The Faroe Islands and British Virgin Islands are called "dependencies" of Denmark and the United Kingdom respectively, but are they really and how does their current economic situation affect their ability to create development and prosperity?

Picture courtesy of bohemianhellhole.com

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Abstract

The purpose of this thesis is to study and bring to light new ideas regarding the UK's overseas territory of the British Virgin Islands and Denmark's overseas territory of the Faroe Islands. The purpose is not to necessarily draw comparison between the two. but share the ideas of each with the other. In the post-colonial world where in general only such small islands remain left of what were once bigger empires, very little scientific work has been done on the subject of what kind of relationship such territories now enjoy with their former colonial masters. The author is furthermore not aware of any academic work being done before where these two territories are drawn together.

This thesis is split into six parts. The first and last being the introduction and conclusion while section two will explain the scientific method in which the thesis is carried out. Sections three and four provide the background and explanation of theory which are then applied to against each other and the research question in section five which is the analysis. The analysis in itself is split into four sections in order to effectively break down and answer the questions raised.

The background sections provide information regarding each of the territories economic, social and political situation. Such information ranges from statistics regarding imports and exports and unemployment, to international political links and education systems.

The theory section provides overview of the two theories which will be applied in the analysis as well as provides some preview as to what can be expected to be discovered during the analysis.

The analysis and conclusion will ultimately bring about mixed responses to the research question: Both territories show certain features which characterise it as being dependent on the United Kingdom and Denmark respectively and certain statistics and data as well as the theories bring about ideas as to how the current political and economic situation put both territories in the economic situation in which they currently sit. The theories and data are used together to draw these conclusions. Both territories are ultimately still dependent, in some senses economically and in some senses politically and to a lesser extent socially. However, both show signs of change and signs of an ability for the current status-quo to move in the medium-term future if certain changes are brought about locally.

Recommendations for further research could involve having more direct contact with officials in each territory. Similar British Overseas Territories could also be studied to see if they hold similar characteristics to the British Virgin Islands; namely including the Cayman Islands, Bermuda, Jersey, Guernsey or Isle of Man. Furthermore, French or Dutch overseas territories could be studied in order to bring about some comparison as to the different models that former colonial countries now use with their former colonies.

1. Introduction.

This research will focus on the British and Danish overseas territories of the Faroe Islands- an archipelago in the North Atlantic, part of the Kingdom of Denmark and the British Virgin Islands, a group of islands in the Northern Caribbean which remain one of the United Kingdom's 14 overseas territories scattered across the world.

The Faroe Islands remains meanwhile one of two territories outside of Denmark which are nonetheless part of the Kingdom of Denmark (the other being Greenland) which has its own government and internal affairs as well as a high degree of self-autonomy to manage its own affairs. The Faroe Islands with a population of roughly 49,000 has its own language which is used in the territory and more similar to Icelandic than Danish while in the British Virgin Islands (BVI) English is the official language (CIA World Factbook- British Virgin Islands).

The British Virgin Islands lies in the Caribbean Sea, just to the North-east of the adjacent territory of the US Virgin Islands- a partially self-governing overseas territory of the United States of America with more than twice the population. The US Virgin Islands were transferred to the USA from Denmark in 1917 whilst the British Virgin Islands were granted autonomy in 1967 (CIA World Factbook- Virgin Islands & British Virgin Islands). The territory is made up of 16 inhabited islands and 20 uninhabited spread out over 151 sq km. The territory furthermore lies due East of the North-west tip of the US territory of Puerto Rico (population 3,6 million- CIA World Factbook) and West of another British territory, Anguilla (population roughly 16,000- CIA World Factbook- Anguilla). Further UK Overseas Territories in the region include Montserrat (pop. 5216), the Cayman Islands (pop. 54,914), Bermuda (pop. 69,839) and Turks and Caicos Islands (pop 49,070).

It is known that small states come in various sizes and shapes and that using the World Bank's definition of a small states being any under a population of 1.5 million, there are dozens across the world. Having such small domestic markets is a handicap to creating wealth and historically small states have often depended on markets such as smuggling and fishing to create jobs and development. The rapid development of IT infrastructure allowed many small territories to become involved with offshore financial services from the 1990s which had followed the development of tourism from the beginning of the 1960s and the jet age. To facilitate offshore financing, many small territories made it easier for large corporations or the world's wealthiest to keep their money somewhere where banking privacy was guaranteed. No taxes and simplified corporate registrations also became incentives to keep money in small, relatively unknown territories. By the early 2000s however, certain territories were labelled "noncooperative" in terms of international financial settlements (i.e. tax). Financial services allowed many tiny backwaters of the global economy to rise to notoriety (Paul, J:2000).

However, that is not to say that all territories have become dependent on for example financial services. Certain chose this path, but the economies of others have been more consistently on one path of economic development for a long time. Certain territories have worked for a longer period of time in more traditional and less controversial industries such as for example fishing. However, a dependence on any single industry still creates a dangerous situation for any government or population. This is because any territory focussed on one single or perhaps even two industries is very susceptible to sudden losses of national income in the event of even a small event in the global economy. If a small territory for example exports, by their standards, huge amounts of cod every year and has become wealthy by doing so, then economic development and prosperity is created. However, should there be a shift in global taste away from cod, for whatever reason then this small territory will face huge difficulties adapting itself economically. Overfishing and / or ecological shifts additionally could furthermore change economies such as the Faroe Islands and its economy forever. Such small territories may have very limited skills in other branches of the economy and if swathes of the population have to move abroad to work then it will face economic ruin because of a small event. Economic dependence is therefore dangerous.

Small territories furthermore face difficulties in regards to emigration as young people choose or have to move abroad to study in look for work. If a young person is for example interested in a job as an engineer, but comes from a territory where most work in financial services or tourism, then their chances are very limited of working in their desired field. In a better balanced economy, the job market would still of course be small, but would at least exist. The same could be argued of someone interested in working in tourism but who comes from a territory where fish is the main export.
It is in looking at such issues and the ability, or lack of ability of governments to keep young people nearby and create wealth whilst improving the population's' standard of living that makes this subject interesting in the opinion of the author. Young people will drive future economies and if incentives are

not put in place to keep young people in a place then they will often leave and not return- Some equally may leave but only return later in life when they have less to offer the professional environment and face retirement. Young people also have the ability to bring fresh new ideas and concepts which is what modern societies need in order to compete.

The question of tax avoidance and words “tax haven” have furthermore been banded around in recent year. Following pressure from the G8, agreements were made with the UK’s Overseas and Crown Dependencies to clamp down on tax avoidance and evasion (Mason, C: 2013). Should any clamp down on international companies mean a reduction in offshore financing, then territories dependent on such industries will be hit first. The British Virgin Islands and Faroe Islands are two territories that fit the kind of situations just mentioned.

The territories furthermore offer the opportunity to look at two territories whose history, geography and climate are vastly different. The populations of each territory are broadly similar in size and each have a long history of belonging to another state. Furthermore, the Faroe Islands lies geographically very close to the United Kingdom and the Virgin Islands as a whole have a long standing colonial and cultural history with Denmark. Both territories are known as ones whose economies are not highly diversified. The industries on which both territories however depend are vastly different. This makes a comparison between them interesting as one may be able to draw certain conclusions about whether certain industries create more susceptibility to dependence and poor otherwise diversification than others. The two territories furthermore have similar, although not the same, type of financial and political relationship with the UK and Denmark respectively. The two territories therefore offer a certain amount of similarity but also difference which makes them interesting to draw comparisons between whilst also allowing the writer to perhaps learn about and understand one territory’s hurdles to creating development by studying another similar one.

It is with all of the aforementioned in mind, that the problem formulation is created:

The Faroe Islands and British Virgin Islands are called "dependencies" of Denmark and the United Kingdom respectively, but are they really and how does their current economic situation affect their ability to create development and prosperity?

The author will employ two theories as well as a variety of statistics and background information on each of the territories in question. Statistics and background information will then be compared to what the theories state to understand what issues each of the territories face in creating economic development as well as understand to what extent there is truth in what the theorists say in relation to the topic at hand. Each territory receives its own section of background as well as each theory.

2. Methodology

2.1 Structure Design

This thesis will be divided into eleven sections. There will of course be an introduction and conclusion beginning and ending it. Apart from these, there will be two sections dedicated to providing background details on the territories in question- the British Virgin Islands and Faroe Islands. The aim of these sections is to provide the reader with pertinent information to what will be discussed later. Following the background, the researcher will give overviews of two different theories. The theories and background sections will then be used in the four analyses, along with facts and figures to provide hopefully an answer to the research question. Besides these ten sections, this section, methodology should give the reader some idea of how and why the thesis is designed and written the way it is.

The background sections have been specifically separated by territory in order to keep as clear as possible the different situations and issues that each territory faces. Statistics and facts are given about each territory regarding sectors of each society such as the economy, job market, education and history of economic and political development. The information given in each section should more or less correspond to the same type of statistics given in the corresponding one. This is done in order to allow the reader to immediately and gradually begin to understand the issues that each territory may have in creating development and prosperity as well as understand the nuances that exist in each territory regarding their relationship to the United Kingdom and Denmark as well as to an extent, international political and economic organisations.

The theory sections are written in order to give an overview of the overall themes of each theory. The theories will be later discussed in more detail and an explanation provided as to why these were chosen as well as what the strengths and weaknesses are of each but the overall aim of employing these two particular theories is to use them as a tool in order to understand through them, what issues each territory faces in creating development. I.e. for example if development is being held back and halted due to dependency or either territory's geographic position.

The analysis will then take some of the statistics discussed in the background, as well as others which will be introduced later and in a sense, compare these to what the theories say. By doing this, the researcher hopes to gain an understanding as to the hurdles to creating development and prosperity in these territories. It would furthermore be a hope that such research is something that could be applied to other territories, particularly the numerous British ones scattered across the world which are all of similar size.

2.2 Core Concept

The Faroe Islands and British Virgin Islands are overseas territories of the United Kingdom and Denmark. They have differentiating histories but both have this in common, as well as the fact that they are not the only ones in this situation. Both Denmark and the UK have other territories which range from the vast space of frozen Greenland to tiny Mediterranean metropolis of Gibraltar. Both territories enjoy a high level of autonomy and are broadly able to govern the vast majority of issues, with defence and foreign policy being some of the only exceptions. This thesis will delve into how easy or difficult it is for such small territories, with small populations geographically distant from the countries on which they are 'dependent' to create prosperity and development in the face of issues such as low levels of economic diversification as well as question if these territories are 'dependent' in more than just name.

2.3 Theory Choice

A key point which affects both of the aforementioned territories' ability to develop economically and socially and thereby create prosperity is the relationship each has with the countries that take charge of their defence and foreign policy. One of the territories furthermore receives a fund every year from one of these governments to support its national economy. Taking these points into mind, it would seem pertinent to employ a theory such as Dependency Theory in a piece of work such as this. This theory focuses on the relationship between two states- one more advanced, and one less (Ferraro:2008). The researcher hopes that by applying some of the concepts of this theory to the facts and statistics discovered about each state that new ideas may come to light regarding for example if a state being “dependent” technically on another means that it truly is in every way, or if it is perhaps dependent on it for certain aspects of its well-being and (an)other state(s) for other aspects. This has the potential to broaden the general picture of the relationship that such small territories have with their former colonial masters. It may allow the researcher and reader to find out that neither state is in reality dependent on Denmark or the UK or it may allow us to view the relationship in a different and perhaps, unconventional way.

Economic Geography Theory will meanwhile allow the researcher to delve into how each territory’s location may be affecting its ability to develop and create prosperity, particular through economic diversification and movements of workers. Each of these territories is physically separated from the country on which they are ‘dependent’, therefore their geographic location would seem like a key differential on their ability to develop. Being furthermore small territories with small populations, they must arguably work harder to develop private industry and avoid the pitfalls that many small states face such as lack of resources causing undue specialisation, dependence on international trade and high population density (Small Island Developing States- UNCED). This theory furthermore compliments the aforementioned theory about dependency and makes certain references to it. It takes certain ideas from it and builds on them in its own way which allows the researcher to further develop arguments and ideas in certain directions. Economic Geography theory furthermore has more emphasis on factors on the ground in the territory itself which affect its ability to develop whereas Dependency Theory is more just studying the international relations of two states.

Both theories in their original form lean on the idea that the two states in question are at very different levels in their development- namely that one is a developing country and one a developed country. However, the researcher believes that in light of the concrete concepts that each theory brings forward, the fact that the British Virgin Islands and Faroe Islands are developed, rather than developing states is not a hinderance. This is of course a deviation from the original theories but it does not subtract anything from the ability of the theories to bring new ideas to light and as each of these territories are politically dependent then the theories still seem highly relevant and malleable to the research question. There are a variety of theories which could be applied to small states such as BVI and the Faroes, although very few which apply to them particularly.

2.4 Methods & Approaches

In the analysis part, the theories and background will be combined with statistical data to provide some answers to the research question. The aim of doing so is to make a comparison between the statistical data and facts that were revealed in section three (Background) and what the theories say. Each of the theories give opinion on what may bring forward or hold back economic, and to an extent, social, development and so it will be of interest to see if such theories hold when analysed against facts. This approach was chosen because there are numerous theories of economic development, varying from for example linear models that study how development has moved forward since the beginning of economic history to much more modern concepts that discuss the effect that concepts such as colonialism have on the ability a territory has to develop and thereby, modernise. However, these approaches, in the opinion of the researcher often lack concrete examples and are not sufficiently studied in regards to small territories and in fact, even less for territories that are politically dependent on other territories.

