories that are remaining French territories as well as former French territories. The United Kingdom binary variable is taken out, and hence every other binary coefficient represents the differential effect of each metropolis relative to the UK. All territories that were former members of the UN Trust Territory of the Pacific before their independence (Marshall Islands, Micronesia, Palau, Kiribati) are encompassed in the binary variable UNTTP. In a later section, I set up interaction terms between independence and these metropolis binaries in order to observe the effects of independence given the territory's former colonial power.

In the Two Stage Least Square Estimator—the one estimating (IV) regression—there were a few factors that presented challenges to controlling the bias. One was that the data includes the presence of a few statistical outliers in the data set. With almost four millions inhabitants, Puerto Rico, among all overseas territories, is unique in that regard and can potentially distort the results. Another challenge was that, in the case of some territories during the period just before independence, the model and dataset might not include all relevant factors. For instance, if the metropolis rebuts the demands of a territory to become independent, then there is the potential for social tensions within the territory or for military conflict with the metropolis, either of which could impede the territory's economy. Hence, as suggested earlier, the game opposing the people from the territory to those from the metropolis may distort the values during the period close to the independence of the micro-territory. Finally, information concerning these micro-territories may not be complete and precise. The present data on per capita income has been converted into US dollars through exchange rates and may not fully reflect real economic performance due to over- or under-valuation of the national currency.

Confirmation of Previous Single-equation Studies

The first results confirm those achieved in previous studies by Bertram and Karagedikli (2002) and Armstrong and Read (2002). In this model the dataset size is 238, which consists of 34 territories and 7 time periods. I regress here the growth of per capita income on the observed values of independence and on the X_i exogenous factors, knowing that the error term may be correlated with the independence variable (Equation A). Independence is treated as a binary variable, so that it equals 0 when it is dependent and 1 when the territory obtained independence during or prior to the specified five-year period.

$$A) Y_1 = \beta_0 + \beta_1 Y_2 + \sum c_i X_i + \epsilon_1$$

Table 1 (see Appendix) displays the OLS estimates of log per capita income against independence in a variety of samples. Within the table, the results under the column labeled "(1)" (representing equation 1) show that there is a strong correlation between independence and per capita income, and the high R-square (99.4%) indicates that almost all the variation in income per capita is associated with variation in the independent factors. As predicted, becoming independent significantly decreases the territory's economic growth, by almost 20% on average.

Also as predicted, all the other exogenous regressors yield significantly positive economic effects. The territories' economies increase by 40% when hosting a military base, by almost 75% when operating an offshore banking industry, and by 20% when running a tourism industry—although only significant at a 20% level. Internal migration toward urban areas is also associated with an increase in per capita income.

In equation (2), the metropolis dummies are added and allow me to compare the performance of RDs and NISs with respect to their former metropolises. American territories perform the best, followed by the French, the Dutch, the British, the UN Trust Territories, the New Zealand, and finally the Portuguese. Is this because the US and French territories picked up especially good territories from the start or because they developed them better? Likewise, did New Zealand and Portugal end up with the poorest territories, or did they do a poorer job developing them? Isolating the pre-independence per capita income (which will be done later) helps answer this question.

THE EXISTENCE OF A SELECTION PROCESS

Before moving into IV-instrument regressions, we can see that Table 2 (Appendix) confirms the existence of the selection process hypothesis. Here I conduct a probit regression model of independence against the pre-independence per capita income of territories (using Equation B)³.

$$B) P(\text{Fitted } Y_2=1) = [\phi(\pi_0 + \beta_3(Y_1) + \sum d_j Z_j)]$$

I study this relationship by treating whether a territory gains new freedoms, (IndexUp) using an ordinal index from 1 to 4, with 1 as fully dependent, 2 as having some self-rule, 3 as having full autonomy in internal affairs (associated state status), and 4 as fully independent. Because I am looking at the period before independence in the case of NISs, the dataset size diminishes to 127. Furthermore, there is no perfect R-square measure for the probit model, so I report the Cragg-Uhler measure, as it produces values between 0 and 1.

A 1% loss in per capita income is associated with a highly significant 1.23% increase in the probability that the territory gains new freedoms, when all the instrument variables are kept constant at their mean values. In other words, a considerable economic depression in a territory would seriously affect its likelihood of remaining dependent. This confirms the selection process hypothesis detailed in the quali-

tative analysis. The model I use is relevant, as more than 90% of the actual observations were predicted.

