

INTERNATIONAL RESOURCES FLOW FOR ECONOMIC DEVELOPMENT
ILLUSTRATED WITH THE EXPERIENCE OF NIGERIA 1867-1970

(An Aspect of Political Economy)

by
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a PH.D Degree in Economics.

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GLOSSARY OF ABBREVIATIONS OF TITLES OF AGENCIES, INSTITUTIONS AND
TECHNICAL TERMS USED IN THE THESIS

AFDB	African Development Bank
AsDB	Asian Development Bank
AER	American Economic Review
AWAM	Association of West African Merchants
BCGA	British Cotton Growing Association
CDC	Commonwealth Development Corporation (U.K.)
CD & W Acts	Colonial Development and Welfare Acts
DAC - OECD	Development Assistance Committee of OECD
EEC	European Economic Community (Common Market)
EEC - EDF	The Common Market European Development Fund.
EEC - EIB	The Common Market European Investment Bank.
EJ	Economic Journal (Britain)
FAO	Food and Agricultural Organisation (U.N. Agency)
GATT	General Agreement on Tariffs and Trades.
IBRD	International Bank for Reconstruction and Development (The World Bank)
ICOR	Incremental Capital Output Ratio.
IDA	International Development Association (Member of World Bank Group)
IDB	Inter-American Development Bank.
IFC	International Finance Corporation (Member of World Bank Group).
IMF	International Monetary Fund.
JMAS	Journal of Modern African Studies.
LDC	Low-income Developing Countries (Used synonymously with Less Developed Countries, or under developed countries).
NIDB	Nigerian Industrial Development Bank.
NISER	Nigerian Institute of Social and Economic Research.
NJESS	Nigerian Journal of Economic and Social Studies.
NPA	Nigerian Ports Authority.
ODA	Official Development Assistance (Part of DAC members' total official flows to developing countries and multi- lateral Agencies).

ODA (U.K.)	Overseas Development Administration (Part of Foreign & Commonwealth Office, and formerly the Ministry of Overseas Development),
ODI	Overseas Development Insitute (Britain).
OECD	Organisation for Economic Corporation and Development.
OPEC	Organisation of Petroleum Exporting Countries.
PL480	Public Law 480 (U.S.A.)
RNC	Royal Niger Company.
SDR	Special Drawing Rights (the so-called 'Paper Gold')
UAC	The United Africa Company.
UAC/SER	UAC - Statistical and Economic Review.
UNO	United Nations Organisation.
UNCTAD (I,II & III)	United Nations Conference on Trade and Development (1st, 2nd and 3rd. Conferences).
UNDP	United Nations Development Programme.
U.S.-AID	The United States of America - Agency for International Development.

PART I

The purpose of this study is to look historically and critically at the movement of resources for the task of economic development, from areas and countries where they are relatively abundant to areas and communities where they are relatively scarce. The analysis broadly relates to the global or international movement in the last hundred years or so, and is reinforced with specific examination of the experience during the same period, of a leading developing country (Nigeria) in a typically developing continent (Africa). Hence the division into two parts. The fundamental cause for capital movement is the unequal endowment of different parts of the world with development resources coupled with the differences in the level of progress made by different communities towards improving their living conditions. It thus becomes axiomatic to say that as long as there exists a disparity in the level of development (defined in a broad sense. See Appendix I) achieved by different areas of the world community, the process of transferring development resources will continue.

The international approach is prompted by several factors. First, I do like to examine Nigeria's experience with a background of overall global experience and more specifically with that of the so-called "Third World". Secondly, the nature of the movement necessitates such an approach. Resources are moved from the "rich" countries to the "poor" countries and since the world is basically divided between the rich and affluent donors/creditors and the poor "needy" recipients, a meaningful approach must encompass both. Thirdly, modern capital movement has now become highly internationalized. Government participation

is now a major feature. International institutes and agencies have mushroomed to facilitate the movement, while international involvement and commitment to a process of accelerated development of the underdeveloped parts of the world is on the increase. And fourthly, this approach enables us to examine and appreciate the problems of capital movement in the proper international setting. The problems associated with Nigeria's experience are thus dealt with within this international context, using wherever possible international norms as basis for evaluation.

The main types of transferable resources featured in this study are long-term foreign private direct investment and other equities; Private Portfolio investment; long-term foreign Government grants, loans and technical assistance; grants, loans and technical assistance transferred through multilateral institutions and agencies like the World Bank Group; Short- and medium-term private and official export (suppliers') credits and contractor's finance advanced through the auspices of export promoting agencies such as (the U.S.) Export-Import Bank and (the British) Board of Trade Export Credits Guarantee Department (ECGD).

International movement of any of these resources be it capital, technical and professional skill, and/or human manpower, has historically proved to be one of the major channels for spreading economic and social progress, human understanding and global inter-dependency. Never before in history has such a channel been more important than it is today; never before have the flows been more vital and more strategic for the progress of the under-developed two-thirds

of the world. Indeed it may be added, never has the developed and industrial third been better placed to quicken the pace, intensity and quality of such transfer. Today, foreign investment is the largest source of international economic contact, and ranks higher in value than world trade".¹

Foreign resource transfer into a "needy" country has traditionally been associated with four main roles: to fill foreign exchange and domestic savings gaps, skill shortages which limit the absorption of other complementary inputs, and lastly to increase population and manpower supply². The last role was very important during the period 1850-1914 when 'areas of recent settlements' like the United States, Canada, Australia, New Zealand and South Africa received substantial immigration from Europe as a basis for their development. On a broader plane, foreign assistance is seen as a means of assisting and guiding developing countries in implementary official and private measures to mobilize and allocate their human and material resources for maximum social and economic progress³.

1. J. Clark:- The Financing of Foreign Investment in Progress, Unilever Quarterly No. 1, 1970 London. According to him, the 1968 estimate of the value of output of foreign - placed resources of DECD/DAC members was \$240 billion. World trade was valued at \$213 billion. The gap between the two seems to be currently widening, judging by the figures given by C. Levinson. See below Chp. 4 Page 191.
2. For a detailed analysis and criticism of the gap-model approach to foreign assistance, see Appendix V.
3. Most development economists agree that development assistance properly handled and utilized can aid developing countries in their development efforts. One notable and controversial exception is Professor P.T. Bauer who sees foreign aid as a means of further impoverishing the poor countries. See especially his two **articles** in (a) Two Views on Foreign Aid Institute of Economic Affairs Occasional Paper No.9, London, 1966.

Early recognition of the importance of international investment and capital movement are to be found in the economic histories of the "New World" and other "areas of recent settlements",⁴ however the first detailed studies consisted of attempts to estimate the extent and profitability (private as well as social) of capital exports from the main investing countries viewpoint. These were undertaken to assuage public opinion's traditional antipathy towards overseas investment and its bias in favour of capital investment for expansion at home.⁵ The first studies were followed by theoretical elaboration of the possible benefits and costs of overseas investment. These too were carried out mainly from the view-point of the investing countries. After the end of the second world war, the next step was the attempt to look also at the implications of foreign investment from the recipient/debtor's point of view.⁶ In analysing Nigeria's experience, this study thus aims at making a contribution to this much needed process. The 1960's witnessed the start of attempts to undertake a mathematical and economic model approach to the relationship between foreign financial

3. Cont'd... (b) "Dissent on Development" Scottish Journal of Political Economy Vol. XVI No. 1, Feb. 1968. Professor Milton Friedman of the "Chicago School" has expressed similar if less extreme views. He sees "aid" as the least helpful device for raising the standard of living of the third world. See his earlier article "Foreign Economic Aid. Means and Objectives" in J. Bhagwati and R.S. Eckaus (ed). Foreign Aid. Penguin Modern Economic Readings London 1970. See also Appendix III.
4. For example see W. Ashworth. A Short History of the International Economy 1850 - 1950. Longman, Green 1952.
5. For some earlier works like those of Sir G. Paish and C.K. Hubson, see the publication by the Royal Institute of International Affairs entitled "Problems of international investment".

injection and economic growth in various developing countries. Such analysis attempts to quantify the advantages and gains, and possible loss to the recipient country with a view to estimate the productivity of external capital. This type of approach has largely been associated with the studies of Professor Hollis Chenery and his collaborators on Greece, Israel, Pakistan, Taiwan and others⁷ The perennial post-war balance of payments difficulties in some of the leading developed capital exporting countries have again aroused interest in, and studies of the wisdom of continuing to invest abroad.⁸ The latest works also reflect the current preoccupations with the growing power of the multinational firms,⁹ and the international efforts towards the rapid development of Low-income Developing Countries (LDC's) through the flow of concessionary official disbursement and multilateral transfers in addition to privately organized flows.¹⁰

This study is not mathematically orientated, for I see the development process as a broad socio-cultural,

5. (Cont'd..)

- A Report by a Study Group of Members. Oxford University Press 1937. See also C.R. Whittlesey - Foreign Investment and the National Gain A E R Sept. 1933 and A.K. Cairncross "Did Foreign Investment Pay?" Review of Economic Studies, Vol. III 1935-1936.
6. Some of the Pioneering Studies are H. Singer's "The Distribution of Gains Between Investing and Borrowing Countries" A E R May 1950; Hla Myint - "The Gains from International Trade and Backward Countries" Review of Economic Studies Vol. 22 1954-55; W. Rosenburg:- Capital Imports and Growth - The case of New Zealand Foreign Investment in New Zealand 1840-1958". E.J. March 1961. One of the earliest works is S.H. Frankel's Capital Investment in Africa Oxford University Press, London 1938. Among other books referred to in this study are M. Kidron's Foreign Investment in India, Oxford University Press, London 1965, and I.A. Litvak and C.J. Maule (ed):- Foreign Investment: The Experience of Host Countries F. Praeger New York 1970.

political and economic phenomenon, the determinants of which are neither wholly quantifiable, nor the parameters sufficiently reliable for use in the building of econometric models. The advantages and disadvantages - often synonymous with the benefits and costs - of resources flow, from both the donor/lenders' and recipient/debtors' viewpoints, go beyond the confines of Economics - however wide is the scope attributable to that discipline. Any truly comprehensive analysis of them must encompass issues and ideas that are political socio-cultural and moralistic in nature. It is for this reason that any attempt to quantify economically the "net benefit" to a developing country, Say by using the Discounted Present Value Method, is likely to be less meaningful or truly representative of actual overall impact. The proposition that "formally, the net benefit of foreign investment is the present value of the stream of goods it makes available less the present value of the resources which have to be devoted to pay for future repatriated earnings"¹¹ is too restrictive in the sense that it is limited to materialistic evaluation.

7. For example, H.B. Chenery and Irma Adelman:- Aid and Economic Development: the Case of Greece Review of Economics and Statistics Feb. 1966. Some of the others are sited in Appendix V. See also KaJ Areskough's useful book, External Public Borrowing and its Role in Economic Development, which analyses the response, by means of econometric models, of the relatively better-off developing countries to capital inflow. An interesting aspect of his study is the use of socio-political factors as "dependant variables" in his regression analysis.
8. See For Example, W.H. Reddaway et al:- Effects of the United Kingdom Direct Investment Overseas. The Interim and Final Reports 1967 and 1968 respectively. Cambridge University Press.
9. For Example, E. Penrose:- The Large International Firm in Developing Countries: The International Petroleum Industry. Allen and Unwin, London 1968.

It is less helpful in an appreciation of the progress made towards economic development as oppose to economic growth.¹²

Briefly the major advantages to a recipient developing country, of public concessionary loans and grants, include the ability to generate an import surplus over a considerable period than would otherwise be possible, to raise the level of domestic investment, and to improve the level of the scientific, technical, administration and educational know-how at a country's command during the initial stages of development. Hence the vital role for technical assistance especially in Africa in deepening and widening the developing countries relatively limited capital absorptive capacity.¹³ Historically foreign private investment has been the agent and liaison for bringing the traditional peasant economy of the under-developed area within the orbit of a wider world economy. However the methods, the impacts and consequences of such linkage have equally engendered socio-economic controversies which found expression in such words and phrases as "economic imperialism," "haubwirtschaft", "economic dualism", "economic and

9. Cont'd... Also C. Levinson - Capital, Inflation and the Multinational. op cit Allen and Unwin, London 1971.

10. For references on official and Multilateral Agencies "Foreign aid" flows, see **fn** 2 Chapter III.

11. Quoted from S. Morley and G. Smith - "Import Substitution and Foreign Investment in Brazil" Oxford Economics Papers Vol. 23 March 1971 Page 122.

12. The differences between the two concepts are explored in Appendix I.

13. Capital in the sense of plants, sophisticated machinery etc. The issue of absorptive capacity is fully discussed in Appendix V.

14. Meaningful only in a social accounting sense.

technological enclave", "metropolitan and peripheral economies". These contentions are fully developed and analysed in the text below.

The rest of this introduction is devoted to Nigeria, for it is here that I feel a detailed explanation of the objectives of this study is required. The analysis here strives for a substantial degree of comprehensiveness. It assembles the relevant facts and figures; examines, interprets and assesses the contribution, role, impact, influence and the position of external resources in her development process. The methodological approach of studying these resource flows historically and critically represents the extension of our knowledge into new areas. In pursuance of this, I shall also use certain theoretical concepts and performance criteria to evaluate Nigeria's experience, (b) use the experience of other countries like India which have just pass through the stage of industrial production that Nigeria is likely to approach within the next decade or two, as a basis for putting forward new ideas on foreign resource usage.

15. meaningful only in a technological backwardness sense.
16. Important contributions in this field that are relevant to Nigeria or British West Africa in general include W.H. Hancock - Survey of British Commonwealth Affairs Vol. II - Problems of Economic Policy 1918-1959 Part 2, Oxford, 1942, A McPhee:- Economic Revolution in British West Africa. Routledge England 1926, and Alan Pim: The Financial and Economic History of the African Tropical Territories. Oxford, 1940.
17. See Lord Hailey:- African Survey, 2nd Edition. Oxford University Press 1945.

A Study of the history and character of foreign capital in Nigeria is indirectly an historical analysis of its economic growth and development. Foreign capital is the heart of the "modern" sector, itself, the source of impetus and dynamism that generate growth in Nigeria today. The other sector, the subsistence¹⁴/traditional¹⁵ agriculture is now relatively stagnating even for export production of some commodities. Until the necessity of a real sociological and economic research to derive a fuller insight into the institutional constraints on technological improvements is appreciated, greater economic incentives and better organization provided, this sector does not appear to hold much hope for the future. An historical analysis in this context has some inherent advantages. It provides the background to explaining such features as the shortage of industrial entrepreneurship, little inter-African trade, alleged shortage of capital for indigenous businessmen, the under-developed nature of the economy, and the traditionally hostile attitude of the public at large towards foreign-

18. See for example M. Perham (ed) Mining, Commerce and Finance in Nigeria Vol. II, London 1947; A. Hazlewood:- "Colonial External Finance Since the War". Review of Economic Studies Vol. 21 1953-54.
19. See for example S. Suckow:- Nigerian Law and Foreign Investment, Geneva, 1966; Paul Proehl:- Foreign Enterprise in Nigeria. Laws and Policies, London 1965; E.I. Nwogugu:- The Legal Problems of Foreign Investment in Developing Countries, (Manchester 1965) makes a comparative study of the legal provisions and machinery for foreign Private Investments in some English-Speaking LDCs.
20. See for example E.C. Edozien:- "Linkages, Direct Foreign Investment and Nigeria's Economic Development" in Nigerian Journal of Economic and Social Studies (NJESS) Vol. 10, No. 2, July 1968.

owned and-run investments. Furthermore it does provide the tools with which predictions can be made about the likely success or otherwise of current and future economic policy, especially when the clamour for revolutionary change in economic organization and orientation seems to be gathering momentum. Likewise, such analysis of historical evidence as this is, in effect reflects the growth or otherwise of the Nigerian economy. To my knowledge no comprehensive study of this important branch of Nigeria's political economy has been undertaken before. The few studies that exist have narrower scopes. They are either parts of economic history of the Empire,¹⁶ of Surveys¹⁷ of Colonial finance¹⁸ undertaken before and especially after World War II when the emerging enthusiasm for a liberal approach to the colonial question was becoming noticeable, or are concerned with examining the legal aspects¹⁹ of, the domestic linkage effects²⁰ of, the motivation to invest and locational pattern²¹ of foreign investment in Nigeria. Perhaps more important, most of these studies emphasize and

21. See A.M. Hakam:- "The Motivation to Invest and the Locational Pattern of Foreign Private Industrial Investments in Nigeria" NJESS Vol. 8 March 1966. See also R.S. May:- "Direct Overseas Investment in Nigeria" Scottish Journal of Political Economy Nov. 1965.

22. Detailed Statements of Government Policy and official attitudes over the last two decades are to be found in various Government publications, like Economic Survey of Nigeria 1959; Investment Opportunities in Nigeria: Investment in Industry in the Federation of Nigeria (1961); Statement on Industrial Policy (1964). Lagos.

23. See below Chapter 7.

justify the **indispensability** of international capital inflow and applaud its contribution to economic growth in Nigeria. Similarly official attitudes²² reflect an excessive awareness of the advantages of foreign capital usage in the process of development. Thus numerous fiscal concessions and other incentives have been created to attract and encourage such inflows. Furthermore government planning decisions have tended to assign an important contributonal role to external capital²³. By critically examining the relationship between this capital resource and the development of the country and in emphasizing the "cost" elements, other disadvantages and limitations of such inflow, the thesis thus attempts a redress to the imbalance that hitherto exists. The motivation therefore is to draw attention to what I consider are the shortcomings in the present as well as the past experience. It is a study designed to evoke policy reorientation.

Wherever an external comparison of Nigeria's experience is essential, this is done either narrowly within the context of "British" West Africa, or more broadly within Sub-Sahara Africa. Especially in the analysis dealing with official foreign assistance, her position is mirrored against the wider background of the developing countries as a whole. Within tropical Africa however, one would expect that her geographical size, population and enormous untapped resources should enable her to achieve a long-term above average performance. A by-product of the research, which I have deliberately given extra emphasis is the input of statistical and bibliographical material. This is to aid further research on the subject matter, which will undoubtedly be undertaken in future, but also of enriching

the material base for other developing countries especially in West Africa where this aspect of political economy remains obscure.

The limitations and shortcomings of the section on Nigeria are self-evident and are well stressed in the text. There is the unavailability of sufficient and reliable information with regards to facts and figures of external capital usage within the economy. A fair amount of the data especially those of the earlier years are to a large extent the outcome of intuitive judgements or are "guesstimates". Thus the statistics should be treated with a fair amount of caution. Again, the fluid structure and character of capital formation including foreign investment, especially in recent years, make a study such as this a tentative framework which could be a basis for further research and interpretation. The second limitation concerns the aggregative nature of the analysis. It also applies perhaps more noticeably to the international expositions in the earlier chapters. Thus the parameters are discussed at macro-level, emphasis being laid on their national and international sizes and values. However, when dealing with the various types of foreign resource inflow into the Nigerian economy, and the different sectors in which they are being utilized, detailed micro-type analysis are attempted. On the whole some generalization seems inevitable.

The study must be seen in the context of certain presumptions which influence my critical posture. For example, I share the views that (a) the decisive means and the primary stimulant for economic and social progress must invariably come from within the domestic economy, (b) that while the market system has proved capable of generating

economic development and continuously rising standard of living in developed (largely OECD) countries, capitalist development has historically shown itself to be a long and drawn-out process, thus unsuitable for developing countries anxious to attain the "age of maturity and high mass-consumption" in the minimum of time. On the other hand a centrally-planned system and socialist economic development has shown itself to be historically capable of generating a self-sustaining and accelerating growth within a relatively short period. Hence the third major "limitation" is ideological. I do not believe that the essentially free enterprise and "open" economic system²⁴ presently practised in Nigeria is capable of accelerating the economic development of the country. To the orthodox Western economist such a bias might be seen as a serious limitation to the thesis's (required) analytical purity. I shall try as much as possible not to allow such a bias to influence unduly my sense of judgement.

The reader who is not familiar with the basic features of the Nigerian economy or of her socio-political organizations

24. ".... Nigeria has remained open to international trade to an unusual degree. Free entry of foreign capital, for foreign entrepreneurship and foreign technical skills has been of central importance to industrial development. So too has the absence of extensive state intervention contributed to an open, market-orientated economy." Peter Kirby in, Industrialization in An Open Economy: Nigeria 1945-1966. Cambridge University Press. 1969. Page 1.

25. For general reading, see among others in the bibliography (a) Aboyade:- "The Economy of Nigeria" in F. Robson and D.A. Lary (ed) The Economics of Africa, Allen and Unwin London 1969 (b) Walter Schwatz - Nigeria Pall Mall press London 1968 (c) H.D. Nelson, et al:- Area Handbook for Nigeria 1972 Washington D.C. 1972.

is not at a great disadvantage.²⁵ A short historical illumination pertinent to this analysis may be useful here. The State and area known today as Nigeria was essentially a British colonial creation from piecemeal amalgamation of territories acquired in the Niger Delta and its hinterland. As is shown below, the main link in that territorial expansion was the influence of British traders and missionaries. In the text I have generally related finance statistics to the country as a whole. In actual fact, since Northern and Southern Nigeria were not officially amalgamated until 1914, some of the early statistics, for example on trade and foreign funds for railways and other communication development should strictly relate to Southern Nigeria, and some grants - in - aid for administration and defence were disbursed exclusively to Northern Nigeria. Between 1918 and 1960, a part of the Ex-German colony of Kameruns (that is Southern Cameroons) was administered as part of Nigeria. Most of the statistics on external resources inflow before the latter year should therefore strictly relate to the two units. However the small size (geographical and economic) of Southern Cameroons meant that the flow going into that area was minute and inconsequential to affect the broad magnitude going into the main three regions of Nigeria. The exception was the development of plantation agriculture by foreign companies - a policy started under the German rule - to a relatively greater extent than in the rest of the Federation, where such a pattern of agricultural production was strenuously discouraged.²⁶ Nigeria gained political independence in October 1960, but the pursuit of vigorous development programme actually started with the transfer of internal

Self - Government to the three regions in 1954-56. Sterling reserves accumulated since the late 1930's were gradually used up from this period onward to develop the economic and social infrastructures as well as lay the foundations of an industrial sector. Economic rivalry between the three regions themselves and the central Government engendered a vigorous campaign to attract for the first time foreign companies and financiers to invest in Nigeria.²⁷ Post - 1960 saw also the opening up of the country to foreign (other than British) official assistance. Nigeria thenceforth began to look on foreign aid as an important source of additional resources for her development programme as laid down in the Development Plan 1962-68. In her financial relation with the United Kingdom, Nigeria retains her membership of the Sterling Area, while the Commonwealth Assistance Programme replaced the grants - in - aid and loans previously disbursed through the Colonial Development and Welfare (CD & W) Acts. The discovery and production of petroleum for export especially from Mid-60's onward introduced a new dynamic element into the economic history of Nigeria. It is the role and impact of this element which is destined to dominate her socio-economic history in the coming decades. Mention must also be made of the civil war 1967-70, not only did it "eat up" substantial amount of money which would have been used for development purpose, it also put back for a number of years the gradual progress being made. Certainly more pertinent here is its distortive effect on the economic data for these years. This in turn, as we see below, makes trend projections all the more difficult.

26. See below Chapter 6.

27. See below Chapter 8.

INTERNATIONAL RESOURCES FLOW FOR DEVELOPMENT: PRIVATE
FLows TO LDCs.

Developing countries recognize that direct (long-term) foreign investment can bring into them not only capital and foreign exchange resources, but also in the same package, administrative organization, managerial ability, sophisticated modern technological and scientific know-how, innovation in products and production process, as well as contact with foreign economic and financial interests. All these factors are in short supply and the foreign firms are acknowledged to be playing an important part in the reduction and minimization of these bottlenecks. On a macro-basis, not only do they generate income especially in the modern urban sector and in plantations, but also contribute to government fiscal revenue and account for sizeable employment in the wage-earning segment of the labour force. They earn foreign exchange through export production and are well-placed to conserve currency reserves through import substitution. Undoubtedly it is this logical association of foreign

1. Ironically, in some developing countries like India, with strong well-established local capitalists, the need to eliminate domestic monopolies and enforce modernization, plays an important part in their decision to encourage the inflow of foreign competitive capital into certain sectors. See below Chp. 5.
2. Jocelyn Clark:- The Financing of Foreign Investment Progress Unilever quarterly, No. 1 1970 op cit Page 6
3. DAC/OECD - 'Development Assistance' 1969 Review of Efforts and Policies OECD, Paris 1970.
4. The theme is further Developed in the Chapter 5.

investment with economic growth, modernization and efficiency, and contact with the outside world, which explains its durability and gradual expansion in the face of enormous rise in political and economic nationalism in the developing countries.¹

The disadvantages of foreign private investment to the recipient developing countries cannot easily be divorced from the socio-political costs of such investments. Thus a member of the top management of the multinational Unilever Complex sees the arguments in favour of foreign investment as being "economic" and the arguments against as being "political".² The gist of such political argument is succinctly expressed by the Chairman of DAC/OECD in a recent Review. "Politically, it is essential to any country's feeling of independence - developed or developing, that policy - making for a substantial proportion of its modern economic sector be in the hands of those whose political loyalties are to the host country and not to a foreign one."³ Widespread fear and suspicion of foreign capitalists abound.

5. C/F R. Vernon:- Multinational Enterprise and National Sovereignty "Harvard Business Review March/April 1967. See also Litvak and Maule (ed) Foreign Investment: The Experience of Host Countries" especially the introductory chapter.
6. C/F Singer's observation that technology in LDC's tends to be much more up to date in those sectors (typically modern manufacturing industry) in which the activities in the poorer countries are most similar to those in the richer countries. By contrast there is little or no technological progress in areas where the problem does not exist in the richer countries (typically, problems of tropical agriculture, problems of small-scale production, problems of utilization of natural raw materials specific to the underdeveloped countries, problems of subsistence farming and of subsistence crops)" H.W. Singer:- Dualism Revisited Institute of Development Studies, University of Sussex, Communications Series No. 41 1969.

the sanctions which both the private firm and the government of the parent company's country can and do often apply against a recalcitrant host authority tend to weaken the bargaining position of the recipient country, and in sense, represent a great social cost.⁴

A good critique of the relationship between foreign private investment, economic growth, and the bargaining strength of a host authority in the Third World must include a searching examination of such factors as the problems faced by developing countries in dealing with economically powerful multinational corporations especially those in the manufacturing and extractive (including Petroleum) industries. The nagging concern here is that such complex and highly integrated organizations often are in a position to avoid the jurisdictional reach of the host nation-state. Their capacity for avoiding the full impact of national laws and socio-economic policies seems very high.⁵ An allied conflict is implicit in the controversy surrounding the relevance of the technology imported via investment into

7. The public sector in many developing countries is **equally culpable** in perpetuating and expanding the bias in favour of capital-intensive technique. It appears **those** in charge of economic policy in these countries have not come to grips with the implications of such a bias. See Chp. 5 below.
8. For fuller analysis see Chp. 5 and on Nigeria see Chp. 8. below. See also the various proposals put forward by Paul Streeten and Helen Sutch, to harmonize the interest of foreign private investors with local aspirations, especially on the question of local ownership and control. P. Streeten and H. Sutch Capital for Africa: The British Contribution. London 1971.

the developing countries. There is a growing school of thought among Development economists that the capital-intensive technique and the attendant capital import bias, especially in economies with no sectors producing capital goods, may not be in the best interest of long-term economic development - notwithstanding short-term favourable effects on such aggregates as GNP and GCF. The fostering of technological dualism⁶ within the host economy, the lack of encouragement for the development of a more relevant, locally-conditioned labour-using technology;⁷ the existence of a sub-maximal injection of economic surplus through such external leakages as investment income and payments for capital goods import, are all likely to weaken the potential effects of a foreign-dominated modern sector in pushing the economy forward. The profit motive, as the major determinant of the choice of sectors in which to invest is defective in at least one respect: the pattern of private investment in food and raw materials (including minerals) production that it had historically fostered has left many developing countries in Africa and Asia, with a structure, the transformation of which is the

9. For a fuller development of this view, See Giovanni Arrighi and John Saul:- "Socialism and Economic Development in Tropical Africa" The Journal of Modern African Studies Vol. 6, No. 2, 1968. Discussing a possible effect of a policy of self-reliance from international Private Capital inflow, they argue as follows: "the emergence of a labour aristocracy (i.e. the urban wage and salary - earning elite) with considerable political power was brought about not only by the pattern of foreign investment but also by the acceptance of a colonial salary structure on the part of independent African governments. The labour aristocracy will therefore continue to use its power in a state-controlled modern sector in order to appropriate a considerable share of the surplus, in the form of increasing discretionary consumption. Under these conditions "Perverse growth" would continue notwithstanding state-ownership of the means of production". Page 151. See also below Chp. 5.

cornerstone of many a Development Plan. Criticisms have also been levelled against foreign firms for their lack of awareness or adequate appreciation of the reasonable national aspirations of developing countries in the sphere of local participation, ownership and control of their leading and often most productive enterprises. These desires could be met by pursuing policies which cater for local equity participation, maximum local autonomy of branches, subsidiaries and other affiliates, and through a policy of steadily increasing the indigenization of personnel especially at the decision-making level.⁸

Finally, the other criticism against foreign investment worth mentioning here is that over the years foreign investment has directly and indirectly contributed to the formation and sustenance, not only of a Dualistic economy, but also a dualistic society. The latter is typified by a small but powerful socio-economic elite on one hand and the mass of ordinary peasants on the other. In Arrighi's and Sauls view, the aspirations and behaviour pattern of the bureaucratic, commercial and professional elite group are incompatible with, and hinders the formation of a new approach to resource allocation, surplus mobilization and utilization.⁹

This chapter has so far dealt with the pros. and cons. of foreign private investment from the view point of developing countries. Some of the issues involved in the challenge of foreign private investment generally felt by host nations, already developed or just developing, are well-highlighted in the Task Force Report on the Structure of Canadian industry. The Report was prepared by a group of

Canadian economists in response to the general concern felt in Canada about the enormous foreign stake (mainly American and British) in their economy. Although the Task Force Report chose national sovereignty as its underlying theme, - Canadians are concerned that the present level of foreign direct investment may threaten Canada's future national independence - one of its paragraphs deals with the above issues in this way: "... the very inflow of foreign inputs that come with foreign investment and create the benefits also tend simultaneously to generate costs or problems. The influx of senior personnel from the parent (company) provides management skills of a higher quality; but the ease with which managerial and entrepreneurial skills can be imported may reduce incentives to improve these skills in the host country. Capital inflow increases aggregate saving and investment and the rate of economic growth; but the institutional development of a national capital market may be inhibited and the range of choice facing the investor reduced. The direct investment firm provides easy access for the subsidiary to the technology of the parent; but the latter is not necessarily the appropriate for the host country..... Foreign affiliation may provide an assured market for the subsidiary's output, particularly of raw materials and semi-processed goods; but, to the extent the taxation authorities do not ensure otherwise, the resulting "prices" may not result in maximum benefit for the host country. In manufacturing, the subsidiary gains access to the trademarks for tested products and the residents of the host country to the latest consumer goods; but the subsidiary may become simply an appendage of the parent, copying products for the Domestic

market (behind a tariff wall) and in the unlikely event that it is efficient, restrained from exporting....."¹⁰

I shall return to a detailed discussion of most of the points raised in the preceeding analysis in a later chapter, but first, we must consider the motives for overseas investment. What are the general motives for a stake in a foreign economy? On a wider plane, one may ask this question: What are the driving forces behind external resources outflow, which as indicated before, now appears to be playing a more important role in international economic relation and co-operation than trade? Of the so-called "foreign-aid", national interests - political and diplomatic; economic and commercial; social and cultural; military and strategic - provide the motivating forces. Even in discussing private capital investment, the obvious interests of the finance and Industrial capitalists class must not be allowed to conceal the ultimate national interest,¹¹ indeed of area interest, especially with respect to certain types of investment.¹² The essential force behind private capital is profitability and its continuing growth at a favourable rate. The means of fulfilling this criterion, that is, the incentives to invest in foreign economies vary from period to period; from country to country depending on the stage of economic

10. Report of the Task Force on the Structure of Canadian Industry, entitled "Foreign Ownership and Structure of Canadian Industry". Queen's Printer, 1968. Pages 38-39.

11. In this respect, a principal objective of overseas investment, for the Japanese authorities, is the opportunities it gives for "general economic co-operation with less Developed Countries, geared to encourage industrial activities under Japanese auspices". O.E.C.D. - Liberalization of International Capital Movements in Japan (Paris 1968) Page 18. In practical terms for example, the effect of a successful mineral exploitation by a subsidiary of a United Kingdom (U.K.) based company, not only benefit the company itself,

development; on political acceptability and allied factors collectively labelled the 'investment climate' and the 'economic environment'. Higher profitability potential, directly through a relatively higher returns (as compared with home investment), and indirectly through greater capital appreciations and security against inflation and devaluation, is evident enough in portfolio investment in foreign securities. The motives for direct investment¹³ are more complex, so too are the financial considerations affecting the investing companies when deciding to take advantage of market opportunities. Some of the major motives can be enumerated. Rarely does a firm find itself motivated by a single reason. The rule seems to be that the more complex in size and structure, and the more multi-national a corporation is, the more numerous are the motives that compel it to invest in other countries. Different motives invariably apply to different nation-states. A merchandizing house, or an export-orientated manufacturing firm sees **the** necessity of defending its traditional market by partaking in the local production and marketing of its products in

11. Cont'd..... but also various other people, companies and institutions, and the state, in so far as it cheapens and assures a continuing and stable supplies to the U.K. commodity market. Furthermore, a spill-over from sizeable private industrial plantation operation in a developing client state, is the possibility that external help sought and given through official channels - i.e. foreign aid - may thereby be reduced.
12. Efforts are made, individually or through consortia, by developed market-orientated economies - the so-called O.E.C.D. or I.D.A. Part I countries - to keep the exploitation of strategic raw materials e.g. oil, copper, uranium, gold, within their orbit not only to guarantee a continuous supply for their needs but also to deny such supplies to the "other camp". The host countries however benefit from such developments through foreign exchange earning, corporation tax and employment.

order to avoid being shut out by the tariff walls and other restrictions, and to prevent such opportunities being exploited by rival international competitors.¹⁴ Market-protecting firms see such direct investment as a substitute for their previously imported or exported products and as a means of warding off the threat of economic loss if such opportunities are exploited by others. The likelihood of such entrepreneurial behaviour on the part of a market protector is facilitated by virtue of his proximity. The "insider" will note any possible commercial opportunity and is well-placed to evaluate the success chances of the trendy desire for, and practical implementation of local industrialization, well before an "outsider". He holds similar advantage in the cost of gathering necessary information and in authenticating its reliability. "Because of his specialized knowledge of the local economic environment, the market protector's objective risks of failure are less for the same reason, his margin of error in quantifying these risks is smaller. The insider can count on lower costs by utilizing his already established (and proven) distribution facilities, management overheads and connections with the public bureaucracy".¹⁵

15. That is, Physical Constructions of factories and other businesses like mines, plantations and "invisible" services. The most notable of which are banking, insurance, management and consultant agencies. Responsibility for control and the running of such enterprises, is fully or partially assumed by the investing companies. Such affiliates, subsidiaries and branches are linked policy-wise and financially with the parent companies in the developed countries, and often with member firms in other foreign countries. The position of joint venture enterprises is discussed below.

While market protection rationale may be applied by most foreign investors to most countries, the characteristics and peculiarities of individual firms and host countries determine the motive, nature and method of investment. Broadening dividing the world into the two categories of developed and underdeveloped, we find that the various factors determining investments in them assume different degrees of emphasis and compulsion. Thus the opportunity of applying the latest technological organizational and management know-how to industrial economies of the United Kingdom and France may be the motivating force behind the investment by some American multinational corporations in them; rather than the need to take advantage of an expanding market and/or financial insufficiency (especially of foreign exchange) which may attract the same firms to developing economies of Asia, Africa and Latin America. The need to cater for the enormous demand of Western Europe for petroleum products, and the capability to exploit oil resources motivate American and British oil companies to invest in the

14. Some caution must be taken in order not to overdramatize the forces of competition and rival struggles between international giants in the same line of production. These concerns, in the words of a Times Special Correspondent "know their 'foreign' competitors well; they often have close relations with them, they know their relative strengths and (production) costs, and in some trades..... are inclined to abstain from..... direct competition on their rivals doorstep". The Times (London) March 2, 1960, in M. Kidron:- Foreign investment in India. op cit. Page 254. The oligopolistic nature of the international oil industry is well-known. On the other hand, the international market for motor cars and other transport vehicles appears to be highly competitive.
15. Peter Kilby:- Industrialization in An Open Economy Nigeria 1945-66. op. cit. Page 80.
16. Attempts to encourage foreign investment into Southern Italy, Northern Ireland and Scotland in the United Kingdom are typical examples of the latter case.

Middle-East where oil deposit is plentiful. Most developing countries institute various measures including fiscal incentive and tariff protections to attract foreign private capital for the development of their national economies, where-as in some developed countries like Canada, the United Kingdom and Italy, these special concessions and incentives are primarily instituted to attract foreign investment into the "depressed" and underdeveloped parts of their territories.^{16.}

What other motives prompt investment in developing countries? Using an international and multidivisional firm¹⁷ as a typical investor, we find that such motives include the desire to exploit raw materials including oil, which most countries are financially and technically incapable of exploiting for the time being. Production of such materials may be for the use of the parent company, or of member-subsidaries with the group; or for the international (world) market. The investing firm's expertise derives from its initial production at home or where such

17. Multidivisional, in the sense that such firm operates in many nation-states and through many loosely integrated companies. The headquarters of such a group of companies exists in the home country of the parent or "holding" company:

18. C/F W. Reddaway et al:- Effects of U.K. Direct Investment Overseas. An Interim Report op cit. Pages 115-118.

19. With reference to American investment overseas, Litvak and Maule op cit Page 11-12 notes among the "push" factors which have led U.S. firms to escape from unfavourable conditions in their domestic markets are the balance of payments policies of the U.S. Government, saturation of the domestic market, anti-trust laws, Trade Union militancy, taxation, and the general hostility in the United States towards trade with Communist countries.

materials (e.g. minerals) are not available in the home country, through its historical participation in world-wide exploitation. Such investment becomes a means of acquiring cheaper material imports,¹⁸ or direct access to the raw material requirements of the developed industrial states. Industrial and manufacturing investments tend to be motivated besides the reasons aforementioned, by the need to get behind protecting tariff regulations; to accept invitation of foreign government especially a joint venture partner, to maintain patent rights, for example in pharmaceutical industry, and to take advantage of a continuing improvement in the economic and more specifically, in the industrial performance of the recipient country. An international company with ample financial, technical and managerial resources at its disposal, may seek investment abroad as part of its expansion and diversification programme.¹⁹ Its subsidiary or affiliate in the host country may exist to distribute the products of the parent company, to manufacture products overseas which are similar to those of the parent company (invariably using the parent's component export and know-how), or to service the export (final) products of the parent.²⁰

20. The development dynamics of investment overseas by an industrial or manufacturing firm invariably tend to follow a well-known sequence. First, it exports its products and sell through merchandise houses, secondly it sets up own selling subsidiary, then its own assembly plant to produce the goods from components shipped from its home factories and finally it develops full-scale manufacturing in the overseas country. Such progressive changes may span over considerable number of years depending on the nature of the product, the growth of local demand for it, the level of tariffs and other actions designed to encourage or force local production of such goods.

The motivations of machinery manufacturers, equipment salesmen and technical and management consultants are understandably interrelated. In some cases these businessmen and "experts", operating within a vertically integrated company, eagerly take advantage of incentives offered by developing countries, to erect turn-key factories in which their lucrative profits are more or less officially guaranteed from both ends. One guarantee by a government eager to promote export of goods and services; the other by a host authority eager to create an industrial base. Again, either individually or collectively they can imaginatively perceive the general opportunities created by a growing gap between a static or falling (in real terms) development resources flow from other foreign sources and the expanding requirements of the recipient-debtor countries. The opportunity to fill these physical as well as skilled-manpower resources shortages through export credits and consultancy hire has never before been exploited to the extent as it is today. Successful promotion "offensives" have made export credit transactions and management contracts perhaps the fastest growing areas of international capital movement.²¹ However, participation by suppliers of machinery may often be intended to act as a "sweetener" to the host authorities. More often than not, machine and equipment manufacturers and their

21. See below Pages 64-68

22. For a critique of equipment salesmanship, consulting and technical management services in Africa, especially in relation to government-sponsored manufacturing enterprise See Sayre P. Schatz "Crude Private Neo-Imperialism: A New Pattern in Africa: The Journal of Modern African Studies. Vol. 7 No. 4 1969. Pages 677-688.

salesmen are merely interested in continuing sales of their capital, intermediate and industrial raw material goods to the overseas market. When added to the contract for technical and production management, these sales may be more important in terms of profits and acquired market for export than the "goodwill" inherent in local participation.²²

Foreign banks, insurance and finance houses, management agencies and other service companies have historically arisen in response to the development of a monetized and industrial economy in which local modern financial and technical expertise have to be developed over time.

One of the most important motives for investing abroad, which has been implicit in our analysis so far, is the possibility of earning higher profit rate than possible at home. For international companies, whose fields of operation span one state's frontiers after another, a policy of optional deployment seems to weigh high in the planning of their international strategy. That may mean ensuring overall profit maximization through the achievement of similar rates of return (net) in each matured investment. In actual fact such profit maximization may not and often does not represent the basis for optional deployment of resources; for other factors such as capital appreciation or depreciation are taken into consideration. "Crude" profitability ratio, that is, post-tax profits divided by the Book value of assets, is an inferior yardstick as compared with a proportion which shows profits (post-tax) plus capital appreciation/depreciation in relation to average market value of net operating assets. Thus such "a combined return" figures give a better estimate of the gains from international investment (and of company's likely pattern of future

behaviour) than the simple profitability figures. This is an important point in so far as it helps to explain why a company might move its resources from area of outstanding "nominal" profit earnings with depreciating assets because hyper-inflation, political instability and threat of **expropriation** or nationalization, to a relatively less profitable but safer area. Furthermore, capital appreciation emphasizes the gains to a capital-exporting company and nation. For example in their study of the United Kingdom, direct investment overseas, Professor W.B. Reddaway and others, estimates that for reporting manufacturing and mining (excluding OIL) companies, with investments in fifteen countries, capital appreciation adds over 40% to the group's return during the period (1955-64) investigated.²³ Capital appreciation (or depreciation) reflects combination of many factors; improved profitability and/or prospects of it, high prices, changes in political climate and attitude towards foreign investment, economic stability, overseas taxation, interest rates and general **economic** policy. It does not reflect the accumulation of undistributed profits. Book values invariably do not take account of replacement costs, which will tend to raise the value of capital invested above the historical figures and thus to lead to a reduction in the rate of profitability calculated on figures for them. Assets may also be overstated in order to be a better bargaining position should nationalization take place or in order to understate the real returns on capital

23. W.B. Reddaway et al:- "Effects of U.K. Direct Investment Overseas. An Interim Report. op cit. They also found that by Mid. 1964 percentage of excess market value over Book value for mining was 109.4%; chemical 74.9%; vehicle component 27.2%; textile 24.9%. Average total was 35.7% for the 9 year period. Crude Post-tax

employed in that area. This last point logically leads us to an allied-consideration: that whatever might be the usefulness of the global profitability criterion, there are good reasons for arguing that the profit and loss accounts of an international firm's overseas subsidiaries, branch and affiliated companies that are strewn over seven continents, often do not offer accurate and realistic guides to their individual performances. Let us concentrate on profits. Formal profits earned by a subsidiary may be misleading in many respects. If the fiscal policy of the multinational group is to minimize global tax burdens or to understate profit level in a particular country, there are good opportunities for profit and capital shifting between countries to effect such policy. For capital shifting, a "tax haven" might be used as the control center for group's global financial network. To avoid higher tax burden, the affiliate or subsidiary may operate depreciation and accounting procedures different from their domestic competitors, and it may not always be charged or paid arm's-length prices for inter-group transaction. Payments for royalties, management fees and other service charges also offer opportunities for similar leakages. On this point, Michael Kidron, in his study of foreign investment in India, quotes several instances of foreign producers being found by the Tariff Commission and other Enquiries to have consistently

23. Cont'd... profitability 1955-64 average, for mining was 13.7%, others 8.5%. Post-tax combined return 1955-64 average, for mining was 27.7% average total 12.3%.

24. M. Kidron:- Foreign Investment in India. op cit Pages 226-228.

undervalued profits in their balance sheets. Even then "foreign firms are generally thought to have a cleaner record than indigenous one in this respect". However, "manufacturing firms are exceptionally well-placed to transmute profit into royalties (paid for the acquisition of know-hows, patentrights etc.) and fees (for drawing, technical assistance, share of the costs of central office expenses etc.) As royalties have been taxed at a lower rate than profit since 1961, and fees are completely tax-free, the inducement to do so is considerable."²⁴

While such a practice may not be widespread, it does appear that the recent growth in payment for royalties, fees etc., as a proportion of total returns is more than can be explained for by the increase in technological and management collaborations. Other evidence can be cited to the effect that the various devices for minimizing total overseas tax liability or tax burden in a particular country, are in fact being employed. For example, the Reddaway Report on British overseas investment notes that "the amount which was charged (on royalties, fees etc.) in many cases was influenced more by consideration of taxations, price control or control of remittance than by an economic consideration or genuine accounting principle!"²⁵ In passing, it might be worth noting that income from payment of royalties fees etc. by the United Kingdom investments in the developing countries, amount to some 17% of post-tax profits during 1959-64.²⁶

25. W. Reddaway et. al.:— Effects of U.K. Direct Investment Overseas An Interim Report op cit. Page 51

26. R.S. May:— "Earnings of U.K. and U.S. Direct Investments in the less Developed Countries. 1959-64" Scottish Journal of Political Economy, November 1967. Page 219 C/F "Reddaway Report", op cit. Page 51

Similarly, for American investors, "Payments of royalties and fees by foreign affiliates to their U.S. parent companies have become an increasingly important supplement to dividend remittances".²⁷ For example, such payments by U.S. subsidiaries in U.K. to their parent companies rose by 115% between 1960-1966. During the same period their total earnings rose by only 16%.²⁸ It may well be as J.H. Dunning suggested, that the emergence of competitive forces in the recipient market has forced parent companies (especially, the U.S. ones) to reverse the policy of not charging their offshoots full royalties, fees and arm's-length prices for intermediate goods. Undercharging, it was claimed was fairly common in the pioneering days of the 1950's.²⁹ I shall return to the same theme later in the thesis. But the most important point which must be emphasized here, is that the possibility of understating profit level, avoiding taxation and transferring remittance and capital out of the country "through the back door", offers strong grounds for accusation of unfair play and non-compliance with local investment laws being levied against foreign investors by suspicious recipient countries, especially the under-developed ones. However, I cannot conclude this section without pointing out that profitability even when reinforced by capital appreciation consideration, does not on its

27. See U.S. Department of Commerce:- Survey of Current Business Sept. 1966 Page 38.

28. J.H. Dunning:- "Foreign Investment in the United Kingdom" Chp. 9 Page 251 in Litvak and Maule (ed):- Foreign Investment: The Experience of Host Countries op. cit.

29. J.H. Dunning, ibid Page 228

own fully explain an international company's expansion or contraction in different parts of the world. Again, we cannot measure an investing company's benefits from overseas investment by reference to accruing investment incomes only, just in the same way as we cannot infer the benefits and costs to an investing or receiving country simply by reading the relevant statistics in balance of payments accounts.

Historically, the search for higher returns has been central to portfolio investment, though nowadays hedging against inflation and devaluation at home seems to be an important consideration in such investment when it takes place within the developed industrial countries themselves. Another factor of note is capital appreciation through long-term increases in share prices; while differentials in national interest rates (that is, central banks' rates like the British Bank Rate) and international speculation in currencies' values tend to ensure regular short-term movement of "hot money" between the world leading financial capital capitals. However, the importance that differences in available interest rates have on capital movement must not be overrated, for these rates basically move in sympathy with each other - if only to dampen the disequilibrating effects other factors might have on international monetary system. The influence that differences in yields of portfolio investments at home and abroad has on international capital movement was far more important in the eighty years before the Great Depression than it is nowadays. Even then, during that period when the "regions of recent settlements" were being rapidly developed, the huge differences in returns were more apparent than real.³⁰ Nevertheless the

general atmosphere of optimism and expectation of higher returns, of windfalls and of successful speculation in land and natural resources was strong and consistent enough to enable sizeable capital being exported to exploit the gold and diamond mines of Cecil Rhodes in South Africa or to lay the railway lines across the South American continent. In the words of Professor S.H. Franhel, "that Cecil Rhodes could continue for years to get money from a large circle of shareholders in the chartered company, in spite of the fact that the payment of even a single dividend was successfully deferred for half a generation, illustrates how the direction of investment could be affected by vague and general expectations combined with patriotic and sentimental considerations."³¹

Statistics on the comparative performances of international companies both at home (in their parent countries) and abroad in foreign economies, are hard to come by - if for the simple reason that such companies avoid showing a break down of country by country earnings in their annual accounts. The few studies that exist in this area either look at the relative profitability as between foreign and indigenous firms in a particular recipient country, or compare the earnings and earning rates of two or more major exporters of

30. See A.K. Cairncross:- Home and Foreign Investment 1870-1913. Cambridge University Press 1953. Page 229.

31. S.H. Franhel:- Capital Investment in Africa. Its Course and Effects. 1867-1936. op. cit. Page 21

business capital in selected foreign economies. Other statistical studies have tried to compare broadly foreign investment performance in the developed OECD countries with similar performance in the less developed countries. Let us look at some of their results in detail. An important point that must be stressed about such comparative analyses **as these, is** that they are fraught with statistical and conceptual difficulties. For example, the degree of homogeneity of the accounting procedures adopted by foreign and indigenous firms varies from industry to industry and from country to country. Again, I have above, pointed out to the rather inexact position of foreign subsidiaries and branches in relation to their dealings with parent or inter-group companies. However, J.H. Dunning's study of foreign enterprise performance in the United Kingdom (an example for Europe), Michael Kidron's analysis on India (for Asia) and Peter Kilby's on Nigeria (Africa) provide useful information on the relative performance of foreign and indigenous enterprises. Dunning's study entitled "Foreign Investment in the United Kingdom" in Litvak and Maule (edited) ³² concludes that "among foreign-financed companies in U.K., only those of the United States affiliation would seem to record higher rates of return than their U.K. competitors."³³

32. I.A. Litvak and C.J. Maule (ed.) Foreign Investment: The Experience of Host Countries. op. cit. Chapter 9 Pages 205-255.

33. Dunning, ibid Page 229

The profitability gap between the U.S. and British firms is, however narrowing. In early 1950's, the former earned twice the rate of return on their net assets as U.K. public companies. A decade later the difference had been cut down to about a third. In 1965, for example, the profitability (i.e. net income divided by net assets) of leading U.S. firms was 16.5%, U.K. public companies 12.5%, and other foreign firms, 10.4%.³⁴ The three major explanations advanced for the profitability gap between the American and British firms are (1) that the U.S. subsidiaries have access to a relatively more advanced technological know-how and expertise than their U.K. competitors, (2) that they exploit this advantage more efficiently and (3) that the approach of the American subsidiaries to management and decision-making is more dynamic and professional than their British counterparts. The U.S. companies entry into the British economy tends to come through "take overs" in a technologically sagging industry, or of a financially weak and poorly managed firm in a generally lucrative market. Such presence has come to be associated with a more intelligent and effective deployment of factor inputs and of costs minimization. As Dunning puts it, "they tend to be more capital-intensive, pay more attention to marketing, demand higher academic and technical qualifications from their middle and top managers and are more pragmatic and inclined

34. Dunning, ibid Page 221

35. Dunning's, ibid Page 229. For a Detailed analysis, see also his article entitled, "U.S. Subsidiaries in Britain and their U.K. Competitors", in Business Ratios (Autumn 1966) and his earlier book, American Investment in British Manufacturing Industry. Allen & Unwin London 1958.

to challenge conventions, they evaluate risks more professionally and plan more effectively, and are generally agreed to perform better than British industry in eliminating waste'.³⁵ KIDRON quotes from official Indian studies to the effect that foreign investments in India have consistently, since the war, shown higher returns than the average for indigenous Indian enterprises. For example between 1957 and 1961, foreign - controlled firms were earning some 20% more than Indian firms, or an average of 10.1% compared with 8.4%. However, such broad averages hide some important sectorial comparisons. In the 'old (colonial) type' of investments like tea and merchandising, foreign subsidiaries, with an average return of 7.5% were earning slightly less than purely Indian firms (8.2%). It is in the large - scale capital intensive, knowledge-based manufacturing and industrial sectors that the foreign investors profitability is at its highest. What are the causes of this higher earning rates? Among explanations cited by Kidron,³⁶ are the facts (a) that foreign firms tend to be concentrated in the more profitable industries. For example, two-thirds of foreign capital is in petroleum and manufacturing, each of which has shown a greater than average yield in the post-war period, (b) that in some industries some foreign firms have been able to exploit a monopolistic position (c) that foreign firms are generally, though not always, more efficiently run. For example

36. M. Kidron. Foreign Investment in India op. cit. Page 228

"the ratio of assets to turnover for a Reserve Bank (of India) sample of 83 foreign-controlled companies, was 15% and 12% less than for its sample of 745 Indian companies in 1959 and 1960 respectively".³⁷ And lastly (d) that foreign firms are also privileged, by and large, in gaining access to relatively cheap finance, if not from the resources of their parent companies, certainly from the bias shown by almost all Indian lending institutions towards big established borrowers. Thus foreign firms are much-favoured in attracting local equity participation. Their new issues are almost always sold at a heavy premium.³⁸ I do not intend to give here details of Kilby's comparative analysis of foreign and indigenous sectors. However, he details a picture of import-substituting foreign-owned manufacturing industries producing basic commodities like cigarettes, beer, cement and textiles, making profit of between 20-40% during the late Fifties and early Sixties.³⁹

On the other hand, Government-owned "turnkey" projects have so far been a dismal failure,⁴⁰ while small and medium-scale indigenous enterprises have been inefficient in

37. M. Kidron ibid Page 230

38. M. Kidron ibid Page 232

39. Peter Kilby:- Industrialization in An Open Economy: Nigeria 1945-1966. op cit Pages 98 and 106. C/F P129. and see below Chp. 8 Pages 481-482 for details.

40. See below Page 68 and Chp. 7 Pages 405-406

41. Harris and Rowe, quoted by Kilby:- Industrialization in An Open Economy. Nigeria 1945-66 op. cit Page 337

42. Kilby, ibid Page 336. For his fuller analysis, see his chapters 3, 4 and 10.

production, and the "general standard of financial management is also very low".⁴¹ Apart from widespread excess capacity, the author, for example, found that three-quarters of potential profits in the baking industry was lost through such factors as raw material wastage production process damages and employee pilferage.⁴² I shall deal in full with the explanations for the above differences in performances and its implications later in the thesis, in the section dealing with Nigeria. The above evidence demonstrates the fact that international companies will expand overseas if they have strong grounds for believing they can compete quite successfully with local enterprises. Their security and continuing presence in the overseas market is based on the belief that their greater efficiency in the use of resources, their income generation, and beneficial influence on the domestic enterprises would be indispensable for a long time to come.

What other interesting results about profitability of overseas investment could be relevant to this section. Let us consider two areas. First, the relative performance of two major capital exporting countries, and secondly, the relative performance of foreign investment in developed and developing countries. R.S. May, in his empirical study of "Earning of United Kingdom and United States Direct Investments in the Less Developed Countries, 1959-64,"⁴³ provides some statistical answers. In a comparative analysis of the U.S. and U.K. overseas investment, he found that U.S. companies perform relatively better than their British competitors, in foreign countries. Their average earning

43. R.S. May:- Earnings of United Kingdom and United States Direct Investments in the Less Developed Countries, 1959-64. Scottish Journal of Political Economy. Nov. 1967 Pages 199-226.

rates of 17% in developing countries (11.6% net of petroleum investment) and 10.1%⁴⁴ in developed countries (net of petroleum) were superior to British companies profitability in both areas during the period investigated. "The average rate of return after tax of 10.0% in developing countries, is rather higher than the equivalent rate of 7.3% for investment in the developed overseas territories and 7.8% for publicly quoted U.K. companies".⁴⁵ For both countries investments in developing countries yield higher returns relative to their external ventures in developed OECD member states. In his opinion, however, the concentration of a bigger slice of U.S. investment in developing countries in oil and other highly profitable mineral extractive industries,⁴⁶ distorts both the relative performances of American and British firms and of the profitability of investment in developed and under-developed countries. "Excluding investments of an extractive nature, there are no great differences between average rates of return in the less developed compared with the advanced countries. This is especially the case for U.S. investments. Manufacturing yields 10.4% on average compared with

44. Ibid Page 206. C/P "Survey of Current Business, Sept. 1967" figures for 1960-66 quoted in Litvak and Maule(ed) op cit Page 92. In it the average post-tax income rate for U.S. investments in Western Europe and Canada were 5.0%, 4.5% respectively.

45. R.S. May, op cit Page 205.

46. For example the rate of return on petroleum by U.S. companies in Middle-East during the period 1959-64 was 66.5% on average. See ibid Table V Page 211.

10.5% in the latter areas. For "other investments" the corresponding yields are 9.4% and 9.9%. A similar tendency is also apparent for U.K. investments in the Sterling Area.⁴⁷ After other numerous qualifications to his data, for example by making allowance for such factors as royalties, management fees service charges and other inter-company transactions, May's other general conclusions are (1) that by and large, the U.S. and U.K. - the two major exporters of private direct investment - earn similar returns on their overseas investment and (2) that the "average returns on such investments over the period have been moderate".⁴⁸

If unlike R.S. May we do not exclude petroleum and mining operations from our crucial considerations, - after all, it is investment in these and similar raw material production which provides the historical and continuing attraction for western private capital in these relatively poor communities - we find that higher profit performance per se, while it does motivate external expansion, does not direct capital to the most lucrative markets. Surely, other factors must be at work, otherwise how can one explain the massive post-war growth of foreign direct investment within the developed industrial OECD countries themselves, and the unstable trickle that finds its way to the more profitable developing countries. It may well be that the greater security, the faster economic dynamism and the

47. R.S. May, ibid Page 216

48. Ibid Page 226

share size of absolute earnings account for the bigger intra-OECD flows. Furthermore businessmen may consciously deflate the higher earning rate in developing countries for the greater economic and non-economic risks borne in these economies.⁴⁹ If this were so, then the implication is that international companies would only be attracted to invest in developing countries by a rate of return significantly higher than that obtainable at home or in the developed markets. According to Giovanni Arrighi, it seems that returns of some 15-20% on capital, usually on the basis of an investment maturing in about 3 years, are required in order to attract foreign investment into Tropical Africa.⁵⁰ Empirical data for the United States companies earnings in the developing countries seem to justify this observation. Outside Latin America, Canada and Western Europe, earnings as per centage of book value of their investments average just under 20% for the period 1960-1966,⁵¹ while in oil-producing Middle-East, it was exceptionally high at nearly 65%.⁵² It is to investment in the underdeveloped countries that we must, therefore, look for the significance of profit

49. C/F Quotations from Sir John Campbell's article in Optima Dec. 1965 ibid Page 224-225.

50. G. Arrighi:- "International Corporation, Labour Aristocracies and Economic Development in Tropical Africa" Mimeo 1968. Page 26

51. U.S. Dept. of Commerce. Survey of Current Business Sept. 1967 op cit Page 45 C/F May's figures.

52. R.S. May, op cit Table II Page 205.

differentials. In fact Kidron considers the possibility of higher profitability abroad than at home as one of the major attractions of foreign capital to the developing countries.⁵³

Yet as we see, meaningful comparison of profitability rates and performances across frontiers is not an easy task to achieve.⁵⁴ Objectivity may in the process be slightly

tarnished. In India, as Kidron points out, "the returns to foreign capital have been consistently better than the average at home."⁵⁵ One of the few studies on the subject

published by the Reserve Bank of India, and relating to the first half of the fifties "found that American firms were earning an average of 13.5% of net worth in 1953, and 12.8% in 1955 after tax, compared with 10-12% at home in both years, and British firms 11.9% and 9.5% in the two years compared with 8-9% at home. Profits were thus anything between 6-35% higher in India than at home for firms some of which are active in both."⁵⁶ There is ample supporting evidence for individual firms. For example figures from the annual company reports of three British International companies - representing the leading foreign investors in

53. M. Kidron:- Foreign Investment in India op cit Chapter 6 Section II.

54. Similar computational difficulties as those discussed above, are relevant here also. Accounting procedures and coverage may differ. International operations provide company's with opportunities to modify their global accounts in order minimize tax liabilities and under-take profits in particular areas, or to transfer capital funds around. Thus such factors 'introduce an element of arbitrariness into the comparison that render the most sophisticated computation suspect'. Kidron, loc cit P.246

55. & 56. loc cit Page 246

India - namely, Unilever, Imperial Chemical Industries and Metal Box company show that between 1956-1961, net profits as a proportion of net worth were on average 20.9% in India as compared with 14.1% at home, 13.1% compared with 7.2%, and 17.5% compared with 9.8% respectively for each firm. Earnings were very nearly half as much again from their Indian operatives as at home in spite of the fact that the greater part of their assets are employed at the home base.⁵⁷

A look at prices and costs, (broadly speaking the two differential determinants,) suggests that it is on the prices rather than on the cost side that the relatively high level of profits made in India can be explained. On the cost side the comparatively cheapness of loan finance⁵⁸ to manufacturing and industrial firms, especially the large foreign ones, savings of up to 30-40% on average in plant installation and a productivity in the foreign sector that compares favourably with Western Europe,⁵⁹ are invariably offset by a faster rate of physical depreciation, high cost of

57. Kidron, ibid Page 247. Table 12.

58. C/F Kidron, op cit Page 248. Indian Bank Rate and through it, other domestic interest rates have been consistently below British Bank Rate, perhaps 2-3% lower on average since the war. Capital gearing has in consequence always been high for operations in India. The cost of new equity finance has also been considerably less than average since the mid-fifties - given the "bullish" market, the frequency of sales at heavy premium, and the consequent low actual yield on representative foreign shares.

59. However a big difference still exist between the wage rates of Western European workers and their Indian counterparts. It has been suggested that partly due to the steeper wage gradient in India factories; the large proportion of office and supervisory staff (including expensive expatriates) and partly to a higher rate of absenteeism and high costs of training, the total labour costs in India differ only marginally from similar factor costs in Britain.

intermediate inputs especially for those imported, a generally lower rate of machine utilization, a smaller degree of "technological external economies"⁶⁰ and the reduced benefits of working in a less sophisticated industrial environment. The impression thus given is one of minimal costs advantage to foreign firms in the Indian market, except in cases where their production costs and earnings margins are distorted by tax incentives, generous depreciation allowances and similar provisions designed to attract foreign capital to India. However similar uncertainty does not seem to arise when comparing foreign firms price levels in India with those at home. "In foreign-dominated manufacturing industries, these are almost invariably higher in India than at home" Kidron gives various examples to substantiate this point.⁶¹

Our analysis of the motives that induce companies to invest overseas cannot be concluded without a discussion of the influence that fiscal incentives and other measures bear upon such actions. Practically all the developing countries that welcome foreign private capital for industrialization⁶² and general growth generation, have built up large scale concessionary and protective devices to attract foreign enterprises to their individual countries. These concessions,

60. C/F Tibor Scitovsky:- "Two concepts of External Economies" in Agarwala and Singh (ed):- The Economics of Underdevelopment. Oxford University Press, New York 1965.

61. M.Kidron, op cit Pages 250-251.

62. Nowadays the emphasis is on industrial and manufacturing enterprises or agro-allied projects rather than on banking, insurance and allied services or commerce.

as we noted before, include tariff protection, import duty relief, accelerated depreciation allowances, "tax holiday," and other measures include provisions of industrial estates and of ample industrial infrastructures. Similarly from the other end, capital-exporting countries themselves have created various facilities and institutions for the promotion and encouragement of private investment in the developing world.⁶³ The motive of the latter group is partly economic, that is, to promote export of capital and intermediate inputs, and the establishment and continuation of nationals' overseas investment activities as part of foreign economic policy, and partly political. Again, it is an extension of their official foreign aid efforts. For success of the complementary private investors efforts enhances their assistance under the international aid programme. However there is a **growing** belief, and supported by evidence, that such concessions and incentives have only limited and peripheral impact on the policy-decision making process of the multinational investing companies. For example, R.S. May commented thus on the influence of such provisions in Nigeria for foreign investors: "the generous tax incentives given especially to manufacturing companies,

63. See especially (a) OECD:- Investing in Developing Countries. Facilities for the Promotion of Foreign Private Investment in Developing Countries. OECD Paris 1970, and a previous publication entitled (b) "Fiscal incentives for Private Investment in Developing Countries. OECD Paris 1965. The former is the latest survey of country by country," incentives and other institutional devices designed to promote such flows from DAC countries. It deals only with direct and portfolio investment. The latter combines an earlier attempt to study the problems regarding the desirability and character of fiscal incentives in capital exporting countries with an analysis of the interrelationship of fiscal provisions in both developed and underdeveloped countries regarding such investments.

64. R.S. May:- 'Direct Overseas Investment in Nigeria' op cit P253.

But what if a particular
country did not offer the same
general level of concessions?

Availability of appropriate
skills & supply of labor?

however, appear to have had only a marginal effect. Only 5 out of 26 manufacturing companies questioned stated that they were "Very important" or important in influencing their investment decisions."⁶⁴ The "Pearson Commission Report" makes similar observation: "only in a few cases do tax concessions seem to draw an investing opportunity to the attention of a foreign company, and they are generally reported to be of modest importance in the final investment decision."⁶⁵ These observations are not surprising, given the fact that such incentives are fairly well-standardized throughout the developing world. It can only be taken as axiomatic that the reasons to invest in one particular country and not the other, must be sought outside the lure of concession advertisements. In the African context D. Walker has little doubt about the inefficiency of fiscal action in powerfully inducing a potential foreign investor to the continent. Other conditions and measures are likely to be much more important and effective.⁶⁶ These "preconditions" and factors are, among others, political and economic stability, favourable investment climate, size of the market, freedom to repatriate capital and profits and minimum threat of nationalization and expropriation.⁶⁷ It may well be that after a company has made a decision in principle to invest

65. Lester Pearson et al.,:- Partners in Development. Report of the Commission on International Development. References in this thesis are made to 1969 Fall Mail Press (London) Paper back Edition. Page 108.

66. D. Walker - "Fiscal Measures to Promote Foreign Investment" in E.F. Jackson (ed) Economic Development in Africa Oxford, 1965 P227. C/F Paul Streeten and Helen Sutch - Capital for Africa op cit Section on Private Investment.

67. We must not over-emphasize the importance of these conditions. They are in practice, essentially long-term requirements, and their short-term absence need not necessarily have dramatic disincentive effects on foreign investors.

in either country A, B or C, the concession-mix being dangled before it, may marginally influence the financial considerations it weighs up before finally pitching its tent in one camp. Some of the major financial consideration affecting the decision-making calculations of a prospective investor are (1) the cost of making the investment, (2) expected profit potentials, (3) the gains (or losses) to be expected from inter-company transactions, (4) the gains to the parent from doing business with the subsidiary which it would not have been able to do, (5) the loss to the parent because the subsidiary does business which the parent company might otherwise have done on its own, and (6) the net effect on the group's overall global tax liabilities.⁶⁸ International capitalism regards fiscal concessions and protective walls as basic requirements, but from the view point of developing countries, excessive concessions may involve foregoing vital revenue, while protective walls may encourage the establishment of high-cost and luxury-goods industries. These have often earned substantial profits, but their contribution to social needs and domestic real income has been small or even negative.⁶⁹

What is surprising is the fact that developing countries have done very little to rectify the situation. The lack of action on this front is a reflection of both the strong bargaining position of the international companies vi-a-vis individual recipient countries,⁷⁰ and the unwillingness of the latter for a unilateral withdrawal of superfluous concessions,

68. For fuller details see "The Reddaway Reports" op cit.

69. See below Chp. 8.

70. See below Chp. 5.

lest it might detract foreign investors away to neighbouring competitors. This is a genuine fear, though it may be ungrounded nevertheless it should not be underestimated. As is shown above, and in details below, there is emerging now a growing concern about the powers, modes of operation and bargaining strength of international companies, especially the big multi-billion dollar ones, in their dealings with individual nation-states. The concern is felt by both poor, weak and developing countries as well as the rich industrial and powerful ones. A multilateral approach to the problems thus posed, must be regarded as essential, and from the stand point of developing countries, as pressing. Michael Shanks predicts such development for Western Europe: "It seems likely," he writes "that Governments will increasingly get together to hammer out agreed policy guidelines in dealing with transnational corporation. Indeed a joint policy on inward investment is likely to be one of the foundation-stones of the European Technological Community, if it ever surfaces."⁷¹ And to the developing countries, the Pearson Commission gave these words of advice: "general tax concession to attract foreign companies (should) be used sparingly. Developing countries should seek to stop the competition in tax concession by international co-operation."⁷² Given reasons compelling enough, the right atmosphere and a bright prospect for long-term profitability and success, it is most likely foreign firms will invest with or without some of the special incentives. Naturally

71. Michael Shanks:- "When Companies Span the Frontiers." The Times (London) Business Review. August 20, 1969 Page 21.

72. "Pearson Commission Report" op cit Page 108.

they will take advantage of all concession offered whenever possible.

The economic motives analysed above are ultimately reinforced by political motives and socio-cultural consideration before attractions for overseas investment are finally implemented in terms of local establishment. The implications and influence of these extra-commercial and economic factors are fully explored in later chapters below. In modern discussions of the economic relation between the developed rich and industrial nations, and the poor developing ones, the post-war emergence of official assistance - the so called foreign aid - tends to overshadow the historical importance of Private foreign capital in the economic development of these territories. Though, it is true that during the early sixties, the annual flow of private capital was only half the size of official flow, the picture has changed considerably by the end of the first development decade. The projected trend for the present development decade is one of similar size in the volume of resources emanating from the two sources during most of the years - like the levels achieved during the mid-fifties. That the gap between the two has narrowed substantially is due less to the characteristic fluctuations in private overseas investment than to the static level, in real terms, of governmental assistance. In fact, as is shown in the following chapter, the current picture of the international aid programme is so much clouded in uncertainties that the most valid observation now about its future behaviour is that it is likely to remain in a state of flux. In 1970, "Official Development Assistance"⁷³ from OECD/DAC countries to

73. For detailed explanation of its meaning, See Table 5 footnote 2.

developing countries and multilateral agencies was estimated at U.S. \$6.81 billion, while total private flows amounted to \$6.75 billion.⁷⁴ The cumulative external public debt of the Low-income Developing countries (hereafter referred to as LDC's) in December 1969 was about \$59.33 billion.⁷⁵ This is about the same in absolute value as the accumulated book value of total private investment in these countries. Direct investment, which accounts for about 2/3 of total private flows had accumulated book value of some \$37-38 billion by the end of 1969. If we include the data for cumulative direct investment, or the net annual addition to private flows within the DAC member-countries themselves, where the bulk of private overseas investment is, the fact emerges that private capital movement (and investment) is still the main stay of international resources movement for economic expansion and development. However some desirable qualities of official capital flows and other allied factors have given rise to a situation whereby greater emphasis and attention are invariably given to the search for official sources of development finance vi-a-vis private capital. The situation of course varies from one developing country to the other. Some of the factors include (a) grants, plus concessionary and grant - like nature of public loans in contrast to the commercial returns expected

74. Ibid Table 5

75. External Public debt of 80 developing countries. It includes an undisbursed portion of \$13.60 billion as of December 31st 1969. World Bank/IDA:- Annual Report 1971. Washington D.C. 1971. Statistical Annex Table 5 Page 63. See also the same table for area and sectoral breakdown of 1965-1969 figures, Table 6, Page 65 gives country by country public external indebtedness.

of private capital, (b) the limited access of most of the developing countries to the facilities offered in the international capital markets of the developed countries, (c) the unsuitability and unwillingness of private capital as instrumental agent of infrastructural development, (d) the priority now commonly given to planning and state participation in economic development, and (e) the fact that underdeveloped countries that lack rich mineral and other natural resources base, or where domestic purchasing powers are small, stand little chance of attracting private foreign capital. On the whole official and private sources of development resources are regarded not as substitutes but complements, each reinforcing the other.

The other aspect of private investment overseas which interests us here is its comparative statistical strength in both the developed and developing countries. The accumulated level of foreign private investment and its expansion rate within the OECD countries are far higher than comparable levels for the flows from these countries to the developing world. The industrial developed nations are investing more and more within themselves than in the poor underdeveloped countries.⁷⁶ This observation applies not only to portfolio investment but also to direct investment, the phenomenal development of which, represents the major structural change since the 19th century. The pattern of the United States and the United Kingdom - two major private

76.

For a detailed analysis see U.N.: - International Flow of Long-term Capital and Official Donations 1961-1965. New York 1966.

77. (U.K. Dept. of Economic Affairs (DEA):- Progress Report No. 53, June 1969. And Pearson Report. op cit Annex II Table 12.

exporters of capital - investments abroad are illuminative in this respect. Let us take the United Kingdom first. Since the early 1960's a gradually decreasing proportion of her new overseas investment is finding its way to the LDC's. For example, in 1963 and 1968, total new investment flows (including reinvested earnings) were £320m and £621m respectively. Out of which LDC's received £204m and £229m.⁷⁷ Similar trend is noted for the Sterling Area. "In the non-sterling area, the most striking feature is direct investment in the United States, which has increased by five-fold since 1965."⁷⁸

The United States investments exhibit similar pattern.⁷⁹ In 1968, the cumulative total of the United States private investment abroad was book valued at \$101.9 billion. The share of direct investment was \$64.8 billion. Western Europe and Canada together accounts for more than half of the total, and of the direct investment component. Of the total direct investment, the developed countries of Canada, Western Europe, Japan and Australia account for \$42.1 billion, while the rest of the world, that is, the developing countries share among themselves the remaining \$22.7 billion.⁸⁰ If we include

78. DEA. Progress Report Ibid Page 1.

79. For detailed analysis of the United States private investment abroad, see the annual articles entitled "The International Investment Position of the United States: Development....." in October issues of Survey of Current Business op. cit. For this section see in particular 1968, 69, 70 and 71 issues, and an article in the last issue by David Beils and J. Freidlin entitled "U.S. Direct Investment Abroad in 1970."

80. Africa, including the Republic of South Africa received \$2,673m. Mining and Smelting accounts for \$387m Petroleum \$1567m; Manufacturing \$400m. Survey of Current Business, October 1969, Table 5.

South Africa, New Zealand and other similar countries within the "developed camp", we find that the United States Private direct investment in these countries is more than twice her investment in the developing world.⁸¹ This point is well illustrated by the latest data available on the subject. By the end of 1970, total stock of private direct investment owned by U.S. companies in developed countries of Canada, Western Europe, Japan, Australia, New Zealand and South Africa was book valued at \$53.11 billion, while their assets in the developing countries were valued at \$21.42 billion.⁸² The level of U.S. investment abroad would be much more biased in favour of the developed countries if we include the figures for portfolio investments, which are at present almost exclusively concentrated within the developed countries. The new pattern of investing smaller proportion of total capital export in the developing countries is strongly illustrated by the U.S. investment in Europe and Latin America during the last decade. In 1960, 20% of U.S. direct investment was in Europe and this was 20% less than U.S. investment in Latin America. By 1967, U.S. investment in Europe had improved to 30% of the total, and this level was 50% more than corresponding U.S. investment in Latin America.⁸³ In other words, while the share of Europe in total U.S. direct investment was increasing from 20% to 30% during 1960-67, the Latin America's share was falling from 25% to 20%. Again on a broader front,

81. The estimated figures are:- Developed, including South Africa, N.Z. and Australia \$43.5 billion, LDC's \$21.5 billion.

82. Survey of Current Business Oct. 1971 pages 28-29.

83. Survey of Current Business Oct. 1968 page 21

the share of addition to asset of U.S. direct investment in developed countries is increasingly greater than the proportion of total capital invested there. For example the accumulated stock in these countries in 1970 was under 72% of total, yet they received three-quarters of "fresh" capital. While the increase in the flow of fresh capital to the developing countries has been relatively static in the last five years or so, the greater expansion in the OECD member states inevitably meant a long term, though gradual, shift of the bulk of U.S. overseas resources away from the developing countries. These facts are conveyed in the following data:

TABLE 1ADDITION TO STOCK OF U.S. DIRECT INVESTMENT OVERSEAS 1966-70(\$ Billion)

<u>YEAR</u>	<u>TOTAL INCREASE</u>	<u>IN DEVELOPED COUNTRIES¹</u>		<u>LDCs¹</u>
		<u>VOLUME</u>	<u>% OF TOTAL</u>	
1966	\$5.3	\$4.3	82%	\$0.9
1967	\$4.5*	3.5	80%	0.8
1968	\$5.5	3.4	62%	1.5
1969	\$5.8	4.2	72%	1.2
1970	\$6.9	5.2	75%	1.4

* Rough estimate.

Note Figures for developed and LDC's do not add to total.

1. Developed countries here referred to Canada, Europe, Japan, Australia, New Zealand and South Africa. Developing areas are Latin America, Africa (except South Africa).

The doubling of flow to LDC in 1968 over 1967 was due to exceptionally higher investments in Petroleum, banking and other service industries.

(Source (U.S.) Dept. of Commerce: Survey of Current Business October issues 1968, 1969, 1970 and 1971).

The explanation for the present structural deployment of international external resources is to be found among other factors in (a) the historical links between the industrial members of the OECD, (b) the continuing greater expansion in the markets offered by these developed capitalist economies, (c) the importance of non-economic socio-political factors like favourable investment climate, and political stability and affinity and (d) the sophisticated state of their capital and money markets. As I have suggested before, profitability rates appear to be of little significance for investment within the developed countries themselves though highly significant in relation to investment in the developing countries. For example the DEA Progress Report suggests that the less buoyant earnings of the U.K. investments in the Sterling Area may be one of the reasons for the gradual shift of her fresh flows to non-sterling industrial economies.⁸⁴ On the other hand, the gradual decline, below global average, in the rate of return on U.S. investment in Western Europe during the 1960's does not appear to have influenced her investment commitments **there**. In 1960/61, U.S. direct investment earned just under 15%, that is, 3% more than the global average of her earning power. By 1968, when all area average remained static at about 12%, the return from western Europe had declined to just under 8%.⁸⁵

84. (U.K.) Dept. of Economic Affairs (DEA):- Progress Report June 1969. op cit Page 1

85. (U.S.) Dept. of Commerce:- Survey of Current Business. Oct. 1969 op cit.

In the last fourteen years or so, the annual flows of private capital to developing countries have fluctuated within the \$5 - 7 billion mark. Such erratic and often volatile changes in the level can be discerned from the available data.⁸⁶ The peak of 1956/57 gave way to the trough of 1962/63, which has **since been** overshadowed by the current expansion that itself became more noticeable in 1968/69. The latter upsurge reflects boom conditions in the developed economies, and the increasing confidence in the political climate and the economic performance of some developing countries. Private flows have increased by almost 90% since 1964, and again are approaching a level of 50% of total resources transferred from the developed DAC/OECD countries to LDC's. The balance of Payments and inflation difficulties in the United States, the United Kingdom and France, which are claimed to have greatly affected official flows appear not to have hampered significantly the flow and investment of Private foreign capital in the developing countries. Most companies greatly increased their use of foreign capital markets, beside retaining a larger amount for reinvestment, and gained concessionary terms from their parent governments. For example, under the 1968 regulations of the Office of Foreign Direct Investment (OFDI), the United States companies could invest in developing countries an amount equal to 110% of their average annual investment in each

86. See Table 5. *Page 7*

and why has there been expansion?

country during the 1965-66 period.⁸⁷ In real terms most of the increases in DAC countries flows to LDC's since 1968 have been due to expansion in the private sector. Here too, price inflation has meant that the discernable trend is one of very gradual though unsteady increase. The underlying trend is due more to the phenomenal expansion in guaranteed export credits than anything else.⁸⁸ Except in a few countries, and the occasional upsurge of once-and-for-all development, direct investment has long been the least dynamic element in the flows of private capital to developing countries.⁸⁹ The above data on U.S. investment clearly exemplify this point. Some of the explanatory factors include (a) the increased sensitivity of such investments to the growth of politico-economic nationalism in the LDC's, (b) the smallness of the markets, (c) the limited restrictions placed on the outflow of capital from many of the industrial investing countries, (d) the ignorance of investment opportunities in LDC's, and (e) the powerful "pull" of the developed economies for each others investment.⁹⁰ However, as I pointed out above, the boom conditions which now and then lead to upsurge in investment activities within the OECD countries themselves invariably spill over to the periphery. This last point is supported by suggestion from DAC/OECD itself that the

87. See DAC/OECD:- Development Assistance 1969 Review, op cit.

88. See Table 5 p 7

89. Ibid

90. G/r Pearson report op cit page 99

trends in direct investment are often correlated with the pace of expansion and the degree of business optimism in the domestic economies of the capital-exporting countries.⁹¹ However I must emphasize that the effect of such a spillover on direct investment is marginal; if anything, it is likely to be felt in the bilateral and multilateral portfolio and more especially in guaranteed export credits.

DIRECT INVESTMENT AND BALANCE OF PAYMENTS OF LDC's.

The implications for individual country of the inflow and outflow associated with direct investment are so complex that the balance of payments accounts may not shed adequate light on the true position, and may even be misleading. It is equally difficult to generalize for the developing countries as a whole, the balance of payments repercussions of direct investment. Within each country, the nature and structure of foreign investment would determine the balance of payments effects. For example, where investments on a big scale are in oil, mining and other extractive industries, the relatively high level of remitted investment income may be justifiable, and comfortably contained on the grounds that such productions are primarily for export. Exchange earnings in such cases overshadow the outflow and the alternative to such outflow may be no exchange-earning export. On the other hand, if foreign investments are primarily domestic market orientated, are engaged in local manufacturing and service industries, do not earn foreign currency, nor reduce appreciably import bills because of high import-content of their productions, then in such cases,

91. DAC/OECD:- Development Assistance. 1969 Review op cit Page 56.

the transfer abroad of profits earned may become a significant burden on balance of payments reserves.

It is fashionable in the literature on private foreign investment to accuse those who compare new capital inflow (including unremitted earnings) with the profits and remitted investment income of foreign subsidiaries, of emotionalism and misunderstanding.⁹² While it is true that to measure the balance of payments impact of foreign investment via the annual inflow (capital account) and the outflow (current account) may be misleading, naive and injudicious, the major purpose of such analysis is not to prove that international capitalism reaps more than it sows in LDC's, but to draw attention to a possible development. This is the **probability** that a matured, well-established foreign firm could become self-financing, with the implication that it becomes a major channel of perpetual reserves leakages abroad without bringing in any fresh capital in return. It could be argued, on the other hand, that its contributions to export earnings and/or import-savings, host government tax revenue, employment, transfer of skills and general economic growth, may be qualitatively worth more to the local economy than the continuous profit outflows. The long-term situation very much depends on local factors. On the whole, as Edith Penrose has argued, the indefinite growth of a foreign firm through the reinvestment of retained earnings

92. See for example "Pearson Report" op cit Chapter 5 and the publication by (the United States) Committee for Economic Development (CED) entitled "Assisting Development in Low-income Countries" New York, Sept. 1969.

93. Edith Penrose:- The Large International Firm in Developing Countries. The International Petroleum Industry. op cit Page 269. in. See also her earlier article "Foreign Investment and the Growth of the Firm". E.J. June 1956.

may not be to the economic advantage of the host country.⁹³ Arrangement for gradual reduction in foreign equity shares may well be desirable and less costly in the context of long-term obligations. The international picture that emerges from available data suggests that during 1964-69, DAC/OECD countries earned an annual average of about \$4.5 billion on their accumulated direct investment, book-valued at about \$50 billion in December 1966.⁹⁴ Of this, an annual average of \$0.8 billion was reinvested, leaving \$3.7 billion as repatriated investment income. During the same period, new inflows (beside the retained earnings) of Direct Investment averaged about \$1.5 billion a year. Thus an annual capital inflow of \$2.1 billion becomes associated with an annual profit outflow of \$3.7 billion. It is the arrangement of figures in this fashion that has given rise to the allegation that at present time, rich countries have accumulated enough wealth in the developing poor countries to the extent that they take out more than they put back in the way of replacement for expansion.⁹⁵ As I have suggested above the inflow and outflow of finance do not of course tell the whole

94. That is, an annual average return of 15%.

95. C/F Hamza Alavi estimates that between 1950-60, the U.S. recorded total outgoings of public funds of \$23 billion and receipts on public funds of \$19 billion, over the same period addition of \$20 billion to private investment was associated with investment income of \$25 billion. ("Les Nouve Imperialism", Les Temps Modernes, August/Sept. 1964) quoted in P. Jalee - "The Pillage of the Third World" New York 1968. See also, G. Arrighi and J. Saul, op cit. Page 149 footnote. Since 1964, suggests the ECONOMIST, "cumulative income payments on earlier private investment have probably exceeded the total inflow of private investment capital which the developing areas have received." The ECONOMIST (London) August 26, 1967.

story. Of the cumulative direct investment in LDC's, nearly half is in petroleum and mining, traditionally among the most attractive for foreign investors, and the leading foreign - exchange earners.⁹⁶ If we add the aforementioned benefits and the disadvantages of foreign investment that do not show up in the balance of payments accounts, we are led to assert that a cursory look at the balance of payments data gives little insight into the true effects and productivity of direct investment, and for that matter, of the other types of flow. The importance of the exchange-earning performance of a developing country that makes substantial use of external resources, is the optimism and encouragement, or pessimism and discouragement it engenders in foreign investors and lenders. Furthermore a detailed study of the balance of payments accounts helps in gauging the trends of such factors as capital inflows, investment service - exchange earnings ratio, local value added and the proportion of export-value that is locally retained.

EXPORT CREDITS COMPONENT OF PRIVATE CAPITAL⁹⁷

The position of private export credit was touched upon earlier in my discussion of equipment salesmanship. In spite of the growing awareness of, and concern for the potential debt problems it generates, the flow of export credits has continued to increase at an alarming rate.⁹⁸ From an average

96. In 1966, Exports from developing countries of four major extractive commodities - petroleum, iron ore, bauxite and copper - amounted to more than \$13.8 billion.
source:- World Bank/IDA Annual Report, 1970. op cit.

97. For a more detailed exposition, See Pearson Report, op cit Pages 118-122.

98. Average annual growth rate in late 60's was around 17%
Between 1967 and 1968 private export credits rose by 50%.

of about \$500m per year in 1956/57, the flow of total net export credits from DAC countries to LDC has more than tripled to about \$1.750m in 1969.⁹⁹ It is perhaps the major factor in recent upsurge of private capital flows, especially those from West Germany, Japan, Italy, France and the United Kingdom, who between them account for 90% of such flows. Private guaranteed export credits have become an increasingly important source of external finance, now accounting for no less than 15% of total net capital resources transferred annually to the developing countries, and form nearly 1/3 of private capital flows in recent years.¹⁰⁰

Volume outstanding at the end of 1968 was estimated to be about \$10 billion.¹⁰¹ A number of factors from both the lenders and creditors ends of the arrangements, underlie the phenomenal expansion of credit facilities extended to the developing countries. Some of the major ones are (a) the increasing intensity of export marketing promotions among the industrial countries which have eased the terms of export credits contracted by developing countries, (b) the growing volume of world trade itself, (c) the growing politico-economic demands for "turn-key" industrial projects and capital goods production in the developing countries, (d) the liberalization of exchange, credit and credit insurance policies in OECD/DAC countries, and (e) the limited access to international capital markets for portfolio capital

99. See Table 5. Gross private flow was estimated at about \$5 billion in 1967. In addition gross credits from public institutions probably added another \$1 billion to the private flow.

100. See Table 5.

101. C/F DAC/OECD - Development Assistance 1969 Review op cit

and the increasingly inadequate supply of untied development assistance for industrial undertakings and "prestige" projects especially in the construction industry. The main attractions therefore are that such credits, when efficiently used constitute a significant addition to the financial resources available for development purposes. Developing countries, taking advantage of the relatively easy access to credit facilities, have been able to finance industrial projects to which they attach great importance but for which they were unable to obtain assistance from the multilateral agencies or the main official bilateral donors. Furthermore, developing countries can resort to supplier's credit as a second best alternative, if the bureaucratic process of official approval is unduly slow, and the criteria for viability appraisal too rigorous. It also enables developing countries who do not embrace with enthusiasm the economic development philosophy of their main benefactors, to reduce the leverage such donors have on their development policy and strategy.¹⁰²

However the characteristics of export credits - suppliers credits and contractor's finance from viewpoint of recipient country - of being expensive, short-term and easy to contract on one hand, and their likely use for infrastructural improvement, prestigious or non-prestigious industrial projects of long gestation period on the other hand, show the extremely onerous debt-servicing burden a less cautious developing country may shoulder itself with. For example, since Mid-1950's, an injudicious accumulation of short-term suppliers

¹⁰². See below Chapter 5.

credits has been a major reason for the balance of payments difficulties, and the need to reschedule the debts of some developing countries, notably Argentina, Brazil, Ghana, Indonesia and Turkey. Like credits expansion, rearrangement operations for longer maturity of short and medium-term debts have become one of the few "growth points" in the international aid programme.

When tariff and foreign exchange rate policies distort the price structure, decision-makers may be led to undertake investments with suppliers credits and contractors' finance, which though may be profitable in terms of local currency, nevertheless have marginal or negative returns in terms of foreign exchange repayment capacity.¹⁰³ There is the danger also that projects financed with export credits may not always be subjected to the same detailed and careful review of economic, commercial and technical viability to which officially-financed projects and private companies' investments are invariably exposed.¹⁰⁴ The Pearson Report was most explicit in emphasizing this danger. The most unfortunate aspect of export credit finance, it says, is that "it provides a temporarily painless way of financing projects conceived by over-optimistic civil servants, by politicians more concerned with immediate political advantages than with potential future economic problems, and by the unscrupulous

103. Pearson Report. op cit Page 120

104. On the other hand, the Danger exists for the social content of cost/benefit analysis to be minimized, if not ignored by foreign "experts" who do not fully appreciate the local socio-cultural environment and its importance in economic activity.

salesmen for the manufacturers of capital equipment in developed countries."¹⁰⁵ The disquiet felt over the activities of equipment salesmen, again well-highlighted by Sayre P. Schatz in his article referred to earlier,¹⁰⁶ centers on the **proposition** that while ensuring for themselves and the firms that supply them, good profits, that is guaranteed by the government, and wider market for their capital goods, the resource allocation they thereby help to set up, is not often in the best long-term economic interests of these countries. Writing of Nigeria's recent experience, Peter Kilby notes that the actual investment made by these machinery merchants has been very small, typically 3-4% of the combined equity-debenture capital commitment. "Yet the promotional activities of German, Italian and Israeli machinery merchants have resulted in over £30m in Public investment between 1962-66, and most of it in uneconomic projects..... In marked contrast..... the joint ventures with foreign firms, where the latter undertake both the management and substantial share of capital, have been highly successful."¹⁰⁷

PORTFOLIO INVESTMENT IN DEVELOPING COUNTRIES

The other category of private investment flows that must be briefly mentioned is the floating of bond issues by developing countries in the international capital markets. Before the last World War, portfolio investment had historically been the chief form of international capital movement for development. However its global supplantation

¹⁰⁵. Pearson Report op cit Page 120

¹⁰⁶. See footnote 22 Page 29

by direct investment is most evident in the flow of private bilateral portfolios to the developing countries. Such flow represents only a small fraction of total capital movement though its absolute value has steadily been increasing especially in the late 1960's. Even then it still accounts for about 6% of total private flows¹⁰⁸ and its inflow is concentrated in a few, relatively advanced developing countries, notably Mexico, Israel and Argentina.¹⁰⁹

107. Peter Kilby:- Industrialization in An Open Economy: Nigeria 1945-66 op cit. Pages 77-79

108. See Table 5.

109. For data on bond issues to individual developing countries between 1964-68, see Pearson Report Statistical Annex II Table 14. For analysis of the obstacles to greater bond usage by developing countries. See the same report Pages 115-118.

TABLE 2

¹

ESTIMATED ACCUMULATED DIRECT INVESTMENT BY DAC COUNTRIES IN
LDC's AS OF DECEMBER 1966, BY REGION AND SECTOR, (\$m)

	<u>Oil Industry</u>	<u>Mining & Smelting</u>	<u>Manufact- uring</u>	<u>Others</u>	<u>TOTAL</u>
Southern ² Europe	336	42	618	507	1503
Africa	2,041	792	806	1277	4916
Middle-East	3,495	5	83	103	3684
Asia & South Pacific	1,142	217	1,329	1515	4203
Latin America & Caribbean	4,878	1697	5,261	3828	15664
TOTAL	11,892	2,751	8,097	7,250	29,970
TOTAL(1967 ESTIMATE)	(\$11.3 billion)	(\$3.6 billion)	(10.6)	(8.8)	(34.3)

1. Net Book Value.

2. Southern European Countries classified as developing are Spain, Portugal, Greece, Turkey, Yugoslavia and Cyprus.

(Sources (1) For 1966:- OECD Secretariat, quoted in Pearson Report op cit. Annex II Table 15 Page 3/6

(2) For 1967, DAC/OECD - Development Assistance 1971 Review Table IV-3 Page 89)

	<u>Year</u>	<u>Petroleum</u>	<u>Mining</u>	<u>Manufacturing</u>	<u>Other</u>	<u>Total</u>
S. Europe	1965-66	44	10	124	90	268
	1967-68	19	3	130	55	207
	1969-70	60	5	224	59	348
Africa	1965-66	328	85	89	84	586
	1967-68	352	85	80	65	582
	1969-70	487	58	95	99	739
Latin America & Caribbean	1965-66	-57	99	591	292	925
	1967-68	73	180	540	297	1,090
	1969-70	295	-29	643	306	1,215
Middle-East	1965-66	374	1	12	5	392
	1967-68	198	-	7	14	219
	1969-70	243	-	24	15	282
Asia & Oceania	1965-66	62	28	129	117	336
	1967-68	92	37	185	99	413
	1969-70	155	104	147	68	474
TOTAL	1965-66	751	223	945	588	2,507
	1967-68	734	305	942	530	2,511
	1969-70	1,240	138	1,133	547	3,058

(Source DAC/OECD Development Assistance, 1971 Review Table V1-2 Page 59)

INTERNATIONAL RESOURCES FLOW FOR DEVELOPMENT: OFFICIALASSISTANCE TO LDCs¹

So much has been written² about official assistance - the so-called "foreign-aid" - to the developing countries, that I shall endeavour to limit my analysis to generalisation of important aspects of aid transfer and undertake a critical exposition of such assistance within the context of an overall critique of international resource flows.

The theoretical ideas postulated in this section form the analytical platform for the discussion undertaken below, on Nigeria's foreign aid experience. The concept of "foreign aid" is to a certain extent misleading and in some cases, unfortunate, especially when applied in donor's official budget proposals like the United States "Foreign Aid Bill". Taken literally upon by journalists and commentators, the gross estimates tend to convey to the general public of the donor countries the impression that their governments are giving away such and such amounts in charity to the poor countries. Nothing could be further from the truth. The

1. This is essentially on analysis of Governmental DAC countries (of O.E.C.D.) assistance to the developing countries. However adequate consideration is also given to capital transfer and technical assistance emanating from multilateral agencies like IBRD, IDA, IFC and UNDP. For an extensive study of the Centrally Planned ECONOMIES' aid to the Developing countries, see O.E.C.D.'s Publication entitled "Policy in the Soviet Block on Aid to Developing Countries" Paris 1969.
2. For extensive and detailed studies of the subject - matter, see the following (a) O.E.C.D./DAC:- Development Assistance, Annual Reviews, op cit. for detailed exposition of current positions, trends and other technicalities of resource flows, including individual DAC members efforts and recipients' experience (b) World Bank/IDA:- Annual Reports op cit. (c) Pearson Commission Report:- Partners in Development: op cit Note especially its ten recommendations on Pages 14-20.

complexity of the motives of the Donor Governments, ensures that the aid allocations contain elements of political, strategic, historical and socio-economic assistance. It is that element for social and economic development - the so-called "Official Development Assistance (ODA)" - as opposed to the "Cold-War" military - induced support, which concerns us in this study. Most of such economic assistance would be defined as a transfer of real resources or immediate claims on resources from one country to another, which would not have taken place as a consequence of the operation of free market forces; or without specific official (and international) policy designed to promote such transfer by the donor country. Thus it is the concessionary, "cut-price" nature of some proportion of the transfer which colour the flow with the word "aid". The element of charity is not large.³ Furthermore such factors as secondary benefits to the Donor in terms of export and general commerce promotions and non-quantifiable political, diplomatic and security advantages invite nothing but ridicule for the "aid-to-the-poor-

2. (cont'd...) (d) Roland Robinson (ed):- International Co-operation in Aid: Impressions and Papers of the 5th Cambridge Conference on Development Problems. Cambridge 1966.
- (e) R.F. Mikesell:- The Economics of Foreign Aid London 1968.
- (f) T. Hayter: Aid As Imperialism. Penguin England 1971.
- (g) For two major donors official views see U.S. "Principles of Foreign Economic Assistance". Washington D.C. 1963 And for Britain, "Aid to Developing Countries". Cmd. 2147, or "Overseas Development; The Work of the New Ministry". Cmd. 2736. London 1965. For a survey of foreign aid to Africa in the first half of the "first development decade" 1960-64. See (h) U.N.:- Economic Bulletin for Africa Vol. IX No. 1 June 1969. There are also extensive essays and articles in the Literature, see especially (i) H.B. Chenery and A. Strout, "Foreign Assistance and Economic Development". American Economic Review, Sept. 1966 and (j) P.T. Bauer and Barbara Ward, Two Views on Aid to Developing Countries. London Institute of Economic Affairs. Occasional Paper No. 9 1966. op cit.

-countries" mentality; nor could the published Data on annual flows be realistic guides for estimating the true costs and benefits to the Donor and recipient countries. Inflation in the Donor countries, the policy of aid tying, excessive valuation of transferred surplus commodities like "PL480" and expenditures on economically "non-productive" programmes, reduce the purchasing power of the assistance flows to the recipient countries and the balance of payments costs to the donors.⁴ In general the overall "cost" to the recipients in Debt charges, local costs and politico-economic control and leverage, is often greater than donor opinion imagines. It is for the lack of a more realistic and precise concept, and because of the degree of its penetration into our everyday usage that the phrase "foreign aid" is retained in this study. It is however used synonymously with "development aid", and "development finance".

THE NEED FOR ASSISTANCE. Why Government assistance from abroad? Before I answer that question, it may be right for me here, to point out that the world-wide publicity of

3. See below section on the "true" costs of Aid.
4. See below section on aid tying and donors benefit. Also table 13.
5. Even then, colonies were aided until they were able to "pay their own ways". Residual grants-in-aid, in terms of financial needs can only be described as "token gestures" - small amounts when compared with the out flows from colonies associated with the remittance of colonial administrators. For Nigeria's experience see below Chapters 6 & 7. It was not until 1940 that the British Colonial possessions ceased to be seen mainly in terms of providers of primary raw materials and markets for metropolitan manufactures. The Colonial and Welfare Acts, 1929, 140 and 1945. Loc cit.

official assistance under the "foreign aid" concept is of recent origin. Assistance, in the contemporary sense, was started by the United States "Marshal Aid" for post-war reconstruction in Europe. Non-commercial public resources transfer from one country to another, in form of "grants-in-aid", loans and colonial Civil Service personnel was implicit in the relationship between Imperial Powers and their colonies, though the maintenance of law and order, and the building of infrastructure networks for private commercial exploitation of primary produces, rather than a clear and explicit policy for economic development were the main rationale for such transfer.⁵ The significance of modern foreign aid lies in the fact that it is an assistance from one independent and sovereign Government to another - albeit from a "rich" one to a "poor" one - in a global atmosphere of greater commitments to economic and social development. However, for the Donors the motives for assistance in this "Second Development Decade" are no less different from those of fifty years ago, except perhaps they have become more complex, and are explained away in subtler, diplomatically sophisticated terms than before. For a majority of the recipients governments, the urgent desires to lift their people out of abject poverty and misery; to develop their economic potentials; to modernize the socio-cultural values and institutions of their societies; in a wider context, to give full expression to their civilization and ways of life, can be readily realised and in shorter time only by moral and financial support from abroad. The need for development aid is bound with the economic objectives of both donors and recipient countries. For the latter the need for foreign assistance has both a positive rationale as well as indirect

reasons for it. The indirect or negative validity for official aid stems from the inadequacies built into other methods currently available for accelerating the economic and social progress of the developing world, and the unwillingness of the industrial economies to effect necessary changes.

Non-governmental efforts of Developing with the aid of world trade in its present structure and foreign private investments alone are insufficient, if not ineffective, for Developing countries' task of achieving a well-structured, self-sustaining growth process with the minimum of delay. Faced with a near static price and income elasticity of Demand for primary produce, high effective tariff rates against processed and labour-intensive standardized manufactures and other discriminatory treatments of their exports to developed countries, it is only rational for LDC's to be pessimistic about the "engine of growth" potentials of the present structure of international trade and division of labour.⁶

6. See Bela Balassa:- "The Impact of the Industrial countries' tariff Structure on their Imports of Manufactures from Less-Developed Areas. Economica Nov. 1967; And Alfred Maizels:- Exports and Economic growth of Developing countries. op cit; See also Jan Tinbergen's recent pamphlet:- On the International Division of Labour. Stockholm 1970. Hal Lary has shown that the more labour - intensive an industry, in the Developed countries is, the higher the effective tariffs levied against its competing imports. H.B. Lary Imports of Manufactures from LDC. Columbia University Press. New York 1968, quoted by Tinbergen.

International commodity agreements, preferential trade arrangements and above - equilibrium prices for primary exports constitute at best a clumsy device for transferring aid resources and as such unlikely to be directed into channels that promote development. At worst, it encourages the creation of top-heavy, over-developed (relative to the rest of the economy) export sectors that stand in constant danger of glutting the world markets and forcing the developing countries into "competing for dead laurels in a race towards mutual impoverishment".⁷ Foreign private capital, when it does not concentrate in the export-import sector - thereby creating the dualistic structure and engendering the aforementioned pattern of trade - does not cater for, nor appreciate the concessionary nature of the resources needed by LDC's for structural transformation. These two devices "do not transfer resources most needed to erect social infrastructure, expand the public sector and rationalise the Domestic economy. Essential as they are they cannot be expected by themselves to bring about the internal structural changes required for swifter and more balanced (sectoral) growth"⁸. The role of official aid is simply to do as many of the tasks necessary for economic growth which these other devices for the time being cannot, or are, not doing. However, it should be seen as an essential complement to, and not substitute for, internal saving, international trades or foreign private investment. In view of the skill, savings and

7. R. Robinson (ed):- International Co-operation in Aid,
op cit Page 13.

8. Ibid P.14

foreign exchange shortages of most LDC's, official assistance is needed also to attract and generate more of these factors. First, to bridge the gap between the foreign exchange, LDCs derive from trade and private investment and the amount needed to service their foreign debts while achieving a reasonable rate of growth of GNP. Secondly, it is needed to fill the gap between internal savings and required economic and social infrastructure until the economy works with sufficient impetus to generate adequate savings and to attract sufficient private investment. Thirdly aid, particularly in the form of technical assistance is essential to strengthen the administrative, technical and managerial cadres of recipient governments and improve their capacity to plan, co-ordinate and control the complicated internal and external factors that govern their economic fate".⁹ But the relationship between official aid policy and, within the international context, trade policy and private foreign investment, is loose and poorly understood, though in terms of national bilateral policy of donor countries, some authors¹⁰ have emphasized the strengthening role - in support of foreign private investment - of official project disbursement and balance of payments aid. Furthermore, it is well recognised that general trade liberalization would not be of exclusive advantage to the developing countries alone.

9. Ibid P. 14 On the gap approach to foreign aid need of developing countries see Appendix V.

10. C/F G. Arrighi:- International corporations, Labour Aristocracies and Economic Development in Tropical Africa, op cit Page (28). And P. Perera:- Development Finance - Institutions, Problems and Prospects. New York, 1968.

The positive need for official development assistance in form of grants and soft loans stems from the under-developed characteristics of the recipient countries. The fundamental case for soft loans and other concessionary assistance is that these low-income countries with large population, low productivity (as a result of low level of education and skill, and perhaps relatively poor natural resources), require a relatively long period of net resource inflow in order to assist them in making the structural changes which are deemed necessary for ultimate self-sustaining growth. But structural changes in the use of resources generally, and in particular, in the structure of the balance of payments, export, imports and internal savings necessarily involve lengthy time lag between policy decisions and expected results. The justification for concessionary aid as against "hard" loans, lay less in the limited debt-servicing capacity of aid recipients, but in the long process of restructuring as evident for example, by the long pay-off period and delayed impact on the social product of such investments as education, electrification etc. The inherent danger of the expectation of long period of capital inflow on concessionary terms is the possibility

10. Cont'd.... The United States AID officials have been accused of (a) "pushing" commercial exports from the U.S. at the expense of the local economy (b) helping the local Development of parts of the economy that will not compete with U.S. companies, nor will the U.S. provide development loans to industrial projects that could undercut U.S. companies at home or in the world market. See also T. Hayter:- Aid as Imperialism op cit Page 32 See also Chapter 5.

that it may dull the zeal of Governments for policy reforms in countries where the function of aid are not fully appreciated.

Furthermore, some countries need foreign aid as an insurance against politico-economic instability which might threaten them if and when short-term bottlenecks occur in the supply of consumption or capital goods, whether produced locally or imported. Official aid in so far as it contributes to the integration of national economies effectively, contribute at the same time to national unification, inter-dependency and to political stability. From the view point of the Donors, the need to give assistance is more than humanitarian and philanthropic. It is the result of a recognized enlightened self-interest in international economic as well as non-economic co-operation with invaluable mutual benefits to both sides. While widespread poverty, frustration and widening gap between the "rich" and the "poor" represent a threat to world peace, an aid-induced breakout, from the so-called "low-income equilibrium trap" through development, produce jobs, markets, trade, investment opportunities and material benefits for virtually all concerned.

FUNCTIONS OF FOREIGN AID: It is difficult, if not artificially semantic to differentiate between the need, justification for, purpose and objective of, foreign assistance especially from the position of the recipient countries. However, such an attempt is made in this study, perhaps less convincingly than it might be hoped for. The interrelationship between these words and phrases must nevertheless be underscored. For developing countries, two major functions of aid are

discernable, depending on the stage an individual country has reached on the drive towards self-sustaining economic and social development. For those countries on pre "take-off" Stage,¹¹ the ultimate function of aid is to assist in the successful implementation of public and private measures which will mobilize and reallocate their human and material resources for maximum utilization. In the process of such economic and social transformation, temporary shortages, bottlenecks and inefficiency become inevitable, necessitating therefore the inflow of human and capital resources from abroad. Thus the filling of skill, savings and exchange gaps becomes not an end in itself, but the mean to achieving national transformation.¹² This approach therefore does not regard foreign assistance as fundamentally an aggregate supplement to Domestic resources but rather as a catalytic factor.¹³ It is thus far more important, than just removing the foreign - exchange and savings constraints to growth. It is for this type of function that concessionary aid is needed, if not because of the long process of transformation, perhaps to help in attracting private and public non-concessionary external capital for achieving the same ultimate goals.

11. That is, either the first or second historical stage of **Rostowian** five stages:
12. National transformation encompasses more than socio-cultural modernization and economic changes. The latter include not only restructuring the use made of human and material resources but also of income generated in the economy.
13. That such a function exists is based on my assumption that most of the developing countries are economically potentially capable of sustained development process with some positive per capita growth rate, on the basis of their own resources.

The second function of aid applies to country that has already "taken-off" but lack resources for a high growth rate. Hence the employment of external capital for supplementary purposes in order to achieve a higher level of investment and growth rate of output.¹⁴ Such supplementary flows need not entirely be on concessionary terms, but could include a large segment of private and multilateral agencies' lending. This second function of assistance is logically distinct from the first. Such supplementary inflows are not primarily for the purpose of facilitating a basic transformation of an economy not making reasonably productive use of its resources, but rather to reinforce and quicken the pace of growth already set in motion. If however a "take off" could be achieved before the required level of transformation has been completely reached, then it is conceptually possible for the two processes to go on simultaneously, perhaps reinforcing each other. But for the purpose of aid policy and allocation strategy it is desirable that they should be kept apart. Thus for a developing country that is in the process of transforming its economic structure, the primary emphasis should be on the first function; for those that have already "Taken off", the second. For the first function to be successfully executed, there must be a comparable alteration within the industrial countries in the structure of resource usages, away from technologically simple and labour-intensive industries whose output would eventually be catered for by import from the Developing countries.

If we accept these propositions: (1) that the main economic objective of the lending donor countries - including

14. Also see below Appendix II dealing with definition and clarification of structural transformation.

both the market economies of O.E.C.D. and the Centrally Planned Socialists economies - is the economic development of the so-called "Third World"; (2) that the present mechanism of aiding has not been so far successful in achieving a reasonable progress towards that objective and indeed may be a "stop-gap" second best device; (3) that the Donors have been reluctant to face adequately the full implications for them of economic development in the "Third World", then the function of aid from their point of view must be to influence the development policies and strategies of the recipient countries, in such a way that the emerging pattern of development and progress in LDC's must be consistent with their current views of international economic organisation, co-operation and indeed of their basic economic philosophies. The principle of leverage per se, is not denied by the developing countries; after all, the existence of alternative quantitative country models¹⁵ which can be, and are used to question the basic assumption of national Plans, evaluate the parameters used in the Plan models, check the overall realism of the Plan and by implication to suggest the need for improved performance,¹⁶ or to caution exaggerated optimism, is by all accounts a healthy thing. However the basic danger in leverage lies in the potential conflict that may arise between the Donor and recipient

15. That is, those built by official foreign aid agencies like U.S. (AID) and the multilateral agencies like the IBRD and FAO. C/F FAO's one for Nigeria in a publication entitled "Agricultural Development in Nigeria 1965-80" Rome, 1966.

16. For example, in the target rate of growth of exports or the proportion of fiscal revenue to GNP.

countries as to how a particular economic problem or crisis might be resolved, or on the question of the general strategy for maximum growth and development.¹⁷ Official agreements on issues such as these, need not necessarily be in the best interest of the masses in a developing country. It may merely lead to the entrenchment of the ruling elite. Foreign aid advisory missions may genuinely support a policy prescription, like a redistribution of income in favour of profit earners in the modern sector, which may have an adverse social welfare impact, while not successfully achieving the expected result of greater savings and investment. "To a host Government", a former aid adviser in Pakistan intimated, "the political value in the international arena of having highly qualified, supposedly objective outsiders providing a sophisticated, intellectually respectable and 'independent' defence of its policies and achievements is enormous". He goes on, "In Pakistan, as in many other countries, it is difficult to avoid the conclusion that foreign (advisory) establishment has underwritten and contributed to a socio-economic system and a development strategy which has produced a monopolistic economic structure which is neither efficient, dynamic nor equitable. Foreign aid and advice..... has encouraged and enabled a small class of wealthy monopolists to extend their control over the economy, the Government and the society, and has also provided an intellectually respectable argument to justify this pattern to the rest of the world."¹⁸

17. For example, the controversies over capitalist or socialist alternative roads to development, over industrialization, or over "productive" or "social-impact" projects.

18. Timothy and Leslie Nulty:- "What is the problem with Foreign Advisors" in Bulletin of Institute of Development

Teresa Hayter's critical study ¹⁹ of the influence which agencies like the United States AID, the World Bank and the IMF exert on the general economic policies of developing Latin American countries came to the conclusion that while, as a matter of the highest priority, insistence on financial and monetary stability has not cured the inflationary pressures prevalent in these economies, the rigorous application of orthodox ("Western") remedial measures have had depressive effects on such factors as growth, production, employment, income redistribution and social welfare expenditures. The leverage function of external assistance has meant the entrenchment of the present systems of economic and social organizations in Latin America, with military regimes and international agencies "pursuing policies which distract attention from, and frequently conflict with action to improve the conditions of life of the majority of Latin Americans."²⁰ It has prevented any serious experiment with the "Structuralist" alternative.²¹

OBJECTIVES OF ASSISTANCE. Foreign assistance support, at any period is the product of a variety of complex and interesting motives and objectives of both Donor and recipient

18. cont'd.... Studies. University of Sussex. Vol. 3 No.2 Jan. 1971.