As mentioned previously, the British Virgin Islands and Faroe Islands are not the only overseas Danish and British overseas territories. The UK still holds some control over several other territories in the Carribbean, Atlantic Ocean, Indian Ocean and Pacific Ocean and Denmark over Greenland. These come into addition to territories still controlled to varying states by other European powers such as France and the Netherlands. Therefore, the two studied territories can to an extent be seen as instrumental, but it is not the purpose of this work to imply or say that the lessons learned here can definitely be applied to other territories. It is the researcher’s opinion that lessons learned in creating development in Greenland for example would not be applicable to the Pitcairn Islands or Jersey. However, some questions regarding autonomy and territories with small populations may be applicable.

2.5. Data Collection

Data has been collected from a variety of sources. In late April 2014, the researcher was fortunate enough to travel to London to meet with a representative of the Government of the British Virgin Islands and in addition, the Government of Bermuda’s representative to the United Kingdom and European Union as well as the Falkland Islands’. These meetings allowed the researcher to gain first hand information and sources. It also brought about the opportunity for the researcher to be pointed in the direction of where further information and sources can be found. Some pieces of promotional material for example received from the office of the British Virgin Islands Government are used as sources. Meetings and governmental information aside, sources and data have been collected from a variety of sources, mostly internet based.

The researcher is aware that when collecting certain data online a certain biased can occur. This can happen quite unintentionally for a variety of reasons. This namely comes from the fact that the researcher already has certain pre-conceived ideas of what they are looking for and what kind of data is needed to answer a certain question. Data sources are checked and reviewed by the researcher before being used to ensure that they are not markedly biased or one-sided. Regarding the sources and information obtained from the governmental offices in London- these are clearly one-sided and the researcher is aware that such sources have a certain interests in putting forward information. Such sources, in the opinion of the researcher have an interest in promoting the territory's best side and telling the world the great work that they are doing in fighting issues such as poor economic diversification and emigration.

Internet sources can often be biased additionally. Fortunately, the internet sources chosen have made chosen due to the clear facts that they give which leave no opportunity for emotion or biased to be involved. Statistical banks such as the CIA World Factbook and Faroese Statistic Bank do not within them have scope for biased. They may and will of course not include perhaps all statistical data that they could but the researcher has not felt that either of these sources has missed data which would have otherwise been invaluable.

2.6 Limitations

The researcher did not have the opportunity to travel directly to either of the territories studied. Although this would have provided valuable data, a variety of constraints meant this was not possible. Further study of the subject would allow the opportunity for any researcher to collect data from a variety of sources in any such overseas territory. This would allow the opportunity to find out what local people and local government opine on the issues discussed. This would furthermore allow further study of the quality of infrastructure, social facilities economic environment.

Finding statistics regarding the British Virgin Islands has at times been challenging. Unlike most large, developed economies as well as the Faroe Islands, the British Virgin Islands Government does not have a bank of statistics which can be easily obtained by the government; secondary sources have therefore had to be used. The researcher has also encountered regular problems with being able to contact and get answers on certain questions from government officials as well as use official governmental websites which have often proved themselves unreliable technically.

3. Background.

3.1. British Virgin Islands

Map courtesy of Brussels Diplomatic

The British Virgin Islands (BVI) has a population of just over 32, 600 people, making it one of the world's smallest territorial populations, with an annual population growth rate of 0.49%, compared to the UK's 2.56%. The islands were first annexed by the British in 1672 and later became part of the colony / territory of the "Leeward Islands" until 1960. Autonomy was then granted to the islands in 1967. Prior to the autonomy granted and the dissolution of the British Leeward Islands, BVI began to use the United States Dollar in 1959 (CIA World Factbook). The Pound Sterling had previously been in circulation in the colony (Chalmers 1858: 79). Due to its proximity and closeness however to the US Virgin Islands, American (Daggarjon coin and currency) and previously Danish (before what is now the US Virgin Islands was sold by Denmark to the United States of America) (ATS Notes- Danish West Indies Banknotes) currency had often been in circulation. The territory furthermore used the British West Indies Dollar briefly (Daggarjon coin and currency). The British Virgin Islands is now the only member territory in OECS (Organisation of East Caribbean States) to not use the East Caribbean Dollar. (Oanda).

The territory is a British Overseas Territory, which means that along with 13 other territories around the world, it retains a relation to London and the British government to various extents. The populations of these territories vary widely; the most populated of which being Bermuda- half way between Europe and the USA with 67,000 people to the Pitcairn Islands, halfway between New Zealand and Chile with a population of 50. Certain territories are also claimed by other nations, such as Gibraltar by Spain and the Falkland Islands and the South Georgia and Sandwich Islands by Argentina. The United Kingdom is also responsible for the Sovereign Bases and Akrotiri and Dhekelia on the island of Cyprus which are used mostly by military personnel (The Telegraph:2011). Many territories are completely self-funded (British Government- OT support) but some do still receive financial support to some extent, a notable example being Montserrat in the Eastern Caribbean since which receives aid from the UK Department for International Development since the deadline volcano eruption and St Helena where it is contributing to building an airport (DFID) which is expected to bring increased tourism, better accessibility (St Helena Government) and presumably, increase the UK's ability to carry out airborne missions in the South Atlantic. The UK broadly remains responsible for the defence and external relations of each territory while they retain their own governments (UK Government). The UK has however devolved a considerable amount of power to the BVI government to manage external affairs and offers "sympathetic consideration" for action on other matters (Bickley, C, 15:2002). The British Virgin Islands does not send any MPs (Members of Parliament) to London to represent itself there and is instead represented by its governmental office there and representative.

Further to its membership of OECS, the territory has been an associate member of the Caribbean Community (CARICOM) since 1991 (CARICOM- members). Being an associate member of CARICOM but not a fully-fledged member means that BVI is able to take part in joint work with other states on for example communal procurement, but it means that citizens of BVI do not have freedom of movement or access to social security within other states. As a territory of the UK, BVI's ability to partake in all institutions within CARICOM is partially hindered. This is evidenced by the attempts of Montserrat (another UK overseas territory in the Caribbean) to join CARICOM's Caribbean Single Market and Economy (CSME). For Montserrat to do this, it required 'entrustment' from the UK (Montserrat Government), which, after several years, in 2008 was denied (Montserrat Government).

Only 6.67% of land on BVI is arable and thus able to have crops grown on them. Tourism and financial services have therefore grown to be BVI's economic pillars since autonomy was granted and the territory has become financially independent , (CIA World Factbook). Around 500,000 companies are now registered in the territory and in 2009, around 830,000 tourists visited the islands (Business BVI); almost thirty times as many people as there live in BVI. Tourism now contributes to 45% of GDP, (CIA World Factbook).

Tourism first arrived in force in BVI in the 1960s when the Rockefeller interests opened the first resort in 1964. Tourism arrived later in BVI than other Caribbean states such as Jamaica or the nearby US Virgin Islands, where the Rockefeller group was already well established. In 1966, a government-commissioned report noted that tourism was the most viable way of creating development across the islands. Most arrivals now come from the United States (Everitt, J). The territory currently has no direct flights to the UK, but regular flights to the US territories of Puerto Rico and US Virgin Islands (BVI Guide). A runway extension is however proposed that would allow larger planes to land at Beef Island's Airport, the territory's main hub (BVI Tourism). The proposed length would allow planes as large as a Boeing 737-800 to come to BVI which could in theory bring passengers from as far away as Latin America, the USA or Canada direct to BVI (ISUU). According to the territorial government's official literature entitled *Investment Opportunities in Tourism,* future opportunities for growth in the sector come from the building of hotels & marinas, mega yacht services, transportation (such as sea- and airports) and various types of tourism, including health and cultural. Furthermore, this literature states that tourism creates 19% of jobs and US $364 million per year in overnight expenditure.

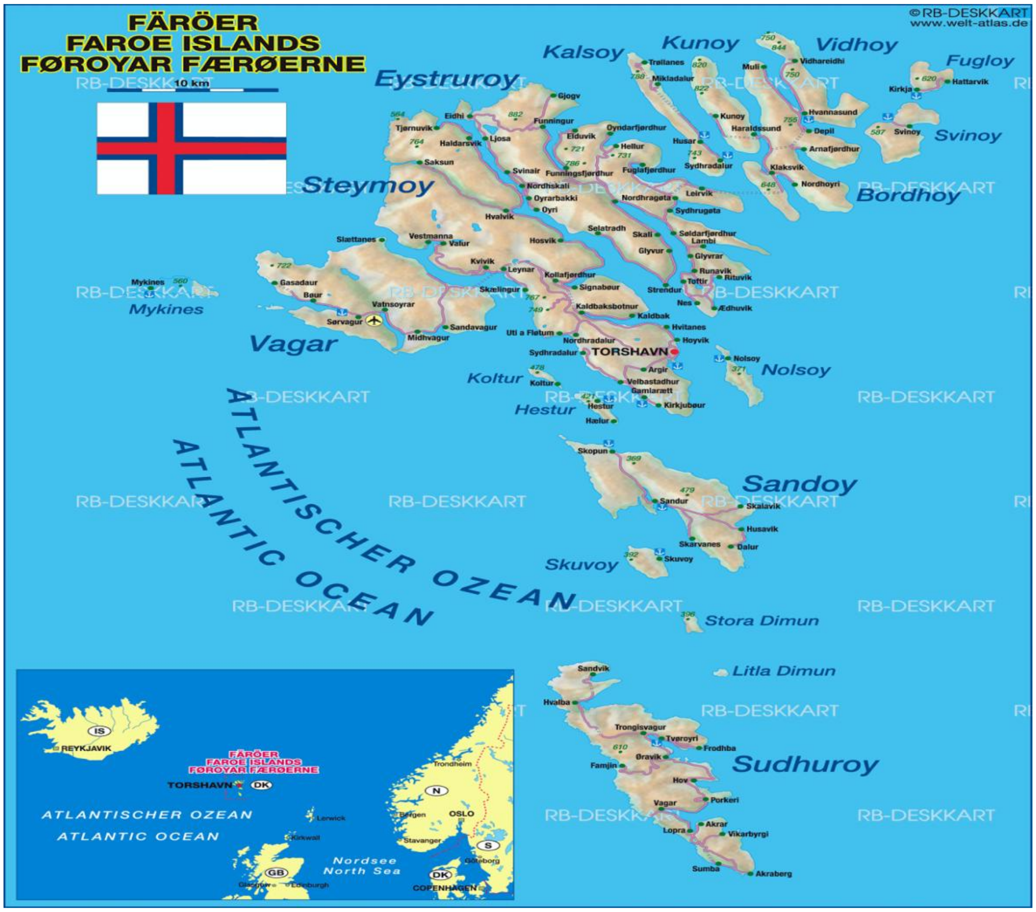
As mentioned, there are furthermore around 500,000 companies registered in the British Virgin Islands- roughly equivalent to almost 16 companies per inhabitant. According to the *CIA World Factbook*, the insurance law introduced in 1994 provided a blanket of confidentiality for international companies as well as regulated statutory gateways for investigation of criminal offences made the territory more attractive to international businesses. According to the British Virgin Islands Government's Department *International Finance Centre* and their explanatory brochure from September 2010, the financial services offered fall into the following categories: Corporate Business, Trusts & Estate Planning, Investment & Funds, Insurance, Banking and Shipping. This centre claims that advantages of doing business in BVI include, among others: "A legal system based on English law, use of the United States Dollar, no exchange controls and status as a British Overseas Territory with the additional security that brings". Legislation to bring in financial services began in 1984 (O'Neill, M: 2012) and the amount of companies registering in the territory swung markedly up in the late 1990s after Hong Kong's return to China. This return meant that many companies and organisations that had previously taken advantage of the favourable conditions offered by the UK & Hong Kong governments whilst the territory was under British rule ended and therefore they looked to relocate their company registrations to another territory; BVI being a popular destination . Political disruptions in Panama also played a role in encouraging companies to set up in BVI (Financial Secrecy Index: 5-6). The upswing in the amount of companies registering themselves in the Virgin Islands has with it brought about an increase in the amount of highly educated people living in the territory.