When the metropolis dummies are introduced in equation 2, I find that, while controlling for the pre-independence per capita income of territories, being a Portuguese territory increases the chances of a territory becoming independent relative to being a UK dependency, whereas being an American, French, Dutch, or New-Zeland territory decreases these chances. However, with the exception of the UN Trust Territories and the French territories, the dummy variables are not significant. Phrased differently, the United States, Portugal, New Zealand, and the Netherlands have been as willing as the United Kingdom to retain their colonies since 1970. In light of the finding (in the qualitative analysis) that after 1945 the British were especially reluctant to develop their colonies, the implication is that the British, Portuguese, New Zealand, and Dutch territories are especially vulnerable to the selection process. In the US case, it is difficult to infer from the regression results, since Puerto Rico is the only American dependency sampled.

Thus, as noted earlier, American and Dutch territories, which saw no significant effort on the part of their metropolises to retain them, performed relatively well, whereas former New Zealand and Portuguese territories displayed relatively poor economic performance. Being a French dependency, however, significantly reduces the chances of becoming independent. As explained in the qualitative analysis, France showed strong interest in retaining its colonies. Their convincing economic performance makes it appear likely that these territories both were initially strong and have been well developed.

IV-INSTRUMENT VARIABLE REGRESSIONS ON INDEPENDENCE

I now conduct the same regression analysis but without accounting for the pre-independence economic performance of the territories (Equation C).

- C) (a) $P(\text{Fitted } Y_2=1) = [\phi(\pi_1 + \sum \pi_i Z_i)]$
 (b) $P(\text{Fitted } Y_2=1) = F(\pi_1 + \sum \pi_i Z_i)$

Table 3 (see Appendix) displays the findings. Equations (1) and (2) use the indexed independence as the dependent variable and the probit regression. Although the percentage of right predictions approximates 88%, the R-square is low and the instruments are rather weak. Only the number of years during which the territory was a dependency is significant at the 10% level.

In equations (3) to (6), independence should be interpreted as the probability that a territory will gain independence (GotInd). Hence the predicted values vary between 0 and 1. Equations (3) and (4) display the results of the probit regressions. The R-square jumps to 39.93% and to 62.67%, respectively, with the binary coefficients. As expected, a 1% decrease in the percentage of the foreign-born population leads to almost a 1% probability that the territory will gain independence. Second, a one-unit increase in a shock affecting the demand for goods and services in the metropolis leads to an 11% increase in the probability of gaining independence (equation (3)). However a similar increase in a supply shock decreases the probability of a territory gaining independence by 17% Third, when adding the metropolis dummies, the impact of the change in population size is highly significant. A 1% increase in the territory's population size leads to a 66% increase in the probability of gaining independence.

Finally, since the percentage of arable land and the latitude are fixed values, their real impact on independence is not seen in the panel regression. In cross-section regressions of the probability of becoming independent (GotInd) on these two regressors in 1975, 1980, and 1985, the latitude coefficient remains negative during the three periods and is significant only in 1980. In sum, the territories closer to the Equator, which exhibit higher mortality rates, have higher probabilities of gaining independence. The percentage of arable land, however, again provides inconsistent estimates.

The similar results of the logit regressions in equations (5) and (6) confirm the results obtained in the probit regressions.

THE REVISED IMPACT OF INDEPENDENCE ON ECONOMIC GROWTH

Two-Stage Least Square probit and logit estimates are presented in Tables 4a and 4b (Equation D), respectively (see Appendix).

$$D) Y1 = \beta_4 + \beta_5(\text{Fitted } Y2) + \sum c_i Z_i + \epsilon_2, \text{ for (a) and (b)}$$

The values of exogenous independence are computed from the GotInd probit and logit regressions without the metropolis dummies (Equations (3) and (5) from Table 3). Excluding the dummies is warranted because the use of 6 or 7 instruments with only 127 observations leads to the “too-many-instruments” problem, typically biasing the IV-estimate toward the OLS estimate. The size of the dataset increases back to 238.

