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March 1, 1966

Mr. John M. Garba:
African Attitudes Toward Trade, Investment and Development

Conference on Legal Problems of Investment & Development in Africa

At the outset, let me thank you for providing this opportunity to sketch for so distinguished an audience an outline of one African's conception of what is involved in the task of economic development in my own continent. There is no need for me to tell you that what we are addressing ourselves to here is a subject of enormous dimensions and complexity; and that in an address such as this I must necessarily confine myself to etching out broad circumferences only. I can, in effect, point the way to the woods, and having done this I will leave you in your further discussions to press on toward more detailed and particularized work among the trees, with the hope that I have been able to provide some useful impression of the vast subject within which you are working.

Let me add here that I welcome this opportunity. As an African, perhaps I can help avoid misunderstandings and misconceptions of African attitudes and motivations -- misunderstandings which, in the past, have tended to cloud the real issues. Misunderstandings occur; and in trade, aid and investment, valuable potentialities for mutual benefit are lost when attempts are made to judge African events, developments and attitudes by the standards of the older politico-economic entities of Europe and America. Judgments made according to such standards, though made in good faith, are not likely to be particularly fair or enlightening. Let me resort to statistics here: At the end of World War II, there were no more than four independent states on the continent of Africa: today there are 37, and all but ten of these are still less than six years of age. Africa is a continent of new political entities and thus, logically, of rapid political change. Adding to the natural pressures of political evolution we encounter, too often, pressures fermented by the frustration of just aspirations toward economic development and material progress. I remember back in the late fifties our former World Bank President, Mr. Eugene R. Black, speaking of "the frustration of leaders who have discovered that the achievement of national independence does not lead automatically to the achievement of national abundance." The pressures generated by unsatisfied basic economic wants are not less now than they were then; if anything, they are stronger.

Let me add to this a succinct point made recently by one of Tunisia's leaders to an African scholar collecting material for a forthcoming book. "All African states are revisionist," said the Tunisian to the scholar, "by necessity, not by ideology." He went on: "Since the United States is a wealthy country it must naturally be a status quo power in order to preserve its riches; since Tunisia is relatively poor it must be a revisionist power in order to improve the life of its people."

You see, the newly emerging states of Africa want to revise the existing division between rich countries and poor countries in much the same way as the great reformers of Disraeli's time wanted to revise the stark division existing in England between rich and poor. The outcome of these early efforts and aspirations of nineteenth century national reformers are the affluent societies of the developed, capitalist countries of today. What a great world it would be if we could only achieve now, on an international scale, the alleviation of poverty that has been achieved in the more mature economies since Disraeli's day. This is an analogy which I think you might find useful to keep in mind when considering the challenge of development among the new nations of Africa. It may help to prevent the woods as a whole being missed for the trees; it may help bring about the sympathetic perspectives that are necessary if we are to think constructively and profitably about the problems of development and investment in Africa.

Among those problems, let me first mention trade. Many problems of economic development in African nations are connected with the fact that their commercial economies were founded almost entirely on the narrow base of a few exports -- foodstuffs and raw materials shipped largely in an unprocessed state as grist for the mills of the industrial nations of Europe. Today, this leaves us at a disadvantage: a good deal of our basic export staples are foodstuffs and raw materials geared to those needs of the consumer in the developed country which increase relatively little as his income rises. Very little of a consumer's extra dollar in a developed economy goes toward buying more cups of coffee than he had before; more cotton shirts or chocolate bars. He has largely satisfied his wants for these: the largest proportion of his extra dollar will go on such things as cars, television sets and the like, which is, of course, very nice, but of small help to the African growers of coffee and cocoa and cotton. For this reason alone, income from traditional exports is not rising fast enough to provide African countries with the foreign exchange they require for development. But to this basic problem of slowness ~~an~~ of growth in demand, we must add other trade torments which add uncertainty and irregularity to underlying sluggishness. Production efforts within the less developed countries themselves, efforts to break from the bonds of slow demand, may result in sudden situations of over-supply which create such a downward pressure on price as to cause all to get less than they would have if production had not been expanded. Let me quote you a brief cry from the heart of a representative of one of the cocoa-producing countries; he told us at last year's Annual Meeting of the World Bank that between crop years 1963/64 and 1964/65 alone, his country lost a potential $100 million as a result of a fall in the average price of cocoa from $504 per ton to $392 per ton, coupled with an increase in the crop from 450,000 to over 600,000 tons. "Thus," he said, "our attempts to increase the production of our main foreign exchange earner have resulted in a very sharp fall in prices." There is indeed, a paradox here. On the one hand -- as I shall spell out for you in a minute or two -- we know that a fundamental step in evolution toward strong market economies in Africa is the conversion of existing subsistence cultivation to higher productivity commercial cropping. On the other, we know that under existing world trading conditions efforts to progress by producing more of our export staples too often result in a net loss from downward pressures on price. It was toward the solution of this dilemma that we made our positive proposals at the recent UNCTAD conference in Geneva; and the challenge of these proposals has yet to be met by the developed nations.