A report by KPMG in 2000 revealed that 41% of offshore companies set up in the world were in the British Virgin Islands (China Offshore). BVI has been referred to as a tax haven and was in fact the fourth largest receiver globally of Foreign Direct Investment (FDI) in 2013, receiving more than both China or the USA; the difference being in BVI that money is often moved in and out quickly and not resulting in infrastructural projects (Miles, T:2014). The territory has furthermore faced criticism and action by major economies such as France, which blacklisted the territory in 2013 for allegedly not complying with laws on transparency and the exchanging of tax information; the British Overseas Territory of Bermuda was also added as well as the Crown Dependency of Jersey (Houlder:2013). Jersey and Bermuda were removed in January 2014 leaving BVI and Montserrat as the only UK territories still on the list (RFI:2014). BVI has however been making strides in recent years to forge new tax information agreements. In late 2013, BVI signed its 25th Tax Information Exchange Agreement (TIEA) with Poland and also signed an

Intergovernmental Agreement (IGA) with the UK on the exchanging of information for tax purposes on an automatic basis. It furthermore plans to sign an IGA with the USA in near future (BVI in 2013). Education on the British Virgin Islands is split between state and private education. There are currently 15 state primary schools, four state secondary schools, 10 primary private schools and three private secondary schools. Children start school the age of four or five and complete mandatory schooling at 16 or 17. Those who would then perhaps like to go to University then all sit the Caribbean Secondary State Examination (BVI Newbie). This comes under the auspice of the Caribbean Examinations Council which runs such exams in 16 English-speaking Caribbean territories, including the UK overseas territories of BVI, Turks & Caicos, Cayman Islands and Anguilla (CXC).   In BVI, students have two choices for tertiary education: A community college named H. Lavity Stoutt and a branch of the University of West Indies (BVI Newbie). In the academic year 2006/ 2007, there were 81 students at the University of West Indies' BVI 'campus' which consists of classrooms, a computer room and library (University of West Indies. British Virgin Islands). Teaching is done mostly through a mix of online and physical means (UWI Campuses). Students otherwise go abroad to study, with the USA the most popular choice. The UK is the most common choice for those wanting to study law (BVI London Office- Students). The two territories share the principle of the common law system. There are currently around 50 studying in the UK (BVI London Office).

Foreign citizens must apply for a work permit to work and live in the British Virgin Islands, including UK citizens. A permit will be given if there are no 'qualified belongers to the job in question' (BVI London Office). BVI is in otherwise not an open labour market for UK citizens, in spite of the territory being a UK overseas one. BVI citizens however have the right to become British Overseas Territory citizens and therefore have an open labour market to the UK (UK Gov. - Types of British Nationality).

3.2 Faroe Islands



Map courtesy of map-welt.de

The Faroe Islands is an archipelago of islands in the North Sea, roughly halfway between Norway and Iceland, to the North of the United Kingdom. There has been a connection between the islands and Denmark since the 14th century and in 1948, a high degree of autonomy was granted to and Denmark now only remains broadly responsible for defence, foreign affairs and justice. The Faroe Islands remains a part of the Kingdom of Denmark, but is not a member of the European Union, meaning that certain parallels can be drawn between it and UK overseas territories, such as the British Virgin Islands. Also similarly to the British Virgin Islands, the Faroe Islands does not have representation in many international organisations but is represented at the Arctic Council, Nordic Council and Nordic Investment Bank (CIA World Factbook).

The population and economy of just short of 50,000 inhabitants remains highly dependent on fishing exports which make up 95% of total exports and around 50% of the territory's total GDP. Denmark is a large recipient of exports, receiving around 23%, it also contributes around 3% of total GDP through an annual block grant. Dependency on fishing exports makes its vulnerable to price fluctuations which during the middle of the first decade of the 21st century, whilst fishing catches were low, helped to quadruple of the percentile of unemployment in the territory. Ship building has remained meanwhile another industry in existence in the islands and standards of living in the territory remain comparable to Denmark proper. Most debt owed by the Faroese state is to Denmark (CIA World Factbook).

The population has remained fairly flat in recent years. The territory has seen a population change rate of 0.49% and a net migration rate of 0%. This compares to 2.25% in Denmark. (CIA World Factbook) According to a 2012 article in *Afton Bladet*, there are, due to emigration around 2200 'missing' women in the Faroe Islands, i.e. Faroese women who have gone abroad and not come back or been 'replaced' by immigrants. The same article states that the population has been falling by 100 per year since 2008. Emigration has typically been to Denmark mostly. There were in 2012, roughly 1400 unemployed people on the islands, compared to 300 before the financial crisis.

The Faroe Islands has one airport, located at Vagar, from where high frequency flights depart to Copenhagen and Billund, as well as Norway and Iceland all year-round. The territories are served by one regular airline (Vagar Airport), majority-owned by the Faroese state (CH-Aviation). It is further served by one ferry company, Smyril Line, connecting it all year-round to Denmark and in summer to Iceland. An assessment of transport routes would therefore identify Denmark to be the most important destination country for Faroese travellers, followed by Iceland.

The Faroe Islands does not currently have to import electricity (CIA World Factbook), as some small states do, but as a small state, it does rely on general imports with Denmark being a major source of which (Hagstova), supplying around 42% of total imports to the territory. (CIA World Factbook).
The Faroe Islands currently has two Members of Parliaments at the Danish 'Folketinget' (Danish Parliament), who are, although from two different parties, broadly in favour of keeping Union with Denmark (Social Democratic Party, Union Party). Being a non-EU state, inhabitants of the Faroe Islands do not have the ability to 'freedom of movement' across the EU (EU Movement). However, if a Faroese person resides in Denmark, they can gain the right to move freely around the EU.

The Faroe Islands are one of two territories outside of Denmark proper which are part of the Kingdom of Denmark, the other being Greenland, with a population of around 7000 more and around 2,000,000km² more land (CIA World Factbook- Greenland). Unlike Greenland, the Faroe Islands has its own currency, the Faroese Krona, a version of the Danish Krone. The two are used alongside each other across the territory (Visit Faroe Islands), but Faroese bank notes are not usually accepted in Denmark. This can be generally compared to Isle of Man (another UK overseas territory) pounds and their use in mainland UK (Currency 7).

Questions about the discovery of oil have in recent years been coming up in the Faroe Islands. Namely about whether deposits will be discovered in the territory's waters and whether any finds would bring new-found wealth to the islands. According to the same article in Norway's *Afton Bladet* which quotes the aforementioned, it is written that there are allegedly enough oil reserves in the Faroe Islands to equal five times per capita in revenue more than Norway's oil fund. The question of discovering oil and therefore being able to diversify the economy has been lingering for some time in the territory and British Petroleum for example in 2001 but was not able to find reserves extractable at a operationally viable level. As previously mentioned, the Faroese population is currently slightly falling each year and oil is seen as a way of possibly keeping young people on the islands and providing good jobs, although an accident in the oil sector could for example destroy the fishery sector (Topdahl:2012). There are currently two oil companies based in the Faroe Islands, *Faroe Petroleum* and *Atlantic Petroleum*. Atlantic Petroleum currently participates in two licenses in the Faeroes and states on the operations page of its website that it is "interested" in exploring the continental shelf there.

Citizens of Denmark have the right to reside and work in the Faroe Islands (Faroe Islands immigration office). Faroese citizens meanwhile have the right automatically to live and work in Denmark as part of the agreement of being in the Nordic Union (Hallo Norden- Flytte fra Færøerne). The University of the Faroe Islands meanwhile offers degrees at Bachelor's, Master's and Doctorate Level. Students can study BAs in Faroese Language Culture notably and also History with a focus on Small Nations and Globalisation. A couple of other courses are offered which are more common internationally such as Biology and Political Science. Master's Degrees are offered in Law, Marine Systems & Climate (Joint Nordic) and in Faroese Language & Literature (University of Faroe Islands- University Degrees).

4.1 Dependency Theory

The following description of Dependency Theory is not intended to be all-encompassing rather work as an introduction to the reader as to the main themes of the theory as well as some of the different ideas and opinions within the group of theorists that support it. It also aims to draw some comparison between Dependency Theory and other well known theories of economic development. This is carried out in order to give the reader a certain amount of bearing as to where the theory fits on the political scale and explain what the key divergences are. By using dependency theory, the writer intend to explore the idea of whether the Faroe Islands are dependent on Denmark and the British Virgin Islands on the United Kingdom.

Raul Prebisch, a Director at the United Nations Economic Commission for Latin America was instrumental in first developing the concept of Dependency Theory. Prebisch and other employees in the Commission were allegedly troubled that strong economic growth in the world's most industrialised countries was not necessarily leading to growth in the world's poorer countries and in fact, in many cases economic growth in the world's wealthiest countries was often leading to serious economic problems in poorer ones. At the time of his writing and the first expression of his ideas, both the Faroe Islands and British Virgin Islands were enjoying a high level of autonomy (CIA World Factbook- BVI & Faroe Islands). Neoclassical theory had assumed that growth would benefit everyone even if the benefits were not equally spread. The explanation at first seemed very simple: Less-developed countries were exporting primary materials to the more developed ones, these materials were then manufactured into products which would in turn be sold back to the poorer ones. The "Value Added" by turning this material into a useable product is always more than what the material cost to begin with, meaning that imports always cost more than exports and can never be afforded (Ferraro: 2008). Looking at the two territories studied in this thesis, one can see that there is some divergence from the theory here; the Faroe Islands do export what is, in a sense, a raw material- fish and this is in fact what the economy remains dependent on. However, the British Virgin Islands are not exporting goods rather have their economy built on services.

Prebisch therefore had an explanation: Import-substitution. This would mean that these less-developed countries need not buy expensive imported products but they could still sell their exports on the world-market. However, there were certain issues with this policy; firstly, the size of the internal markets of these less-developed countries meant that they were not large enough to support the economies of scale being used by the more-developed countries to keep prices low- larger economies were able to produce in larger quantities at a lower-price per unit than smaller economies. The second issue was whether there was political will in the less-developed countries to move away from being producers of purely primary products. Thirdly, there is a question of whether these economies actually always had control over their primary products and the selling of them abroad. These three issues have led some to think about the relationship between the globe's rich and poor economies (Ferraro: 2008). One must remember in the context of this thesis that neither of the territories being studied are poor states, nor are they independent (although they do enjoy high levels of autonomy). However, questions of who controls industry remain relevant.

A Definition of Dependency Theory

Debates have raged between liberal reformers- such as the aforementioned Prebisch, Marxists- Andre Gunder Frank and World Systems Theorists such as Wallerstein. As with other theories of international politics and economy, there is no one unified theory of dependency, however, there are core points which can be seen in the work of most theorists on the subject. A definition of dependency can be the explanation of the economic development of an economy within the framework of external influences, such as political, economic and cultural (Sunkel, O: 1969). The historical dimensions of dependency relationships was once given by Theotonia Dos Santos as the following:

[Dependency is]...an historical condition which shapes a certain structure of the world economy such that it favours some countries to the detriment of others and limits the development possibilities of the subordinate economics...a situation in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected. (Dos Santos, T: 1971)

There are certain features that are common to each definition of dependency theory. The first is that they all characterise the international system as being made up of two types of states- "dependent" ones and "dominant" ones, also known as the "centre" and "periphery" and "metropolitan" and "satellite". The dominant states tend to be those which are members of the Organisation for Economic Development (OECD) and the dependent ones tend to be in South America, Africa or Asia and have a low GNP, relying heavily on export of a single commodity to earn foreign exchange. (Ferraro: 2008)

Looking at the Faroe Islands and British Virgin Islands in this context, one can see that neither are members of the OECD and one depends heavily on export of a single commodity. However, neither how low GNPs nor lie in the aforementioned regions.

Secondly, each definition of Dependency Theory has the assumption that external forces are of great importance to the economies of dependent states. External forces may consist of multinational companies, foreign assistance, communications or international commodity markets as well as any other means that an industrialised country may use to represent their interests in another territory. (Ferraro: 2008)

Thirdly, all definitions of economic theory indicate each interaction between the dominant and dependent territory does not just reinforce but also intensifies the unequal relationship that exists between the two. Dependency is furthermore rooted in history and capitalism and is an ongoing process. (Ferraro: 2008) Both territories would at a glance fit into each of these definitions, however this will be analysed fully later in order to understand if BVI and the Faroes are truly dependent on Denmark and the UK, or perhaps if they are dependent on a variety of nations in varying sectors; as mentioned previously, both territories are actually fairly wealthy.

To surmise in regards to the theory, it looks to explain why certain states remain undeveloped by examining the relations between different nations and arguing that these relations are built on inequality. (Ferraro: 2008)

Dependency: Is it Capitalism or is it Power?

The majority of theorists of dependency theory see international capitalism as being the main force behind dependent / dominant relations. Andre Gunder Frank, who was one of the first dependency theorists made this clear:

...historical research demonstrates that contemporary underdevelopment is in large part the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries. Furthermore, these relations are an essential part of the capitalist system on a world scale as a whole (Gunder, A F: 1972).

This view states that the system of capitalism has enforced strict division of labour and this is what is responsible for underdeveloped in many economies and territories. The dependent states receives surplus capital, obsolete technologies and manufactured goods in return for their cheap minerals, agricultural commodities and cheap labour. This means that the dependent states orient themselves to the outside world. Necessities such as money, goods and services to come to them but how these are allocated is decided by the dominant state and their interests. This division of labour is according to capitalist theory, a necessity for the efficient allocation of resources and can be the explanation for comparative poverty in a dependent state. It can also manifest itself in a lack of comparative advantage. Looking at the two territories in this context, the picture is mixed. The three things that dependent territories received would seemingly be applicable but the question of what they are giving away is more complex in this context as is the question as to whether the core states decide how resources are divided.

Dependency rests on their being a heavy concentration of political and economic power based in the dominant country (the Faroes and BVI meanwhile both have the majority of governing carried out locally)- this opinion being shared with Marxist theories about imperialism. If this assumption is correct, then any difference drawn between economic and political power is unimportant because governments will do whatever is necessary to protect private economic interests, i.e. those held by transnational companies based in their territory (Ferraro: 2008).

