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THE IMPACT OF FOREIGN CAPITAL INFLOWS ON THE
PATTERN OF ECONOMIC DEVELOPMENT IN ZAMBIA: A
CASE STUDY OF ECONOMIC DEPENDENCE 1964 - 1973

by

Martyn A.R. Ngwenya

Thesis presented to the School of Graduate Studies
as partial fulfillment of the requirements for the
Ph.D. degree in Economics

UNIVERSITY OF OTTAWA
OTTAWA, CANADA, 1977

ACKNOWLEDGEMENTS

This dissertation was prepared under the supervision of Professor Benjamin H. Higgins, Ph.D., Vice-Dean, Faculty of Social Sciences of the University of Ottawa.

The writer is deeply indebted to Professors in the Department of Economics of the University of Ottawa for their guidance, encouragement and all the assistance rendered in the doctoral course work, comprehensive examinations and the preparation of the dissertation, to Professor Benjamin H. Higgins and the School of Graduate Studies for providing financial assistance, and to my wife Janet for her patience and tolerance in re-typing the drafts several times over.

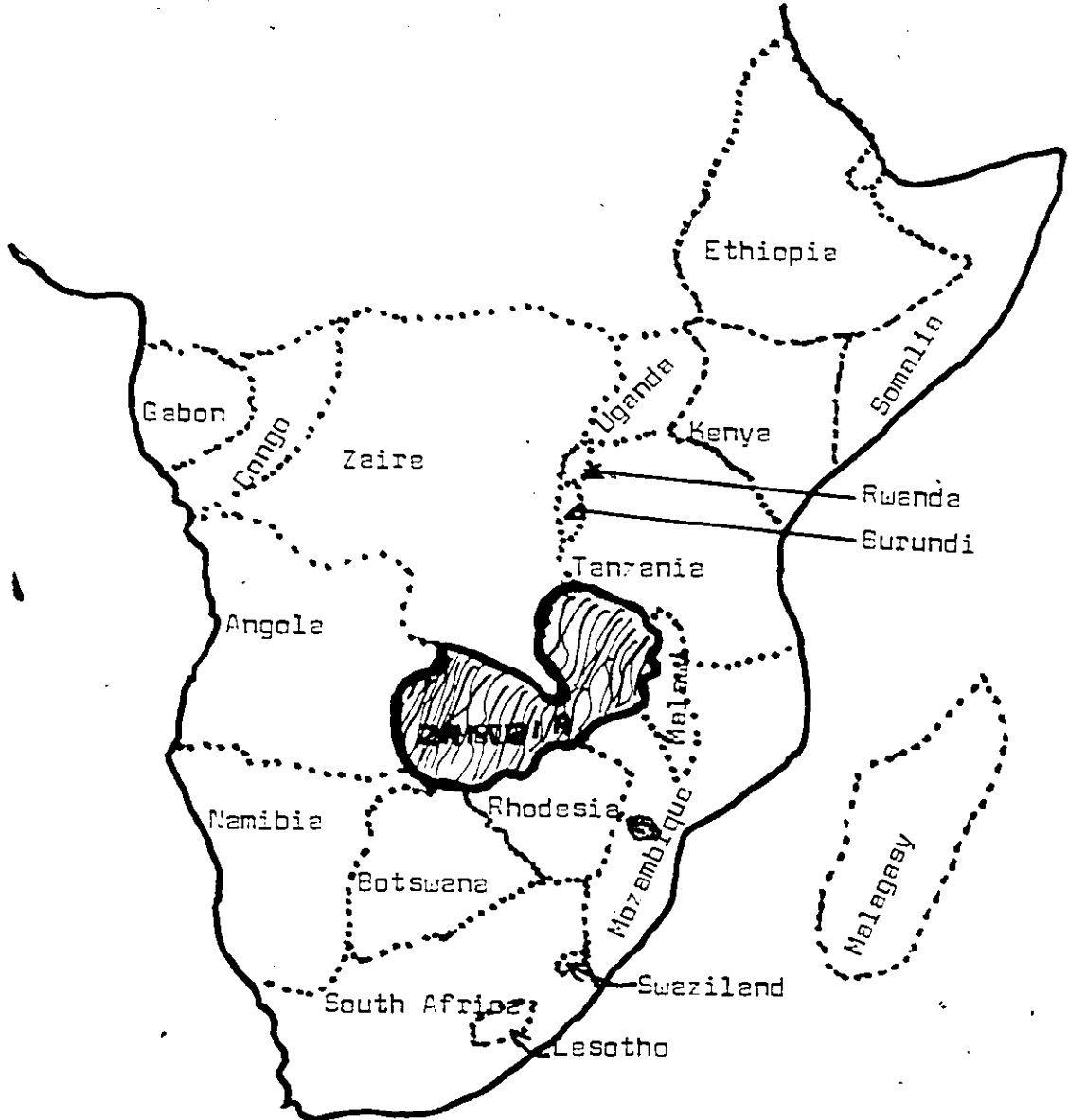
Thanks are also due to the Staff of the Central Statistical Office in Zambia; the University of Zambia Library; and Zambian Government Officials in the parastatal corporations. And finally there are those whose moral support was invaluable in Southern Africa and North America -----
I owe you more than words can express.

This study is dedicated to the development of human understanding and the creation of a world economy in which benefits are distributed according to human needs.

MAP 1

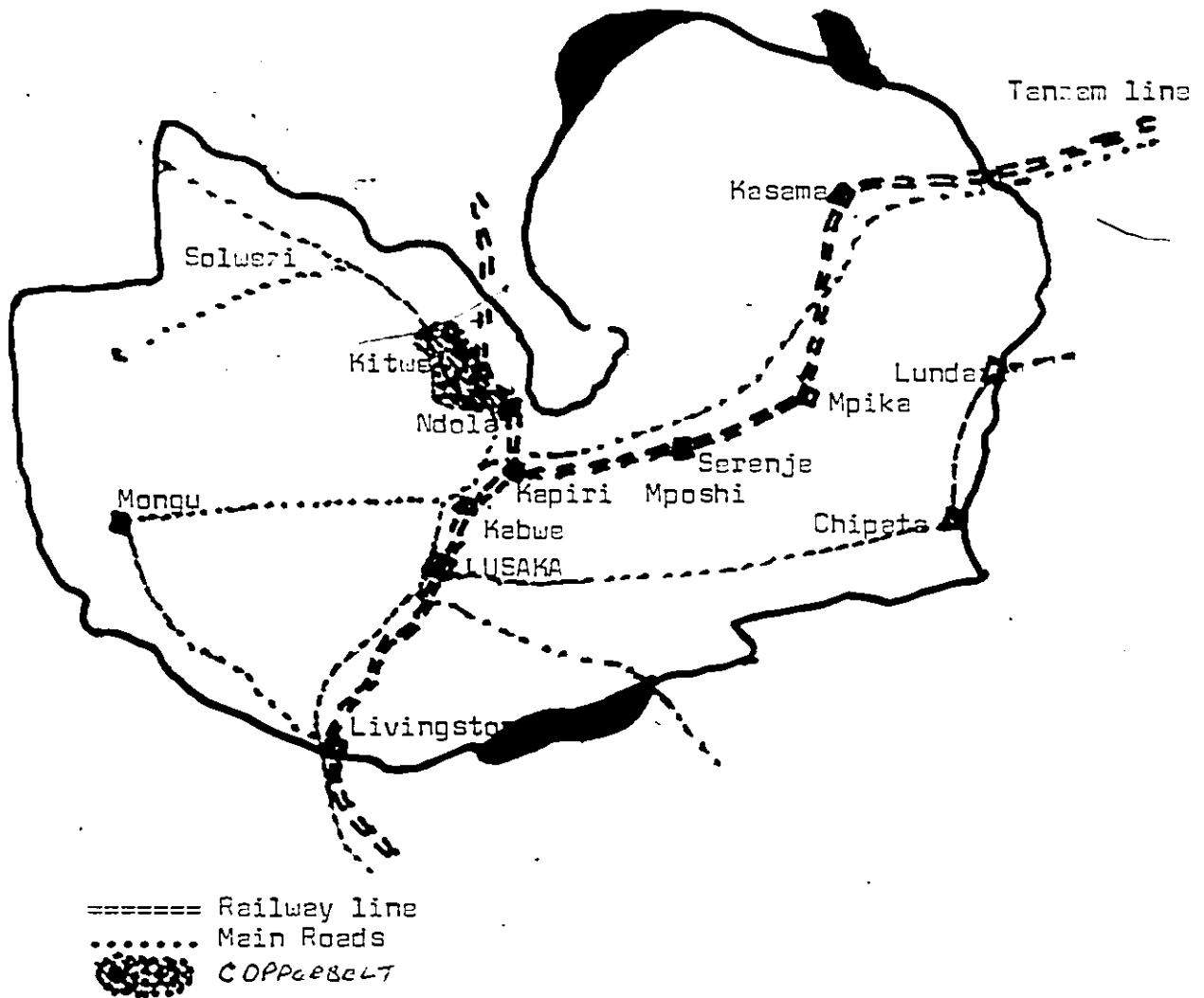
GEOGRAPHICAL POSITION OF ZAMBIA IN CENTRAL AND SOUTHERN AFRICA

Zambia is completely landlocked



MAP 2.

Railway System and Main Roads of Zambia



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ABBREVIATIONS

ADB	African Development Bank
BSAC	British South Africa Company
CAPC	Central African Power Corporation
CDC	Commonwealth Development Corporation
CIDA	Canadian International Development Agency
CSB	Cold Storage Board
DAC	Development Assistance Committee
DPB	Dairy Produce Board
EXIMP	Export-Import
FAO	Food and Agricultural Organization
FINDECO	Financial Development Corporation
FNDP	First National Development Plan
GMB	Grain Marketing Board
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDZ	Intensified Development Zone
IFC	International Finance Corporation
INDECO	Industrial Development Corporation
KNBC	Kariba North Bank Corporation
MINDECO	Mining Development Corporation
MT	Metric Tonne
NAMB	National Agricultural Marketing Board
NCCM	Nchanga Consolidated Copper Mines
NHC	National Hotel Corporation
NTC	National Transport Corporation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organization for Economic Co-operation and Development
OOF	Other Official Flows
RCM	Roan Consolidated Mines
RST	Roan Selection Trust
SNDP	Second National Development Plan
TANZAM	Tanzania-Zambia
TBZ	Tobacco Board of Zambia
UDI	Unilateral Declaration of Independence
UN	United Nations
UNICEF	United Nations Children's Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
UNIDO	United Nations Industrial Development Organization
WFP	World Food Programme
WHO	World Health Organization
ZAMANGLO	Zambia Anglo-American
ZAMEFA	Zambia Metal Fabricators
ZESCO	Zambia Electricity Supply Corporation
ZIMCO	Zambia Industrial and Mining Corporation

INTRODUCTION.

The literature on the problems of development has, in many instances, treated the concept of development as synonymous to the concept of growth.¹ Analysis of the statistical data reveals that foreign assistance leads to increased rates of economic aggregates. The question of whether development has taken place is left unanswered by regarding development as a synonym of growth, the discussion has more often tended to measure progress in development by increases in the gross domestic or national product. In this way the analysis has, therefore, paid insufficient attention to the problem of economic and social development and the analysts have failed to devise appropriate development strategies for the problems faced by today's developing countries.

It is necessary, at the outset, to spell out the distinction between growth and development. Development as an economic concept does not simply mean increases in aggregates nor can we accurately measure it by mere increases in the gross domestic product, or even by equitable distribution of income alone. The concept refers to a process of structural transformation of many varied economic, social, political and cultural institutions. However, judgement as to the desirability of such structural transformations may be subjective. If the changes improve the welfare of the masses, then the element of desirability is satisfied. Only if this is a stated objective. The heterogeneity of the variables that would be

transformed or restructured to constitute development has resulted in a number of different academic viewpoints on what development ought to be. Academicians differ among themselves on what development means, on the methods of measurement and on what it should include. For the purpose of our study, the concept of development should be understood as a process which transforms the social, institutional and economic structures of a country with a view to realizing increases in the productive capacities of the structures that are changed. In this context, the end purpose of economic development clearly becomes one of raising the standard of living of the masses of the people in a country.

Such an operational definition of development, though with some conceptual imperfections, supports the universally acceptable objectives of development which are often stated as the achievement of equitable distribution of income, elimination of mass poverty and increased productivity. Inherent in the objectives of development is the fact that emphasis is on the mechanism of achieving the objectives.² In a narrower sense, development may be concerned primarily with restructuring the factors of production so as to raise productivity.

Healey points out that many development economists have, in endeavouring to define development, included notions of industrialization, urbanization, modernization and changes in the value systems from those that are tradition-based to those that are achievement-oriented.³ In the majority of cases, five per

cent of the population in the developing countries has achieved one or two of these notions, however this falls short of our definitional requirements. The achievements have been in the form of urbanization and, to a small extent, changes of value systems by a very small proportion of the population. Such changes are more pronounced in consumption patterns.

During the last two or more decades theoreticians and practitioners alike have concentrated their efforts on a few problem areas. Some have at times believed that the solution to the problem of development lay in the removal of the bottlenecks to economic development. Here, again the technique of identifying these bottlenecks and pin-pointing the crucial obstacles is not well developed. Among the leading advocates for providing foreign aid to remove bottlenecks to progress are such renowned economists⁴ as H.B. Chenery, I. Adelman, G. Ranis, A.M. Strout, S.H. Fei, Papanek, J. Vanek and others. The provision of foreign aid has been justified on two counts: first the theoreticians reasoned out that for any developing country to develop, it must generate domestic savings which are high enough to finance desired investments. However, in most of the developing countries savings are always less than the desired investments. The difference between domestic savings and desired investment has been coined the investment-savings gap. To the extent that desired investment projects cannot be implemented for lack of domestic savings, this

inadequacy represents a constraint on development.⁵ The solution to this obstacle was found to be the provision of foreign aid to fill in the gap. Several studies have been carried out to verify the validity of this theory.⁶ Along side this theory of investment-savings gap (sometimes called the Internal Gap) is the theory of foreign-exchange gap. Developing countries export less than they import. Export earnings are minimal so that foreign exchange is similarly minimal and inadequate to finance the much needed imports of capital equipment for development projects. This shortage of export earnings has serious consequences it is contended.⁷ The view stressed is that since equipment of strategic importance cannot be produced domestically it must be imported from the developed countries. The importation of these developmental necessities is dependent upon the availability of foreign exchange. This is the reasoning behind the provision of foreign aid to fill the import-export gap. These two gaps (Internal and External gaps) now commonly called the Two-Gap approach have appealed to many development economists. Chenery and MacEwan in their study of Pakistan pointed out that "One of the principal means for the poor countries to accelerate their development is by using external resources to supply additional imports and to finance a higher level of investment".⁸ In a related study Chenery and Adelman confirm that foreign aid is utilised to fill the two gaps: "A transfer of external resources enables the recipient to raise the level of investment and to increase the supply of commodities

that are not domestically produced."⁹

Professor S.H. Kim convinced that the provision of foreign aid does remove one of the obstacles to development employs the two-gap approach to estimate the external capital needs of Korea.¹⁰ In addition to the two gaps discussed above, the shortage of skilled labour has added as a third dimension to the bottlenecks particularly in our case study of Zambia. Justification for the provision of technical assistance is that the available manpower resources in developing countries are inadequately trained to deal with the problems of planning and executing development programmes. Bogner¹¹ points out that the provision of foreign aid without the accompanying managerial and professional expatriates creates a gap between the imported capital equipment and the local low levels of skills.

The literature cited implies that foreign capital inflows are intended to induce changes that lead to economic development. However, there is a possibility that foreign resources may initiate structural changes that direct the pattern of economic growth and development towards a high degree of dependence. There is much uncertainty about the actual impact of foreign capital inflows on the economies of developing countries. Capital inflows may and do result in serious consequences of economic dependence and underdevelopment of the economy of the recipient country. This is not, in anyway, a denial of the positive attributes of foreign capital inflows, particularly on economic growth, but an analysis that aims at giving equal

emphasis on the adverse effects on development of the entire economy.

The hypothesis of this dissertation is that foreign capital inflows (including transfer of human resources) besides promoting economic growth may, in certain cases, lead to underdevelopment of some sectors of an economy and dependence of the entire economy on external factors. Development of some sectors of an economy is a process that results from the penetration of foreign capital inflows in the form of modern foreign capitalistic enterprises and government initiated enterprises financed through foreign aid into an economy and affecting development in only a few selected industries. The few industries in receipt of foreign capital inflows are usually the urban import-export enclaves that cater for a small portion of the population. It is this small section of the economy that experiences economic growth and development. The impetus given to the sectors in receipt of foreign capital is a stimulus for concentration by government on those sectors that have proved to be profitable to foreign and government enterprises.

Through this process the subsistence sector slowly declines in relative importance. The result of this lopsided development is the emergence of an unbalanced and unintegrated national economy characterized by the coexistence of a dynamic modern sector on the one hand and a traditional sector of subsistence agriculture that is underdeveloped on the other hand. The cause of underdevelopment of the rural sector is not due to the survival of archaic institutions and shortages of capital

but rather the result of more emphasis being made on investments in the modern sector that is financed by foreign capital inflows. The promotion of growth and development of the modern sector of production that is typically export-oriented prevents the absorption of the subsistence sector into the industrial urban sector. This, in turn, leads to very slow changes of occupational structures of the rural sector. Thus the subsistence sector which becomes relatively less important than the urban import-export sector experiences underdevelopment.

Conceptually underdevelopment makes sense only as a means of comparing the levels of development between two or more groups. From an economic point of view, some human groups (those in the sectors in receipt of foreign capital) have advanced further by producing more and becoming more wealthy while those in the rural sector have largely remained stagnant since the attainment of independence in 1964 by Zambia.

The other consequence of foreign capital inflows is dependence which we define as the inability of a country to effectively formulate and execute its own economic and social policies. The essence of economic dependence should be understood to refer to a situation where national institutions (including private businesses and interest groups) have lost the capacity and power to take and implement decision affecting the national economy and its component units with de jure or de facto veto power being held by foreign individuals, enterprises and interest groups. Dependence on foreign capital inflows leads to ownership and control of assets by foreign enterprises.

Foreign capital inflows, particularly through direct private investments by multinational corporations, lead to extensive foreign participation in the commanding heights of the national economy. This participation confers widespread powers of decision making and implementation on foreign entrepreneurs, so that the host country not only depends on technology and financial capital but also on the expertises and policy decisions of foreigners. While it may appear, at first glance, that it is only the sectors that receive foreign capital that are dependent on foreign capital inflows, a deeper analysis reveals that the traditional sector of subsistence agriculture, through its weak links with the urban import-export enclave, is also dependent on external factors. Agricultural activities that are supported by government ministries and departments are oriented towards the production of exportables for foreign markets and urban domestic markets. The tastes of the few urban residents have been changed through contacts with the western world. Therefore, to produce products for these tastes the rural sector is compelled to use imported technology which is too expensive to buy.

Objectives of this Study

The problem facing many developing countries is that of a high degree of economic dependence on foreign capital to the extent that the dependence interferes with the making of policies that are helpful to developing countries. There is no country today that can claim to be completely independent economically. Interdependence economically is an actuality.

It therefore becomes apparent why the Zambian Government has shown great concern over the problem of a high degree of economic dependence. The Zambian Government is greatly disturbed by the degree of economic dependence and the implications of such dependence on the Government's political, economic, social and cultural policies. The concern is highlighted by the actions taken at independence and thereafter. For example in 1968 the title of the President's economic reform speech was "Zambia Towards Economic Independence".¹² Manufacturing industries were partially nationalized and a year later in a speech entitled "Zambia Towards Complete Economic Independence"¹³ he announced that the mining industries would surrender 51 per cent of their shares to the government.

The central objective of this study is to examine thoroughly the impact of the various forms of foreign capital inflows on the pattern of economic development in Zambia during the period 1964-1973. The study seeks to determine the degree to which foreign capital availability has promoted the development of an economy that is dependent upon external factors and how this

dependence has led to the underdevelopment of traditional sector of subsistence agriculture. The study will endeavor to show that the acceptance of the theory of foreign assistance as a remedy to the stagnation of the economies of developing countries is based on a rather too strong assumption which oversimplifies the problem of dependence and underdevelopment. The assumption is that any foreign capital inflow facilitates the importation of technological equipment which enables the recipient country to implement investment projects that are developmental in nature. This assumption is also unrealistic in that it ignores the fact that any contribution that foreign capital may make to development is dependent upon the state and form of other factors of production prevailing in the recipient country.

This study differs from others in that we examine the many dimensions of foreign capital inflows on a sectoral basis. This is particularly important because it facilitates an analysis of the importance of the sectors in receipt of foreign capital in the overall development programme. It differs further from several other studies because it seeks to provide answers to crucial questions such as :-

- a) Is the direction of economic activities exhibited by sectors in receipt of foreign capital leading towards the establishment of an integrated and balanced national economy and a less dependent economy ?
- b) Do foreign capital inflows promote or reduce socio-economic disparities between the modern sector and the

traditional sector of subsistence agriculture.

- c) To what extent does the presence of foreign capital facilitate the expropriation of economic surplus produced in Zambia and its appropriation by international capitalism.
- d) What contribution does foreign capital make towards restructuring the economy so that it is developed on the basis of local resources ?
- e) What is the net effect of foreign capital inflows on the balance of payments, income distribution, employment, debt service payments capacity, distortion of development priorities and state sovereignty ?

Chapter 5 of this study is an attempt to provide answers to these questions. Because of the paucity and inadequacy of statistical underpinnings scientific analysis of the issues raised in these questions will not be possible. However, it will be shown that during the period 1964-1973 foreign capital inflows played an important role in the creation of the urban and rural class structure in Zambia. The modern sector is inhabited by the upper class which has aligned itself with international capitalism. Because of the alliance, this upper class benefits by promoting economic activities that are integrated into the economies of Western countries. The socio-economic disparities between the upper class (urban) and lower class (rural) people widens because one group uses more advanced technology while the other does not.

Outline of Study

This study is divided into 8 Chapters. Chapter 1 gives the general background information. This scenario covers the period 1890 - 1964 and highlights the historical and economic developments of the period. The importance of each sector of the economy is briefly discussed. In Chapter 2 the irrelevance of the Two-Gap Theory to the Zambian case is discussed. In a summary way it is suggested that the relevant theories that explain the inflow of foreign capital are the theory of investment and the dependency theory.

In Chapter 3 foreign capital inflows are classified according to source and Chapter 4 gives a sectoral distribution of foreign capital inflows. This arbitrary distinction facilitates the determination of the effects of foreign capital on the pattern of development. Chapter 5 is concerned with the analysis of the effects of foreign capital. It attempts to answer some of the questions posed above. The role of foreign capital inflows in the establishment of foreign enclaves; in underdevelopment of certain sectors of the Zambian; in the distortion of development priorities; in promoting technological dependence; and, in perpetuating dependence are discussed. Chapter 6 is a further analysis of the effects of foreign capital, but here the emphasis is on the impact of the ever increasing external public debts and their consequences on debt servicing capacity and balance of payments. The effects of the resulting out-flow on the overall development plan is also analysed in this Chapter.

Chapter 7 analyses the response of the government to the presence of large foreign investments, the effectiveness of the policy of partial nationalization as a strategy of reducing dependence is also discussed. Finally Chapter 8 is a summary of conclusions and broader implications.

NOTES

¹ These studies do not make a distinction between the contribution of foreign assistance to growth and its contribution to the development process. See H.B. Chenery, "Foreign Assistance and Economic Development", in J.H. Adler, I.E.A. Capital Movements and Economic Development, 1967. See also Chenery and M. Bruno, "Economic Alternatives in an Open Economy: A Case Study of Israel", *The Economic Journal*, March, 1962, in this study they show that foreign assistance leads to development. In a similar study of Greece Chenery and I. Adelman, "Foreign Assistance and Economic Development: The Case of Greece", *Review of Economics and Statistics*, February, 1966, it is concluded that foreign assistance is an engine of economic development.

² J.M. Healey, *The Economics of Aid*, Penguin, London, 1971.

³ *ibid.* We may note that the objectives of many development plans aim at increasing productivity; raising the standard of living; increasing development of employment opportunities and equitable distribution of income. These are contained in the First and Second National Development Plans of Zambia.

⁴ H.B. Chenery, *op. cit.* See also Chenery and Bruno, Chenery and Adelman, *op. cit.*, Chenery and A. MacEwan, "Optimal Patterns of Growth and Aid: The Case of Pakistan", in I. Adelman and Thorbecke, eds., The Theory and Design of Development, Baltimore, 1966. H.B. Chenery and A.M. Strout, "Foreign Assistance and Economic Development", *American Economic Review*, September, 1966. J. Vanek, Estimating Foreign Resource Needs for Economic Development, John Wiley, 1967. G.F. Papanek, "The Effects of Foreign Aid and Other Resource Transfer on Savings and Growth in Less Developed Countries", *Economic Journal*, September, 1972.

⁵ See the work of H.B. Chenery and A.M. Strout, *op. cit.*

⁶ Chenery and Bruno, *op. cit.*, Chenery and Adelman, *op. cit.*, Chenery and MacEwan, *op. cit.*, Vanek, *op. cit.* and S.H. Kim, Foreign Capital for Economic Development: The Korean Study, Praeger, 1970

⁷ For a detailed theoretical analysis of this problem see R.I. McKinnon, "Foreign Exchange Constraints and Efficient Allocation" *Economic Journal*, June, 1964.

⁸H.B. Chenery and A. MacEwan, op. cit.

⁹H.B. Chenery and I. Adelman, op. cit.

¹⁰See S.H. Kim, op. cit. and J. Vanek, op. cit.

¹¹J. Bogner, "Manpower Shortage Affecting the Absorption of Foreign Aid", in Adelman and Sachs, Foreign Aid to Newly Independent Countries, 1971.

¹²K.D. Kaunda, "Zambia Towards Economic Independence" Mulungushi Speech, April 19, 1968 (Lusaka: Zambia Information Services, 1968).

¹³His Excellency, The President, Dr. K.D. Kaunda, "Towards Complete Independence", Matero Speech, August 11, 1969 (Lusaka: Zambia Information Services, 1969).

CHAPTER 1

GENERAL BACKGROUND

1.1 HISTORICAL DEVELOPMENTS

Zambia (formerly Northern Rhodesia) was among the last British Protectorates in Central Africa to be granted independence. For over seventy years the political and economic affairs of this country were under various forms of administrative bureaucracies with different objectives and conflicting interests. In 1889 through a Royal Charter, the British South Africa Company (BSAC) was incorporated and a year later, the agents of the company were granted a concession to prospect for minerals in Northern Rhodesia by the Paramount Chief of Barotseland¹ now Western Province of Zambia.

