

The Impact of Political Dependence on Small Island Jurisdictions

LESLIE DUNN*

Washington & Jefferson College, Washington, PA, USA

Summary. — This paper examines the connection between political dependence and welfare and development of small island jurisdictions. Four possible advantages of political dependence are access to foreign aid, foreign capital, and external labor markets, and gains in the tourism industry. This study analyzes if political dependence is associated with these possible advantages and the relative importance of each on the welfare and development within the island. It is shown that politically dependent islands have achieved significantly higher levels of welfare and development with some of the reasons being due to the large inflows in the form of tourism, foreign direct investment, labor, and aid.

© 2011 Elsevier Ltd. All rights reserved.

Key words — small island economies, political dependence, development, aid, tourism

1. INTRODUCTION

The push towards independence for islands has ceased in recent years. In February 2006, residents of Tokelau voted against political independence in a referendum and instead chose to retain their colonial link to New Zealand (McElroy & Pearce, 2006). In March of 2009, Mayotte voted to become a department of France. Ninety-five percent of the population voted in favor of full integration with France (Bodin & Menget, 2009). In addition, Netherlands Antilles (2000–2005), Puerto Rico (1993, 1998),¹ US Virgin Islands (1993), and Bermuda (1995) have all rejected referendums for political independence by large margins. Small island jurisdictions are faced with many constraints. A possible strategy to overcome these limitations is to retain political affiliation with a larger and more affluent country state (Baldacchino, 2004). There is a perception that breaking its political tie and gaining independence in the globalized world would harm the territory's substantial economic privileges (McElroy & Sanborn, 2005). McElroy and Mahoney (2000) cite many ways in which political affiliation provides distinct advantages to small islands. Examples of these benefits include free trade with and trading preference from the parent country, social welfare assistance, access to external capital, availability of external labor markets, aid financed development, higher quality of health and educational systems, assistance in times of natural disaster, and general protection from the vulnerabilities that plague small countries.

The United Nations publishes a list of “non-self governing territories” and has called for the remaining jurisdictions on this list to either obtain independence or be able to negotiate an option of self-rule. Of the 16 jurisdictions on the list, 14 are small island jurisdictions, which show the issue of political dependence has become increasingly focused within this subset (Lange, 2008). This paper examines the connection between political dependence and welfare and development of small island jurisdictions, which are islands with less than one million in population. It extends the work done by McElroy and Mahoney (2000), McElroy and Sanborn (2005), and McElroy and Pearce (2006) who compare the development profiles of politically dependent small islands with their independent counterparts. The primary extensions are considering a global sample over time and using multivariate estimation analysis. Four possible advantages of political dependence are access

to foreign aid, foreign capital and external labor markets, and gains in the tourism industry (McElroy & Mahoney, 2000). This study analyzes if political dependence is associated with inflows of foreign aid and foreign capital, the movement of labor and growth in the tourism industry, and the relative importance of each of these advantages on the welfare and development within the island. In addition, dependencies are disaggregated by classification as integrated or associated with a patron country, following Bertram (2004), to determine if the degree of association impacts the various flows. Associated political status is an intermediate step between full dependence and independence. An example of association is the Cook Islands, who is self-governing but retains a political tie to New Zealand that can be severed at any time by unilateral action (CIA World Factbook, 2008). Figure 1 shows the natural log of the ratio of average real GDP *per capita* from 1981 to 2005 to the mean of the sample for both independent and dependent islands.² There are 41 islands in the sample shown in Figure 1.

Dependent islands generally outperform independent islands in terms of GDP *per capita*. In the sample, 69% of the dependent islands have a GDP *per capita* above the mean of the sample, whereas only 16% of independent islands lie above the mean. The performance of associated islands appears to be comparable to that of independent islands with respect to GDP *per capita*, although the number of associated islands with available data is limited. This is evidence that the welfare and development of small islands may be linked to their political status. The flow of foreign aid into dependent islands is a possible channel in the creation of this link. Figure 2 shows the natural log of the ratio of average real aid *per capita* from 1981 to 2005 to the mean of the sample for both independent and dependent islands, which includes 40 islands.

Over half of the dependent islands in the sample receive aid *per capita* levels above the mean, whereas none of the independent islands receive aid levels above the mean. Two of the three associated islands receive aid inflows above the sample mean, which shows one possible advantage of remaining

* The author would like to thank Hyungna Oh and Jerome McElroy for all their assistance throughout this project and three anonymous referees for their helpful comments and suggestions. Final revision accepted: March 14, 2011.

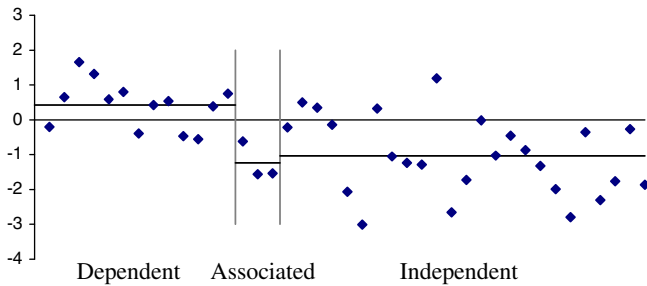


Figure 1. Ratio of island real GDP per capita to the mean of the sample.