Of course though not all theorists on the subject of dependency are Marxist and there is a differentiation to be drawn between dependency theory and theory of imperialism; Marxist theory aims to explain the expansion of states, whereas dependency theory looks to explain underdevelopment of states. In other words, Marxism explains imperialism and dependency theory explains its consequences. The difference here is significant. According to Marxist theory, imperialism is the process of the world being transformed and in fact therefore the way in which the world would be moved towards communist revolution. Karl Marx actually spoke positively for example of British colonialism in India: “England has to fulfil a double mission in India: one destructive, the other regenerating--the annihilation of old Asiatic society, and the laying of the material foundations of Western society in Asia”.(Marx, K: 1853).

Meanwhile, for dependency theorists, underdevelopment in an economy is a wholly negative situation in a dependent state where no possibility is offered of continuous or autonomous economic activity.

(Ferraro: 2008) The two territories in question in this thesis enjoy a high level of political autonomy and have done for several decades as mentioned in sections 3.1 and 3.2.

A further key difference to be noted between the Marxist and Dependency theories is the self-liquidating nature of Marxist theory compared to Dependency theory's self-perpetuating nature. In Marxist theory, imperialism would end when dominant powers fight over the shrinking amount of exploitable opportunities. The First World War being a prime example in their eyes, when Great Britain and France took over Germany's colonies. Dependency theorists however reject this. They do not see this as relevant, or at least only to the extent that such wars may give dependent states the opportunity to break free of dominant ones (Ferraro: 2008).

For dependency theorists, one of the key characteristics of the world is the persistence of poverty in almost all areas. There are some dependency theorists who do not point to capitalism as being the cause of the existence of dependent relationships. Such relations remain existing due to the power balance in them and power is not only supported by capitalism. A comparison here being drawn between the USSR's dependent Eastern European states during the Cold War and Western Europe's dependencies during the same period in their (later often former) colonies. This idea fits closer into more traditional theories such as realism. (Ferraro: 2008) Neither of the territories in question suffer from the persistence of poverty however this theory does allow the researcher to delve into the ideas of there being relative poverty perhaps in the "periphery" territory and moreover into if poverty would be more or less were the relationship between the "core" and "periphery" states different to how this theory portrays them.

The Cornerstones of Dependency Theory

There are a variety of cornerstones, which form the core of dependency theory:

1. There is a marked difference between underdevelopment and undevelopment. The second refers to a condition in which resources are not being used, i.e. for example farmland which is not cultivated, or not cultivated to its potential. Underdevelopment on the other hand is for a situation in which resources are being used, but in a way which only benefits the dominant state(s) rather than the dependent one in

which they are actually located. Neither of the territories discussed here have large amounts of farmland, nor or currently exploiting large amounts of hydrocarbons.

2. Making a distinction between ‘underdeveloped’ and ‘undeveloped’ economies puts dependent states in a very different historical context than to what may otherwise be expected. This is because one then comes to see these economies not as just being behind the more industrialised, dominant ones or where they are because of a lack of scientific transformation or values held by dominant states. They are behind because they have been pulled into the system used by these larger dominant states which looks to merely exploit the smaller states as producers of raw materials or sources of cheap labour and were then denied the chance to sell their resources in a way that would allow them to compete with larger economies (Ferraro: 2008).

3. According to Dependency theory, instead of the patterns of usage imposed by dominant economies in the use of resources, an alternative use of them is preferable. There lacks a definition of what a preferred pattern might be for doing this, but there are certain criteria. An example may be in agriculture. Many of the world’s less developed economies do in fact produce large amounts of food which is then sent for export. Dependency theorists argue in turn that malnutrition for example could be cut if more food production were for domestic use. (Ferraro: 2008) One may argue leading on from this that this could be extending to more products. For example, if the Faroe Islands produced more food or goods and therefore avoided the necessity to import from Denmark.

4. Dependency theory relies to some extent on the idea that every economy has some kind of ‘national’ interest which is individual to it and in this respect has something in common with realism. Where this however then diverges is when believers of dependency theory then see a solution as being the addressing of problems of the poorest in society and not those of corporations or governments. Of course, deciding on what is best for the poor is difficult and no definition has yet been made of a ‘national economic interest’ (Ferraro: 2008).

5. It is also elites in dependent states who are responsible for power staying in dominant states and resources being divided. Dependency theorists argue that the relationship stays this way between the elites of dependent states have the same interests as those in the dominant state. These are classically educated in the dominant state(s) and share its values and culture. This dependency is therefore quite

voluntary. Elites are not choosing to betray their economy or the poor therein but they believe that they path to economic growth is the prescribed neo-liberalist one. (Ferraro: 2008) In this case, one can see that young people from the Faeroes and BVI being educated in the UK and Denmark respectively is not unusual although the amount of people doing so varies.

The Implications of Analysing Dependency on Policy

If dependency theory is accepted as fact, then the role of issues such as comparative advantage, accumulation of capital and strategies for import and export must be re-examined in terms of their relationship to how economies develop. Certain new issues also occur which one must evaluate, namely:

1. Developing countries cannot use developed countries as a model. The model for development had previously been quite clear; if all nations are able to follow the same patterns as the world's most industrialised and wealthy, then development would spread. The same logic can be followed here between smaller, undiversified economies and larger, diversified ones. Small populations render it difficult to have as many opportunities. Being a poor, developing nation has the same effect. Such states would have to drastically increase their population perhaps in order to effectively diversify. However, as that is not easily done (due to pressures of space and the local population), other ways to develop need to be found.
Dependency theory however suggests that the success of these most-developed countries is one chapter in economic history in which colonialist European powers dominate. These relations are unlikely to repeat for the world's poorest.

2. Dependency theory rejects the theory of the central distributive mechanism from the neo-classical model, otherwise known as the 'trickle-down' theory. This model does not put a lot of focus on how wealth is distributed and it more concerned instead with efficient production while assuming that the market will allocate rewards in a fair way. This may well work effectively in an economy where forces such as race, ethnicity and gender play no role in the distribution of resources and society can quickly adjust to change. These conditions are however not always prevalent in the developing world, dependency theorists argue. They also point to the market not being a sufficient mechanism for effective distribution. Such issues can also come to light in small island states where there has not

traditionally been a large foreign population. An "island mentality" could exist and there could be certain resentment of foreigners who come and work and large projects, even if these projects will be for the good of the local population.

3. Dependency theorists do not take into account measurements for economic growth such as GDP or trade indices because as they see it, the market only rewards productivity. A difference is seen between economic growth and economic development; this is due to the question of whether economic activity actually benefits everyone within the economy. Indices such as life expectancy, literacy, infant mortality and education are therefore given more attention- social indicators are given more emphasis than economic indicators.

4. States which are dependent should according to the theory pursue policies of more self-reliance. This goes against policy of the IMF and World Bank as well as neo-classical theories. Parallels are drawn with such policy perspectives with China's Great Leap Forward and Tanzania's *Ujamaa*. These failed but dependency theorists argue that what one should take from this is not such extreme action as the two aforementioned but rather the practice of having more controlled action with the outside world. Developing countries should only take part in economic interaction that will look to improve the social and economic conditions for a large number of those with the economy. (Ferraro: 2008) This act of creating better self-reliance can be quite easily compared to the concept of economic diversification. Certain economic activity as it stands may lead the territories in question to "depend" on the UK or Denmark. By diversifying their economies therefore, each of these territories increases its ability to create development on its own terms and promote self-reliance. BVI's attempts for example when creating brochures such as *"Investment Opportunities in Other Sectors"* can be seen.

Taking a look at dependency theory now and seeing and how it can be useful in the context of the problem of creating development in states such as the Faroe Islands or British Virgin Islands, it seems that the theory could allow us to gain some understanding as to whether either of the aforementioned states are dependent in the sense that the theory describes it on the countries on which they are officially 'dependencies', i.e. Denmark and the United Kingdom. There is of course one obvious issue with the theory in regards to applying it to these Overseas Territories: Neither of these states are poor, developing economies, rather in fact two of the world's wealthier economies in terms of GDP per capita

(CIA World Factbook). However, the researcher does not see this as being problematic. Questions about exporting raw materials and them having imported back would still seem pertinent here, particularly given the Faroe Islands' economic dependence on fish exports. The BVI economy is quite different in that it does not rely on raw material exports, however, this is in the opinion of the researcher what makes this interesting and allows such questions to be explored such as whether it is only in the case of singular raw material exports that an economy becomes dependent on another. The question of whether services can be treated in the same way will be later explored and dependency theory allows such an idea to come to light. The question will also be explored of counter-dependency; i.e. the idea that the UK for example needs BVI and the financial services it offers. Given the lack of natural resources available, this becomes an interesting question to ask. The emphasis just on raw material exports would otherwise be a disadvantage of using this theory, but is hoped that by viewing the question this way that this can be overcome. Dependency theory will be used more as a basis rather than used in its strictest terms. This should allow new ideas to come to light about the creation of prosperity and development in these small territories.

4.2. Economic Geography Theory

As with dependency theory, the following explanation of Economic Geographic Theory is not intended to be entirely all-encompassing and in fact at times there are parts of the theory which will not be entirely delved into and the researcher will explain this when it comes. This theory will in the analysis be used as a way of understand the economic opportunities and challenges that the two overseas territories in question in this thesis face. The theory has the strength that it is focused on how the location of a territory or settlement affect its ability to develop and grow economically. In the researcher's opinion, this is a fairly obvious point which is all too often left out of discussion on the economic and social development of countries as well as the discourse on why certain nations are poor compared to others. The two territories this thesis focuses on have quite special and very different locations and are in addition physically separated from the nations which have some authority over them- namely the UK and Denmark. This theory also compliments somewhat and brings into the discussion the idea of “core” and “periphery” territories which dependency theory brought focus to in the last chapter. The theory however also has some weaknesses: not everything described in Economic Geography Theory was necessarily written with highly developed territories in mind and was originally describing some of the world's poorer states, particularly when core and periphery states are discussed.

However, as with Dependency Theory, the researcher is extending the concept the idea of core and periphery and small and large states to Overseas Territories and the nations which provide them with assistance in matters such as defence and foreign representation. As small, rather than extensive territories as well, some points raised are not always relevant, however, these will be discussed and interpreted as they come.

For the purposes of explaining this theory, the researcher will be leaning mostly on the work of Paul Krugman and his 1998 work on the subject, *The Role of Geography in Development.* The theory works around five main ideas:

1. The idea of “centripetal” and “centrifugal” forces; centripetal forces being for example linkages in production and increasing rents in transportation. “Centrifugal” forces being immobile facts and also land rents and in turn how they cause symmetric locations to play very different economic roles.
2. Geographical division model creates industrial and nonindustrial countries.
3. Great urban areas are created.
4. Regional inequality within developing countries.
5. Geography changed the past but does not have to change the future.

Taking the territories into consideration here, there is a mixed picture of how relevant these concepts are, but this will be further discussed in the analysis. For the purpose of this thesis, the researcher will not concentrate or go into detail on point four of those mentioned above. This is because it is felt that it is not relevant within the context of this thesis due to the makeup and characteristics of the territories in question.

Firstly however, some introduction to key themes will be given.

Countries closer to the equator tend to be poorer when looking at the world map. Data shows that as a general rule, the wealthiest countries can be found in Europe and North America, i.e. away from the equator and the poorest in Sub-Saharan Africa- near the equator (World Bank-GDP). Data also now shows that there are more people living now in cities than in the country for the first time in history (World Health Organisation- WHO) Historically, the world’s greatest cities have also always been harbour cities (Krugman: 1998). Many locations around the world as we look at history have had identical potential as settlements but have until now ended up playing very different economic roles. Meanwhile, many industries have become concentrated in a small amount of locations. Banking for example is highly concentrated in a few global hubs (Krugman: 1998) and financial services are prevalent in no less than ten UK Overseas and Crown Territories (Financial Secrecy Index). Banking is highly concentrated in for example, New York because that is where many clients and ancillary services are. However, not all banking services globally are located there because not all clients are, there is also the 'external diseconomy' of traffic and crime- this term will now be explained along with several others. One could also question taking this concept further whether a reputation as a 'tax haven' could serve as a 'diseconomy'.

Not all goods or services however come from one location; "centripetal" and "centrifugal" forces promote and oppose geographic concentration. Here is an overview of some of the key factors within each of these followed by some explanation of what each of them mean. Examples of how each of the following points can be seen in both the Faroe Islands and the British Virgin Islands will be given in the analysis section as well as how these in turn have the ability to affect the creation of development and prosperity.

Centripetal	**Centrifugal**
1. Market Size Effects	4. Immobile Factor
2. Thick Labour Market	5. Land Rents
3. Pure External Economy	6. Pure External Diseconomies

1. **Market Size Effects** mean **backwards** and **forwards** linkages:

Backwards linkages means having good access to large markets, i.e. being in a place where other markets can be reached with ease with for example good transport links. Furthermore, it refers to there being an economy of scale, which makes a location the preferred one for goods production (Krugman: 1998) An example of having good access to markets might be for example being in a European country well connected to the rest of the continent , so as that goods can be exported quickly and cheaply. One must also have enough space and resources to support an economy of scale. Small island states may struggle in this regard.

Forward linkages meanwhile refer to having a large local market and one that is able to support intermediate goods production (Krugman: 1998). This means that there should be a large enough local market for the products that it is not necessary to export 100%. Small island states may also struggle here. Some goods should be able to be sold locally which is cheaper to do than export 100%. The reference to intermediate goods production is referring to the idea that there should be other local economic production nearby that is able to support the company in question's production. For example, if your economic production is financial services, as it is in BVI (section 3.1), then to have lawyers and administrative services nearby will lower your costs as you don't have to entirely work with lawyers abroad, if your economic production is fishing or fish processing, as it is in the Faroe Islands (section 3.2) then you need to have locally companies that can fix your boats and processing machines when they are broken- this will be cheaper than having to get them fixed abroad.