The predicted values apply only for the periods during which each territory was dependent. When a territory has already gained independence, its probability of becoming independent is null. Hence, the predicted value coefficients indicate the immediate effects of independence—that is, over the five-year period following independence. In order to obtain a binary independence variable that is not tied to pre-independence per capita income, 5-year independence lags computed from the observed values are added to the equation. In this way, my lagged independence variable is controlled by the predicted independence variable and measures the effects of independence on per capita income in the 10 years following independence. By combining predicted and observed values, I also eliminate possible multicollinearity effects.

The corresponding 2SLS estimate of the impact of independence on per capita income is on average small and no longer significant. In the probit and logit regressions (equation (1) in Tables 4a and 4b), independence is associated on average with respective 3% and 2% drops in per capita income. When the metropolis binaries are added (equation (2) in Tables 4a and 4b) the independence coefficients are positive and again approximate only 3%. The insignificance of the independence effect is robust in all four equations. This key finding implies that: (1) today's overseas territories have inherent economic advantages that have played a significant role in their current privileged situation, and (2) there are both economic gains and losses associated with independence for territories, as suggested by the qualitative analysis. It is important to note that all the other regressors maintain their predicted impact, with the exception of the variable of the offshore banking industry for NISs. The finding indicates that in general the RDs' offshore banking industries performed better than those of the NISs. Reasons for this discrepancy include the “territory's financial advantages,” as analyzed in the qualitative analysis.

In equations (3) of Tables 4a and 4b, interaction terms between the lagged independence and the metropolis dummies are added in order to measure the effects of independence given the territory's former colonial power. I must omit, however, the variables for independence from Netherlands, New Zealand, and the United States because there are none in the sample. The coefficients of these interaction terms represent the relative effects of independence for territories. To compute the absolute effects I add to these coefficients the new lagged independence variable, which represents the absolute effect of independence for UK territories.

Whereas the impact of independence on per capita income is not significant on average, the effects of independence vary according to the ways metropolises developed their territories. For instance, for a British territory, becoming independent is associated with an 11% increase in its per capita income. Similarly, the economic performance of a former French territory decreased by more than 50% in the first

ten years following its independence. This finding confirms the willingness of France to develop its territories, in contrast to the gradual detachment of the British from theirs. Finally, Portuguese colonies appeared unaffected by independence. This is most likely due to their initial low economic performance.

PREDICTING INDEPENDENCE

The predicted values obtained from the IV-Instrument regressions are also helpful in terms of ascertaining which RDs are most likely to become independent. In 1975, most RDs were not likely to declare independence. On average the probability that an RD will gain independence amounted to 17%, about 10% lower than that of the average NIS, and the likelihood of gaining sovereignty for some RDs, such as the British Virgin Islands and Bermuda, was less than 1%. Nevertheless, a few RDs appeared quite vulnerable to the selection process. The Cook Islands and four French territories—French Polynesia, Guadeloupe, Martinique, and Reunion—had more than a 30% chance of gaining independence during this period, led by Martinique with a 58% chance.

Today, the predicted value coefficients indicate that the strategic value of most RDs has changed. Most RDs are not likely to gain independence in the near future. On the one hand, the French territories' chances of becoming independent declined to less than 5%. New Caledonia's likelihood of becoming independent amounts to less than 1%. The reason is that my dataset does not include an instrument "conflict" variable, which would show increases in the costs associated with the metropolises' retention of their colonies.

Two territories, however, Montserrat and Puerto Rico, display much higher chances of becoming independent. Montserrat's chances of gaining sovereignty approximate 55% in 2000, compared with 4.2% in 1985 and 15% in 1990. Likewise, Puerto Rico's independence likelihood rose from 14.2% in 1985 to 17.3% in 1990 to 32% in 2000, according to the probit regression model. Puerto Rico's large and growing population is not unaware of this likelihood. Montserrat's situation is also interesting since the frequent eruptions of the volcano, Soufrière, have recently made half of the island uninhabitable and increased the United Kingdom's emergency aid costs. In brief, these two territories are especially vulnerable to the selection process today.