Prospecting for minerals actually got underway five years after the granting of the concession and led to the discovery of copper deposits in the northwestern part of the country. The copper deposits covered a somewhat narrow area forming a belt and the area is now referred to as the Copperbelt (see map 2). In 1900 the BSAC asserted its claims to the ownership of all mineral rights in the country. These mineral rights have had far reaching consequences for

both Zambia and the mining industry. The rights meant that anyone who extracted minerals from the country would have to pay royalties to the BSAC.² The basis of the claims to the mineral rights, the BSAC argued, was the 1890 concession granted its agents by the Paramount Chief.

The British South Africa Company did not only have mineral rights but became responsible for the administration of the country. However, in 1924 the British government assumed responsibility for the administration of Northern Rhodesia. This transfer of responsibility was effected through an agreement between the BSAC and the Crown. However, mineral rights still remained the property of the BSAC. From 1924 to 1952 Zambia was a British Protectorate and its economic activities directed from Britain. At the beginning of the 1950's when there was the possibility of forming the Federation of Rhodesia and Nyasaland comprising Northern Rhodesia, Southern Rhodesia and Nyasaland, an agreement was reached between the Northern Rhodesia government, a colonial government, the British South Africa Company and the British Government, allowing the BSAC to enjoy mineral royalties until 1986 subject to the company making a payment of twenty per cent of the royalties to the government of Northern Rhodesia. This agreement was to ensure that the BSAC did not lose royalties as a result of the formation of the Federation.

1.2 ZAMBIA AND FEDERATION

In 1953 the Federation of Rhodesia and Nyasaland was formed. The federal government which was headquartered in Salisbury, Rhodesia was responsible for a number of every important functions which included external affairs, defence, immigration, railways, shipping, aviation, major financial and economic matters, posts and telecommunications, agriculture (only non-African agriculture) and education except primary and secondary African education. Territorial governments were responsible for African agriculture and primary and secondary African education.

Development programs for the territories were planned by the Federal government which provided investment funds. Revenues raised in each territory were the responsibility of the federal government. It is claimed that there was a deliberate effort to develop Rhodesia at the expense of Zambia. During the federal days the number of investment projects implemented in Rhodesia were five times those in Zambia. It was during federal rule that Rhodesia developed its manufacturing industries. The net result was that Zambia and Malawi became importers of finished products, although copper earnings provided investment funds. On December 31, 1963 the Federation of Rhodesia and Nyasaland was dissolved and Northern Rhodesia was granted an internal self government for a period of ten months which ended on October 24, 1964 the birthdate of Zambia,

an independent republican state within the commonwealth.

Economic development of Zambia before and during the federation had taken the form of mineral extraction. Mining activities determined the growth of the economy. The Zambian government, therefore, inherited a badly planned economy at independence. The economy was heavily dependent upon one resource - copper mining. Copper production was not only dependent upon foreign experts but was also owned by foreigners whose interests and objectives were at variance with those of the Zambian government. Immediately after independence, the Zambian government bought the mineral rights from the BSAC for about \$11.6 million. The buying of mineral rights only meant that the government would be the recipient of the royalties instead of the BSAC. Ownership and mining activities still remained the exclusive right of foreigners.

1.3 DEVELOPMENT STRATEGY AFTER INDEPENDENCE

The attainment of political independence in 1964 put the onus on the new government to devise a development programme whose objectives would be in keeping with the aspirations of the masses of the population. These objectives were spelt out in the First National Development Plan (FNDP) covering the period July 1966 - December 1970. The plan listed the following objectives³:-

1. diversification of the economy away from dependence on copper;
- 2.. reduction of the gap between urban and rural incomes and facilities;
3. expansion of education and training with emphasis on Zambianization;
4. increasing housing and welfare services; and
5. building up the transport and communications infrastructure.

The Second National Development Plan (SNDP) contains development projects that can be conceived of representing development priorities. In general the strategy and policy of SNDP 1972 - 76 states:

The Second National Development Plan will mark a significant stage in the diversification of industrial growth through import-substitution. Import-substitution of consumer goods (textiles, leather, passenger cars , etc.) and of certain intermediate capital goods (sulphuric acid, fertilizers, explosives, building materials

etc.) require that a critical examination be taken of the present capacities of the existing enterprises.⁴

The plan goes further to enumerate goals and objectives such as the achievement of improved income distribution between urban and rural areas; more intensively developed tourism; achievement of self-sufficiency in energy and the elimination of electricity imports; and the initiation of regional development programmes.⁵ In terms of priority of sectors, the plan emphasizes a shift from an overwhelming orientation in food and light industries towards the development of heavy industries such as petroleum refineries, copper semi-finished mills etc. It is said that planned growth in mining and agriculture would provide the necessary supply of raw materials.⁶

In order to achieve its objectives the government had to restructure the economy by decree because all important economic institutions in the country were foreign owned and managed. These institutions had been developed during the period of colonial governments for the purpose of supporting those governments. The few industrial projects, financial institutions, manufacturing industries and agricultural institutions that existed were, by design and intent, structured with a view to serving towns along a single railway line from Livingstone to the Copperbelt (see map 2). The sectors that would have been beneficiary to the African population living in rural villages and engaged in subsistence agriculture were neglected. Only about 266,000 Africans were in paid employment

by the end of 1965 and about 15 per cent of these jobs were created during the last two years prior to independence.⁷

The copper industry of Zambia which is the backbone of the economy had a low linkage effect on the whole economy. The low linkage effect may be accounted for by the policy of the Federal government which established a manufacturing base in Southern Rhodesia and gave minimum encouragement to manufacturing industry in Northern Rhodesia. Northern Rhodesia as a member of the Federation could not protect its industries by tariffs or any other trade barriers since the Federal area was, from an economic point of view, a customs union. The Zambian market was small because a large percentage of the three million people were Africans living in rural villages.

Barclays Bank's economic survey of 1966 estimated the gross domestic product during 1965 as approximately \$1275 million (this figure differs from \$1066.5 million in Table 1.6 because of the revision to the statistical data).⁸ The manufacturing sector accounted for only 6 per cent of the gross domestic product while African agriculture made a contribution of the 7 per cent. The 11 per cent contribution of the distribution sector indicates the importance of Rhodesia railways in transporting manufactured goods from Rhodesia and the Republic of South Africa which were the major suppliers of manufactures.

TABLE 1.1

SECTORAL CONTRIBUTION TO THE GROSS
DOMESTIC PRODUCT 1965
(Million US Dollars)

<u>Industrial sector</u>	<u>Value</u>	<u>Percentage</u>
Agriculture:		
African	19.2	7.1
Non-African	24.3	1.8
Mining	609.9	47.4
Distribution	144.9	11.3
Transport and Communications	56.2	4.4
Manufacturing	83.8	6.4
Public Administration and Defence	53.1	4.2
Building and Construction	72.6	5.7
Electricity and Water	18.4	1.4
Education	33.1	2.7
Real Estate	29.4	2.5
Other	70.9	5.4
Total	<u>§1273.7</u>	<u>100%</u>

SOURCE: Economic Survey, Barclays Bank, 1966.

K1 = §1.5

We find that it was during the colonial era that the characteristic structure of export and import trade and the financial links with the industrialized capitalist countries were established. It was during this time that, on the basis of foreign investment, Zambia developed the production of primary materials (mainly copper) for exports which up to now characterizes Zambia's foreign trade.

When independence was achieved, mining, particularly, copper was a dominant activity in Zambia. Agricultural output for the Africans was composed of the principal subsistence crops such as cassava, maize, millets and livestock products. The African farmers marketed maize, groundnuts, tobacco, cotton and cattle wherever this was feasible. The largest contributor to exports was copper.⁹

We pointed out that the Zambian government bought out the BSAC to prevent an annual outflow of copper revenue. This act, by itself, was not sufficient to enable the government to determine the direction of economic development and growth. It became clear during the early years of independence that all companies in the country had policies that were inimical to government objectives and that the application of fiscal and monetary policies was inadequate to control the activities of these companies.¹⁰ The companies were foreign-owned and run. A majority of them were subsidiaries of multinational corporations and as such excluded local participation.

During the first four years of political independence the Zambian economy experienced a boom. The boom meant high rates

of return on investments and this attracted foreign investors who invested only in those sectors that were very profitable. A large part of their profits was repatriated and very little was re-invested or invested in the depressed regions of the country.. This pattern of investment tended to widen the gap between the urban and rural areas. The activities of foreign companies were found to be contrary to the objectives of the government in various ways as will be discussed in detail in subsequent chapters. These foreign companies created a situation that left the government with no other alternative but to become an active agent of developing a viable economy for the citizens of the country.¹¹

In pursuit of its objectives, the government announced in early 1968 that twenty seven companies would be invited, in January of 1969, to sell 51 per cent of their shares to the government, at book value. The shares sold to the Zambian government would be paid for out of future profits. By August of 1969 the Zambian government found it necessary that the copper mines should be taken over on a 51 per cent basis and that a new mineral taxation system be introduced. Specifically the government took over 51 per cent control of the main copper mining companies; the Roan Selection Trust, a subsidiary of American Metal Climax and the Zambian Anglo-American Corporation, a South African Corporation. During the following year, banks and building societies were taken over on a 51 per cent basis while all insurance business was to be taken over by a State

Insurance Company. The takeover of major sectors of the economy by the government represented major reforms in that it meant that the government could now participate fully in the economic affairs of the country. This active participation was effected through the creation of state corporations.

The super-structure of these corporations is the Zambia Industrial and Mining Corporation (ZIMCO) and under ZIMCO there are five wholly-owned ZIMCO subsidiaries. Industrial Development Corporation (INDECO) and the Mining Development Corporation (MINDECO) these two hold the interests of the state in commercial and industrial sectors of which MINDECO holds 51 per cent of shares in the two major copper mining companies for the Government. The third corporation, the Financial Development Corporation (FINDECO) looks after the state's interests in the financial sector. The fourth and fifth corporations are the National Hotels and National Transport Corporations (NEC and NTC). These last two were created because of conflicting interests between the Zambian Government and multinational corporations and the problems the government had encountered in dealing with such corporations.¹² The National Hotels Corporations was a response to the multinational characteristics of construction and management of hotels and restaurants and the National Transport Corporation aimed at giving the government some control over some investments in the field of transport and communications. The five corporations together with their subsidiary groups control the major economic activities in Zambia today.¹³

1.4 ECONOMIC SITUATION

Domestic policies have been directed towards increasing control of the economy by Zambians, through Zambianization in employment, restriction of trading activities to Zambian citizens, and through partial nationalization of foreign-owned businesses. The FNDP also aimed at creating about 100,000 new jobs but only 83,000 jobs were actually created at the end of the plan.¹⁴ However, the FNDP succeeded in lowering the proportion of non-Africans in the wage sector from 13 per cent in 1964 to 7.7 per cent in 1970.¹⁵ It was during the FNDP that many changes took place such as the take-over of major foreign industrial, transport and trading firms, the introduction of control on borrowing by non-Zambian firms. The projected rate of growth for the economy during the four and half year period of 11.7 per cent was a little higher than 10.6 per cent actually achieved. Per capita gross domestic product rose from a low level of \$189 in 1964 to \$455 in 1970 valued at constant 1969 prices.¹⁶

The Second National Development Plan has lower targets than the FNDP. Its projected growth rate of the economy is 6.8 per cent and this is to be generated by a total investment of \$3,242 million of which \$1,025 million is to be invested by the private sector and the remaining \$2,216 million by public sector investment. The government plans to have expenditures amounting to \$4,277 million during the SNDP. Gross Domestic Product (GDP) is expected to increase from \$1,669 million in

1971 to about \$2,300 million in 1976. The plan also aims at creating additional jobs totalling 100,000 during the five-year period to absorb 67,000 people entering the labour force annually. There is a variety of administrative measures to hasten rural development with triple aims of cutting down the food import bill, providing raw materials for local industry, and raising rural incomes.¹⁷

The SNDP production objective is to achieve self-sufficiency in basic foodstuffs. A detailed discussion is deferred until Chapter 7. In 1972 this objective was achieved in maize, groundnuts, poultry and eggs production. This was the first time the country produced enough for domestic consumption. The processing activities of the mining sector, particularly the electrolytic refining, was the most important part of the manufacturing sector in the past. The target for the SNDP growth rate of the manufacturing sector is 14.7 per cent annually. Growth of the manufacturing sector is facilitated by heavy emphasis on import substitution industries.¹⁸ The general industrial development policy is import substitution industries with preference for industries which process locally-produced raw materials. The manufacturing sector includes firms producing or assembling mining machinery, explosives, steel pipes, ferroconcrete and other cement products, bricks, sulphuric acid, nitrogenous fertilizers, paints, tyres, batteries, carssand, trucks, copperwire and cables, sugar refining, beer, textiles, clothing, shoes, refined oil, glass and plastic containers.

It is expected that during the SNDP period the country will be able to implement several food processing projects, a tannery, a pulp and paper mill, and a 200,000 ton iron and steel plant. A large proportion of manufacturing output is under the control of the State owned Industrial Development Corporation. Foreign-owned enterprises hold minority shares in many of the INDECO companies. Some of the companies are wholly State owned. The INDECO complex covers the production of beer, sugar, building materials, consumer trading textiles, tyres, car assembly, petrol and chemicals, real estate, cement, and rural enterprises such as fishing, processing and sawmills.¹⁹

According to the 1973 estimates the population of Zambia is about 4,635 million²⁰ 34 per cent of which lives in towns (urban areas). The proliferation into the urban areas has been phenomenal since 1964 when only 20 per cent lived in towns. By 1969 this percentage had increased to 29 per cent. The Zambian total labour force employed in the industrial sector was 409,700 in December 1972.²¹ This figure includes domestic servants who are not reported annually by the Central Statistics Office.

TABLE 1.2

EMPLOYMENT BY SECTORS IN PERCENTAGE

	<u>1964</u>	<u>1968</u>	<u>1972</u>
Agriculture, Forestry & Fisheries	15.1	11.4	8.5
Mining	21.8	17.2	17.2
Manufacturing	9.0	10.9	10.2
Construction	13.3	21.0	20.8
Distribution, Hotels and Tourism	8.9	9.8	9.5
Electricity and Water	0.9	1.3	1.1
Transport and Communications	4.9	7.1	7.1
Business and Social Services	26.0	21.3	25.9
	<u>100%</u>	<u>100%</u>	<u>100%</u>

• SOURCE: These percentages were computed from Table 1.3 below.

• Employment in the Agricultural sector declined from 15 per cent to 8.5 per cent while in the mining sector the decline was from 21.8 to 15 per cent in 1973. These two sectors are important since 60 per cent of the population in Zambia lives in the rural areas and the mining industry accounts for more than 40 per cent of the gross domestic product and a decline in employment in them implies either an increase in unemployment or their diminishing importance. We shall discuss this in more detail in Chapter 5.

TABLE 1.3

EMPLOYMENT BY INDUSTRIAL SECTOR 1964-1973

(Thousand)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973*</u>
Agriculture, Forestry and Fisheries	35.1	32.7	33.8	37.2	36.3	36.8	34.6	39.3	32.2	38.0
Mining and Quarrying	50.7	52.3	53.7	54.9	54.8	55.8	57.6	58.1	69.7	64.0
Manufacturing	20.9	27.7	31.5	32.8	34.8	34.5	38.1	42.0	38.8	42.0
Construction	31.1	45.3	62.6	65.3	67.0	62.0	68.7	65.8	78.8	84.0
Distribution, restaurants hotels	20.8	23.8	27.1	29.9	31.2	32.8	32.6	37.9	36.0	36.0
Transport and Communications	11.3	14.5	20.2	21.0	22.6	22.5	22.3	22.5	26.8	24.0
Electricity and Water	2.1	2.8	3.3	3.8	4.2	3.7	3.2	4.0	4.1	3.9
Services - Business and Social	<u>60.7</u>	<u>61.7</u>	<u>56.5</u>	<u>63.9</u>	<u>68.0</u>	<u>79.7</u>	<u>85.6</u>	<u>95.5</u>	<u>98.5</u>	<u>101.0</u>
Total	232.7	260.8	288.7	308.8	318.9	327.8	342.7	365.1	378.9	392.9

NOTES: - 1965 and 1966 figures are averages of 4 quarterly figures
 - 1967 and 1968 figures are averages of 2nd and 4th quarters.

TABLE 1.3 continued

- In mining 6,000 people are added to Central Statistics Office data for unreported quarrying and prospecting.
- Construction figures for 1972 and 1973 11,000 Zambians working on the Tanzam Railway, not reported by C.S.O.
- Business and Social Services figures exclude 35,000 domestic servants not reported by C.S.O.

*Provisional

SOURCE: Republic of Zambia: Reports on Employment and Earnings 1966-68, and 1969-71, C.S.O., Lusaka, February 1970 and October 1974. Economic Report 1973 op. cit.

The Government raises its revenue from various sources although the main source of revenue is from mineral royalties that was acquired from the BSAC in 1964 and from copper export taxes. There are four broad categories of revenue sources: Direct Taxes, Indirect Taxes, Interest and Other Receipts and Current Transfers. Table 1.4 gives figures for the years 1968 to 1971 and Table 1.5 has data for 1970 and 1973. Table 1.4 has finer details of the sources of Government revenue. The largest contributor to Government revenue is the mining industry which accounted for 73 per cent to total revenue. After 1970 mineral revenue declined and this is explained by the takeover of the mines by MINDECO.

TABLE 1.4

SOURCES OF GOVERNMENT CURRENT REVENUE FOR 1968-1971

	US DOLLARS MILLION			
	1968	1969	1970	1971
I DIRECT TAXES	129.4	170.7	224.4	250.5
Income Tax				
Mining Companies	63.3	74.3	119.4	130.4
Other Companies	26.4	46.5	49.0	57.8
Individuals, Self Employed	6.3	11.6	9.7	9.9
Individuals, P.A.Y.E.	31.5	36.9	45.7	51.5
Other	1.8	1.5	0.6	1.1
II INDIRECT TAXES	277.4	375.6	364.7	159.9
1. Customs and Excise	66.6	91.2	101.3	110.3
Customs	31.8	46.5	48.8	55.0
Excise - Cigarettes	13.0	13.8	14.1	12.8
Excise - Beer and Spirits	16.7	22.5	30.8	35.3
Excise - Opaque Beer Levy	5.7	8.4	7.7	7.2
2. Mineral Royalties and Export Tax	201.0	288.4	257.3	40.8
Mineral Royalties	98.7	133.1	51.3	-
Copper Export Tax	102.3	145.4	205.8	40.8
3. Other Indirect Taxes	9.8	6.0	6.2	8.9
Motor Spirit Tax	4.8	-	-	-
Motor Vehicle Licences	3.3	3.9	3.8	4.8
Other Business Licences	0.6	0.5	0.3	0.5
Stamp Duty	0.5	0.5	0.5	0.6
Other	0.6	1.2	1.7	3.0
III INTEREST AND OTHER RECEIPTS	19.8	25.4	39.0	33.8
(a) INTEREST	19.8	23.1	30.0	33.8
Local Authorities	4.1	7.1	7.8	7.5
Government Enterprises	1.8	1.7	0.8	2.3
Public Corporations	4.7	6.9	8.6	12.9
Companies	1.2	0.8	0.8	0.5

TABLE 1.4 continued

	Households	-	-	-	-
	Non-Resident Entities	8.1	6.3	7.8	6.6
	Other	-	0.5	3.4	4.5
	(b) OTHER INCOME	-	2.3	9.0	-
IV	CURRENT TRANSFERS	10.1	10.4	7.2	4.7
	Public Corporations	-	-	-	-
	Households and Pension Funds	2.4	2.1	1.8	2.2
	International Institutions	-	-	-	-
	Other Non-Resident Entities	7.7	8.3	5.4	2.4
	Other	-	-	-	-
	TOTAL CURRENT REVENUE (I + II + III + IV)	436.7	582.0	635.3	448.8

SOURCE: Economic Report 1973 op. cit. pp. 117-118 and Monthly Digest of Statistics 1974 op. cit.

K1 = \$1.5

TABLE 1.5

SOURCES OF GOVERNMENT CURRENT REVENUE FOR 1970-1973

(US Dollars Million)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Income Tax	224.3	250.4	178.7	198.4
Customs and Excise	102.1	112.3	147.8	163.6
Fines, Licences and Other Taxes	5.7	6.8	7.1	8.6
Mineral Revenue	257.2	40.7	41.5	136.9
Interest	32.0	34.2	1.4	1.1
Court Fees, Earnings of Ministries	16.1	15.7	21.4	28.2
O.S.A.S. Reimbursements	0.9	2.3	2.0	1.7
Miscellaneous	10.0	0.8	41.9	14.3
Loans	-	-	30.6	24.6
Total	648.6	463.5	472.8	577.7

SOURCE: Republic of Zambia: Monthly Digest of Statistics, Volume XI, Nos. 11 and 12 - November/December 1975. p. 29.

TABLE 1.6

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY AT CURRENT MARKET VALUES 1965-1973

(Million US Dollars)

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Total Gross Domestic Product	1,066.5	1,272.3	1,435.7	1,593.0	1,970.3	1,886.6	1,767.3	1,967.9	2,442.0
Agriculture, Forestry and Fishing:	146.2	160.2	164.9	171.2	177.8	198.0	225.5	237.6	235.5
Commercial Sector	27.5	33.5	33.8	32.6	35.3	56.1	73.5	83.1	76.5
Subsistence Sector	118.7	126.7	131.1	138.6	142.5	141.9	152.0	154.5	159.0
Mining and Quarrying:	437.7	570.5	570.8	619.0	958.9	693.6	450.4	486.0	852.0
Metal Mining	435.3	568.8	568.9	616.2	955.9	685.6	439.8	476.5	843.0
Other Mining and Quarrying	2.4	1.7	1.9	2.8	3.0	8.0	10.6	9.5	9.0
Manufacturing :	72.0	103.5	129.1	158.7	170.8	191.1	213.4	273.0	315.0
Food Manufacturing	9.9	11.6	11.1	16.2	21.7	26.2	30.6	145.0	171.1
Beverages and Tobacco	19.5	30.1	38.7	53.9	64.8	77.4	84.6		
Textiles and Wearing Apparel	5.9	6.9	12.4	10.5	14.5	16.0	15.0	20.2	23.1
Wood and Wood Products, and Furniture	3.6	5.4	4.2	3.4	7.5	7.5	4.9	7.0	7.5

TABLE 1.6 continued

Paper, paper products, printing and publishing	3.2	3.8	5.4	8.0	6.2	6.8	8.1	9.8	9.9
Rubber products	1.2	1.4	2.1	2.3	4.4	4.8	7.4	12.4	
Chemicals, petroleum and plastic products	4.2	5.3	9.0	9.6	13.2	9.5	9.8	18.4	
Non-metallic mineral products	9.2	9.5	10.5	11.6	11.3	15.9	14.3	15.2	15.3
Basic-metal products	6.8	8.6	8.1	7.8	3.6	3.8	3.3	4.7	5.0
Fabricated Metal Products, Machinery and Equipment	8.6	19.8	26.9	24.9	23.1	22.8	34.5	40.1	40.8
Other Manufacturing Industries	0.2	0.5	0.8	0.6	0.6	0.5	0.6	0.3	0.5
Electricity, Gas and Water	8.7	11.1	12.6	18.9	21.3	23.2	27.3	38.5	45.7
Construction	61.4	82.2	85.3	93.4	101.2	123.4	134.1	139.9	146.3
Wholesale and Retail Trade	120.8	111.8	155.2	186.7	138.6	178.5	170.5	211.0	232.5
Hotels and Restaurants	6.0	7.3	7.8	8.7	17.4	16.2	18.4	20.7	22.5
Transport, Communications and Storage	49.2	49.9	75.0	72.6	66.1	78.0	99.1	112.3	123.7
Rail Transport	29.1	22.0	27.1	20.1	25.6	12.1	16.9	18.3	10.8
Road Transport	13.3	21.0	31.3	37.3	23.5	40.8	53.8	54.9	72.0
Other Transport and Storage	2.4	1.8	10.5	5.5	5.8	11.7	16.0	24.9	25.5

TABLE 1.6 continued

Post and Telecommunications	4.3	5.1	6.0	9.6	11.1	13.3	12.3	14.2	15.3
Financial Institutions and Insurance	16.0	17.1	23.8	28.8	45.3	62.7	60.1	66.1	72.0
Real Estate	17.4	22.0	27.9	29.8	48.3	55.9	58.8	57.6	60.7
Business Services	14.2	13.0	20.1	23.4	20.4	25.0	23.1	20.5	22.5
Community, Social and Personal Services	96.0	105.1	140.5	153.1	162.3	217.0	261.4	275.1	291.0
Public Administration and Defence, Sanitary and related Services	45.6	53.5	63.1	68.7	64.8	100.8	122.8	134.1	138.0
Education	22.5	21.4	34.8	37.5	45.0	60.6	69.1	69.1	78.9
Health	12.4	13.0	20.8	23.4	27.1	19.9	30.3	32.8	32.5
Recreational and Cultural Services	1.9	2.2	5.5	5.7	5.1	7.3	10.3	9.7	10.0
Personal and Household Services	13.5	14.8	16.2	17.8	20.2	28.3	28.8	29.2	31.5
Import Duties	21.7	18.4	22.5	28.5	41.7	48.1	55.0	62.7	57.0
Less Imputed Bank Service Charge	-	-	-	-	-	24.6	30.6	33.4	34.5

NOTES: Figures may not add to total gross domestic product because of rounding.
The figures published before 1971 have since been revised and therefore differ from the earlier published figures.

K1 = \$1.5

TABLE 1.6 continued

SOURCE: Republic of Zambia: Monthly Digests of Statistics, Central Statistical Office, Lusaka, Volume X No. 1 January 1974, p. 54 and Volume XI Nos. 11 and 12 November-December 1975. Also United Nations, Monthly Bulletin of Statistics December 1970 p. 187.

1.5 THE DOMINANT POSITION OF COPPER MINING AND QUARRYING INDUSTRY IN ZAMBIA

The most outstanding characteristic of the economy of Zambia, as inferred earlier in this chapter, is the dominant position occupied by the copper mining industry and other metals. Since the attainment of independence in 1964, copper mining has made the Zambian economy to become one of the richest and fastest growing in Southern Africa. This is reflected in the increase of 12.2 per cent annum in real terms of the gross domestic product for the first five years of independence covering the period 1964 - 1969.²² The growth rate of the Zambian economy referred to above was mainly due to the high prices of copper. To the extent that copper mining determines the gross domestic product it dominates other sectors of economic activity in Zambia thereby making the Zambian economy an extreme case of dependence upon one single export product whose price fluctuations are determined not only by increasing or decreasing tempo of industrial activity but also by political tempo. The decline in the gross domestic product of Zambia in 1970, 1971 and 1972 indicated in Table 1.6 was a direct result of the decline in the price of copper at the London Metal Exchange. Copper prices suddenly dropped from a high level of \$1,572.13 in 1969 to \$1,516.65 in 1970, \$1,150.90 in 1971 and to a low level of \$1,147.15 (see Table 1.7 below).