19. T. Hayter:- Aid as Imperialism. op cit

20. Ibid Page 155

21. For an explanation of the "Structuralist" thesis in contrast to the "monetarist" stance of the agencies, see ibid Page 42-43 footnote.

countries. Most developing countries' economic motivation appears clear-cut and precise: the objective is to be assisted in achieving economic growth on a sustainable basis. For the more "radical" and "progressive" governments, however, their policy objectives go beyond the realm of straight forward growth. They need external support in changing their economic structure by means of a variety of often unpopular policy instruments so as to enable them to achieve significant economic and social progress as well. For them it is not enough to argue that growth of the real product is necessary for the achievement of better wealth distribution, and expanded social services and a closely linked urban and rural communities, the growth of national output must be conditioned towards the achievements of these objectives of a broadly based economic and social development.²² The donor's sympathy with the developing countries objectives is not the only, nor the main rationale for their commitment to foreign aid. For them, the desire to assist in raising the living standards of the LDC's is only one factor in an aid policy and programme that is designed to satisfy not only other economic and commercial self-interest, also ideological, strategic, diplomatic, cultural and political objectives. Professor H.B. Chenery,

22. Some regimes in developing countries often see foreign aid as more than just an economic support, but a seal of political, military and moral approval by the donor countries. C/F Nulty's quotation above.

23. H.B. Chenery:- "Objectives and Criteria of Foreign Assistance" in G. Ranis (ed). The United States and the Developing Economies. Page 81

who at one time served as an official of (U.S.) AID has stated that "the main objective of foreign assistance as of many other tools of foreign policy, is to produce the kind of political and economic environment in the world in which the United States can best pursue its own social goals."²³

"Realpolitik" is evident too in Soviet aid, for example to India. P.J. Eldridge has argued that "although the Soviet Union has seemed generally content to explain its aid in ideological or at least anti-Western polemical terms, on closer examination, its objective prove to have been influenced far more by diplomatic than ideological considerations..... Her basic diplomatic objective would appear to be the mitigation of Western influence in India, especially in the sphere of foreign policy. In this she has been generally successful."²⁴ Paternalism, socio-cultural affinity and the maintenance of historical ties and spheres of influence in their former colonies, determine the foreign aid policy and allocative criteria of Britain, France, Belgium and other imperial powers.²⁵

24. P.J. Eldridge:- The Politics of Foreign Aid in India London, 1969. Page 175.

25. Note the historical development of foreign aid in the United States. The post-war Marshal Aid for European reconstructions was followed in the 1950's by foreign aid, which by means of the Mutual Security Act (1953) was justified primarily as a national security measure needed to strengthen allies and to build up LDC's so that they could be less vulnerable to "communist invasion or takeover". In the 1960's, economic growth began to be given higher, but by no means overriding priority. The basic framework for foreign aid since, has been the "Foreign Assistance Act. of 1961".

The most unfortunate aspect of foreign aid policies is that the donors objectives underlying them have led to the existence of a programme and machinery that were designed for the political advantages and indirect economic benefits of the donors than for the social and economic development of the recipients.²⁶ The cry for multilateralization and other reforms of aid mechanism must be seen partly as a call for depoliticisation of bilateral aid policy. For no economic rationality can be postulated to justify a British policy that gives more aid to Turkey than all non-commonwealth Africa. It is ironical that while donor's national bilateral distribution of assistance throughout the developing world shows minimal economic influence, it is usually for economic developmental efforts that the greater part of such inflows into the developing countries are earmarked.²⁸ There exists a widespread belief among "development" economists that aid as a direct instrument of donor's foreign policy is inefficient, if not inevitably self-defeating. If aid used presently to serve the donors' short-term commercial, political and military - strategic interests were designed strictly to develop the recipients' economy, the greater is the possibility that such a successful aid programme will serve in a much better way the donors Long-term objectives.²⁹

26. A movement in the wrong direction for British foreign aid policy is the abolition in winter 1970/71 of the Ministry of Overseas Development and the transfer of overseas aid to the Foreign and Commonwealth Office.

28. See the proportion of "Official Development Assistance" in total official flows in Table 5.

29. C/F R. Robinson (ed):- International Co-operation in Aid. op cit.

AN INSIGHT INTO THE STATISTICS OF FOREIGN AID: VOLUME, TREND, STRUCTURE, TERMS, SOURCES AND ALLOCATION.

A detailed study of the statistics of foreign aid is available in the annual reviews of DAC/OECD.³⁰ I shall only be concerned here with a general analysis of the "aid scene" as is likely to exist in the Second United Nations Development Decade. Any judgement concerning the performance record of the donors can only be made against the background of what international opinion considers as the adequate requirements for the 6% target growth rate of the "Third World".³¹ The most well-known criterion is the "1% of GNP" rule first put forward by UNCTAD II in New Delhi in 1968 and which was reaffirmed at the third conference in Santiago - de - Chile in May, 1972. Yet it was the inadequacy of the flows of the last decade in relation to the previous target and the need of the developing countries which has prompted the Pearson Commission to urge for an accelerated increase during the "second development decade". Their recommendation for volume increase seems more optimistic and therefore less likely to be achieved than the 1% of GNP' target before it. "Specifically, official development assistance should be raised to 0.70% of donor GNP by 1975, and in no case later than 1980."³²

30. DAC/OECD:- Development Assistance: Efforts and Policies of the Members of the Development Assistance Committee. Annual Reviews. op cit.

31. See United Nations:- Towards Accelerated Development; Proposals for the 2nd United Nations' Development Decade 1971-80. New York 1970.

32. Pearson Report op cit Page 18.

This compares with an average flow of 0.36% in 1969. The highest proportion achieved in the '60s was 0.54% in 1961.³³ France apart, none of the major donors' flows came nearer 0.50% of their GNP in the last five years (1965-70),³⁴ though they did better in terms of their total net official flows - including non-concessionary credits - or in terms of net flow of resources, including private capital, reaching developing countries. However, it is the statistics of official development assistance, which must be recognised as giving a fair picture of the degree of aiding on concessionary terms for economic development. It has its own drawback too, since donors tend to include all concessionary assistance under the title of "Official Development Assistance", even if such assistance are glaringly for non-economic purposes. For example the half a billion dollars which the United States has in recent years been disbursing annually in South-East Asia including South Vietnam, has always been included in her "official development assistance" figures.

The flows of official aid from DAC countries to LDCs in 1968 was no higher in real terms than in 1961 and substantially lower, as a percentage of the aggregate real GNP of the donor countries. In fact the stagnation of the '60s is likely to be followed by a decline in real terms of volume disbursed to LDCs and the multilateral agencies in the early seventies. In real terms, official flows in 1969 fell

33. See Table 6. Official development assistance are flows on concessionary terms which are primary intended for economic and social development of LDCs.

34. See Table 14.

below the 1968 figures and as the Chairman of DAC/OECD warns, further contractions were in the pipeline.³⁵ The fall was due mainly to the reduction in the flows of the three big donors, namely the United States, France and the United Kingdom, but more especially to official cuts by the first named country. Total official flows as share of GNP fell from 0.43% in 1968 to 0.39% in 1969. If we include private capital flows which as we have seen, has increased substantially in the last two years, total resources flow from DAC countries to LDCs and the multilateral agencies fell in GNP terms from 0.79% in 1968 to 0.72% in 1969. However, if we exclude the U.S. total official and private flows from the overall total, we find that flows from other DAC members actually expanded, from 0.92% of GNP to 0.97% in 1969 (nominal value). This performance was within the striking distance of the 1% target. All the E.E.C. countries show figures above 1% of GNP in 1969. West Germany led the rest with a 1.3% figure. The Germans have substantially increased their private flows so too have the Japanese. The decline or stagnation in aid from the major donors has variously been attributed among others, to balance of payments difficulties, domestic inflation, international pressure on government resources, mounting defence expenditures, international finance crisis especially the liquidity problem, and to non-economic reasons such as aid weariness, widespread apathy and disillusionment, especially in the United States over the aid performances, and scepticism over the capability of these programmes to achieve announced objectives. Further

35. DAC/OECD:- Annual Report for 1969. Paris, July 1970.

more, corrective measures in the economic and monetary fields have had serious fall-out effects on developing countries. In view of the influence of current economic situations on resource transfer from the developed industrial donors, it is likely that future flow of bilateral resources to LDCs will be determined to a considerable extent, not by the "richness" of a donor, but by the growth rate and strength of her economy. The Japanese programme of attaining a total flow of 1% of their GNP by 1975 and thus become the second largest exporter of capital resources to LDCs, is illustrative of such a trend.³⁶ THE AID GAP Without being embroiled in the question of how much external assistance individual developing countries really need in the short-term to restructure their economies and/ or accelerate their growth rates, I venture to make some general observations on what most economists see as the gap between the aid that is provided and the amount that ought to be provided.^{36A} Working on the premise that at least a 5% annual growth rate for LDCs should be achieved if the minimum improvement in the

36. C/F Barry Riddell:- The Times (London) April 29, 1971 "Aid from Japan has soared in the past decade. By 1975, it will be the world second largest donor - devoting 1% of its GNP to aid. Thus the outflow will run at about \$/ U.S. 4 billion. Japan has already overtaken the volume of Britain's overseas aid, and by 1975, it will exceed the annual outflow of Britain and France combined." Note "aid" in this article refers to both official and private capital. Japanese expansion is centered mainly in the private investment and credits fields rather than in the real official development assistance. The Japanese like the Germans provide far too little of their aid on generous terms, though there are plans in Japan to increase official component of total flow and to abolish tying.

36A. For detailed theoretical exposition see Appendix V.

standard of living of their communities is to be realized, we find that "an increase in capital inflow to all LDCs of at least 5% per year will probably be required to sustain the existing growth rate of slightly over 4%. To raise the growth rate of the under-developed world to 5% or more would probably require an annual increase in assistance of 10% even with some improvements over past performance."³⁷ But the record of foreign aid is one of the "failure of real net capital inflow to show any significant tendency to rise since 1961. With such a stagnant level of foreign aid, and no significant relaxation of protectionism by the industrial countries, it would take an appreciable number of LDCs well into the next century before they would be likely to achieve even a modest target of an average real product per head of £100 sterling (at 1960-61 prices)."³⁸ Whatever one may feel about the "reasonableness" of the 5% growth rate for aid disbursement, the fact that such a rate is actually matched by a decade of stagnation and a future of potential decline, is enough evidence to support the assertion that the gap between need and actual disbursement is widening. A greater increase in the standard of living of the developed countries, relative to LDCs, ensures a similar widening gap between the "rich" and the "poor".³⁹ Some economists believe that the

37. H.B. Chenery:- The Effectiveness of Foreign Assistance in R. Robinson (ed) - International Cooperation in Aid. Op cit Page 68. C/F A. Maizels:- Exports and Economic Growth of Developing Countries (Cambridge, 1968) Page 278 where the author projects that "to achieve growth rate targets (of 5% GDP or 2.5% GNP per capital), the net capital inflow requirements of LDCs in 1975 would be in region of $3\frac{1}{2}$ to $4\frac{1}{2}$ times the level of aid these countries received during early 60s".

38. A. Maizel:- ibid Pages 266-267.

39. The average annual growth rates of per capita GNP in 1960-68 for the advanced and low-income developing

question whether, in the long-term, a substantial increase above the current level is likely to be forthcoming or not , is "hardly an economic problem, since an increase in aid even to a level of 2% of national income would not be a major economic sacrifice for the principle industrialized countries. It is more a question of political will (to give)."⁴⁰ It is the absence of such willingness which I feel must have led the Chairman of DAC/OECD to "consider the development efforts of the members of DAC to be still in a stage of crisis."⁴¹

Some noticeable trends in the structure and composition of aid are likely to influence the character and effectiveness of aid in the future. The share of multilateral agencies' resource transfer, which has shown a small but steady increase in total flow - from 8% in the early 60s to the present 10% - is likely to rise appreciably as the main donors come under increasing pressure to channel more of their aid through institutions like the World Bank (IBRD), International Development Association (IDA) and the United Nations Development Fund (UNDF). The prospects and implications of such increases are discussed below.⁴² Within the slowing rising total official flows (in absolute, though not in real terms), there has been a steady shift away from grants and grant-like

39. Cont'd.... countries are 3.9% and 2.7% respectively. Besides, greater inequality of distribution is likely to exist in the latter countries.

40. A. Maizel:- Exports and Economic Growth of Developing Countries. op cit Page 23.

41. DAC/OECD:- Development Assistance. 1969 Review op cit Page 17.

42. See below Pages 155-162

loans. Up to 1967, this shift was at a moderate rate, but since then it appears to be gathering momentum.⁴³ From a proportion of over 65% in the early 60s, it has declined to just over half the total official flows by the end of the decade. The distinction between official concessionary flows and government-guaranteed commercial credits which was started in 1969 seems rather inadequate. For as I have shown with the United States' example, the official developments assistance data gives us little insight into how much of such flow goes genuinely into economically productive uses. Perhaps the worst anomaly occurs when total official and private flows are branded together as "foreign aid". Such a popular misconception is very strong within the public-at-large, in the donor countries, and is, to a considerable degree fostered by the mass media and a small but vociferous opponents of foreign aid.⁴⁴ To regard private investment for profit as foreign aid is clearly unrealistic, perhaps more important, it is surely an unwitting deception to receivers and an obstacle to greater generosity by givers.

One of the most striking features of the structural composition of official aid is the increasing amount of expenditures on technical assistance at a time when the trend of total official flows is pointing in a downward direction and when the grants percentage is also decreasing. Between 1962-68, technical assistance expenditures increased

43. C/F DAC/OECD:- Development Assistance 1969 Review op cit Page 44.

44. The "Times" article on Japanese flow, quoted above in footnote 33, illustrate this point. Also see Page 71 above.

by 99% in absolute terms. The proportion of development assistance given in form of technical assistance increased from 13.5% to 23.1%.⁴⁵ Since it is classified under grants, it means that an even greater proportion of grants and grant-like disbursement is spent under the technical assistance programme. Most of it is bilateral. The increase reflects a belated realization that skill limitations and institutional constraints must be tackled with the same urgency, as the building of dams or communication networks. In most countries, increasing absorptive capacity must take precedent over industrial expansion, if the latter is to be viable and efficient.

The increase in technical assistance programmes, which has become, more appropriately named, the manpower aid programmes intended to provide or produce the human skill and knowledge needed for development, is being effected by all the major donors especially the late-comers to the aid scene. Japan and West Germany tripled their technical assistance between 1962 and 1968, by which time, half of France's official aid was being accounted for by technical assistance. Among the developing continents, perhaps no where is technical assistance most needed than in Africa where skill-limited growth is most evident. Thus in some of the countries there, technical assistance, in the form of trained and appropriate

45. For detailed data, see Pearson Report, op cit statistical Annex II table 22 and DAC/OECD:- Development Assistance 1969 Review, Statistical Annex table 20 Page 319. For a critique of the present unsatisfactory way of measuring the real value of human capital loans under the technical assistance programme see G. Helleiner:- "New Forms of Foreign Investment in Africa". J.M.A.S. vol. 6, 1968 Pages 17-27.

key personnel is often more important than machinery imports or balance of Payments support. Almost a third of total aid to Africa, South of the Sahara consists of expenditures on and connected with relieving manpower bottlenecks. In general, Africa receives a greater volume of technical assistance in both relative and absolute terms than any other region of the developing world. The contribution of "private" technical assistance, as embodied in foreign private direct investment, is estimated by Gerald Helleiner to be nearly 40% of total pool of foreign manpower skill supplied to the developing countries.⁴⁶

Nearly 40% of total expenditure on technical assistance programme is spent on provision of "experts" to the developing countries. The soundness of such expenditures could be impaired if the expertise so transferred is unsuitable for, or irrelevant to local circumstances. H.W. Singer has drawn attention to the inappropriateness of some technological and scientific knowledge embodied in human and physical capital transferred to LDCs.⁴⁷ Even more important, the Chairman of Development Assistance Committee (DAC) of OECD has conceded that "to much by far of technical assistance

46. G. Helleiner. Ibid Page 18. His article is a crusading call for greater expansion of the flow of "human capital" to Africa. In this respect, he emphasizes the crucial role of non-officially sponsored personnel from the private sector: the technocrats, the businessmen of experience, the risk takers and innovators whose potentials are not limited to alleviating a bottleneck, but contribute to the improvement of local skills, to productivity and economic development.

47. H.W. Singer - Dualism Revisited. op cit.

is still engaged in transferring knowledge and skills that may or may not be currently pertinent in developed countries, but are clearly irrelevant to the problems, situation and resources of developing countries."⁴⁸ However, the important advantage of technical assistance to developing countries cannot be overstressed. The grant-like terms on which it is offered and the qualitative impact it makes on the productive forces in the developing countries are some of the good attributes that make foreign aid so important in international economic cooperation.⁴⁹

The most important trend in the Sources of assistance to the LDCs is the continuously decreasing share in total flow provided by the three major donors (the U.S., Britain and France), which is being offset by rapid expansion in the capital exports of the "new-comers" to the "foreign aid" industry." Together the contributions of the three had, by 1969 shrunk from an historical level of 75-80% to above 55% of total net flows from all DAC countries. The new-comers, not only include sizeable and re-emerging economies like Japan, West Germany and Canada, whose basic strength

48. DAC/OECD:- Development Assistance, 1969 Review, op cit Page 16.

49. For a collection of useful articles connected with technical assistance and allied fields, See Bulletin of Institute of Development Studies. University of Sussex, Vol. 3, No. 2 January, 1971. See especially A. Hurrell:- "An introduction to Manpower Aid" which deals briefly with the political sensitivity of recipients to some elements of technical assistance programmes, and a series of suggestions for improvements of such programmes. With respect to the last point, see also the section in Pearson Report, op cit entitled "New Directions in Technical Assistance" and the supporting recommendations, Pages 179-190. For a comprehensive analysis of a major donor, technical assistance programme see P. Williams:- "Britain Aid - No. 4. Technical Assistance" Overseas Development Institute (ODI) London, 1964.

are being enhanced by rapid growth and good performances in the last decade, but also relatively small but well-developed European countries like Sweden, Denmark, Austria and Norway. For the latter group, multilateral agencies provide suitable channels for making their "token" assistance in response to international exhortation for development of the Third World". By 1969, the four countries have increased their assistance to nearly twenty times the amount they provided in 1956.⁵⁰ The upsurge in enthusiasm for economic aid among these "new" donors is to be contrasted with the aid weariness and sense of frustration noticeable among the "old" donors.

ALLOCATION OF ASSISTANCE: If there is any area of assistance policy and aid administration that, from an economist's view, needs to be objectively reappraised, it is the allocation and global distribution of aid to the developing countries. However the chances of an economically rational distribution in the next decade or two are not so bright, not only because it has to await a greater coordination of the assistance programmes of donor countries but also because economic consideration is only one of the many factors that determine the allocation strategy. "For countries to which it is politically important to secure an adequate flow of resources, the allocation tends to be made regardless of development objectives or controls which are normally applied in other cases."⁵¹ In other words the politico -

50. World Bank/IDA Annual Report 1970 op cit. Page 47.

51. H.B. Chenery:- The Effectiveness of Foreign Assistance' in R. Robinson (ed) International Cooperation in Aid. op cit Page 68.

diplomatic, commercial, military - strategic and socio-cultural objectives of the donors vie with economic objective of development in determining the allocative pattern that eventually emerged. It is the profusion of such objectives among the donors on one hand and the existence of alternative criteria employed by the multilateral agencies and the different pattern of the Socialist Economies' aid, that gives the international assistance system of today, its lack of direction and coherence. For some of the major developing countries, it is partly the desire to overcome the uncertainty and inefficiency inherent in such haphazard and disjointed allocation that they have had aid consortia and consultative groups set up for them. While some degree of coordination have been achieved, however, this has not apparently resulted in such countries being treated more generously in comparison to others. This is hardly to be expected, since greater coordination and agreement on some general principles of aid-giving are likely to be unfavourably influenced by individual donors' political and commercial interests.

The present geographical distribution of DAC members bilateral aid bears a print of their historically acknowledged "spheres of influence". The bulk of the United States aid from all sources-mainly AID, PL480 and Export-Import Bank Credits - goes to Asia and Latin America. This disbursement to the former, including heavy military assistance is seen essentially as a "bulwark against the spread of communism". A heavy proportion of the former colonial powers (in Western Europe) aid is distributed in accordance with their historical, political and economic links with their former empires. In this respect, Africa appears to be good

beneficiary, with smaller amounts to India and Pakistan. The United Kingdom, for example, devotes about 90% of her bilateral aid to commonwealth countries. Assistance from the multilateral organizations are heavily concentrated in Asia and Latin America. Per Capita assistance is highest relatively speaking, in Africa, followed by Latin America. It is impossible to discover any connection between aid disbursement and economic criteria such as per capita income, performance, or "self-help" indicators. For example in 1964, Chile received aid equal to \$16 per capita, while India and Nigeria received less than \$3 and \$2 per capita respectively. In the same year Israel received over \$50 per head. Yet per capita incomes in Israel and Chile are more than twelve and five times that of India (or Nigeria) respectively. Nor do the allocations between concessionary and "hard-loan" assistance; project and programme loans appear to make much sense either. A ranking of 82 developing countries in accordance with the annual average (1966-68) of net official aid receipts, as percentages of imports, GDP, and Per Capita, shows the enormous discrepancies which occur in such ranking, when different economic criteria are alternatively applied.⁵² The largest recipient in absolute terms, India, ranks ninth according to aid receipts as a share of imports of goods and services, thirty-seventh, as a percentage of GDP, and sixty-ninth on a per-capita basis. Nigeria's position was 44, 55 and 60-70 respectively. The only countries which showed a reasonable degree of consistency in the three

52. DAC/OECD:- Development Assistance, 1969 Review. Table V.1. Page 168-69. See also table V.2 for each donor's distribution of her net assistance by currency area and political grouping, in 1960-68.

ranking orders and being in the top ten were war-torn Laos (1;1;8) and South Vietnam (4;2;5). Such rankings however do not reveal their special circumstances. While three-year data may not be ideal for gauging a long-term allocation pattern, nevertheless the inertia element in the pattern makes the ranking fairly representative of the first development decade's experience. Donor - recipient relationship, once firmly established, are not easily or quickly modified. Unless the assistance for both "cold" and "hot" war confrontation is substantially reduced, especially in the case of the United States aid - thereby allowing an economically - oriented better redistribution - the outlook for the 1970s is not likely to be appreciably different from the experience of the last decade.⁵³

A process of shifting emphasis of allocation criteria seems to be historically discernable. In the late fifties and early sixties, allocation by donors tended to be governed by the number of successfully approved projects which were expected to have catalytic and multiplier effects on the rest of the economy. The inadequate success of projects in their spread effect' and the desire of IDCs for an approach that gives greater attention to overall development policies and objectives as reflected in development plans, led to emphasis shifting to programme loans.⁵⁴ While the programme

53. For a detailed analysis of allocation of assistance, see ibid Chapter 5.

54. For a useful comparison of the merits (and demerits) of project versus programme approaches to aid allocation, and the reason for the suggested superiority of the latter approach see H.B. Chenery:- "The effectiveness of Foreign Assistance", op cit Pages 70-71.

approach was being consolidated in individual countries, the mid-sixties witnessed a new impetus being given to regional development. The implication was that part of resources which would otherwise have gone to individual economies was being earmarked by official donors (especially the United States during the Johnson Administration) and multilateral agencies for regional projects which would have beneficial effects on member nations within the region; aiding and hastening greater cooperation and joint action in the process. The geographical region approach to aid allocation could be particularly useful to the economically non-viable "mini-states" of Africa, for whom prospects of economic development must surely be with multi-national approach to development.

The present emphasis, at least in the United States is on the much exhorted "self-help" criterion. This is partly the result of aforementioned disillusion with aid for failing to produce quicker results. It is certainly a reflection on the developing countries failure to "tighten their belts" to the extent whereby external assistance is seen to make positive contribution rather than just merely permitting them to live beyond their means. If as I personally believe the essence of aid is to help those who help themselves, then, there is much to recommend this new emphasis. The success of austerity and self-help measures can be gauged from some economic indicators such as (a) the increasing volume and share of domestic savings in gross investment (b) the increasing volume and share of fiscal revenue in total government expenditures (c) expanding volume of social welfare expenditures and community development schemes (d) reasonable price stability and (e) adequate gold and convertible currencies reserves. Economic growth may be implicit in a successfully

adopted "self-help" policies, but growth per se , is not a meaningful indicator of self-help success or lack of it. Growth is quantitative; self-help is both quantitative and qualitative. As a yardstick for allocating aid, it provides a positive incentive for maximum national efforts.⁵⁵

The major criticism levelled against bilateral donor's allocation policy is that it hardly reflects any recognized economic criteria. The above emphasis appear to have been no more than changing theoretical objectives emanating from aid administrator's and planning officials' memoranda which have not really influenced aid allocation or overall volume flow. As R.F. Mikesell notes, "the history of aid-giving is replete with instances in which more aid has been provided than could be justified in terms of self-help measures (or economic performance) of the recipient."⁵⁶ It is for this lack of overall economic objective criteria and the fact that aid on present level has to be rationed between the diverse demonstrated needs of the developing countries that economists have put forward ample alternative criteria on which donor countries could base their allocation, at least, to the "development emphasis" countries. Each of these alternative criteria could be posed in form of a question.

55. C/F J.C.H. Fei and D. Paauw:- "Foreign Assistance and Self-Help - A Reappraisal of Development Finance". Review of Economics and Statistics No. 47, 1965. For Detailed exposition of the subject see below Appendix V.

56. Some of the indicators of development performance are (a) increase in GNP per capita at constant prices (b) satisfactory rate of growth in agricultural production (c) a rising rate of investment in GNP (d) adequate fiscal revenue for financing public sector economic and social programmes (e) reasonable price stability (f) balance of Payments equilibrium (g) increase in electricity production and/or steel consumption etc. C/F Page 102 on "Self-Help" indicators.

For example:

- (1) Should aid be increasingly concentrated on those countries which offer the greatest potential markets through their rapid development?
- (2) Should aid be allocated on a per capita basis to those countries which the donor wants to assist?
- (3) Should preference be given to those countries with low per capita income, even though their development outlooks are less promising than others?
- (4) Should priority be given to those countries that are on the threshold of, or have just achieved, a self-sustaining growth but whose resources are insufficient for a faster and accelerated growth?
- (5) Should adoption of, and successful implementation of self-help measures be rewarded with bigger disbursement than before?
- (6) Should relative economic performance as measured by standardized indicators⁵⁶ be the allocative yardstick? or
- (7) Should the flow to a particular country be limited by her demonstrated absorptive capacity?

There is no doubt however that at one time or another, aid donors take some of these conditions into consideration in announcing their foreign aid policies, for example for some countries in Europe where private outflows are important, criterion (1) seems to be of highest priority while the United States has lately started to re-emphasize criterion (5)⁵⁷ India's position as the largest recipient in absolute terms of aid must partly be due to criteria (2 and 3) being applied.

57. C/F DAC/OECD:- Development Assistance, 1969 Report op cit Page 164.

While economists agree upon the need to base aid allocation on economic criteria, they do not agree about which criterion or combination is likely to maximize the impact of foreign aid. Some have emphasized the self-help criterion as a condition for aid. Though it overrides equity consideration, its application is supposed to encourage fuller domestic participation in the development process.⁵⁸ The Fifth Cambridge Conference on Development Problems stresses the importance of some sort of economic performance criterion if in its view aid is to be allocated more rationally and employed more effectively, but agrees that the ultimate strategy for allocation must "strike a balance between objectives of human welfare and economic growth;" that is a combination of equity and performance.⁵⁹ R.F. Mikesell suggests that "donors should pay more attention to the allocation of aid for high priority and strategic purposes within countries than to the allocation of aid among countries, as a means of maximizing the impact of aid."⁶⁰ Those who see the undue influence of political considerations in allocation, advocate a "better rational" distribution through the expansion of multilateral flows.⁶¹ My own view is that a double standard or "criterion-mix" could be employed in relation to the two functions of aid. For those

58. Fei and Paauw:- "Foreign Assistance and Self-Help - A reappraisal of Development Finance. op cit.

59. R. Robinson (ed) International Cooperation in Aid - Impression and Papers of the 5th Cambridge Conference on Development Problems. Sept. 1966. op cit.

60. R.F. Mikesell:- The Economics of Foreign Aid. op cit Page 273.

61. C/F United Nations:- World Economic Survey for 1968; Also below Pages 155-162

countries in need of assistance for infrastructural expansion and structural transformation, self-help and per capita income criteria should be used, while for those countries already on a self-sustaining growth path, performance criterion as indicative of socio-economic development, seems the obvious choice.⁶² The idea that aid should be concentrated in a few most favoured countries where they are likely to make the most "productive" impact overlooks the unenviable position of the small, poor and obscure countries that most need official support since their poverty and uncertain future militate against any inflow of private enterprise capital.

TERMS AND CONDITIONS OF ASSISTANCE. In discussing the flows of foreign assistance to developing countries, it is equally important to consider the nature and terms of such flows as well as their volume. The quantity and quality of a flow can be enhanced or otherwise devalued by such factors as the proportion of official aid in the form of grants, the interest rates, grace periods and maturity dates of official loans, and the extent to which aid is tied to specified kinds of goods and/or purchases in particular donor countries. The pessimism in the outlook for total volume and the declining share of grants and grant-like flows have already been discussed. The question of tying and the effects of these factors on the overall costs to, the debt burden and debt-servicing capacity of, the developing countries are dealt with below. The terms of official development assistance acquired by a developing country cannot be divorced from

62. C/F Pearson Report, op cit. Page 17.

the commercial terms of government or government - guaranteed export credits, World Bank loans, and private export credits for it is the overall blend of these credits which is contingent on the debt burden shouldered by a developing country. It is unrealistic for such a country to congratulate itself for getting official loans on "soft" terms, if at the same time it is using the short-term relief inherent in such loans to pile up high export credits successfully promoted by the donor countries. After all, it is, invariably these short-term expensive credits that trigger off debt servicing crises and the attendant "rescue operations" and debt reschedules mentioned before.⁶³ Given the facts that (a) the volume of official assistance has been declining in real terms; (b) the interest rates on World Bank loans, and export credits have increased appreciably during the last decade; (c) most loans are financing infrastructure with long pay-off, and (d) during the same period, debt outstanding and debt service payments have each been increasing at the alarming rate of 12%, nearly twice the rate of growth of exports earnings and three times that of their combinational GDP,⁶⁴ the least the developing countries could have hoped for was an amelioration of the financial terms of official development assistance. However, such expectation was not justified during the decade, though some members of the DAC/OECD made some individual efforts towards the late sixties to liberalize their financial terms. For the donor countries as a whole the overall average terms have

63. Also See below Chapter 7.

64. World Bank/IDA:- 1970 Annual Report, op cit Page 50.
C/F U.N.:- World Economic Survey for 1968. Part I
Chapter II op cit.

worsened, judging from the term indicators in table 5.⁶⁵ From the developing countries view-point, if they include non-government loans, like the World Bank and IFC disbursements in their debt portfolio, the picture that emerges for recent years is one of "undue deterioration in the terms of assistance."⁶⁶ This disturbing view, expressed by the United Nations economics experts appears to be equally shared by the Pearson Commission⁶⁷ and the Chairman of DAC/OECD, who in his 1969 Review considers the problem of external indebtedness of developing countries and the financial terms of assistance as "a matter of continuing concern".⁶⁸ The inconsistency between the implications of the four factors mentioned above and the hardening in financial terms especially of the United States aid, has not gone unnoticed. Prodding from the developing countries and the international development institution plus the spectre of debt default, forced the Development Assistance committee (DAC) of the donor countries to recommend a softening of the terms of assistance. Thus in July 1965, the Committee adopted a resolution calling on member countries to make the best efforts towards individual softening of terms to meet two standards. A supplementary recommendation was adopted in

65. C/F Pearson Report op cit Statistical Annex II Table 21 Page 385.

66. U.N.: World Economic Survey for 1968 op cit See Pages 48-54.

67. Pearson Report. op cit Page 163. The average concessionary value of loans as expressed in the "grant element" declined from 54% to 48% between 1964-68.

68. DAC/OECD:- Development Assistance 1969 Review op cit Page 223.

February 1969 which called for further improvement in the terms of assistance. Under the "supplement to the 1965 recommendation", donor countries can achieve improvements in three ways: either (1) by providing a very large share - 70% - of development assistance in the form of grants or grant-likes; or (2) by providing a high proportion of grants or loans which individually carry a large "concessional element", or (3) by providing a mix of grants and loans on various terms which, taken together, contain a large average concessional element.⁶⁹ The later recommendation also recognised a new minimum volume requirement. Countries whose volume of assistance meeting the new terms "is significantly below the DAC average as a percentage of GNP - that is, 0.30% - will not be considered as having met the terms target". Thus any aid which is very concessional but equally very small in relation to a donor's GNP would not qualify. The main improvements of the 1969 supplement over the 1965 original recommendation are: (a) the narrowing of recommended terms specifically to official development assistance; (b) increased flexibility in official disbursement geared to meet the recommendation; (c) further softening of terms and (d) minimum volume requirements in order to comply with the spirit of the recommendation. Thus the new so-called "DAC average" term for loan was to be "8 years grace, 30 years maturity and 2.5% interest.

69. Specifically, under the DAC supplementary recommendation, a country is deemed to have met the target if (a) it provides at least 70% of official development assistance in grants and grant-like assistance; or (b) provides at least 85% of official development assistance commitments in such a way that each transaction has a minimum concessional element of 61%, or (c) ensures that 85% of such commitments contains an average concessional element of at least 85%. See World Bank/IDA:- Annual Report for 1969, op cit Page 38. The "concessional element" also called "the grant element" is defined as

But the DAC efforts towards liberalization and uniformity of terms standard cannot be anything more than a small step toward in the right direction. Unfortunately it does appear from the data available that members' pledges to fulfil the recommendation have not been borne out - so far. Overall terms have been hardening, contrary to the spirit of the recommendation while some countries notably the United States have been hardening their terms though remaining within the qualifying term.⁷⁰ This suggests in a way that the terms are still too "generous" to the donors. The influence on the donor countries with the fastest growth rate of foreign resource transfer has been minimal. There are technical deficiencies and arguable points in the clauses, for example the question of a proper discount rate and the appropriateness of the all-embracing "official development assistance," as to reduce the effectiveness of the recommendation.⁷¹ It is partly for the inadequacy of DAC recommendation that the Pearson Report recommends "7-10 years grace, 25-40 years maturity and 2% interest" as a softening structure within which the varying circumstances of the recipient countries can be accommodated.⁷²

69. Cont'd.... the difference between the face value of a financial commitment and the present value of the prospective stream of amortization and interest payments thereon discounted at a conventional rate of 10%

70. While it may be too early to relate individual member's terms to the 1965 and 1969 recommendations, it may be useful to note the 1969 financial terms of official development assistance (ODA) commitment of two "extreme" donors and compare them with the average achieved by all DAC members. Compare them also with the recommended "DAC averages". Thus

FOOTNOTE 70 (Cont'd.....)

LOANS

	Grants as % of Total ODA	Maturity	Weighted Average Interest Rate	Grace Period	"Grant Element" as % of ODA loan Commitment	Grant Element as % of total ODA Commitment
"Soft" donor, Canada	60% (83)	48.5yrs(50)	0.3% (0.0)	9.8 (70.0)	38 (94)	95 (97)
"Hard" donor, Japan	42% (62)	19.5yrs(179)	3.7 (3.7)	6.1 (5.6)	45 (42)	68 (80)
Average for DAC	66% (58)	28.4yrs(30.7)	2.9 (2.7)	6.7 (7.2)	56 (58)	85 (80)

N.B. 1968 figures in brackets. Source:- DAC/OECD:- Development assistance, 1970 Review op cit.

It has been shown that there is a good deal of varying "success" among developing countries as to the kind of financial terms they received. But such differences bear no positive relation to the differing situations raised by their development.⁷³ Like allocation, terms contracted are not related to their debt service capacities. In some cases the hardest terms have gone to weaker countries rather than to those best placed in relation to their economic performance or stage of development. Only in the case of grants and grant-like do countries with the lowest incomes, the heaviest debt burdens and the poorest export growths, appear to be slightly better treated. Nobody can deny the fact that there are many practical problems which need to be solved in adjusting term policies fully to the real differences among developing countries in their need for softer loans and in their ability to sustain harder ones. Efforts being made by development - oriented institutions like DAC, IBRD and the UN Economic Commission towards further liberalization and harmonization of donor terms of

71. See also Pearson Report, op cit Page 164.

72. Ibid Page 167, For DAC members compliance with 1965 and 1969 terms recommendations see DAC/OECD:- Development Assistance 1970, Review op cit Statistical annexe Tables 12 & 13.

73. See DAC/OEC:- Development Assistance 1969 review op cit Pages 227-232.

74. Optimal usage in the sense of maximum social returns.

75. Timothy and Leslie Nulty:- "What is the Problem with Foreign advisers?" Bulletin of Institute of Development Studies, op cit Page 26.

assistance though slow, are moving in the right direction. It does appear to me however that unless developed donor countries impose some sort of collective quasi-judicial or moral obligation on themselves to comply with the standards they set themselves or with targets considered by others to be more realistic and desirable, no satisfactory solution will emerge in the second development decade.

The desire for further softening of resource flows is not without an inherent danger. Expectation of a long period of foreign assistance on concessionary terms can certainly dull the zeal of the Governments of developing countries for policy reforms and self-help measures. Aid administration on both sides must keep a watchful eye on the possibility of two adverse developments: (1) the extent to which external resources both private and official are being substituted for domestic resources; and (2) whether or not "low cost" foreign capital in combination with local capital is being used optimally.⁷⁴ The influence of foreign advisers in guiding against such potential difficulties may have been over-rated in the past. For, as Timothy and Leslie Nulty allege, inefficiencies in the use of foreign exchange and the substitution of foreign for domestic resources have been the (nearly) inevitable outcome of the very policies rendered by foreign advisers.⁷⁵

COST AND BENEFIT OF AID: This section is limited to an analysis of quantifiable cost of foreign aid, while the more qualitative benefit to both donors and recipients are treated in a general way here and in more detail in the overall critique below. There is no doubt that compared with benefits it repays, the financial cost of foreign assistance to both the donors and recipient is small. However the real

cost to a donor country is a good deal less than the gross nominal figures given in the annual aid budget, while the financial cost borne by the recipient is less appreciated in the donor countries.

COST OF AID TO DONOR. While the purpose is not to underestimate the sacrifice being made by the donor countries in the drive for development of the so-called "Third World", it is the contention of this analysis that the present official system of valuing foreign aid overstates the subsidy, grant, gift or "pure" aid inherent in the altruism of foreign assistance. If the latter is strictly defined as the intrinsic, non-directly returnable subsidy or "hand-out" for development or other purposes, the nominal data of disbursement became an inadequate measure of their sacrifice. To evaluate the "pure" aid content or "grant element" of official flows, all the various types of such flows must be reduced to their grant-equivalents.⁷⁶ Such evaluation of pure aid would involve the elimination of direct returns on loans and other commercial credits. The real amount of aid becomes the difference between the nominal value and the discounted present value of expected loan repayments, discounted at a rate of interest reflecting the alternative employment of long-term public capital or the average long-term rate of return in the economy of the donor countries. The degree of subsidy involved in an official

76. C/F J.A. Pincus:- "The Cost of Foreign Aid" in Review of Economics and Statistics, Vol. 45 No. 4 1963 Pages 360-367.

transfer is usually expressed as a percentage of the nominal flow. Thus a "grant element" of 85% of official development assistance commitment - the DAC average for 1969 - means that the subsidy or pure aid as defined above is only 85% of the nominal average DAC flow to developing countries. A grant disbursement necessarily implies 100% grant element, while the harder a loan becomes, the smaller is the grant element inherent in such loan. Table 13 shows a comparison between the nominal and real value of aid commitment for individual DAC members in selected years. For DAC as a whole, the present official system overstates combined flow totals by 46-50% compared with the real volume of pure aid in the years 1962, 64 and 65, when non-grant flows are discounted at the average long-term borrowing rates of each country in the appropriate year.⁷⁷ The degree of overstatement is reduced when the relatively high 10% discount rate is employed. If the real volume of subsidy is taken to represent the real cost of aid to the donor countries, the table also shows a wide discrepancy between the real cost of aid and the "nominal total" as report by DAC/OECD. The built-in correlation between grant proportions and grant elements of total commitment ensures that countries provide a large share of their assistance in form of grants tend to have a low degree of overstatement, while countries providing their assistance predominantly on hard terms, not only contribute in real terms less as a proportion of their GNP

77. To calculate the "grant equivalent", the variables involved include the interest rate actually charged, time pattern of repayment, grace period, maturity date, repayments in "hard" or "soft" currency, or in kind, the rate of return on capital invested at donor's home economy.

than they appear to be doing, but also over-state their "generosity" considerably. In this respect, see the positions of Portugal, Italy and Japan in the table.

Some other useful data may be mentioned: The total grant element as percentage of total DAC official commitments in 1964, 65 and of official development assistance (ODA) commitment in 1968, 69 discounted at 10% were 81.6%, 77.1% 80% and 85% respectively though the use of long-term borrowing rates reduces the DAC average for 1964 and 1965 to 68.6% and 66.2% respectively. The grant elements are evidently inflated by the influence of grants and grant-like flows. The grant element of loan commitments in 1965 and of ODA loan commitment in 1968, 69 were 42%, 42% and 45% respectively - using a 10% discount rate. This shows that the element of subsidy in loans is not as large as is generally supposed. The degree of overstatement of real volume of sacrifice by the donor countries inevitably meant a revaluation of official flows as percentages of GNP. For DAC as a whole, the average 0.46% of GNP is reduced to a grant element of 0.35%. For donors like Australia and France that give their assistance substantially in form of grants, the adjustment in their percentages is minimal, but for "hard term" lenders like Japan, Austria, Portugal and Italy, the real cost of aid in terms of GNP is a good deal less than the nominal figures. For example in 1968, net official flow from Japan was 0.48% of GNP while the grant element is only 0.24% of GNP.⁷⁸ Since export credits and private capital flows are commercially motivated and hence lack any element of charity, the evidence assembled in this section is indicative of the low

⁷⁸ See Table 12A.

level of real long-term sacrifice being made by the developed countries in the huge task of developing the low-income countries. The figure of 0.35% of GNP in 1968 and 1969 is a far cry from the much publicized "1% of GNP by 1975" target set for the Second development decade. Furthermore the grant element of 0.35% of GNP may actually be overstating the real subsidy since it is based on a 10% discount rate. The use of a more realistic lending countries' own interest rates, for example long-term government bond yields would inevitably reduce the average sacrifice. It must also be borne in mind that both the total official and ODA disbursement traditionally always appear to be 15-30% less than usual commitment pledges.

There are at least four different ways in which the genuine cost of aid to the donor can be estimated. First there is the "opportunity cost". In the short-term the opportunity cost of foregoing the capital transferred is equivalent to the nominal volume of aid reported in the aid budget, in the sense that the sum might have been used domestically for modernization of the social services. Secondly there is the "resources cost". This is likely to be less burdensome where unused capacities exist or when surplus food or machinery is transferred abroad. If on the other hand, there exists full employment, aid diverts to export some of the products for which there may be a domestic demand and may thus contribute to inflationary situation. Resource cost is more akin to the real cost of aid.⁷⁹

79. C/F F.D. Holzman in "The Real Economic Costs of Granting Foreign Aid"; The Journal of Development Studies Vol.7, No. 13 April 1971. Holzman argues that a grant or loan involves a social cost to the donor only if the donor is deprived thereby of the use of current output for domestic (or normal trade) purposes.

Budgetary cost is the nominal aid commitment announced annually. Its fiscal orientation differentiates it conceptually from the opportunity cost inherent in aid flows, lastly there is the cost of aid in terms of foreign exchange to the donor. I have already touched upon the importance of the balance of payments in relation to foreign aid programme. The recent decline in the flows from important donors like the United States and the United Kingdom has been partly blamed on their balance of payments and reserves difficulties. Tying of aid has been substantially justified as a means of reducing the foreign exchange cost of aid. The relationship between aid tying and the balance of payments is fully explored below.⁸⁰ Suffice it to say here that the foreign exchange cost of aid is substantially less than the gross nominal value in the aid budget. Since on average 75% of foreign aid by DAC members is tied to the donor countries, the average exchange cost among DAC members is about a quarter of the nominal flow. The case of the United Kingdom illustrates this point. A British Labour Party Document on foreign aid attacks the myth that aid is a

79. Cont'd... To the extent that aid is provided by (i.e. results in) the employment of otherwise unemployed labour and other primary factors, it may be viewed as socially costless to the advanced nations. In fact by eliminating further unemployment via the multiplier, the granting of aid, given the appropriate time lag, leave the donor with more output available for use than before. See Page 245. However I feel that the current smallness of aid in relation to total annual production militates against it having such a stimulus effect on aggregate production and output.

80. See also Chapter 5.

burden on the Balance of Payments accounts. It explains that "at least two-thirds of the aid programme is spent (i.e. tied) on goods and services in the United Kingdom, making the cost to foreign exchange only about £70m per annum. In addition, at least £60m a year comes back to Britain as payments on capital (amortization) and interest on old aid loans. Although Britain provides only about 7.5% of all aid flow to under-developed countries, she receives at least 12.5% of all orders for goods and services by LDCs from developed countries."⁸¹ The implication of this estimate, which has been substantiated by other studies is that for a gross aid budget of about £210m, the foreign exchange cost is only about £50m.⁸² The French aid programme typifies the subtlety of the resource and foreign exchange cost of aid. The generosity of the French in budgeting during the 1960s more than 1% of their GNP to foreign aid becomes less exceptionally outstanding if it realised, as Teresa Hayter has shown in a study for ODI of French aid to her former colonies, that nearly a quarter of this was spent on salaries of French operational personnel who form the core of her technical assistance programme. Thus a larger proportion of French aid was spent on paying her own civil servants, or to put it in another way, on providing continued employment for a large number of ex-colonial civil servants.

81. British Labour Party:- The Fight Against World Poverty - Labour Commitment. Transport House, London 1969.

82. See for example B. Hopkin and Associates:- "Aid and the Balance of Payments". Economic Journal. March 1970; and also the calculations by Andrzej Drassowski of the ODI, quoted in A.G. Kemp:- "Long-term Capital Movement" Scottish Journal of Political Economy Vol. 13, 1966.

THE COST TO THE RECIPIENTS:- Which ever way we may look at the cost of aid to the donor countries, there is no doubt it is a microscopic fraction of their national incomes, but it is economically crucial to most developing countries. The cost of aid to taxpayers there, is relatively much greater; for the burden and risks of development loans bear upon them more heavily than they do upon the donors. The biggest losers of ineffective or misapplied aid are the recipients themselves. There are three principal areas on which the cost of foreign assistance to the recipients become well-pronounced. These relate to aid tying, local cost of foreign-assisted development projects and the question of debt servicing. Each condition attached to aid by the donor in order to secure some economic or political advantage or leverage is likely to have a cost to the recipient. The costs to the recipient of tying include (a) overvaluation of the amount of aid, and increased loan repayments. For example, Pakistan was estimated to have lost about \$60m from a \$500m foreign aid for 1966 through inability to purchase commodities and equipments from the cheapest markets,⁸³ and (b) by implication reduction in the total assistance provided, and (c) distortion of resource allocation of the recipient countries. To absorb agricultural surpluses and machinery tied to projects may adversely depress internal prices or reduce incentive for increased local production which could otherwise be economical if aid is not so restrictive in the form and type it takes. Such a costly development exists especially "in....."

83. See Below Pages 125-126

84. H.B. Chenery:- The Effectiveness of Foreign Assistance
op cit Page 72.

the larger countries, such as India, Brazil and Turkey where the development of machinery and metal working industries is consistent with their long-term comparative advantages; excessive reliance on the project approach would force the country to inhibit the development of these sectors and limit the total aid they could receive."⁸⁴ (d) inability of the recipient to choose an appropriate technology or employ international consultants of her own choice.

For developing countries with poorly developed tax base, the need to meet the local costs of externally assisted projects impose heavy burdens on government resources that at times become unbearable. Thus there are instances where the governments of some developing countries have not been able to make full use of foreign exchange costs of projects provided by the donors simply for lack of complementary domestic funds,⁸⁵ "Donors", the Cambridge Conference on Development Problems suggested, "should be readier than they are at present to meet local costs in many instances;.....
... the precise share of the recipient should be fixed according to his means and not by some arbitrary standard procedure."⁸⁶

Debt service is outstandingly the heaviest burden that foreign aid impose on LDCs. For many of them, the cost of interest and amortization of past loans is increasing faster than their export earnings or the growth of their GNPs. Some Latin American countries are actually receiving negative net aid in the sense that the current gross disbursement is less

85. In the case of Nigeria for example, see below Chapter 7

86. R. Robinson (ed):- International cooperation in Aid.
op cit Page 20.

So also on 5/5
No receipts
rather weak

than the outflow of amortization and interest on past debt. The servicing difficulties of some countries have already been referred to earlier on.

The **inference** that can be made from above analysis is that the element of subsidy by the donors is smaller, and the direct and indirect cost of foreign assistance for the recipients is greater than is generally presumed. "Debt servicing, repayment of principal, loss of cost-effectiveness through tying, inefficient technical assistance and local costs impose heavier burden on poor recipients than on wealthier donors."⁸⁷

THE BENEFITS OF FOREIGN AID. The economic benefits that can be derived by developing countries from foreign assistance cannot be over-emphasized. Additional resources made available for the development process; the breathing space provided to adjust the structure of resource use; the filling of skill, saving and exchange gaps that limit the growth potentials, the spread of appropriate technical know-how, organisation and administrative expertise essential for increasing the absorptive capacity, and the moral support, exhortation and constructive criticisms, are some of the beneficial factors which in my opinion are fully appreciated by the developing countries themselves. By financing the so-called "Green Revolution", infrastructural expansion and socio-economic amenities like water supply, electricity and roads, foreign aid more often than not, thus penetrates down to the level where its benefits can be felt by the ordinary man. If "success stories" are few, the implication to be drawn is that development is a complex, hazardous and enduring

87. loc cit Page 20.

process. Yet the special circumstances of these countries - Taiwan, South Korea, Israel and Ivory Coast - must be borne in mind before castigating those who have not yet "made it".

Attempts have been made to calculate the quantifiable benefits accruing to a recipient country, for example through the notion of increment to the GNP. The striking fact that emerges is the importance of long-term effect of development assistance. This long-term effect, that is the indirect effect - on growth and development resulting from the productive use made of the initial increment, may be more decisive in shaping the development process of the recipient country. While the marginal productivity of hundred dollars of foreign exchange - provided to import complementary inputs for idle domestic factors and thereby resulting in the addition of three hundred dollars worth of goods to the GNP - may be 3, the long-term productivity of those original dollars through the use of the extra three hundred along with other surplus to be generated, is not limited to a measurable expansion of GNP but also to qualitative benefits engendered in the economy, such as institutional transformation in approaches to planning, saving and investing. The relative importance of the long-term indirect effects of aid in determining the total outcome over a given period is illustrated by a case study of Greece. Of the total increase in GNP between 1950 and 1961, 15% would have been achieved without assistance from abroad; 35% represented the direct initial effect of the assistance provided, and 50% was attributable to the indirect effects of aid.⁸⁸

88. H.B. Chenery and I. Adelman:- "Foreign aid and Economic Development - The Case of Greece". Review of Economics and Statistics Feb. 1966.

For the rulers of a developing country, the benefits of foreign assistance extend beyond the field of economics. Continued assistance is invariably interpreted as political and diplomatic support of the donor, or in time of political emergency, takes the form of military and moral support. A double-edged damaging criticism of foreign aid is the danger of donor countries propping up regimes that are incompatible with a policy of accelerated economic development and greater social justice. On the other hand threats of with-holding aid, especially continuing disbursement for well-advanced projects, may be used against a "recalcitrant" government, irrespective of the domestic support or approval of the policy that is incurring donor's displeasure.

The benefits derived from giving assistance to "needy" countries are as complex and varied as the motives and objectives of the donor countries. These advantages include political, diplomatic, military-strategic and economic benefits. In the international context, a school of thought sees the aiding of the poor, underdeveloped parts of the world as the safest insurance against socio-political instability and revolt against the rich nations which escalating aspirations matched by accelerating frustration might dangerously engender. Aid is therefore seen as a contribution to world peace, and serves the long-term interest of the donors. Similarly economic expansion in the developing countries is mutually beneficial to all and is a boost to international trade and cooperation. Perhaps the chief economic benefit of aid, achieved through an array of aid controls and administrative apparata, is realized in the field of exports and special trade agreements. Aid tied to supplies from the donor countries or even more narrowly

to commodities, is a case in point. The observation that overall benefits of assistance to both donors and recipients outweigh the recognizable costs to both sides, is not necessarily a call for an individual developing country to welcome uncritically, or even beg for, foreign aid. Clearly, where the measurable and non-quantifiable costs especially in the social field exceed significantly the long-term benefits to the country, a polite refusal of that kind of aid must be the logical decision.

AID TYING AND DONORS BENEFITS I have stated above briefly the disadvantages and cost of aid to the recipient developing countries. Since what is cost to the recipient is likely to be the benefit to the donor, I now examine in some detail the donor's case for attaching political, economic as well as commercial strings to aid disbursement. Tied assistance come in all sorts of packages to the developing country. They are tied to the country of origin, tied to individual projects or to specific end-uses. Apart from specific project aid, the commonest form, however is the country tying, which deprives the recipient the opportunity of purchasing from the cheapest source of supply in the international market. All forms of tying result in one way or the other in higher prices, or reduced real value of loans. If the assistance takes the form of a loan, the recipient may be obliged to service an inflated debt as in the case of Pakistan mentioned above. Furthermore, the restriction on procurement to supplies from one country may mean that the recipient has to be saddled with equipment, technology and production technique which may be inappropriate for her needs and circumstances. The narrower the source of assistance and the more stringent the attached conditions are, the

worse will be the effects of tying. Yet most donors as a matter of policy, continue to tie their aid, with very little change in the degree of tied assistance during the last development decade. The share of untied assistance (as defined by DAC/OECD, see 1969 Review) in total official gross disbursement during 1966-1968 varied between 22-26%. In 1968, 73.9% of official development assistance from DAC members was contractually tied. It is worth noting here that most multilateral assistance is untied.

There is a scarcity of published studies of the monetary costs of tied resource flows to the developing countries. M. Haq's quantitative analysis of Pakistan's experience during the early sixties is a pioneering work in this field.⁸⁹ His study of Pakistan's experience in the purchase of plants and equipments, yields the following results: the weighted average price of twenty selected projects came out to be 51% higher from the tied sources compared to the international bids. Tied services, particularly shipping also contributed to the inflated prices. The United States, a leading donor to Pakistan appeared to be the worst offender in this respect. Her freight charges were often twice the lowest quotation in the international bidding. Perhaps much more serious than the unavoidable overpricing that some high cost donor countries were obliged to offer, is the knowledge that "the quotations offered by the suppliers are often higher if the suppliers know that it is a tied credit, and come down considerably once it is made clear that the supplies

89. M. Haq:- Tied credits - A quantitative analysis in J.H. Adler (ed):- Capital Movement and Economic Development London 1967 Chapter 9.

will be financed against cash or untied credits. There is no reason why such large differentials in quotations (sometimes as much as 40-50%) should exist from the same source of supply."⁹⁰ Haq lists enough examples to substantiate this point.⁹¹

The tying of assistance has been motivated by a variety of considerations, political as well as commercial and economic. The political consideration finds expression in a primary desire to preserve the national identity of the aid-financed projects and supplies, for example the Aswan Dam (U.S.S.R.) or the Tanzania-Zambia Railways associated with the Peoples Republic of China. Tying invariably becomes the control mechanism for, and/or reinforcement of, the political and economic leverage which the donor exercises, or wants to exercise. Furthermore, tying is seen by the donor authorities as a mean of gaining and sustaining domestic public support for aid programmes. The economic and commercial rationale for tying is to reduce the aid burden in terms of foreign exchange cost and resource cost to the donor. Specifically tying may be (1) to promote exports generally, for example through government - guaranteed export credits, (2) to dispose of surplus agriculture and manufacturing commodities, (3) to utilize excess productive capacity in some sectors, or in under-full employment situation. According to A.G. Kemp, "Since 1962, Britain has been offering additional tied aid if the expected

90. ibid Chapter 9

91. loc cit Tables 1-3, pages 328-330 See also the statistical appendix.

exports were to come from sectors with surplus productive capacities.....,"⁹² (4) to provide outlet for less efficient high cost industries, and (5) to limit the impact of aid on balance of payments accounts. It is certainly **true** that in a situation of persistent balance of payments disequilibrium such as the United States, Britain and France were experiencing in the late 1960s, the granting of untied aid can aggravate the imbalance; and in such circumstance, the tying of aid or its cut-back may reduce the strain on the Reserves. However such lessening of strain could be circumscribed by several factors. First, it is generally true that part of the aid would in any case, have been spent by the recipient in the donor country; secondly another part would have eventually returned to the donor country through multilateral transactions; thirdly, when assistance is tied, the recipient may be able to use some part of the tied credits for the purchase of goods and services which it would normally have imported from the donor country with its own foreign exchange earnings, thus freeing the latter for the financing of imports from other sources. In this way, formally tied aid may be untied in practice.⁹³ To the extent that such "switching"

92. Alex G. Kemp:- "Longer-term Capital Movements", in Scottish Journal of Political Economy, Vol. 13 1966, op cit Page 153.

93. For example, a Brookings Institution's Report on the subject suggests that in the case of Latin America, 40% of aid expenditures for commodities delivered to that region are substitutes for normal imports from the U.S. and thus free equivalent amount of foreign exchange for other uses. In the case of broadly defined programme loans, the report suggests high figures of 90% for Latin America, and 70% for Africa. See R.F. Mikesell:- The Economics of Foreign Aid. op cit Page 251.

has been possible, the tying of assistance does not lessen its adverse effect on the balance of payments of the donor country. "Measures to reduce the possibility of such substitution, which have been applied in the past do not appear to have produced significant results."⁹⁴ Tying does not reduce the deficit by the amount equivalent to aid given. In other words, the factors determining the behaviour of export and balance of payments in relation to foreign aid appear to be exogenous of tying procedures. There is no *a priori* reason to suppose that balance of payments deficits or surplus necessarily engenders tied or untied aid. The convention of aid tying appears to be universally strong among the donors, both DAC members and the Socialist countries. After all, there are examples of countries - for example West Germany and Japan - piling on reserves while continuing to tie their aid.

There is ample evidence to suggest that the impact of tying has in practice been considerably less than its advocates claim. Tying and other restrictive measures, like tariffs and export subsidies become largely self-defeating when they are adopted by every donor. What is more, it may also prove inappropriate, as it often constitute a disguised subsidy for their non-competitive industries and thus helps in prolonging a misallocation of their resources. Considering the limited value of aid-tying as an instrument for dealing with persistent balance of payments deficits and its not-so-inconsiderable disadvantages for the developing country,

94. U.N.: World Economic Survey for 1968. Part I, Chapter III Page 52.

there is a strong case for donor countries to consider taking joint action on the matter with a view to its eventual elimination.⁹⁵ Furthermore, tied credits should not be used by developed countries as an important dosage for curing their monetary problems at the expense of the developing countries. Until some meaningful measures are taken by the donors, a logical way for a developing country to reduce the adverse effects of tied credits, is obviously to diversify its sources of assistance.⁹⁶ Such action will confer on her greater flexibility in obtaining her supplies from alternative cheaper sources. In view of the above difficulties in estimating statistically the "true" effects of tying on exports and balance of payments, the calculated data for Britain, quoted above must be taken as a first approximation.

DEVELOPMENT DEBT BURDEN AND SERVICING.

It has become axiomatic these days to consider the problems and difficulties posed by the debt burden and debt servicing capacity of the developing countries. The literature on foreign aid is full of such studies, all pointing to the dangers and setbacks to the development process which

95. For measures that can be taken to liberalize aid tying, see DAC/OECD:- Development Assistance 1969 Review op cit Pages 136-138. The 1970 Review reports that "at the Council Meeting of OECD at Ministerial level in May, 1970, a number of countries expressed their readiness to move towards a general untying of aid, provided other donors did the same, see Page 51.

96. ibid The 1970 Review, while conceding the absence of any progress in the field of general untying, enumerates the steps being taken unilaterally by some DAC members towards liberalizing their procurement regulations. See DAC/OECD:- Development Assistance 1970. Review op cit Page 53-56.

liabilities impose. The ultimate danger of debt repayment from the LDCs point of view is that the net transfer, that is, gross flow minus both amortization and interest, may become negative before the full impetus of the growth process has been set in motion. Balance of payments crisis, inability to fulfil servicing obligations, debt relief operations and rescheduling inevitably slow down or put back the development efforts for some years. For the donor countries, a continuously rising debt burden not matched by a similarly improving economic performance, represents the assumption of an increasingly more risky credit portfolios. The current trends in all the major variables that influence development debt and its servicing, for example export earnings; volume, type and cost of capital inflow; rate of debt accumulation, are such as to fill both creditors and debtors with a greater sense of unease. Unless major improvements are undertaken in those critical variables in the second development decade, the spectre of negative transfer which has been haunting some Latin American republics will become for most developing countries less and less a remote possibility. Today bilateral and multilateral debt relief operations have become an accepted phenomenon - if only grudgingly - of the international finance scene. Another closely related reason why the debt burden is usually emphasized in foreign aid discourse, I believe, is the fact that it reflects poignantly the interacting relationship of the fundamentals of foreign aid programme and other resources flows. By this I mean, a detailed and comprehensive study of the debt situation also gives us an insight into such factors as the volume, terms, types and trends of official and non-official flows; the efficiency of the aid machinery; the performance and economic standings of the

various recipient countries and the areas of development finance that are likely to dominate discussions and thus become top candidates for reforms in the coming decade. My analysis on this topic however will be limited to a few considerations.

The statistical trends in the growth rates of both outstanding debts and total debt servicing have been referred to, above.⁹⁷ I have also mentioned the alarming divergence between these rates and the repayment potentials of the developing countries. Total outstanding indebtedness of 81 reporting developing countries was estimated to be almost \$60 billion as of 1st January, 1970, including about a quarter of undisbursed portion. "For the past ten years total external public debt outstanding has grown at an average compound rate of almost 15% a year. This rate of increase has doubled the total debt outstanding every five years since 1955."⁹⁸ In the last development decade, total debt service payments including amortization of principal and payments of interest have risen at a slightly slower pace than the volume of outstanding debt - the outcome partly of a successful debt relief operation, which led to slower growth of service payments than would otherwise be. Eight major countries out of the 81 reporting LDCs account for about half the total debts.⁹⁹ Service payments have

98.

World Bank/IDA - Annual Report for 1970 op cit Page 50.

99. These are India, Brazil, Pakistan, Mexico, Indonesia, Argentina, Turkey and Iran. They also collectively account for about half the total GNP of the developing countries.

been estimated at roughly \$4.7 billion for 1968. This figure can be compared with an estimated \$5.1 billion net worth of loans from official bilateral, multilateral agencies and guaranteed private export credits, or with a \$12.1 billion gross inflow of official bilateral, private export credits and multilateral agencies resources to the developing countries in the same year. Of the \$4.7 billion repayments, amortization accounted for \$3.3 billion. Interest payment, the remaining \$1.4 billion. Perhaps the most interesting division is between the repayments due to non-private sources, that is, to governments and multilateral institutions, and those due to private creditors. Of the \$3.3 billion amortization, official loan accounted for only \$0.95 billion, multilateral agencies for \$0.37 billion totalling \$1.32 billion for non-private, while private export credits accounted for \$1.98 billion. The total service payments to non-private sources amounted to \$1.82 billion and to private creditors, \$2.88 billion. Thus more than half of total public or publicly guaranteed debt service of the developing countries was paid to private creditors, although only about a quarter of total outstanding debt originated from private sources.¹⁰⁰ I have already referred to the substantial rise in guaranteed export credits in the last ten years. In 1961, for example, net flow of private export credits was about 33% of the total loans made to the developing countries. The implication of such increases are partly reflected in the figures quoted above and the picture for 1968 typifies the situation in the later part of the first development decade and most certainly, the likely situation in the first half of the

100. For Nigeria's and Ghana's experiences see below Chp. 7.

present development decade. The growth of export credits has to a certain degree, counteracted the current decline in official disbursement. Its role is therefore becoming increasingly more important and its inherent drawbacks are likewise receiving greater attention. That high cost commercial export credits should partially replace falling concessionary loans is an unwelcome development, if nonetheless a logical one. While to a large extent, it is the duty of recipient countries to limit the extent of their export credit obligations to their debt servicing capabilities, the developed creditor countries are not entirely blameless for the unsatisfactory ways in which their export promotions are being pursued. It is true that pressure to accept export credits become inevitable when donors cannot offer sufficient volume of grants or loans at concessionary terms to finance capital goods import needed to implement planned growth rates. The disturbing fact is that some of these capital imports may be used to develop long-term projects whose direct, or social returns come on stream long after the credits were scheduled to be repaid. The implication is that governments are forced to service the debts by other means. For developing countries with weak fiscal bases and multitude of expenditures pressing on scarce resources, the pressure often becomes unbearable. If such situation is coupled with mismanagement, excessive borrowing and wasteful use of the external resources that are made available, the danger of liquidity crisis and the need for debt relief operation becomes inevitable. Table 9 compares the growth of private export credits relative to official bilateral development loans and the credits from the multi-lateral institutions, while Table 10 compares it with other

But why compare debt saving
with new Capital inflow?

Q. a house buyer
a local authority
a company
a part in the domestic borrowing

Q. debt saving with the benefit
treated as a series of
entries with debt
obligation

private capital flows during the last development decade. In either case the growth of private export credits outpaces the other components.

There is no shortage of projections predicting the possible engulfment of the developing countries by their mounting debt burden in the coming decades, if the present trends in the determining variables are not reversed.¹⁰¹ The latest projection, that of the Pearson Commission tries to compare the size of the outflow of emortization and interest with new loan disbursements. I have shown above that globally in 1968, the outflow of \$4.7 billion was slightly less than loan inflow of \$5.1 billion,¹⁰² leaving a net transfer of under half a billion dollars on the loan account. The Commission estimates the size of debt service in 1965-67 in percentage terms of the inflow of governmental loans, credits from the multilateral agencies and private export credits. It also makes a projection for 1977 payments. In 1965-67, debt service in Africa amounted to 73% of new loan disbursement; in Latin America, 87%; in developing countries of Southern Europe 92%; East Asia, 52% and in the region of South Asia and Middle East where export credits have been less prevalent, 40%.¹⁰³ The prospect for the future depends on the trends in determining variables such as the volume, types and terms of new lending. Debt servicing as percentage

101. See for example. P. Liefstinck:- External Debt and Debt - Bearing Capacity of Developing Countries, Princeton, New Jersey, 1966; And Pearson Report, op cit Pages 72-76

102. C/F the inflow and outflow of direct investment Page 63: Chapter 2.

103. Pearson Report op cit Tables 3 and 4 Page 74.

of new loan will be larger the smaller the increase in volume, the harder the terms, the more stringent the tying and the bigger the proportion of export credits in the loan structure. If the structure and flow of new lending were to remain at the level of 1965-67 - the true figures for the last four years and the estimates for the next few years tally with this assumption - Pearson Commission projection shows that by 1977 debt service would considerably exceed new lending except in South Asia - Middle East where they would be about equal. For Africa the excess would be about 21%; Latin America, 30%; Europe, 9% and East Asia 34%. If grant and grant-like flows continue at 1965-67 levels - in actual fact there has been a slight reduction post 1967- there would still be some net transfer of resources to Africa and South Asia, but globally ~~an~~ increasing portion of the grants would be returning to the donor countries for servicing old loans. Only if new lendings were to increase at more than 8% per annum - an unlikely prospect - would the rising debt service not completely absorb the increase in new lending.¹⁰⁴ If this exercise in projection has any meaning at all, it is that it provides a measure of the magnitude of the international efforts which would be needed simply to maintain the present level of net resources transfer to the developing countries; much less to increasing it, as their trade and investment requirements grow over the next decade.

104. UNCTAD Secretariat predicts that debt service as % of gross inflow for African countries will double from its 1966 level to 53% in 1975.

104A. World Bank/IDA - Annual Report for 1970. op cit Page 80

The outlook for the developing countries, judging by the present state of foreign aid programmes, appears to be anything but promising. The share of debt service in relation to loan disbursed or grants given, will continue to climb. Perhaps a fuller perspective could be grasped if we relate the above trends to the performances of the developing economies. As was stated earlier, during the last decade, the rates of growth of both debt outstanding and service payments have been about twice the rate of growth of export earnings of the developing countries, and almost three times that of their combined GDP.^{104A} A vicious circle seems destined to emerge - if it hasn't already: an inadequate resource inflow and trade restrictions partly responsible for insufficient growths in GDPs, exports and exchange reserves, which in turn greatly limit the capacity of LDCs to service their outstanding debts, which in turn reduces the willingness of creditor nations to advance further loans. This analysis has been conducted on a global basis it must be emphasized however that these aggregate data for the developing countries as a whole mask a wide-range of debt situations in individual recipient countries, including differences in the structures of their debts and their debt servicing capacities.¹⁰⁵ The reasons

105. For a brief regional, and country by country analysis see World Bank/IDA. Annual Reports 1969 & 1970. op cit and for a more detailed discussion of the technical problems of assessing the existing debt situations of LDCs and the statistics of the structure of individual outstanding debts (as of June - Dec 1968) see DAC/OECD - Development Assistance 1969 Review op cit Annex IV.

for the explosive increase in public debt and debt servicing are not hard to come by. Although aid volume stagnated in real terms during the last decade, loans increased at the expense of grants as a proportion of total aid. Their share of bilateral official flows rose from 13% to 15% in the course of the last decade. Secondly, although the terms of official lending, in the early 60s stabilized or as in some individual cases slightly softened, the phenomenal expansion of export credits led to a sharp hardening in the overall average terms. Thirdly, the general increase in world interest rates and other costs of borrowing money in the capital markets, has compelled lending multilateral agencies like the World Bank to pass on the increase to the borrowing developing countries. For example, the rate charged by the World Bank rose from about 4% in the early 50s to over 7% in 1969/70. The higher cost of capital is also reflected in both the prices of supplies provided by private creditors and the interest charges on them. Tying in addition, often results in effective borrowing costs being higher than nominal interest rates on account of overpricing practices. Finally, the sharp increase in external borrowing in the late 50s and early 60s - in effect the start of the development era - has now given rise to a growing volume of amortization and interest payments, as grace periods come to an end.

DEBT BURDEN AND DEBT SERVICE CAPACITY; A CONCEPTUAL DIGRESSION

What measures are most useful for evaluating the problems of indebtedness of the developing countries? Since these problems conceptionally reveal themselves in two major forms, this digression discusses the implications and undertakes an assessment of the problems partly in terms of formulated

criteria of cumulative debt burden; and in terms of the annual debt service capacity. The two aspects are necessarily complementary, since difficulty with debt servicing can be, and often is, a reflection of the "oppressiveness" of the debt burden. Let us first look at the debt service capacity. The strength or weakness of this capacity is measured in terms of a ratio, although the definition of such an indicator is sometimes varied to meet specific analytical requirements. The most common concept is the Debt Service Ratio, or in its full version, the (Public) Debt Service - Exchange Earnings Ratio. This is the ratio of annual debt service on foreign public loans, including publicly guaranteed export credits to the annual exchange earnings on goods and services. Perhaps a less inappropriate indicator of vulnerability to default or similar reserves crisis is the Investment Service - Exchange Earnings Ratio, which includes both amortization and interest payments on debts (public and private) as well as transfer of earnings (investment income) on direct foreign private investment. The sum total of these outflows is then related to the export earnings to give the ratio. From the balance of payments position, locally made profits that have to be transmitted abroad in form of investment income represent a debt-burden to the accounts and thus its inclusion gives a truer picture of the way the reserves level is affected by the inflow and outflow of foreign exchange, at least on the current account basis. The effect of a heavy investment income outflow for a country with substantial private foreign investment but a small public loan portfolio, is more readily appreciated by the use of the investment service ratio. The World Bank has reportedly employed the former ratio, among other criteria

in appraising credit worthiness of prospective borrower on ground that public debt has priority over private sector payments in period of foreign exchange difficulties. However there seems little basis for distinguishing between government debts and private debt obligation arising out of private external capital inflow. In both cases defaults or difficulties in servicing are likely to have serious consequences. Defaults or difficulties in servicing some supplier's credits, medium - term bank loans or private direct investment could impair the country's ability to turn over its short - and medium - term foreign indebtedness or encourage the inflow of private investment capital. Difficulties on obligations to public agencies would jeopardize its chances of obtaining a continuous inflow of development credits or emergency balance of payments "stand-by" credits. It is even possible as R.F. Mikesell asserts, for defaults or restrictions on commercial outward payments to be regarded by the international finance community, both public and private as perhaps "more serious than the failure to meet an instalment or scheduled debt service to the World Bank or the (American) Export - Import Bank".¹⁰⁶ In this respect, the investment service - exchange ratio, by highlighting both the public and private servicing capacity, is to be preferred to the orthodox debt service ratio. Another possible measure of debt servicing capacity, suggested by DAC/OECD, is more akin to the first ratio than the second.¹⁰⁷ The denominator used

106. R.F. Mikesell:- The Economics of Foreign Aid. op cit Page 117.

107. DAC/OECD:- Development assistance; 1969 Review op cit Page 275.

108. loc cit.

used is the export earnings for the most recent available year, while the numerator - the debt service payments due on existing debt burden, is made to cover a variety of consecutive multi-year periods. The resulting measure can be thought of as "multi-year debt burden ratio".¹⁰⁸ - perhaps more appropriately as "multi-year debt service ratio" as the former phrases can easily be confused with a similar concept for cumulative debt burden introduced below. Its advantage over the two previous ratios, is the fact that by averaging out the possible fluctuation in the annual service ratio, it avoids possible untrendy interpretation implicit in the annual data. It also makes for a better inter-country comparison.

Now let us consider the question of indebtedness in its other manifest form - debt outstanding and its time structure. Among the various available indicators of existing debt burden and its structure, the ratios that are selected for discussion are (a) the simple "adjusted total debt outstanding" (b) "the 1-5 year debt burden ratio" and (c) the 1-15 year cumulative debt burden, adjusted for reserves and divided by current exports".¹⁰⁹ The last two concepts are alternatively known as "multi-year adjusted debt-service ratios" - and differ essentially in the time-span of their

109. Adjustment for reserves takes the form of isolating a two-month import requirements as the minimum reserve necessary to make the economy and currency of a country viable, and treating the remainder as technically usable to liquidate all or part of its outstanding debts. If a country has a surplus over the minimum, that surplus is deducted from its outstanding debt, or if treated as "negative debt" is added to the same cumulative total to give a "normalized" or "adjusted" total debt outstanding. If the reserve level is less than the minimum, the shortfall or "positive debt" is added to the "crude" outstanding debt to arrive at the same adjusted total. For detailed explanation of this statistical concept, see DAC/OECD:- Development Assistance, 1969

numerators. The "adjusted total debt outstanding", on its own, is, like the orthodox debt service ratio, not very meaningful in assessing the true debt burden, structure or servicing capacity of any developing economy. Implicit in it, is a mixing together not only of short-and medium - term debt service payments, but also payments that are due well into the future. Furthermore it is not effective in comparing country debt problems. The DAC/OECD Report selects the "1-15 year debt burden ratio" as perhaps the most convenient and relatively useful measure.¹¹⁰ It is superior to the 1-5 year debt burden ratio since the latter can be relatively high while the debt service payments due after five years can at the same time be quite small. Indeed the interest in the 1-5 year ratio centers on its implied property to pin point the next candidate for "bailing out" operation if such a country has a relatively high ratio and at the same time facing liquidity problems. Many of the "classical" debt relief operations in Latin America involve very large accumulation of debt service payments due over a two - or three - year period (i.e. suppliers credits) and with no large repayment burden thereafter. In such cases successful operations were effected by relatively short-term extension of payments and arrears into the 1-15 year segment. The advantage of the 1-15 year ratio, apart from its medium-term

109. Cont'd... Review, op cit. Annex V. For examples cited in this thesis see table 35 and the supporting footnote.

110. ibid page 277.

111. Loc cit page 277.

implications, is the fact that if and when it becomes very high, "this is a clear indication that the room for manoeuvre has become considerably restricted and that service payments on new debts, or adjustments in the pattern of old debt need to shift beyond the fifteen-year framework."¹¹¹

The multi-year adjusted debt burden ratios need to be treated with some caution. The snag about them is that unlike the investment or debt - service ratio, they are obviously different from the actual debt service ratio that will occur in the future. They relate only to part of the debt which will actually be repaid, that part which is already outstanding. They are furthermore different from the service ratios, except the multi-year one, in that the numerators cover several years figures while the denominators relate to a single year. However a common factor among the various criteria enumerated above is their implicit short-or medium-term relevancy. This is not surprising, as it is customary to dichotomize discussion of indebtedness and debt-servicing capacity in terms of the short period or liquidity aspect and on the other hand, in terms of the long-term situation. The emphasis on the former derives from the concern of the creditor nations for the actual or potential vulnerability of a debtor country to balance of payments fluctuations over relatively short periods of time which would make it difficult to meet debt obligations. Perhaps the absence of similar emphasis or concern over the long-term aspect of indebtedness is due partly to the unwillingness of both sides to fully appreciate the implications of their present aid policies especially of the gloomy projections of future difficulties and partly to the recency of aid programmes as an instrument for the development of the "Third World". The

long-term aspect ought to be seen as equally important especially since a country with a potential for, or record of long-term growth in total output and in export value relative to import requirements is generally recognized to be able to borrow for short-period to meet its debt-service obligations or otherwise to re-finance or turnover its indebtedness. The distribution between short and long-term aspects of debt servicing becomes in practice somewhat artificial.

SIGNIFICANCE OF THE INVESTMENT/DEBT SERVICE -; ADJUSTED DEBT BURDEN RATIOS

The Investment/Public debt service ratios. The orthodox rationale for calculating these ratios is that by providing a straight forward relationship between two or three of the most important variables in debt-service capacity function, they indicate the starting point for a real assessment of the various factors that determine a country's capacity to service debt, or to shoulder a given debt burden. Thus they are of little significance as a measure of either vulnerability to default or of debt-burden. Like the "classical" notion that a country's minimum reserves level must be equivalent to two or three months import requirements, the notion that a less than 10% debt service ratio is "safe"; a more than 10% is "unsafe"; or that 20% ratio is a "danger level", is of little use in a meaningful long-term assessment of a country's viability, credit-worthiness or vulnerability to default. A high volume of debt service may simply mean that a country's debt structure is relatively short-term oriented and that it normally turns over its indebtedness every few years, while interest payments may constitute a relatively small proportion of total debt

service. Such a high debt service ratio may not be particularly serious if the country is investing in highly productive projects and if the prospects for expanding exports and/or real import substitution, are excellent. Conversely a low debt service ratio does not necessarily imply a high credit rating, it may simply be due to a low level of indebtedness, and the country's economic performance and growth prospects may indeed be poor. Furthermore, there are historical evidence to support the contention that the level of the debt service ratio, on its own, provides little basis for vulnerability or creditworthiness. For example, in the 1930's while Australia and Canada avoided defaults and the imposition of exchange restrictions with an investment service ratio ranging from 32% to 44%, certain Latin American countries, including Brazil, Uruguay and Peru defaulted on their public debt service (during the period 1931-33) when the ratios of their scheduled public debt service to exports alone were substantially smaller than the investment service ratios of the former countries.¹¹² Perhaps the significance of such historical evidence lies in the credibility it gives to the notion, developed below, that the long-term trends in economic performance and the underlying strength of an economy - as projected by selected indicators - are the critical factors that determine its debt burden and service capacities.

112. R.F. Mikesell - The Economics of Foreign Aid op cit Page 118.

113. DAC/OECD - Development Assistance, 1969 Review op cit Page 278.

Why is this any more valid
in a concept than the pair
discussed?

Multi-year adjusted debt burden ratios These ratios to a certain extent compensate for the defects inherent in debt service ratio and can project a better perspective of the short-or medium - term potentials for liquidity crisis which presages possible defaults or as in modern times possible debt relief operations. The "1-5 year", "1-15 year" and "post-15 year" debt burden and service ratios define in a clear-cut manner whether a country's outstanding debt and servicing structures are well-balanced or otherwise. An ill-balanced structure not only isolates the types and terms of future borrowing that must be avoided, but also indicates the time for and nature of, difficulties that are likely to develop. In this respect the DAC/OECD 1969 Review makes certain concluding remarks. "When the already existing debt service burden falling due within the next 15 years substantially exceeds the value of present annual exports of goods and services, this should normally be a warning that real debt difficulties can quickly arise if unfavourable balance of payments trends develop, when the 1-15 year debt burden ratio exceeds 200%, this seems to be a clear indicator that major debt difficulties are in most cases already at hand - unless the particular developing country enjoys unusually favourable immediate export growth prospects.¹¹³ A glance at table 35 for example, reveals Kenya to have a relatively well-balanced debt structure while Ghana appears to be "structurally over-indebted" at least in the medium term content.¹¹⁴ While these ratios are thus useful for statistical assessment

114. Structurally over-indebted countries, not only generally have much larger payments due between the 6th and 15th year, but also have far higher burden falling due in the first five years than do the bulk of LDCs.

of the short - or medium - term vulnerability to default, the need for debt relief operation, or short-term credit worthiness, they do not shed much light on the questions of long-term vulnerability, of long-term credit strength, or of what constitutes a heavy, medium or light debt burden.

If all these criteria are thus much less useful for long-term vulnerability test, we may ask the question as to what extent are they relevant for the long-term aspect of indebtedness, and in a wider context for external resource transfer for development. In this respect, the significance of already outstanding debt (and its structure) emerges in the assessment of the relationship between the future actual debt service ratio which this debt will generate and the future flows of new loans and credits. The important relation here is the percentage of future gross inflow which will be taken up by amortization and interest payments on the old debt. If we assume a zero net transfer of resources through borrowing, that is, that the gross amount borrowed in future equals the debt service payment on existing debt as they fall due, we are placed in a position to project what that gross inflow, its structure and terms should be. If on the other hand, we assume that most of the developing countries will continue to need a positive net transfer of resources for a long time to come, we are similarly able to postulate what the trends in the determining variable should be and contrast them with the likely outcome of present foreign aid policies and decisions of the donor countries. I have already referred above,¹¹⁵ to similar projections made by the Pearson Commission, and its implicit call for increased volume on better terms if the threat of zero or negative net transfer for "pre-viable"

developing countries is to be averted.¹¹⁶ It can hardly be denied, at least from good management view point that the developing countries, especially the so-called "long-haul" economies very much need to see the present debt picture in its proper perspective. This they can do, by partitioning future borrowing requirements into two parts (a) that amount required to service already existing debt and (b) that needed to provide a further net transfer of development resources.

Perhaps from developing countries view, the significance of debt servicing in its long-term context, is the opportunity it offers to assess capital import on a productivity basis - a sort of cost/benefit analysis, by considering the construction of external resources inflow to long-term economic growth in general, and to such factors as capital formation, savings, exports and long-term balance of payments position, in particular. The realism of such analysis must not be exaggerated since investment and debt service outflows in themselves do not represent the whole cost of external capital, while the latter's benefits and advantages go beyond quantitative estimations. However the conditions for successful growth with the aid of capital imports are fairly straight forward. The additional capital resources should make possible an expansion of net domestic output corresponding to a net return on the investment well above the average interest rate ruling in the international capital market. In the long-run, as R.F. Mikesell puts it,

115. See above Pages 134-135 (this chapter)

116. Low-income developing countries (LDCs) are 'pre-viable' in this context, if their economic development has not reached a stage that will make them independant of the need for concessionary aid.

"debt-servicing capacity should be considered mainly in terms of the successful performances of an economy as determined by its per capita rate of growth and the expansion of its export capacity on the one hand, and the contribution of further borrowing to the enhancement of this performance, on the other. If further capital import are not expected to yield a net return in terms of additional gross domestic product well in excess of the cost of borrowing capital, and if total investment is not allocated in a manner which will increase exports relative to imports associated with growth by an amount at least sufficient to cover interest payments on the additional borrowing, lending becomes both risky for the foreign lender and undesirable for the borrowing country as well. The level of debt-exchange earnings ratio, has no particular relevance in this type of assessment.....¹¹⁷

For a thoroughly realistic and meaningful assessment of a developing country, at any point of time, in terms of its creditworthiness, its capacity to service debt, its vulnerability to debt relief operations and indeed of its use of external resources, a comprehensive analysis of its economic situation and underlying strategy would be needed. "Inter alia , debt servicing capacity depends on a country's ability to generate savings, to pursue sound fiscal and monetary policies, and to earn foreign exchange through exports of goods and services to meet its import requirements as well as to satisfy its external financial obligation and maintain adequate level of reserves."¹¹⁸ There is no doubt that most of the agencies established by the main donor countries to

117. R.F. Mikesell:- The Economics of Foreign Aid op cit
Page 120.

administer foreign aid, undertake such regular country analyses, besides such statistical estimates as the debt service ratio or the outstanding public debts. The World Bank conditions pertaining to macro-economic performance which are supposed to be taken into account in its lending operations include such factors as (a) the volume of domestic savings, (b) the volume and effectiveness of total investment, (c) internal price stability, (d) balance of payments equilibrium as determined by foreign exchange and trade policies, (e) volume of private investment and the productivity of the private sector, (f) the capacity to service debts, and (g) the formulation and implementation of good development plans. These conditions are basically the same as those traditionally used for economic performance appraisal, give or take, one or two provisos, though they fall short of what I consider as the necessary criteria for economic development evaluation.¹¹⁹

The effects of correct interpretation of the information thus made available (through comprehensive analysis) would be, among others, (1) to make the donor fully aware of the risk it takes in its lending operations, (2) enable the donor government or multilateral lending agency to influence the economic policy of the recipient, especially as regard

118. World Bank/IDA:- Annual Report 1970, op cit Page 52.

119. See Appendix I.

the efficient use of its aid disbursements, (3) make it adjust its aid policy instruments according to the different situations obtainable in each recipient country, (4) enable the donor discriminate among its clientele; (5) enable it to give an early warning advice to the recipient facing imminent liquidity problems; and (6) enable the donor to suggest appropriate measures for the post "bailing out" period should such debt reschedule become unavoidable.

However as suggested before, economic performance is only one of the several criteria that are used in aid allocation policy. It is conceivable for a donor country to continuously pump resources into a client state irrespective of the latter's economic efficiency, if such assistance is deemed justifiable on strategic, social, or political ground. The suggestion being put forward here is that while comprehensive analysis serves as a useful reference guide for the creditor country or institution in its dealing with a developing country, the conditions under which default could be avoided, long-term economic growth assured, and the need for external capital assistance ultimately terminated, must be explicitly recognized by all. It is essential that "though total indebtedness may continue to expand, the ratio of capital inflow to both domestic savings and import of goods and services, should show a declining trend over time. This in fact has been the situation in countries such as Canada and Australia which, although growing at satisfactory rates continue to be net capital importers"¹²⁰ H.B. Chenery is even more explicit about the

120. R.F. Mikesell - The Economics of Foreign Aid, op cit
Page 120.

structural transformation that must be brought about in order to achieve self-sustaining growth, and by implication "solve" the debt problems.¹²¹ For a given target rate of growth of GNP, he sums up three requirements that must be satisfied as follows:-

- (1) Investment must be raised until it equals the share of GNP required by the target growth rate and the capital-output ratio.
- (2) The marginal savings rate must exceed the required investment ratio in order to eventually eliminate the need for external capital, and
- (3) If the ratio of imports to GNP is constant, exports must increase more rapidly than the target growth in GNP in order to close the trade gap. A cut in the marginal import ratio through import substitution would lower the required export growth rate.

It must be remembered that these conditions were set specifically with a view to overcoming the skill, savings and exchange reserves (or trade) constraints to growth rather than in overcoming debt difficulties.¹²² In my view the two problems necessarily mirror different sides of the same development coin.

DEBT RELIEF The need for debt relief arrangement is no longer a remote possibility; indeed since 1956, eight developing countries have negotiated 18 multilateral debt relief operations, involving the consolidation and rescheduling of some \$5 billions.¹²³ Five other countries

122. See below Appendix V.

123. They are India, Brazil, Indonesia, Argentina, Chile, Turkey, Peru and Ghana. As of 1970.

have made bilateral renegotiation with a number of creditors. Up to 1965 multilateral debt rearrangements were almost exclusively concerned with private suppliers credits. Since then, however, a more realistic basis for such operations has been established with the inclusion of official debt as well, in overall consolidation. The new approach perhaps justify my earlier contention that long-term official debt should in no way be divorced from any deliberations concerning short-term difficulties with private and commercial debts. The only observations on the subject which I want to make here, are: firstly, the temporary low credit rating of a developing country that is being "bailed out" makes it difficult for her, not only to turn-over short or medium-term credits essential for completion of important projects, but also to secure grant-like concessionary aid needed to reimburse the private sector in a way as to make relief rearrangement a once-for-all operation. It is worth noting that Argentina's debt was renegotiated three times in less than a decade, Indonesia's debt, in three consecutive years while Ghana's three negotiations with her major creditors in the last four years or so, have in her view been very unsatisfactory. Like inadequate devaluation, this "short-leash" approach involves heavy costs in terms of uncertainty, pre-emption of scarce management and professional skills, and the inability of the debtor country to formulate long-term plans and policies. Furthermore, the increase in debt outstanding that is likely to arise from moratorium interest which is usually charged by the creditors on deferred payments of both principal and contractual interest, would be substantial, average, or small depending on the size of the original debt and the terms of renegotiation. The danger

is that a harsh term based on commercial approach may engender a heavy increase and thus paradoxically establish a situation of 'relieving debt by increasing it.' Ghana seems to have experience such a "harsh" debt repayment terms. Her medium - term debt stands at about £173.6m now, including an increase of £35.6m exclusively accounted for by moratorium interest accumulated since the debt rescheduled conferences of 1966, 1968 and 1970.¹²⁴

The corrective measures often adopted to "stabilize" the economy as a result of the reserves crisis invariably depress the economy to a larger extent than commonly recognized by the creditor countries or lending agencies. Generally such policy implementation as demanded by creditor nations and agencies like the World Bank and IMF involve emphasis on cut back in government spending within a wider credit squeeze and general deflation. Invariably such "directives" neglect the need to mobilize domestic resources more effectively, generate new export earnings and sustain sound development outlays. In the quest for stabilization, growth and development are of secondary importance. The adverse repercussions, even if only for a short period, are felt more by the masses in form of cut backs in social welfare expenditures, domestic infrastructure, employment and increased prices on essential imports like food, pharmaceuticals and clothing.¹²⁵

124. For Ghana's continuous criticism of her debt repayments arrangements, and her call for yet another conference, see The Times (London) Monday 19th July, 1971.

125. Teresa Hayter has strongly assented this course of development in the case of Latin America, See her book, Aid as Imperialism op cit.

The most important concluding remarks that emerge from this study of the problems of indebtedness can be summarized as follows (a) the growth in indebtedness and debt servicing will continue to be a source of concern to both creditors and debtors alike especially if viewed against the background of current trade and aid policies of the donors and the growth in exports and GDPs of the developing recipient countries (b) the conventional criteria for appraising the credit standing of a recipient country, such as the debt service ratio, or the multi-year adjusted debt burden ratio, are of limited usefulness except perhaps within the context of short-term fluctuation in the balance of payments position. Besides, other constraints of debt servicing capacity may be operative before the debt service ratio rises to a particularly high level. Where exports represent a very high proportion of GNP and where debt, to a large extent, is officially incurred, the constraint that is likely to appear first, especially in countries with poor tax base, is the difficulty of increasing government revenues rapidly enough to meet the foreign exchange payments when they become due. Thus the need for comprehensive country study in order to establish and appreciate the dominant constraints. And (c) long-term productivity of capital import and economic growth are ultimately more important than short-term considerations. Familiarity with the trends in such crucial variables as investment savings and exports, imports and GNP, and their structural relationship with the trend in capital import, is of primary importance, rather than the annual ratio between debt servicing and profit remittance on one hand, and the recipient's export earnings on the other. For if they move favourably in the right

direction, the problem of debt servicing will tend to take care of itself. If they do not the problem of short-term adjustment to debt service crisis will have a greater restrictive repercussion on the economy than is generally supposed.

MULTILATERAL FLOW OF DEVELOPMENT ASSISTANCE

The other arm of non-private flow of resources to the developing countries, is of course the multilateral disbursements. I have in various places in the preceeding pages referred to the contribution to international capital movement provided by the three major groups of international or multilateral agencies. I do not intend here to give a detailed analysis of the work of the World Bank and its affiliates IDA, IFC; the programmes administered by the United Nations agencies (e.g. UNDP) nor of the flows being channelled through the various regional development banks (e.g. IDB) and the specialized institutions set up by the European Economic Community (i.e. EDF, EIB).¹²⁶ I only want to concern myself with the important issue of whether a

126. These agencies are either development banks lending at commercial rates and drawing their funds partly from government subscriptions and partly from floatations in the major capital markets; or agencies specializing in the provision of grants, soft loans and technical assistance. For detailed analysis of these institutions, whose number has increased from four, in the early 60s to eleven by 1970, see especially, Pearson Report, op cit chapter 11; and R. Robinson (ed):- International cooperation in Aid. op cit. For their contributions to total flow and receipts from member governments see tables 4, 5, 8 and 16-18, and Pearson Report, statistical Annex table 26 for individual institutions flow 1960-68; and the grants plus capital subscriptions from individual DAC members.

127. Pearson Report op cit page 21.

greater proportion of the non-private flows to the developing countries should be channelled through the multilateral agencies as opposed to the present preponderance of official bilateral disbursements. The call for greater multilateral share has become one of the major recommendations proposed by most academic and official studies of the foreign aid question. For example, the Pearson Commission recommends that the share of multilateral aid should be raised from its present level of 10% of total official development assistance to a minimum of 20% by 1975.¹²⁷ R.E. Asher even suggests a greater rise of 60% bilateral and 40% multilateral by the same dateline.¹²⁸ What are the reasons for this call? I think the clamour for increased multilateralization is both positively and negatively motivated. Negative in the sense that it is a reaction to the defects noticeable in official bilateral flows and positive because the multinational and apolitical or "neutral" posture characterising most of the agencies is supposed to confer special advantages for the task of international development. Those who advocate a medium size increase in the share of the multilateral agencies believe such a process ought to be achieved without a displacement of direct bilateral flow; rather a larger proportion of the expected (or recommended) increase should be channelled through these institutions. On the other hand, those who advance a radical change in the mix

128. R.E. Asher:- Development Assistance In the 1970's Alternative for the United States. Washington D.C. 1970. Page 230 C/F C.E.D.:- Assisting Development in Low-income countries. Priorities for the U.S. Government Policy, New York. 1969; and R. Robinson (ed) International cooperation in Aid. op cit They too also place similar emphasis on the need to increase multilateralization of aid.

imply a substantial curtailment of direct donor government intervention in the flow of development resources.

Why has the share of resources (human and physical) flowing through the international organizations oscillated between 7-12% of total DAC official flows in the last decade or so? This is tantamount to asking why bilateral flow has been so popular among the main donor countries. The fact that the channelling of aid through multilateral agencies imposes effective limitations on the pursuit of national aid objectives has been the chief reason for the small share of multilateral aid in the total resource flows. Donor's identity, special political, socio-cultural, humanitarian and historical interests must be proclaimed and preserved. There is also the economic rationale. I have already stressed the importance of aid-tying. The commercial fringe benefits are desirable. Exports are officially promoted; surplus food and manufactures are transferred to the "needy". Through its aid advisory mission, donor retains leverage and operational control of its contribution rather than lose it through multilateralization. It has also been asserted that "taxpayers opinion" in the donor countries is likely to be more receptive to the continuation and expansion of foreign aid only if it was specifically seen to be directed to areas of special concern to them or to the foreign policy of their governments (e.g. Commonwealth, Franco-phone Africa, and Latin America to the United Kingdom, France and the United States respectively.) Finally bilateral aid is seen to be effected more speedily, easily and at less administrative costs than the multilateral kind, especially in the field of technical assistance. After all, most of the large aid-givers with long historic and cultural

connections feel that they have a better appreciation of local conditions than later-day multilateral organizations. These then are some of the main reasons why the flow of resources bilaterally disbursed continues to be of primary dominance and why the call for increase multilateralization will continue to be resisted by the main donors. But some of the advantages to the lending countries constitute disadvantages and costs to the recipients. It is to ameliorate these disadvantages, reduce the costs of aid-tying and maximize the inherent advantages of the multilateral alternative that recipient countries, Commissions like the one led by Lester Pearson and the international agencies themselves, call for greater weight to be given to multilateral flows. In terms of effectiveness, a major advantage of multilateral aid is that it can be applied more single-mindedly to the central objective of economic and social development. That objective happens to be just one of the factors considered - though not always - in an official appraisal, the policy outcome of which, is a reflection of the many competing complex factors previously mentioned. In this connection, allocation of aid on economic performance criterion or in combination with equity consideration, the lack of which has engendered a bias against the larger nations, can be ensured only if, multilateral agencies are allowed to offset the distortion caused by bilateral preferences. Proponents of bigger multilateral flow also believe that the agencies are potentially better placed to exert influence and leverage to induce better development policy and planning than the individual aid advisory missions who are more prone to political and "neo-colonialist" charges. Multilateral agencies are also in favourable position to

persuade, arbitrate and liaize between the donor and recipient,¹²⁹ to coordinate the various activities involved in international finance and development especially with the IMF and the capital markets of the rich countries. They are less susceptible to year-to-year fiscal pressure and do not, by and large, formally tie their loans and grants.¹³⁰ They also provide outlets for the smaller and newer donors, who would otherwise have had to set up their own national machinery for the administration of aid. From a purely technical standpoint, international agencies are strongly placed when problems take on global dimensions, and can act as international centers for documentation, advice and guidance which are likely to be available at less cost than individual efforts. Finally, multilateral agencies have an important role to play in facilitating regional integration among developing countries. The regional agencies and development banks are, in many instances at present, the standard-bearers of integration. These then are the numerous reasons why the call for bigger multilateral share, is increasingly becoming more vocal. But is the case for multilateral flow as water-tight as is generally championed by its proponents? Are the positive rationale and the indirect advantages conferred by the weakness in bilateral flow as sound, genuine and beneficial to the developing countries as one would expect? There are also reasons as to why one should feel less enthusiastic about the chances and desirability of securing such an increase. Apart from the pull of the bilateral advantages, and the technical and administrative difficulties of the multilateral bureaucracy so amply analysed by the Pearson Commission, I think there are defects in the multilateral system which must be borne in

mind. Let us start with one of an administrative kind. Multilateral agencies, like most international institutions have historically been less flexible and innovative in their approach to outstanding problems because of the need to obtain the agreement (and financial contributions) of member governments to major decisions. This might be less so in the case of E.E.C. development fund or the various regional banks, but is a major stumbling block among the World Bank Group of institutions, and the United Nations Programmes. Secondly, though some of the agencies like IDA lend on concessionary terms, it is equally true that over a third of multilateral flows is lent on commercial terms especially those disbursed by the World Bank, and the Inter-American Development Bank (IDB). The World Bank, the most important and oldest of the agencies, raises the greater part of its fresh funds on the private capital markets of the industrial and developed countries. Its ability to lend on moderate or soft term is severely impaired by the currently high interest rate ruling in these capitalist markets. Professor Thomas Balogh considers this currently unavoidable link with the capital market as a major objection to multilateral agency. In his opinion these agencies are too closely associated with the inherently conservative

129. For example, in setting up Consortia and Consultative groups, or in arranging debt rescheduling.

130. In some instances, the United States has tied a portion of its contribution to IDB to purchase in the U.S.; also the E.E.C. countries tie their contributions to EDF to procurement in member-and associated-member countries.

131. See R. Robinson (ed):- International cooperation in Aid op cit Conference paper VI and discussion of it.

financial and commercial institutions in say, the city of London or Wall Street in New York. For this reason, the standard of criteria and outlook they espouse may not be ideal to the special needs of the developing countries.¹³¹

The idea of politically neutral multilateral agencies is very much doubted not only in developing and Eastern Europe Socialist countries, but also by "liberal" and "radical" socialist economists in capitalist Western Europe. There are those who feel that while bilateral aid is designed to support the policy and interest of individual capitalist countries, (non-U.N.) international aid is designed to support the broad policy of the "imperialist" camp in a more general way.¹³² T. Hayter's study of Latin America's experience in dealing with development and financial agencies, discovered no basic distinctions between IBRD, IMF and U.S. (AID) in their aims, rationale and method of exercising leverage."..... these international agencies cannot accept changes in developing countries which might endanger existing patterns of international trade, foreign private investment, the regular servicing and repayments of debts, and other more or less general concerns of the capitalist developed donor/creditor countries. There is a strong emphasis in the agencies policies and demands on the principle of free enterprise, on reliance on market mechanisms and on the respect of private property, domestic and especially foreign."¹³³ P.J. Eldridge's study of India

132. Pierre Jalee :- The Pillage of the Third World op cit.

133. T. Hayter :- Aid as Imperialism, op cit Pages 151-152.

134. P.J. Eldridge:- The Politics of Foreign Aid in India op cit.

is full of instances to support Hayter's contention. The World Bank, along with market economies like the United States and West Germany have put pressure on India to offer favourable conditions to the private sector, including foreign private investment and have hinged their assistance for the development of particular sectors on the condition that they were privately rather than State developed.¹³⁴ One must therefore be sceptical about the claim that the multilateral agencies are readily acceptable to the developing countries. The interference by an agency in a recipient's affairs, even for the soundest of economic reason, is just as likely to be resented as those of individual donors for political reasons. The general historical practice of multilateral agencies tying their loan to projects rather than provide financial and technical support for development programmes also constitute a serious limitation on the effectiveness of aid comparable to official bilateral tying to specific countries or purchases. It could be agreed that this approach is the logical response to the infrastructural requirements of the developing countries at this stage of their development process and that a process of adaptation could easily be set in motion to meet the changing needs of the developing countries. I cannot help being anything but sceptical as to whether the inherent weaknesses, inflexibility and internal competition and proliferation of efforts hitherto perceived in the multilateral agencies can enable them to cope with rapid changes; changes that are necessary in order to meet the challenge of development and more specifically to move to a position in which they assume the role of development agencies with a scope of activities far beyond that of financial institutions.¹³⁵

The above analysis of the relative merits of bilateral and multilateral means of distribution convince me to assert that the probable advantages of expanding the share of multilateral agencies are likely to be marginal. The reform of the bilateral system, rather than an unconditioned switch to multilateral disbursement may in the long-run be more beneficial and realistic. It is questionable whether multilateral system could in all circumstances mitigate against the shortcomings in bilateral system. It is not likely to encourage a greater contribution from individual major donors. Its present set up does not augur well for possible future collaboration and coordination of efforts being made by market-oriented and Socialist donor/creditor countries. Developing countries dislike the "excessive" influence the DAC countries especially the United States exercise on the World Bank. The recent attempt by the United Kingdom to prevent the Bank from making a loan to Tanzania is a case in point.¹³⁶ Certainly any increase in the lending activities of the World Bank on the present pattern, without the built-in concessionary elements of bilateral flow, is likely to

135. On the question of essential reforms now overdue, see Pearson Report. op cit Ch. 11, and papers by Dr. J. Adler and Professor Thomas Balogh in book referred to in footnote 131, above.

136. See Report by Anthony Thomas in The Times (London) January, 28, 1972 Quote:- "The British Government are taking a strong and controversial stand against World Bank group plans to lend \$10.8m (£4.3m) to Tanzania In doing so they are following the lead of the United States which last year adopted a tougher policy of opposition to World Bank lending to countries - Bolivia and Guyana - with which the United States was involved in disputes over the expropriation of American property."

137. C/P Chapter 7. Pages 391-392

worsen the burden of LDCs¹³⁷ and reduce significantly the role of the Bank as an agent for net transfer of resources from the rich economies to the developing ones.

The problem of the channel of distribution is therefore not of bilateral versus multilateral system, but one of incorporating the best elements in both. For example the multilateralization of aid through the expansion of the consortium technique is a hybrid which should be fully explored.

STATISTICS OF RESOURCES FLOWS: A SHORT ACCOMPANYING NOTE

These series of data on resources flows from the developed donor/creditor, countries to the developing countries and/or multilateral agencies must be interpreted with some caution. In order to appreciate the "true" values of governmental flows, some adjustments must be made to the published figures. Since they are in terms of current prices, cost inflation in the donor countries must have reduced the quantum of goods and services financed by them. Similarly the policy of aid-tying is estimated to have reduced by 20% on average, the real purchasing power of development finance made available to the developing countries. It prevents procurement from the cheapest available source.

The volumes do not in any way reflect the "true" cost of aid disbursement to the donor countries. In this respect see table 13.

NET FLOW* REACHING DEVELOPING COUNTRIES FROM ALL SOURCES 1956-69 (\$ m)

	1956	57	58	59	60	61	62	63	64	65	66	67	68	69
NET DISBURSEMENTS														
DAC Member Countries ¹	8000	7234	6937	6790	7309	8408	7722	8300	8621	9803	9939	10268	11830	12160
Other Industrial Countries ²					5	5	5	6	8	9	15	9	12	23
Centrally-Planned Economies (since Soviet bloc) ³					200	300	400	375	375	325	350	350	325	300
Multilateral Agencies ⁴ (net)	299	334	392	362	284	252	440	653	790	892	895	1041	814	1160
(gross)					(483)	(548)	(725)	(950)	(1112)	(1248)	(1421)	(1551)	(1537)	
TOTAL FLOWS TO LDC		7798	8965	8537	9334	9794	11029	11199	11668	12981	13643			

* Gross flow minus amortization receipts, disinvestment and retirement only. They are not net of reverse flows of capital originating with residents of developing countries or of investment income.

1. Net flow of public and Private sectors resources direct to recipient countries. The estimates for 1956-59 are relatively crude and include Private investment in multilateral portfolio.

2. Finland, New Zealand.

3. Very rough estimates by O.E.C.D.

4. Net Data for 1956-59 taken from World Economic Survey 1965 and not strictly comparable with post 1960 data taken from 1970 DAC/OECD Review of development assistance. Implicit in the comparison of the gross and net estimates is the increasing size of amortization repayment. For detailed breakdown, see Table 16.

- (Sources (1) DAC/OECD:- Development Assistance 1970 Review. Table II.2 P.31.
- (2) "Pearson Report": Partners in Development Annex II Statistical Materials, Tables 15 and 25.
- (3) U.N. 1966; World Economic Survey of 1965. Part I Table V-2 Page 128)

NET DISBURSEMENTS (\$ m.)															
	1956	57	58	59	60	61	62	63	64	65	66	67	68	69	1970
I Official Dev. ²															
Assist.															
(1) Bilateral Grants					4665	5197	5442	5770	5957	5916	6001	6552	6316	6610	6808
(2) Bilateral Loans at concessional terms		3435	4020	5978	5692	3991	4020	3940	3806	3714	3701	3578	3344	3250	3298
(3) Contribution to Multilateral Agencies		421	367	333	534	521	511	367	405	348	334	736	683	1047	1124
II Other Official ²															
Flows															
(1) Bilateral					300	946	542	245	-41	283	430	507	731	582	1159
(2) Multilateral					233	716	527	248	-34	278	377	488	741	597	886
TOTAL OFFICIAL FLOWS	3260	3856	4387	4311	4965	6143	5984	6015	5916	6199	6437	7059	7047	7192	7967
III TOTAL PRIVATE															
Flows															
(1) Direct Investment.	2350	2724	1970	1782	1767	1829	1495	1603	1572	2468	2179	2105	3045	2804	3408
(2) Bilateral Portfolio					633	614	147	327	837	655	480	800	972	1277	809
(3) Multilateral Portfolio															
(4) Export Credits	458	454	214	347	204	573	239	-33	461	247	175	469	767	419	343
TOTAL OFFICIAL & PRIVATE FLOWS	5258	7655	7304	7131	8115	9249	8437	8572	9645	10320	10390	11440	13427	13670	14701
(I, II & III)															

1. Gross disbursement minus amortization receipts on earlier lending. NOT equal to net transfer.
 2. A new method of classifying official flows was introduced by DAC/OECD members in 1969. This involves reporting "Official Development Assistance" i.e. flows which are intended primarily to promote the economic development and welfare of developing countries, and which are intended to be concessional in character separately from "other official flows". Included in the latter are export credits extended semi-official institutions like the U.S. Export-Import Bank. Some of these latter credits have been previously classified as "private". The new classification is available for 1960-70, and partly for this reason, figures for export credits and official flows are not strictly comparable with these for 1956-59.
 3. Grants including "grant-like" flows like PL480; loans repayable in local currencies; technical assistance etc.
- (Sources (1) "Pearson Report" Partners in Development Annex II statistical materials Table 15 Page 378.
(2) DAC/OECD:- Development Assistance 1971 Review Table II-1 Page 34)

TABLE 6

NET DISBURSEMENT VOLUME INDICATORS OF RESOURCE FLOW FROM DAC COUNTRIES TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES

	1960-69 (%)									
	60	61	62	63	64	65	66	67	68	69(P)
Total Flow (Official & Private) as share of GNP*	0.39	0.96	0.31	0.77	0.75	0.78	0.71	0.73	0.79	0.72
Total Official Flow as share of GNP	0.55	0.63	0.58	0.54	0.49	0.48	0.45	0.46	0.43	0.39
Official Development Assistance as share of GNP	0.52	0.54	0.53	0.53	0.49	0.44	0.42	0.43	0.38	0.36
Private Flow as share of GNP	0.35	0.32	0.23	0.23	0.26	0.31	0.26	0.27	0.36	0.33

* Gross National Product at Market Prices.

- (Sources (1) OECD/DAC Development Assistance 1969 Review Annex Statistical Tables, 8, 10, 11 & 12 for 1960-63.
 (2) World Bank/IDA Annual Report 1970, Statistical Annex Table 4 P.71. The two sources make the data for the two periods be strictly non comparable.

TABLE 7

COMMITTED RESOURCE FLOW FROM OFFICIAL SOURCES TO DEVELOPING COUNTRIES & MULTILATERAL AGENCIES: TERM INDICATORS 1962-69.

	1962	63	64	65	66	67	68	69
Grants and "Grant-like" flows as share of Total Official Commitment %	62.7	56.6	60.2	60.9	62.2	56.1	51.4	59.0
Weighted Average Maturity of Official loans (years)	24.5	25.1	28.6	22.6	25.1	24.0	26.0	24.3
Weighted Average Grace Period of Official loans (years)	-	-	6.5	4.6	5.8	5.5	6.0	6.1
Weighted Average Interest Rate of Official loans (%)	3.5	3.3	3.1	3.6	3.1	3.8	3.6	3.5

(Source:- World Bank (IDA Annual Report 1970. Statistical Annex Table 4 P.71)

TABLE 8

Page 169

Flows to Developing Countries from Public, Private and Multilateral Sources in DAC Countries (\$/m)

	1965	1966	1967	1968
<u>OFFICIAL BILATERAL</u>				
Gross Flow	6,605	6,949	7,248	7,548
Amortization	732	773	828	951
Net Flow	5,873	6,176	6,420	6,597
Interest Receipts	448	491	514	612
Net Transfer	5,425	5,685	5,906	5,985
<u>PRIVATE BILATERAL</u>				
Direct Investment, Portfolio and Export Credits	3,909	3,789	3,885	5,102
<u>MULTILATERAL AGENCIES</u> (IBRD and IDA Only)				
Gross Flow	881	1,054	1,131	1,004
Amortization	314	336	359	371
Net Flow	567	718	772	633
Interest Receipts	254	277	303	331
Net Transfer	313	441	469	302

* C/F Table 4.

(Source IBRD/IDA Annual Report 1970 Page 46.)

TABLE 9

OFFICIAL BILATERAL DEVELOPMENT ASSISTANCE LOANS, MULTILATERAL LOANS AND EXPORT CREDITS BY DAC MEMBERS TO LDCs 1962-69

	BILATERAL DEV. ASSISTANCE LOAN	NET DISBURSEMENT (\$ m)		PRIVATE EXPORT CREDIT (net change in amount outstanding)
		MULTILATERAL AGENCIES		
		LOAN		
1962	\$ 910m	194		571
1963	1473	363		660
1964	1761	469		860
1965	1802	583		750
1966	1994	537		1106
1967	2291	706		988
1968	2302	474		1579
1969	2343	850		2040

(Source DAC/OECD:- Development Assistance 1970 Review Page 51)

TABLE 10

COMPARATIVE GROWTH IN GNP AND MAIN COMPONENTS OF TOTAL NET FINANCIAL FLOW FROM DAC COUNTRIES TO DEVELOPING COUNTRIES AND

MULTILATERAL AGENCIES 1960-70

	1960-1962 (Annual Average) \$m	1970 (\$m)	% Increase
GNP (DAC Countries Aggregate)	977,437	1,988,887	103%
<u>FINANCIAL FLOWS.</u>			
Official Development Assistance	5,123	6,806	33%
Other Official Flows	573	1,147	100%
Private Direct Investment ¹	1,697	3,406	101%
Private Bilateral Portfolio Inv.	464	831	79%
Private Multilateral Portfolio Inv. ²	178	343	93%
Guaranteed Private Export Credits.	564	2,174	286%
TOTAL Official and Private Flows.	\$ 8,600m	\$14,705m	71%

1. Including of course, reinvested earnings.

2. If official export credits included in "other official flows" are added, the growth of total export credits during the decade reached 183%.