Conclusion

Both qualitative and quantitative analyses identify four key findings. First, the territories' colonial value has evolved over time, and second, they are vulnerable to the metropolises' selection process. After the independence of big territories such as India and The Congo, many small island-territories lost much of their colonial value. Since then, the metropolitan powers have "cherry-picked" the better territories for continued aid and dependence, letting the others go. RDs were already richer back before 1970—that is, before the wave of independence for microstates—thanks to some inherent economic advantages. Moreover, the empirical analysis points out that a 1% loss in per capita income leads to a 1.23% increase in the probability of a territory reaching a higher degree of autonomy. In sum, today's overseas territories, especially Montserrat and Puerto Rico, must pay attention to their strategic value in order to uphold their dependency status, if they wish to remain dependent.

Third, when accounting for the territories' initial economic performance, the effects of independence vary according to the ways metropolises developed their colonies. Only France has shown significant interest in retaining its hold upon its territories. The convincing economic performances of France's RDs suggest the likelihood that these territories both were initially strong and have been well developed. In the future, the French territories are the most likely to remain dependent. On the other hand, other metropolises such as the United Kingdom have been more reluctant to exercise their colonial responsibilities. Consequently, for a British territory, independence is associated with an 11% increase in per capita income, whereas the economic growth rates of newly independent French territories suffered 50%

drops and those of newly independent Portuguese territories remained almost unaffected in the ten years following independence.

However, on average, becoming independent no longer has a significant impact on a territory's economic performance. This means that the RDs' inherent economic advantages have also contributed to today's income discrepancy between RDs and NISs and that there are both gains and losses associated with independence for territories. On the one hand, NISs suffer from the reduced opportunity of their populations to migrate to metropolises, from the drop in the confidence of foreign investors, and from the loss of the "territory's financial advantages." On the other hand, NISs gradually become more self-reliant and benefit from more diversified foreign aid sources and from the elimination of the Dutch Disease effects, which could negatively affect RDs in the future. Evidently, the extent to which a territory gains or loses from becoming independent depends on how well the metropolis developed it.

This analysis has set the foundation for a solid comparison of RDs' and NISs' economies, allowing for precise and complete predictions regarding the independence of today's overseas territories. Similar analyses should be conducted within the next decade to analyze whether the NISs' recent economic revival will outweigh the costs associated with independence, and to challenge Samuel Cohen's (2003) prediction that, "50 to 75 additional quasi- or fully independent states over the coming few decades" will emerge, including "the twenty-one colonial areas most likely to attain independence soon" (p. 54-55).

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Notes

1. All the references to 2000 statistics are 1999 values, since data from the United Nations National Accounts Statistics were only available from 1970 to 1999.
2. [Ed. note]. A game in this context involves the dynamic interplay between the two entities, or players (in this case, metropolis and territory) as they respond and react based on their individual, and often competing, interests. As in a game, each move that one player makes changes the game and elicits a response that may or may not have been predicted by the opponent and that inevitably affects the next move.
3. Since Tonga and Fiji gained independence in 1970, they are not included in the probit regression.

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Appendix

INDEX OF VARIABLES USED IN TABLES

- **LN (GDP/cap):** converted in constant US \$ 1990, not yet converted in PPP \$US. [Source: “1998 United Nations National Accounts Statistics: Analysis of Main Aggregates”.]
- **Latitude.** [Source: CIA World Fact Book]. Minutes converted into decimals.
- **Percentage of Arable Land.** [Source: CIA World Fact Book].
- **Population size of the territory.** [Source: United Nations World Population Prospects: The 2002 Revision Population Database.]
- **Number of years during which the territory was/is still dependent:** $\log(\text{Year} - \text{Year Annexed})$. [Various sources.]
- **OECD Demand Shocks for Metropolises.** [Source: OECD Statistical Yearbook, (all metropolises are OECD members).]
- **OECD Supply Shocks for Metropolises.** [Source: OECD Statistical Yearbook].
- **Whether the territory’s environment fosters tourism (climate, lagoon, beaches):** 0 if not, 1 if yes. [Source: CIA World Fact Book].
- **Whether the territory possesses an offshore banking industry,** 0 if not, 1 if yes. [Source: OECD Tax Haven blacklist.]
- **Whether the territory can host a military base:** measures whether the territory has hosted a military base between 1970 and the present, by assuming that only these territories can host military bases. [Various Sources.]
- **Percentage of Urban Population.** [Source: United Nations World Urbanization Prospects 1970-2000].

