

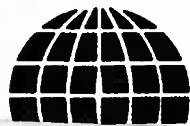
Investment and Development

FILE
COPY

by Sir Leslie Rowan, J. H. Loudon, Sir Jock Campbell,
Arthur Gaitskell, William Clark

Lib

7s 6d Overseas Development Institute



ODI
AAF
Row

odi

Investment and Development

In 1962/3 British private investors put £150m into developing countries—as much as the Government's aid programme. Though the total has declined since then (1963/4 only £65m), private investment remains of very great importance to the poor countries' development programmes.

Like Government aid however, private investment raises many problems. On the one hand developing countries fear exploitation or neo-colonialism; they may try to prevent the repatriation of profits because of their shortage of foreign exchange or they may threaten nationalisation. Private investors on the other hand, may think the risks are too great—it may be easier, safer and probably more profitable, to invest at home or in another industrialised country.

Private investment is a valuable aid to development, but private investors cannot be compelled to invest in certain areas, nor can developing countries be compelled to allow external investors to come in. The choice is theirs. That is why, as Sir Leslie Rowan writes in his Introduction "We do no good to ourselves or to the cause of economic development if we do not have a frank dialogue on the problems raised by private foreign investment in developing countries, for it is only thus that the understanding can arise on which partnerships must be based. . . .

"Private enterprise can and should talk frankly about profit, for without the expectation of it, investment will not be made and without its realisation investment will fail. This in no way absolves private enterprise from recognising its moral as well as its commercial and reactive obligations or from seeking to render service while it seeks profit."

Because of the importance of this subject, the ODI is issuing four articles on the role of private investment in developing countries by : J. H. Loudon (Managing Director, Shell Petroleum Co. Ltd.), Sir Jock Campbell (Chairman, Booker Bros. McConnell Ltd.), Arthur Gaitskell (Board of Commonwealth Development Corporation), and William Clark (Director, ODI). The articles have previously appeared separately in different publications; they are brought together in this pamphlet with an Introduction by Sir Leslie Rowan (Managing Director, Vickers Ltd. and Chairman, ODI) in order to promote public discussion both in Britain and in developing countries.

The articles are controversial (the authors do not always agree with each other) but they are interesting whether or not they coincide with the reader's own views—because they are written by people with experience of investment, of its importance and of its problems.

Investment and Development

the role of private investment in developing countries

by Sir Leslie Rowan, J. H. Loudon, Sir Jock Campbell,
Arthur Gaitskell, William Clark

Overseas Development Institute Ltd

**160 Piccadilly
London W1**

1965

The articles in this work have already appeared in other publications. They are reprinted here with permission of both authors and publishers. The facts and opinions contained in them are the responsibility of the authors.

Contents

Introduction by Sir Leslie Rowan	5
Governments are not Enough by William Clark	9
The Role of Big Business in the New Nations by Sir Jock Campbell	17
International Enterprise in the Development Decade by J. H. Loudon	27
Making the best of Capital Risk in Developing Countries by Arthur Gaitskell	35

Introduction

Sir Leslie Rowan*

Among the problems that will have to be faced by those of us who are concerned with development in the poorer countries of the world in the near future, there are two which will demand particular attention; first that government aid is unlikely to increase (and in real terms may even be less than it has been in the past), and second – this is in part a corollary of the first – there will be much greater weight placed on the effective use of the aid that is available. This latter issue is one to which the ODI will be devoting much attention.

In any circumstances the rôle of external private investment occupies a position of immense importance in the advancement of the less developed countries. But in the light of these circumstances it assumes even greater significance. Because of this we feel it is right at this time to promote the maximum public discussion on this, both in Britain and in the developing countries. We have therefore decided to publish as an ODI pamphlet four recent articles by John Loudon (Managing Director of Shell Petroleum Co. Ltd.); Arthur Gaitskell (Commonwealth Development Corporation); Sir Jock Campbell (Chairman of Booker Bros. Ltd.) and William Clark (Director of the ODI).

Private investment is not an issue on which there is, or can be, compulsion on either side. The private investor can be prevented from investing in certain areas (through exchange control), but outside these he has his choice; if his decision is negative, no one can force him to invest. Equally, no developing country can be required, other than by itself, to allow external private investors to come in. It is entirely its own choice. This seems to me to establish a right and proper basis for working out a partnership, if that is what both sides wish.

We do no good to ourselves or to the cause of economic development if we do not have a frank dialogue on the problems raised by foreign private investment in developing countries, for it is only thus that the understanding can arise on which partnerships must be based.

*Managing Director of Vickers Ltd. and Chairman, ODI.

From the point of view of private investors in Britain there are perhaps two matters on which there is the greatest need for clarity. *First*, if they are to do a responsible job, the question whether to invest or not cannot be allowed to go by default. They must take a conscious and informed decision, and this calls for wide knowledge and deep study. In the past the economic relationship that existed between Britain and her overseas territories was clear both in terms of objectives and machinery. But with the assumption of independence by most of these countries, such a relationship no longer exists. This means that if the relationships by government and individual alike are to be close and healthy, they have to be purposefully sought and are not by any means automatic in their outcome. For an investor to reach an informed decision on any country's future prospects he must, for example, know what are the attitudes of governments towards the development plan, and – very important – what views are being taken by the IBRD. This is not the task of an amateur, however inspired; it calls for a deep professionalism.

Second, private investors must not seek to judge others by the extent to which they adopt or follow British domestic institutions. Parliamentary democracy, as we know it, is a system most wasteful of the scarcest talent in developing (and for that matter developed) countries, namely, skilled manpower. A strong hand at the centre is often the best assurance of stability. This, with a strong central economic planning authority, are what private enterprise should welcome, not criticise.

On this basis, private enterprise can and should talk frankly about profit, for without the expectation of it investment will not be made, and without its realisation investment will fail. This in no way absolves private enterprise from recognising its moral as well as its commercial and creative obligations, or from seeking to render service while it seeks profit.

The corollary of this at the receiving end is of course clear; that, within whichever limits are defined, the foreign investor is welcome and is received on fair and equitable terms. These may appear different to each side. I recall a Minister of Finance of a developing country, when discussing private investment with a Minister of Finance of an industrialised country, saying with a real feeling of concession 'I can assure you that any

private investment made will not be nationalised within ten years', to which he received the blunt reply, 'That's a hell of a thing to put in a prospectus'.

Let us therefore have frank discussions, for only on such will continuing policies be founded. If this is so, it is fair to pose a blunt question 'Why take all this trouble when it is easier and probably more profitable to invest at home or in an industrialised country?'. For this there is no direct answer; only a number of considerations. Where do we think our markets will be, not in our time – but in our children's and grandchildren's? Do we think our narrow but real interests as private enterprise will best be served if by far the greater part of the world's population does not see us actively and adventurously at work in their own countries? And finally, is it not precisely now in their periods of transition that we can both help the developing countries most and also give ourselves the best chance of profitable success?

These and many other difficult but vital questions are raised in the four articles which follow. It is our hope that their publication will lead to wider questioning and to deeper understanding of an issue which private enterprise in its own interests must face up to and decide for itself.

Governments are not enough

William Clark*

Everyone now agrees that the poorer two-thirds of the world must be helped to develop their economies by the richer one-third. There is less appreciation of the need for speed in doing this.

The recent White Paper on British Aid (Cmnd 2147) was able to boast that British Government Aid had doubled in the past five years; but it had to admit in another paragraph that the need was as great as ever because the gap between the rich countries and the poor was widening and the standard of life in the poor was hardly improving noticeably. The fact we have to face is that it is going to take an almighty effort by the donor countries if productivity of goods in the developing countries is to advance faster than their productivity in babies.

It is for this reason that we need to use every means of helping development, and try to ensure that the means are used as efficiently as possible. Too often the discussion centres entirely on what governments can do to aid new governments to develop their backward economies. In fact the 'public sector' is naturally more in the public eye than the private, but few, if any, countries can develop speedily unless there is also a flow of private investment. The amounts involved are comparable. From Britain last year, for instance, the under-developed countries received about £150m in governmental Aid, and our private investment was almost the same. It is therefore very disturbing to find that the Organisation for Economic Co-operation and Development (representing 90% of the world's Aid giving capacity) reports that while Aid (public investment) has been steadily increasing, private investment has been falling off.

This is dangerous for several reasons, but primarily because it may slow up the whole process of development so that it actually falls behind population increase or only just keeps pace with it. There is really very little chance that governments will be prepared to increase their Aid from public funds to fill the gap which might be left by a decline in investment. Nor

*Director Overseas Development Institute. Originally published in *Progress*, January, 1964.

is it by any means certain that purely government-to-government Aid can do the job of development by itself; certainly it is not an efficient or well tried method. Traditionally development has taken place as the result of private investment – that is how the United States, Australia or Argentina were developed – government Aid is the newcomer in this process, made necessary by the demand for speedy development, for cramming a century into a decade.

But private investment retains certain advantages which public Aid cannot easily match. New capital from private sources is accompanied by managerial administrative and technical skills as well as training opportunities. There are no political undertones or strings attached to it and it shoulders the risk of possible losses. National mistakes cause national headaches, but the consequences of mistakes in the private sector are borne by the enterprise itself. Private foreign capital is invested for the purpose of making a profit, and thus generates its own capital, some of which stays in the country in the form of remuneration, taxes, purchases and reinvestment. Over the long term there is an additional benefit in better methods, lower costs and greater efficiency – the fruits of the proper employment of capital. As Michael Hoffman puts it ('Development needs the business man'; *International Development Review*, June 1963, p. 16):

'It is gradually being recognised in many countries that foreign enterprises, willy-nilly, act as training centres for the regions in which they operate. It is not really necessary to pass laws requiring the training of nationals and the gradual substitution of locally trained for imported personnel. Western companies with long experience in foreign operations have long known that foreign branches become really profitable only when it is possible to reduce the number of expatriate staff to the minimum consistent with maintaining head-office policy control.'

Furthermore, with private investment there is a sort of built-in grace period on repayment of interest since until there are profits there is no dividend and equity investment does not expect to be repaid. Nor if the venture fails is there any continuing burden on the national exchequer.

Another advantage of private investment, though this is a

matter which may be debated, is that it is likely to encourage private entrepreneurship and so release some of the energies and skills of local people. No country can be developed from outside; it is essential to get the people of the country working for its development, and one of the essential ways of doing so is to tap this rich vein of the desire to run one's own shop or business. A completely regimented economy is likely to lack the ebullience of one where private interests are harnessed to the development process.

Very few people would argue against the desirability of foreign private investment in private enterprise in the developing countries; the question is why something so intrinsically desirable is falling off in a period that is recognised as the development decade.

The answer must be, to some extent, expressed in terms of our own so-called 'developed' economies. The fact is that they are developing at a colossal rate and, other things being equal, an investor is likely to get a better return on his money if he puts it into relatively 'local' enterprises. The pull of the new Europe has been especially strong in recent years. However there are still powerful arguments for investing in the under-developed world: there is a promise of mass markets in the future, the need to retain existing markets, and to maintain a business presence in areas from which raw materials are drawn. Yet investment in these 'growth areas' is falling. Why?

Seen from the western investor's point of view the daunting disadvantage of the under-developed countries is political rather than economic uncertainty. What he fears is that his business or factory will be suddenly expropriated with derisory or no compensation. Another danger is that if this risk is covered by high profits these profits will be punitively taxed, or the right to repatriate the profits will be denied. In general the investor fears that he will not be allowed to run his business at a profit, and many feel that this state of affairs only reflects a general distrust of private enterprise and foreign investment on the part of the developing countries' governments. Particularly compared with the days of European rule, the climate of investment in some ex-colonies appears 'set stormy'.