(Source DAC/OECD Official Statistics).

TABLE 11

DAC COUNTRIES: COMPARATIVE RESOURCE FLOW PERFORMANCE 1961-69.

Country*	Average Annual Net Outflow, 1961-1968		Average Annual net outflow		Per Capita 1961- 1968	Average Annual rate of increase in real outflows (%)	Elasticity of Outflow (relative to gross nation- al product.	% Share of Total Flow				
	Total Official (\$m)	(%)	As % of GNP 1961-1968- 1962 1969	1961/62 1968/69				1962/62 1968/69				
United States	4690	3315	0.73	0.55	0.69	24.1	3.2	0.6	50.0	39.5	55.9	48.7
France	1301	847	1.96	1.16	1.45	26.7	1.6	0.3	16.5	13.0	17.6	13.0
West Germany	805	465	0.81	1.15	0.74	14.2	7.9	1.8	8.5	13.0	9.1	7.0
United Kingdom	794	438	0.98	0.81	0.85	14.6	-3.0	-1.0	9.5	6.9	7.6	5.9
Japan	458	311	0.47	0.70	0.49	5.7	19.8	1.9	3.2	8.7	2.5	9.6
Italy	310	69	0.62	0.80	0.55	6.0	9.7	1.9	3.1	5.1	0.8	1.7
Netherlands	187	84	1.27	1.14	1.04	15.2	2.8	0.5	2.0	2.5	1.3	2.0
Canada	183	137	0.26	0.50	0.37	9.3	1.5	2.8	1.2	2.7	1.1	3.6
Belgium	169	90	1.11	1.02	1.04	17.9	2.8	0.6	1.7	1.8	1.5	1.7
Switzerland	154	8	1.77	0.83	1.17	25.9	2.4	0.6	2.2	1.2	0.2	0.3
Australia	138	125	0.48	0.84	0.63	12.1	9.3	1.8	1.0	2.0	1.5	2.8
Sweden	74	40	0.26	0.60	0.37	9.6	11.1	2.6	0.5	1.3	0.2	1.4
Portugal	44	35	1.52	1.23	1.24	4.8	2.4	0.4	0.5	0.5	0.8	0.7
Austria	29	16	0.11	0.52	0.29	4.0	20.5	5.2	0.1	0.5	-0.1	0.4
Denmark	26	15	0.18	0.77	0.25	5.5	6.9	1.6	0.2	0.9	0.1	0.7
Norway	24	11	0.16	0.74	0.31	6.4	10.0	2.0	0.1	0.6	0.1	0.5
Total or Avetage	9401	6006	0.81	0.72	0.73	15.8	4.3	0.8	100.0	100.0	100.0	100.0

* Countries ranked in order of aggregate annual outflow of resources (private and official) 1961-1968.
(Source U.N. - World Economic Survey 1969-70. Table 59, Page 165)

COMPARATIVE AID GIVING PERFORMANCE IN 1968 BY DAC MEMBERS

Countries ranked in order of GNP Per Capita	GNP Per Capita \$ (U.S.)	TOTAL OFFICIAL FLOWS		Official Development Assistance ¹	
		Net flows ² as % of GNP	Grant Element ³ as % of GNP	Net Flows as % of GNP	Rank
1. United States	4380	0.41	0.34	0.38	8
2. Sweden	3230	0.28	0.26	0.28	10
3. Canada	3190	0.32	.28	0.26	11
4. Switzerland	2790	0.11	0.11	0.13	16
5. Denmark	2540	0.23	0.22	0.23	13
6. France	2510	0.69	0.65	0.69	1
7. Norway	2360	0.27	0.28	0.29	9
8. Australia	2340	0.56	0.57	0.57	3
9. W. Germany	2210	0.44	0.33	0.41	6
10. Belgium	2150	0.45	0.41	0.42	5
11. Netherlands	1980	0.53	0.43	0.49	4
12. United Kingdom	1850	0.42	0.40	0.40	7
13. Austria	1550	0.24	0.13	0.20	14
14. Italy	1420	0.20	0.15	0.19	15
15. Japan	1400	0.48	0.24	0.25	12
16. Portugal	530	0.69	0.46	0.68	2
TOTAL DAC (AV)	2730	0.42	0.35	0.38	

1. Official flows which are oriented and intended to be concessional in character.

2. Gross flow less amortization.
 3. Gross disbursement less estimated present values (discounted @ 10%) of expected future receipts of amortization and interest on loans disbursed in 1968.
- (Source - DAC/OECD - Development Assistance, 1970 Review Table 1, Annex 1 Pages 150-51)

TABLE 12B

COMPARATIVE AID GIVING PERFORMANCE - DAC MEMBERS 1969

Countries ranked in order of GNP Per Capita	GNP Per Capita (U.S.)\$	TOTAL OFFICIAL FLOWS		OFFICIAL DEV. ASSISTANCE (ODA)	
		Net flows as % of GNP	Grant element ^a as % of GNP	Net flows as % of GNP	Rank
1. United States	4670	0.35	12-13	0.33	11
2-3. Sweden	3460	0.44	7	0.44	6
2-3. Canada	3460	0.41	8-9	0.34	10
4. Switzerland	2970	0.13	16	0.16	15
5. France	2790	0.69	2	0.69	2
6. Denmark	2740	0.41	8-9	0.41	7
7. Australia	2540	0.56	3	0.56	3
8. W. Germany	2520	0.35	12-13	0.39	8-9
9. Norway	2510	0.39	10-11	0.31	12
10. Belgium	2370	0.53	5	0.51	4-5
11. Netherlands	2110	0.54	4	0.51	4-5
12. United Kingdom	1980	0.39	10-11	0.39	8-9
13. Austria	1690	0.18	14	0.12	16
14. Japan	1630	0.49	6	0.26	13
15. Italy	1520	0.17	15	0.17	14
16. Portugal	580	1.42	1	1.04	1
TOTAL DAC (AV)	2960	6.40	0.35	0.36	

* For reference see Table 12A. Gross disbursement less estimated present values (discounted at 10%) of expected future receipts of amortization and interest on loans disbursed in 1969.

See also Development Assistance 1971 Review of 1970 performance (P144).

(Source - See Table 12A)

TABLE 12

ESTIMATED "REAL AID COMMITMENT"¹ OR "GRANT ELEMENT"¹ OF D.C. OFFICIAL COMMITMENTS TO LDCs & M.A. SUBSIDIZED LDCs 1962, 64 & 65 (6m)

	1962			1964			1965		
	Nominal Volume of aid	"Real" amount of ² aid loan discounted @ own borrowing rate, %	10%	Nominal volume of aid	Real amount of aid loan discounted @ own borrowing rate	10%	Nominal Volume of aid	Real amount of aid loan discounted @ own borrowing rate	10%
Australia	na	na	na	100.0	2100	2100	139.3	139.3	139.3
Austria	na	na	na	20.3	5.2	7.5	41.9	8.1	12.3
Belgium	na	na	na	81.2	79.3	80.0	122.4	110.7	116.9
Canada	73.1	58.8	60.8	161.2	95.6	119.7	240.4	164.3	189.3
Denmark	na	na	na	15.3	12.4	13.2	20.2	15.1	15.7
France	1034.6	908.4	937.4	1095.3	913.1	965.8	1061.4	876.7	925.4
W. Germany	497.4	231.4	301.2	552.4	322.5	382.4	681.9	368.3	425.0
Italy	137.1	27.7	31.7	236.0	114.8	130.7	326.2	76.3	108.4
Japan	295.6	128.7	139.7	183.0	97.9	117.2	297.5	136.4	168.0
Netherlands	63.5	35.4	44.7	82.2	63.4	70.0	110.8	82.4	92.7
Norway	na	na	na	9.6	9.1	9.3	14.1	13.6	13.8
Portugal	60.2	6.2	19.2	43.2	8.4	19.3	33.1	10.6	19.4
Sweden	na	na	na	28.7	24.5	26.1	37.0	34.0	35.1
Switzerland	na	na	na	16.0	10.7	11.9	17.9	13.8	15.4
U.K.	570.4	210.8	290.8	801.5	500.9	589.7	489.8	320.3	366.7
U.S.	4975.0	3661.0	4139.0	5636.0	3870.7	4757.2	4004.5	2691.3	3260.3
TOTAL	7706.2	5268.4	5964.2	9071.9	6228.5	7400.2	7656.2	5069.6	5905.8

1. Derived by discounted present value method.
2. Official bilateral and multilateral grants plus the difference between nominal value and discounted value of loans.
3. Long-term Govt. bond yields or the average long-term borrowing rates of each individual country in the year in question.

(Source (1) OECD:- The Flow of Financial Resources to LDC 1961-65.

(2) J.A. Pincus:- "The Cost of Foreign Aid" R.A. & S. Vol. 45, 1963)

TABLE 14

OFFICIAL DEVELOPMENT ASSISTANCE:^a THE NET FLOW^b FROM SELECTED MAJOR DONOR/CREDITOR COUNTRIES TO LDC^c M.A.^d; 1960-69

GNP Per Capita	1960	1961	1962	1963	1964	1965	1966	67	68	69
(1)* \$2,702.0m	2943.4	3231.5	3626.6	3636.3	3465.0	3459.0	3567.0	3303.0	3163.0	
(2)* 0.53%	0.56	0.57	0.60	0.57	0.50	0.45	0.44	0.38	33	
(1) \$ 847.3m	942.9	975.9	851.7	828.2	752.2	744.8	825.5	873.9	965.0	
(2) 1.38%	1.41	1.30	1.01	0.89	0.75	0.69	0.71	0.69	0.69	
(1) \$ 237.4m	330.0	398.3	392.8	460.4	430.5	439.7	528.1	553.3	595.0	
(2) 0.33%	0.41	0.45	0.41	0.44	0.38	0.37	0.43	0.41	0.39	
(1) \$ 406.8m	456.8	421.0	414.5	493.3	472.0	486.0	485.0	413.0	431.0	
(2) 0.56%	0.59	0.52	0.48	0.53	0.47	0.46	0.44	0.40	0.39	
(1) \$ 105.1m	107.8	85.3	137.6	115.8	243.7	283.3	384.3	356.2	435.6	
(2) 0.24%	0.20	0.15	0.20	0.15	0.28	0.28	0.32	0.25	0.26	

(a) Flows which are concessional and primarily intended for economic and social development of developing countries.
 (b) Gross disbursement minus amortization of principle.
 (c) Less-developed Countries.
 (d) Multilateral Agencies.

(1)* Aggregate Value (U.S. \$m)

(2)* As % of GNP.

(Source:- OECD/DAC - Development Assistance; 1970 Review
 Annex Statistical tables 2 and 9 Pages 171 and 181)

TABLE 15

AVERAGE ANNUAL RATES OF GROWTH IN OFFICIAL AND PRIVATE FLOWS REQUIRED TO REACH 1% OF GNP BY 1975 SELECTED COUNTRIES (ASSUMING

CONSTANT PRICES)			
Required Rates of Growth 1968 - 1975 P.A.		Rates of Growth Achieved 1965 - 1968 P.A.	
	Total Official and Private(net)	Official ¹	(Percentages) %
1. United Kingdom	7.0	7.3	-3.8
2. United States	10.7	11.8	-0.3
3. France	2.4	2.6	4.4
4. Japan	16.0	16.2	31.6
5. West Germany	0.5	4.2	8.3
6. DAC (AV)	8.8	10.6	4.8
		Total	Official
		-13.5	-3.8
		1.7	-0.3
		4.4	4.4
		29.2	31.6
		32.1	8.3
		7.2	4.8

1. Assuming private flows in 1975 are the same % of GNP as in the period 1966-68.

(Source:- DAC/OECD:- Development Assistance Annual Review 1969 - Table IV.1 Page 128)

TABLE 16

GROSS DISBURSEMENT OF LOANS AND GRANTS BY MULTILATERAL AGENCIES TO LDCs, 1960-68 (\$m)

	60	61	62	63	64	65	66	67	68
World Bank (IBRD)	341	321	409	462	464	474	564	561	605
International Development Associations (IDA)	-	1	25	105	148	277	273	368	215
International Finance Corporation (IFC)	13	8	18	12	16	19	30	26	31
Inter-American Development Bank (IDB)	-	5	37	75	131	109	142	183	233
Asian Development Bank (as D B)	-	-	-	-	-	-	-	-	20
African Development Bank (Af DB)	-	-	-	-	-	-	-	-	2
E.E.C.- European Development Fund (EDF)	4	17	54	67	85	104	112	105	121
E.E.C. - European Investment Bank (EIB)	-	-	-	-	6	12	26	39	10
United Nations Institutions	125	197	182	229	263	252	272	207	300
TOTAL*	483	548	725	950	1112	1248	1421	1551	1537

* The total should not be confused with the flow of multilateral "development assistance" as defined and used in the text. The data include funds raised on private capital markets and repayments on previous loans which are lent at near commercial terms. C/P table 4 for net flows and table 17 for annual commitment.

(Source Pearson Report. Statistical Annex Table 25).

TABLE 17

NEW COMMITMENTS OF LOANS AND GRANTS FROM MULTILATERAL AGENCIES TO LDC 1960-68 (\$m)

	1960	61	62	63	64	65	66	67	68
IBRD	516	528	507	624	574	637	603	596	104.3
IDA	-	181	187	210	425	191	457	64	116
IPC	19	15	35	14	22	21	54	37	na
IDB	-	167	121	211	205	318	396	464	na
E.E.C.-EDF	81	147	178	49	59	225	146	121	na
E.E.C.-EIB	-	-	-	23	19	52	49	57	na
U.N. Agencies	123	200	182	229	261	260	271	256	na
Commitments Total ¹	739	1236	1197	1360	1565	1904	1876	1595	2146
Gross Disbursement Total ²	483	548	725	950	1112	1218	1421	1551	1537
"PIPELINE FUNDS" ³	256	688	472	410	453	656	555	44	609

1. C/P Table 4 Row 4

2. Table 16

3. Perhaps these figures overstate the "true" pipeline, since no account is taken of cancellations and similar adjustments. Between 1960-1968, it is estimated that Multilateral agencies have committed almost \$4 billion more than they actually disbursed.

(Sources:- (1) DAC/OECD: Development Assistance Annual Review, 1966 Table IV Page 36

(2) DAC/OECD: Development Assistance Annual Review, 1968 Table IV-1 Page 75

(3) DAC/OECD: Development Assistance Annual Review, 1969 Page 52.

TABLE 1a

THE NET FLOW OF FINANCIAL RESOURCES FROM MULTILATERAL AGENCIES, AND THE FLOW OF OFFICIAL BILATERAL RESOURCES FROM 1960-67 (in \$m)

DAC MEMBERS TO AFRICA, SOUTH OF THE SAHARA (Excluding South Africa) 1960-67 (in \$m)

1960-67¹
(Annual Av)

Multilateral Agencies

	1960	1961	1962	1963	1964-67 ¹ (Annual Av)
World Bank Group	48.7	51.9	44.0	8.3	
I.N. Agencies	16.0	39.9	29.5	36.0	
E.E.C.-European Development Fund	3.2	15.2	51.3	58.9	
Total Multilateral	67.9	107.0	124.8	103.2	178.52
Total to all LDC	290.0	255.0	444.0	638.0	733.97

BILATERAL

France	280.1	282.1	285.9	293.6	262.20
United Kingdom	123.6	228.3	172.3	163.5	194.00
United States	39.0	75.0	148.0	142.0	226.11
Belgium	86.0	70.5	63.4	75.8	73.83
N. Germany	5.3	13.4	59.2	54.1	68.10
Portugal	36.6	32.4	40.7	51.1	n.a.
Italy	16.6	18.5	12.5	22.5	29.62
Others	0.5	2.9	3.5	4.3	
Total Bilateral	587.7	723.1	785.5	866.9	915.38
Grand Total: (Multilateral and DAC Bilateral)	655.6	830.1	910.3	910.1	1093.90

1. Refers to "Official Development Assistance" (ODA) only; and therefore not strictly comparable with 1960-65 da.
(Sources (1) A. Kamarck:- "The Financial Experience of Lenders and Investors" in J. Adler (ed) Capital movement and Economic Development. op cit. Page 88.
(2) U.N. World Economic Survey for 1965.
(3) Pearson Report:- op cit. Statistical Annex Table 28 Page 394 (for 1964-7 Data)

DISTRIBUTION OF NET OFFICIAL ASSISTANCE IN AFRICA 1960-65

<u>COUNTRY</u>	<u>FLOW TO AFRICA AS % OF TOTAL AID</u>	<u>% SHARE IN AID FOR AFRICA</u>
United States	14	26
France	7½	40
United Kingdom	52	15
W. Germany	18	5
Japan	2	1
Other DAC Members	34	13

(Source DAC/OECD: Development Assistance Annual Reviews).

CHAPTER 4INTERNATIONAL RESOURCES FLOW FOR DEVELOPMENT: COMPARISON
BETWEEN MODERN AND 19TH CENTURY FLOWS

I have at various times in the preceding pages noted the changes that have revolved around the international movement of capital resources from one country to the other for the purpose of development. The transformations that have taken place in the pattern, motives and process of Private flows and in governmental attitudes and policies are well reflected in my analysis on private investment, official assistance, and by the experience of Britain as a major capital exporter. The purpose of this short chapter is to bring together the various facets of the change, clarify notable differences between modern and 19th Century flows, draw attention to elements of continuity and use the historical comparison as a basis for projecting possible course of development. The central premise in any understanding of the changes and development that have taken place in capital transfer must be the recognition of the close link and relationship between international trade, capital movement, and international interdependency and cooperation. At the turn of the century the close association and mutual reinforcement between the first two factors was the cornerstone on which the growth and prosperity of present non-European developed nations was built; whereas most of the modern features of capital flows can be traced to the introduction into this chain, of a greater governmental and international involvement, and a closer economic interdependency. The emergence of Governmental assistance, of international economic institutions like the World Bank, the IMF, and UNCTAD, the development of attitudes and policies hospitable to direct foreign investment; the

growth of multinational unit of business organization, the commitment to accelerated economic and social development in politically independent LDCs, and the higher cost of borrowing investment capital, are in one way or the other symbols of a greatly integrated global economic and political activities, and the demise of laissez-faire in the area of international capital flows.

There is a semblance of uniqueness about the circumstances surrounding capital movement in the first decade or so after the end of the 2nd World War. Marshall Aid for post-war reconstruction in Europe, foreign aid disbursement as a positive and concerted attempt to help the Third World develop, and/or as the symbol of "Cold War" competition; the formal and more elaborate organization of the international monetary system and trade are, exceptional factors analogues to the uniqueness of the period after 1870 when surplus capital, surplus labour, empty fertile territories in the temperate zone, industrialization in Europe that increasingly required import of raw materials and food, combined to create a "golden age" of overseas investment that was only brought to an end by the outbreak of the Great War.

The reversal of the relative magnitude and importance of direct investment vis-a-vis portfolio investment represents one of the major changes from the pre-1914 pattern. I have stressed this point before especially when dealing with private direct investment overseas and below when relating the British experience. The movement away from portfolio investment is a reflection partly of the modern attitudes towards direct foreign investment especially among the developed O.E.C.D. members and of the relative vulnerability

of such outflow to official restrictions in times of balance of payments crisis. However portfolio investment still forms an important part of total capital movement especially within the leading "Group of Ten" capitalist economies. Long-term portfolio investment still accounts for the greater part of foreign capital inflow into such countries as Japan where official restriction on direct foreign investment is heavy, and in countries like the United States and West Germany where market forces militate against noticable inroads by foreign direct investments. The flow of portfolio capital into the currently developing countries is expected to be only a trickle, in view of their depending on concessionary capital for development. The preponderance of direct investment flows within the developed nations themselves is less total as compared with portfolio flows¹. However an element of continuity still exists in the type of direct investment that take place in the low-income developing countries. As in the late 19th century the greater part of it is still concentrated in the extractive, plantation and services sectors. Two exceptional circumstances can be discerned in this respect. Firstly, the growth in the effective size of the internal market and the 'pull' policy (incentives, tariff walls, invitations etc.) pursued by LDCs government meant that an increasing proportion of foreign capital in these countries is going into domestic orientated manufacturing industry. Secondly, efforts are being made by these countries to reduce the enclave and 'colonial' environment surrounding the extractive industries. The emergence of a more forceful economic nationalism in the "Third World", stemming partly

1. See above Chapter 2 Pages 57-58

from political independence and a greater commitment to accelerated economic development, has meant the introduction of 'radical' economic and commercial policies which demand from foreign investors a new set of attitudes and commitments different to those they were normally accustomed. Foreign capital is invariably encouraged to integrate and coordinate with the rest of the economy in implementing a planned development programme which might include targeted levels of industrialization, import substitution, export expansion, increased local participation in ownership and control, increased local provision of input requirements, increased share of profit that is locally retained and the spread of benefits to and greater linkage with the rest of the domestic economy. It is easy to see why such programme may not fit in squarely with Head-Office's supranational plans and commitments. Unlike the 19th century when foreign investors scarcely concerned themselves with the interests and desires of peoples in dependent territories, or of the weak and corrupt governments in many nominally independent countries, the situation today is a lot different. These changes - political, economic, commercial, social and communicational - that have taken place especially after World War II create a new mode of international relationship within which foreign investment adapts itself to the changing needs and aspirations of both investors and host recipients.² Since the last century direct investment has passed beyond the stage when it used to be undertaken by manufacturing firms from the Imperial States in the primary producing territories. It has now spread its wings to all countries, developed and developing, wherever it is welcomed, often for differing motives but

2. See also B. Goodman:- "Political Economy of Private International Investment" in Economic Development and

If "more often than not" does the conflict
with earlier views on effectiveness
of uncoordinated packages?

always in line with changing climate and circumstances. In the developing countries foreign firms are expected, as shown above, to take note of socio-economic aspirations of the host community and to base their investment and other crucial decisions on factors other than those in pure capitalist enterprise system. Favouring the foreign investor however, is the realization that between the vast number of investment-eager developing countries - not to mention the attractive pull of the developed industrialized markets - he has a choice as to where to plant his operation. His decision is less often than not influenced by the array of incentives specially constructed to woo him into this or that country. The package he brings - his capital, know-how, skill, organization and perhaps overseas market - is well appreciated. The investment climate and the politico-economic environment he is operating in are expected to improve now that the post-war changes are settling down and the relative desires of both sides increasingly understood. Laissez-faire has given way to a frame-work of national and international efforts to safeguard his investment and to encourage his commitment in areas he would not normally consider. However his 'direct presence' - unlike his portfolio investment - especially when coupled with his superior economic power and attributes of extraterritoriality has traditionally evoke varying degree of criticism and opposition from host community.

An important by-product of the expansion in direct investment overseas is the ever increasing growth of the multinational companies. Capitalists in the developed rich creditor

nations have become accustomed to the idea of channelling their capital through the medium of these highly-capitalised companies who are better placed to exploit the potentials available overseas. I have analysed elsewhere the main features of their operations.³ However it is worth repeating here that production by subsidiaries/affiliates and branches of these companies has already replaced trade as the principal vehicle of economic intercourse between nations. According to C. Levinson, for example, total sales of these subsidiaries (of leading firms in the major industrial OECD countries) is already more than \$100 billion greater than the total of world exports, while sales of American firms abroad is more than five times the value of U.S. exports.⁴ International trade which did so much to promote world economic development and cooperation in the period before the War has now ceased to be the main machinery for spreading growth and development. Partly due to direct investment, a policy of **autarky** in some countries, trade barriers, official aid and other types of capital flow, and the inadequacies of present monetary system, international trade today plays a less stimulating role than the developing countries would have wished. It is a well-known fact that economists differ as to whether the developing countries would be better helped to develop through resource transfer (including concessionary aid) or through trade incentives and liberalization.

3. See below Chapter 5.

4. C. Levinson:- Capital, Inflation and the Multinational London 1971, 1970/71 estimates.

With equity investment accounting for about 90% of total private capital flows, it is not surprising that capital movement today has become a more lucrative enterprise than ever before. It is true that direct investment was the most risky and the most profitable of the 19th Century investment, its size was however small in relation to portfolio investment which at best yielded 6-7%. Today equity investments yield on average 15-30% before tax and 10-25% after, in contrast to 7-8% average return on fixed interest investment. The higher return reflects the greater productivity of modern capital and partly the degree of oligopolistic power exercise by multinational companies. I do not wish to enter into the debate as to whether developing countries, in order to minimize the cost of development should make more use of fixed-interest loans and hired expatriate experts, or are better-off with the package of capital, skill experience and management offered by direct investment.⁵ A strong case can be made for either alternative, or for that matter, for a good blend of both. In trying to evaluate a good mix, allowance must be made for concessionary official loans. In fact the experience of most developing countries is that private direct investment tends to complement official and multilateral disbursements which invariably happen to be the only other sources of loan capital. To the larger profitability of private capital now must be added the fact that capital investment both at home and abroad tends to appreciate at a faster rate than before.

5. See for example W. Rosenberg:- "Capital Imports and Growth - the Case of New Zealand. Foreign Investment in New Zealand 1840-1958" E.J. March 1961 Page 106.

Frail discussion of relationship
between "international" financial
system & growth of world trade &
capital movement. Quite inadequate

World trade has risen very
rapidly post 1944

In the pre-1914 period the automatic adjustment mechanism of the balance of payments and floating exchange rates existed hand in hand with adequate supply of sterling surpluses to lubricate the machinery of international trade and capital movement. Today such built-in adjustment mechanisms are no longer readily used, as the major monetary powers strive to stabilise their economies on steady growth paths, maintain 'full employment', prevent or contain inflation and maintain relatively fixed exchange rates. The international payments arrangement has become more complex while the international monetary system set up at Bretton Woods after the war has increasingly demonstrated its shortcomings in coping with current requirements. Far from being the oil that lubricates the "engine of growth" by facilitating trade and lending, it has become a grit in the engine and a major obstacle to the expansion of trade and capital movement. The United States dollar and to a less extent the British pound have lately demonstrated their inabilities to function as reserve currencies. The world is no longer faced with a shortage of U.S. dollar which overseas investment was expected to ameliorate. On the contrary a persistent deficit on the U.S. balance of payments account has glutted the major capitalist countries with surplus dollars. A major international/multilateral realignment of leading currencies is essential in the immediate future if the present monetary crisis is not to have a more than temporary adverse effects on trade and capital movements especially in relation to the developing countries. The SDR is expected to supplant the U.S. Dollar - in the same way as the latter had supplanted sterling - as the cornerstone of the future monetary system.

The introduction of concessionary official assistance into the modern capital movement has meant that much of the capital going into the developing countries now is unlike the period before the war less closely related to profitability. However, if we also consider intra-O.E.C.D. members flows we find that the influence of official concessions on total global movement is less striking than one might instinctively assume. Certainly more countries are involved in capital resource transactions than ever before. The greater cohesiveness of modern economic relationship had led to international institutional arrangements being developed either specifically geared to ease the problems that arise out of international capital movement, for example, the Centre for Settlement of Investment Disputes, or to take charge of different types of non-bilateral and non-governmental flows, namely the World Bank (IBRD), IFC, EDF and IMF. There are signs to suggest that international influence in capital movement will increase in the coming decade. Within the country-to-country flow, official intervention in both the developed donor/creditor countries and the developing host countries has shown a tendency to increase too; either to help, encourage or insure private capital against political risk abroad, or as in the case of the latter to instruct, curb, cajole and indeed take over. Nationalization, partial or complete, and in the extreme expropriation have ceased to be possible threats. They are now economic facts. In order to deter such occurrence, the government of the investor's country can threaten economic sanctions including the cutting-off of aid. There are numerous examples of such threats being actually carried out.⁶ It is against this background

What is special about capitalism in this?

Do ~~some~~ countries behave differently
in relation v. each other?

that official insurance guarantee against non-commercial risks is becoming an increasingly more valued asset by companies already with overseas investment, or an important incentive to encourage others to "turn international".

Official source⁶ of, or backing for much of the loans and guaranteed export credits to developing countries governments (and government agencies) has led to an almost complete absence of repudiation and defaults as compared with the experience of private capital exporters in the period before 1914. That is not to say there are no hitches over capital lending, what is common today are threats of repudiation and complaints about the harshness of the terms offered by the creditors. The current operational method of resolving temporary difficulties over debt service obligations is by rescheduling the debt portfolio. I have already referred in the last chapter to the inadequacies of some recent debt relief operations. It must be borne in mind that the points I have been making here apply in the main to capital flows between developed and developing countries. Defaults, nationalization and expropriation are very unlikely steps to be taken by one developed O.E.C.D. country against the other. Their greater inter-locking economic relationship, and reciprocal recognition of strength and retaliatory power enable such threats to capitalism to be almost mandatorily avoided.

A larger proportion of today's investment in most of the developing countries is represented by domestic capital than during the 19th Century. Foreign capital inflow, including direct investment is no longer responsible for the bulk

6. See below chapter 5. And also D.R. Mummery:- The Protection of International Private Investment: Nigeria

of domestic capital formation. Its role as a complement to domestic efforts however is still important and in some cases as vital as ever to maintain economic viability. The strong two-way casual relationship between capital export and population movement into the spacious, fertile and virtually empty territories in the temperate zone, which stood out as a main feature of the Pre-1914 development, has largely disappeared now. The unique migration of nearly 60 million people during, the period 1850-1914 contrasts sharply in volume with present movement. However the distributional pattern of intake of migrants and the motives for moving bear a high degree of continuity with the earlier period. People still leave Europe in their thousands to settle in Canada, Australia, New Zealand, South Africa and The United States. An interesting mid-20th Century development is the attempt though on a small scale by people from the modern developing world to migrate to the developed industrial states.

Other characteristics and features of 19th Century capital movement may when seen in relation to analyses undertaken in other chapters of this study, elucidate our understanding of the changes and continuities of the last ten decades. The economics of world development has certainly taken a bigger dimension since the later part of the last century when Great Britain was the center of world production and trade, capital and population movement, and technological innovation.

6. Cont'd... and the World Community, New York, 1968. Especially P65-68. "The Hinckenlooper Amendment" incorporated in the Foreign Assistance Act of 1961 gives the United States Federal Administration executive power to take such action.

Her pre-eminence in this position was perhaps at its zenith during the "golden age" of international capital flow (1870-1913) when her wealth enabled her to invest abroad a large volume of funds which as a proportion of her national income or of her national wealth was not, and has since never been, surpassed by any other nation or any other period.⁷

The rapid growth in the United States economic wealth especially following her recovery from the Great Depression enabled her to replace Great Britain as the leading creditor nation, but to a lesser extent. Today that role is being increasingly hampered by her continuing balance of payments problem. Within the American capital movement the most outstanding feature has been the contribution flowing through official channels; whereas before 1914 Britain's overseas resource flow was privately organized with official interest and actions limited to minor grants-in-aid and guarantee of colonial stocks. Even though the size of Britain's present overseas private investment is about 3-4 times the value of her investments during the "golden age", there can be no doubt whatsoever that in real terms and in terms of national resources so disposed the latter was of greater magnitude than modern transfers. D.T. Healey also stresses this point:"the fact that the net annual outflow of private long-term capital from the industrialized countries was over \$2 billion in the early 1950's..... should not blind us to the fact that it represents in real terms only about half the 1920's average."⁸

7. See J.A. Hobson:- Imperialism: A Study (3rd edition) Appendix to Chapter IV Pages 62-63 See also Table 60A.
8. D.T. Healey:- "The Importance of Private Capital Movement in Economic Development with Special Reference to Africa" Oxford University Institute of Commonwealth Studies Reprint Series No.24 Page 18. Also compare tables 60A and 60B

I have examined in Chapter 2 the causes of and motives behind modern private investment overseas. What about the period before the Great War? One school of thought which we may call the Marxist-Leninist, saw the existence during the period of a tremendous pressure in the capitalist creditor nations for investing their surplus capital overseas and that this was the main factor in producing formal and informal imperialist territorial expansions. This view was first expressed by J.A. Hobson⁹ and later by Lenin,¹⁰ though for different reasons, Hobson to publicize his explanation of the social and economic problems faced by Britain during the Victorian era, and Lenin, to propound a theory that takes the Marxist analysis of the historical development of the capitalist system to its logical conclusion. According to Hobson "over-production in the sense of an excessive manufacturing plant and surplus capital which could not find sound investment within the country, forced Great Britain, Germany, Holland and France to place larger and larger portions of their economic resources outside the area of their present political domain and then stimulate a policy of political expansion so as to take in the new areas."¹¹ Lenin saw the resulting political and economic imperialism as providing only a temporary cure for "monopoly capitalism;" competing economic empires breed war, war breeds revolution and revolution will finally overthrow capitalism and imperialism. To him imperialism must prove the last stage of

9. J.A. Hobson:- Imperialism: A Study op cit

10. V.I. Lenin:- Imperialism, the Highest Stage of Capitalism 1947. Moscow edition.

11. J.A. Hobson:- Imperialism: A Study op cit Page 80

capitalism before "law of capitalist collapse" became operative. It is also worth noting two other ideas, emanating from the Hobson-Leninist thesis. The first concerns the control and influence exercised by "finance-capitalists" over overseas investment and territorial expansion. The other is the suggestion that imperial powers were almost certain to exploit in their own interest their colonial possessions and the economically and politically weak "independent semi-colonials".

Opposing the Hobson-Lenin thesis is what we may call the orthodox school who insists that the enormous spurt in lending must be seen in the context of Britain's (and other European Creditor nations) role within the emerging pattern of international intercourse. Overseas investment, migration and the tremendous upsurge in world production and trade were all integrated together in the process of international expansion before 1914. Capital export was not forced out of the British economy by the machination of self-centered finance-capitalists and speculators, but was rather a positively rational reaction on the part of British investors who considered the development of the potentially rich, raw material producing territories as a matter of enlightened self-interest. To invest in the regions of recent settlement, that is the spacious fertile and virtually empty plains of Canada, the United States, Argentina, Australia, New Zealand, South Africa and other "new countries", was in one sense to invest in a primary sector of an enlarged British economy. And the gains to Britain was not entirely limited to investment income, profits and dividends, but also include cheap and plentiful raw materials and foodstuff, as well as over-

seas market for her industrial production. Thus capital export became the means whereby vigorous process of economic growth came to be transmitted from the centre to the outlying areas of the world, with sterling in particular fulfilling the reserve currency role. Its flow lubricating international trade and capital movement machinery.

As a reaction to Hobson-Lenin argument, it has been shown for example that the bulk of Britain's investment was, and continued to go as before to countries outside the British Empire and largely beyond the direct control of British policy. The corollary being that the "colonial enclave" type of foreign investment was of minor importance during the period,¹² and that there was no causal economic relationship between Britain's territorial acquisition after 1870 and her expanding overseas investment, which Hobson and later Lenin have used to justify the rise of imperialism.¹³ Secondly, that Britain and other European powers have invested enormously abroad and acquired territorial possessions long before their industries and credit systems showed the least tendency in the world towards monopoly.¹⁴ Furthermore those who have sought to explain the forces behind the rapid

12. See for example R. Nurske:- "International Investment Today in the Light of 19th Century Experience" Economic Journal Dec. 1954; Royal Institute of International Affairs:- Problems of International Investment, op cit and A.K. Cairncross:- Home and Foreign Investment op cit

13. D.K. Fieldhouse:- "Imperialism: An Historiographical Revision". The Economic History Review, 2nd Series Vol. XIV No. 2 1961 Page 199.

14. See W.H. Court:- "The Communist Doctrine of Empire" Appendix I, of W.H. Hancock:- Survey of British Commonwealth Affairs. Vol. II Part I op cit, and D.K. Fieldhouse ibid Page 197.

extension of formal control over alien territories after 1870 have argued that political factors in essence determined such scramble. The political imperialism that spread out of Europe to the rest of the world was the outcome of fear and rivalries within Europe. "The outstanding feature of the new situation (at the turn of the century) was the subordination of economic to political considerations, the preoccupation with national security, military power and prestige."¹⁵ Realpolitik rather than economic consideration was the real driving force behind such territorial aggrandizement.¹⁶

The gulf between the two alternative explanations of the forces behind British (and other European Countries) investment overseas during the period appears superficially wider than real. True, one view holds that it was a question of demand pull, and the other, a question of supply push, however there are certain areas of the circumstances surrounding the outflow in which agreement, consistency or reconciliation of the two schools can be established. Let us examine some of them. There is a certain amount of agreement among researchers on the subject of the availability of surplus capital within the British economy for example, and as both Cairncross¹⁷ and W.H.B. Court¹⁸ pointed out. She lent chiefly in times of boom when she was herself making full call upon her capital for home development and also when nearly the whole employable population was at work. Furthermore

15. D.E. Fieldhouse ibid Page 204.

16. C/P Lenin's emphasis on economic factors as the root of all features of the Imperialist State. To him, the politics of Imperialism cannot be detached from its economics. See, Imperialism: The Highest Stage of Capitalism. op cit 1947 Moscow edition Pages 111-112.

the rapid economic development abroad made possible by her loans, brought about the further increases in her wealth out of which new investments were made at an increasing rate until the outbreak of war. Perhaps even more important is the proposition that had there been no openings abroad for her capital much of that excess capital might never have been saved at all. As Cairncross observes, "the earnings of Capitalists would presumably have been less because of a lower rate of interest or because of a check to accumulation or for both reasons. The earnings being the main source for the provision of fresh capital, the check to the National Dividend might have been cumulative."¹⁹ These views are not perhaps inconsistent with Hobson-Lenin contention, that investment abroad was necessary to sustain Victorian England's accumulation of capital. Their predictions of short-term consequences to monopoly capitalism were such outlets to be denied, seem to be in line with those of the orthodox school. Again the latter has conceded the fact that such investments often brought political consequences. Both sides agree that the quest for high profits, for greater security of their investments in colonial and "semi-colonial" territories, and for markets to supply raw materials and receive manufacturers, was a major factor in accelerating the drive for expansion overseas. The essence of Hobson-Lenin thesis is the impact of economic considerations on the establishment

16. Cont'd....

See also L. Woolf: Empire and Commerce - A Study in Economic Imperialism.

17. A. Cairncross: Home and Foreign Investment. op cit Page 232.

18. W.H.B. Court op cit Page 300.

19. A. Cairncross (fn 17) loc cit

of formal or informal sovereignty and "spheres of influence" over overseas territories. To me, attempts to discredit Hobson's linking of capital outflow and territorial annexation after 1870, by showing that more than two-thirds of British investment went to regions of recent settlement in the temperate zone and that the bulk bypassed the underdeveloped parts of tropical Africa and Asia which were annexed during the post 1870 "imperialist grabs", is of little significance.²⁰ To Lenin, the division of the rest of the world into foreign, empire and colonial, European, or whatever categories imaginable, is irrelevant when it relates to investment. What does matter is that the inflow of capital from abroad brings with it economic as well as political influence irrespective of whether such influence is formalized or not. What must be borne in mind here is that the enormous outflow after 1870 brought with it accelerated exploitation of, and intercourse with the underdeveloped parts of the world.²¹ The formal position of these territories vis-a-vis the lending imperial powers is un-important. In fact a lot of the "independent" or "foreign" debtor countries were in reality semi-colonial or "protected" states. What I am saying here is that there ought not to be much difference as to where these investments went. It boils down to the question of one's interpretation of the status of the receiving countries. Perhaps more important

20. For example See D.K. Fieldhouse op cit Page 190.

21. C/F H. Singer's thesis on the secular deterioration in the terms of trade of the developing countries in the second half of the 19th Century.

than the argument above is the partial acceptance by the orthodox school of the fact that some of the "imperialist grabs" of the period took place because British, French and German capitalists - the exporting, the financial and speculative groups - had already invested much of their surplus capital there, or because they regarded them as potential fields for future investment and exploitation. A prima facie case could be made out about the influence of economic and financial interests in the annexation of South Africa, Rhodesias, the Niger basin and Egypt by Great Britain, and the Cameroons by Bismarck in 1885. As W.H. Court remarks, "there is forceful proof in the history of the 19th Century for Lenin's thesis..... The most distinct, not to say glaring example of the impact of finance upon politics in British Experience is to be found in the history of South African war, when leaders of investment of British Capital in South Africa exerted a real personal influence over both South Africa and British Politics."²²

Proponents of the orthodox explanation do not deny the existence of "economic imperialism" as an historical fact even if they do not specifically associate it with the mass movement of capital during the period. As D.K. Fieldhouse, who has critically examined and rejected Hobson's and Lenin's hypothesis about the rise of political imperialism aptly puts it, "... most of the world had been brought under the economic control of European (and the increasingly influential United States) business enterprise by the end of the 19th Century, their trade was organized and carried by foreign

22. W.H. Court: "The Communist of Empire" op cit Page 299.

merchants, their revenues mortgaged to the loans they had received. This indeed was "economic imperialism" in its purest form; cosmopolitan in outlook, showing no interest in the creation of "formal" colonies except where, as in China the formula for the open door policy proved otherwise unworkable..... The essential weapons of the European trader or financier were economic - the demand for his goods, his capital or his credit. The stranglehold he thus obtained differed only in detail from that held in the 18th Century by British firms in the American colonies, transferred now to the similarly defenceless, though politically independent states of South America, the Middle and Far East..... Only in absolute volume of its activity, and in the increasing competition between rivals from newly industrialized countries, did the character of economic imperialism changed before 1914."²³

Finally, we may note that Lenin's observation of the political and military chaos that was to follow territorial acquisition by the Great Powers bears some semblance to Fieldhouse's analysis of the events leading to the 1st World War. What the above analysis has shown apart from anything else, is that there is much controversy about the motives and circumstances surrounding overseas investment in the Pre-1914 period. This in a way represents a major feature of the period, analogous to the emerging discussion about the role of multinational corporations in modern capital movement. We can also detect an element of continuity in motivation. Certainly much of the view expressed by the orthodox school

23. D.F. Fieldhouse "Imperialism: An Historiographical Revision" Op cit Page 208.

is reflected in the explanation of present day motives undertaken in Chapter two; while for the newly independent developing countries, especially those with preference for socialist ideology suspicion and criticism of foreign capital's motive are no less as strong as those in the days of Hobson, Lenin and Rosa Luxemburg.

Let us move to other features. One important one was the Structural flexibility displayed by overseas holdings. This continuous process of change is partly in response to potential high returns and security of assets, and partly to changing circumstances. Again, we can use British experience as an example. In 1870 and before, the greater part (2/3) of British Investment was in the bonds of United States, Continental Europe and South American republics. The rest was in the Empire. By 1885 the distribution had started to move slowly at first but more rapidly at the turn of the century in favour of the Empire such that by 1930 the stake in the Dominions and Colonies accounted for 60% of British overseas investment. Within the Empire gilt-edge stocks of government (for public utilities and other economic infrastructure) and colonial railways were the main beneficiaries. Smaller amount went to direct investment such as mining, export-import trade, plantation agriculture and services in shipping, banking and insurance. The growth of direct "enclave" investment was most pronounced between 1900 and 1914, however railway portfolio both foreign and Empire was the outstanding outlet for British Capital and with few exceptions consistently profitable. There was not much change in the distributional pattern of overseas assets in the inter-war years. The main developments were the replacement of Australasia by Canada as the leading borrowing nation

and the emergence of the United States as a net creditor country. Post World War II saw the rapid expansion of direct investment as an alternative to portfolio holding especially in the developing countries. By 1958 it accounted for 43% of total British investment and grew rapidly (as part of a world trend) to reach 91% of the total in 1966. Since the early '60s, direct investment (excluding oil) in overseas sterling area (by and large, the old Empire) has oscillated in the 50-60% range. "One reason for this might be that earnings on investment in the sterling area have been less buoyant than in the non-sterling area, falling from 66% of total earnings in 1962-64 to 57% in 1965-67".²⁴ In contrast British investment rose sharply in North America and Western Europe. Again a reflection of the rapid growth of intra-OECD capital flows. Along with the post-war expansion of direct investment, we may note the growth of technical assistance including the movement of "human capital", and the phenomenal rise in export credits and contractor finance credits to the developing countries. The continuing importance of export credit as a major complement to private capital movement will largely depend on how successfully developing countries can shoulder the heavy debt obligation involved. What other changes (and continuation of trends) are likely to emerge in a decade or two from now? On the basis of analysis undertaken above and in other chapters a few projections can be made. The cost of borrowing capital, that is the average international interest rate is likely to continue its upward trend as demand keeps ahead of supply. International trade, in the face of declining official concessionary capital transfer, and successful pressure from LDCs for its

24. (Britain) Dept. of Economics Affairs (DEA):- Progress Report No. 53 June 1969 Page 1

liberalization, may re-emerge again as an "engine of growth". This is likely to be reinforced by the expected maturity of industrial/manufacturing sector in LDCs, which with its labour-using, less technological-intensive production method may assume the role of supplier of standardized manufacturers to the developed economies. The latter prospect again may be strengthened by increasing real cost disadvantages in the latter economies, necessitating as it were industrial restructuring.

Disillusioned with the instability and unreliability of bilateral official inflows, and the overt political and economic pressure being brought to bear by individual donors, some of the developing countries will be forced to gradually reduce their dependency on official external resource inflow and to seek the channelling of the greater part of future assistance through a revamped World Bank Group. In the area of direct investment, multinationals industrial expansion will continue while services and distributive investments will decrease as greater local participation develops. Foreign direct investment in developed economies will continue to be governed by technological and management technique advantages, and the desire of "affluent" consumers in these countries to have as many alternative choices as possible, for example in the purchase of motor vehicles.

Portfolio investment is expected to respond favourably to economic development of, and greater confidence in the more "successful" developing countries. It is more difficult to project the trend in the overall size of capital resources transferred for economic expansion and development. A lot depends on the behaviour of official flows and the opportunities available for private capital. Those opportunities in turn

will depend on how far foreign capital adapts and adjusts to changing conditions and attitudes in the developing countries. It is likely however that the steady growth in world production and hence in resources available for transfer, and the increasing economic intercourse between countries and economic blocks of different political, economic and social outlooks and at different stages of development will favour the steady post-war expansion in size of, and area covered by capital movement.

CHAPTER 5A CRITIQUE OF INTERNATIONAL RESOURCE FLOW TO THE DEVELOPING COUNTRIES.

I have looked at both private and official resource flows to the developing countries in the preceeding chapters and have, in the process, pointed at some of the main flaws in such flows. I have also briefly enumerated some of the advantages and disadvantages - the "pros" and "cons", or the benefits and costs - of both private investment and public assistance. The purpose of this chapter is to collate some of the major aforementioned flaws that are scattered about the previous pages and to build them up into a comprehensive critique of capital flow . This is done primarily from the receiving developing countries' viewpoint. Apart from a small minority such as Professors Peter Bauer and Milton Friedman, the general consensus among economists in the developed donor countries on foreign aid is one of favourable approval, though its importance in the success of the concerted efforts at rapid development in the "third world", is variously seen as "indispensable", "vital", "necessary", "essential", "secondary" or "marginal". Those who see its role as peripheral either lay greater emphasis on the virtues of private flows, or attach greater importance to trade liberalization. Again there are others who believe that the vital momentum for development must originate from internal sacrificial efforts and therefore see external aid as either giving the necessary breathing space for adjustment, or a holding operation that prevents early recognition of the need for bigger self-help efforts. Most analyses in this field tend to reach conclusions that are supposed to apply generally to the bulk of the developing countries. Rarely is the

by what standards? how national for view
its own plans and their evolution in any longer term?

proposition advanced that while conditions in a particular developing country may be such as to make external assistance indispensable, it is possible for a neighbouring developing country to operate under a differing set of conditions which make the benefits inherent in external resource usage to be far outweighed by the economic, social and political cost incurred, thereby making such usage unnecessary. It has also been asserted that the main reason for the disillusion with aid in the old-established donor countries is because foreign aid has so far failed to reach its objectives and that the failure lies squarely with the recipients' poor performances. These critics invariably neither indicate what they think these objectives are, nor what they regard as the measures of success. Their time-horizon seems to be unduly short.

As I said earlier on, any comprehensive critique of foreign resources transfer for development must revolve around issues and contentions that are political, socio-cultural, commercial, technological, moralistic as well as economic. We must therefore see the costs and disadvantages in these terms though sometimes the line of distinction is indeed very thin. It is the abstract nature, the informal and unwritten existence of such influences which makes for a major flaw in the analysis attempted here. That is, it makes a comprehensive critique of resource flow "scientifically" and factually less rigorous than it should be. For example, it is well-known that commercial, political and diplomatic conditions are regularly attached to aid disbursements by

the leading donor powers.¹ Yet the existence of such conditions - less openly acknowledged - is often therefore a matter of suspicion rather than of factual information which can be verified from official documents. Commercial "strings" are recognised through the practice of tying aid to purchases from the donor country. Some politico-economic conditions invariably come to be recognised in indirect ways. For example it is difficult to find any U.S. AID disbursement Agreement with a preamble enjoining the recipient to take note of the "Hickenlooper Amendment", yet it is important for any developing country that hopes for a continuous and stable economic (and military) assistance from the United States, to be conversant with its provisions.² The strength of some of these unwritten rules only become real when effective action is taken by the donor against an "offending" recipient country. The French cut off aid to Guinea when the latter chose to opt out of the French Community, the Americans instituted economic and political embargo against Castro's Cuba when the United States companies' properties were nationalized and expropriated; the United Kingdom Government

1. For example the theme of the "Hallstein Doctrine" which used to govern West Germany's aid policy was the refusal of that state to give or continue aid to any developing country which recognised East Germany. Until recently trading with the latter was also frowned upon.
2. The "Hickenlooper Amendment" of January 1962 requires the President to suspend aid under the Foreign Assistance Act to any country that has 'nationalized or expropriated or seized ownership or control of U.S. citizens' property; or has taken steps to repudiate or nullify existing contracts or agreements with U.S. citizens.....' and failing to make speedy and adequate compensation in convertible currency. Apart from Cuba, up to the late - 60s, there had been four other major instances in which the question of invoking the amendment has been in issue. They concerned Brazil, Argentina, Ceylon and Indonesia. For more details see D.R. Mummery: *The Protection of International Private Investment: Nigeria and the World Community* op cit Pages 65-68.

discontinued aid to Tanzania in 1968 over a minor dispute about payments of ex-colonial civil servants, pressures have been put on U.S. subsidiaries abroad against export of "strategic" materials to the Socialist countries, and so on. These are political and economic sanctions at work, while in recent years, the threat to use such sanctions and pressures have noticeably been publicly voiced.³ Perhaps the lack of direct evidence to substantiate one's critical assertion is more noticeable in the analysis of tripartite relationship between a foreign firm, the host government and the former's home government. Undoubtedly this is a rich area for highly contentious propositions. For example, a statement like, "... members of the political class formed a strong alliance with the foreign enterprise sector, which by nature of its history, purpose, resourcefulness and style of operation was able to wield power beyond any magnitude which can be demonstrated by appealing to conventional statistics of investment and growth,"⁴ is to say the least highly controversial and less likely to be accurately substantiated. The presumption being that the relevant information is not normally

3. Note for examples, the treatment of Pakistan - including the stoppage of aid flows - over the "Bangla Desh" issue; the U.S. - Chile "confrontation" over the nationalization of U.S. - owned copper mines; and the eagerness of the U.S. Congress - and public opinion - for a substantial reduction in the United States disbursement to the United Nations Organisation and some recipient member - states after the recent setback to U.S. policy on the so-called "two chinas question".
4. O. Aboyade:- "The Economy of Nigeria" in P. Robson and D.A. Lury (ed):- The Economies of Africa op cit Dr. Aboyade was referring to the period immediate and after "Independence" in 1960.

volunteered by firms or revealed by the government. It might be the product of intuition, speculation, suspicion or rumour. Yet it might contain a large element of truth. To give greater credence to such criticism of foreign enterprise and local political (cum economic) leadership, one has to indulge in clever deduction and make inferences from loosely connected factors. In this instance, some of the premises on which to work may include these factors: Foreign firms dominate the modern, fast growing key sectors of the economy; most home governments lobby for, and protect the interests of their national's investments abroad; the firms have no hesitation to persuade their own governments to use their influence with host authorities to prevent interference with their activities; interference with commercial decisions of multinational corporations by parent governments occur for both economic and political reasons; weak, corrupt and "reactionary" leadership in the developing countries always enlist the support of foreign capitalism by creating favourable investment climate for the latter. These are the ingredients on which to build one's "identikit" of what is actually happening. Writing about the considerable influence which foreign capital exercise in India, Kidron expresses similar view as above; the movement of officials between government and private sectors, "the centering of head offices or strong 'industrial embassies' in the capital, the development of a Delhi 'cocktail-party round' embracing business, government, and foreign aid missions, are scarcely amenable to formal description. And yet the channels of influences embedded in them are almost certainly more important than many others which are more easily demonstrated."⁵ In his

5. M. Kidron:- Foreign Investment in India op cit page 223

opinion, much more important than individual instances of successful lobbying by foreign economic interests," is the general tenor of the advice proffered to donor-and creditor -governments by their home business communities. When acted upon, it can exert a powerful influence on Indian policy by virtue of that country's dependence on foreign aid."⁶ This then is the dilemma of a meaningful critique of foreign resource transfers. It is a problem of relevance and reliability. How reliable and relevant can a constructive criticisms be, without copper-bottomed evidence?

This critique is conducted on a broader level, since most of the specific defects in resource flows have individually been dealt with in one section or the other of the preceding pages. Let me begin by looking at some aspects of the political content of resource flows. There is a strong belief in the developed donor/creditor countries that the arguments against external resource inflow (to LDCs) are essentially political. This is an exaggeration, but it should not detract from view the key position that political - diplomatic considerations play in "aid" disbursement or that national economic and ideological interests have over private investment overseas. Aid has become the modern means whereby continuous pressure and control over the developing world can be maintained. Direct control and "gun-boat" diplomacy have become discredited and obsolete. Other forms of influence like commerce manipulation and moral sanction are less effective or take time. The tap of aid can be turned on and off, at a stroke. It is an ideal weapon for "Cold War" competition; to

6. ibid Page 237.

do they ?

When do they predominate before?

persuade in a subtle way, those who are still in the process of formulating the basic tenets and philosophy of their societies, that this or that way would suit them most. The main political criticism of foreign aid is that it has become over-politicized. The important and over-riding task of economic and social development of three-quarters of world population has been submerged in a sea of political, diplomatic, military-strategic, ideological and foreign policy considerations. The dichotomy of approach - with the donors seeing aid (and to a certain extent, private investment) as a fulfilment of a wider national objectives, and the recipients thinking of it in terms of global economic efforts for their development - represents the greatest single element of threat to, and instability in resource transfer. It is only by interpreting donor's perception in this light can one explain their past reactions. The corollary being that the shape of future assistance will very much be determined by the future interpretations given to these national objectives. Yet the story of aid in the last decade underlines the need for "depoliticization" of resource flow and the re-emergence of economic factors at the forefront of foreign aid rationalization. We must recognise an interesting paradox here; to depoliticize foreign assistance would remove the main justification for such flows. The result may not be more economically-orientated aid, better terms, less pressure and sanctions, and a greater international cohesive approach, but smaller disbursements, and at less concessionary terms. However if such a pessimistic situation can be avoided, the outcome may be a genuine and concerted attempt at an economic rationale for aiding the developing countries. The dichotomy will disappear, with the powerful developed nations having

to find alternative means of influencing their client states other than through imperialism of the "welfare type". Again, it is the pursuance of national political-strategic and economic interests - as opposed to a thorough understanding of what is in the best interest of the receiving community in the light of local conditions - that determines the allocative pattern of bilateral disbursement and the degree of favouritism showered on different types of clientele. Allocation bears no discernable relationship to economic factors. In my opinion, there exists a positive correlation between the size and pattern of O.E.C.D. members (esp. the U.S.) resource allocation, and the degree of conservatism, "reactionary" and "right-wing" bias of the regimes in the "Third World" being supported. This bias in favour of those who stand for the status quo and thereby sustain the old distribution of global power and influence, is the only recognisable similarity in the allocative pattern and aid policy objectives of the major foreign aid donors. But it creates a contradiction in the aid programme; as Joan Robinson notes, "its underlying purpose is to prop up a number of conservative, feudal and fascist governments, which can be relied upon to respect foreign property. In short the aim of aid is to perpetuate the system that makes aid necessary."⁷ Other economists have similarly emphasized this basic weakness in the aid system.^{7A} As we have seen, the primary function of aid to most developing countries is to lessen the difficulties that emerge during the process of

7. J. Robinson:- "The New Mercantilism" Professorial Inaugural Lecture. Cambridge 1966.

7A See for examples, cited works of Kidron, Arrighi, Mikesell and Bauer.

domestic efforts at economic and social infrastructural expansion and the restructuring of the economy away from "colonial" orientation. Yet the danger exists that external resources might be put at the disposal of weak and corrupt leadership whose conception of required actions is at variance with genuine communal needs. Such leadership's response to pressure and leverage from the donor is likely to be more in line with donors interests than those of the people under its rule. External capital, especially foreign aid may unwittingly be shielding the "national bourgeoisie" in LDCs from making the painful but necessary social transformation and economic restructuring on which a sustainable economic growth and social development can be based. In this instance such arrangement can only be seen as a short-term solution. In the long run a force of realism would have to emerge, sweeping away in the process inefficient political and bureaucratic systems.

The concentration on the part of donor countries on national interests especially the politico-diplomatic, economic and commercial ones, has meant an equal lack of appreciation of crucial factors that determine the socio-economic life in the developing countries. This inability to fully understand, appreciate and evaluate local operative idiosyncrasies has sadly led to vigorous espousal and indeed of supported actions that are not necessarily in the recipient countries' interest. The ideology of private enterprise, or that of "socialistic way of life" is sponsored not on the basis of its empirical relevance to the recipient's society, but simply on the logic that since it has proved successful in the lending/donor country, it must equally provide the panacea

to the problems of developing countries. The evidence of successful local conditions matching imported ideology is scanty and inconclusive. Most developing countries are in fact still in a melting pot, struggling to work out the unique systems that fit their conditions, experimenting often at heavy cost to their societies. Again, from the ideological base of politics and economics flows a leverage and pressure that is based on results that are derived from an entirely different industrial, socio-cultural environment. Teresa Hayter,^{7B} above, has given us an insight into why such misconceptions generally fail and has also drawn attention to the plight of that section of the community which invariably is hit most by sanctions imposed to make the leverage work. We need not condemn out of hand the pre-occupation among the leading donors and the international lending agencies like IBRD and IFC with private enterprise approach to developing the IDCs. We must recognise, especially if we want to succeed in influencing their judgement, that to a large extent, they genuinely and strongly hold this view and recommend them in good faith and with the best of intention.^{7C} On the other hand, this must not hide the fact that there are among aid administrations and in foreign

7B. See Chapter 3 and her "Aid as Imperialism" op cit

7C. For example, in enacting its foreign aid programmes, the U.S. Congress has always laid a greater stress on the importance of private enterprise and AID is specifically enjoined to take account of the "progress" being made by recipient countries towards the recognition of the importance of private enterprise. Note also the proposed new institutional machinery that would take over and expand the private investment programme of AID in the coming '70s. See O.E.C.D. :- Development Assistance 1969 Review op cit. Page 58. See also fn 10A below.

companies those who see their policies, actions and advice as the only correct ones available to the underdeveloped countries whose "primitive" societies offer little ideas and practical knowledge to the problems of development. To my mind, this is the foundation of the ignorance about local peculiarities which I referred to earlier on. The potential conflict about appropriate socio-economic system has not yet risen to a crucial level for most of the developing countries since the greater part of external official capital is still responsible for laying infrastructural foundations. The test for the long-term source of aid, its size and type, and the attitude of the donor will come when sophisticated manufacturers and capital goods production come on stream. In the context of the above analysis, I believe a greater reappraisal of the position of the state as the main economic agent in most LDCs would have to be done by the capital exporting countries, if conflicts and difficulties around resource movement as an agent of development are to be successfully minimized.

The politics of foreign resource inflow involves more than the policies of donor governments. It also relates to the interpretation of the political environment by investing companies before they establish, expand or close down their operations. The political situation - and the direction in which the long-term political wind is blowing - is an important element in the general investment climate. Public sentiments towards foreign capital and in particular their attitudes on such issues as nationalization, joint-ventures, and vigorous local participation; the political strength and known policies of local trade unions and the business class,

Is it any different in African Countries
which might wish to increase trade + other
relations with capitalist countries?

the existence of official boycott and threats over foreign companies trading with "political enemy,"⁸ and government's actual policy decisions on foreign investment and private enterprise, are political facture of crucial importance in private capital movement. As I have noted before, donors official policies are also geared to safeguarding and enhancing the interests of their nationals' private investments overseas. We have also seen that the pursuance of leverage towards that end could be to the disadvantages of the local economy.⁹ Some economists have stressed the reinforcing role of official disbursement to private investment projects in the developing countries.¹⁰ The former is made available on the basis that private capital (in some major instances, foreign) must be forthcoming to make use of the infrastructural overheads thus provided. Furthermore, a large proportion of bilateral assistance aims at easing the balance of payments position of the IDCs (i.e. the trade gap) in order to make possible both the importation of capital goods and the repatriation of capital and profits on the private account. For these reasons,

8. The implied extraterritoriality of this condition is comparable to the hostility in the United States towards trade with socialist countries and the official ban on U.S. companies and their overseas subsidiaries against trading (especially in strategic commodities) with such countries notably, with China. Other extraterritorial laws that apply to American subsidiaries abroad include legalisations on tax and antitrust policy.

9. See above Chapter 3, - and for detailed analysis, Teresa Hayter's Aid As Imperialism op cit.

10. See for example G. Arrighi:- International Corporations, Labour Aristocracies and Economic Development in Tropical Africa, op cit Pages 28 - 29.

official resource transfer cannot, except marginally, be considered independent of private profit pursuits. Its continuing availability will ultimately depend on the level and success of foreign-owned private investment.

The active promotion of their national private investment overseas that way, and through the provision of numerous incentives to accelerate the flow to the developing countries, must not be seen purely in terms of economic rationale. It has a politico-ideological and socio-cultural tint to it.^{10A} Foreign investment not only "shows the flag", it also provides a pretext for direct intervention to protect foreign nationals' life and property in the internal affairs of a crisis-torn developing country. And perhaps more important in the long-run is the fact that foreign investment helps to create an environment that is receptive and conducive to private capitalism. Lenin's assertion that "the export of (Competitive) capital influences, greatly accelerates the development of capitalism in those countries to which it is exported....."¹¹ is well appreciated by policy makers in the developed market economies.

10A. For example, "post-war policy of the U.S. Governments have emphasized the desirability of private investment in foreign countries by American citizens as a means of achieving both domestic and foreign policy objectives." R.F. Mikesell - Promoting U.S. Private Investment Abroad National planning Association Washington D.C. 1957.

11. V.I. Lenin - Imperialism: the Highest Stage of Capitalism op cit Page 107 (1964 Moscow ed)

Governments' support for their nationals investment activities overseas is mutually beneficial to both. As we have seen, not only can private capital be manipulated deliberately for the political interest of the parent country, it can also be used to effect a successful external economic policy. For example, in order to strengthen their balance of payments, both the United States and Britain have put pressures on their firms with overseas assets to discriminate in the parent countries' favour in the conduct of their financial affairs. International companies have been asked not only to reduce their rate of investment abroad, but also to repatriate more of their earnings arising from overseas operations. "Since the foreign income would have been derived from sales made in foreign countries, the demand from the parent government that it (company) should repatriate its profits instead of reinvesting them abroad in the normal course of international expansion, is a way of putting pressure on the balance of payments of other countries in order to improve that of the parent country."¹²

A well-known hazard which foreign companies face in most areas of operation especially in the developing countries is the possibility that they may become the target for criticism and a convenient scapegoat in the wake of political and economic unrest subsequent to an unsuccessful government

12. Edith Penrose:- The Large International Firms in Developing countries: The International Petroleum Industry. op cit Page 269.

economic policy. In general however, foreign companies are not unduly deterred from making additional investments in the face of political uncertainties so long as there is a reasonable prospect for profitable operations and a supporting home government. The above vulnerability of foreign investment to local criticism and hostility must not be allowed to unduly undermine the fact that most conflicts between international capitalism and host governments of LDCs generally arise from genuine grievances by the latter.

That receiving countries often have legitimate and serious grounds for complaints about foreign investment - in fact at any particular time there is always some conflict going on between host government and foreign investor in some corner of the world - is a sound reflection of the difficulties, disadvantages and costs inherent in foreign private investment which host countries must weigh against derivable benefits. Large elements of these disadvantages and costs are non-quantifiable, and non-economic as well. It may be unwise to generalise for or against all foreign investments in a given country. For most countries, including the developed ones, the choice is not between allowing foreign investment or none at all, rather it is a question of allowing in the appropriate ones. Once a policy of opening the country to overseas exploitation is instituted; - and most developing countries have such policy, with its attendant prospectus of available incentives - the task of the host authorities is to judge each investment or type of investment on its merits. The test of its appropriateness is its conformity to, or satisfaction of official requirements, investment law, guidelines etc. The overriding objective of

such conditions - again, not necessarily limited to economic criteria alone - must be to attract investments with high beneficial impact, and to discourage or restrict those with heavy (political, strategic, social and economic) costs. Having said that, one must quickly add that in practice, the enlistment of foreign capital into most of the developing countries has, in the last decade, not been strictly related to plan priorities, nor have the formal conditions for granting operational licences been regularly adhered to.¹³ A noticeable feature of post-colonial foreign investment has been the haphazard way and ad hoc basis on which it has been treated, often in response to short-term considerations, while the attempt to restructure the "pre-independence" foreign sector away from commercial and financial orientation has not often been pursued in practice with the speed and determination promised in official policy statements.¹⁴ The consequence being that the much hoped-for close coordination with domestic efforts to attain targeted development objectives, is rarely achieved.¹⁵

13. See M. Kidron. Foreign Investment in India op cit Page 316; P.J. Eldridge:- The Politics of Foreign Aid in India, op cit; and on Nigeria, See A.A. Ayida: "Contractor Finance and Supplier Credit in Economic Growth" in Nigerian Journal of Economic and Social Studies (NJESS) Vol. 7 No. 2 1965.

14. Recent actions taken by Tanzanian authorities in this field represent one of the few notable exceptions.

15. For foreign investment activities during, and contributions to the first three National Plans in India see A.H. Hanson:- The Process of Planning-Study of India's Five-Year Plans See also on Nigeria, the official publication entitled:- National Development Plan, Progress Report 1964, Lagos 1965.(16). For a useful analysis of the recent trend in the bargaining strength in LDCs vis-a-vis foreign capital see chp. 14 by R.F. Mikesell entitled "U.S. Private Investment in the Extractive Industries of the Developing Countries: Changing Patterns and Attitude" in Litvak and Maule (ed) Foreign Investment. The Experience of Host Countries op cit

A critical scrutiny of foreign capital investment in terms of its role, impact, influence and potential contributions to the economic growth and development of LDCs cannot avoid an immediate awareness of the influence on foreign investor of the same factor which has bedevilled official policy for so long: namely the lack of proper appreciation or understanding of local conditions, so essential to the possible infusion of maximum benefits into the local economy. Like donor governments, international companies see their policy decisions primarily from the standpoint of fulfilling own objectives and caring for self interests. Other considerations are secondary. Their strong bargaining position vis-a-vis weak host authorities inevitably meant that they could, and do obtain agreements that contain provision which are manifestly indefensible from the point of view of those countries' welfare and long-term development.¹⁶ Foreign investors are also in a favourable position to "cash in" on local politico-economic leadership's enthusiasm and admiration for the mode of organization, production technique, management and economic structure prevailing in the sophisticated industrial environment of the developed "home" countries. Such a potentially adverse "demonstrative effect", which colonialism and the companies themselves have helped to foster, hinders the possibility of, and reduces the pressure on adapting foreign investment to suit local conditions - rather than the other way round. Perhaps more important, it forces recipients local entrepreneurship to copy and emulate a transplantation which may be out of tune with long-term development needs. An example will suffice; the rapid expansion of import substitution manufacturing industry in East Africa during the mid-sixties was accompanied by a

noticeable drop in the number of labour force in wage employment, reflecting as it were the capital intensive technique being employed by foreign firms (and the rest of the modern sector) and the reinforcing effect of rapid rise in real wages as a result of minimum wage legislation.¹⁷

Before looking at the detailed implications of the production function and technology imported into the developing countries by multinational corporation, I must first draw attention to the obvious but not generally appreciated weakness inherent in the use of other peoples' assets for long-term growth and development. That is, it is at a commercially-determined financial cost, which a recipient country must be prepared to pay in order to maintain the continual inflow of foreign investment. Such investment is usually profitable some critics would even say it is excessively profitable. We have seen above that though average post-tax return on overseas investment in the developing countries is not as high as generally supposed, it is higher than average home yields and for some companies the possibility of higher return provides the main incentive for overseas expansion.¹⁸ The returns in some extractive industries are often more than twice the overall average. The literature on foreign investment is full of statistics showing the gap between the aggregate profit outflows and aggregate capital inflows for major countries during a particular period. If the conclusions drawn from such statistical evidence are sometimes inaccurate, the fact remains that the repatriation of locally generated surplus

17. In Tanzania reduction of labour force was also due to contraction in economic activity as a result of falling sisal prices.

18. See above chapter 2.

reduce below war level?

may have a detrimental effect on basically-weak balance of payments positions of most LDCs and perhaps more important, such leakages abroad reduce the multiplier or "spread" effect on local economy of gross income generated. Besides the exceptional difficulties with suppliers (export) credits which are currently plaguing a sizeable number of developing countries, the servicing of direct investment is likely to get more burdensome in the 2nd Development Decade. For LDCs in tropical Africa, the burden may be more acute, as earnings from maturing import substitutions of the previous decade come to be transferred abroad. As was pointed out in an earlier chapter, the full effects of such outflows cannot be gauged from the statistics of investment service ratios. The other real but often ignored factor is that foreign assets would eventually have to be returned, inevitably in large multiples of original investment. The problems of long-term indebtedness inherent in foreign private direct investment are currently being swept under the carpet by most of the newly developing countries, perhaps in the belief that foreign investment as an economic phenomenon has come to stay. The possibility of complete repatriations of foreign capital may be too distant into the future to worth bothering about at the moment. However, there are two major reasons why the need for a gradual diminution of foreign equity may well be imperative for most developing countries in the near future. First, the size of external repayment is appreciably reduced.¹⁹ Secondly, there is the spectre of the dreaded milestone, when a self-financing foreign investment becomes no longer a source

19. C/F W. Rosenberg:- Capital Import and Growth - the Case of New Zealand. Foreign Investment in New Zealand 1840-1918. Economic Journal (EJ) March, 1961.

The author has spent a great deal of time repeating the
"argument" in various places, but always finishing up
dismissing it as a substantial argument. What does he
believe on this point?

of fresh capital inflow for development, but a drain for the transfer abroad of locally-generated surplus. This point is far from being hypothetical. The evidence today suggests that the accumulated stock and size of the output of overseas investments of long-established capital exporting countries like the United States and Great Britain, have reached such proportions that for all practical purposes such investments have become more than self-financing. The aggregate values of their homeward remittance are nowadays more than the aggregate addition to their capital assets by the parent companies.²⁰ This is the inference which critics quoting statistics of inflow and outflow wish to draw, though a mistaken impression is created that implies an excessively high rate of return on foreign investment.²¹ The above danger of permanent leakages inherent in foreign private investment is comparable to, indeed is reinforced by potential negative net transfer embodied in a continuation of present trends in official disbursement. As I have shown in the chapter dealing with public assistance, a combination of rapidly rising debt burden, static volume in real terms of "Official Development Assistance" disbursement, and an absence of noticeable improvement in terms of assistance is bound to lead to a rapidly narrowing margin between future commitments and repayments (with interest) of maturing loans. In the absence of an immediate and dramatic reversal of present trend in foreign aid - the current American threat to stop development aid altogether emphasizes my pessimism - an increasing proportion of future disbursement will

20. For example compare row 1(a) with row 3(b) in table 60C.

21. See above chapter 2 Pages 62-63

See previous page

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immediately finds its way back to the advanced countries as service and amortization payments. This point was similarly underlined by the Pearson Commission, and most projections indicate that within the next two or three decades fresh disbursement to LDCs will be inadequate to match their service obligations. The seriousness of the situation varies from one country to the other.²² Of course it could be argued that by that time most of the present developing countries are likely to be in an economically strong position to be able to shoulder such debt burden. However, I believe that the prospects of seeing locally generated income continuously transferred abroad on a semi-permanent basis to repay some forgotten loans, is not likely to be viewed with resignation and equanimity by both donor and recipient authorities.

The next major disadvantage - from the viewpoint of host countries - of foreign ownership of productive resources, is the implications of control over a section, and in some countries over a substantial proportion of the key sectors thus exercised by those whose ultimate political and economic loyalties are to foreign authorities. The practical implications of the combined forces of ownership, management, policy-making and control are far more complex and pervasive than generally supposed. The conflict between host Government and foreign investor, referred to above, generally arise not so much out of issues involving financial advantage, but from the attempt by the former to divert the utilization of those forces more in the direction of its own national interest. That such interests should take precedence over foreign

22. See above Chapter 3 Page 135

private investment rights and objective, is seen by host authorities as an inalienable prerogative which investors must recognise both in spirit and in practice. I have already drawn attention to the Canadians' fear over the U.S. control and direction of a sizeable slice of their national economy. In "the American Challenge", Jean-Jacques Servan-Schreiber has similarly expressed current European fear of, and doubts about U.S. overseas investment. If powerful developed countries like Canada, France and the United Kingdom can express fear and concern over foreign corporations interfering with, thwarting or sidestepping their national laws and sovereignty, how much more so for the relatively weak developing countries of Asia, Africa and Latin America? We must assume they are far more exposed to "neo-economic imperialism" of a subtler kind than international capitalism would readily admit. The question of control is a question of whether a country can have a meaningful independent existence in a situation where non-residents own an important part of her basic resources and industry, and are therefore in a position to make important decisions affecting the operations and development of the country's economy. The almost universal demand by LDCs for an increasing share of ownership and control, and management stems not only from a desire to be gradually better-placed to control their own socio-economic destiny, but also reflects an impatience with the slow progress in imparting know-how and experience to host nationals. To them an accelerated improvement in the quality of human resources available for development is just as important as increase in physical production. The major contents of local aspiration for "domesticated" foreign investment boil down to these demands: In the process of

localizing themselves, they must be incorporated locally as affiliates or subsidiaries of bigger multinational firms, they must appoint local nationals to their boards of Directors, staff key positions with qualified local candidates, publish a more detailed financial information about their local operations, purchase from local suppliers where feasible, aggressively seek out export markets, reinvest substantial part of locally generated profits, and make available to local capital a fair share of their equities. But hitherto, private enterprise principles have hardly been geared to building up local control of an enterprise or conceding "interference" from outside forces including the government. "Many American firms for example are apparently convinced that virtually untrammelled private enterprise, almost in any circumstances will bring the best results for all concerned. They insist on 100% ownership of their subsidiaries and resist any real dilution of American managerial control in the interest of managerial efficiency."²³ Most suggestions for investment charters and demands for "ideal" investment climate are basically to protect foreign investment against such contingency.²⁴ However, sympathy with local ownership, share in management and other aspirations, and practical measures to make this successful may be more important in keeping developed market economies and developing countries together than ideological anxieties about "communist takeover"

23. C/F Edith Penrose:- The Large International Firms in Developing Countries..... op cit P.265.

24. See D. Morgan:- British Private Investment in East Africa (ODI Publication) London 1967.

No doubt some foreign companies are favourably accomodating to some of the demands from host governments which a decade or two ago would have been strongly resisted, but the overall progress is slow and is apt to be geared to public relations efforts by foreign firms in the face of official exhortation. Main-while, the potential benefits which developing countries could reap from foreign investment are likely to remain less than fully exploited. There is a strong body of opinion among development economists - and this is appreciated by some of the "progressive" international companies - that increasingly, the continuing maintenance of harmony and mutual trust between host authorities and foreign investors will depend on the latter paying greater attention to local demands and the need to match company's development policy to the pattern and sequence of socio-economic development as planned by the local authorities. There is a strong feeling that in some of the newly independent developing countries the historical position and influence exercised by foreign investors in key sectors, when reinforced with the leverage exercised by the resident aid advisers, arrogate to these joint-forces, an effective power to dictate national priorities.

Why has the author not cast a critical eye on
some of the alleged costs to the recipient in the preceding
section? It was a quite uncritical appraisal,
plausible in itself but with no depth.

I am not disagreeing with many of his conclusions
but this is the language and method of a
demagogue not an intellectual !!

Now let us cast a critical eye at some of the alleged benefits and advantages to the host country inherent in private capital inflow. I have already quoted from "the Task Force Report on the Structure of Canadian Industry" some interesting contrasts implicit in foreign investment usage.²⁵ The golden package of capital import, managerial and organizational expertise, entrepreneurship, technological know-how production efficiency and other blandishments of foreign capitalism which is supposed to be uniquely placed at the disposal of the host country, is not as glowing when unfolded in practice as is generally supposed. Hence the possibility of conflict between the foreign investors and host authorities. The availability of scarce foreign capital ameliorates the foreign exchange situation and may increase savings for investment. In other words, foreign investment could be both foreign exchange - creating and exchange - saving. However as we have seen, it is also a source of reserves depletion through transfer of earnings abroad and because of the demonstrated "Import bias" of import-substitution industries. It seems paradoxical that exchange - depleting effect of foreign - owned import - substitution manufacturing industry may be greater than its objective exchange - saving role. This is a phenomenon to be expected in developing countries with no capital goods industries. As was noted before, what is happening in most of these countries is that local value-added is still very small to make appreciable impact on aggregate import bills for consumer goods and standardized intermediate products.²⁶ It is the composition of imports

25. See above Chp. 2 Pages 22-23

26. See below Chp. 8.

Absolute aggregate M or $\frac{M}{GDP}$?

rather than their aggregate value which is slightly changing. Of course, there is nothing wrong with expanding imports; if matched with an equally expanding exports, and is increasingly biased in favour of appropriate capital goods and essential raw materials, it indeed represents a healthy development. In short, while foreign private capital import may raise a country's resources level (including cash flow), it can add, and frequently has added to balance of payments problems. Again it may simply help pay for increased consumer goods imports and reduce incentive for domestic belt-tightening.²⁷ It is generally stressed that the boost to local managerial, organizational and entrepreneurial skill created by foreign investment in direct production and services is of tremendous importance in raising the quality of high-level business manpower and in increasing the economy's absorptive capacity. However the creation (and expansion) of a local pool of talented businessmen, administrators and technocrats is generally slower than anticipated. As we have seen, foreign firms are not always keen to "dilute" their top management. The appointment of local personnel to positions of real authority - as opposed to sinecures for public relations purposes - tends to come about as a result of pressures from

27. In "False Start in Africa", Rene Dumont, an experienced judge of the African scene, observes that "the use of imported capital for luxury consumer goods and profiteering in Administration - the principal industry, is obstructing the import of machines and essential raw materials. Even more important, it is corrupting the spirit of the community, destroying the effect of any appeal to hard work and sacrifice, which alone can overcome the obstacles to Africa's "Take-off" (Page 230).

and "confrontation" with host authorities. As Michael Kidron found in his study of India, foreign firms are very careful to preserve their technical know-how and hesitate to entrust their local collaborators with necessary knowledge. "Technologically progressive firms are, in the words of one managing director, "wary of selling their birthright" ".²⁸ The important point here is not so much the fact that production knowledge and processes (especially science-based ones) are not readily transferred or allowed to spread within the economy, but that for developing countries like India with a relatively advanced industrial sector, repetitive purchase of same foreign technical know-how means an unnecessary drain of exchange reserves by payment of royalties, licence fees etc. It also acts as a disincentive to indigenous research and development of appropriate technology. For example, "in PVC cables and winding wires, there are 26 cases of foreign collaboration; four of these companies have collaboration agreements with the same British firm."²⁹ Furthermore, on the question of skilled manpower supply, it is worth noting that governments and local businessmen in developing countries can and do often hire foreign experts - management consultants,³⁰ engineering and construction firms, market analysts and

28. M. Kidron - Foreign Investment in India op cit Page 291

29. "Foreign Know-How in India". (London) Financial Times 7/1/69 Page 11. The Indian Government is not blameless in this development. It has been too tolerant in the past in allowing restrictive provisions in the transfer of know-how. C/F Kidron op cit P.303.

30. The Managing Agency system represents a well-known feature of foreign investment in India. For a critical analysis of its role, see K.M. Kurian - Impact of Foreign Capital on Indian Economy. op cit Chp. III

various other specialists.

Though foreign investments create jobs and are in some of the new developing countries of Africa and Asia the second largest employers of wage labour (after the State and semi-official corporations), they do not perceptibly influence the level and growth of aggregate unemployment, except perhaps to enhance its size in the urban centers.³¹ It may well be that the employment - creating effect of expansion in foreign-owned productive activities may not be able to overshadow the employment - destroying capital - intensive technique now commonly employed, even in the so-called "labour-surplus" economies.³² Perhaps more important, by their presence and influential position in the economy, and unwillingness to use any process or technique other than their international-applied model, they unwittingly hinder or create disincentive to local research into the development of production technique and equipments that are more relevant to real factor scarcities.

Foreign investments generate extra production, income and taxation revenue for the local economy and in some instances, these increases account for the greater part of economic growth.. However, in some of the developing countries, especially in Africa, the consumer goods import-substitution they engage in, only strengthens and gives respectability to the maintenance of a conspicuous consumption pattern that

31. See below Pages 265-271

32. See W.A. Lewis:- "Unemployment in Developing Countries" in The World Today, January 1967 C/F H.W. Singer, "Dualism Revisited" op cit Page 8

necessarily discourages accumulation. In these countries, a good deal of what they produce in response to the demand of the elite class are only marginally essential in a development context. Of course it could be argued that this is only a temporary criticism as foreign investors are likely to help develop the capital goods producing industries when the necessary size of the market and stage of development are reached. Supporters of this view will point to the role played by private overseas investors in the development of industrial and capital goods sector of some of the relatively advanced developing countries like Argentina, Brazil, Turkey and India. However I believe this is an over-optimistic expectation.³³

Foreign capitalist - investors are liable to be accused of monopolistic and oligopolistic practices, especially in the developing countries.³⁴ The so-called "Banana Republics" come easily to mind as representative of the extent to which a mono-culture or mono-product (e.g. Copper in Zambia) country depends for its development on the activities of one or two international corporations. It is ironical that more often than not, foreign companies are invited - especially into the developed countries - to put some competitive efficiency and enforced modernization into a domestic market dominated by inefficient indigenous operators. However there have been cases in which authorities, even in the advanced economies

33. See below Pages 252-258 and 280

34. See M. Kidron:- Foreign Investment in India op cit
Pages 222-223

have had to prevent a complete take over of the local market by the internationally - known market leaders (mainly American and British Multi-nationals). In the developing countries, branches, subsidiaries and affiliates of the leading multinational producer or group of producers dominate the markets either through local productions or export outposts. Big powerful and resourceful multinationals like International Business Machines (IBM), Unilever, Kodak, Massey Ferguson, the five or six Oil "majors", Alcan, and the rubber products oligopolists (Goodyear, Firestone, Michelin and Dunlop-Pirrelli), not only dominate product markets in individual LDC, but more important, by putting restrictive clauses in collaboration agreements, hinder the growth of local exporting capacity. Some restrictive clauses contained in some collaboration agreements (for joint-venture, licencing of patent rights, production process or technological know-how) prohibit exports, the use of trade marks, spread of know-how, or competition after termination of an agreement.³⁶ Again, there are strong grounds for linking foreign firms with monopolistic power in most of the import-substitution industries in the new developing countries. The market is just big enough or expected to be large enough for one large-scale operator for some time to come. With tariff walls and other incentives at their disposal, foreign firms operate under conditions in which official rather than market forces exercise the only influence over their pricing and other policies.³⁷

36. For more detailed analysis, see M. Kidron, op cit Chp.6 entitled "Behaviour of Foreign Capital".

37. Re Indian experience, Kidron quotes instances of foreign firms that have been able to exploit monopolistic positions in some industries "the prices charged by them have contained a sufficiently large element of monopolistic rent to draw official notice and intervention". ibid Page 228=229 For Nigeria's example see Below Chp. 8.

It would be expecting too much if "one seriously assumes that private business (domestic and foreign) will not take advantage of monopoly position to "exploit" the countries in which it works."³⁸

Foreign investments are supposed to put at the disposal of exchanged-starved developing economies foreign resources for development purposes.³⁹ Yet, foreign-owned banks and other financial intermediaries are traditionally criticized not only for collecting local assets and then lending them preponderantly to well-established local subsidiaries of financially well-endowed international firms, but also of helping to channel such scarce capital for use overseas, especially from inflation-torn South America.⁴⁰ There is a strong feeling in developing countries against allowing foreign companies to borrow locally capital which often can be many times the size of their own equity contributions⁴¹ and when especially the pressure on domestic resources is great.⁴²

38. E. Penrose:- The large International Firm.... op cit P270.

39. Note. Not all developing countries are generally short of foreign exchange. Some of the oil-rich small Arab states appear to be "too endowed" with it.

40. C/F Article on Argentine Industry entitled "A Long Hard Look at Foreign Investment." Financial Times (London) June 6, 1968.

41. C/F The high gearing ratio for foreign investment in Nigeria. See below Chp. 8.

42. "This is especially true where, because of government controls on nominal interest rates and high rates of inflation, effective rates of interest are actually negative and imply a subsidy to the borrowing enterprise" Pearson Report op cit P.114.

This itself can lead to the feeling that large
foreign companies ~~are~~ continue to be independent
of 'local' financial institutions, policy and conditions.
In Nigeria (eg) foreign companies were restricted in
their ability to obtain finance from abroad.

In this respect, I think the opinion of the Pearson commissioners is worth quoting "We recognise the occasional need for a policy.... of placing limits on the freedom of foreign companies to borrow locally. This would not be warranted in a perfect capital market, or where domestic resources had few alternative uses. But where local companies find themselves at a substantial disadvantage in the capital market vis-a-vis foreign companies simply by virtue of the world-wide reputation of the latter, some countervailing interference with market mechanism is desirable."⁴³

Not infrequently, foreign investors are invited to complement inadequate domestic investment in some industries. But such gestures and expressed needs are not always reciprocated by foreign capitalism. As we have seen, there is a strong tendency among them to resist local participation in ownership and control. Moreover, certain types of products for example, pharmaceuticals, are protected by patents and it may well be that only if the foreign patentee is prepared to establish its own manufacturing plant can production be undertaken at all. However, the evident advantage of having foreign investment in such fields must be balanced against the fear of host community that once foreign companies with their vast financial and technical resources are allowed to establish themselves in the fields not at present covered or favoured by indigenous enterprise, there may be little chance (except by nationalization or expropriation) for such enterprise being brought into existence at a reasonable future date.

43. ibid Page 113

why?

Finally, it has been justifiably asserted that fundamental research and major developments in the private sector of the developing countries are undertaken essentially by the foreign international companies. Undoubtedly this factor would have enormous beneficial impact if, and only if, the results thus accumulated are relevant and appropriate to the conditions in the power countries. But as we have seen virtually no research and development expenditure is devoted to problems of special concern to these countries. Although, the total volume of available knowledge has rapidly increased, at the same time its composition has changed, such that it is becoming increasingly less relevant to the needs of the underdeveloped countries. This development in turn is due to international dualism; the fact that knowledge is accumulated by the richer countries, in the richer countries, and in respect of the problems of the richer countries.^{43a} In contrast to the developing countries, it is the likelihood of applying the latest scientific know-how, superior management technique, as much as the infusion of capital into the export-orientated industries that attract host developed countries into sanctioning foreign investments in their economies.⁴⁴ These are some of the major contrasting characteristics and factors inherent in the use of foreign capital and investment for economic growth and development.

43. W.H. Singer:- "Dualism Revisited" op cit Page 4

44. C/F J.H. Dunning:- American Investment in the British Economy. Political and Economic Planning Broadsheet. No. 506.

I now return to 'direct'- as opposed to contrasting - criticism of foreign investment. There are the traditional criticisms levied against "colonial pattern" of metropolitan investments in the pre-Independent days. Perhaps the most important point about them, apart from the fact that some are still valid today in one form or the other, is that they conditioned some of the latter-day feelings and xenophobic opposition to foreign direct investments. The local suspicion of foreign industrialists, bankers and traders is based principally on the record of the extractive industries (both agricultural and mineral) during the period before the last war. Many engaged in finding and exploiting natural resources on a short-term "enclave" basis, with little benefits to the local people. Such application of capital, in some instances has been described as "Raubwirtschaft".⁴⁵ I have already referred in passing, to such criticisms and they are well-analysed in the literature. In essence, foreign capital investments were criticized of fostering dualism; unbalanced, lopsided economic structure and growth through concentration in the production of primary raw materials for export to the developed countries and the importation of the latter's manufactures. Not only did they create economic and social "enclaves" in the periphery, the trends in the terms of international trade they fostered and

45. In Africa, the consequences of application of foreign capital to appropriate wealth and not to establish constructive activities, are perhaps best captured by S.H. Frankel in his book *Capital Investment - Africa, 1867-1936* op cit See the section entitled "The Era of Despoliation".

This was already clear by Lat's 73,
early 74. The author might
reasonably have added a postscript
on the point.

developed were inherently secularly biased against the poorer countries and the gains from trade had not been fairly distributed.⁴⁶ How far have these criticisms been affected by changing circumstances? The underlying trend in the terms of trade of primary exports has not basically changed inspite of the sophisticated machinery for price and commodity stabilization which has been established for some of the major commodities. Notwithstanding the findings of the Reddaway Study that investing countries in raw material production overseas do not appreciably derive any special cost-savings from them, the situation in the so-called "World Market" is determined and influenced by the consuming and producing companies who happen to come from the same capitalist block. This is especially so in the case of minerals and petroleum production, though in the latter case, recent attempts have been made by the producing countries to influence the traditional arrangement. Commitment to the removal of the lopsided agriculture bias through industrialization with the help of foreign investment appear to have swung the policy-orientation pendulum to the other extreme position. Emphasis on industrial production for import-substitution (and possibly export market), and a marked

46. See also Bernard Goodman:- "The political economy of private international investment" Economic Development and Cultural Change Vol. 5 1956-57 op cit. P269.

Do these resource capabilities indicate
any other possibility over next 20 years?

Could oil be otherwise?

subordination of agriculture modernization to this, hinders a roundly-balanced structural transformation and perpetuates in a paradoxical way the dualism in the economy. Besides, the excessive concern with capital import for industrialization diverts attention away from the need to change and modernize those social values, cultural patterns and psychological factors which most powerfully affect economic behaviour. Provision of raw materials for factories of the industrial nations is still the main external economic obligation of most developing countries. If the modern type of foreign investor does not overtly seek to perpetuate this role, his home government's commercial and tariff policy unequivocally does.⁴⁷ The enclave orientation of foreign enterprise, the lack of spread effect and linkages with rest of the domestic economy, is being gradually weakened by market forces and positive actions by host authorities and "progressive" companies. However most of the mining and oil activities are still undertaken in an enclave environment. The effect they have on the rest of the economy derives essentially from government spending of revenue collected from them. Some host authorities in the developing countries are beginning to encourage, the oil companies to diversify some of the locally-generated income into allied manufacturing fields. As more value-added is derived locally, and a greater part of the earnings is retained for reinvestment, the linkages, external economies and multiplier effects emanating from the foreign-owned sector will be expected to increase and broaden further into the economy. There is an important proviso: the spread of imported knowledge (scientific, technological, managerial and commercial)

47. See Bela Balassa:- The impact of the Industrial Countries' Tariff Structure on their Imports of Manufacturers from Less Developed Areas. *Economica* Nov. 1967 op cit.

beyond the enclave of modernity to which it was introduced by foreign capital will be greatly determined by the rise and strength of an indigenous infrastructure capable not only of providing the capacity to select, adapt and introduce the appropriate knowledge and experience but also able to propagate and disseminate the type of improvement required by the local situation.

The character of dualism has changed: no longer is a substantial distinction between subsistence and export-orientated monetized agriculture discernable. Modern dualism tends to take the form of an increasing cleavage between the industrial and administrative urban centers, and the traditional rural villages. The widening differentials in economic and social conditions between the urban and rural sectors are of course not due solely to the policies and activities of foreign-owned businesses. On the contrary, government policies reinforcing historical factors, are the main determinants, with foreign investment in the modern sector of the urban areas playing an important supporting role. This is more evident especially on such issues as industrialization, investment policies, wages and salaries and employment policies and distribution of social infrastructures.

I shall limit myself here to a consideration of the implications for the host economy, of the interrelationships between these policies in so far as they are pursued by foreign firms. The wages and salaries policy in the modern sector of developing countries of tropical Africa responds to the pace set by institutionally - and politically - determined government scales whose discrete jumps in the last decade or so bear little relationship to economic forces like demand and supply

of labour, labour productivity and cost of living index.⁴⁸ Foreign firms, along with other employers in the modern sector "Set their scales at or near those of the government in order to hold their own (trained) labour force and to be in a competitive position to attract better quality workers at all levels. Secondly the large private employers, for political reasons want to achieve and maintain a reputation as "progressive employers" and even in some instances..... pay substantially above government rates....."⁴⁹ The distributional pattern of productive investment in the modern sector by foreign firms is essentially concentrated on light manufacturing import-substitution and is biased against the capital goods industries. The production process is an extension of that used in the industrial centers and applied globally by the multinationals. As we have seen, it embodies capital - and skill - intensive technologies. This ability and freedom of choice of capital intensive technique irrespective of local relative factor costs partly reflects the strength and bargaining power of foreign corporations vis-a-vis host authorities and partly points to the connivance and often explicit sanction (through joint-ventures and "turn-key" projects) by the latter, of such a bias. Besides as

48. The traditional mechanisms for raising government wage scale in many parts of tropical Africa are (1) by minimum wage legislations and (2) by commissions of Inquiry into wage and employment conditions every few years. For a rationale of such government policy see for example:- C.R. Frank Jr.: - Urban Unemployment and Economic Growth in Africa O.E.P. July 1968 op cit Pages 264-265

49. Loc cit

Todaro points out, "Government industrial development measures and controls such as investment licensing, export bonuses, import duties, and foreign exchange licencing often represent substantial capital subsidiaries and may have far-reaching effects on the capital intensity of techniques chosen by individual firms."^{50A}

What are the implications for dualism etc., of the operations of these two exogenously - determined policies (i.e. wages and investment policies of foreign - owned businesses)? First let us look at the inflow of production and technological expertise. As we have seen the application internationally of a company's "standardized" production method and the use of its most up-to-date scientific and technological know-how has an economic rationale behind it. Though it may help to introduce a much needed technology into the developing country, and obviate some of the consequences of the concentration of innovation and technical progress in the developed countries, its unselfishness and real "spread" impact depends very much on its appropriateness. More important perhaps, such an international company is unlikely, for economic and administrative reasons, to show any real enthusiasm in developing labour-intensive technologies.^{50B} It normally has a preference for bringing in its own skilled

50A. For reference see fn 75(II) below

50B. According to Singer, the handling of large masses of local labour is notoriously a difficult, politically touchy and unrewarding job for such foreign firms. H.W. Singer:- Dualism Revisited, op cit Page 6.

management and skilled production personnel as part and parcel of its investment, rather than go through the lengthy and costly process of training local people. This is even more so especially when and if it assumes a limited time horizon about its stay. Indeed it is paradoxically possible that a shortage of managerial staff experienced in local conditions, and of management technique that is appropriate and not too sophisticated, may actually constrain the use of labour-intensive technique. Technological factors may act as constraints, for example in certain types of mining and oil exploration and production. However, alternative techniques may be available though within a relatively limited range.⁵¹ Coal and Gold for example could be mined with a relatively labour-intensive technique, while India has successfully demonstrated the feasibility of constructing hydroelectric dams by labour intensive method. An equally important factor seems to be the financial strength of the investing multinational firms which is acquired through their accumulated reserves and their relatively easy access to the market for loanable fund. It appears that there is a close correlation between the intensity and speed of updating the technological know-how applied by a multinational firm on one hand, and its financial prowess.⁵² The desire to exploit the financial strength to the full, by applying capital-intensive technique not only in the industrial centers but also in the periphery

51. In fact the degree to which labour could be substituted for capital in a production process will be ultimately determined by technical (engineering) factors irrespective of the "vintage" of capital equipment used.

52. See G. Arrighi and J. Saul:- Socialism and Economic Development in Tropical Africa. *Journal of Modern African Studies*, Vol. 6 No. 2 1968 op cit Page 146.

irrespective of the situation in the latter area, is symptomatic of capitalists attempt to maximize the private returns to capital.⁵²

It has also been suggested that the "artificially" determined salary and wage policy of the host government which the modern foreign manufacturing and service sectors felt compelled to match - and over the years helped to shape - inevitably encourage their increasing use of capital-intensive production method.⁵³ The sequence of events leading to "a wage-mechanization spiral process" is helped by the fact that for most of the international corporations, wage bill is a small part of total production costs. They are therefore more willing to concede wage increases in contrast to the possible reaction of a labour-intensive modern sector, - especially if as foreign monopolies/oligopolies, they can readily pass on the increased cost to the consumers. However such concession reinforces the tendency towards more capital-intensive (or labour-saving) production pattern, and reduces the incentive for spending a lot of research money on developing locally-conditioned production method which is anything but labour-saving. In my view if rising labour cost is to have an effective influence on the drive towards labour-saving technique, it is less likely to be the labour cost in the periphery - which by implication is a minute fraction of production costs and can therefore be absorbed for considerable period without having to alter factor combination - but

53. C/F Arrighi and Saul, op cit P.147; H. Singer Dualism Revisited op cit P.6

more influential would be the soaring labour cost in the industrial center where, as we have seen the production method is essentially determined, and thence transported to the developing periphery. In short it is what is happening in the home labour market of the investing company that effectively determines the degree of labour participation in modern industrial production in the developing countries - assuming of course, continuing host authorities passive or ineffective action in this field. The real effect of local wage and salary increases is not on production method but in accentuating the divergence between urban and rural incomes. The implication of a continuing increases in labour cost in the industrial center, which encourages and is reinforced by labour-saving technical progress is that, given a free hand, foreign investment will exacerbate rather than diminish the unemployment problems in most of LDCs; even more so as industrialization progresses towards the intermediate and capital goods production stages.⁵⁴

54. The practicability of our (implied) desire for a labour-using and capital-saving production method in the modern sector (as well as in the urban traditional and agric sectors), on the basis that such technique would be in keeping with relative factor scarcities, and is more likely to optimize social returns, should be modified in the light of these considerations: Imposition of "a more labour-intensive regime in the private sector would have limited impact because of the relatively small proportion of labour force employed in those industries with a significant scope for choice of technique. In any case a policy of more labour - intensive production in the modern private sector is difficult to implement. It requires either (a) direct government controls, (b) a system of taxes and subsidies to encourage the use of labour, or (c) a policy of wage restraint. The first two alternatives carry with them the danger that private investment may be discouraged and reduced in the process. The third alternative, wage restraint, involves some formidable social and political obstacles" C.R. Frank Jr. "Urban Unemployment and Economic Growth in Africa op cit Page 266. As for government enterprises, the supply of machinery and equipments by foreign partners in a joint

Another important implication of capital-intensive production method concerns the relative smallness of workers' share of local value-added. The ultimate leakage abroad of returns on capital, inevitably reduces the size and spread of growth stimulus inherent in workers expenditures, especially in relation to their demands for rural and urban traditional sectors' goods and services.

Let us now examine the implications of the hitherto sectoral distribution of foreign investment in developing countries. Apart from a few of the large developing countries with relatively developed industrial bases, the pattern of investment in the others is essentially biased against the heavy and basic capital goods industries. Even within those few, development of the manufacturing and capital goods sector has either been a long and protracted process - as in some of the South American countries, or a post-war economic phenomenon. The latter has been effected with preponderant state guidance and participation, often with assistance from socialist countries, and in circumstances of difficult official negotiation with private enterprise (both foreign and indigenous). India's experience fits with the latter explanation.⁵⁵ For

54. Cont'd....

venture and/or the use of foreign technical management and consultancy - thereby effectively determining the production technique - limit the labour-using potentials that may exist in this sector. On the whole, I do think Frank Jr. has exaggerated above, the difficulties that may be encountered by official policy in encouraging the use of labour-intensive technique.

55. For detailed analysis of Russia's help in the development of the state and heavy industry sectors in India, and of the difficulties experienced by the state in trying to seek the assistance and cooperation of foreign private enterprise, see M. Kidron:- Foreign Investment in India op cit and P. Eldridge:- The Politics of Foreign Aid in India op cit.

most of the developing countries in Africa - and the analysis in this section relates essentially to that continent - the present pattern of foreign investment reflects a combination of the historical and the changing modern role being played by external economic interests in their economic life and development. The historical investment in raw material exploitation for export is continuing - as in mineral and petroleum production, or is being extended to local processing and other value-added. The depth and pace of the latter are more or less determined by effective tariff rates, quotas and other commercial regulations instituted by the consuming industrial countries. Foreign control of export-import trade (as opposed to production) is gradually withering away and is being limited to specialized fields.⁵⁶ Traditional services like banking and insurance are having mixed fortunes in different countries. They are similarly being narrowed to specialized area concerned with external financial and commercial transactions. In countries where they have not been nationalized already, they appear to be next in line for local "domestication" as indigenous expertise and experience develop and mature. On the other hand, certain services like technical and scientific consultancy, industrial management and hire-purchase brokerage (Finance Houses) appear to be developing rapidly in response to the requirements of an expanding modern sector.⁵⁷ The bulk of foreign private

56. For examples see below Chapter 8.

57. For some of the difficulties involved in this development, see Sayre P. Schatz:- "Crude Private Neo-Imperialism. A New Pattern in Africa. J.P.E. vol. 7 No. 4 1969 op cit

Many of these economies are so small that
it would be madness to do otherwise!
eg Caribbean countries, many African countries
It's not Nigeria

capital is now invested in more directly productive enterprises as opposed to services. Apart from processing for export, the modern sector is an import-substitution, domestic orientated, consumer-goods producing sector. Light manufacture of such consumer demands as food, beverages, textiles, footwear, furniture and detergents predominate. In some of the bigger developing countries, import substitution has more recently begun to move gradually into branches of manufacturing industries producing intermediate goods and light engineering such as cement production, industrial gases, assembly plants (for vehicles, bicycles, radios etc.) tyre retreading, and printing. Such productions are however heavily dependent on import of component parts.⁵⁸ Notwithstanding these developments medium and heavy industries in tropical Africa, the Caribbean and Asia, are either non-existent, or are purely export-oriented enclaves. As enclaves, they are totally unrelated to the interlocking structure of the national economies - in the sense that they can hardly constitute the basis for the production of capital goods required for the industrialisation of these host countries. The absence of a discernable capital-goods producing sector constitutes one of the main features of the present pattern of foreign investment in the developing countries. Various reasons have been suggested: In the first place, the present stage of economic development and size of the market are such as to limit the market for capital goods, thus making any investment in their local production uneconomic. Foreign capitalist firms and financiers understandably prefer to wait and see how the establishment of light manufacturing, provision of expanded economic infrastructure and generation of extra economic surplus inter-react and develop, before attempting to sink their capital in heavy industry. For them, there must be good

58. See below Chapter 8 for Nigeria's experience.

reasons to believe that the periphery's economy will develop in such a way as to nourish a market for capital goods production, and with such stability that their confidence in continuing participation is not undermined. Again, the very bias in favour of capital-intensive technique discussed above tends to promote the use of highly specialised machinery embodying the most up-to-date scientific knowledge and consequently restrain the growth of demand for capital goods that would be produced locally. In turn, this lack of investment in capital-goods producing sector prevents the development of capital goods embodying a modern labour-intensive technology which may reduce the bias in favour of capital intensity. Other reasons relate more directly to the behaviour pattern of the modern multinational corporation. For example, such firms usually prefer to expand productive capacity in the Western industrial centres where they are more secured and where they can take advantage of operating in an industrial environment - unless they are forced by other factors to establish and expand in the non-industrial economies of the periphery. In other words, the existence of an adequate local market for the production of the foreign firm's products, though a necessary condition, is not sufficient for the actual establishment of a plant.⁵⁹

The oligopolistic structure of production and distribution obtained in the advanced capitalist countries also play an important role in favouring the bias of investment in the periphery against the capital goods industry. As we know, oligopolistic practice implies a recognition of competitors' reciprocal strength and 'cut-throat' retaliatory power. This means that a manufacturer of capital goods, in deciding whether to establish or to assist in establishing, a capital-goods industry in the periphery, will generally take into account the possible effects of such decision not only on his own and competitor's export interests but also on those of his domestic customers' export interests. Thus the implication for the periphery of an oligopolistic pattern of behaviour in the industrial centres

59. For example see Chapter 8 below for Nigeria's experience.

Isn't all private investment of not all
investment biased against capital
goods production in many small units?

But does it not also depend on what kinds
of capital goods you are talking about?
Presumably you do not want high K type goods
to be produced any way?

Why? It would be most
advantageous

may be the strengthening of other factors mentioned above in producing in the developing countries of Africa and Asia, a sectoral pattern of foreign investment that is biased against the capital goods producing industry.⁶⁰

I have in various places above discussed the implications for the domestic economy of the bias in favour of light manufacturing and raw material exploitation for export. Let us now look at the implications for the growth of the economy in general and the modern industrial sector in particular, of foreign investment bias against the capital goods production industry. Such implications are both direct and indirect. Indirect implications concern what would otherwise have occurred to a developing economy in the absence of such bias. In other words, what the opportunities are for such economy of having a capital goods producing sector. The direct consequence of not having an appropriate capital goods sector and instead of having to rely on imports from the developed industrial economies is that such action is not in the long-term economic interest of the country. The range of choice of production functions is being dictated by the technical progress taking place in the developed countries and transferred to the periphery through 'know-how' made available or embodied in new capital equipments installed in the modern sector. The trend in technical and scientific progress determines, and is itself greatly influenced by, current as well as future expectation of relative factor prices.⁶¹ As we have seen, the trend in production techniques which seems to be gathering pace in recent decades, is towards a more and more capital-intensive one. A developing recipient country is forced not only to follow the bias inherent in this technological process, but is equally powerless to control the direction and pace

60. C/F Arrighi and Saul, op cit pages 147-148

61. That is, a two-way casual relationship between technical progress and factor prices ratio.

Why then do local businessmen
and the government undertake
low cap. intensive techniques
and out compete the foreigners? In the
the may only if retention of local LDC's they do
exactly that of course - but for rapid growth
mer a limited time period a higher K ratios
are necessary. Thus isn't it a lot to do with
the rate of growth alone itself and the time
horizon of the LDC is self and the time
many instances? Foreign businessmen
for? are remarkable in an LDC for the absolute
lumps of investable funds which they can command
- hence they can opt for high K techniques whereas
indigenous businessmen cannot in most cases.

of technical progress and capital-intensity of production functions. Foreign 'experts' sent to work the modern technologies as well as the local personnel trained by them are in fact perpetuating the dependency of the economy on foreign sources of technology and equipment rather than reducing it. While such importation of know-how may be a short-term value asset, it does nothing to equip the recipient with a creative capacity to formulate its future technological needs. For a 'labour surplus' and capital-scarce economy, with a strong need for labour-intensive technique, the long-term prospects from such technological and capital transfer are inherently undesirable.

If a £1,000 - technology is too sophisticated and harmful, and a £1 - technology is too 'primitive' and inefficient, and intermediate £100-technology thus comes to have much appeal - perhaps as the most productive labour-intensive process that is available. However, and this fact is not usually emphasised, what is intermediate technology embodied in a used equipment today, was the most capital-intensive and technically most advanced process available a decade or two ago. Similarly today's modern equipments would probably become the intermediate technology of two decades hence. The suggestion that used equipments might be adopted to accelerate the process of labour absorption overlooks the fact that as long as such equipments are imported from the developed countries, they will inevitably exhibit diminishing labour coefficients over time. How far into the future such a possible development continue to have unfavourable effects on 'labour-surplus' economies like India, or 'under-employed' ones like Nigeria, will depend on the pace of their economic progress. The process will be contained, or may even become desirable when the overall growth of the economy generates increasing demand for labour, thus mopping up those who would otherwise become redundant.

Suppose an appropriate technology could be formulated for producing a particular product. The chances are that only the blueprint in the archives or a model of the equipment in the museum, is likely to be avail-

able in the capital-exporting industrial country. The older labour-using equipment is no longer being produced and the original stock of it had either been completely depreciated or is extremely hard to come by. More over, given the mechanism of technology transfer through Western foreign investments and tied official credits, and the present patterns of international trade and economic development which feature an almost exclusive concentration of capital goods production in the developed countries, the relatively insignificant demands of developing countries for these goods will continue to have only a negligible impact on both current production decisions about the type of machine to be produced and on the direction (and speed) that factor-saving bias will take in future. "The historical dynamics of technological transfer are such that over time one might reasonably expect that as long as less developed nations must rely on industrialised countries for their techniques of production, all imported equipment both new and used, is likely to have a long-run labour-saving bias."⁶² Inevitably the goals of industrial expansion with significant labour absorption will be increasingly difficult to realise.

The implication of the above analysis is that developing countries must create their own capital goods producing industries as a means of escaping the direct consequences of the bias against such a sector in the periphery, and there are positive advantages as well. The problems of establishing a domestic capital goods sector now are real and complex. Such action represents a radical reversal of the present policy, and is unlikely to be compatible with the wishes of foreign private investors. Difficulties too may be experienced from some domestic entrepreneurs in the modern sector who place greater emphasis on short-term output growth. Much, therefore, depends on the crucial initial phase. What is needed to be done is the revival of an unsophisticated old technology

62. M.P. Todaro:- "Some thought on the Transfer of Technology from Developed to less Developed Nations". East Africa Economics Review, Vol. 22, No.1 June 1970, Page 55.

such as the Humphrey pump⁶³; the adaptation of a current or recent production technique and equipment to the available resources and skills, or in the rare circumstances of no precedent in the production process, the invention of a new one. Successful adoption, and continued growth of a domestic capital goods industry depend very much on the creation of appropriate corps of engineers skilled in necessary conversion capabilities. Over time, it is upon this pool of skilled personnel and 'technocrats' that the task will fall; of constantly adapting, duplicating and redesigning old technology and equipment in line with the changing needs and factor scarcities. If and when urban unemployment is eventually eliminated in a particular developing country, the existence of a domestic capital goods producing industry and the pool of these technocrats will make possible the adoption of a more recent labour-saving technique, to be introduced at a pace determined by changing factor availabilities. The early Japanese experience in adapting foreign technology to domestic resource endowments and in developing the attendant conversion capability, has often been cited as a model for developing countries. Japan today has not only managed to make an economic success of her importation⁶⁴, but has also enriched her capital goods producing industries with the most modern technologies and production processes that relate to her resource endowment.⁶⁵ She has created the most sophisticated conversion technology there is - thereby eliminating the labour-saving bias of the original Western technology without loss of production efficiency - and has set the direction and speed of her technical progress

63. See K. Owen:- "Third World Revolution - in Easy Stages." The Times (London) Jan.14, 1972, Page 17.

64. It is privately estimated that about 30% of all Japanese manufacturing today is based on imported but adapted technologies. The biggest area of U.S. investment in Japan has been the licensing of patents and technology, see D.E.C.D. - Liberalisation of International Capital Movement, Japan O.E.C.D. Paris 1968, Page 32.

65. For example, labour-using electronics development.

in line with her future needs. Japan's technological experience should be instructive to most developing countries, but her special circumstances must be borne in mind. There exists even today a strong 'foreign capital-phobia' which has made the Japanese historically hostile to direct foreign investment. Unlike the present developing countries she did not have to breakaway from a foreign dominated modern sector with its capital-intensity and capital goods import bias. Again, Japan has traditionally been self-sufficient in domestic savings,⁶⁶ skilled manpower, and stable Government bureaucracy since the restoration of the Meiji Empire in Mid 19th. Century. She has had nearly a century of productive contact with industrial Western Europe and North America - more or less on her own terms as an independent and sovereign nation.⁶⁷ We must also take note of the favourable size of her domestic economy, and the heavy export orientation of her production which more than offsets her lack of raw material.

The above factors show that Japan was in a far more favourable position when setting up her capital goods industry, as compared with the conditions obtained in most of today's developing countries. In perspective, the establishment process in the latter group becomes more difficult, likely to be more protracted, but nevertheless, remains practicable. I do not wish here to go into details of the practicality and mechanics of establishing capital goods producing sector in the developing countries, Michael Todaro has already carried out that task in an incisive manner.⁶⁸

66. Foreign capital used by Foreign subsidiaries and branches has never exceeded 0.5% of total domestic funds used by indigenous Japanese industries.

67. For a brief and useful analysis of foreign investment in Japan see S. Okita and T. Miki - "Treatment of Foreign Capital - A Case Study for Japan" in J.H. Adler (ed) Capital Movement and Economic Development. op cit.