Table 1.
Determinants of Economic Performance

* = significant to .1
** = significant to .05
*** = significant to .01

Dependent Variable is LN (GDP /cap)		
Xi	(1)	(2)
Independence	-.197 (-2.8)***	-.111 (-1.86)*
% Urban population	.024 (15.36)***	.024 (16.88)***
Military base	.4 (4.03)***	.112 (1.37)
Offshore banking industry	.738 (6.75)***	.721 (6.89)***
Offshore banking industry for NIS	.189 (1.94)**	.085 (6.89)
Setting for tourism industry	.199 (2.05)**	.156 (1.01)**
UN Trust territory of Pacific	.738 (.47)	
French territory	.389 (2.16)**	
Dutch territory	-.360 (3.18)***	
New Zealand territory	-.531 (-5.99)***	
Portuguese territory	-.640 (-7.04)***	
American territory	.905 (5.47)***	
Former UN Trust territory of the Pacific		
Former French territory		
Former Portuguese territory		
Constant	6.2544 (59.66)***	6.348 (77.39)***
F-Stat for fit of test	107.824***	145.922***
Buse raw-moment R-Sq	99.4%	99.98%
N	238	238

Note: The numbers in parentheses are the t-ratios

Table 2.
Determinants of Independence — The Selection Process Hypothesis

Dependent Variable is the probability of the territory to gain new freedoms –
 Probit Regression

Xi	(1)	(2)
LN (per capita income)	-1.232 (-3.34) ***	-1.024 (-2.76) ***
% Foreign born population	.039 (1.43)	.032 (1.19)
% Arable land	-2.38 (-1.02)	.822 (.28)
Number of years as a colony	.538 (1.69)*	-.549 (-1.05)
LN (population size)	.255 (1.71)*	.506 (2.32)
Latitude	.09 (2.12)**	.079 (1.75) *
Demand shock metropolis	.12 (.25)	-.03 (-.43)
Supply shock metropolis	-.021 (-.34)	-.018 (-.22)
UN Trust territory of Pacific	-2.516 (-2.84) ***	
French territory	-1.607 (-1.98)*	
Dutch territory	-5.082 (-.01)	
New Zealand territory	-5.584 (-.014)	
Portuguese territory	5.583 (.02)	
US territory	-7.522 (-.02)	
Constant	1.75 (.63)	3.941 (.96)
% Right predictions	90.58%	90.58%
Cragg-Uhler R-square	35.30%	52.48%
N	127	127

Note: The numbers in parentheses are the t-ratios

Table 3.
IV-Regressions on Independence

Dependent Variable is the probability of the territory to gain new freedoms (IndexUp) or independence (GotInd) —Probit and Logit Regressions

Xi	(1)	(2)	(3)	(4)	(5)	(6)
	IndexUp Probit	IndexUp Probit	GotInd Probit	GotInd Probit	GotInd Logit	GotInd Logit
% Foreign born population	-.025 (-1.31)	-.009 (-.42)	-.094 (-2.43)**	-.085 (-1.81)*	-.175 (-2.28)**	-.156 (-1.8)*
% Arable land	-1.598 (-.75)	3.538 (1.28)	-2.927 (-1.12)	1.517 (.5)	-4.545 (-.9)	3.117 (.56)
Number of years as a colony	.512 (1.79)*	-.726 (-1.43)	.547 (1.82)*	-.689 (-1.26)	.907 (1.75)*	-1.189 (-1.24)
LN (population size)	.157 (1.25)	.522 (2.49)*	.089 (0.67)	.664 (2.52)***	.16 (.68)	1.141 (2.34)**
Latitude	-.009 (-.32)	.031 (.78)	-.054 (-1.37)	-.029 (-.51)	-.107 (-1.37)	-.062 (-.56)
Demand shock metropolis	.058 (1.43)	-.003 (-.05)	.114 (2.1)**	.079 (.97)	.197 (1.97)*	.131 (0.9)
Supply shock metropolis	-.048 (-.89)	-.007 (-0.1)	-.167 (-2.29)**	-.195 (-1.9)*	-.288 (-2.18)**	-.344 (-1.87)*
Former UN Trust territory of Pacific		-2.044 (-2.51)*		-2.019 (-2.37)**		-3.731 (-2.3)**
French territory		-1.821 (-2.61)*		-2.562 (-2.89)***		-4.34 (-2.71)***
Dutch territory		-5.222 (-.036)		-5.524 (-.03)		-27.923 (.00)
New Zealand territory		-5.152 (-.03)		-5.918 (-.03)		-28.302 (.00)
Portuguese territory		6.258 (.05)		5.352 (.03)		30.347 (.00)
US territory		-7.955 (-.05)		-9.821 (-.05)		-35.231 (.00)
Constant	-4.539 (-2.2)**	-2.99 (-.94)	-.713 (-.33)	.111 (.03)	-.946 (-.25)	.586 (.08)
% Right observations	88.41%	89.8%	87.4%	90.55%	88.18%	91.34%
Cragg-Uhler R-square	15.6%	42.8%	39.93%	62.67%	39.98%	62.15%
N	127	127	127	127	127	127