TABLE 1.7

LONDON METAL EXCHANGE PRICES

(US Dollars)

	<u>Copper</u>	<u>Lead</u>	<u>Zinc</u>
1963	692.10	197.32	226.48
1964	1,039.06	298.95	348.78
1965	1,388.35	339.55	333.34
1966	1,637.13	285.93	301.14
1967	1,215.81	244.17	292.90
1968	1,330.63	257.59	281.08
1969	1,572.13	310.46	306.49
1970	1,516.65	325.54	316.62
1971	1,150.90	268.90	328.59
1972	1,146.4	322.77	403.72
1973	1,733.33	417.54	819.54

NOTES: Prices are given in monthly average per metric ton

K1 = \$1.5

SOURCE: Monthly Digest of Statistics: Central Statistics Office, Lusaka, Zambia, January 1974, Volume X, No. 1, p. 53.

We have already indicated in this chapter, that Zambia inherited an economy that was wholly dependent upon copper mining and that there existed a set of conflicts of interests on the philosophy of development and economic growth between the foreign companies on the one hand and the Zambian Government (including the Zambian citizens) on the other. Zambia is well-endowed with copper resources and is rich in copper by any standard. The interest of the Zambian Government in the copper industry should not be understood only in terms of high profits the industry yields but also in terms of the strategic role it can play in transforming the lives of Zambians. The contribution of mining to the gross domestic product is indicated in Table 1.6. In the ten years of independence Zambia was the largest producer of copper in 1967, 1968, 1969, 1972 and 1973 among developing countries (see Table 1.8). As a world producer Zambia was the third largest producer of copper after the United States of America and the Union of the Soviet Socialist Republics in 1967, 1968, 1969 and 1972 with third place being taken by Canada in 1973; during these years Zambia production of copper accounted for 13.0, 12.5, 12.2, 10.3 and 9.5 per cent respectively of total world production. The percentage contribution to total world production are computed from Table 1.8.

TABLE 1.8

MINE PRODUCTION OF COPPER

(Thousand Tonnes)

<u>COUNTRY</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
U.S.A.	1,297	866	1,093	1,401	1,560	1,390	1,490	1,600
U.S.S.R.	800	825	850	875	925	990	1,050	1,080
CIPEC Countries	1,761	1,831	1,883	1,973	1,696	1,978	2,089	2,045
Zambia	623	663	685	720	684	651	718	700
Chile	637	660	657	688	686	708	717	650
Zaire	317	322	327	327	387	406	437	490
Peru	184	186	214	214	212	213	217	205
Canada	459	556	575	575	610	655	709	800
Philippine Rep.	74	86	110	131	160	197	214	225
Australia	111	92	110	131	158	177	181	180

TABLE 1.8 continued

South Africa	125	128	126	120	144	148	162	160
Papua New Guinea	-	-	-	-	-	-	124	170
Yugoslavia	59	63	71	91	98	107	124	140
Japan	112	118	120	120	120	121	112	100
Other	503	512	536	582	626	700	767	840
WORLD TOTAL	5,301	5,077	5,474	5,949	6,370	6,463	7,022	7,340

NOTES: While Zambia is estimated to have produced more than Chile during 1973, third place among producers during that year was taken by Canada.

SOURCE: Economic Report 1973, Ministry of Planning and Finance, Zambia, January 1974, p. 194.

Zambia's position as a major source of copper on a global basis may be seen in the Table 1.8 which shows international mine production of copper in tons of estimated recoverable copper content - a figure which generally exceeds actual finished production.

The preceding discussion has made us cognizant of the position of Zambia copper production in the world so that when this industry is compared with other economic sectors in the country, its dominance becomes unchallengeable. In Table 1.6 the formation of gross domestic product is given according to economic activity at current producers' values. The contribution of mining and quarrying to GDP is (US Dollars Million) has not been equalled by any sector since independence in 1964. Table 1.9 below gives the percentage contribution of each sector to the GDP.

TABLE 1.9

PERCENTAGE SHARE OF EACH SECTOR IN GDP

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Agriculture, Forestry and Fishing (a)	13.7	12.5	11.4	10.7	9.0	10.4	12.7	12.0	12.0	9.6
Mining and Quarrying	47	41.0	44.8	39.7	38.8	48.6	36.7	25.8	24.6	34.8
Manufacturing	-	6.7	8.1	8.9	9.9	8.6	10.1	12.0	13.8	12.9
Electricity, Gas and Water	-	0.7	0.8	0.8	1.1	1.0	1.2	1.5	1.9	1.8
Construction	-	5.7	6.4	5.9	5.8	5.1	6.5	7.5	7.1	5.9
Wholesale and Retail Trade	-	11.3	8.8	10.8	11.7	7.0	9.4	9.6	10.7	9.5
Hotels and Restaurants	-	0.6	0.5	0.5	0.5	0.8	0.8	1.0	1.0	0.9
Transport, Communications and Storage	-	4.6	3.9	5.2	4.5	3.3	4.1	5.6	5.7	5.0
Financial Institutions and Insurance	-	1.5	1.3	1.6	1.8	2.2	3.3	3.4	3.3	2.9

TABLE 1.9 continued

Real Estate	-	1.6	1.7	1.9	1.9	1.9	2.4	2.9	3.3	2.9	2.4
Business Services	-	1.4	1.0	1.4	1.4	1.4	1.0	1.3	1.3	1.0	0.9
Community, Social and Personal Services	-	9.0	8.2	9.7	9.6	9.6	8.2	11.5	14.7	13.9	11.9
Import Duties	-	2.0	1.4	1.5	1.7	1.7	2.1	2.5	3.1	3.1	2.3

(a) Figures not available

SOURCE: Calculated from Table 1.6 and Table 54 of Monthly Digest of Statistics, November/December 1975. p. 54.

TABLE 1.10

EXPORTS OF PRINCIPAL COMMODITIES, 1964-1973

(Values in US Dollars, Million)

	Copper		Zinc		Lead		Manganese Ore		Cobalt		Tobacco		Maize		Timber	
	Tonne '000	Value	Tonne	Value	Tonne	Value	Tonne	Value	Tonne	Value	Tonne	Value	Tonne	Value	Tonne	Value
1964	681	445.2	45,866	14.6	13,354	3.4	26,966	0.9	1,466	5.2	12,303	8.5				1.2
1965	683	514.8	45,153	14.5	15,645	5.2	32,622	1.1	1,433	5.4	9,716	7.3	47,270	2.8		1.4
1966	599	690.9	41,548	12.3	24,650	7.0	26,102	0.9	1,627	6.4	7,264	6.8	39,891	2.7		1.0
1967	601	651.0	39,804	12.1	17,413	4.0	24,710	0.8	2,091	8.4	4,449	5.5	198,097	13.1		0.9
1968	643	774.2	45,017	13.5	16,350	4.1	17,483	0.6	1,227	5.1	3,541	4.1	63,988	4.3		0.9
1969	730	1,086.8	53,576	18.6	25,886	9.1	-	-	1,588	6.8	3,768	4.7	8,441	0.6		0.9
1970	684	1,022.1	50,334	16.4	22,079	7.3	-	-	1,814	9.5	4,041	4.3	60	-		0.8
1971	635	675.3	49,453	17.3	23,895	6.8	-	-	1,189	6.2	5,212	5.3	8,598	0.3		0.6
1972	711	736.4	60,572	24.6	26,694	8.4	-	-	2,329	12.9	4,181	4.1	1,896	0.2		0.1
1973	670	1,047.5	51,115	25.2	20,012	8.9	-	-	1,145	13.2	5,048	4.4	50,086	0.1		0.005

NOTES: Weights in Metric Tonnes.
K1 = 1.5

SOURCE: Republic of Zambia, Monthly Digests of Statistics 1968-1975. op. cit.

TABLE 1.11

PERCENTAGE SHARE OF COPPER IN TOTAL EXPORTS 1964-1973

<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
92	93	95	95	96	96	96	94	93	92

NOTES: 1973 figures are estimates based on actual figures for the first 8 months of the year.

SOURCE: Monthly Digests Statistics, C.S.O., Zambia, Vol. X, No. 1, January 1974 and November/December 1975 op. cit. p. 20.

The large volume of exports originating in the copper mining industry accounts for the surplus in the balance of trade. To this extent the production of copper in Zambia is a major foreign exchange earner. The export surplus is given in Table 1.12 while the sources of total imports are in Table 1.13.

TABLE 1.12

TOTAL EXPORTS AND IMPORTS FOR 1964-1973

(Million US Dollars)

	Exports			Imports	Export Surplus
	Total	Domestic	Re-exports		
1964	503.3	490.3	13.0	234.7	268.6
1965	570.4	562.6	7.8	316.1	254.3
1966	740.2	735.5	4.7	369.2	371.0
1967	705.0	700.6	4.5	459.5	250.5
1968	816.6	811.1	5.5	487.8	328.9
1969	1,149.7	1,131.7	18.1	467.7	682.0
1970	1,072.5	1,065.6	6.9	511.1	561.4
1971	727.8	720.0	7.8	598.9	128.8
1972	812.5	804.1	8.3	603.7	209.6
1973	1,112.5	1,107.0	5.9	520.3	59.3

K1 = \$1.5

SOURCE: Monthly Digest of Statistics, Central Statistics Office, Zambia, Vol. 1, No. 1, January 1974, p. 18 and Vol. XI, Nos. 11 and 12, November/December, 1975, p. 19.

TABLE 1.13

VALUE OF IMPORTS BY S.I.T.C. SECTIONS 1964-1973

(Million US Dollars)

	Total	Food	Beverages and Tobacco	Crude Materials	Electricity and Mineral Fuels	Oils and Fats	Chemical	Manufactured Classified Materials	Machinery and Transport Equipment	Miscellaneous Manufactures	Miscellaneous Trade
1964	234.6	21.3	4.3	4.7	26.1	1.1	24.4	51.6	63.6	31.6	5.3
1965	316.1	24.7	4.2	5.4	30.9	1.9	30.2	74.6	104.3	38.9	0.5
1966	369.1	29.6	4.5	6.8	29.4	3.9	28.8	82.6	146.9	35.7	0.5
1967	459.4	32.0	3.1	6.6	46.8	3.5	31.3	98.2	189.4	42.5	5.7
1968	487.7	36.1	3.2	6.6	49.8	2.9	33.9	111.1	201.6	35.9	6.2
1969	467.6	45.6	3.2	6.7	53.3	4.3	33.8	94.1	184.5	38.4	3.3
1970	511.0	45.6	1.7	7.9	52.7	6.6	39.0	112.1	197.5	45.8	1.6
1971	598.9	72.2	2.1	11.4	48.3	6.7	47.5	127.1	240.1	40.8	2.1
1972	603.7	55.7	1.8	11.9	39.7	5.8	50.1	131.8	252.0	53.0	2.0
1973	520.3	36.5	1.4	8.1	49.9	6.4	52.7	116.0	208.3	38.0	2.6

SOURCE: Economic Report 1973, Ministry of Planning and Finance, Lusaka, Zambia. January 1974 and Monthly Digests of Statistics. op. cit.

K1 = \$1.5

The value of the importation of machinery and transport equipment together with electricity and mineral fuels is to a large extent destined for the copper mining industry implying that it has a high demand for capital goods from the developed countries. When this is translated into investment, it leaves the impression that investments are high in the mining sector because, as expected, the rate of return is similarly very high. Imports of food have been rising since 1964. This increase cannot be explained by lack of investment in the agricultural sector alone. European farmers who had the necessary know-how, left Zambia immediately after independence; the proliferation of Zambians into the urban areas in pursuit of higher earnings and improved conditions of life; the urban dwellers have cultivated a demand for food products that are not produced domestically and the inability of the remaining African agricultural farmers to meet the demand of the ever-growing urban areas together with other factors contribute significantly to the apparent increase in imports of food. Although there is great potential for agriculture in Zambia, there has been a decrease in the sectors contribution in GDP from 11.5 per cent in 1964 to 6.8 per cent in 1969. The development of other economic sectors have not been commensurate with the base offered by the mining industry. For example, the manufacturing output as a percentage of GDP at factor cost was 7.4 and has not increased very much since then.

It is in this setting that the study of the Impact of Foreign Capital on the Zambian Economic Development is to be undertaken.

CONCLUSION

In this chapter the main objective was to describe as briefly as possible the economic situation in Zambia as it existed in 1973. To understand a situation at a point in time one must give the historical background so as to have an idea of the factors that determined the existing position. Zambia was a colony of Great Britain and like any colony was dependent on the colonial master for everything. Its economic development was determined by economic conditions in Great Britain. The export enclave was relatively more developed than the hinterland at the time of independence. This enclave was dominated by the mining industry which determined economic growth.

From Table 1.4 we see that approximately 45 - 49 per cent of government revenue came from mining at least up to 1970 and 94 per cent of exports were accounted for by copper exports. The growth of gross domestic product of approximately

10 per cent per annum was due to increased extraction and exportation of copper. While there was an impressive growth rate, it was however, accompanied by a disheartening growth rate of imports. Total imports increased by approximately 122 per cent between 1964 and 1973. Imports of machinery and transport equipment increased by 231 per cent; manufactured imports by 125 per cent; crude materials by 153 per cent; chemicals by 116 per cent; electricity and mineral fuels by 91 per cent and food by 72 per cent. The high exports of copper and imports of all types of goods reveals the degree to which the Zambian economy is integrated into the international economic system and its dependence of foreign factors. Payment for high imports (in foreign exchange) requires that exports of copper bring in an equivalent amount of foreign exchange. However, copper mines were not owned by Zambians thus not all the foreign exchange earnings could be used to finance imports. We conclude that the historical connection of Zambia with Great Britain and the west in general determined the economic development process. This process was to develop sectors that depended on what was developed in the capitalist world market. After independence, the only way to continue the process begun in the past was to call for massive foreign capital from the core area. Chapter two discusses the various theories of foreign capital inflows.

NOTES

¹T.W. Baxter, "The Concessions of Northern Rhodesia", National Archives of Rhodesia and Nyasaland, Occasional Paper No. 1 1963. The text of the agreement and those subsequently signed by Lewanika are printed.

²At Independence Zambia negotiated for the royalties to revert to the state and paid a compensation of some \$11.6 million.

³Republic of Zambia, First National Development Plan, 1966-1970, Lusaka: Office of National Development and Planning, 1966.

⁴See Summary of the Industrial Development Plan 1972-1976, in Summaries of Industrial Development Plans, Volume III United Nations. Industrial Development Organization Publication, Vienna, June 1973, p. 457.

⁵ibid. p. 456 and also Second National Development Plan, January 1972 - December 1976, Ministry of Development Planning and National Guidance, Lusaka, December 1971, p. 337; Supplement to the Second National Development Plan, 1972 - 1976, Programmes and Projects, January 1972, p. 143.

⁶ibid. p. 473.

⁷Employment and Earnings 1966 - 1968, Central Statistical Office, Lusaka, February 1970.

⁸The Revised 1970-1975 Series are not comparable with the figures published so far. Details of the Revisions are given in the National Accounts and Input-output Tables, 1971.

⁹A more detailed analysis of the importance of copper will be discussed in a latter section of this chapter: The Dominant Position of Copper.

¹⁰As early as 1964, in a White Paper, Outline of the Government's Industrial Policy, published on the eve of Independence, it was made clear that the new government would

take drastic steps to correct the pattern of development. See also Ministry of Commerce and Industry, Outline of Government's Policy, (Lusaka, Government Printer, 1966).

¹¹ K.D. Kaunda, Towards Complete Independence, the Matero Speech, August 11, 1969 and Zambia Towards Economic Independence, Mulungushi Speech, April 19, 1968, Zambia Information Services 1968 and 1969.

¹² Mark Bastock, The Background to Participation, in Economic Independence and Zambian Copper: a case study of Foreign Investment, edited by Mark Bastock and Charles Harvey; Praeger Publishers, New York, 1972. pp. 107-128. See also K.D. Kaunda, "Zambia Towards Economic Independence", The Mulungushi Speech of April 19, 1968, Zambia Information Services 1968.

¹³ The structure of State participation has been changing constantly. Table 7.2 gives details of Indeco's subsidiaries.

¹⁴ Summaries of Industrial Development Plans, Volume 3, United Nations Industrial Development Organization, Vienna, ID/109, June, 1973, pp. 435-455.

¹⁵ *ibid.*

¹⁶ Republic of Zambia, Economic Report 1973, Ministry of Planning and Finance, Lusaka. January 1974.

¹⁷ Summaries of Industrial Development Plans, *op cit* pp. 456 - 480.

¹⁸ Import substitution depended largely on foreign inputs and the manufacturing sector's contribution to GDP is given in Table 1.6 and the demand for imported manufactured goods is shown in Table 7.4. See also A. Young, Industrial Diversification in Zambia, Praeger, New York 1973 pp. 97 - 145.

¹⁹ African Development, October 1974 and Africa 1974/75 Annual, pp. 194 - 200. For this General Background information also see Introduction to Constraints on the Economic Development of Zambia edited by Charles Elliott, Oxford University Press, 1971 pp. 1 - 8.

²⁰ Economic Report 1973, *op. cit.* p. 29.

²¹ *ibid.*

²² *ibid.*

CHAPTER 2

THEORIES OF FOREIGN CAPITAL INFLOWS: A CASE OF IRRELEVANCE

The theoretical framework for the flows of foreign capital owes its origin to many development economists. The inflows of foreign capital can be divided into foreign aid assistance (technical assistance, bilateral and multilateral financial assistance) and foreign private investments. Theories have been contrived and applied in many specific case studies and it is from these studies that the validity of the theories has been established. Among the pioneers in establishing a relationship between foreign capital inflows and economic development we find prominent development economists such as Hollis B. Chenery and A.M. Strout. Their article indicates that foreign capital inflows could be a catalyst for development. In a case study of Greece, Chenery and Adelman showed that the economic development of Greece was greatly influenced by the availability of foreign aid.² Chenery and MacEwan in a case study of Pakistan found that there were "optimal patterns of growth and aid".³ Three other case studies where the theory of foreign capital inflows has been applied are Korea,⁴ Israel⁵ and Colombia.⁶

These case studies have, by and large, established the fact that foreign capital inflows can be utilized fruitfully to foster economic development. What is established in these cases is only the relevance and possible contribution of foreign capital inflows. It is on the basis of the established positive

contribution that the theory of foreign capital inflows has been claimed to hold validity. Extrapolating from this assumed positive contribution of foreign capital inflows, a general theory of external capital needs, in the course of economic development, has been contrived. Thus according to this theory, developing countries are handicapped in their development process by lack of foreign exchange on the one hand, and by the inadequacy of domestic savings on the other. Foreign capital inflows are transformed into foreign exchange and used in payment for goods and services imported from developed countries. This theory, as formulated, consists of two parts: the theory of internal gap sometimes referred to as the resource gap or the investment-savings gap strives to explain how the inadequacy of domestic savings to finance planned investment constraints investments to the extent that economic development programmes cannot be implemented. The theory of external gap also known as the trade gap or import-export gap is concerned with elucidating how exports of developing country fail to earn enough foreign exchange to finance imports of capital goods that are an essential component of development inputs. Ex post, the gaps are usually identical but the two gaps are dealt with separately because of their ex ante inequality. The studies referred to above particularly Vanek's⁷ have endeavoured to estimate needs for foreign capital by developing countries. If the two gaps exist in a developing country the amount of foreign capital must be such that it fills the gaps. In actual fact

these theories become demand functions for foreign capital. If exports of a developing country earn foreign exchange that is less than the amount required to finance imports of capital goods and equipment, raw materials and semi-finished products which are crucial for development, the only way these goods can be paid for is through foreign assistance. The same is true for the investment - savings gap. When residents of a developing country do not generate enough savings to finance desired investment programmes the only other way to finance such investment is by obtaining foreign assistance equal to the deficiency of domestic savings.

Another dimension has to be added if we are to estimate what factors influence the total demand for foreign capital inflows. The two gaps alone explain about 90 per cent of the demand for foreign capital the remaining 10 per cent of the total demand is due to the cost of servicing loans.⁸ Interest and amortization payments increase the demand for foreign financial inflows. Debt-service requirements are obtained by specifying the average interest rate and the repayment period in future as well as past-external debts. As development progresses, foreign exchange reserves change and we obtain this change by relating the reserves to the level of development. We may, therefore, summarize the demand for foreign capital as the sum of the gaps plus debt-servicing plus changes in the foreign exchange reserves. Following professor Kim's model⁹ for calculating total foreign capital needs we have

$$EK = FK + DS + d(FX) \quad (2.1)$$

where FK is either internal or external gap.

$$FK = I_r - S_d \text{ (internal gap)} \quad (2.2)$$

$$FK = M_r - X \text{ (external gap)} \quad (2.3)$$

As already pointed out, in terms of national income accounting, ex-post the internal gap is identical to the external gap:

$$Y = C + I + (X - M) \quad (2.4)$$

where $I - (Y - C)$ is the ex-post internal gap. $Y - C = S_d$
(domestic savings)

The ex-post external gap is: $M - X$

$$Y - C = I + (X - M) \quad (2.5)$$

$$0 = I - (Y - C) + (X - M)$$

$$- (X - M) = I - (Y - C)$$

$$- X + M = I - S_d$$

$$M - X = I - S_d \quad (2.6)$$

Equation (2.6) (essentially an identity) tells us that the import surplus is identical to the excess of investment over domestic savings. On the left hand side of the equation we have the import-export gap which is the excess of imports

TABLE 2.1

IMPORTS MINUS EXPORTS AND INVESTMENT MINUS SAVINGS
1965-1973

(Million US Dollars)

	<u>M - X</u>	<u>I - S_d</u>
1965	-254.3	-22.5
1966	-371.0*	-3.0
1967	-245.4	79.9
1968	-328.8	130.5
1969	-682.0	-341.7
1970	-561.3	86.1
1971	-128.8	514.0
1972	-208.6	435.1
1973	-592.6	140.8

SOURCE: Republic of Zambia: Monthly Digest of Statistics, Central Statistical Office, Lusaka. Volume XI, Nos. 11 and 12 November/December 1975 p. 56 for Investment savings gap. For Import-Export Gap the figures are from Table 1.12.

over exports to be filled by foreign capital inflows. On the right hand we also have the excess of investments over domestic savings. This equation does not tell us whether the demand for foreign assistance is due to either gap. This is the shortcoming of the theory of foreign capital inflows and the reason why it will not be used in this study to explain the inflows of foreign capital.

Although table 2.1 bears no direct relationship with equation 2.6, the figures in this table show that ex ante the import-export gap is not identical to the investment - savings gap. Table 2.1 shows that in the case of Zambia exports exceeded imports during the period 1965 - 1973 thereby removing the need for foreign assistance. In 3 out of 9 years domestic savings were more than actual investments. It should be noted that the figures in table 2.1 cover the early years of the post-independence development plans when very little was known about investment and savings. Thus this study could not answer the question of whether actual investment was offset by voluntary savings or not. The extent of credit expansion including lending by government could not be adequately determined.

The application of equations (2.2) and (2.3) to the Zambian case using identity equation (2.6) and assuming that investments undertaken represented the required amount of investments, there would be a case for the inflow of foreign capital for six years. For the nine-year period (Table 2.1) exports were more than

imports implying that there was a net inflow of foreign exchange earnings. Table 2.1 also shows that in the years 1965, 1966 and 1969 domestic savings were more than adequate to finance investments. Thus during these years there was no justification for any inflow of foreign capital. However, ex ante, the internal gap is said to precede while the external gap may be the dominant factor (see Vanek's study of Colombia).¹⁰

Variables

- FK = Foreign capital needs
- EK = External-capital needs $FK + DS + d(FX)$
- Y = Gross domestic product GDP
- Y^* = Target GDP
- I_r = Desired investment
- S_d = Domestic savings
- M_r = Required imports
- M_p = Potential imports
- M_s = Import substitutes
- X = Exports
- T = Transfer payments
- DI = Foreign direct investment
- D = Net external borrowing
- D_s = Debt service
- D_{sp} = Debt-service on past debts
- L_s = Average interest payments on subsequent debts

A_s = Amortization payments on subsequent debts

F_x = Foreign exchange reserve.

Parameters

r = Target growth rate of GDP

k = Incremental capital output ratio (ICOR)

s = Average-savings rate

s^1 = Marginal-savings rate

M_{pi} = Potential import-GDP ratio

x = Export growth rate

i_s = Interest on subsequent debts

n = Year

t = Maturity period on external debts

g = Grace period

f = Ratio of foreign exchange reserve to imports

The gross domestic product Y is the sum of the values contributed by each of the twelve sectors in Zambia:

$$Y = y_1 + y_2 + \dots + y_n \quad (2.7)$$

where $n = (1, 2, \dots, 13)$

y_1 = Agriculture, forestry and fishing

y_2 = Mining and quarrying

y_3 = Manufacturing sector

y_4 = Electricity, water and gas

y_5 = Construction

y_6 = Wholesale and Retail Trade

- y_7 = Hotels and Restaurants
- y_8 = Transport and Communications and Storage
- y_9 = Financial Institutions and Insurance
- y_{10} = Real Estate
- y_{11} = Business Services
- y_{12} = Community, Social and Personal Services
- y_{13} = Other.

$$I = (I_1 + I_2 + \dots + I_n) \quad (2.8)$$

where $n = (1 + 2 + \dots + 12)$

The consumption function in Zambia cannot be easily disaggregated because of lack of data. However, it can be divided into government consumption expenditure and private consumption expenditure. This is also true of the savings function.

Export Function

$$X = x_1 + x_2 + \dots + x_j \quad j = 1, 2 + \dots + 8 \quad (2.9)$$

x_1 = Copper exports

x_2 = Zinc

x_3 = Lead

x_4 = Cobalt

x_5 = Tobacco

x_6 = Maize

x_7 = Timber

x_8 = All Other.

Import Function

$$M = m_1 + m_2 + \text{-----} + m_{10} \quad (2.10)$$

m_1 = Food

m_2 = Beverages and Tobacco

m_3 = Crude materials

m_4 = Electricity and mineral fuels

m_5 = Oils and fats

m_6 = Chemicals

m_7 = Manufactures

m_8 = Machinery and transport equipment

m_9 = Miscellaneous manufactured articles

m_{10} = Miscellaneous transactions.

2.2 THEORY OF INVESTMENT-SAVINGS GAP (INTERNAL)

Definitionally, the internal gap is the difference between required investments (I_r) to achieve a target output (Y^*) and savings generated domestically (S_d) at output (Y) while Y is assumed to grow at a rate r per cent annually over the period. In the n th year total output will be:

$$Y_n^* = Y_0(1 + r)^n \quad (2.11)$$

real output grows at a compound rate starting from the base year output Y_0 .