68. See M.T. Todaro - "Some Thoughts on the Transfer of Technology from the Developed to Less Developed Nations. E.A.E.R. Vol2. No.1 June 1970 op cit. Pages 53 - 64.

Specifically developing countries should produce their own machinery, copying and adapting initially the earlier more labour-intensive designs of the industrial countries.⁶⁹ This would provide the possibility of eliminating much of the conflict between output and employment growth while avoiding the more onerous task of designing new labour-using machinery. Such copying will be capital-saving when compared with technology and equipments currently imported. Over time the pool of conversion technocrats would ensure that the inflow of used technology that is being made available is continuously 'reconditioned' to the economy's contemporary needs. Like the Japanese they may acquire enough experience and expertise to introduce new production processes which are always related to local factor scarcities. Developing countries would thus derive the benefits of controlling both the direction and pace of technological changes in their own countries and in effect reverse the direction of 'their' technical progress, since the trends towards capital-intensity in the developed countries would no longer be the determining feature of their production processes. There are other advantages to be derived too. The high import bias of capital goods requirements is eliminated in the long-run, and no longer does foreign exchange weakness constrain either capacity expansion, or aggregate production level through intermediate imports shortage. Leakages abroad will be limited to payments of royalties for imported technology and import of raw materials. A labour-using capital goods producing sector will alleviate the unemployment problem in the modern sector while improving long-term growth prospects. It could well be a major source of external economies to the non-capital goods sectors, especially in providing them with skilled workers,⁷⁰ and may help in slowing down the differences that are developing between the rural and urban communities. The success of

69. Many of the 'non-viable' underdeveloped countries cannot, if and when acting alone be given much chance of establishing such a sector. Their chances must lay with regional economic groupings such as the East Africa Economic Community, or the much mooted West African one.

70. C/F. the 'low capital absorptive capacity' thesis.

such a sector would undoubtedly have a 'demonstrated effect' on the agricultural sector, vitiating any tendency towards mechanisation, and supplying it with appropriate locally-produced agricultural implements.

Some elements of capital goods production have been shown by some of the developing countries to be within their competent reach, and at competitive production costs vis-a-vis the developed countries. For example, Todaro has pointed out that contrary to general expectation, machine tools production "is in fact one of the more labour-intensive industrial branches in most economies..... Not only is the machinery branch not a heavy user of capital, but it offers the advantage that small scale production may be relatively efficient."⁷¹ With the aid of historical and empirical evidence, he has also drawn our attention to the fact that big developing countries like Brazil, Argentina, India and Pakistan, and technically sophisticated ones like Israel, have been exceptionally successful with the development of their domestic machine producing industries. Furthermore, in some other instances, the relatively less-expensive skilled labour may offset other adverse cost conditions to make the developing countries competitive "even in the production of the most modern capital goods."⁷²

Aside from the technological and qualitative aspects of capital goods production, there are other aspects - which one might call the macro-aspects - whose importance though not often appreciated, deserves similar emphasis. The establishment of capital goods production in a developing country also performs the dual function of expanding both the productive capacity, and the size of the internal market. If the prospects for induced growth of the capital goods sector through reliance on profit-maximising foreign corporations are poor, autonomous development of the basic industries may well turn out to be the attractive alternative that could make available the advantages inherent in that dual function. In view of the initial

71. A. Todaro:- "Some Thoughts on the Transfer of Technology from Developed to Less Developed Nations." op cit. Pages 60 - 63.

72. ibid page 63.

difficulties to be faced subsequent to a policy decision to establish own capital goods production, the least disruptive course to follow would be to make autonomous investment in imported technologies and equipments that are being converted, while a start is made towards phasing out sophisticated capital-intensive productions. In such a process (of creating an industrial backbone for a non-agrarian economy) the autonomous injection would be reinforcing that investment induced by normal market forces. But the proportion of investment needs that is satisfied by imports would gradually diminish.

The role of domestic capital goods production in expanding the internal market was first emphasised by Lenin, who argued that the expansion of the size of the domestic market was possible despite restrictions on consumption by the masses, because "to expand production it is first of all necessary to enlarge that department of social production which manufactures means of production; it is necessary to draw into it workers who create a demand for articles of consumption. Hence 'consumption' develops after 'accumulation'."⁷³ Thus under-development (or lack of) in the capital goods producing industry restrains the expansion not only of the productive capacity of developing countries in Africa and Asia but also the potential size. (in terms of aggregate purchasing power) of their internal markets. Furthermore, it perpetuates a form of economic growth that is largely determined by external forces - that is, the growth of world demand for the periphery's primary products. In fact the dependence on the developed countries is even greater now than ever before; for the integration of the agricultural sector with overseas markets is accompanied by greater integration of the modern sector with the industrial centres. The inference to be made from the above analysis is simple enough; a successful resolution in technological orientation linked with capital goods production may very well be an essential ingredient for long-term economic growth and development.

73. Quoted in Arrighi and Saul, *op. cit* Page 148. C/F. Say's Law and Keynes' maxim that the larger the marginal propensity to consume, the greater the multiplier effect of an investment outlay.

In view of above considerations as well as the potential advantages inherent in the emergence of an industrial environment, one wonders whether the problems that arise in a determined effort to create an indigenous technological and industrial base must be viewed exclusively in terms of market forces or private profitability considerations. If foreign corporations that dominate the modern sector, along with the rest of the domestic private sector cannot be expected to expand productive capacity except only in response to market demand, the task for an endogenous generation of growth stimuli through autonomous creation of capital-goods resources, must surely fall on the States' shoulders, and the State would have to devise a set of social criteria to evaluate such massive outlays. The ultimate justification is the immeasurable long-term effects on the economy; of appropriate technology, productive resources expansion and of a domestically-conditioned economic growth. The successful experience of socialist economies like Russia, China and North Korea easily comes to mind in this respect. Again it could be argued that what is needed is a big capital-goods production 'push' which may create the 'take-off' for a snowballing of industrial expansion and technological innovation, as the reinforcing effects of an autonomous and derived capital outlays percolate through the economy. If inspite of the difficulties mentioned above a big push succeeded in laying a strong foundation for accumulation and extend the size of the domestic market, the gains from subsequent investment outlays are likely to be proportionately greater; conversely, subsequent target levels could be achieved with relatively less capital outlay. It is in the light of such considerations that one must view the present bias against the capital goods sector by foreign firms and indeed by the rest of the private sector as a short-sighted misconception. It seems rather ironic that the 'great calculating rationality, care and circumspection in approaching new developments which characterise modern corporations', do not prevent them from making such error of judgement that inevitably must impair the right functioning of international capitalism. This contrasts, to a large extent with the experience of the 19th. Century

when competitive entrepreneurs, chartered companies and financial groups "often undertook investment which was 'unjustified' by market conditions, thereby fostering the industrialisation of (the then) less developed economies (of North America and Australasia)"⁷⁴

Let us now engage in further consideration of the implications for the host economy of the wage and salary policy operative in the urban modern sector. We have already noted the danger of a 'wage-mechanisation' spiral inherent in the capital-intensive techniques now prevalent in the modern sector. I shall initially limit myself to a consideration of the unemployment question and of the part foreign enterprises are playing in the socioeconomic gulf that is emerging between the urban and rural sectors. The problems connected with unemployment in tropical Africa and the rest of the developing world are well discussed in the literature.⁷⁵ I shall therefore, only draw attention to certain established facts, trends and observations which are relevant to the present analysis.

74. Arrighi and Saul, op.cit Page 147.

75. In this connection, see for example,

- (I) C.R. Frank Jr.: - Urban Unemployment and Economic Growth in Africa op.cit .
- (II) M.P. Todaro: - 'A Model of Labour Migration and Urban Unemployment in L.D.C.' A.E.R. Vol.54 March 1969, Pages 138 - 148.
- (III) H.A. Turner: - 'Wage Trends, Wage Policies & Collective Bargaining. The Problems for Underdeveloped Countries'. University of Cambridge, Dept. of Applied Economics. Occasional Paper No.6, 1965.
- (IV) H.W. Singer: - Dualism Revisited. op.cit
- (V) W.A. Lewis: - 'Unemployment in Developing Countries'. The World Today. Jan. 1967.
- (VI) R. Robinson and E. Johnson (ed.): - Prospect for Employment Opportunities in 1970. Cambridge University Studies Committee/ Overseas Aid Administration.

For example, the observations that (a) the rapid increase in population and labour force on one hand, and the capital-intensive nature of modern technology coupled with the low level of aggregate purchasing power on the other hand, have created an employment crisis in the underdeveloped countries. Estimates of an average of 25% level of unemployment and an annual increase of over 8% are not uncommon.⁷⁶ (b) that beside the aggregate rise in level of unemployment, very high rates of growth of urban labour force (through migration from the rural areas) have not been matched by corresponding high rates of growth of urban labour demanded by the modern large-scale establishments. The result is that employed labour is becoming an increasingly smaller proportion of the urban labour pool.⁷⁷ (c) that the flow to the urban areas is essentially determined by the attraction of high earning differentials,⁷⁸ urban social amenities and inappropriate primary education system.⁷⁹ (d) that manufacturing and public utilities in the modern sector account for a relatively small proportion of non-agricultural employment (roughly 15-20%) and the rate of job creation in the import substitution industry is far lower than the growth rate of manufacture output, and to a large extent is negatively influenced by both capital intensity and labour productivity.⁸⁰ (e) that in order to stem the

76. See f/n. 75 reference (iv) above Page 8.

77. See f/n. 75 reference (I) above Page 252.

78. See (I) and (II).

79. See A. Callaway:- 'Unemployment among African School Leavers'. J.M.A.S. Vol.1, No.3, 1963.

80. See (I) Page 257, and (II) Page 146. Todaro model establishes a functional relationship the implication of which is worth noting. The function $r = \frac{1}{2}P$ (where r = rate of job creation, $\frac{1}{2}$ = rate of growth of industrial output; and P = rate of growth of labour productivity) represents the above observation, and as Todaro notes, when "we recognise the fact that in order to increase employment growth (r) by 2%, the growth rate of modern sector output ($\frac{1}{2}$) will probably have to increase by at least an additional 6% due to the possible correlation between output expansion and productivity growth, we begin to appreciate the great difficulty of absorbing larger proportion of the urban labour force without a concentrated effort designed to prevent the further widening of the urban-rural real earnings differentials." (II) Page 146.

unproductive migration into the urban areas - Arthur Lewis has drawn our attention to the coexistence of heavy unemployment in town with shortage of labour in the countryside in some of the developing countries like Jamaica and Nigeria⁸¹ - positive steps must be taken to reduce the real earnings and welfare differentials; the education and training bias in favour of 'white-collar' work, and improve the quality and attractiveness of rural life.⁸² (f) that the rate of growth of urban incomes (especially of wages) is far greater than the growth rates of rural incomes; aggregate national income; the value-added in the urban modern sector, and for that matter, of labour productivity.⁸³ (g) that there exists a tendency in the urban labour market for supply, and demand to interact in such a way "that an increase in employment is accompanied by an increase in unemployment."⁸⁴ That is, increase in demand for labour by the modern industrial sector attracts a far larger supply to the urban areas; with the unrequired 'hands' swelling the pool of unemployed and underemployed in the urban traditional sector. (h) that the problems of urban unemployment exist in developing countries irrespective of their different rates of industrialisation or modern sector expansion. In some instances, it is quite conceivable for countries with faster growth to suffer more, because of greater influence of capital intensity, labour productivity, and expanding industrial incomes.⁸⁵

81. See (V) above Page 17.

82. Todaro's remark in this respect is instructive: "As long as the urban real income differential continues to rise sufficiently faster to offset any sustained increase in the rate of job creation, then, even in spite of the long-run stabilising effect of a lower probability of successfully finding modern sector employment; the lure of relatively higher permanent incomes will continue to attract a steady stream of rural migrants into the ever more congested urban slums. The potential social political and economic ramifications of this growing mass of urban unemployment should not be taken lightly" (II) Page 147.

83. See (I) Page 264-265, and (IV) Page 7. The abnormally low starting level of colonial wage remuneration has meant that in spite of recent rapid increases, the labour's share of value-added in foreign enterprises is still substantially below earnings of such firms' employees at home - even after allowances have been made for extra costs of management and supervisory staff, and personnel training; and the apparent rather than real productivity differences. For empirical evidence that labour productivity has been steadily rising in tropical Africa see (I) Pages 257-262, and Peter Kilby: - African Labour Productivity Reconsidered. E.J. June 1961

It follows that the outcome of a policy of accelerating industrial expansion as a means of eliminating urban unemployment may not be as successful and productive as planners hoped for. And finally (g) that besides the labour using potentials of the traditional small-scale enterprises, the only other outlet left for a possible labour-intensive technique is the modern large-scale manufacturing sector - since agriculture, Government employment and services, and construction are already labour intensive. However, as we've seen the scope for employment opportunities in this sector is limited and a policy to enforce a more labour-intensive production process is fraught with difficulties.⁸⁶

84. See (I) above Page 266-267. This is a key point in the Todaro model (see (II)). The decision of unskilled rural labour to migrate is influenced not just by the attraction of a wage two or three times the average obtainable on the farm, but also by the subjective probability of finding an urban job. The operative factor, therefore, is the urban-rural income differentials adjusted by the probability appraisal. The practical implication of such an adjustment is in effect to widen or narrow the 'nominal' real income differentials. Thus an increase in industrial demand for labour per sec, will enhance the appraisal, 'widen' the differentials and attract more migration. A fall in demand will have the opposite effect. The value of the 'probability variable' is itself determined by, the size of the urban traditional sector and its proportion that is unemployed or underemployed (see (II) pages 138-139), the growth of urban (especially modern sector) demand for labour; the initial and rate of increase of real income differentials, and the time lag between migration into town and modern sector employment. An important reason for taking 'the probability of obtaining an urban job' into consideration is the fact that it provides a mechanism for long-term stabilisation of the urban labour market (see II). Its short-run importance cannot be underestimated either. It is this probability consideration which explains the failure of Kenya's 1964 'tripartite agreement' on wages and employment. For the effect of the Unions' willingness to make no further wage claims, and of employers to increase labour intake by 15% per annum, is to accentuate the flow of migrants to towns, see *ibid* (II) Page 140.

85. C/F. W. Baer and M.E. Herve:-'Employment and Industrialisation in Developing Countries' Q.J.E. Vol. 80 No.1 Feb. 1966, Page 89

86. See above f/n.54 . If the host authority cannot afford to rush the local establishment of labour-using production process, neither should it be forced to tolerate indefinitely the fait accompli (of capital intensity and equipment import) now prevalent in the modern sector. Besides, as we have seen, it is not the local wage situation that effectively determines the labour content of production technique. Whether wage restraint is politically acceptable or not, it is going to have very little influence on employment in the modern manufacturing sector.

What criticisms of foreign private enterprise can we make in the light of above observations? Foreign firms might claim that in spite of being the largest employers of industrial labour (in most of the developing countries of tropical Africa for example) they have very little say in the wage and salary policy operating in the urban modern sector. They are faced with a fait accompli of minimum wage legislations; periodic official tribunals into wages and living conditions, and the confirmation of a colonial salary structure. However, there are grounds for asserting that the success of modern sector wage and salary policy and indeed of earnings determination and stratification processes, depend to a large measure on the active co-operation of the firms. It is in their economic interest that they operate officially determined norms that in some cases may be two or three times the size of the average incomes of agricultural households. Such an income level and structure stabilise the flow of labour into them. They are thus able to attract the best skilled and professionally-qualified local personnel into their organisations. They can absorb the extra cost involved in rapid increases, since wages and salaries form a small proportion of aggregate production costs, and they invariably are operating a monopoly behind the tariff wall. In some cases, rapid rises provide a justification for capital intensity. Again, judging from the recent experience of some developing countries in tropical Africa, it is the government now, worried by inflation and the continuously expanding inroad that wages and salaries are making into its not-so-expanding revenue, rather than the companies, that is dragging its feet on wage increases.⁸⁷

87. See P. Kilby:- 'Industrialisation in an Open Economy. Nigeria 1945-66 op.cit Chp. 9. For an analysis of the 1963-64 'General Strike' in Nigeria see Pages 286-289. The Ghanaian Budget for 1970/71 promised a wages and incomes policy to combat inflation and the growing size of Government employees wages and salaries. It is interesting to note that neither in Nigeria nor Ghana has wage restraint been justified on the ground of narrowing the urban-rural income differentials - irrespective of whether or not such a policy would have any significant effect on the flow to the urban areas.

With the passage of the late 1950's and early '60's period when incoming nationalist Governments took steps to substantially raise the minimum earnings of the lower-paid workers, private sector employers are increasingly brought into the urban wage determination process. They cannot justifiably claim to be not responsible for some of the bad consequences of widening urban and rural income differentials. Thus, as employers, they are partly responsible for the continuous migration to the towns, though unlike the government, they carry no direct responsibility for solving the problems associated with such phenomenon. They may be criticized for their contributions to the many ways in which social and economic dualism operate in the host developing countries. Dualism between urban employed and unemployed, between rural and urban income, and above all between the incomes and living standards of the bureaucratic/professional elite and the unskilled labour in the urban areas.⁸⁸ A combination of rising unemployment, mechanisation and labour productivity inevitably generate the frightening spectre of an increasingly small (in relation to total labour force) but well-rewarded elite of regularly employed people co-existing with an increasingly larger pool of poor unemployed and under-privileged masses.⁸⁹ The need for corrective measures from government as well as the companies in respect of these problems cannot be more simply demonstrated. The above observations also demonstrate the fact that foreign investment cannot be looked upon to help solve the unemployment problem. Non-agricultural employment in the developing countries of Africa has been static in the last development decade while only a moderate growth rate (2-4%) is discernable for modern sector labour intake.⁹⁰

88. C/F. C.R. Frank Jr. op.cit Page 265.

89. C/F. M. Kidron:- Foreign Investment in India. op.cit Page 313, and Todaro's comment F/n. 82 above.

90. C/F. C.R. Frank Jr. op.cit Pages 254 & 266.

Placed against a background of a worsening unemployment crisis, foreign private investments contribution to the alleviation of unemployment can only be described as marginal - irrespective of the pace of import substitution. Perhaps foreign enterprise chief contribution in this respect lays not in providing employment opportunities (Modern sector both foreign and domestic employ on average about 5% of total labour force in tropical Africa) but in spearheading overall economic growth. However, the multiplier effect of modern sector manufacturing is likely to be dampened down considerably by the substantial leakages abroad.

It is in the evaluation of the likely course of interaction between international capitalism and domestic enterprise that a great deal of foresight is required from host authorities before invitations, incentives and licences are showered on foreign corporations. All the short and long term implications for domestic enterprise - both private and public - must be taken into consideration before making a choice as to which type of foreign investment would fit the needs of social and economic development. It is well known that foreign firms consider the absence of any form of discrimination against them vis-a-vis domestic capital, as one required manifestation of good investment climate. Yet, there are grounds for believing that a rigid adherence to this condition by host authorities constitutes a de facto tilting of the economic, financial and commercial balance in favour of the large-scale foreign international corporations. A subsidiary of a multinational group has several advantages vis-a-vis its domestic counterpart. It has a privileged access to finance, both internally and externally.⁹¹ It has at its disposal a technical and management expertise that is modern and superior and is internationally tested and proven. If, as a manufacturing concern it links up with a long-established trading organisation, it neutralises any special advantage which local knowledge and experience might confer on domestic entrepreneurs.

91. G/F. M. Kidron op. cit Page 231.

It can capitalise on company's internationally-branded product and goodwill, exploit local prejudice in favour of foreign - or foreigner's-made articles,⁹² and enjoy economies of scale even when dealing with local bureaucracy!⁹³ Besides "there have been many instances in L.D.C.'s where the unintended effect of Government regulation and control has depressed small-scale production. Foreign exchange control, in particular, discriminates in favour of the large-scale established (foreign) procedures."⁹⁴ The rationale for constructive discrimination in favour of domestic capital is the above demonstration of the inherent competitive superiority of the foreign sector.

Besides its superior, foreign investment may adversely affect domestic operations in more than one way. Though the degree of penetration of these effects vary from one L.D.C. to another, depending as it were, on the size of relative sophistication of domestic enterprise - the pattern and sequence tend to be universally the same. These effects stem essentially from its foreign-ness and its typical size. The various demonstration effects on the pattern of production and consumption may adversely influence the host economy. The effect of capital-intensive techniques of foreign firms is amplified through the adoption of similar process by indigenous firms, mostly via expanding collaboration. 'Turn-key' projects, joint-ventures and foreign management/technical contracts reflect the desire to transplant Western industrial sophistication into the periphery and a general misconception of equating maximum efficiency and output achievements with automated production process. More over, in so far as the higher wage standards of the foreign enterprise tend to spread to indigenous enterprise in the modern sector as well, the discouragement to the creation and spread of appropriate indigenous labour-using technology becomes even more pronounced. Medium and large scale government-owned manufacturing enterprises are the most prone to foreign influence and while they may be able to

92. C/F. M. Kidron's observation:- "An imported article is ipso facto preferable to one made in India; a foreign brand manufactured locally by a foreign firm is better than one made by an Indian firm; and so down the line with decreasing value accompanying receding foreign-ness." *ibid* Page 229.

93. C.R. Frank Jr. *op.cit* Page 269.

94. C.R. Frank Jr. *loc cit*.

But with a large pool of unemployed &
underemployed surely firms or
employers can recruit labour at very low
wage rates.



'afford' the ever rising wage bill by stepping up their loss creation rather than reduce the small number of people they employ, the rise in labour costs invariably tend to discourage the rise and expansion of the non-public, labour using small-scale and financially weaker enterprises who cannot afford mechanisation.

Western-orientated pattern of consumption (and aspired consumption) of the urban dwellers especially of the bureaucratic and professional elite favour a pattern of import substitution and new product development that can in most instances, only be undertaken by foreign firms and foreign-associated firms. This is also true of the intermediate and capital goods production that is gradually emerging in some of the relatively advanced developing countries. This pattern of modern demands contrasts sharply with the low income elasticity of demand not only for rural produce but also for some of the traditional simple consumer and capital goods the production of which small-scale industries may have a competitive edge and which are appropriate to the relative poverty of the economy and the need for extra efforts at resource accumulation.

Again there exist a general fear in developing countries on the threshold of industrial expansion, of large-scale enterprises (for the time being, mostly foreign owned) emerging to hinder the growth (and expansion) of small-scale modern labour-using enterprises in sectors and lines currently under development or are likely to be developed in the near future. The possibility is real, for the emerging 'competition' between large-scale modern establishments and small-scale urban traditional producers is gradually driving the latter group against the wall. The relatively cheaper production of textiles, leather goods, shoes and sandals, and enamel hollow-ware in the modern sector "may be examples where large-scale production has significantly replaced small-scale production and has led to a net decrease in employment in those industries."⁹⁵

95. C.R. Frank Jr. op.cit Page 269. Here the social & economic cost of unemployment must be weighed against the relative cheapness of the new mass-produced commodities.

Kenneth Owen gave a specific example: "The introduction of a highly automated factory producing plastic sandals in one African country (Nigeria?), put seven thousand leather shoemakers out of work. It reduced the incomes of the makers of leather, glue, thread, fabric linings, tacks, dressing, polishes, hand tools, wooden lasts and carton boxes. The 7,000 shoemakers were replaced by 40 injection-moulding machine operators. Dependence switched to manufacturers of plastic machinery and P.V.C. grains abroad."⁹⁶ There is no doubt whatever that some of the traditional professional guilds are coming under great pressure from competition of modern factories.

If small-scale labour-using enterprises in the urban traditional sector are not to disappear faster than is socially desirable, and if similar sized ones in the modern sector are not to become merely sub-contractors for, or 'tolerated' competitors of, the large-scale foreign establishments, it becomes absolutely essential that host government's industrial policy-decisions must reflect both an awareness of these dangers and of the steps being taken to combat them. Areas of policy-decision that must be so conditioned include foreign investment rules and regulations of entry and operation, foreign exchange licencing, incentive and subsidies, import and export licencing and employment planning programme. However, it is essential that the necessary actions are taken in the context of a long-term harmonisation between large and small organisations, foreign and domestic operators.

Multinational Corporations - A Special Critical Analysis. I have so far been using the term 'multinational' and 'foreign company' synonymously. Strictly speaking not all foreign investments are by multinational firms. The latter's size, global scale of operation, and position in the international private capital movement create certain peculiarities which are the object of analysis here. In other words, while most of the criticisms made above apply to foreign capital operating in developing countries, there are other criticisms which specifically relate to multinational or

96. K. Owen:- 'Third World Revolution - in Easy Stages', Article in The Times (London) Jan.14,1972 op.cit.

transnational combines, irrespective of the areas in which they operate. The multinational firm can be defined in many different ways depending on which of its organisational, behavioral, legal and commercial, or ownership and control aspects one wishes to emphasise. In theory, the policy and operational outlook of such a company transcend national boundaries. Domestic and foreign businesses are fully integrated into an international and interlocking group of companies. Ownership, control and obligations are transnationally diffused. A fully developed complex is no longer British, American or Japanese, but a multi-nation organisation. In practice, however, the ultimate loyalties of member-companies (of a multinational complex) are to the Parent Company whose own loyalties are to its Parent country. The number (and importance) of multinationals is steadily growing. Business International, which is in a sense the multinationals' trade association, reckons that there are now over 300 such organisations, two-thirds of them under the United States control.⁹⁷ Most of Western Europe and North America's leading companies are, or are quickly becoming multinational. Unilever typifies the modus operandi of the leading multinationals, with twin headquarters in London and Rotterdam, operating over 500 separate companies in over 60 countries, and employing capital assets valued at £1,073M at the end of 1969.⁹⁸ Most multinational firms are to be found in manufacturing and extraction industries. As was stated before, the total value of sales of multinationals' production outside their home countries is now greater than the value of world trade,⁹⁹ while value of sales of some of the leading companies like Ford Motor Company, Unilever and Standard Oil of New Jersey is greater than the G.N.P. of a large number of developing countries.

97. M. Shanks:- 'When Companies Span the Frontiers' - The Times (London) August 20, 1969, Page 21.

98. Unilever - Report and Accounts 1969.

99. See above Chapter 1, Page 3.

Multinational enterprise is a post-war product of the expansion in amalgamation, takeovers, trusts and cartels (as far as the Anti-trust and monopoly laws would permit) that characterises developed market economies today, and of the liberal, 'open-door' attitudes shown by these economies towards each other's capital inflow. The first factor reflects a desire to capitalise on the advantages of bigness, which improved technological know-how and management technique are always increasing. The second factor, open-door policy is helped by the sharp increase in efficiency of transportation and communication, with the resulting improvement in the capacity to develop and execute global strategy that embraces the activities of far-flung subsidiaries and affiliates. The growth of multinational operations is the best expression of the growth of direct overseas investment, while the problems they create and the ways these are or are not resolved would have far-reaching effects on future international resources movement.

The issues and problems that are raised by the trend in world-wide multinational expansion derive from three basic and interrelated factors. First, that there may exist a divergence between the global planning of multinational corporations and the national planning of the various host governments. Secondly, that such organisations aim at maximizing their global returns while minimising their aggregate tax burdens to the nation-state. And thirdly, that the supranational nature of their operations confer on them certain powers, responsibilities and obligations to the international community without a reciprocal machinery of accountability. The implications of this last factor represent the main dilemma of international corporations: how best can they harmonise the often conflicting interests of their share-holders, their parent countries and other host authorities they have to deal with, when they themselves have to define what these interests are. Again, they have to define the international public 'interest' to be considered when national interests conflict or when Governments' pressures push in opposite directions. No matter how good and responsible these firms are in exercising economic stateman-

ship', a question-mark would always remain over their judgement, as long as there is no higher authority to which they are ultimately accountable and which is capable of rectifying, modifying or rejecting their conception of the international neutrality or international public interest they may attempt to observe.

I have drawn attention elsewhere to the fears and concern of nation-states, both developed and underdeveloped, over the practical implication of the above factors. A recapitulation is attempted here, in order to create an awareness of the areas of multinational operation which demand host-nation's vigilance and multilateral action over 'controlling' 'supervising' or 'policing' these big octopuses. Critics of multinational companies would point to the fact that attempt to minimise global tax burden implies the use of various devices, including inter-group charges for royalties, fees and material transfers that are not on 'arms-length' basis, as well as the establishment of 'tax-haven' to avoid taxation, or to transfer capital from one base to another. Multinationals with sizeable liquid assets (working capital) may engage in 'legitimate speculation' by transferring such capital from weak to strong currencies, or to take account of higher short-term interest rates in different markets. Such actions, while benefitting the company, may reinforce pressure on weak currencies or add its weight to factors making for international monetary instability. Global planning and development strategy implies the shifting of company's resources from one base to another, in the same way that cost considerations affect capital flows. Thus a multinational group which is able to provide production for both domestic and export markets, is also capable of withholding the export markets or in extreme case, of cutting off local production altogether. The power and privileges inherent in supranational operation bring to the fore the perennial fear that such groups may injudiciously use their position to avoid the full impact of Government policy; to interfere with, thwart or sidestep national laws and sovereignty. Empirical evidence for this sort of criticism is hard to come by though one would suspect that in many of the

developing countries with relatively weak governments and bargaining positions,¹⁰⁰ such fear may be justifiable. The recent disclosure¹⁰¹ of the International Telephone and Telegraph Corporation's (ITT) interference in Chile's internal politics during the elections that preceded Salvador Allende's presidency, and its approach to the U.S. Government (parent Government) for a joint economic subversion and sabotage during the presidency provide the rare concrete evidence of the power and influence exercised by the multinational company and underline the fear and suspicion felt by the host countries. The circumvention of monetary and fiscal controls are not uncommon.¹⁰²

There are other areas of concern. The inevitable international concentration and oligopoly - for example in chemicals, electronics and until recently in petroleum - present a problem in the multinational explosion. So also is the discreet support to parent government's foreign financial and economic policy which a multinational firm is expected to give.

Two fundamental propositions can be inferred from above analysis. First, that given the present international environment in which they operate, multinational firms may seriously distort the international distribution of the benefits obtainable from such capital movement. Secondly, that since such enterprises are beyond the overall supervision and control of a nation-state, and that independent actions taken by such government are apt to be ineffective, the continued absence of an international joint efforts to tackle the problems of multinational enterprise, can only exacerbate the fears and the criticisms.

100. The bargaining strength of a multinational firm vis-a-vis a host authority depends on several factors including (a) the size and importance of its operation within the economy as a whole or in a particular region (b) the importance of such investment in terms of company's global scale of operation, and (c) the important or unimportant role such economy is scheduled to play in company's future development.

101. For example, see article by Anthony Thomas entitled 'How Tight a Grip do Multinationals have on U.S. foreign policy?', The Times (London), March 22nd. 1973

102. For example of how foreign subsidiaries weathered the 1964-66
(Cont'd. on Page 279).

What can the international community do to minimise the defects of multinational capitalism, while optimising its benefits?¹⁰³ Some requirements for long-term solution would, in my view, include the need to (a) establish an international agreement or convention on multinational private investment, or better still, formulate a set of international laws on multinational position and operations that can be enforced by an international Court of Justice.

(b) Create a multilateral agency with an 'ombudsman' role.

(c) Establish a consultative group of major host authorities that must be briefed, say annually, about the multinational development planning (for a specific product).

(d) Set-up a 'trade union' of leading host governments (for a specific product) negotiate with multinationals' representatives on all aspects of production and distribution.¹⁰⁴

For the time being, and in the short-run, it is essential that individual host authorities, especially parent country officials should

(e) discourage companies from overt use of tax havens and other devices that enable them to shirk away from their tax obligations and transfer capital around through the 'back-door'.

(f) stop official connivance that enable firms to engage in commercial and financial transactions that favour, in terms of foreign exchange and exports, one host country to the detriment of the other, and

(g) as far as possible, disengage in 'zero-sum' competition to attract multinational or other foreign investments.

102. Cont'd from Page 278 .. Brazilian Credit Squeeze, see S. Morley and G.W. Smith:- 'Import Substitution and Foreign Investment in Brazil. Oxford Economic Papers (O.E.P.) Vol.23, No. 1, March 1971. op.cit Page 134.

103. Besides the general benefits of foreign investment which have already been discussed, multinational enterprises are particularly well-placed to collect and spread the sort of information pertinent to the best choice of location for various groups of products and to the establishment of optimum-size units. They may exert important influence in negotiations on the creation of larger markets out of the present small developing countries.

104. C/F. The much-improved bargaining position of O.P.E.C. vis-a-vis the oil 'majors'.

A RESUME

A Paradox of Foreign Capital. In the light of above considerations interesting paradox seems to be discernable about the behaviour of foreign investments in developing countries. On one hand, they are criticized for exercising considerable influence over the economic activities and in extreme cases over the national priorities of a host country, by virtue of their key (often historical) position in the economy. Their policy and practise for example, in the field of production technique and employment of local personnel in key positions, are shown to be much more determined by self-interest rather than consideration for long-term development of the host country. Yet on the other hand, they are also criticized for lack of constructive influence over 'ministate' host Governments on issue that fundamentally affect the long-term development and prosperity of these communities. For example, in Africa and elsewhere, they have not used their influence to encourage greater economic co-operation and eventual integration, which to me seems a prerequisite for the creation of a market, purchasing power and pool of skilled manpower on which long-term development must depend.¹⁰⁵ On the contrary, they seem quite prepared for a continuation of the short-term remedial policy of dotting the continent of Africa with high-cost sub-optimal plant units, in which the ultimate loser is the local economy. Two factors lend support to the idea of the companies favouring the status-quo - though one would have expected international capitalism to be more appreciative of the advantages inherent in a bigger trading and producing unit. First the time-honoured security and stability of exporting manufacturers and industrial goods from their main centres of operation to the peripheral markets, simplify the global planning and development strategy of the international companies. Secondly, the superficial structure created by the present 'balkanization' gives to the multination corporations an enviable bargaining power vis-a-via the host nations which they naturally hope to exploit for as long as possible.

105. C/F. Footnote 103.

The Pattern of Growth fostered by the Present form of Foreign Investment[†]

If the modern foreign investment has been required to initiate a redress of the colonial agricultural and primary raw material bias of developing countries' structure, it has succeeded in creating a modern sector that bears all the trappings of artificiality and foreign-ness. If foreign capital was earmarked to play a leading role in a growth strategy that has been based on an expanding import-substituting and export-creating modern-sector, it has helped to engender a pattern of short-term growth and sectoral relationship which undermines, rather than enhances the potentialities of the economy for long-term growth and development. These are the conclusions that emerge from the above critique. The industrial structure erected is too artificial in the sense that it is a transplantation that has not taken root; has not been locally modified, or induced by natural forces.¹⁰⁶ This shaky foundation is unlikely to improve if present trends in capital intensity, dependence on up-to-date Western technological expertise, and absence of domestic capital goods sector continue. What will become more evident is that a foreign-dominated modern sector will generate greater integration with foreign economies, rather than with its domestic hinterland. Nor could such a pattern of investment be expected to create a domestically-owned and operated industry capable of competing successfully with its foreign rivals.

For a typical developing country in Africa, the growth rate of the modern sector considerably determines the aggregate growth rate of the economy. As we have seen, such expansion is attended by mechanisation and automation which hold back the growth of wage - employment opportunities for unskilled labour flocking into the urban areas, as well as consuming scarce foreign exchange through foreign purchase of equipments and input components. It fosters and caters for the absorption of modern sector's generated income (as well as the agricultural income that is taxed away) by luxury consumption of the urban elite which resembles the pattern of consumer expenditure in

[†] C/F. Appendix II.

106. The fact that import substitution manufacture in the periphery has been the product of incentives & tariff barriers, rather than the natural sequence of a development process, helps only to demonstrate the artificial element involved. It does not question the correctness of such a policy in a long-term development context.

the richer countries. It also involves the transfer abroad of an ever increasing level of investment income and repatriated capital. It follows that the leakage created and fostered by such a pattern of growth restrain the expansion of urban demand for agricultural produce and hinder the creation of bigger development stimuli to increase productivity of the rural areas. In other words, the idea that faster growth of the urban modern sector would induce the advance of the rest of the economy, must in the circumstances be considered short-sighted. The inability of modern sector employees to stimulate adequately the productive potentials of the agricultural and rural sector inevitably meant that growth of the latter is largely left to the unpromising behaviour of the so-called 'world commodity market', that is, to the inelastic demand of, and the commercial barriers imposed by the developed industrial countries. The slow growth of rural income and productivity, in turn, has a diminished impact on the growth potentials of the modern sector.

Without over-emphasising the importance of foreign investment in shaping the present pattern of growth (official policy plays a decisive part) one cannot but conclude that though short-term growth in G.D.P. might be taking place in developing countries of Africa, a strong foundation for long-term self sustaining development as defined below,¹⁰⁷ becomes less discernable.¹⁰⁸ If the present framework for creating growth continues and the pace of high-cost 'easy' import substitution subsides, aggregate growth targets will increasingly become difficult to attain. Foreign capitalists, for the reasons stated before, are unlikely to invest in intermediate and capital goods sector in the 'multi-mini-state' periphery. The scope and strategy for growth will be constrained by the discretionary

107. See Appendix I.

108. C/F. Arrighi and Saul. op.cit.

'consumption' of the elite and the increasing leakages abroad, by the growing cleavages between urban modern sector and the rural traditional society,¹⁰⁹ and by the absence of a locally-adapted domestic capital goods producing capacity on which an internally-pulsated growth and development can be grounded.

109. Ibid.

PART II

CHAPTER 6NIGERIA : EXTERNAL RESOURCES BEFORE WORLD WAR II 1867 - 1940

The observation that scarcity of statistical information about resources flow into Nigeria presents a major obstacle to this study is probably more evident in this period than any other. And the factors responsible for such a dearth emerge in the process of this investigation. Partly for this reason, and partly for the length of the period, the analysis in this chapter is more biased towards economic history than macro-economics. However, the main economic features would be matched and linked with the analyses of the later period to establish a continuous trend (or otherwise) in the nature and character of, and the problems posed by, external capital. On this basis for example, the inflows of 1905 would be subjected to the same critical evaluation as those of 1960, or to give a more specific example, the picture of Debt servicing in the inter-war years, is seen and discussed in the light of present day foreign aid debt service situation.

The question may be asked why 1867 and 1940 as demarcation years? The former represents the transitional year when the value of merchandise trade with Europe by British West Africa first passed the £1M. mark. In other words the West Coast trade began for the first time to require relatively substantial capital resources. It also marked the year when reliable estimates of capital inflow into Africa first began to be accumulated. The introduction of the colonial Development and Welfare bill in the British Parliament in 1940 marked the first fundamental rethinking of the role the Imperial Government ought to play in a concerted attempt to develop the economic and social resources of the colonies for the benefits of the local people. The period before and after the Great War, therefore, represents a distinct phase in international resources movement for development. Some of the main features of this period have already been alluded to in Chapter 4. The most outstanding one perhaps, was the

colonial economic policy of laissez-faire and the primacy of the traditional wisdom of the Imperial Treasury which had persistently demanded that each dependent territory should be financially self-sufficient and content with the services it could pay for.² However, the tenure of Joseph Chamberlain at the Colonial Office and his vigorous call for a massive development of the 'Imperial Estates' (that is, the colonies) marked the first official onslaught on this archaic principle which nevertheless, maintained its resilience for another half a century. The 1940 Act compelled the Imperial administrations to assume economic and social functions far wider than the tasks of law and justice to which in the beginning they attempted to confine themselves.

If Africa today looks on foreign capital as an essential complement for the development of her physical and human resources, it is more than ironic that the first form of large-scale European capitalism which Africa experienced was concerned with slave trade. If private capital from abroad is needed today to exploit her raw materials for export, the earlier incursion of such capital was associated with the export of Africans themselves. When slavery and slave-trade were abolished, partly because the former became uneconomic, the immediate outlet for European capitalism in Africa was marked by a policy of despoilation, that is, a desire to appropriate the existing wealth as quickly as possible rather than establish constructive activities. As S.H. Frankel put it, the "terror economy in the Belgian Congo and French Equatorial Africa provides one of the most terrible instances of 'Raubwirtschaft' in modern history".³

1. C/F. W.H. Hancock:- Survey of British Commonwealth Affairs, Vol. II Part 2. Op.cit Pages 268 and 324.
2. Alan McPhee:- Economic Revolution in British West Africa. Op.cit.
3. S.H. Frankel:- Capital Investment in Africa. op.cit Page 1.

Not all Tropical Africa suffered from the latter form of concessionaire exploitation. 'British' West Africa which bore the brunt of the slave trade did not, and that was due essentially to the philosophy embedded in British colonial policy in the area. Professor Frankel has described in details the economic and social effects which earlier Imperial policies had on the African colonies.⁴ The central tenets of British colonial policy as it affected West Africa before the last war are well discussed by both Professor Hancock and Alan McHee.⁵ Yet, in general, 'it remains true to say that until the 20th. century, foreign people were attracted to Africa by the spoils of destruction'. The modern inflow of capital, to establish a just and equitable traffic in African raw materials and European manufacturers compensates for the piratical profits of the 17th. and 18th. centuries. Modern inflows ought to be motivated in a practical way with a mission of restitution and reparation. But such a sense of reconstruction, and in other cases of initial construction has never been evidenced by the experience of Tropical Africa in the last seventy years. True, Africa has the largest per capita aid disbursed to any continent in the developing world, but this average conceals a big contrast between the relatively generous disbursement to some 'Francophone' countries like Gabon and Ivory Coast and meagre receipts by other countries.⁶ Tropical Africa contains the largest number of small, resource-starved developing states with the lowest (volume) level either of aid or private investment inflows. Within it are 16 of the 25 poorest nations recently identified by U.N.C.T.A.D. III as needing special financial and economical concessions for their development efforts. It may not be inappropriate

4. Ibid Chapter II.

5. W.H. Hancock:- Survey of British Commonwealth Affairs. Vol.II, Part 2. op.cit and, A. McHee:- Economic Revolution in British West Africa. op.cit.

6. See DAC/OECD:- Development Assistance. 1968,1969 Reviews op.cit for developing countries aid ranking. See also Tables 34,34A,34B and 34C.

to say here that Nigeria, the most populous state in Africa has traditionally received one of the lowest per capita resource transfer in the world. The factors making for this situation are discussed in this and following chapters.

By mid-19th. Century, the subsequent fate of the people of West Africa whether in the later British territories of Nigeria, Gold Coast (Ghana), Sierra-Leone and Gambia, or in the French, Spanish and Portuguese territories, were being shaped by the activities of European traders. The politicians had to wait for another thirty to forty years before they could establish their legal hegemony over the continent of Africa. The groundworks for the politico-economic partition of Africa at the Berlin Congress of 1885 had imperceptibly begun to be laid by the first contact with the Portuguese in the 15th. Century. However, the scramble for Africa which came to a climax at the turn of the last century was a phenomenon largely conditioned by factors and events outside it. Political and military competition in Europe, the desire for imperial expansion, 'for a place in the sun' as an attribute of national greatness began to bear on the hitherto neglected continent. Perhaps more important from an economist's point of view, the effects of widespread industrialisation and rising living standards in Europe manifested themselves in the demand for development of new products and the satisfaction of new wants. Suddenly, the potential wealth of the tropics assumed a new importance. The image of the West Coast in mid-19th. Century as 'pest holes', a 'whiteman's grave', and of an area with little mercantile value was gradually replaced with glowing descriptions of its agricultural and mineral potentials. Before the Great War 'real politik' and raw material needs of Europe swept the coastal spheres of influence and the areas beyond them that were fifty years before treated with the utmost parsimony and contempt, into the world economic and political systems. On the economic rationale for the scramble for Africa, Captain F. Lugard, who was to play an important part in the colonization of Uganda and Nigeria noted in 1893 that it was the 'growing commercial rivalry, which brought home to civilised nations the

vital necessity of securing the only remaining fields for industrial enterprise and expansion ... It is in order to foster the growth of trade of this country and to find an outlet for our manufacturers and our surplus energy that our far-seeing statesmen and commercial men advocate colonial expansion ... I do not believe that these days our national policy is based on motives of philanthropy only'.⁷ Implicit in Lugard's analysis is the fact that tropical Africa was the last place sizeable European capital sought opportunity for profitable use. Africa was late in attracting private capital - as compared with the rest of the Empire and the world, partly because it presented at first, almost insurmountable difficulties to the outsider. Beyond the coastal strip, countless diseases and afflictions like Malaria fever, the tropical climate, the topographical inaccessibility, poverty and economic backwardness of the region shut it to all but the toughest traders. However, within this general lateness and if we ignore the size of the capital involved, we find that the attention of British enterprise was concentrated on the West Coast to a greater degree than elsewhere in the tropics. Unlike East Africa, where British enterprise before the second half of the 19th. Century was unimportant and formed the periphery of the Indian trade, the West Coast has been the scene of European mercantile rivalry ever since that first contact with the Portuguese explorers and traders.⁸ The trans-Saharan trade with North Africa and Mediterranean Europe is even deeper in history than the coastal one, and the strength of the latter was of course emphasised by the slave trade.

Between this early period of informal commercial relation and the turn of the century when de jure political and economic sovereignty was

7. Captain F.D. Lugard:- *The Rise of East African Empire*. Quoted by L. Woolf in his *Empire Commerce: A Study in Economic Imperialism*. London 1968 (ed.) Page 26.

8. See A.F. Newton:- 'British Enterprise in Tropical Africa 1783-1870.' Chapter 18 in *Cambridge History of the British Empire*. Vol. IV, Pages 633 - 676.

established over the length and breadth of West Africa, British traders and merchant seamen had gradually acquired spheres of economic interest - sometimes of **exclusive** economic influence -, linked them to the British economy without the expense of linking them to the British Crown. Even after the politicians and finance capitalists had decided to push the influence of the British Government beyond the settlements on the coast before public opinion was ready to support territorial acquisition that could not immediately pay their way, private enterprise and traders in the form of chartered companies and concessionaires were employed to implement such decisions. British territorial expansion in West Africa was originally and foremost the result of activities of traders and not of soldiers and administrators. The Empire in that part of the world was essentially a traders' Empire.

Nowhere in West Africa had the initiative and influence of traders been more crucial in setting up local British interest than in Nigeria. British Nigeria was, pure and simple the creation of British commerce and British shipping. The old Northern Nigeria, an area of over two hundred thousand square miles was carved up and acquired for the Empire by one chartered company, namely, the Royal Niger Company.

However, in those early days the effects of European Commerce, especially on social and economic development as we know it today, was not exceptionally great. Though they provided the first scope and outlet for Nigeria's participation in international trade with Europe and America, the country had to await the political takeover by Westminster and the arrival of Joe Chamberlain at the Colonial Office before a start in infrastructural development could be made. It was these initial infrastructural build-up of railways, harbours, roads and other communication networks that indeed gave greater impact and weight to the economic influence of the traders' capital in Post-(Great) War years. For reasons that will become clearer in the course of this analysis, the traders were not to be unduly blamed for their initial poor showing. Notwithstanding the fact that Africa represented the bottom of the barrel in terms of international

opportunities for profit-seeking private capital, the difficulties faced by private enterprise in a backward peasant economy were tremendous. The Report of the Committee on Private Enterprise in British Tropical Africa noted 'an incontrovertible fact that private enterprise will not build a development railways in Tropical Africa ... without Government help and concessions in the form of land concession, mineral rights or guaranteed return in Capital.^{8a} Even then, big and powerful companies with commercial, administrative and political privileges - for example the Royal Niger Company were to find the burden of development expenditure almost unbearable without Government assistance. For the territories to develop and the trader's to prosper, it was inevitable that the Imperial Government must step in. In Nigeria, it is instructive to examine the elements of the traders' frontier before 1911, the year the railways first linked Lagos on the coast with Kano on the fringe of the Sahara Desert. The coming of the railways of course, heralded in a big way the initiating role which official capital was to play in infrastructural development.

The abolition of the slave trade and transportation across the Atlantic did not spell the end of European Merchants' Contract with the West Coast. They quickly adapted their expertise to transactions in natural produces which the region could offer. The most important of which were the products of the palm tree. The capital sunk into the new commerce was small in comparison with the old trade. But the personnel were the same. The Liverpool oligarchs who had made piratical profit out of the old trade now dominated the oil trade on the Lagos and Niger Delta coastlines. The emergence of the trade in palm products did an incalculable service in bridging the transitional period between the old days of slave trade and the commercial and industrial relationship of modern times. The commerce did not of course arise out of nowhere. It had merely been over-shadowed by the more lucrative slave trade. But its transitional role was greatly enhanced by the coincidental rise in Europe's

8a. Report of Committee on Private Enterprise in British Tropical Africa. C.M.D. 2016 Jan. 1924.

demand for products of the palm, especially for fuelling and lubricating her multiplying machinery and to feed her soap and margarine factories. From the middle of the 19th. Century, commerce in palm oil was to dominate the export and indeed the economic life of Nigeria for a long period. Even as late as 1920, 65% of her export value was still derived from palm products.

I'm not strictly concerned here with the evolution of the traders' frontier in Nigeria but more specifically with the influence and impact which foreign capital, as represented by traders' capital had on the economic development of the country. But since the evolution of the modern economy of Nigeria was to a far greater degree than usual conditioned by the evolution of foreign capital participation, a certain amount of digression seems inevitable. The history of the evolution has been amply revealed and analysed by Dike, Hancock and Mc Fee.⁹ Perhaps the most important fact to emerge from their analyses, is that the shape of foreign private participation and the characteristics of its enterprise have been laid and developed very much in the early days of 'legitimate' trade, when palm oil was still the king and a decade or two before Nigeria formally became part of the British Empire. Yet these characteristics were to endure for a long time, certainly upto the 1950s,¹⁰ and some elements of them are still prevalent today. The reign of palm oil did mask some important characteristics being developed behind the scene in the Nigerian economy. No longer were the Liverpool Merchants who had been quite content during 1830-1860 to monopolise the trade along the coast having things their own way. The profit level had been so great as to attract multitude of other traders. The arrival of the latter group and their competitive force had the blessing of the Foreign Office which throughout the middle

9. K.O. Dike:- Trade & Politics in the Niger Delta. 1830-1835. Oxford University Press, 1956. W.H. Hancock:- Survey of British Commonwealth Affairs. op.cit and Alan McFee:- Economic Revolution in British West Africa. op.cit.

10. C/F. P.T. Bauer:- West African Trade. op.cit.

decades of the century had deliberately encouraged free trade and expansion against monopoly restriction in the Delta Area and Up River. However, given the enormous overhead cost of the West Coast trade, the appearance of 'interlopers' in carefully-marked and jealously-guarded economic posts and sphere of influence was inevitably to lead to a cut-throat competition in which the survival of the most rugged was never guaranteed. And so emerged the circular causation of wild and 'insane' competition on one hand and ambitious combination and monopolistic practices which were to plague the West African trade for more than a century. It gave to the foreign sector of the Nigerian economy - certainly before the big U.A.C. merger of 1929¹¹, a melting-pot atmosphere, in which multitudes of firms often manned by one or two agents emerged one day, only to disappear the next and yet to be replaced by more traders and miners. The appearance and disappearance of these firms was not entirely due to the severe competition and the high overhead cost. A greater part of their troubles was due to their inadequate grasp of the economic and social environment in which they operate, inadequate capitalisation of their businesses and the highly elastic repercussion in the domestic market to violent fluctuation in the world prices of Nigeria's exports before World War II.¹²

The movement into the interior, especially into the region and Emirates beyond the Niger and Benue Rivers did much to increase Nigeria's participation in the world's commerce; but it engendered repercussions which were of historical importance. While the aggregate volume of trade in the North did increase, especially after the arrival of the railways, the volume in the South before the railways and immediately after it, was not appreciably increased because the effects of establishing outposts in the interior led to dispensing with the services of the Nigerian Middlemen. As we shall see below,¹³ such gradual displacement of the middlemen especially those of the entreports of Calabar, Brass and Bonny on the Niger

11. See below Chapter 8.

12. See W.H. Hancock:- Survey of British Commonwealth Affairs .. op.cit.

13. See Chapter 8, section on critique of foreign private investment.

Delta, who had for centuries been the recognised intermediaries between European traders on the Coast and the people of the hinterland; and the gradual elimination of Nigerian entrepreneurs and incipient traders and of professional and skilled artisans by the competitive forces of European traders and their imported merchandizes, were historical episodes which were to bedevil the Nigerian economic scene with suspicion, accusation and grievances against foreign enterprise.

The initial economic and social impact of moving into the interior, buying from and selling directly to the peasant producers were not without mixed blessing for the African. Gradually uprooted from subsistence agriculture and encouraged to produce cash crops for the world market, they inevitably fell victims of the violent fluctuation in the world demand for their produces. As trade slumped, turmoil generally spreaded in the hinterland. There is evidence to link endemic inter-tribal conflicts of the 1880s and '90s with struggle for control of the trade routes,¹⁴ and for land to cultivate export crops. "The time-honoured bases for exchange, of inter-tribal politics, of the relations between producers and middlemen were upset by the presence of European, by his innovation and by the play of the world market. Instead of spreading peace, commerce seemed to have encouraged unrest and corroded tribal authority ..."¹⁵ On the Niger Delta and its hinterland, the drive and expansion into the interior, especially after the chartering of the Royal Niger Company in 1886, brought with it fiercer competition between the Liverpool palm oil 'ruffians' who in the past had contented themselves to monopolising the trade at the mouth and the company agents and other firms who gradually established upstream.¹⁶

By 1864, there were twenty-one British firms operating in the Delta all ferociously competing against each other, bolstering the buying price of palm oil in Africa even when its selling price was falling in Europe.

14. Ronald Robinson et al:- Africa and the Victorians : The Official Mind of Imperialism. London 1961, Page 39, and Hancock:- Survey of ... op.cit Page 164.

15. R. Robinson, loc. cit.

16. Hancock, op.cit Page 167.

It was inevitable that in time of slump only a few could survive. In the West Coast trade the point was established as early as two decades before the turn of the century that fierce and rugged individualism could not confer prosperity and security to foreign capital, nor a sense of economic and social security to the peasant producers and princely middlemen.

'Liverpool firms of the Delta and the African middlemen who supplied them stirred up tribal resistance against British firms who were tapping the trade at some source up river. The drive into the hinterland threatened to destroy the prosperity and prestige of the Delta chiefs.'¹⁷

By the time of the Berlin Congress, it had become self-evident to all concerned - the British Consuls on the coast, the traders and the native producers - that peace and security was essential if prosperity of the area was to be guaranteed. If the official British policy of encouraging the expansion of British commerce in West Africa to counteract the influence of the slave trade, was to be meaningful and productive, a shelter, a *pax Britannica* must be instituted. Whatever the external factors were that guided official British incursion into Nigeria, the timing, the pattern and type of sovereignty established over it were greatly influenced by economic factors.

I have gone into perhaps undue details about the last point or two, primarily to show that the structure of foreign private capital in Nigeria and the monopolistic/oligopolistic character it fiercely displays (especially after the 1930's Great Depression) in commerce, banking and shipping are deeply rooted in history, and why such practices come to be accepted by all except the African as trading norms on the West Coast.¹⁸ Before the railways revolutionized the export sector of Nigeria and while palm products were still the mainstay of her foreign trade, attempts were being made to reduce her dependence on monoculture and to diversify her export base.

17. R. Robinson et.al. op.cit Page 40. For analysis of the dissension between Lagos and its hinterland after its annexation in 1861, and the unrest and chaos caused by European capital penetration generally, see pages 33 - 42.

18. See Hancock, op.cit; and F. Bauer:- West African Trade. Op.cit.

The vast expanse of the territory, with its varying climatic and social conditions proved to be an advantage. But transport cost precluded any early attempt in the north where conditions favoured the cultivation of groundnut, cotton, beniseed, etc. The attempts were, therefore, initially concentrated in the South, especially in the hinterland of Lagos where as early as mid-19th. Century, Anglican missionaries had established a strong foothold among the Yorubas.

The first departure from monoculture centered on cultivation of rubber and cotton. Especially in the case of the latter the European traders and missionaries did more than merely offering a vent for surplus production. However, the initial competition offered by rubber was only temporary, that is, it existed between 1890 and 1905 when world price was at its peak. Careless exploitation and 'slaughter tapping' of wild rubber trees quickly killed off the trade.¹⁹ The most important effect of such desolation was to energise the authorities into propogating a scientific and controlled approach to rubber cultivation, while the European traders, before the days of the Marketing Board, offered incentives for quality production. Not much would be said about rubber in this study, though it is currently the fourth most important agricultural export. However, it is worth noting some of its perculiarities within the Nigerian agriculture. If the production of other export crops that were developed in the inter-war years were to demand little in the way of technological innovation, the same could not be said of rubber culture. Today it is perhaps the most modern and scientifically orientated agriculture industry in the country, with a biological and technological advancement far in excess of anything known in cocoa, groundnut or palm oil production. Its peasant influence is minimal, production being based on communal, state and private company's exploitation. It is the only raw material production, apart from minor influences in palm oil production, in which private foreign enterprise has some-how managed to establish a foot-hold in plantation cultivation. Even then, this is on a small scale.

19. See W. Arthur Lewis (ed.) Tropical Development 1880-1913. Chpt. 6. by A. Baron Holmes on 'The Gold Coast and Nigeria', Page 156.

'Cotton has been cultivated in West Africa for over a thousand years', but its export to England from West Africa only began in the '50s of the last century at a time when the price of cotton in the world market was rising and the Lancashire cotton industry was feeling the pinch of short supplies. The prime mover in West Africa was a Manchester merchant named Thomas Clegg and the source of his supply was the district of Abeokuta, which lies inland from Lagos.'²⁰ This supply was to some extent a reflection of the 'attempt made by Christian Missionary Society to introduce an export industry to Yorubaland ...'²¹ The supply conditions were also favourably influenced by the activities of Sierra-Leonnians who came to Nigeria originally as middlemen. As ex-slaves from the Southern (U.S.A.) cotton fields, their expertise came to the fore during the early period of development.²² Other factors, internal and external were to affect the cultivation in the Western region. The most important internal factor was the high cost of production, while the external situation was largely determined by what happened to Lancashire's supply from the United States. The American Civil war greatly stimulated production for export, so did the periodic ravages of the Boll-Weevil in the American cotton fields. From the early 1850¹, when the first cotton gins reached Abeokuta, the amount of cotton exported to England grew steadily. In the years 1868-70, Lagos exported an annual average of over 1 million lbs., valued at over \$60,000. This was the high-water mark. After 1870 the United States gradually recovered the ground they lost and as supplies multiplied the price of cotton tumbled. Low yields in the face of low prices inevitably brought about a temporary halt in export in the decade before 1900. The revival did not take long and it was largely conditioned by external stimulus. It was Lancashire's anxiety to reduce its dependence on American

20. Allen McPhee, op.cit. Page 45.

21. See A. Baron Holmes op.cit. Page 159.

22. loc. cit.

supply and diversify its sources into the Empire that again prompted a much more determined revival. And the vehicle was a new institution that was formed in 1902 : The British Cotton Growing Association (B.C.G.A.) represented both employers and employees of England's premier export industry and received a royal charter in 1904. In practise, it was not essentially a profit-orientated association. No interest was paid during the first forty years of its existence. Its primary objective was to produce and funnel Empire Cotton into Lancashire textile mills. In 1914 its authorised capital stood at £2M. and its original efforts were concentrated in West Africa. The full history and role of B.C.G.A. in the development of large-scale cotton cultivations have been told and analysed elsewhere.²³ The most important aspect of its contribution was the much more positive way it tackled the problems it faced in Nigeria over half a century. A flexibility in policy imbued with a far-sighted horizon makes, what in retrospect was an ideal pragmatism looked too radical when compared with the records and experience of other foreign enterprises. The Association soon abandoned its plantation policy in Nigeria and adopted a programme of complete co-operation with native cultivators. It initiated the development and expansion of peasant cultivation, undertook research into the most suitable local species; distributed improved seedlings; established ginneries at central locations; purchased at guaranteed prices and catered for transportation overseas. What was exemplary about its operations was the way it abandoned the various stages of production to the Africans as soon as they proved capable of undertaking them efficiently. By 1920 annual production capacities of the Association ginneries was 7-8M. tons and its promotional efforts were greatly increased by the arrival of the railways in the North where the soil and climatic conditions were more favourable than in the South. It was in the vast and untapped Northern Nigeria that its post - 1930 efforts were concentrated, and they were to bear greater fruit in the post-war years. Without its efforts in guaranteeing stable prices in a fluctuating world market and in bypassing the

23. See J.C. Atkins:- The Story of B.C.G.A. (Manchester 1923); Alan McFhee. op.cit; & Eicher & Liedholm (ed.):- Growth & Development of the Nigerian Economy op.cit Chapter 3.

middlemen who would have depressed prices almost to the point of rendering export cultivation unattractive, cotton growing for local consumption and export could scarcely have survived. The Association's efforts were supplemented since the Twenties by the establishment in Britain of the Empire Cotton Growing Corporation as an institution for the promotion of cotton-growing within the Empire. If the activities of B.C.G.A. were self-motivated, there was no doubt about their mutual beneficial effects. It was this harmonisation of the interests of both recipient and donors - the greater part of B.S.G.A. activities encompassed technical assistance - that was to retain for B.C.G.A. an influence in the economic development of cotton in Nigeria.

Another institution which had left an indelible print on the politico-economic history of Nigeria was the Royal Niger Company - a not-so-ordinary trading company. So much had been written about its origin, its activities and demise, that I shall largely concern myself here with analysing and evaluating the socio-political and economic consequences of its operations. The Royal Niger Company (R.N.C.) was unique in its character; and in terms of Empire-building, it was unique in its success. As a company it existed before the charter in 1886, (as United Africa Company), and when the charter was revoked in 1889, it continued to exist - as the Niger Company. It still exists in Nigeria today, but as part of the huge United Africa Company which itself is a subsidiary of Unilever Ltd., but it was the thirteen years as a chartered company that earned it a place in the political and economic history of Nigeria. If it existed before, during and after those thirteen years as first and foremost a privately-owned profit-seeking trading body, it was in no uncertain terms a great and powerful political and administrative force on the West Coast of Africa. And it was in the latter capacity that it left a greater mark on Nigeria - rather than as a trading company. Looking at it from the angle of Nigeria's economic development, the company's record was not particularly outstanding. Indeed, it provided ample grounds for criticism. Apart from expanding and diverting the huge northern surplus output towards the coast and the European

market, its commercial activities followed the familiar pattern of the struggling and frequently combining small-size European firms, and exploiting to the full, its de facto, if illegal monopoly power in its territory and beyond. The capital at its disposal, both for trading and for its administrative department was certainly small by today's standard, or in terms of the size of territory it opened up. At its inception as a chartered company, it had a subscribed capital of about £1M., even this was reduced to about a third after it lost its charter in 1899. However, its trading position continued to be strong and steady for it to be valued at £8.5M. when taken-over by the Lever Brothers in 1920. How the R.N.C. came to decide the fate of over 10M. people in an area of over 370,000 sq. miles in West Africa was due to the work, the determination and persistency of one man - Sir George Tubman Goldie. He created the R.N.C. He particularly fought for the granting of a royal charter, using all his diplomatic skill and business connections to persuade the Colonial Office about the soundness of his proposals. His motives were a mixture of politics and economics and his company's activities thoroughly reflected both. Some writers notably Professor S.H. Frankel, have emphasised the political and patriotic objectives of founders of chartered companies in Africa.²⁴ However, in the case of R.N.C., I believe that the desire to establish and expand the Empire in the hinterland of the Niger - Benue rivers was a politically and administratively necessary means of establishing and maintaining a commercial hegemony. For this reason it bitterly resisted to the end the attempt to withdraw its charter even after Goldie's political objective had been achieved. Apart from the political interests of the nation being served, the company also saw its commercial success as being in the nation's economic interest. The aforementioned quotation from Frederick Lugard, an important crown servant in Nigeria and previously a company's agent, clearly demonstrates this point. The company's argument could be put simply thus:- to put trade into the hinterland of the

24. See S.H. Frankel:- Capital Investment in Africa. op cit Chapters I & II.

Niger would increase British commerce. It would open the way to the vast markets of the Emirates. It would extend the region of informal influence. Moreover, by attacking slave-raiding, -trading and -holding at its source, it would fulfil the thesis of the anti-slavery interests and Lord Palmerston's policy towards Africa.²⁵ A trader's pax would stabilise the trading environment, ensure reasonable profits and serve as well the true interest of the African producers. Commerce, law and order, and philanthropy would advance hand in hand. Unlike the British South Africa Company, the British East Africa Company and the British North Borneo Company that were chartered in the same decade, the Royal Niger Company was supported by the British Government because in effect it was a convenient instrument during the transition period between the abandonment of the old, and the not yet wholehearted acceptance of the new colonial policy of forward expansion and assumption of permanent responsibilities in the interior of Africa. Official capital was also not forthcoming. For example, the company was forbidden to expand more than 190,000 on governing or administering its territory. There were two inter-related factors for the last proviso. First it implied a recognition by the Imperial Government of its ultimate, if long-term responsibilities for the financial cost of administering the new territory. Secondly, it was necessary to counteract the company's argument that a steady flow of 'monopoly profits' was needed from its trading department to subsidize its administrative department.

The company's desire for non-competition - to keep interlopers who did not have to bear the enormous overhead cost away from its chartered territory, and the exhibition of what amounted to capitalist high-handedness soon brought it into conflict with the Imperial authority early in its chartered life. As R.B. Koebner, an opponent of the Imperialism thesis conceded, "the commercial monopoly which had been planned by Goldie in

25. See Roland Robinson et al:- Africa and the Victorians
op cit, Pages 39 - 41.

in his treaties with the native chieftan but was decidedly rejected by Salisbury (Prime Minister) was carried into effect by his managers. Salisbury took offence and authorised the enquiry of 1889. Sir Claude Macdonald reported that the manner in which the company directed the channels of local commerce was to the unqualified detriment of native traders, and it robbed of their markets, those of the Western Niger, direct subjects of the Crown. Nevertheless, the Government did not take any action. It swallowed also the injunction of the company on its servants not to make public, any facts concerning the administration and business of the company."²⁶ The last point was important in another respect; for it set a precedent which was to become an important feature of foreign investment in Nigeria, namely that the facts and figures relating to their operations were kept from official and public gaze to an unusual degree, even into the 1950's.

In the field, the conflict with, and resentment from other European rivals and the native traders was more ferocious and protracted. It culminated in the looting and sacking of the company's station at Akassa in 1895 by the native traders of Brass. This sensational reprisal (like many others unrecorded) was investigated again by a Commission of Inquiry and "played some part in convincing the Imperial Authority that chartered company government could no longer be tolerated."²⁷ As to the fact of the monopoly there is no uncertainty. In the Revenue and Expenditure account of 1887, the revenue accruing from the imports and exports of the chartered company was £38,485 and from those of other traders £2,333, whereas in the corresponding account for 1898 the figures were respectively £111,775 and £260."²⁸ The above analysis underlines the fundamental economic reason for the temporary nature of the task of a chartered company. Having succeeded with relatively small financial means in obtaining political

26. R.B. Koebner:- 'The Concept of Economic Imperialism' in The Economic History Review 2nd. Series, Vol. II No. 1 1949, Pages 11 - 12.

27. Hancock op.cit. Page 168.

28. A. McIlhee. op.cit. Page 80.

and economic control over enormous new territory, it was unable, as a private enterprise to continue indefinitely in raising capital for long-term investment in developing its vast territory. It had sought to overcome this problem by planning for immediate flows of high returns which could be ploughed back for expansion. As we've seen, this policy was to lay the foundation for the company's demise as a chartered company, but it was R.N.C.'s political and administrative involvements comparable to those of Cecil Rhodes' British South Africa Company that was to determine its fate. Its success in creating a vast British territory with defence problems and frontier disputes with foreign powers necessitated a direct Imperial takeover. The immediate cause for British Government revocation of its charter was the threat of French military incursions into its established territory, and the company was too weak financially and unco-operative with Whitehall to resist such incursion. The setting up, at the expense of the Imperial Government of the West African Frontier Force in July 1897, was only a holding operation. By November of the same year, Lord Salisbury and Joseph Chamberlain, had agreed in principle with the French, that the Charter should be revoked and the company compensated. It is not difficult to discern other more fundamental and prosaic factors leading to the inevitability of the revocation. We've seen above, the economic causes. In essence it was the incompatibility between Government by a trading firm and free trade as stipulated by the Berlin Conference. On the political plane, the scramble for Africa had taken a new dimension and public opinion in Britain was no longer averse to imperial expansion. Joe Chamberlain had arrived at the colonial office in 1895 and in his view the company had outlived its usefulness. It was not a suitable instrument of his plan for investing Imperial capital in West African 'colonial estates'. "Chamberlain thought it was time to expropriate Goldie, lock stock and barrel ..."²⁹ On January 1st. 1900, the British Protectorate of Northern Nigeria was declared over the chartered territory.

29. Roland Robinson et al.: - Africa & the Victorians op.cit. Page 405.

Alan McPhee³⁰ has analysed in some details the impact on Nigeria of the policies and activities of the Royal Niger Company. Two factors that had subsequently influenced the economic and socio-political structures in the country worth brief consideration here. The economic point is this; the thin distinction between government and commerce, politics and economics, and between state and private sectors in the days of a chartered company's government established a tradition which thenceforth, was to emphasise state's participation in the economic activities of the country. That the Government must be the hub of the nation's economic life was a legacy bequeathed by the Royal Niger Company, long before the days of national planning or of 'African socialism'.

The other factor, the political and administrative legacy of 'indirect rule' has been well expounded upon by other writers.³¹ In the words of George Goldie, "if the welfare of the native races is to be considered, if dangerous revolts are to be obviated, the general policy of ruling on African principles through native rulers must be followed for the present."³² Frederick Lugard, first as governor of Northern Nigeria, and of the whole country in 1914 carried the principle to its perfection under his administration, and his successors did not flinch from following his example. Alan McPhee provided the rationale:- "The reason for the acceptance of the principle from the company and its continuance under the Colonial Office regime is that the factors making for Indirect Rule still remain : the shortage of funds necessary to establish Direct Rule, the Civilisation of the natives, the ability of the rulers, the diversity of languages, and the gulf fixed by varying ideas and ideals between the natives and the English ... what was at first perhaps somewhat of a measure of expediency has now become a deep-rooted conviction that the principle of Indirect Rule is the best for West Africa."³² However, advantageous the administra-

30. A. McPhee. op.cit. Pages 90 - 105.

31. See especially M. Perham:- Native Administration in Africa and her biographical works on Lord F. Lugard.

32. A. McPhee. op.cit. Page 92.

tive convenience and other virtues of Indirect Rule, it is my opinion that it had bred over the years an element of conservatism which Nigeria even today has found difficult to shake off. By maintaining in the forefront of political and social life feudal rulers and native aristocrats least desirous of change, the absence of dynamism had permeated all aspects of national life. It certainly makes a radical approach to economic problems all that more difficult.

OFFICIAL CAPITAL. In Nigeria, like in the rest of 'British West Africa, the coming of official capital proceeded de jure Imperial take-over. This was not surprising since it took the form of Treasury's subsidy to trading companies, church missions and other Empire-building institutions for the purpose of maintaining and expanding often discretely, British influence and sphere of control in the area. Even after formal sovereignty had been declared, the greater part of 'grants-in-aid', 'loans' and other non-financial assistance to the colonies were in effect resources to establish effective political and economic control and later, to lubricate the administrative and economic machinery. This certainly was the way early resources transfers were seen by the colonial people and in the case of Nigeria, not until the Projects and Schemes undertaken under the Post-war Colonial Development and Welfare Acts, was the emphasis seen to be increasingly placed on development rather than on administrative needs. The theme of official capital for development is not so straightforward. A clear-cut distinction can hardly be made between infrastructure expenditures for administrative convenience and for development purposes. In practise, such expenditures were made with a view to fulfil both objectives. Our academic interest is to establish where the emphasis or priority laid. In Nigeria, large sums of capital were raised abroad by the Government to construct the railway network. In such a vast country the construction was an administrative necessity, but its economic impact was spectacular, and in the long run of greater significance. In Africa as elsewhere in the developing continents,

the part played by the state in transport development (especially railway construction) was not inconsequential. As the Report of the Committee on Private Enterprise in British Tropical Africa noted, the earlier railways were constructed under conditions of 'extreme administrative urgency. Except in Nyazaland the whole railways in British territories were built by the State, and in many cases the railways were constructed in the first instance for administrative convenience as much as for commercial advantage'.³³ They were built by 'departmental construction', that is by Government departments rather than by private capital - Partly for the reasons stated before. "Nor would a private venture have received very much cordial (official) support, since the reaction from Laissez-faire had begun, and it was being advocated to the 1890s that railways should belong to the state."³⁴

The point I have been trying to establish and emphasise here is the fact that most of the official estimates of colonial financial assistance or grants-in-aid contained a large element of self-interest expenditures whose 'aid' connotation would certainly be questioned under today's critical standards. For example, between 1897 and 1901, the Imperial Government paid £611,000 for the establishment and maintenance of the West African Frontier Force. The bulk of the £4,872,000 'assistance' given to Northern Nigeria between 1900 and 1918 was expended on the same force, but the Frontier Force was a British creation entrusted with the task of defending British territorial acquisition (and planned acquisition) against French incursion. The figures for financial assistance during the entire length of the period under study must, therefore, be treated with some caution. The economic impact of such 'aid' deserves similar circumspection.

33. Report of the Committee on Private Enterprise in British Tropical Africa. Cmd. 2016 Jan. 1924 Page 6.

34. A. McPhee. op.cit Page 111. For a detailed analysis of the controversy over the high cost of construction by Government department, and the factors making for the exclusion of private enterprise. See Report (F/N. 33).

Having said that, I must now look into the evolutionary process of official assistance and capital supply. If the Imperial Government was faced with a large heritage of grants-in-aid with the assumption of direct sovereignty in British West Africa, it was not a duty the Exchequer was prepared to discharge indefinitely. It may be correct to assert that not until during the Post-war era, certainly not before 1929, was generous assistance, 'hand-out' grants and other 'soft' transfers.³⁵ given to the colonies other than for the consolidation of the colonial administration, for fighting wars, or as emergency help to those in distress after natural and/or economic disasters. From mid-19th. Century till the arrival of Joseph Chamberlain at the Colonial Office in 1895, British economic and financial policy to her dependencies in West Africa (and elsewhere) was based on a principle enunciated by Earl Grey, a prominent member of Lord John Russell's Government. He laid down that "the surest test of the soundness of measures for the improvement of an uncivilised people, is that they should be self-sufficing."³⁶ This principle reigned supreme, though it was occasionally punctuated by the need to give assistance under the special conditions mentioned above. "Whenever trade slumped and diminished the Custom receipts, whenever native wars caused increased expense to the administration as in the case of the Ashanti Wars, a deficit resulted which had to be met by the Imperial Government."³⁷ But the aim of each Colonial Treasurer was to balance, or generate a surplus in the Colonial Budget. As that was regularly achieved and the tax base continuously improved, the element of grants in aid of local revenue was gradually withdrawn or replaced by loan commitment. Though some disbursements continued to be made under the headings of 'grants-in-aid' they were effectively loans to be repaid. Thus the Crown Colony of Lagos borrowed £20,000 in 1874 and repaid the loan two years later.

35. See below Chapter 7.

36. Quoted in A. McPhee *op.cit.* Page 208.

37. *ibid* Page 211.

The chief drawback to Lord Grey's dogma was the obvious fact that if applied rigorously, it was possible for a poor economy to be chained indefinitely to a vicious circle of poverty. In other words, a successful measure was quite compatible with what modern economists would understand as a low-level equilibrium trap. The fallacy in Lord Grey's assertion was not unknown to mid-Victorian economists and was challenged by among others, Professor Alfred Marshall³⁸. But Grey was merely articulating, if with an unsound premise, the observation noted earlier, namely that the mid-Victorian public opinion was against entanglement in colonies that could not pay their way. This was the prevailing attitude at the time Chamberlain transferred his energies from solving the problems of Birmingham to those of the Colonial Office. The fundamentals of Chamberlain's indelible imprint on Imperial economic and financial policy towards the colonies were born out of a vigorous campaign in and out of Parliament against the application of Grey's criterion, and the enunciation of a new policy of 'constructive Imperialism'. "He was the first statesman to realise that the task of developing the economic possibilities of Africa was so vast, that it could no longer be left in its entirety to private enterprise (like R.N.C.) and to the spontaneous advance of the trader's frontier."³⁹ In his speech on the Colonial Office Estimates of 1895, Chamberlain said at some length:- "I regard many of our colonies as being in the conditions of underdeveloped estates and estates which can never been developed without Imperial assistance, ... cases have already come to my knowledge of colonies which have been British colonies perhaps for more than a hundred years in which upto the present time British rule has done absolutely nothing ... I shall be prepared ... to confidently submit to the House any case which may occur, in which by the judicious investment of British money these estates ... may be developed for the benefit of their own population and for the benefit of the greater population which is outside."⁴⁰ Some important implications emerge from the quotation:- First, Chamberlain asserted that laissez-faire and the principle of self-sufficing have not

38. Ibid. Page 248. F/R. 5.

39. W.A. Hancock. op.cit. page 168.

40. Hansard, August 22nd. 1895, quoted in Machee op.cit. Page 19.

led to progress and prosperity in some of the colonies. Secondly, that the chain of poverty could be broken only by the injection of Imperial or external capital into these colonies for a long-term development programme. Thirdly, for the first time the question of colonial financial support was raised beyond the narrow confines of balancing occasional budget deficits, into the realm of constructive growth. Deliberate economic development in which the state had a major role to play, as opposed to free market manipulation became the watchword of Chamberlain's crusade.

Chamberlain's contribution lay in the radical departure of his proposals from current attitudes and thoughts of fellow parliamentarians and 'finance-capitalists.' In theory he propounded a strong amendment to the standard of judgement as set by Earl Grey and in practise, he initiated a drive for railway and public works construction under the management and ownership of the colonial government and with the financial backing of the Imperial authority.⁴¹ In the case of the Crown colonies in West Africa and the West Indies, he had to summon all his ingenuities to extract from an unwilling parliament such Imperial guarantees of loans as were necessary.⁴² After 1895 and as a result of Chamberlain's efforts, capital and thought were bestowed on the 'undeveloped estates' in a measure never known before. Naturally, these 'estates' began to demonstrate that they were good investments. "Instead of grants-in-aid being grudgingly given, loans were raised and expended productively in British West Africa and the resultant increase in commerce and native prosperity permitted revenue to expand ten, twenty, fifty and one hundred fold."⁴³ Without such capitalization of their economic prospects the colonies in West Africa would not have developed economically. In other words, if the Imperial Government had continued to enforce Lord Grey's policy in its most restrictive form, the former colonies would today have remained in backwood conditions.

41. W.H. Hancock, op.cit. Page 169

42. See Ronald Robinson et al:- Africa & the Mid-Victorians : The Official Mind of Imperialism. op.cit. Page 401

43. Mc Phee op.cit. Page 225.

We will recall , the conditions were favourable for the execution of Chamberlain's policy. His call for development of the 'tropical African estates' was the product of a period in which the necessary capital were becoming more abundant. Secondly, by the late 1890s the West African colonies' tax and revenue bases were firmly established and consolidated. Thus they gradually reached a position whereby they could generate surplus for servicing intended loans from the London Capital Market at commercial rates or from the Imperial Treasury on 'medium' terms. Thirdly, the demand for their raw material products by a rapidly industrialising Europe and North America was growing by leaps and bounds. Finally, the political scramble for 'places in the sun' and the acceptance by public opinion of imperial expansion helped to increase support and reduce opposition to his policy.

With the benefit of hindsight, it is not difficult to discern some limitations to Chamberlain's achievements in the field of colonial finance. Three inter-related points would suffice. First, he did not press for, or succeed in getting the supply of increased grants and grant-like resources transferred to the colonies. Their collective need to lay the rudiments of their transport infrastructure at the cheapest possible costs was not fully appreciated. Thus, they were saddled in the inter-war years with servicing charges the proportion of which were very much larger than those they face today. Secondly, though initially under the Colonial Loans Acts, Chamberlain advanced government money at moderate rate of interest, that is at 1-2% below market rates, the general emphasis was on commercialism; commercial criteria for evaluating investment expenditures, hence exclusive priority to 'productive' and 'self-balancing' projects, commercial interest rates on capital subsequently raised on the London Money Market, especially after the Great War; and the commercial conditions to be satisfied before a colony could borrow. That is, it must be in a position to pay the interest on the projected loan out of existing revenue.

14. See below and Chapter 7.

Thirdly, from the African point of view, the need to develop their resources for their own benefits as well as for those of the Imperial State smacks very much of exploitation in which their own interests would be relegated behind those of 'the greater population which is outside.'⁴⁵ It was not surprising, therefore, to find that some of the men who succeeded Chamberlain used the last point to turn his development policy into an exploitation policy.⁴⁶ Possible restriction to the colonies' interests was still evident in the Colonial Development Act of 1929 (the next major enactment in this field after the Colonial Loans Acts), which required that expenditures from the Colonial Development Fund should aid and develop agriculture and industry in the colonies and thereby promote 'commerce with/or industry in the United Kingdom.'⁴⁷ The effects of these limitations, the general weight of tradition in colonial thinking, and the laissez-faire economic philosophy of the period, all combined to reduce Chamberlain's contribution to colonial economics. One could liken his influence to a brief breeze rather than a passing blizzard of change.

I now turn to available statistics on official flow for the period covered by the chapter. First, let us consider GRANTS-IN-AID and similar disbursements. The cautionary note sounded earlier on the blurred distinction between grants and loans applied very much during this period for disbursement to Nigeria.⁴⁸ Professor S. H. Frankel estimated the disbursement to the whole of Nigeria between 1870 and 1935 to be only £5,737,000.⁴⁹ This included £865,000 paid to the Niger Company as part of the

45. See F/N. 40.

46. C/F. Hancock op.cit. Pages 168 - 1969

47. C/F. O.D.I.: - British Aid 5 : Colonial Development. op.cit.

48. C/F. S.H. Frankel: - Capital Investment in Africa. op.cit. Page 171 F/N. (f).

49. ibid Table 33 Page 171.

settlement terms on revocation of its charter in 1899.⁵⁰ It included also, a large element of the subsidy given for the maintenance of the West African Frontier Force. Because the North was late in developing its tax base relative to the South, the bulk of the grants before the Great War was given to Northern Nigeria. The whole territory received grants totalling £323,455 from the Colonial Development Fund during the operation of the 1929 Act.⁵¹ If we assume that about half of the latter fund had been disbursed by 1935, and the table of annual disbursements roughly supports this,⁵² an addition of nearly £162,000 to Frankel's estimate still gives a figure of less than £6m. for the period 1867-1940. This was not a sizeable help from the Mother country to an underdeveloped country whose population had grown to nearly 20 million by 1925. A meaningful appraisal would emerge if we look at the disbursement in the context of similar help given to other colonies. Between 1870 and 1935, the British Colonies in Africa received nearly £30m. as grants-in-aid. Nigeria was clearly one of the largest recipients. The total disbursed to all British territories was just over £52m. If the purpose of grants-in-aid was to subsidise local administration until enough local revenue could be raised to pay for recurrent expenditures, it could, therefore, be argued that the smallness of the grant level was a reflection of the success with which the colonies quickly achieved financial independence. Again it could reflect a willingness to be less generous as a means of creating pressure on colonial treasuries to gather more taxes. However,

50. For details of the compensation arrangement worked out between Chamberlain and Goldie, see A. McHee:- *The Economic Revolution In West Africa* op.cit. Page 87

51. A.W. Pim:- 'Public Finance' Ch. 5 in M. Perham (ed.) *Mining, Commerce ..* op.cit. Page 244.

52. See G. Helleiner:- *Peasant Agric., Growth & Econ. Growth in Nigeria.* op.cit. table 54, Page 227 for figures given in the Reports of the Accountant-General.

if we look at these early disbursements in the context of development needs and the critical role 'soft' aid plays in development expenditures, we cannot but conclude that today's scale of development assistance would have been much reduced had more generous attitudes prevailed in the Imperial capitals before the war. This is even more so, in view of the limited borrowing potentials of these territories during the period under study.⁵³

Assistance to all the colonies from the Colonial Development Fund during the period 1929 to 1940 was nearly £9M. or 10-15 shillings per capita. African countries received only modest amounts, averaging about 4 shillings per capita.⁵⁴ Nigeria's receipt worked out at 4 pence per head of population and represented one of the lowest. As we shall see below, Nigeria's experience from these early disbursements was to set a precedent for low official support from abroad, especially when related to her size and population.

The money received from the Fund was spent on communication development and some health improvement. £114,450 was given to defray the servicing cost of sections of the railway network. £51,000 went towards the cost of organising the local ground facilities for the air services. Among the 'directly non-productive' expenditures, a boost of £95,000 was given to the scheme for controlling sleeping-sickness. In a period when the railway was revolutionising the economic activities of the peasant farmer, little grant was available for agriculture, the mainstay of the economy. "So far as the economic and social services are concerned .. Nigeria has received little from this source apart from the grant in connection with the sleeping-sickness."⁵⁵ Hard hit was education on which the Government was meeting no more than 10% of the total cost. Out of a total Government expenditure of £5,757,180 in 1935, only £229,057 was spent

53. C/F. Frankel op.cit. Page 172

54. C.D.I.:— British Aid 5 : Colonial Development. op.cit. Table 1, Page 28.

55. Alan Fin:— 'Public Finance, Ch.5 in M.Perham (ed.) Mining, Commerce ... op.cit. Page 244

on education. This represented £1.1s.2d. per head of children in school and therefore, one of the lowest in British West Africa. Gold Coast (Ghana) was spending about £3.10s.0d.⁵⁶ The bulk of the remaining 90% was being supplied by European Church Missions. During the period it is interesting to note that nearly £3M P.A. was being spent on European staff to run the Country.

OFFICIAL LOANS. Official or public capital inflow here refers to the capital raised abroad by the local administration from either Imperial Government or private sources. The burden of servicing such capital becomes the responsibility of the State. Before going into details about loans, it may be appropriate here to make an observation. There is some inconsistency between the data available as to whether the disbursements from C.D.F. which I analysed above were real grants or that the grant tag was merely a disguise to conceal loans that must be repaid. Fin⁵⁷ and C.D.I.⁵⁸ classify them as free grants whereas Table 28, column 4 of tables attached to Chapter 6 by F.A. Bower in A. Leatham (ed.) Mining, Commerce and Finance in Nigeria, is supposed to represent the inter-war years annual 'repayment of colonial Development Fund Loans'. Since the former evidence implied that no loans were made to Nigeria's from the Colonial Development Fund (C.D.F.),⁵⁹ the likeliest explanation for Bower's repayment figures, which incidentally, totalled over £187,000 between 1930 - 1938, would be that they represent the annual repayment of the 1887 Niger Government Debt.⁶⁰

56. Extracted from Lord Hailey:- African Survey, 19th. Edition, Page 1309, Table XI.

57. See above F/N. 55.

58. See above F/N. 54.

59. C/F. The cautionary note sounded on this point earlier in the chapter.

60. See Table 20.

Table 20 shows in details the bulk of the loans raised in London by Nigeria during the period. The practise of raising substantial foreign loan was the outcome of Chamberlain's policy who had, within a year of taking office, encouraged the start of the Lagos and Sierra-Leone railways. As the table explains, the bulk of the loans was essentially for developing the communication networks, especially the railways, roads, bridges and harbours. The legislative vehicle through which the loans were raised was twofold. The Colonial Loans Act of 1899 (and subsequent years) gave authority to the Imperial Treasury to advance capital at moderate rates to suitable colonies. The Colonial Stocks Acts allowed the Crown Agents to inscribe stocks on behalf of the colonies and it gave such bonds the status of gilt-edged trustee securities with ultimate Imperial responsibility. Without this Imperial guarantee the capital would have been difficult to raise. However, as we shall see presently, the condition required of the colonies by the Imperial Government for this support turned out to be unnecessarily restrictive. Nigeria's experience did not differ much from those of her neighbouring sister colonies in West Africa, except that, being bigger and more populous, she borrowed on a larger scale. Before the two parts, Northern Nigeria and Southern Nigeria were amalgamated in 1914, the differing nature of their capital expenditures necessitated a differing approach to capital-raising. Southern Nigeria secured the bulk of her capital for railway construction from the commercial market and unlike the North which was then concentrating on administrative expansion she made little use of Treasury loans. Even then the greaterpart of Nigeria's loans (like the rest of Tropical Africa) was raised after the Great War when interest rates in the London Capital Market had increased appreciably relative to the pre-war period. Before the war, the average effective interest rate on Nigeria's debt was 3.84%, but the average for the capital raised between 1919 and 1936 was 5.17%. This fact represents the first characteristic of the capital raised by Nigeria during the period, namely the interests on the bulk of her loans were high when compared with servicing burden of the rest of the Empire outside Africa

or with the Union of South Africa. Professor Frankel has discussed in some details the disadvantageous position of the tropical African colonies in this respect. "It was during the earlier (pre-war) period that the Cape, Natal and other South African States were able to borrow extensively from abroad at low interest rates and could, therefore, undertake considerable development. The other African territories entered the world economy later, and were not able to borrow as cheaply. Their economic expansion was thus greatly curtailed."⁶¹ "An official Government calculation in 1939 gave 4.69% as the average rate (on Nigeria's Debt) and calculated at the same time that the total overseas interest bill of Nigeria absorbed one-quarter of the total revenue."⁶² I shall return to a detailed look at the points raised by the latter part of the last quotation. First a detailed look at Table 20. There were essentially two sources of loanable capital available to Nigeria, but the disbursement from the Exchequer was in absolute terms insignificant. An appropriate inference must be that for Nigeria, official backing of her capital requirements from the private market was more important to her than supply emanating from that source. Column 2 shows that by and large, loans were raised regularly at 3-4 years intervals. Cyclical fluctuations in world economic activities did not seem to have influenced directly the regularity of Government borrowing, though they greatly affected the external and internal trade and the flow of private foreign capital.⁶³ In theory however, fluctuation in export and imports and therefore in custom revenue was expected to influence greatly the Government's capacity to raise capital and also the size of the capital raised.⁶⁴ Few of the loans were raised as short-term debentures and in any case they were quickly redeemed by long-term fixed interest bearing bonds. The average maturity period for the long-term loans was over 25 years, but in view of the relative high interest rates the overall terms

61. S.H. Frankel:- Capital Investment in Africa. op.cit.

62. W.H. Hancock. op.cit. Page 169, F/N. 2. See also Table 21.

63. C/F. Frankel op.cit. Page 191.

64. See below Pages 324-325 and F/N. 84.

were thereby not appreciably 'softened'. Table 20 shows that the total cumulative capital actually realised between 1874 and 1935 amounted to £41,744,014. Since no further loan was raised before the outbreak of war in 1939, this figure represents the overall amount of external loan available to Nigeria before the operation of the Colonial Development and Welfare (C.D. & W.) Acts. The floatation cost over the period amounted to nearly £2½M - a high cost relative to the capital involved. What's more the £41M figure actually represents the amount of money that had been turned-over through borrowing to repay or service previous debts and not the 'effective' amount that Nigeria productively employed. Of the £41,744,014 realised, £16,072,203 was employed to redeem previous debts, leaving only £25,671,811 for effective investment over the period 1874-1940.⁶⁵ This fact, that a large part of the loans raised by Nigeria (about 38%) was essentially for turning-over and servicing previous loans raises some interesting points. Not only was such a large sum intrinsically unproductive from Nigeria's point of view, it also showed how unwise was the proviso that Nigeria (like other colonies) must have adequate surplus to service

65. C/F. A.W. Pim:- 'Public Finance' in M. Perham (ed.) op.cit. Page 255 and S.H. Frankel op.cit. Table 33 Page 171. Professor Frankel estimates the total 'public listed capital' disbursed to Nigeria between 1870 and 1935 to be £34,721,000, of which £28,813,000 was raised by loans. The £3M odd discrepancy between his figure and mine might be due to Frankel's unawareness at the time of writing his book that the 1935 loan was to be used purely for conversion purposes. He had otherwise excluded conversion capital from his estimates of Government capital.

a prospective loan before such loan could be raised. This condition would have been prudent in other circumstances - after all, Nigeria's export earnings were subject to regular fluctuation from one year to another such as to make servicing default theoretically possible. Furthermore, the outflow of investment income and amortisation bore a high proportion to Government's revenue. However, since in practice Nigeria was able to turn-over her debts by raising further loans to service previous ones, rather than pay for them exclusively from current revenues, the proviso in effect became inoperative for its original purpose. It succeeded however as a symbol of judicious financial management in maintaining investors confidence in colonial stocks. Because it was officially adhered to, it reduced the capacity of Nigeria to borrow extensively. Had the colony not been able to avoid the immediate problem of service disbursements through further borrowing, it would undoubtedly have been a more relevant condition.⁶⁶ As it turned out, its effect was to limit Nigeria to an amount that for development purposes was grossly inadequate. The inference is that it acted as a check to development. This inadequacy of Nigeria's borrowing activity was noticed as early as 1926 by the then Junior Minister in the Colonial Office when he toured West Africa. In calling for a less rigid and restrictive attitude from the local administration, he compared the low foreign public debt of Nigeria (£1 per capita) with those of similar colonies (Gold Coast £5.12s.8d., Ceylon £2.17s.6d.) He also drew attention to the "rapidly advancing development of the territory" for which "further loan would be required, and provided a substantial cash reserve is retained, I feel that there would be no anxiety about undertaking such fresh capital commitments."⁶⁷ As the table shows the Minister's hopeful call did not produce much results.

I now turn to a slightly detailed analysis of the ways the 'real' loan of nearly £26M was expended. The first point to bear in mind is the

66. C/F. Report of the Hon. W.G.A. Ormsby-Gore, on his visit to West Africa. Cmd 2744 1926 Page 131.

67. Loc cit.

fact that the full amount of each loan was not transferred into the colony in the year in which it was raised, but trickled in by small instalments. For example, the disbursement of the 1923 and 1930 loans flowed into Nigeria in a period covering more than a decade.⁶⁸ However, there was no doubt about the need for and the successful contribution of loan expenditure to Nigeria's economic growth during the inter-war years. A chief feature of external capital usage in the first half of this century was that the scope for expenditure out of borrowed funds was narrowed almost exclusively to directly productive, commercially-viable infrastructural projects. The minimum condition was that such schemes, projects and spending departments must be 'self-balancing', that is, they must within a short time be able to generate income commensurate with their costs or expenditures. This condition again, was the product of the economic and social philosophy of the period, and as with grants-in-aids, 'directly non-productive' and/or long-gestation social and economic infrastructural development was consequently not catered for out of the highly expensive loan funds. Since the Government saw its role in the agricultural field essentially as a provider of research, advice and administrative services, the value of which could not be easily quantified, this directly productive backbone of the economy was scarcely assisted out of loan funds except indirectly through the provision of transport and communication networks. On the other hand, it must be also pointed out that no commercial loan was raised for administrative purposes. In this respect, Nigeria differs in the inter-war years from other colonies like Kenya and Northern Rhodesia (Zambia) where administration, public buildings and other 'directly unproductive' expenditures accounted for a fair size of their loan usage.⁶⁹ Another notable feature of the period was that capital expenditures out of loan funds together with investment in fixed assets by foreign private firms in commerce, banking and mining formed the bulk of gross capital formation in the 'modern' sector of the economy. The precise size of this contrib-

68. C/F. M. Perham (ed) *Mining, Commerce & Finance in Nigeria. op.cit.* Tables 36 & 37.

69. A. Pim:- *Public Finance in ibid.* Page 255-256.

ution is not known since the classification of Government expenditures at the time was on departmental basis and no distinction was drawn between what amounts were for recurrent and investment expenditures. As a proportion of aggregate capital expenditure it was almost certainly higher than any thing accomplished today by foreign aid and non-oil foreign private enterprise's contribution.⁷⁰

Of the nearly £25.5M raised for direct income-yielding infrastructural projects during the period, electrical, postal, water supply and sewage schemes took nearly £2M, ports, harbours and other marine projects absorbed £4.7M, roads and bridges accounted for £1.7M, and more than £17M went to the construction of the railway network. I shall expand on the last item. The railway construction in Nigeria incurred the heaviest capital expenditure of any Crown colony railway. If we add the cost of raising the railway loans to the above realised amount, we find that 'total capital expenditure stood at £22,950,846 at 31st. March 1936, on which the annual interest charges had reached £1,048,729, or the very large proportion of 53% of the gross receipts of the railway and its auxiliary undertakings.'⁷¹ In spite of the heavy costs and charges, the railway along with other transport undertakings was essential in many respects for the opening up of such a vast territory as Nigeria.⁷² The main line started in 1896 from the costal terminus at Lagos and reached the great commercial centre of Kano on the fringe of Sahara Desert in 1911. The infrastructural development of the country was of course not solely financed out of loan fund. For example the construction of part of the Northern Line was financed from funds advanced by the relatively wealthier Southern Nigeria in the days before amalgamation. Furthermore, the Eastern region railway and Port Harcourt terminus were built at a cost of £2M, entirely financed out of local revenue and reserves.

"The motives for railway building in Nigeria have been economic, administrative and humanitarian. The success of the policy in every way

70. See below Chapters 7 & 8.

71. S.H. Frankel op.cit. Page 393

72. See A. McPhee op.cit. Pages 110-115

has been phenomenal. The export trade in tin, coal, cotton and ground-nut is the creation of the railways, while the export figures of palm oil and palm kernels, cocoa and hides could not be what they are today apart from the railways.⁷³ Northern Nigeria exported a total of 995 tons of ground-nut in 1910. After the arrival of the railways at Kano, the export figure jumped to 19,288 tons in 1912, 78,000 tons in 1924 and 127,000 tons in 1925. 'This remarkable development is almost entirely due to the railways.'⁷⁴ The extension to the Bauchi Tin Fields enormously reduced the cost of transporting ore to the coast for export, thereby giving stimulus to expanded production. Railway and road expansion combined to give a great boost to cocoa production, especially after the great war. Export expanded from 3,600 tons in 1913 to 45,000 tons by 1925. If expenditures out of loan funds catapulted Nigeria into the world trading arena, and thereby initiated a period (1911-29) of rapid economic growth previously unknown,⁷⁵ the benefits to her peasant farmers were not without costs. Since expenditure on railways absorbed more than 70% of total loan expenditures, the bulk of debt-servicing by Nigeria was consequently accounted for by the railway account. The Colonial Government's annual Accounts and Finances, and Railway Reports gave detail information about the financial implications of the heavy debt services faced by the railway authorities. Suffice it here to say that in the pre-war period (and after) the annual operations more often than not ended slightly under the break-even margin than above it. With nearly a million pounds required every year, to service the loans raised for its construction, it was not surprising to find that a railway earning about £2M gross income and spending as much on its running cost, had to be burdened with continuous servicing deficits.⁷⁶ The railway account was separated from general government accounts 1936/37. The attempt to 'un-departmentalise' its operations and substitute a commercial orientation was equally matched with a realisation of the special nature of its financial problems. What was essentially a social and econ-

73. *ibid.* Pages 110-111.

74. Report by the Hon. W.G.A. Omsby-Gore. *op.cit.* Page 123.

75. C/F. G. Helleiner:- Peasant Economy ... *op.cit.* Chpt. 1.

omic infrastructure with a long-gestation period could not be expected to yield commercial returns in a short time. The debt-service problems of the railway highlighted the overall debt service burden of the colony.

The sort of debt-servicing which underdeveloped colonies of Africa had to undertake in the period before the Second World War was remarkable in its apparent burdensomeness, when compared with the situation today. I say remarkable because if we use the currently fashionable criteria for evaluating debt-servicing and debt burden problems,⁷⁷ and make allowance for the greater uncertainty surrounding the colonies external trade, it was a notable achievement that they did not default or undergo rescheduling operations. It was true that as colonies, with ultimate Imperial responsibilities for their debt, their stocks were more or less gilt-edged. Again it was true that the conditions imposed upon their borrowing adventures prevented injudicious loans being contracted and that a conservative financial management precluded external liquidity problems arising. However, their experiences conform to my earlier contention that the fundamentals of successful debt bearing and servicing lie in the basic strength of an economy, its long-term development prospects and subsequent external confidence generated, rather than in short-term considerations. By their relatively successful ability to discharge heavy debt obligations during this pre-war period, the economies of tropical Africa, in this respect, were in better shapes as compared with the 1960s. It is not surprising, therefore, that funded stocks and/or portfolio investment form a negligible part of capital resources flowing into the continent today.

Professor Frankel has dealt with, in some detail, the problems associated with heavy debt burden faced by African countries in the inter-war years and more especially, during the Depression.⁷⁹ I do not intend to

76. C/F. S.H. Frankel op.cit. Page 315.

77. See above, Chpt. 3.

78. ibid. Page 67.

79. S.H. Frankel op.cit. Chpt. 5 Section 1.

duplicate his analysis in so far as it is related to Nigeria. However, I make use of some of his data in pursuing my own line of argument. Table 21 shows the financial position of Nigeria as regards her debt obligations. Column 1 shows the interests paid during a decade in the inter-war years. The railways accounted for between £0.9m and £1m of the annual transfer. If we relate these figures to the average £200,000 which the Government received as interest on its investments in the London market,⁸⁰ we find that the balance of interest payment alone shows an outflow of about £1m annually. Column 3 reflects the additions of amortization contribution to the interest payments. The peak payments were made during the Great Depression, otherwise debt servicing was fairly stable. Because the capital raised by the Government for railways and other public works were of fixed-interest charges, adverse terms of trade and depressions in particular caused such charges to place a heavy burden on available resources. The debt-service/export earning ratio rose from 75% in the boom year of 1929 to 19.0% in 1934, when the effects of the depression were at their most severe. The most informative ratio concerning the weight of fixed debt servicing on the economy was that relating debt charges to gross government revenue. Apart from the extreme pressure of the depression years, column 7 shows that on average, between 1/5 and 1/4 of Government income was somehow made available for service obligation. This fact exemplified the crucial position which external finance held in the pre-war colonial economy of Nigeria. Other data supports this point. In 1936-37, a normal financial year, the reserves of the colony stood at £3,932,415,⁸¹ or nearly a triple of the debt charges for that year. It was only half a million pounds larger than the combined public and private investment income transferred in the same year. The table of course deals only with Government acquired debt and I have not added the outward remitt-

80. The average market value of Government investments abroad in the decade 1926/27 - 1937/38 was about £8m. See M. Perham (ed), *Mining Commerce & Finance... op. cit.* Table 34.

81. To this liquidity position may be added the above assets. In 1936/37 it stood at £7.6m.

ance of profits and dividends by private business because these by and large, immediately flowed back as reinvestments for further expansion. In other words, this was a period when private foreign firms were taking roots and consolidating their position through massive ploughing-back programme. For the sake of comparison with modern flows, it may be apt to record here that the ratio of investment income to merchandise export was about 21%, and to gross government revenue about 50%. Column 9 of Table 21 shows the growth of cumulative debt. The outstanding amount reached a peak in 1930. By 1935 due to repayments and the absence of fresh borrowing, the total had dropped to nearly £25M, and remained so until after the war.

A comparison of Nigeria's debt burden and servicing with those of Gold-Coast (Ghana) during the period brings out certain important features. The latter's debt charges averaged under £0.7M in the years 1928-35. Her debt service/export earning rate averaged 8% and reached a peak of 9.2% during the Depression. Her average debt-charge/revenue ratio was slightly less than that of Nigeria and reached a lower peak (29.5%) during the Depression.⁸² The last ratio illustrates the underdeveloped nature of both countries' taxable capacities and tax-gathering abilities. The difference in the size of the debt charges and export ratios were due to three factors: (1) Gold-Coast raised a sum less than half the size of Nigeria's for her infrastructural development though the types of expenditure were broadly similar. (2) Officially-inspired capital inflow formed a smaller part of the total external resources available to her. In other words, she attracted a relatively larger amount of private equity capital than Nigeria. Since the size of equity returns varies with the prevailing economic conditions, she was less burdened with a rigid obligation to transfer abroad fixed interest charges. She implicitly weathered the depression better than Nigeria. (3) Because minerals especially gold accounted for a relatively substantial part of her exports during the period, she experienced less fluctuation in the prices of her exports as compared with Nigeria. If we consider these factors; the high interest rates and

82. O/F. S.H. Frankel: op.cit. Table 37 page 102.

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the proportion which the servicing cost bears to government income, reserves and export earnings, the cyclical fluctuation in the terms of trade of Nigeria's exports; the infrastructural and long-gestation nature of the expenditures, and the fact that they were fixed to external purchases exclusively from the 'Mother Country'; we reach a conclusion that the capital raised by Nigeria before World War II were in retrospect on hard terms. They compare unfavourably with what are available today.

With the above analysis in mind, the reader might wonder whether an inconsistency does not exist between on one hand my assertion - supported by others⁸³ - that the amount raised was insufficient for the task of developing the country and on the other hand, my above demonstration of the extreme weight of the burden of debt servicing. Perhaps the inconsistency can readily be resolved by blaming the hard terms of the loans, but in the case of Nigeria a deeper and more fundamental approach is required. We have seen how the colony was able to postpone the onerous effects of debt charges by regularly turning over her debts. As long as this type of manoeuvre was possible, the weight of debt charges could be postponed to an indefinite future date, perhaps until the economy had 'taken off'. In that sense one can, therefore, talk of inadequate loan capital. In the long run however, the problems raised by debt servicing would have to be faced. Nigeria's long-run came rather abruptly in 1936 when no further loans were contracted. From that year the difficulties inherent in service payments as analysed above became operative. Nigeria's experience showed that the apparent conflict could be resolved by stating clearly what period one was dealing with and the type of factors operating during that particular period. Two other comments on that experience. One aspect of the colonial monetary policy, that is, the working of the '100% Sterling exchange standard' accentuated the effects on the economy of heavy external payments. In period of depression not only did fixed heavy payments have to be transferred abroad out of depleted incomes but such

83. C/F. Frankel op.cit. Page 172; Morhee, op.cit. Page 215, and Ormsby-Gore Report op.cit.

But scarcely so much as to
make any significant difference to
the development objectives of the
poor. Surely?

transfer had to be accompanied by heavy internal deflation. Furthermore, because of the requirement to back the currency in circulation in West Africa with 100% sterling assets, the large sum accumulated by the West African Currency Board could not be made available to the colonial Government for development purposes. The system in effect forced the colonial Government to float loans on the London Capital Market at an excessively high cost (of floatation) which could have been avoided or reduced if Government could have borrowed directly from the Board. Furthermore, the rates of interest on market loans raised by the Nigerian Government were higher during the period 1870-1939 than the average rate of interest on investments received by the currency board.⁸⁴

PRIVATE CAPITAL I have earlier on analysed the opening up of Nigeria to foreign private capitalism and traced the historical foundation of the many special features relating to the role and position of such resource-inflow within the economy. I now want to quantify that position and discuss briefly some other important aspects of the relationship between foreign private enterprise and the Nigerian Economy. That relationship could be divided into three distinct phases, each having its own particular features and its particular impact. The first phase was the piecemeal opening up of the territory to external trade often by one or two-man trading 'firms'. The exceptions were the Royal Niger Company and the British Cotton Growing Association. The transitional period between the first and the second phase was the decade 1919-1929, during which a series of amalgamation) that culminated with the formation of the United Africa Company. (U.A.C.) in 1929, changed the organisational format of private foreign investment in Nigeria. This phase lasted until the late fifties when import-substitution manufacturing (as opposed to pure merchandising) began to assume greater emphasis in the orientation and deployment of foreign capital. The distinction between the first two phases was the organisation refinement;

84. C/F. J. Mars, in M. Perham (ed.) op.cit. Page 203. For a detailed analysis of the working of the 100% Sterling Exchange Standard and the functions of the West African Currency Board see the same article entitled 'Money, Public Finance and External Payments' Chpt. IV. A later less-detailed 'Pro and Con' type analysis is provided in an article entitled 'A Fiduciary Issue of West African Currency'. U.A.C.: Statistical & Economic Review (S.E.R.) No. 16 Sept. 1955.

between the second and the third, the functional realignment. The remaining section of this chapter deals with the later part of the first phase and the earlier part of the second, up to the outbreak of World War II.

An earlier detailed factual survey⁸⁵ and historical analysis⁸⁶ are available for the period. I do not intend to cover the same tracks. My contribution here is to look at the main feature in the light of present day experience, relate the material more directly to my critical stance and continue the comparative approach wherever essential. Private foreign capital during the period was invested in commerce, mining, banking and shipping. There were some 'industrial manufacturing' and technical services like motor vehicles repairs. However, they were on a very small scale and often undertaken as peripheral businesses by the main merchandising firms.⁸⁷ I shall ignore shipping and banking in this section as they have been well analysed by J. Mars in two chapters (II & IV) of Mining, Commerce and Finance in Nigeria, and later by P. Bauer in his West African Trade (Chpt. IV). Suffice it here to say that both are tainted with a history of cartel and monopolistic practises. The Royal Commission on Shipping Rings reported in 1906 that with the formation of the West African Shipping Ring in 1895, West African traders were held by 'one of the strongest and most profitable shipping monopolies in the world.'⁸⁸ The two works cited above contain analyses of the working of the duopoly arrangements between Barclays Bank D.C.O. (Part of the Barclays Bank Group) and the Bank of British West Africa (Standard Bank Group), the two important banks in British West Africa during

85. See J. Mars:- 'Extra-territorial Enterprises,' Chpt. II in M. Fernham (ed.) Mining, Commerce and Finance in Nigeria. op.cit.

86. See W.A. Hancock. op.cit. Chpt. II, Alan McShee, op.cit.; and Lord Harley:- African Survey. op.cit.

87. See J. Mars op.cit. Page 51, C/F. Carl Liedholm:- 'The Influence of Colonial Policy on the Growth & Development of Nigeria's Industrial Sector.' Chpt. 4 in C. Eicher and C. Liedholm (ed.) Growth & Dev. of the Nigerian Economy. op.cit.

88. A. McShee. op.cit. Page 96

the period. They also discussed the perennial Africans' complaint of business discrimination against them by the banks. I shall return to the topic in a later chapter. However, there is enough evidence to suggest that during this period foreign capital in banking did not contribute in any appreciable way to the business development of the indigenous entrepreneurs.

On the contrary, they acted as financial channels through which investible capital were regularly transferred abroad; "... to the extent that they are interested in the profitability of existing investments in the United Kingdom, they are probably more anxious to preserve the present industrial structure of Great Britain, by retaining colonial markets for British goods, than to develop secondary industries in Nigeria and elsewhere, when conditions are favourable for their growth ..."⁸⁹

The size of private capital invested in Nigeria during the period is difficult to estimate 'because of conceptual difficulties and paucity of statistical data. Figures of capital inflow derived from balance of payments figures do not provide a full measure of the degree to which private investors have increased their stake in tropical Africa'.⁹⁰ Professor Frankel estimated the cumulative total of private capital invested in Nigeria between 1870 and 1936 to be around £40M or 53.7% of overall foreign resources inflow.⁹¹ Both the figure and the percentage require some adjustments. The figure includes about £2M invested in other West African territories by the relatively bigger companies like U.A.C., but wrongly included in the Nigerian total.^{91A} This was an inevitable statistical difficulty for the big companies that operated in most of the colonies, and in West Africa it persisted well into the late 1950s. The U.A.C. statistical

89. J. Mars:- 'Money, Public Finance & External Payments' Chpt. IV in M. Perham (ed.): *Mining, Commerce and Finance ... op.cit.* Page 208

90. U.A.C.: S.E.R. No. 21 March 1958, Pages 14-15.

91. S.H. Frankel. *op.cit.* Table 28 & 29.

91A. See *ibid* Table 28 F/n (d).

and Economic Review explains thus: "It is difficult to estimate at any particular time the capital employed in any one territory ... because of the extreme fluidity with which capital was transferred from where over-capitalised to where under-capitalised."⁹² The percentage estimate rather overstate the contribution of official to total flow. As we have seen, the economically effective amount was much smaller than the nominal amount raised. When we think in terms of effective contribution of private capital to economic growth in Nigeria, we must likewise discount for the fact that part of this capital was not invested in the country itself, and that a considerable part of the estimated amount was accumulated out of locally-generated profits.⁹² Upto 1936, the cumulative total for Nigeria was the third largest in British Africa, surpassed only by the heavy mining investments in the Union of South Africa and the Rhodesias.⁹³ A rough estimate of the outstanding capital being employed by all foreign enterprises in 1937 came up to around £20M. This was under £1 per head of population. It was made up of £5.2M employed in export produce buying, £7.8M for the merchandising of imports and £4.70M in mining. The remaining £2.22M was invested in miscellaneous businesses like shipping, banking, plantations and manufacturing. This stock of foreign capital was estimated by J. Mars to be about 1/4 of the whole stock available in the country during the later part of the inter-war years.⁹⁴ I think this share was over-estimated by the mere fact of an under-estimation of indigenous capital formation. If we assume that foreign-owned enterprises were as productive as the domestic capital, Mar's second estimate of 11-13% contribution by foreign capital formation to G.N.P.⁹⁵ during the same period must weaken the accuracy of his

92. Out of a total profit of nearly £2.49M made in 1936, about £1.57M or more than 60% of it was retained locally for reinvestment. The high degree of reinvestment out of profits is an historical feature of foreign investment in Nigeria. I shall return to the subject in a later chapter.