Note: The numbers in parentheses are the t-ratios

Table 4a.
Determinants of Economic Performance, 2nd Stage Regressions

Dependent Variable is LN (GDP /cap)
 Probit Regressions

Xi	(1)	(2)	(3)
Predicted independence	-.002 (-.04)	.083 (1.26)	.03 (.57)
Already independent, 5 years earlier	-.03 (-.69)	.027 (.63)	.114 (2.53)**
% Urban population	.025 (26.54)***	.023 (13.58)***	.024 (15.26)***
Military base	.482 (7.27)***	.141 (1.51)	.165 (1.87)*
Offshore banking industry	0.508 (5.95)***	.794 (6.72)***	.761 (7.1)***
Offshore banking industry for NIS	-.012 (-.15)	.015 (.21)	.006 (.09)
Setting for tourism industry	.143 (2.23)	.148 (1.78)*	(1.62) (1.62)
UN Trust territory of Pacific		-.186 (-.85)	-.054 (-.24)
French territory		.47 (3.63)***	.498 (3.55)***
Dutch territory		.452 (3.45)***	.497 (3.77)***
New Zealand territory		-.454 (-3.87)***	-.394 (3.69)***
Portuguese territory		-.693 (-5.77)***	-.631 (-3.93)***
American territory		1.03 (6.12)***	1.03 (6.01)***
Former UN Trust territory of Pacific			-.324 (3.08)***
Former French territory			-.678 (2.69)***
Former Portuguese territory			-.117 (-.94)
Constant	6.24 (94.9)***	6.276 (74.69)***	6.23 (66.26)***
F-Stat for fit of test	415.471***	132.714***	89.193***
Adjusted R-Sq	99.96%	99.83%	99.81%
N	238	238	238

Note: The numbers in parentheses are the t-ratios

Table 4b.
Determinants of Economic Performance, 2nd Stage Regressions

Dependent Variable is LN (GDP /cap)
 Logit Regressions

Xi	(1)	(2)	(3)
Predicted independence	.008 (.13)	.088 (1.35)	.029 (.54)
Already independent, 5 years earlier	-0.23 (-.53)	.03 (.7)	.114 (2.52)**
% Urban population	.025 (26.32)***	.023 (13.59)***	.024 (15.23)***
Military base	.471 (7.1)***	.14 (1.5)	.162 (1.85)**
Offshore banking industry	.505 (5.92)***	.78 (6.71)***	.758 (7.09)***
Offshore banking industry for NIS	-.121 (-.15)	.014 (.2)	.005 (.07)
Setting for tourism industry	.161 (2.54)	.161 (1.93)*	.161 (1.74)**
UN Trust territory of Pacific		-.181 (-.84)	-.054 (-.24)
French territory		.471 (3.6)***	.437 (3.5)***
Dutch territory		.465 (3.56)***	.507 (3.82)***
New Zealand territory		-.448 (-3.75)***	-.394 (-3.615)***
Portuguese territory		-.688 (-5.72)***	-.629 (-3.89)***
American territory		1.04 (6.2)***	1.04 (6.06)***
Former UN Trust territory of Pacific			-.324 (-3.06)***
Former French territory			-.67 (2.67)***
Former Portuguese territory			-.114 (-.92)
Constant	6.23 (94.96)***	6.265 (74.77)***	6.22 (65.7)***
F-Stat for fit of test	424.46***	132.43***	87.316***
Adjusted R-Sq	99.96%	99.82%	99.8%
N	238	238	238

Note: The numbers in parentheses are the t-ratios