Seen from the other side of the hill, from the point of view of the new governments, there does appear to be a certain

menace about foreign, private, business investment, and it would be well to understand why this is so. First of all because it is foreign, probably deriving from the former colonial power, and the new governments of ex-colonies are always afraid of falling into the toils from which they have escaped. The word neo-colonialism was coined to express this vague fear that direct political control will be succeeded by indirect economic control. In my experience this fear is strongest not in Africa or Asia (the real ex-colonies) but in South America where a malign mythology has been built up about dollar control, not so much by Washington as by 'Wall Street' and by some of the biggest US trading companies. Like most myths this one is designed to explain some very real facts.

The second disadvantage, in the eyes of these governments, is that such investment is private. It is almost inevitable in these very poor countries that the attempt to get the national economy moving fast should be a governmental effort, just because there is so little private capital or private enterprise. One unfortunate result of this is a tendency to distrust anything which does not fit easily and immediately into the government's plan.

Thirdly, there is undoubtedly a good deal of distrust of the fact that foreign private investment is for business reasons, that it seeks profits and usually fairly high profits. In small countries there is often a fear of being dominated by Big Business, which may well be indeed bigger than the new nation's whole economy. Even more widespread is the suspicion that a foreign business's interest cannot coincide with the national interest; that because business seeks private profit (which is true) it will not contribute to the public good (which is untrue).

One could go on at length describing the mutual suspicion of overseas investors and governments of developing countries. But the significant fact is this: as a result developing economies are being deprived of an essential element of successful growth, and we in the West are unable to achieve that rapid growth in world trade on which our long term prosperity depends. The disadvantages of restricting investment in the developing world are greater for the poor countries, but they are considerable enough for the rich.

What can be done to get out of this impasse, and to restore the flow of investment outside the Atlantic area? First of all it

should be possible to insure against the non-economic, political risks. There are already in existence in the United States, West Germany and Japan schemes which insure investors against the risks of exchange difficulties (e.g., restriction on the repatriation of profits) or nationalisation without full indemnification. These national schemes have probably encouraged the flow of resources to the developing world, but there is much to be said for a multilateral insurance scheme which would be joined by some of both the rich donor countries and the poorer recipients. The risks would be spread wider and so would the disincentive to rash moves against investors. Several such plans are under consideration (see Lord Shawcross – ‘Law code as spur to world trade’ in *The Times*, 2 July 1963). The International Chamber of Commerce too has been tireless in its efforts to try and get a Code for fair treatment of foreign investment accepted by donors and recipients of capital.

Simple insurance plans for investments tend to be no more than disaster insurance. What is needed is a method of preventing disaster. The World Bank, for instance, is considering a multilateral arbitration scheme including both rich and poor countries. All such efforts to improve the climate for investment are going to involve far greater understanding on both sides of the fence of the desirability (indeed necessity) of private investment, and the inevitability of considerable controls on it.

This mutual obligation was well described by Sir Jock Campbell, Chairman of Booker Brothers, a company with a long record of investment overseas, who said:

‘The daunting weight of their economic problems makes it inevitable that many of the new régimes will be *dirigiste*: there will be much State control, planning and participation in industrial enterprise. Nevertheless there remains plenty of work to be done, and plenty of room for profitable investment, by private enterprise in underdeveloped countries. But this requires the directors of private investment to understand the problems and realities of the countries in which they are operating, and to adapt themselves to their societies and economies as they evolve, not as they would expect them to be in London and the Home Counties. For the new government, it demands that, in making new rules, they recognise the problems of investors and their need for a sufficient

return; and having made the rules, they must fairly and squarely explain them and stick to them. Uncertainty about the intentions of governments is the worst deterrent to investment.

‘I think that companies who do invest and operate in the new nations must, *inter alia*, concentrate on the following:

- (a) running the business efficiently, productively and profitably, but always remembering, and being seen to be remembering: that efficiency, productivity and profits are not ends in themselves, but means to the ends of producing wealth, distributing goods and providing services; that they owe responsibility not only to shareholders – without whose investment the business cannot exist unless it is nationalised; but also to employees, without whose management and skills it cannot operate; and to the community in which it is rooted, and whose acceptance it must gain to survive; and that the values and standards of any business concern cannot on the one hand be too out of tune with the standards and values of the society in which it operates, nor on the other hand too out of tune with the realities of industrial discipline and the facts of industrial life; thus evolving compromise and synthesis are always needed.
- (b) To the above ends, training nationals to do all the jobs in the business from top to bottom. And this really means from the top to the bottom. In many educational and training schemes and concepts, there is a danger that they will produce nothing but imitation expatriate technicians, interpreters and thirds-in-command; and no leaders in the national idiom.
- (c) Encouraging nationals to buy shares in the business. A great deal of thought needs to be given as to how best to facilitate this – in terms of the mechanics of sale and purchase, of security, of the size of the unit, and of intelligibility.
- (d) I should have added the need to reinvest, and to be seen to reinvest, a fair share of profits in the underdeveloped country concerned. And I think that exchange control measures should be instituted sooner rather than later – so that they can be worked out empirically and efficiently before people take fright; rather than at the last moment

when they always break down and prevent new investment without successfully preventing the flight of capital.'

The main lesson, as I see it, of our dozen or so years of experience of the problems of speedy economic growth in the under-developed countries is the need for both rich and poor countries to recognize their interdependence. This is difficult for both sides; for the new countries it means some qualification of their prized total independence; for the old ex-imperial powers it means a recognition of the fact that political independence does not end the relationship with ex-dependencies. But the alternative to recognizing interdependence is pretty grim. For the poorer countries it means draconian laws of austerity to ensure that savings are wrung from the poor, so that the country can pull itself up by its bootstraps. For the richer countries it means the political danger of a world divided by an abyss of income differences, and economically it means the end of hopes of a really expanding world economy with trade bringing into play the two-thirds of the world's population who at the moment sit on the sidelines.

On the whole this mutual interest is becoming understood, hence the growth in our Aid expenditure, and in the innumerable development plans of Asian and African countries. But undoubtedly our joint efforts are insufficient; poverty is not being rolled back, development is not speedy enough to satisfy political or economic demands. This means that more Aid will be needed (which is why the current cuts in American Aid are so worrying) but equally certainly it means that private investment must rise – instead of falling as at present. This need not be argued on ideological grounds; the simple fact is that more investment is needed and it is politically impossible to raise the level entirely through the public sector.

It is a welcome sign that private enterprise is beginning to protest at the extent to which development is thought of solely in governmental terms. Thus Mr. Emilio G. Collado, Vice-President and Director, Standard Oil Company and formerly a high official of the US State Department, concludes his article 'Economic Development Through Private Enterprise' (*Foreign Affairs*, July 1963) similarly. He wrote: 'The efforts of our Government to arrange a judicious distribution of aid and to negotiate reductions in trade barriers must continue; they can

contribute much to the economic development of the free world. But at the same time we should recognise that the potential for the most dramatic contribution lies in creating opportunities for the citizens in the developing nations to apply their own skill and resources productively without unjustifiable interference and restraint by governments. We can yet demonstrate the great force of private enterprise for creating conditions for human opportunity and dignity, and the evolution of stable and democratic institutions. Finally, in March 1963 the Clay Committee stated its conviction that 'it is the private sector, operating with the co-operation of a vital and democratic labour movement and enlightened management on the basis of essential government services and sensible policies, which will make the greatest contribution to rapid economic growth and overall development.'

Mr. J. H. Loudon has commented similarly – see p. 27.

There is thus a wind of change blowing. The importance of Aid is not denied but it is felt that size and effectiveness are not the same. The rôle of private investment is once more seen to be crucial for speedy development and, in turn, it is felt that speedy development is crucial for private investment. The immediate urgent problem is to get that mutual interest between investment and development understood in rich countries and poor, so that the common objectives may be surely attained.

The rôle of big business in the new nations

Sir Jock Campbell*

There is a great deal of talk nowadays about what is generally called the rôle of private enterprise in under-developed countries – in particular the rôle of international big business. This talk ranges from the pure Communist view at one end of the spectrum – that there is no part for private enterprise – to the opinion exemplified by Mr. J. H. Loudon, the senior managing director of the Royal Dutch/Shell Group, at the other, when he said at the 72nd Annual General Meeting of The Netherlands Chamber of Commerce in the United Kingdom:

‘It is perhaps a woeful but realistic commentary on our age that I shall probably be laughed at if I suggest that the usual order of things might be reversed, and that commercial capital be given its head and state aid and finance left to fill the still obviously considerable gaps left, in the infrastructure if you like, where traders do not normally operate.’

In other words, I understand him as saying that, in the best of all possible worlds, governments would do only what it was unprofitable for business men to do.

There is no point in spending much time discussing the rôle of big business in developing a country whose Communist régime by definition excludes it. But it is worth noting that Russian communism seems to be adopting in its economic organisation and structure more and more of the ways and means of private enterprise under other names – even to the extent of using the return on capital employed as a criterion of efficiency. At the same time, modern private enterprise, with its professional – and too often bureaucratic – management is increasingly using Communist methods of control; for instance, centralisation, conformism, norms and the cell system – for maintaining, through pyramids of power, a machinery in which authority is ensured and dissent is difficult. For this reason,

* Chairman, Booker Bros, McConnell & Co Ltd. Originally published in *Optima*, December 1963.

discussion on this entire subject is futile if it assumes the immutable perfection and the perfect immutability of either communism or capitalism.

What are the facts? First: what is private enterprise – or big business – in this context? It is an economic grouping formed to produce or manufacture some products or goods, or to provide services, or to distribute goods – for profit. In these two small words ‘for profit’ usually lies the crux of the argument. Obviously, any under-developed country, in order to develop its resources, to distribute wealth and to generate employment, needs primary production, secondary industry and all sorts of goods and services; and will have to bring about, in some form or another, the establishment of economic organisations to achieve these ends. Equally without doubt, big business has played, and is continuing to play, a decisive part, sometimes an overwhelming part, in the whole process of development.

The naïve voice, wearing a red tie, at one end of the spectrum would say, ‘Yes, but the days of capitalist colonialist exploitation are over. In future, the development will come through planned economies combining the will and interests of the people with technical and financial aid at the start from sympathetic outsiders.’ The naïve voice, in the bowler hat, at the other end would say, ‘Look at the United States and West Germany, and Britain as she was before the corruption of socialism, and see what private enterprise can do to deliver the goods to the people.’ But both these voices are as irrelevant to the situation as their red ties and bowler hats.

The under-developed countries, for their part, have to avoid falling between two stools. Which reminds me of a Freudian Spoonerism which I perpetrated some years ago during a meeting with Sir Andrew Cohen, when he was Governor of Uganda, and Lord Reith, then chairman of the Colonial Development Corporation. We were talking about a possible sugar development scheme in the Ankole district of Uganda. Lord Reith was saying that his corporation would consider whether they would put up money when the Government of Uganda decided whether they would protect the scheme. Sir Andrew Cohen said that they would decide whether to protect the scheme when they knew whether the Colonial Development Corporation was going to participate financially. I said

clearly, but quite unintentionally, 'From Bookers' point of view, we have to be careful that we don't stall between two fools'! I should add that I have the highest respect for what both Sir Andrew Cohen and Lord Reith have achieved in the field of development.