93. Frankel *op.cit.* Table 28. Cumulative amount here refers to the summation of all annual inflows over the year referred to irrespective of what happened to capital repatriation. It is not the same thing as outstanding amount. This refers to the size of foreign capital resources being utilised in the economy at a particular point in time. It makes allowance for capital inflows and outflows.

94. J. Mars: '-Extra-territorial Enterprise' *op.cit.* Page 57-58

first estimation. The gross profits made by all foreign firms in 1936 was £2,486,000 or more than 12% on capital employed. This was a high figure for an inter-war year. However, it must be stressed that 1936 was a normal prosperous year. Such good returns compensate for poor returns in slump years. The average of course hides variations in the scale of returns between different uses. Mining was most profitable, commerce especially produce-buying was subjected to heavy fluctuations. Banking and shipping were stable. The narrow gap between the cumulative total upto 1936 and the outstanding amount in 1957 exemplified the relative lateness of sizeable private capital in coming to Nigeria. Apart from the mining enterprise, the great improvement in the transport system generated little immediate attraction to medium-size firms. Initially the Government "had to do almost everything, in beginning and improving production, in helping and safeguarding marketing and in providing transport facilities."⁹⁶ By the late twenties the growth in export production and more particularly, the evolving organisational needs of commerce hastened the emergence of bigger firms with bigger capital. They expanded their operations with annual commitment of between £1k - £2k, mainly out of unremitted profits.

I shall now undertake a brief analysis of the contribution to growth of foreign capital in each of the two major sectors of the period, that is, mining and commerce. Nigeria's mineral deposits - tin, Gold, Columbite, Silver and lead - attracted foreign prospectors to a lesser extent than say the richer endowments of the Gold Coast, Belgian Congo, the Rhodesias and South Africa. The initial impetus to her development was not founded on mineral exploration and apart from tin ore, the deposits of the other minerals opened to foreign investors were not extensive. Gold, Silver and lead deposits were exhausted before the last war. European exploitation of tin deposits was begun in 1906 by the Niger Company, whose agents first came in to contact with indigenous smelters during its charter days. By 1918 it had attracted to the Bauchi Plateau, 32 mining companies with a nominal

95. loc. cit.

96. Alan McShee, op.cit. Page 9.

capital of £6M and a working capital of more than £2M.⁹⁷ Production for export had risen from £25,000 in 1907 to £1.77M in 1918, contributing 18.9% to export earnings and only 5% to Government revenue. It was in the inter-war years before the Depression that tin mining was at its most productive. In these years the involvement of foreign capital and personnel was at its highest. For example, in 1928/29 the capitalisation value of the industry was about £10M and export to Europe came to £2.25M or 13.14% of total export value.⁹⁸ Also in 1929, there were as many as 74 companies and 70 individual foreign operators. The Great Depression hit foreign prospectors hard. Production fell by more than half, profits which in 1926 was nearly £1M, fell dramatically to about £100,000 in 1931. The following decade witnessed a gradual retrenchment of capital invested. By 1936, for example, when stability had been restored through Nigeria's participation in the International Tin Control Scheme and profitability had resumed its buoyancy (19%) capital employed had shrunk to an all-time low figure of £4.64M. However, production for export had returned to its pre-depression level and in spite of enforced rationalisation and bankruptcies the familiar chaotic scene of small-scale operations predominated. This was evidenced by the continued presence of 39 firms, 47 individual prospectors in tin and 31 companies in the production of Gold.^{99, 100} Their productivity had risen considerably, in part due to increased mechanisation. Except for the depression period, the stable but basically upward trend in the production of minerals for export had the important effect of reducing the instability in Nigeria's external earnings caused by fluctuations in agricultural trade. Another

97. Allister Macmillan (ed.): The Red Book of West Africa. op.cit.

98. S.H. Frankel. op.cit. Table 76

99. The value of Gold output in 1936 was less than £25,000. See F. Boulter:- 'The Mining Industry' Chpt. 1 in M. Perham (ed.): - Mining, Commerce .. op.cit. page 29.

100. This competitive presence of multitudinous operators might be deceptive rather than real, for through amalgamations and take-overs after the Depression four companies dominated the tin industry. In 1939/40, one company, the Amalgamated Tin Mines, accounted for 47% of total output. ibid page 23.

important contribution of mining development was in the field of wage employment. It offered the first substantial opportunity for the peasants to move out of subsistence agriculture into an industrial environment and in the inter-war years the mines were the largest single employer of wage labour. Employment in the tin fields rose from 12,000 in 1912 to nearly 40,000 in 1928. Apart from the heavy out-back during the depression years - to 15,000 in 1935 for example - an average of well over 30,000 unskilled and semi-skilled labourers were employed in the tin industry from 1925 onward.¹⁰¹ And in spite of its relative low share wages provided the principle channel through which the value of the ore mined in Nigeria was transmitted to Nigerians. Available data suggest that from 1926 to 1930 approximately 26% of the value of tin ore won was paid out as wages to the Africans. This share dropped to 14% in the 1930s and then rose to about 30% after the war.¹⁰²

There are grounds for believing that the extent of domestic participation in mineral production could have been on a bigger scale and at a high level had government policy not only failed to encourage such development but in fact positively restricted it. The restrictions directly or indirectly caused by various pre-war mining ordinances have been well-documented.¹⁰³ "Since the growth of European economic enterprise in Nigeria, native mining has been on the decline because of the de facto monopolisation of deposits by Europeans, or on account of technical (and capital) inadequacy or through the competition of European products with the final products of native mineral industries."¹⁰⁴ By 1923 the indigenous tin mining and smelting activities

101. See Table 21.

102. E.G. Charles Jr.: 'An Appraisal of British Imperial Policy with Respect to the Extraction of Mineral Resources in Nigeria.' Nigerian Journal of Economic & Social Studies (N.J.E.S.S.) Vol. 6, March 1964, Page 40.

103. ibid; and R. Bower: 'The Mining Industry' in M. Perham (ed.) op.cit. Chpt. I.

104. R. Bower, ibid Page 4.

had disappeared. If one cannot blame foreign mining companies for the competition from imported products,¹⁰⁵ one can argue with the benefit of hindsight, and in the light of current thinking about the relationship between foreign investor and host country in the extractive industries,¹⁰⁶ as to what the Government could have done in order to maximise the contribution of mining exploitation to national development. The tin mines turned out to be, before the oil boom of the late 1960s, the single important example of private, foreign-owned resource-exploiting enclave in the Nigerian economy. If foreign finance and expertise were felt to be necessary for the initial scientific exploitation of the tin reserves because neither the Government nor the indigenous people possessed both, none the less, one could question in a critical way why a policy of laissez-faire and complete detachment - other than of collecting rents and royalties - was pursued by the colonial government even after it was in a position to pursue state participation. It is also possible to argue that the state could have sustained indigenous participation by sheltering it from the more efficient foreign-owned operations, while at the same time fostering the gradual transmission of modern skill and expertise to the traditional sector. Official policy as regards tin mining contrasted sharply with the policy towards coal mining. The latter was developed under complete state monopoly and strenuous efforts were made to prevent private enterprise participation.¹⁰⁷ It has been argued that apart from reasons of expediency, the differing nature of the two products was an important consideration in the choice of method of exploitation. Tin was being exploited for a free enterprise European market, while the

105. C/F. above Chpt. 5.

106. See above Chapter 2 & R.F. Mikesell:- 'U.S. Private Investment in the Extractive Industries of the Developing Countries. 'Changing Pattern & Attitudes Chpt. 4 in Iitrak and Maule (ed.) Foreign Investment: The Experience of Host Countries.op.cit.

107. See A. McRhee. op.cit. Page 59, and Report of Committee on Private Enterprise in British Tropical Africa Cmd 2016 Jan. 1924) op.cit.

market for coal was essentially internal, the Government-owned railways and power stations being the chief consumers. However, according to the Report of the Committee on Private Enterprise in British Tropical Africa,¹⁰⁸ official opposition to private participation in coal mining was based on the belief that "the advent of other employers would inevitably create difficulties in connection with the supply of labour. This is a political matter upon which we do not feel competent to pass judgement."

One could also criticise the Government for the low level of domestic share in the profits from mineral exploitation. "Nigeria's Department of Mines which calculated mining profits as a percentage of the value of ore exported indicated profits of 21% in 1932 (a depressed year) ... and profits varying from 46-52% in the years 1933 to 1937."¹⁰⁹ Even if one doubts the meaningfulness of a profitability calculation that was not related to the capital employed - the ratio of Columns 1 and 2 of Table 22 would be a more appropriate measure - one cannot doubt the generosity shown to foreign mining investors before the 1950s in the area of revenue obligations. Prior to the last war the proportion of the total value of mineral output that was disbursed as local payments was on average estimated to be less than one half.¹¹⁰ The data for 1926, a typical normal year, illustrates the size of Government income from mining operations. Export of tin was estimated at £2,102,000; net profit of producers at £964,000, while Government revenue from rents and royalties on all minerals except coal was only £129,000.¹¹¹ It was not until 1954 was an attempt made to increase government share of the mining surplus.

By the late 1960s the importance of tin mining and the foreign investment in it, within the Nigerian economy has considerably declined. Both

108. ibid. page 19

109. E.G. Charles Jr. op.cit. Page 39. This article contains details of the method used to calculate government rent & royalty payments in the inter-war years.

110. See P. Bower:- 'The Mining Industry' Chpt. I Table I in M. Ferham (ed.) op.cit.

111. Taken from ibid. Tables I & II. The figure of £129,000 was the Government Share (50%) of the total rents and royalties from the mining operators. The other half had to be paid to U.A.C. (one

the productions level and capital invested have of course increased in absolute terms, but are overshadowed by the oil industry. In 1970 tin metal exported was worth £16.5M or 3.7% of merchandise export. Production is dominated by Amalgamated Tin Mines, a subsidiary of London Tin Corporation. Another subsidiary, Makeri Smelting Company smelts the ore locally now as opposed to previous methods of shipping it to Liverpool and Wales. Local share of incomes generated by tin production has increased appreciably relative to the pre-war period, but production is still in the hands of the worlds largest private enterprise producer of tin and remains in an enclave setting. It is in the employment of local labour which in 1950 stood at 58,200 rather than in financial contribution to the economy, that tin and columbite mining retains some significance.^{111B}

Commerce, since the days of the early Portuguese traders has been and remains the single most important form of economic relationship between the West Coast and the rest of the world. Goods traded have changed, curios, gin and gun gave way to ivory, gold and slaves. The latter were replaced by outward trade in tropical produces like palm oil and kernel, cocoa, ground-nut and mineral raw materials, like iron and tin, and inward trade in consumer manufacturers from Europe and North America. Today commerce is increasingly catering for the capital, intermediate and raw material goods, required by an import-substitution oriented economy and sells its processed agricultural commodities abroad. Its organisation has changed too. From huks moored along the Coastline and the river banks to retailing outlets in the interior and nowadays to sales of the most sophisticated goods modern technology could produce in supermarkets dotted along the main streets of Lagos, Accra, Dakar and Abidjan. As for export goods, the most important organisational change has been the inception of the marketing boards. The size of the foreign capital employed in commerce has increased in absolute terms - in Niger at least, though its pre and post - war predominance has been greatly reduced.

111. Contd. of the mining companies) as provided for by the 1899 Agreement revoking the charter of the Royal Niger Company. C/F. McPhee op.cit. page 87. The right of the company to receive one half of the royalties from mineral operations in the former chartered territories was abrogated in 1950 with a compensation of 41M.

111B. See Chapter 4, page

It was during the years before the war, the period covered by this Chapter, that foreign capital in commerce made, perhaps its greatest contribution to Nigeria's economic growth and development. The details are well documented,¹¹² and I shall limit myself here to illuminating one or two areas of some importance. The presumption exists in some quarters, especially in some earlier theoretical works on international trade and underdeveloped countries that foreign merchandise capital and colonial administrations somehow pressurised the peasants to utilise their surplus land and labour to produce for an export market and thereby generate a process of domestic economic development.¹¹³ Recent field works have shown such presumptions to be off the mark. In Nigeria for example, it was true to say that the railway to the Emirates was in part the outcome of a campaign by B.C.G.A. and tropical traders to get the North working in supplying a steady flow of cotton to Lancashire.¹¹⁴ But the optimism that "almost sufficient cotton can be grown to supply the wants of Lancashire"¹¹⁵ was no more than a forlorn hope. In the event the main beneficiary of the new transport system was not cotton but ground-nut. Some cotton was grown for export, but the Hausa peasants, finding ground-nut more profitable concentrated their efforts in that direction. The foreign trader did no more than offer the peasant farmers a vent for production above subsistence requirements and indirectly sustained a continuous supply from that source by the sales and demonstrated effects of his imported manufacturers. It was through such mutually-reinforcing actions and the attendant 'spread' or 'fall-out' effect that foreign capital in commerce made its biggest contribution. It did not introduce palm, cocoa,

112. See J. Mars:- 'Extra-territorial Enterprise' op.cit. P. Bauer:- West African Trade op.cit.

113. See Appendix IV.

114. See J.S. Hogendorn:- 'The Origins of the Ground-Nut Trade in Northern Nigeria', Chpt. 3 in Eicher & Liedholm (ed.): - Growth & Development of the Nigerian Economy. op.cit.

115. John C. Atkins:- The Story of B.C.G.A. op.cit. Page 225 quoted in ibid.

cotton, ground-nut and rubber trees. Without it, Nigeria's agricultural export development might have been delayed, but not prevented perhaps for two or three decades. To speculate on how long Nigeria's progress towards the 'take-off' had thereby been hastened is unimportant. What is important is the fact that the "foreigner did next to nothing to alter the technological backwardness of the economy."¹¹⁶ When competition from other sources threatened to undermine Nigeria's share of commodities like palm produce and cocoa in the world market, it was largely the Government and domestic forces that took remedial actions in the form of extension services research studies and propagation of improved varieties. It was understandable if the produce-buying firms were less than fully concerned, for the competitive pressure was coming from their plantations and similar operations in other parts of the world.¹¹⁷ Without doubt the initiative and persuasive force of European traders during the period had been exaggerated. "As a result of studying the economic history of cocoa growing in Southern Ghana, I have become convinced that the influence of the expatriate traders in the vital first fifteen years or so, 1890-1905, on commercial cocoa growing was minimal - that he merely sat at (or near) the port receiving the produce which was brought to him by the farmers ... and that he had no more knowledge than any other outsider (including the Dept. of Agriculture) of the socio-economic organisation of production."¹¹⁸ Such lack of knowledge might lead to the suggestion that because the massive development of production for export was not accompanied by any change in the technique of cultivation, the same sort of status quo might have continued in other areas of peasant life. This was not so, the increase in agricultural export production by more than a hundred fold within two to three decades generated socio-economic and

116. G. Helleiner:- *Peasant Agric* /... op.cit. Page 13.

117. For example the Lever Bros. Ltd. & through its parent company, Unilever, has extensive palm oil interests in other African countries like Belgian Congo and in the Far East. During the inter-war years, the Company through U.A.C. was the biggest single produce-buying organisation in Nigeria. C/F. F.K. Hancock. op.cit. Chyt. II Section II.

118. Poly Hill:- 'Some characteristics of Indigenous West African Economic Enterprise' in Nigerian Institute of Social & Economic Research (N.I.S.E.R.) Conference Proceedings March 1962.

organisational changes that were essential to smooth production. As Sara Berry found in a recent field work on the origins of cocoa production in Western Nigeria,¹¹⁹ changes were not confined to utilisation of surplus land and labour but also occurred in the social basis of land acquisition, in the art of obtaining credits, in the method of capital accumulation and in the entrepreneurial know-how needed for disposing of seasonal farm products. Not all these changes were built on the right foundation. For example, the system of advancing credits to peasant farmers through the middlemen was badly organised and gave the latter group an enviable upperhand in their dealings with the farmers.¹²⁰ As a Nigerian Committee which considered the Report of the Royal Commission on the Marketing of West African cocoa (the Nowell Report)¹²¹ noted, '... this fantastic abuse of credit ... has been the most important factor in reducing the peasant farmer to his present condition of indebtedness.'¹²²

The contribution of foreign capital in commerce during the period was devalued to a great extent by the oligopolistic and oligopsonistic of the merchandising and produce-buying firms, the extent of which are well illustrated by Mars, Hancock and Bauer. The impact of these practises would be fully appreciated if we realise that during the period and after the war, about "a third of the national income of Nigeria and virtually all its external trade" were controlled by these extra-territorial enterprises.¹²³ They were, therefore, in a strong position in determining the direction and extent of economic change and growth in Nigeria. As a contrast to the positive outcome of price incentives offered to the farmers for export production,

119. Sara Berry:- 'Cocoa & Economic Development in Western Nigeria' Chpt. 2 in Eicher & Liedholm (ed.): - Growth & Development of the Nigerian Economy. op.cit.

120. See W.K. Hancock. op.cit. Pages 211-212

121. Report of the Commission on the Marketing of West African Cocoa Cmd 5845 1938 .

122. Quoted in Hancock op.cit. Page 231.

123. A.J. Brown:- 'Economic Problems of a Tropical Dependency'. Concluding Chapter in M. Ferham (ed.) Mining, Commerce ... op.cit. Page 343.

there is evidence to suggest that the firms through price-fixing agreements, created disincentives to export production in certain areas of the country. For example, in the late 1920s the prospects for ground-nut expansion in the Baro area seemed excellent. The soil and climate conditions were ideal, but by "the 1930s these prospects dwindled away"¹²⁴ as a result of the relatively low prices paid by the two foreign firms operating in the area. The last observation is perhaps a small reflection on the commercial scene during the period. The Nowell Report¹²⁵ analyses in great details the environment in which foreign capital was working in commerce, especially in produce-buying for export. During the late 1930s the atmosphere in the latter was one of chaotic wrangling over cartel price-fixing and the position of the innumerable African middlemen; and of a completely eroded goodwill on both sides of the market which was replaced by an attitude of "intense suspicion on one side and of injured integrity on the other."¹²⁶ In retrospect, the 'cocoa hold-up' of 1937 was an inevitable episode^{126A}, and it was this unhealthy state of the internal market in export commodities, in which "the Africans believe themselves imprisoned in a commercial order which they feel to be unjust and detestable,"¹²⁷ and in which the European firms insisted on the maintenance of a cartel as a means of guaranteeing themselves 'a reasonable profit margin', more than anything else which led to the establishment of the Marketing Boards in the Post-war years.

In Nigeria, unlike in some colonial territories like Belgian Congo, Dutch East Indies and Malaya, the production of agricultural commodities for export was not developed on the basis of foreign-owned and controlled plantation enclaves. The factors leading to the maintenance of the indigenous

124. Hancock op.cit. Page 221 - 222. C/F. J. Mars:- 'Extra territorial Enterprise' op.cit. Page 124.

125. Report of Commission on the Marketing of West African Cocoa Cmd 5845 op.cit.

126. Hancock op.cit. Page 224.

126A. The 'hold-up' episode was the refusal of the peasant farmers to sell cocoa to the European buying houses or their representatives. It was the immediate cause of the Nowell Commission.

127. ibid.

peasant system and the absence of a foreign-owned plantation economy were economic, socio-cultural and political. One cannot isolate one factor from the others. They were very much interwoven and reinforced each other in any official justification of a particular policy decision, though as between different commodities one could detect the most predominant. Professor Hancock had made an earlier historical survey of the subject, tracing as it were 'the controversy between the champions of plantation production and the champions of peasant production.'¹²⁸ My contribution here is two-fold; to explain briefly why foreign private capital did not succeed in making any noticeable inroad into agricultural production in spite of strenuous efforts to do so, even when armed with strong empirical evidence of the economic virtues of scientifically cultivated plantations, and secondly to comment on the present day ~~consequences~~ ^{consequences} of the pre-war decision to exclude plantation orientation.

It is essential to look at Nigeria's experience in the wider context of 'tropical colonies' experience, and in doing so, we notice that the period before the First World War differed crucially to the inter-war years with respect to the response of the colonial powers to the hungry demand for tropical commodities in Europe and North America. King Leopold in Congo Free State and the French in Equatorial Africa devised the concessionaire system to plunder the tropics of their wild rubber, palm produce and timber as quickly as was possible. The Dutch in the East Indies resorted to Political Coercion known as the 'Culture System' to farm spices, coffee and sugar from the natives. Professor Frankel¹²⁹ and other writers have analysed in details the social and economic consequences of private capital concessionaire approach. The post-war change in policy was caused less by the outcry in Europe against this "policy of despoilation and the ruthless extermination of the native people" but more by the "resulting serious decline of the population, which eventually made it impossible to obtain sufficient labour with which the wealth of the territory could be appropriated" and also by the exhaustion of 'wild' produces.^{129A}

128. ibid. page 173 - 200

129. S.H. Frankel:- Capital Investment in Africa op.cit. Chpt. II

129A. loc cit.

British West Africa was spared the invasion of concessionaires because, before and at the turn of the century, the geographical and demographical environment of the area was hostile and the resource endowment uninviting. The Royal Niger Company, the Liverpool oligarcies, the individual traders and shipping enterprises in Nigeria were interested in developing a long-term 'legitimate trade' in tropical commodities and European manufacturers with the indigenous people as opposed to the 'get-rich-quick frenzy of King Leopold.' As we have seen, in its administrative capacity, the R.N.C. found it essential to work through the native system and it could hardly have raised the resources that large-scale exploitation on the concessionaire model entailed had it wished to do so. The Imperial administration that followed the R.N.C. had no desire in West Africa to emulate the French, the Belgians and the Dutch. Lugard's proclamation of 1900 specifically guaranteed the inalienability of native lands to outside interests. Besides, there was an economic rationale for a non-concessionaire approach to the problem of supplying Europe and North America with tropical commodities. Unlike in the Congo and Equatorial Africa, "a different and more solidly grounded economic system was already in being as a going concern in British West Africa during the last quarter of the 19th. century. A more rational and humane commercial collaboration between Europeans and Africans was already bringing impressive quantities of palm oil and palm-kernel to market ..."¹³⁰ In Nigeria, if the pre-war period was marked by the absence of any concessionaire operator in agriculture, it was also marked by various attempts by European enterprises to cultivate tropical commodities besides the palm, by plantation method. It was a period when no official policy had been formulated on the plantation system. These attempts failed for economic reasons. In the 1890s European trading companies such as the African Association, the Oil Rivers Company and the Royal Nigeria Company, all owned plantations of cocoa trees, but not for long, since they were soon found to be unrenumerative and economically inefficient in relation to native cultivation.¹³¹

130. Hancock op.cit. Page 181.

131. Alan McPhee op.cit. Page 44.

"The B.C.G.A. discovered by experience that peasant production was generally a more economical proposition than plantation production ..."¹³² Similar attempts were unsuccessful with ground-nut, beniseed and other commodities except the palm products. Thus the controversy over the development of plantation agriculture in Nigeria was to be confined to the palm-oil industry, once the superiority of small-scale native holdings over large-scale foreign owned plantations in other staples was demonstrated. In the case of cocoa, ground-nut and cotton, economic forces were, in the first instance the determining factor. However, it is doubtful whether the socio-political constraints embodied in subsequent government policies and indigenous opposition to plantation economy would have permitted foreign planters to establish themselves even if it was economically viable for them to do so.

In the inter-war years other Imperial powers modified their approach to the question of tropical commodity supply by allowing for a new method of scientific cultivation through foreign-owned plantations in their colonies. Within two decades one result of the new approach was the rapid emergence of the products of palm plantations in Belgian Congo, Sumatra and Malaya on the world market in such a way as to threaten economic ruins for the peasant producers of Nigeria and the rest of West Africa. "In the early 1920s it was no longer possible to picture British West Africa as a monopolist producer to impose its own terms upon the world market for vegetable oils. The West African producers felt for the first time the pressure of a competition which was growing at a sensational and menacing speed. It was no longer a spirit of greed, but one of fear which dominated the economic discussions."¹³³ It was in the light of the demonstrated inefficiency of the native method in the face of high-yielding and better quality production in European-owned plantations, that powerful foreign interests in commerce and manufacture of oils and fats demanded from the colonial administration the right to establish palm plantations in the Southern part of Nigeria. The soap and fats company of Lever Brothers was the most important and persistent seeker of plantation concession rights. It made three attempts in 1907, 1920 and 1925; like

132. Hancock op.cit. Page 188

133. ibid. Page 151.

those of other companies, they failed.¹³⁴

Why were the requests of foreign plantation interests rejected?

Though the argument was ostensibly over the future structure and development of the palm oil industry, in essence it was a case between the establishment of plantation economy in Nigeria and the continuation of the traditional native system of land ownership and cultivation. Let us look at the Government's argument developed over 2-3 decades and best propounded by Governor Hugh Clifford.¹³⁵ Its economic content was this : Why the technical efficiency and superior productivity of the plantation system in palm remained unchallenged, the estimates of its costs in the physical and economic environment obtainable on the West Coast have been wildly optimistic. Labour supply, even from a purely economic view point would be almost impossible. Previous experiences have shown that the peasants had no desire to work for wage employment on European plantations. Their individual efforts were bringing in monetary rewards, and their combined output, given adequate improvements was likely to exceed anything the plantations could produce. Palm oil was an important local foodstuff and fuel. Its production was deeply-rooted in local tradition and it would not cease even if the export trade was lost. The peasant producer's cost was minimal, he could contain the heavy fluctuation in world demand for vegetable oils and withstand the secular deterioration in the terms of trade of tropical commodities. He would remain on his land, feeding himself and his family, selling what he could for money when broken planters were fleeing to their homes in Europe, leaving their plantations derelict and the local economy in ruins.¹³⁶

134. Lord Leverhulme's demand, though varying from time to time, essentially involved three basic requests. Freehold concession for planting, a labour supply guaranteed by the Government and the exclusive right of purchasing fruits from native sellers at a price fixed by his company's mills.

135. See Hancock, *op.cit.* Page 182-194.

136. *ibid.* Page 193

The Government believed in short, that economic factors including the long-term prospects favoured the peasant system.

There was also a socio-political content to the official position. A fundamental aim of the colonial administration since its inception, had been to promote the development of the agricultural resources of Nigeria through the agency of the indigenous people themselves. Government supervision and education would be necessary, but the dynamic forces in the economy must be generated from within. The Government was, therefore, committed on political and moral grounds to upholding the peasant system. Land alienation was out of the question. In any case, it was impracticable in the case of palm oil industry for the palm belt in Southern Nigeria was (and still is) one of the most densely populated areas in tropical Africa. Attempts to create a landless proletariat or alter the traditional system fundamentally would cause the greatest social and political unrest in the country.¹³⁷ There never was any doubt about the native attitude to the plantation propaganda. "It has been without any qualification suspicious and hostile."¹³⁸ Suspicious not only for their land but also for the danger that foreign-owned plantation might take away their export trade and perhaps invade the domestic market too. As competitors, the planters would be less willing to impart skill and knowledge necessary for modern cultivation. Foreign-owned plantations, like mines would remain extractive enclaves. These were the grounds on which the plantation system was rejected in Nigeria in spite of its economic success elsewhere. Similar arguments were put forward in other British

137. C/F. Omsby-Gore Report op.cit.

138. Hancock op.cit. Page 198.

West African colonies that effectively shut out the planters. In the Gold Coast as in Western Nigeria coconuts plantations were soon found to be relatively inefficient and uneconomic.

The Government's answer to the threat of vegetable oil competition from the East Indies and Congo was to be in the form of a gradual but effective harmonisation of the good qualities in both systems - in other words, 'preserving what is good in the (indigenous) system while bringing the methods of cultivation and extraction more up to date.'¹³⁹ In this respect the Government strengthened its agricultural research establishment, and on the recommendation of Ormsby-Gore it also granted minor leases for the establishment of 'nucleus' plantations.¹⁴⁰ The purpose of the latter was both to ensure the regular supply of fruits to government-inspired company-owned central mills, and to act as training grounds for native agricultural officers.

How could one espouse the correctness of the policy of the early colonial administration in shaping Nigeria's agricultural structure in the way it did by rejecting foreign planters? The question might be seen as a futile one since it could be argued that had the foreign planters received an official blessing instead of a refusal, economic forces alone would have killed their plantation dreams. As for the palm industry, the problems associated with land and labour would have overshadowed any possible technological advantage.

139. Ormsby-Gore Report op.cit.

140. By 1936, the total land area granted for foreign-owned plantations approximated 22 $\frac{1}{2}$ sq. miles.

In any case, had the Government assumed its general laissez-faire posture on this question and remained 'neutral', the structure that would have emerged would probably have been in no major way different from today's. Was the rejection of a scientifically-managed plantation system a sacrifice of economic progress to social stability and peasant traditionalism? That is a question I cannot rightly answer - certainly not without a precedent to go by, or a demonstrable empirical evidence from a comparable economy or economic environment.^{141A} For the policy in British West Africa to promote the development of the territories by the natives and for the natives under Governmental supervision was at the time 'almost unique, not only in the Empire, but also in the world at large.'^{141B}

The sustenance of the peasant system was successful in so far as the growth of agricultural exports maintained a 5-8% annual rate and a general upward trend after the early massive expansion following the construction of the railway and other transport systems. Palmoil and kernel production followed the general pattern of expansion. The fall over the years of their combined share in the total value of agricultural exports - 80% in 1900, 40% in 1936 and 30% in 1950 - was essentially due to the rise of other commodities. The general fluctuations in periodic and annual production can be explained in terms of the vagaries of the weather, external factors and the pricing policy of the marketing boards rather than simply in terms of the production system. This is not to say all is well within the system. In fact the agricultural sector today, relative to other sections of the economy is seen as the 'stagnating sector' especially in its production for home market.¹⁴²

141A. 'French West Africa' offers no ideal economic environment for comparative purposes. The French 'assimilation' policy reduced to a minimum any feeling of separate identity on the part of the indigenous peoples of the area. Hence the relative absence of opposition to French-owned and -run plantations which began to be developed extensively in Ivory Coast, Gabon etc. after the war. Furthermore, the population pressure in Nigeria, especially in the South, and the viability of 'indirect rule' as a system of Government created a social, political and economic environment different from the surrounding French territories.

141B. Alan McPhee op.cit. Page 27.

142. C/F. W. Arthur Lewis - Reflections on Nigeria's Growth. op.cit.

Palm produce for export has substantially fallen since the early 1960s and one cannot pin the change solely on the diversion to home consumption and the prices offered by the marketing board. I cannot digress much into the problems facing Nigerian agriculture. I have alluded to them elsewhere.¹⁴³ However, it is worth noting here that apart from the biological and technological innovation gradually taking place in the sector, efforts to alter or 'modernise' the system through co-operative holdings, indigenous plantations, state farms and farm settlements on the Kitbuzim model, have not been successful enough to make any major impact on the old system.

Following on the last section, it seems logical to examine the relationship between the colonial administration and Private foreign enterprise in Nigeria during the period before World War II. Such examination is important in one respect; to throw some historical light on a belief that was to be popular after the war and during the struggle for Independence namely the existence of a "close association" amounting to a "conspiracy" between "alien political control and alien economic oligopoly". In the explanatory words of James S. Coleman, "the near-totality of economic power exercised by a small group of European firms, together with apparent governmental support or toleration of that power, gave rise to a popular image of alien collusion and exploitation."¹⁴⁴ A full analysis of this belief or 'charge' and the basis for it belongs to a later chapter. Here it is enough to see whether there were sufficient grounds to justify the belief at that time. Any reader of this chapter would find ample evidence to prove that the relationship between the Administration and foreign business interests was far from 'conspiratorial'; certainly there were areas in which government policy or lack of policy had allowed foreign capitalist interests to establish complete and effective domination through the sheer size of their technical and financial superiority. The failure of the government to safeguard indigenous mining interest and to prevent the decline and elimination of indigenous entrepreneurial class from commerce are two outstanding examples. However,

143. See introductory chapter.

144. J.S. Coleman:- Nigeria : Background to Nationalism. University of California Press Berkeley & Los Angeles 1958 Page 81.

government did 'interfere' in other areas, abandoning its laissez-faire policy whenever its own interests or social policy were directly involved. We have seen how it had successfully opposed private enterprises in railways construction and management, in coal mining and in plantation. It had refused to alienate native lands. In the 1920s it had to cope with a strong agitation from the trading companies for reduction in taxation.¹⁴⁵ It failed before the war years to persuade the two companies - U.A.C. and John Holt - to redress the economic situation in Baro which I referred to earlier on.¹⁴⁶ A reading of the Nowell Report clearly shows that all was not well between the local administrative officers and the expatriate companies. In other words, if there was any historical foundation for the collusion idea, it certainly was not deep. However, during the war and after, the relationship between the two improved appreciably to the point where the above 'charge' became an important plank in the Nationalists post-war politico-economic campaign.

An important feature of the early resource flow into Nigeria and other British colonies in West Africa was the absence of an accompanying settler community. For centuries the West Coast had remained the 'Whiteman's Grave'. Rapid improvement in tropical medicine especially the development of anti-dote for malaria fever did not enhance the attractiveness of the Niger coast. Unlike the East, Central and Southern Africa which attracted large influx of men and capital in the inter-war years, the conditions in Nigeria remained such as to make a European's stay - whether as businessman, administrator or missionary - a relatively short 'tour of duty'. The climate was an obvious deterrent, but it was not important enough to prevent an influx of French men and women into Francophone West Africa. In Nigeria, the population pressure was crucial and it reinforced official policy of not alienating communal lands or upsetting the social fabrics of native societies. From the view point of potential immigrant, Nigeria did not offer any attractive economic pull comparable to the Kenya highlands or mineral-rich velds of Southern Africa.

145. See Ormsby-Gore Report. op.cit. Page 171.

146. See above Page 338, C/F. J. Mars:- 'Extraterritorial Enterprise'. op.cit. Page 124.

official policy of not alienating communal lands or upsetting the social fabrics of native societies. From the view point of potential immigrant, Nigeria did not offer any attractive economic pull comparable to the Kenya highlands or mineral-rich velds of Southern Africa.

TABLE 20

LOANS TO NIGERIA 1867-1940

Nature of Loan	Date raised.	Maturity	Nominal Value of loan (a)	Net Amount realised from loan (a)	Nominal Interest Rate	Effective Interest Rate	Source	Purpose: General or Specific
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Lagos (Crown Colony) Loan.	1874	2 yrs. 1876	£20,000	£20,000	n.a.	n.a.	Imperial Treasury	Expansion of administrative network.
Niger Government Debt.	1887	51yrs. 1938	£250,000	£250,000	5%	5%	London Capital Market.	Originally raised by the Royal Niger Co. to set up the administrative network (political) in its chartered territory. Taken over by Imperial Govt. as part of the 1899 Settlement & revalued at £300,000 to permit its rapid redemption.
Imperial Treasury Loan	1899	6 yrs. 1905	£792,000	£792,000	3.5%	3.5%	Imperial Treasury	Exclusively for starting the railway construction programme from Lagos towards its hinterland.
Southern Nigeria (Lagos) Govt. Loan.	1905	30yrs. 1935	£2000,000	£1889,212	3.5%	3.71%	London Capital Market.	Over £1M for railway, £0.75M for redemption of 1899 loan. Rest on Bridges and highways.
Southern Nigeria (Lagos) Govt. Loan.	1908	27yrs. 1935	£3,142,461	£3,000,000	3.5%	3.66%	London Capital Market.	Nearly £200,000 spent on water supply, sewage and harbour development. Rest on railways.
Southern Nigeria (Lagos) Govt. Loan.	1911	24yrs. 1935	£5,034,932	£4,875,033	3.5%	3.7%	London Capital Market.	£2M was used to service earlier loans and the rest spent on communications (railways, marine and harbour works) and social infrastructure (water supply and sewage schemes).

TABLE 20
Cont'd

Imperial Treasury (Bauchi) Loan.	1911	1911	£200,000	3.5%	3.5%	Imperial Treasury	For extending the railway to Bauchi tin fields thereby shortening the journey from the mines to the coast by 16 days (from 20 days to 4 days).
Nigerian Govt. Loan.	1916	4 yrs. 1920	£4,425,000	5%	5.24%	London Capital Market.	Exclusively for servicing previous loans.
Nigerian Govt. Loan.	1919	(30-60 yrs) 1949-79	£6,363,226	6%	6.16%	London Capital Market.	£2M for railway expansion, rest for servicing previous loans.
Nigerian Govt. Loan.	1921	15yrs. 1936	£3,200,390	6%	6.41%	London Capital Market.	2/3 for railways. Rest for harbours, electricity and telecommunications.
Nigerian Govt. Loan. (1st. installment)	1923	40yrs. 1963	£5,700,000	4%	4.70%	London Capital Market.	60% of the two installments was spent on railways, 27% went to marine & ports development. Rest spent on economic & social infrastructures. However, a small amount £260,000 was set aside for servicing earlier debts.
Nigerian Govt. Loan. (2nd. installment)	1927	20yrs. 1947	£4,250,000	5%	5.15%	London Capital Market.	
Nigerian Govt. Loan.	1930	(20-30 yrs) 1950-60	£4,650,000	5%	5.41%	London Capital Market.	Evenly distributed among the major infrastructural schemes, railways, bridges & highways accounted for about 50% of expenditures. £½M used to redeem part of stocks in 1932/33.

Nigerian Govt. 1935 20yrs.1955 £4,188,000 £4,045,593 3% 3.11% London Capital
Loan. Raised exclusively for redeeming parts of previous loans.

Cumulative Total 1874-1935

£44,216,509 £41,744,014

Mainly for infrastructural development especially the rail-ways; and for turning over previous loans. See text.

- (a) The difference between column (4) and (5) represents the administrative and technical costs of floating the loan. In the case of Nigeria, these floatation costs were very high, between 1919 and 1935, they varied from 2.7% to 17.4%.
- (b) That is, the annual interest payable (itself calculated on the basis of the nominal value) divided by the actual amount realised from loan. For example, the annual interest on the 1923 loan £228,000, but the amount realised from loan was £4,855,667. Therefore, the effective interest rate paid by Nigeria was 4.69%.

((Sources: Nigeria:- Treasurer's Reports (1928/29 to 1934/35); Reports on Accounts & Finances 1935/36 to 1944/45); Annual Colonial Reports on Nigeria)).

TABLE 21

NIGERIAN FINANCE : DEBT OUTSTANDING AND SERVICE PAYMENTS 1900-1939

Interest Charges on Public External Debt (a) (1)	Sinking Fund transfer (Amortization) (2)	Total public debt service(c) (1 + 2) (3)	Merchandise Export(b) (4)	% of 3 to 4 (5)	Gross Revenue (6)	% of 3 to 6 (7)	Gross Expenditure (8)	Public Debt Outstanding. (9)
(£)	(£)	(£)	(£'000)		(£'000)		(£'000)	(£'000)
			1,887		639		735	973
1900			2,672		1,035		1,382	2,000
05			4,964		2,278		2,158	5,000
10			4,874		2,603		3,434	8,268
15			16,718		6,819		6,493	10,246
20			16,900		8,269		6,583	19,309
25			16,538		7,734	13.7	7,585	23,559
26			15,470	8.5	6,305	21.0	6,724	23,559
27	£1,155,913	1,325,116	16,927	7.8	5,895	22.5	6,861	23,559
28	£1,155,913	1,325,116	17,581	7.5	6,045	21.9	6,290	23,559
29	£1,155,913	1,607,212	14,778	10.8	5,622	28.6	6,330	28,351
30	£1,395,482	1,607,212	8,553	18.8	4,858	33.1	6,188	28,351
31	£1,395,482	1,580,812	9,279	16.6	4,985	31.7	4,984	27,822
32	£1,369,082	1,511,101	8,560	17.6	4,887	30.9	5,036	27,822
33	£1,298,283	1,616,178	8,734	18.5	4,961	32.6	4,837	27,822
34	£1,361,103	1,608,914	11,473	14.0	5,996	26.8	5,757	27,964
35	£1,353,126	1,384,887	14,930	9.3	6,260	22.1	6,061	24,764
36	£1,161,103	1,385,000	9,463	14.6	5,811	23.8	6,867	24,764
38		1,385,000	10,203	13.6	6,113	22.7	6,499	24,764
39								

(a) Columns 1,2,3 and 4 refer to calendar years. After 1920, columns 6, 8 and 9 refer to FY beginning 1st. April.

(b) Domestic exports only. Exclude re-exports.

(c) Exclude Supplementary sinking fund contribution and management expenses.

(Sources:- As Table 20, and Official Trade Reports).

TABLE 22

STATISTICS FOR TIN INDUSTRY IN INTER-WAR YEARS

	Aggregate issued capital of major Mining Companies	Aggregate Profits (net)	Value of Tin Exports (f.o.b.)	No. of African employed.
	(1)	(2)	(3)	(4)
1926	£7,059,000	£964,000	£2,102,000	31,206
27	£8,359,000	806,000	2,101,000	36,815
28	9,881,000	456,000	2,013,000	39,333
29	8,701,000	460,000	2,020,000	38,333
30	7,598,000	143,000	1,081,000	28,904
31	5,539,000	9,800	776,000	20,763
32	5,300,000	120,000	514,000	18,089
33	5,182,000	283,000	593,000	14,911
34	4,881,000	579,000	1,171,000	20,138
35	4,742,000	778,000	1,444,000	21,829
36	4,635,000	940,000	1,835,000	24,590
37	4,697,000	1,249,000	2,496,000	36,142
38	4,856,000	312,000	1,279,000	31,865

(a) Estimates for 90-95% of companies operating. Excludes capital employed by individual prospectors. See source.

(Source:- Extracted from Table II and III in P. Bower:- 'The Mining Industry' in M. Perham (ed.) Mining, Commerce and Finance in Nigeria. op.cit.)

CHAPTER 7NIGERIA: OFFICIAL CAPITAL RESOURCES INFLOW 1940-70

In this Chapter like in the previous one, official capital refers to officially-induced resource inflow into Nigeria. That is, external capital resources that are acquired by, contracted or disbursed to the governments and semi-official state corporations and institutions, or that are guaranteed by the Federal Government. The sources of these foreign in-flows are thus official, private as well as multilateral agencies. In the context of Nigeria's experience, capital in-flow can be classified into five major forms. These are C.D. & W. disbursements, stock floatation on the London Capital Market, bilateral official aid, multilateral agencies credits, and private suppliers' credits and contractor finance. The above classification is historically induced. For example, C.D. & W. Grant was the pre-Independence forerunner of official aid and for Britain the change to Commonwealth Development Assistance was a purely formal change of title and not much of substance. The colonial method of raising private capital for infrastructural development through the London Market has become rare since Independence, while World Bank Loans for similar purposes and the use of private suppliers credits and contractor-finance have come to the fore. With regards to capital in-flow, 1960, the year of Independence was an important milestone, not for any immediate upsurge in official in-flow but for the ability of the local Government administration to diversify its sources of assistance and credits, and to assume debt obligations without constraints from and guarantee of the Imperial Exchequer.

C.D. & W. Funds

The 1940 radical change in Imperial attitudes towards colonial economic and social development and the means of financing it, meant the final demise of Earl Grey's philosophy and a rigid adherence to laissez-faire. If the 1929 Colonial Development Act established the principle that external official assistance was essential to development, a decade of experience under it drove home the point that that assistance must rise above a mediocre level ¹ if it was to make an effective impact. The Colonial Development and Welfare Act of 1940 (and subsequent Acts of 1945, 50 & 55) more than aimed at correcting the financial inadequacy of the previous Act. There were other qualitative deficiencies to be remedied too. Investment in social services such as health and education which were hitherto considered 'unproductive' expenditures and thus excluded, were explicitly provided for. "Welfare rather than physical development was uppermost in the mind of those who administered the Act..."² As for the expected benefits from expenditures out of C.D. & W. grants and other development projects in the colonies the interests of local people rather than those of the Imperial nation were to be of the first consideration. Development Schemes to be assisted were given a wider meaning and they were to be for "any purpose likely to promote the development of resources of any colony or the welfare of its people".⁴ The Acts of course voted more funds. Thus the maximum amount of £5M per annum for all the colonies envisaged by the 1940 Act was subsequently raised to an annual average of £12M by the 1945 Act.⁵ The decision on education was of particular importance to Nigeria,

1. £1M was the maximum that could be advanced (as loan or grant) in any one year.
2. See the Fifth Report of the House of Commons Select Committee on Estimates. Session 1947-48 No. 181 Paragraph 10.
4. See Statement of Policy on Colonial Development and Welfare Cmd 6175 1940
5. Select Committee 5th Report op.cit. Paragraph 10 & 14.

for as we have seen in the last chapter Government efforts in this field had hitherto been minimal. The post-war acceleration in the creation of education facilities, from primary to university level has made tremendous impact on Nigeria's manpower supply, even then the effects of the late start are still being felt today in many Sectors of the economy. It has been claimed, justifiably so as we shall see below, by those who have either been intimately involved in economic management or in development policy-making process that skilled manpower shortage especially in scientific and technological fields constitute a major constraint to aid-assisted project planning and execution.⁶

The vogue idea of comprehensive development planning as a means of accelerating economic progress in the colonies was introduced by the 1940 proposals. The C.D. & W. Act of 1945 required each colony to prepare a Ten-year Development Plan, the main projects of which were to be financed with the aid of C.D. & W. disbursements. Nigeria made two Plans before Independence, the Ten-year 1945/46 - 1955/56 Development Plan and the following 7-year 1955/56 - 1961/62 Plan.⁷ It is in terms of these plans that we shall look at C.D. & W. Funds contribution to Nigeria's economic and social progress. The Second Plan was overtaken by the decision to grant political Independence to Nigeria in 1960, and for practical purposes the contribution of C.D. & W. Funds was superseded by 'Independence' financial arrangements with Nigeria and by official foreign aid flows from other developed countries besides Britain.

6. See for example article entitled 'Nigeria And U.S. Aid : Some Reflections' by Dr. O. Aboyade in Nigerian Opinion Vol 7, No.2 Feb 1972. For an analysis of the relationship between Govt. firms and Church Missions in the failure to develop technical education before the war see Peter Kilby. Industrialization in An Open Economy Nigeria 1945-66 op.cit. pages 258-260.

7. The 2nd Plan referred to that of the Central or Federal Government. Because of Constitutional Changes in 1954, two of the three regions, 'East' and 'West' planned their development for a shorter (1955-60) period. All the four Governments started the 1962-68 First National plan together. Changes in the internal planning arrangement does not in any significant way affect the external capital contribution which is being analysed here.

Five years after the end of the last war, the Colonial Loans Acts 1949/52 were passed to enable the colonies to afford themselves of the financial and technical facilities being created by the new International Bank for Reconstruction and Development (World Bank). Thus in 1958 Nigeria was able to borrow £10M from the Bank for railway expansion. This loan represented the first major external capital resources to flow into Nigeria from sources outside the United Kingdom.⁸

Out of the planned capital expenditure of £55M in the Ten-year Plan, C.D. & W. Funds was expected to and duly contributed £23M. This official Imperial contribution amounted to nearly 42% of the total, and if we include the £6.8M raised in the London Capital Market for development purposes,⁹ we find that external capital as a whole financed nearly 55% of the 'planned development programmes'. Of course, as a share of overall or aggregate Government expenditure, this external contribution was much smaller. The division of expenditures between 'planned' category and recurrent one was necessary in order to fulfil the conceptual and accounting requirements of the C.D. & W. Acts.¹⁰ In practice the Plan expenditures were no more than additions to the normal, that is recurrent expenditures of the Nigerian Government which amounted to some £20M annually during the period. The sums shown under the various headings - building, water supply, medical services etc. in table 23 represented in effect the intensification of expenditures on existing services.¹¹

8. See below pages

9. See table 27 and below. During the operation of the Ten-year Plan, a total of £4.25M was also raised from external sources purely for conversion purposes. Lo.cit.

10. See Select Committee 5th Report op.cit. Chapter 1.

11. Most Post-war Annual Reports for Nigeria Contain details of Schemes completed or in progress which have benefitted from C.D. & W. Votes. The 1949 Report Appendix E lists such schemes as of that year.

The plan and the subsequent 7-year one were not truly comprehensive for they involved merely a collection of capital projects and schemes to be executed by the public sector, including the Statutory Corporations and Utilities.¹² The 10-year programme was essentially of economic and social infrastructural development, however unlike the pre-war period the emphasis was now on social and welfare services. As table 23 shows, among the major 'directly non-productive' schemes that received substantial allocations were health services, education, water supplies and building construction. Other expenditures were on roads, electricity and telephone expansion.¹³ The succeeding 7-year plan of the Federal Government and the subsidiary ones of the three regional administrations, in aggregate envisaged a noticeably reduced dependence on external support for financing the Plan targets. This was partly because the fiscal base of the economy was being rapidly developed and expanded from a very low level, and for the fact that by the beginning of the Plan period, Nigeria, like other colonies had accumulated huge Sterling balances in London. "..... out of a possible requirement of £339.1M to finance the development programmes of the Governments and their statutory bodies, it is anticipated that £264M or 78% will be found from local resources. £23M (7%) from C.D. & W. and other external grants and £25M from loans made by the United Kingdom Government and the International Bank for Reconstruction and Development." ¹⁴

Let us look at the contribution closely. Local resources here included also the assets held abroad by the Governments and their Statutory bodies like the Marketing Boards. From C.D. & W. Fund the Governments hoped to receive a grant of £19.4M, while the Statutory Corporations hoped to receive

12. C/F Select Committee 5th Report op.cit Paragraphs 64-65.

13. For details see 'A Ten-year Plan of Development & Welfare for Nigeria 1946'. Legislative Council of Nigeria, Sessional paper No.24 of 1945. In general no project likely to earn direct revenue was eligible for grant from C.D. & W. Funds. If such a project was nominated for assistance it was likely to be given in form of a loan.

14. National Economic Council of Nigeria:- Economic Survey of Nigeria 1959. op.cit. Page 90.

£1.8M. The bulk of the remaining £1.8M miscellaneous grants was to come from the United States. As for the Loans, £15M was to come from the United Kingdom (that is £3M Exchequer Loan, and £12M Commonwealth Assistance Loan) and the remaining £10M was to be the World Bank Loan, which I referred to earlier on. The greater part of the remaining 8% in required finance was to be filled by the use of external suppliers credits and Contractor finance. Thus in the second Development Plan of Nigeria the expected share of external contribution to public sector capital expenditure was about 20%. "The small reliance on external loans is due to a willingness to impose taxation so as to ensure that Nigeria shall finance as much of her development as possible from her own resources".¹⁵ This attempt to generate self-reliance in the provision of capital resources for development was short-lived, for as the sterling savings - on which the confidence had in the first instance been largely built, - became quickly depleted, the government began to recognize the possibility of finance (both domestic saving and foreign exchange) becoming the major constraining factor in the development process. The determination to tax soon waned and though the share of Government receipt in GNP rose from 6% in the early '50s to 12.7% in 1962/63, it still remains by international standard relatively low.¹⁶ Thus by the third planning period or what was the first post-Independence planning effort, a return was made to greater dependency on foreign official support. The expected 43.5% foreign aid contribution to public sector capital formation programme in the 'First National Development Plan of 1962-68'¹⁷, was no doubt also conditioned by the opportunity to widen the sources of official assistance and by promises made on the attainment of nationhood. As it turned out the expectation proved to

15. Ibid Page 9.

16. C/F H.T. Oshima. 'Share of Governments in GNP for Various Countries' A.E.R. June 1957.

17. See below table 28.

be highly optimistic and was not fulfilled. There were many factors responsible for the Shortfall in foreign aid contribution to the 1962-68 Plan and I shall deal with them later in this chapter. Here I shall concentrate on the pre-Independence position.

The expected external contribution to the 1956-62 Development Plan did materialize, except the use of export credits which did not begin in earnest until 1962/63. The C.D. & W. Act of 1955 allocated £11.75M to Nigeria and £1.53M to Southern Cameroons out of a total of nearly £30M earmarked for African Dependencies. Further additions were made to Nigeria's disbursement such that by the end of the plan period she had received over £15M. The Independence decision affected the projected development programme in the Plan especially in the last three years or so. Revisions in the form of additional schemes were made. I have previously referred to the rearrangements in the Governments planning period. Loan commitment from Britain was increased beyond the original level. By the end of 1961 actual disbursement from Britain to Nigeria's capital requirement since the beginning of the second Plan in 1955 had risen to about £37M, almost equally divided between grants and loans. During the 17-year period of the first and second plans, that is 1945/46 to 1961/62, British official aid to Nigeria amounted to over £60M of which nearly £40M was disbursed as grants. The main source of grants were of course the C.D. & W. Funds. By 1960 the total sum made available for distribution to the Colonies by the 1945, 55 and 59 Acts had risen to over £220M. By the time Nigeria exhausted her allocation under the Acts she had received general grants of £38,322,422, research grants of £397,069 and a small loan of £31,000. The grand total was £38,750,489¹⁸. Nigeria also must have benefitted from nearly £4M allocated to West Africa for

18. See Colonial Development & Welfare Acts: Final Returns of Schemes made and of Loans approved under the Acts to 31st March 1970. H.M.S.O. July 1970. For yearly 'flows' see table 26.

research and other developments that related to the region as a whole.¹⁹

In absolute terms Nigeria's share of C.D. & W. disbursements looks impressive. Though she had no allocation from the 1959 Act, the aggregate amount she received from the earlier Acts was enough to give her a 17.6% share of the total C.D. & W. Funds so far made available to all the Colonies by the time she became independent. In terms of geographical distribution African territories received the largest share in cumulative allocation as of 1959, that is £111.6M out of £220M or just half of the total. Nigeria was the largest single recipient, alone she received over 31% of the original allocations.²⁰ However if we bring her population size into the picture we find that her per capita C.D. & W. aid receipt during the whole post-war Colonial years amounted to, on average less than £0.1 per annum. By the time she exhausted her allocations the total amount received worked out at less than £1.30 per head of population. This receipt over a 17-year period compared unfavourably with disbursement to British West Indies, whose population on average received about £2 per head per year, or with Malta whose 'Special Circumstances' enabled her 300,000 inhabitants to receive more C.D. & W. funds than Nigeria.²¹ The average per capita allocation for all Colonies during the same period worked out at about £1.5 per annum. As a percentage of Government revenue, the C.D. & W. disbursements were small, more especially so after 1955. The flow for 1946/47 was equivalent to 5.6%; for 1952/53, 5.7%, and for 1957/58, 3.1%. If in practice the C.D. & W. grants to Nigeria amounted to no more than an addition to government revenue, their contribution remained extremely low. This was a sharp contrast to the experience of the neighbouring French Colonies.²²

19. That is the so-called 'central schemes'. See *ibid*

20. See ODI:- British Aid 2. Government Finance Appendix II Statistical Table 3, Page 134.

21. *Ibid* page 93. Also see table 30 pages 94-95. Gold Coast's (Ghana) per capita aid receipt was of similar size with Nigeria's.

22. See T. Hayter:- French Aid. (ODI publication) London 1966.

Again before 1960, the contribution of external official resource disbursement either to Nigeria's capital formation or to the economy as seen through its relative size to total imports, has been on the low side. However the annual disbursement formed a relatively high proportion of public sector capital formation. This fact is borne out in table 24 below.

The comparisons made above render an insight into the C.D. & W. allocation policy absolutely essential otherwise wrong or misleading conclusions might be drawn from them concerning Nigeria's experience. Formally "all factors which are known to be relevant were taken into account, including the size and population of the territory, its known economic resources and possibilities, the present state of development, the development schemes known to exist or to be under contemplation, and the financial resources likely to be available locally."²³ Local resources included 'surplus balances' as well as capital that could be raised locally or in London Money Market. In short, besides population, the strength of its capital need, the relative poverty of the Colony, its absorptive capacity and project planning ability were the chief factors determining its share of C.D. & W. Funds. In the case of Nigeria, her sheer physical size and population were the chief considerations in allocating her in 1945/46 £23M out of £54.6M available to Africa. Her claims on other grounds were strongly matched by claims from other colonies especially in Africa where similar economic conditions obtained. Nigeria's relatively smaller allocation in subsequent years, for example £11.75M out of Africa's £299M in 1955, could be explained on several grounds. First and foremost, by the end of the first plan period Nigeria like most other colonies had built up a huge level of external savings in form of Sterling balances and her ability to generate a rising level of government revenue was proving successful.²⁴ Furthermore during the duration of the Ten-year plan Nigeria

23. Secretary of States for the Colonies. 1945. Quoted in ODI:- British Aid 2. Government Finance op.cit. pages 92-93.

24. Government revenues (excluding overseas grants) were £14.2M, £51.1M and £81.3M in 1947, 1953 and 1958 respectively. See Economic Survey of Nigeria 1959 op.cit Page 11.

TABLE 24

'EXTERNAL OFFICIAL DISBURSEMENT' TO NIGERIA AS % OF GROSS CAPITAL Formation; Public Sector Capital Formation, and Imports of Goods and Services. 1945-60. Selected Years.

	% of G.C.F.	% of Govt. C.F.	% of Imports ²
1947/48	4.6	9.6	2.9
1953/54	5.1	15.2	2.7
1958/59	3.9	11.1	3.0

- (1) 1958/59 estimates include £2.8M (£ 8M) drawn as of December 31st from the £10M World Bank Loan of 1958. Otherwise figures relate to C.D. & W. grants only.
- (2) Imports are for calendar years 1947, 53, 58.

(Source:- Official Statistics).

consistently failed to reach her targeted expenditure levels. In other words her 'capital' expenditure lagged behind her allocation. She shared this experience with the rest of British West Africa as well as most other colonies.²⁵ Table 23 also illustrates the underspending in the early years of the Plan. Equally important in her case was the failure of actual government expenditure to follow those laid down in the plan. The local colonial administration attributed this underexpenditure to the need for flexibility and because of post-war shortages of Capital goods especially of equipment and materials for civil engineering, and of skilled manpower.²⁶ The apparent low capital absorptive capacity was due to more than economic factors. There was lacking in the local administration a desire to accelerate the tempo of economic modernization and development above a

25. See Select Committee Report. op.cit. Paragraphs 18-20

26. See Colonial Report for Nigeria 1949. op.cit. Page 8; Economic Survey of Nigeria 1959. op.cit. page 6, and Select Committee Report, Chapter 2 paragraphs 23-58.

Isn't this what the author
was advocating later??

level that local conditions could cope with, otherwise such development 'may prove to be socially disruptive'²⁷. R.W. Stopford provides the theoretical background to Official thinking on non-agriculture development in post-war Nigeria. Writing in 1943, he had emphasized the desirability 'for social reasons that industrialization at this stage should take the form of developing local craft industries rather than the creation of a few large manufacturing centres which would accelerate the break-up of village life and weaken the position of agriculture which is the only basis for a satisfying community life'²⁸. Not until the late 1950s when internal self-Government had passed to indigenous hands did official policy develop beyond infrastructural expansion and experimentation with "the development of existing crafts and with processing industries".²⁹ It happened that during the first decade or so of the C.D. & W. Acts, the principles and ideals of accelerated economic and welfare development embodied in those acts were in their practical application in Nigeria being unwittingly devalued by a benign policy of excessive concern with native social order and tradition. It is in the light of the above analysis that we must judge the relative success (or lack of it) of Nigeria in attracting pre-Independence external official aid. No inference should be drawn from the above that explicit set of criteria had always been applied in allocating C.D. & W. Funds to all colonies. Indeed there were territories which could only have seen their disbursements as being haphazardly determined. What the above analysis does show is that in the case of Nigeria the application of some rules was discernable. If this was not so, then She certainly had no reason to complain about her share,

27. C/F M Perham (ed) Mining, Commerce & Finance in Nigeria op.cit. Introduction page XVII. For a critique of the Nigerian Ten-Year plan see Select Committee Report Paragraphs 63-68.

28. R.W. Stopford - "Some Problems involved in the Development of Secondary Industries in West Africa". Africa 1943 Page 165.

29. M. Perham (ed) Mining, Commerce & Finance in Nigeria op.cit. Introduction page XVII.

whatever the method that had been used in determining it.

The above analysis also offers the opportunity to raise the discussion about officially - given or - induced capital inflow into Nigeria beyond the level of it being adequate or inadequate, satisfactory or unsatisfactory. Was officially-sponsored and approved capital inflow before the late 50s really necessary or not? This question may not apply to official grants like C.D. & W. votes since they did not involve any cost to the economy and one could hardly have too much of free grants! However it does involve official loan capital raised in London Capital Market, and to a certain degree the flow of private enterprise investment capital. I shall concentrate on the 20-year period 1935-55. Before then we've seen in the last chapter the important role played by official capital in the infrastructural development and of Private capital in the commercialization of the economy. After 1955 import surplus began to emerge as a result of expansion in both consumption and capital expenditure. Let us look at the period in terms of Balance of payments estimates of the inflow and outflow of investible capital resources. Since 1935 the Government had consistently exported more capital than it received either as grant or an loan disbursement. The country was invariably a net exporter of capital and before the war, the extent of the net outflow was determined by the "inflow" (usually containing a large element of unremitted investment income) of Private Companies finance. In 1936 for example, "..... it was the large outward transfers on capital account by the Government and the heavy outward remittance by foreigners occupied in Nigeria that turned Nigeria into a capital exporting country, for if the capital transfers due to commerce, industry and missions are added up, positive or inward transfers predominate..."³⁰. The average pre-war Government net capital transfer was around £1.4M or 8-10% of export values, and went either to increase Nigeria's reserves position

30. P.A. Bower: 'The Balance of Payment in 1936', chp. VI in M. Perham (ed) Mining, Commerce & Finance in Nigeria. op.cit. page 291.

(sterling working capital) or invested in various forms of securities. In March 1937 the market value of Nigeria's investments in London was £7.59M while her reserves stood at £3.93M. Table 21 shows that her total external public debt amounted to £24.76M. The above annual transfer did not of course include the service cost of public debt and the regular remittance of European civil servants.

In 1936 for example the sum of interest charges (and sinking fund contribution) and remittances by Government officials amounted to over £2.53M, that is, 15.4% of Export Values or the staggering figure of 40.4% of Government revenue.³¹ Thus the net transfer referred to surplus Government funds after all expenditures and current liabilities had been met.

It was after the war that the process of accumulating capital assets abroad gathered pace and by 1955 Nigeria's Sterling balances had reached a record level of £263.1M. The sharpest rises were during the 'boom years' of the Korean War when her good export earnings had to be saved away as a result of continuous post-war import shortages. Table 25 shows the growth of Nigeria's Sterling assets up to 1955 and the subsequent rundown thereafter. A breakdown for 1953 for example gives the following division of ownership.

	(£M)
Central Government	£ 47.7
Regional Governments	5.4
Native (local) Authorities	3.1
West African Currency Board	
(Nigeria's share of)	55.5
Marketing Boards	51.6
Regional Production Development Board	15.1
Others (semi official)	11.9
Total Official	190.3
Net Balances of commercial Banks including Post Office Saving Bank	16.4
Total Official and Banking	£ 206.7M

(source IBRD Mission Report: The Economic Development of Nigeria op.cit. Page 145)

31. Ibid. Calculated from statistics on Balance of payment given on page 313.

It would be seen from above that the three major channels of capital export abroad were the Governments, the Marketing Boards and the Currency Board. The outflow of the last named was to a large extent statutory, that is, to provide 100% Sterling backing for the local currency issue. The Governments (central and local), the Marketing Boards and other semi official bodies had accumulated substantial reserves partly because revenues had consistently been underestimated, partly because expenditures fell behind estimates, and partly deliberately to reduce inflationary pressures caused by large export surplus³², and to provide a cushion against a possible decline in future revenue. In the absence of a local money market, they together with the local commercial banks had to invest the enormous savings the economy thus generated abroad in sterling securities where "They shall be readily available on demand and shall earn interest in the interim."³³

It must be conceded that some of this money would have to be kept abroad any way, given the rigid and complex Imperial control of Colonial finance. As late as 1958, the local administration claimed that about half of the then existing Sterling balances. £100M was held for 'specific purposes' - as Sterling working capital, for special funds contributions and £70M for the currency support which I referred to above. The remaining funds of Governments and other official bodies, and a good proportion of Marketing Boards funds were "freely available to finance development".³⁴

It is with this heavy outward investment in mind that we should judge the importance of foreign resources flowing into Nigeria. I have already above dealt with the factors behind the demonstrated underexpenditure in the economy of Nigeria. In terms of capital formation, the extent of this underinvestment can be gauged if we examine closely available data for

32. C/F ODI: British Aid No.5: Colonial Development op.cit. Pages 48-49, and The Colonial Territories: Report of the Secretary of State for the Colonies 1951/52. cmd 8553. See also Memorandum on the Sterling Assets of the British Colonies. cmd 298 1953.

33. Economic Survey of Nigeria 1959 op.cit. page 99.

34. Ibid

period. For example during the three fiscal years 1950/51 to 1952/53, the total available investible resources amounted to £231.0M of which £38.6M represented Capital coming from abroad - U.D. & W. Grants £7.3M; Loan raised from London Capital Market;³⁵ Private Companies £23M.³⁶ Thus foreign supplied capital represented only a small proportion, 16.7% of total resources available for capital formation. The latter was disposed as follows.³⁷

	<u>Total</u> (1)	<u>Domestic</u> (2)	<u>Abroad</u> (3)	<u>(3) as % of (1)</u>
Gross Investment	£231.0M	134.3	96.7	41.8%
Official Fixed Investment	142.1	49.6	92.5	65.1%
Private Fixed Investment	88.9	84.7	4.2	4.7%

The amount of total savings that was being invested abroad, albeit temporarily was high by any standard and even more so in the case of assets at the disposal of Government and other official institutions. As it were, an average of 12-15% of G.D.P. was available for investment purposes during the three years but only 7-8% was actually used to augment the stock of capital available in the Nigerian economy. The bulk of domestic capital formation during the period was undertaken by the private sector of the economy and from the above example nearly 27% of the £84.7M invested by the Private sector was accounted for by Private foreign companies.

We may again, look at the situation during the period from the Balance of Payments angle. During the three years 1950-52, the total net official and banking Capital outflow amounted to about £37.2M or 26% of aggregate exports. The corresponding inflow in net addition to fixed investment and stock of foreign private enterprise amounted to about £18.8M. This net addition of foreign-owned Companies just about equal the amount credited to them as profits or direct Investment income in the Balance of Payments account. They were

35. See table 27. £6.8M was for development and the rest for conversion purpose.

36. Mostly reinvested earnings. C/F Table 51 Chapter 8 below.

37. Compiled from data given in Table 1, page 129 Technical Report 1, of World Bank Mission Report: The Economic Development of Nigeria op.cit.

therefore practically ploughing back all their earnings. The only 'Fresh' capital inflow of their sector would be equivalent to the Value of their liquid assets in Nigeria. The size of these assets is not known, possibly about £5M for each year.³⁸ I shall deal with private capital in detail in the next chapter.

What I have done so far in this section has been to demonstrate the pattern of capital movement into and out of Nigeria before and after World War II, and the degree to which she had been a net exporter especially during the decade following the end of the war. Her sterling balances, foreign assets, exchange savings or whatever one may call them, have been accumulated after the war at 'an extraordinarily high rate, which has rarely been exceeded in any country',³⁹. In 1953 "They were considerably greater than the investments of expatriate companies in Nigeria; actually they exceed the total of these investments and the Nigerian public debt, so that Nigeria is for the moment a net creditor."⁴⁰ The experiences of other British Colonies in West Africa during the period under discussion were similar to that of Nigeria, and indeed practically all the colonial territories accumulated assets in London after the war. The question of, and the controversy surrounding the sterling balances of the Colonies have been well-discussed in the literature.⁴¹

The above analysis offers us the opportunity to make certain observations about the three main components of foreign resources inflow which are under discussion in this section. The grants to Nigeria under the C.D. & W. Acts were overshadowed by official capital outflow and in effect were not transferred to the Colony in accordance with the spirits of

38. Calculations made in this paragraph are based on Statistical data on Balance of Payments Provided by (1) IERD Mission Report ibid table 7 page 143. (2) G. Halleiner: Peasant Agriculture, Government and Economic Growth in Nigeria op.cit. Statistical Annex tables IV-C-1, C-2 and C-3.

39. World Bank Mission Report. op.cit. page 144.

40. Ibid p.145.

41. See for example (1) Memorandum on the Sterling Assets of the British Colonies. Cmd 298 1953 op.cit. (2) A. Hazlewood: 'A Comment on Memorandum' R.E.S. Vol 22, 1953-54 p. 72. (3) A. Hazlewood: 'Colonial External Finance Since the War'. R.E.S. Vol 21, 1953-54. (4) Barbu Niculescu: Colonial Planning. A Comparative Study. London 1958.

the C.D. & W. Acts but merely added to her balances in London. This was so upto 1955 when she was accumulating surpluses. As Barbu Niculescu has argued, the usefulness of these grants would come only when they have in effect, though not nominally,⁴² been transferred out of the books into development projects.⁴³ In effect one could hardly say that C.D. & W. grants to Nigeria upto 1955 were necessary and useful under the conditions then prevailing.⁴⁴ For the colonies as a whole, Hazlewood has provided a critical review of the relationship upto 1951 between C.D. & W. Funds and Sterling balances. In his opinion, "Development and Welfare Policy implies that the colonies should receive gifts and loans, and £211M has in fact been made available for this purpose ... between 1946 and 1951. But in reality, this sum has not been effectively transferred. Instead of the external current account deficit necessary if they were to absorb this amount, the colonies have been heavily in surplus ... Thus the colonies have been exporting capital not importing it."⁴⁵ ... their investment of £1.000M⁴⁶ in Britain does not accord well with the commonly held ideas on the desirable direction of capital flow between countries at different level of economic development."⁴⁷ Disbursements from the loans raised in London capital market for railway and other constructions had been responsible for net positive

42. Nominally the projects for which they were given, were assumed to have been undertaken with them. C/F. Tables 23 and 26.

43. Barbu Niculescu. Colonial Planning. A Comparative Study. op.cit.

44. Thus, my earlier attempt to show the significance of C.D. & W. disbursements by relating them to economic indicators like imports, revenue and capital formation might now look to be less meaningful than it should otherwise be.

45. A. Hazlewood: 'Colonial External Finance Since the War' op.cit. Page 48.

46. The total Sterling Assets of the Colonies at the end of 1956 amounted to £1.454M, an increase of £672M over the 1950 figure.

47. A. Hazlewood. 'Colonial External Finance Since the War' op.cit. Page 49.

inflow on Government Capital account before 1935 when the last pre-war one was floated. Four were floated between 1949 and 1951;⁴⁸ two of the three small ones raised to convert part of matured loans, were later jointed together into one £3M stock of 1950. The fourth, £6.8M was raised in 1951 for 'development purposes'. It is plain from the above analysis that these loans were unnecessary and costly. It is more extraordinary rather than paradoxical that in 1950 while Nigeria was transferring abroad £25.4M for investment purposes, she was at the same time raising £1.5M from London Market for the purpose of postponing full redemption of a matured loan. At the end of 1950, the outstanding amount of the various loans was at its lowest since 1920. Nigeria could easily have afforded the £14.5M necessary to redeem them all without adversely affecting her assets position or that of the Imperial Treasury.⁴⁹ On the contrary, she floated more capital in the following year and paid abroad nearly £1M (equivalent to 3% of Government revenue) as interest charges. Again, she could have raised funds locally for the existence of idle capital in the economy was testified by the mere fact that when the first local loan of £300,000 was launched in 1946, it was over-subscribed by £500,00.⁵⁰

As for foreign private enterprise direct investment in Nigeria, the inference that can be made from the above analysis is that during the period, it was not the capital inflow per se which was important and useful to the economy, but the other elements in the investment package. The level of finance was low enough that Nigeria could easily have substituted her own resources to maintain the level of commerce development, or even buy out the

48. Data used in this paragraph are shown in Table 27.

49. "The possibility of earlier redemption (of colonial loans) has been discussed in Parliament, but no practical solution was suggested." A.W. Pim:- Public Finance Chpt. V. M. Perham (ed.) Mining Commerce & Finance in Nigeria. op.cit. Page 244.

50. M. Perham. ibid. Introduction P XIX.

then existing investments. But what were crucial to the continuing foreign participation were the entrepreneurial skill, the organisation and technical know-how and the link with foreign buyers and sellers. Between the end of the war and the late 1950s, it was the human content and not the financial content of foreign capital investment that was vital to the Nigerian economy.⁵¹

LOAN FROM LONDON CAPITAL MARKET : FURTHER CONSIDERATIONS

I have in the previous section dealt with bonds issued in the London Market in the 1950s in the context of their relevance at that period. Table 27 gives more details of the position after 1940 and is a continuation of the data for pre-1940 period shown in both Tables 20 and 21. The most important fact to emerge is that Nigeria did not make much use of the external private capital market after the war as she did before it. Since the 1951 issue, the Government has not borrowed directly from the market and the outstanding debts have been gradually redeemed, while this was taking place, however, the Government and other official bodies have been increasing their borrowing from internal sources. For example, while by March 1964 the external funded debt had been reduced to £15.3M (including the recently floated £4.25M for N.P.A.),⁵² the internal funded debt had risen rapidly to nearly £55M.

By early 1970, the position of the Federation, with regards to borrowing from overseas capital markets has not changed since the mid-sixties, though Post-Civil- War rehabilitational needs may force the authorities to float short-to-medium term capital in the early Seventies. The absence in recent years of official overseas bond issues comparable to those of pre-1936 period is due to several factors. First, the availability of an internal source of finance which was not previously tapped and which does not involve the payment of interest charges abroad in scarce foreign exchange. Secondly,

51. C/F. above Chapter 2; and G.K. Helleiner - 'New Forms of Foreign Investment in Africa'. J.M.A.S. Vol. 6, 1968. op.cit.

52. See the Report of Accountant-General, together with Financial Statements for the F.Y. 1963/64. The outstanding amount in 1964 could in fact be £16.3M instead of £15.3M, for £1M was reportedly floated in 1962, possibly by a state corporation, the existence of which could not be traced in official publications. See O.E.C.D. The Flow of Financial Resources to L.D.C. 1961-65 op.cit. Table II.5 Page 43.

the availability of an alternative source of foreign exchange resources. The post-war development of official aid and of multilateral agencies. loans has widened the range of choices open to a development economy like Nigeria and the disbursement of official assistance at less than market charges has taken the edge out of private market contribution. A large proportion of public utility's economic and social infrastructure expansions which were first developed with bond capital in the Twenties and Thirties, are now undertaken with World Bank loans⁵³ and 'soft' official development assistance. The third factor has already been fully expounded in Part I of this study, namely the relatively little attraction which developing countries like Nigeria offer for security-conscious private bond or portfolio investors in the developed countries. Again, as we have seen in earlier chapters, foreign private capital participation in the development process in L.D.C.s is now concentrated in the form of direct Investment and short-term export credits.

To summarise, the situation with regards to the official usage of bond capital resources is as follows : At Independence, the nominal value of such capital floated amounted to over £55M, all except £1M from the London Capital Market, but the size of the amount actually used 'productively' came down to about £32.5M. The balance of nearly £23M was largely accounted for by 'conversion capital' and the administrative cost of raising the loans. Ten years later the nominal amount has risen to over £60M and the 'productive' part to nearly £37M.

OFFICIAL BILATERAL FLOWS AND MULTILATERAL AGENCIES COMMITMENTS

The analysis so far has dealt with British Colonial and Capital Market flows to Nigeria. This has been inevitable since practically all Nigeria's external capital inflow before 1960, the year of Independence came from that source. However, the United States made some small disbursements to her totalling about \$25.6M (£9M) prior to the establishment of a \$225M (£80.37M)

53. See Tables 36-38 below.

commitment for the 1962-68 Development Plan. The great part of the Pre-April 1962 aid was in form of technical assistance and grants (\$22M) disbursed by the International Co-operation Administration (I.C.A.) and the remaining \$3.6M as loan, by the Development Loan Fund (D.L.F.) for railway and ports improvement schemes. Again, the greater part of this assistance was given in the immediate years before and after Independence, especially in Financial years 60 and 61. Only about \$2M was given before 1954. Nigeria in common with the rest of British (colonial) Africa had little 'fall-out' from the huge funds of the Marshall Plan in the first decade after the war. They received assistance totalling £24M in contrast to French Africa's £130.5M, of which £106M came through the European Fund.⁵⁴ The £10M loan from the World Bank was exhausted by 1961, and together with the above U.S. flow, formed the bulk of the complementary source of external finance for Nigeria before the beginning of the 1962-68 plan period. There were minor official disbursements from other D.A.C. countries, but the aid from Britain still formed the largest part of her bilateral receipt. By 1962/63, as more other foreign official commitments to her development plan began to widen her sources of aid⁵⁵ the British share correspondingly began to decline.⁵⁶

The remaining part of this chapter will concentrate on the decade following Independence, that is 1962-70, and I shall continue with the previous attempt to look at external official assistance in terms of its aggregate contribution to Nigeria's development objectives as laid down in her Development plans. I have earlier on explained the circumstances which compelled

54. U.A.C.:— Statistical & Economic Review, No. 20, 1957, Page 34.

55. Foreign 'aid' or 'assistance' is used here, like in previous Chapters to simplify foreign official and multilateral agencies flow to Nigeria. It comprises, grants, grant-like disbursements, loans and officially sponsored export credit transactions. The latter like World Bank loans and I.F.C. equity participation are commercially-oriented flows.

56. See Table 33 and Alan Sokolski:— The Establishment of Manufacturing in Nigeria. op.cit. Pages 178-188.

as well as attracted Nigeria to plan for a 27% foreign aid contribution to her 1962-68 Development Plan. As Table 28 shows the expected inflow also represents 43.5% share of public sector financing. The plan was conceived and drawn at the inception of the 'Development Decade II' that promised success for a reinvigorated international effort to develop the poorer parts of the World. In 1960 and 1961, the L.D.C.s were determined to lift themselves up and the developed countries were willing to help. Indeed, development resources were flowing steadily in an upward trend from the latter. It was in this atmosphere that Nigeria conceived the foreign financial contribution to her development programme as the gap between the cost of what she wanted and the capital resources she herself could mobilise. Most of the targets were not unreasonably high, on the contrary, her development targets in the 1962-68 plan have been criticised in various quarters as being rather conservative.⁵⁷ However, a foreign exchange gap of £480.5M was projected, to be filled hopefully by foreign aid of the range £300-£327M and foreign private investment of the range £185-£200M. In each case the larger estimate was considered more plausible and consequently treated as the operative figure.⁵⁸ In each case too, the estimate had been made residually. Let us look closely at the estimate for foreign official assistance. This of course included loans from the International Institutions like I.B.R.D. and grants from the U.N. Development Fund (U.N.D.F.). The residual estimate of £327M (£915.6M) for the six-year period of the Plan, or an annual disbursement of £53.5M bore no discernable relation to her previous receipts of external official assistance. Between 1954 and 1960 out of a total gross expenditure on fixed capital of £763M, only £35.5M or 4.7% of it was obtained from foreign aid sources by the public sector.⁵⁹ Furthermore, three years before the start of the plan Nigeria on average has received £10-£11M per

57. See for example, Sayre P. Schatz : 'Nigeria's First National Development Plan (1962-68), An Appraisal', N.J.E.S.S. Vol.5, No.2, July 1963, and F.A.O.: - Agricultural Development in Nigeria 1965-1980. Page 4.

58. See Nigeria:- 1st. National Development Plan 1962-68. op.cit. Pages 35-40.

59. C.E.C.: - Commonwealth Development and the Financing, No.5 : Nigeria H.M.S.O. 1963, Page 16.

annum in grants and loans for her Capital Development Fund. The Plan offered no explanation as to how the figure of £327M was arrived at, certainly no detailed evaluation of her relative prospects in the context of highly competitive claims from other L.D.C.s was done. The political leaders and their planners must have been carried away by tentative promises of aid at the time of Independence by rich nations in the Western World anxious to start their (diplomatic) relation with the new nation with a benevolent gesture. Nigeria too must have been impressed by the success which heavily populated countries like India and Pakistan have had in attracting foreign aid to support their development efforts, but she seemed not to have taken full cognizance of the fact that the relative large disbursements to these countries especially during the First Development Decade were to a large part the outcome of a 'Cold war brokerage'.⁶⁰

The advantage and disadvantage of heavy dependence on external official resources are greater than those associated with a small reliance. Not only does it provide a much needed extra resources in foreign exchange as well as easing the initial burden of gathering an adequate investible surplus, it also does provide a valuable time during which the economy could increasingly mobilise its own resources. Moreover, the output foreign aid helped create when used in capital development projects increase further the surplus at the disposal of the economy for future plans. On the other hand, because of the unpredictable nature of official inflow from year to year, its probable use for short-term political or economic purpose even after commitment has been made, the vulnerability of the recipient's economic progress to extraneous factors becomes all the greater. In the case where such official disbursement is scheduled for the recipient's public sector and where the role of such sector (as in Nigeria) is of strategic importance in the development process, an unfulfilled promise, a fall-off or sudden cut-back in foreign

60. See Nurul Islam:- 'Foreign Assistance & Economic Development : The Case of Pakistan E.J. March 1972, and P.J. Eldridge : The Politics of Foreign Aid in India. op.cit.

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aid is likely to have a cumulative impact far beyond the nominal value involved. Again as a corollary to the afore-mentioned advantage, a heavy dependency may simply reflect an economy's unwillingness to tackle the problems associated with accumulation and what is worse, its readiness to substitute foreign 'saving' for domestic one.⁶¹ It may not be inappropriate to note Nigeria's recent experience in this connection. Her gross national savings has remained in the range 8-11% of G.N.P. during the 1955-67 decade though the underlying trend in the more recent past has been a gradual upward movement.⁶² Up till now, Nigeria's actual use of foreign aid resources has been far too short a period and at too low a level for any conclusive remarks to be made. If a tentative one is required, it is that the level of, and the trend in domestic saving have in no appreciable way been affected by official resource inflow.

With the above digression out of the way, we can now examine the actual behaviour of foreign aid during the 1962-68 plan period. The size of firm commitments Nigeria received during the earlier part of the plan period was much below expectation, and given the time lag between commitment and actual disbursement, the inflows in the initial years were in consequence singularly disappointing. During the first three years of operation, when the level of commitments should be just about equal the targeted level, we find that such firm offers totalled about £217M or 2/3 of the expected foreign aid component of the Plan. Within this total, grants commitments were relatively higher than those relating to loans - £45M or 3/4 of the expected disbursement. The three principal donors/creditors were the United States which promised £80.36M, Britain - £30M and the multilateral agencies which between them promised £63M. I shall later analyse briefly the assistance from each of these sources. As for actual disbursement, the resources received in the first two years of the Plan reached only 17% of their target level⁶³ and in the first four years of the six-year plan period her receipts had amounted

61. See above Chapter 5 and below Appendix IV.

62. See World Bank - World Tables Jan. 1971 Section on Nigeria, Table 3, and Table 34B below.

63. Federation of Nigeria:-First National Development Plan.Progress Report 1964. op.cit. Pages 30-34.

to only 21.3% of the total £327M expected for the plan period. This serious shortfall obviously had important implications for public sector performance which as we have seen above heavily depended on foreign aid disbursements. The adverse effect of the impact could be gauged from this observation: during the first two years of the plan, total public capital expenditures amounted to only £150M, more than £100M below the required amount, assuming an evenly paced expenditure programme.⁶⁴ During the same period, only 21% of public sector planned capital expenditure was financed by foreign disbursement, in contrast to an expected 40-45% annual contribution. It is interesting to note that the "purely domestically-financed portion of the public expenditure programme, in money terms and in the aggregate was almost exactly on target, ... thus the principal reason for the failure to approach the projected level of investment was the unexpectedly low foreign aid contribution."⁶⁵ The behaviour of external official capital contrasted sharply both in the initial phase of the Plan's execution and through out the period 1962-68 with that of foreign private capital whose inflow after a slow start was well up on the targeted level (due largely to rapid rise in oil sector investment) and complemented the relatively buoyant domestic private sector investments.

One direct result of the short-fall in foreign aid disbursements as well as of a proven underestimation of import requirements was that Nigeria like most developing countries in similar situation had to place greater reliance on the use of readily-available high-cost short- and medium-termed suppliers credits and contractor finance. Such inflow of publically-guaranteed export credits from donor/creditor countries in place of concessionary loans and grants had by 1965 reached 'an alarming scale.'⁶⁶ In that year the repayment of previous credits and servicing cost alone exceeded 60% of total public debt service.⁶⁷ I have already dealt with the general aspects

64. ibid. Pages 6-7

65. G. Helleiner:- Peasant Agriculture. Government & Economic Growth in Nigeria. op.cit. Page 343.

66. National Development Plan, Progress Report 1964, op.cit. Pages 18-21.

67. IBRD/IDA:- Annual Report 1966/67 Page 32.

of export credits in an earlier chapter, and I shall look closely at Nigeria's experience during the 1960-70 decade in a later section. Perhaps we should not read much into the earlier setback in foreign aid contribution to the 1962-68 plan; certainly the pace of disbursement picked up by 1965-66⁶⁸ and in spite of the fact that the plan itself was abandoned in late 1966 due to the deteriorated political situation, the aggregate sum of net disbursements during the six calendar years 1962-67 (corresponding closely to the six financial years of the Plan) was about £143.3M or 43.8% of the expected Gross inflow in the plan period.⁶⁹ The Post-1966 disbursements of course included assistance not originally scheduled for the Development Plan, but the greater of the inflow represented earlier commitments.

The low level of foreign aid contribution to Nigeria's third plan - or the 'first national' Plan as is officially designated - especially during the initial years cannot of course be explained solely in terms of an over-estimation of potential assistance from foreign governments. There are other factors involved and they have important implications for Nigeria's future aid programme. Most of these factors have at one time or the other been touched upon in Part I. Here, their practical application to Nigeria are being discussed.

The various ramifications involved in planning and executing the details of Development Plan and in achieving adequate co-ordination with technical consultants and aid administration from the donor/creditor countries have found the local machinery wanting and inadequate in many respects. Adequate and efficient capacity for detailed planning and execution of projects, whether sponsored with foreign assistance or not has always been a major constraint to the achievement of target levels. We have seen this in the

68. See Table 33.

69. See Table 33B.

past and is likely to persist into the future. It is a bottleneck which foreign aid itself (i.e. technical assistance) has, and must continue to alleviate and ultimately help in eradicating.⁷⁰ In the opinion of Professor Arthur Lewis "If Nigeria had had better staffing for implementation (of Development Plan) it would have also got more money from abroad."⁷¹ This implied low absorptive capacity for foreign aid usage by Nigeria can be substantiated with one or two pieces of evidence. First, as of December 1970, Nigeria had not been able to exhaust the £80M earmarked by the United States as its contribution to the 1962-68 Plan.⁷² Four years after the original general promise of that sum, less than £43M of it had been committed to specific projects.⁷³ Actual disbursements would of course have been spread over a longer period. Secondly, cases of bureaucratic chaos and technical delays in aid-financed road constructions have been reported. For example, it took a period of ten years before a 5½ mile road scheme could be concluded.⁷⁴ Certainly from the above example, the faults are not exclusively on the side of recipient officials. Donor 'experts' liaise badly with their local counterparts. Another reason why loans are slow in being committed and in being utilised is the rigid desire of the donors to tie their assistance to specific projects. Such inflexibility has certainly resulted in projects being shelved, especially in cases where co-operant local resources (including local costs) are not available. These two factors, tying of assistance to specific projects instead of a more flexible programme approach and the question of local financing of aid projects assume some importance if seen in the context of Nigeria's relatively short experience with modern 'comprehensive' development planning. For such inexperience necessarily requires that a certain amount of flexibility in implementation

70. See below Tables 39B and Pages

71. W.A. Lewis:- Reflections on Nigeria's Economic Growth. op.cit. Page 38.

72. C/F. O. Aboyade:- 'Nigeria and U.S. Aid : Some Reflections. Nigerian Opinion. Vol.7, No.2, Feb. 1971. op.cit. Also Tables 33 and 33B.

73. See U.S.A.I.D. (Lagos). The United States Technical and Capital Assistance in Support of Economic Development in Nigeria: Report as of January 1965.

74. Aboyade. 'Nigeria & U.S. Aid : Some Reflections' op.cit.

is desirable, and she must be able to carry out necessary changes with the financial and technical backing of her benefactors. Poor planning machinery implies poor cost estimation. There are cases of costs of executing development projects soaring above projected levels and during the first half of the 1962-68 Plan "the Government have been unable to take up some offers of foreign aid because they could not finance their share of local currency costs".⁷⁵

Another factor which might inhibit or smoothen the flow of aid disbursement is the degree of similarity in politics-economic philosophy of the donor and recipient countries. I have dealt with the question of leverage in some depth in Part I. The 'benefit' or 'cost' of that leverage is determined by the above similarity or dissimilarity. Nigeria's experience in the use of international foreign aid is too short for a practical diagnosis of the degree to which her economic and social policies are being influenced by the advice of her main aid givers. To a large extent the attitudes and orientation of her leaders and economic planners in the past have not deviated from the expectation of her main benefactors. As a matter of fact all sides agree that the main priorities in her development programme must remain for the time being in economic and social infrastructural expansion and in manpower training. Grants, technical assistance and loans have been concentrated on these priorities. However, in the course of detailed negotiations, problems and disagreements do arise, with a detrimental effect on the flow of assistance. A case in point was when recently the United States AID administrators in the field insisted on charges being made for aid-financed water supply schemes for the two big towns of Lagos and Ibadan.⁷⁶ Traditionally, in Nigeria, water supply and the likes have always been considered as social welfare amenities, expenditures on which are not directly productive or self-financing. Reaching a compromised

75. W.A. Lewis:- Reflections on Nigeria's Economic Growth. op.cit. Page 61. See further considerations on Pages 64-65.

76. O. Aboyade:- 'Nigeria and U.S. Aid : Some Reflections' Nigerian Opinion, Vol.7, No.2, Feb. 1971. op.cit.

solution on a typical example like above involves some element of delay in aid disbursements. In the absence of any access to detailed negotiations involved in specific aid project,⁷⁷ we cannot assess meaningfully the extent to which 'strings' and conditions attached - as opposed to internal leverage on resource allocation - have in the past inhibited the size and productivity of foreign aid flowing into Nigeria. Possibly some reduction must have taken place in expected commitments and disbursements, that is, if we are prepared to take to its logical conclusion the information provided by a recent senior Minister in the Nigerian Government and who as Minister of Finance and economic affairs 'Overlord' must have been involved at the highest level with foreign aid matters. According to Chief Awolowo, "the conditions and strings attached to those much-publicised foreign loans and aids about which we hear so often are, from our intimate knowledge of them, such as no self-respecting and economically free and self-reliant country would ever consider much less accept."⁷⁸

The above factors no doubt contribute to the long gestation period between broad aggregate commitment, specific project commitment and actual disbursement of aid resources. In the case of Nigeria, it has officially been implied that a certain amount of firm commitments for a given period is likely to generate a 60% level of actual disbursement during that period.⁷⁹ Part of the delays is no doubt due to what in the developing countries have come to be seen as unnecessarily high and harsh technical requirements by the donor/creditor countries, involving feasibility and viability studies, the question of relevancy and of assumed national priorities. As I have shown above, the consequence of stringent official appraisal has not only been the reduction in governmental contribution, but also the escalation of the use of private export credits. It has not prevented the construction of 'prestige' projects.

77. The Annual Report of the Accountant-General of the Federation does give some information about 'formal' terms and technical details of external debts and loan contracted. Such official information is of course hardly revealing. For example see 1969 Report.

78. Obafemi Awolowo: The People's Republic. Ibadan 1968. Page 310.

79. See Nigeria: 2nd National Development Plan 1970-74. Lagos 1970.

Two other not unimportant reasons for the relatively low level of foreign aid may be cited briefly. Firstly, for the greater part of the last decade, she had limited herself to a narrow source of external assistance. No doubt this was part of colonial heritage when Britain was far more than half a century, the only source of external capital resources. After Independence she relied exclusively on members, indeed some members of her Consultative Group⁸⁰, and it was only the political and military pressure of the Civil War period that forced her leaders to seek aid from Centrally-planned Economies, especially the Soviet Union. The amount involved has been small⁸¹ and it is doubtful whether Eastern Europe will remain a permanent source of assistance. Aid from the rich Commonwealth countries other than Britain and Canada, has in the last decade been of minor value.⁸² The second point concerns the extent of unfulfilled promises and inadequate commitments. Besides the above explanations, we may recall other factors outside the control of Nigeria which I referred to earlier on.⁸³ Fluctuation in annual commitments and disbursements may be caused by economic weakness - see for example the level of British disbursement to Nigeria in 1967-69 in relation to earlier years,⁸⁴ while the retrenchment trend in the United States foreign aid programme is due to the combination of many factors already explained in Part I. It is significant to note that Africa and the developing part of Southern Europe are taking the brunt of the present cutback in the United States aid flow.⁸⁵

80. Members of the Consultative Group are Belgium, Canada, W. Germany, Italy, Japan, Netherlands, Switzerland, United Kingdom, the United States, I.B.R.D. & I.D.A. C/F. Tables 33 & 33B.

81. See below Table 34.

82. See Tables 33 and 33B.

83. See above Pages 378-380

84. See Table 39A.

85. See DAC/OECD:- Development Assistance. 1970 Review. op.cit. Statistical Annex Table 21, Page 198.

It was in response to the low inflow in the 1962-68 Plan period coupled with the poor prospects for international aid in the immediate future that Nigeria quite correctly planned for a smaller contribution from foreign official and multilateral sources for the financing of her Second National Development Plan 1970-74. As Table 28 shows the drop from 43.5% in the earlier plan to 19.4% in the second, represented a significant change in official thinking. Clearly it is being realised that for the all-important public sector planned targets to be accomplished, a heavy dependence on exogenous contribution from foreign governments must be avoided. However, it was not a movement away from foreign financial influence. An increase in the share of private sector in planned G.C.F. was coupled with a more than proportionate increase in the contribution expected from foreign private capital. The movement away from external official capital was matched or offset by an expected expansion in private capital contribution - largely for the oil industry. The overall over-dependence on foreign resources has not changed. The 62.8% share of foreign private capital in total private sector investment is a rough estimate. Footnote (d) in Table 28 gives an explanation. But the nearer that estimate approximates to the actual share, the longer into the future goes that desire 'to give Nigeria an increasing measure of control over her (economic) destiny',⁸⁶ and the more difficult becomes the task of 'reducing the double divergence that exists firstly between the public and private interests, and secondly, between the interests of the nationals and those of the foreign investors'.⁸⁷ I shall return to private capital in a later chapter.

I now move on from the field of expectation to that of reality - by examining in quantitative terms the actual disbursement to Nigeria during the decade from official and multilateral agencies sources. I shall deal with private export credits in a later section. Tables 29 and 33 show the size of the joint and separate annual disbursement to Nigeria. The latter also

86. 1st. National Development Plan 1962-68. op.cit. Page 1.

87. 2nd. National Development Plan 1970-74. op.cit.

shows in details the relative size of the component parts. A large part of grants and grant-like flow took the form of technical assistance, indeed in the whole 'non-French' West Africa, she had the highest proportion of her assistance disbursed in this form.⁸⁸ Compared with neighbouring Ghana, Nigeria did well to receive about a third of her assistance in the form of grants in the years before the Civil War. The former's comparable proportion of 10% must have underestimated the overall concessionary element in her foreign assistance as the greater part of it during the Nkrumah administration was coming from Sino-Soviet bloc countries.⁸⁹ The high proportion of grants after 1967 in Nigeria's disbursement must be accounted for by spending on 'relief operations' during the crisis, a sort of ad hoc addition to normal committed flows. The greater part of war and post-war period loans is for reconstruction and rehabilitation programmes, especially in the field of communication infrastructure.

Disbursement picked-up after the slow start of the initial years of the 1962-68 Plan, reaching the \$100M or £35½M mark by 1967. The trend is generally upward, as the accompanying tables bear out. 1964/65 was a sort of transitional period, the size of the disbursements from 1965 to 1970 more than double those of the earlier years. It is surprising to note that despite the uncertainties created by the political crisis of 1966-70, the flow of disbursements to Nigeria was not substantially affected. What were affected were the flows of new private foreign investments and of guaranteed private export credits. Bilateral O.D.A. commitments during 1967-69 averaged \$80M per annum, slightly above those of previous years. Table 30 shows Nigeria's annual receipt as a share of total development assistance disbursed by D.A.C. members. As might be expected, her share rose from a low level in early 1960s to steady at around 1.4% in the second half of the decade. A comparison with India's share is made. India being the largest receiver

88. C/F. DAC/OECD:- Development Assistance.1969. Review. op.cit. Table V.5 Page 180.

89. See Table 34.

of aid and whose share together with that of Pakistan accounted for about a quarter of the total, received on average about Fifteen times the size of Nigeria's disbursement during the decade, though her population was about nine times as large. Nigeria's per capita aid receipt has always been one of the smallest in the world. This was so during the colonial period as well as after it. In this respect her position is unlikely to improve in the foreseeable future. Tables 31 and 34A and 34C offer some statistical insights into her per capita receipts during the decade. The first table shows her bilateral and multilateral receipts at different periods. The other two compare her receipts with those of selected West African neighbours; Table 34C in particular shows these comparisons in the context of all developing countries' receipt of aid. In terms of per capita receipt, Nigeria was among the ten lowest recipients out of the 92 L.D.C.s that benefitted from D.A.C. countries in 1968-70. During the decade her per capita receipt was on average about a third of the average for all developing countries.⁹⁰ Though Table 34A shows that her per capita multilateral agencies loan assistance was just over half the average for the developing countries in Africa, the size of her receipt was one of the largest in the Continent and during the period 1967-69, it averaged about 11% of all international institutions' financial aid to the Continent.⁹¹ Because of the big size of the country, World Bank loans for development of her infrastructure have to be on a relatively bigger scale as compared with financial support for similar projects in most other countries. However, if foreign aid was to be allocated among developing countries on the basis of, that is in inverse proportion to their per capita national income, or simply in equal amount per head of population, Nigeria would without doubt be receiving much more than she has been having since 1945 - perhaps three times as more. I must sound a word of caution. The grossly inaccurate 1963 population census has led to the use in its place of various guesstimates for

90. See OECD/DAC:- Development Assistance. 1968 Review. op.cit. Table VII-2 Page 144.

91. ibid. 1970 Review Table 19, Page 194.

the compilation of Per Capita data on Nigeria. The O.E.C.D. per capita data for Nigeria quoted in this section, especially those relating to aid disbursement display an underestimation of probable population size for the period 1964-68 and an overestimation since then. They must, therefore, be treated as approximates. Using a probably more reliable population estimate,⁹² I have calculated the per capita net bilateral and multilateral disbursements as follows:- 1960-64, \$0.90; 1964-67, \$1.78; 1966-68, \$1.92, 1968-70, \$1.93. This shows an upward trend in sympathy with other data as opposed to the fluctuation in Table 31.

Evaluation in quantitative terms of foreign aid's contribution to, or impact on the economy of Nigeria is limited too by the shortness of her experience. For Nigeria, one cannot examine in similar depth that contribution as one can do, say in the case of Greece or Pakistan. Because the size of disbursements to her has been small in relation to her aggregate resources and economic activities and also because they have been concentrated on the development of economic and social infrastructure, one would a priori expect their tangible productivity to be small. In the case of individual sector, the position may of course be different. Table 32A shows the latest measurement of foreign-assistance in relation to two parameters - imports and G.N.P. Table 34C compares Nigeria's level with those of other West African countries and through ranking with the rest of the developing world. The data given in Table 32A are affected by Civil War economic situation. General imports were significantly reduced below their normal level by 1969, and since 1967 the G.N.P. did not cover the whole of the country. For this reason and because 1965 or 1966 represented the typical or average year of the decade, I have measured the foreign aid inflows for these years in terms of G.D.P. and Imports, as well as four other key economic parameters. The percentages are shown in Table 32B, and together with Table 32A, we can in-

92. Taken from I.M.F.: International Financial Statistics. Dec. 1972. Section on Nigeria.

fer from them that on average foreign assistance was approximate to about 10% of import of goods and services and only 2% of G.D.P. At the best of time, it was less than 15% of Gross Capital Formation and formed a diminishing proportion of Government revenues. At the aggregate level the dependence of the nation on foreign aid as a source of finance for its import surplus was relatively low; equally small was its possible contribution to Government spending power. Apart from the opportunity for comparison offered by Table 34C, we can place Nigeria's experience in the perspective of a wider developing world by further comparing her receipts with those of a leading foreign aid recipient. Pakistan's receipts averaged \$3.75 per capita during the decade, was in 1964-65 equivalent to 6.6% of G.N.P., 37.9% of gross investment and 35.03% of 1967 imports of goods and services.⁹³ This was indeed a high degree of foreign aid usage and it makes the external contribution to Nigeria's economy look rather marginal.

For the public sector and the national foreign exchange reserves, the contributions in the years were crucial. We have seen how the slowness in foreign aid disbursement was largely responsible for the dismal start to the 1962-68 plan period. By 1965/66 the inflow had increased substantially as to make an important impact on public sector capital formation though still below the expected 43% annual average contribution.⁹⁴ Its contribution however, was further enhanced by the knowledge that by the end of 1965 when reserves had reached the lowest level since the war, foreign exchange began to be a major constraint to the development process. It was during the 1967-70 Civil War that foreign economic assistance made perhaps the biggest contribution to Nigeria's well-being. In so far as it was given in form of foreign currency or needed capital goods which she would have had to find other means of paying for, such assistance was a major contribution to dwindled means of financing foreign payments. If the reported

93. Nural Islam:-'Foreign Assistance and Economic Development:The Case of Pakistan'. E.J. March 1972 (Supplement) Pages 502-530.Tables I & II.

94. See Table 28.

size of 1967 disbursements is correct - and there is no reason to doubt it, it was equivalent to 87.9% of the official exchange reserves, whose level as the Civil War progressed "became something of an irrelevancy,"⁹⁵ as external financial obligations in the pipeline ^{began} to exceed reserve holdings.

A comparison of Tables 32B and 24 above reveals that the contribution and impact of foreign assistance increased considerably after Independence. By the late 1960s the average level in terms of imports, capital formation and G.D.P. has just about trebled that obtained during the colonial period. Still on comparison, Table 34B offers us data that are only indirectly relevant to the theme in hand. I have chosen Ghana because her economic and social evolution during the last 60 years or so has been similar to that of Nigeria. I have included Liberia because she is the largest recipient of American aid on the West Coast; Ivory Coast and Gabon, because not only do they represent the largest recipient of French capital in Black Africa, their economic performances have also been outstanding during the decade. To a certain extent the national savings ratio and the level of per capita aid disbursement do provide an empirical basis for the 'matching principle,'⁹⁶ that is, external assistance tend to expand with the availability of local finance and contract with a shortage of it. However, the absolute level of disbursement to Gabon is relatively low, and for her and Ivory Coast, the growth rates of economic parameters shown in the table must owe a great deal to the heavy private French investment in enclave agriculture and mining.

The proportion of grants to total disbursement reflects, if only partially, the economic terms of official assistance. As far as loan is concerned the pattern of credits given to Nigeria followed the general hardening terms described in Part I, though towards the end of the decade a reverse trend began to emerge especially in connection with the length of repayment period.

95. Standard Bank: Annual Economic Review. Nigeria. June 1971. op.cit. Page 3.

96. C/F. W. Arthur Lewis:- Reflections on Nigeria's Economic Growth. op.cit. Page 64.

A good indication of the terms of previously contracted loans is provided by the time-structure of outstanding debts. Table 35 examines Nigeria's and those of other African countries this way. Between 1968 and 1970 the 'grant element' of Nigeria's long-term official and multilateral loans was on average 44%. However, the greater the use of commercially-contracted bond capital and suppliers credits by Nigeria, the lower would be the concessionary element in the aggregate external capital available to her.

Formal terms of some multilateral loans are known and are set out in Tables 36-38, whereas little is known or made public regarding the crucial bargaining and conditions under which most bilateral official aid is given. As was pointed out earlier on, the formal terms and technical details are published in the annual Report of the Accountant-General of the Federation. The veil of secrecy comes down most in relation to tying. There are grounds for asserting that Nigeria was no better off than the average developing country in the extent of donor/creditor's tying provisos she had to accommodate.

On the contrary, the narrowness of her sources precluded her ability to choose between alternative credits. I have already referred above to the strict tying of aid to specific projects and its possible adverse consequences. Tying of course does often go beyond that level. Assistance is invariably tied to purchases made in the donor/creditor country and in some instances to specific products, especially where such products happened to be in surplus capacity. In 1963, Nigeria got a British loan of £1M through the Export Credits Guarantee Department (of Board of Trade) to purchase surplus steel rails. During the greater part of the decade, more than 78% of British aid to Nigeria was tied to British exports, while 'disbursement' for technical assistance in fact generally refer to payments made by the donor country to its experts sent out to help in the developing country. The British example quoted here probably represent the typical practise for all the major donor/creditor countries aiding Nigeria. Another ground for believing that all has not been well with the method of past disbursement

was the stress laid by Nigeria in the 1970-74 Plan, on the need of her donor/creditors to approach her aid requirements in terms of a more flexible programme support as opposed to rigid project loans.

I shall now analyse briefly the assistance in form of loans, financed grants and technical assistance made available to Nigeria by her three leading donor/creditors - the World Bank Group of institutions, Britain and the United States of America. In spite of their positions on top of the list of Nigeria's benefactors, the sizes of their commitments and disbursements to her were during the last decade, not large enough to put Nigeria among the top ten recipients of their grants and credits.⁹⁷ Among multilateral agencies, the bulk of Nigeria's assistance for economic development come from the World Bank Group, namely, the World Bank itself, and its affiliates - International Development Association (I.D.A.) and International Finance Corporation (I.F.C.). I have already described the organisations in some details in Part I. Another source of assistance is through the United Nations Development Programme (U.N.D.P.). The Programme came into effect in January 1966, bringing together the previous activities of the U.N. Expanded Programme of Technical Assistance and the U.N. Special Fund. However, U.N.D.P. assistance is limited to funding technical assistance, Pre-investment consultancy works and various forms of economic and social surveys. There exists a good liaison with the World Bank Group and other U.N. Agencies through which its projects are executed. Between 1966-71 U.N.D.P. has been involved with 28 projects in Nigeria with an estimated total cost of £23.86M (\$66.81M). Its contribution amounted to just under £10M (\$27.55M). If we add this to the assistance given previously through the U.N.S.F. we find that the size of development aid to Nigeria from this source, between 1959 and 1971 amounted to about £11M (\$30.66M) - the biggest in Sub-Saharan Africa. A sum of \$30M is promised for 'programme' assistance during the period 1972-76⁹⁸.

97. C/F. O.E.C.D. : The Flow of Financial Resources to L.D.C.s. 1961-65. op.cit. Table 154.

98. Europa Publications:- Africa South of the Sahara. 1972 and 1973 Publications. London. Section on U.N.D.P.

The World Bank's own activities too in the fields of technical assistance and pre-investment surveys are similarly crucial to Nigeria's planning efforts. Certainly it does more for Nigeria than merely providing development credits, and with its activities expanding all the time, the future role and influence of the Bank in Nigeria's economic development will likewise grow in status. The Bank helped to set-up the Consultative Group for Nigeria in 1962 and under its Chairmanship a co-ordination and harmonisation of Group Members' aid programmes is effected.⁹⁹ In this capacity too, one would expect the Bank to be the leading liaison machinery between Nigeria and her D.A.C. members donor/creditors. It has now established a resident mission in Lagos.

Table 33 includes the annual flow from each of the World Bank Group and also the collective flow from the U.N. agencies. The details of the World Bank Group's commitments to Nigeria since 1958 upto June 1972 are set out in Tables 36 to 38. Since we know that the first loan of 1958 was drawn down within three years, one would expect that by now the time lag would even be shorter, perhaps shorter than most bilateral assistance, since most of the pre-investment surveys are done before the commitment is officially announced and the contract signed. Most of the information concerning the Group's lending to Nigeria are provided in the Tables and I shall limit myself here to a few observations. Since the beginning of the 1962-68 Plan, the Bank has consistently made annual commitments to Nigeria except for the two Financial years 1966/67 and 1967/68 when political crisis and the beginning of a civil war threatened the whole future existence of the country. Even^{then} by 1968/69, it was back in lending business again, and is playing a leading role in the external financing of the nation's rehabilitation and reconstruction programme. Assistance given by I.D.A. and I.F.C. were concentrated in the middle and later years of the decade and as the latter has

99. The names of members of the Consultative Group are given in footnote 80 of this Chapter.

made no further commitment since 1970, it appears that the Group's new lending activities are now being channelled exclusively through the Bank. I.D.A.'s credits too have been limited to the two 'soft' loans of 1965 (Table 37). As of June 1972, over \$23M out of a total \$37M had been disbursed.¹⁰⁰ While the length of years for World Bank loans to mature has not changed much since 1958, it is interesting to note the gradual upward rise in its interest charges, from an average of 5½% in the earlier years of the decade to 7½% by 1970-71. To a large extent this trend reflects the higher charges the Bank itself has to pay when it borrows money from the international capital markets for its lending operations. The gap between the commercial international interest rate at which it borrows and the 'concessionary' rate of its lending is 'filled' by contributions from its richer members and the 'profit' it derives from its previous operations.

The Bank alone has made sixteen loan commitments to Nigeria so far, that is, upto June 30th. 1972. The cumulative amount of these loans stands at \$458.4M as of the same date and it has so far disbursed \$254.36M, or just over half of its commitment.¹⁰¹ Total disbursement to Nigeria upto June 30th, 1972, for the World Bank Group as a whole (I.B.R.D., I.D.A. & I.F.C.) equals almost \$280M or £N100M at the old exchange rate. Since 1962, therefore, the World Bank Group has been disbursing an ^{annual} average of about £N9M to Nigeria. As Tables 36-38 show, the Group's lending has been concentrated on infrastructure development and expansion especially transportation and electricity generation, education (2 loans) and supplying the Nigerian Industrial Development Bank¹⁰² with foreign exchange resources - apart from I.F.C. participatory role. It is interesting to note that the first departure from the

100. IBRD/IDA: Annual Report 1972. IDA Appendix D, Page 113. The original total as is shown in Table 37 was \$35.5M, but because of the devaluation of U.S. Dollar vis-a-vis Nigerian pound, the undisbursed portion has been up-valued by over \$2M so as to make the total £37,034,000. The undisbursed portion as of June 1972 was £13,969,000.

101. IBRD/IDA: Annual Report 1972. Appendix 2, Page 125. The cumulative commitments of both IBRD and IDA stand at \$493.9M as of June 1972.

102. See footnote 3 Table 36.

traditional outlets came a year after the end of the Civil War when in April 1971 the Bank made a 'programme loan' of \$80M to Nigeria for rehabilitation purposes and two months later when it made the Group's first agricultural loan (Loan No. 12 and 13, Table 36).

The statistics of British aid to Nigeria are shown in Tables 39A and B. One's attention is immediately caught by the gap between gross disbursement and net transfer. For Nigeria, the difference was proportionately bigger than for the whole of Commonwealth Africa. The likely explanation is that for the former, loan formed a relatively larger part of her total disbursement and the terms, perhaps slightly stiffer. Britain disbursed around 52% of her bilateral aid to African countries, and between 1964 and 1968, more than 93% of the African share was given to Commonwealth countries.¹⁰³ It is rather surprising however, to find that Nigeria, the biggest commonwealth country on the Continent with a population larger than the rest put together received less than $\frac{1}{8}$ of net disbursement in 1965, just over $\frac{1}{40}$ in 1969, and about $\frac{1}{6}$ in 1970 due largely to grants and other disbursement for relief and post-war rehabilitation programme. Also, during the period 1964-68, the largest aggregate volume of British aid went to Kenya (£58,878,000), followed by Malawi (£44,345,000) and Nigeria (£31,364,000).¹⁰⁴

A look at Tables 39A & B reveals no particular trend in the levels of gross and net flows to Nigeria during the decade. For Commonwealth Africa as a whole, net transfer seemed to be on the decline. In Table 39B, technical assistance stabilised in the last 4 years or so at around £1.8M, while the proportion of the total disbursed as financial grants has diminished considerably since before and immediately after Independence. The most interesting fact to emerge is the small size of loans to Nigeria especially during the 1962-68 Plan period. Amortisation and interest charges consumed a large slice of gross lending. Except for 1965, 'fresh' lending between 1962/63 and 1969/70 was insignificant. In two years, 1967 - the

103. Britain and the Developing Countries : Africa. Central Office of Information Reference Pamphlet 94. H.M.S.O. London 1970 Table 2.