The capital-output ratio (k) which is assumed to be a constant brings about the relationship between investment and output.

This implies that required investment is a function of the constant capital-output ratio (k) times the target output (Y^*).

The gross domestic product grew at an annual average rate of 10.2 per cent during the period 1965 - 1973 as calculated from Table 1.6. Using a growth rate of 10.2 per cent and applying to equation (2.11), the 1973 gross domestic product is estimated at \$2,319.6 million as follows:

$$\begin{aligned} Y_n^* &= Y (1 + r)^n \\ Y_8^* &= 1,066.5 (1 + 0.102)^8 \\ &= 1,066.5 (2.174967) \\ Y^* &= \$2,319.6 \end{aligned}$$

This figure is very close to the provisional figure of \$2,442.0 million given in Table 1.6. On the basis of a 10.2 growth rate we project that the gross domestic product for 1976 will be \$3,104.3 million ie $(\$1,066.5)(2.9107)$.

$$I_r = k(Y)^* \tag{2.12}$$

In the nth year, the functional relationship takes the following form:

$$(I_r)_n = k_r(Y_o)(1 + r)^n \tag{2.13}$$

Explicitly this means that total investment requirements are a constant fraction of the total output in the nth year. Changes in capital stock and gross output and in investment and output are calculated to indicate the incremental capital-output ratio:

$$k = \frac{dk}{dY} = \frac{I}{dY} \tag{2.14}$$

This shows the identity between the ratio of the change in capital to the change in total output and the ratio of investment to change in total output. In the nth year the incremental capital-output ratio is expressed with one-period lag between investment and additional output as follows:

$$K = \frac{I_n}{Y_n - Y_{n-1}} \quad (2.15)$$

The output-capital ratio for the Zambian industrial sector is not easy to calculate and the calculations are only rough estimates based on the definitions given in the "Notes to Table 0.5"¹¹ and the data are the gross domestic product given in Table 1.6. The investment totals are extracted from the National Accounts Table 56¹². An annual average output-capital ratio of 0.2 seems adequate for the Zambian industrial sector. Using this ratio we estimate the 1971 required investment to obtain gross domestic product of \$1,767.3 million for 1971. The \$353.5 million required investment falls short of \$462.0 million given by the United Nations Industrial Development Organization¹³ because the latter included private foreign investments of \$110 million. The 1976 gross domestic product target of approximately \$3,104 million requires an investment level of about \$621 million which is very close to the planned investment of \$630 million for that year.¹⁴ This is also obtained by the use of equation (2.13) i.e. $(I)_n = k(Y_0)(1 + r)^n$
 $(I)_{11} = 0.2(1,066.5)(2.9107) = \620.9 million. For the year

1973 the required level of investment to obtain a target gross domestic product of \$2,442 million can be calculated in a similar manner i.e. $(I)g = 0.2(1,066.5)(2.17496) = \463.9 million which is very close to the provisional figure of \$450.9 million.¹⁵

The average incremental output-capital ratio for the entire period is simply the sum of ratios of all the years divided by the number of years:

$$K = \frac{I}{n}(K_1 + K_2 + \text{-----} + K_n) \quad (2.16)$$

Domestic Savings

On the assumption of linearity, the savings function expresses domestic savings as depended upon total income and the propensity to save:

$$S = a + b(Y) \quad (2.17)$$

Total savings in the nth year are the sum of savings in the base year and marginal savings in subsequent years and explicitly the function is:

$$S = S(Y_0) + \sum_{n=1}^n S^1 Y_0 (1+r)^n - Y_0 (1+r)^{n-1} \quad (2.18)$$

where S is the average savings rate and S^1 the marginal savings rate. Although it is assumed by Kim that the marginal savings rate is larger than the average savings rate,¹⁶ our calculations show that the marginal savings rate is, in fact, smaller than the average savings rate in Zambia. The average savings rate is approximately 0.22 and the marginal savings rate is 0.17. These rates are calculated from the National Accounts and Table 1.6 of our study. We substitute the relevant data into equation (2.18) to project the level of

savings in the nth year (1973) as:

$$\begin{aligned} S_n &= (0.22)(1,066.5) + 0.17 \sum_{n=0}^n Y_0(1+r) - \quad (2.19) \\ & Y_0(1+r)^{n-1} \\ &= 234.6 + 289.1 \\ &= \$523.7 \text{ million} \end{aligned}$$

This estimate compares very favourably with the provisional figure of \$511.7 million.¹⁷ As already indicated in a previous section, the difference between the investment function $(I)_n$ and the savings function $(S)_n$ is the internal gap i.e.:

$$\begin{aligned} FK &= (I)_n - S_n \\ &= K(Y_0)(1+r)^n - S(Y_0) - \sum_{n=1}^n S^1 \\ & Y_0(1+r)^n + Y_0(1+r)^{n-1} \end{aligned} \quad (2.20)$$

Our estimated FK is obtained by substituting equations (2.13) and (2.19) into (2.20).

$$FK = \$463.9 - 523.7 = \$59.8 \text{ million} \quad (2.21)$$

This figure represents an excess of savings over required investment funds. The interpretation of this apparent paradox

needs careful understanding of the assumptions of the model. The data used do not take into account the volume of capital outflow in the form of profit remittance, debt service payments and payments for imported goods and services. The derivation of the internal gap is based on the assumption that the incremental capital-output ratio is fixed and that the target rate of growth of output is fixed so that the product of two constants (K) the required rate of investment is also fixed.

The model as presented is static because it refers to a point in time usually the last year of the planned strategy of development without necessarily telling us what happened during the preceding years. Beside being static, it is a highly aggregated analysis. A disaggregated model or a sectoral model like Vanek's¹⁸ would be more useful for our analysis. With a sectoral model we can specify a set of consistent relations between production, consumption and trade for a number of goods and services into which the gross domestic product (Y) is divided (see Table 1.6). This type of intersectoral analysis of the structure of production, consumption and trade enables us to determine the level of gross domestic product, gross investment, exports and imports and the aid corresponding to each solution. However, Zambia data are such that it is difficult to disaggregate. This discussion seems to indicate that the massive inflows of foreign capital into Zambia were partly due to the inadequacy of domestic savings to meet the desired investments.

2.3 THEORY OF EXTERNAL GAP

This theory is based on the postulate that there is a shortage of the necessary foreign goods and that these goods are of strategic importance to the development process. The shortage arises due to the inadequacy of a developing country's exports to earn enough foreign exchange with which to finance these imports. The deficiency is then filled by foreign capital (FK). The required imports are related to the gross national product and the import-substitution coefficient. The import function formulated, without an import substitution function is:

$$M = a + b(Y) \quad (2.22)$$

However, in a planned economy there is a minimum amount of required imports that must be obtained during the period in order to reach the target gross domestic product $(Y)^*$ and this minimum is M^* :

$$M_n^* = m(Y_n) \quad (2.23)$$

$$M_{1973}^* = 0.23(Y_n) = (0.23)(2,319.6) = \$533.5 \text{ million}$$

As industrialization progresses, the quantity of imported consumer goods is assumed to decrease by an amount equal to the production of import-substitution industries. While the

quantity of imported capital goods is assumed to increase and how much will be imported will be a function of the desire for import-substitution and the availability of foreign exchange. This process of substitution lowers the import-substitution coefficient (m). (M^x) the required imports is the net effect of the two opposing forces, i.e., potential imports (M_p) and import substitutes (M_s):

$$M^x = M_p - M_s \quad (2.24)$$

Potential imports are by assumption a fraction of GDP (Y) in the n th year.

$M_p = m_p (Y_n)$ and import substitutes are similarly expressed as a fraction of total output (GDP) Y in the n th year.

$$M_s = m_s (Y_n). \quad (2.25)$$

The marginal potential import coefficient is approximately 0.25 and the marginal import substitution coefficient is 0.15.

By substitution we have:

$$M^x = m_p(Y_n^x) - m_s(Y_n^x) = Y_n^x(m_p - m_s) \text{ but} \quad (2.26)$$

$$Y_n^x = Y_0(1 + r)^n$$

$$M^x = (m_p - m_s)Y_0(1 + r)^n$$

$$M^x = (0.25 - 0.15)Y_0(1 + r)$$

$$= (0.25 - 0.15)(1,066.5)(2.175)$$

$$= \$231.96 \text{ million}$$

In the absence of import substitution required or minimum imports would have approximated \$533.5 million (see equation (2.23) above). The data used for the calculations of the marginals are contained in Tables 1.6, 1.13 and 7.3.

A more detailed discussion of the contribution of import substitution is deferred until chapter 7.

The export function expresses the volume of exports in the nth year as depended upon the growth rate of exports:

$$X_n = X_0(1 + x)^n \quad (2.27)$$

where x stands for the growth rate of exports.

From Table 2.2 we calculate the average annual growth rate as 11.6 per cent. With this growth rate and under the assumption that exports increase annually as GDP increases we estimate the value of exports in the nth year by multiplying the value of exports in the base by the compounded value of the rate of growth in the nth year i.e.

$$X_n = (503.3)(2.685206876) \quad (2.28)$$

$$= \text{£}1,351.47 \text{ million}$$

TABLE 2.2

EXPORTS OF ZAMBIA AND ANNUAL GROWTH RATES 1964-1973

(Million US Dollars)

	<u>Value</u>	<u>Annual Change</u>	<u>(Percentage Growth Rate)</u>
1964	503.3	-	-
1965	570.4	67.2	13.3
1966	740.2	169.8	30.0
1967	735.0	-5.2	-0.7
1968	816.6	81.6	11.1
1969	1,149.7	333.1	40.8
1970	1,072.4	-77.3	-6.7
1971	727.9	-344.8	-32.2
1972	812.6	85.0	11.7
1973	1,112.9	300.3	37.0

NOTES: The sharp decrease in the value of exports from 1969 to 1971 was due to a fall in the price of copper which accounts for more than 90 per cent of Zambian exports. This indicates the dependence of the Zambian economy on copper discussed in chapter 1.

SOURCE: See Yearbook of International Trade Statistics 1974 Volume, United Nations, New York, 1975. pp. 1014-1019.

The combination of export and import functions and the difference arising therefrom is the external or import-export gap.

Substituting equations (2.26) and (2.27) into equation (2.3) results in:-

$$FK = (m_p - m_s)Y_0(1 + r)^n - X(1 + x)^n \quad (2.29)$$

$$FK = \$231.96 - 1,351.47 = - 1,119.51$$

This implies that Zambian exports are adequate to finance imports and that the import-export gap is not a sufficient reason for the inflows of foreign capital. We should however, be cautious to point out that this type of analysis assumes that whatever is exported from Zambia is owned by Zambians and that the foreign exchange earnings are not claimed by foreigners. If this assumption were valid then foreign exchange shortages would not be a bottleneck to development in Zambia. The lack of need for foreign capital cannot be established from the equation.¹⁹

The gross external capital needs (EK) are the sum of foreign-capital needs (FK), debt service (DS) and the change in foreign reserve $d(F_x)$ so that:

$$EK = FK + DS + d(F_x) \quad (2.30)$$

External debts and debt service is:

$$EK_n = T_n + DI_n + Ddn \quad (2.31)$$

Net-capital inflow in the nth year (FK_n) is the sum of transfer payments (T) direct investment (DI) and net direct borrowing (D_d).

Debt servicing (DS) in the nth year is also made up of the following:

$$DS_n = (DS_p)_n + (is)_n + (As)_n \quad (2.32)$$

where (DS_p) stands for debt service on past debts;

is = average interest payments on subsequent debts;

As = average amortization payments on subsequent debts.

The two-gap theory is designed to establish the fact that non-availability of foreign capital is a major constraint to economic development. Charles Elliott has addressed himself to this problem in Zambia²⁰ and Romesh K. Diwan has tried to test the theory.²¹

Debt servicing, interest and amortization payments are the results of the presence of foreign capital but by themselves do not explain the cause of the initial foreign capital inflows.

On the basis of the data in Table 2.1 and 2.2 and calculations that we have made, we can conclude that the Two-Gap Theory is an irrelevant tool of analysis in the Zambian case. There is ample evidence that the inflows were not due to either failure of copper to earn enough foreign exchange with which to purchase the required equipment nor can we say that savings were not adequate to support domestic investments. Under the

circumstances it is pertinent to search for another theory that may give us some explanation of the massive foreign inflows and the consequences arising therefrom. We shall briefly discuss the Theory of Foreign Investment and The Theory of Economic Dependence and show that the inflows of foreign capital into Zambia can be explained better by the theory of dependence and foreign investment than by the Two-Gap Theory.

2.4 THEORY OF FOREIGN INVESTMENT

Investment theory in the traditional sense can, through theorizing, quickly dwindle into taxonomy if applied to developing countries without a thorough account being taken of the possible arrays of factors that induce it. An important platitude is that private foreign investment is a voluntary activity undertaken for purposes of making a private profit. An investor is concerned with the value of the investment. From this generalization one can infer that an investor will invest if and only if the value of an investment is at least equal to the net present value of the expected future stream of net revenue emanating from the investment. This can be expressed simply as:

$$NPV = \sum_{t=0}^n \frac{R_t - C_t}{(1+i)^t(1+r)^t} + \sum_{t=0}^n \frac{X_n}{(1+i)^n(1+r)^n} \quad (2.35)$$

where NPV = net present value of the investment;

R = annual expected gross revenues in future years;

C = annual expected costs in future years - excluding interests and amortization;

X = expected resale value of assets in year n when the investment is terminated;

i = the expected opportunity cost of capital in future years;

r = a discount factor to allow explicitly for risks

from events not specifically associated with the

project such as political risks etc.;

$t = 0 \text{ --- } n$, number of years over which returns are discounted, reflecting the planning horizon of the investor.

The conventional theory of investment seeks to explain the determinants of private investment behaviour. First there is the theory of domestic investment by business firms. This theory has been elaborated and examined by many authorities on investment²² and a few factors have been emphasized as influencing an investor. The following factors have received more emphasis than others:

- a) In terms of the expected profits theory of investment, the desired stock of capital investment is assumed to be proportional to the market value of the firm.
- b) In accordance with the neoclassical theory of investment, the desired stock of capital is assumed to be equal to the value of output deflated by the price of capital services.
- c) In the accelerator theory of investment, the desired stock of capital is assumed to be proportional to ~~output~~, allowing for variation in capacity utilization.
- d) According to the liquidity theory of investment, the desired stock of capital is assumed to be proportional to liquidity, defined as profits after taxes plus depreciation allowance less dividend payment.

In addition to the theory of domestic investment by business firms which is explained by the above four factors, we may add a second category of investment determinants incorporating a variety of long-term strategic and secular factors. The factors stressed by the same authors include: the desire on the part of investors to defend existing foreign markets and foreign investments against encroachment by competitors; the desire to gain and maintain a foothold in a protected market or to gain and maintain a source of supply that in the long-run may prove useful; the need to develop and sustain parent-subsidiary relations; the wish to reduce unpredictable elements in the business environment; the desire to induce the host country into a long-term commitment to a particular type of technology and know-how; the advantage of complementing another type of investment; the economics of new product development; competition for market shares among oligopolists; the concern for the strengthening of bargaining positions; and the economics of product-differentiated oligopoly - all factors with indirect, long-term and wider manifestations than the return on investment itself, narrowly defined. These factors are in actual fact hypotheses that are not mutually exclusive but closely interrelated.

The theoretical analysis of determinants of investment (domestic and foreign) needs to be split into two - domestic and foreign investments. The determinants of domestic and foreign investment are in some respects similar and in other

different. It must be recognized that international boundaries on their own introduce a series of independent political regimes, each following its own policies vis-a-vis the economy in general and private foreign investment in particular. Direct foreign investment differs from domestic investment in the sense that it not only involves investment in plant and equipment as expounded above under the four factors (i.e. a to d) of the theory of domestic investment, but includes also investment in other assets such as land, financial assets, and the takeover of existing firms. In contrast to domestic investment, foreign direct investment results in different parts of the firm operation in different institutional and legal environments subject to quite different external constraints.²³

The theory of direct foreign investment as applied to developing countries falls into three classifications. The classifications should not be regarded as watertight compartments since they are, to a degree, subjective and arbitrary. Direct foreign investment can and does take any of the following three types:

- a) Export-Oriented Investment: where firms are in the international market in pursuit of new sources of inputs, including raw materials and component parts. Here we may cite examples such as investments in mineral ores of copper in Chile and Zambia, bauxite in the Caribbean, banana plantations in Ecuador and

Panama. Foreign investors found in the export-oriented enterprises are mainly interested in extracting the product in question and exporting it for sale through the established market channels.

- b) Market-Development Investment: This is investment in which the output is disposed of within the country of investing and where investment is undertaken in response to underlying economic considerations such as the size of the local market, local production costs and the long-run potential of the market. Examples are found in the manufacturing sector of the Zambian economy.
- c) Government-Initiated Investment:²⁴ This type of direct foreign investment is initiated by the host government and foreign investors will be responding to the type of incentives provided by the host government. The incentives usually are of many varieties such as direct subsidy and tax incentives provided by the government to the foreign investors; indirect subsidy and taxes provided to the foreign investors; policies affecting the economy generally and in turn influencing foreign private investors; tariff reductions on equipment inputs thereby enabling the foreign investor to increase his imports; import concessions afforded on component parts; and part from

trade concessions host governments of developing countries grant foreign investors tax concessions of various kinds. The incentives and concessions are sufficiently large to make the investment attractive to foreign investors despite unfavourable underlying demand and cost conditions.

The purpose of making a bewildering variety of direct and indirect tax incentives and trade concessions to foreign investors can be viewed as an attempt by developing countries to raise the rate of return to the investor to the point where it is sufficiently attractive relative to the rate of return elsewhere to induce them to invest. Most direct investment decisions are made within large national and international corporations with a wide range of interests and a variety of complex objectives which in the majority of cases do not fall within the framework of the development plans of the developing countries.

The desire to enlist foreign investors is due to the recognition by the developing countries of the fact that foreign private investment plays a significant role in their economies and that in future foreign investment will play an even larger role if they (i.e. developing countries) are to have much hope of reaching their consumption and investment target.²⁵ Historically foreign direct investment has not been a substitute for other forms of international capital transfer, either qualitatively or quantitatively, but a complement to the

other types of foreign capital inflows. From a qualitative view point, direct investment entails not only a transfer of capital but a wide assortment of auxiliary factors together with market access - characteristics not normally associated with portfolio investment, export credits and foreign aid. Quantitatively foreign direct investment flows have been positively - not negatively, associated with capital flows in other forms.

Reuber and others note that "Africa's mining wealth is diversified by commodity and country distribution. Around twenty countries have mining sectors of importance, and almost all were originally developed, and most remain controlled, by foreign direct investors."²⁶

A study of the Zambian economy shows that the key sectors are in the hands of foreign companies. At independence almost the entire economy was foreign-owned and controlled. Soon after independence the rate of return on investments was very high and in accordance with the theory of investment, foreign firms found it quite attractive to invest in Zambia. The mining industry in Zambia is a typical example of export-oriented investment in which investments, copper mining, were intended to extract copper for exports, through established market channels (London Metal Exchange). Thus part of foreign capital inflows can be explained by heavy investments in the mining industry in Zambia.

The manufacturing sector of the Zambian economy attracted market-development investment soon after independence. The demand for manufactured articles made investments very profitable. The high returns attracted foreign capital. In addition to the already attractive investment conditions the Zambian Government in its desire to industrialize quickly offered a variety of incentives such as tax holidays, protected market, permission to remit part of their profits to international corporations and other foreign firms.

We can conclude from the above analysis that foreign capital inflows into Zambia cannot be adequately explained by lack of savings nor inadequacy of export earnings to finance imports of equipment. All that can be said is that foreign investors brought their capital into Zambia in response to a good investment climate. Lack of domestic savings or shortage of foreign exchange does not seem to induce foreign investments. For example, Lesotho, one of the poorest countries does not have massive foreign investments except for the Holiday Inn which is prosperous because of the casino which attracts white South Africans into Lesotho. Furthermore the volume of foreign aid given to Zambia is far much larger than that given to Lesotho.

2.5 DEPENDENCY THEORY: A TOOL FOR THE ANALYSIS OF
UNDERDEVELOPMENT

Having concluded that the two-gaps theory does not constitute an adequate analytical framework within which we can explain foreign capital inflows into Zambia and the resultant underdevelopment of certain sectors of the economy and the entire dependency of the economy on external factors, we shall adopt as our framework for the analysis of the Zambian development process that has led to dependency and underdevelopment the dependency theory. We shall endeavour to show that within the dependency theory there are several sub-dependency theories and it is the totality of these theories that explain the laws of motion that determine foreign capital inflows. In contrast to the neoclassical and the neo-Keynesian theories which try to explain foreign capital inflows in terms of the two-gaps analysis thereby implicitly suggesting that developed countries together with transnational corporations have a desire to fill up the import-export gap and the investment-savings gap in order to promote economic and social development in the developing countries, the dependency theory, in its several aspects (i.e. structural, technological, dualistic, center-periphery, colonial and capitalistic) denies that the stated intention of filling up the two-gaps is to promote economic development in the Third World. Dependency theory, contrary to the two-gaps theory stresses that the intention of foreign capital inflows is to enrich international capitalism. Furthermore, the

dependency theory does not accept the suggestion of the two-gaps theory that economic growth is synonymous with economic development.

In analysing the undeveloped economic and social structures in Zambia, we draw on the influential idea of a dual economy (the theory of dualism) which is a very powerful tool for the analysis of an unbalanced and unintegrated economy characterized by the coexistence of a dynamic modern sector of production, typically export-oriented and a traditional sector of subsistence agriculture whose characteristics inhibit the development of an internal market. To understand the forces that determine the development of a dual economy we draw on the colonial and capitalist aspects of the dependency theory as this facilitates an analysis of the formation of the underdeveloped structures and their dependence on external factors. The colonial and capitalist exploitative aspect of the dependency theory not only enhances our understanding of how the under-developed countries are presently integrated into the world capitalist economic system but also enables us to appreciate a historic perspective of the creation of the structures that have become the mechanism for the appropriation and expropriation of surplus produced within the underdeveloped regions of the entire world capitalist economic system. It is in this respect that an appreciation of the fact that the dependency theory converges with the theory of dualism in various zones becomes important in our effort to understand the forces that determine the

development processes in the contemporary underdeveloped countries and why it is that for many of them there appears to be no other development strategy except the capitalist.

The colonial relations that created certain structures which were inherited at the attainment of 'flag' independence can be looked at as the conditioning aspects of dependency in the sense that those who, under 'flag' independence, make decisions on behalf of government and domestic enterprises in the modern sector want to concentrate investment in the modern sector at the total neglect of the traditional sector of subsistence agriculture. This bias is a result of colonial relations that established production relations between the modern sector of developing countries and international capitalism. The established production relations facilitated and still do facilitate the importation of advanced technology that is used in the modern sector thereby consolidating a technological dependence relationship. Technological dependency defines technical relations between developed market economies and the modern sectors of developing countries. Within this modern sector, technological dependency reproduces and strengthens itself through the systematic and autonomous generation of a certain type of manpower: people capable of assembling durable consumer goods, but not of designing them; people who sell, but do not design their own marketing strategy; people who produce, but lack any creative relationship to technology. Thus maintenance of this relation serves the interest of the

decision-makers within the modern sector as it ensures continued production, sales and consumption of the consumer goods produced in this sector. The consequences of this relationship is the creation of a dual economy in which the modern sector, being technologically dependent on the advanced developed countries, employs advanced production techniques while the traditional sector uses traditional techniques of production. The use of different technologies in these two sectors serves to create dualism within a country.

The basic hypothesis of the dependency theories is that development and underdevelopment are partial, interdependent structures of one capitalist world economic system which conditions the development process of the economies of one group of countries to be dependent on the development process of another group of countries. These theories try to argue that the dynamics of the Third World society and its underdevelopment are primarily conditioned by the Third World's position in the international economy and the resultant ties between the internal and external structures in which underdevelopment and dependency are positions within an international capitalist system of production and distribution. For example Thoetonio Dos Santos²⁷ one of the structuralist architects of the dependency theories argues that, through relations of dependency the Third World countries are subjected to conform to a type of international and internal structure leading them to underdevelopment and more precisely to a dependent structure that deepens and aggravates

the fundamental problem of the Third World society. He goes on to define dependency as:

By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation between two or more economies and between these and the world trade assumes the form of dependence when some (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either positive or negative effect on their immediate development.²⁸

The thrust of Dos Santos argument is basically that the world capitalist economy not only integrates national economies in a world market of commodities, capital and labour but also that this market actually produces relations that are unequal. The inequality results, first, from the fact that the development of some parts of the world capitalist system occurs at the expense of other parts and second, from the fact that this market by being monopolistically controlled leads to trade relations that facilitate the transfer of surplus from dependent to dominant countries. Within this world capitalist system Dos Santos argues "financial relations are defined in terms of loans and export of capital to the dependent countries and the receipt of interest and profits by the dominant countries

so that they (dominant countries) increase their domestic surplus and strengthen their control over the economies of other countries".²⁹

From this analysis it follows that from the point of view of the dependent countries the structure of the world economy produces financial relations that represent export of interest and profits. These exports represent a reduction of the surplus generated domestically and result in loss of control over their productive resources. The development of an internal market, technical and cultural capacity is thereby limited by this loss. Accordingly Dos Santos argues further that:

---- it is the combination of these inequalities and the transfer of resources from the most backward and dependent sectors to the most advanced and dominant ones which explains the inequality, deepens it, and transforms into a necessary and structural element of the world economy.³⁰

DOS SANTOS AND THE ORIGIN OF DEPENDENCE

From a historical perspective, Dos Santos traces the origins of the present forms of dependence to the colonial era. Here it is pointed out that colonialist states in alliance with commercial and financial capital dominated the economic relations of European countries and those of the colonies through trade monopoly complemented by a colonial monopoly of land, mines and labour in the colonized countries. By the end of the 19th century, financial industrial dependence which had consolidated itself in Europe was characterized by the domination of big capital in the hegemonic centres and its quest for expansion abroad through investment in the production of raw materials and agricultural products for consumption in the hegemonic centres. The logical consequence of these two historic features was the creation of, in the colonies, production structures geared and devoted to the production of exports destined for the hegemonic centres.

The post-war period witnessed the emergence of a new form of dependence dominated by multinational corporations' heavy investments in industries geared to the internal market of the underdeveloped countries. This form of dependence is basically technological - industrial dependence because investments under multinational corporations depend largely on the existence of financial resources in foreign currency for the purchase of machinery and processed raw materials not produced domestically.