It seems highly questionable whether there are many under-developed countries that could clothe their societies ready-made with the communism of the Russian revolution or of the Chinese upheaval of a thousand years. I often think that communism is far more relevant to affluent than to under-developed countries! It is questionable, too, whether Russia and China are at present in a position to give, and these countries when they are outside the communist land mass are in a position to receive, financial and technical aid on the scale which they need to get their economies into orbit. At the same time it is really ludicrous to suppose that the sort of large-scale private enterprise capitalism that has evolved since the industrial revolution on the two sides of the North Atlantic is any more likely to be applicable, without a great deal of adaptation, to Africa, Asia, and Latin America. Cuba and, for instance, Guatemala present interesting case histories.

This is the Development Decade. The naïve voices will be largely to blame if, at the end of it, there has been more decadence than development. Unless naïveté is abandoned in favour of pragmatic realism, the affluent societies will go on getting relatively more affluent compared with the desperate, teeming poverty of two-thirds of the world. And in the end, pure Communist and pure capitalist will be inundated together by world disaster, arguing their irrelevant doctrines to the last. The social and economic self-interest of the affluent one-third of the world – capitalist and Communist – demands the development of the rest of the world: and this development can come only if the 'haves' of the world take positive steps to stimulate the economies of the 'have-nots.' Financial and technical aid and trade is needed from as many sources and in as many forms as it can be found forthcoming. The stimulus, the initiative, can come only from governments. Private enterprise investment is certainly a most important and most valuable means of development – if, like any other instrument of development, it can be adapted to meet the real needs of the situation.

To produce copper, diamonds, gold, oil, sugar . . . for profit. Maximisation of profits in its pejorative sense can be interpreted as meaning making the greatest possible profits for a comparatively small number of people in the shortest possible time, at the expense of all other considerations. Few people would seriously nowadays intend the term in this way. The more sophisticated critique takes the form that businesses, when they reduce their profits by behaving well in a social sense, are merely ensuring, and therefore maximising, their profits over a longer future.

In fact 'maximisation of profits' and 'enlightened self-interest' – the other piece of popular jargon – becomes synonymous. Jargon or hypocrisy. As chairman of Bookers I keep on my desk this extract from Macaulay's Essay on Warren Hastings:

'One thing, indeed, is to be said in excuse for him. The pressure applied to him by his employers at home, was such as only the highest virtue could have withstood, such as left him no choice except to commit great wrongs, or to resign his high post and with that post all his hopes of fortune and distinction. The directors, it is true, never enjoined or applauded any crime. Far from it. Whoever examines their letters written at that time will find there many just and humane sentiments, many excellent precepts, in short, an admirable code of political ethics. But every exhortation is modified or nullified by a demand for money. 'Govern leniently, and send more money; practise strict justice and moderation towards neighbouring powers, and send more money'; this is in truth the sum of almost all the instructions that Hastings ever received from home. Now these instructions, being interpreted, mean simply, 'Be the father and the oppressor of the people; be just and unjust, moderate and rapacious'. The directors dealt with India, as the church, in the good old times, dealt with a heretic. They delivered the victim over to the executioners, with an earnest request that all possible tenderness might be shown. We by no means accuse or suspect those who framed these despatches of hypocrisy. It is probable that, writing fifteen thousand miles from the place where their orders were to be carried into effect, they never perceived the gross inconsistency of which they were guilty. But the inconsistency was at once manifest to their lieutenant in Calcutta who, with an empty treasury, with

an unpaid army, with his own salary often in arrear, with deficient crops, with government tenants daily running away, was called upon to remit home another half million without fail. Hastings saw that it was absolutely necessary for him to disregard either the moral discourses or the pecuniary requisitions of his employers. Being forced to disobey them in something, he had to consider what kind of disobedience they would most readily pardon; and he correctly judged that the safest course would be to neglect the sermons and to find the rupees.

Too many people forget how the significance of profit has changed since the days of the East India Company. Maximising profits, in the short or long term, was an intelligible end for a privileged people directly involved in the fruits of ownership. But it is hardly an intelligible – let alone a morally acceptable – end for the professional managers of a company with thousands of shareholders whose association with the affairs of the company is inevitably fragmented and remote. (I have a strong impression that about one in ten company annual accounts and chairman's statements are consigned unopened to the wastepaper basket, and of the rest more than half unread.)

It can be maintained that modern big business is an economic grouping of men and women existing, as I have said, to produce and manufacture goods, provide services and distribute goods. And that in order to do this successfully, the managers of the business must recognise and fulfil responsibilities to shareholders – to pay them a fair and acceptable return for their investment; to employees – to pay them fair and acceptable rewards for their skills and work; to customers – to charge them fair and acceptable prices; and to the community within which the business operates and in which it is rooted – without whose acceptance there can be no continuing existence. In short, shareholders are not the whole of a company. In a practical sense they do not even own the company – they own only shares in it.

Profits, and with them efficiency and productivity, and other jargon words, become not ends in themselves, but criteria – incisive instrumental means of intelligible ends. The point about profit as a criterion is that it signifies to the business man what is worth doing. Its concomitant disadvantages is that if

lack of profitability deters the business man, the development will not get done unless somebody else does it. There seem to be three areas of development. First those where activities are clearly run at a loss so that the people of the country as a whole, in some shape or form, have to pay for them: this would include, for instance, schools, hospitals, and the armed forces – there are two views about whether it would include roads and railways. Then there are undertakings in which revenue from individual users can be expected to exceed the cost of the operation by a margin of profit attractive to investors. In these cases, all other things being fairly equal, development will be stimulated. Thirdly, there may be projects necessary for the development of a country which, while they do not lose money and are not appropriate for public subsidy, do not offer a commercial return on investment – either because of an uncertain or minimal profit, or because of inherent risks. My personal view is that this third category is appropriate either for state enterprise, through public corporations, or for partnership between state and private enterprise on special terms. To avoid the logical conclusion of this analysis, in concert with Mr. Loudon, that everything that is really profitable must be reserved for private enterprise, I hasten to add that there is no reason in the world why the state should not participate actively in the second category. (But in so doing, it must avoid intentionally or otherwise preventing profitability for others.) This is surely what is meant by a mixed economy.

Now I know that semantics can play havoc with this concept. But if it be valid, it offers a starting point for considering the adaptability and flexibility of the rôle of big business in developing a country. Adaptability to what; and flexibility for what purpose? Big business may thus look rational to me: but it does not necessarily look like that to all investors, and certainly not to nationalist governments and to the majority of the people, for instance, of British Guiana.

The sugar industry looks like big business that came there centuries ago to produce sugar and rum for European private owners for profit; originally did so by the ruthless use of African slaves; when slavery was abolished, resorted to cheap indentured labour mostly from South India; continued between the two world wars in this century to make profits, despite appallingly

low sugar prices, by under-paying their labour; exported the profits during all these years rather than developing industries other than sugar; and through ownership of and means of production exerted an overwhelming influence on the society. It further looks as though it was not the tender consciences of the capitalists but the activities of agitators that brought welcome change. This is not entirely a true bill: but it is true enough to make the point. The managers of the sugar industry, for their part, would say that, without their capital and skills, British Guiana would still be virtually uninhabited except for South American Indians, and that the coast lands would never have been reclaimed from the sea. This is true.

Having described what I think the sugar industry in British Guiana looks like to government and people there, I shall not presume to hazard an opinion about what African mining companies may look like to Africans. But my convictions, both about the indispensable rôle big business has to play in under-developed countries and the growing need for its imaginative adaptability and sense of social purpose, spring from personal experience and not from theory. It is desperately important that, in order to be able to adapt itself to the realities of the social, economic and political situations in the under-developed countries in which it operates, big business should learn to see itself as others see it. The more international big business is, the less wholly rooted in a particular country, the more quickly flexible and adaptable it is likely to be, and the more professional and technocratic its management – and thus the less wedded to political ideologies.

In establishing a great industry in an under-developed country, its managers are imposing a new way of life, a new series of motivations, activities and disciplines on the people. Private property, punctuality, financial honesty, financial incentive, productivity, efficiency, technical innovation, technical discipline, regularity, regimentation: all these are new and strange, but all are needed in some form to bring the fruits of material progress. Nationalist governments cannot reap the fruits without accepting the reality of the social implications – good and bad. But, equally, capitalist business men cannot expect to be loved for the strange and demanding ways they impose. (It is easier for a Campbell to pass through the eye of a needle.) The economic imperatives

of big business throw a strain not only on the rank and file, but especially on the first generation of national managers who are having to impose upon their subordinates new disciplines which they have hardly learned themselves.

In practice, what is needed is a synthesis between the inevitable demands of industrialisation, the inherent values and standards and culture of the new nation (values and standards and culture are never non-existent – they are merely different), and the aspirations and anxieties of nationalist leaders. I am sure that if everybody concerned, including business men, will use what Sidney Smith called their ‘synthetical propensities’ instead of trying to prove that they alone are right and everybody else is wrong, big business will continue to have a vital role to play in the development of the new nations. In short, I believe that there is no reason why big business cannot produce and manufacture, distribute and serve – with reasonable profit to itself and continuing benefit to the under-developed country. But business will have to learn to do this on mutually acceptable terms.

A critical factor in mutual acceptability is a consensus of opinion about what constitutes a reasonable profit. I would take – one year with another, and over a normal commercial business as a whole – 10% after tax on capital employed. I would justify this, with conscious over-simplification, on the grounds that a business project, with all its capital subscribed by ordinary shareholders, would need to pay them at least 5% p.a. dividend, and put an equal sum of money each year to reserves. But the risk involved is an important consideration. We all know what danger money is: the greater the real risk in any investment, the more attractive, in a literal sense, the financial return must be. A hard fact of economic life, whether we like it or not, is that unless an acceptable return on capital invested is forthcoming, big business will not be able to raise the capital they need for development. And there are many cases where the hazard of development expenditure is so great that 10% will simply not be enough to attract investment and to accumulate reserves adequate to carry a project through lean and difficult years.

If the attitude of big business is, ‘We bring you great material good, we are perfect, we do it our way or not at all’, it will be

not at all. Similarly, if nationalist governments say 'We want you to produce and manufacture, distribute and serve, but we will allow you insignificant profit for your shareholders in so doing, and we will indiscriminately interfere with your operations', it will be not at all.

If I were a nationalist leader in an under-developed country in a state of siege economy (for this description is no exaggeration of the pressures that overwhelm them), there are plenty of considerations that I would take into account in defining my attitude to the rôle of big business. In particular, I would want management increasingly to be in the charge of my own nationals, with the company organising educational training schemes to this end; fair employment policies; a fair share of the revenue of the company – through taxes or participation – to meet both revenue needs and the cost of new development; and, above all, behaviour consistently in keeping with, and showing respect to, the national idiom.

If I were a business man I would want to be able to do the job for which my economic grouping was formed efficiently and without undue let or hindrance – for reasonable profit. I am a business man, and I believe the synthesis can be made. But it must be made bilaterally.

I quote from my 1961 Booker annual statement:

' . . . There remains plenty of work to be done, and plenty of room for profitable investment, by private enterprise in under-developed countries. But this requires the directors of private investment to understand the problems and realities of the countries in which they are operating, and to adapt themselves to their societies and economies as they evolve, not as they would expect them to be in London and the Home Counties. For the new governments, it demands that, in making new rules, they recognize the problems of investors and their need for a sufficient return; and having made the rules, they must fairly and squarely explain them and stick to them. Uncertainty about the intentions of governments is the worst deterrent to investment.'