104. loc cit.

year of Sterling Devaluation, and 1969 - the peak year of the Civil War - net transfers of loan were in fact negative, thereby reducing total grants disbursed. Nominally grants and grant-like disbursement tended to be on average, 30-45% of gross disbursement, but after allowance has been made for servicing of previous loans, we find that the bulk of net flows during the decade was accounted for by grants, chiefly in form of technical assistance. A comparison of columns 2 and 4 in Table 39B reveals that for the greater part of the decade 'disbursement' on technical assistance was more than half the net flow of resources to Nigeria. This observation is similar to the one made by Terresa Hayter on French aid to Francophone Africa.¹⁰⁵ In other words, a large proportion of British aid to Nigeria was spent on salaries of British operational personnel and other experts sent out to assist.¹⁰⁶

The total outstanding debt of Nigeria to official British sources as of December 31st. 1970, was £52,061,000, made up of £37,452,000 in amortisation and £14,609,000 in interest. Nigeria's total was just about twice that of Ghana.¹⁰⁷

The gross disbursement shown in Tables 39A and B included as from 1966 onward, the flow of resources being invested in Nigeria through the Commonwealth Development Corporation (C.D.C.), formerly the Colonial Development Corporation. I have already described earlier on the peculiar nature of the Corporation in being a commercially-orientated enterprise of the Government of a developed donor/creditor country operating through direct equity investment in developing (formerly colonial) countries. Setup in 1948 'for the purpose of assisting colonial territories ... in the development of their resources,' the C.D.C. is a 'profit-making' state

105. See above Chapter 3, Page 118, also Pages 94-97 of the same Chapter.

106. A loan of over £5M was made to Nigeria in 1961/62 for the payment of Pensions and other emoluments to ex-colonial Civil Servants. This credit was disbursed over the decade under the heading of 'technical assistance' even though most of it must have been paid out in the United Kingdom.

107. British Aid Statistics 1966-70. op.cit. Table 14, Page 44.

enterprise that is not profit-motivated. The inclusion of its capital flow as part of official aid flow is a reflection of the fact that it raises part of its fresh capital through Treasury loans at concessionary terms and passes on this subsidy to the territories in which it operates. Secondly, as we have seen above, its overriding function is to help develop commercially-viable projects which might otherwise fail to get 'off the ground'. The essential quality of C.D.C. is that it is able to combine the advantages inherent in operating with state capital with those inherent in private direct investment overseas. Less bureaucratic, more cost-effective, it is able to deliver in the field technical and managerial expertise, and vocational training programmes which do not normally come with direct loan. As a state corporation, C.D.C. appeals strongly (as a joint-venture partner) to those Governments in recipient countries that are determined to engage directly in industrial ventures. For these reasons it has been active in Nigeria since its establishment, helped to pioneer some of the import-substitution projects,¹⁰⁸ and by December 1963 its ever-expanding business involvement had encompassed thirteen projects. The value of C.D.C. equity investment had by this time risen to over £5½M, and its overall financial commitments in the economy was just under the £10M mark.¹⁰⁹ Because a large part of its investments were in conjunction with the Federal and regional Government's development corporations, the political crisis of the late '60s adversely affected its operations in the country. Between 1964 and 1968 its capital resources 'inflow' was limited to £3M, largely in form of unremitted investment income. However, there are every indication that C.D.C. activities will expand faster in the 1970s than ever before, its growth perhaps being determined by the growth of the 'modern sector' especially that of the manufacturing industry. C.D.C. has in the past operated in all sectors of the economy, from plantation agriculture, to import-substitution

108. See I.B.R.D.: - The Economic Development of Nigeria. Mission Report 1954. op.cit. Page 348.

109. C.D.C.: - Report and Accounts 1963. London 1964.

in textiles and cement, and in the provision of financial services through investment companies.

The United States foreign aid programme to Nigeria has here and there been referred to above, and in particular I have briefly analysed the assistance given before 1962.¹¹⁰ I shall now concentrate on the aid commitments for the 1962-68 Plan period. The commitment of \$225M by the United States was an important contribution to the expected level of foreign aid by Nigeria as it amounted to just under a quarter of the expected £327M. However, as a percentage of the United States bilateral aid programme resources, it was insignificant. Since the committed amount also included official export credits through the Export-Import Bank, as well as P.L.480 and Peace Corps expenditures, the gross commitment represented about 1.5% of net bilateral disbursement during 1962-68. Allowing for the long time-lag between commitment and disbursement and the leakages through amortisation and interest charges the total disbursement to Nigeria during the six year period would have amounted to about 0.5% of global U.S. net flow. Two important features of U.S. aid programme to Nigeria have been the relatively high share of commitment in form of technical assistance, and the slowness with which the aid programme is being implemented. We have seen the preponderance of technical assistance and other grants before 1962, and since then they form more than 70% on average of the annual commitment and disbursement.¹¹¹ Given the slowness at which development loans were being disbursed to specific projects, it is not surprising to find this preponderance of grants and grant-like flows during the period 1962-70. As this was similar to the pattern of British aid disbursement, one may again reasonably infer that most other official bilateral assistance followed the same line of orientation. The capital grants and technical assistance offered by the United States during the last decade were essentially geared to improvements and development in the fields of social infrastructure particularly education, and the

110. See above Page 372.

111. See Table 33.

stagnating agriculture.¹¹² I have briefly above referred to the factors making for the slowness in moving from commitment to actual disbursement - the newness of the U.S. aid programme to Nigeria and the time it takes to establish a well-functioning aid mission; the rigidity of commitments to specific projects coupled with the unduly high pre-investment technical surveys and feasibility studies required by the donor/creditor, which in a skill-constrained Nigerian economy have generally been time-consuming; and the traces of ideological conflict in protracted project negotiations. The U.S. of course shared some of these difficulties with other aid donor/creditors, but because of the relative importance of its assistance in Nigeria's aggregate, their effects were more pronounced. The data for U.S. annual aid commitments during the years 1962-1968 the original Plan period, reflected the slowness I have been discussing above. Commitments were being made at a level comparable with that of expected annual disbursement. Thus they were soon two to three years behind schedule. By May 1965, aggregate commitment reached \$128.7M (£42.7M) or about 53% of the expected total disbursement, with development loan accounting for \$54.7M (£19.5M).¹¹³ Most of the loans were essentially for infrastructure - roads, railways etc.

The \$225M earmarked for the period was only fully committed in 1968/69, while the annual disbursement in the intervening years are shown in Tables 33 and 33B. The latter table shows that the total net disbursement during 1962-67 (corresponding closely to the Plan period) was in fact just under \$144.5M. If we make allowance for capital amortisation etc., we find that the gross disbursement during the six years was in the region of 60-70% of the promised target. The U.S. assistance programme in Nigeria is largely administered by U.S. Agency for International Development (U.S. Aid), through the local representatives in Lagos. The low level achieved during the Plan period was largely due to the slow start in 1962-63,¹¹⁴ while by 1966 annual

112. U.S. (AID):- U.S. Technical and Capital Assistance in Support of Economic Development in Nigeria. Report as of Jan. 1965. op.cit.

113. ibid.

114. See for example U.S. (AID):- U.S. Economic Assistance Programme Administered by the AID and Predecessor Agencies. Report of of June 30, 1964'. For more details of U.S. official flow to Nigeria

disbursement was averaging over \$30M for the rest of the decade. It is interesting to note that the Civil War did not significantly affect the flow of U.S. AID's disbursements and new commitments to Nigeria. In the Fiscal Year 1968/69 more than half of the \$43.6M committed funds was earmarked for relief and rehabilitation programme.¹¹⁵

114. Contd.
see periodic reports published by U.S. Aid Mission in Nigeria;
and U.S. AID : Annual Report to Congress on Foreign Assistance
Programme.
115. See latter Report for 1969.

SUPPLIERS CREDIT, CONTRACTOR FINANCE AND OTHER SHORT-TERM CAPITAL INFLOW.

In Part I and earlier in this Chapter, I have drawn attention to the use by developing countries of suppliers credits and contractor finance more often as an alternative, rather than a complement to official loans. I have also emphasised the dangers inherent in an excessive or injudicious use of this method for financing development projects. Transaction of this sort of foreign capital inflow is essentially between public sector in developing countries and private exporting companies in creditor countries, though very often Governments in developed countries use export credits - 'other official flows',¹¹⁶ to complement or replace concessionary assistance. Private export credits are generally guaranteed by the Government of the exporting country, or where they are extended to private companies in the developing countries they are double-guaranteed by the recipient Government. Their essential characteristics are that they are private commercial transactions, relatively expensive, easy to contract and short-termed in the sense that they mature often "before the projects they finance have had much impact on the productive capacity of the economy - or perhaps even come into production."¹¹⁷

In Nigeria the inflow of export credits has in the past generally taken three forms, as suppliers credit, contractor finance and as guaranteed private investment credits. As might be expected, the economic characteristics of these three types are basically the same, the distinction between them is due to the nature of the goods and services they provide and the circumstances in which they are utilised. They give Nigeria command over foreign resources - if only temporary - whether in form of imported capital equipment or a whole 'turnkey' factory itself, or in the form of deferred payments for bridges and office blocks, or in the form of guaranteed lending to, or investment in joint-ventures with local businesses which might not otherwise take place. These forms of short-term credit arrangement from foreign private sources have been well classified in so far as they relate to Nigeria.¹¹⁸ My contribution

116. See Table 5 F/n.2.

117. K.M. Langley:- 'The External Resource Factor in Nigeria's Economic Development' in N.J.E.S.S. Vol.10 No.2 July 1968 op.cit. Page 164.

118. See for example, A.Ayida:- 'Contractor Finance & Supplier Credit in

here will be limited to an attempt to quantify the flow of the last decade, discuss the uses to which those credits had been applied, and in the process, critically examine their impact and possible future trend.

To quantify comprehensively the total amount of suppliers credits and other short-term foreign credits inflow to Nigeria is almost an impossible task, and even for the public sector with which we are dealing here the details and extent of such usage are known only to individual recipient Federal and Regional Governments, Government Departments and semi-official Corporations. Little is known about non-guaranteed private sector credit transactions except that they must have been determined by normal commercial conditions.¹¹⁹ Data given in official publications on foreign credit transactions and foreign debt obligations are related only to those of the Federal Government, even then to some parts, not all of the Government transactions.¹²⁰ What is included in for example, statistics of Nigeria's external public debt seemed to be determined by what is or was directly incurred by the Federal Government. Suppliers credits that are guaranteed to other bodies, even to public utilities like the Railways and Electricity Corporations are not normally directly included. Notwithstanding who pays for what, it is essential that all foreign loan transactions, whether short, medium or long - termed, should be brought together in a comprehensive data so that the true level, structure and pattern of movement of these credits and the debt burden they engender can be fully appraised. After all, whatever the type of credits or the identity of the recipients, they all have to be repaid out of the nation's foreign exchange reserves. The need is essential in another respect, for the existence of official statistics that tell half the story does not only give a misleading picture of the country's reliance on, and obligations to

118. Contd.
Economic Growth' N.J.E.S.S. Vol. 7 1965 Pages 175-185

119. C/f. ibid. Page 198

120. C/f. K. Langley, op.cit. Page 164, F/A.1 ; and G. Helleiner:- Peasant Agriculture ... op.cit. Page 228-229.

foreign creditors,¹²¹ but also when such data are used for evaluation purposes or for international comparisons a false sense of the experience or future trend may be created.¹²² For Nigeria where in the past the size of foreign debt obligations, especially of suppliers credits had been grossly underestimated by official data and in view of Ghana's recent economic difficulties with foreign debt obligation, the dangers are real. This reality will be appreciated as we examine the pattern of expenditures out of loaned capital, especially suppliers and the circumstances in which the latter are resorted to.

Given the inadequacy of official Nigerian published statistics on government-induced capital inflow, the alternative source of statistical and factual information is from donor/creditor countries or multinational organisations that represent them (e.g. O.E.C.D.), and/or from international institutions like the World Bank, I.M.F. and the U.N. Economic Department. As we have seen, I have made ample use of the wealth of material provided by these sources. However, external data on supplier credits and other short-term credit transactions are scarce and difficult to get hold. Those that are available are limited to movement in supplier credits for Nigeria (and other developing countries) and little information is provided on contractor finance and guaranteed private investment. This is because of the transactions concerning the latter types are contracted locally with the guaranteeing machinery of foreign governments little involved.

The use of supplier credits and contractor finance started at the turn of the last decade, but as we have seen, really got underway in the years of 1962 and 1963 when the reserves position was deteriorating and the first sign of a major foreign aid short-fall became apparent. Also from 1963, the Federal Government began guaranteeing some short and medium - termed private investments and credits in an effort to speed up the development process. The acceleration in short-term capital credit usage reached a peak in 1965/66 by which time the system was becoming a source of financial concern.¹²³

121. Compare Table 44 with Table 42.

122. O/T. A. Ajide:- Supplier Credits ... *op.cit.* Pages 184-187.

123. See Development Plan 1962-68, Progress Report, 1964, *op.cit.* Pages 18-2.

The transactions responded to the uncertainties created by the Civil War and the difficulties Ghana was having over her supplier credits servicing, by an immediate and relatively large outback in new lendings, with amortisation outflows in the three years 1967-69 outstripping gross inflows see (Table 40). With the end of the war in 1970 and a good prospect for a booming exchange-earning oil production following it, a new upsurge in lending began to emerge in 1970. If W.F. Stolper's data¹²⁴ on 'floating debt' in his estimation of Nigeria's (Federal Government) external official debt, in fact refer to outstanding supplier credits debt as I imagine, then the level of that debt rose from £4.5M in 1960 through £17M in 1962 to £30M in March 1964. Certainly it was estimated by the World Bank¹²⁵ to have reached around £43M by December 1965 and if we add an estimated £6.5M for contractor finance debt¹²⁶ and £21.5M for guarantees to private foreign investors,¹²⁷ the total of £72M was about a third of Nigeria's external public debt (including the undisbursed portion of contracted loans). See Table 42. However, if we assume that about three-quarters of the total debt had been disbursed at the time - and this is based on the evidence of years for which data are available, then nearly 45% of Nigeria's outstanding long, medium and short-term external debts belong to the short/medium-term categories.¹²⁸ This fact is reflected also in Table 35. Certainly during the later part of the last decade the Nigerian authorities had sound reasons to worry about the relative growth of short-term guaranteed credits in total international capital resources inflow, and the rising level at which the turn-overs in those credits was being transacted. Table 40 clearly reflects this point and it needed the political crisis from 1966 onward to reverse this trend. Contractor finance

124. See W.F. Stolper:- *Planning Without Facts*, op.cit. Table 13 Page 257.

125. I.B.R.D.:- Suppliers' credits from Industrialised to Developing Countries. Annex V, Table 2, Page 9, quoted in Langley:- 'External Resource Factor in Nigerian Economic Development' op.cit. Page 164.

126. Calculated from data in Report of Accountant - General 1965 and information provided in Official Gazette April 6, 1967.

127. Progress Report 1964, op.cit. Page 27. As of June 1965, total stood at £21,510,713.

128. C/F. Ghana, whose total external public debt at the end of 1968 was over £200M of which £130M or 65% was incurred through Contractor Finance & Suppliers credit. West Africa June 27, 1970.

debt obligations of the Federal Government increased from 14% of the total outstanding external 'official' debt in 1965 to 31% in 1966 and by 1969 these obligations formed the largest item in the total.¹²⁹ An important feature of short-term suppliers credits in developing countries including Nigeria is the regularity at which such credits are being turned-over and as a corollary, the relative flexibility of some credit transactions to adjust to new situation. We have seen this in the case of Nigeria during the crisis and as Table 40 shows a net outflow from Ghana was predicative to her external liquidity problems. The general high level of turn-over is the product of a desire to postpone as long as possible the 'real' repayment period while at the same time fulfilling the short-term maturity obligation. In the case of Nigeria's use of suppliers credit, if we take the two 'positive' years of 1965 and 1966 and the two 'negative' years of 1967 and 1968, we find that during the four-year period, the average gross inflow was around \$19.4M. The average interest charge was \$4.9M, leaving Nigeria with a net transfer of -\$4.3M.¹³⁰ This result was of course due to the heavy outflow in the latter years and reflected also the high cost of short-term credits.

The high cost and short maturity period were also reflected in the structure of external debt servicing to O.E.C.D./D.A.C. member countries and the multilateral agencies during the last decade. "Debt servicing payments attributable to suppliers credits were running at something over half (53.3%) of Nigeria's total debt servicing payments by the end of 1965. This ratio is a high one; of 36 countries surveyed by the World Bank, only four lived with a higher ratio at that time."¹³¹ The ratio was even higher from 1965 onward. If we look at the annual average data for 1965-68, we find that repayment to private creditors was nearly 63% of Nigeria's total external debt servicing¹³² and if we add the reported repayments for contractor-financed

129. See Official Gazette, April 6 1967, Page 400, and West Africa April 25, 1970.

130. World Bank/I.D.A. : Annual Report 1970 op.cit. Statistical Appendix Table 9, Page 76.

131. Langlej op.cit. Page 164.

132. World Bank/I.D.A. : Annual Report 1970. op.cit. Statistical Appendix Table 5, Page 76.

projects, the percentage increased to about 60%. The average for Africa as a whole during the same period was about 55%; though Nigeria's compared unfavourably with this, it was still relatively lower than those of Ghana and Liberia.¹³³ The relatively low level of official and multilateral debt servicing was also due to the fact that most of the concessionary loans from these sources were contracted during the 1960 decade and will begin to mature noticeably from the second half of the 1970s. The logical step, therefore, is to assert that if the future use of short-term credits followed the 1960s pattern and continue to grow perhaps with the belief that expanding oil revenue will provide resources for future repayments, Nigeria then may find herself faced with a massive public sector debt servicing obligation to both external private and official creditors in the 1980s. If we add this to the expected rapid rise in foreign private direct investment profit transfer, the call which the servicing of all foreign resources being used by Nigeria will make on her current foreign exchange earnings may prove to be bigger than anticipated. This is even more likely if suppliers credits and contractor finance continue to be used for projects that are not directly creating income or self-liquidating, or do so after a long gestation period. The extreme examples are industrial projects which in the past, instead of being resource-creating proved to be resource-consuming. In this situation resources for repayment have to come from outside sources - from Government revenues and the nation's foreign exchange reserves. Again, if Nigeria's past experience of inadequate Government revenues being chased by ever increasing recurrent expenditure demands¹³⁴ is to be any guide, then Ayida's 1965 observation is likely to be more relevant and apt in the coming decade than ever before. "In isolating the problems of contractor finances, supplier credit and other short-term indebtedness for study, ... one is dealing with one of the potential sources of complete paralysis in the development of the Nigerian economy."¹³⁵

133. loc.cit.; and Table 10 Page 78.

134. C/F. W.A. Lewis:- Reflections on Nigeria's Economic Growth.op.cit. Chpt. IX.

135. A. Ayida:- 'Contractor Finance and Suppliers Credit in Economic Growth' op.cit. Page 175.

Short-term credits contracted by the public sector of Nigeria were during the last decade expended in two broad areas of Government activities, firstly for the expansion of economic and social infrastructures and secondly for industrialisation. A. Ayida, a senior economic official of the Federal Government, and who must have been involved at the highest level in economic policy-decisions, provides the rationale for the latter usage: "With adequate safeguards, the industrialisation process can be accelerated in this way ... This is a very important tool for bringing about structural changes in the method and pattern of production in developing countries. Besides, this appears to be the only way open for African countries to industrialise very quickly, particularly as there are no 'soft' loans for industrial undertakings."¹³⁶ Consequently, a spate of Government-owned industrial projects began to mushroom by mid-decade, constructed with contractor finance, equipped with machinery supplied on credit by 'machinery merchants' or by foreign partner in joint venture projects and managed especially technical-wise by the foreign partner or his employees. In some cases the project or plant would be delivered on a 'turn-key' basis to the relevant Development Corporation which then proceeded to run it and repay the supplier on the fixed contract basis irrespective of the fate of such business undertakings. Ghana largely built-up her public industrial sector on 'turn-key' projects undertaken by both 'Western' firms and socialist countries.¹³⁷ In Nigeria "by 1965, Government-owned contractor financed projects were the most important form of new industrial investment. In 1966 it was believed that more than 80% of the value of new plants under construction were so financed."¹³⁸ However, in both Ghana and Nigeria, the performances of these short-term credit-financed industrial projects have so far proved disappointing. Rather than seizing the advantages inherent in deferred payment to justify themselves, most had been a drain on scarce public funds. I am not concerned here with an analysis of their hitherto failure. This has been done elsewhere.¹³⁹ It is

136. ibid. Page 182.

137. C/F. West Africa, August 9, 1969, Pages 914-915.

138. Langley. op.cit. Page 160.

139. See S. Kilby: Industrialisation in An Open Economy: Nigeria 1945-66. op.cit. Chpt.3 & West Africa July 4 1970 Page 729. West Africa, Dec.16, '67 p.1609-1611

interesting to note, however, that the reasons for the poor performance seem to be similar in both Ghana and Nigeria - improper planning, politically motivated decisions,¹⁴⁰ poor management and general inefficiency. In Ghana perhaps the most important politically-decided policy had been the desire to to 'solve' the unemployment problem with the aid of these industrial projects. As we have seen in Part I, this was incompatible with the capital intensity and technology embodied in imported turn-key factories. I have already explained the ease with which short-term credits could be contracted, and this in itself provides a great opportunity for inadequate pre-investment planning and evaluation, and improper choice of investment projects. "In Nigeria the desire for its 'share' of national industry by each of the regional governments meant all too frequently that minimal initial project evaluation was carried out and the existence of markets, management and raw materials easily accepted."¹⁴¹ The result has been the duplication of manufacturing plants, excess capacity in some industries,¹⁴² and the loss of scale economies. Dealing broadly with government efforts in this field, Peter Kilby sums up the situation as follows:- "Import substitution ... effected with public funds, ... because of the types of projects selected, high capital costs, methods of financing and subsequent unprofitable operations have in most cases proved a far less efficient method for industrialising ..."¹⁴³

Contractor finance in the non-industrial field had been used to construct and improve roads, build the massive Niger bridge at Onitsha and the University of Ile-Ife Campus, office blocks and suburban luxury accommodation for top civil servants and other members of the elite class.¹⁴⁴ For economic/

140. See West Africa, November 19 and 26, 1966.

141. Langley. op.cit. Page 163.

142. C/F. A.N. Hakim:-'The Motivation to Invest and the locational pattern of Foreign Private Industrial Investments in Nigeria' op.cit. N.J.E.S.S. Vol 18, 1966, Page 58.

143. Peter Kilby : Industrialisation in An Open Economy. op.cit. Page 79.

144. See Report of the Accountant-General for F.Y.1964-65 op.cit.

social/educational infrastructure, the use of high-cost short-term commercial credits is evidently most unsuitable, and for luxury houses most unnecessary. The use of short-term credits for infrastructure development was a perfect reflection of the inadequacy of local resources available to the Government for development purposes and the low level of foreign aid disbursement. Since the latter was generally offered for that kind of purpose, the resort to supplier credits and contractor finance must have been prompted by either a desire to accelerate infrastructure expansion by supplementing official aid with private credits or the inability to provide matching local cost or adequate pre-investment project planning.¹⁴⁵ As it turns out in the case of Nigeria during the greater part of the last decade ad hoc acceptance of short-term credit proposals of equipment salesmen had led to some projects being implemented which were not in the 1962-68 Development Plan. Thus for most poor countries engaged in developing their resources with the aid of development plans, "the maintenance of national plan priorities is often than not, incompatible with short-term credit proposals."¹⁴⁶

145. C/F. Ayida op.cit. Page 179.

146. ibid Page 183.

NIGERIA : EXTERNAL PUBLIC DEBT BURDEN AND DEBT SERVICING

Tables 42 and 43 deal with the level of outstanding debt and debt servicing respectively. On the basis of my earlier analysis in Part I of the fundamentals of development debt, they provide us with little information about the problems connected with debt management, about the credit-worthiness, or liquidity position of a recipient country. It can easily be surmised from Table 42, that the outstanding debt for the country is small in relation to its total annual production or exports. In 1970 for example, the disbursed level was about 35% of merchandise exports and only 8.3% of G.D.P. Data for cumulative disbursed loans and credits are not available for the earlier years. However, the levels probably rose from about half the obligated amount to three-quarters in the later years. By December 1970, nearly one-third of the amount already approved had yet to be disbursed, the inflow mainly to come from foreign official sources and the World Bank Group. Debt owed to private creditors was about 27% of the estimated disbursed debt outstanding in 1965 and 1968, but 18.6% and 20.8% in 1969 and 1970. The lowering share in the later years was due to the net outward transfer during the Civil War, the increased inflow recorded for official and multilateral disbursement in the later part of the decade and the fact that not all short-term debt owed to private creditors are included in the data for Table 42. Some contractor finance debt incurred at the local level and guaranteed credits are most certainly excluded. However if we make allowance for this, the level of short- and medium- termed debt owed to private creditors must have been over a third of a larger outstanding public debt owed to foreign sources. Even then, the estimates given in Table 42 must be nearer the true levels than say the 'official' ones in Table 41. The underlying trend of the total debt outstanding (including the undisbursed portion) is one of gradual increase. Table 35 shows that most of Nigeria's external debts were in the short- to medium- term range, while among the five African countries, the time-profile of Kenya's outstanding debt compares most favourably and Ghana's most unfavourably. Given such a structurally

imbalanced debt level, it is easy to understand Ghana's present servicing problems.

The size of annual service payments on official and officially-guaranteed debt was probably the most difficult data to estimate for Nigeria, since no officially-published statistics on the outflow is available to me. However, if the published official data on the level of outstanding external debt is to be any guide, then such statistics are likely to miss some important component of the flow and thus provide less meaningful information. My estimates in Table 43 cover a twenty-two year period, the most important demarcating feature in the two decades was the level of servicing before Independence when most capital inflows were as grants from C.D. & W., and after 1961. The pre-independence servicing was limited to those bonds issued in the London Capital Market and whose heyday was in the inter-war years.¹⁴⁷ Most had been redeemed by 1955 and their servicing charges consequently much reduced.¹⁴⁸ The trends in servicing and debt servicing ratio are upward in response to increasing debt liabilities. The estimates for the greater part of post-independence years are undervalued because repayments especially on public sector contractor-financed projects and other short-term ad hoc liabilities are not included. If we include these, the service charges rise substantially in some cases. Let us take two years for which we have alternative estimates of debt service charges. A. Ayida the Senior Government Economist, gave a figure of £11.2M for 1963¹⁴⁹, and the Central Bank of Nigeria's estimate of service payments for all public sector and officially-guaranteed loans in 1966 was £20.8M¹⁵⁰. Ayida's 1963 estimate must have included the amortisation of 1923 'funded' stock of £5.7M while the extra £4.36M for 1966 must be accounted for by contractor finance. Again, "during 1967 and 1968 repayments of principal and interest due on contractor-financed projects amounted to approximately £8M."¹⁵¹ If we add these amounts to those in the table we find

147. See above Chapter 6.

148. See Table 43 F/1. 20.

149. A. Ayida. op.cit. Table 3, page 187.

150. Quoted in K. Langley. op.cit. Page 165.

151. loc.cit.

that debt-servicing cost Nigeria an average of just under £20M per annum from 1966 to 1970. The debt service ratios should in theory rise slightly too. In Nigeria's case however, the massive expansion in oil production for export since mid-sixties, has come to 'distort' the size of the service ratio, giving a nominal better performance picture than the actual situation. For example, in 1970 we find that if we exclude the contribution of oil to total export value, the debt service ratio rose to 10.1%, and assuming that only half of the earnings from the oil industry accrued to the local economy, the service ratio fell to about 6.3% of national earnings from all exports.

This figure was still higher than the nominal 4.1% in Table 43. The unexpected oil boom and the fall-off in short-term credits during war had prevented the debt service ratios from approaching the 'permissible upper limit' of 10%.¹⁵²

A comparison with Ghana's in the last half of the decade shows that for Nigeria the servicing burden (in relation to export values) was relatively light. Perhaps the most interest point about Ghana's debt service ratios is their gross inadequacy as indicators of her debt servicing problems. Except for 1965 and 1968, it would have been almost impossible to associate such low levels with an economy that had twice devalued her currency since 1966 largely because of the 'oppression' of her short-term debt service obligation, and has been forced recently (1972) to repudiate contractor finance and other short/medium term debts which according to her new leader "are vitiated by corruption, fraud or other illegality."¹⁵³

Whether Nigeria will continue to avoid difficulties with her debt servicing will depend less on what the debt ratio reads, but fundamentally on the growth and continuing diversification of her export base, the success of import-substitution in increasing local value-added, the continuing growth of her G.D.P. and the structure of her future debts, especially the extent to which she resorts to short-term credits. Most of these factors have already

152. C/F. The Development Plan 1962-68 op.cit. Page 40.

153. Quoted in Standard Bank Review:- Ghana Annual Review Nov. 1972. Page 3. Consequently debts to the value of \$94M were cancelled with immediate effect on February 7 1972. loc cit.

been discussed in detail in Part I. Nigeria's relatively low level of official debt servicing during the later part of 1960s could be misleading in two respects. First if we relate the outflow on debt servicing to gross inflow of foreign aid and private credits, we find that for 1965-68 an annual average of nearly 30% of the gross inflow went out as amortisation and interest charges, and that debt service payments was equivalent to nearly 44% of gross public and private lending.¹⁵⁴ Secondly, the picture of the leakages abroad as 'service cost' to the economy for the use of foreign capital becomes less sanguine if we add the outflow of investment income on private direct investment to credit repayments. This is attempted below, here it is enough to point out that the other half of the oil earnings that accrued to foreign production companies in 1970 was about £128M - a figure that completely overshadowed the same year's debt service.

154. Calculated from data given in World Bank/I.D.A. Annual Report 1979, Statistical Annex Table 9 Page 76.

TABLE 23
NIGERIAN TEN-YEAR DEVELOPMENT PLAN 1945/46 - 1955/56 (£'000)

ORIGINAL ESTIMATE OF TOTAL COST	FY 1946-47		1947-48		1948-49	
	Original Estimate	Expenditure	Original Estimate	Expenditure	Original Estimate	Expenditure
vices	£5,000	19	157	109	216	369
	£1,824	38	88	113	106	132
ent	£1,544	32	477	156	216	298
	£4,000	103	248	173	450	403
	£4,000	102	250	124	440	434
	£7,046	209	497	321	636	491
	£9,034	115	325	338	412	567
	£1,115	35	74	97	92	98
	£4,058	52	382	338	357	596
	£3,518	55	656	698	375	871
	£ 820	25	50	57	80	32

of Select Committee on Estimates (House of Common) Session 1947-48 op. cit Appendix 3

TABLE 25

NIGERIA: STERLING ASSETS¹ OF GOVERNMENTS, SEMI-OFFICIAL AND OTHER BODIES, 1945-1964 (£M)

	1945 ⁴	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
ing Bank)	29.4	39.7	54.4	71.9	78.0	96.8	114.0	165.7	190.3	227.3	234.1
	10.4	11.1	10.9	10.5	7.5	13.2	12.4	14.6	16.4	16.4	29.0
	39.8	50.8	65.3	82.4	85.5	110.0	136.4	180.3	206.7	243.7	263.1
	1956 ⁴	1957 ⁵	1958	1959	1960	1961	1962	1963	1964	1966	
	230.9	229.9	199.6	201.3	173.8	146.0	125.3	93.6	95.2		
		(57.5)	(77.6)	(75.7)	(76.6)	(64.3)	(77.3)				
ing Post Office	25.5	13.2	14.0	15.2	0.4	7.7	-1.2	0.4	-18.3		
	256.4	243.1	213.6	216.5	174.2	153.7	124.1	94.0	76.9	84.0	

se cash balances and various forms of Government securities.

refers to Governments - central, regional and local; Currency Board, Marketing Boards, and other semi-official

of Nigeria replaced the West African Currency Board as the 'Reserves Authority' in 1959.

ta relate to end of financial year i.e. 31st March. From 1957, data for December 31st.

1945-49:- G. Helleiner: Peasant Agriculture, Govt. and Econ. Growth in Nigeria *op. cit* Statistical Appendix.

Table IV-D-1 Slight underestimation of Data.

1950-53:- I.B.R.D. Mission Report, 1954 *op. cit* Page 129.

1954 onward:- As (a)

TABLE 26

ANNUAL GRANTS DISBURSEMENT TO NIGERIA UNDER THE COLONIAL DEVELOPMENT ACT, 1929
AND THE COLONIAL DEVELOPMENT AND WELFARE ACTS, 1945, '50 and '55. 1930/31 TO
1961/62 (£'000)

1930/31	£ 2.6	1946/47	£ 791.0
1931/32	£ 28.0	1947/48	£ 961.4
1932/33	£ 40.9	1948/49	£1,810.4
1933/34	£ 25.4	1949/50	£2,292.1
1934/35	£ 14.5	1950/51	£2,270.9
1935/36	£ 17.7	1951/52	£2,499.0
1936/37	£ 17.3	1952/53	£2,902.7
1937/38	£ 69.5	1953/54	£3,026.8
1938/39	£ 18.1	1954/55	£2,733.9
1939/40	£ 15.1	1955/56	£3,708.2
1940/41	£ 12.6	1956/57	£1,816.6
1941/42	£ 18.5	1957/58	£2,537.3
1942/43	£ 57.8	1958/59	£2,711.5
1943/44	£ 76.7	1959/60	£3,369.0
1944/45	£265.7	1960/61	£2,187.5
1945/46	£349.3	1961/62	£ 306.2

Sources (1) Treasurer's Reports 1928/29 to 1934/35 op. cit.

(2) Reports on Accounts & Finances 1935/36 - 1944/45 op. cit.

(3) Reports of Accountant - General with Financial
Statements for the year ended 1961/62 op. cit.

(4) Colonial Reports for Nigeria - Annual op. cit.

TABLE 27
BONDS ISSUED IN LONDON CAPITAL MARKET : THE EXTERNAL FUNDED LOANS 1940-69

OF BOND ISSUE (1)	PURPOSE (2)	AMOUNT OUTSTANDING† (3)	INTEREST CHARGES AND SINKING FUND CONTRIBUTION. (4)	(4) as % of GOVT. REVENUE
6-71 stock of £1,250,000	Conversion of 1927 stock. Rest £3M. redeemed in cash.	£24,764,599	£1,391,054	
-77 stock of £1,410,285*	Conversion of 1919 stock. Rest £4,952 redeemed in cash.	£21,764,599	£1,211,057	
-77 stock of £1,589,715* 50 conversion stocks) together into one £3M.)	Conversion of 1930 stock. Rest £2,673,658 redeemed in cash.	£16,811,658	£ 776,686	5%
4-66 stock of £6,800,000	To help finance the develop- ment programme.	£14,138,000	£ 616,270	2%
		£20,938,000	£ 922,270	3%
		£16,750,000	£ 922,270	1½%
		£16,750,000	£ 754,750	
• £4,250,000 (\$12M.) stock.	On behalf of <u>Nigerian Ports</u> <u>Authority</u> for Bonny Terminal construction.	£15,300,000	£ 724,750	
		£15,300,000	£ 724,750	
		£ 8,500,000		

, amount outstanding at the end of financial year 31st. March. Previous figures for Dec. 31st. of the first year named.

1) Nigeria : Annual (Colonial) Reports. op.cit.

2) Reports of Accountant - General for F.Y. ending March 1965, 1969. op.cit.))

TABLE 28

PLANNED GROSS CAPITAL FORMATION : SOURCES OF FINANCE

<u>NATIONAL DEVELOPMENT PLAN 1962-68</u>			<u>SECOND NATIONAL DEVELOPMENT PLAN 1970-74</u>		
		<u>% OF GCF.</u>			<u>% OF GCF.</u>
TOTAL PUBLIC SECTOR	£751.3m ^a	63.5	TOTAL PUBLIC SECTOR	£780.0m ^b	48.9
INTERNAL	£424.3m	35.9	INTERNAL	£629.0m	39.4
EXTERNAL	£327.0m	27.6	EXTERNAL	£151.0m ^c	9.5
TOTAL PRIVATE SECTOR	£432.0m	36.5%	TOTAL PRIVATE SECTOR	£815.8m	51.1%
INTERNAL	£232.0m	19.6	INTERNAL	£303.3m ^d	19.0
EXTERNAL	£200.0m	16.9	EXTERNAL	£512.5m ^d	32.1

- (a) This figure represents the more plausible of the two alternative estimates. The other, a figure of £793.8m was based on the assumption of a conservative annual private investment of £65m. See National Development Plan 1962-68 op.cit Pages 35-40.
- (b) The nominal figure for total public sector capital expenditures is £1,025.4m. After allowances have been made for intra-sectoral transfer and probable spill-over to the next plan period, the operative amount is reduced to £780.0m.
- (c) Represents expected gross disbursement for the plan period. The estimated figure for commitments to generate this level of disbursement is £250m for the same period. In other words, disbursements, because of time lags etc. represents 60% of commitments. After allowance has been made for debt servicing, the net inflow is expected to be around £83m or 5.2% of projected G.C.F.
- (d) The official classification for the financing of Private sector investments is different from mine. According to the former, capital inflow (largely for oil industry) is expected to be £412.5m. Non oil companies already incorporated in Nigeria are expected to provide £307.5m from their capital reserves. The remaining £95.8m is accounted for by 'households' savings. However, between 1/3 and 1/2 of incorporated non-oil business investment expenditures is accounted for by foreign-owned, locally registered companies. The contribution of foreign private investment capital (including locally-held reserves or unremitted surplus) to total private sector capital formation, is therefore, of the order 62 - 68% - an astonishing magnitude. The observation in the Plan and elsewhere that "the projected arrangements for financing the plan's expenditure depend to a large degree on internal sources," could be misleading. Quotation from Standard Bank : Annual Economic Review Nigeria 1971. op.cit. Page 20 . I must emphasise however, that the division above of Private Sector finance between internal and external sources is only an approximation.

TABLE 29

NIGERIA: NET¹ OFFICIAL AID AND MULTILATERAL AGENCIES DISBURSEMENTS² 1960-70 (£NM)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1968-70 (ANNUAL AVERAGE)</u>
	10.85	5.79	19.21	33.78	33.19	40.47	36.39	36.57

GRANTS AND GRANT-LIKE DISBURSEMENT (INCLUDING TECHNICAL ASSISTANCE) (£NM)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1968-70 (ANNUAL AVERAGE)</u>
	5.10	6.55	10.12	10.71	12.80	13.47	16.29	23.5

s gross disbursement minus amortization only. Not equal to net transfer which is net flow minus interest payments.

/D.A.C. members net bilateral official grants and loans disbursed plus grants and loans received from international less capital repayments and capital subscription to these organizations. Capital subscription to African Development

disbursement to the Government/s and semi-official institutions only. Annual data do not include officially-contracted private export credits, or of bond issued in overseas capital markets.

untries commitments to Nigeria, see footnote 3, table 34.

DAC/OECD:- Development Assistance Reviews for 1965, '69 & '71 op. cit Statistical tables.

O.E.C.D. - The Flows of Financial Resources to Less-Developed Countries 1956-63. op. cit Table V3 Pages 172-173.

IBRD/IDA:- Annual Reports op. cit 1971 Table 11, P. 70; 1972 Table 10, P. 88.

O.E.C.D.:- Geographical Distribution of Financial Flows to L.D.C.s (Disbursement) 1960-64; 1966-67 & 1968. O.E.C.D. Paris

TABLE 30

% SHARE OF NIGERIA IN NET OFFICIAL AND MULTILATERAL AGENCIES' DISBURSEMENTS 1960-68						
1960	1961	1962	1963	1964	1965	1966
3.8%	0.6%	0.5%	0.3%	0.9%	1.4%	1.3%
17.2%	12.2%	12.6%	15.5%	19.5%	19.4%	17.8%
						16.8%

(Source: O.E.C.D./D.A.C.: Development Assistance, 1968 Review op. cit. Table VII 2 Page 44)

TABLE 31

PER CAPITA OFFICIAL AND MULTILATERAL RECEIPTS BY NIGERIA 1960-70 (£)						
BILATERAL (Annual Average)		MULTILATERAL (Annual Average)		TOTAL (Annual Average)		
1960-66	1966-68	1968-70	1960-66	1966-68	1968-70	1960-66
1.76	1.58	1.25	0.17	0.69	0.38	0.93
						2.27
						1.64

(Source: See Table 32A)

TABLE 32A

NIGERIA: TOTAL OFFICIAL AND MULTILATERAL RECEIPTS AS % OF G.N.P.
AND IMPORTS.

<u>1966-68 (Annual Average)</u>		<u>1968-70 (Annual Average)</u>	
<u>As % of 1966 G.N.P.</u>	<u>As % of Imports of goods and Services 1967</u>	<u>As % of 1968 GNP</u>	<u>As % of Imports of goods and Services 1968</u>
2.02	11.75	2.34	13.07

(Sources for both Table 31 and 32A: (1) O.E.C.D./D.A.C.: Development Assistance 1969 Review op. cit Statistical Annex Table 17 P. 315; 1971 Review op. cit Statistical Annex Table 19 Pages 192-193.)

TABLE 32B

NIGERIA: FOREIGN ASSISTANCE (OFFICIAL & MULTILATERAL DISBURSEMENT) AS % OF

	<u>Imports of goods and Services</u>	<u>Government Revenue³</u>	<u>G.D.F.¹</u>	<u>G.C.F.²</u>	<u>Public Sector Gross Capital Formation</u>	<u>Foreign Exchange Reserves</u>
1965	9.39	7.7	2.19	14.43	40.31	47.56
1966	9.12		2.07	13.69	36.53	39.53

(1) For Financial year beginning 1st of April.

(2) G.C.F. = Gross Capital Formation for both Public and Private Sectors.

(3) Total Government revenues 1964/65 estimate. Per Centages for 1965 and 1966 likely to be smaller.

(Sources: Calculated from (1) Table 29 above and (2) Data Provided in Nigeria:- Digest of Statistics July 1969. Federal Office of Statistics. Lagos.)

TABLE 33

LEADING SOURCES OF OFFICIAL BILATERAL AND MULTILATERAL AGENCIES CAPITAL FLOW

CAPITAL FLOW TO NIGERIA. NET¹ ANNUAL DISBURSEMENTS 1960-69(\$M)

OFFICIAL GRANTS

	Annual Total	of which U.S.A.	leading donor/ U.K. creditor/ West Germany	Italy	Canada	Nether- lands	Norway	Switzer- land
1960	16.31	2.00	14.16	0.09	0.02	0.04		
1961	7.46	4.00	3.02	0.01		0.43		
1962	14.26	9.00	4.26	0.09		0.83		
1963	18.34	15.00	2.18	0.34		0.76		0.03
1964	28.33	23.00	3.18	0.55	0.10	1.27	0.04	
1965	30.23	21.77	5.57	0.77	0.12	1.61		
1966	35.85	25.00	7.28	0.87	0.12	2.05	0.04	0.02
1967	37.71	27.00	7.66	0.78	0.06	1.67	0.01	0.06
1968	45.61	25.00	6.33	1.54	0.11	2.15	6.17	2.32
1969	65.37	30.00	9.05	10.51	0.08	3.72	2.81	2.56

OFFICIAL LOANS

1960	15.86	1.00	14.86					
1961	23.58	1.00	22.58					
1962	15.66	3.00	12.66					
1963	0.48		-0.15	0.48				
1964	15.34	3.00	8.31	0.09	3.78			
1965	37.53	4.62	20.98	3.56	5.81	1.81	1.06	0.79
1966	36.17	5.00	8.73	9.69	9.69	1.59	0.30	
1967	32.85	8.00	5.68	8.74	6.59	0.95	3.01	
1968	23.57	4.00	5.93	9.45	2.02	1.42	1.13	
1969 ³	8.55	5.00	-0.83	4.41	-1.31	1.38	0.01	

TOTAL OFFICIAL FLOW: (GRANTS + LOANS)

1960	32.17	3.00	29.02	0.09	0.02	0.04		
1961	31.04	5.00	25.60	0.01		0.43		
1962	29.92	12.00	16.92	0.09		0.83		
1963	18.82	15.00	2.03	0.82		0.76		0.03
1964	42.67	25.00	11.59	0.64	3.88	1.27	0.04	0.01
1965	67.84	26.47	26.55	4.33	5.93	2.67	0.79	
1966	72.02	30.00	16.01	10.56	9.81	3.64	0.30	0.04
1967	70.57	35.00	13.34	9.52	6.66	2.62	3.01	0.01
1968	69.21	29.00	12.27	10.99	2.13	3.58	1.13	6.17
1969 ³	73.92	35.00	8.22	14.92	-1.23	5.10	2.82	2.26

MULTILATERAL AGENCIES/INSTITUTIONS FLOW²

	Annual Total	from	I.B.R.D.	I.F.C.	I.D.A.	U.N.	Afr. D.B. ²
1960	7.57		7.10			0.47	
1961	2.38		3.40	-0.37	-1.40	0.75	
1962	0.46		-0.60		-0.60	1.66	
1963	-2.60		-4.50		-0.70	2.60	
1964	11.10		6.80	2.00	-0.70	3.00	
1965	26.74		23.20	0.10		3.44	
1966	20.95		19.10		3.20	5.13	-6.48
1967	42.79		38.03	0.60	5.51	5.13	-6.48
1968	32.67		22.77		4.66	5.63	-0.39
1969	30.08		19.09	-0.10	2.45	4.12	

TABLE 33 (Contd.)

TOTAL OFFICIAL BILATERAL AND
MULTILATERAL AGENCIES FLOW.

1960	39.74
1961	33.42
1962	30.38
1963	16.22
1964	53.77
1965	94.58
1966	92.95
1967	113.36
1968	101.88
1969 ³	104.00

- (1) Net disbursement equals gross disbursement minus amortization only.
- (2) Multilateral agencies/institutions flow equal grants and loans disbursed less capital repayments and capital subscription to them. For example, multilateral flow to Nigeria excluding her contribution to African Development Bank totalled \$27.43M.
- (3) Official Development Assistance (O.D.A.) only. Exclude other official flows like official export credits etc. 1969 total also include \$2.28M grant given by Sweden.

(Source - (1) O.E.C.D.: - Geographical Distribution of Financial Flows to L.D.C.'s (Disbursement) 1960-64; 1965; 1966-67; 1968; & 1969. Publications. op. cit

TABLE 33B

CUMULATIVE TOTAL (£M) & (\$MM)GRANTS1960-69 (10yrs)1962-67 (6yrs)

of which

Grand total	£299.47M (\$106.1M)	£164.72M (\$58.8M)
U.S.A.	181.77	120.77
U.K.	62.69	30.13
W.Germany	15.55	
Italy	0.59	
Canada	14.53	

NETOFFICIAL LOANS

Grand total	£209.59M (\$74.85M)	£138.03M
U.S.A.	34.62	23.62
U.K.	98.75	56.21
W.Germany	36.42	
Italy	26.58	
Canada	6.40	

OFFICIAL BILATERALFLOW (Grants & Loans)

Grand total	£509.18M (\$181.5M)	£301.84M (\$107.7M)
U.S.A.	216.39	134.39 (\$ 51.57M)
U.K.	161.44	86.33 (\$ 30.3M)
W.Germany	51.97	
Italy	27.17	
Canada	20.93	
Netherlands	8.05	
Norway	8.52	
Switzerland	5.00	

MULTILATERALAGENCIES FLOW(NET)

Grand total	£172.14M (\$62.49M)	£ 99.44M (\$35.5M)
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OFFICIAL BILATERALAND MULTILATERALAGENCIES FLOW (NET)

Grand total	£680.30M (\$243.0M)	£401.28M (\$143.3M)
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(Source:- Table 33)

TABLE 34

COMPARATIVE DATA: SELECTED WEST AFRICAN COUNTRIES OFFICIAL RECEIPTS 1960-70

NET ¹ OFFICIAL AID AND MULTILATERAL AGENCIES DISBURSEMENT. ² (EM)		1961	1962	1963	1964	1965	1966	1967	1968	1968-70 (Annual Average) ⁴
	33	30	16		53	94.6	93.0	113.3	101.9	102.44
	2	6	27		40	60.3	80.6	67.3	66.8	62.07
	27	79	34		17	36.4	48.0	39.3	17.7	12.69
						38.8	43.5	34.6	39.3	49.21
						16.1	16.7	12.6	8.9	9.57
Sahara)	830.1	910.3	910.1	103.8	1198.7	1205.2	1267.9	1212.4		1257.89

³ equals gross disbursement minus amortization only.

¹ C.D./D.A.C. members net bilateral official grants and loans disbursed plus grants and loans received from International Union less capital repayments and capital subscription payments to these organizations.

² at commitments (bilateral) to Ghana were 1960 \$40M; 1961 \$82M; 1964 \$22M; 1965 \$20M. Total 1954-68 \$231M. Similar comments to Nigeria were insignificant before 1965 when \$14M (tied credits) was committed by COMECON countries. Also \$100M in 1965 O.E.C.D./D.A.C.:- Socialists Countries' Economic Aid to Developing Countries. Paris 1970. And O.E.C.D.:- The Flow of Resources to L.D.C.S. 1962-68, especially Table 6, Page 310.

ry.

(1) O.E.C.D./D.A.C.:- Development Assistance: 1965, '69 & 71. Reviews. op.cit Statistical Annex.

(2) A. Kamarck:- The Economics of African Development (1967 ed). op. cit

TABLE 2.2

ESTIMATED ECONOMIC INDICATORS: COMPARATIVE GROWTH RATES OF (1960-67)

GDP	GDP Growth rate 1960-67 (Annual Average)	GDP Per Capita growth rate 1961-67 (Annual Average)	Export Growth rate 1960-67 (Annual Average)	Investment as % of GDP 1960-67 (Annual Average)	National Savings as % of GDP 1960-67 (Annual Average)	Marginal Savings rate 1960-67 (Annual Average)
	(2)	(3)	(4)	(5)	(6)	(7)
	5.1% (3.2) ⁵	1.1%	5.2%	13.4	3.9	34
	4.1%	5.5%	15.6	31.4	38.4	57
	3.2 (2.5)	-0.1%	0.0	15.1	8.0	16
	n.a.	1.5%	11.5%	n.a.	0.0	n.a.
	19.1 (8.0)	5.4%	12.5%	17.5	19.3	22
	4.1	1.6%	5.4%	16.0	13.6	

is, fixed capital assets plus changes in stock.

investments, National Savings and Marginal Saving rate as % of GDP.

savings as % of GDP 1963-66. n.a. = not available.

3 % of increase in GDP, GNP over the same period.

column 2 represents growth rate of GDP in real terms.

1. E.C.D./D.A.C.: Development Assistance 1969 Review on, cit Annex Table IV 2 Page 286.

Development Assistance 1970 Review on, cit Table IV 2

ita. I.A.R.D./I.D.A.: Annual Reports, 1969, 70 on, cit.

TABLE 34C

TOTAL AND M. INTERNATIONAL DISBURSEMENTS 1968-70 (A. INITIAL AMOUNT AS A % OF INCOME, GDE, GDP PER CAPITA)

Total as % of Imports of goods & services 1969	Rank ¹	Total as % of GDP 1968	Rank ¹	Total Disbursement Per capita	Rank ¹
13.07%	44	2.34	53	1.64	83
17.12%	33	4.34	34	7.13	42
7.98%	58-59	5.35	29	11.23	24
8.40%	56	4.62	31	12.10	20
5.11%	68	6.43	23	19.94	13

ascending order among 92 developing countries for which data are available.

to be affected by Civil War situation. Must be treated as approximate.

(Source: C.E.S.D., D.A.C. Development Assistance 1971 Review
on file Statistical Annex Table 20 Page 191-195)

TABLE 35

BASIC DATA OF EXTERNAL DEBT STRUCTURE OF SELECTED AFRICAN COUNTRIES

ABSOLUTE AMOUNT (£M)		NORMALISED AMOUNTS AS % OF EXPORTS OF GOODS AND SERVICES IN 1967						
1	2	3	4	5	6	7	8	9
debt standing of credits	Adjustment for Reserves ^a (Excess- Deficit+)	Adjusted total debt outstanding ^a	Exports of goods and Services (1967)	Total adjusted debt outstanding	Undisbursed portion of total Adjusted debt outstanding	Time Structure of cumulative adjusted debt service due 1-5 years 1-15 years	Debt outstanding after 15 years	
174 (05M)	+15	589	714	83%	24%	40%	88%	25%
38	-43	695	304 ^b	229%	n.a.	85%	244%	20%
25	-16	309	417 ^b	74%	36%	37%	84%	13%
64	-4	60	83	72%	4%	50%	89%	6%
18	-30	288	369	78%	23%	20%	78%	31%

position (as of Date) less two months imports requirements. The statistical concept used here, takes account of the try cannot operate efficiently with absolutely zero reserves, but needs at least two months' imports reserve in order only and currency viable. Furthermore excess of two months' Import reserves can in theory, it is assumed, be used to f outstanding debt. Such excess is treated as 'negative' debt. In column 2, figures with negative sign denote count- ves exceed the two monthly minimum requirements by that amount, while the positive sign for Nigeria denotes a \$15M minimum requirements. Such short-fall is treated, for all practical purposes as foreign debt and thus added to the

in Column 3. The excess in theory has been deducted from outstanding debts for other countries. The adjusted total (including undisbursed portion) represents therefore the 'crude' outstanding debt adjusted for the 'negative' or of the Exchange reserves. For detailed explanation see D.A.C./O.E.C.D.: Development Assistance 1969 Review Annex

A.C./O.E.C.D.: Development Assistance 1969 Review op.cit Annex IV Table 1 Page 285.)

MULTILATERAL AGENCIES FLOW OF FINANCIAL RESOURCES TO NIGERIA: WORLD BANK (I.B.R.D.) LOAN COMMITMENTS, 1958 to JUNE 1972

Financial Year	Amount (\$ M)	Date Approved	T E R M S			Purpose and Other Comments ²
			Interest rate	Grace Period	Maturity	
1. 1957/58	28.0	May 2nd	5 $\frac{3}{8}$ %	4 yrs	1962/78 (20 yrs)	Granted to <u>Nigerian Railway Corporation</u> for modernizing and expanding the railway system, including the extension to North-Eastern Provinces of Bauchi and Bornu.
2. 1962/63	13.5	Dec. 10th	5 $\frac{1}{2}$ %	5 yrs	1967/83 (20 yrs)	Granted to the <u>Nigerian Ports Authority</u> for Lagos (Apapa) quay development and extension.
3. 1963/64	30.0	March 12th	5 $\frac{1}{2}$ %	5 yrs	1968/84 (20 yrs)	Granted to the <u>Electricity Corporation of Nigeria</u> to meet the foreign exchange cost of the expansion programme to the transmission and distribution facilities.
4. 1964/65	82.0	July 7th	5 $\frac{1}{2}$ %		1999 (35 yrs)	Granted to the <u>Niger Dams Authority</u> as contribution to the original \$208M estimate needed for building the Kainji hydroelectrical Dam. C/F 1968 Loan.
5&6 1965/66	32.0					Made to Government for road construction and development. Two loans during the year. Terms are not available.
7. 1968/69	14.5	Nov. 27th	6 $\frac{1}{2}$ %	3 yrs	1971/99 (31 yrs)	Made to the <u>Niger Dams Authority</u> as a second contribution to the hydroelectric power development and extension programme C/F 1964 Loan.
8. 1968/69	6.0	March 5th	6 $\frac{1}{2}$ %	3 yrs	1972/83 (14 yrs)	Made to the <u>Nigerian Industrial Development Bank</u> ³ for the purpose of replenishing its foreign exchange resources.
9. 1969/70	10.6	Nov. 6th	7%	5 yrs	1974/84 (15 yrs)	Made to the Government for road improvement and expansion schemes.

Cont'd on following page:

Financial Year 1	Amount (\$ M)	Date Approved	T E R M S			
			Interest rate	Grace Period	Maturity	
10.	1969/70	25.0	June 26th	7%	9	1979/85 (15 yrs)
.. " for a transportation rehabilitation project, the proceeds of which are to be used for three transportation subsectors, road, ports and railways". \$12.4M was allocated to roads development in addition to the loan of November 1969. (1970 Report page 17)						
11.	1970/71	10.0	Aug. 28th	7%	3	1973/82 (12 yrs)
Made to Nigerian Industrial Development Bank. The loan will enable the bank to meet its foreign exchange commitments up to 1972' (West Africa 1/8/70 page 874). The loan is in effect essentially for assisting industrial projects of Nigerian companies.						
12.	1970/71	80.0	April 23rd	7 $\frac{1}{4}$ %	5	1976/91 (20 yrs)
'Programme Loan' to the Federal Government. This non-project loan represents a departure from the Bank's general practice of tying assistance to specific projects or purposes. It "provides general support in foreign currency to help finance imports for a two-year programme to rehabilitate the entire economy" (1971 Report page 28-29).						
13.	1970/71	7.2	June 23rd	7 $\frac{1}{4}$ %	6	1977/91 (20 yrs)
Granted for Agricultural projects. To assist cocoa planting, general agriculture rehabilitation, farm credits, training, and studies for future development. Represents contribution to a Government scheme estimated to cost \$10.4M.						
14.	1971/72	17.3	March 28th	7 $\frac{1}{4}$ %	10	1982/97 (25 yrs)
For Education: to rehabilitate war-torn educational facilities, expansion of schools and Teacher Training colleges and to cover the cost of technical assistance to reform curricula. Loan is the Bank's contribution to a \$27.8M Federal and State Governments education rehabilitation project.						

Cont'd on following page.

Purpose and Other Comments²

T E R M S

Financial Amount Date
Year 1 (\$ M) ApprovedInterest Grace Maturity
rate period15. 1971/72 26.3 April 11th 7 $\frac{1}{4}$ % 4 yrs 1976/96 (24 yrs)

For Highways and Transportation. Bank's contribution to a \$42.6M national project to construct roads and reconstruct bridges damaged during the Civil War 1967-70. Project includes improvements to 235M of roads in Western State. Loan also include the cost of providing technical assistance to improve federal highway planning and maintenance.

16. 1971/72 76.0 June 29th 7 $\frac{1}{4}$ % 5 yrs 1977/97 (25 yrs)

Granted to the National Electric Power Authority. The is to help finance a \$126 M project to strengthen the electric power system and extend services to major population centers.

1. World Bank Group's Financial Year ends on 30th of June

2. The three main recipients of World Bank Loans are the Governments, the State Public Utility Corporations and the Nigerian Industrial Development Bank (N.I.D.B.). Those loans not directly incurred by the State are nevertheless guaranteed by the Federal Government and in effect form part of external public debt obligation.

3. N.I.D.B. is a development finance institution enjoying both official and private backing and providing medium and long-term capital resources to the Industrial and Mining sector of the economy. Its involvements take the form of both Loan, and equity participation; its efforts are specially directed to increase private enterprise participation in Nigerian Industry. See Alan Sokolshi: The Establishment of Manufacturing in Nigeria op.cit. page 182; and West Africa April 25th, August 1st, 1970.

(Source : World Bank/I.D.A. : Annual Reports 1958 - '72. op.cit.)

TABLE 37

MULTILATERAL AGENCIES' FLOW OF FINANCIAL RESOURCES TO NIGERIA: INTERNATIONAL DEVELOPMENT ASSOCIATION. LOAN COMMITMENTS AS OF JUNE 1972.

<u>Year</u>	<u>Amount (\$M)</u>	<u>Terms</u>	<u>Purpose and other comments</u>
1) March 1st, 1965	\$20.0M	Not available, but assumed to be 'soft'	Educational credit. For financing "high priority education Projects, involving some 192 institutions in all the four regions of Nigeria". I.D.A.'s contribution to an estimated \$30M education expansion programme 60% of the budget was to be spent on secondary schools.
2) March 1st, 1965	\$15.5M	Not available, but assumed to be 'soft'	Transportation/Roads. For road building and expansion in the Northern Part of the Country. (for fuller analysis of the two loans, see World Bank/I.D.A. Annual Report 1964/65 Page 68).

TABLE 38

MULTILATERAL AGENCIES' FLOW OF FINANCIAL RESOURCES TO NIGERIA: INTERNATIONAL FINANCIAL CORPORATION (IFC) COMMITMENTS 1956 - 1972.

Outstanding as of June 30, 1972 (\$)

<u>Recipient</u>	<u>Loan</u>	<u>Equity Shares</u>	<u>Loan and Equity</u>	<u>Comment</u>
1. Nigerian Industrial Development Bank Ltd.	-	1,399.516	1,399.516	I.F.C., the Private enterprise-oriented affiliate of the World Bank has concentrated its assistance to these two companies. It helped both with their establishment and initial expansions. Its standby and underwriting commitments (in the form of equity participation) has grown steadily since 1964 and now stand at nearly \$2m. Its loan to AREWA textiles is being gradually reduced though it once stood at \$296,397 in June 1967. Altogether its cumulative commitments to these companies amounts to \$2,974,910 as of June 1972 - \$1.4m to N.I.D.B. in 1964; \$1,574,910 to Arewa Textiles in 1964, '67 & '70.
2. Arewa Textiles Ltd.	33,686	534.570	568,256	
Total	33,686	1,934.086	1,967,772	

(Source I.F.C. Annual Report 1972. Statement of Operational Investments, Standby and underwriting commitments Appendix D Page 32-36)

TABLE 39A

BRITISH AID TO NIGERIA: BILATERAL DISBURSEMENT. GROSS, NET OF AMORTIZATION AND INTEREST 1960-70 (£'000) (Sterling)

	1960	1961/62	1962/63	1964	1965	1966	1967	1968	1969	1970
1. GROSS FLOW	11,500	7,840	4,558	4,319	9,615	6,333	5,958	6,297	5,608	11,030
2. NET OF AMORTIZATION				2,678	8,557	5,337	4,754	4,970	3,430	8,698
3. NET OF AMORTIZATION AND INTEREST				1,734	7,405	3,524	2,777	2,883	1,170	6,211
COMMONWEALTH AFRICA:										
4. GROSS FLOW				70,846	69,855	62,335	62,872	67,636	60,961	58,669
5. NET OF AMORTIZATION AND INTEREST				63,642	61,811	47,256	45,275	50,055	40,611	36,559

(1) From 1966, data include C.D.C. investment flows. 1961/62, 1962/63 refer to Financial years. Rest calendar years
(Sources: Same as for table 39B)

TABLE 39B

BRITISH AID TO NIGERIA: BILATERAL DISBURSEMENT BY TYPES 1964-70 £'000 (Sterling)

	1	2	3	4	5
	Gross Disbursement	Technical Assistance	Grants (financial and technical assistance)	Net Transfer ^a	Loan : Net Transfer ^b
1964	4,319	1,189	1,429	1,734	305
1965	9,615	1,320	1,990	7,405	5,415
1966	6,333	1,556	2,422	3,524	1,102
1967	5,958	1,947	2,934	2,777	-157
1968	6,297	1,711	2,685	2,883	198
1969	5,608	1,898	1,898 ^c	1,170	-728
1970	11,030	1,499	2,846	6,211	1,865

(a) Net transfer equals gross disbursement minus amortization and interest on previous loans.

(b) Equals 'fresh' disbursement

(c) Technical assistance only.

(Sources: 1964 & 1965:- Ministry of Overseas Development: British Aid Statistics 1964-68 H.M.S.O. 1969 tables 14 & 25
1966 - 70 Overseas Development Administration: British Aid Statistics 1966-70 H.M.S.O. 1970 tables 11 & 12)

TABLE 40

GUARANTEED PRIVATE EXPORT CREDITS¹ EXTENDED BY DAC/OECD MEMBERS NETCHANGE² 1960-70 (\$M)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
NIGERIA	1.50	5.00	10.11	28.22	51.13	53.61	17.37	18.63	18.46	-4.14	1.02
GHANA ³	5.55	14.45	40.59	45.29	69.24	21.50	-8.56	-9.35	-31.41	-18.47	-12.69

- (1) That is Supplier's credits to the recipient countries.
- (2) Net change equals gross lending minus amortization only.
- (3) Totals for Ghana grossly understate the use of foreign suppliers credits since the estimates above exclude credits from U.S.S.R. China and other Centrally-planned economies of Eastern Europe. The Socialist bloc has of course been an important source of Capital resources in flow in the years before 1966 Coup D'etat See table 34 footnote (3).

(Sources: (1) O.E.C.D. Geographical Distribution of Financial Flows to LDCs 1960-64. 1965. 1966-67 op.cit.

(2) DAC/OECD: Development Assistance 1971 Review op.cit. Annex Statistical table 21 page 196).

TABLE 41

FEDERAL GOVERNMENT OF NIGERIA "OFFICIAL" EXTERNAL PUBLIC DEBT OUTSTANDING
1960-70 (£M)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1968</u>	<u>1969</u>	<u>1970³</u>
EXTERNAL FUNDED ¹	16.75	16.75	16.75	16.75	11.05	11.05	4.25	4.25	4.25
UNFUNDED ²	<u>9.00</u>	<u>18.04</u>	<u>26.19</u>	<u>29.41</u>	<u>29.70</u>	<u>35.50</u>	<u>81.07</u>	<u>81.58</u>	<u>84.02</u>
TOTAL	<u>25.75</u>	<u>34.79</u>	<u>42.94</u>	<u>46.16</u>	<u>40.75</u>	<u>46.55</u>	<u>85.32</u>	<u>85.83</u>	<u>88.27</u>

- (1) That is, stocks issued in London Capital Market.
- (2) Foreign Office and multilateral agencies disbursement, plus contractor finance credits
- (3) Data relate to Financial year ending 31st March of each year.

(Sources: Various, including (1) Reports of the Accountant - General up to 1969 op.cit.

(2) Standard Bank Review Nov. 1971 Page 51).

TABLE 42

NIGERIA: EXTERNAL PUBLIC DEBT OUTSTANDING.^a 1962 - 70 (£m)

As of Dec. 31st	<u>Obligated Amount including the Undisbursed Portion</u>		<u>Private Creditors</u>	
	<u>Total</u>	<u>Foreign Govts.</u>	<u>Multilateral Agencies</u>	<u>Suppliers</u> <u>Others, including Private Banks.</u>
1962	200 ^b			
1963	250			
1964	510			
1965	610			122.1
1966	620 ^b			
1968	421.3 (£150.4M)	587.3 (£209.7M)	223.1	16.2 97.4
1969	523.6 (£186.9M)	633.9 (£226.3M)	235.7	63.1 34.1
1970	463.6 (£165.6M)	683.4 (£244.1M)	266.0	63.6 32.7

(a) External short - medium - and long - term public and publicly - guaranteed debt of the Federation of Nigeria. Exclude loans and credits for which no definite information is available.

(b) Total amounts for 1962-66 are to the nearest \$10M.

(Source: World Bank/I.D.A. Annual Reports 1967-72 op. cit)

TABLE 43

<u>Debt Service Payments on</u> <u>External public and publicly-</u> <u>-guaranteed debt (£M) 1,2</u> (a)		<u>Export of Goods and</u> <u>Services (£M)</u> (b)	<u>Debt Service</u> <u>Ratio⁴</u> (c=a/b)	
1950	£0.616	£91.7	0.67%	
1951	0.922	116.7	0.79%	
1952	0.922	131.1	0.70%	
1953	0.922	133.7	0.69	
1954	0.922	160.2	0.58	
1955	0.755	134.9	0.56	
1956	0.755	142.6	0.53	
1957	0.755	137.5	0.55	
1958	0.755	151.9	0.50	
1959	0.755	179.8	0.42	Ghana
1960	0.755	182.1	0.41	Debt
1961 ⁵	1.74	193.6	0.90	Service
1962	3.59	189.0	1.9	<u>Ratio</u>
1963	6.26	208.5	3.0	3.7
1964	7.03	234.2	3.0	7.8
1965	9.36	292.4	3.2	19.3
1966	16.42	309.8	5.3	6.1
1967	12.67	264.0	4.8	4.5
1968	13.92	235.9	5.9	12.2
1969	20.03 ^P	345.4 ^P	5.8	6.6
1970	19.84 ^P	484.0 ^P	4.1	4.9

- (1) For 1950-60, interest payments only on 'funded' loans from London Capital Market.
- (2) Amortization of previous stocks are excluded from estimates. These capital repayments amounted to £2.67M in 1950; £4.18 in 1955; £5.70M in 1963.
- (3) Export of goods and services include factor income from abroad.
- (4) Equals debt service payments as % of Export of goods and services.
- (5) From 1961 service repayment does not include contractor finance and other short-term guaranteed credits for which no definite information is available. However it appears that payment on Contractor Finance averaged about £4M from 1966 onward. See text.

P: = Provisional.

Sources: Export Values: (1) 1950-57:- P.C. Okigbo: Nigerian National Accounts 1950-57, Lagos 1962.

(2) 1958-59 U.N. Yearbook of National Accounts Statistics 1968 Vol. I

(3) 1960-69: Central Bank of Nigeria. Economic And Financial Review. June 1970. op.cit Table 18, Page 69.

(4) Debt Service Values for Pre-1961 years Calculated from data provided in Nigeria. Annual Reports (Colonial Office) op. cit.

(5) Debt Service ratios: I.B.R.D./I.D.A.: - Annual Reports 1969 - 72. op. cit.

CHAPTER 8

NIGERIA: FOREIGN PRIVATE INVESTMENT 1940-1970

The analytical framework of this chapter entails a continuation of the historical perspective and an evaluation of the role and contribution of foreign investments in form of a critique. Unlike the previous chapter on foreign aid in which the emphasis has been on providing factual information and in which the relative shortness of 'aid experience' has limited the amount of empirical criticisms attempted. My approach to private capital is conditioned by several factors. Foreign investments in Nigeria have at one time or the other been dealt with if only indirectly in studies relating to industrialization of the economy,¹ in detailed analysis of the emerging manufacturing sector;² while foreign participation in specific sectors like commerce,³ banking⁴ and oil production⁵ have been examined in depth in the respective books referred to. What has been lacking and which I try to redress in this study is both the historical and the critical approach. I have already done this for the period before 1940 in Chapter 6. For the period after that year. Part of the emphasis will be on subjecting the investments in Nigeria to the general criticisms of foreign investment enunciated in Chapter 5.

1. P. Kilby: *Industrialization in An Open Economy: Nigeria 1945 - 66* op. cit.
2. See for example A. Sokolski: *The Establishment of Manufacturing in Nigeria*. op. cit.
3. See for example Peter Bauer:- *West African Trade*. op. cit.
4. See for example C.V. Brown:- *The Nigerian Banking System*. op. cit.
5. See for example L.M. Schatz:- *Petroleum in Nigeria*, Ibadan 1969; and Scott R. Pearson:- *Petroleum and the Nigerian Economy*. Stanford University Press 1970.

In the light of this approach it will be possible to suggest both desirable changes in the present relationship of foreign capital to the rest of the economy, as well as ways of avoiding potential conflicts between future national priorities as set by the Government and the investment programme of foreign companies. In some instances, the studies cited above and earlier on provide the raw material base for this chapter.

The dearth of statistical information that features in the analysis of the pre-war years continued until about the time of Independence. Since 1961/62 however, the Central Bank (Research Division) has annually undertaken a rudimentary statistical survey of the size and disposition of foreign private capital investment in Nigeria. The information gathered by these surveys is constantly improving. Gone were the days when all that was known of investment capital was that it formed a substantial part of the annual capital movement in and out of the country. Thus the statistical evidence of the 1950s is qualitatively inferior to that of the '60s. However as we shall see presently, this shortcoming of the earlier period's data is not of crucial importance.

Below are several tables relating to foreign investment in Nigeria. Table 44 refers to the private inflows and their sources in the decades before and after Independence for which estimates are available. It is important at this stage to note that practically all foreign private capital participation in Nigeria (and the rest of Black Africa) is, and has always been in the form of direct equity investment, with very limited portfolio overspill. The latter has been in foreign owned companies themselves rather than in local or indigenous firms and industries.⁶

6. (I'm referring here strictly to the private sector of the Economy. Thus excluded are loans raised by the State from the London Capital Market. These have been dealt with in earlier chapters.

Compared with the data for post-1960 period, the figures for 1950-59 underestimate the relative values because they refer only to net addition to fixed capital investment while the former relate to overall net inflow (after allowance has been made for gross outflow). Tables 45 and 46 examine these data in terms of their contributions to capital formation in Nigeria. The latter deals exclusively with the post-independence period. Let us look first at Table 45. It shows foreign capital's contribution to (net) fixed investment in the economy. I have separated the two periods 1950-59 and 1963-61 because of the break in available data, the existence of qualitative differences, and because of an analytical requirement which becomes clearer presently. The contribution of nearly 32% to net fixed capital formation in the decade 1950-59 was a high one by any standard. The size of the contribution was even higher within the private sector. However it must be remembered that this was the period when the Government had left the bulk of domestic non-infrastructure capital formation to private enterprise while it was investing its own 'surplus' capital abroad.⁷ This estimated contribution to fixed capital formation is not an adequate measure of the extent to which foreign enterprises had sunk their capital resources in the commerce, mining, transport and industrial ventures during this period. Outside mining, and especially for merchandizing firms who formed the bulk of foreign enterprise in Nigeria, fixed assets (and their increment) form a relatively small proportion of the total capital employed in the Country. For companies like N.A.C. and John Holt Ltd., who were forced by the pattern of their trade to carry large stock of goods and cash balances, a look at their fixed assets data gives an erroneous picture of their financial stake in the economy. For example after the last war N.A.C. had locked up in its operations both in Nigeria and Gold Coast (Ghana)

7. See above Chapter 7, Pages 367-368

a sum of nearly £35m of which only £3.5m was in fixed assets. Cash balances amounted to over £6m. The fact that the foreign capital's contribution to the economy during the period was larger than that shown in the statistics of balance of Payments or of fixed capital formation was recognized by the World Bank Mission of 1953. Its Report suggests that the annual value of other components of foreign companies' capital inflow - cash holding, foreign debts and head-office liabilities, for which data were not easily available, might well run into several millions of pounds.⁹ Furthermore in the days before national (central) banks, national currencies and exchange controls, firms like U.A.C. moved capital around quite regularly within the West African currency system area, or between West Africa and the rest of the Sterling Area after by-passing the local banking system and official channels.¹⁰ Thus not only was it difficult to estimate before the late '50s the amount being employed by trading companies in a particular country at a particular time. The official estimates "of capital inflow derived from balance of payments figure do not provide a full measure of the degree to which private investors have increased their stake in Tropical Africa".¹¹ The conclusion that can be drawn from both the Mission's observation and U.A.C.'s statement is that the actual contribution of foreign private capital in the decade preceding Independence, to commerce and economic expansions in Nigeria was bigger than that derivable from available statistics.

8. U.A.C. - Statistical And Economic Review (SER) No. 4 Sept. 1949 Article entitled 'Some financial Aspects of Trading in West Africa' Page
9. I.B.A.D. Report (1954) op. cit Page 144 C/F Chapter 7 Pages
10. See quotation in Chapter 6 Page And P. Bauer West African Trade op. cit. pages 104-105.
11. U.A.C. - S.E.R. No. 21 March 1950 Pages 14-15

Pen-foster ?

You gave a fair explanation of the
phenomenon earlier

but the doctoral significance could
well have been considerable
enough ?

The outstanding foreign capital employed in Nigeria expanded rapidly after the war especially after the post-war shortages in imported goods began to ease. There is no direct estimate of its size before the sixties, but we can make an indirect one. F.J. Pedler estimated the value of foreign capital invested in the four British West African territories in the mid-fifties to be about £200M.¹² Assuming a ratio of 5.3: 1½: ½ in the dispersal of this capital in Nigeria, Gold Coast, Sierra-Leone and Gambia respectively, the amount at stake in Nigeria during this period was therefore about £100M. U.A.C., the leading British trading company in West Africa employed a total of £46M in these territories in 1953/54.¹³ Nigeria's share would probably have been in the region of £25M. The figure of £100M for 1954/55 compares well with the estimated £20M employed in 1937.¹⁴ By 1962 however the book value of outstanding capital had risen to £220.9M¹⁵, that is, a hundred-fold increase in twenty-five years.

Having said all these about the period before Independence, the question may now be asked: was foreign capital's quantitative contribution to Nigeria's capital resources at that time of the upmost importance? We've seen in the last chapter that this statistical importance was the direct result of a curious Government policy of investing 'surplus' capital overseas. The alternative to private capital inflow would not have been a capital vacuum or a severe shortage. The essential *raison d'être* for foreign enterprise in Nigeria up to late 1950s was not the extra financial resources it made available - indeed the economy was generating more than it was consuming and investing domestically, but the other items in the investment package. Its major contribution lay in the provision of know-how both technical and managerial, patents, sources of imported goods and

12. F.J. Pedler: 'Foreign Investment in West Africa' International Affairs No. 31 1955 page 459.

13. See U.A.C.: S.E.R. No. 16 Sept. 1955 article entitled 'capital employed'.

14. See above Chapter 6 Page 328.

15. See Table 47

See over page.

He build up of
movement in 1950's
+ early 1960's is scarcely
vouched as yet but
deserve some analysis to
understand a key aspect of
the economy.

materials, quality control and other related factors that make for a 'modern' economic environment and sector. This is essentially a reiteration of the point made earlier in the last chapter.¹⁶ However it is surprising to find that foreign firms themselves continued to place the emphasis on their financial contribution.¹⁷ The above observation meant that the emphasis should be on qualitative rather than quantitative contribution. During this period the spotlight should be on such questions as to what role major foreign enterprises did play in helping to create a new breed of small-scale indigenous entrepreneurs, in bridging the technical backwardness of the economy and in diversifying the sources of National Product?

The quantitative contribution of foreign private capital in the 1960s was far more important than in the preceding decade, especially so in years when the exchange reserves were being rapidly depleted¹⁸ and before earnings from oil export began to make substantial contribution to the nation's exchange and savings resources. The six years (1963-68) for which estimates are made in both Tables 45 and 46 correspond closely to the six years (1962/3 - 1967/8) of the 1st National Development Plan. Foreign companies contributed an average of 21.2% to net fixed capital formation during the plan period. If we relate the 'nominal' net annual inflow to gross capital formation, we find that in 1962-67 (6 yrs.), 1962-68 (7 yrs.) and 1963-68 (6 yrs.) foreign capital accounted for 22%, 21.2% and 22.4% respectively out of the total. In 1963-68 there was not much difference in the percentage contributions to net and gross capital formation though in Value terms £200.2M out of an inflow of £289.9M went to net fixed investment. In the same period this nominal inflow

16. See Chapter 7 Pages 370-371

17. C/F U.A.C.: S.E.A. 7021 op. cit article entitled 'The Finance And Development in Tropical Africa - II'.

18. See above Chapter 7 Pages 387-388 and Table 25.

amounted to nearly 35% of Private Sector gross capital formation (Table 46).

To get an appropriate and meaningful picture of the external contribution, it is essential that only appropriate data should be related to each other. For in some studies of Nigeria where estimates and comparisons like those I have attempted here are made, the results are vitiated by the absence of any distinction between gross and net investment. For example both May¹⁹ and Sokolski²⁰ related the smaller estimates of net fixed capital formation (by foreign enterprises) to total resources available for investment. Thus for the period before Independence they found respectively overseas private enterprises to have contributed an average of 14.7% and 13.6% to capital formation. Each of the two percentages is less than half of my own above estimate.

Table 46 gives us an idea of the size of private capital flowing into Nigeria in relation to the total going to all L.D.C.s from D.A.C./O.E.C.D. countries. During the period 1963-68 Nigeria received about 6.12% of direct investment capital, though within Africa she was one of the leading recipient countries. Indeed in black Africa she had the largest inflow during the greater part of the 1960 decade. In 1965-66 for example she received an average about a quarter of Africa's direct investment capital. This was no doubt due to the growing heavy investment in petroleum exploration and production.²¹ The same factor is reflected in the size of outstanding foreign investment in her in relation to the rest of L.D.C.s in Africa. In 1966 for example she accounted for about 24.3% of total direct investment in them though within all L.D.C.s this accumulated stock amounted to just under 4%.²² However her share of direct investment flows in the aggregate

19. R. May: 'Direct Overseas Investment in Nigeria 1953-63' op. cit Table II Page 248

20. A. Sokolski: 'The Establishment of Manufacturing in Nigeria' op. cit Table 31 Page 180

21. See Table 2.

22. These percentages are calculated from Data in Tables 2,3 and 47.

going to all L.D.C.s compares favourably with her share of official and multilateral agencies disbursements. During the same period 1963-68, the latter as Table 30 shows amounted to just over 1%.

A comparison of the (foreign investment) contribution actually achieved during 1963-68 and the targeted level proposed in the First National Development Plan revealed interesting facts. As Table 48 shows the cumulative level of F.D.I.P. was higher than the planned target despite the outbreak of civil war in July 1967 and the transfer of Government resources away from development expenditures to the war effort. The latter fact is revealed by the sizes of public sector's achievement and the planned target. The private sector's contribution nearly doubled targeted level and reversed the expected respective contribution with the public sector. Thus it achieved a 64.3% of the total instead of the planned 36.5%, and continued the Pre-1960 ratio which Government economic policy had sought to change! ²³ The Development Plan itself intimated that the planned private sector contribution was a conservative one and some-how expected the aggregate level to be higher, but not as much as the achieved level. The foreign private capital component of the Private sector also surpassed expectation - in contrast to foreign aid; but this was due largely to heavy investment in petroleum, 'forced' investment in other sectors through inability to remit capital and investment income, while foreign-owned manufacturing firms were enjoying a boom in consumer goods production in response to war-time heavy import restriction. The aggregate 'inflow' in fact hid a serious slack in non-oil capital inflow. I shall return to this point presently. The relatively lower percentage of foreign private capital to private sector is both a reflection of the boom in indigenous investment in food, beverage and textile manufacturing (as a result of the import

23. Annual average ratio 1951-60: Private sector 63.4%, Public sector 36.6%.

What does this mean? 1

No discussion of the "qualitative impact"

restrictions) and the curtailment in 'fresh' capital in non-oil foreign investment. Still the percentage achieved in relation to G.D.C.F. was higher than planned.

To summarize, the contribution of foreign private resources to capital formation, to a broader diversified capital base of the economy since the war has been a major force in Nigeria's economic progress. While the quantitative contribution during 1950-58 was relatively secondary to its qualitative impact, it still helped to generate a 12.6% annual real growth rate in gross investment during the period, thus enabling that economic indicator to be one of the fastest growing. The same could be said of the Post-1960 period. A 13.3% annual growth rate was achieved during 1960-67, a rate that was greater than that of domestic saving and more than double that of G.D.F.²⁴

It was this recognition of foreign private capital's past efforts coupled with the inevitable dearth of domestic development capital at the end of a protracted civil war that prompted the authors of the Second National Development Plan 1970-74 to envisage nearly a third of the period's capital formation emanating from foreign enterprises especially those already established in the country.²⁵ There were however other factors underlying this relatively high (comparable to pre-independence contribution) expected inflow. First, the disappointment with foreign aid and its tying;²⁶ And secondly, the fact that oil industry investment was expected to accelerate during the period. Certainly foreign private capital that poured into oil exploration, production and marketing has been the most single factor in lifting Nigerian investment programme up to a respectable level in the last decade, and in allowing the level of the First National Plan target to

24. C/F K. Langley. 'The External Resource Factor in Nigerian Economic Development' IWELS July 1968 op. cit Page 171

25. See Table 28 and Pages 383 Chapter 7.

26. C/F H.D. Nelson et al: Area Handbook for Nigeria 1972 op. cit Page 378

has reached despite the abandonment of the Plan itself (Table 48). Second to oil has been the flow of new capital and the redeployment of the old into import-replacing manufacturing industry. Thus it was possible for mining (largely oil) to grow at (real) annual average of 40.4% and manufacturing production at 8.4% during 1960-66.²⁷ Foreign investors' capital has also been vital to the financing of overall industrial activities in Nigeria which also grew at an annual average rate of 18.4% during the same period. However financial contribution also entails a rise in ownership and control. According to the official Industrial Survey of Nigeria 1963, 50% of the paid-up share capital of 321 limited companies investigated was of foreign origin. Among medium and large-scale enterprises the proportion was even higher, for according to A.I. Hakan, more than three-quarters by value of the industrial enterprises (identified by nationality of investors) in the economy in 1964 were owned by foreigners. British businesses owned about half the total and among foreign companies they owned and controlled over 50%.²⁸ However as Table 47 shows the British share of outstanding stock of foreign investments in the country is gradually declining as other capital-exporting countries expand their stake in the economy, particularly the Americans in the oil industry. The table also shows the continuation in the growth of outstanding foreign investment in Nigeria which by 1966 has reached a book value of over £500M. The estimates show the level to have more than doubled within half a decade. In actual fact this was not so, for the estimates also reflect improved coverage both quantitatively and qualitatively. For example when the annual survey started in 1963, banking, insurance and shipping were originally excluded; while the coverage had extended from 308 companies

27. U.N.- World Economic Survey 1969-70. Statistical Annex Table A.3 Page 143.

28. A.I. Hakan: 'The Motivation to Investment And the Locational pattern of foreign Private Industrial Investments in Nigeria' IWIES Vol. 8, 1966 op. cit Table 4, Page 45.

in the earlier year to 584 companies in 1968.²⁹ Outstanding foreign investment in fixed assets were £3411. and £356.9M in 1967 and 1968 respectively. Distribution of ownership followed the same pattern as that of total foreign investment, with the United Kingdom accounting for £200M of the (fixed assets) total.³⁰ Table 47 also shows the gap between paid-up capital (including reserves) and 'other liabilities' to be continuously narrowing over the decade. The implication is a favourable one for the economy; for as import-substitution industrial enterprises established at the beginning of the decade began to find their feet and show profitable returns, the tendency on the part of foreign investors to risk less of their own funds and rely on borrowed capital waned. In fact there are other factors involved in this capital-gearing technique other than risk avoidance especially when we are dealing with subsidiaries and branches of international firms in developing countries. In official Nigerian surveys the classification of components of capital employed by foreign firms and subsidiaries into the two broad categories of owned and owed capital is defective for economic analytical purposes. It is based more on Accounting needs. In the above data taken from the annual foreign investment survey, paid-up capital also included loan capital, while 'Other liabilities' estimate is largely composed of head office 'loan' and other external trade and supplier credits. In my opinion both loan capital which could have been from local or foreign bank and 'Loan' injected into the subsidiary by the parent company should be in reserve categories. In Nigeria (and in other developing countries) foreign companies especially the American³¹ have found it convenient, for capital movement and tax avoidance purposes (in

29. See Central Bank of Nigeria: 'Foreign Investment Survey'; Foreign Private Investment in 1967 and 1968' in Economic And Financial Review (E.F.R.) June 1969, June 1971 respectively.

30. Ibid 1971 Review Table 4 Page 10

31. See Central Bank of Nigeria: 'Private Foreign Investment in 1966' E.F.R. June 1970 Page 15.

their home and host countries) to transfer capital resources to their subsidiaries in form of loans and credits rather than through direct equity shares participation. Strictly speaking, inter-company self-held debt cannot be looked upon as 'borrowed' capital. Peter Kilby who has looked closely at the financial structure of some foreign manufacturing firms in Nigeria has this to say of the investor employing self-held debt capital: "ploughing back of profits" in order to effect the loan repayment coupled with only a moderate profit remittances, is more acceptable to the Nigerian Government and public opinion than if the equivalent amount appeared solely in the form of profit on an all-equity investment. Should there be foreign exchange restrictions, debt servicing is unlikely to be curtailed whereas profits are.by providing a significant part of his capital in the form of a loan the entrepreneur can limit his loss in the event of business failure - if only because credit losses are tax deductible while losses on equity investment are not."³² What we should be concerned with is the 'true' gearing ratio, that is, between the aggregate intra-group capital employed and that borrowed from outsiders - banks, equipment suppliers and other creditors. The movement in this ratio determines the extent of risk being assumed by foreign investors and his local joint-partners, the confidence of the former in the local economy, the availability of and the ease in gaining bank loan and advances both locally and abroad, and the performance of his venture. Similarly the extent of self-held debt by the parent company reflects the grading of the local subsidiary between the extreme positions of a probing venture and a long-term investment undertaking. The form of available statistics on foreign investment in Nigeria do not make it possible to establish the true gearing ratio for the overall level. However if we divide the aggregate net addition to investment in

32. Peter Kilby. *Industrialization in An Open Economy Nigeria 1945 - 1966* op. cit Page 122

the 6 years (1963-68) into a non and debt capital components and include in the former 'liabilities to head office,' we find that a fifth of the inflow (which in fact included unremitted profits) was in form of debt finance.³³ Whichever of the two estimates of gearing - the one in Table 47 which gives a ratio of 54:46 or the one above which gives a ratio of 1:4 for additional capital - approximates to the true position in Nigeria, there is no doubt about the important role gearing plays in the strategy for achieving a 'correct' capital structure of foreign investments. Michael Kidron has also drawn attention to a similar strategy in India where foreign firms feature "exceptionally high" gearing ratios. They are high not merely in relation to their parent firms but even in the Indian context.³⁴

UNREMITTED PROFIT: The annual inflows we have been dealing with above of course include a large amount of earnings and profits that have not been remitted to parent companies and for shareholders, but retained locally for ploughing back into the businesses. As we've seen in an earlier chapter, this process of retaining a substantial part of profit for expansion programme has been a main feature of foreign investment in Nigeria since 1867.³⁵ U.A.C. for example, has built up its assets in Nigeria which were worth £48.5m in 1961, largely out of ploughed back profits. R.S. May reports that in 1950-60 U.K. companies in Nigeria retained on average 40% of their earning, and in 1961-63 all foreign companies on average retained 66%.³⁶ Again according to 1968 Foreign Investment Survey, overseas companies retained locally 59% and 74.3% of their post-tax earnings in 1966 and '68

33. That is £248.8m to £241.0m. Calculated from data given in Table 2 Page 6 S.F.R. June 1971.

34. M. Kidron: Foreign Investment in India. op. cit Page 231

35. C/F C.E.C.: Commonwealth Development And its Financing No. 5: Nigeria op. cit Page 39

36. R.S. May: 'Direct Overseas Investment in Nigeria 1953-63' op. cit Page 261

respectively.³⁷ The exceptionally high level of unremitted profit in the latter year must have been affected by Exchange restrictions imposed during the war. The difference in the Pre- and Post-1960 percentages reflects the changing pattern of foreign investment sectoral concentration away from the old established 'colonial' enterprises in commerce, banking and allied services, agriculture, and transportation to industrial manufacturing enterprises and petroleum production (Table 49). In the 1960s the latter type of ventures were still in the infant stage. With post-civil war easing of exchange controls and the maturity of the latter businesses it is expected that both profit and the part of it remitted abroad will increase significantly in the 1970s and early '80s.³⁸

The data below is of the annual inflow during the 1960s and that part of it which was in fact unremitted profits.

	<u>TABLE 51</u>							
	<u>1961</u>	<u>62</u>	<u>63</u>	<u>64</u>	<u>65</u>	<u>66</u>	<u>67</u>	<u>68</u>
Net inflow	27.3	17.7	37.2	63.0	55.2	49.4	47.6	36.7
of which								
Unremitted profit	2.7	7.9	13.4	17.0	37.8	59.5	28.1	16.7

(Source: Central Bank of Nigeria: Foreign Investment Surveys 1965, 67, 68. N.F.R. Dec. 1967 & June 1971)

The share of unremitted profits or retained earnings in the first four years were relatively smaller than those in the later years, when political uncertainties which culminated in the Civil War 1967-68 reduced foreign investors confidence in the Nigerian economy. The effect was that on one hand the flow of fresh capital was curtailed and on the other Exchange controls restricted the outflow of investment income. Table 44 also shows that net aggregate inflow reached a peak in 1964 and thereafter started to fall. This downward turn continued up

37. Central Bank of Nigeria: N.F.R. June 1971 op. cit Page 18.

38. See below pages 492-499

to the end of the decade in spite of substantial capital inflow into the oil industry. The latter inflow apart, "the reduction in direct investment in other sectors was particularly disquieting"³⁹. In 1966 for the first time parent companies withdrew capital from their subsidiaries to the tune of £16.5M. This negative value of net 'liabilities to head office' was indirectly taken out of unremitted profit for the year which as the data above shows was more than the net inflow. Outside oil, fresh equity capital ceased to flow during the war, on the contrary, parent companies continued to withdraw their 'loans' to local subsidiaries. In 1967, British firms withdrew £10.3, and those from Western Europe £2.31. The corresponding figures for 1966 were £14.41 and £5.71 respectively. These withdrawals were offset by U.S. oil capital inflow and other debt liabilities.⁴⁰ Though figure for net inflow in 1969 is not available, a look at balance of payments estimate of capital outflow for the year, including £19.21 from the oil sector suggests that the level would be much smaller than that of previous year.⁴¹

Data shown in Tables 49 and 50 give us an insight into the changing pattern of foreign private investment in Nigeria which I briefly referred to earlier on. We have seen again in an earlier chapter that British colonial investments before the Second World War were concentrated in export-import merchandizing, tin mining and banking services. After the war, coastal shipping, road transport, minor plantation agriculture and civil engineering construction were added. Towards the end of the fifties when the making of economic policy had passed on to indigenous hands and a policy of diversification through industrialization was being enunciated,

39. H.D. Nelson et al:- Area Handbook of Nigeria 1972 op. cit Page 375.

40. Central Bank Foreign Investment Survey 1968, H.M.R. June 1971 Table 2 Page 3.

41. C/F H.D. Nelson et al:- Area Handbook of Nigeria op. cit Pages 375-379.

old foreign investors responded by gradually redeploying their capital away from general merchandising and services to the new import-substitution manufacturing, often jointly with their previous foreign suppliers whose primary motive was to protect their markets. New 'outsider' investors came in too, in search of opportunities in the industrial field. Increased purchasing power in a relatively large and populous market coupled with generous incentives were stimuli to the new structure emerging after independence. Oil production for export which began in 1958 started to boom by Mid-Sixties and in effect became the most important single phenomenon to radicalize the Nigerian economy since the laying of the railway lines. The index of Crude oil productions rose from a 1963 base (100) to 1910 by 1971 despite war interruption;⁴² and its export value in the same year (2476.50) more than doubled the aggregate value of the remaining exports put together (2170.21).⁴³ The Budget speech for 1973/74 expects the industry to "contribute well over 75% of the Federal Government revenue in the Financial Year".

By 1968 investment in mining and quarrying (oil and tin production) has attracted the largest slice of foreign capital, followed by trading and services, and manufacturing and processing (Table 49). Sectors whose share of foreign investment are either declining, stagnant or small are agriculture, building and construction, and road transportation. The absolute value of investment in building and construction increased between 1962 and 1968. Few but large foreign construction and civil engineering companies are very influential in this important area of capital formation. Their relatively small fixed capital assets and working capital belie their contribution to the value-added and skill acquisition (by Africans) in

42. I.M.F.: International Financial Statistics Jan. 1973 Page 274.

43. Standard Bank Review April 1973 Statistical Annex.

this sector. The statistical data do not reveal the rather curious changing pattern in the oldest foreign investment sector in the economy - that of 'trading and allied services'. A combination of falling profit margins, Government policy of indigenizing commerce and gradual redeployment into industrial ventures has led the big merchant firms to concentrate their trading activities in limited specialized fields where their capital resources and marketing experiences give them a comparative advantage. According to U.A.C. the leading firm affected in this instance, 'so far as the larger international firms are concerned, the trend of their investment at the present time is away from former fields of produce-buying and general merchant trading and into industrial development and specialized merchandising of modern industrial products'.⁴⁴ Thus they concentrated on running modern department stores in the main cities and the sale and servicing of mechanical and electrical equipments requiring specialized skill. "Technically speaking the much talked of withdrawal from retail trade in the 1950s may well have been reversed since the end of the decade".⁴⁵ The relative decline in the share of 'trading and services' in total investment in 1968 reflects the above reemployment though because of its historical importance and size, the sector still accounted for nearly a quarter of foreign capital disposition. The relatively small increase in the addition to this sector's capital during 1961-63 (Table 50) reflected also the fact that some small-scale foreign investors withdrew their capital from the country in 1962. The disinvestment in that year amounted to £15.4M. Apart from capital outflow and redeployment, the official survey for the year attributed the shortfall to 'a switch by a number of important companies from overseas sources to domestic banking system for the financing

44. U.A.C.: S.E.R. No. 29 April 1964 page 41. C/F S.E.R. No. 28 article entitled 'Redeployment'.

45. F. Kilby:- Industrialization in An Open Economy. op. cit page 65.

of current operation'.⁴⁶ Within the sector itself it might be right to attribute the increase in absolute level of capital employed to growth in services - in banking, insurance and similar professions. Apart from showing the large expenditure in oil spending during the troubled years of 1966-68, Table 2 also reveals the growth in incremental expenditures of the foreign-owned manufacturing sector from a low level in the early years of the Fifties.

To summarise, there has been a phenomenal rise in the size of foreign investment in Nigeria between the end of the last war and the two subsequent decades. Its sectoral deployment too has been undergoing a structural change, with the years around Independence in 1960 being the transitional period. Foreign capital flowing into petroleum exploration and production has been the mainstay of this capital movement into the Nigerian economy. Without it, the quantitative picture in the mid-Sixties and onward would not have been a sanguine one. Capital redeployment hides a lag in post-independence flow. In the seven years 1961-67, United Kingdom, the biggest investing country added only £11.4M to her non-oil investment. The growth of this addition to net operating assets was one of the slowest for the fifteen major nations in which Britain has foreign investment.⁴⁷ There were in fact net disinvestments in four years 1962, '64, '66 & '67.⁴⁸ Internal political crisis culminating in civil war was a major factor in the slow down. However with the ending of the war a possible return to 'open-door' policy and the prospect of an oil-production-led boom, the slack in non-oil capital inflow may soon disappear - possibly by Mid-Seventies. With that happening, we may project areas of continuing foreign expansion: Inflow into oil and allied industries will continue at a relatively high level until it stabilizes by the late Seventies. Other industrial capital

46. Central Bank of Nigeria:- E.F.R. June 1964 Page 14.

47. C/F Reddaway Report op. cit.

48. Board of Trade Journal No. 3764, 9th May 1969. Article entitled 'Overseas Investment in 1967 Table A Page 1

will follow similar pattern with intermediate and capital goods producers gradually displacing assembling firms. Other sectors identified in Table 49 and 50 will continue their relative decline.⁴⁹

At the beginning of this chapter mention was made of detailed analytical studies of different sectors in the economy in which foreign private capital operate. I do not intend to repeat the knowledge thus made available. I can only refer the reader to them as an essential compliment to my analysis here.⁵⁰

I have now and again brought the name of United Africa Company (U.A.C.) into the analysis dealing with Nigeria. This inability to get away from U.A.C. is a reflection of the important and sometimes crucial role the company has historically played in the Nigerian economy especially within the foreign sector. A detailed look at this company - I dealt at length with its forerunner, the Royal Niger company in an earlier chapter - since the 1929 amalgamation turned it into the leading company in Nigeria, gives an unparalleled dimension of the modus operandi of foreign capital in Nigeria economic development. Mars⁵¹ and Bauer⁵² have looked closely at the commercial operations of the company in the pre- and immediate post-war periods, while its epitomization of the redeployment into import-

49. C/F Chapter 5 pages. 253-254

50. See above Pages 438-9 The Central Bank of Nigeria annual 'survey' of foreign investment is at present no more than a compilation of statistical information with hardly any socio - economic interpretation attempted. However I have used the information made available for above analysis and the interested reader should consult the relevant Economic and Financial Review (E.F.R.) for a detailed statistical look at foreign contribution to the important manufacturing sector. Alan Sokolski:- The Establishment of Manufacturing in Nigeria, op. cit. Appendix contains a useful inventory of major manufacturing establishments up to middle of last decade.

51. J. Mars:- 'Extra-territorial Enterprise', Chapter 2 of M. Perham (ed): Mining, Commerce and Finance in Nigeria op. cit

52. P. Bauer: West African Trade op. cit.

substitution manufacture is technically well-treated by Kilby⁵³, and historically documented by Professor Charles Wilson⁵⁴. U.A.C. represents the main channel of Unilever operations in Africa and with its affiliates, accounted in 1969 for 9.1% (£263M) of Unilever Global turn-over.⁵⁵ Nigeria has historically been the leading host country. However the continent represents the area of least growth for the Multinational, with sales up by only 10.5% in the decade 1956-66 as compared with a global average of 55.2%; capital employed fell by 12.4% from £137M to £120M while during the same period it increased globally by 76.3%.⁵⁶ A 'good' post-tax profit of 4.2% in Mid-fifties (1953/54) was followed by a relatively low one (6.9%) on capital employed in Africa in Mid-Sixties (1966), partly reflecting the long gestation period before redeployed capital in industrial ventures 'began to show reasonable profits'. Before the end of the decade however, the situation had improved considerably.⁵⁷ Since Mid-60s it has not been possible to separate the salient statistics of U.A.C.'s operations in Nigeria from those of the rest of Africa. The Company is unwilling or unable to provide the necessary information. However there are every indication that the statistical trends follow those enumerated above, except in the sizes of capital employed and the annual addition to operating assets. Table 52 shows that capital expenditure has nearly doubled between the early fifties and sixties, emphasis going to industrial investment, specialized wholesaling and department stores. In the first four years of the last decade, the Group invested an average of £3M per annum and by the end of the decade a level of £4M - £5M ought to have been achieved. In its attempt to protect its share of marketing services which

53. P. Kilby:- Industrialization in An Open Economy. op. cit Chapter 3

54. Charles Wilson:- History of Unilever 1945-65 London 1968 Chapter 9.

55. Unilever Annual Report 1969 Page 11

56. Unilever:- Facts about Unilever (Leaflet) 1967.

57. Post-tax Profit in 1969 was about 8.2% in spite of serious dislocation in Nigeria. Unilever Annual Report 1969 op. cit Page 6.

in 'colonial' days was more than those of all other firms and agents put together, and in its endeavour to adjust to changing political, social and economic condition and thus find a "new range of legitimate opportunities for profitable investments, the U.A.C. Group has diversified its base, with emphasis being placed on Vertical Specialized development"⁵⁸. As the leading source of foreign investment capital in non-oil industrial/manufacturing and commercial businesses, the Group's operations in Nigeria are to be found in a wide-ranging field that includes breweries, department stores, motor sales and assembly, whole-sale engineering and electrical equipments with attendant technical advisory and after-sale services, cement and other building materials, pharmaceuticals and allied packaging and marketing, food and beverage processing and packaging, textile manufacture, toiletry preparations, shipping, plantation, and timber processing.⁵⁹ Around the time of Independence U.A.C. has acquired majority capital in 25 operations, and a further 10 in which it has smaller financial stakes had come on stream between mid-1962 and the end of 1964.⁶⁰ Again by 1965, the Group has been involved altogether in 28 industrial projects in the country,⁶¹ providing equity capital, local intelligence and marketing expertise to a manufacturer's technical know-how. A typical tri parte joint venture would feature U.A.C. contributory commercial management, former overseas manufacturer, technical management and Government corporation share capital.⁶²

58. For Company's recent interpretation of this process of change, see the article entitled - 'Catching the Wind of Change - the Redeployment of the U.A.C.' by A.H. Smith (Company Chairman) in Progress Unilever Quarterly No. 283. 1/1965.

59. See Unilever - The United Africa Company Group (U.A.C.) Leaflet 14, 1969.

60. U.N.- Economic Survey of Africa Vol. I (1967-68) Page 52.

61. P. Kilby: Industrialization in An Open Economy op. cit Page 68.

62. For example ownership of West African Portland Cement Co. Ltd. Consisted at the start-up in 1961 of 39% W.N.D.C. (Govt. Corporation) 10% U.A.C. and 51% Associated Portland Cement (U.K.) Ltd.

The company's present objective is the consolidation of the above activities which themselves reflect a four-fold operational strategy - industrial production, linked to a highly developed and sophisticated marketing/distribution network in which prominence is given to specialized wholesaling, and department stores retailing.⁶³ The U.A.C. Group with its interests spreading into nearly every corner of the modern economy is a more powerful institution than ever before. In so far as the effects of its economic policy and behaviour permeate the length and breadth of the economy, the absence of a real internal accountability in the daily pursuit of the profit motive represents what the critics would see as the ultimate in economic domination. This is no exaggeration. Petroleum sector apart, the role and influence of the company and other Unilever associates in the economy is at present second only to that of the Government. I shall return to the questions thus raised in a later section.

The company is proud of its economic record in Nigeria. Apart from its sizeable capital contribution, it emphasizes its relatively good employment opportunities generation,⁶⁴ its achievements in the rapid creation of an indigenous corps of middle and top commercial and technical managers,⁶⁵ and its continuous financial and commercial assistance to "many thousands of African traders to build up successful business. The U.A.C. and its predecessors pioneered the local mechanical processing of agricultural exports including the timber industry".⁶⁶

63. A.H. Smith:- 'Catching the Wind of Change' op. cit

64. Its African Timber and Plywood (Nigeria) Ltd. is one of the World's largest tropical timber processing units and together with its three plantations (2 rubber and 1 oil palm) run via Pamol (Nigeria) Ltd. Provide wage employment for about 6000 people in the mid-60s.

65. C/F U.A.C. (Nigeria) 'Management Development And Training in Nigeria'. Link Vol. 4 No. 2 June 1970. According to West Africa May 3, 1969. U.A.C. hopes to have indigenized 33% of its management personnel by 1980.

66. See U.A.C. 'The Finance And Development in Tropical Africa - II. S.E.A. No. 21 op. cit Page 42-44; And U.A.C. (Nigeria). 'Ollivants - The Clothing Revolution and Nigerian Businessmen' Link Vol. 4 No. 2, June 1970. op. cit.

The Political Economy of Petroleum Production

A second way of illuminating the essential position of foreign private capital within the Nigerian economy is through a brief look at exchange-earning petroleum production. Though one company Shell- .P. has traditionally dominated the industry - it controls 60-70% of exploration, production and domestic marketing, and holds nearly half of the shares in the country's refinery,⁶⁷ - it is for analytical simplicity that I shall look at the industry as a whole. Unlike U.A.C. which is essentially domestic-orientated, the oil industry in Nigeria, like in most developing countries of OPEC is geared towards operating in an external market. Though about 25 of its crude oil production is refined for the domestic market (a savings of some £15-14 in the mid-60s on previously imported fuel) it is to fulfil the growing oil demand of Western Europe and North America that the Nigerian industry owes its existence. The Petroleum industry is different from U.A.C.'s commerce and services in another way. It epitomizes the new brand of foreign capital that arrived after Independence, bringing with it a new breed of 'expatriate' businessmen - the technocrats and skilled negotiators that are different in outlook and purpose from the old traders and colonial civil servants. From my analysis of the financial contribution to capital formation and the growth of its output it must be obvious to the reader by now that the industry is of crucial importance to Nigeria's economic and social development. In the light of this, it is not therefore surprising to find two good books⁶⁸ and some articles⁶⁹ about the industry within half a decade of its really getting underway. Schatz's book is historical and descriptive with a technical bias, Pearson's is informative especially on statistical data though

67. As of 1968/69.

68. See L.H. Schatz:- *Petroleum in Nigeria*; and Scott R. Pearson: *Petroleum And the Nigerian Economy. op. cit.*

69. See for example:- *West Africa*. Nov. 1, 1969; Dec. 13 1969, Feb. 21 1970. Also Aluko & IJERE 'The Economics of Mineral Oil', *N.J.E.S.S.* Vol. 7 1965, M.S. Robinson: 'Nigeria oil: Prospects And Perspectives' *N.J.E.S.S.* Vol. 6, No. 2, July 1964.

his in-depth projections of future behaviour of the main parameters are being rendered obsolete by the rapid changes taking place in the industry and the fluid nature of the international oil scene. Unlike these studies, my contribution here is to take a critical look at the present state of the industry in so far as it represents Nigeria's use of foreign capital and skill to develop her natural resources.

The search for oil in Nigeria began in 1937 and it was not until after the post-war upsurge in World Demand for petroleum and allied products did the tempo of exploration and test drilling rise in earnest. Crude petroleum was struck in commercial quantity in 1956 in the Niger Delta and two years later Nigeria exported 229,000 tons valued at 20.9M. In 1963 3.7M tons, valued at 220.1M was exported while ten years later, and in spite of civil war interruption, a level of 115 million tons with a value of over 2600M was expected to be reached.⁷⁰ It is essential to examine the background against which this spectacular growth is being achieved. Firstly, Nigeria's crude has certain intrinsic advantages vis-a-vis some of her competitors in the international market. It is of light gravity, with relatively low sulphur content - a quality which makes it ideal for combustion in a pollution-conscious Europe and North America. It is consistently waxy (essential for motor oil production and other synthetic by products), and given the current closure of the Suez Canal, it is of relative proximity to the markets of Europe and North America. The last point is important owing to the fact that the cost of transporting crude from the oil wells to the market is a major element in aggregate landed cost and therefore in the choice by the 'Oil Majors' as to where to expand or contract. It costs more to transport crude oil from Middle-East and Africa to Western Europe and North America than to produce it. In 1963/64 for

70. See 1973 Budget.

example, production cost for Nigerian crude was £0.30 per barrel and the transport cost to Europe was £0.55 per barrel.⁷¹ Secondly, the rapid development of the Nigerian fields was of strategic importance to Britain - which was getting 10% of its requirements from this source in mid-sixties and to E.E.C. countries in their attempts to diversify their sources of oil. As compared with politically-volatile Middle-East and North Africa, Nigeria offers a relatively secured and stable, and so far relatively cheaper supply.⁷² Thirdly Nigeria somehow is fortunate to have entered the world oil scene (she will probably rank 6th-7th in the O.P.E.C. production hierarchy by mid-Seventies) when a combination of factors is gradually tilting the bargaining strength more and more in favour of the producing countries vis-a-vis the oil companies and the 'Great Powers' behind them. What are these factors. First, the 10% annual growth in demand in industrial Europe and North America in the face of a widening gulf between consumption and domestic production in the U.S.A., of a quicker rundown of coal usage than anticipated and the slow progress in nuclear energy production. The continuing inability to adjust to the closure of the Suez Canal and shortage of tankers and supertankers has heightened the relative shortages in Europe and America, and led to a greater dependency on strategic reserves against a background of unsettled Middle-East. On the other hand, the coming together of the major oil-producing countries in post-war 'politically-free' Third World to bargain collectively through O.P.E.C. institution has meant that no longer are the major decisions on exploration, production, transportation, marketing, refinery, pricing and profit-sharing policies left to the highly-integrated and heavily-capitalized oil oligopolies from the 'Imperial' countries. Over the last twenty years

71. See L.N. Schatzel:- *Petroleum in Nigeria* op. cit. Tables 9 and 20.

72. See below page 465.

circumstances have changed enormously, and nowhere do governments in the producing countries accept the role of sleeping partners. They want to have a direct role in the management and exploitation of their natural resources, so as to get 'know-how' and develop national expertise in the exploration, production and marketing of oil.⁷³ The outcome of this shift in strength and negotiating skill have been the rapid increases in, and standardization of the 'posted-prices' of crude oil - the so-called 'O.P.E.C. norms'; the increased share of producing countries in the income generated by the industry, and in the growing trend towards participation arrangements. However the industry has to go through the crisis and confrontation of 1970-71 before this new approach could emerge.⁷⁴

The boom in petroleum production since mid-Sixties has led to an expectation in public mind - often fed by ill-informed journalism - of Nigeria becoming another Kuwait or Libya. Judging by the recent post-civil war expansion and the way it is incorporated into official national statistics, the basis for optimism is not entirely without foundation. Certainly a G.D.P. growth rate of more than 11% in the early Seventies is a big step forward from the early-Sixties when Nigeria's persistent balance of payments deficit and economic weaknesses appeared to be leading her inexorably towards the same difficulties that beset Post-Warumah Ghana. However the economic impacts of Petroleum production in the last decade were hardly inspiring enough to validate the gradual emergence of an 'oil economy'. Besides, other factors operating in the economy like her solid agriculture base, and other natural resource endowments that are capable of supporting a diversified economy, will ensure that at the level of maximum impact the oil industry does remain a major engine of growth but by no means its mainstay. Data in Tables 53, 54 and 55 reveal the salient

73. C/F R.F. Miles: 1:- U.S. Private Investment in the Extractive Industries of the Developing Countries: Changing Pattern and Attitudes Chapter 14, in Litvack and Laule (ed): Foreign Investment: The Experience of Host Countries. op. cit.

74. See The Times (London) Feb. 1 1971, Nov. 9, 1971; and Sunday Times (London) Jan. 24 and Feb. 7 1971.

Features of the industry vis-a-vis the rest of the economy. The crucial fact to emerge is that going to some present characteristics of the industry, the gap between the nominal value of output and its contributions (financial, fiscal, employment) to the domestic economy is greater than is generally supposed. Partly because of the stronger bargaining position of the Government, factors tending for a narrowing of the gap are beginning to operate, but the process is likely to be a protracted one - especially in the absence of any radical departure from the present operational structure of the industry. What are these characteristics? Oil production in Nigeria like in most developing producing countries takes place in a typical foreign enclave fashion. Up to the end of the 1960 Decade exploration, production, refinery and local marketing were completely in the hands (ownership and control) of 14 foreign oil companies led by the partly state owned 'Shell-B.P.', 'Safrap', 'ENI', and the U.S. majors like 'Mobil', 'Gulf' and 'Texaco'. They employ foreign capital - an estimated \$450M was spent in the decade 1950-69, the most up-to-date capital intensive technique which necessitates the import of skilled technical and managerial manpower, and in the absence of a local capital goods and technical services industries, the import also of the bulk of their plant and machinery and specialized linked services. Direct employment of local labour is relatively small (See Table 53) though if we add the number of people employed by foreign and indigenous supplying contractors, the estimate rises to about 10,000 at the end of the decade.⁷⁵ It is unlikely however that the number of people directly and indirectly employed by the industry at the stage of full development will exceed 15-20000. Up to the end of the decade, over generous incentive allowances and fiscal concessions were made available to the industry.⁷⁶

75. See West Africa Nov. 1 1969

76. C/F H. Schatal: Petroleum:- Nigeria op. cit Page 66.

Like most foreign investors in foreign - orientated extractive industries, oil companies are not constrained at all time by domestic foreign exchange control which might otherwise impede the smooth movement of capital and investment income out of the host economy. Unlike fellow investors in, for example manufacturing or commerce who might otherwise be affected, the ability to export crude oil per se confers this advantage. The foreign exchange earned by the sale abroad is thus effectively at the disposal of the companies and not the Government. This implied ability to circumvent official foreign exchange policy gives the companies enormous influence in controlling the balance of payments impact or contribution of their operations in Nigeria.