The export sector is, therefore, expected to provide the necessary foreign exchange earnings. Such a strategy of development has structural limits in the sense that industrial development is dependent on the export sector for foreign currency to buy inputs for the industrial sector. Consequently this dependence creates the need to preserve and promote the traditional export sector which, in turn, limits economically the development of an internal market by conserving backward relations of production. In cases where the industrial and export sectors are foreign owned and controlled, this signifies the remittances abroad of profits. Secondly, industrial development becomes strongly conditioned by fluctuations in the balance of payments which are dependent upon trade relations created in a highly monopolized international market. This market has a tendency of lowering prices of raw materials and raising prices of industrial products particularly inputs. These factors ensure that development in the underdeveloped and dependent countries rely on foreign capital which, in turn, guarantees control over the most dynamic sectors of the economy by foreigners.

The result of all these forces is that foreign financing becomes a necessity to cover the existing deficit and to finance development by means of loans for the stimulation of investments and to supply an internal economic surplus which was decapitalized, to a large measure, by remittances.³¹ The dependence situation creates relations that place

developing countries in an inferior position so that they look to developed countries as initiators of development. Dos Santos accordingly describes a dependent relationship between the economies of the dominant countries and the dependent countries as follows:-

Dependence is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries can expand through self-impulsion while others, being in a dependent position can only expand as a reflection of the expansion of the dominant countries which may have positive or negative effects on their immediate development. In either case, the basic situation of dependence causes these countries to be both backward and exploited. The dominant countries are endowed with technological, commercial capital and socio-political predominance over dependent countries. Dependence, then, is based upon an international division of labor which allows industrial development to take place in some countries while restricting it in others, whose growth is conditioned by and subjected to the power centers of the world".³²

DEVELOPMENT AND UNDERDEVELOPMENT: OSVALDO SUNKEL'S ANALYSIS

Oswaldo Sunkel another architect of the dependency theories emphasizes the fact that dependency and underdevelopment are a result of the consequences of historical and economic integration of the Third World into the world capitalist system and he puts his argument as:-

Development is a global, structural process of change and underdeveloped countries are those countries which lack an autonomous capacity for change and growth and are dependent for these on the centre.³³

Sunkel, in his analysis of the dynamic interaction between internal structures and foreign dependence shows the critical vulnerability of Latin American economies to the vicissitudes of foreign trade and capital flows and the manner in which industrialization has merely increased this vulnerability, and hence reliance on the unreconstructed traditional export sector. To prove the validity of the dependency theories, he points out that:-

- a) the traditional agrarian structure has largely been preserved seriously limiting modernization and technological improvement of rural production;
- b) we have inherited a structure of foreign trade which, in open defiance of policy pronouncements repeated for the last twenty years, still relies principally on the export of a handful of primary commodities; and

- c) industrialization has not produced all the expected benefits, in particular, it has not resulted in a lessening of foreign dependence which was after all one of the basic objectives.³⁴

Sunkel adds an important observation to demonstrate the mechanisms of economic dependence in Latin American countries and that is the role of the state by saying that:

- the State has come to fulfill three new principal functions:

- a) as a financial intermediary, which transfers financial resources and subsidizes the development of private industry, usually by means of development institutions;
- b) as a mechanism for income redistribution, allocating resources to the expansion of social security and to the extension of educational, housing and health services; and
- c) as a mechanism of public investment, which adapts and enlarges the economic infrastructure: transportation, communications, power, and also basic industrial enterprises.³⁵

He concludes from the four characteristic processes - the stagnation of traditional agriculture, the structure of foreign trade, the type of import substitution industrialization and the function which the state is fulfilling, that Latin American countries are, from the point of view of the structure and

functioning of the economy, entirely dependent on their foreign economic relations. Extreme dependence he argues is rooted in the vulnerability and structural deficit of the balance of payments; in the type of import-substitution industrialization and the form of the exploitation of the export sector which has not facilitated Latin American countries to acquire the ability to adapt and create their own technology; in foreign ownership of export and other industries or dependence on licences and foreign technical assistance; and the fact that both the fiscal sector and the balance of payments persistently tend to deficit, which leads to the necessity for foreign financing.³⁶

CELSO FURTADO ON THE INTERNAL AND EXTERNAL
STRUCTURES OF DEPENDENCY

One of the most influential of Latin American writers in the early 1960s is a Brazilian, Celso Furtado, who stresses both the internal and external structures of dependency by specifically pointing out that economic development being fundamentally a process of incorporating and diffusing new techniques, implies changes of a structural nature in both the systems of production and distribution of income. Furtado, like Sunkel and Dos Santos, argues that in underdeveloped societies where the preceding economy was of a

colonial type,³⁸ the structures have great inflexibility. Furtado extends the analysis to Latin America as a whole, emphasizing the principle of development based on assimilation of technological progress rather than its generation as a consequence of dependency and underdevelopment. This strategy, he argues, gave rise, in the context of existing institutional structures, to a new type of dualism between highly capitalised productive units employing modern technical processes and productive sectors employing traditional techniques and having a low level of capital investment, a dualism superimposed on the former polarization between a market-economy sector and a subsistence economy sector.

SAMIR AMIN ON BLACK AFRICAN UNDERDEVELOPMENT

Samir Amin the leading African writer on dependency theories argues that underdevelopment of the Third World is due to their dependency on developed countries a consequence of historical experience of economic exploitation.³⁹ Through neocolonialism underdevelopment has not only been perpetuated but also increased. Amin, like the Latin American writers bases his analysis on the historical experience of Black African countries:-

In all three cases, then, the colonial system organised the African societies so that they produced exports - on the

best possible terms, from the point of view of the mother country - which only provided a very low and stagnating return to local labour. This goal having been achieved, we must conclude that there are no traditional societies in modern Africa only dependent peripheral societies.⁴⁰

Amin's dependency theories are based on the centre-periphery argument and he maintains that the creation of western capitalism led to the creation of an international political economy characterized by international division of labour in which the metropolitan - capitalist countries achieved dominance over the underdeveloped. This is the dependent satellite -type relationship because the underdeveloped countries lack sufficient resources to act independently in international political and economic relations. In his analysis of West Africa, Samir Amin, concludes that the French utilized economic, political and cultural relations established during the colonial period to control and direct economic, social and political developments in Francophone Africa after the attainment of 'flag' independence.

The basis of the 'centre-periphery' argument, in this context, is that technical progress was, during the colonial era and still is under 'flag' independence, concentrated at the centre and that this situation had and still has the effect of diminishing the share of primary inputs in value of end products. The consequences of this has been progressive deterioration in the terms of trade experienced by primary producers, so that for the primary producers a given unit of manufactured imports has come to cost a larger and larger measure of primary exports. The gain from increased primary production does not accrue to the peripheral countries but is appropriated in the economies of the world centre.⁴¹

ANDRE GUNDER FRANK: EXPROPRIATION AND
APPROPRIATION OF SURPLUS

Andre Gunder Frank, though a German, has lived in Latin America - Brazil, Mexico and Chile and in his "Historical Studies of Brazil and Chile" he begins his study of Chile by saying:

This essay contends that underdevelopment in Chile is the necessary product of four centuries of capitalist development and of the internal contradictions of capitalism itself. These contradictions are the expropriation of economic surplus from the many and its appropriation by the few, the polarization of the capitalist system throughout the history of its expansion and transformation, due to the persistence or re-creation of these contradictions everywhere and at all times. My thesis is that these capitalist contradictions and the historical development of the capitalist system have generated underdevelopment in the peripheral satellites whose economic surplus was expropriated, while generating economic development in the metropolitan centres which appropriated that surplus - and, further, that this process still continues.⁴²

Frank's analysis of the process of expropriation and appropriation of economic surplus follows Marx's analysis of capitalism in which he (Marx) identified and emphasized the expropriation of the surplus value created by producers and its appropriation by capitalists.⁴³ Using this framework for the analysis of

Chilean development he notes that the same contradictions exist in Chile in that there is now the contradiction of monopolistic expropriation/appropriation of economic surplus within the present capitalist system and that underdevelopment and dependency of today's Third World are the consequences of this contradiction.

The second contradiction that Frank analyses is the "contradiction of capitalism that takes the form of polarization into metropolitan center and peripheral satellites"⁴⁴. The gist of this contradiction is that the metropolis expropriates economic surplus from its satellites and appropriates it for its own economic development. Thus the satellites, deprived of their own surplus, and as a consequence of polarization and exploitative contradictions which the metropolis introduces and maintains in the satellites domestic economic structures, remain underdeveloped. The relevance of Frank's theory of underdevelopment is that it brings out quite clearly the laws of motion that generate structural underdevelopment. He points out that it is not only the draining out of economic surplus after the satellite has been incorporated as such into the world capitalist system, but also and more important, the impregnation of the satellite's domestic economy with the same capitalist structure and its fundamental contradictions:

That is, once a country or a people is converted into the satellite of an external capitalist metropolis, the

exploitative metropolis - satellite structure quickly comes to organize and dominate the domestic economic, political and social life of that people. The contradictions of capitalism are recreated on the domestic level and come to generate tendencies toward development in the national metropolis and toward underdevelopment in its domestic satellites just as they do on the world level.⁴⁵

In his review of Chilean history he found out that foreign or national exporters and importers, as well as other large merchants and financiers, exercised control over, and appropriated capital from, relatively smaller merchants in the national and regional capitals. Thus, we see that surplus expropriation and appropriation, the metropolitan centre-peripheral satellite structure and the impregnation of the satellites with contradictions of the capitalist system are, in general, channels through which the centre appropriates part of the economic surplus of the satellites.

CLIVE Y. THOMAS: DEPENDENCE AND TRANSFORMATION

Clive Y. Thomas writing on "Dependence and Transformation" starts his analysis from the specific result of the conjuncture of production relations and productive forces on a world scale and argues that this conjunction has its origins in the

political and social processes that accompanied the worldwide spread of capitalism. He accordingly comes to the conclusion that capitalism, in the underdeveloped countries, is supported by national alignments of social classes and productive forces that evolved through colonial and imperial domination of the Third World:

These social classes are incapable of generating a transformation, partly because of their origins, partly because of the absence of an indigenous material base for their existence and partly because the internal dynamics of world capitalism is against them.⁴⁶

Thomas like the other exponents of the dependency theories argues that the contradiction which has given rise to the reality of the development of underdevelopment in the Third World societies is the dialectical process of the internalization of the capitalist system. He stresses the fact that "the dynamics of functional autonomy exist in all the previously colonized underdeveloped economies as the means whereby social and political relations - as well as cultural and psychological attitudes - having developed around the productive forces of colonialism, alien settlement, and conquest, are reproduced during the present phase of 'flag' independence".⁴⁷ This observation is similar to the "conditioning" emphasized by Celso Furtado. He categorizes the forms of economic dependency which are most important to the economic structure and which cannot easily be changed by 'flag' independence as:

- a) the reliance on foreign technology
- b) the critical role foreign decision-making plays in domestic employment, output, and income generation
- c) the persistent income drains which occur because surpluses obtained locally are being transferred to the owners of capital, technology, and managerial skills in metropolitan countries.⁴⁸

According to Thomas, the poverty of the Third World society within the system of international capitalism can be dynamically applied and expressed in terms of objective material phenomena which consist of the fact that the conjunction of production relations and productive forces is of such a character that the measure of structural dependence, underdevelopment, and the economic backwardness of the process of production is, on the one hand, the lack of an organic link, rooted in an indigenous science and technology, between the pattern and growth of domestic resource use and the pattern and growth of domestic demand, and, on the other, the divergence between domestic demand and the needs of the broad masses of the population.⁴⁹

The thrust of this argument is that the majority, if not all, of the commanding heights of the economies of developing countries are geared and devoted to the production of goods that are destined for developed market economies.

Benjamin Higgins, on commenting on my earlier draft scenario of the application of the dependency theories to the Zambian analysis says "This scenerio fits, mutatis mutandis, the cases of Indonesia, Malaysia, Haiti, Mauritania and Algeria" and goes on to give a synopsis of my Zambian scenario:

Underdevelopment due to dependende may occur where a narrowly based export sector offers the sole avenue to wealth and power. Such seems to be the case in Zambia, for example. Lacking industrial entrepreneurs of her own, and with no important class of large-scale and wealthy landowners, and being very underdeveloped in indigenou technology and skills, it becomes attractive to exploit the copper with foreign capital and technology.

'Nationilization', by acquiring 51 per cent of the stock in the mines and thus establishing parastatal enterprises, provides opportunities for government officials to participate in the management, acquire a modicum of power and a high income (often, it seems substantially higher than their nominal salaries). However, since the local government officials lack the specialized training and experience that would provide them with the level of expertise enjoyed by the foreign managers, scientists and engineers -- and know it - - all important decisions are made by foreigners. Meanwhile the opportunities for fame

and fortune provided by the mining enclave divert the few Zambians with some training away from projects designed to develop the rural sector, where most of the population seeks its livelihood. Moreover, in such a situation, it is easy for foreign firms and their local counterparts to persuade government officials that foreign aid should be directed towards projects such as roads, railways, power plants and training schemes which are needed for the expansion of the mining sector and other leading sectors with high profit prospects.⁵⁰

Higgins argues that the poverty of the Third World society particularly as measured by widening gaps between the rich and the poor countries, and between the rich and the poor within developing countries can be explained by aggravated dualism rather than by dependence. He agrees that colonial relations largely explain the level of development in each of today's developing countries when he states that:-

In varying degrees and in different ways the colonial administrations destroyed indigenous entrepreneurship; fostered industrialization at home, encouraged industrial exports to colonies; limited the modern sector to the exploitation and large scale (plantation) agriculture and services related to these activities; launched a population explosion wherever Europeans settled, by improving public health and maintaining law and order;

neglected education of indigenous populations (and of imported slaves); and left behind a legacy of anti-capitalism, anti-liberalism, and anti-Westernism that complicates both the relations of LDC's with AC's and the definition of economic ideologies and policies at home. Even differences in patterns of development since independence reflect in large degree differences in the impact of colonialism in terms of these five variables.⁵¹

Benjamin Higgins in support of the theory of dualism explains the theory in terms of the observable and existing modern sectors and traditional sectors in many developing countries. The modern sector uses modern and advanced technology while the rural sector employs old and archaic (traditional) techniques of production. The technology used by the modern sectors of developing countries comes from the advanced and industrialized countries (in particular MNCs, the international capitalists). The rural sector (traditional) because it is not as well integrated into the international capitalist system uses old-fashioned production techniques. Thus the observable structures in a developing country comprise one sector that is technologically advanced through its relationship with international capitalism and another sector that is technologically backward. This is technological dualism as explained by Higgins and it provides an acceptable explanation for the underdevelopment of some sectors in developing countries as

much as the dependency theory. Since technological dualism is concerned with differences in production it means that production differences can be and are transferred into differences in consumption and standard of living. Thus the quarrel between Frank and Amin, on the one hand, and Higgins, on the other, on this point seems to be a reflection of misunderstanding. For the dependency theorists emphasize the fact that while foreign capital inflows may promote growth whatever development that takes place is based on the assimilation of technological progress rather than its generation, giving rise in the context of existing (ie colonial and/or capitalist) institutional structures to a new type of dualism between highly capitalised productive units employing modern technical processes and productive sectors employing traditional techniques and having a low level of capital investment, a technological dualism superimposed on the former polarization between the market-economy sector and subsistence-economy sector.

Meir Merhav in elucidating on technological dependence argues that:

technological dependence inevitably leads, on the one hand, to the emergence of a monopolistic structure because the scales of output that must be adopted to introduce modern methods are large relative to the extent of the initial market; and on the other hand, these markets will be only practically expanded through income generated by investment, since a large proportion of the capital goods must be imported. ⁵²

SUMMARY OF DEPENDENCY THEORIES

The arguments contained in the several aspects of the dependency theory suggest that international capitalism, as represented first by colonial and imperial governments and presently by the Western advanced countries and transnational corporations, was and is organized so as to expropriate surplus from the Third World through the use of advanced technology which it owns and controls. Because of historical experiences (political, social economic etc.) the developing countries have been integrated into the Western world capitalist system with the consequence that they (LDCs) have developed a need for the foreign technology, equipment managerial skills, finance, scientific skills and markets.

The relations that result from the integration of the Third World countries into the world capitalist system is that each developing country becomes an element within a system in which the element lacks an autonomous capacity for change and growth. To bring about growth, a developing country must request foreign capital in the form of foreign aid or foreign investments or both. Thus the economies of developing countries have structural deficits of balance of payments that create demand for foreign capital inflows. The types of industrial development particularly import-substitution not only cement the center-peripheral relationship but create the need for foreign financing.

Given that technological progress during and after the colonial era has been concentrated in the metropolitan - capitalist countries, the periphery had depended on imported technology and has been paying for this technology using exports of primary products whose terms of trade have progressively deteriorated against exports of manufactured goods. The deterioration in the terms implies that developing countries have to produce larger and larger volumes of primary products in exchange for less and less quantities of the much needed capital equipment. Under the circumstances developing countries have to depend on foreign capital inflows. In addition to this, we have the expropriation of surplus produced in the developing countries and its appropriation by transnational corporations which reduce the amount of available investible surplus thus creating demand for foreign financing.

It is argued in this dissertation that the inflows of foreign capital into Zambia can be explained by the dependency theory rather than by the two-gaps analysis.

NOTES

¹H.B. Chenery, and A.M. Strout, "Foreign Assistance and Economic Development", American Economic Review, September 1966 pp. 679-732.

²I. Adelman, and H.B. Chenery, "Foreign Aid and Economic Development: The Case of Greece", The Review of Economic and Statistics, February 1966, pp. 1-14.

³H.B. Chenery and A. MacEwan, "Optimal Patterns of Growth and Aid: The Case of Pakistan", in Adelman and Thorbecke, eds., The Theory and Design of Development, Baltimore, 1966. pp. 149-180.

⁴S.H. Kim, "Foreign Capital For Economic Development: Korean Study", Praeger New York 1970.

⁵H.B. Chenery, and M. Bruno, "Development Alternatives in an Open Economy: The Case of Israel", Economic Journal, March 1962 pp. 79-103.

⁶Jaroslav Vanek, "Estimating Foreign Resource Needs for Economic Development", John Wiley, 1967.

⁷ibid.

⁸For a detailed analysis of debt problems we defer the discussion to chapter 6. See also Gant L. Reuber and Others, Private Foreign Investment in Development, particularly chapter 5 "Service Costs and Tax Benefits" p. 141.

⁹S.H. Kim op. cit.

¹⁰J. Vanek op. cit.

¹¹See Republic of Zambia: Census of Industrial Production, 1972, Central Statistical Office, Lusaka, November 1974, p. 24 for definitions: The average capital-output ratio

is defined as the ratio between the net fixed assets at the beginning of the year and the contribution to the gross domestic product in producer's values during the year.

The marginal capital-output ratio has been defined as the ratio between the gross fixed capital formation during the year and the growth in the contribution of the industry to gross domestic product during the succeeding year. A time-lag of one year has been supposed.

¹² Republic of Zambia, Monthly Digest of Statistics, op. cit. 1975 p. 56. It is assumed that Gross Fixed Capital Formation refers to desired gross investment and this was confirmed by the Director of Statistics in an April 1976 interview. Consumption of fixed capital has been deducted to arrive at net fixed capital on net investments for the year.

¹³ Summaries of Industrial Development Plans, Volume 111: Zambia, Summary of the Industrial Development Plan 1972-1976, United Nations Industrial Development Organizations, Vienna, ID/109 June 1973, p. 456.

¹⁴ *ibid.*

¹⁵ Republic of Zambia: Monthly Digest of Statistics November/December 1975 p. 56.

¹⁶ S.H. Kim op. cit.

¹⁷ Republic of Zambia, Monthly Digest of Statistics op. cit. p. 57.

¹⁸ J. Vanek, Estimating Foreign Resource Needs for Economic Development, John Wiley, 1967.

¹⁹ It is not easy to measure the actual needs for foreign capital in an economy like that of Zambia. See Robin Marris "Can we measure the Need for Development Assistance?" Economic Journal, September 1970 and Lauchlin Curries, "The Exchange Constraint on Development: A Partial Solution to the Problem: Reply", Economic Journal, March 1973. Here again doubts are expressed as to the existence of needs.

²⁰ Charles Elliott, "Constraints on the Economic Development of Zambia", op. cit. He points out that shortages of foreign exchange are not the main constraints to economic development in Zambia.

²¹ The Two-Gap Theory has been found valid in some cases and has stood rigorous tests. See Romesh K. Diwan, "A Test of the Two-Gap Theory of Economic Development", Economic Journal.

²² Dale W. Jorgenson and Calvin D. Siebert, "A Comparison of Alternative Theories of Corporate Investment Behavior", American Economic Review LVIII September 1968 pp. 681-712; Z. Griliches and N. Wallace, "The Determinants of Investment Revisited", International Economic Review VI, September 1965, pp. 311-329; Raymond F. Mikesell, "Decisive Factors in the Flow of American Direct Investment to Europe", Economica Internazionale XX, August 1967 pp. 431-452.

²³ J.H. Dunning, Studies in International Investment, George Allen and Unwin, London 1971.

²⁴ G.K. Helleiner, "Manufactured Exports from Less Developed Countries and Multinational Firms", The Economic Journal 83, March 1973 pp. 21-47.

²⁵ See Fiscal Incentives for Private Investment in Developing Countries (Paris: OECD, 1965).

²⁶ Grant L. Reuber and others, Private Foreign Investment in Development, Clarendon Press, Oxford, 1973.

²⁷ T. Dos Santos, "The Crisis of Development Theory in Underdeveloped Countries", p. 60, in Henry Bernstein (ed.), Underdevelopment and Development: The Third World Today: Penguin Books, 1973 pp. 57-80.

²⁸ -----, "The Structure of Dependence", American Economic Review, Vol. LX, No. 2 (May, 1970) pp. 231-236.

²⁹ -----, ibid.

³⁰ -----, ibid.

31 -----, *ibid.*

32 -----, "The Crisis of Development Theory in Underdeveloped Countries," *op. cit.* p. 76.

33 Osvaldo Sunkel, "National Development Policy and External Dependence in Latin America" *Journal of Development Studies*, Volume 6, No. 1, October 1969 pp. 23-48.

34 -----, *ibid.* pp. 28-29.

35 -----, *ibid.* p. 30.

36 -----, "Transnational Capitalism and National Disintegration in Latin America" in *Social and Economic Studies*, Vol. 22, No. 1 March 1973, Special Number on Dependence and Underdevelopment in the New World and the Old; edited by Norman Girvan.

37 Celso Furtado, "Development and Underdevelopment", University of California Press, Berkeley and Los Angeles, 1967 particularly chapter 4: "Elements of a Theory of Underdevelopment" pp. 115-140.

38 -----, "Economic Development of Latin America: A Survey from Colonial Times to the Cuban Revolution", Cambridge University Press, 1970.

39 Samir Amin, "Neocolonialism in West Africa", Harmondsworth: Penguin, 1973.

40 -----, "Underdevelopment and Dependence in Black Africa-Origin and Contemporary Forms", *The Journal of Modern African Studies*, 10, 4(1972), pp. 503-524.

41 For similar views to Amin See Reiner Voss: "Interdependence of Development Policy, World Market Dependence and Foreign Aid ("Traid not Aid") and Patrice Mandeng: "Interdependence of Development Policy and Ideology" in Joachim Voss, (ed.) *Development Policy in Africa*, Publications of the

Research Institute of the Friedrich - Ebert - Stiftung
Vol. 105, Bonn-Bad Godesberg.

⁴² Andre Gunder Frank, "Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil", Monthly Review Press, New York, 1969, p. 1 .

⁴³ Karl Marx (1867), "Capital", Vol. 1, Lawrence and Wishart 1970.

⁴⁴ Andre Gunder Frank, op. cit.

⁴⁵ -----, ibid. See also Rainer Tetzlaff, "The Concrete Contradictions in Zambia's "Socialism", in Joachim Voss (ed.) op. cit. pp. 163-179.

⁴⁶ Clive Y. Thomas, "Dependence and Transformation: economics of transition to socialism", Monthly Review Press, New York, 1974. pp. 42-43.

⁴⁷ -----, ibid p. 50-51.

⁴⁸ -----, ibid p. 51.

⁴⁹ -----, ibid p. 59. For similar views See Immanuel Wllerstein, "Dependence in an Interdependent World: The Limited Possibilities of Transformation within the Capitalist World Economy", African Studies Review, Vol. XVII, No. 1 April 1974 pp. 1-26.

⁵⁰ Benjamin Higgins. Comments on the thesis in his capacity as major adviser.

⁵¹ Benjamin Higgins, "Dualism vs Dependence: the case of Southeast Asia", Proceedings of the Canadian Association of Asian Studies, 1977.

⁵² Meir Merhav, "Technological Dependence, Monopoly and Growth", Oxford Pergamon Press, 1969 pp. 59-60.

CHAPTER 3

3.1 FORMS OF INFLOWS OF FOREIGN CAPITAL

There is no general consensus on what actually foreign economic assistance should or should not embrace. The Development Assistance Committee (DAC) of the Organisation of Economic Co-operation and Development (OECD) has, in an attempt to narrow the area of dispute on what economic assistance is, given an operational definition strictly applicable to member countries of DAC. Accordingly, DAC defines total official aid as the sum of six elements namely:¹

- i. bilateral grants;
- ii. contributions to international organizations for the purpose of development;
- iii. bilateral loans repayable in the borrower's currency;
- iv. bilateral loans repayable in the lender's currency;
- v. consolidation credits; and
- vi. transfer of resources through the sale of the recipient country's currency.

It is evident from the above elements that such a definition while operationally convenient for the classification of aid from the point of view of DAC countries, it cannot be regarded as sufficiently comprehensive to take account of all inflows of foreign capital that affect economic activities in the developing countries. The definition of DAC given above does not include other forms of foreign capital inflows such as

direct private foreign investments and private loans both of which influence development policy objectives of the recipient countries. For example, the United Kingdom which is a member of DAC defines official economic aid as consisting of only those payments from one government to another at concessionary rates of interest and earmarked for the promotion of social and economic development or the prevention of an economic decline.²

For the purposes of our study and because of our concern with the impact of the totality of foreign capital inflows, it is necessary that our definition of foreign capital inflows be understood to comprise foreign aid (loans, grants and technical assistance) and direct private foreign investments including direct loans. These inflows are received in one or more of the following forms:-

- i. bilateral and multilateral loans;
- ii. bilateral and multilateral grants;
- iii. bilateral and multilateral technical assistance;
- iv. commodity aid; and
- v. direct private foreign investments and loans.

Within this definition, the recipient of foreign capital need not be a government or a citizen of the host country. For example, a loan made to an affiliate or subsidiary of multinational corporation operating in a country is regarded as an inflow of foreign capital into that country. Accordingly the possible recipients of foreign capital inflows are governments,

government corporations, domestic and foreign private corporations, residents and non-residents. Location of the recipient is the most important consideration.