2. "Thick Labour Market" simply refers to an industrial concentration. To further explain , it means that a good location for an organisation to set up in is one where there are similar organisations nearby. This is because organisations will be able to find staff when they first set-up and later, replace leaving staff easier if they are already nearby. Bringing all staff in from outside areas otherwise becomes necessary (Krugman: 1998). Small island territories with highly focussed economies may often be able to find staff as most locals work in the same industry.

3. A local concentration of economic activity may create **purely external economies** (Krugman: 1998). That is to say, that the existence of one industry in a location may lead to other industries setting up. This could be done by slow diversification, e.g. financial services needs banks, which need lawyers. This leads to construction which in turn creates a market for construction nearby and creating concrete. This concrete makes many companies set up concrete plants there which creates a major external economy. It could also be more random. An industry which is very focussed on one gender or segment of society might mean that the people in that sector bring their families and partners who in turn create a strong external economy because they look to use their skills too. This could well occur in small island territories and ultimately lead to growth in population and in the economy.

4. Land and Natural Resources are referred to as "**immobile factors**" (Krugman: 1998). This is simply because one cannot move natural resources from one part of the world to the other without digging them up. Furthermore, one cannot change whether a territory is a landlocked country, small island economy or large state, surrounded by other large states. Moreover, some production will locate itself where consumers are and some production will locate itself where people are going. For example, if a

new city is constructed, some production will move there just because people are, similarly some organisations will move to cities so they can be near to their potential customers. It is also cheaper to be near customers as then not all goods / services have to be exported. This plays into the linkages discussed in point one. Small territories may have issues here as industry may be unwilling to move to a location where there is a small local population.

5. The next point concerns **land rents**. This refers to the fact that economic activity in any given area will drive up the cost of land (Krugman:1998). To explain this further, one may see an example that if many organisations move to a location, then, due to the limited amount of land available in most areas and the fact that organisations want to be near to others and also local amenities and infrastructure, land prices will begin to rise. Every bank may for example want to be in the centre of a city, every supermarket in built-up urban areas and every logistics company near good transport infrastructure. This effect will assumingly be multiplied on small island locations.

6. Concentrations of economic activity may create **pure external diseconomies**. An example of this could be traffic jams (Krugman:1998). Traffic jams may start to occur where towns or cities have grown due to increasing economic activity and with them, the amount of cars. The increase in cars on the street has come to mean that congestion starts to occur which slows down people's for example, commute and therefore with it negatively affects the ability to create economic activity, i.e. work.

All of the above points illustrate the connection between location and creating economic activity. One can also see through these points that some patterns can be seen in how location and development are intertwined through location's effect on creating economic activity, which in turn creates economic development. A circular process can be noted; that is that producers choose a location that has good access to market and suppliers. One company setting up in turn encourages others and so jobs are created, economic activity grows and in turn so does economic development (Krugman:1998).
Location theory relies on the idea that economies of scale enforce geographic location of certain economic activity. This would presumingly be for smaller locations (Krugman:1998). However, Christaller (1953) assumes for example that cities can support a wide range of economic activities. The definition of a city though could be flexible. According to *Oxford Dictionaries Online*, a city is a "large town", so there is a certain amount of question of when an area becomes a town, city or village and if this is judged by population by squared kilometre for example, then certain small island territories could be called cities

even though the overall population is low.

This leads to the next key point of Economic Geography- an attempt to explain the spatial structure of an economy using certain models. As BVI and the Faroe Islands are “dependencies” of bigger nations, one can view their spatial geography either as being partly of a larger area which includes Denmark and the UK respectively or they can be viewed by themselves in their simple structure. This idea will be developed later in the analysis.

Three so-called ‘tricks’ can be used to explain spatial structure:

1. Icebergs. This concept refers to the idea that a certain percentage of a good’s value is lost in transit, ‘melted away’. New Economic Geography gives a rate of % per distance. This idea is central to the aforementioned location theory and means that transport costs are incurred in the shipping of goods (Krugman:1998). This all means that creating certain economic activity away from where the product will be used is more expensive than doing so near to where it will be consumed. This would be more relevant to exporting Faroese fish than to producing financial services in BVI but will be further explored later.

2. Evolution. Here, the trick is referring to the assumption that producers of economic activity always choose a location because it offers the best economic returns, but asks the question whether locations are in themselves strategies. i.e. moving to a location because it is expected that in time, being there will create returns even though it currently does not. One could from this idea wonder if setting up financial services in territories near to the European Union and United States is tactical. These territories are close enough to take advantage of the nearby market but detached enough to not deal with their regulation.

3. **The Computer.** This refers simply to using computers and on them statistics and simulations to draw conclusions. As mentioned in section three, growth in global I.T. has allowed companies to set up offshore in “neutral” (zero) tax jurisdictions.

This theory goes on to ask questions about the importance of borders as well as where borders are truly drawn. In the context of this thesis, one can ask if for example the Faroe Islands should be drawn into a border entirely including themselves, or whether they should be included with Denmark, as they are part of the Danish Kingdom or in Europe, because it is the geographical entire to which it belongs.

Similarly, to BVI, should in be thought of as being in UK borders, in CARICOM borders, North American borders or something else? This is further explored within the context of where economic activity concentrates and where disparities within an economy occur.

Regarding the aforementioned idea of regional inequality, economic geography theory asks the question- if there is a lot of economic activity in a location, is it self-reinforcing, with a growing disparity or is there a tendency towards symmetricalness? i.e. will equality be forced on it as inequality otherwise begins to grow.
The answer is that it depends on the strength of the centripetal and centrifugal forces.

The same applies to the question:
If a part of the economic concentration moves away from the area, will it come back? Or will everything unravel? (Krugman: 1998) If for example, a so-called 'tax haven' decides to clamp down the loopholes which allow companies to move money in and this encourages some to leave, will some leaving encourage others to leave.

Real wages depend on the allocation of economic activity between different regions. A key point in regards to the aforementioned overseas territories that economic geography theory makes is regarding transport and its effect on intra-regional trade; it states that when there are high transportation costs, there is relatively little inter-regional trade. Wages are therefore dependent on what the local competitive market is like. When transportation costs are however low, firms can sell regionally and there is more competition in the market. Companies which are located somewhere with better access to markets with a large population will be able to pay high wages. Purchasing power furthermore becomes high because consumers have better access to consumer goods. Meanwhile, workers are assumed to generally expected to move to the region with the highest wages (Krugman: 1998). Questions of workers leaving small island territories in favour of larger nations will be discussed in the analysis.

Parallel to this, as transport costs fall in a territory, production automatically shifts to where costs are lower and so an automatic core and periphery are created. Furthermore, if there are two regions that have high transport costs between them then they will develop symmetrically. When costs fall, the area with more production will become the 'core' and the other, the 'periphery'. A large difference means a marked difference and in turn, higher wages. Backwards-ness in the south therefore cannot be helped and is a necessary consequence of industrialisation. In time, this changes as industries choose to move to cheaper locations in order to be profitable as transport costs fall.

5. Analysis & Discussion

The following sections will be analyses of how the British Virgin Islands and Faroe Islands relate to the theories that were described in the previous sections. Statistics and facts will be used as well as the theories to try and ask the research question which was:

The Faroe Islands and British Virgin Islands are called "dependencies" of Denmark and the United Kingdom respectively, but are they really and how does their current economic situation affect their ability to create development and prosperity?

In this first analysis, the British Virgin Islands will be analysed against Dependency Theory in order to understand if the territory really are "dependent" on the United Kingdom. This will be done within the scope of developing prosperity and development. The UK holds the right to take political power if and when it sees fit (Telegraph:2011) in BVI which makes Dependency Theory an interesting tool for examining the relationship between the two territories.

5.1. British Virgin Islands seen from Dependency Theory Perspective

One of the first points brought up in section 4.1. was what the origin of Dependency Theory was. Neoclassical theory claimed that when there was economic growth, the new wealth would be spread. A 2003 report on poverty by Caribank shows that between 1991 and 2001 Gross Domestic Product (GDP) grew by an average of 9% per year and GDP by Financial Intermediation grew by 23%. Given that the British Virgin Island's (BVI) financial services are run almost exclusively for foreigners, there would seemingly be evidence here of disconnect between local and global overall growth. By 2001, financial services were responsible for 38% of GDP. According to Dependency Theory, a 'periphery' country will export almost entirely to the core which will further manufacture the goods that this periphery creates. Taking this concept and applying it to the British Virgin Islands is not entirely possible as BVI is not exporting natural resources. However, one may wish to extend the concept of Dependency Theory here to other exports. If Financial Services are considered BVI's 'export' due to the fact that these services are almost entirely 'manufactured', i.e. applied by companies abroad and then consumed by 'consumers' i.e. many of the world's wealthiest citizens and companies, one can apply the concept here. The concept of the British Virgin Islands being dependent on another foreign territory therefore becomes very relevant. Statistics are however not available on where companies are otherwise based which use the British Virgin Islands as an offshore finance centre. Due to the nature of the business, and the fact that companies which use BVI as an offshore centre become officially based there, statistics about their other offices are not openly available. However, it is known that companies come from all over the world to use this system. Due to the diverse nature therefore of the companies basing themselves in BVI, one cannot argue that BVI is dependent on the UK nor displays a core-periphery relationship in this regard. According to CARICOM statistics, in the same period during the 1990s that the financial services industry grew quickly, so did the percentage of foreign- born people living on the territory. In 2001, 42% of people living in BVI were native-born. The same data bank states that these people came for 'economic opportunity' but does not state from where they come. Data shows however that the Chinese, Portuguese, Syrian and Lebanese groups all grew in this time, whilst the majority ethnic-black group shrank. This would imply that Financial Services workers come from a variety of groups and nationalities and not just one- i.e. the potentially dominant United Kingdom.

According to the CIA World Factbook, 45% of national income comes from tourism. Again, this being wholeheartedly tourism revenue from foreign tourists. According to BVI Government statistics, in 2009, 62% of tourist arrivals in the British Virgin Islands were U.S. citizens. Arrivals from the US Virgin Islands & Puerto Rico were the next largest at 16% and all arrivals combined from Europe totalled 11%. Taking this statistic into consideration, it also becomes difficult to argue that BVI tourism is dependent on the UK. The distance that has to be covered to travel to BVI from the UK and USA are of course very different which would seemingly explain the difference in statistics. These statistics furthermore do not unfortunately differentiate between citizens of different European nations nor define exactly who a 'tourist' is. One could furthermore raise the question of if there are some who have business on the island but come more generally to the territory for tourism, i.e. in a week's stay, do one day of work in their office and spend the other six relaxing which is quite plausible in such a location.

A pillar of Dependency Theory is that a 'periphery' nation will receive the majority of its imports from one other territory- that being the territory upon which it is dependent. According to statistics on origin of goods into the British Virgin Islands, 20% of imports are from South Korea, with Italy second (16%) and Kazakhstan third (11%) (Observatory). This wide spread of three countries would seemingly again imply that the territory is not dependent on any one other, moreover not the UK. This would furthermore somewhat dispel the concept that BVI would generally just trade with its neighbours.

Another pillar of Dependency Theory regards economy of scale in regards to resources and education abroad. As a small territory, the British Virgin Islands must, as stated, import a large amount of resources and in addition rely on resources abroad to educate its young people who want to enter into tertiary education as only a limited amount of facilities exist for such in the territory itself. Those who want to study law for example, commonly go to the United Kingdom. A concept brought forward in Dependency Theory is that the elite of a periphery state are often educated abroad in the 'core'. The social and professional connections then made by such students abroad then, according to the theory, lead this elite to align their values to the core rather than periphery state and ultimately "betray" the periphery from where they originally came, upon their arrival back there after their education. This in turn keeps the core in central importance in the periphery state and helps it maintain its power there. However, according to the British Virgin Islands' Government's website, there are currently only around fifty students from the territory currently studying in the UK. Given that this is such a small amount, it would not seem possible to argue that there is proof of BVI being dependent on the UK in this sense.

According to Dependency Theory there are three basic things that a periphery state gives to the core and three that it in return receives. It gives: cheap labour, agricultural commodities and cheap minerals and receives: obsolete technology, surplus capital and manufactured goods. Statistics show that the three biggest export destinations for the British Virgin Islands are Switzerland (46%), South Africa (9%) and Malta (9%) (Observatory). Statistics furthermore show that the largest exports are: rum, fresh fish, fruit, animals, gravel and sand. All exports total around US $26 M per year (CIA World Factbook). Putting this figure in perspective, US $92 bn was directed through BVI financing institutions meanwhile in 2013 (Miles, T: 2014). Further to these statistics, it should be noted that the British Virgin Islands does not have mineral deposits nor does it export agricultural commodities. Regarding the concept of BVI possibly supplying cheap labour to the United Kingdom, according to statistics from the OECD there are around 2500 emigrants from BVI. Just over 30% of these have a tertiary education when they leave. Statistics are not available as to how many BVI residents live in the UK, however given the total aforementioned statistics, there would seemingly not be proof that BVI is supplying the UK with 'cheap labour'. Taking these statistics and facts into mind, it would furthermore not seem possible to argue that BVI is supplying to the UK any of the three things that it should if it were a periphery territory to the UK.