I was recently asked by a reporter what I thought were the main duties of a company public relations officer. I replied that I thought his job was interpretative: that it was to interpret the policies and hopes and fears of the society to the company

and of the company to the society. I added that I thought that the former was the more important.

I finish with the thought that it is a great mistake for big business to cast itself, or get itself cast, for the star part in development. It may be the hero to itself: but it will tend to be the villain to many others. Business should be the efficient, practical stage managers – of other people's productions: a well-paid stage manager, if you like, in secure employment so long as he is doing the job. Without successful stage managers, productions usually fail.

International enterprise in the development decade

J. H. Loudon*

I chose this somewhat weighty title with some care. 'The Development Decade' is, of course, the slogan which the United Nations has adopted with reference to this particularly vital period, which may be likened to a launching pad in time, when a tremendous impetus of economic growth has to be given to that unhappily large proportion of the world's population which lives in poverty.

The expression International Enterprise has not become common currency, but it seems to be an apt way of describing large commercial and industrial undertakings such as our own – Royal Dutch/Shell.

Operating as we do on a large scale in many countries of the world, we can indeed be described as 'international'. We are 'enterprising' in that we are ready to 'undertake', as we often in fact do, 'schemes involving difficulty or hazard'.

The words 'free' and 'private' enterprise are still often used to describe commercial as opposed to governmental undertakings but I am sometimes at a loss to understand what is either free or private about our activities! However, we are certainly international and we are certainly willing to take risks.

The thoughts of the leaders of all the nations are today pre-occupied with two great problems: how to realise for their peoples their highest hopes; and how to avert their total destruction. It is the sad paradox of the age that, for the first time in history, both possibilities are plainly presented to us.

The next ten years, short though it is, could see significant progress towards the first of these aims: a better life for all. It may even be – though it is not my province to dwell on it – that such progress will be achieved as to make the statesmen's task a little easier, by demonstrating the obvious irrelevance of war in a world of plenty. At all events, that is the hope and the challenge, and we must meet it.

* Senior Managing Director, Royal Dutch/Shell Group. Originally given as a speech to the 72nd Annual General Meeting of the Netherlands Chamber of Commerce in the United Kingdom, 3 July 1963.

It is sometimes said – carelessly, I think – that ‘the rich are getting richer, while the poor get poorer’. As a statement of fact, this is not true. Although there is a huge and probably widening gap, the poor are getting a little less poor. Standards of living are rising in most, if not yet in all, countries. But the increase is small, and abundance, for the vast majority, is still a long way off. It is inevitable that those countries that start from an advanced economic base will find their standards rising, at least in absolute terms, faster than those that still have everything to do.

But this need not be a matter for pessimism. The conscience of the world is fully awake. For many years now, we have had before us the example of the extraordinary generosity of the United States. Other countries, too, are making their contributions in accordance with their means and abilities. The question is whether, as those means increase, their willingness to devote a growing share of them to the developing countries outside Europe and North America will increase also. The more rapidly this happens, the sooner will the general level of prosperity begin to rise.

However, the fact is that funds for development have so far been provided to a disproportionate extent from State sources – whether national or international; whereas I believe we are all coming to realise that ‘aid is not enough’ and that the most sensible, if not indeed the only ultimate solution to the world’s economic problems is a huge increase in trade. Without this, the gap between rich and poor will remain dangerously wide. When it comes to raising money every State has its difficulties.

This assumes a considerable availability of private capital and a corresponding willingness to invest. In this context it may be worth mentioning that the total amount of aid granted last year to developing countries was not very much more than the total investment of the oil industry outside the USA – about £2,000m. How much of this went to developing countries I can’t say: but of my own Group’s total capital and exploration and research expenditure of around £165m outside North America, some £60m went into such areas, to say nothing of the technical and educational assistance that accompanies our operations. You may say that the oil industry has to operate on an exceptionally large scale. Nevertheless the question arises

as to whether sufficiently purposeful consideration – and I use the word purposeful deliberately – is being given by the governments of the developed countries to the potentially much greater contribution that trade and industry could and should make if given proper encouragement.

Development through commerce has certain very relevant advantages over inter-governmental aid. In the first place it involves no cap-in-hand begging; therefore no sacrifice of national dignity; therefore there is an element of self-help, and the impairment of the full independence of the sovereign state is (as we have good cause to know) not real but illusory.

Secondly, state aid is limited by what tax-payers will stand for, and, to the extent that priorities are therefore necessary, they tend to be influenced by an element of political calculation. But trade flows where prospects beckon. Calculation, if cool, is commercial, often long-term, and looked at in these terms is based on an expectation of partnership in profit, not politics.

Of course, the industrialised countries should not make life more difficult for the developing countries by imposing restrictions on their primary products, and particularly on manufactured goods from their growing industries. But this only underlines the 'joint enterprise' aspect of all trade activities, in welcome contrast to the not always happy donor/recipient relationship inherent in aid.

Thirdly, industrial investment tends to be pump-priming – especially in terms of the local creation and sharing of expertise – of know-how divorced from political motive, doctrine or ideology. In the context of our own industry, we could speak of 'sowing oil' – and this metaphor has undoubtedly been appropriate in countries where oil has been found in large quantities.

The commercial motive should inherently be more conducive to keeping down costs, to achieving efficiency and to the development of local talent in order to ensure a long-term future. Indeed, perhaps the most valuable contribution that Western enterprise has made is in the field of technical and administrative training – and especially at what one might call the sub-graduate level where there is a desperately large deficiency in skills.

It may be thought by some that businessmen have been slow to adapt themselves to the 'winds of change'; but on the contrary,

I am convinced that there is no lack of enterprise or adaptability in the young men of today who seek careers overseas in the service of commerce and industry.

The day of the merchant adventurer or the chartered companies is over, but the traditional spirit of enterprise is still alive and vigorous and is perhaps seen today, not so much in the dedicated United Nations technical consultant or adviser on a short-term contract, as in the youth of the rising business managerial class, detached from politics, keen on their jobs and ready to spend a large part of their lives overseas. Moreover these young men, having assured careers, do not have to be looking back over their shoulders and wondering whether they are missing out on promotion or advancement in their profession at home.

What then can be done internationally to encourage ordinary firms and businessmen to play an even larger part in closing the gap in living standards between the developed and the developing countries? What are the obstacles in the way? How can we get rid of them?

There are, of course, such things as tariff barriers, discriminatory taxation, currency control and the like, but these – though we should welcome their reduction or disappearance – are by no means the whole of the problem; nor are ‘tax holidays’ and other incentives the whole of the solution.

A more serious difficulty lies in the attitude of some governments towards the whole concept of free enterprise – the ‘private sector’. It is, sad to say, an attitude of suspicion, of distrust amounting almost to fear. This is a great tragedy, for until this attitude changes, trade and capital will never flow as freely as it should – as it must – if what we all want is to be achieved.

How has this state of affairs come about? In the first place, there are the various emotive words that get bandied around and add to the general confusion. The word ‘capitalism’ itself still sets some teeth on edge, even quite close to home, and the Communists lose few opportunities of turning it into some sort of ideological scapegoat.

Both the economic techniques and incentives normally associated with capitalism have been effectively adopted by the Soviet Union in developing its resources since the days of Lenin’s New Economic Policy. It is quite misleading simply to say that capitalism is the opposite of communism. The opposite of com-

munism is personal and political freedom – but that is another story.

Then there is 'profit'. 'With regard to an individual enterprise the question of profit is of great importance as an economic indicator of its efficiency.' That was Mr. Khrushchev, addressing the Central Committee of the Soviet Communist Party on 19 November last year, when he told them to remember Lenin's injunction 'to learn from the capitalists' and 'to imitate the good and profitable things they have'. This almost recalls Dr. Johnson's dictum that 'there are few ways in which a man can be more innocently employed than in getting money'. And indeed the 'profit motive' is the most politically innocent of all motives.

But perhaps the most serious difficulty arises from fear of what seems to be the power of 'Big Business' – fears that are worked up by the ill-disposed into shadowy projections that can be called 'economic imperialism' or 'neo-colonialism'. Is there any reality, at all underlying these ominous catch-phrases? The business is big, all right, because that is its nature and its necessity. But it is not powerful in any sense that need disturb a government. No private concern, however big and resourceful it may be, can hope to work successfully in a country unless it acts as a conscientious citizen of that country and identifies itself with its interests and way of life; but it has no power to impose its will. By contrast, a government, being sovereign in its own country, has the power to impose any conditions it likes on a private company operating there, limited only by the accepted standards of international behaviour.

Because the task is so great in the developing countries it is only too easy for governments to believe that they must control everyone and own everything – a process that often results no so much in positive achievement as in stopping people from doing things. I believe a more correct understanding of a government's rôle is that it should both direct and liberate the energies of the people. Governments of developing countries face formidable tasks of economic management. Like governments of industrialised countries they must reconcile economic growth with reasonable financial stability, and in addition they must promote structural changes far more sweeping than are needed in the industrialised countries.

Private capital and enterprise, both foreign and indigenous, can help promote this difficult process of growth and change. The problems of economic management are so great in developing countries that for governments to reject the help of private enterprise is tantamount to inviting failure – both to promote economic advancement and to preserve a free society.

It is perhaps a woeful but realistic commentary on our age that I shall probably be laughed at if I suggest that the usual order of things might be reversed and that commercial capital be given its head and state aid and finance left to fill the still obviously considerable gaps left, in the infra-structure if you like, where traders do not normally operate.

This may sound like fantasy – yet I have a feeling that we may be on the threshold of seeing this sort of phenomenon coming to pass in some developing countries. For otherwise where is the money coming from? Politics exert at least some influence upon the choice of recipient and the extent of aid. Even in the affluent society of the West, domestic pressures coupled with the existing burdens of taxation – to say nothing of international payments problems – impose formidable limitations upon the willingness of governments to be generous to peoples in distant, though poverty-stricken, lands.

All the same, a private company with no political power may well wonder where it should look for protection if the sovereign government of the country in which it works should turn against it. Crises of this sort can only be resolved by argument, by discussion, and, in the last resort, by impartial arbitration.

It is for this reason that we have favoured the establishment of some form of international agreement or convention that would provide just this sort of forum for the discussion and arbitration of disputes. I was particularly impressed, therefore, to see what Mr. George D. Woods, the President of the World Bank, has said to the Economic and Social Council of the United Nations just two months ago. He said:

‘I have no doubt that the flow of private capital to the less developed countries would increase greatly, if the private investor could be persuaded to overcome his present fears that, in many of these countries, his investment may be threatened by expropriation without fair compensation, or

by other arbitrary action by the host government. Knowing this, we have been led to wonder whether the Bank could not in some way make use of its reputation for integrity and its position of impartiality to help in clearing up this impediment to international private investment.'

These considerations have led to the suggestion 'that the Bank might sponsor the establishment of a Centre or Secretariat for Conciliation and Arbitration, under whose auspices conciliation panels or arbitration tribunals would be set up when necessary'. I can only join Mr. Woods in hoping that further study of this constructive proposal may lead to a workable agreement.

I would invite your attention also to the action taken by many governments to formulate under the auspices of the OECD a draft Convention enunciating the basic principles of international law applicable to the protection of foreign-owned property. The adoption of a Convention embodying such principles is really essential if we are to maintain an international order that will encourage the flow of private capital to the developing countries.