Bilateral and multilateral grants represent the purest forms of foreign aid although these forms of assistance appear to be declining.³ In some sense these are outright gifts in that they do not have to be repaid although the conditions under which they are made may reduce the benefits accruing to the recipient. Grants from multilateral organisations differ from bilateral grants in the sense that the former convey to the recipient some freedom of latitude of choice as to procurement of goods and services through international bidding while the latter may be tied to the purchase of goods and services from the donor country thereby preventing the recipient from obtaining commodities originating in the cheapest producing country. We distinguish further between bilateral and multilateral loan facilities in order to take account of, first, differences in the conditions under which these facilities are extended and, second, the impact each type of loan has on the economic activities of the recipient.

Zambia has not been fortunate enough to receive large amounts of either bilateral or multilateral grants with the exception of the years when she was expected to apply full sanctions to Rhodesia on behalf of the United Nations. It can also be argued that such outright gifts to Zambia in the late 1960's were compensatory payments for the damage suffered by agreeing to impose sanctions against Rhodesia.

Loan facilities have three features that bear directly on the economic activities of a recipient country. First, there is the amortization period or the maturity of the loan i.e. the period for which the loan is made. The importance of this feature is that the shorter the period the more hardships the recipient gets into, since it may be compelled to borrow for the sake of repaying the outstanding loan or else reduce expenditure on some important development programmes.⁴ The second feature is the cost of the loan or the rate of interest charged on the capital sum borrowed. This is the feature that qualifies some of the loans as foreign aid. When loan facilities are extended at concessional rates (i.e. rates that are normally lower than the commercial rates), the concessional rate is the keystone of this feature. The rates of interest normally apply from the time the loan is made and can be charged in a variety of ways. Occasionally the interest charge is capitalised for a number of years and sums due are added to the face value of the loan to be repaid. The third feature pertains to the grace period of the loan. Where grace period refers to the number of years before repayment of the principal or capital sum begins. Bilateral and multilateral loans have grace periods varying between five and fifteen years whereas this feature is relatively unknown to private lending. Variations among these three elements of loan transactions enable loan terms to be classified as either hard or soft.

The servicing of loans invariably reduces the amount of available investible surplus thereby necessitating further borrowing to maintain the rate of growth already achieved with the help of foreign loans. As discussed in chapter 2 section 5 the development process becomes conditioned to depend on foreign capital not only for sustaining certain levels of economic growth but also for initiating new investments.

3.2 TOTAL FOREIGN CAPITAL INFLOWS INTO DEVELOPING COUNTRIES

Before embarking on the problem of determining the amount of foreign capital that has flowed into Zambia, we shall briefly look at the global picture. This provides an idea of the flows and of who the major donors are. The approximate number of donors and recipients is well known. Within donor governments are found private donors (lenders and investors) who are controlled in their lending and investment activities by political objectives of their governments. The major donors are the Western countries and the recipients are the Third World, with the least developed countries (Fourth World) which heavily depend upon foreign aid. We now return to a discussion of global flows between donors and recipients.

Western countries have since the end of the second world war been the major source of investment capital for the third

World. Immediately after the war the flows of foreign capital were in the form of grants to the territories or colonies of Britain, France and Portugal in Africa. In other continents the inflow of foreign capital from western countries was a mixture of grants and loans. As the political situations changed in the Third World during the 1950's so did the nature and composition of foreign capital inflows. Political and economic problems in the 1950's assumed different magnitudes and these changes necessitated changes in the form of aid that the Third World would expect to receive from the more developed countries. Changes were not only taking place in the developing countries but also in the developed countries. Regional economic groups were being formed for the sake of integrating the economies of the developed countries.⁵ Some of the groups have since their formation become important sources of foreign capital for the developing countries. These developments have lessened the dependence of the Third World countries on the former colonialist states. Bilateral loans and grants had, by necessity, to be weighed against the multilateral loans and grants. For development purposes, the Third World can now look to such institutions as the International Bank for Reconstruction and Development (IBRD) or World Bank for short, DAC countries, Commonwealth Development Corporation, (CDC), the International Finance Corporation (IFC) the last two of which are affiliates of the World Bank. These and many others

are post second world war developments that affect the relationship between the former colonialist states and the now independent states in the Third World. This does not imply that the sources of development finance have increased, because we know that the major contributors to these multilateral institutions are still the same Western capitalist countries. What each of these countries may have lost is direct control and influence over the use of its resources in the less developed countries.

The Development Assistance Committee (DAC) of the Organization of Economic Co-operation and Development (OECD) has since the mid 1950's become a major contributor to the flow of resources to developing countries and multilateral institutions. The total flows from DAC countries to the developing countries are contained in Table 3.1. The figures include private capital and official grants and loans for the period 1956-1973. In 1956 the gross capital flows amounted only to \$6,258 million but by 1973 this flow had increased to \$21,520 million representing a 240 per cent increase. From 1956 to 1964 the increase was only 36 per cent but between 1964 and 1973 the increase was about 152 per cent. In the case of African countries, one would speculate that during the 1960's most of these countries had just attained independence and were desirous of mounting massive development programmes which needed capital equipment from the developed countries and that prior to independence the inflow of foreign capital

was in the form of grants and could not be provided in large sums. This may be a partial explanation of the increase in the inflow of financial resources between 1964 and 1973 since the majority of African states had or were just about to attain political independence.

The Development Assistance Committee provides data on the flow of capital from member countries. The total flows can be broken down into Official Development Assistance, (ODA), Other Official Flows (OOF), Private Investment and Portfolio lending and export credits.

These flows of foreign capital are not different from the grants that were given to the former colonies and territories. The flows represent the same relationships that existed during the colonial era. Colonies were the peripheries of the developed industrial countries, they provided markets for manufactured goods of the core centers; they were the providers of raw materials. The extraction of raw materials from the satellites was dependent upon the provision of financial and technological assistance by the main centers of industrialization. Attainment of political independence could not subvert the established relationship. The inflows of foreign capital that are shown in the following tables are indicative of the dependence of the economies of the developing countries on the centers.

Some of the members of OECD were former owners of the colonies and the flow of financial resources given in Table 3.1

TABLE 3.1

PRIVATE CAPITAL FLOWS AND OFFICIAL GRANTS AND LOANS FROM DAC COUNTRIES TO

DEVELOPING COUNTRIES 1956-1973

(US \$ Million)

Year	1	2	3	4	5	6
	Total (2+3+4)	Direct Investments	Portfolio and Bank Lending	Export Credits	Official Flows Grants and Net Loans	Total (1 + 5)
1956	2,998	2,350	190	458	3,260	6,258
1957	3,779	2,724	601	454	3,856	7,635
1958	2,917	1,970	733	214	4,387	7,304
1959	2,820	1,782	691	347	4,311	7,131
1960	3,150	1,762	837	546	4,965	8,115
1961	3,106	1,829	704	573	6,143	9,249
1962	2,453	1,495	386	572	5,984	8,437
1963	2,557	1,603	296	660	6,015	8,572
1964	3,729	1,572	1,298	859	5,916	9,645

TABLE 3.1 continued

Year	Total (2+3+4)	Direct Investments	Portfolio and Bank Lending	Export Credits	Official Flows Grants and Net Loans	Total (1 + 5)
	1	2	3	4	5	6
1965	4,121	2,468	902	751	6,199	10,320
1966	3,959	2,179	655	1,124	6,431	10,390
1967	4,381	2,105	1,269	1,007	7,060	11,441
1968	6,377	3,043	1,738	1,596	7,047	13,425
1969	6,587	2,910	1,630	2,047	7,192	13,779 _A
1970	7,019	3,557	1,251	2,211	7,984	15,003
1971	8,399	4,087	1,510	2,802	8,997	17,395
1972	9,342	4,443	2,746	2,153	7,570	16,912
1973	12,184	6,655	3,219	2,320	9,336	21,520
Total	89,878 (44%)	48,534 (24%)	20,656 (10%)	20,694 (10%)	112,653 (56%)	202,531 (100%)

SOURCE: Grant L. Reuber, Private Foreign Investment in Development, Development Centre, OECD, Clarendon Press, Oxford 1973. p. 5 and OECD, Development Cooperation, 1974 Review, Paris, November 1974 p. 117.

is nothing new but a continuation of the relationship between the center and the periphery.

Table 3.1 shows that between 1956 and 1973 member countries of the Development Assistance Committee provided financial resources (direct investment, portfolio lending and bank lending, export credits and official flows (grants and loans)) to developing countries amounting to \$202 billion. As a group DAC countries are the biggest donor. DAC countries in providing resources to developing countries also make contributions to multilateral agencies and the total net flow of resources to developing countries and multilateral agencies is given in Table 3.1. It will be noticed that the figures in Table 3.2 are higher than those of Table 3.1 because Table 3.2 includes contributions to the multilateral agencies. The percentage increase in capital flows from DAC countries to developing countries and multilateral agencies is about 153 per cent which is not very much different from the 151 per cent increase in bilateral flows between DAC countries and developing countries. The figures in Table 3.2 under "net ODA transfer" refer only to Official Development Assistance (ODA) which is defined as those flows to developing countries and multilateral institutions provided by official agencies, including state and local government, or by their executive agencies, each transaction of which meets the following tests:

- a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective and,

- b) it is concessional in character and contains a grant element of at least 25 per cent.⁶

Data in Table 3.2 indicate that the flow of official development assistance accounted for 61.7 per cent of the total flow of resources to developing countries and multilateral institutions in 1964 and that by 1973 this flow had decreased to a low percentage of 38.5. In 1964, 96.2 per cent of ODA was transferred to developing countries and multilateral institutions. This net transfer decreased to 92.8 per cent in 1973 an indication of a spirit of disenchantment with official development assistance in the donor countries. This situation was predicted in 1968 by the Pearson Commission -

"The signs are not propitious. In the last years of this decade, the volume of foreign official aid has been stagnant. At no time during this period has it kept pace with the growth of national product in the wealthy nations. In fact, the commitments of the United States, which has been much the largest provider of aid funds, are declining. There and in some other countries we have encountered a spirit of disenchantment."⁷

This decreasing trend is in contrast to other official flows which accounted for 38.7 per cent of the total flows in 1964 and 50.9 per cent by 1973. This represents a 230.8 percentage increase as compared to 58.1 per cent increase for ODA over a ten-year period.

TABLE 3.2

COMPOSITION OF ODA FLOW OF RESOURCES TO LDCs AND MULTILATERAL INSTITUTIONS 1964-1973

(Million US Dollars)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
TOTAL FLOW (OFFICIAL AND PRIVATE	9,645.2	10,319.7	10,401.3	11,451.4	13,451.4	13,420.7	14,800.4	15,736.5	19,907.4	24,429.0
ODA	5,952.0	5,894.8	5,995.1	6,551.6	6,320.1	6,632.2	6,845.3	7,776.0	8,671.5	9,408.0
OOF	-35.6	303.9	447.3	518.5	739.7	576.3	1,160.5	1,277.9	1,581.5	2,587.0
ODA AND OOF	5,916.4	6,198.7	6,442.4	7,070.1	7,059.8	7,208.5	8,005.8	9,053.9	10,253.0	11,995.0
PRIVATE	3,728.8	4,121.3	3,958.9	4,381.3	6,391.6	6,591.7	7,730.4	8,983.4	9,654.7	12,433.8
NET ODA TRANSFER	5,722.8	5,612.7	5,666.0	6,188.9	5,923.6	6,214.2	6,379.2	7,237.3	8,088.0	8,728.6

SOURCE: O.E.C.D., Development Co-operation, 1974 Review, November, 1974, p. 233 and Development Assistance 1971 and 1972 Reviews, OECD and earlier editions of the same. Also Annual Report 1971, World Bank/International Development Association, September 27, 1971, p. 61.

In 1964 ODA flows were greater than private flows but since 1968 private capital flows from DAC countries have been greater than official development assistance flows (see Table 3.2). These flows indicate that private flows have constituted a major part of total financial flows to developing countries since 1968 accounting for more than 50 per cent. Whether or not the flow of private capital is in response to the needs of the developing countries it is not easy to say from the figures. However, DAC countries have remarked that "Private flows generally tend to go to the more developed countries of the Third World or to those which possess exploitable raw materials. Under present circumstances, there is only limited scope for action by DAC Governments which could influence significantly the size and direction of such flows. It would therefore be unrealistic to expect a major redirection of private flows in a way which would benefit, for example, the least-developed countries or those hardest hit by the increased raw material prices".⁸

Official Development Assistance flows to the less developed countries on concessional terms have been declining since 1965 (see Table 3.3). This observation is important in that ODA, in particular, is concessional in character since it contains a 25 per cent grant element and is specifically provided to make a significant contribution to the economic development and welfare of the recipient countries.⁹ In 1965 ODA flows accounted for 57 per cent of the total official

TABLE 3.3

AS PERCENTAGE OF TOTAL OFFICIAL AND PRIVATE FLOWS 1965 AND 1973

	<u>1965</u>	<u>1973</u>
1. Official Flows (ODA + OOF)	60%	49%
of which a) CDA accounts for	57	39
b) OOF accounts for	3	10
2. Total Private Flows at market terms	40	45
a) Direct Investment and Lending	33	40
(i) Bilateral and Multilateral Portfolio investment	9	13
(ii) Direct Investment	24	27
b) Private Export Credits	7	5
3. Voluntary Private Agencies	-	6

SOURCE: These percentages are calculated from Tables 3.1, 3.2 and 3.3

and private flows. Other Official Flows (OOF) which include official export credits, debt relief, contributions to the International Bank for Reconstruction and Development (IBRD) accounted for only 3 per cent in 1965. In 1965 ODA and OOF together accounted for 60 per cent of the flow of resources from DAC countries but in 1973 this contribution had declined to 49 per cent. ODA declined to a low of 39 per cent while OOF increased from 3 to 10 per cent. The 11 per cent decrease in official flows was picked up by private direct investment and lending and by the contributions of voluntary agencies which increased their share in all DAC countries' flows from 40 per cent to 45 per cent for private investment and lending and from nothing to 6 per cent for the private voluntary agencies.

The amounts shown in Table 3.2 include contributions of DAC countries to multilateral institutions. Such contributions are by no means transferred intact to the developing countries. Some of the money is loaned back to the developed countries by these agencies. It would not serve the purpose of this study to critically evaluate, at a macroeconomic level, the net disbursement to developing countries of the amounts received from DAC countries by multilateral institutions. This will be the subject of a later section of this chapter when we consider the volume of foreign capital flows into Zambia.

What can be said, at this stage, is that developing countries have received large amounts of foreign resources in

a variety of forms. The indebtedness of developing countries is estimated to be over \$75 billion and is causing concern not only to the developing countries but also to the developed countries.¹⁰ The 1974 Review of OECD points out that debt servicing has become a major problem for some of the poor countries. Table 6.1 of chapter 6 is an attempt at indicating the magnitude of the debt and the problem attached thereto.

The World Bank in its December 1974 report on "External Public Debt of LDCs" refers to the problem of debt servicing and how amortization and interest payments have become a burden to the developing countries. The rise in debt service payments by all developing countries to \$8.3 billion in 1972 represented a growth rate of 19.7 per cent in that year, a sharp increase over the 15.6 per cent of average annual growth rate of the previous four years. About half of the debt service payments in 1972 were by the high income countries, although they accounted for just over 40 per cent of the debt outstanding. ----- The increasing dependence on private sources of finance is also reflected in the differential rate of growth between debt service payments and debt outstanding. Looking at the entire period 1967 through 1972, debt outstanding grew by 14.6 per cent per annum, while debt service payments grew by 16.4 per cent.¹¹

The United Nations Industrial Development Organization survey points out to the fact that for all developing countries there was a slight hardening of the terms of which loans were

made available and that this would aggravate the balance of payment difficulties of the recipient countries.¹² From Table 3.4 it can be seen that on the average loans were made for a period of not more than 18.9 years for the period 1965-1967 and not more than 18.5 years during 1969-1971 with grace period of 4.4 and 4.7 years respectively. The interest rates for the two periods were 4.2 and 5.2 per cent. The accumulation of debt coupled with the hardening of terms on which loans are made only means that debt servicing for developing countries will become a heavy burden. It has already been remarked that the growth rate of debt servicing is greater than the export growth rate of the recipient countries implying that these countries will become less and less able to service their debts. The burden of external debt servicing will be the subject of Chapter 6.

Despite the hardening of terms of loan facilities the Third World continues to demand foreign capital. Their inability to service the debt should be a discouraging factor. This tendency is easily translated into a high degree of dependence which, in turn, makes them susceptible to exploitation and becoming even more dependent on the Western world economies.

We have seen from the above analysis that the flow of foreign capital into developing countries has been on the increase at a global level and that the composition of these flows has greatly changed from what it was in the 1950's when bilateral aid constituted more than 60 per cent of all

TABLE 3.4

AVERAGE TERMS OF LOAN COMMITMENTS AND GRANT ELEMENT OF LOANS AND GRANT BY

DEVELOPING REGIONS, 1965-1971

Region	Period	Maturity (years)	Grace (years)	Interest percentage	Grant Element (percentage)	Grant Elements of loans and grants (percentage)
Africa	1965-1967	18.6	4.5	3.7	41	66
	1969-1971	22.6	6.0	3.9	45	67
East Asia	1965-1967	15.4	3.9	5.0	30	52
	1969-1971	21.0	5.6	4.8	37	48
Middle East	1965-1967	12.9	2.5	4.1	31	35
	1969-1971	10.3	2.5	5.7	20	24
South Asia	1965-1967	27.9	6.8	2.7	57	72
	1969-1971	32.7	7.6	2.2	65	73
Latin America	1965-1967	15.0	3.4	5.6	26	36
	1969-1971	13.8	3.5	6.8	18	27
Average	1965-1967	18.9	4.4	4.2	38	54
	1969-1971	18.5	4.7	5.1	33	45

TABLE 3.4 continued

NOTES: These figures were based on IBRD/IDA, Annual Report 1973, Statistical annex Table 9.

SOURCE: Industrial Development Survey, Special Issue for the Second General Conference of UNIDO, Lima, Peru 12-26 March, 1975 1974 ID/CONF. 3/2 (ID/134). p. 178.

- (a) Defined as the face value of loan commitments less the present value of the future flow of repayments of principal and interest, using the customary rate of 10 per cent and expressed as a percentage of face value.

total aid flows. The changes that have so far taken place affect the development process in the receiving countries as well as in the donor countries. Whereas in the past, foreign funds were made available for social development programmes by the donor country (colonial master in the case of the majority of the then African colonies and protectorates of the United Kingdom, Portugal etc.) now these independent countries have to obtain funds from international institutions and governments of developed countries that have funds earmarked for certain projects. This, therefore, compels them to select development projects that can qualify for the available funds thereby altering development priorities.¹⁵

The conditions under which foreign capital is made available have also changed. Because the terms of loans are harder, the problem of debt servicing has assumed great magnitudes for all developing countries. What has taken place at the global level has to be analysed at a country level. In the next section we shall, bearing in mind this picture, endeavour to determine the flows of foreign capital into Zambia. The difference in the type of flows and sources of foreign capital are due to the differences in each country's richness in natural resources. It may be remarked only in passing that Zambia has not been favoured with IDA credits and that the only time it had large amounts of foreign capital and technical assistance was after the unilateral declaration of independence by Rhodesia and the consequent imposition of sanctions by the

United Nations. The assistance was due to the realization that Zambia more than any country had to bear the consequences of sanctions.¹⁴

3.3 VOLUME OF FOREIGN CAPITAL INFLOWS TO ZAMBIA

In order to analyse the impact of inflows of foreign capital on the economic development process in Zambia, it is necessary, first, to determine the volume of such inflows. The totality of flows of foreign capital into developing countries is not easily determined from the published data. First, there is the problem of inaccuracy of whatever data may be obtainable. The main sources of data are the recipient countries themselves and the donor countries. Data from the recipient countries are rudimentary, to say the least, and those from the donor countries are full of confused figures due to lack of consistency in the definition of what development aid ought to be. The main donors of foreign capital are the multilateral institutions, the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development, Governments of the developed countries and private financial institutions in the developed countries.

However, the problem of lack of accurate data does not by itself prevent us from analysing the impact of foreign capital inflows on the development process for it is not the accuracy

of the data that determines the analysis. What we wish to establish from the inflows is an estimate of the influence of foreign capital inflows on the direction of economic development and the effects of these inflows on important economic indicators in Zambia.

In Zambia the main sources of foreign capital are the World Bank, the UN specialized agencies, Governments of the developed countries such as Britain, Canada, Denmark, USA, China, Yugoslavia and other Western countries.

In this section we are mainly concerned with the sources of foreign capital without noting the uses to which such capital resources are put for that will be the subject of a later chapter, where emphasis will be on sectoral distribution of foreign capital inflows.

3.4 WORLD BANK

The World Bank as one of the main contributors of foreign capital has provided development assistance totalling more than \$356 million to Zambia. The loans do not necessarily cover the period 1964-1973.¹⁵ Some loans have maturity periods extending far beyond 1973. For the sake of analysis, it is necessary to include all those loans which were negotiated and approved between 1964 and 1973. Some of the loans negotiated in 1973 may not have been disbursed during that same year but since there is no information on actual disbursed portions of the

TABLE 3.5

WORLD BANK LOANS TO ZAMBIA 1964-1973

LOAN	MATURITY YEARS	GRACE PERIOD YEARS	INTEREST PERCENTAGE	SOURCE
1964	-			
1965	-			
1966	20	5	6	Bank Press Release No. 66/51 16 September, 1966
1967	25			Appendix 2 World Bank and IDA Annual Report 1966/1967 p. 69
1968	25	2	6 $\frac{1}{2}$	Release No. 68/53 9 September, 1968
1969	25	10	7 $\frac{1}{4}$	No. 69/19 9 April, 1969
	15	10	7	69/69 19 November, 1969
	25	5	6 $\frac{1}{2}$	69/42 18 June, 1969
1970	25	5	7	No. 70/46 8 July, 1970
	25	6	7	70/32 1 June, 1970
	n.a.	n.a.	n.a.	1970 Annual Report p. 90

TABLE 3.5 continued

	<u>LOAN</u> <u>(Million US Dollars)</u>	<u>MATURITY</u> <u>YEARS</u>	<u>GRACE</u> <u>PERIOD</u> <u>YEARS</u>	<u>INTEREST</u> <u>PERCENTAGE</u>	<u>SOURCE</u>
1971	41.3				World Bank Annual Report 1971, p. 87.
1972					
1973	115.0	25	5 $\frac{1}{2}$	7 $\frac{1}{4}$	Release No. 73/53
	33.0	25	10	7 $\frac{1}{4}$	73/34
	30.0	25	10	7 $\frac{1}{4}$	73/40
	11.5	20	5	7 $\frac{1}{4}$	73/5.

NOTES: The First World Bank Loan to Zambia since Independence was made in 1966, September but loans had previously been made to Zambia and Rhodesia for electricity and railways. The figures in this table are gross amounts and do not reflect cancellations and sales.

loans the total amounts negotiated are included in Table 3.6. Bank loans made to Zambia net amount (ie. net of cancellations, refundings, and terminations) are quoted as \$356,556,360 which amounts to \$287,474,642 after deducting sales and repayments by Zambia as of 31st January 1974. As of December 31st, 1973 the total of original principal amount of loans to Zambia stood at \$293,700,000. The \$293.7 million represents commitments after an agreement has been signed providing for the loans but these loans do not become effective and disbursements thereunder do not start until the borrower takes certain action and furnishes certain documents to the Bank. Only about \$172 million represents the total of effective loans and held by the Banks.¹⁶

According to records in the office of the Resident Mission Representative of the World Bank in Lusaka, Zambia, between 1966 and 1975 the Bank loaned Zambia \$355.8 million (original principal amount) see Table 3.6. This figure is slightly different from that of Table 3.5. Two loans shown in Table 3.6 as having been approved in 1974 were, in actual fact, negotiated and announced in 1972/73. The largest amount of loans went into power (electricity) which is one of the fields in which the World Bank specializes. Programme loans amounting to \$30 million are not broken down into projects so as to indicate the specific purpose or use of the loans. However, \$17.5 million of that loan was cancelled and total cancellations out of \$355.8 million are only \$23.7 million. Zambia's

TABLE 3.6

IBRD LOANS TO ZAMBIA 1966-74^(a) (as of April 30, 1975)

(Million US Dollars)

Purpose	Year of loan agreement	Maturities	Interest rate	Original principal amount	Cancellations	Principal repayment to Bank	Effective loans sold	Effective loans held by Bank	Principal amount disbursed	Undisbursed balance of effective loans
Roads	1966	1970-86	6%	17.5	4.2	2.4	0.6	10.3	13.3	-
Forestry	1968	1978-93	6.5%	5.3	-	-	-	5.3	4.9	0.4
Roads	1968	1970-88	6.5%	10.7	0.3	1.8	-	8.6	10.4	-
Education	1969	1979-94	6.5%	17.4	-	-	-	17.4	9.3	8.1
Agriculture	1969	1974-84	6.5%	2.5	1.7	0.8	-	-	0.8	-
Education	1969	1980-95	7%	5.3	-	-	-	5.3	4.1	1.2
Agriculture	1970	1976-94	7%	5.5	-	-	-	5.5	3.6	1.9
Agriculture	1973	1978-92	7.25%	11.5	-	-	0.8	10.7	1.1	10.4
Education	1973	1983-98	7.25%	22.0	-	-	-	22.0	-	22.0
Education	1973	1983-98	-	11.0	-	0.9	-	10.1	0.9	10.1

TABLE 3.6 continued

Purpose	Year of loan agreement	Maturities	Interest rate	Original principal amount	Cancellations	Principal repayment to Bank	Effective loans sold	Effective loans held by Bank	Principal amount disbursed	Undisbursed balance of effective loans
Program	1973	1978-93	7.25%	30.0	17.5	-	-	12.5	12.5	-
Urbanization	1974	1979-99	7.25%	20.0	-	-	-	20.0	-	20.0
Power ^{/c}	1970	1977-96	7%	40.0	-	-	-	40.0	38.2	1.8
Power ^{/c}	1974	1977-96	7.25%	42.1	-	-	-	42.1	9.4	32.7
Power ^{/c}	1973	1979-98	7.25%	115.0	-	-	-	115.0	21.2	93.8
Total				355.8	23.7	5.9	1.4	324.8	129.7	202.4

^{/a} Between 1960 and 1966 Zambia benefitted from one loan for power amounting to \$7.7 million which was committed in 1964 before the country obtained independence.

^{/b} Grant to Zambia, reimbursed to Bank by Norway.

^{/c} Loans to power companies, guaranteed by government.

