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journal homepage: www.elsevier.com/locate/jceThe comparative effects of independence on trade [☆]Emmanuelle Lavallée ^{a,b}, Julie Lochard ^{c,*}^a PSL, Université Paris-Dauphine, LEDa, DIAL UMR 225, F-75016 Paris, France^b IRD, LEDa, DIAL UMR 225, F-75010 Paris, France^c Université Paris-Est, ERUDITE, UPEC, 61 avenue du Général de Gaulle, 94010 Créteil Cedex, France

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ABSTRACT

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Empirical evidence suggests that belonging to an empire favours trade by lowering transaction costs and establishing preferential trade agreements. Does the end of an empire invert this effect, and if so, through which channels? This paper uses an original dataset to explore the impact of independence on former colonies' bilateral trade over the 1948–2007 period. We show large differences across empires. Whereas independence reduces the trade (imports and exports) between former French colonies and their coloniser, as well as with other colonies of the same empire, we do not find any comparable effect for former British colonies. We attribute this finding to the particularly protectionist trade policy implemented by France during the colonial era, and we are able to rule out alternative explanations related to transaction costs. We also find that after independence, all former colonies trade more with third countries, and we relate this result to the geographical diversification of trade. *Journal of Comparative Economics* xxx (xx) (2014) xxx–xxx. PSL, Université Paris-Dauphine, LEDa, DIAL UMR 225, F-75016 Paris, France; IRD, LEDa, DIAL UMR 225, F-75010 Paris, France; Université Paris-Est, ERUDITE, UPEC, 61 avenue du Général de Gaulle, 94010 Créteil Cedex, France.

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1. Introduction

A large body of literature highlights the impacts of historical events on current economic outcomes. A number of papers emphasise that European colonisation, which dates back to the 16th century, has considerable effects on countries' current economic performances (see [Nunn, 2009](#) for a review). However, the question remains as to how and why colonisation continues to matter today. Seminal papers argue that colonial rule affected domestic institutions that persisted after independence. For instance, [La Porta et al. \(1997, 1998\)](#) stress the importance of legal origins. They argue that legal rules, which differed among colonial powers, were typically spread through conquest and colonisation and that, currently, British common law seems to offer stronger legal protection to investors than French civil law. Other studies note a tendency to

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exaggerate the differences rather than the similarities between different colonisers' policies and institutions (e.g., Fieldhouse, 1982). In this vein, Acemoglu et al. (2001) challenge the importance of the coloniser's identity and emphasise instead the role of the different colonisation strategies (settlement *versus* extractive) related to the initial disease environment in the colonies (see also Jones, 2013). However, there is one area in which the difference between empires is much less debated, that is, trade policy. Indeed, if one compares the two major European colonisers, liberal Great Britain generally contrasts with protectionist France. Mitchener and Weidenmier (2008) show that the variation in colonial trade policies impacted contemporary trade during the Age of High Imperialism (1870–1913). However, what happens after the severing of colonial ties? Did these different colonial trade policies also influence the trade of former colonies at the time of independence and afterwards?

To gain some perspective on these questions, this article analyses the effects of independence on former colonies' post-colonial trade patterns and compares these effects to the effects of the different preferential trade arrangements in place during the colonial era. In the related literature, Head et al. (2010) investigate the impact of independence on post-colonial trade using a worldwide dataset over the 1948–2006 period. They show that a country's post-independence trade with its coloniser does not exhibit immediate significant changes but that after several decades, the accumulated trade erosion is large and statistically significant. On average, trade between a former colony and its coloniser is reduced by 65% after four decades. They obtain two other sobering results. Decolonisation reduces trade between former parts of the same colonial empire to a comparable extent. Independence also reduces the trade of former colonies with the rest of the world. However, they do not explore the differences in independence effects across empires and treat imports and exports indifferently. As suggested above, independence may have a larger impact on trade within the former French Empire, given the more protectionist colonial policy implemented by France. Moreover, colonial trade policies also differed systematically between exports to and imports from the colonial power. Other previous studies discussing these issues rely solely on descriptive statistics (see Kleiman, 1976, 1977).

To examine the comparative consequences of independence on trade, we construct a new bilateral database of exports and imports between 71 developing countries and 190 partner countries over the 1948–2007 period. Most of our data are extracted from the International Monetary Fund's Direction of Trade Statistics (DOTS). However, because the DOTS scarcely reports data prior to the colonies' independence, particularly for French colonies, we expand our database by gathering data from various official French sources on the bilateral trade of former French colonies from 1948 to their independence. We are thus able to properly compare the impact of independence on former French colonies and other former colonies, particularly former British colonies.

We find that independence reduces trade (imports and exports) with the former colonial powers and that this effect is mainly driven by former French colonies. Our results indicate that following independence, trade between former French colonies and France decreased by approximately 50% on average over the entire post-colonial period and that this trade erosion is gradual but tends to be faster and more intense for exports. We interpret these findings as indirect evidence of the long-lasting influence of colonial trade policies. Our interpretation is supported by additional tests in which we use variations in colonial trade policies *within* each empire. In particular, we show that there is a reduction in colony-metropole trade after independence only for former French colonies that had the most exclusive colonial systems (a customs union or a preferential system). Our analysis is also able to rule out alternative explanations related to the increase in transaction costs after independence caused by the weakening of social and communication networks, the end of colonial currency arrangements or a higher degree of hostility between former colonies and their metropole. Last but not least, we show that the trade (imports and exports) of all former colonies increases with third countries following independence. We relate this effect to the geographical diversification (extensive margin) of former colonies' trade.

This paper is structured as follows. In Section 2, we present the preference systems implemented by the two major European colonial powers (Great Britain and France) and their potential repercussions on the effects of independence. In Section 3, we describe our data, introduce the empirical model and discuss some estimation issues. In Section 4, we estimate the overall impact of independence on former colonies' trade, compare the effect of independence for different former colonial empires and investigate the impact of independence over time. In Section 5, we examine the mechanisms that could explain variations in independence effects across empires. In Section 6, we explore the impact of independence on the geographical extensive margin of trade. Finally, we summarise our findings and add concluding remarks in Section 7.

2. Preferential arrangements within empires and the effects of independence

Independence may put an end to a series of special relationships – some formal, some informal – built up within empires to promote imperial trade at the expense of trade with the rest of the world. Informal arrangements cover business networks and all the products of historical and political connections between colonial powers and their dependencies. These connections are likely to weaken following independence. As argued by Head et al. (2010), the “gradual retirement of business people who facilitated trade within the empire” could have induced a gradual decrease in bilateral trade relationships between the former coloniser and its former colonies (p. 9). Similarly, formal relationships such as preferential trade agreements and import licensing policies put in place by colonial powers have been gradually abandoned. They differed substantially across empires, particularly in regard to the advantages they granted their members. In this section, we briefly describe the preferential arrangements made by the two major European colonial powers, namely, Great Britain and France, at the time of

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