To sum up then: if the Development Decade is to mean more than a prolonged and inflated 'Freedom from Hunger' campaign; if we take a really and sufficiently serious view of the dangers inherent in too slow a rate of development, too slow a pace in the business of closing the gap between rich countries and poor countries: then I believe that our governments – and their representatives in overseas lands – can do much, by helping to allay fears on both sides, by removing, so far as it lies in their power, both the real and the imaginary obstacles in the way, to bring about more quickly that great increase in trade and investment, which I said earlier is the ultimate solution to the problem.

Making the best of capital risk in developing countries

Arthur Gaitskell*

When I was young there lived a famous classical scholar, Sir Richard Livingstone, who once defined a technician as 'a man who understands everything about his job, except its ultimate purpose and its place in the order of the universe'. Today, when so many in the developed world spend their lives as technicians and so many in developing countries seek to qualify as such, Livingstone's definition recurs in one's mind with disturbing validity. Challenged to explain the ultimate purpose, do others feel, as I so often do, that they are swimming about in treacle? I suspect that they do and that some of the indifference, cynicism and frustration of our age has something to do with this feeling.

I make this introduction deliberately before asking the following questions: 'What does the Western world stand for?' 'What do developing countries stand for?' and 'Can their aims fit in with each other?' For it is in the context of these questions, and the ideas which go to answer them, that most private enterprise technicians abroad and to some extent at home, now carry on their jobs. For a great many sources of supply, sales markets and security are connected with them.

Western Attitudes

When I was a child I was brought up to believe in the virtues of the British Empire. The theme was two-fold: to keep others out lest they endanger our own strength, and to bring the benefits of what we¹ thought clearly the best in civilisation to people who to our minds had obviously enjoyed only lower standards. Only as I grew up did I realise that other, mainly European, powers had exactly the same beliefs about their own virtues.

After the First World War we began to abandon imperial pretensions. We substituted Commonwealth for Empire and trusteeship for colonial rule. We had not lost the war, but it

* Member of Board, Commonwealth Development Corporation. Originally published in *Optima*, September 1964.

¹ In writing 'we', Mr. Gaitskell is, of course, expressing himself from the British standpoint.

seemed that modern war benefited no one, and rival pretensions to Empire largely caused war. Instead, we set up the League of Nations, hopeful that this institution linked with national self-determination for 'civilised' people would lead to peace. Those erstwhile colonial countries where people were still 'uncivilised' the victorious powers continued to administer but rather as trustees. The concept was a world civilisation in our image and in our control. The initiative was largely British and American.

The aberrations of Germany, Italy and Japan back to imperial pretensions and a rule of force in the Second World War greatly strengthened the convictions we had formed after the First World War. The United Nations Organisation was set up to replace the defunct League, and enormous impetus was given to speeding up the transfer to national independence in erstwhile colonies in accord with our war-time objective of fighting for world freedom. Naturally all this was on our side of the picture. From their side developing countries demanded freedom, and although we may have doubted their ability to manage their own affairs without a much longer period of tutelage, it was obvious that we would not get their co-operation if we stayed, and tutelage would be useless in an atmosphere of hostility and force.

Again the initiative was largely Anglo-American. Again the hope was that national independence with equality within a United Nations Organisation would lead to peace. Again, and most important, there was an underlying expectation, although this time no trusteeship, that newly independent nations would adopt our interpretation of what was best for civilisation. Particularly was this the case with what we associate with the word 'democracy' – that is to say, the right to elect a government, freedom of the individual in expression of opinion and choice and the protection of an independent judiciary.

As against this vague common human ideal for mankind, the Western world found itself confronted with the challenge of communism. Although a physical take-over of Europe was prevented by the North Atlantic Treaty Organisation this had only the negative contribution of a defence pact. The risk that communism might penetrate the developing world as a faith led many to feel the need of a more positive Western world, or Atlantic community, faith to offer as an alternative. In a sense,

this meant a return to something analogous to our British Empire position but this time on an allied scale; that is to say that the ultimate purpose of policy had the two-fold objective of keeping out others (this time the communists) lest they endanger our own strength and of offering the world the benefits of what we thought clearly the best in civilisation.

Translated into practical terms this meant a reiteration of our democratic values, but this time linked to an objective of raising the standard of living. In the United States, especially, this latter link led to emphasising the virtues of private enterprise. Not only was this virtue evident to them economically in their own history. More important ideologically, if Communism equalled State Tyranny, Individual Freedom equalled Private Enterprise. We came then, until very recently, to an ultimate purpose, as evidenced by immense expenditure in aid and armaments, of projecting ourselves to the developing world, and seeking therein, their support, as anti-communist, pro-democracy and pro-private enterprise. The question is does any of this policy fit in with the developing world?

African Objectives

Generalisations are notoriously inaccurate, yet one has to attempt them because general ideas tend to dominate human history as much as technical discoveries. Policy is inevitably rooted in ultimate purpose and ultimate purpose is largely concerned with general ideas. One might narrow the generalisation to Africa, yet Africa, while particular as the colonial continent *par excellence* and as materially the late-comer continent in development, is itself enormously influenced by ideas current in the world as a whole.

With due deference, therefore, to the inaccuracies of generalisation and with due apology for attempting to interpret other people's ideas from their general attitudes, I suggest that the following features are dominant in what developing countries in Africa stand for, at least as expressed by their political leaders.

- 1 Freedom to determine their own future politically, economically and culturally.
- 2 Raising the standard of living.
- 3 Creating a fair society.

- 4 Carrying the people with the government as a dynamic force for development.
- 5 Remaining neutral in the cold war.
- 6 Practising inter-African co-operation.

There are two characteristics of these objectives which have a fundamental bearing on the question of ultimate purpose. In the first place, they affect the attitudes of African political leaders to forms of government (autocracy, democracy, freedom of expression, rights of individuals, independence of judiciary, etc.), to forms of economy (socialism, private enterprise, etc.) and to the existence of communism, in fact to exactly the three prongs which are apparent in our own Western world policy, in ways quite different from our own assumptions. In the second place, however laudable these objectives may seem, it is not at all easy to achieve them all at once. They conflict with each other. This second characteristic plays on the first, and may explain some of the changes in policy which have proved so disconcerting in independent African countries. Let me try and explain these thoughts.

First and primarily, freedom to determine their own future politically, economically and culturally. This does not mean that African leaders are unable to appreciate as much as ourselves the inter-dependence of today's world. It does mean, however, a very strong psychological rejection of any outside, and particularly Western world, definition of what they ought to do or be. It means also a parallel desire to assert an African presence, to contribute an African concept to the world's pool of civilisation. The corollary is an extreme sensitivity to any apparent indignity or any apparent reopening of the door to external dominance. Again the main fear is of a Western world dominance, whether political, economic or cultural, because historically treatment as a subordinate has come from that quarter.

It might be thought that as political independence has been largely conceded, this was no longer a contentious matter. It explains, of course, why it still is such a contentious matter where political freedom has not been conceded, in South Africa, Southern Rhodesia and the Portuguese territories. But however topically bitter the arguments about this political remnant, it is in fact a remnant question. The greater problem is not the

relationship with the five million residents of European origin in these countries but the relationship between the external world and the vastly greater number of Africans in the continent as a whole. In this relationship it is dislike of economic, as much as of political, subordination which causes the trouble.

Historically, economic development in Africa has been built up by outsiders, and local Africans have led a separate subsistence way of life, or merely formed the lower labour force in the economy. Estates, plantations, mines, processing plants, industries, banks, insurance and import and export trade owe their origin to people whom Africans regard as foreigners from other continents. Although in recent times local Africans have begun to participate in monetary crops, and through marketing corporations to have a share in the economy, it is still broadly true that at the date of political independence the economy appears to be owned and controlled by other races, and orientated to the benefit of the outsider. However much these others may feel a legitimate credit for starting an economy at all, this unbalanced situation engenders a very real feeling of continuing resentment at the sense of still being subordinated in much of the profitable production and trade in one's own country. The feeling lies behind much of the cry of 'neo-colonialism', which is apt to puzzle and annoy us when political independence has already been granted. The resentment may be directed against the continuing commercial permeation of other races or against a repetition of subordination to new expatriate business investment. Both suggest exploitation in the interests of outsiders rather than nation-building by controlling one's own economic destiny, and it seems probable that there will be no real contentment psychologically until the degree of local and national economic enterprise reaches the stage when nobody really minds whether a business is foreign-owned or not. It is a resentment which we should be perfectly able to understand, because, under infinitely less subordinate circumstances, Canadians, French and British have felt it against American investment; and, within our own nations, materially backward areas (particularly with a different racial complex as, for instance, in Quebec within Canada) have often felt it against their more prosperous compatriots. It is also, of course, a resentment which is typical of most developing countries.

The resentment about foreign control of the economy has a

bearing on the methods of attaining the second and third suggested objectives, namely raising the standard of living and creating a fair society, and inclines these methods towards a socialist solution. In Africa, the vast majority are poor, technically uneducated and rural. In such circumstances only the state has the concentrated capital and personnel to carry through a conversion exercise in control of the economy. Moreover, if in the conversion the benefit from development goes simply to enrich a small group of more enterprising local Africans, the continent risks a repetition within its own people of precisely those inequalities which historically have so marred development in more advanced countries, and still do so today throughout Latin America, in parts of the Middle East, and in parts of Asia. It does not take a genius to perceive the correlation between these inequalities and the origin of communism.

Unlike Latin America and Asia, Africa so far has not experienced much of a rich clique in local society. Where such a clique exists it is, in African eyes, a foreign one. Moreover, traditional African custom has always had an egalitarian flavour, particularly in relation to access to land, the only known security for an individual. It has been a system not of great landlords but of thousands of small subsistence family holdings with a considerable community outlook. When all this background is taken into consideration, it becomes easier to understand why African political leaders, on the threshold for the first time of independent development, incline to a socialist concept of society. The state represents at once a defence against foreign economic dominance, an instrument (and at first the only instrument) with capital and personnel to develop an alternative locally-owned and managed economy, and a watch-dog over development to obviate any small local clique cornering the benefits. For the same reasons, it is easy to understand why co-operatives are so favoured because they provide the readiest understood means whereby thousands of poor people can exert some control over what they get for their products instead of leaving this to 'foreign' middlemen.

It is at this point that an obvious conflict becomes apparent between the three objectives of controlling the future destiny of the country, raising the standard of living and creating a fair society. For the most part developing countries are poor. Many of them have exhausted government reserves in trying to expand

their basic needs in education and communications, and find great difficulty now in balancing their expanded budgets. Some, to emphasise for their people the reality of independence, have spent resources on prestige investments which give no income return. Usually, local capital is totally insufficient to provide the large sums needed to raise the standard of living. Moreover, the prices of primary export products, upon which most of such countries depend for revenue, are at levels which make revenue collection by export taxes and marketing board surpluses liable to deter farmers' incentives just when the main need is to stimulate them. All this adds up to the fact that, however much these countries want to run their own show economically, they cannot raise their standard of living without foreign capital to help. On top of this, they often need both foreign 'know-how' in the techniques of business and foreign links to introduce them to markets. A compromise has therefore to be made in order to get the help of some external interested party, and the problem is how far one can get this without sacrificing too much of one's primary objective of running one's own show.