A financial characteristic; it has been claimed by a Shell-B.P. senior employee in Nigeria that the highly-complex and vertically-integrated international companies "take virtually all their profits on the crude production phase, not on others".⁷⁷ Some of the implications of these and other characteristics can be summed up briefly. It meant that indigenous or local share of the income or wealth presently generated by the oil industry is not only smaller than that accruing to foreign factors, but of lower order as compared with most O.P.E.C. members in terms of per barrel 'take'. For example in 1971 official revenue for Nigeria's 74M tons export amounted to about \$322M. In the same year Indonesia received \$557M for 44M tons export, while in 1970 Algeria netted \$320M for only 47.2M.⁷⁸ Secondly, that the value-added to the economy is much smaller than the 'nominal' export value of crude and of locally refined products. Thirdly, that both the trade and .D.. statistics have become distorted in recent years by the inclusion of 'nominal' production values as opposed to the real contribution to foreign exchange availability or to National Product.

77. M.S. Robinson: 'Nigerian oil: Prospects And Perspectives.' N.J.E.S.S. Vol. 2 July 1966 op. cit Page 228.

78. U.N.:- World Economic Survey for 1971. Table D10 Page 101. C/F L.H. Schatzl: Petroleum in Nigeria op. cit Table 41.

Another form of G.D.P. distortion not shown in the tables can easily be deduced. G.D.P. at constant prices rose by £239M from £1995.9M in FY1970/71 to £2234.9M in 1971/72. Aggregate merchandise exports rose in the comparable years (1970,71) by £203.9M, but less than the £221.5M increase in the value of crude oil export. Thus, not only did other non-oil agricultural export value fall, but the 11.9% increase in G.D.P. was almost entirely contributed by the boom in oil production for export.⁷⁹ Agricultural production, which accounts for about 60% of G.N.P. was in per capita terms stationary. The export statistics for 1966 shows that oil accounted for 32.3% of total merchandise earnings. In fact very little meaning should be given to this fact as it stands, for as a result of the heavy demand by the industry for imported services (such as foreign contractors for laying pipes, dredging harbours and constructing terminals), imported materials (largely equipment and machinery) and the outflow of dividends, the current account contribution was only £14.6M out of the £91.9M export value. In fact throughout the last decade the annual foreign-exchange earnings from petroleum export was consistently below those of the three traditional major agricultural exports - cocoa, ground-nut and palm produce, while for the industry as a whole, the inflow of investment capital was its main contribution to foreign exchange availability. See Tables 54 and 55. How much importance we can attach to the 73.7% contribution to merchandise export in 1971 and to similar contributions in the immediate future thus depends on the trend in the import content of the industry's annual investment expenditures, on the size of remitted investment income and capital inflow. Data available so far do not indicate any aggregate downward drop in the industry's heavy import of goods and services (see Table 54), though for some of the older

79. In 1971, 'output' of the oil sector accounts for 11.8% of G.D.P.

established producers like Shell-B.P. who have passed the early phase of heavy construction, the import component of their expenditures was already falling during the later part of the last decade. For Shell-B.P. it decreased from 64% before 1959 to an average of 35% in Mid-Sixties.

Three factors point to a long-term falling off in the import of goods and services. (1) As the phase of construction and development gives way to that of maturity the need for materials and foreign construction services will be correspondingly reduced. (2) the continuing exhortation and pressure from the Government on the companies to reduce their imports, while seeking out and encouraging the development of local alternative sources. Some provisions in the Petroleum Decree 1969 represents the first effective step in this direction. However it must be borne in mind that the effectiveness of official action in this respect is constrained by oil companies control of the necessary foreign exchange. (3) The gradual emergence of both backward and forward linked indigenous firms catering for material and service needs of the industry. In contrast to a falling import requirement at maturity, the level of remitted dividends, interests, profits and royalties will rise and net capital inflow become negative as the industry amortizes its investment capital. Again this latter process will be aided by the control over necessary foreign exchange.

Given the present pattern in ownership, control and in the operational structure of the industry, its future balance of payments contribution to the national economy becomes more difficult to estimate (and control). The importance of this point has not in the past been officially recognized.¹⁰ What has been less difficult to forecast and on which recent official efforts have been concentrated is the share of oil income that accrues to the Government as revenue. So far the industry's payment to Government has comprised royalties, rents and profit tax. Payments to statutory

10. C/F W.F. Stolper: *Planning Without Facts* op. cit Page 125

corporations like harbour dues and railway charges are included in the category of 'other local payments'. Together direct payments to the Government and to other indigenous factors of production represent aggregate 'local take' from oil export proceeds (rows 7 and 8 in Table 53) and if we subtract from it oil companies' income from local sales (row 11) the remaining amount equals the balance of payments contribution.⁸¹ As the tables show the absolute level of local take and its share in aggregate oil proceeds have in the past been relatively small though increasing over time. An indication that Government take will rise substantially in the second development decade is given by the contribution in 1970 and 1971 and the almost exclusive reliance on this source by the Federal Government for its 1973/74 revenue.⁸² In concrete terms "Government experts forecast that Government revenue from oil production this year (1973) will exceed ₦600M, which is a major increase on past oil revenues of ₦450M in 1971 and ₦200M in 1970, while further development of oil production is the most likely factor to increase the national product in 1973."⁸³

This increase in Government income from oil both in absolute terms and relative to total oil proceeds can be attributed to several factors. Firstly, Government policy since 1966 has been largely related to widening the scope of revenue payable to it. The Income tax (Amendment) Decree of 1966 aimed at reducing what Schatzel saw as the "unusually high rate of initial (capital) allowance and the use of geometrically declining rates of depreciation", which "can hardly be justified from the point of view of economics".⁸⁴ The Petroleum tax (Amendment) Decree of 1967 and the Petroleum Decree of 1969 aimed at increasing Government revenue from oil proceeds.

81. G/F Scott, R. Pearson: *Petroleum And the Nigerian Economy* op.cit Pages 74-79.

82. See above page 453

83. Standard Bank Review Feb. 1973 Page 21. A new Nigerian currency, Naira (₦) came into operation recently. 2 Naira equal to one old Nigerian pound.

84. L.H. Schatzel: op. cit Page 88

The former decree forced the producing companies to undertake to convert to O.P.E.C. terms in the calculation of royalties and Government profit tax, and in the fixing of their 'posted prices'. The latter decree not only enjoins the companies to supply information and data in more details to the host authorities than before, it also called for substantial increase in the employment and training of local personnel in all phases of petroleum operation.⁸⁵ As I pointed out earlier on, one effect of the 1969 Decree was not only to reduce the expenditure on imported visibles and invisibles, but also as a corollary, to increase the share of local factors including labour in petroleum value-added.

Secondly, Nigeria benefits in general from the strong international bargaining position of oil producing countries which I referred to above, and in particular from being a non-Arab producer. Thus she was not only able to impose the more favourable O.P.E.C. terms on the companies before she even became a member of that organisation, she was also able to benefit from the substantial all-round increases in crude oil prices negotiated between O.P.E.C. and the major companies in the Winter of 1971.⁸⁶ At the same time she was able to achieve an acceleration in Post-Civil war production. The increase in Government revenue in the '70s will thus reflect a combination of increasing production level, increasing world prices and therefore of her profit margin and the disappearance of previously over-generous tax allowances. If we combine this path of development with possible future Government participation in the industry on an effective and substantial scale, as well as an increasing indigenous private participation in the industry, then the present pattern whereby a greater part of the petroleum value-added accrue to foreign factors will be drastically

85. C/F West Africa Dec. 13th 1969.

86. The 31.2% (1971) increase in Posted Prices of Nigerian crude was about average for O.P.E.C. countries but smaller than Libya's 54%. World Economic Survey for 1971, Table D10 Page 101 C/F West Africa March 19, 1971 Page 308.

reversed. It is only with development along this line can any real meaning be given to the tag of 'oil bonanza' which now surrounds every discussion on Nigerian economic development. My analysis so far should not distract us from the immense potential benefits oil production can directly and indirectly confer on the Nigerian economy. What is needed most is a judicious official policy that farms the maximum economic surplus from the industry while at the same time puts it to the best use with emphasis on development allocation. I shall return to this theme later on. What I want to emphasise here is the potential for the oil industry to 'unbind the Nigerian economy from the growth - attenuating and structurally distorting restraints' typical in most developing countries.⁶⁷ With a merchandise export earnings in 1973 that is 6-7 times that of a decade before and with oil contributing the greater part of a rapidly increasing net foreign exchange availability, the foreign exchange and savings bottle-necks that have plagued the economy in the past will be sufficiently reduced. Apart from being better placed to import necessary goods and services, a bigger level of foreign exchange reserves will enable the authorities to "pursue an optimal tax policy for both intra and inter sectoral growth." Peter Kilby provides the explanation: "The tendency to increase tariffs in response to balance of payments and revenue consideration ... has two powerful adverse effects on the economy's growth. First such tariffs provide excessive protection to import-substitution industries with resultant high costs and truncated development of the emerging industrial sector, at the same time, because such tariffs bear no proportion to the value-added of the manufacturing activity that they implicitly protect, a distorted industrial structure is likely to result. Second, increased tariffs on consumer goods turn

67. Kilby:- Industrialization in an Open Economy .. op. cit Page 15

inter-sectoral terms-of-trade against agriculture, this tends to discourage agricultural production and to promote the exodus to the cities, further adding to unemployment and the need for further public investment in urban amenities.⁸⁸

The increasing saving capacity will certainly allow the Government to put into its Development Fund a bigger slice of its income than hitherto, and will also enable it to accommodate local expenses of foreign aid projects which as we saw in the last chapter might otherwise not materialise.⁸⁹ Besides fiscal potentials, an expanding oil industry represents one of the major dynamic sectors within the economy, directly capable of generating substantial industrial backward and forward linkages especially into the fields of petro-chemical and fertiliser development, and of providing the economy with sufficient energy requirements. Its indirect 'spread' or 'multiplier' effects will increase with corresponding expansion in local factors' participation. It also remains a potential source of such externalities as a pool of skilled labour, technocrats and administrators, and the construction of roads.

Before moving away for the time being from the petroleum industry, I will like to draw attention to the industry's contribution to foreign exchange availability during the critical civil war years of 1967-70. Table 55 shows the net foreign exchange contribution by the industry for the use of the rest of the economy after allowance has been made for its own requirements. The table reveals this contribution to have varied between 10.6% and 17.2% in the three years 1967, 68 and 69. This picture is grossly misleading for as I have intimated in an earlier chapter,⁹⁰ Nigeria's exchange reserves was virtually nil in terms of her then current external obligations and her ability to discharge them. Thus the figures

88. Ibid Page 16

89. C/F W. Arthur Lewis - Reflections on Nigeria's Economic Growth op. cit Chapter IX.

90. See Above, Chapter 7

for non-oil foreign exchange availability in those years represent essentially a withholding in the 'Pipeline' and in the economy foreign exchange payments on account of commercial imports, dividends remittance and capital transfer.⁹¹ In essence the contribution from the industry both from export proceeds and capital inflow represented a major source of 'real' foreign exchange to the economy, along with official aid and multilateral loan disbursements. On the other hand Table 54 reveals a point we have been emphasising above. For in spite of strict exchange control and a strong desire to conserve what she has and maximise whatever she could earn or borrow, the country was in no effective position to stop the oil companies paying abroad foreign contractors employed in Nigeria substantial sum in foreign exchange. The sum of £44.8M paid in 1969 for example, was larger than Nigeria's then existing 'nominal' exchange reserves.

With those two examples behind us - U.A.C. representing the past and present, and the petroleum industry the future, - we may now look briefly into some other aspects of Private foreign investment in Nigeria. The motives for investing in her are similar to those analysed in the second chapter, though particular emphasis should be given to the potentially attractive size of the market, the general 'Open Door'⁹² policy and the friendly posture of a usually conservative Government that was (and still is) eager to industrialize, and more recently the prospect of an oil-led boom. If we concentrate on the manufacturing industry in which the number of foreign investors since Independence has multiplied several times, we find that there are three main types of foreign investors, those merchant firms like U.A.C. and John Holt's Ltd., and foreign

91. See West Africa March 19, 1971 Page 297. According to its correspondent, "payments in the pipeline" in early 1971 "is believed to total about £160M compared with a published external reserves of some £50M."

92. C/F Kilby:- Industrialization in An Open Economy op. cit. Introduction.

suppliers like 'Pye', 'Raleigh' and 'Guinness' who either individually or as joint-partners started producing and assembling behind the local tariff walls solely for the purpose of protecting or safe-guarding their market shares. For the latter firms the sequence of involvement follows that described in Chapter 2.⁹³ Secondly, those international companies, new to Nigeria but attracted by generous incentives and market potentials to exploit new opportunities as part of their world-wide expansion drive.⁹⁴ The major multinationals like 'Alcan', 'Metal Box', 'Phillips' and 'Dunlop' fall into this category. The third group - the Machinery Manufacturers cum equipment salesmen who have been in the 'turn-key' and joint-venture projects, have invariably been attracted by Government invitation and the opportunity for almost risk-free investment. Within the latter group are private individual entrepreneurs whose private investments are guaranteed by the Government or Government Corporation. We have seen in the last chapter how these private guarantees have been increasing in the last decade and forming a not-inconsequential part of effective foreign debt. I have referred in an earlier chapter too to the criticisms surrounding the role of machinery merchants and supplier creditors in the industrialization process. This observation by Peter Kilby sums up the situation brilliantly ... "the rash of 'machinery-sale public investment' projects is political: Prestigious capital-intensive projects can be achieved quickly, they provide well-paid directorships for politicians as well as jobs for the unemployed, they are an important source of (Political) party finance via the 'kick-back', and they do not require any money down - they are financed on the basis of Supplier credits."⁹⁵

93. See Chapter 2, fn. 20 Page 28..

94. G/F Kilby: Industrialization op.cit Page 132.

95. Ibid Page 70. G/F Sayre P. Schatz:- "Crude Private New-Imperialisms: A New Pattern in Africa J.N.A.S. Vol. 7 No. 4 1969 op. cit

improves communications essential
- geographical spread is to occur
- investment has in roads in
addition to rail.

The locational pattern of foreign industrial investment in Nigeria, like the motives behind them has been studied in some details by A.N. Hakan: "Aside from broad recommendations the foreign industrial investor was left free to invest wherever he desired and (in) whatever he wished, (National plan notwithstanding)" ⁹⁶ Consequently location was determined by the nearness to the market in the case of food, consumer durables and light manufacturing, and by nearness to the raw material base in such cases as processing of agricultural export produces like oil-seed milling, cotton ginning and rubber processing, and in the production of 'heavy' goods like cement, tin processing and petroleum. In future, the location of hydro electric power, gas and petroleum refineries are expected to be focal points for industrial expansion. In Nigeria, it thus follows that most manufacturing industries (both foreign-owned and indigenous) are concentrated in and around big cities like Lagos, Ibadan and Kano, and around petroleum producing and refining environs of Port-Harcourt. However as industrialization moves into the intermediate and capital goods production stage, where the locations of power supply and raw materials rather than the market proximity are relatively more important, a greater spread may occur. Such dispersal is likely to be enhanced by official policy in that direction. A locational pattern that is biased to political considerations and less economically-determined has its obvious drawbacks, as the experience of Nigeria during the years 1955-66 glaringly demonstrated. When effective economic power rested concurrently with the Federal and the three regional governments. And the jealous competitive desire of each region to have its 'fair share' of the mushrooming industries induced hasty invitations to, and approval of foreign industrial ventures with minimal project evaluation, and that were clearly of non-essential or

96. A.N. Hakan:- 'The Motivation to Invest and the Locational Pattern of Foreign Private Industrial Investment in Nigeria' N.J.E.S. Vol. 8, 1966 op. cit Page 62.

strategic type and sometimes duplicative. As for Governments' own 'turn-keys' and joint ventures, and guaranteed Private investments, the politically-chosen locations and poor technical consultancy and management agency ensured their loss-making.⁹⁷ The last point reinforces what I have been saying about motivation, and according to Hakam, it is this regional politico-industrial rivalry along with the inevitable absence "of overall industrial planning and co-ordination that was largely responsible for the over-capacity that exists or shortly to exist (as a result of new plants under construction) in the following industries: beer, tyres, flour, shoes, biscuit, cement, enamelware, some phases of the textile industry, and roofing material."⁹⁸ Whether this state of affairs will continue or not in a re-structured twelve-state Federation (of Nigeria) is yet to be seen. The smaller and financially weaker state administrations are most certainly to be subordinate to the Federal Government in economic power and are therefore unlikely to embark on local 'prestige' projects without central approval and support, and the co-operation of neighbouring states. On the other hand, the art of compromising the desires and co-ordinating the plans of twelve states is likely to prove far more difficult than in the case of a three-region federation.⁹⁹ The necessity of avoiding duplication, fragmentation and

97. See above Chapter 7, Pages 405-6 and Sayre P. Schatz - 'Crude Private Neo-Imperialism' op.cit

98. A.W. Hakam. 'The Motivation to Investment' op. cit Page 58

99. C/F The article entitled 'Which industries Where in Nigeria?' in West Africa Sept. 19 1970. The article draws attention to this problem of inter-state rivalry. Quote: "It is not in Nigeria's long-term interests to allow investors to play-off states against each other in order to obtain the most favourable terms, which is what could occur if the present clamouring continues." "The article also relates the experience of one large British company that refuses to sanction further expansion in the economy "until this State question is cleared up." The company "is very concerned about pressures being placed up it, for a project which it wishes to launch in one northern State is being held up because others are demanding the same attention."

excess capacity cannot be over-emphasized in the case of Nigeria. Collaboration with different foreign manufacturers by indigenous private companies, State Corporations and market-protecting foreign merchandise firms can only result in sub-optimal plants dotting the length and breadth of the country, with scant hope for future nationalization and mergers. And no less important is the implied duplication of foreign payments for royalties, licencing and technical fees, and management expenses etc. As we have seen above in the case of India,¹⁰⁰ an unco-ordinated import of technology and consultancy could entail an enormous but unnecessary loss of foreign exchange. The Reddaway Commission on the United Kingdom Direct Investment Overseas, found that during the period 1955-64 and excluding the oil sector, Nigeria and Ghana were the largest royalties and management fees paying countries among the fifteen leading overseas territories in which British Companies operate. The payments equalled 40% and 39% respectively of the post-tax profitability of U.K. Group in them as compared with an average of 10.3% for the other countries.¹⁰¹ What interpretation can we give to this finding? It could mean what it simply implies, that is, payments for imported technology and management agency in the industrialization process is becoming an increasing component of the 'costs' of foreign investment package; secondly that companies transmute some of their profits into the form of royalty and head-office 'expenses' and transfer them abroad as tax deductible cost rather than as dividend;¹⁰² thirdly that because of the process of consolidation and gradual expansion through the ploughing back of retained earnings, the proportion of royalties and fees in total overseas payment is exaggerated.

100. See above Chapter 5 Page 236.

101. The Reddaway Report (interim) op. cit Pages 51-52

102. See above Chapter 2 Page 33.

Whichever interpretation is correct there is no doubt that a movement into the intermediate and capital goods production with the help of foreign capital and know-how is going to generate heavier technology and management payments than hitherto.

PROFIT PERFORMANCE: Very little is known about foreign investment profitability in Nigeria. Neither official statistics nor companies' annual reports shed much light on this important aspect of external resource usage. This dearth of information has an historical foundation, for until 1939 when company taxation was instituted in Nigeria, firms had never been in the habit of disclosing to outsiders how they fared. Again as part of international group of companies, local subsidiaries and branches have always found it prudent not to disclose how much they make in one developing country as compared with the level of return in another. However as a consequence of recent laws decreed about local incorporation in Nigeria (as opposed to previous 'registration') more information about profit and other matters should be available readily in future. Perhaps the most concrete information we have about profit concerns its historical role as the major source of business expansion from the earliest days up to mid-1960s when the new group of 'outsider' investors appeared on the industrial scene and began to inject fresh foreign capital into the economy. I shall relate briefly the sketchy statistical and non-statistical evidence that is available. I have already examined the pre-war performance in Chapter 6. In the immediate post-war period and early-50s before manufacturing got underway and when foreign capital was still concentrated in commerce and tin mining, return on capital was well over the 10% mark. U.A.C.¹⁰³ results could be taken as fairly representative of foreign investors performance in the commerce sector. I have already referred to the company's profitability (8.2%) in 1953/54, which in 1957 at the

103. U.A.C. here refers to the Group as a whole in Africa and not its Nigerian subsidiaries. However since Nigeria accounts for the largest part of the Group's overall activities, the figures above must approximate to those obtained there.

start of redeployment was reduced to about 7.0%. In 1960 post-tax profit was again lower at just under 6.5% and the decline continued throughout the following five years of redeployment until the revival mentioned earlier.¹⁰⁴ By the end of the 1960 decade the success of redeployment was beginning to appear in the profit returns. This trend in the behaviour of profit can be confirmed from other sources. According to (British) Board of Trade's data, the earnings of British non-oil companies in Nigeria during the important period 1955-65 was estimated to have averaged 6.5% of their capital employed.¹⁰⁵ The average was on one hand reduced by very low returns on commerce in 1961-62, the gestation period of redeployed capital in manufacturing and processing, and on the other hand it was boosted by good returns from banking and insurance services. The aggregate non-oil earnings fell from £5.8 in 1960 to £2.0 in 1962¹⁰⁶ when there was a substantial capital flight from the small-scale trading and service sector. Again according to the Reddaway Report, the net operating assets of British Companies engaged in manufacturing and tin mining during the 9 year period (1955-64) average £51.21 and on which a pre-tax profitability of 7.6% was achieved. The comparable figure for Ghana was 26, while the 15 country average was about 14.5. Post-tax rate was 4.7%; thus Nigeria was twelfth in terms of profitability among the fifteen overseas countries investigated.¹⁰⁷ That banking and insurance contribute significantly to British overseas earnings in Nigeria is shown by a breakdown of the £7.31 made on non-oil investment in 1966. According to the 1969 Board of Trade article cited above, earning from banking and allied services was £2.911 and second only to manufacturing income of £3.2M.¹⁰⁸ From the other end, recent Nigerian official attempt to

104. See above Page 457.

105. R.S. May 'Direct Overseas Investment in Nigeria 1953-65' op.cit Page 299

106. Board of Trade Journal. 9th May 1969. Article on 'Overseas Investment 1967' Table F

107. Reddaway (Final) Report 1969 op. cit Table IV.5 Page 358.

measure the earning power of foreign investments has not resulted in convincing estimates. According to the Central Banks 'Foreign Private Investment Survey 1967 and 1968', the post-tax income of all foreign enterprises in 1966 amounted to £65.6M but it fell substantially to £38.7M in 1968 as a result of serious dislocation to the Petroleum industry.¹⁰⁹ The aggregate income in 1966, in terms of capital employed (see table 44) was 15.4%. This relatively high post-tax return was substantially inflated by oil income, for according to the same Survey, mining and quarrying accounted for £55.2M or 85.1% of the post-tax income. Related to the estimated capital employed in the latter sector, return was thus about 26%. Perhaps we should not attach much importance to this division between mining (mainly oil) and non-mining income. Because of the high level of gearing the post-tax aggregate return in the same year (1966) amounted to 31.4% of paid-up capital and reserves. The estimated non-oil income of £9.8M still amounted to about 5% of operating assets even in spite of an addition of £1.2M for tin production. Since the book value of British investment was just over half of the total, the 1966 estimate from Nigeria is slightly inconsistent with that of the Board of Trade referred to above. Again according to the 1968 Survey, the post-tax 1968 income of foreign investment other than in mining was about 10% of net operating assets, doubling the level of 1966 and largely accounted for by the 98% increase in after-tax income of the manufacturing and processing industry. The production (and income) of this sector was substantially expanded in response to the wartime heavy import control.

108. (see previous page)

See fn. 106. Table 4 of article cited.

109. Central Bank of Nigeria 'Foreign Investment Survey 1967, 68' E.F.R. June 1971 op. cit Page 18

The picture that has emerged so far from the above analysis is that the 'accounted' earnings of foreign private investment in Nigeria was 'moderate' in the earlier part of the last two decades,¹¹⁰ relatively 'low' during the transitional period of late '50s and early '60s and to have started looking 'good' towards the end of the decade with the boost coming mainly from the petroleum and maturing manufacturing industries. There is every indication that the underlying upward trend will continue into the next decade. However it is interesting to compare the above 'accounting' evidence about aggregate performance of foreign investment in Nigeria with non-official observations about the profit behaviour of some sectors in which foreign investors are strongly represented.

In his detailed study of West African trade, Professor Peter Bauer has highlighted the concentration of the commercial life of the economy in the hands of a few European merchant firms who, as members of the Merchandise Agreement Group and well into the late '50s, were able to operate a market-sharing agreement that was not in the best interest of the consuming public. Given the high returns to capital ("the real return on capital under suitable management in internal trade and transport is so high that borrowers can afford to pay these 12%-10% high interest rates"),¹¹¹ "the occasional spectacular attempts to keep out or destroy particular competitors",¹¹² and the ability to secure abnormal profits through conditional sales of commodities in short supply during and after the war,¹¹³ the evidence points to monopoly profits being easily made in

110. C/F R.S. May 'Direct Overseas Investment in Nigeria 1953-63' op.cit Page 259.

111. P. Bauer West African Trade op. cit Page 17

112. Ibid Page 100

113. Re Conditional Sales: Bauer explains: "A commodity for which the demand exceeds supply at the controlled price is made available at that price to those buyers only who undertake to purchase another commodity or range of commodities which otherwise they would not buy, at least not at the price which they now have to pay. As is well known conditional sales can be used to defeat the operation of price control" Ibid Page 435

trade as well as in banking and shipping. "Indeed some of the most characteristic features and methods of West African trade are the expected accompaniments of oligopoly."¹¹⁴ Without engaging in a critique here there is no doubt about the strong criticism in the country against foreign firms for the 'unfair' profits they were alleged to be making during the 1940s and 1950s. Thus U.S. Senator Allan Ellender was able, in a Report on U.S. operations in Africa to describe the retail and wholesale trade as being in the "hands of the British, the Indians, the Lebanese and some Greek, who together make unconscionable profits on what they sell."¹¹⁵

In the field of modern manufacturing recent case studies by Peter Milby have revealed substantial profits being made, and as a matter of fact being expected, in some of the key import-substitution industries.¹¹⁶ In the manufacture of cigarettes, the Nigerian Tobacco Company (subsidiary of British-American Tobacco Company) "has been very successful".¹¹⁷ Its pre-tax profit in the '60s average 20% on equity capital and reserves. It was even higher in the '50s. Nigerian Breweries, the main producer of beer in the country achieved an average of 39% pre-tax profit rate during 1960-65,¹¹⁸ while in the fastly expanding textile industry, it was not uncommon for companies to institute a pricing policy "which has been sufficient to earn a 60%-plus rate of return on issued capital".¹¹⁹ As for cement production, during the first eight years (1959-66) of the Nigerian Cement Company's operation, the "rate of return on equity has averaged

114. Ibid Page 100.

115. A.J. Ellender:- A Report on U.S. Foreign Operation in Africa. Page 87. Washington D.C. 1957.

116. P. Milby: Industrialization. op. cit Chapter 4.

117. Ibid Page 95.

118. Ibid Page 98.

119. Ibid Page 129.

20%, on equity and reserves 20%. Two-thirds of these earnings have been retained with the result that 4.5M of 21.5M total capital employed has come from profits. With its pioneer status and depreciation carry-forward, no income-taxes were paid until the eighth year."¹²⁰ Kilby attributed these high level of profitability not so much to the strong, almost monopoly position held by these companies in the market, but largely to bad tariff-making in the economy which provides excessive protection, and to the demonstrated inability of the authorities to skim off through appropriate excise tax the latent monopoly rent.¹²¹

Finally, investigations conducted by O. Aboyade¹²² and K.M. Langley¹²³ pointed in the same direction as Kilby's on this question of profitability. By examining the relationship between 'value-added per unit of wages and salaries' and the productivity of labour in manufacturing industry, both Aboyade (with 1958-61 data) and Langley (with 1963 data) came up with findings which suggest relatively low share for labour in income generated throughout the major industrial groups, but especially in soap, toiletries, cement and brewery (1958-61); and food, beverage, tobacco, chemical and chemical products and oil (1963).¹²⁴ "Output per person employed is relatively high (in the latter group of industries) while labour's share of value-added is relatively low. One can hypothesize that this reflects relative factor proportions particularly capital usage in the chemical and cement groups, but probably reflects degree of profitability or monopoly

120. Ibid Page 106.

121. Ibid Chapters 2 and 4.

122. O. Aboyade: *Foundation of An African Economy: A Study of Investment and Growth in Nigeria*. op. cit Chapter 4. Pages 135-137.

123. Kathleen M. Langley 'External Resources Factor in Nigerian Economic Development' *N.J.A.S.S.* Vol. 12, No. 2 July 1963. op. cit Appendix B Pages 176-181.

124. Ibid See Table B3 Page 180.

earnings. Whatever the exact explanation, it is obvious that the return to capital (and potential outflow) is not insignificant!¹²⁵

What further conclusions can be drawn from above analysis about the profit performance of foreign-owned enterprises in Nigeria? First, that some of the leading import-substitution manufacturing industries have been able to achieve substantial returns to capital, which have invariably been ploughed back for rapid expansion. Rarely did dividends declared and remitted exceed 50% of post-tax profits. Secondly, that the good performance of the manufacturing sector is offset in the aggregate by relative low margins in declining investments such as distribution, transport and communication, and agriculture. Thirdly, that compared with Government-sponsored industrial projects, foreign-owned and controlled large and medium-scale ones have in the last decade or so been relatively successful. The underlying causes of the former's failure have been alluded to above and in previous chapter. Finally the analysis reveals the need for further comprehensive and in-depth study of this theme.

Foreign Investments' Contribution to Export, Foreign-Exchange Earnings and Saving Capacity

One of the major advantages inherent in foreign capital usage has been its ability to create extra capital resources for the host economy. This power - and some see it as its main rationale and justification for continued existence, is well recognised by both developed and developing countries. However as I shall show presently, the emphasis it receives varies from country to country and under different circumstances. I shall limit myself here to external resources, that is foreign-exchange creation and saving, and ignore internal generation like corporation tax obligation,

125. Ibid Page 177. J/T Aboye: Foundations of An African Economy
op. cit p. 176.

excise tax etc. Of course where a company's income-generation comes almost exclusively from external sales, for example, petroleum and tin productions, its internal fiscal obligations are discharged in hard currency. In Nigeria foreign private capital has historically been in the centre of exchange generation and exchange spending, only lately has it attended to the purpose of exchange saving. Before the advent of marketing boards it was foreign merchandise firms like U.A.C. and John Bolts that dominated the export-import trade and local branches of 'Barclays Bank' and 'Standard Bank' that smoothened the transactions. The 'Modern Sector' of today's economy has of course grown bigger, more complex and diversified, so too are the activities of 'modern' foreign investors.

The petroleum industry is of course the most important exchange-earner for Nigeria, with as we have seen above, a fastly increasing post-civil war contribution to exchange availability. Its Balance of Payments impact in the light of rising world prices and demand for petroleum products is likely to reach about £1,000M (£500M) in the late '70s.¹²⁶ Its steady contribution is likely to lessen the impact of declining value of the traditional agricultural export commodities and its fluctuating nature.¹²⁷ An important by-product of the discovery oil in Nigeria is the fact that she no longer does have to import petroleum products for her domestic needs. With the opening of the Port-Harcourt refinery in 1965, the estimated size of the exchange thus saved annually was about £14-15M in the late Sixties. And if projected estimates of future petroleum products demand are anything to go by, this direct saving on what used to be a major item in the import bill, is destined to be greater in the immediate future. Demand is projected to increase at an average rate of

126. The 'nominal' value of crude oil export is likely to be about £1,800-2,000M during the same period.

127. Non-oil merchandise export values were in 1965 £200.3M; 1968 £171.4M; 1970 £187.5M; 1971 £170.2M and 1972 £129.1M. The substantial fall in 1972 occurred in all major commodities.

20 per annum in the second-half of the '70s¹²⁸ and plans for two more refineries to be owned by the State but managed by the oil companies are already at an advanced stage.

The tin-columbite industry represents the oldest foreign-owned direct exchange earning industry in the Federation. As we have seen in Chapter 6 its heyday was in the '20s and '30s; however it still manages to contribute 40-70% of its exchange earnings to the local economy chiefly through wage payments to its large labour force and tax obligations including royalties to the Government. The value of its tin metal export in 1968 was 213.71, while the main producing and smelting company ('Amalgamated Tin Mines') paid nearly 20.00M in royalties to the Federal Government in 1968/69. Unlike petroleum industry, tin production is no longer a perceptible source of capital inflow.

Next to import-substitution manufacturing, processing of Nigeria's traditional raw materials both for domestic consumption and export is the most important area of industrial development. Unlike the former however, foreign capital's participation is not substantial except in a few commodities like Ground-nut oil extraction (dominated by Lebanese and Greek Cypriots), plywood and sawmilling (U.A.C.), rubber creping and cotton ginning. U.A.C. Group aided the pioneering of cheap and efficient method of palm oil processing while the reader will recall similar important role the British Cotton Growing Association played in relation to cotton growing and ginning¹²⁹. Except in a few cases like palm oil, and timber and plywood milling where a minimum amount of processing is essential before they could be exported, the rather 'optional' attempts to valorize other export commodities have so far been hampered by high cost of local

128. See Standard Bank:- Annual Economic Review: Nigeria June 1970.

129. See above. Chapter 6.

processing, quality problems and the progressive tariff barriers imposed by consuming countries of Western Europe and North America.¹³⁰ Processed component of aggregate agricultural commodity exports fell below expectation during the greater part of 1960s, though there are indications that with a greater government emphasis on the expansion of agro-based industries during the present (1970-74) and subsequent plan periods, pre-export value-added will rise appreciably; so will foreign capital's role towards that end. There is no definite estimate of the size of the extra foreign exchange accruing from local processing for export. However for some commodities there are indications that it did not amount to much in the past. The crushing of ground-nut into cake and oil added between 2.5% and 8% to its export value in the early '60s, while for cocoa it was about 5%.¹³¹ On the whole the trend in agricultural production suggests that the crucial question to be asked about export commodities like ground-nut, palm oil, cotton and rubber is not how much processing could be added before export, but essentially about how much diversion to home consumption will be taking place in the next decade or so in the face of stagnant productivity, increasing local demand, rising domestic prices relative to external world market prices, and the concomitant shift of production from export commodities to local foodstuff.¹³²

As was shown earlier, it is in import-substitution manufacturing and assembling that foreign private investments are concentrated, and dominate. Together with official investments and multitude of indigenous small-scale enterprises, they developed the sector practically from scratch, achieving an annual average growth rate of 15% during the decade 1956-67 and raised

130. S/F Kilby:- *Industrialisation* op. cit Chapter 5 and Table 34, Page 100.

131. Ibid Table 52, Page 171 and Page 174.

132. S/F footnote 137 Page 484 above.

its contribution to G.D.P. from under 2% in early '50s to 11.9% at the end of 1960 decade.^{153A} The main area of foreign participation are in durable and non-durable consumer goods, light manufacturing, packaging and assembling. In more concrete terms and according to the International Standard of Industrial Classification (I.S.I.C.), these investments were up to the end of the decade in five main groupings. 1968 estimates of capital employed shows that they were in food, beverage and tobacco (£32.71); chemical and products derived from chemicals, coal, rubber, petroleum and plastics (£22.01); textiles (£15.02); non-metallic mineral products (£11.31); and metal products (£6.91). Aggregate capital employed in the manufacturing sector was £102.01.^{153B}

Nigeria's manufacturing industry has been the subject of intensive study in the past and I have referred about specially to the works of Peter Kilby and Alan Sokolski.¹⁵⁴ I can only summarize the findings and what amounts to a general consensus on how far the industry in the last decade or so has been instrumental in reducing imports or saving foreign exchange. Table 56 shows that the value of imports has increased by 143.8% between 1962 and 1972. To a certain degree, this is to be expected in a dynamic economy. What is more important is the fact that the underlying structure of imports has been changing since the commencement of industrial production in the mid-50s. The movement is essentially away from consumer goods to greater intermediate and capital goods import. Apart from some (unknown) components of 'manufactured goods and articles' (row 6) which were not defined as destined for final demand and might therefore be included in the intermediate-capital goods category, the

153A For Sectoral contribution to G.D.P. and rate of growth during the 1960 decade, see N.M. Odufalu 'Indigenous Enterprise in Nigerian Manufacturing' . . . A.S. Vol. No. 4 1971 Table 1 Page 595.

153B Central Bank of Nigeria:- 'Foreign Private Investment in 1967 and 1968' N.F.R. June 1971 op. cit Table 6 Page 14.

154. Peter Kilby:- Industrialization in An Open Economy. op.cit Alan Sokolski: The Establishment of Manufacturing in Nigeria. op. cit

share of 'known' raw materials, intermediate and capital goods, that is, the imported inputs rose from 38.0% to 53.2% in 1972. All the components (rows 2,3,5) except Petroleum products (row 4) increased their relative shares. It is interesting to note that the share of 'food, beverage and tobacco' (row 1) in which the largest amount of both foreign and domestic capital is invested for 'replacement' purposes has not dropped substantially, and in value terms, food has in fact more than doubled. The share of 'manufacturers' has shown similar tendency to fall gradually, while increasing in absolute terms. It can now be postulated that the overall effect of local import-substitution has been to reduce the growth of traditional imports like food and manufactured articles but not to replace them substantially with local output. The latter objective must be viewed as the long-term aim. Apart from chemicals, import of raw materials has not been relatively substantial. What local production of consumer goods has generated is the import of intermediate and capital goods inputs and some manufactures for last stage packaging, assembling and fabrication. In the absence of local capital-goods producing industry, technical know-how, a corps of skilled personnel as well as financial resources, the process of producing for final demand at home has required heavy import of necessary inputs. "It is clear that Nigeria spends more foreign exchange (on machines, raw materials, expatriate salaries¹³⁵ and profits) on making some products at home than she would spend if she were to import the manufactured product itself."¹³⁶ In quantitative terms 'one is inclined to estimate that import substitution has resulted in a slight increase in

135. According to the 1963 Industrial Survey, Salaries etc. of foreign managers and technicians accounted for about 30% of total labour cost in large-scale manufacturing.

136. W. Arthur Lewis:- Reflections on Nigeria's Economic Growth op. cit Page 26 C/F Kilby. Industrialization ... op. cit Page 29, and Hakan:- 'The Motivation to Invest' op. cit Page 61.

imports per unit of consumption,"¹³⁷ and in immediate personal welfare terms, "Nigeria is still in the stage where to manufacture some products at home is to reduce the current standard of living in the hope of a future gain."¹³⁸ Until local factors of production - capital goods, experienced management and skilled technicians, and financial resources, are able to replace imported inputs, the advantages of local production are not going to be reflected in the Balance of Payments accounts. Not until then will 'true' or 'real' import substitution be evident in the economy.

The observation above has been in general terms, relating to aggregate production in the industrial sector of the economy. Within the manufacturing industry itself, and for some commodities with relatively low imported inputs and/or not inconsequential transport cost savings, import replacement and foreign exchange saved have been substantial. It has been calculated that local manufacturing of cement results in a 20-25% foreign-exchange savings,¹³⁹ while textile production, with as low as 5% of imported intermediate input was shown by the 1965 Index of Industrial Production to have risen to 541.2 against a 1963 base. Other substituted products include furniture, roofing materials, beer and enamelware.¹⁴⁰

What inference can we draw from the fact that fifteen years of 'import-substitution' manufacturing has not resulted in any noticeable reduction in both the foreign-exchange cost and the growth rate (in value terms) of the manufactured goods still imported. The inference can only be meaningful in terms of the role which import-substitution manufacturing was expected to play. If the expectation was one of immediate reduction

137. Kilby loc cit

138. Arthur Lewis loc cit

139. S. I. Ujah:- 'The Nigerian Cement Industry' N.I.L.S.S. March 1966 Page 109.

140. See G. Helleiner:- *Peasant Agriculture, Government & Economic Growth in Nigeria* op. cit. Table 73. Page 329.

in foreign exchange expenditure on consumer goods, then it could be inferred that the expectation has not materialised, the optimism wildly misplaced. If the expectation was of a long-term domestication of production for internal final demand and inter-sectoral requirements, and for export, then it could be argued that it is still early to make any conclusive remarks. If on the other hand, the immediate role and purpose was not connected with foreign exchange saving or earning, but related to something else more important, what happens to the former is of secondary importance. It is my contention that the past and present aim of import-substitution in Nigeria was not, is not, and should not be geared to foreign-exchange saving. What is expected or should be expected from import-substitution manufacturing and the contributions of its foreign participants is the start-up of a process that involves learning new economic pursuits other than the continuation of primary production of agriculture. In this area, there appears to be a process of historical continuation: whereas in the forties and early fifties the importance and usefulness of overseas investment was in terms of the know-how and management expertise accompanying it and not the capital per se; in the '60s and '70s the importance and usefulness of the investment package in manufacturing is essentially in the creation of an 'effective' industrial sector and all its accompaniments, rather than in saving or earning foreign exchange. Effective, in the sense that it is able to take roots locally—albeit gradually, and able to grow through the generations of inter-sectoral linkages. The main accompaniments I have in mind relate to the industrial environment of an industrial society, the creation of social conditions and values conducive to capital accumulation and the development of appropriate technology and skilled personnel.

I do not need to repeat here the advantageous contribution of manufacturing industry to the process of economic growth and transformation. In the context of the Nigerian economy this has been well expounded

elsewhere.¹⁴¹ The present position and role of foreign capital in industrial development is of course a function of the present economic conditions obtained in the country. As conditions change, so should the role. One would expect that as the economy moves towards industrial maturity and greater domestic inter-sectoral linkage, the emphasis will shift to real foreign-exchange saving and then to earning through export of manufactured goods. How far the economy and its foreign participation become export-orientated depend on the degree of internal orientation and external factors. An economy, rich in natural resources and other factors of production and whose dynamics for growth lie within needs international trade to the extent of earning enough for her peripheral imports. Compared with its present role in the developed export economy of Great Britain in which it is contributing an important part to foreign exchange earning, foreign private investment's future role in Nigeria is likely to be geared more to developments in the domestic market than the one outside.¹⁴²

In her international trade involvements, the pattern for the immediate future is likely to be influenced in no small way by the knowledge that 'Nigeria, the largest trading country in West Africa, in fact trades very little with Africa - less than 1% of Nigerian imports being bought and less than 0.5% of her exports being sold in African markets in 1963'.¹⁴³ As for the prospects of exporting manufactured goods to the developed countries, she faces the same well-known difficulties as the other developing countries, the chief one perhaps being the structure of protection in the former markets that tends to rise with the degree of fabrication.¹⁴⁴

141. See for example, O. Abovade - The Economy of Nigeria in P. Robson and D.A. Lary (ed):- The Economies of Africa op. cit. Page 177.

142. C/F O. Abovade:- Foundations of An African Economy op. cit. Page 52

143. U.N.:- Economic Survey of Africa. Vol. 1 1967-68 op. cit. Page 87. By 1971, Export to O.A.U. and Other African Countries had amounted to nearly \$9.6B, and Imports to CSM: or 1.5% and just under 1% of respective totals.

144. See Bela Balassa 'The Impact of the Industrial Countries' Tariff Structure on their Imports of Manufacturers from Less-Developed Areas'. *Economica* Nov. 1967 op. cit.

an important factor in Nigeria's export 'drive' to other developing countries especially those nearby (and indeed to developed industrial economies) will be the extent to which local subsidiaries of multinationals are prevented from exporting final goods by Parent Companies' rules, and again the extent to which collaboration agreements between indigenous businesses and foreign technical partners preclude the same. We have seen this happening in the case of India.¹⁴⁵ For the time being it is instructive to note that globally, the share of exports of non-resource-based manufactures in Nigeria's commodity exports was about 1.3% in 1968.

Investment Income:- A Financial 'Cost' of Foreign Capital Usage: A knowledge of the size and behaviour of foreign private direct investment income is perhaps a good introduction to a critique of that investment in the economy. This is so, not because the art of profit-making is itself a cause for criticism, but for the fact that the size of that profit and the manner in which it is acquired and its ultimate leakage abroad can offer basis for criticism. Investment income is locally-generated profits, dividends and interests transmitted into foreign exchange earnings for the foreign owners of factors of production. Like the servicing of foreign debt, it is its effect on the Balance of Payments that is of analytical importance here.

Nigeria has always prided herself on her policy concerning investment income. Before the civil war exchange control period, foreign companies had always had the freedom to transfer abroad freely both their profits and their capital. There is every indication, judging by official statements, that this traditional open door policy will be reactivated once the immediate post-war exchange shortages have eased. The backlog is in fact being swiftly reduced.¹⁴⁶ The minimum interference philosophy and the incentive

145. See above Chapter 5 Page 239

146. See Federation of Nigeria 1973 Budget

Factor of this policy are enhanced by the orthodox argument that unlike fixed interest stocks of the 1930s and the present loans from official and multilateral foreign sources, equity investments generate their own incomes and cause no direct burden on public resources in cases where they fail.

Official estimates of investment income or dividend remittance have not been as reliable and precise as one might have expected. There are two discernable inter-related flows affecting the coverage of materials and the statistical methodology of interpreting them in the balance of payment accounts. There is some doubts as to how much the official estimates of foreign investment post-tax income approximate to the true earning power in terms of the number of enterprises covered and the accounting treatment of their assets and liabilities. If investment income represents the aggregate post-tax profits made, then there is some inconsistency between the figures given in the Balance of Payments Accounts and those in the annual foreign investment surveys. According to the former investment income amounted to £78.5M and £56.5M in 1966 and 1968 respectively (see Table 57). Whereas according to the latter, the post-tax profits in the two years were £65.6M and £38.7M.¹⁴⁷ The explanation might be that in the latter case, liquidation of short-term foreign liabilities and interest payment on foreign loans are treated as part of operational costs for tax purposes though as foreigners investment income in Balance of payments accounts. Even allowing for this, the items classified under investment income are not comprehensive, for earnings on royalties, management and technical fees which we saw above to be rising rapidly are classified in the Balance of Payment accounts as payments for 'other services'. The importance of this rather faulty method of classification

147. Central Bank of Nigeria: 'Foreign Private Investment in 1967 & 68' E.F.R. June 1971 op. cit. Page 18.

will emerge presently. There is also another snag regarding the size of the investment income in Balance of Payments accounts. The amount that is classified as going out in the Current Account under invisible imports also contains that component of the income that is retained locally for reinvestment purposes. On the other hand the net foreign investment capital inflow in the Capital Account contains as we have seen above a large element of this unremitted profit. While the possibility of double counting is thus avoided, the precise amount that actually goes to the head-office and share-holders is not known nor is it derivable from data in the Balance of Payments Account. An indirect rough estimate may be made by subtracting from figures on investment income in Table 57 the figures for unremitted profit shown in Table 51. In any case a knowledge of the actual amount leaking abroad may be unimportant in the sense that as long as 'new' capital inflow surpasses investment income 'remittance,' the whole of the latter, that is of companies' profits may be taken to have been retained for reinvestment - the balance thus representing 'fresh' capital commitment. This aggregative approach may not of course apply to individual foreign firms, for while some of the new ventures are being built up to maturity through injection of fresh capital and others to optimum size through profit reinvestment, some of the older established businesses would in fact be remitting their profits and amortizing their capital. There is some evidence of this process taking place in the economy.¹⁴⁸ The need to know the size of investment income being effectively remitted will come when net capital inflow is overshadowed by both profit remittance and capital amortization, and there are prospects of this happening in the late '70s and early '80s.

148. See R.S. May. 'Direct Overseas Investment in Nigeria 1953-63' op. cit Pages 260-261

For the present let us examine closely the historical growth of direct investment income as a cost of private foreign capital resources usage for economic growth in Nigeria. Table 57 shows the size to have risen from an average of 36.7M in pre-independence period to several times that level in the '60s. What's more, the underlying growth in the latter decade has been quite spectacular, determined largely by the increased pace of industrial production, the maturity of some of the earlier projects and the rapid expansion of oil production and accompanying companies' profits. The fall in the size of the outflow during 1967-70 was due mainly to the war affecting petroleum production and other foreign-owned industrial and commercial businesses in the Eastern part of the country, and the exchange control imposed on 'non-priority' transfers like investment income remittance. The unusually large transfer in 1971 was the result of the war period backlog of dividends being officially allowed to be remitted, though in reduced bits. The 1972 and '73 data will almost certainly contain elements of this error - thus keeping the size of investment income in the three-figure bracket. Column 2 of Table 57 relates in percentage terms the size of investment income to the value of export of goods and services in selected years. The growth in absolute terms mentioned above is also reflected in the percentages for 1962-71. Those for 1967-70 are affected by war disruption and exchange control, even then they still remain relatively high. In the three years 1965-67, investment income emanating from the oil companies was equivalent to 20.5%, 21.2% and 27.5% respectively of export value of crude oil. Column 4 shows the ratios for selected years of combined official debt service and investment incomes to the values of export of goods and services. On the face of it, the ratios represent the share of the annual foreign exchange earnings that must be set aside for servicing aggregate foreign resources being employed by Nigeria. These are indeed high ratios, and the fact that

they represent an average of 1/5 to 1/4 of export values in the later half of the last decade must put Nigeria among the top leading exporters of service payments in Africa. Furthermore, there are other elements in the Balance of Payments accounts which suggest that the real size of investment income has been consistently underestimated in the last decade or so. As intimated above, items in the invisible accounts that come under the heading of 'other service payments' are largely remittance for royalties, patent management and technical fees, and boosted heavily by payments made outside Nigeria in foreign exchange by oil companies to foreign contractors employed by the Industry in Nigeria.

TABLE 58

NIGERIA: BALANCE OF PAYMENTS ACCOUNTS

<u>Invisible</u> <u>Transactions(\$M)</u>	<u>1966</u>		<u>1967</u>		<u>1968</u>		<u>1969</u>	
	Total	of which oil	Total	of which oil	Total	of which oil	Total	of which oil
Direct Investment Income (net)*	-574.3M	-19.4	-40.4	-19.8	-53.9	0	-55.0	0
Other Services Payments (net)	-43.4M	-36.1	-37.8	-29.5	-35.7	-23.0	-57.2	-42.9

*net equals inflow less outflow

(Source: Extracted from official tables).

As the above table shows, the size of this 'other service payments' has been substantial in recent years, surpassing in some cases the level of formal investment income. For the oil industry "imports of services has been the category commanding the greatest expenditure of foreign exchange,"¹⁴⁹ with contractors fees representing a fairly substantial outflow from the industry. In a fairly typical year 1965, the \$22.2M

¹⁴⁹. Scott Pearson: Petroleum and the Nigerian Economy op. cit Page 77

that the petroleum industry used to purchase imports of services was divided in the following manner: Payments "abroad to contractors in foreign exchange, £17.5M; staff expenses £2.2M; technical advice £1.3M; insurance £0.1M, and miscellaneous £1.1M".¹⁵⁰ For the economy as a whole it is difficult to isolate what proportion of the 'other services payments' that in fact properly belongs to the investment income category.

Certainly from Nigeria's viewpoint, royalties, management, licensing and technical fees as well as head office expenses that are incurred through direct investment should be categorized as elements of investment income. So too should that part of contractors fees that is profit, while the rest is treated as capital outflow.

The Nigerian authorities cannot ignore the growth of both investment income and payments for other services connected with direct investment. Where the growth in the latter is centred on the expansion of royalties, management fees and head office expenses, the suspicion must arise as to how far foreign companies are transmitting their profits into these tax deductible expenses before local tax is levied. The possibility of such tax avoidance manoeuvre necessarily involves loss of revenue and foreign exchange by Nigeria. Whatever may be the true value of investment income accruing to foreign capital, the fact that it is larger than that formally shown in the Balance of Payments accounts and therefore commands greater volume of Nigeria's current earnings must be appreciated than hitherto by official authorities in their evaluation of the costs and benefits of foreign private investment. This is even more so in terms of sectoral evaluation, for a large profit leakage abroad raises the possibility of foreign investments in marginal or low priority areas being restricted or phased out however favourable their contributions, if the result is the accommodation of the more vital and strategic ones which at the same time

¹⁵⁰. loc cit

generate heavy leakages abroad. The situation in the immediate future may ensure that such trade-offs may be no ordinary speculation. The rapid rise in the level of investment income in the last decade is itself a tip of the iceberg - an indication of things to come. The projection is that the level is going to rise even further from mid-70s onward, for most of the newly-established post-independence ventures are still in the process of consolidation and gradual growth through reinvestment of current earnings. They are expected to reach maturity in the early '70s when payments abroad are also expected to increase significantly. The consequential unfavourable effect on the balance of payments will be worsened by capital amortization.¹⁵¹ Outside manufacturing, the sharpest rise (and the biggest in value terms) will occur in the oil industry for the phenomenal expansion in recent production level is bound to boost the size of profit made by the foreign oil companies. As we have seen above, and unlike other investors, oil companies carry their profits out with their crude oil, with little effective method available to the authorities to control the outflow. The size of foreign participation in the industry is of crucial importance to the future behaviour of investment income transmitted by the industry. If the present share of foreign ownership continues and the industry progresses from the development stage to full maturity, the share of income generated that accrues abroad will remain high in the mid-70s and onward. Again if the experience of the fairly normal developing years of 1965 and 1966 was any guide, an average of 20-25% of the export value of crude oil will continue to leak abroad as investment income. With the export value reaching £700-800M in mid-70s (it was 3578.2M in 1972), the industry's investment income level will be well over the £1.0M mark and when added to other sectors' outflow Nigeria may well be exporting about £200M in profit outflow. On top of this, there

151. C/F R.S. May 'Direct Overseas Investment' op. cit Page 261; And Hakan:- 'The Motivation to Invest' op. cit Page 61.

is the prospect of official and multilateral agencies' 'foreign aid' debt incurred in the '60s beginning to mature at about the same period. During the pre-1970 period, interest payment and other debt servicing on public account was secondary to investment income leakage or 'servicing' of private sector foreign direct investment (See Table 57). The position is unlikely to change in the immediate future, but with oil profits and loan amortization spear-heading an expanding combined leakages, the proportion of the latter to export value may rise well above the already high level shown in Table 57. If this happens Nigeria may well find that the direct financial cost of using both private and official external resources form the largest item in her balance of payments import account. That such a prospect must cause the greatest concern in official circles is no exaggeration. In the main time however, policy makers and those in charge of the management of the economy are not adequately awake to the difficulties looming ahead. The latter continue to make inaccurate and 'optimistic' projections.¹⁵² If Ghana's experience in the late '60s is any guide, it is important that they should.¹⁵³

Foreign Private Investment in Nigeria: A Short Critique: Writing a critique of foreign investments in the economy is not a straight-forward affair, for to be relevant and objective, one must isolate for analysis those faults and shortcomings exclusive to the foreign sector. This is no easy task and it can be demonstrated by reference to one or two observations already noted above in this and earlier chapters. We have seen that some of the foreign-owned large-scale enterprises producing consumer 'necessities' like beer, tobacco and textiles were making what in relative terms amounted to exorbitant profits. Yet to criticise them for this, amounts to ignoring

152. C/F Federation of Nigeria: 1st National Development Plan Progress Report 1964 op. cit Page 18-21.

153. See above Chapter 7, section on Nigeria's external debt.

Government failure to direct part of the surplus to public coffers or to consumers in reduced prices. Again any criticism relating to the superior competitive advantages enjoyed by large-scale foreign firms vis-a-vis small-scale indigenous ones in the same line of business cannot fail to note the lack of official remedial action, or in some cases of official action that directly, but more often indirectly enhances these advantages. In his examination of Government taxation of the soap making and marketing industry in the early '60s, Sokolski was able to show that by changing its fiscal base from excise tax to import duty, "the Government appeared to be aiding modern expatriate industry rather than indigenous rural industry".¹⁵⁴ Thus official errors of omission and commission permeate most critical discussions of foreign operations in the economy, however since they are not the subject under study here, we must make assumptions about their existence while concentrating on foreign investments. An exception is the post world war II criticism of foreign commerce for which Government policy played an important part. I shall come to that presently.

The advantages of having foreign investment package - to ameliorate the deficiencies in investible capital, technical know-how, skill and management expertise, have amply been demonstrated above. The benefits to the Nigerian economy in terms of diversification of the economic base especially the spear-heading of production in the fast growing manufacturing and oil production sectors, the creation of a learning process in modern production and servicing methods, and valuable contribution to capital formation, have also been referred to both directly in this study and in cited works of authors such as Kilby, Sokolski and Scott Pearson. The analysis of investment income represents a familiarisation with the more direct and identifiable financial cost of foreign investment. The other

154. A. Sokolski:- *The Establishment of Manufacturing in Nigeria* op. cit Page 240-241.

economic, social and political costs and disadvantages have received theoretical treatment in Chapter 5. However a few of them will be applied specifically to the situation in Nigeria. Investment in commerce which has attracted foreign private capital longer than any other activity in the country also engendered the longest sustained criticism from indigenous forces. I have dealt with the historical nature of these criticisms in an earlier chapter, but it was in the immediate post-war period that they were most strongly expressed. African grievances were based mainly on (a) the oligopolistic control of the export-import trade, and internal wholesaling and retailing by U.A.C. and five other old-established European firms that formed the Association of West African Merchants (A.W.A.M.); (b) the overt exploitation of that power through aggressive market behaviour that hinder the entry of competitive forces, and by conditional sales which secure for them the abnormal profits inherent in post-war consumer goods shortages; (c) the colonial administration's sanction during the war years of an oligopolistic structure of commerce that effectively excluded African businessmen; (d) its (Administration) failure to redress the situation by actively encouraging increased African participation, indeed its official policy and attitude towards new and small scale enterprises were the "greatest obstacles to their establishment and progress."¹⁵⁵

Bauer, Mars, and Coleman have examined in depth the various facets of the pre-independence economic grievances.¹⁵⁶ What is of particular interest here, in view of my contention is the extent to which colonial administration's actions and inactions tended to strengthen the local belief of "collusion" between "alien political control and alien economic oligopoly."¹⁵⁷ For example, according to Bauer, A.G. Leventis & Co., 'a new post-war and relatively fast-expanding non-A.W.A.M. foreign firm

155. P. Bauer:- *West African Trade op.cit* See Pages 145-155.

156. *Ibid*; And J. Mars: 'Extra-territorial Enterprise' Chapter 2 in M. Perham (ed) *Mining, Commerce and Finance in Nigeria. op. cit*; James S. Coleman:- *Nigeria Back round to Nationalism* Chapter 3 Section on 'Economic Grievances And Nationalism'. *op. cit* Pages 79-90.

157. See Chapter 6. Pages 345-346

found 'in the main ... that Government policy, in particular the framing and administration of trade controls has proved to be as much more serious limitation upon its opportunities and growth than has been the existence of preferential or tying arrangements between some suppliers and its principal competitors'.¹⁵⁸ The behaviour in the post-war years contrasted vividly with its pre-war opposition to foreign private enterprise in some fields notably plantation agriculture, railway and coal mining.¹⁵⁹

Why did the Government tolerate and even subtly support the growing power of the European Companies in the decade or so following the war? It has been argued by Bauer, perhaps on information supplied by official circles that to the latter "a multiplicity of traders, especially of small or medium-sized firms presents a chaotic and untidy appearance which is readily identified with inefficiency and administrative inconvenience."¹⁶⁰ Thus official willingness to deal almost exclusively with well-established large-scale (European) firms was based primarily on a bureaucratic predilection for well-established contacts, collective bargaining and on the imperative of administrative convenience.¹⁶¹ The preference did not necessarily originate from ideological or national affinities between Government and 'big business' though "the possibility cannot be excluded".¹⁶² Neither was it derived from a conscious official opposition to African business development. The above explanation to me does not seem adequate. We may add two other discernable factors, which were more or less in the background of an increasing official support for the European (largely British) enterprises after 1945. First, there was the weak position of

158. Bauer:- *West African Trade op. cit* Page 86.

159. See above Chapter 6

160. Bauer:- *West African Trade op. cit* Page 148

161. C/F J. Coleman:- *Background to Nationalism op. cit* Page 81.

162. loc cit

the British economy after the war. With little foreign exchange reserves available for international trade, Britain was determined to keep her colonies 'buying British', with imports from hard currency areas reduced to a minimum. British-owned firms, contracted to supplying arrangements with home producers were most likely to execute this policy with minimum regulations and directives from official quarters, while the African and the Levantine Importers might be expected to look to non-sterling areas for relatively cheaper commodities. Secondly, the need to support foreign enterprises must have been strengthened by the vehemence of the criticism against them by African nationalist leaders who linked their call for political self-determination with lesser foreign economic domination.¹⁶³

Whatever other factors might have been involved the fact remains that in the late '40s and early '50s administrative desires reinforced economic behaviour of European firms and banks to generate a climate in Africans' view, of economic exploitation and oppression. According to Bauer, discussion of the trading situation in West Africa centred largely on the issue of destructive and aggressive price-cutting employed by the larger European firms to see others out. "Critics of the large firms especially of U.A.C. frequently maintain that the use of their financial resources to crush the smaller firms by temporary or local price reductions is a major influence obstructing the growth of competition."¹⁶⁴ And of course there was historical *prima facie* evidence of 'cut-throat' competition being practised by European firms against each other in the intervals between market-sharing arrangements, and against other 'outsiders' during the operation of a cartel.¹⁶⁵ The local feeling against conditional sales was strong enough to warrant a commission of Enquiry in 1948,¹⁶⁶ and was touched upon in its Report by the House of Commons Select Committee On

163. C/F *Ibid* Page 86.

164. Bauer: *op. cit* Page 122.

165. See above Chapter 6.

166. See Report of Commission of Inquiry into Conditional Sales. Lagos 1948

Estimates, which as we saw in the last chapter sent a sub-committee on a visit to Nigeria in the same year as part of its inquiry into colonial development.¹⁶⁷ It may be appropriate here to note the general remarks of the committee on the role of (foreign) private enterprise in colonial economy at that point in time. Referring to the conditions in Nigeria and the declared Colonial office policy of encouraging private enterprise it noted that such enterprise 'cannot play its proper part in development so long as the belief exists among the colonial peoples that it is fairly exploiting them.'¹⁶⁸ And declared that it is "the responsibility of Government to prevent an undue proportion of trade and industry of any particular colonial area from becoming dominated by any trading organization or group. It is desirable that prices paid to producers of primary products should be fair and in proper relation to selling prices, and a reasonable proportion of trading surplus should be used for the development and welfare of the territories concerned. Adequate facilities should be granted by all employers of labour for employment of local personnel at all levels, and steps should be taken to encourage local enterprises."¹⁶⁹ The Committee's declarations certainly embraced the main economic problems of Nigeria, but in view of my earlier analysis they amounted to no more than sentiments, and reflected the changing post-war public opinion in England on colonial development and welfare. As guidelines they had little influence on the practicalities of every day colonial administration.

After that digression we may note that the problems of conditional sales gradually faded away as more and more scarce imported goods made

167. See Fifth Report from the (House of Commons) Select Committee on Estimates Session 1947-48. No. 181 op.cit para. 28.

168. Ibid Paragraph 28.

their appearance on the market from mid-fifties onward. As for the dominating and oligopolistic position of the A.W.A.M. or Merchandise Agreement Group, it was left to the incoming African administrations¹⁷⁰ to positively encourage both the entry of African and other non-European entrepreneurs into the Export/Import cum retailing trade, and the withdrawal of European firms like U.A.C. from General retailing. Today the task of domesticating commerce is still being pursued, with more noticeable vigour than a decade ago.¹⁷¹

The supplanting of commerce by import-substitution manufacturing as the area of attraction for foreign private capital has meant that a critic's analysis must reflect similar shift. In historical terms, manufacturing in Nigeria has had a chequered development; not until the late '50s when industrial development started to be actively pursued as a matter of policy did manufacturing show a positive forward expansion. As a matter of fact there has always been foreign-owned 'modern' manufacturing establishments in the country since the early '20s, though not until thirty-five years later did they start to be of any consequence. Most of the activities in the '20s and '30s were connected with processing for exports of agricultural products like cotton, palm produces and timber. Other firms were engaged in the production of aerated water and soap, but mainly as by-products of their trading activities. In 1930 there did not appear to be more than fifteen modern manufacturing firms, and in 1950, manufacturing contributed less than half of one percent to G.D.P.¹⁷² Apart from the normal economic considerations like the size of the market, strength

170. In 1954 both Eastern and Western regions and in 1956 Northern region achieved internal self-government. A Federal Government was also created at the centre.

171. C/F Provisions of Nigerian Enterprises Promotion Decree 1972.

172. See Carl Liedholm, "The Influence of Colonial Policy on the Growth and Development of Nigeria's Industrial Sector" Chapter 4 Page 54-55 in C. Wilher and C. Liedholm (ed), *Growth and Development of the Nigerian Economy* op. cit

of the purchasing power, and availability of factors of production including skilled labour, which collectively might well have resulted in relatively high unit cost of production, two other factors affected critically the development of Manufacturing in Nigeria. First, there was the opposition of the colonial administration to any manufacturing beyond the cottage industries that might have adverse repercussions on the socio-cultural life of the community. I have already discussed this factor in some depth in an earlier chapter, but the practical effect of this official belief was that some simple manufacturing undertakings projected or started by enterprising companies met with Governmental opposition. In the mid-'30s the U.A.C. was dissuaded by the Government from starting a spinning and weaving mill near the cotton area in Nigeria, a garment factory near Lagos.¹⁷³ The second factor was the failure of foreign-owned businesses to respond appreciably to new profitable investment opportunities being created in this sector. This reflected an inherent conservatism and inefficiency bred by decades of economic domination and monopoly, and in some way, a rational commercial calculation that better and secured profits were to be made by continuing concentration on the export-import trade and specialized domestic retailing rather than take the risk of entering new fields of manufacturing activity for which they were at the time ill-equipped. It is also possible to detect some element of mercantilism in the behaviour of foreign firms especially after the World War II. Their foreignness and external orientation probably made them "more anxious to preserve the present industrial structure of Great Britain by retaining colonial markets for British export goods than to develop secondary industries in Nigeria and elsewhere when conditions are favourable to their growth".¹⁷⁴ On a lesser plane, "the companies do not wish to harm

173. J. Mars:- 'Extra-territorial Enterprises' op. cit Page 74.

174. J. Mars:- 'The Monetary And Banking System' Chapter IV in M. Perham (ed) Mining, Commerce op. cit p.206.

home manufacturers and home processors with whom they have contractual relations or in whose property they are financially interested."¹⁷⁵ The combined effect of Government fears and lack of enthusiasm and company's overt inertia and preference for status quo was that certain important commodities continued to be imported long after their local production became feasible. Kilby gives a list of some of these commodities. For example the 'technological threshold', that is the time when the level of domestic demand has risen enough to justify a minimum size production/assembly plant, had been reached in cement in 1923, cotton textiles (1890s), galvanised iron sheets (1951), leather shoes and sandals in 1947. However local production of these commodities did not start until 1957, '57, '64 and '63 respectively.¹⁷⁶ Furthermore it is interesting to note that this considerable 'delay' was followed at about the time of independence by a 'sudden rush' of investments even in industries in which the technological threshold had not been reached. Kilby puts forward the hypothesis that "competitive pressures, generated by a rapidly growing demand have constituted the catalyst (for a majority of cases) in transforming ample market opportunities and fiscal incentives into actual investments under the seemingly unfavourable (deteriorating balance of payments position and political uncertainties) conditions"¹⁷⁷ Government policy was crucial to the creation of this competitive pressure. The inception of nationalist administrations determined not only to break the oligopolistic stranglehold on commerce but also discourage further expansion by foreign capital in this sector, heralded a potential reduction in distributive profitable margins. This in turn was a signal to foreign commercial capital to diversify into new fields. The need to diversify into

175. J. Mars:- 'Extra-territorial Enterprises' op. cit Page 68.

176. P. Kilby:- Industrialisation op. cit Table 16, Page 54.

177. Ibid Page 54-55.

manufacturing was enhanced by the priority given to import-substitution industrialization by the Federal and regional Governments of Nigeria. The merchant firms and their overseas supplying manufacturers were aware of the threat to their market stakes implicit in a government policy that could mean not only the establishment of state-owned manufacturing units with the aid of private promoters like E.A. Seroussi and machinery merchants like Coutinho Gero of Embury,¹⁷⁸ but also the arrival in the market through local production, of their international competitors with no previous stake in Nigeria. Thus for the long-established firms and overseas suppliers, the best strategy to protect their stakes in the Nigerian market and the profitability of their capital demanded the establishment of local producing units on a joint or individual basis. The impacts of competitive pressure and of Government policy spread to other sectors beside commerce. In tin mining for example, it was Government decision to grant smelting rights to a Portuguese entrepreneur in 1961 (Embel Tin Smelting Company) that forced the company which traditionally mines and smelts Nigeria's tin to establish through a subsidiary (Consolidated Tin Smelters of N.I.) similar operation in Nigeria after years of exhortation and persuasion from the Ministry of Mines and Power. Despite the fact that the output of tincassiterite and supply of electricity were inadequate to support two smelting plants, consolidated Tin Smelters urgently responded through its own local subsidiary (Ikeri Smelting Company) to protect its share in the tin industry. "Once threatened, to go ahead with such an investment, as it had already done in the case of Malaya, became a requisite of survival"¹⁷⁹ and the reluctance to make an 'unnecessary' investment was swept overboard.

178. C/F Ibid Page 76-70

179. Ibid Page 175. See also Alan Sokolski - The establishment of manufacturing op. cit - pages 237-239.

Again in the banking field, evolution of Government policy took the form of financial support, moral backing and patronage of indigenous banks like National Bank of Nigeria and African Continental Bank; the introduction of other foreign banks to compete with the 'big two' subsidiaries of 'Merclays' and 'Standard Bank' that have dominated banking since the twenties; decreeing for local incorporation of foreign banks in order to gain more information about their local operation - this became effective on Feb. 7th 1969,¹⁸⁰ and finally the gradual purchase by the State of shares in the foreign banks.

The interwoven existence of capital intensity, urban unemployment and relatively higher wages, and the application of latest technology to the Nigerian economy represents the most serious criticism of foreign private investment. The implications and possible consequences of these flaws have already been analysed in some details in Chapter 5. I need not repeat them here. However I must draw attention to empirical evidence of the practical existence of these flaws, both to substantiate further the theoretical discussion of the earlier chapter as well as draw attention to areas where changes are urgently needed. Given the 'openness' of the economy to foreign investments and the absence of any worthwhile obligations and conditions to be fulfilled by them in the process of their operations,¹⁸¹ foreign firms in Nigeria characteristically opt for the production technique and capital intensity currently available in their home bases. In his study of cigarette manufacturing in Nigeria the production (by foreign-owned company) of which started as early as 1937, Peter Kilby found that "the manufacturing process employed by Nigerian Tobacco Company (the leading firm, and a subsidiary of British-American

180. West Africa March 1st 1969.

181. The obligations on employment of local personnel formally stipulated in the Petroleum Decree of Dec. 1969 set a precedent which one hopes will eventually spread to the rest of the Modern Sector. See West Africa Dec. 13th, 1969.

Tobacco) is highly capital-intensive, embodying the most advanced technology available in the field of cigarette-making. N.T.C.'s choice of technology has been regulated neither by the desire to minimize its capital at risk, nor to maximize its profits for a given level of output. Rather the company's choice of technique within the context of Nigeria's well-protected market has been governed by the motive of sale maximization. The ability to expand output and capacity rapidly, to be able to provide a full range of brands or price lines, to have assured uninterrupted supply - these are the considerations which have counselled management to adopt the most automated production technique available. The use of greater number of older machines, whose costs do not include a patent component, and the use of labour intensive handling techniques would reduce both capital costs and the number of senior (still largely expatriate) technicians required to maintain the more mechanized process. On the other hand such a choice would entail higher operative skills, greater reliance on Nigerian supervisors and greater vulnerability to interruptions as a result of human failure."¹⁸² These findings by and large apply equally to most large-scale foreign-owned enterprises in Nigeria. The general consensus among those that have carried out similar inquiries is that large-scale industrial investments are usually capital intensive, requiring on the average £2000 - £3000 per worker. On the other hand, estimates by Peter Kilby and the National Manpower Board indicate that investment per worker in small-scale industry is about £100-£200.¹⁸³

Furthermore as compared with large-scale ventures, indigenous small-scale enterprises on the whole employ at least three times as much labour, add more to national income and employment for every pound invested; and as

182. Peter Kilby:- *Industrialization in An Open Economy* op.cit Pages 84-85

183. C.B. Frank (Jnr.) 'Urban Unemployment and Economic Growth in Africa' op. cit Page 268. G.F.A. Hekam. 'The Motivation to Invest and the Locational Pattern of Foreign Private Industrial Investment in Nigeria' op. cit Page 61.

Arthur Lewis points out, form the training ground for budding capitalists. "Out of these thousands of small firms will emerge the Nigerian business leaders of the future."¹⁸⁴

Commerce and tin mining aside, foreign-owned enterprises contribute very little to employment in the economy.¹⁸⁵ The level of employment in industrial undertakings - both foreign-owned and indigenous - has not yet reached 1% of the labour force, nor is that target likely to be reached in the immediate future.¹⁸⁶ Two other related matters ought to be noted also. Not only do foreign-owned enterprise contribute little to direct employment, their salary and wage policy indirectly contribute to the growth of urban unemployment. This process has been described in details in an earlier chapter, and no country better exemplifies the Todaro Model of labour migration and urban unemployment than Nigeria. The second point is of some significance, though it has not always received the emphasis it deserves. The employment-destroying aspects of such 'innovations' as bulldozers and automated processes are felt most acutely in 'labour surplus' economy like Nigeria. Arthur Lewis has drawn attention to the dangers inherent in a policy of unrestricted use of automation in L.D.C.S. In these countries 'the big waste in capital has come mainly in substituting capital for labour in moving things about; in handling of materials inside the factory, in packaging, in moving earth, in mining, and in building and construction. The bulldozer, the conveyor belt and the crane usually achieve nothing that labour could not do equally well.'¹⁸⁷ Countries like Nigeria spend scarce foreign exchange to import machines solely for the purpose of reducing unemployment.

184. W. Arthur Lewis: *Reflections on Nigerian's Economic Growth* op.cit Page 28

185. See Bakam: 'The Motivation to Invest' op. cit Page 61, Alan Sokolski: *The Establishment of Manufacturing in Nigeria*. op.cit page 267, And G. Helleiner: *Peasant Agriculture, Govt. and Economic Growth in Nigeria* op. cit Page 31.

186. See C.R. Frank Jnr. 'Industrialization And Employment Generation in Nigeria' op.cit

187. W. Arthur Lewis 'Unemployment in Developing Countries' *The World Today* January 1967 op. cit.

In Nigeria an economic environment that puts no restriction on company's (production) factors-mix easily resolves for the latter any conflict that might arise between output and technical efficiency objectives on one hand and employment maximization on the other. Nigerian industry, to date has clearly opted for the former as N.I.C.'s example shows, and what's more distressing takes the opportunity to automate whenever it arises. Another example will suffice. We've seen above the limited potentials for direct employment in the oil industry; yet there are indications that these potentials are being curtailed rather than expanded. "For example it used to be the practice to use local labour force for digging ditches for laying pipelines. But for the major Trans-Niger System wallbros - the (foreign) contractors - are using mechanical diggers with greatly enhanced efficiency."¹⁸⁸ The above quotation comes from an article by a Shell-B.P. official, who further justifies such policy on the grounds that it is usually more expeditious and therefore ultimately cheaper to be capital intensive than labour intensive."¹⁸⁹

The above analysis underlines the need for firmer Government policy to prevent such substitution. In the overall question of capital intensity, the possible courses of remedial action has been looked into in Chapter 5. In short it is essential that "Nigerian planners should take a good look at investment projects to see whether (because of a distorted pricing system) there are not many cases where greater labour-intensity and higher money cost would not actually result in an increase in real income (and social gains)".¹⁹⁰

188. M.S. Robinson 'Nigerian Oil: Prospects And Perspectives' N.J.E.S.S. July 1964 op. cit Page 225.

189. loc. cit

190. W. Arthur Lewis. Reflections on Nigeria's Economic Growth op. cit Page 46.

These shortcomings of foreign private investments in the fields of production technique and factor-mix are not ameliorated in the areas of domestic inter-sectoral linkages. From the analysis so far conducted it is possible to discern why both backward and forward linkages, and industrial externalities have up to now been limited in the Nigerian economy. Most of the foreign-owned subsidiaries and branches are part of larger international and fully-integrated companies drawing their supplies from member-firms outside the country in the case of trading companies like 'I.A.C.', or exporting their raw materials and intermediate products to parent companies abroad in the case of oil producing companies like 'Shell-B.P.' or rubber producing companies like 'Dunlop'. Secondly, a large proportion of local import-substitution 'manufacturing' especially of consumer durables and light intermediate goods involves the final stages of packaging, fabrication and assembling of imported components. Thirdly, the absence of a local capital goods producing industry meant that such important backwardly-linked demand is met externally. Fourthly, the fact that industrial production in Nigeria is still in its infancy stage meant also that the development of inter-sectoral linkage is just beginning. As a corollary to the last point, the absence of a developed industrial environment also reduces the amount of externalities generated in the economy.

All these factors are reflected in the empirical investigation so far conducted which show that the level of inter-sectoral linkages in the modern sector of the economy to be low.¹⁹¹ More specifically the link

191. See E.C. Ebozien: 'Linkages Direct Foreign Investment and Nigeria's Economic Development' *M.J.E.S.S.* Vol. 10, No. 2 July 1968; On Petroleum see Scott Pearce:- *Petroleum And the Nigerian Economy* *op. cit* especially chapters 7 & 10. See also Arthur Lewis:- *Reflections*. *op. cit* Page 28-29; K.M. Langley: 'The External Resource Factor in Nigerian Economic Development' *op. cit* Page 165; And P. Kilby: *Industrialization In An Open Economy*. *op. cit* Page 358.

between the large-scale heavily-capitalized foreign concerns and the small-size indigenous enterprises is weak - relatively weaker than comparable relationship in advanced developed economies. The investment plans of the former are decided upon externally, more often on a global basis, with little reference to local supply conditions. European firms have been unwilling to subcontract or draw their supplies from local indigenous enterprises because such specialized companies do not exist or are considered inefficient and unreliable with regards to delivery dates and quality control or with respect to technological competence.¹⁹² As for the Nigerian entrepreneurs their poor relationship with the foreign-owned companies is blamed on poor communication and liaison which leads to lack of awareness of the latter's input requirements, to inadequate capital, technical know-how and the ease with which such requirements - materials and services - could be imported.¹⁹³ Certainly the Government has done little by way of encouraging greater co-operation between the two, nor has it thought it necessary that intervention on its part rather than free play of the market is essential to break the chain of global inter-company supply links and thus slow down the leakages abroad of the multiplier effects inherent in a closely-knit economic system. The prospects for the future are not too discouraging. Movement into local production of intermediate and capital goods will involve greater use of Nigerian raw materials the demand of which are not presently high enough for their economic exploitation. The petroleum companies will come under increasing pressure to shed some of their integral stages like transport, marketing and refinery to Nigerian enterprises. The products of the industry offer good potentials for forwardly-linked petro-chemical and

192. See Sayre P. Schatz & S.I. Adokpayi:- "Economic Attitudes of Nigerian Businessmen" N.I.E.S.S. Vol. 1 - 4 1956-62, Pages 265-266.

193. Loc. cit and see above for example, section on oil.

fertilizer, and fuel-using (including natural gas) industries. Import of services is likely to decrease as capable Nigerians become aware of and seize the opportunities to discharge such services. One also hopes that as industries expand and mature - including those based on agricultural raw materials to which the government is currently given some priority, the linkages and external economies within manufacturing, and between it and agriculture will increase at faster rates. The most potential gains in externalities are likely to occur in the area of skill acquisition by the labour force, technical and managerial competence by the more mobile middle and higher grade personnel.

Another aspect of foreign operation in Nigeria which gives rise to criticism concerns the relationship between foreign enterprises and the supply of domestic finance capital. The problem involved here is two-fold. The first centres on the use (after Independence) of the local money market as a source of borrowed funds for expansion by the fast-growing foreign-owned manufacturing sector. The second centres on equity share-owning by indigenous private capital and entrepreneurs in foreign-owned enterprises as a means of participation in ownership and control of the nation's economy. Let us look closely at the first point, bearing in mind the theoretical analysis made about it in Chapter 5 and the reference to the Pearson commission observations.¹⁹⁴ If we start with the proposition that the Nigerian economy consumes 85-90% of its annual G.R.P., while at the same time wants to achieve a real growth rate of over 5% per annum with an I.C.O.R. of about 3:1, we can therefore assert that inadequate level of resources is set aside for investment purposes. Hence the attraction to and encouragement of foreign capital inflow as a complement to domestic capital. If a major cause of Nigerian efforts

194. See Chapter 5. Page 241.

to attract foreign private investment lay in the desire for an extra volume of this scarce resource (scarce in relation to other complementary resources and the demand for it), then these efforts are somehow being vitiated by the increasing resort by foreign firms to domestic money market rather than overseas sources for expansion capital.¹⁹⁵ The effect is to make the scarce factor scarcer especially for small - and medium-size indigenous enterprises. The question of whether inadequate capital supply has been a major impediment to the growth of Nigerian indigenous enterprise has been well-discussed in the literature, the general consensus being that viable Projects have always managed to get financing capital,¹⁹⁶ while the major obstacles to indigenous enterprise expansion especially in the industrial field have been the observed shortage of potentially Viable Projects,¹⁹⁷ the pervading managerial incompetence,¹⁹⁸ organizational slack and technical inefficiency.¹⁹⁹ The latter shortcomings are in themselves a reflection of a wide range of factors that may be summed up as the economic environment²⁰⁰ and more especially according to Kilby, of the barriers created against "effective functioning of Nigerians in technological and organizational roles" by "traditional socio-cultural factors."²⁰¹

195. See Central Bank of Nigeria 'Foreign Investment Survey 1962' E.F.R. June 1964 Page 14.

196. See R. Harris & Mary Rowe: 'Entrepreneurial Patterns in the Nigerian Sawmilling Industry' N.J.E.S.S. March 1966. P.67; And Wayne Nafziger: 'A Reconsideration of 'Capital Surplus' in Nigeria.' N.J.E.S.S. March 1968.

197. According to Sayre P. Schatz: 'Government Lending to African Businessmen: Inept Incentives.' J.N.A.S. Vol.6 No. 4 1968 Page 250.

198. According to Arthur Lewis: Reflections on Nigeria's Economic Growth. op. cit Page 26.

199. According to Peter Kilby: Industrialization In An Open Economy op. cit Page 358.

200. W. Nafziger: 'Inter-regional Economic Relations in the Nigerian Footwear Industry' op.cit and his article in Economic Bulletin of Ghana Vol.II No. 4 Dec. 1963.

201. Peter Kilby: Industrialization in An Open Economy op.cit Page 341-342

In what sense active in the money market?
In so far as they obtain ^{more} ~~more~~ their working
capital from domestic banks this has been
the reserve of for policy!

The last sentence but one may be of less significance here, if as I maintain there is inadequate aggregate capital in the economy. We have seen earlier in this chapter the relatively high level of foreign gearing indulged in by foreign-owned firms in Nigeria. Similarly the bulk of loans and advances from the local banking system goes to the same firms and those jointly-owned with, or managed on behalf of Government Corporations. By not only bringing in extra capital resources into the country but also strongly competing for the small amount available in the economy, foreign private enterprise constrains considerably the potential investment activities of both indigenous public and private sectors. The existence of smaller investible resources along with a highly consumption orientated Government bureaucracy means that what the latter could do or should do in the field of capital expenditure is restrained. For the private entrepreneurs the strong borrowing power of the large-scale foreign enterprises raises the level of successful competition for loanable funds above the reach of all but a few. But in another way, were foreign-owned firms not to be active in the money market, the competitive forces will be weaker and the conditions set by leading banks and finance houses will be less stiff, thus bringing a larger number of Nigerian entrepreneurs to within the spectrum of potential borrowers. Besides there is the political and ethical problem of whether capital borrowed locally should be used to make profits which are then transferred out of the country to foreign share-holders.

Now to the second point: The desire to borrow capital locally is matched by a reluctance to raise such capital by local equity issues. The latter action of course involves the sharing of ownership and control with the local people. The evidence available so far suggests that foreign companies are anxious to use local capital resources for expansion purposes while making sure that such usage does not involve any major dilution

of ownership and management control.²⁰² In practice therefore this dual advantage represents a major factor in the favourable investment climate prevailing in Nigeria. Of course 'token' debentures have now and then been issued since the period around Independence, representing on average less than 10% of the equity capital of the subsidiaries making such issues.²⁰³ They represent no more than a public relation exercise to create a sense of partnership - or more precisely a sense of unequal partnership.²⁰⁴ The Nigerian public and indigenous institutions certainly do wish to acquire shares in foreign-owned companies. It is not difficult to see why: such companies are to be found in, and indeed dominate the fastest growing sectors of economy. For the ordinary Nigerian investor it is the good prospects for growth and profit-making, rather than a conscious desire to acquire a measure of control over the economy that provides the motivation. Each time a foreign-owned company makes a local issue, the response has always been tremendous and such issue tends to be over-subscribed even at prices many times par value. For example the recent standard Bank of Nigeria's share issue was over-subscribed by two-and-a-half times.²⁰⁵ Michael Kiaron observed similar reactions in India.²⁰⁶

If foreign-owned companies do want local people and institutions to genuinely participate in running the leading enterprises and sectors of

202. C/F Chapter 5 Page 232.

203. C/F P. Kilby: Industrialization in An Open Economy. op.cit Page 35; And Unilever: Annual Report 1969 Page 21.

204. C/F U.A.C. (Nigeria). Link Sept. 1969, Vol. 3, No. 3 Page. 7.

205. West Africa April 2, 1971.

206. M. Kiaron: Foreign Investment in India op.cit Page 232.

their economy and thus gain invaluable management and financial expertise, why don't they make available more shares than hitherto? Statements on meeting the African aspiration in this field are not wanting.²⁰⁷ And in some cases they are tainted with ideological motivation. If the "greatest service that a private (foreign) business can render to Africa is to preserve the profit motive,"²⁰⁸ then "financial participation in the company (U.A.C.) by Private Nigerian individuals encouraged a greater understanding among the general public of the whole system of private enterprise."²⁰⁹ In reply to the criticism implied in the above question, a spokes-woman for the same company (U.A.C.) doubted the existence of a "genuine interest on the part of the public to become shareholders" in her company. On the other hand she criticized the few shareholders for not making active contribution to the company's progress; "in establishing equity participation it is a desirable feature that all parties should make a distinctive contribution. Contributions of this nature (other than money) do not generally flow from public participation with private enterprise."²¹⁰ However she also hinted that her company was prepared to comply with any regulation on the subject if laid down by law. Another spokesman for the company, a former chairman, suggests difficulties in communication with overseas shareholders as a major factor in dampening management's enthusiasm.²¹¹

207. See for example, Sir Arthur Smith. 'A Businessman's View of Africa'. A paper given to a Joint Meeting of the Royal African Society and the Royal Commonwealth Society, London April 1969. U.A.C.: - Link Sept. 1969 op.cit P. 14 (6) Address by Sir Val Duncan, Chairman of RE2 to the 9th Mining and Metallurgical Congress London May 1969 See The Times (London) August 27th 1969, Page 21.

208. A.H. Smith: 'Catching the Wind of Change: The Redeployment of the U.A.C.' Progress (the Unilever quarterly) No. 283, 1/1965.

209. U.A.C. (of Nigeria): Link Sept. 1969 op. cit Page 7.

210. Private Communication.

211. Sir Frederick Pedler:- 'Management in Developing Countries'; Private Enterprise And Development. U.A.C. Business Booklet No. 1 Page 29.

The Government has done little beside exhortation to encourage local equity participation in foreign-owned businesses. Yet if its desire for indigenous control of the commanding heights of the economy is to be fulfilled in not-too-a-future, positive action is urgently needed now. The best course may be, not to directly penalize those companies that drag their feet, but to create incentives that may accelerate the sale of shares to local capital. A possible incentive may be to link corporation tax relief and other fiscal concessions with the degree of local participation. An alternative may be to treat foreign-owned manufacturing firms with a minimum size of locally-held shares - say 25%, as favoured candidates for supplying Government procurements. In the last resort what matters most, it seems, is not the nature of measures taken to expand local ownership and control, but the will of officialdom to take any step that might be construed as interference with the freedom of operation enjoyed by foreign enterprises in Nigeria.

We may note briefly other areas of criticism - briefly because they are (a) recapitulation of points already made (b) inferences that emerge from the analysis in the text above, and (c) are criticisms already discussed in details by other writers.²¹² The most obvious criticism of foreign manufacturing in Nigeria is the observed fact that the greater part of the local value-added goes abroad. This is the result of high import content of import-substitution manufacturing, the capital intensity of production function, the relatively high level of remuneration accruing to foreign technical and managerial personnel, and the foreign ownership of business itself. Thus manufacturing adds very little to Nigerian wealth creation. According to Professor Arthur Lewis, whereas most of income generated by peasant agriculture accrues to indigenous factors, the increase

212. For a detailed critique of modern industrial activities in the economy, see P. Kilby: Industrialization in An Open Economy. Op. cit. An equally instructive attempt of the pre-1960 period is to be found in O. Abovade. Foundation of An African Economy. A Study of Investment and Growth in Nigeria. op. cit. Pages 127-140.

in value-added to national income contributed by foreign-owned large-scale manufacturing was less than 10% during the greater part of the last decade.²¹³

Connected with foreign ownership is the criticism of foreign control and domination of the important and strategic sectors of the economy especially industrial manufacturing and petroleum production. Again I have drawn attention earlier on to the fact that the top level of administrative and technical management is still largely manned by expatriate personnel, even in joint ventures with the State where a policy of speedy Nigerianization is always formally written into the Agreements. There is a strong justifiable belief - and this shared by Government officials, that foreign companies only pay lip-service to indigenization policy while in practice 'still refused to fill top management posts with qualified Nigerians.'²¹⁴ The question of profit has been adequately dealt with earlier on; what is to be noted here is the danger to the economy and especially the consuming public of excessive rate of profitability for some of the well-placed, often large-scale monopolist producers. They naturally take advantage of their production strength behind an unduly favourable tariff structure and in an economic environment where the government seems to be more concerned with reinvestment of profit, rather than its level or its taxation.²¹⁵ This criticism becomes more significant if we bear in mind the fact that the greater part of this goes or will eventually go abroad.

213. Arthur Lewis: Reflections op. cit Pages 16 and 26.

214. West Africa Oct. 10, 1970, quoting the Military Governor of Western State.

215. C/F P. Pilby:- Industrialization op. cit Page 351.

TABLE 44

SOURCES OF PRIVATE NET CAPITAL INFLOW INTO NIGERIA 1950-68 (£M)

	<u>U.K.¹</u>	<u>Western Europe²</u>	<u>U.S.A.</u>	<u>Rest of the World³</u>	<u>Total</u>
1950					£2.6M
1951					8.6
1952					7.6
1953	4.2	1.0	0.1	0.2	5.5
1954	4.7	3.9	1.5	0.3	10.4
1955	5.3	2.2	1.7	0.4	9.6
1956	11.3	4.7	2.5	0.6	19.1
1957	10.1	4.2	2.2	0.6	17.1
1958	10.2	2.4	3.7	0.5	16.8
1959 ⁴	17.9	3.3	2.0	0.8	24.0
1960					19.0
1961	13.8	5.9	5.9	1.7	27.3
1962	2.9	6.9	4.0	3.9	17.7
1963	17.0	13.4	5.4	2.1	37.9
1964	28.0	15.3	15.0	4.7	63.0
1965	21.0	10.8	18.7	4.7	55.2
1966	25.6	13.6	7.2	3.0	49.4
1967	13.6	7.7	28.4	-2.1	47.6
1968	20.4	2.9	9.4	4.0	36.7

(1) U.K. and rest of sterling area.

(2) O.E.C.D. countries excluding U.K.

(3) Including Lebanon and Syria.

(4) Up to 1959, data represented estimated annual investment in fixed assets by the use of both unremitted profits and fresh capital inflow. From 1960, estimates are based on direct inquiries by the Central Bank. Pre-1960 Data do not include working capital (cash balances) and foreign debt for which figures are not available (Economic Survey of Nigeria 1959, *op cit* Page 131). This omitted component 'may amount to several million of pounds' (I.B.R.D. Report:- The Economic Development of Nigeria *op. cit* Page 664). See text.

Sources (1) I.B.R.D. Mission: The Economic Development of Nigeria
op. cit Page

(2) Federal Office of Statistics: Annual Abstract of Statistics
August 1967.

(3) Central Bank of Nigeria: 'Foreign Investment Survey'
1962, 1965, 1967 and 1968. Economic & Financial
Reviews June 1964, Dec. 1967 and June 1971.

TABLE 45

FOREIGN PRIVATE INVESTMENT CONTRIBUTION TO FIXED CAPITAL FORMATION 1950 - 68 (£M)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1950-59(10 yrs)	1963	1964	1965	1966	1967	1968	1963-68(6 yrs)
£M	42.0	55.7	54.7	66.9	78.4	97.3	99.3	109.2	122.8	762.9	177.0	195.0	234.1	242.6	220.0	223.0	1291.7
	21.0	27.85	27.35	33.45	39.2	48.65	49.65	54.6	61.4	381.45	102.6	116.6	151.7	157.5	146.3	151.6	826.3
	8.6	7.6	5.5	10.4	9.6	19.1	17.1	16.8	24.0	121.3	19.3	104.2	12.5	32.9	15.4	15.9	200.2
<u>Fixed capital formation</u>										<u>121.3</u>							<u>200.2</u>
										381.45							826.3
										(31.8%)							(24.2%)

Fixed capital formation @ current prices.

@ 50% of GDFCF for 1950-59, and @ 5% of GDP for 1963-68. See Appendix.

Fixed capital formation @ current price.

Fixed capital formation. In 1966-68, domestic share in equity capital of foreign companies assume that this share holds good for all the assets and liabilities of these firms, we the above estimates by 10-12% to get a 'true' foreign contribution to fixed capital formation.

aria:- Foreign Investment Survey 1967, 68 op. cit page 16, and table 9. Figures calculated from

See Table 44.

J.N. Yearbook of National Accounts Statistics 1970. Vol. I Page 894; Central Bank of Nigeria: Investment Surveys for 1965, 67 and 68 op. cit.

TABLE 46

FOREIGN PRIVATE CAPITAL INFLOW: SHARE IN DAC/OECD MEMBERS' DIRECT INVESTMENT IN L.D.C.s AND IN NIGERIA'S PRIVATE SECTOR CAPITAL FORMATION 1963 - 68.

	1963	1964	1965	1966	1967	1968	1963-68
(1) <u>G.D.F.C.F.</u>	£177.0M	195.0	234.1	242.6	220.0	223	1,291.7
of which							
(2) <u>Private Sector</u>	£113.6M	127.0	150.3	151.7	143.0	144.9	830.5
(3) <u>Net Foreign Capital Inflow</u>	£ 37.9M	63.0	55.2	49.4	47.6	36.7	289.8
(4) DAC/OECD Members Net Direct Investment in L.D.C.S.	£589.2M	639.6	889.0	778.2	751.6	1,086.0	4,733.6
(5) Cumulative (3) as % of Cumulative (2)						$\frac{289.8}{830.5} = 34.9\%$	
(6) Cumulative (3) as % of Cumulative (4)						$\frac{289.8}{4733.6} = 6.12\%$	

Sources: (1) U.N. - Yearbook of National Accounts Statistics 1968 and 1970 Vol. I & II.

(2) Federal Office of Statistics: Digest of Statistics July 1969.

(3) Central Bank of Nigeria. Foreign Investment Surveys 1965 -68 in various issues of Economic and Financial Review op. cit

(4) DAC/OECD:- Development Assistance Reviews. Various issues 1968 - 72 op. cit

TABLE 47

NET OUTSTANDING FOREIGN PRIVATE INVESTMENT¹ IN NIGERIA 1962 - 68 (£N)M

	1962	1963	1964	1965	1966	1967	1968
<u>Total</u>	£220.9M	258.8	321.8	377.0	426.4	474.0	510.7
of which							
Paid up capital (and reserves)	69.2	93.0	125.6	179.2	209.1	244.3	282.6
<u>Other Liabilities</u>	151.7	165.8	196.2	197.8	217.3	229.7	228.1
National ownership							
<u>U.K.</u>	£135.6(61.4%)			201.6(53.3%)			261.2(51.1%)
<u>Western Europe</u>	£ 46.8(21.2%)			86.3(22.9%)			110.5(21.6%)
<u>U.S.A.</u>	£ 19.4(8.8%)			58.5(15.5%)			103.5(20.3%)
<u>Rest of the World</u> ²	£ 19.1(8.6%)			30.6(8.1%)			35.5(6.9%)

1. Estimates refer to book value only of foreign companies active in the economy. However domestic/indigenous capital participation in these companies amounted on average to 10% during the Decade.

2. Outstanding among the rest of the world are entrepreneurs from the Middle East (Lebanon, Syria) and the Orient (India)

(Source. See fn 3 table 46)

TABLE 49

TABLE 48

CAPITAL FORMATION DURING 1st NATIONAL DEVELOPMENT PLAN PERIOD

	TargetPlanned (1962/3 - 1967/8)	Achieved (1963 - 68)
(1) G.D.C.F.	£1,183.3 M	£1,291.7 M
(2) Public Sector	751.3 (63.5%)	461.2 (35.7%)
(3) Private Sector	432.0 (36.5%)	830.5 (64.3%)
(4) Foreign Private Capital	200.0	289.8
(5) .4 as % of 3	46.3%	34.9%
(6) 4 as % of 1	16.9%	22.4%
(7) C/F 'Foreign aid' as % of G.D.C.F.*	27.6%	11.7%

* 1962-67 data

(Source: Taken from (1) Table 28

(2) Tables 45 and 46)

TABLE 49

SECTORAL DISTRIBUTION OF FOREIGN PRIVATE INVESTMENT 1962 & 1968

	Percentages			
	1962	1968	1962	1968
Agriculture, forestry & fishing	£ 4.3M	£ 5.8M	2%	1.1%
Building & Construction	£ 8.5M	£ 11.9M	3.8%	2.3%
Manufacturing & Processing	38.3	102.0	17.3	20.0
Mining & quarrying	81.0	250.8	36.7	49.2
Trading & Services	84.9	123.6	38.4	24.2
Transport & Communication	2.4	5.8	1.1	1.1
Miscellaneous	1.5	10.8	0.7	2.1
Total (Book Value)	£220.9	£510.7	100.0%	100.0%

Source: Central Bank of Nigeria: Foreign Private Investment Surveys for 1965, 67 & 68 in Economic & Financial Reviews Dec. 1967, June 1971 op. cit.

TABLE 50

SECTORAL INCREMENT IN FOREIGN PRIVATE INVESTMENT 1950 - 68

	1950/51-1954 /55 (5yrs) ¹		1961-63 (3 yrs)		1966-68 (3 yrs)	
	£M	%	£M	%	£M	%
Agriculture, forestry & fishing	+ 3.5	8.8	- 0.8	-1.0	0.2	0.2
Building & Construction	+ 2.2	5.6	+ 8.4	10.1	-8.2	-6.1
Manufacturing & Processing	+ 3.4	8.5	+37.4	45.1	32.5	24.3
Mining & quarrying	+13.8	34.7	+26.9	32.5	86.1	64.3
Trading & Services	+12.2	30.6	+ 9.7	11.7	30.8	23.0
Transport & Communication	+ 4.7	11.8	+ 0.6	0.8	0	0
Miscellaneous	-	-	+ 0.7	0.8	-7.7	-5.7
TOTAL INCREMENT	39.8	100.0	82.9	100.0	133.7	100.0

(1) Data refer to gross capital expenditures of major private companies. However, since practically all major companies were foreign-owned, the Data is a good representative of the size and pattern of foreign capital deployment.

Sources (1) U.S. Dept. of Commerce: Investment in Nigeria 1957 P. 162
 (2) Central Bank of Nigeria: Foreign Private Investment Surveys from 1961-68.
 Economic & Financial Review various issues op. cit.

TABLE 52

U.A.C. CAPITAL EXPENDITURE (£'000)

	<u>1950/51 - 1953/54 (4 yrs.)</u>	<u>1960 - 64 (4 yrs.)</u>
Commercial	2490	4806
Industrial	2240	6579
Transport	2065	470
Agriculture	-	251
	<hr/>	<hr/>
Total	6795	12106
	<hr/>	<hr/>

'Commercial' includes workhouses, shops and housing related to trade.

'Industrial' includes U.A.C. Group's share of capital expenditure by industrial enterprises in which the company is a minority shareholder.

'Transport' include rivercraft, plant, wharves, bulk oil installation etc.

(Source: Compiled from various issues of U.A.C. Statistical and Economic Review op. cit.)

TABLE 53

PETROLEUM INDUSTRY AND THE NIGERIAN ECONOMY: SELECTED INDICATORS 1963 - 72

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
1. Petroleum Export Value (£M)	20.1	32.1	68.1	91.9	72.0	37.0	131.0	255.0	476.5	578.2
2. Merchandize Export Value (£M)	186.0	211.0	268.4	284.1	241.8	211.1	318.2	442.8	646.7	707.3
3. Petroleum Export as % of Merchandize Export	10.8%	15.2%	25.4%	32.3	29.8	17.5	41.2	57.6	73.7	81.8
4. Petroleum Value - added to G.D.P. (£)M	8.0	17.0	32.0	44.0	51.0	18.0				
5. Petroleum Value - added as % of G.D.P.	0.6%	1.3%	2.3%	3.0%	3.4%	1.2%				
6. Petroleum Value - added as % of G.N.P.	0.6%	1.2%	1.3%	1.7%	2.2%	1.2%				
7. Payments to Government (£M)	5.0	12.3	13.4	18.7	27.0	16.7	26.9	88.0	327.5*	
8. Payments to Government as % of Government Revenue	3.4%	6.9%	7.0%	9.5%	16.6%	10.1%				
9. Other Local Payments to Indigenous Factors of Production (£M)	9.8	13.6	23.2	33.3	26.8	12.5	28.9	48.2		
10. Companies Income from Local Sales (£M)	0.6	0.7	1.0	8.6	8.2	0.3	2.1	6.3		
11. Direct Employment Generated		3.075	3.135	3.438	3.901					

* FY 1971-72

Sources: Compiled from various tables in Scott Pearson:- Petroleum and the Nigerian Economy
op. cit, Central Bank of Nigeria: Federal Office of Statistics.

TABLE 54

PETROLEUM INDUSTRY'S BALANCE OF PAYMENTS IMPACT 1963-70 (£M)

	1963	1964	1965	1966	1967	1968	1969	1970
<u>VISIBLE TRADE</u>								
Crude Oil Export (fab)	20.1	32.0	68.1	91.9	72.0	37.0	131.0	255.0
Import of Materials (cif)	-4.2	-11.7	-13.5	-19.5	-17.5	-9.9	-11.1	23.0
Balance of Trade	15.9	20.3	54.6	72.4	54.5	27.1	119.9	232.0
<u>INVISIBLE TRANSACTION</u>								
Import of Services*	-6.4	-12.2	-22.2	-38.5	-31.5	-28.2	-44.8	
Investment Income (net)	-0.2	-1.0	-14.2	-19.4	-19.8			
Balance on Current Account	9.3	7.1	18.1	14.6	3.2	-1.1	75.1	
<u>CAPITAL ACCOUNT</u>								
Net Capital Inflow	5.0	18.0	17.5	28.8	45.5	29.9	-19.2	
Balance of Payments Impact	14.3	25.1	35.6	43.4	48.7	28.8	55.9	113.5

* Largely Payments abroad in foreign exchange to foreign contractors operating in Nigeria, as well as royalties, technical fees, etc.

Sources:- Up to 1966 - Scott Pearson:- Petroleum and the Nigerian Economy table 6.5 Page 77

(2) Standard Bank: Annual Economic Review. Nigeria June 1971, table 5 Page 23

(3) West Africa March 19th 1971

TABLE 55

PETROLEUM INDUSTRY: CONTRIBUTION TO FOREIGN EXCHANGE AVAILABILITY 1963 - 69

	1963	1964	1965	1966	1967	1969
Foreign Exchange Availability						
From oil ¹	£14.3M	25.1	35.6	43.4	48.7	55.9
From non-oil ²	£227.1M	266.4	295.8	271.7	234.6	309.5
Total	£241.4M	291.5	331.4	315.1	283.3	365.4
Oil as % of total	5.9%	8.6%	10.7%	13.8%	17.2%	15.3%

(1) From oil source, i.e. exports and capital inflow minus (import of goods and services and investment income. See table 54.

(2) Other sources, i.e. export of goods and services plus net private long-term capital and net 'foreign aid' disbursement. Estimates do not include Foreign Exchange Reserves, short term capital movements or figures for errors and omissions. Foreign aid equal net official disbursement and multilateral agencies flow.

(Sources (1) Tables 53, 29 and 44 and official Balance of Payments Estimates)

TABLE 56

COMPOSITION OF NIGERIA'S MERCHANDISE

1. Food, Beverages & tobacco	
2. Crude materials	
3. Chemicals	
4. Mineral fuels, lubricants etc.	
5. Machinery & Transport equipment	
6. Manufactured goods	
7. Miscellaneous	

TABLE 56% COMPOSITION OF NIGERIA'S MERCHANDIZE IMPORTS 1962 & 1972

	<u>1962</u>	<u>1972</u>
1. Food, Beverage & tobacco	13.9%	10.1%
2. Crude Materials	1.2	2.1
3. Chemicals	6.1	10.4
4. Mineral fuels, lubricants etc.	6.9	1.0
5. Machinery & Transport Equipment ³⁵	23.8	39.7
6. Manufactured goods & articles	46.7	35.4
7. Miscellaneous	1.4	1.3
	<hr/>	<hr/>
	100.0%	100.0%
Value in £M.	£203M	£495.3M

(Source: Official statistics)

TABLE 57

NIGERIA: GROWTH OF INVESTMENT INCOME 1950-71

Year	Direct Investment Income ¹ (£ M)	Investment income as % of Export of goods and services	External Public debt service (selected years) ²	Investment Income and debt service as % of Export of goods and Services
	(1)	(2)	(3)	(4)
1950	£ 6.8 M ³	7.4%	£ 0.6 M	8.1%
1951	6.7			
1952	7.0			
1953	7.4			
1954	6.4			
1955	6.7	5.0	0.7	5.5
1956	5.3	3.7	0.7	4.2
1957	3.5			
1958	6.8			
1959	10.0			
1960	10.4		0.7	6.2
1961	9.9			
1962	14.4	7.6		
1963	21.0	10.1		
1964	23.5	10.0		
1965	56.5	19.3	9.4	22.5
1966	78.5	25.3	16.4	30.6
1967	44.0	16.7	12.7	21.5
1968	56.5	23.9	13.9	29.8
1969	58.0	16.8	20.0	22.6
1970	60.0	12.4	19.8	16.5
1971	161.4	25.0		

1. Gross value of outflow

2. Taken from table 43.

3. Includes £1M paid by the Government to U.A.C. as mining royalty - see Chapter 6.

Sources: (1) For 1950-52. I.B.R.D. Report:- The Economic Development of Nigeria 1955. Table 7, Page 143.

(2) 1953-61. G. Helleiner: Peasant Agriculture op.cit
Statistical Annex table IV-C-1.
Data deflated for funded loan servicing.

(3) U.N. : Yearbook of National Accounts Statistics 1968 Vol II,
Page 496.

(4) I.M.F.: International Financial Statistics Nov 1972 & May 1973.

CHAPTER 9CONCLUDING CHAPTER

In view of the length of this study, I have attempted here to make the concluding remarks as brief as possible. In any case, most of the inferences and conclusions have already been drawn in relevant chapters. Attention here will be focused on implications that have wider dimensions. Remarks on the international flows of both private and official resources are followed by those specifically related to Nigeria. However, I must emphasise the strong inter-relationship between the general and the specific, reflecting as it were the continuity I have striven to establish between the analyses of Part I and II of this study.

International Private Capital Resource flow has never been more important in history as it is today - certainly in terms of its quantity, its area coverage and its greater orientation and flexible response to profit. Its importance is further enhanced by the present international preoccupation with growth and development, especially of the 'Third World'. It has come into the limelight at the expense of world trade. The conditions under which it helped accelerate the economic development of the 'New World' (of Americas, Australia, New Zealand and South Africa) are less operative now for the 'Third World' of today. Though the needs might be similar, the attractions so far have been not as great. Furthermore, flexibility in response to profit and security is diverting the flow more and more to within the developed countries themselves. How far this trend can be reversed depends on the relative growth of L.D.C.'s economies and the continuing strength of their economic nationalism. The latter factor highlights the changing attitudes of both foreign investor and host country to each other's objectives. The realisation of advantages inherent in direct investment package has forced the latter to temper its economic nationalism, itself the sequence to post-war political nationalism. Mutual suspicion is being replaced by mutual understanding under the umbrella of joint-ventures. In Africa especially, this method promises to be the vogue for the immediate future. The foreign

investor's acceptance of participation in ownership and control is extended to cover the gradual replacement of foreign technical and managerial personnel by local ones. The latter process is essential if true multinational approach to resource usage is to emerge. Private companies, like nations differ in their 'radicalism' to changes. Some plan for them, others are pushed 'up-to-date' by legal compulsion. All in all, the underlying trend is there to see.

It is interesting also to note that while co-operation may be the theme of the future, the greater understanding of each other's aspirations mentioned above has also engendered among overseas investors, especially in developing countries, a fear of nationalisation which is far stronger than the fear of default in portfolio flows during the period before 1914. This fact is symptomatic of the many flaws and shortcomings in private foreign investment which I have high-lighted in this study. The flow of export credits of all kind threatens to get out of hand. The effect of the massive expansion in the last decade of credit availability and usage is more likely than otherwise to be detrimental to the long-term economic interest of the smaller 'non-viable' and weak economies that exist on the continent of Africa. Ghana's experience demonstrates the point. The resort to expensive short-term private credits underlines the inadequacies of other forms of capital transfer. Another area of growing concern for the developing countries (and the developed ones too) centers on the operations of the relatively more powerful multinational companies with headquarters in Europe and North America. I have dealt adequately I hope, with this problem in Chapter 5, and also suggested courses of action.

The problems created by inappropriate technology accompanying direct investment from the developed industrial countries must collectively stand out as one of the major challenges facing international capital movement in the coming decades, and they are likely to get more acute, firstly because technological progress is becoming more and more capital-intensive and moving further away from the real needs of the 'labour surplus' developing economies

and secondly because the phase of industrial expansion in the latter after two decades or so of consumer goods import-substitution is beginning to move into the more 'capital-intensive' intermediate and capital goods production. My analysis in Chapter 5 implies that the lead for remedial action ought to be taken by governments of the host countries. However, empirical evidence that is available for Nigeria suggests that this has not been the case. In most cases governments have eagerly sought joint-ventures with foreign firms with the latter responsible for choice of machinery and equipment, production functions and technical management. Furthermore, the short-term internal political advantages to be gained from foreign-built 'turn-key' projects have always been allowed to overshadow their long-term economic and social cost of which technological inappropriateness is an outstanding one.

In Africa and Asia especially, we must not also overlook the unfavourable aspects of the 'modern urban sector,' the establishment of which foreign capital has and is playing a major role. The problems posed by urban unemployment, growing gaps between the rural and urban communities in terms of income, consumption patterns and general outlook and of external propensities of industrialisation, especially its capital import bias, are not likely to be overcome easily. What is being emphasised here is that they require the maximum and constant attention of host authorities and to some extent of foreign companies themselves, if their duration is not to be unduly prolonged. As a consequence of these problems, a question mark must remain over the present pattern of growth being partly fostered by foreign capital investment. To the extent that the benefits of industrialisation and raw material exploitation are not being adequately spread beyond the foreign investors and the urbanised labour and elite, true economic and social development is not being achieved.