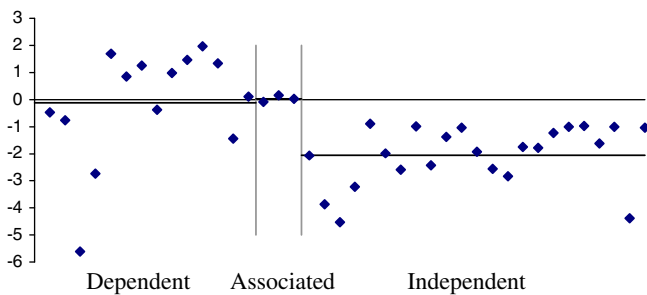


Figure 2. Ratio of island real aid per capita to the mean of the sample.

associated. There is a clear connection between political dependence and foreign aid flowing into the island.

2. LITERATURE REVIEW

This paper focuses on small islands because of the interesting challenges faced by first having the status of “small” and then also being an island. Small states face significant challenges due to the size of their economy and high degree of openness. Many of these challenges stem from their extreme vulnerability to outside forces, ranging from external economic fluctuations to environmental influences that are beyond the state’s control (Armstrong & Read, 2000). In many instances the state’s small size corresponds to limited natural resource endowments and small industrial markets, leading to high dependence on imports, which cause many to face persistent trade deficits. Islands in this situation commonly rely on flows of foreign aid, remittances, income from tourism, and capital inflows to pay for imports (Kakazu, 1994). In addition, these states face small domestic markets, the inability to exploit economies of scale in many instances, and dependence on a narrow range of export products (Kuznets, 1960). This dependence on a limited amount of export products is further intensified by the commonly high reliance on few export partners (Kakazu, 1994). These constraints cause a potentially unavoidable lack of diversification that result in a high level of vulnerability, meaning that these jurisdictions may be exposed to forces that they cannot control (Briguglio, 1995). Transportation costs increase with island status, particularly if the island is remote or the island country is a chain. There is an additional level of uncertainty in the supply of goods and the ability of the supply to meet sudden changes in demand within an island (Briguglio, 1995). In addition, small states are vulnerable to their larger neighbors in terms of their ability to enforce their sovereignty. The taxation necessary to fund national defense would be extremely costly to

small jurisdictions (Armstrong & Read, 2002). Small islands may also be disproportionately susceptible to natural disaster. When ranking countries by the prevalence of natural disasters during the 1970s and 1980s, 13 of the top 25 were small island developing states (Pelling & Uitto, 2001). In the event of a natural disaster, there is a higher probability that a large percent of the population and economy will be affected. For instance, a volcano began erupting on the island of Montserrat in July 1995 and two-thirds of the population was forced to flee the island causing major disruptions in the economy (CIA World Factbook, 2008).

Many islands exhibit the tendencies of a MIRAB (MIgration–Remittances–Aid–Bureaucracy) economy. MIRAB islands are dependent on migration to external labor markets, the remittances that are returned to the home country as a result of this migration, foreign aid flowing in from larger more affluent countries, and employment in the public sector (Bertram & Watters, 1985). The sustainability of MIRAB islands is dependent on the continuing flow of aid and remittances (Bertram, 2006). Poirine (1998) demonstrates that islands following this development scheme are maximizing welfare by exploiting their comparative advantage in the export of labor services and geostrategic services. Poirine’s theory that “aid is trade” proposes that islands receiving aid are being paid for an invisible strategic service. “This service consists of the strategic advantage provided to the donor country by the geographical position of the receiving country (e.g., Cuba’s strategic location offered a strategic service to the Soviet Union during the cold war).” (Poirine, 1999, p. 831) In addition, it is thought that islands trade their sovereignty through UN votes for inflows of foreign aid (Drezner, 2001). Kakazu (1994) proposes a theory of rent seeking in Pacific islands associated with official development assistance. These transfers, along with workers remittances, are how many of the Pacific island economies are financing trade deficits. Rent seeking activities are defined as “. . . an alternative way for a country to use its own economic and noneconomic resources and advantages such as political ties, strategic location, international security, and goodwill[.]” (Kakazu, 1994, p. 61) Kakazu (1994) shows that if rent seeking activities generate inflows of foreign funds that increase production in the domestic economy, then these resources and rent seeking activities would increase the standard of living within the island.

Even though small states face significant challenges, there are many success stories. Considerable variation exists in GNP *per capita* values for small states, however small states are underrepresented in the lower World Bank income classifications and overrepresented in the highest income classifications (Armstrong, De Kervenoael, Li, & Read, 1998; Armstrong, De Kervenoael, Li, & Read, 1996). These results show the advantages of small size can outweigh the disadvantages. The literature has identified the advantages of small size as extreme trade openness, greater social homogeneity and cohesion, and the ability to quickly respond to exogenous changes (Armstrong & Read, 2002a). A large service sector is often linked with success in small island economies and is composed primarily of financial services and tourism. Using endogenous growth theory, Armstrong and Read (2002b) show that small states can achieve strong economic growth due to trade openness and the tendency for human capital formation. In addition, the authors show that small states have a strong advantage in international free riding and rent seeking activities. One significant free-riding advantage seen in small states is in the area of defense. Small states are usually unable to provide their own national defense and rely on the United Nations and agreements with larger states for this service. As a result,

Download English Version:

<https://daneshyari.com/en/article/989077>

Download Persian Version:

<https://daneshyari.com/article/989077>

[Daneshyari.com](https://daneshyari.com)