In countries where there has been European settlement, the problem is all the harder. The antipathy to foreign control is concentrated on the European community, which forms a double target as the opponent of political independence and the acquirer of much of the country's land. The sight of European estates, where one man gets the benefit of many acres while those surrounding him in tribal areas are very short of land, seems conspicuously unfair. The same sense of inequality colours the foreign monopoly of the sinews of industry and trade and the foreign ownership of plantations. Yet it is, at present, the 'foreign' sector which is the major contributor to revenue. Past resentments and future objectives to be one's own master make it tempting to eliminate this element without delay, as has been done in Algeria, but its contribution to revenue and employment until African participation in the economy has been built up is likely to be invaluable for raising the standard of living, and its sudden elimination would be certain to depress it.

In this case, the African nationalist has not only to persuade his own constituents that the main focus of their antipathy could be a useful ally but to persuade the 'foreigners' that they have a worthwhile future in a minority under an African government.

The degree of compromise to attain is far harder than for new expatriate aid and investment, because, for the 'foreigner', the desire to control politically has to be given up, land appropriations connected with this have to be reduced, and life under an African government rather than a 'foreign' way of life in Africa has to be considered as a permanent personal decision.

'Foreigners' aside, conversion to local control itself involves a choice. Should one encourage the enterprising but acquisitive type in agriculture and industry, or should one spread the opening wider in the interests of settling more landless people and helping the destitute? Is there not a risk of too much equality resulting in universal poverty with no purchasing power and no capital? Where does one set the compromise – for without concentrating on the most productive use of resources the road to a higher standard of living will be much longer, and time is urgent when population and unemployment are increasing. The problem arises again internally in the choice of what and where to develop first when everyone and every place is claiming an equal chance of development. To satisfy equality, should one continue universal primary education without regard to the country's employment potential, or should one cut down the primary so as to give a smaller cadre the greater secondary and technical education which can improve that potential instead of leaving that job to foreigners? And as between regions, should one concentrate on spearhead productive zones which can give higher results quicker, or diffuse development everywhere in the interests of equality?

From such examples of conflicting objectives it is easy to see why carrying the people with the government becomes a major problem. It is not at all easy to answer such questions, and the answer may vary with the importance the speaker attaches to one rather than the other of these three main objectives. African leaders must find it extremely difficult not only to know what they think is the best answer but to what extent their followers will support them in their choices.

Potential opposition is very likely to arise after independence owing to misconceptions about the need to compromise. Many will expect that independence ought to mean no more expatriate officials, and this belief will be encouraged by pressure to provide jobs for locals. Many will expect a reduction in 'foreign' landed estates and in 'foreign' control of business. Many will demand

equality of opportunity, and all will expect an automatic rise in the standard of living with little conception of how these aspirations conflict with each other. Opposition may also arise from traditionally dissident elements, tribal or racial, cultivators or pastoralists, within the country. Indeed, only very recently have education and political opposition to colonialism brought any sense of cohesion to states whose boundaries were arbitrarily drawn on a map by European powers. Finally, as with any human society, there is the all-pervading problem of personal competition for power in circumstances where fears of suppression and opportunities of moulding a continent are peculiarly blended.

Customarily, in African tribal society, decisions on policy have been arrived at by open debate, concluded eventually by a summing-up by the chief. Opposition later would be regarded as disloyalty, and the concept that it should be tolerated and given free rein is altogether strange. In the circumstances outlined above, African governments start from an extremely weak position. If the country is to be developed, they face an immensely important task of conveying to the people the objectives and compromises of government policy. Tribal autonomy or minority secession cannot be tolerated. Modernisation of agriculture demands obedience to land usage rules. Economic success in industry demands adherence to wage awards. Compliance in such conditions seems more important than freedom, and society more important than the individual. It is easy to understand, therefore, why the methods so often resorted to are rule by one party, or by a dominant leader, suppression of Press freedom and intolerance of any opposition.

All these considerations also have a bearing on the inclination to neutrality. Without a firm national policy from the moment of independence a developing country enters the jungle of conflicting ideologies unarmed. A great deal of Western aid has, of course, been motivated by defence against communism, and communist aid has ideological objectives the other way. It would appear, however, that most developing countries in Africa want to make their own choice of what they think suits their circumstances and, for this purpose, to have a look at the communist world as much as the Western world. This does not necessarily mean that they prefer communist ideology. What they are looking for is some pragmatic answer to their own circumstances. To

them, communism as such is not so much the precipice as the red end of the spectrum. The great African interest in Yugoslavia and Israel reflects these attitudes. Subordination is no more desired to communist than to Western imperialism, but freedom to choose whatever is appropriate and, above all, freedom to trade with the communist world is expressed in assertions of neutrality. And, just as we search for some common philosophy and allies representing a Western world interpretation of civilisation, so they search for a Pan-African concept and allies among developing countries in positions like themselves.

The rôle of the West

If the above analysis is broadly true, it is apparent that certain conceptions of ultimate purpose held in the Western world do not easily square with developing countries' objectives. Democracy itself by our interpretation, however ultimately acceptable as an ideal, is not easily practised in these circumstances. Recruitment to an anti-communist front is not at all desired, nor does the difference between capitalism and communism seem to justify involvement unless the nature of the communist claim is a threat to national independence, as recently between China and India. Even more meaningless is hostility to socialism and emphasis on the exclusive virtue of private enterprise, which, in their history, is far more easily associated with exploitation for foreign profit than with contribution to national economic strength. Totally incompatible is any continued foreign monopoly of the economy or any continued paternalism or claim to a superior interpretation of what is best for them in civilisation. Totally unacceptable, to the extent of a complete obstacle to co-operation, is any sympathy with White supremacy.

Where we do fit in (although this has its own problems of mutual adjustment) is in infrastructure aid, whether this be in surveys and research stations, in education and training of all kinds, both locally and overseas, in loans for physical structures, ports, railways, roads, dams, etc., or for mere budget maintenance, and, finally and above all, in trade and market outlets for their products. The fitting-in, in fact, lies in the direction of anything which can help to build up their own control of their own economy and at the same time raise their standard of living.

It is at this point that I would like to return for a moment to the simile of swimming in treacle, for the long histories of both our ideas and those of developing countries run in different currents which tend to ebb and flow both in the Western world and in developing countries, and this action and reaction tends to make any continuity of purpose extremely difficult. In the Western world, for instance, one is tempted to feel that, while we have given up pretensions to imperial power, other countries, particularly the communists but also many newly independent states, have by no means done so, and this leads us to wish to retain certain bases and points of power for our own defence. While few really want to go back to imperialism, a very much larger number continue to feel that Western civilisation is the best, and that the granting of independence to those of lower civilisation was premature. Such feelings are, of course, particularly concentrated in European minorities in Africa who see their own personal standards threatened. As a result, certain countries within the Western world complex simply do not subscribe to the democratic idea. Apart from South Africa, Southern Rhodesia and Portugal, the whole policy of France, with its contempt for the United Nations and with its own far from democratic government, is conspicuously motivated by nostalgia for French glory and influence.

A much larger population in the Western world, subscribing to the ideals of a free society and genuinely believing these to be vital to mankind as a whole, are forced to wonder at what point in the degree of autocracy, or in the degree of inclination to the red end of the spectrum, or in the degree of breakdown and chaos, it is possible to 'fit in' with some individual developing country. Naturally such uncertainties affect the readiness to invest, and naturally the policy decisions on all these matters in any Western world country tend to vary according to whether the government is of the right or of the left.

Something of the same mixture of currents is evident in developing countries. While the political intelligentsia may subscribe to the six objectives outlined above, there may well be elements of a feudal nature who do not do so, and in the population as a whole the horizon may well be limited to interest in crops and stock or in traditional hostility to the next door tribe.

One of the remarkable characteristics of the Kennedy administration in the United States was that it brought a new vigour to the search for a signpost out of this sea of treacle. The great sense of loss felt by so many people the world over at the President's death must, in part, have been due to sympathies with this initiative and to fears that it might die with him. The initiative was not one of despairing of democratic values or of cynically despising the United Nations Organisation as a cockpit of new nation's political pressures. On the contrary, one of its features was determination to take away the reproach that the Western world did not practice what it preached, as illustrated by the Negro situation within the United States itself. Nor was the initiative soft on defence against aggression by the Communists. The newness in the initiative was rather in the method of approach to developing countries. No longer was this one of the Western world knowing what was best for them either about forms of government or types of economy or communism. It was put at its simplest in President Kennedy's inaugural address when he said, 'To those people in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them to help themselves, for whatever period is required – not because the Communists may be doing it, not because we seek their votes, but because it is right.' This is not the language of the hot or cold war but that of the United Nations Decade for Development. The theme is less the East/West problem (although President Kennedy had the firmest convictions on what the West stood for²) than what Oliver Franks first called the North/South problem, the stark difference between the richer third and far poorer two-thirds of the world. And the approach, unlike our previous Western world approach, is a 'fitting-in' approach

² Speaking at Frankfurt in 1963 and recalling his Democratic Convention speech about the frontier of the 1960's, 'a frontier of unknown opportunities and perils, a frontier of unfulfilled hopes and threats', President Kennedy said: 'Our mission is to create a new social order, founded on liberty and justice, in which men are masters of their fate, in which states are the servants of their citizens, and in which all men and women can share a better life for themselves and their children. To realise this vision, we must seek above all a world of peace, a world in which peoples dwell together in mutual respect and work together in mutual regard, a world where peace is not a mere interlude between wars but an incentive to the creative energies of humanity'.

because the North/South, rather than the East/West, gap is the fundamental problem of developing countries.

Actions pursuant to such a 'fitting-in' approach are illustrated by the Kennedy administration's emphasis on the Peace Corps whose principles of mutual discovery of solutions at the local level of living get right away from the avuncular attitudes of the colonial age. They are illustrated again by the principles of mutuality in the 'Alliance for Progress' in Latin America. They are illustrated above all by determined attempts to come to terms with Russia whereunder peaceful co-existence might be possible for the world.

I have quoted the Kennedy administration's initiative because the United States has such a dominant influence in the world, but equally in British policy illustrations could be given of a somewhat similar 'fitting-in' approach to the objectives of developing countries. Prime Minister Macmillan's 'wind of change' speech in South Africa, so objectionable to many European residents, and Iain Macleod's political policy in Africa when Colonial Secretary, so objectionable to right-wing elements in the Tory party in England, follow the same pattern of attempting to practice what we preach about freedom in so far as actions impair other people's freedom. The British Government's refusal to hand over power to the European minority in Southern Rhodesia and parliament's attitude to the race problem within Britain are vindications of the same principle. Many liberal elements in Europe, the Commonwealth and Japan give evidence of the same objectives, and a great deal of bilateral and especially international aid furthers the same concept.

In spite of these common outward-looking tendencies, however, the instability of many developing countries and uncertainty as to whether the aid is achieving the objective of raising the standard of living cause reactions away from the Kennedy initiative. The readiness with which some developing countries, while demanding national freedom themselves, deny any freedom of choice to minorities within their own boundaries, the cynicism with which others ignore United Nations verdicts which conflict with their demands, the difficulty in others of obtaining any practical action for social reform, the ease with which an individual with army support can overthrow a *régime*, the fear that centraliza-

tion may open the door to Communist control, the inexperience, inefficiency and corruption in some countries, the barbarity in others – all these weaknesses (and one forgets that many were equally evident in the Western world) tend to discredit as hopelessly idealistic an ultimate purpose of building a better world for mankind irrespective of ideologies. The flow in ultimate purpose which went forward with the Kennedy initiative may well change to an ebb in which ideology, and individual national prestige and power become once again more dominant, drawing the Western world away from a potential meeting-point with developing countries. At such a time it seems particularly important to discover the mutually acceptable terms of that meeting-point.

