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THE EROSION OF COLONIAL TRADE LINKAGES AFTER INDEPENDENCE

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NON-TECHNICAL SUMMARY

The dismantling of European empires after World War II led to sweeping changes in the governance of developing countries in Africa and Asia. Recent research in economics has investigated the long-run consequences of colonial rule on economic outcomes. In this paper, we investigate a different legacy of colonial rule: the bias in post-colonial bilateral trade patterns. It is a well-known fact that past colonial status translates into current higher levels of trade (Rose, 2004, is an example). The most important new finding of our paper is that independence starts a process of important, but most of the time gradual, fall in trade flows. A variety of potential explanations for this fact suggest themselves. First, it might reflect poor economic performance over the recent decades by ex-colonies, which may have reduced their exports to all markets. Second, independence is often characterized by an abandonment of the common currency with the ex-colonizer which may have raised currency transaction costs. Third, France's and UK's participation in GATT and the European Community probably redirected their import purchasing patterns, lowering the share taken by any absolute level of imports from ex-colonies.

Our goal is to investigate a fourth possible mechanism: the role of business and social networks put forward by Rauch (1999). If trade requires the existence of dense networks in order to operate smoothly, the disruption of those networks after independence can be an explanation of the decline in trade intensity between an ex-colony and its ex-colonizer. A gravity-based equation for bilateral trade is specified with appropriate controls so that we can isolate the importance of the decline in unobserved linkages in the post-colonial relationship. First, we will take as a given any changes in per capita incomes caused by changing internal institutions. Second, we also use formal external institutions (membership in regional trade agreements, GATT, and currency unions) as controls.

Insights on the source of the trade effect of decolonization can also be inferred from its time pattern. If decolonization destroys former institutions of the colony, or has the consequence of raising tariffs between the two countries, the trade impact should be almost immediate and permanent. On the contrary, it is very likely that networks deteriorate slowly over time, with expatriates from the metropole not being replaced by new settlers, which causes business and social links between the colony and the metropole to die as the stock of settlers at the date of independence shrinks. Our results support largely this view of a regular gradual decline of trade intensity. On average, there is little short run effect of trade with the colonizer (metropole), but after three decades trade declines more than 60%. However, past colonial linkages still have important trade effects today: those linkages tend to multiply trade by factor of 6 even after more than 50 years of independence, while free trade areas amount to a sizeable but much smaller increase in trade around 80%in our estimations. We also find that trade between former colonies of the same empire erodes as much as trade with the metropole, whereas trade with third countries exhibits small and unsystematic changes after independence.

More direct evidence of this network effect can be provided using the number of French nationals living in different countries of the world since the end of WWII. Our results show that the population of French expatriates in former colonies declines in much the same way as bilateral trade. The declining expatriate presence therefore seems to explain a substantial portion the diminished trade between France and its former colonies. Finally, hostile separations lead to larger and more immediate reductions. Trade deterioration over extended time periods suggests the depreciation of some form of trading capital such as business networks or institutions.

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