Let me next direct your gaze to still another heritage of the narrowly based, export-crop economies developed in colonial times. You should understand that the infrastructure of roads, railways -- of communications and basic facilities of all kinds -- required for such export crop economies was of a simple and single-purpose nature: the essential aim was to get primary production for export from its source down to the nearest bulk shipping point on the coast. Unfortunately, this, in most cases, is not the kind of infrastructure conducive to development of successful domestic economies; to the fostering of a strong internal domestic agriculture, of a market economy capable of supporting thriving manufacturing and service industries, geared to a coherently inter-connected home market. Thus we have the task of creating a whole new pattern of infrastructure suitable to the growth of well-balanced national economies, rather than to the operation of "one-crop" export investment geared essentially to the factories of Europe. The desire for a new pattern of infrastructure is prominent in the attitudes of most African leaders and administrators toward aid and investment. It is a problem to which the World Bank and its affiliate, the International Development Association, have devoted a large proportion of the $1,290 million odd invested in African countries in the years since the Bank's first African loans were made in 1950. The deficiency exists, I hardly need add, not only in transportation but also in electric energy, of which a constantly growing supply will be needed to meet the demands of industry and of higher living standards generally.

I must not pass beyond this point without laying some stress on a problem basic to the attitude of most informed Africans toward the development task: this is the problem of achieving fundamental changes in the system, setting and organization of agricultural production in which, in some countries, 90 per cent of the labor force is employed; or perhaps it would be more appropriate to say, tied down. I have already mentioned the problem of diversifying from primary export commodities. What concerns me here is the related but distinct problem of changing domestic agriculture sufficient to move from a situation in which most of the population is engaged in the drudgery of deriving a bare subsistence from the soil to a situation where each individual is producing a significant and growing excess above his own needs, within an infrastructure which makes this excess available for commercial marketing. This simple, but enormous, problem brings in the whole spectrum of aid, investment and trade. Until the peasant agriculturalist reaches a position where he produces an excess above his own subsistence needs, he cannot have the consumption demand power to provide underlying support and fuel for expanding investment in domestic manufacturing and services. Until he achieves -- through increased productivity in agriculture -- a sufficient excess to feed others besides himself, his nation cannot marshal the labor resources needed to expand investment in export diversification, in domestic manufacturing capacity.

By this stage, I think you will see the need to distinguish -- in any detailed discussion of the problems of economic development in Africa -- between the tasks that, by their very nature, require what I would classify as public aid and development, on the one hand, and on the other, the interrelated, but distinct, tasks in which private investment capital can more suitably play its part.

The task of achieving patterns of transportation and electric power supply conducive to growth in both the internal and external sectors of our economies, fall, almost inherently, within the ambit of public investment. This is likely, moreover, to be government-to-government investment, since it will be a long time, I fear, before any large part of the needs of the public sector in Africa can be met by the sale of our bonds in the world's capital markets.

The same observations, of course, do not apply to industrial development, and here, let me say, nearly all of the leaders of the new Africa are intensely eager for the help which foreign capital and skill can bring them. Even among those new nations which have adopted a socialist orientation, the serious private investor from abroad will find an atmosphere of healthy pragmatism in which, I think, he may profitably employ his funds. Naturally, the African governments will be looking for genuine risk capital prepared to ally itself to the long-term growth and welfare of the internal economy, bringing with it, for injection into the local economy, the skills and know-how of the developed economies.