Critical as this moment may be in the Western world to decide whether to flow forward towards a one-world concept of development in diversity or to ebb back in disillusion, it is possible that it may equally be an important moment of truth for African leaders. The very weaknesses which make us hesitate – the chaos in the Congo, the barbarities in Ruanda, the precariousness of power in East Africa – can hardly be more palatable to them than to us. A hand of understanding in the dark may be welcome.

For the governments of most developing countries the real subversion risk lies in the coming generation in their own society if conditions continue to lead to frustration from landlessness, overpopulation, unemployment, low incomes and no rise in the standard of living, from corruption and dissension, from the lack of a solution to the school-leaver problem, and from continuation of the image of colonialism. To avert failure and the collapse of hopes, and to become identified with national self-development irrespective of any other objective, would seem more important as a policy for the Western world than to expect ideals of democracy, preference for private enterprise or anti-communist fervour. The choice which confronts developing countries is less concerned with these objectives than with the straight alternative of either developing mixed economies analogous to our own tendencies but with a stronger strain of socialism, or moving right over to the red end of the spectrum. The third alternative, and a very real one, is simply breakdown and chaos.

Problem of Private Enterprise

Some people may feel that an ultimate purpose of building up development in another country, and especially of deliberately building up local control of the economy, is so political an objective that it belongs entirely to the realm of international and bilateral aid agencies. Private enterprise is surely simply concerned with profit. If conditions in any country are risky, then one expects a much higher rate of profit to offset the risk. If they are very risky then one simply does not invest. The sole duty is to the shareholders, and however much the build-up of developing countries' economies may be vital to Western world interests it is not a matter with which private enterprise should be concerned.

While from some aspects this would seem a legitimate, some might say obligatory, viewpoint, in other respects it could be a dangerously narrow one. It is precisely a feeling that private enterprise cannot entertain any motive except to pick out plums for its own profit that drives so many people into pure state control. In the question of our relationship with developing countries there are both negative and positive reasons for challenging such a limited interpretation of responsibilities. On the negative side there is the problem of the image already created by private enterprise. At the risk of repetition it must be recalled that one of the most striking historical attitudes of our times is the desire in developing countries for economic as much as political freedom. It does not matter whether it is Asia, the Middle East, Africa or Latin America, there is everywhere in developing countries a rejection of ownership of a country's main economic assets by foreign private enterprise. Yet, in fact, this is the pattern which very largely existed in the days of colonialism under European powers and in the relationship between the United States of America and Latin America. The plums were picked out. It is very relevant to ask what private enterprise is doing about this image. The answer goes far beyond the interests of private shareholders, for by playing on the bogey of being subordinate once more to foreign private capital (and especially if allied to a small group of very rich men in the developing country itself which is in marked contrast with the poverty of the majority) the Communists strike a far more sensitive chord than they do by preaching

Communist ideology. Even local private capital, when narrowly based, presents an objectional image of inequality.

There is also the positive side of the question. It is not merely the attitude and image which private enterprise presents which is important in developing countries. The capital, technical 'know-how', managerial capacity, and access to markets which it can bring, or not bring, is also of critical importance. There is also the efficiency which attention to profit evokes, as even the Russians have found. International and bilateral aid, whatever their contribution to infrastructure, still leave an enormous gap in the superstructure of development. In spite of the predilection to socialism, if private enterprise could be, and could be seen to be, an active ally rather than an enemy to national objectives, the assets which it could bring may well fill the niche which makes the difference between success and failure in development, and failure may lead to a most unstable world. The belief that socialism and private enterprise are incompatible is being proved a myth in our own society, particularly in Europe. It is not impossible that the time may come when it is proved a myth in Russia. Meantime, the most readily acceptable place to demonstrate this is in developing countries.

The point at issue is whether the Western world can move over from a history of private enterprise initiative, which has often built up both our own profit and the start of any economy in overseas countries, to a planned build-up of competent ownership and management in local hands. The emphasis on competence is important if the real objective of a higher standard of living is to be attained, and here the profit motive gives private enterprise its greatest justification. But hitherto private enterprise principles have hardly been geared to building up local control of an enterprise, and most suggestions for investment charters are to protect investment against such a contingency. Sympathy with local ownership and management, whether state, co-operative, or private, and practical measures to make this successful, may be more important in keeping developed and developing countries together than ideological anxieties. When standards of living are higher and psychological resentments against the long political and economic supremacy of the West are assuaged, the values of individualism which we cherish may automatically become more part of our world.

As a matter of fact, a number of examples are evident in many parts of the world which illustrate how expatriate private and public enterprise is trying to adjust itself to fit in with local objectives, and where local governments are trying to modify their approach in order to get the benefit of external help.

Joint Capital Structure

One of the commonest examples is the joint capital structure system. This may take the form of arranging for part of the capital to be subscribed by the local government, or local development corporations, with the idea of giving local people a feeling that it is as much their show as that of outsiders. One of the great problems in these examples is that of management control. Expatriate capital is reluctant to concede majority holding to the locality for fear that decisions may be forced on it which are not businesslike. On their side, local governments often fear that if they concede majority control the expatriate element will concentrate entirely on profit to the complete exclusion of social and political considerations. Being very sensitive to equality, they also fear that they will be treated in an off-hand paternalistic manner as children to whom explanation of the accounts and working of the undertaking are too difficult to fathom. Some firms in such partnerships take the view that a 50:50 arrangement is best, as then neither side dominates, and disputed points have to be decided mutually. A striking recognition of the importance of local ownership as reducing the climate of risk is the Kaiser Company's principle of accepting only minority holdings in developing countries. There may be no uniform solution, but in an atmosphere so dependent on psychology one or two points seem valid. The first is that no one gains anything from an undertaking which is commercially a failure. The second is that remoteness on either side is likely to be worse in breeding suspicion than genuine close contact in encouraging dissension. A third is that 'stooge' directors representing the locality are useless, and tend merely to affront local people who know their limitations.

Another difficulty about joint capital structure is that often the locality cannot find the money to put up its share of the capital. One of the most remarkable examples of overcoming this difficulty was that of the Williamson diamond mine in

Tanganyika. In this case, Anglo American Corporation of South Africa not merely agreed to a 50:50 capital structure with the government but actually loaned to the government the capital to subscribe its share against repayment out of its future share of the profits. It may not be easy to imitate this example, but rather than start enterprises all over again entirely with foreign capital it would seem worth considering whether institutions like the International Bank, or private enterprise consortia, could not specialize more in loaning their local capital subscription to local governments, particularly if the enterprise is in partnership with some firm which has business ability and market contacts.

Another instrument which can be helpful in this respect is our own Commonwealth Development Corporation (CDC). It can step into the breach, the local government finding part of the capital and the professional partner the rest. When the business gets established successfully, the CDC capital can be sold to the locality, which is precisely in keeping with CDC's duty to turn over its money and set local people on their feet. CDC is already engaged in a number of such tripartite undertakings.

Another form of local capital participation is that of share subscription, offered not merely to local government but to local subscribers. People are too poor in most developing countries for much money to be subscribed in this way, but where it can be done, it often gives a much closer sense of association than does government subscription. Once again, in such circumstances it appears psychologically very important to treat private local shareholders with particular consideration and to take them fully into confidence as adult partners in the undertaking. Some firms, such as the Cotts Group, have had the wisdom to do this, and have greatly improved their local standing by doing so. It is true that, in an atmosphere where few of the public are sophisticated in business, there is a risk of expectation of enormous profits and ignorance of the risk of loss, but many African politicians dislike intensely the concept of protecting their public against commercial risks because of their ignorance. To them this smacks of the legacy of colonial paternalism, and they prefer to see their people genuinely introduced to the realities of the world's business. From the expatriate point of

view also, treating people as too ignorant to share the risks and understand the issues often leaves the grossest misconceptions about foreigners making immense profits out of their land. Full public explanation of the accounts in the improved simplified way in which many companies now present them to their shareholders and the public in the Western world could go a long way to removing some of these misconceptions. Publicity to this end in local African papers, and especially to students and local employees, could be a valuable aid in the whole process of 'fitting-in' in the future.

Of all the tendencies which confront expatriates nothing is so strong as the desire for Africanization. This is partly owing to local pressure for profitable jobs, but it is also very much a reflection of the emotional claim to equality and the political desire to prevent foreigners from controlling the economy by continuing in all the positions of responsibility. Many expatriate firms have long since had programmes of training for local men for such positions, but some have been slow to do this. In some countries the sense of frustration on this issue had led to government legislation laying down that certain percentages of the payroll and upper posts must be in local hands, and refusing immigration and residential permits to expatriate personnel. This is the worst of all solutions because it bears no relation at all to competence of local candidates and risks the efficiency of development. Nevertheless, this is likely to be the solution adopted unless genuine programmes are put into action by expatriate concerns, not on the standard British method of working up slowly from the bottom of the ladder, but with much more of the deliberate emergency initiative which we ourselves applied to training within industry during the war. Once again, remoteness from the local government in this respect seems to be a mistake, as they themselves, in the end, really need and want an efficient ultimate result; but, unless they are fully cognisant of expatriate plans and judge them to be genuine, they are apt to suspect that nothing is being done. There seems little doubt that this is the kind of problem wherein risks have to be taken on the grounds that a good continuing relationship of 'fitting-in' may be more important than obtaining the last cent in terms of efficiency. Local capacities have often been measured by some imaginary yardstick of honesty and

efficiency instead of being compared with current conditions in most other countries. If this yardstick is dropped and genuine counterpart training is widely used, it will be all the easier for African politicians to resist their relations and party supporters and come to terms on a genuine yardstick of building up a successful, rather than unsuccessful, future for their economic development of their country.

If it really is their economic development which is the objective, the question arises as to how long foreign capital and management are necessary. This may seem a revolutionary suggestion to those who invested in some mine or plantation and imagine it would be for ever. Nevertheless, it is a question which ought to be faced. Without any doubt, association with foreign capital and management would seem far more tolerable, if not positively welcomed, if some kind of time limit could be envisaged when the undertaking would be in local hands. This is particularly true of major assets which dominate a country's revenues. The alternative has so often ended in nationalisation without compensation. If the Western world is going to fit in with developing countries' aims, it is essential to ask ourselves whether there is any need for permanency. There must be instances on innumerable occasions in our business life when an enterprise has been transferred from one collection of shareholders to another. It is usually a matter of trying to arrange fair terms, and after the deal the departing capital is employed in other directions. It is not impossible for such terms to be thought out in advance. Nor is the risk of being wrong in such forecasts so obviously greater than the risk of nationalisation and the risk of insecurity of government in countries where issues like this are left uncertain.

Apart from major undertakings which may merit such an arrangement with the local government, an alternative method, in any case, is a regular plan to convert the initial foreign capital to local capital by selling shares to the local public to establish local control over a period, and to reinvest the moneys paid in other enterprises in the same country, rather on the analogy of the objectives of the CDC. One might well wonder if the history of Cuba might not have been different if such attitudes had been taken by expatriate

capital, although, of course, there were other elements in the Cuban situation.