As mentioned, a periphery territory also receives three things from any "core" territory. Regarding the manufactured goods- as mentioned, none of the biggest importers to the British Virgin Islands is the United Kingdom. Regarding surplus capital, one is able to see from statistics that the North Atlantic financial crisis of 2008-2010 had severe impact on the British Virgin Islands. This came in the form of decreased tourist numbers namely. If one considers leisure time and money spent on holidays as the spending of "surplus" capital, because this is money spent on luxury rather than necessity, then one can consider BVI to be a destination receiving a lot of surplus capital every year. This surplus capital which creates, as mentioned, 45% of territorial income and thereby a huge amount of development for the territory is what BVI is receiving from abroad. However, as previously mentioned, the largest groups of tourists coming to BVI come from the USA so one is therefore once again not able to argue that this means some kind of dependency from BVI on the UK. British surplus capital is not being spent at the times when it is available in figures such as American capital is. As the UK is not a notable export partner to BVI one furthermore cannot argue that BVI is a great recipient of other surplus capital in terms of products which perhaps do not sell in the UK. Regarding "obsolete technology", no statistics exist for where most technology comes from on the territory. Taking these statistics in mind, one again cannot argue that the British Virgin Islands are seemingly dependent on the UK. BVI's partners seem to be several other countries ahead of what would otherwise be called the "core" state.

Political power is a pillar of the concept of the Development Theory and the British Virgin Islands have been for an extended period of time a British Overseas Territory / Dependency. The UK remains responsible for the Foreign Affairs, Defence, Internal Security and Public Service on the island (EU Commission) and furthermore holds the ability to take control if it sees fit (Bowers:2013). According to Dependency Theory, the difference between economic and political power is irrelevant because Government's will do whatever is necessary in order to protect economic interests. However, in the aforementioned paragraphs it was seen that the economic power of the UK is seemingly quite weak in BVI; there is very little importing and exporting between the two territories and BVI's biggest earner- tourism- is a very minor destination for British holidaymakers. A mixed story is given in this regard. If BVI can be taken over at any time by the UK, then it is very "dependent" as it effectively can't do anything that would cause upset. However, this is seen as being extremely unlikely to happen. On the other side, the UK's weak economic position on the island mean that its economic power is in turn, weak. This situation of having political and economic power at very different levels would seemingly disprove this concept in the theory of the two types of power being the same.

BVI has in recent years started to cooperate further in the Caribbean Community and Common Market (CARICOM). In 1991, BVI became an associate member of this organisation. This gives BVI the same status as four other local British Overseas Territories (CARICOM- Member States). However, as a British Overseas Territory and not an independent state, its ability to be a full member of such an international organisation is limited. This therefore means that BVI is not able to take part in the CARICOM Single Market and Economy which would put it in a single market for markets, labour and services with thirteen other Caribbean Nations (CSME- Member States). From this perspective, one may be able to argue that BVI is dependent on the UK as BVI's ability to conduct its own international relations and trade with local states and economies is limited. This may well keep BVI within the UK's influence and keep it away from building relations with other states with whom BVI may later like to build further political ties with.

Looking closer at the political power that the UK has in the territory, this has been in its present form since the middle of the 20th century, as discussed in section 3.1. BVI has in 2013 opened up a representative office in Hong Kong which aims to represent the territory in China and furthermore in Asia as whole. 10% of all Foreign Direct Investment into China comes through the British Virgin Islands and many Chinese companies have also set up in BVI. The relationship with BVI having grown exponentially since Hong Kong returned to Chinese control at the end of the 21st Century. It was then that many companies looked for somewhere else to conduct offshore financing and found for example, BVI (Treasure Islands). Taking such statistics into account, one may argue that China is BVI's most important partner in the world and the step for BVI to have some kind of direct foreign representation for itself there could be a step towards moving away from depending on the UK's foreign diplomatic service and away from any dependency the territory may have as such in this field. In other regards however, BVI does remain a periphery and the UK the core undoubtedly in a political sense as the UK effectively exercises control over four key areas of the governmental regime. As Dependency Theory states, this is a result of a past and continuing relationship, albeit if the opening of the office in Hong Kong shows some change. BVI is still represented by the UK in its diplomatic network otherwise (UK FCO: 14). The United Kingdom can and will when it deems necessary involve itself in the internal workings of the British Virgin Islands, as well as any other territory as was for example seen in the Turks and Caicos (T&C) Islands in 2007 following corruption allegations (Telegraph:2011).This lead T&C to come under direct rule of the UK for a period of time and then request a bailout (McSmith & Foley:2011). The UK crown furthermore sends a Governor to the British Virgin Islands who although not significant in power, represents the UK in the territory and holds much influence. Taking all this mind and Dependency Theory, it would seem that there certainly is a Core- Periphery relationship in this regard between the UK and BVI. Although BVI has its autonomy, the UK holds power and can at any time it sees fit, take control. This fits in with what Dependency Theory discusses regarding the power of external forces on a periphery and in a sense, renders all other arguments baseless. This is because, the UK could in theory at any time exercise control and steer the territory away from importing and exporting to/ from other states.

Meanwhile as it students of law who are studying in the UK, this encourages law students, who would presumably return to BVI to work in the law system to continue this current relationship with the UK. If law students were studying in a different country, then they may not make links with the UK elite, be familiar with the UK legal system and in turn find it easier and more comfortable to continue applying in BVI. As was mentioned in section 3.1., most students however choose the USA as their destination of choice for university. It is therefore logical in the eyes of the theory that many will make links with elites in the USA. Law however, being a subject that will often be studied by top business and government officials means that the effect of studying in the UK may be bigger than in the USA.
Another point regarding the British Virgin Islands' possible dependency on the UK relates to its reputation and ability to be an offshore financial centre. There are a variety of UK overseas territories which have gained a reputation for being involved with questionable financial services and "harming fault lines in the global economy"; the Cayman Islands, Isle of Man and Jersey being others which have been publicly named. It is not stated publicly, but has been observed that such territories are able to do so because they have the UK "brand" behind them, boosting their reputation. They are therefore dependent on the UK and if they were independent, would not have the same clout. The British Virgin Islands government for example markets itself and its financial services with the statement that being part of the UK is very positive (BVI IFC 2010).

The UK does not generally intervene with overseas territories' internal affairs, however has done so at times in the past for example in outlawing the death penalty and decriminalising homosexuality (Bowers: 2013). It could intervene in its overseas territories therefore but assumingly chooses not to. This could be due to a number of factors; connections between elites in the UK and BVI or corruption in a sense that means that the UK's political elite also hiding money in such territories and therefore being out of their interests to close down such industries. The UK however ranks in the top group of countries in the world for fighting corruption and the political elites' finances have not hit news in recent times for hiding money in such territories. However, given that according to dependency theory, there is no difference between political and economic power, one may conclude that the UK's wealthiest (perhaps members also of the global transnational class) may lobby and pressure the UK's top politicians not to close down "tax havens". Furthermore, as the UK does not otherwise financial support territories such as BVI, the Cayman Islands and the Isle of Man, there could be a reluctance to shutdown the systems that allow tax havens to exist as it would mean that the UK would have to step in and financially support such territories at considerable cost after they lose a big part of their ability to self-finance, as well as create self-prosperity, which among other things, could an unpopular move for politicians. In other words, it may be out of the UK's interests to stop "tax havens" existing and for the dependent relationship to continue or in fact grow if such territories suddenly needed significant financial assistance.

Looking over the points discussed in regards to BVI and a possible Dependency on the UK, one can conclude that in most regards, the factors given by Dependency Theory seemingly do not generally apply to BVI, namely due to BVI's most important international economic relations not being with the UK; rather other states. However, as long as the UK retains some kind of executive power which it will exercise when it sees the necessity, it does remain ultimately a dependency in the eyes of the theory. This is because it ultimately has the ability to take control politically and therefore economically. It furthermore through this ability holds the further ability to shut down if it sees fit the industries which ultimately bring development and prosperity to the islands. It could at any point turn the relationship into a pure core-periphery. BVI will of course not suddenly discover minerals or hydrocarbons or have the ability to create could livestock but it could be used as a source of cheap labour as well as become a destination for purely surplus capital as well as obsolete technology and manufactured goods.

5.2. Faroe Islands seen from Dependency Theory Perspective

The following section will take the same pattern as the previous; Dependency theory will be examined against the statistics and facts about the Faroe Islands. This is done in order to primarily answer the first half of the research question although will once again be done through the scope of how development and prosperity are created and so will also go some way to answering the second half of the research question as well.

Neoclassical theory stated that wealth would spread as economies grew. As the Faroe Islands is a part of the Kingdom of Denmark, one can therefore argue that this concept should be spread to territories which are dependencies of others. However, data from the World Bank shows that as of 2009, when all data was last published, GDP per capita was $US 12,000 higher per year in Denmark than in the Faroe Islands. This by itself would seemingly be proof that neoclassical theory is not correct and it is figures such as this which gave birth to Dependency Theory; an aspiration for development and prosperity to be balanced across territories.

A key proponent of Dependency Theory is the concept that a "periphery" state exports high quantities of raw material to the "core". The "core" will then process these goods and send them on- some back to the "periphery". According to statistics available on the official Faroese statistics bank, Hagstova.fo, in 2013, the Faroe Islands' biggest export market was the United Kingdom, with in fact several other countries also receiving bigger quantities of material than Denmark, including Germany, the United States, Russia and Nigeria. This statistic would seemingly disprove the concept that the Faroe Island could be a dependent state of Denmark on the grounds of it exporting large amounts of goods to a single "core" state.

A further pillar of Dependency Theory lies in the role of a territory's elite: According to the theory in question, the elite of a smaller "periphery" territory will often be educated in the "core" and in time come to align their wishes to those of the core's "elite". This comes about as the elites intertwine and social connections grow between them. Statistics available from Statistics Denmark show that each year the amount of Faroese emigrating to metropolitan Denmark sparks in the third quarter. Statistics are unfortunately not available which show exactly what these people are doing upon their arrival in Denmark, however, given the time of year (notably August / September), it can be expected that student coming to Denmark from the Faeroes could well be the cause. This would support the idea that students will often go to the “core” country and is also logically given that, as discussed earlier, Faroese people have the right to live in Denmark and are taught Danish in school (Walla) and therefore should be able to integrate with relative ease. The move to Denmark could be necessitated by the limited choice of academic courses available at the University of Faroe Islands (section 3.2). As this University does not offer courses in for example, politics or economics, one can assume that future leaders of the Faroe Islands may study such courses in Denmark, where they may well meet other future leaders. When the day comes that both of these former students are in power and have become elites in their respective territories, the social connection built between them may allow the relationship to continue that currently exists in which the Faeroes relies on Denmark for certain support, namely in foreign relations and defence. If one views the treatment that Denmark gives to the Faroe Islands as being negative, this could in turn be titled the “betrayal” of the Faroe Islands by its elite, which is tied-up with Danish elite. This reflects what Dependency Theory states about education in a core state and later betrayal of the periphery by its own elite. One can in theory apply the same idea to large companies which control resources, such as oil and gas, although oil and gas are yet to be discovered in the Faroe Islands (Topdahl:2012). Two of the five members of Atlantic Petroleum’s Board of Directors are educated in Denmark and three in the United Kingdom (Atlantic Petroleum), the majority of the Board of Directors of Faroe Petroleum are likewise educated in the United Kingdom (Faroe Petroleum). None of the board of members of either company are in fact Faroese. One of the Faroe Islands’ therefore most strategic resources is therefore entirely controlled by foreigners, educated abroad who may have their own allegiances to other states.

Dependency Theory states there are three things that a dependent state gives to the core and three which it receives from it (Ferraro: 2008):

<u>The dependent state gives cheap labour:</u>

As previously discussed, statistics available from the Faroese official statistic bank (emigration, 18-65 year olds) do show that there is a slow movement of workers out of the Faroe Islands while statistics from the Danish statistical bank (Immigration, 18-65, Faroe Islands, all Denmark) show that there is meanwhile a movement of workers from the Faeroes to Denmark. However, these numbers are relatively low and in some quarters equal no more than a few dozen. Numbers are highest for the 20-25 group which can assumingly be assigned to young people coming to university. These statistics show that there is some, but little truth in the statement.

The dependent state gives agricultural commodities:

As discussed in section 3.2., the Faroe Islands major exports are fish and so this idea is not applicable.

The dependent state gives cheap minerals

The same as above, although if the Faeroes discovers significant extractable oil or gas reserves soon, this could need re-examining.

The dependent state receives manufactured goods

Statistics available from the Faroese statistic bank (import- countries of origin) show that Denmark does indeed export huge amounts of goods to the Faroe Islands. This would seemingly support the idea that this perhaps dependent state is receiving large amounts of manufactured goods from the "core".

The dependent state receives obsolete technology

There is no evidence to prove that Denmark is exporting obsolete technology to the Faeroes. Therefore this concept cannot be supported by statistics.

The dependent state receives surplus capital

Around 3% of Faroese GDP comes in the form of a yearly grant from the central government in Copenhagen. This has allowed the Faroese to enjoy a living standard to roughly the same standard as Danes (CIA World Factbook- Faroe Islands). This statistic by itself would certainly support the concept that the Faeroes depend on Denmark economically, although a smaller amount, and smaller than that of Greenland for example (CIA World Factbook- Greenland), the loss of this surplus capital from Denmark would certainly damage the economy.