SOURCE: Resident Mission in Zambia, International Bank for Reconstruction and Development, Zambia, The figures in this Table are somewhat different from those in Table 3.6 above.

indebtedness to the World Bank is approximately \$332.1 million, \$129.7 million of which has already been disbursed and \$202.4 million undisbursed. The average interest rate is about 6.9 per cent.

3.5 UNITED KINGDOM

Britain has made a substantial financial contribution to Zambia. However, the term contribution is here being used in a very narrow sense in that through its bilateral aid programme, British disbursements (gross figures) to Zambia amounted to \$150 million. This figure could be much higher but for the fact that, in some instances, it includes CDC investments and in others it excludes them. We have already pointed out that there are some difficulties inherent in defining aid. Table 3.7 has gross British Bilateral Aid Programme Disbursements totalling \$131 million. Bilateral Aid refers to "Development Assistance" provided on a country to country basis. "AID" is, in the overseas development context, economic aid (as distinct from military aid) and means either¹⁷

- i) financial resource flows, both official and private, to developing countries as counted for the UNCTAD volume of aid target; or
- ii) official development assistance flows.

When reading Table 3.7 we have a choice of interpretation; we can either regard the gross figures as official and private

TABLE 3.7

BRITISH BILATERAL AID PROGRAMME DISBURSEMENTS GROSS, AMORTIZATION, INTEREST AND NET OF

INTEREST AND AMORTIZATION TO ZAMBIA 1964-1973

YEAR	GROSS	AMORTIZATION	NET OF AMORTIZATION	INTEREST	NET OF AMORTIZATION AND INTEREST	(of which) TECHNICAL ASSISTANCE UNDER (OSAS)
1964	17.1					3.3
1965	10.7					5.0
1966	6.6					4.6
1967	20.2	0.6	19.7	1.1	18.6	7.9
1968	14.6	0.7	13.9	1.1	12.8	9.8
1969/70	13.6	0.4	13.2	1.2	12.1	10.3
1970/71	6.2	0.3	5.8	1.2	4.6	7.3
1971/72	13.0	0.5	12.5	1.6	10.9	8.6
1972/73	11.8	0.9	10.9	2.1	8.9	10.2
1972/73/74	19.2	0.5	18.7	2.1	16.6	

SOURCE: British Aid Statistics 1964-1968

1967-1971 British Aid Statistics Table 11 p. 26

1968/69-1971/72 British Aid Statistics Table 7 p. 11

1969/70-1972/73 British Aid Statistics

Britain and the Developing countries: Africa, Central Office of Information, London, August, 1970.

financial resource flows or alternatively as merely official development assistance flows. Further difficulties arise because the British Government defines "Aid Programme" as "public expenditure programme which provides the money for official development assistance to developing countries".¹⁸ For definitions of amortization, development assistance and other concepts relating to the flows of foreign capital see appendix A.3.

The estimated capital assistance to Zambia is about \$371 million see appendix C.3. Technical assistance is about \$100 million see appendix B.3.¹⁹

Foreign capital has also flowed into Zambia in the form of direct and indirect investments. The providers of investment financial resources in Zambia are many but the data are not systematically organized. Some of the donor countries include direct and portfolio investments in their official development assistance totals whereas others show investment separately. At the international scene the provider of investment funds is the International Finance Corporation an affiliate of the World Bank. According to information available this corporation has not made substantial investments in Zambia. As of September 1974 the corporation had been active in Zambia for the past three years.

"The Corporation has also expanded its activities geographically. In the past three years, it made commitments in eight countries in which it had not

previously invested: Afghanistan, Bolivia, Cyprus, Indonesia, Lebanon, Mauritius, Panama and Zambia."²⁰

The Commonwealth Development Corporation has been very active in Zambia since independence. At December 31, 1973 total commitments of CDC stood at \$22,992,000. By the end of 1974 the total amount of funds committed amounted to \$40,056,000 and actual investments were \$25,512,000.²¹ Table 3.8 shows the flows of CDC combined together with non-Aid Programme.²²

TABLE 3.8

COMMONWEALTH DEVELOPMENT CORPORATION INVESTMENTS AND OTHER
NON-AID PROGRAMME FINANCIAL FLOWS TO ZAMBIA

(US Dollars)

	Gross	CDC Investments	Other Non-Aid Programmes	Amortization	Interest	Net of Amortization and Interest
1964	600,000					
1965	252,000					
1966	8,644,800					
1967	14,328,000	840,000	13,488,000	153,600	616,800	13,557,600
1968	13,814,400	2,515,200	11,992,000	216,000	609,600	12,988,800
1969	2,140,800	2,140,800		110,400	732,000	1,298,400
1970	19,200	16,800	2,400			
1971/1972	3,782,400	3,782,400	-	216,000	1,185,600	2,380,800
1972/1973	1,680,000	288,000		374,400	1,696,800	1,783,200 CR.
1973	7,576,800					

SOURCE: British Aid Statistics, 1964-1968, and 1967-1971 Ministry of Overseas Development.

CDC, Annual Reports and Accounts, 1971, 1972, 1973 and 1974.

ODI Reviews Nos. 1 and 2 1974, No. 1, 1975.

3.6 DAC COUNTRIES

DAC countries are also a major source of foreign capital for Zambia. The recorded net flow of resources from DAC countries into Zambia was estimated at \$7.2 million in 1965 and \$145.70 in 1973 (see Table 3.9). This total includes contribution from multilateral agencies. Net receipts by Zambia of official development assistance from DAC countries increased from \$4.1 million to \$45.17 million during the nine-year period. The years 1967, 1968 and 1969 require special treatment. It is clear from Table 3.9 that flows from DAC countries increased substantially in 1967 and continued to do so until 1969. This was due to the fact that Zambia was in the fore front of the battle against Rhodesia in the imposition of UN sanctions. The cost of implementing UN resolutions was very high and members of the United Nations were requested to increase their aid to Zambia.

It is, however, not possible to accurately determine what portion of the annual flows was due to sympathetic consideration on the part of DAC countries or that part which was in response to natural growth of the Zambian economy as we pointed out in the introduction that the early years of independence in Zambia were years of great expansion and that the economy (particularly the urban enclave) was in a boom period. In 1965 and 1966 private bilateral receipts were no more than a \$2 million but in 1967 and 1968 these flows were \$7.54 and \$9.36 million respectively. The same trend is also shown by the inflows of bilateral ODA.

TABLE 3.9

ESTIMATED FLOWS OF RESOURCES TO ZAMBIA FROM DAC COUNTRIES AND MULTILATERAL AGENCIES 1965-73

(Million US Dollars)

	1965	1966	1967	1968	1969	1970	1971	1972	1973
Recorded Net Flow of Resources to Zambia - Total from DAC countries and Multilateral Agencies	7.2	12.8	67.6	94.4	72.8	22.68	27.43	82.31	145.70
Net Receipts by Zambia of Official Development Assistance from DAC countries	4.1	11.04	18.21	20.43	14.72	13.42	21.6	21.77	45.17
Net Receipts by Zambia of Bilateral Technical Co-operation Expenditure	3.1	9.13	16.91	15.12	13.78	13.29	19.09	21.77	26.16
Bilateral ODA Receipts by Zambia from main Donors	3.24	5.98	30.42	42.48	18.13	18.1	18.1	18.10	20.4
Private Bilateral Receipts by Zambia from DAC	1.2	2.0	7.54	9.36	4.52	4.52	4.52	4.52	6.9

SOURCE: OECD Reviews 1969 Chapter V; 1973 Chapter VIII; 1974 Chapter XI; IBRD World Atlas, 1973; World Bank/IDA Annual Reports 1965-1966; 1966/67; 1970/71.

NOTES: Bilateral ODA receipts are annual averages 1969-72. The Net Recorded Net Flow of Resources from DAC countries includes the aid figures of private bilateral.

3.7 CAPITAL ASSISTANCE FROM OTHER DONORS

The African Development Bank made a \$700,000 loan to support a commercial farm project. The terms of the loan are not given. Canada through the Canadian International Development Agency provided capital assistance of \$4 million. This was a soft loan for the period 1973-1975 to be used specifically for the purchase of goods and services in support of the Second National Development Plan (1972-1976).

The USSR, on its part, gave Zambia capital assistance amounting to \$3,715,000. \$700,000 of this was used for payment of equipment of the University of Zambia, \$750,000 was for the construction of six Diesel Power Stations in Zambia and \$265,000 was expended on the purchase of road building machinery. The interest rates on these loans were 2.5 per cent on the University and Diesel Power Station loans and 3.5 per cent on the road building machinery loan.

France has not been a major provider of capital assistance to Zambia as its area of concentration is in Francophone Africa. However, Zambia has received assistance of more than \$5 million from France since 1969. The interest rate on this amount is 5.75 per cent. For more details of the components of the \$5 million see Appendix C.3. The Federal Republic of Germany provided \$7.8 million, \$2.33 million of which was earmarked for the Mulobezi Saw Mill Project in Livingstone and another \$2.8 million committed

towards the cost of building the President's Citizenship College (details are contained in Appendix C.3).

The United States through the Export-Import Bank (EXIMP-Bank) provided a \$2,530,000 loan at 6 per cent for the period 1971-1977. The purpose of the loan is not known. From Italy Zambia received capital aid of 12.666 million Italian lire for the expansion of the Ndola-Dar es Salaam pipeline. More details of Italian capital assistance to Zambia will be given in Chapter 4 where we discuss the sectoral distribution of foreign capital inflows. Yugoslavia and China made loans of \$50.1 million and \$200 million respectively. The Yugoslavia loan carried an interest rate of 6 per cent and is being used for the Energy Project for Kafue Hydroelectric Scheme while the Chinese loan carried no interest and was used for the Tan-Zam railway which was completed in 1975.

Details of loans and grants from the United Nations Agencies are not available except for UNICEF grants amounting to \$344,000 which were used for the development of Mother and Child Care Clinics. Because Zambia has a problem of Rhodesian, Angolan, Mozambiquan, Namibian and South African refugees it has received grants from WFP to support these refugees.

For more details of the loans and grants discussed under this section "Capital Assistance from other Donors" see Appendix C.3.

3.8 TECHNICAL ASSISTANCE

A crude estimate of the value of technical assistance rendered to Zambia since 1967 is given in Table 3.10. An analysis of the data in Table 3.10 shows that some sectors of the Zambian economy required far much more technical assistance than others. This is particularly so in the case of Education, Health and Transport and Communications. This high demand for foreign experts signals errors of deficiencies in the economy. Zambia is running its own education system and foreigners are not interested in this type of social development. To bring the educational system to acceptable standards and to produce trained and skilled people to run the economy requires an improved standard of education. This, in turn, calls for a large number of foreign experts which accounts for the \$7.8 million.

Transport and Communication requires skilled personnel and Zambia simply does not have it. It is when there is a shortage of skilled manpower in a particular field that the demand for technical assistance increases. The agricultural sector in Zambia lags behind other sectors and technical assistance is required to improve agricultural productivity and this accounts for the \$3.2 million technical assistance.

The sectors that have less amounts of technical assistance are either receiving less attention from the government or have a large number of foreign experts (private foreign investors). For example international trade has received

technical assistance to the value of only \$8,862. Most of the international trade is done by foreigners. Even copper exports are managed by foreign investors.

The amount of technical assistance received by each sector is a measure of the degree of dependence on foreign personnel. The majority of the experts found in Zambia are directors, managers or advisors. This implies that Zambia depends on foreign personnel for its policy formulation and implementation. The relationship between the metropolis and the satellite is that the former makes the important decisions while the latter implements them. Zambia's dependence on foreign managerial administrative and technical skills is not new. This is a relationship that was established during the colonial era.

TABLE 3.10

EXTERNALLY FINANCED PRE-INVESTMENT AND TECHNICAL
ASSISTANCE PROJECTS AND ACTIVITIES IN ZAMBIA
(US Dollars)

Agriculture, Forestry and Fisheries	83,153,866
Education	7,838,643
General Economic and Social Policy Planning	489,286
Health	1,596,082
Industry	1,501,872
Transport and Communication	4,976,195
International Trade	8,862
Labour, Management and Employment	490,553
Natural Resources	596,492
Relief Activities	712,323
Science and Technology	228,507
Social Security and Other Social Services	21,000
Culture and Social and Human Services	21,402
Total	<u>821,635,083</u>

SOURCE: See Appendix B.3.

NOTES: This is only a crude estimate of the total value of technical assistance given to Zambia as in several cases no values of the assistance are shown. The true volume of technical assistance may well be far much in excess of the \$21 million total indicated.

3.9 DIRECT PRIVATE FOREIGN INVESTMENTS

Data on direct private foreign investments are not easily available. However, we can estimate the degree of foreign firms participation from the nationalized enterprises. The actual amounts brought into Zambia by foreign firms is unknown because some of these firms have been operating in Zambia for a very long time. For example, the mining companies have been on the Copperbelt since the beginning of this century. The same is true in the case of firms involved in manufacturing, building, brewing, wholesale and retail businesses.

The partial nationalization of the assets of the 'Mulungushi Companies' (see Table 7.1) was a means of reducing the role of foreign enterprises. After the government's acquisition of 51 per cent of the shares the degree of foreign participation in those industries is 49 per cent.

TABLE 3.11

ESTIMATES OF DIRECT PRIVATE FOREIGN INVESTMENTS AND LOANS

	(Million US\$)
Anglo-American shares in NCCM (1970)	169.00
Roan Selection Trust shares in RCM (1970)	113.00
Foreign Investments during FNDP (1966-70)	288.67
Foreign Investments in manufacturing during SNDP (1972-76)	392.00
Investments by British Companies	16.50
CDC Investments	17.50
Barclays Overseas Development Corporation	1.20
Investments by Japanese Firms	19.40
Marconi of Britain	24.00
Import-Export Bank (USA)	8.00
USA Private Financial Institutions	53.00
Investments in mining by NCCM and RCM during SNDP (1972-76)	346.52
Internazionale Indrocarbute (Italian)	78.00
Total	<u>1526.79</u>

SOURCES: Second National Development Plan, January 1972 - December 1976 and Supplement to the SNDP 1972-1976 Programmes and Projects, January 1972. See also:- Mark Bastock and Charles Harvey (eds) "Economic Independence and Zambian Copper: A Case Study of Foreign Investment", Praeger, 1972 particularly "Statistical Appendix Tables 7.7 - 7.10"; Indeco Annual Reports 1971/72, 1972/73, 1973/74, 1974/75 and 1975/76.

TABLE 3.11 continued

Notes: The figures in Table 3.11 do not necessarily represent inflows of direct private foreign investments but an estimate of the assets of foreign firms in Zambia after the 51 per cent nationalization of assets of foreign businesses. The actual value of assets of foreign firms should be much higher than our crude estimate of \$1526.79 million. It should also be noted that investments by foreign firms were financed, in certain cases, through local borrowing thus making the value of assets a poor measure of the inflows of foreign capital in the form of direct private investments.

CONCLUSION

The objective of this chapter was to identify the main sources of financial and technical assistance that has been received by Zambia. On the basis of the data contained in the tables of this chapter, foreign capital inflows (in the form of loans and grants and direct private foreign investments) and the transfer of human capital came from the western countries. China provided the largest amount among the socialist countries. The World Bank, DAC countries and the United Kingdom were the main suppliers of foreign capital to Zambia. This is, as it should be, since these countries represent the core of the capitalist world and Zambia is a satellite country. These inflows are mainly due to the dependence relationship that exists between the core and periphery.

The degree of dependence is approximately \$1,896 million for the period 1964 - 1973. This amount together with the estimated \$1526 million direct private foreign investments determines the direction of economic development in Zambia. Foreign investors are largely responsible for the identification, preparation, appraisal and implementation of investment projects. They accordingly identify projects that require western technology and inputs. This creates demand for western technology which has to be financed by loans from the core countries. In the next chapter we shall concentrate on the sectoral distribution of foreign capital inflows.

NOTES

¹DAC-OECD: Information on resource flows and definitions is extracted from OECD, Development Assistance 1971 Review, Paris, December 1971 and Development Co-operation 1974 Review, Paris, November 1974. See Francis X. Colaco, "Economic and Political Considerations and the Flow of Official Resources to Developing Countries", OECD, Development Centre, Paris 1973.

See also Report by The Secretary-General of UNCTAD, The Concepts of the Present Aid and Flow Targets, United Nations, New York, 1975 p. 3. "Neither Conference resolution 61(111) nor the International Development Strategy have gone to any length to define what constitutes official development assistance. The presumption appears to have been that any transaction that originated in a public institution, had developmental objectives, and was concessional in nature could be treated as official development assistance". See Recommendation on terms and conditions of aid adopted by the DAC on October, 1972 where official development assistance is defined in OECD, Development Co-operation, 1972 Review Paris 1972, Annex III paragraph 1.

²This is a definition that is used in the U.K., Aid Programme: "In international usage it consist of official (ie. government provide) flows contributed to assist in the social and economic development of developing countries, and which are intended to be concessional in character", ABC of Development Assistance: a glossary of some terms and institutions; published by the Foreign and Commonwealth Office, Overseas Development Administration, London, Her Majesty's Stationery Office, 1971. p. 59.

³See Partners in Development: Report of the Commission on International Development (New York, Praeger, 1969) pp. 160-164. See also Report of the Secretary-General of UNCTAD, op. cit. p. 4 paragraph 19-20.

⁴Goran Ohlin gives a detailed discussion of the relation between aid requirements, terms of assistance and indebtedness of developing countries in his book Aid and Indebtedness, Development Centre, OECD, Paris, 1966. We shall discuss debt problems in more detail in Chapter 6.

⁵The 1950's saw the formation of the EEC, EFTA.

⁶OECD, Development Co-operation 1974 Review, op. cit. p. 115.

⁷Report of the Commission on International Development, Partners in Development, Praeger, New York, 1969, p. 4.

⁸Development Co-operation 1974 Review, op. cit. p. 141.

⁹See Definitions of Official Development Assistance in Appendix A.3.

¹⁰Development Co-operation 1974 Review, op. cit. pp. 149-161 and Grant L. Reuber, Private Foreign Investment in Development p. 19.

¹¹World Bank, "World Debt Tables: External Public Debt of LDCs", EC-167/74, December 15, 1974 p. XV.

¹²Industrial Development Survey, Special Issue for the Second General Conference of UNIDO, Lima, Peru, 12-26 March 1975, 1974 ID/CONF. 3/2, (ID/134) p. 178.

¹³Teresa Hayter, Aid as Imperialism, London 1971. She discusses leverage of pressure upon recipients by donors, of the dubious motivation behind the giving of aid, and so on, since the 1050's. Her terminology "leverage" is understood to refer to political interference and influence upon the manner of economic change, who shall direct this economic change and who shall benefit from it. The benefit of this change need not go only to the donor but also to the few political leaders in a developing country.

¹⁴See Sir Robert Jackson, The United Nations Expert on Economic Problems of Southern Africa, "The Jackson Report on Assistance to Zambia to Apply UN Sanctions Against Rhodesia, 1966".

¹⁵This will be apparent as we analyse data contained in Tables 3.6 and 3.7 both of which give aid flows into Zambia but obtained from different sources. The information in Table 3.6 was obtained from the Zambian Desk, World Bank, Washington D.C. in 1973 and that in Table 3.7 from the Resident Mission Representative, Lusaka, Zambia in July - June 1975.

¹⁶See International Bank for Reconstruction and Development: Statement of Loans-December 31, 1973, pp. 21 and 23.

¹⁷British Aid Statistics 1967-1971. See also Britain and the Developing Countries: Africa, August, 1970. This is a definition adhered to by the Ministry of Overseas Development which prepare annual aid statistics.

¹⁸Britain and the Developing Countries, Africa: Central Office of Information, London, August 1970, p. 20.

¹⁹The aid figures in Appendices A.3 and B.3 were supplied by the UNDP Regional Representative in Zambia "Report on Development Assistance: 1972". Note must be taken of the fact that the report is on (externally financed pre-investment and technical assistance projects and activities in Zambia, for which funds were committed for 1972 and beyond. The report also includes a brief general statement on capital investment financed externally.

²⁰World Bank Group, Policies and Operations, September 1974, p. 86.

²¹Commonwealth Development Corporation, Annual Reports and Accounts 1972, 1973 and 1974.

²²For an explanation of non-Aid Programme flows from the United Kingdom see Appendix A.3.

CHAPTER 4

SECTORAL DISTRIBUTION OF FOREIGN CAPITAL

Zambia occupies a peculiar position among developing countries in that she has large resources of her own, mainly from copper revenue, to finance development. Her Second National Development Plan (SNDP)¹ is not as ambitious as the First National Development Plan (FNDP). In the FNDP (1966-1970) total public sector expenditure (capital and recurrent) was estimated at \$1862.4 million for a period of four years.²

About 84.5 per cent of this total expenditure was said to have been generated from taxation within Zambia and the remainder came from external loans and foreign aid.³ The SNDP is also being financed from locally raised capital and external loans.

In order to achieve the goals of SNDP taxes will not be adequate to meet the required investment funds and this shortage necessitates foreign capital inflows. UNIDO points out that existing financial institutions such as building societies, insurance companies, Agricultural Finance Company and FINDECO are participants in financing the SNDP. That the participation of these institutions does not fully cover all the needed funds is confirmed by the following statement:-

"the resources for the SNDP have been estimated on the basis of an average copper price of \$1,036 per metric ton; at the 1971 rates of taxation this will leave a gap in the budgetary resources."⁴

The strategy and policy of SNDP is one of diversification of the industrial growth through import substitution. Planned growth of the industrial sector calls for planned fixed capital investment of no less than \$560 million (1972-1976)

split as follows:-

1972 : \$ 75 million
1973 : \$ 91 million
1974 : \$112 million
1975 : \$131 million
1976 : \$141 million

"70 per cent ie. \$392 million will be financed from private funds, the rest from Government and public sources."⁵

We saw from Chapter three that a sizeable amount of foreign capital has, indeed, flowed into Zambia. It is the purpose of this chapter to attempt to designate which sectors have received what amounts of foreign capital. As usual this will, by and large, be a difficult task and the amounts in most cases will be estimates. Secondly the available information on foreign capital inflows is not clearly categorized according to sectors as defined in the national accounts of Zambia. On the basis of available data only the sectors that have been clearly identified as recipients of foreign capital inflows and technical assistance will be analysed. The following sectors have been identified:

- i. Agriculture, Forestry and Fisheries
- ii. Manufacturing

- iii. Electricity, Gas and Water
- iv. Transport and Communications
- v. Mining
- vi. General: under this we have education, funds to support the development projects of the Second National Development Plan.

4.1 AGRICULTURE, FORESTRY AND FISHERIES

Approximately \$37 million or more foreign capital has gone into this sector between 1964 and 1973 (see Table 4.1 below). The main provider of foreign capital was the World Bank. The United Nations Agencies were the main providers of technical assistance followed by the United Kingdom. The Commonwealth Development Corporation also provided small amounts of investment loans by investing in commercial joint ventures with the Government of Zambia.

TABLE 4.1

FOREIGN CAPITAL AND TECHNICAL ASSISTANCE TO AGRICULTURE, FORESTRY AND FISHERIES

	Amount (Million) US Dollars	Maturity (Years)	Grace Period (Years)	Interest Percentage	Purpose and Source
World Bank	5.3	25	10	6.5	Afforestation. No. 68/53
World Bank	2.5	15	5	6.5	Cattle Ranch. No. 69/42
World Bank	5.5	25	6	7	Commercial Farming No. 70/32
World Bank	11.5	20	5	7.25	Family Farms. No. 73/5
World Bank	33.0	n.a.	n.a.	n.a.	Agricultural Projects. Appendix C.3
ABD	0.7	n.a.	n.a.	n.a.	Commercial Farm Project . Appendix C.3
U.N. Agencies	5.7	-	-	-	Grant for Commercial Farm
UNDP/FAO	1.04	-	-	-	Technical Assistance. Appendix C.3
UK (Bilateral)	2.14	-	-	-	Technical Assistance. Appendix C.3
Canada (CIDA)	0.58	-	-	-	Technical Assistance. Appendix C.3
Denmark	0.17	-	-	-	Technical Assistance. Appendix C.3
W. Germany	0.15	-	-	-	Technical Assistance. Appendix C.3
Sweden	0.87	-	-	-	Technical Assistance. Appendix C.3
Netherlands	0.29	-	-	-	Technical Assistance. Appendix C.3

A

TABLE 4.1 continued

	Amount (Million US Dollars)	Maturity (Years)	Grace Period (Years)	Interest Percentage	Purpose and Source
CDC (UK)	2.9	-	-	-	Investments in Commercial Farming
Total	72.34	-	-	-	

SOURCE: These are the loans published in the World Bank and IDA Annual Reports and Press Releases. Commonwealth Development Corporation Annual Report and Accounts, 1971, 1972 and 1973 pages 102 and 86. For UNDP/FAO, and other countries see Appendix B.3.



The \$5.3 million afforestation loan from the World Bank was intended to help Zambia implement an afforestation project. The project has as its objective, the planting of fast-growing and high-yielding wood species suitable for various uses. The entire programme calls for the establishment by 1993 of 30,000 acres of eucalyptus and 75,000 acres of pine plantations located within the copper mining region. The cost of the whole afforestation project was estimated at \$11.1 million and the World Bank loan covered the estimated foreign exchange component. Specifically, the World Bank loan was used for the purchase of tractors, bulldozers, graders, trucks and personnel vehicles. Contracts for the project were awarded on the basis of international competitive bidding.

On June 18, 1969 (World Bank Press Release No. 69/42) a \$2.5 million loan was given to Zambia for a livestock programme. The programme consisted of the development of 12 Government-owned beef cattle ranches and 5 dairy farms. The total cost of the project was \$5.8 million and the World Bank loan was used for acquiring foreign exchange requirements. Barclays Bank DCO provided a loan amounting to \$1.2 million. The project aims at reducing Zambia's dependence on imported beef and milk.

On June 1, 1970 (Bank Press Release No. 70/32) a \$5.5 million Bank loan was announced. This loan was for agriculture

in Zambia. It had as its objective the encouragement of Zambian farmers to enter commercial farming by training Zambians and settling them on commercial farms. About half of Zambia's four million people are engaged in agriculture, but commercial crop cultivation, mainly of maize and tobacco, has been undertaken mostly by non-Zambian farmers. The project aimed at establishing some 270 farms each about 170 acres, allowing cultivation of 20 acres of tobacco and 40 acres of maize. Though the total cost of the project was \$11.4 million the Bank loan covered only the foreign exchange requirements. It was principally used for the purchase of farm machinery, and equipment, vehicles and building materials and for construction work. The remainder was provided by the Zambian Government and Commercial Banks.