Given a positive "partnership" attitude on the part of the private investor from abroad, he will find most new African governments ready to welcome him, and to give him the same treatment as they accord their own nationals. The variety of arrangements available for the foreign private investor to work under will run from 100 per cent foreign ownership in some countries, with only income tax or royalties payable to the host country, through to 50 per cent equity partnership with the governments concerned. A country such as Madagascar for example, governed under a nominal socialist philosophy, is ready to welcome 100 per cent private equity in genuine investment projects: on the other hand, 50 per cent partnerships are providing a highly successful setting for foreign participation in the development of mineral wealth in Tunisia and ~~Nigeria.~~ Guinea. My own country of Nigeria welcomes 100% participation over a wide range of industry. Incentive legislation in favor of private investment capital is very much the rule rather than the exception in Africa today. It may range from external bilateral agreements between the capital-exporting country and the capital-receiving country applying the standards of international law to the protection of foreign private investment in the host country, through to such internal legislative measures as the granting of tax exemption to all new industry and the creation of development-oriented tariff structures shielding both foreign and locally owned enterprises against too-drastic competition from abroad. I encountered just recently a statement from the President of the Republic of Liberia in which he defined that country's "open door" investment policy as "avoiding confiscatory taxes, allowing an exemption period, maintaining the unrestricted flow of money either in the form of capital dividend or profits, and, as an act of good faith, participating in the earnings of companies exploiting some of our natural resources."

Examples of successful, mutually beneficial, private capital partnerships in African development are becoming common. They are to be found not only in direct commercial production -- in the direct application of resources to materials -- but to an increasing extent in the development of institutions which can act as catalysts for the generation of capital and enterprise for a market economy. I am referring here, particularly, to the spread of development banks in which both domestic and international shareholders play a large part -- the Nigerian Industrial Development Bank, for instance, or Morocco's Banque Nationale pour le Developpement Economique. In these and other cases, the World Bank's affiliate, the

International Finance Corporation, has combined with leading private banks in America and Europe in launching these basic institutions for enterprise and growth in the new Africa.

Before I leave this point, let me give you one final example of the desire of the new Africa for the cooperation of outside private capital. As many of you know, as a step toward encouraging a freer flow of private capital to the developing countries, the Executive Directors and staff of the World Bank last year completed work on the text of a Convention on the Settlement of Investment Disputes between States and Nationals of Other States. The Convention provides for establishment of an International Centre for Settlement of Investment Disputes, to operate an an autonomous institution under the auspices of the Bank. And through this Centre, contracting states, and investors who are nationals of contracting states, will have ready access to machinery of conciliation and arbitration as a way for satisfactory settlement of disputes on investment matters. The Convention providing for this new contribution to international investment confidence will enter into force 30 days after it has been signed and ratified, accepted or approved, by 20 Bank member governments. I am happy indeed to be able to report to you here that the four nations that have so far ratified the Convention are all African states -- Nigeria, Mauritania, Ivory Coast and the Central African Republic. Further, of the 33 World Bank member nations who have so far signed the Convention, 18 -- or more than half -- are nations of Africa.

Over the whole spectrum of investment trade and aid tasks that I have tried roughly to sketch for you, it should be known that there is already abundant and heartening evidence of successful cooperation. Let us take an example of victory over the sometimes seemingly intractable problem of achieving the fundamental change from shifting, subsistence cultivation to commercial agricultural productivity. We may look to Kenya where some 275,000 African families have been taken

taken from fragmented, subsistence-type cultivation and settled successfully on consolidated freeholdings possible to farm efficiently. With the help of a World Bank loan, roads and water supplies are being provided; marketing and processing cooperatives have been organized; extension services are being performed and credit for cultivators is available. Here is a group of Africans moving impressively toward the kind of commercial income earning capacity which provides the basic underpinning on which a market economy may thrive.

Moving, as it were, toward the other end of the investment spectrum we have outstanding examples of successful cooperation between African states and public and private capital and skills from abroad in large-scale export diversification, mainly through tapping of latent mineral wealth. In Libya, Tunisia, Algeria, and Nigeria important oil strikes have established vital new export capacity; on the West Coast, sizable bauxite export projects are emerging as a possibility. Potash is emerging as new export strength for Congo (Brazzaville) rutile in Sierra Leone; iron ore in Liberia and Mauritania. In some countries of the region new dimensions for foreign and local cooperation -- as well as new dimensions of foreign exchange earning capacity -- are emerging through active exploitation of a vast tourist industry potential. In Morocco, Tunisia and Kenya, the tourist boom is on; given enterprise and imagination the pattern can be reproduced and expanded in many other places elsewhere in Africa.

Mr. Chairman, I apologize to you for the briefness of these remarks. You are of course aware that the problems of international participation in economic development are complex anywhere, and not less so in Africa than in other continents. But what I want to convey to you at the outset of your meeting is not complex. It is this: first, African countries are in the process of change, and you should not be surprised or alarmed if political change does occur.

Second, however, the basic prospects are good. There is tremendous scope for a working, mutually beneficial cooperation between African countries and the investors and governments of the developed continents. Africa's development requires boldness and imagination, patience and understanding on the part of those who want to do something about it. But given these qualities, I am confident that the rewards to those who participate in the development of Africa will not be disappointing.