Another pillar of Dependency Theory is the concept that the "core" state controls how resources are allocated and this is in turn results in a lack of comparative advantage for the "periphery" and furthermore that any difference between economic and political power is irrelevant, as governments will often protect private interests (Ferraro:2008). The Faroe Islands however elect their own representatives in the national parliament as well as local municipalities (CIA World Factbook); this would seemingly disprove the concept that Denmark controls the Faeroes from above- economically or politically. However, courts in the Faroe Islands remain part of the Danish legal system (CIA World Factbook) and many of the largest retail brands for example on the territory are from Denmark (SMS Torshavn). Danish political and commercial influence and control therefore cannot be dismissed. It may therefore be in the interests of Denmark and its arm of the Danish legal system to ensure that Danish retailers keep control of the market in the Faroe Islands, keep down Faroese retailers and keep control of the market where they can invest surplus capital and perhaps obsolete technology if and when they see fit. As the difference between economic and political power is irrelevant in the eyes of the theory, it can be argued that Denmark by doing this looks to hold down Faroese local development and instead promote Danish commercial interest ahead of it, the courts being the conduit to doing so. The Danish commercial interests could furthermore bring their manufactured goods to the Faeroes and because the Faeroes' elite is likely educated in Denmark, they may be willing to assist this process and be in charge of local Danish commercial / political interests which allow this system to exist. Furthermore, as Denmark is more important for the Faroe Islands than the Faroe Islands are for Denmark, it may be easier for the Faroese to "betray" their home than it would be for any Dane to "betray" their home. Dependency Theory argues that more home grown goods, self-control and self-reliance can avoid dependency and improve development. The growth of more Faroese of Danish brands would support local jobs and manufacturing and by extension, economic diversification and development and the separation of the Faroese and Danish legal systems would encourage more young people to study and work in the Faeroes, hence reducing emigration and connections between Danish and Faroese elites.

As a dependency, the Faroe Islands rely on Denmark to represent its interests in international organisations and at international events. These are established in cooperation with the Danish foreign ministry and are in four locations: London, Copenhagen, Brussels (EU) and Reykjavik (Faroe Island government). Faroese interests can therefore in Iceland, the UK and at the EU be represented directly by the Faroese government but the administration is otherwise dependent on Denmark to speak on its behalf. This gives Denmark power to control how the Faroe Islands are represented abroad would in the eyes of the theory certainly create a "core" and "periphery" relationship between the two where Denmark holds the power. The Faroe Islands however can speak for itself more freely to the EU and to the governments in London (a major export partner) and Reykjavik.

5.3. British Virgin Islands seen from Economic Geography Theory Perspective

This next analysis will examine BVI from the point of view of the second theory. This theory will be used as a tool in order to explicitly understand what the limitations and opportunities are for BVI to create development and prosperity when it is geographically so distant from the mainland UK and furthermore,

more specifically how its geographic and political position affects its ability to grow economically. There are five main factors which make up Economic Geography theory: Centripetal vs Centrifugal forces, division of industrial vs non-industrial areas, the creation of large urban areas, the creation of regional inequality and geography's shaping of the past, but not necessarily future. These factors will now be explored and examined against the British Virgin Islands and the research question.
Looking first at the centripetal forces, the first refers to linkages- both 'forwards' and 'backwards' ones. In order for a company to be successful and grow, and thereby by extension also a country, making the assumption that a group of successful companies will create economic growth in a territory, good 'backwards linkages' need to exist. This means that there must be good access to large markets. This may come in a variety of forms, but transport links and the ability to perhaps work and travel freely in other states will help render this possible. As discussed in section 5.1., BVI is not part of the CARICOM single market and therefore BVI residents do not enjoy free access to the local single market. However, as BVI residents have access to the UK and by extension EU market, this does afford BVI companies certain backwards links and thereby the opportunity for economic success in this economic area and thereby, the chance to create prosperity and development on the island through increased employment and investment. BVI does not however currently have any direct flights operating to it from Europe (BVIA- Flight Information).

'Forward linkages' refers to the concept of having a large enough local market in something that there is also a market for intermediate goods. Applying this concept to BVI means that for example, if a for example tourist industry grows, this may have started with a hotels. If one hotel is successful, it inspires more companies to open hotels. A construction industry then begins to flourish. This construction industry needs tools and resources, which could lead to the opening of a cement factory, which in turn brings engineers and the process expands and continues as such. Taking this concept therefore, one can argue that it is still very possible to create prosperity and development in a territory even with a, at least at the beginning, quite specialised and undiversified economy. Foreign companies basing themselves however officially in a territory where they in reality do not have staff in buildings though will not have this effect as they do not require space, staff or local skills. This industry therefore does not create many forwards linkages unless their existence encourages other industries like lawyers and banks to also set up locally.

The concept of a thick labour market is also similar to the forwards linkages; if in any given place there is a high concentration of one industry, local people can become specialised in that and in theory therefore find it easy to move between jobs as there are a lot of similar ones in a small area. This gives opportunity to create prosperity and development as unemployment should be kept low as long as local people specialise in the right skill.

External economies also relate to the aforementioned point. As one industry grows, it will tend to put pressure on others to grow additionally. Hotels for example need good transport infrastructure to bring tourists which means growing airports, ports and roads, which grows the construction industry and which means growth in bringing in and creating construction material etc. This has to an extent occurred in BVI. New port facilities are currently planned that will bring bigger ships in time for 2016 (Clark: 2014). Looking at the centrifugal forces, the first refers to immobile factors. Applying this to BVI's tourism industry, one may say that many consumers may not want to travel great distances for their holidays. BVI cannot move physically and therefore its location is an 'immobile factor'. As discussed in section 5.1., the biggest group of tourists coming to BVI is from the United States, likely because of BVI's closeness. If BVI were closer to Europe, it would likely receive more European tourists. The USA is a large market for tourism and so BVI's location should not limit its ability to develop, however, if the market for Americans coming to BVI suddenly dried up, this immobile factor of location would severely harm the island's economy. Tourist numbers have been dropping in recent years and the government is trying to take steps to boost the industry. This will be done in theory by expanding port facilities in order to bring in biggest cruise ships (Global Property Guide). Such an act will in turn boost the construction industry and having a larger port for cruise ships will allow bigger ones to come from further away and therefore in turn perhaps bring more tourists from Europe.

Of course, on small islands, as industry grows, land rents will increase due to the lack of space. This can have a mixed effect: It can mean on the one hand that the government is able to sell land to private interests at a high price and in turn, use this money to invest in the economy and people. This creates prosperity and development. It can also mean that certain locals become priced out of the local market and local life for them becomes hard, in turn encouraging them to emigrate and thereby stop contributing to the economy. Property prices in the lower-range have for example been rising in recent years (Global Property Guide), this may work as a 'centrifugal' force to certain investment for some currently. Any such increase in land rents will be multiplied in effect in small territories according to the theory.

Reviewing again all of the aforementioned centripetal and centrifugal forces, one is able to see that they can each have a huge impact on a territory's ability to create prosperity and development. Economic Geography Theory states that it is the strength of these forces that in turn affects a territory's ability to create development and prosperity and this is precisely the case in BVI.

The final centrifugal force is 'pure external diseconomies', which can tie in with other two centrifugal forces. An external diseconomy in the case of BVI may be a bad reputation. If certain companies officially designate themselves as living in BVI which are shown to do so for reasons of avoiding tax or regulation then this may give the territory a bad reputation, this is shown to be the case as media articles often refer to the territory as a "tax haven (Miles, T: 2014)" and international organisations have put pressure on the territory to tighten regulation (Mason, C: 2013). This pure 'external diseconomy' may discourage legitimate companies from setting up there, for fear of being given a bad label for doing so. This will in turn limit the territory's ability to receive income and thereby create prosperity and development. A lack of space for office buildings or high prices on products may also work as diseconomies which discourage investment.

Economic Geography Theory states that in a territory a division will be created over time between industrial and non-industrial areas and furthermore that in turn regional inequality will come about and furthermore that "southern backwardness is a necessary consequence of industrialisation" (Krugman:1998). This in turn fits into the idea of Dependency Theory as discussed in section 5.1. As industrial areas began to grow, they will automatically be created a core and periphery. The core being where industry exists and therefore there are higher wages and the periphery being where there is less and therefore lower wages. Economic Geography Theory makes the assumption that workers will always go where they can have the highest wages. BVI is a small territory of only 151 km2 so this effect may be quite minimised, however, being made up of 16 inhabited and 20 uninhabited islands (CIA World Factbook) means that tourism will not reach every corner. One could define therefore any uninhabited island as being 'non-industrial' or 'periphery' and others as being the 'core'. The fact that there are more habited than uninhabited islands would certainly point to Economic Geography Theory being correct here; workers across the territory have gathered in the minority of islands where there will be higher wages. They have chosen this over living on what would otherwise be an uninhabited island. This has meant workers have gathered in areas where professional occupation either tourism or financial services is possible and in turn has created an uneven level of development and prosperity across the territory, just as the theory predicts.

A further key pillar of Economic Geography Theory regards transport links to certain territories. The theory discusses the idea of the “iceberg” effect in exports. This meaning that for every kilometre travelled by a product to take it from its place of production to its place of consumption, some of its value is lost. It is for this reason that BVI’s ability to produce and export large amounts of goods, and thereby create prosperity and development is somewhat limited (Krugman: 1998). Due to the long distance from the Caribbean to Europe or Asia, to export a large amount of live products or even machinery may be highly expensive. The expense would therefore render any company doing so uncompetitive. There are some theorists who can in fact put a number of % lost / km (Krugman: 1998). It would even be difficult for BVI to export to relative close markets like the USA given the cost of exporting the goods and competing against local companies. It is for this reason that one can argue in line with the theory that BVI is in fact severely limited in the industries which it can exploit in order to create development. Its way of creating prosperity must involve means which do not mean physically moving goods. Financial services and tourism fit into such a category.

By extension, high transport costs and poor transport links will hinder a territory’s ability to trade regionally. The aforementioned trade statistics show that most imports and exports in and out of the territory are with states distant from BVI. One may therefore argue that transport costs in and out of BVI must be expensive as very little trade is occurring regionally. This will harm the territory’s coffers and in turn, the ability to bring prosperity and in turn, better economic diversification to the territory. The territory’s largest airport currently only has the ability to cater for aircraft with up to 64 seats (Word Travels) and currently only has scheduled services to five destinations, two of which are in the nearby US Virgin Islands (World Airport Codes). According to the theory, good transport links will lower costs for goods and bring more consumer choice (Krugman: 1998). Lower costs of goods will mean that local people have more disposable income which will in turn drive up prosperity and improve living standards. According to the theory therefore, the current situation of poor transport links is holding back the territory’s ability to create development and prosperity. The theory furthermore states that production will move to where costs are lower, therefore, in there were better transport links and lower costs in BVI, certain production might be encouraged to move there which would in turn diversify the economy and bring prosperity and development. New industries may furthermore grow new sectors as previously discussed which in turn will create further development.

5.4. Faroe Islands seen from Economic Geography Theory Perspective

The following section will now analyse the Faroe Islands and its ability to create development and prosperity from the viewpoint of Economic Geography Theory using the background information given earlier in this thesis as well as certain statistics. The tool will again be used in order to answer the research question as well as understand the opportunities and constraints that the territory faces.

As is the case in the British Virgin Islands, the ability of the Faroe Islands to create development and prosperity depends on the strength of the Krugman's so-called *centripetal* and *centrifugal* forces, as laid out in his theory. Turning first to the backwards and forwards linkages, one can see certain similarities as well as certain differences when compared to BVI. Backwards linkages refers to there being good access to large markets. The Faroe Islands are not part of the European Union, nor European Economic Area, however, they are geographically close to Europe and the idea of joining EFTA and the EEA has been discussed (Official Norwegian Reports: 24). As mentioned in section 3.2, the Faroe Islands are furthermore part of the Nordic Council. Faroese citizens have the right therefore to work in Denmark and other Nordic countries, which in the eyes of the theory would be described as giving its citizens and by extension economy good access to large markets. In this case, access to markets several times larger than the home market. Its geographical closeness furthermore allowing it to have multiple daily flights to other Nordic countries (Vagar Airport) and a regular ferry service to two other Nordic countries (Smyrill Line). However, not being an independent state does limit its ability to join international organisations which might otherwise allow the territory to further improve its forward linkages and therefore its ability to create prosperity and development. Regarding forward linkages- in small, highly economically concentrated economies such as the Faroe Islands, as is the case in BVI, these can be quite good; because the economy is so concentrated a situation comes about in which a high percentage of the local labour market are involved in one sector. This means that that one sector becomes very well catered for and the local economy and population well adapted to how to cater for it. In the case of the Faroe Islands and its high dependency on fishing, shipbuilding has become an important industry for the islands and will specifically be able to to cater for the local fishing vessels. Fish processing, which goes hand-in-hand along with fishing employ 33% of people on the territory (Smyrill Line). Looking at this in comparison to the theory shows that the Faroe Islands do enjoy good forward linkages.