I have quoted only a few examples illustrative of a filling-in policy. There must be hundreds of others, notably from the big international companies (and notably in self-preservation, but why not?) which indicate that, while naturally looking for profit, expatriate private enterprise is also capable of constructive understanding of the wider needs of the country of their initial investment. The Shell Company's pioneering interest in rural reconstruction, as illustrated by their foundation at Cagua, in Venezuela, and by their remarkable research into agriculture extension techniques at Borgo A Mozzano, in Italy, seems to have been sparked off by concern at the imbalanced results of major industrial development surrounded by a stagnant countryside. For the same reason, Rhodesian Selection Trust have been financing research into improved land usage of the Kafue Flats in Northern Rhodesia. In Ethiopia, the Cotts Groups, previously interested only in trading, have deliberately invested (joint capital structure) in cotton production in a totally uncertain region to demonstrate their readiness to put money in and not just take profit out. Combining some of these features, the International Basic Economy Corporation, a private enterprise group in the United States, specialises in investment in developing countries in sections of the economy which most affect people, such as lowering food prices (by installation of modern bakeries, supermarkets, poultry production, fish canneries, sugar plantations, etc.), building sound housing, starting industrialisation for import substitution, and developing a capital market for investment of local savings in mutual funds which offer large and small local investors a chance to participate in a diversified, professionally managed portfolio. A different, but in its way complementary, recognition of local needs was referred to recently by the chairman of Consolidated African Selection Trust, a mining group long established in Ghana and Sierra Leone. A record gross profit had ended in a substantially reduced net profit owing to extremely heavy special taxation. The chairman sought to explain to shareholders, as of equal concern to them, just how necessary this taxation was to meet the formidable need for education, health, and road and industrial development which the governments of these countries must put through.

I mention these examples to illustrate that the popular image of foreign private enterprise as only interested in exploitation for profit and incapable of being an ally to developing countries' objectives is not necessarily true. It must be stated, however, that these examples are mainly found in big private and public corporations who already have roots in developing countries.

Is enough being done, however, by expatriate private enterprise both to change its image and to make its contribution to developing countries?

Suspicion of exploitation dies very hard, as is obvious enough in our own industrial relations between labour and capital, and the reaction to the kind of initiative described above varies from country to country. There are many in Latin America who nickname the great United States initiative to change the image there 'The Alliance for the Progress of the United States' in spite of the deliberate provisions in the 'Alliance for Progress' for local participation and control. And while some countries in Africa have obviously welcomed the big companies' help and interest in their national problems, others have held to the old Latin saying *Timeo Danaos dona ferentes*. Moreover, smaller expatriate companies, and especially non-European capital, have not done much yet to alter the exploitation image. Equally discouraging is the fact that very little new private enterprise capital is currently flowing into newly independent Africa. Recent statistics of the Organisation for Economic Co-operation and Development, on the contrary, suggest considerable disinvestment.

The reluctance of private enterprise to invest is, of course, perfectly understandable. The uncertainty of welcome, the instability, the tendency to autocratic decrees, the extreme sensitivity to external criticism or slight, the inexperience, the economic fragmentation with so many small states practising autarky and affording only tiny markets, the very low starting level for development when the vast majority living in rural areas have no purchasing power and have yet to go through an agricultural modernisation to get it, the uncertainty of selling the products of that modernisation in the external world, and, finally, the possibility of little profit anyway: all these are ample deterrents. Yet what a challenge to the question of ultimate purpose in the Western world, and what a risk that, if we offer

no up-to-date economic philosophy to meet it, the red end of the spectrum may seem better than nothing!

The moment for new initiative towards a 'filling-in' policy is particularly timely in Africa. So far foreign aid has done the easy things – the infrastructure of surveys, roads, harbours, dams, airports, hotels, hospitals, schools and electricity – the kind of things which can easily be carried out by expatriate contractors (although this is not to decry the value of the training and concurrent use of local subcontractors). The problem now is to build a superstructure which can turn this inert base into higher standards of living, but a superstructure which Africans can call their own.

Four requirements

There would appear to be four main requirements in such an aim for superstructure: modernisation of agriculture; education of personnel, particularly middle-group technical personnel to execute such a programme; capital investment in agriculture and industry; and market openings for the products. Both international (particularly the International Bank) and bilateral aid are currently being channelled into the modernisation of agriculture and into technical education, although the lack of progress in these subjects is heavily retarding development. The scope for private investment lies both in agriculture and industry. The market openings depend on a real drive to encourage world trade. The difficulties are formidable. The need for both public and private enterprise is immense, but as a vision of ultimate purpose it is not a day-dream. The question is, can we adjust our preconceptions on both sides to make it a reality?

If we got down to it and really sat round a table with African leaders to do this, what, in conclusion, might make a basis for discussion of a mutual policy? I suggest that the following bones indicate the kind of skeleton on which flesh and blood might later grow.

1 More emphasis that the ultimate purpose of Western world policy is to enable developing countries to stand on their own feet, with less emphasis on persuasion that we know the sole best answer to civilization: in effect less concern about the export of democracy, private enterprise or anti-communism,

and more concern to promote a higher standard of living in one diversified world.

2 A new approach to the problem of mutual co-operation in investment. Such an approach would have a general objective of promoting local control of the economy, but on a broad base and deliberately avoiding an alliance between foreign private enterprise and local industrial oligarchies. Among the media for such an objective would be joint capital structures, encouragement of widespread local share ownership, where desired, and of local co-operatives, speedy but realistic Africanisation policies, time limits to foreign capital and management, and redeployment and diversification of foreign capital investment. One purpose of such an objective would be to harness private capital as an ally in development, bringing the discipline of a profit motive and filling the gaps in finance, technical knowledge and access to markets. Another purpose would be to alter the image of private capital as being only interested in picking out plums for itself, and opting out of development unless it can do so. Foreign investment behind a tariff wall merely to export large profits out of the local country clearly have little place in such a programme.

3 Given the initiative of such a new approach, stronger pressure on developing countries to accept and set up national plans of development (and within them impact projects) which can integrate and control competing and conflicting external offers of aid. Such plans should be particularly directed to obviate the salesmanship which is creating in Africa steel plants with no scrap, dairies with no milk, canneries with no fruit, hospitals with no doctors, and universities with no teachers. Given that the accepted objective is local control but at the same time a higher standard of living, the greatest bottle-neck is the general administrative weakness and lack of skills to follow up an infrastructure largely built by foreigners. Perspective planning for quality and effectiveness in investment now needs to overtake quantity and prestige.

4 Closer co-operation between those who assist and plan infrastructure expenditure, whether international or national agencies, and those who supply the public and private enterprise which needs to follow it.

5 Mutual discouragement of Balkanisation and encourage-

ment of inter-African co-operation. This is particularly important to get over the drawback of economic fragmentation, wherein the smallness of each country's internal market enormously limits the prospect of medium and large-scale enterprise. It is equally important as an antidote to the temptation to promote industrialisation behind tariff walls within each country, a tendency which risks using scarce capital and skills far too expensively and saddling the community with high-cost goods.

6 Mutual endeavour to avoid lop-sided development. This would appear to be one of the developing world's greatest present problems. It arises from the tendency to create urban and industrial complexes at the expense of a derelict countryside. It results in uncontrollable influx to sprawling cities where shanty towns, unemployment, crime, poverty and a sense of being left out of progress raise the greatest threat to social and political stability. The antidote must be to make the countryside an income-earning sector by decentralisation of industry and modernisation of agriculture. This is a risk sector which local governments, international aid and private capital neglect at their peril. It requires mutual priority attention in any national plan.

7 Active measures to increase the ability of developing countries to sell their products remuneratively in the developed world. It is idiotic to be putting in aid, and depressive to potential investment of all kinds, if the question of markets and prices is not tackled more satisfactorily. Adjustment of the terms of trade by the invention of some form of international adjustment fund is badly needed. Admittedly, this is a bafflingly difficult subject. No one can expect invention of artificial substitutes to be discouraged, although simultaneous invention of higher yielding natural products, by making lower prices more tolerable, may hold artificials at bay. Producers' restriction schemes have the drawback of discouraging growth and inhibiting development. Commodity stabilisation funds may be helpful price-wise, but one-way free entry, as conceded within the European Economic Community, is likely to be the most important stimulus to trade. Of course, some of the established interests may be harmed by the abolition of tariffs and quotas, and redeployment will be needed as much in Europe as overseas, particularly in the direction of exporting the capital goods

which developing countries lack and cannot themselves make. Inter-African free trade to encourage the quick development of an internal continental market is equally desirable.

8 Overhaul of the terms of aid which, in many cases, is not aid at all but bankers' loans or tied aid which merely creates an impression that the developed countries' interests are dominant.

9 Dispassionate enquiry into the necessity and feasibility of birth control.

10 A forum for frank discussion of all these problems with African leaders instead of the separate conferences of developed and developing countries.

11 Much more publicity in the Western world as to the complexity and importance of a new look at its relationship with the developing world.

It will be apparent that a skeleton of this kind is much more geared to a concept of one-world development than to separate approaches advocating a Communist ideology, American 'way-of-life-ism', Europe as a third force led by France, or a Commonwealth club, and this, in fact, is the outstanding political choice now facing the Western world. Do we suit the developing world, two-thirds of the human race, by flowing forward to the one-world concept or ebbing back to these alternative rivalries? One has a sense that part of President Kennedy's remarkable appeal to youth the world over was his call to new frontiers. Are we now turning back to the old ones?

Overseas Development Institute

160 Piccadilly London W.1 Hyde Park 2654

The Overseas Development Institute is an independent non-government body aiming to ensure wise action in the field of overseas development. It was set up in 1960 and it is financed by a grant from the Ford Foundation and by donations from British industrial and commercial enterprises. Its policies are determined by its Council under the Chairmanship of Sir Leslie Rowan. The Director is William Clark.

The functions of the Institute are :

- 1** To provide a centre for the co-ordination of studies on development problems;
- 2** to direct studies of its own where necessary; at present on a grant from the Nuffield Foundation it is undertaking a broad study of the relation between methods of aid and the problems of development;
- 3** to be a forum where those directly concerned with development can meet others and discuss their problems and share ideas;
- 4** to spread the information collected as widely as possible amongst those working on development problems;
- 5** to keep the urgency of the problems before the public and the responsible authorities.

ODI Publications

- World III**—a handbook on developing countries by Adrian Moyes and Teresa Hayter hard cover 17/6
 flexicover 12/6
Usable facts on population, plans, trade, private investment, aid, the UN, OECD, etc.
- Aid to Africa** by I. M. D. Little 7/6
A critical appraisal of British policy for aid to Africa south of the Sahara.
- India at Mid-passage**—a look at India half-way through the Third Five-Year Plan by William Clark, K. B. Lal, E. F. Schumacher and Robert Neild. 6/-
- Japanese Aid** by John White 6/-
A critical examination of Japan's relations with developing countries.
- Not by Governments Alone**—the role of non-government organisations in the Development Decade by Peter Williams and Adrian Moyes. 3/6
A factual account of the present role together with some suggestions for realising the potential.
- Aid to the West Indies**—a survey of needs and attitudes by D. J. Morgan 8/6
- British Aid**—a factual survey
- Survey and Comment 3/6
 - Government Finance 7/6
 - Educational Assistance 7/6
 - Technical Skills 7/6
 - Colonial Development 7/6
- Development Guide**—a directory of some 200 organisations in Britain providing development facilities for developing countries. 25/-
- Staffing African Universities** by Sir Alexander Carr-Saunders. 2/6
- Fertilisers** by Peter Collins 5/-
- Co-operatives** by Margaret Digby 5/-
- Power Supplies** by E. W. Golding 5/-

available from:

ODI Publications,
98 Kingston Road, Merton Park,
London, SW19, England