The concept of Foreign Aid comes nearer to represent a relatively determined involvement by the rich countries in the development objectives of L.D.C.s than foreign private investment. The essential moving spirit behind the latter, as we have seen above is the search for profit, and not a mission

of hsk roads, electricity & water supply
in post 1945 era as well
and post 1958

of development. In so far as it succeeds in achieving both, it becomes mutually satisfying to both creditor and recipient countries and furthers its own growth. The entrance into the Aid scene of the smaller rich countries of Europe like Sweden and Switzerland in the last decade, contrasts sharply with the projected continuous decline in real volume of aid in the coming decade. The real reason for the decline is to be found in 'aid weariness' of the old major donors like the United States and not in the burden it imposes on their resources. As for the developing countries, their enthusiasm for foreign aid has, to say the least, been dampened by its overt use for political and commercial purposes. They have learnt, some the hard way, of the unreliability for long-term development planning purpose of this type of external capital whose movement is largely determined by short-term considerations. The extent to which foreign aid programmes will remain an instrument for development in the 80's and 90's depends very much on (a) how far international trade liberalisation and monetary reforms are geared to the special needs of the developing countries and (b) the maintenance of a positive net transfer - that is, on how far repayment of, and interest on old loans 'eat' into new lendings. In the main time the smaller amount being transferred is likely to be 'improved' by unilateral and multilateral decisions to 'untie' aid. The need for improvement in the terms of lending may be forced on the creditor countries by the increasing inability of L.D.C.s to shoulder the heavy debt burdens.

It is to Nigeria that most of the concluding remarks shall be directed, concentrations as it were on some of the significant findings of her experience. Again some of the necessary and desirable policy changes have been implied or proposed in the relevant chapters. Whereever it is essential a recapitulation will be attempted. In chronological order, capital funds raised in the London Capital Market upto 1936 played a major role in the infrastructural development of the colony, especially its transportation and communication networks. The railway transformed Nigeria into an export-orientated economy, hastened her commercialisation, and in general her political

and economic growth. The Imperial guarantee underlying those loan stocks was no doubt useful in speeding public acceptance and subscription, however, the conditions attached to borrowing were such as to limit the amount raised to the barest minimum, and to develop those aspects of the infrastructure which critics could easily identify as of special interest (economic, political and administrative) to the colonising power. The use of short-term considerations - balance of payment viability, 'self-sufficing' projects etc. for loan raising and lending in the inter-war years contrasts sharply with the experience of the 1960s.

In the two decades between the years immediately proceeding the last war and the late 50s, Nigeria was for all practical purposes a net capital exporter. The influential impact of foreign resources during the period being felt in non-monetary fields - in organisational, managerial and technical skill acquisition and in educational expansion. Between the late 50's when official commitment to economic development, especially in the industrial field, began to get off the ground, and the end of the 1960 decade, the extent impact and strategic positioning of foreign capital were at the highest. The dominant foreign direct investment in import-substitution manufacturing was responsible in no small way for the sector's 15% annual average growth rate up to the middle of the decade, the increasing level of foreign resource inflow both private and official considerably alleviated the worsening balance of payment position and in a way sustained the ever-increasing appetite of the government for consumption expenditures.¹ Both Ghana and Nigeria had similar expenditure patterns; the fact that Nigeria did not face the serious economic problems that Ghana had in the second half of the decade was not due to any conscious policy of national belt-tightening, but to the rapidly rising financial resources emanating from an oil industry developed by foreign capital.

Table 59 shows in quantitative terms the relative and combined sizes of private and official inflows during the 1960 decade. Both types of flow showed an upward trend, the larger private investment influenced considerably

1. C/F. W.A. Lewis:- Reflections on Nigeria's Economic Growth, op.cit. Chpt. IX

little serious analysis of effects of
 capital flight on savings, tax revenues
 and, to a lesser extent, investment.

as we saw in Chapter 8 by capital flowing into the oil sector. It is the combined inflow which is of more significance. It too showed an upward trend during the decade though the picture was distorted by the Civil War disruption. In terms of import the combined inflow rose rather than declined over time. As a percentage of domestic saving, capital import did not show a declining trend, but remained at a high level. We can draw major conclusions from these two findings. First, that foreign capital availability enabled Nigeria to maintain an exceedingly high level of import surplus throughout the decade.² Secondly, that if the experience of the 1960 decade continues, the length of period Nigeria will require continuing foreign resources to supplement her own, moves into an indefinite future. For if a reasonable terminal date is to be recognised, it is essential that the two ratios (Columns 6 & 7 Table 59) should show a declining trend.³ As it were, they did not. This likelihood of Nigeria needing foreign capital well into the future has also been empirically demonstrated from different premises by Chenery and Strout, and Fei and Pauw.⁴ The same possibility was also implied by Alfred Maizel's findings.⁵ However, the boom in oil production since the beginning of the present decade is a ray of hope which may profoundly affect the above conclusion. Provided the ever increasing revenue from oil export is put aside for development purposes and not squandered on government consumption and prestige projects, nor cause a relaxation in the mobilisation of other resources, especially through taxation, an improving domestic saving (and investment) performance will no doubt shorten considerably the time-span of foreign capital usage.

Another outstanding feature of Nigeria's use of foreign resources is the projected high level of servicing cost in the immediate future. I have drawn attention to this in the last chapter and also to the need for Government officials to start making realistic projections and by implication become

2. C/F. K. Langley:- 'The External Resource Factor in Nigeria Economic Development' *op.cit.* Pages 167-173.

3. See Page 150 Chapter 3.

4. See Appendix V.

5. A. Maizel:- 'Exports & Economic Growth of Developing Countries' *op.cit.* especially concluding Chapter,

Maybe true but this has not
been argued in the
preceding chapters.

fully aware of (and also fully appreciate) the difficulties looming ahead. The availability of increasing foreign exchange from oil export to take care of the outflow of official debt servicing and private investment income is not an adequate excuse for keeping the true position of the nation's external liabilities out of public gaze. Projecting an optimistic image is a more serious defect in official policy. As we saw above, it was the difficulties with servicing external debts that plunged Ghana 'unexpectedly' into a serious economic crisis in the second half of the last decade. For Nigeria it is, therefore, essential that the high financial cost of trying to develop with the use of foreign-owned resources should explicitly be underscored to the public at large, to the business community especially foreign firms and to foreign creditors. In this way, policy measures taken to alleviate potential difficulties may be better appreciated.

I now turn respectively to foreign official aid to, and foreign private investment in Nigeria. The smallness of overseas official assistance during the period covered in this study and the strong likelihood of it remaining so in the future, the resignation of Nigeria to this fact and the consequent planning with a much-reduced foreign aid component of resource requirements, invite a policy conclusion that may be applicable to developing countries in similar position. If the commitment to accelerated development is to have any effective meaning in Nigeria, and the need for external support similarly appreciated by the developed rich countries, it is imperative that she transfers her efforts away from aid-seeking to 'fighting' with others for trade liberalisation, monetary reforms and commodity price stabilisation programme where her share of the benefits is likely to be greater than her best receipt from aid allocation.

Judging by my analysis, one cannot escape from the conclusion that the present manifestations of 'aid-for-development' notion represent the cheapest and least painful way of discharging that help. The notion certainly forestalls any pressure on the developed industrial economies to open up their markets to standardised light manufactures which represents the major dynamic element in developing countries economic performance. Three reasons can be

This is not really
concluding + funny remarks
it is new material

put forward in support of trade liberalisation and the implied structural changes necessary in the developed industrial economics. First, the short-term sacrifices implied in such restructuring would truly reflect their desire to help the under-developed two-thirds of the world. Secondly, it is in the developed countries long-term economic and social interest to divert resources away from declining or 'depressed' labour-intensive and high cost activities like textiles. The process will also ensure better international division of labour and specialisation. Thirdly, since the developing countries do not effectively possess the reciprocal ability to shut their economies from the manufacturers and capital goods exports of the developed countries, the unilateral ability of the latter to discriminate against the former's manufacturers and processed raw materials will have to be gradually eliminated if genuine commitment to aid is not to continue having a hollow ring around it.

The above suggested course for Nigeria is not based on a projection of her present share of the world trade, rather it is based on a number of factors which underline her potentialities in this field. For example, some large-scale manufacturing of standardised commodities which cannot be undertaken at present because the domestic market is inadequate and overseas market shut, can become viable with a combined internal and external market. Perhaps more important is the opportunity this creates to accelerate the learning process referred to in the previous chapter.⁶ The acquisition of skills, the creation of an industrial environment, the erection of a significant manufacturing sector complementary to the agricultural one generates qualitative advantages and benefits far superior to monetary aid. External 'assistance' through concessionary trade agreements has other advantages over aid flow. In so far as trade liberalisation involves restructuring in the developed countries, such 'assistance' becomes institutionalised and less likely to be turned on and off in support of short-term political, economic and military policies of the donor countries. If trade liberalisation involves any bilateral concession on the part of Nigeria (or any similarly placed L.D.C.)

6. See above Chapter 8, Page 490.

and the other side of the mountain, the view is
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at all, such reciprocal arrangements are unlikely to be overshadowed by the above political/diplomatic etc. policies now inherent in foreign aid. Finally, the long-term prospects for world trade expansion compare favourably with a real decline in foreign aid programme.

For the time being, that is before the new approach materialises and even for the period when official financial contribution is of secondary importance to other forms of 'assistance', it is important for Nigeria to improve the contribution of foreign official aid to her economic development. From my analysis in the preceeding chapters, it is clear that a major improvement could come from greater diversification of her aid sources. Nigeria in the past has relied largely on the support of two countries (U.S.A. and U.K.) out of the sixteen or so rich countries that form I.D.A. Part I Group or the similarly composed DAC/OECD. Discreet offers of socialist countries' aid has until recently been officially declined. Yet a wider net is likely to bring in larger volume of grants and other concessionary aid, while greater 'diversification in sources of official and unofficial credits will enable the country to enjoy greater flexibility in obtaining supplies from the cheapest international source available to her. The analysis' also shows that qualitative improvement may occur directly or indirectly as a result of greater public scrutiny of the terms and conditions of official aid especially those diplomatically and commercially motivated. The knowledge to both sides in negotiation of the fact that the general public (and especially the influential intellectual group in the Universities) will generally frown on political and economic strings attached to aid may result in a smaller intangible cost' to the recipient. This may occur through the recipient negotiators holding out for better terms than hitherto, and the donor attempts to avoid the accusation of overt neo-economic and political imperialism? Again, improvement will also come through Nigeria's emphasis on programme assistance rather than aid linked to specific projects. This will be necessary for both official as well as multilateral agencies resource flow. It is essential also for Nigeria to give priority to budgeting for the local costs of aid-financed projects rather-

relative to what? Nigeria's
has not \pm ratio has been low
vs many other LDC's among
developing countries

I am not agreed with his text
- and an extraordinarily naive
statement

than allow such projects to be cancelled or lie in abeyance for another decade. Flexibility in the use of foreign aid resources inherent in programme approach must be seen as only a temporary remedy. The ultimate and urgent solution for Nigeria clearly lies in a concerted attempt to discourage both public and private consumption and to improve the machinery for mobilising investible savings.

Private Capital: Past experience, the low level of domestic saving, and the relatively high target of investment ensure that Nigeria will need foreign private capital resources for a long-time to come. This point is enhanced in sectoral terms by the need to move from 'easy' import substitution stage to that producing intermediate and capital goods. If this is so, it follows that rather than an immediate termination of foreign capital usage and control, policy orientation must be towards maximising its long-term benefits while minimising its cost. The study conducted above shows that upto the present this has not been the case. A policy of maximising and minimising is of course applicable only in the circumstances presently obtained in Nigeria. If on the otherhand, Nigeria is prepared to spend the odd £600M or so to buy out the present foreign-owned businesses, and to drastically increase the level of saving and investible surplus, the whole question of 'costs' especially those associated with foreign ownership, control and of remitted profits will fade away.⁸ Most of the 'qualitative' benefits can be retained by hiring expatriate technical and managerial personnel and by seeking the technical assistance and other supports from foreign state corporations whose efforts in helping to develop the heavily-capitalised intermediate and capital goods producing industries may be analogous to the expected role of the foreign-owned multinationals. Thus the conclusion on foreign private investment in Nigeria can be approached on two levels, first in terms of the 'ideal' situation just mentioned above, and secondly in terms of the practical or more 'realistic' assessment of the situation in the immediate future. If the assessment is that Nigeria will continue to use foreign private resources in a significant

8. C/F. P. Kilby's recommendations in his 'Industrialisation In an Open Economy: Nigeria 1945-1966. op.cit. Page 351.

Would be any easier to control Nigeria since
priv companies? Doubts are emerging
over the best method of Nigerianisation
as at the time Sept 1972.

way - official statements have always reinforced this view - it follows that emphasis here should be on ways and means of improving the situation that is likely to obtain, rather than dealing in an unlikely situation that one wishes should exist.

The historical openness of the Nigerian economy to foreign private enterprise has not been entirely beneficial. The possibility that it engendered misallocation of complementary domestic resources, at least in relation to long-term perspectives is real and not just theoretical. The consumption orientated productions and services that characterize the Nigerian economy easily come to mind. I have critically looked into this possibility in some detail in the latter part of Chapter 8. Similarly, by exposing indigenous enterprise to the superior competitive pressure of the better-organised, better-capitalised and internationally-linked foreign businesses, it historically retarded the progress of domestic economic forces. We saw this happened in the 1920s, and it was exemplified in the '40's and '50's by the rapid expansion of small-sized Levantine businesses.

The persistence of one effect of openness, that is, the absence of harmony between foreign companies' investment strategy and Government planning priority, can be erased by a stronger official action and more definitive policy than hitherto. Though recent Government decisions in this field, such as the reservation of certain 'strategic sectors' like petro-chemical and iron and steel to majority public ownership,⁹ and the forced transfer of small-scale foreign-owned commercial and manufacturing businesses to indigenous hands though the Nigerian Enterprises Promotion Decree of March 1972, have widened the scope available to domestic forces vis-a-vis foreign ones, the opportunities still available to the latter in the 'residual areas' of the economy are enormous. The influence over their development planning especially in the fast-growing manufacturing/industrial sector minimal. It is only in such a climate is it possible for important firms like U.A.C. to see their future investment strategy first in terms of economic opportunities available in the country rather than in terms of national priorities. The 1972 Progress

9. See 2nd. National Development Plan 1970-74. op.cit.

again an idea known in the end

- worth examining in more detail - of with NIDB?
- how would it relate to State

for 5 ?

Report on the 2nd. National Development Plan 1970-74 confirmed the expected outcome of such a situation : though the level of private investment was satisfactory, it had not however, been guided by the industrial strategy laid down in the Plan, which aimed at shifting emphasis from production of consumer goods to that of intermediate and capital goods. It cannot be over-emphasized that the fulfilment of the national plan priorities demands a restriction to the extensive freedom enjoyed by foreign private enterprise and their domestic counterpart. In this respect, it is therefore, essential that approval of future expansion programme of foreign firms already established and the investment intentions of new ones should be related more strictly to plan priorities rather than the hitherto ad hoc considerations. To effect this policy successfully, and for other related matters, it is essential that the present Government methods and administrative machinery for dealing with foreign investors and their businesses should be reappraised and reorganised. Certainly, the need exists for a Nigerian International Investment Corporation, broadly commercially-orientated, loosely divorced from Government Departments, dealing with all aspects of foreign investment that are now scattered between the Ministries of Economic Development, Trade and Industry, Finance and the Central Bank of Nigeria. As a promotional organ, ~~ization~~, it should seek out and encourage investment by foreign companies and international consortia which can help fulfil planned targets in high priority sectors or industries. It should simplify, clarify and make available to prospective investors government policy and expectations, and other relevant administrative technicalities. An important promotional objective will be the bringing together of foreign interests, indigenous private business and State Corporations and the provision to them of relevant information on the key subject of joint-venture. It has an important liaison role to play. We have seen how poor communication has hindered co-operation and linkage between domestic and foreign-owned businesses. Furthermore, foreign businessmen have always been highly critical of the delay to their project execution caused by excessive red tape and general official bureaucracy. As a supervisory

institution, it should ensure that foreign companies' investment policies which are largely influenced by Headquarter's global strategy do ultimately reflect local requirements. It should also make sure that Government regulations on such matters as import-content of factor-mix, local employment and training, ownership and share of controls are met.

It should also act as an advice centre for foreign investors on local conditions, collate research efforts, disseminating those findings especially about suitable technologies, and above all, prevent the duplicate purchase from abroad of technical know-how during an epoch of intermediate and capital goods production. The last function is specially important in view of the increasing share of royalties and licence fees payments in total outward-bound investment income. India's experience in this field must serve as a warning guide.

Let us now look closely at the coming phase of intermediate and capital goods production. During this period such production will of course be complemented by the up-grading of consumer goods substitution into fields designed to cater for middle-class and elite taste. The technical problems associated with production of 'status durables' like fridges, television sets, air conditioners and motor vehicles are not different from those likely to be encountered with general intermediate and capital goods production. During the initial years of this period, the relatively greater handicap created by inadequate indigenous technical and managerial expertise is likely to be overcome to a degree, by bigger expansion in the joint-venture technique - especially between foreign companies and State corporations and/or a consortium of indigenous businessmen. If the bulk of future foreign investment in Nigeria is likely to be of this collaboration type, - with foreigners supplying technology, management skill and some finance - certain policy suggestions become pertinent here. It is essential in view of the experience of the late '50s and '60s,¹⁰ that the hitherto great veil of secrecy that surrounds such collaboration agreements especially in ventures involving state participation,

10. C/F. Sayre P. Schatz:- *Crude Private Neo-Imperialism. A New Pattern in Africa* 'J.M.A.S. No.7 Vol.4, 1969. op.cit. See also his analysis of the problems inherent in joint ventures.

The first part of the report discusses the general situation of the country and the progress of the work done during the year. It also mentions the various committees and the work of the different departments.

The second part of the report deals with the financial situation of the country. It mentions the various sources of income and the expenditure of the government. It also mentions the various committees and the work of the different departments.

Is this a practical proposition?

The third part of the report discusses the various committees and the work of the different departments. It mentions the various committees and the work of the different departments.

Again an issue scarcely mentioned earlier - F. Eusebio wishes in his report to deal with the problem of power generation resource exploitation

The fourth part of the report discusses the various committees and the work of the different departments. It mentions the various committees and the work of the different departments.

should be lifted for public scrutiny and criticism.¹¹ A greater diversification in the sources of partners and a deeper appraisal of project plans as put forward by foreign partners are also called for, so is the elimination of overt politicization of industrial projects and the opportunity it gives to adept foreign investors to play one region or state against the other in the search for best concessions. A useful way of speeding up collaboration or of getting the effectiveness into the principle of joint-venture and of achieving greater indigenous participation and economic cohesion will be to make the ultimate linkage (at least of the production processes) of the large foreign firms with the smaller indigenous ones as a necessary condition for entry of the former.

The analysis in the previous chapter shows the need for greater vigilance over the use of domestic capital resources for expansion by foreign companies. Where a shortage of capital is clearly discernable to be hindering the development of small to medium viable projects, a check on such usage may be necessary. It is more than likely that within the next decade, commitment to refrain from borrowing from local market may become an important condition of entry, or of approval for expansion programme. Again, if in the likelihood of future emphasis being placed on welcoming only (or largely) foreign companies making capital goods, it is important that the experience of India as analysed by Michael Kidron should be noted.¹²

A hitherto untapped and lightly mooted source of external help for development of the capital goods sector in Nigeria exists in Eastern Europe. India's experience provides on one hand examples of the difficulties likely to be encountered with the use of 'Western' consortia - invariably backed by their home Governments and Western financial institutions like the World Bank

11. C/F. The 'Sell-Out' controversy caused by the decision in 1967 of the Post-Nkrumah Administration (N.L.C.) to offer Abbott Laboratories of Illinois, participatory rights in the hitherto State Pharmaceutical Corporation in terms that bore 'abnormal concessions' to the latter. See the article entitled 'From Public to Private Ownership' Page 16 in the Financial Times Survey of Ghana, Feb. 24, 1969.

12. M. Kidron:- Foreign Investment in India. op.cit.

- in the development of her heavy industries, and on the other hand, the countervailing advantages of rapid expansion of these industries with the assistance of Socialist countries principally Russia. Not only has the latter process enabled India to weaken or remove entirely foreign ownership and control over key industries,¹³ but has also allowed her to pursue her own chosen pattern of development as enunciated in her Development Plans. Furthermore, Russia's industrial aid to public sector development widened the sources of technology available to India. This point may be of crucial importance to Nigeria; for though Soviet technology in some manufacturing and industrial fields was (and still is) behind the then Current Western Standard, it was advanced by Indian Standard and represented an 'intermediate' level that was not too sophisticated and capital-intensive as that embodied in Western private investment. Certainly, Nigeria's policy makers need to look closely and seriously at the opportunities offered by diversifying the external sources of industrial production to include the Socialist Block. The Chinese model of relatively labour-intensive industrial production needs also to be closely studied, and the long-term advantages inherent in autonomous development of the capital goods producing sector must be allowed to overshadow the hitherto strict evaluation of strategic projects like iron and steel, petro-chemical and fertilisers on the basis of Western economic orthodoxy. Few of the big projects envisaged for this plan period or intended for the next are likely to get off the ground if the adherence to rigid monetary considerations continues. On the other hand any major 'liberalization' of the evaluation process will probably scare away Western Private interests that may be involved in joint-ventures and the financial support of Western countries and multilateral institutions like the World Bank. It is to avoid getting into such a strait -jacket that the use of socialist

13. "It is these Eastern Block Projects in oil, steel, machine building, chemical, (heavy electrical equipment) and so on that have proved as invaluable in breaking the foreign hold over key supplies as they have in augmenting Indian production". M. Kidron, *ibid.* Page 319.

countries' industrial expertise becomes compelling.

Most of the important conclusions on the Nigerian oil industry and foreign participation in it have been drawn in the previous chapter. The most outstanding fact to emerge is of course the dramatic way in which oil production for export is being responsible directly and indirectly for changes in the structure of the economy, for increased national wealth, foreign Exchange and Government revenue, for improved potential of the economy and for the accompanying hopes and aspirations of the Nigerian people. My analysis has also shown that there are grounds for asserting that present official policies and thinking on some aspects of the industry are inadequate to exploit fully the present benefits and future potentials emanating from oil production. Thus nowhere is policy 're-think' and 'updating' more essential than in this industry. I say 'updating' because most of the changes that have occurred in the last five years or so have largely been determined by exogenous factors like global demand and supply, and the policies pursued by the more powerful members of O.P.E.C. Nigeria has generally 'reacted' to these factors, being taken along as it were, by currents of change originating from other sources.¹⁴ If the ultimate goal of official policy is the achievement of a package that coupled complete local ownership with effective control and efficient running within the next two decades or so, then it is essential that a properly worked out and integrated oil policy with this objective in mind should by now be coming into operation. This has not been the case and policy suggestions made here are thus related to the practical mechanics of reaching this goal. Before going into these, let us recapitulate about the present situation. We have seen earlier on how Government emphasis has almost exclusively been directed towards increasing its foreign exchange revenue from oil. On the otherhand, some measure of control over the cost of production especially the foreign exchange cost element, has largely been wanting. As we saw also in Chapter 8, it is the relatively mammoth import on the visible and invisible accounts by the industry which has effectively been reducing the income accruing to the Govern-

14. For example see Scott Pearson:-*Petroleum & the Nigerian Economy op.cit.* Pages 24-26 on the operation of the 'most-favoured-nation' clause of (Petroleum) Decree No.1 1967.

gna...

ment and the private indigenous factors (of production), and keeping wide the gap between oil export earnings and foreign exchange availability. Foreign exchange saving is equally as important as foreign exchange earning and it is essential that the Government place equal emphasis not only on reducing the cost of petroleum production, but 'domesticating' it also. It is likely that official efforts will increasingly be required in this direction than in the complementary task of seeking revenue expansion. The latter is being taken care of, favourably, by external factors. Swelling oil income must not blind us to the need to retain as much as possible of it within the Nigerian economy. Furthermore the domestication of cost, through local purchases, subcontracting of activities, use of labour-intensive method, 'Nigerianization' of high-income technical and management personnel, is a process that is bound to accelerate backward linkage and general spread effect, and increase the direct benefits accruing to the local people.

Another area where the current level of benefits can be increased and operational expertise acquired, is in the field of domestic transportation and distribution of petroleum products which are still in the hands of the integrated foreign oil companies. In a wider sense, if the goal suggested above is to be reached smoothly and in the shortest possible time, it is essential that domestication of those sectors where the technical and commercial skill requirements are least sophisticated and can, therefore, be acquired quickly, should proceed as soon as 'practicable'. Practicability here being based largely on long-term as opposed to short-term economic and financial considerations. The reader will also recall from the last Chapter that my estimation of the extent of benefits accruing to Nigeria (and Nigerians) from oil production was always hinged on how far and how quickly she is able to dispense with foreign ownership, control and management of the industry. Maximization of these potential benefits, therefore, calls for a policy of buying into the industry, and through the vehicle of a national oil corporation acquire albeit gradually the technical, managerial and commercial expertise necessary to run it. A policy of domesticating the industry is certainly not being helped by the present large number of foreign

companies operating in it. To ease the process of transfer and the rapid implementation of Government policies, it is desirable that the number of foreign companies should be reduced to one or two larger consortia.

The circumstances making the above suggested policy changes necessary, that is, the demonstrated flaws in the Nigerian usage of foreign resources collectively reflect in a local context the global nature of the imperfections surrounding the various factors involved in the movement and transfer of development capital. The analysis in the proceeding chapters indicate that given a reasonable freedom of action, economic forces will ensure that international capital flow in one form or the other is a phenomenon that is here to stay - not withstanding my earlier recommendations relating to official transfers. In that case, the test of its continuing success or otherwise (from the viewpoints of both creditor and recipient countries) will largely centre on how far its determining factors such as the desired level of profitability and the political commitment to overseas development (of L.D.C.'s) are able to adjust and adopt to, or withstand the changing conditions.

TABLE 59

NIGERIA:- CAPITAL INFLOW IN RELATION TO IMPORTS AND NATIONAL SAVINGS 1960-68

	1960	1961	1962	1963	1964	1965	1966	1967	1968
1. 'Foreign Aid' (net) ^a	£14.2m	11.9	10.9	5.8	19.2	33.8	33.2	40.5	36.4
2. Private long-term Investment (net) ^b	£19.0m	27.3	17.7	37.9	63.0	55.2	49.4	47.6	36.7
3. Total long-term capital inflow (net) (1) and (2)	£33.2m	39.2	28.6	43.7	82.2	89.0	82.6	88.1	73.1
4. Imports of goods and services.	£249.7m	251.5	241.0	261.3	353.2	384.5	404.0	354.7	337.2
5. Gross National Savings.	£55.3m	86.9	106.6	105.5	94.1	143.8	167.6	132.0	127.8
6. (3) as % of (4)	13.3%	15.6%	11.8%	16.7%	23.3%	23.1%	20.4%	24.8%	21.7%
7. (3) as % of (5)	60.0%	45.1%	26.8%	41.4%	87.4%	61.9%	49.3%	66.7%	57.2%

(a) Net official and multilateral Agencies' disbursements.

(b) Excludes short-term private supplier (export) credits and contractor finance.

(Source:- Row (1) Table 29.

" (2) Table 44.

" (4) Central Bank of Nigeria. E.F.R. June 1970. Balance of payments 1960-69, Table 18)

" (5) Scott Pearson:- Petroleum and the Nigerian Economy. op.cit. Appendix A Table A1, Pages 191-192.)

TABLE 60A

BRITISH LONG-TERM OVERSEAS INVESTMENT 1855-1935 £M. (NOMINAL VALUES) VARIOUS ESTIMATES

	1855	1870	1880	1885	1900	1905	1909	1911	1913	1914	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
A	472			1602	2485				4004				3737							
B			1300	1302		2025	2332		3763		3896	3990	3377 + (500)	3438 + (300)	3424 + (300)	3410 + (290)	3355 + (285)	3385 + (280)	3414 + (300)	
C		785	1085	1285				3500												
D (i) 205		513		618	1068					1766			719							
(ii) Small				390	986					1376			226							

SOURCES

- (A) Given by S.H. Frankel:- Capital Investment in Africa op.cit. Table 1, Page 18.
- (B) Given by Royal Institute of International Affairs. A Report by a Study Group of Members entitled:- The problems of international Investment. op.cit. (1965 edition) Pages 115 and 148. Data constructed from various estimates. For explanation of the 'non-listed' extra in bracket above see footnote Page 148.
- (C) G. Paish quoted in A. Cairncross: Home and Foreign Investment 1870-1913 op.cit. Page 185. For qualifications to these figures see Pages 184-186. "I suspect .. that either Britain had a larger total of Foreign investment than £800M in 1871 or a smaller total than £3500M in 1911" (Cairncross. loc.cit.)
- (D)(i) Comparable estimates given by Frankel (A) above for France.
- (ii) Comparable estimates given by Frankel (A) above for Germany.

TABLE 60B
THE UNITED KINGDOM : OVERSEAS PRIVATE INVESTMENT (NET) 1960-68. (SM)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969(p)
<u>By U.K. Abroad</u>										
1. Direct, total (a) of which										
(i) Unremitted Profits	250	226	209	236	263	308	276	281	372	531
(ii) Other Investment	85	74	95	118	147	167	183	170	285	323
	165	152	114	118	116	142	93	91	87	208
2. Portfolio				5		-95	30	30	163	
3. Other (Oil Industry & Miscellaneous)				79	113	140	110	124	86	
4. TOTAL				320	396	353	303	435	621	
<u>In U.K.</u>										
5. Direct total (b) of which										
(i) Unremitted profits	135	236	130	160	162	197	195	170	250	
(ii) Other Investments	67	37	58	90	80	118	93	97	164	
	68	199	72	70	82	79	102	73	86	
6. Portfolio			19	139	-46	-49	9	85		
7. Other (Oil Industry & Miscellaneous)			98	19	85	135	197	224		
8. TOTAL			277	142	236	282	376	559		
10. NET Private Investment (4 + 8)			-43	-254	-117	-21	-59	-62		
11. Earnings on direct Invest abroad (a).	258	249	274	330	370	400	429	438	575	
12. Earnings on direct Investment from abroad (b)	137	128	134	168	203	235	204	216	303	
(a) Excluding oil companies and before 1963, insurance.			(Source (1)							
(b) Excluding oil companies and insurance.										
(p) Provisional										
1 (ii) Inter-Group credits and new capital.										

Board of Trade Journal No. 3764, 9 May 1969, Article entitled 'Overseas Investment 1967'. Tables 1 & 2.
(2) Central Statistical Office - U.K. Balance of Payments 1970.

TABLE 60C
The 'true' effect* on U.K.'s Balance of Payments of Foreign Private Investment in U.K. and by U.K. Abroad
1960-68 (£M)

	1960	1961	1962	1963	1964	1965	1966	1967	1968
1. Remitted Investment Income.									
(a) into U.K.	+184	+154	+156	+183	+203	+217	+259	+153	+252
(b) out of U.K.	-100	-70	-44	-88	-85	-142	-107	-52	-152**
2. Current Accounts Effect.	+84	+84	+112	+95	+118	+75	+152	+101	+100
3. Net flow of 'fresh' capital.									
(a) into U.K.	+68	+199	+72	+70	+82	+79	+102	+73	+86
(b) out of U.K.	-165	-152	-114	-118	-116	-142	-93	-91	-87
4. Capital Accounts Effect	-97	+47	-42	-48	-34	-63	+9	-18	-1
5. Overall effect on Balance of Payments									
Surplus+; Deficit -	-13	+131	+70	+47	+84	+12	+161	+88	+79

* By isolating the influence of unremitted profits which are reinvested (in the following year), we can estimate the 'real' amount of capital moved in and out of the country in the relevant year. These estimates give a true picture of the effects of direct investment on the balance of payments in contrast to the 'nominal' net value given by Board of Trade. See Table 60B. The figures are calculated from the data provided in the same table. Date exclude oil industry, and insurance as well, for inward investment.

1. Derived by subtracting subsequent year unremitted profit component of total investment from current total earnings.

3. That is, 'other investment' in Table 60B above. This is the difference between total investment and unremitted profit component. The assumption being that this component is an addition to operating assets provided by parent company to the subsidiary either in form of inter-group credits or by raising loans or issuing capital in Britain for outward investment, and abroad for inward investment. Note the continuing section in outgoing fresh capital since 1966 (3(a)). This is a reflection of the measures taken to restrain the outflow of funds for investment purposes during the Balance of Payment crisis. The stagnation in inward flow (3(b)) reflects similar action taken by the United States authority.

** Estimate.

(Source: Derived from Source 1 Table 60B).

APPENDICES

APPENDIX ICONCEPT CLARIFICATION (1) ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT

Economists are becoming increasingly aware of the need to make a distinction between economic growth and economic development. The need arises out of the realisation of the inadequacies of information conveyed by the GNP per capita criterion. In the industrial developed countries, the increasing emphasis on the quality of economic achievements, the social welfare content of material benefits of capitalism, is threatening the 'dethronement' of economic growth as chief objective of economic policy. In the developing countries, where the chief preoccupation still centers on the building up of the desired economic base - hence priority on growth of economic resources - an emerging concern is that the process of growth through industrialisation and urbanisation is increasingly becoming biased in favour of the urban elite - the so called 'labour aristocracy' - at the expense of the silent and politically less powerful farmers and peasantry.² We already know that disparity in the distribution of income is greater in the developing countries than in most of the developed and that the process of structural change in the developing economies is accompanied by the secular deterioration in the internal terms of trade of the traditional sector in relation to the 'modern' sector. In both developed and developing countries therefore, it seems essential that we must know more about the nature and character of the changes taking place than that ordinarily conveyed by the national income aggregates.

Briefly, let me state what I understand as economic growth and economic development. Economic growth is a secular improvement in material well-being of the population of a given country. The level of (and changes in) GDE and GNP per capita has traditionally been recognised as the index of economic growth. Growth is objectively quantifiable in the same way as we

1. For a full definition, see G. Arrighi and J. Saul:- "Socialism and Economic Development in Tropical Africa", J.M.A.S. 6,2, (1968) op.cit. Section 1.

can make macro-assessment of capital stock, natural resources, labour (and its productivity), technical progress and the population level. These are not only the determining parameters, but the changes in them represent the symbols of economic growth just as much as increased consumption or national production. The concept of economic development, on the other hand, is much more elusive. It tries to bring together in a comprehensive form all the changes that effect - and are potentially placed to effect - an economy's improvement, be it production, socio-political organisation, cultural pattern, social values and natural aspiration. Thus factors within the orbit of the concept of economic development are subjectively determined by one's concept of the scope of the science of economics. To widen the scope of the concept in this way is to reflect at the essential cohesiveness of social science disciplines. Perhaps even more important, is this contention : in developing areas of the world for example in continental Africa, it is becoming increasingly realised that our search for an understanding of the working of the economic system and its potentials for social and economic advancement, must not be limited to explanation concerning such macro factors as capital, savings, population and natural resources, but must also encompass a thorough grasp of institutional and environmental factors. It is only in this way can one explain the apparent inconsistency between unlimited supply of unskilled labour to the modern sector and the constantly rising wage rates, or the observable dampening effect of the 'extended family system' on the greater inequality of income and wealth distribution. Those who appreciate the importance of socio-cultural factors have not been slow in contrasting - albeit subjectively - the development impeding values and structures existing in developing countries with some socio-cultural parameters like puritanic thriftiness, indigenous versatility, political stability and social dynamism which have facilitated the development of most of the economically-matured countries. Economic development is not

2. C/F. Dudley Seers view in his review of 'Prebisch Report on Latin America' see Bulletin of Institute of Development Studies. University of Sussex, Vol. 3, No.2, Jan. 1971. op.cit.

simply an increase in the availability of goods and services (i.e. economic growth), it also implies important structural changes in the pattern of demand and production (structural transformation) and also with changes in such factors as wealth and income distribution, and socio-institutional organisation (i.e. institutional transformation). Thus economic and social development is more than mere economic growth. The latter is a necessary though not sufficient condition for the former. Developing countries can achieve enormous growth in national production without experiencing recognisable economic development. It is also true that appreciable qualitative improvement in some economic factors, for example, improved government planning, expansion and rationalisation of institutional machinery for mobilising national savings, may not be reflected in the national income accounts, at least in the short-term.³ Although national product and such aggregates as savings, investment, export earnings and consumption should move upward, modernization and development consist of more than maximizing them. It is not just enough to argue that such maximizations are necessary for the achievement of better income distribution, an expanded social services system, a narrowed urban-rural gulf and an efficient political and administrative machinery; it is my contention that the expansion of the 'national cake' must be directed towards those latter objectives. Such direction must be seen as a major distinguishing feature between growth and socio-economic development. An inconsistency between growth requirements and welfare objectives is apparent rather than real. The latter objective might involve a slower growth rate. Such a rate, however, is to be preferred to a higher one with greater inequalities. A reconciliation of the seemingly mutually-exclusive demands of growth and welfare is not only possible, but is an essential ingredient of a sound development policy.

3. C/F. Edith Penrose's view of the obligation on foreign investment on this point: "Economic development of a country", she says, "requires that its people should obtain not only training but also experience, with the corollary that local management should be given authority in spite of inefficiency that may result in the short-run". See her book: *The Large International Firm in Developing Countries: The International Petroleum Industry*. op.cit. Page 268.

Social and economic development cannot be defined in terms of a stage reached when national income attains some specific level, or after some growth-limiting obstacles have been overcome or their influence reduced. It is a continuous process, dynamic and pervasive, destroying obsolete traditions that stand in the way of progress and constructing new ones in their place. According to R.E. Asher, "the essence of development is the inculcation of new attitudes and ideas, of state of mind eager for progress, hospitable to change, capable of applying scientific approaches to an ever wider range of problems. The rapidity with which the process unfolds depends far more on the will and capacity of the people of developing countries and the calibre of the economic, social and political institutions, they build than it does on natural resources or imported equipments and supplies. Popular participation in development programmes appears to be essential to facilitate the learning process, to prevent unbridgeable urban-rural gaps ..."⁴

It is my view that the objective of national development must not be stated solely or even primarily in terms of an increase in per capita income (that is, economic growth) but in terms of the promotion of a broadly based social and economic development. National efforts with the help of foreign assistance (where appropriate) must be directed towards that end. For there are numerous examples of satisfactory rates of growth of per capita without what I have defined as economic and social development. In their study of the Liberian economy, Messrs. Clower, Dalton and others find that an annual rate of growth in GNP which was in excess of 10% over the period 1950-60, had been accompanied by little social and economic development.⁵ They contend that "enormous growth in primary production (commodities produced by foreign concessionaries for export) has been unaccompanied either

4. R.E. Asher:- Development Assistance in the 70's : Alternatives for the United States. op.cit. Page 40.

5. R.W. Clower and others:- Growth Without Development: An Economic Survey of Liberia. op.cit.

by structural changes to induce complementary growth or by institutional changes to diffuse gains in real income among all sectors of the population. ... rapid growth in production has had little development impact on Liberia or Liberians."⁶ In their view, Liberia is a prime example of both an 'enclave' and a dual economy. Few advances have been made in transforming the subsistence sector, while the sophistication and economic environment of the massive iron ore extractive industry and rubber plantations rival those of similar establishments in the rich industrial and developed countries. The economic backwardness of Liberia is attributed neither to lack of resources, nor to the domination of foreign financial and political interests. "Rather, the underlying difficulties is that the traditional leaders of Liberia have not permitted those changes necessary to develop the society and its economy."⁷ According to them, the most pressing need is not for more prestige projects, but for "improved institutional practices and organizational arrangements to enhance social participation in economic development ... Liberia is growing, but not developing, ... with a small but privileged group deriving substantial economic benefits from continued expansion along the present line."⁸

Other economists and social scientists have expressed similar doubt as to whether the present method of economic expansion in Ivory Coast would enhance the long-term social and economic development of that country.⁹

A major limitation to the operational use of the concept of social and economic development in the ways described above, centers on the problem of evaluating a development process over time. Such a problem occurs to a lesser extent with economic growth, though the difficulties with national income accounting particularly of the developing economies must be borne in

6. ibid. Preface IV.

7. loc.cit.

8. ibid Page 67.

9. See Arrighi and Saul:- 'Socialism and Economic Development in Tropical Africa. op.cit. Page 151.

mind. These are well discussed in the literature. On the other hand, since a social scientist's definition of the development process must embrace his normative judgement and ethical considerations, his conclusion as to whether a country is developing, is not developing, or is developing slowly, or rapidly, must reflect his chosen performance criteria.¹⁰ Such measurement becomes qualitative and subjective and need not be universally approved as correct or realistic. However, I believe that such limitation ought not deflect us from a meaningful, if not mathematically precise, evaluation of the development process. In reality, there is wide area of agreement among those involved, of what the development process entails and what to look for in any meaningful assessment. It is generally accepted, for example, that the single index of the growth rate of the developing country's GNP is not a direct indicator of her efforts made towards self-sustaining development; just as much as social returns on certain investments are considered more meaningful in the context of long-term development than quantifiable direct or monetary returns. To evaluate the development process, we must look beyond the growth rate at the economic restructuring and the institutional transformation taking place. For countries yet to 'take-off' - in the Rostowian sense - the latter objectives are, in my opinion of the highest priority and foreign assistance must be conditioned towards that end.

Some of the suggested 'development performance indicators' include changes taking place (or otherwise) in GNP at constant prices; agricultural production; share of domestically generated investment in GNP; government fiscal revenue and expenditure as proportions of GNP; foreign trade sector; electricity production; steel and fuel consumption; the linkage between urban and rural sectors, especially between the modern industrial sector and the rest of the economy (the spread effect); number of hospitals and health centres per given population; literacy and skill acquisition, unemployment and underemployment; family planning efforts (where appropriate),

10. Clower and his associates work on Liberia must be seen in this light.

and government administrative machinery especially with reference to development planning and execution.

A word of caution is perhaps essential at this stage. The phrases 'economic growth' and 'economic and social development' appear through out the length and breadth of the thesis. It is for a clearer understanding of their meanings and the differences between them that I have undertaken this clarification. However, wherever the distinction between them is not vitally essential to an understanding of a particular sentence or paragraph, they have been used synonymously.

APPENDIX IICONCEPT CLARIFICATION (ii). STRUCTURAL TRANSFORMATION

Structural transformation implies adjustments in the structure of domestic production and income use, such that as growth process becomes established, changes occur in the direction of increased savings and investment (as opposed to consumption), import substitution, repatterned exports, and where appropriate of expanding industrialisation - as opposed to continued dependency on traditional agriculture. By its very nature, restructuring is a long and arduous process, often influenced by factors external to the economy. For developing countries as a whole, changes in their structures cannot be considered in isolation. They are intertwined with the structure of developed and industrial economies and of world trade. Success in structural transformation of the L.D.C.s is contingent on restructuring in the latter countries away from heavily protected and subsidized primary production and less technologically-intensive manufacturing and processing. It has been suggested that such action on the part of the developed donor countries - assuming concomitant changes in pattern of world trade - will enhance the long-term social and economic development of the L.D.C.s than the current 'hand-out' of development and non-development finance.¹ I have examined this line of argument in detail in the text.

Achievement of an ideal structure needs not necessarily be associated with a state of full economic and social development. However, structural transformation is necessary for maximizing accelerated self-sustained development.

1. Joan Robinson:- The New Mercantilism : An Inaugural Lecture. op.cit.

APPENDIX III
THE RELATIONSHIP BETWEEN AID & GROWTH

In the section dealing with aid allocation, I have presented alternative criteria - such as 'performance'; 'need'; 'equity'; and 'self-help', for the distribution of foreign assistance between developing countries. Socio-economic 'achievement' defined narrowly either in terms of some 'commendable' growth rate or in terms of higher savings rates has special appeal to the donors, if only because it creates some confidence in them that their support is being 'productive' or that it would not be indefinite in the particular country. At this juncture I want to examine the general relationship between foreign aid and economic growth in the developing countries. I shall not be concerned here with the detailed analysis of the contribution of external capital to development in individual countries.

The first point that must be stressed is that while it is possible conceptually to relate growth to foreign aid by isolating the effects of other crucial variables, it is almost impossible to demonstrate conclusively that countries getting the most aid have grown faster or that the growth performance of a country has fluctuated with changes in the volume of its aid inflow. Yet this is not to deny that foreign resources have, and will continue to make import contribution to economic growth of developing countries. On the simple basis of the Harrod-Domar model, that foreign resources, by adding to available investible surplus, or by easing inevitable bottlenecks during the process of restructuring the economy, should make positive contribution to the growth level, is to be expected.

In a qualitative sense, foreign aid in form of technical assistance contribute to improvements in the quality of human resources and increasing the absorptive capacity, though in the final analysis, its contribution will be difficult to isolate in the aggregate output accounts. There are good grounds for thinking that the contributions of external resources to growth are positive, even if not statistically measurable. External resource as a

whole have financed some 15% of the investment of L.D.C.s, official support probably accounts for about 10%. For several countries, such as Jordan, South Korea, Pakistan and India, foreign aid accounts for 20-50% of their total investment in recent years. Other less viable economies depend even more than that level to keep their heads above water. In terms of global average, some 20% of imports of L.D.C.s is being aid-financed and in many cases the percentage has been even higher. (Pakistan 30%, India 35%, Indonesia 30%, in 1967). Except for oil exporting countries, nearly all fast growers among the L.D.C.s have substantial inflows of foreign resources. On the other hand, large capital inflows have not always stimulated economic growth, or made discernable impression on the development process in others. Historically, some countries have developed without significant capital imports - even if we exclude the oil producing ones. In some cases the achievement of sustained growth preceded subsequent substantial capital inflow. Thus, it could be proposed that depending on individual characteristics and stage of development, external capital or aid may neither be a necessary nor a sufficient condition for development. There are enough reasons to show that any correlation between the amount of aid received in the past and the growth performance would be very weak, if not inconclusive. The factors making for economic growth are so numerous and complex that it is impossible by a single regression to prove that aid did or did not make a difference. Too many of the other variables are unquantifiable or not yet accurately measurable to permit holding them constant for an attempt to find whether growth with or without aid would have been more, or less, and by how much. Besides some of the other variables such as the level of domestic savings and foreign exchange earnings have greater impact on total growth rates than foreign aid. In spite of these limitations, attempts however, have been made to regress aid with growth. An example is the empirical study of K.B. Griffin and J.L. Enos.¹ Using the United Nations (U.N.)

1. K.B. Griffin and J.L. Enos:-'Foreign Assistance : Objectives and Consequences' in Economic Development & Cultural Change, Vol.18 No.3 (April) 1970.

data for 15 African and Asian countries for the period 1962-64, they establish a regression equation:

$$\dot{Y} = 4.8 + 0.18 \frac{A}{Y}$$

(0.26)

$$R^2 = 0.33$$

Where \dot{Y} = Average rate of growth of GNP in 1962-64.

$\frac{A}{Y}$ = Ratio of foreign aid to GNP in 1962-64.

What is does show is a weak correlation between the amount of aid received during the period and the rate of growth of their collective GNP. The coefficient too is indeterminate - because of the high standard error. If aid and growth rates move in the same direction on the basis of an inter-country cross-section analysis, it might well be a coincidence since the causal link is not established by such a simple regression analysis. Furthermore, they claim that 'the evidence from Latin America is even stronger. Taking the average rate of growth of GNP over the years 1957-64, for 12 countries for which figures are available, we find that it is inversely related to the ratio of foreign aid to GNP.'² The same criticism may apply to this latter finding. Chronic inflation and the deflationary policies pursued to combat it may explain the falling growth rate in the face of an increasing volume of aid. Furthermore, one would expect concessionary aid volume at a certain stage of development - for example, when a country has already 'taken off' or has achieved a reasonable level of per capita income and savings - to move inversely with growth. In such instances however, one would expect higher growth to be associated with gradual decline in concessionary aid as a proportion of output. The insignificant correlation between aid and growth is also explained by the following reasons. Aid is only one component in the flow of external resources. Many developing countries, especially the relatively advanced, also received large amounts of private capital inflow. For the purpose of inter-country comparison of the behaviour of growth rates and aid level, we must make allowance for the fact that 'aid'

2. ibid. Page 317-318.

is not a homogeneous commodity. Terms differ and some forms represent a higher aid element than others. The value of technical assistance may not be amenable to proper assessment. Secondly, growth is considerably affected by the amount of foreign exchange needed for debt-servicing, by the growth of exports and imports, and by general domestic policies which greatly influence the rate and composition of investment. Thirdly, many aid-financed physical investments including economic infrastructures have long gestation period before their impacts on output are felt. Fourthly, social overheads like education and health improvements can account for a not-inconsiderate share of aid disbursement. Their effects are qualitative and long-term. Fifth, much aid is given in ways which does not make it as efficient a contribution to growth and development as it should be. The allocation on political, strategic and historical criteria are typical examples. There is no reason why the recipient should make productive use of it, since it was not directly disbursed with regards to general economic performance. Aid is also being used for the promotion and financing of exports from the developed countries with little relevance to development objectives in the receiving countries. Finally, since in most developing countries, a shortage of foreign exchange is often the critical constraint to more rapid growth, a measure of aid as a percentage of imports may reflect more accurately for each country the importance of aid to growth. However, inter-country analysis tend to confirm our general proposition : "A significant association between economic growth and aid (or the grant-equivalent) as a percentage of imports of goods and services is not discernable."³ The above reasons make a link between aid and growth statistically difficult to establish. They do not in any way imply that aid is unimportant, or suggest that its absence or reduction would make no difference. In fact the impact of foreign assistance becomes clearer in the context of individual country or sector analysis.

Let us finish this analysis by approaching the question of establish-

3. DAC/OECD: Development Assistance 1969 Review. op.cit. Page 183.

ing a relationship between aid and growth from the other angle. That is, not by trying to correlate aid with growth, but by establishing a rationale for growth and development through the influences of other factors. There is no doubt that much more social and economic growth and development has taken place than has generally been realised in the 'advanced' countries. The 'official' 5% growth rate of GDP in the last decade does not perhaps reflect fully the extent of qualitative strides that have been made by indigenous efforts. Even then, there are a priori grounds for expecting quantitative 'achievements' to occur, notwithstanding the position of external official assistance. One would expect development to occur once laissez-faire is thrown overboard and the state embark on a vigorous policy of development planning. Targets are set, 'invocations to effort' are made, the carrots of exemplary success of the developed countries are dangled, and an air of determination and optimism to 'catch up' prevail. These are the ingredients of progress, but as Professor P.T. Bauer would remind us, excessive bureaucracy, official command and control may hinder such determinants of material progress as personal and cultural factors and institutions, and freedom of action and economic pursuit.⁴ Again, the infrastructure investments are finally beginning to bear fruits and make greater impact on the development process. Various past errors in approach to development are in process of being rectified. Experiences are continuously being accumulated. The beneficial effects of the maintenance of high activity and growth in the industrial centres spill over to the periphery, and the "progressive liberalization of international trade by the developed countries is providing an unprecedented opportunity for growth by osmosis."⁵ If these are reasonable conditions in which to expect growth and development in the L.D.C.s, the real questions to ask then, are these: What has been the residual influence of foreign aid? Has it promoted growth by reinforcing the above factors or retarded it? If it has promoted growth, how significantly? These are questions

4. See P.T. Bauer:- 'Dissent on Development' Scottish Journal of Political Economy. Vol. XVI. No.1 Feb. 1968. op.cit.

5. Harry G. Johnson:- The 'Crisis of Aid' and the Pearson Report. op.cit.

that are conceptually desirable to answer but difficult to distangle in practice. In relation to growth and development, it is worth noting that foreign aid has been criticised from both 'right' and 'left'. From the 'right', economists like P.T. Bauer and Milton Friedman consider it as unnecessary and ineffective as an instrument of development. It is counter-productive if and when it promoted the concentration of economic power in the hands of the state vis-a-vis private enterprise, and if it debilitates the needs for self-help actions. The overall repercussions of aid on economic capacities, policies and institutions are often damaging and tend to outweigh any favourable result of resources inflow. "Since the war, it has probably more often retarded, rather than promote economic advance in the recipient countries."⁶

Many critics 'on the left' believe, for different reasons that aid has encouraged national governments in the developing countries to pursue counter-developmental policies. It permitted them to preserve archaic social, administrative and political structures, and so has retarded rather than promoted the modernisation process. These and other critical issues are discussed in depth in the Chapter 3 and Appendix V.

6. P.T. Bauer:- 'Dissent on Development' op.cit. Page 89.

APPENDIX IV

THE RELATIONSHIP BETWEEN CAPITAL INFLOW AND DOMESTIC SAVINGS

An important weapon in aid critics' armoury is the rather unsatisfactory state between external capital inflow and domestic savings rate behaviour. We have seen that an important function of external resources is to supplement domestic savings so that a target growth rate of output could be achieved which would otherwise be impossible. The fear exists among some development economists that, rather than increase investible resources, external capital inflow - public as well as private - only allows some of the less successful developing countries to divert some resources which they would have otherwise saved to meet a critical minimum level, into household consumption and public extravagancy. This will be contrary to the spirit of self-help thesis. How far is such a fear justifiable? I have elsewhere drawn attention to Chenery and Strout's findings - confirming a United Nations' earlier one - that no significant positive correlation exists between per capita income and marginal saving rates in developing countries, and also to Fei and Paauw's empirical evidence that only a minority of developing countries achieve marginal savings rates substantially above their average rates.¹ Griffin and Enos also provide some statistical evidence to the effect that this fear is justified.² They quote Chenery as saying of Latin America: "Aid has been a substitute for saving, not an addition to investment. The savings rate has decreased and there has been no increase in the overall growth rate of GNP ..."³ They support Chenery's observation with a cross-section regression analysis involving thirty-two improvident countries in the two year period 1962-64.

1. See below Appendix V. C/F. Kuznets' empirical findings which indicate a tendency for high-income developed countries to have higher savings ratio. Simon Kuznets:- "Quantitative Aspects of the Economic Growth of Nations, No. V : Capital Formation Proportions : International Comparisons for Recent Years". Economic Development and Cultural Change Vol. 6, Part II, July 1960.
2. K.B. Griffin and J.L. Enos:- 'Foreign Assistance Objectives and Consequences' Economic Development and Cultural Change, Vol. 18, No.3, April 1970, op.cit.
3. ibid. Page 321.

The equation:

$$S_d/Y = 11.2 - 0.73 S_f/Y$$

(0.11)

$$R^2 = 0.54$$

Where S_d/Y = Gross domestic savings
as % of GNP.

S_f/Y = Foreign savings (capital
import) as % of GNP.

The regression is noticably below the 95% significance level, though it reveals an inverse relationship between domestic savings and foreign savings (as percentages of GNP). "The regression results suggest that in general, an extra dollar of aid is associated with a rise in consumption of above 75 cents and a rise in investment of only about 25 cents."⁴ A DAC/OECD recent study seems to have established similar results. "It was found that there exists no significant correlation except a fairly strong negative one between aid (and capital inflow) as a share of GNP, and the savings rate."⁵ One must be careful not to read too much into such findings. In Griffin and Enos's regression the association is not substantially strong. The single linear regression is perhaps too simple to convey the complexities of factors affecting domestic savings. For example, one would expect that personal (household) savings are less important in overall net domestic savings in low per capita income countries as compared with high per capita income countries. Hence governmental thriftness (or temporary deficit financing) is of major importance. The existance of a correlation link does not permit conclusions with respect to underlying causality. It cannot show that foreign generosity causes domestic indulgence, and as I have said before, the behaviour of savings in developing countries has been far too erratic to provide an irrefutable basis for Griffin and Enos's contention. While it is true that foreign capital may have freed a portion of domestic savings for consumption, it is equally, or even more plausible that it may have compensated for deficiencies in the saving capacity of many

4. Ibid Page 321.

5. DAC/OECD:- Development Assistance, 1969 Review, op.cit. Page 186.

developing countries. In majority of them, one would expect inflows of external resources, through their effect on domestic output to be associated with increased savings rate. In the long-run, as the economy matures, one would expect the mobilization of aggregate savings that is adequate enough to finance required level of investment. As such a stage, the relationship between aid and domestic savings would be an inverse one. But it is the former variable which would be in decline. The danger of an adverse association before this stage is reached, is real and must clearly be a warning to all decision-makers.

APPENDIX VMEASUREMENT OF EXTERNAL RESOURCE NEED OF DEVELOPING COUNTRIES
THE THEORETICAL FRAMEWORK

I have already in some details discussed the practical factors underlying the supply of external resources to the developing countries. I now turn my attention to the demand side of the equation. In a sense, this analysis centres essentially on the so-called 'foreign aid' aspects of resource flow since the free market mechanism of private capital movement ensures an equilibrium between the effective demand for foreign private direct investment and its supply. The exception being where the government of a capital exporting country, for foreign exchange and other reasons put temporary obstacles to such free movement. The first point that must be stressed about measuring the development assistance need is that such measurement or analysis is invariably shrouded in value judgement about the 'desirable' growth target, about the 'realism' of development Plan or about the 'effectiveness' of self-help or resource mobilisation policy pursued by the authorities in developing country. Such a snag notwithstanding, some development economists have found it necessary to make theoretical, as well as statistical analyses of the ways and means in which the requirements of developing countries are manifested. Underdeveloped economies are believed to be facing, broadly speaking, three major constraints in their attempt to break out of the strait - jacket of poverty, hence foreign assistance must be directed to alleviate in the short-run and remove eventually these limitations to accelerated economic growth. Most economists agree that developing countries can and are indeed faced with (a) saving - limited growth, (b) Foreign exchange - limited growth and (c) limited capital absorptive capacity of which skill and organisational deficiencies are prime examples. A particular developing country invariably faces one, two or a combination of the three constraints, depending on its level of development. Indeed, there are studies which assert that a development process necessarily involve

in Rostowian spirit, the overcoming of operative constraint, in a given sequential fashion through which every developing economy must pass. This is not to deny that more than one constraint can operate at any particular phase, rather a demarcation of phases enables the most important operative constraint to be identified and therefore, acted upon at a particular time. Varying conception about the ideal growth process has led different economists to lay different emphasis on the importance of the three constraints. Some, as will be shown below have even rejected such analytical framework as a tool for understanding the structural and institutional re-adjustments necessary in the struggle to achieve social and economic development. Theories about foreign aid requirements thus become essentially linked with an economist's or development institution's (e.g. World Bank) growth model or strategy. Indeed, there exists growth theories that give primary emphasis to external factors, and in fact make foreign trade and capital imports the principal determinants (or constraints) in the development process.

Though Prebisch, Myrdal, Singer and Myint¹ were primarily writing about the private sector, their emphasis on capacity to import (or foreign exchange availability) and the inflexible structural organisation of underdeveloped economies, raises questions relating to trade and aid policies. I am not concerned here with a survey of development theories and strategies relating to L.D.C.s rather my interest is narrowed to the specific question of estimating their external resources requirements.²

1. See R. Prebisch:- "Commercial Policies in the underdeveloped countries." A.E.R. Proceedings Papers. No.49, May, 1959.

H.W. Singer:- "The Distribution of gains between Investing and Borrowing Countries." A.E.R. No. 40, May, 1950.

Gunnar Myrdal:- An International Economy. New York, 1956.

H. Myint:- "The Gains from International Trade and Backward Countries." R.E.S. Vol.22, 1954-55.

2. For an excellent review and comparison of these theories and strategies see R.F. Mikesell - The Economics of Foreign Aid op.cit. Chapter 2.

However, as will be shown presently, criticisms of 'gap' and foreign needs approach to the question of foreign resources transfer are not limited to the flaws in the statistical concepts, methodology and assumptions of the accompanying models but also relate to the underlying development theories. For example, the role of capital whether domestic or imported in the growth process is central to the saving and trade gap approaches. I need not remind my readers that there exists an influential school of development economists who are especially critical of the idea that capital formation plays a strategic and causal role in the development process.³

In spite of such differences, few economists deny the benefits which effective use of foreign capital and technical aid can render. Indeed, "the possibility of securing rapid and sustained development has been strikingly demonstrated in the past decade by such 'success stories' as Greece, Israel, Taiwan and the Philippines, ... not only was growth accelerated by foreign assistance, but the ability of each economy to sustain further development from its own resources was very substantially increased"⁴ It follows therefore, that the question to ask is not about resource movement per se, but of how much? What type? Under what terms? for what roles? for how long? and at what economic and non-economic costs?

Nearly all attempt to estimate the external need of developing countries have approached the problem through a recognised need of filling gaps in saving, investment and foreign exchange shortages and/or increase absorptive potentials. Hence the three basic approaches - (1) the saving-investment gap (2) the foreign exchange earnings-expenditure gap and (3) the limited absorptive capacity - form the starting points for theoretical and statistical exposition of the need for donor countries to tailor their assistance to the requirements of L.D.C.s. Ambitious and comprehensive attempts have been made through the construction of sophisticated econometric gap models

3. For example see, A.K. Cairncross:- 'Capital Formation in the Take-Off'. Article in W.W. Rostow (ed.) 'The Economies of Take-off into sustained Growth'. New York. 1963.

P. Streeten:- 'International capital Movement'. Institute of Development Studies (University of Sussex) Mimeo Series No.12.

to validate empirically the performances of some 'successfully' aided countries and to assess the implications for foreign aid of the recent performances or projected performances of the 'yet-to-succeed' countries. The studies of Professor Hollis B. Chenery and his associated in the field are natable pioneering examples.⁵

In 'Foreign Assistance and Economic Growth', Chanery and Strout have proposed among other things, a model that has invariably been branded as a 'two-gap analysis.'⁶ This stems from the central position that aggregative value on savings, investment and trade occupy in their model which is essentially built on Harrod-Domar tenets and assumptions. Of no less importance is the skill and organisation constraint; this provides the bottleneck and limitation to achieving maximum investment compatible with target growth rate during phase one of their proposed development process towards self-sustaining growth. Their recognition of limited capital absorptive capacity, albeit in a different way, make their gap model a three-pronged analysis rather a two-gap one. However, by banishing absorptive capacity into the

3. Cont'd

Perhaps with more relevancy to developing countries in Africa and Asia, see S.F. Frankel 'Capital and Capital Supply in Relation to the Development of Africa.' in E.A.G. Robinson (ed.) Economic Development for Africa South of the Sahara. London, 1967; and G. Myrdal:- Asian Drama. An enquiry into the poverty of nations. London 1968.

4. H. Chenery and A. Strout:- 'Foreign Assistance and Economic Development' R.E.S. Vol. LVI. Sept. 1966, op.cit. Page 680.
5. ibid; and H.B. Chenery and Irma Adelman:- 'Foreign Aid and Economic Development : The Case of Greece.' Review of Economic and Statistics. Feb. 1966; H.B. Chenery and M. Bruno:- 'Development Alternatives in an Open Economy : The Case of Israel.' E.J. March 1962; H.B. Chenery and A. MacEwan:- 'Optimal Pattern of Growth and Aid : The Case of Pakistan.' Pakistan Development Review. Summer 1966.
6. For example J.K. Lee:- 'Export and the Propensity to Save in L.D.C.s', E.J. June 1971; also H.J. Bruton, 'The Two-Gap Approach to Aid and Development. Comment.' A.E.R. June 1969. However, the latter analysis is a refutation of a distinction between the saving-investment gap and the trade gap.

orbit of investment problems, rather than giving it greater prominence in its own right (perhaps because of statistical difficulty with definition and estimation) Chenery and Strout have given others mistaken impression that socio-cultural and institutional factors are less crucial. Thus on Page 686 of the above article, they see the skill limit as reflecting the "skill formation required of managers, skilled labour and Civil Servants in order to increase productive investment." Their measurement of maximum absorptive capacity is given by the highest rate of increase in investment which a country has been able to achieve over a recent five-year period.⁷ Absorptive capacity is thus seen in terms of limited capital absorptive capacity. I shall come back to this point later on.

GAP CALCULATION. The basic underlying assumption of gap analysis is that the objective of foreign assistance is to help a country achieve self-sustaining growth within a reasonable time period through developing at a higher pace than otherwise permitted by the utilisation of current domestic resources alone. The adoption of a critically minimum desired growth rate is central to the analysis,⁸ otherwise for many a developing country, the problem would not even exist as anything other than stagnation may ultimately be comparable with long-run development. However, this assumption also creates a weakness for the concept of aid estimation, since any country, irrespective of the level or stage of development can always create a resource gap for itself by merely adjusting upward what it considers to be a desirable target.

SAVING - INVESTMENT GAP AND THE FOREIGN EXCHANGE EARNINGS - EXPENDITURE (TRADE) GAP.⁹

In its simplest formulation, the saving-investment gap approach employs a variation of the Harrod-Domar 'savings limitation' model. Besides the

7. C/F. R.F. Mikesell:- The Economics of Foreign Aid. op.cit. Pages 83 & 92.
8. C/F. The United Nations General Assembly Resolution on the need for at least 6% growth rate of GNP for L.D.C.s in the 2nd. Development Decade.
9. For econometric formulation of the functional relationships inherent in the gap model, see Chenery & Strout:- Foreign Assistance and Economic Development, op.cit. and R.F. Mikesell:- The Economics of Foreign Aid. op.cit. Chapter 3.

assumption of a functional relationship between aggregate savings, investment and output on one hand and stable ICOR on the other, it also assumes that the marginal savings ratio is significantly above the average savings ratio. A level of aggregate investment is required in order that the target growth rate of output is achieved over the Plan period. In other words, a specific level of aggregate savings is necessary to accomplish the growth target. A savings gap appears where the domestic saving rate is below the level necessary to permit the investment required to achieve the target. The deficiency in saving can be regarded as foreign aid needed, if we assume private foreign capital transfer as part of 'domestic' savings, or of the total external resources required if we only consider indigenous domestic savings. As development proceed at the target growth rate, foreign capital fills the gap between increment in investment and increment in savings until a high income level is achieved which, thanks to the high marginal savings ratio, can generate adequate domestic savings sufficient to finance the rate of domestic investment high enough to sustain the target growth rate. This is on the assumption that imports and skills do not pose as bottlenecks to investment and capital. In this way the gap can be filled and internal savings alone come to sustain the target growth level.

The foreign exchange earning-expenditure gap approach to capital import requirements focuses on import capacity as the principal constraint on domestic investment and growth of output. A trade gap appears however, if inspite of adequate domestic savings and absorptive capacity, the flow of imports is below the required level as export earnings are inadequate. Here aid breaks the import bottleneck and permit the target to be reached. The need for capital import in this form is enhanced if short-term structural inflexibility and exogenous factors limit the accomplishment of such alternatives as import substitution and increased export opportunities. The relationship between the two gaps is a constant source of contention among development economists and as we shall see, much of the criticism of 'requirement' studies centre on the distinction between the saving and trade gaps.

In terms of aggregate analysis the two approaches give, ex post, identical results. That is, the total net capital inflow : $F = E - Y = I - S = M - X$ Where F is net capital imports, E is aggregate domestic expenditure, Y is national output, I is domestic investment, S is domestic savings, M and X are imports and exports respectively. Thus, net capital imports or foreign aid is equal to both the gap between imports and exports and to that between domestic investment expenditures and domestic savings. However, most gap model estimations of the parameter values are ex ante, and there is no reason why the two ex ante gaps of saving and trade, calculated on different bases should be identical. The justification for the distinction, and concept of two gaps rests on the lack of substitutability of domestic and international resources. In other words, the dichotomy between the two gaps implies a very significant structural rigidity and lack of substitution possibilities in the domestic economy between (a) production for export (or import substitution) and production for domestic usage, and (b) the complementary use of domestically produced capital goods and imported capital goods as well as their intermediate inputs in the aggregate production function. This is a phenomenon inherent in structure and character of developing countries.

The existence of two ex ante gaps implies a possible divergence in their sizes.¹⁰ In his rejoinder to B. Cohen's comment on an earlier article, R.I. McKinnon paraphrased the former as stating that the "difference between the excess of ex ante investment over savings and the excess of ex ante imports over exports is evidence of misallocation of domestic resources."¹¹ The question then arises as to whether the inflow of aid resources to fill the larger of the two gaps does constitute a misallocation of such resources in the sense of 'over-filling' the smaller gap. In Chenery and Strouts

10. For discussion on the possible causes of excess of one gap over the other, and the possible policy alternatives available for removing it, see B. Cohen:-'Foreign Exchange Constraint in Economic Development and Efficient Aid Allocation : A Comment'; and R.I. McKinnon:- '... Rejoinder' in E.J. March 1966 Pages 168-69, 170-71 respectively.

11. ibid Page 170.

analysis, such a possibility is resolved by the insistence on additional resources being channelled to offset the principal constraint at a particular phase of development, when its productive influence over the whole economy is likely to be greater. Ex ante, a foreign exchange gap is consistent with the absence of a saving gap.¹² Similarly a larger savings deficiency is compatible with relatively adequate foreign exchange especially where exporting forms an important part of output disposal and/or where import accounts for a small proportion of aggregate investment. Ex ante, the remedy for the former is a shift of investible resources towards export expansion and for the latter, a spolicy measure to induce domestic austerity. Ex post identity of the size of the two gaps is effected through variations in the types and uses of foreign resources inflow and in the use of the national products.

The two ex ante gaps, though calculated on different basis are not entirely independent of each other. It would be wrong to treat a country's balance of payments problem in isolation from its saving problem. Professor Harry Johnson has argued that the two problems are interrelated because export trade requires not only that a country supply the goods but that it increases its domestic saving to the extent of the additional export proceeds.¹³ Maizels argues similarly in terms of variations in the values of such parameters as

12. The excess of trade gap over savings gap appears to be most common among Latin American semi-industrialised countries, as well as India and Pakistan. C/F. Chenery and Adelman's conclusion on Greece in 'Foreign Aid and Economic Development : The Case of Greece'.op.cit. McKinnon in '... Rejoinder' (footnote 10 above) Page 171, attributes the larger exchange gap to (a) external limitations on export expansion and (b) the distorting influence of an economic policy that maintains over-valued currency coupled with severe restrictions on imports. The subsequent import substitution strives to earn and/or save foreign exchange by using domestic capital to replace imported ones, but such substitution does not reduce the aggregate import expenditure, rather its proportion to GNP.
13. Harry Johnson:-Economic Policy Towards Less ^Developed Countries.op.cit. Page 58.

export and saving : "variations in exports might well result in associated variations in domestic savings. This could occur either because the propensity to save is higher in the export sector than elsewhere or because government savings rely heavily on taxes on foreign trade ... It seems probable that in countries like Malaya (and Libya) a close relationship exists between changes in exports and changes in Gross Domestic Savings. ... (thus) a rise in the projected rate of export growth would reduce the ex ante savings gap as well as reducing the ex ante trade gap."¹⁴ The danger exists for gap models that do not take cognizance of this interrelationship - such as the simplified Chenery-Strout model - to possibly overstate the ex ante saving gap for countries having a significant savings response to export changes, though not for countries in which relatively little government revenue is derived from taxes on the foreign trade sector and in which savings ratio does not differ markedly from one sector to another.

'LIMITED' ABSORPTIVE CAPACITY : A GAP APPROACH

A developing country's absorptive capacity has traditionally been recognised as a possible constraint to its achievement of a 'desirable' and targeted growth rate of output and more particularly to the performance of the 'skill-intensive' industrial (modern) sector. Thus a gap could exist between the maximum level of performance the absorptive capacity allows and the targeted level.

In order to achieve the target rate of growth, foreign assistance must be sought to increase the level of absorption, in the same sense that capital import relieves investment demand and foreign exchange limitation. It appears paradoxical however, that "the prospects for external economic assistance largely depend on the recipient's capacity to utilise it effectively, if possible in association with domestically available resources."¹⁵ This is so if the required assistance takes the form of capital equipments for projects. "The CAPITAL absorptive capacity approach regards capital requirements

14. A. Maizels:-Export and Economic Growth of Developing Countries. *op.cit.* Page 58.

15. L. Rist:-'Capital and Capital Supply in Relation to the Development of Africa,south of the Sahara' Page 473 in E.A.G. Robinson (ed.) Economic Development of Africa south of the Sahara. *op.cit.*

as being determined solely by the ability of an economy to employ both domestic and foreign capital productively in the sense that aid yields some minimum rate of return."¹⁶ The implication being that an absolute upper limit to the inflow of foreign capital assistance can be estimated - perhaps using a minimum discount rate of social returns on marginal units of capital - beyond which foreign aid administrators will not, as a matter of policy, go on providing aid. A question could be asked: is the problem of the relationship between absorptive capacity and foreign assistance better tackled in terms of capital - absorptive limitation? Surely if we look at the basic features of limited absorptive capacity, is it wrong to propose that there can be no limit to the extent to which developing countries can absorb assistance to expand and improve cultural and social constraint which relate to education, health, social values and other socio-welfare infrastructures, or to the improvement and expansion of labour skills, managerial and administrative competence and entrepreneurship, and those factors that affect the 'technical' and 'non-technical' efficiency and smooth running of the national economic machine itself.¹⁷ If such a proposition is tenable, is not the problem then one of supplying the right type or mix of assistance, especially of technical assistance? To analyse the problem of absorption in terms of capacity to utilise foreign or domestic capital is to my mind a mistaken shortsightedness. The productivity of capital very much depends on the supply of co-operant factors. In some developing countries, especially in Africa and Asia, the supply of these co-operant factors such as skill, managerial expertise, entrepreneurship, sound economic policy, good government, healthy and literate labour force

16. R.F. Mikesell:- The Economics of Foreign Aid. op.cit. Page 76.

17. By this I mean the ability to recognise and appreciate a country's natural resources, its appropriate technology and its institutional limitations especially in the field of socio-economic decision-making process. It also involves the ability to collect and interpret wisely the basic data of the economy.

are far more important than capital supply. Estimation of the capital absorptive capacity, to which I refer below, can only reflect rather crudely, an economy's current level of equipment and plant absorption but cannot measure the level of assistance needed to overcome all the factors making for either the currently limited capital usage itself, or a target growth rate of economic and social development. This is not to deny that a gap exists, but to assert a gap, of factors that are in essence not statistically measurable.

Absorptive capacity is "a very nebulous concept"¹⁸ which in recent years has been given wider connotation to denote practically anything that an economy is capable or not capable of doing. For example, it has been viewed as a capacity to raise income through the capacity to influence the balance of payments, to mould foreign economic policy, to formulate and execute successfully national economic policy.¹⁹ However, I am only concerned here with one aspect of absorptive capacity, its gap-creating characteristic, which exists in so far as it creates a gap between planned and potentially desirable, and actual level of economic performance. In this respect, the standard concept²⁰ refers to the emergence of capacity limitation in the form of actual or potential under-utilisation of capital assets when the supply of co-operant factors cannot be expanded. Such concept is definitely useful in terms of difficulties with domestic capital investment programmes, but not in terms of foreign assistance. As asserted above, absorptive capacity becomes a function of the form of aid and since aid could take the form of provision for consumption, surely then, the absorption

18. P. Streeton:- International Capital Movement. op.cit. Page 23.

19. C/F. Professor Rosentein - Rodan's contribution to the discussion of R.I. Gulhati's paper entitled 'The Need for Foreign Resources, Absorptive Capacity and Debt-Servicing Capacity' in J.H. Adler (ed.) Capital Movement and Economic Development op.cit. Pages 240-267. The essay and the discussion of it, deal in some details with the relationship between I.C.O.R. and Absorptive Capacity.

20. For three other possible meanings of absorptive capacity, see J.H. Adler: Absorptive Capacity : The Concept and its Determinants.

capacity for example of the Indian Sub-Continent for this type of assistance would seem infinite! However, it has been argued that there are limits to the importation of managerial and labour skills inherent in direct investment and technical assistance. This is so, but does not this type of foreign help a particular class of the alternatives open to foreign aid administrators? The problems of limited political and social acceptability of foreigners in various advisory and supervisory positions can always be overcome without reducing the degree of aid commitment. With that qualification to absorptive capacity in mind, we can continue our analysis by limiting our concept to that of limited capital absorptive capacity. It has been employed as a special constraint to the saving-investment gap or in combination with it and the foreign exchange gap, or as a uniquely identifiable approach to foreign capital requirements. It appeals to economists who prefer to view foreign aid in terms of specific capital projects or of measures designed to deal with specific institutional limitations on economic growth.²¹ Attempts to establish identifiable estimates of external finance requirements of developing countries, had led to a marginal productivity approach to the definition of capital absorptive capacity. For example, E.S. Mason has defined it in terms of the volume of investment on which the marginal rate of return is equal to the socially acceptable discount rate. John Adler has proposed a similar definition. It is "that amount of investment, or that rate of gross domestic investment expressed as a proportion of GNP, that can be made at an acceptable rate of return, with the supply of co-operant factors considered as given"²² This concept of absorptive capacity applies to the return on the marginal unit of total investment and not simply the return on a certain amount supplied from abroad. Net yield varies as between different uses but the net social return on capital in its least productive uses determines the marginal rate of return.²³ There

21. See the different approaches and estimates referred to in Footnote No.2.

22. Quoted in R.F. Mikesell:- The Economics of Foreign Aid. op.cit. Page 100.

23. loc.cit. Page 100-101.

is no doubt whatever that such definitions - perhaps the best available in the circumstance - do not appreciably ease the difficulties inherent in estimation of such a vague concept as absorptive capacity. Could one estimate by objective criteria the social returns to the 'uncountable' and diverse investment that make up the national economy? The time factor, the leverage and catalytic effects of some investments notably the social and economic overheads must influence one's estimate of social returns and hence of capital absorption. Besides absorptive capacity is constantly expanding, perhaps faster than is generally imagined. This makes any *ex ante* estimation look less convincing and accurate. There is also the problem of the availability of adequate and reliable data. Thus we cannot over-emphasise the difficulties - statistical and conceptual - connected with the estimation of the total national capital absorptive level, and by implication the possible gap to be filled by foreign capital imports, if absorptive level is greater than available domestic resources; or the cut-off point, if capital absorptive capacity is limited. As R.F. Mikesell puts it "its operational value would seem to be restricted mainly to foreign assistance for specific projects or for a number of interrelated projects. Even in the case of project loans, it would appear that the difficulties in determining the marginal returns to total investment for any given period of time are such as to make the concept impractical ..."²⁴

Nevertheless, estimates are still being produced about the potentials for absorption of extra (foreign) capital. Perhaps the most significant outcome of such studies is the destruction of the notion expressed by Rist and other economists that developing countries are handicapped in what they might have received from the donor countries, by their absorptive capacity.²⁵

24. ibid. Page 103.

25. C/F. Juliet Clifford and Gavin Osmond:- *World Development Handbook*. op.cit. Page 79. The authors list the immediate determinants of the volume of foreign-financed investment as (a) the willingness of foreigners to transfer capital and (b) the debtor's absorptive capacity.

The World Bank, through the medium of an address by its President to a Ministerial Meeting of D.A.C. in July 1965, did provide an estimate of developing countries collective absorptive capacity. According to George D. Woods, the bank's specialists survey for each country, suggest that between then (1965) and 1970, the L.D.C.s could productively use an additional 3 to 4 billion dollars a year over and above the then \$10 billion being transferred from public and private sources. The U.N.C.T.A.D. exhortation of '1% of GNP' transfer must imply an absorptive capacity of at least the sum total of \$13 - \$14 billion. The shortfall of 0.23% of GNP, that is, the difference between the U.N.C.T.A.D. target and the actual flow, may be looked upon as the minimum resource gap estimate for the developing countries. The purpose of the World Bank 1965 estimate was to dramatise the President's "deep convictions that the present level of financing is wholly inadequate, whether measured by the growth rate which the advanced countries say they are willing to facilitate, or in terms of the amount of external capital which the developing countries have demonstrated they can use effectively."²⁶ There are other empirical studies to substantiate the general notes that only a small minority of developing countries are growing at the rates which their absorptive capacity would permit. For example, Chenery and Strout's 50-Country sample analysis of investment data shows a substantial ability on the part of L.D.C.s to increase their investment rates. The median rate of investment growth for the whole group in 1957-62 was over 10% per year. This substantial increase in productive investment suggests that absorptive capacity may be less of an obstacle to raising growth rate than is often supposed except in the most backward societies.²⁷

Discrediting a notion, or demonstrating the likely efficient use of an extra amount of foreign assistance are not the crucial points about a study of the concept of absorptive capacity. To me its significance lays in the opportunity to identify the factors making for limited absorptive capacity. I consider the eradication or mitigation of the influence of these factors -

26. Quoted in R.F. Mikesell. op.cit. Page 52.

27. H.B.Chenery:-'The Effectiveness of Foreign Assistance'op.cit. Page 67
C/F. H.B. Chenery & A. Strout:-'Foreign Assistance & Economic Development.
op.cit.

in other words the expansion and improvement of non-capital inputs - as the first priority of a development plan and indeed of foreign assistance rather than to supplement domestic capital for investment projects. This fits in with the first function of foreign aid, that is, as an agent of inducement for structural change and the mobilisation of the indigenous human and material resources in the economy. The importance of increasing a country's absorptive capacity cannot be over emphasised. For example, the skill and organisation inadequacies operate strongly at all stages of the development process by keeping productivity low, holding down the level of productive investment and preventing the optimum allocation of a country's human and material resources. "This limitation is the essence of being underdeveloped. If this were not so, the miracle of Post-War Western Europe under the Marshall Plan could readily be repeated in the developing world."²⁸

TWO EXAMPLES OF GAP ANALYSIS : THE CHENERY-STROUT MODEL, AND THE FEI-PAAUW MODEL.

I have examined in some details the three basic approaches to external resource requirements or needs of the developing countries. The purpose of this section is to present in a brief form the summaries of two important studies on the subject. I have found it necessary at various times, to refer above to the Chanery-Strout gap analysis. It represents one of the few comprehensive foreign-aid requirements theories available today, linking each of the three broadly defined constraints to growth with recognisable phases in the process of economic development. The two main building blocks of their model are thus: the recognition that foreign aid can be used to fill either a saving or foreign exchange gap, and the proposition that the typical developing country is likely to move through three distinct consecutive stages of growth characterised by a difference in the nature of the alleviating (of the predominant constraint) function of aid; that is the skilled limited Phase I, the savings-limited Phase II, and the trade or

28. R.F. Mikesell; op.cit. Page 93.

foreign exchange - limited Phase III. In another sense it embodies a theoretical framework "which is used to evaluate the (then) current performance of L.D.C.s and to assess their future needs for foreign assistance under various assumptions."²⁹ Foreign assistance which can augment domestic resources for overcoming the above constraints can be categorised into three types: (a) the supply of skills and organisational ability; (b) the supply of investible resources and (c) the supply of imported commodities and services.³⁰

The skill constraint, too evident in the Rostowian 'preconditions to take-off' stage, does not permit a level of investment high enough for output to grow at the target rate. The principal function of foreign aid during Phase I is to fill the gap between increment in investment and increment in savings until the rate of investment is high enough to sustain the target growth rate. The higher rate of investment combines the function of not only laying the basis for an increase in aggregate level of investment but also providing the resources for improving and expanding the economy's absorptive capacity. It does appear that the relationship between the skill constraint and investment is a two-way causal one. The skill bottleneck limits the extent of productive investment; on the other hand the increase in output, through investment and the development process itself ensures improvement in the absorptive capacity. Phase II is characterised by essentially the same kind of savings limitation which fits the conditions of a Harrod-Domar type model for the achievement of a self-sustained target growth rate. External resources fill the gap between savings and investment, like in Phase I, except that in Phase II, the level of investment, as opposed to the rate of increase has been raised to the point where it can sustain the target growth rate. Phase II normally begins at the end of Phase I and ends when either (a) savings level is equal to the size of investment demand - the savings gap is thus completely eliminated; or (b) when the trade constraint becomes more restrictive. The third phase is defined as the situation

29. Chenery & Strout; op.cit. Page 680.

30. ibid. Page 681.

in which foreign assistance needed to meet minimum import-requirements exceeds the amount needed during a particular year under the operation of the Phase II condition. The trade limit is mainly a consequence of limited flexibility of the productive structure for expanding output for exports and/or for import substitution. The authors propose three sets of objective criteria - one for each phase - for measuring the progress being made towards a given rate of self-sustaining growth through the progressive elimination of the constraining factors. The investment, savings and trade criteria are essentially the same as those suggested above for the long-term solution of the debt problems.³¹ For Phase I to be completed, 'the rate of growth of investment must be greater than the target rate of growth of GNP.'³² For the savings gap to be eliminated in Phase II, the marginal savings rate must be greater than the target investment rate unless the average rate of saving is already above this level. For the trade gap, either export growth rate must exceed the target growth rate of GNP, or the marginal import ratio must be substantially below the initial average import ratio.³³

The authors used their theoretical model to evaluate the performance of the fifty developing countries in their sample in terms of their compliance with or satisfaction of the three criteria. Their future needs under various assumptions were thereby assessed. In their analysis of the empirical data pertaining to these countries, the authors found among other things that during the period 1957-62, (1) the rate of export played a predominant role both in the case of the countries avoiding the trade gap limitation and in those that did not. Most of the twelve countries in their sample that satisfied the criteria for approaching or maintaining self-sufficiency had an export growth rate of 6% or more, while the most unsuccessful performers in the sample tended to be characterised by export stagnation; (2) There was almost no example of a country which had for a long period sustained a growth rate substantially higher than its growth of exports through

31. See above Chapter 3, Page 151.

32. Chenery & Strout; op.cit. Page 705.

33. ibid.

continuing import substitution. This would seem to support the contention that import substitution, even for the semi-industrialised countries of Latin America, does not provide a means of avoiding an expansion of exports to a rate near the target growth rate of GNP; (3) that little correlation existed between initial per capita income among developing countries and either marginal savings rates or balance of payments performance.³⁴ Thus performance in terms of the authors savings and trade criteria for progress towards self-sustaining growth is not necessarily associated with a relatively high initial income level. Chenery and Strout have no doubt focussed our attention imaginately on the nature of various constraints encountered in the drive towards self-sustaining growth and eventual fully-fledged developed economy. They have stressed the contribution that differing types of foreign assistance could make in the transformation of a poor, underdeveloped economy.³⁵

FEI and PAAUW's analysis³⁶ indirectly falls within the context of 'requirements' studies in so far as it tries to relate foreign assistance in the form of investible resources to the self-help measures being pursued domestically to reduce the gap between investment requirements for a reasonable rate of self-sustained growth and the level of available savings. They are concerned with the implications of self-help in foreign assistance policy as they affect (a) the relationship between foreign aid and domestic austerity efforts; (b) the conditions for a reasonable termination date for the assistance programme; and (c) the prospect that foreign aid will achieve its primary objective in terms of an adequate rate of growth in per capita income.

34. ibid. Page 710. C/F. U.N. Economic Survey's findings that the per capita income bears no significant relationship with the proportion of gross fixed capital formation in GDP. among developing countries. Indeed, some countries with low per capita income (under \$150) have a higher proportion of GFCF to GDP. Morocco, Rhodesia and Nyasaland had proportion above 23% while Chile for example, with per capita income of \$350-\$450 had a proportion of between 8-11% (1950-51 data). U.N.: World Economic Survey for 1959. Table II-2 Page 62.

35. For details concerning the econometric model formulated and the empirical verification, see the article. As a Discussion Paper for the U.S. AID, Chenery and Strout's essay covers more than a proposal for estimating aid needs during the process of developments. It also deals with major aspects of foreign aid and economic development; thus proposing the means of maximising the effectiveness of assistance, justifying

Countries meeting the first condition, in which the combined sum of target growth rate of per capita GNP and population growth rate are clearly below the initial growth rate of capital and GNP, are a priori developed economies and will be exporting capital rather than importing it. Most developing countries however, are likely to fall within the other two categories. In the intermediate category 2, foreign savings will be required but aid will have a finite termination date. In this case the long-run growth rate of both GNP and Capital - in other words the ratio of PMSR and ICOR - is greater than the current target growth rate of per capita income h , plus the rate of growth of the population r . However, in the unfavourable case 3, where target growth rate of per capita GNP and population growth rate combined together, is greater than the long-run growth rate of capital and GNP, foreign aid will be required for an indefinite period with the 'foreign savings'/domestic income ratio eventually approaching a constant value so that the absolute volume of foreign aid will grow at a constant rate equal to rate of growth of GNP and $h + r$.

From the standpoint of foreign aid policy, the intermediate case 2 is regarded by the authors as 'gap-filling' in the sense that foreign savings complements the country's own self-help efforts, the success of which is indicated by the achievement of a crucial level of PMSR. To ensure eventual self-sufficiency in finance, it is necessary that the inflow of foreign savings must be adequate to fill the gap consistently. However, it should be noted that success in achieving an adequate growth rate of PMSR, and hence an eventual aggregate savings ratio consistent with self-sustaining growth, is an incomplete indicator of the movements in the complex factors that make-up the development process. It is possible for such indicator to be misleading, in spite of it being based on reliable statistics since it may simply reflect an improvement - temporary perhaps - in the country's terms of trade.³⁸ In case 2 the terminal date will depend on the movements

38. C/F. The Implications of self-help in footnote 37 above.

of other parameters as well.

For the 'hopeless' class of countries in category 3, assistance is regarded as 'gap-narrowing' because permanent and possibly ever-widening gap between domestic saving and investment level exists. Without greater self-help efforts to mobilise savings, and therefore, raise $PMSR$, constant rate of growth with a terminal date for aid cannot be achieved. In this situation foreign assistance must be conditioned to producing leverage effects on the domestic savings policy. Technical assistance may play an important role in improving the institutional framework (for savings). Most of the developing countries for which terminate dates exist, are likely to experience the 'hump-scaling' process of foreign capital usage as opposed to passing through a 'glide path' where the growth of domestic savings operate continually to reduce aid requirements. In the former case, required assistance will increase for a number of years before reaching a peak from which it begins to decline. The downward trend begins when domestic saving has grown to the point where it can begin to narrow the gap between savings and required investment.

Fei and Paauw's empirical verification pertains to thirty-one selected developing countries. They estimated the values of the primary parameters of their model from available data and together, with initial population and GNP estimates, have calculated the aid termination dates. The terminal date or lack of it, forms the basis for grouping countries into the appropriate category. It is interesting to note that of the 31 countries analysed, 22 fall into case 3 with no determinate dates for the cessation of foreign assistance. Among them are India, Brazil, Turkey, Nigeria and Ghana. Among the eight countries that are in the intermediate class are Pakistan, Mexico and Taiwan. Their categorisation of countries differs considerably from Chenery and Strout's. For example, India and Brazil among others met the Chenery-Strout savings criterion. An important by-product of their empirical analysis - with obvious operational value - is that for the eight countries in case 2, "our model structure enables us to calculate not only the time-

path of capital inflows but also a consistent set of time-paths for the improvement of domestic planning variables (Y.C.K.I.S. and population growth)"³⁹ These latter variables should enable the planners to adjust their self-help programmes to the foreign assistance committed.

The contribution of Fei and Paauw's analysis to foreign aid policy and administration can be regarded as two-fold. First, their insistence on an explicit and productive commitment on the part of the recipient to a policy of 'self-help' as a condition for aid, may be taken as a condemnation of the minor role economic factors play in aid allocation. Furthermore, it reinforces my earlier point that the 'crucial determining forces for achieving the long-run social and economic development of a developing country must invariably come from within. Fei and Paauw see the role of foreign assistance as essentially supplementing the domestic effort and not supplanting it. Capital must be committed on the basis of self-help measures, otherwise "capital assistance alone will merely permit a country to live beyond the means."⁴⁰ A policy of pulling ones self up by own bootstraps is not only more likely to succeed than any other, the attendant spirit of personal sacrifice, perseverance, determination, and the experience gained by trials and errors, are beneficial in moulding community's values, outlook and national priorities. Fei and Paauw recognise that if self-help is to provide in each underdeveloped country a positive incentive for maximum national efforts to increase its rate of growth, equity considerations are likely to be irrelevant if not misleading. Secondly, their statistical evaluation of the recent experience of some of the leading developing countries provides aid administrators with opportunity of appreciating fully the task ahead of them in each of their client states. The flow of aid, the advice and leverage supporting it are likely to differ in a non-viable, perpetually-aided country from those applicable in semi-industrialised, medium size (population-and-resources-wise) country which has already taken

39. Fei and Paauw. op.cit. Page 264. See also Table 3, Page 265.

40. ibid.

off. The obvious criticism of Fei and Paauw's savings gap analysis is its complete silence on the problems connected with absorptive capacity and foreign exchange constraints.

A CRITIQUE OF RESOURCE GAP ANALYSIS

I have dealt with, at some length, the major elements of the resource gap analysis and have reviewed two popular studies on the subject. Most of the people concerned - economists, aid administrators and politicians alike do not doubt its importance in elucidating our knowledge or in intensifying our appreciation of the relationship between foreign resource assistance and economic development in L.D.C.s. There is some kind of inevitability about it. The politicians in for example the U.S. Congress, British Parliament or German Bundestag, need to have more than just a vague idea of the enormous task of development which their rich countries are called upon to imburse. Aid administrators need to have a comparative assessment of the problems and required needs of the countries competing for their assistance. The counterparts of these decision-makers in the developing countries - the leaders and the civil servants are in similar need. Complex and difficult process of development demands full identification and appreciation of the gap between the national target and the short-term capabilities of the economy. Such need stresses beyond rhetorics and exhortations about development. The test of a successful economic policy is to be found in correct and effective adjustments to short-term constraints. The controversy which gap estimation has aroused, is not so much centered on the desirability and short-hand financial evaluation inherent in such quantitative analysis, rather it is whether economists and accountants have the necessary tools for realistic evaluation of needs which to a large degree are qualitative and institutional.

The gap approach has certain merits, if its limitations are borne in mind. The problems associated with absorptive capacity are the essence of underdevelopment and, therefore, preclude the possible success of a 'big-push' financial effort to steamroll the so-called emergent countries into

developed and /or industrial nations overnight. The savings bottleneck reflects a vicious circle of poverty, in which a laissez-faire government could 'trap' its society. The foreign exchange shortages reflects the inflexibility in the use of domestic and foreign resources and of structural disposal of income generated. It has also been seen as the consequence of a bad development policy which assumes the trade gap as a necessary condition of the development process. H.J. Bruton, for example, argues that the trade gap is the result of an allocation criterion which favours the establishment of consumer-goods import substitution industries as opposed to the capital goods sector.⁴¹ Such allocation is gap producing rather than gap preventing. The trade gap will develop inevitably in a later stage of the development process. He counsels a projection of structure and allocation of investment in such a way as "to seek to prevent gaps in the structure from emerging. The allocation criteria - preferably a social marginal productivity one - must be gap prevention rather than the least disadvantaged or some other cost based argument."⁴² Yet, the trade gap still remains the major external constraint to growth and development planning. The Pearson Commission emphasizes its debilitating effects on developing countries : "the experience of countries summarised ... bear out our belief that there are many specific instances in which foreign exchange constraints impede development efforts due to several inabilities, viz to provide sufficient raw materials to maximise plant utilisation, provide sufficient spare parts to maintain machinery, expand economic infrastructure on a timely basis, purchase adequate supply of fertilisers, and finance research facilities of all kinds."⁴³

The identification and classification of the structural imbalances and bottlenecks into the savings-investment, trade and absorption gaps serve a useful purpose both analytically and operationally. However, the distinction between them must not be overstressed. I have already referred to the

41. H.J. Bruton:- 'The two Gap Approach to Aid and Development Comment'. A.E.R. June 1969, op.cit. Page 439-446.

42. ibid. Page 445.

43. Pearson Report op.cit. Page 78.

interrelationship between the savings and trade gaps. The incremented capital-output ratio (ICOR) is not only a reflection on technical possibilities but also on absorptive capacity. The latter, being a major contributory factor to its decline over time. Savings rates are also a function of institutional arrangements, such as the business structure, savings institution and capital markets, together with environmental factors favouring or unfavouring local thriftiness, and government fiscal policies especially official attitudes and keenness towards both private and public resource mobilization and other self-help measures. These institutional and environmental factors plus the prevailing social values should be regarded as important elements in the absorptive capacity for sustained growth and development. All the attributes of a viable and growing economy, whether relating to savings export or investment, are essentially interrelated.

One may inquire as to which gap poses the most difficult problems to resolve. This may be an irrelevant and wrong question to ask since the characteristics and stages of development will determine the most constraining factors at any given moment. Chenery and Strout insist on financing the most restrictive constraint as a means of maximising the effectiveness of foreign assistance. If we ignore national disparities we are likely to find that the stage of development factor determines a priority order, of limited absorptive capacity, foreign exchange, and savings constraints for most of the developing countries of Africa. On the other hand, in the relatively advanced countries of Latin America like Mexico and Chile, or of Southern Europe like Greece, Turkey and Yugoslavia, the order may be foreign exchange, savings and absorptive capacity. The important point to note is that savings tend to be a less critical constraint (in terms of ability) to overcome than the foreign exchange shortages. At least for the former group of countries, I believe that aside from technical assistance and other similar measures for increasing absorptive capacity, a removal of the foreign exchange constraint is the most important function of foreign capital. While foreign resources at one and the same time also provide a temporary

supplement to savings, the expanding level of investment thus made possible, together with appropriate fiscal and monetary measures for increasing savings, should rapidly eliminate any short-term savings gap. Those who have less faith in such corrective virtue of the economic mechanism have argued that the savings shortage is a self-imposed one. Given the necessary political will, a government can extract from its people any amount of economic surplus desired. Besides, the factors determining the trade gap are to a considerable degree influenced by external factors such as the trade and foreign aid policies of the developed countries. Although it has been suggested that the avoidance or elimination of the foreign exchange constraint can be more amenable to policy measures - such as domestic price adjustment and devaluation - than the savings limitation, the administrative difficulties inherent in price controls and the reluctance on the part of governments to devalue, invariably reduce such policy alternatives. Indeed the experience of developing countries suggests that in practice the trade gap is often more 'structural' than generally imagined. It can hardly be reduced in the short-run without affecting adversely the growth rate of the economy or the structure of government expenditures.⁴⁴ It is the existence of such an inflexible mechanism of adjustment which underlines the existence of the saving and trade gaps as separate phenomena. The equilibrating reactions in investment, savings and trade behaviour which necessarily take place over time, is the essence of the development process. I have at various times hinted at the major flaws in the gap analysis and the estimation of foreign assistance needs of the developing countries. Criticisms of gap estimation analysis abound in the literature.⁴⁵

44. See above Chapter 5 and Teresa Hayter:- Aid as Imperialism. op.cit.

45. For detailed critique of the gap approach to aid and development see especially (a) Paul Streeten:- 'International Capital Movement' op.cit. Pages 19-25; (b) R.F. Mikesell:- The Economics of Foreign Aid. op.cit. Pages 91-99; (c) J.H. Fei and G. Ranis:- 'Foreign Assistance and Economic Development : Comment' A.E.R. Vol. 58, 1968; (d) H.J. Bruton:- 'The two-Gap Approach to Aid and Development : Comment' A.E.R. June 1969. op.cit. Pages 439-446; (e) R. Maris:- 'Can we measure the needs for Development Assistance?' E.J. Sept. 1970; and (f) A. Maizels:- Exports and Economic Growth of Developing Countries. op.cit. Chapt.2.

The Chenery-Strout model (plus the development theory anchored to it) is generally chosen as the typical example for critical examination. The conduct of such examination can be divided basically into three levels: the theoretical and empirical, the developmental process, and the question of relevancy to the actual distribution pattern.

THEORETICAL AND EMPIRICAL CRITICISMS. The Chenery-Strout econometric model has been criticised for not emphasising the interrelationship between the variables in the three constraints especially that between the savings and trade gaps (See reference in f/n. 45f), for not giving greater emphasis to the importance of increasing skills, improving organisation and other factors that improve the absorptive capacity (45b). Bruton has argued that the distinction between the savings and trade gaps - as an empirical phenomenon is a rarity and believes its explanation as a structural phenomenon to be most unlikely. "The distinction is not due to some inherent characteristics of the development process (and therefore) is unacceptable (45d Pages 440-443). The basic assumptions about the crucial variables that underline the functional relationships of the savings-investment and foreign exchange gap models have been subjected to the same sort of criticisms as the Harrod-Domar thesis. The investment function, the saving function and the ICOR have their major weakness." The preoccupation with capital makes the solution of the development problem appear both easier and more difficult; easier because it suggests that if only more capital were provided from abroad, growth would be accelerated; more difficult, because it neglects the numerous ways in which output can be raised without substantial capital expenditure ... much investment make no contribution to development (palaces), or is wasted (underutilised industrial capacity and irrigation)" (45a Page 21-22). The use of a stable ICOR has been questioned while there are serious doubts about the basic assumptions of the saving function employed in the typical savings-constraint model. "... there is inadequate statistical basis for the assumption that a country is poor, in the sense of having a low per capita income, it necessarily has a low savings ratio which can only be raised over time as income increases ... It is my contention

that the behaviour of savings in developing countries has so far been too erratic to provide a basis for foreign aid model in which the marginal savings ratio constitutes a critical variable" (45b Pages 93, 96). Mikesell also doubts the independency of the savings and investment functions. Indeed, he goes on to suggest that the rate of productive investment as determined by investment opportunities and the incentives for taking advantage of them, is the most important determinants of savings (45b Page 96). Apart from the doubts expressed about the structural rigidities that create and maintain the foreign exchange gap, refutation has also been made about what Streeten considers as a misleading assumption of a trade constraint model: namely that "aid and trade are substitutes in the provision of finance for development" (45a Page 21). The meaning, empirical validity and the significance of the parameter values derived either for estimating the size of assistance required or the time-parh of such flows, have been questioned by the various studies cited. "Both types of gap calculation use quite unreliable data to arrive at misleading aggregates" (45a Page 22). The use of ex post experience as the basis for ex ante projections can create difficulties unless adequate provision is made for alternative policy changes. In the Chenery-Strout model, the distinction among the phases is considered to be too artificial. The experience of most developing countries is that the three gaps are usually intermingled, if not occuring concurrently. There is inadequate historical evidence to suggest that they occur in sequential fashion or that the process of development with or without foreign assistance necessarily follows the stages as postulated by Chenery and Strout. In expressing their reservations about the model, the phasing analysis and the empirical verification method used by Chenery and Strout, Fei and Ranis, contend that "while the theoretical part of their thesis is based on somewhat indefinite behaviouristic assumption (aptitunal, socio-political machinery etc.) marginal to the domain of economic theory, the empirical part of the analysis is saddled with as yet unsolved identication problems" (45c). In a reply to Fei and Ranis's comment, Chenery and Strout conceded the flaws in their

phasing analysis. The concept of a phase had been suggested simply as a planning device rather than as a basis for historical analysis. 'The prescription of a given sequence of phase is not central to our analytical scheme.'⁴⁶ The gap model, in its 'crude' form is seen as essentially static and a method of dynamising it has been suggested (45a).

I have dealt with some of the problems surrounding absorptive capacity in the earlier part of this section. I want to add a word or two here. The capital-absorptive approach especially as formulated by staff of the World Bank arrives at a developing country's total and requirements by adding up, sector by sector, the value of the potential investment projects which are regarded as economically feasible and technically capable of implementation, and then calculate the resource gap for executing them. This method's essential difference from the savings and trade constraints models is the absence of aid determination by mathematically soluble functional relationships. Its flaw lies in the avoidance of the nagging question as to why the calculated amount of external capital is required and to what ultimate purpose. Surely the capacity to make productive use of certain amount of capital cannot establish the rationale for external capital requirements in relation to the motives and objectives of the supplying countries. Furthermore, in terms of my earlier approach to the problem of external assistance for increasing absorptive potentials as opposed to supplying extra funds for physical investment, the over-riding point that must be borne in mind is that the abstract and institutional nature of the factors involved, makes the problem no less complex and pervasive than that of appreciating and calculating the level of social and economic performance. It cannot be reduced to a simple numerical rule of thumb.

The development process. The analytic framework of gap estimation analysis fundamentally suggests a supplementary role for external resources as a means of achieving target growth rate of national product which should lead to

46. Chenery and Strout. Appendage to footnote 45c above.

the achievement of self-sustainable growth and eventual rise in per capita standard of living of a developing country. Should we look at the process of development with foreign assistance in this sense of gap-filling or are there other essential issues which should preoccupy our minds instead of financial requirement estimation? Fei and Ranis have no doubt about this. "The really essential issue of any viable growth promotion policy," they assert, "is how to facilitate the various learning processes - learning to save, to invest, to export, to engage in efficient import substitution with the help of foreign aid rather than how to calculate the foreign aid requirements" (45c). This emphasis on learning process analogous to improving the absorptive capacity, is the end product of their interpretation of the characteristics of under development. They recognise the insufficiency of volume aid to substantially alleviate the resource tightness facing a developing country. They suggest that the full potential usefulness of foreign aid must be viewed in relation to the working of the entire economy rather than simply in the context of the additional resources made available to a given development programme or the array of specific projects made possible. "The practical implication of this in a dualistic economy is, that the real potentials of aid must be sought in terms of its possible impact on the functioning of various crucial markets in which the overall performance of the economy is determined". The development and perfection of these (labour, commodity and financial markets) and other markets "... requires an institutional transformation that transcends the narrowly materialistic prescription for success (namely, the traditional planning for resources)."⁴⁷

I have already expressed Bruton's doubt about the assumed structural and empirical link between the development process and the existence of the savings and trade gap. Perhaps more important than this, is his belief that the very idea of operating a development policy with a priori assumption

47. J.H. Fei and G. Ranis:- Development of the Labour Surplus Economy
Page 315.

about the appearance of a trade gap in the course of development, may perpetuate the maintenance of (maximum) growth-impeding policies in L.D.C.s (45d). In the section dealing with the role and function of foreign assistance, I suggest that the principal task of foreign assistance for most of contemporary developing countries must be to assist them in making structural adjustments necessary for accelerated self-sustaining growth. Any constraint to be removed in the course of such transformation must be seen as part of the structural change itself. The amount and kinds of foreign assistance that can be employed in facilitating this transformation depend very much upon the response and the degree of dedication to development in the developing countries. We cannot indulge in a ready calculation of such requirements with a great degree of confidence. I do not believe that the primary purpose of aid ought to be that of an aggregate supplement to domestic resources necessary to achieve a specific rate of growth of per capita output, except in those countries that have transformed their structure, have 'taken-off' and are making adequate and efficient use of their own resources.

The question of relevancy. In a way, the significance of the gap analysis is to pressurise the donors into increasing their commitments by showing the glaring differences between the total resources available and the amount that ought to be available for a rate of development which they concede as desirable. The chief weakness of the gap analysis must be its minimal effect on the commitment and allocation pattern of the major donor countries. It deals with the demand conditions for aid but remains out of tune with the reality of supply considerations. The DAC/OECD Annual Review for 1969 sums up the crucial points about the subject in this way: "Ever since the first UNCTAD in 1964, assistance providers have been confronted with 'gap' estimates, both global and for individual countries, of actual and prospective foreign exchange (savings and skill) requirements. Although these gap studies have now obtained considerable currency, they have failed to evoke sufficient confidence on the part of assistance-providers to serve as a framework for aid allocation. Apart from the very large margin of statistical

uncertainty surrounding the crucial gap-determining parameters, any resource requirement estimate is anchored on value judgements concerning the reasonableness of the development target and the level of domestic efforts which the developing country itself is prepared to make towards its economic growth. The more ambitious the development objective and the lower the level of self-help efforts, the larger will be the residual gap to be met by foreign capital inflow. Hence it will be a long-time before aid is apt to be rationed among countries on the basis of such gap estimates."⁴⁸

Group members of consortia have in a few cases made serious collective efforts to meet or approach the aid requirement figures emerging from evaluations, such as the World Bank's. However, these efforts have not resulted in the recipient countries being disbursed more generously in comparison to other developing countries.⁴⁹

48. DAC/OECD:- Development Assistance 1969 Review op.cit. Page 159.

49. ibid. Page 160.

APPENDIX VI

GDP, GDCF AND AGGREGATE DEPRECIATION IN THE NIGERIAN ECONOMY

The nature of the primary statistical materials available is such that a knowledge of the degree of capital depreciation within the Nigerian economy is essential for the purpose of statistical evaluation of foreign capital's contribution. No recent official estimation of capital depreciation is available. The earlier one for 1956-57 must, for various reasons be treated to be out of date. Okigbo estimated for both 1956 and 1957, capital depreciation, to be on average 55% in the private sector and 45% in the public sector, thus the national average being 50% of GDCF.¹ This rate of depreciation was exceptionally a high one, no doubt partly contributed to by the generous depreciation allowances and other incentives schemes then available and partly by the relatively high physical deterioration of capital assets in tropical conditions and the absence of the various attributes of an industrial environment like for example a pool of skilled industrial labour and maintenance engineers.² Professor Aboyade has commented at some length on this high rate of capital depreciation during the period before Independence.³ However, there are grounds for thinking that the level has fallen below 50% in the 1960s. On one hand the industrial environment has improved tremendously, with a rapidly expanding modern industrial sector. Improvements have taken place in the quality of construction and maintenance of civil engineering, buildings and transport equipments, while depreciation concessions by the government have slightly been reduced. On the other hand,

1. See P. Okigbo:- Nigerian National Accounts 1950-57, Table VII, Page 119.
2. For factors making for a relatively higher volume of capital investment per unit of output in the Tropics as compared with Europe or North America, see U.A.C.:- S.E.R. No. 16, Sept. 1955, article entitled 'Capital Employed'.
3. O. Aboyade:- Foundation of an African Economy:- A Study of Investment and Growth in Nigeria. op.cit. Page 139.

the expansion in capital formation in relation to GDP, and in Capital intensity in some industries like oil,⁴ is bound to slow down the rate of fall in depreciation provisions.

My estimation of the appropriate level of depreciation in the Nigerian economy is based on the following evidence. The U.N. Yearbook of National Accounts Statistics 1968 Vol. II gives depreciation as percentage of GDP for Sierra-Leone (1965) and Senegal (1967) as approximately 7%.⁵ No similar figures were given for either Nigeria or Ghana, but as conditions in all these West African territories are by and large similar, one would expect the level of depreciation in the latter countries to approximate the 7% of the former. However, by relating 7% of GDP to the known level of GDCF in Nigeria, we find that depreciation in 1963 for example, accounted for nearly 59% of capital formation. This level of depreciation is higher than the level for the mid-fifties and also because of the reasons cited above, it is unlikely to be correct for Nigeria. In compiling some statistics on capital formation in Nigeria, Professor Arthur Lewis estimated depreciation "notionally at 3% of GDP" for the year 1963.⁶ This yields a figure of 25% of GDCF, and which on past evidence must be regarded as being lower than the 'true' level. I have thus decided to take the middle course between the two estimates. Capital depreciation in the Nigerian economy at a level of 5% of GDP appears to be a reasonable proposition. It corresponds to about the same average level in the Indian economy for the period 1960-67⁷. It is equivalent to about 42% of GDCF for Nigeria in 1963, 8% lower than six years before and gives decreasing margins in subsequent years - 35% of GDCF

4. C/F. K.M. Langley:- 'External Resource factors in Nigerian Economic Development. NJESS. Vol. 10, No.2, July 1968, op.cit. Table B1 Page 173.
5. U.N. Statistical Office (NY):- Yearbook of National Accounts Statistics 1968, Vol. II, Table 1.
6. W. Arthur Lewis:- Reflections on Nigeria's Economic Growth. op.cit. Table 9, f/n. 4, Page 59.
7. U.N. Statistical Office:- Yearbook of National Accounts Statistics 1968, Vol. II. op.cit. Table 1.

in 1966, 33.5% in 1967. It is interesting also that if we relate the known '50% of GDCF' estimates of depreciation in 1956 and 1957 to the GDP for those years, the level of depreciation turns up to be about 5.5% of the GDP. Thus for statistical evaluation undertaken in Chapter 8 and in the rest of this study, the '5% of GDP' level is employed to denote the size of aggregate capital depreciation in the Nigerian economy.

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ABSTRACT

This study is prompted by two factors which thus provide the respective bases for the two parts to which it is divided. The first is the Post-1960 international emphasis on economic development of the 'Third World' and the central role capital resources, flowing from the developed countries are expected to play in the development process. The second factor is my desire to examine in details the way the developing economy of Nigeria has been responding to such resources inflow. The methodology employed combines historical perspectives with critical appreciation of such flows as 'foreign aid', direct investment and export credits.

The introductory chapter gives a detailed analysis of the scope of, and the rationale for this study, while chapters 2 and 3 respectively examine in a global context private and official resources flows. Chapter 4 highlights the historical changes. The main flaws of the transfer system are expounded in chapter 5 - the core of my critical stance. Chapters 6, 7 and 8 deal with Nigeria. The concluding chapter 9 brings together some of the study's major inferences, emphasis being given to findings relating to Nigeria's experience. In the case of 'foreign aid', my thesis is that Nigeria will be better-off economically, commercially and industrially, if she abandons altogether its receipt, and instead divert her efforts to seeking with other L.D.C.s the liberalization of world trade. As for foreign-owned investment, though it continuously accounts for a major component of Nigeria's capital formation, its small size in relation to GDP suggests that it is not its finance-capital aspect which is of paramount importance to Nigeria, but the other qualitative components of the investment package - namely management and technical expertise. Here, policy suggestions in the face of a firmly entrenched usage center on ways and means of reducing such investment's shortcomings and of increasing its contribution to economic and social development.