These good forward linkages also afford the territory a thick local labour market in the industry in which it is highly specialised. There are around 1200 fishing vessels in the territory (House of Industry). This thick labour market allows the territory to have a concentrated workforce which can move between different companies and organisations in that field easily. This in theory can also keep down unemployment levels as the level of employment in such a thick labour market should be quite high. This idea is supported by unemployment statistics as shown as the Faroese data bank *hagstova.fo* which show the % unemployment rate as being around 4.5% currently and before the financial crisis starting 2008 reaching as low as 1.3% and even at is peak since records began, never being higher than 7%. To put this into context, the Euro area overall unemployment rate is currently 11.8%, EU28, 10.5% and Denmark 6.5% (Eurostat May 2014). This would technically give the Faroe islands a lower unemployment rate than the currently which it is 'dependent' on and the 'periphery' to. This thick labour market and low unemployment rate means that opportunities to create prosperity and development on the territory are good and the private as well as public organisations have the opportunity to invest in local infrastructure as well as the local labour market. However, such a thick labour market also means that those who do not wish to work in the concentrated few industries that exist in the Faroes are heavily disadvantaged and some will be pushed to leave. In industries typically and historically dominated by men, this could be seen in emigration statistics. Statistics show that the amount of young women who emigrate from the Faeroes is higher than men (Hagstova.fo- migration by sex and age). This gender imbalance could well damage the territory's ability to create certain development as it could in theory gain a reputation for being a male-dominated society, putting off potential female investors. An example of this male domination is the fact that married women who want an abortion must seek permission from their husband (BBC News: 2007). Such legislation may make women feel less empowered in such a place. It could in addition have a variety of more general effects on society if it becomes extreme. Although such young people may move back in later years, if there continues to be such a thick labour market, this would not always seem likely.

Certain external economies are however created in any territory. The abundance of the fish to catch in theory creates other industries such as fish processing and shipbuilding. As discussed earlier, this has occurred in the Faroe Islands as both of these industries have come into existence there. These external economies do appear however to have not gone further than this and so although the abundance of fish to catch has had its effect, it has been limited and not lead to marked population growth (Hagstova.fo- Population- change) which would have to have occurred had many new industries been set up as ‘external economies’.

Immobile factors according to the theory also have the ability to affect a territory’s ability to create development and prosperity. The immobile factor relate to the Faroe Islands is fish stock. The fish being caught in the territory’s waters are key to its economy as previously discussed. This furthermore means that should these fish stocks grow or shrink then the geographic concentration of the territory and therefore the development that can be created there will be affected. Fish stocks could in theory one day run too low for the industry to continue at its current size- this would negatively affect prosperity. If oil is discovered and there were an accident, this could also negatively affect fish stocks and by extension, prosperity and development creation. In 2013, a dispute broke out between the EU and Faeroe Islands about the amount of fish that could be caught in the Atlantic (European Parliament). This further lead to sanctions being placed on the Faroe Islands shipping vessels by the EU and then a complaint being filed by Denmark, on behalf of its territory at the World Trade Organisation (WTO) (International Center for Trade and Sustainable Development).Denmark here was therefore required to complain to the WTO about itself in a way, as an EU member on behalf of the territory which is its dependency and in itself, not in the European Union. This case highlights the fragility of fishing as an immobile factor and how international disagreements can damage a territory such as the Faroe Islands to develop and grow economically.

A force pushing certain investment and growth in small territories can be land rents. The territory has a population density of 34 people per km2- the second highest in the Nordic countries after Denmark (Visit Faroe Islands). Land prices are meanwhile significantly lower than in Denmark’s capital. This would point to land prices not negatively affecting the territory (Numbeo). However, as the theory states, any growth in industry would lead to a growth in land rents which could then negatively affect any ability to create further development.

Economic Geography Theory puts forward factors such as lack of space and bad reputation as possible ‘diseconomies’ which may affect a territory’s geography and ability to prosper. The Faroe Islands’ low population density, it being similar to the USA as whole (World Bank- population density) would not seem to fit into this category however being such a highly concentrated economy on fishing may give it a reputation as such and therefore deter possible investors. This is however theoretical. A bad reputation could also be put on the Faroe Islands in regards to its catching of whales, which has been heavily criticised by animal rights groups such as *Sea Shepherd*. Such a diseconomy may discourage investment from certain groups. Strict laws on for example abortion as previously mentioned could theoretically have the same effect.

Economic Geography Theory puts emphasis on transports links and the links that they create affecting costs of goods, costs of goods in turn affect living standards and by extension, a population's relative prosperity levels and ability to invest in itself and create development. As stated in section 3.2., the Faroe Islands is currently serviced by regular ferries from Denmark and Iceland and high-frequency flights to Denmark. There are also lower-frequency flights to other destinations. Having high-frequency flights to one country and some limited flights to other countries in the eyes of the theory should mean that goods will not necessarily be very expensive as there are numerous opportunities to move them in and out. However, this may only be applicable to goods coming in and out of Denmark and therefore create a skew in the market. Goods coming from Denmark will according to the theory be significantly cheaper than goods from other destinations. This will in turn effectively tie the Faroe Islands to Denmark economically and ensure that the Faeroes remains a strong export market for Denmark-based companies and Denmark a strong import market for Faroese companies. However, according to the foreign trade statistics available on Hagstova.fo, in 2013, the Faroe Islands' biggest export markets were the UK, USA, Russia and Germany. Nigeria was also a larger export market than Denmark. The Faroe Islands main export is fish, which will not have a wide-ranging effect on many economies and the overall cost of goods, however, these statistics do show that, according to the theory, the higher transport costs being incurred because of the Faroe Islands' relatively poor transport links to the aforementioned markets could be avoided should for example more direct air and ferry links be introduced. This would increase competitiveness and by extension bring more prosperity and development to the territory. According to the same data bank, the by two far largest import partners to the Faroe Islands were Denmark and Norway. Norway is the biggest importer to the islands and once again, the theory can be used to argue that were better transport links introduced, then costs could be lowered as a result of more choice being available for Faroese consumers.

Having lower costs and access to cheaper goods which better transport links would bring about could also, according to the theory, encourage new industry to grow in the territory; production is always assumed to move to where costs are lowest. Statistics for imports and exports currently show that the amount of goods currently imported from Denmark are much higher than the amount exported to it. If costs however could be brought down on the territory, then certain companies may set up in the Faeroes and this trade deficit could be reduced. The creation of new industry and jobs would furthermore create more prosperity and development and boost the territory's economic diversification. This may in turn encourage new external economies and forward linkages, which in turn will improve development and prosperity.

The theory in question in this section discusses furthermore the connection between goods and the effect that a location can have on their value. The "iceberg" effect as discussed in section 5.3. means that as goods travel, they lose some of their value. This can in turn affect what good / type of goods a territory can viably export and how they should travel. The Faeroes Islands are geographically detached from mainland Europe and have fish as their main export. These fish being fresh must be exported quickly and efficiently. If they are not, they could simply go bad before reaching the consumer. This puts extraordinary pressure on the whole export system and can in turn make the whole economy quite vulnerable. Bad weather for example may hold back shipments of goods. If these goods are not sold and not useable by the end consumer then this will be dangerous for the economy. Any length at which this may occur can dramatically affect the vulnerable economy. The "iceberg" effect must be minimised as much as possible.

6. Conclusions

Following the four analyses, two background section and two theory sections, some conclusions will now be drawn and answers to the research question as well as comparison between the two territories. This will be used to draw together what has been learned in this thesis and from studying the British Virgin Islands and Faroe Islands through the eyes of the two theories. No definite answers can as such be given, more just what has been learned from this thesis.

At the beginning of this thesis, the researcher stated that an answer was sought to the following question:

The Faroe Islands and British Virgin Islands are called "dependencies" of Denmark and the United Kingdom respectively, but are they really and how does their current economic situation affect their ability to create development and prosperity?

One can conclude that the Faroe Islands and British Virgin Islands face in some senses, very similar problems but in other senses, extremely different ones. The two territories are in very different geographical regions, have different governments on whom they rely on for certain policy, work with very different industries and have very different populations. However, both are small territories, both hold some connection to the European Union, both rely heavily on one or two industries, making them vulnerable, both have roughly the same level of self-autonomy, both have young populations leaving to pursue higher education and both have surprisingly closely-tied economies to other nearby states. The picture is therefore broadly mixed when the two territories are compared.

This mixed picture is mirrored in each territory's title of "dependent" as well as their ability to create prosperity and development. Looking to the research question, one can conclude that both territories are in a sense, highly dependent. Both territories share the same situation that they rely on Denmark and the UK respectively to protect and represent them internationally. This means therefore that neither territory can really do anything that could upset the larger nation, they remain dependent on the other nation to speak on their behalf if they feel so inclined. That said, cases in recent years have shown that the UK and Denmark will do this if necessary. Denmark went to the World Trade Organisation on behalf of the Faeroes in its dispute with the EU and the UK repeatedly refuses to take serious action in spite of international criticism regarding BVI's 'tax haven' status. Economically, the picture is again mixed; statistics show that economic ties between the UK and BVI are in fact weaker than between BVI and other states and furthermore that most of BVI's tourists come from other nations. In that sense, BVI is not at all dependent on the UK and a cessation of ties would not harm it. Moreover, transport links which according to Economic Geography theory are so important are mostly to other states nearby.

The Faroe Islands have a mixed story: most exports are not to Denmark, rather to other states- so in that sense the Faeroes could detach somewhat from Denmark and possibly avoid financial troubles. However, given that Denmark is by far the biggest importer to the Faeroes and that transport links are strongest to it, the Faeroes do remain highly dependent in that sense too. Coupled with the court system still being linked to that of the Danish and most Faroese being educated in Denmark means that major overhaul would be needed for this dependency to end.

One of the most key points however when looking at the question of if these states are dependent or not is the power that the “core” state has in this “periphery” and it is therefore striking to note that the UK holds the ability to shut down the BVI government if it sees fit. This would and usually is, one would assume, a rare act and one written in law that is not generally practiced but the taking over of the Turks & Caicos government in 2007 proves that this can and will be done. This show of power shows that BVI is a very dependent state and not one which necessarily enjoys as much autonomy as is otherwise stated by both sides.

In regards to movement and labour, one cannot see many signs of ‘cheap’ labour moving into Denmark and the UK from these states and furthermore, with the signs of each state being able to represent itself to an extent abroad, some evidence is coming to light that Denmark and the UK no longer have their monopoly on representation in foreign affairs. BVI has been able to open an office in Asia and the Faroes have an office in Brussels to the EU. Foreign representation though has not been easy for such overseas territories as the example of Montserrat being blocked from joining the Caribbean Single Market shows. Looking to the question of development, one again sees a mixed picture: The Faroe Islands for example, as was discussed in the analysis have the majority of their transport links to Denmark, in spite of Denmark neither being the Faroe Islands’ largest export partner nor the nearest other territory geographically. One may logically therefore argue that the reason flight connections are strong to Denmark and less so to other states is due to traffic related to politics and administration between the two territories. However, given that the theory stated that poor transport links rise costs and therefore hinder economic competitiveness, one may argue that the current political situation is somewhat holding back the territory from developing faster. If the Faroe Islands depended politically on a broader range of partners then this could perhaps be achieved and better connectivity brought about.
The British Virgin Islands meanwhile are not in this situation; however given its dependence on North American tourism, one can certainly argue that better transport facilities would open it up more effectively to the world and thereby bring in more prosperity. The British Virgin Islands would in this scenario still heavily rely on tourism but this could diverse the economy to the extent that tourists could arrive from a larger of variety of destinations and therefore economic recession on for example, North America would not affect the tourism industry as badly because in such times BVI could market itself more to nations in a stronger economic situation. Such diversification could be done arguably more easily as a dependent UK territory as the UK has the expertise and political will to diversify the island’s economy. However, equally, the UK may see such a project as irrelevant when there are projects on the mainland which can positively affect a greater number- BVI’s small population may be a huge limitation

in its ability to catch the UK government's attention even if the UK does have a responsibility to look after it and its people.

Both territories gain from the linkages created by having a connection to the EU, even if neither are members in their own right. Both have furthermore moved into an era in recent years of some self-representation although neither are able to do this in international organisations. This does make both territories somewhat continuously dependent, however, it should be remembered that as two very small populations, the bureaucracy and administration that would be required to be part of e.g. the EU could be quite overwhelming economically and in terms of human resources, therefore, having this effectively done for them can arguably be very positive in terms of saving time and money and therefore in terms of creating development and prosperity. Faroese citizens have the right to move around Europe once they are stated as living in Denmark and so effectively have freedom of movement near to where they originate but BVI citizens not being part of the Caribbean Single Market may limit the islands economic progress and in this sense, being a British dependency is arguably quite negative for it. Although many residents of BVI are able to obtain British passports due to the varied connections to the UK, the default passport for BVI residents is a British Overseas Territory Passport, which does not allow them freedom of movement around the EU and therefore they are limited in this respect too. Although both territories have poorly diversified economies, this is not entirely negative; the thick labour market and linkages that this creates have in both cases kept unemployment down. Due to the fact that almost all workers are involved in a small pool of industries, this has ensured that those who want to leave, do and the open markets of the UK and Nordic countries respectively means that such residents have somewhere to go and experts in tourism, and financial services or fisheries have somewhere also to go. However, this situation has created a flow of workers out into "core" countries which has arguably to an extent created some dependency and created diseconomies which are negative for the populations. Critics may however argue that in small territories, such a situation is always going to exist whatever shape the economy is in due to the fact of young people simply wanting to move away when they are young and experience something bigger and new.

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