In January 1973 (Bank Press Release No. 73/5) the World Bank made a loan amounting to \$11.5 million to Zambia to help finance the development of family farming in a number of areas in Zambia. The main objective of the project was to help small farmers, who then produced little more than their subsistence requirements, to enlarge their output of marketable crops and so increase their family incomes. The project as stated was to serve two of the major policy objectives of the Government. It would increase productive employment, output

and income in the rural areas and thereby reduce the gap between urban and rural living levels. The total cost of the project was estimated at \$15.3 million with the Bank loan covering all foreign exchange requirements.

Six Japanese financial institutions participated in the Bank loan for a total amount of approximately \$765,000.

These are: The Mitsubishi Trust and Banking Corporation, Tokyo; The Sanwa Bank, Ltd., New York Agency; The Tokai Bank, Ltd., Nagoya; The Taiyo Bank, Ltd., Tokyo; The Saitama Bank, Ltd., Saitama Prefecture, and The Toyo Trust and Banking Co., Ltd., Tokyo.

The World Bank loan of \$33 million covers all types of agricultural projects during the Second National Development Plan.

Agriculture, Forestry and Fisheries sector ranks first in terms of the United Nations donations. During the period 1961-1970 this sector received approximately \$4.3 million from the United Nations and its family of agencies. From the Zambian Government's counterpart expenditure estimates it ranked third after education and World Food Programme⁶ (see also Table 4.2 below). The agricultural sector is of high priority in the process of development in Zambia. The emphasis on improving agricultural productivity stems from the fact that a large proportion of the Zambian population is engaged in this sector.

The provision of agricultural investment funds by the Government, the World Bank and other multilateral institutions aims at, not only, increasing agricultural production for subsistence but also for marketing. Since the attainment of independence in 1964, production of tobacco and beef started to decline because of the outflow of expatriate commercial farmers.

The data in Table 4.2 call for careful interpretation. It is not clear as to whether it was the Zambian Government or the United Nations that initiated the projects. Regardless of the initiator, it can be argued that expenditure in a particular sector is influenced either by the availability of United Nations donated funds or the willingness of UN agencies to finance such projects. A more detailed discussion of the influence of loans and grants on development priorities is the subject of Chapter 5. The emphasis on agricultural activities in Zambia is justified by the high percentage of the population engaged in subsistence farming and the influx of rural dwellers into the urban areas in pursuit of better living standards. Table 4.2 when read in conjunction with Table 4.1 above gives an estimate of the inflow of foreign capital into the agricultural sector.

TABLE 4.2

UNITED NATIONS AND ITS FAMILY OF AGENCIES IN ZAMBIA ESTIMATED EXPENDITURE

	1970		1961-1970	
	UNITED NATIONS	GOVERNMENT COUNTERPART	UNITED NATIONS	GOVERNMENT COUNTERPART
Agriculture, Forestry and Fisheries	1,135,500	1,651,500	4,300,410	4,304,550
Food and Nutrition	339,413	304,275	396,413	311,775
World Food Programme ¹	505,500	1,195,139	2,100,000	8,014,578
Health (WHO)	321,345	40,169	867,975 ²	108,497 ²
Education	407,669	1,374,713	2,386,182	7,049,022
Vocational Training	263,400	467,100	645,750	1,166,250
Southern Africa Training Programme ³	90,000	-	225,000	-
Economic Planning and Statistics	205,632	25,704	619,038	77,397
Investment and Finance			138,000,000 ⁴	
Mining	302,700	234,300	641,400	471,600
Industrial Development	201,930	112,140	354,930	131,640
Power and Atomic Energy	66,728	7,068	92,471	12,266

TABLE 4.2 continued

Social Welfare, Community Development and Co-operatives	77,136	9,639	282,744	35,343
Telecommunications	25,704	3,213	57,834	7,230
Public Administration and Labour Administration	29,988	4,820	262,602	32,264
Services for Children (UNICEF)	87,000	262,500	714,000	2,400,000
Refugees (UNHCR)	173,550	553,862	1,475,399	5,289,701 ⁵
Total	4,233,195	6,246,142	15,423,148	29,412,113

SOURCE: United Nations, Activities of the United Nations and Its Family of Agencies in Zambia, United Nations Mission, Lusaka, Zambia, April 1971, p. 23.

NOTES: 1. Excluding Government expenditure on refugees, shown below.

2. 1965-1970 (earlier figures not available)

3. Fellowships awarded at institutions in Zambia (1966-1970)

4. Total value of ten IBRD loans, of these \$112.5 million were assigned in equal shares to Rhodesia and Zambia before Rhodesia's Unilateral Declaration of Independence on November 11, 1965. Loans to Zambia in 1969-1970 totalled \$11.4 million - approximately half for Education and half for Commercial Farming.

5. Including contributions from other sources.

Tables 4.1 and 4.2 give an estimate of the volume of investment in Agriculture, Forestry and Fisheries. Loans from various sources have been used to improve agricultural productivity in Zambia and in Table 4.3 we present the quantities of marketed agricultural products on the assumption that the loans and grants given have been used effectively. The increase in maize production has been very slow since this the staple food in Zambia and is not exported. The decrease in tobacco production from 10,962 metric tons in 1964 to 6,228 metric tons in 1973 can be explained by the exodus of white farmers from Zambia and the inability of African farmers to produce tobacco at the same level as the expatriates.

Efforts have not been restricted to increasing tobacco and beef production alone. The Zambian Government has made strides in combating the problem of low agricultural productivity. Attempts at diversification seem to be well-founded in that many Zambians are being encouraged to produce a variety of commodities for commercial purpose. With the exception of cattle and tobacco (see Table 4.3) there are signs of improvement in the production of many agricultural products. The figures in Table 4.3 refer only to marketed agricultural output. They do not include production for subsistence or private sales within the traditional sector.

TABLE 4.3

ESTIMATED QUANTITY OF-MARKETED AGRICULTURAL PRODUCTION 1964-1973

<u>COMMODITY</u>	<u>UNIT</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Maize	M.T.	204,270	263,000	384,720	383,080	263,830	273,990	135,200	399,950	616,554	378,000
Tobacco											
Flue Cured	M.T.	10,962	6,600	6,566	4,947	6,279	5,023	4,794	5,908	5,532	6,228
Burley	M.T.	1,703	1,993	855	275	285	240	255	388	385	471
Oriental	M.T.	297	526	213	131	114	75	8	4	-	-
Sugar Cane	M.T.	-	-	-	-	183,000	257,000	322,000	331,000	397,400	446,350
Groundnuts	M.T.	3,630	6,740	11,530	14,810	5,390	7,820	3,270	5,970	6,480	2,784
Cotton	M.T.	1,649	2,273	2,778	1,831	4,252	6,915	5,606	11,919	8,453	4,090
Sorghum	M.T.	-	-	24	1,727	3,545	1,181	545	90	212	200
Fruit	M.T.	2,600	2,400	2,500	2,600	2,200	3,100	4,800	5,600	5,900	5,500
Vegetables	M.T.	13,500	13,000	14,100	15,200	15,500	17,200	21,000	24,100	27,700	20,000
Cattle	Head	71,000	69,000	63,000	55,000	47,000	49,000	68,000	68,000	72,443	103,900
Pigs	Head	16,000	17,000	20,000	22,000	25,000	27,000	35,000	34,000	32,000	32,000

TABLE 4.3 continued

<u>COMMODITY</u>	<u>UNIT</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Chickens	'660	650	905	1,410	2,100	3,200	3,800	4,000	4,425	5,500	6,200
Turkeys & Ducks	'000	-	-	27	35	40	46	50	25	40	30
Eggs	000,000	17	22	27	36	54	93	99	108	115	123
Day-old-Chicks	M.T.	-	-	-	-	280	440	665	910	1,100	1,250
Milk	M.T.	20,500	19,770	19,020	18,330	18,430	16,260	15,610	16,000	16,586	16,774.

SOURCE: Ministry of Rural Development, Annual Reports of Marketed Products, 1966-1973.

NOTES: Day-old-Chicks are birds exported.

M.T. - METRIC TON

Obstacles to increasing agricultural productivity include, among others, lack of physical and institutional infrastructures; smallness of the market resulting from lack of integration. However, marketing arrangements are, since independence, under the control of Government bodies. The Government created five statutory boards to facilitate livestock and agricultural marketing. These boards are the National Agricultural Marketing Board (NAMB), the Cold Storage Board (CSB), the Dairy Produce Board (DPB), the Tobacco Board of Zambia (TBZ) and one of the subsidiaries of the Rural Development Corporation. NAMB performs many vital functions for commercial farmers and encourages production of commercial products. Its functions include buying, selling, import, export and storage of maize; the operation of two ginneries at Lusaka and Chipata; the distribution of fertilizer and other agricultural requisites to farmers throughout Zambia; and fruit and vegetable marketing. All these functions are incentives designed to lure Zambians into commercial farming. Financial and technical assistance is a necessity and the Zambian Government has borrowed money from developed countries to implement agricultural projects of demonstrative nature. In some instances foreign investors have been persuaded to invest in commercial farming (see Table 4.1 above). UN agencies and the British Government

have provided technical assistance. Canada, through its aid-giving agency - Canadian International Development Agency (CIDA) became very active in Zambia after 1971. Table 4.2 also indicates the magnitude of efforts being exerted in this sector with the aid of UN funds and the Government counterpart contribution. In Table 4.4 we give the gross values of marketed agricultural production. In 1964 the value of marketed agricultural products was \$32.7 million and by 1972 this figure had trebled to \$94.6 million. Such an increase would seem to represent great improvement, however, we must read the data with great caution. Prices in Zambia have increased by more than 60 per cent since independence. To illustrate the fact that the increase in total value of all commodities may be a misleading indicator of increasing agricultural production we should compare the data contained in Table 4.3 with those in Table 4.4 at a micro-level. In Table 4.3 we see that in 1964 the quantity of marketed maize was 204,270 metric tons and that by 1972 the quantity had increased to 616,554 metric tons. This represents an increase of approximately 200 per cent. In terms of values, the value of 204,270 metric tons in 1964 was \$11,450,000 and in 1972 the value of 616,554 metric tons was \$43,967,000. The increase in values is approximately 290 per cent. Measuring increases by the values distorts the true picture in that there may be no increases in real terms. The number of marketed cattle was 71

million in 1964 and this figure was not attained until 1972 when 72,443,000 cattle were marketed - (see Table 4.3). This is in contrast with the values of the marketed cattle in Table 4.4. The values increased from \$4.8 million to \$9.4 million from 1964 to 1972.

TABLE 4.4

ESTIMATED GROSS VALUE OF MARKETED AGRICULTURAL PRODUCTION 1964-1973

(Thousands US Dollars)

<u>COMMODITY</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Maize	11,450	14,349	20,972	19,488	12,494	14,459	7,806	26,750	43,967	26,445
Tobacco:										
Flue Cured	8,429	5,960	6,647	7,187	6,342	5,853	5,762	7,173	7,386	8,021
Burley	1,004	95	401	113	189	183	215	327	332	336
Oriental	290	360	158	83	78	48	6	4	-	-
Sugar Cane	-	-	-	-	1,815	2,547	3,191	3,279	3,911	4,425
Groundnuts	498	908	1,728	2,156	798	1,188	552	1,080	1,170	647
Cotton	339	456	678	366	912	1,560	1,368	3,141	2,228	1,080
Sorghum	-	-	-	134	275	92	42	8	14	14
Fruit	225	207	215	249	237	330	530	716	750	705
Vegetables	1,725	1,658	1,988	2,325	3,242	3,542	3,920	4,596	5,033	4,575
Cattle	4,800	5,700	5,955	5,610	5,925	6,255	8,265	8,565	9,392	13,470

TABLE 4.4 continued

<u>COMMODITY</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Pigs	480	615	795	870	1,035	1,050	1,410	1,560	1,767	1,613
Chickens	666	1,001	1,764	2,700	5,280	6,270	6,600	7,302	9,075	10,230
Turkeys and Ducks	-	-	90	114	128	147	152	71	120	90
Eggs	795	1,013	1,410	1,800	2,565	4,425	4,950	5,400	6,555	7,410
Day-old-Chicks	-	-	-	-	90	150	225	285	413	450
Milk	2,025	1,980	1,830	2,025	2,115	1,980	1,965	2,085	2,468	2,516
Total Gross Sales Value	32,736	35,745	44,639	45,218	43,518	50,078	46,926	72,339	94,577	82,026

SOURCE: Ministry of Rural Development op. cit. see also Economic Report 1973.

NOTES: All Figures are at Current Market Prices.

T.B.Z. has adopted a variety of schemes with a view to increasing tobacco production. In some instance it has introduced schemes such as the Family Farm one-acre scheme, Assisted Tenant Scheme, and Tenant Schemes. In 1967 it was estimated that there were about 28 farmers operating one-acre schemes under T.B.Z. but by the end of the 1973/74 crop season the number was expected to reach 2,080 farmers. T.B.Z. also supervises Assisted Tenant Schemes where farmers receive technical, managerial and accounting services from the Board. Most of the World Bank loans have been used to promote commercial farming, particularly tobacco farming.

The National Agricultural Marketing Board buys a large share of maize from Zambian farmers and sells it to the areas where there is deficiency in maize production. Table 4.5 gives the total maize intake for the period under study. The intake of maize by NAMB is important in that it encourages domestic production in those areas (provinces) where conditions are suitable for maize production. This intake is then sold or marketed in provinces that produce less than the requirements for domestic consumption.

TABLE 4.5

MAIZE INTAKE BY THE NATIONAL AGRICULTURAL
MARKETING BOARD 1964-1973

<u>Harvest</u>	<u>Total</u>	
	<u>'000 Bags</u>	<u>Metric Tons</u>
1964	2,139	194,010
1965	2,804	254,320
1966	4,163	377,580
1967	4,131	374,680
1968	2,748	249,240
1969	2,791	253,140
1970	1,371	124,400
1971	4,151	373,600
May 1972 - April 1973	6,356	572,069
May 1973 - April 1974	8,643	692,527

SOURCE: NAMB. Annual Reports on Marketing 1966, 1968, 1970, 1972 and 1974.

Production of maize varies from province to province with the Central Province producing more than half the national output of maize. It is in this respect that the NAMB functions as a buyer in the Central Province and a seller in the Western and Copperbelt Province. The provincial maize production data are contained in Table 4.6. It is clear from this table that the Central and Southern provinces are producers and exporters of maize to other provinces. The soil is very suitable for agricultural production and the government has responded by encouraging farming activities in these provinces.

In its effort to increase maize production for domestic consumption the Government has had to rely on foreign capital. The increase in imports of machinery and equipment is derived from the desire to increase maize production. Zambia is unable to produce any agricultural equipment and has to depend on the western countries for all the necessary agricultural implements. Inflows of foreign capital into Zambia as discussed in Chapter 2 are largely explained by the dependence relationship between Zambia and the industrialized countries.

TABLE 4.6

MARKETED MAIZE PRODUCTION, 1964-1973

(Unit:-200lb/90 kg Bag)¹

HARVEST YEAR	CENTRAL	COPPER-BELT	EASTERN	LUAPULA	PROVINCE		SOUTHERN	WESTERN	TOTAL (BAGS)	TOTAL VALUE (US DOLLARS) ²
					NORTHERN	NORTH-WESTERN				
1964	1,323,900	3,000	95,000	2,000	15,700	-	811,100	1,000	2,251,700	11,449,500
1965	1,889,200	3,900	80,300	4,100	19,600	1,200	899,800	1,000	2,899,100	14,848,500
1966	2,330,300	10,600	150,800	11,600	28,300	1,500	1,705,600	2,100	4,240,800	20,971,500
1967	2,326,300	20,100	89,500	14,900	69,000	17,300	1,880,500	5,400	4,222,700	19,488,000
1968	1,590,000	15,700	117,300	23,300	93,200	13,200	1,031,700	23,000	2,908,200	12,493,500
1969	1,322,200	27,600	26,100	36,700	113,800	28,300	1,443,600	21,900	3,020,200	14,458,500
1970	903,200	6,700	15,600	19,600	56,800	15,200	461,400	11,800	1,490,300	7,806,000
1971	2,604,400	33,100	152,000	25,400	63,800	33,100	1,504,200	27,800	4,443,800	26,749,500
1972	4,196,700	28,700	334,800	28,800	72,200	38,600	2,115,000	35,800	6,850,600	43,966,500
1973	5,351,971	93,025	413,729	9,351	n.a.	22,553	1,149,732	13,825	4,054,186 ³	24,507,000 ³

SOURCE: NAMB, Annual Reports on Marketing and Economic Report 1973.

1. With the change over to the metric system, from 1971 onwards maize was purchased in bags of 90 kg. instead of 200 lbs.
2. Valuation of sales is on the basis of the G.N.B./N.A.M.B. line of rail price for Grade A maize in each year. In 1971, the value of sales includes an extra 20 kg per bag for 750,000 bags which qualified for the early delivery bonus scheme.
3. Does not include Northern Province.
G.M.B.:- Grain Marketing Board.

Table 4.7 presents a summary of marketed production of oil producing varieties of groundnuts. The production of oil-producing groundnuts has been declining since independence when it was 1,296 metric tons to 224 metric tons in 1973. It should be noted that groundnuts have been grown in Zambia traditionally for consumption purposes. NAMB is a residual buyer and the prices of groundnuts was too low to lure farmers to produce them for commercial purposes. In an effort to increase groundnuts production the Government raised the price of groundnuts from \$18.90 to \$25.50 per 80 kg bag for Grade A and from \$18.00 to \$24.00 for Grade B.

Cattle

It is reported that the C.S.B. has campaigned vigorously to draw cattle from the traditional sector by offering higher prices for cattle from the villages. This drive together with improvements brought about by the Government's involvement in cattle ranching is expected to result in increased cattle breeding and beef in Zambia.⁷ The efforts to increase beef and milk in Zambia were supported by the \$2.5 million World Bank loan for cattle ranches (see Table 4.1). It has already been pointed out that the Bank loan was intended to reduce Zambia's dependence on imported beef and milk. In Table 4.8 we give general cattle statistics from which we notice that the increase in cattle population has been very low.

TABLE 4.7

MARKETED GROUNDNUT PRODUCTION (OIL PRODUCING VARIETIES)-

1964-73

(Unit: 180 lb/80 kg Bags)

Harvest Year	PROVINCE			Total (Bags)	Total (Metric Tons)
	CENTRAL	SOUTHERN	OTHERS		
1964	5,160	4,460	6,580	16,200	1,296
1965	1,890	810	7,030	9,730	778
1966	1,000	880	3,230	5,110	409
1967	1,000	7,010	2,490	10,500	840
1968	1,050	4,770	1,250	7,070	566
1969	1,110	7,210	1,240	9,560	765
1970	2,690	4,740	340	7,770	622
1971	2,290	3,140	510	5,940	475
1972	3,340	1,570	130	5,040	403
1973	1,000	1,730	70	2,800	224

SOURCE: Ministry of Rural Development, op cit.

The high prices offered to the villagers by C.S.B. have not produced noticeable results. Analysis of table 4.9 which has data on slaughtering will show that private butchers are still strong in the beef market, particularly when note is taken of the fact that C.S.B. slaughtering include live imported cattle. Although domestic production of beef appears to be increasing according to Table 4.9, C.S.B. finds it necessary to import beef. Imports of live cattle are mainly from neighbouring Botswana. Importation of beef will continue for sometime because more and more Zambians are fast becoming beef eaters because of the increasing standard of living due to high salaries.

The different agricultural commodities in Zambia as given in Table 4.3 individually amount to insignificant amounts (see Table 4.4) and our analysis of these commodities will be confined to the more important ones only. The many varieties though produced in small quantities indicate the thrust of the Zambian Government in diversifying the economy so as not to depend on one commodity. From the available agricultural data we can draw the conclusion that Zambia is in a transitional stage from the traditional to a market economy. The data pertain to marketed products only.

Marketed production of fresh milk has not met with success. Milk production is fast coming under the control of the Dairy Produce Board. Data on milk production and sales by state dairies during the period 1971-1973 are given in Table 4.10 from which it will be seen that the annual increases in both production and sales are not particularly promising in the rural areas.

Sugar

Zambia is also a producer of Sugar for domestic consumption but the costs of producing sugar in Zambia are somewhat prohibitive.⁸ The high costs are due to increased electricity usage to drive the water pumps. Government policy aims at making Zambia self-sufficient in sugar by 1975 whether or not this will be achieved remains to be seen.⁹ In 1972/73 the consumption of sugar in Zambia was estimated at 63,769 metric tons of which only 12,000 metric tons were imported. In 1972 and 1973 production of sugar amounted to 51,118 and 56,500 metric tons of raw sugar output respectively. It is on the basis of such figures that Zambia expects to be self-sufficient in sugar. Sugar refineries have already been established with the financial help of foreign companies. Production statistics are given in Table 4.12.

Pig

Pig slaughtering have been increasing at a small rate since 1965 see Table 4.13. Pig industry is affected by a severe shortage of protein feed which used to be imported before the closure of the Border with Rhodesia. This shortage compelled many farmers to sell their breeding stock thereby raising slaughterings.

Poultry

Marketed poultry production in Zambia has shown a remarkable increase since independence from a meagre 650,000 chickens in 1964 and roughly 17 million eggs a year to a high figure of 6.2 million chickens and 123.5 million eggs. This far exceeded the target of the Government.¹⁰

The other commodities shown in Table 4.3 that Zambia markets are vegetables, cotton, sorghum and fruit, and in almost all these undertakings the volume of foreign capital has been substantial. The form of foreign assistance has been technical assistance from multilateral institutions and to some external bilateral technical assistance from the United Kingdom.¹¹

There is so far no evidence that cattle population is increasing in Zambia despite the loans and grants that have been received. Table 4.8 shows that consumption of beef is on

the increase while production is stagnant. Increased beef consumption is based on imported beef from Botswana.

Table 4.9 also shows the decreasing trend of cattle slaughterings during the ten-year period. The problem is that of raising the herds due to the departure of White farmers who were efficient in cattle ranching and their being replaced by Africans who had very little or no experience in ranching.

TABLE 4.8

CATTLE STATISTICS

(In Thousand Head)

YEAR	TOTAL	CATTLE POPULATION		DOMESTIC ² MARKETED SLAUGHTERINGS	RECORDED BEEF CONSUMPTION		
		TRADITIONAL	COMMERCIAL ¹		IMPORTS ³	EXPORTS	
1964	1,207	1,069	138	71	25	6	90
1965	1,302	1,112	190	69	16	1	84
1966	1,324	1,168	156	63	33	-	96
1967	1,407	1,242	165	54	39	-	93
1968	1,433	1,251	182	47	52	-	99
1969	n.a.	1,357	n.a.	49	56	-	105
1970	n.a.	1,379	n.a.	68	43	-	111
1971	1,627	1,444 ⁺	183 ^x	68	66	-	134
1972	n.a.	1,489 ⁺	n.a.	72	94	-	166
1973	n.a.	n.a.	n.a.	104	47	-	151

n.a. not available

- x line of rail only including state owned cattle
- + includes commercial cattle in all areas except line of rail
- 1 includes both beef and dairy cattle
- 2 includes only recorded official domestic slaughtering

TABLE 4.8 continued

3. includes imports of live cattle for slaughter. The beef imports are converted to a head basis assuming 181 kg per carcass.

SOURCE: Ministry of Rural Development and Cold Storage Board,
Annual Reports 1966-1973.

TABLE 4.9
GRADED CATTLE SLAUGHTERINGS (HEAD)

YEAR	GRADING BY SOURCE		TOTAL GRADINGS	GRADINGS BY TYPE 2				
	COLD ¹ STORAGE BOARD	PRIVATE BUTCHERS		SUPER CHOICE	STANDARD	COMMERCIAL	VEALERS	OTHERS ³
1964	51,756	12,222	65,978	n.a.	n.a.	n.a.	n.a.	n.a.
1965	49,467	13,277	62,744	n.a.	n.a.	n.a.	n.a.	n.a.
1966	39,556	15,293	54,849	14,580	12,453	24,097	2,588	1,131
1967	29,035	17,635	46,670	15,430	10,984	17,042	2,391	823
1968	20,604	13,495	34,099	7,831	12,722	12,141	1,078	327
1969	21,735	15,144	36,879	7,998	14,480	13,082	981	338
1970	37,205	17,165	54,370	9,468	20,307	21,580	1,264	1,751
1971	29,328	22,466	51,794	10,839	20,048	19,081		729
1972	29,382	21,401	50,783	14,080	17,352	17,657	700	984
1973 1st Half	37,163	10,741	47,904	9,001	21,724	15,912	311	809
1972 1st Half	17,378	10,702	28,080	6,002	11,133	10,061	337	547

1. C.S.B. slaughterings includes slaughterings of live imported cattle.

2. The grading structure was changed in March 1965, January 1968 and April 1972. The grading figures for 1964 and 1965 are not given since they are not comparable with the later figures.

TABLE 4.9 continued

3. Others include cattle condemned or detained.

SOURCE: Cold Storage Board, op. cit.

State participation accounts for the decrease in the sale of meat by private butchers. However, Zambia is still an importer of beef and the main supplier is her neighbour Botswana.

TABLE 4.10

MILK PRODUCTION AND SALES BY STATE DAIRIES 1971-1973

(Thousand litres)

DAIRY	1971			1972			1973		
	PRODUCTION	SALES		PRODUCTION	SALES		PRODUCTION	SALES	
Kasama	113	95		168	118		143	104	
Mansa	195	150		216	144		157	104	
Solwezi	107	91		212	135		215	130	
Chipata	226	203		367	281		384	350	
Nongu	63	57		133	90		84	59	
Total Rural	703	597		1,076	768		990	775	
Kafubu	495	433		979	866		1,004	880	
Total	1,198	1,030		2,055	1,634		1,994	1,635	

SOURCE: Projects Division, Ministry of Rural Development, Zambia.

Data on the intake and sales of milk in Zambia by the Dairy Produce are given in Table 4.11. The Dairy Produce Board sells milk mainly to urban dwellers rather than to the rural areas.

Milk

Zambia aims at increasing milk production and distribute it evenly throughout the country. State dairies are located in the provincial headquarters to record milk production in the provinces particularly those provinces that have small towns or administrative centres as towns. Table 4.10 shows the production of milk and sales as recorded by the state dairies for the period 1971-1975 while Table 4.11 shows purchases and sales by the Dairy Produce Board which records national intake and sales of milk. DPB processes fresh milk and then distributes it to provincial centres.

TABLE 4.11

INTAKE AND SALES OF MILK BY DAIRY PRODUCE BOARD 1964-1973

Year	(Unit: Thousand litres)		
	Fresh Wholemilk sold to D.P.B. by Producers	Fresh Wholemilk	Milk Sales by D.P.B. to Consumers Fortified Whole Total
1964	16,020	8,492	8,492
1965	18,403	10,650	2,089
1966	17,602	10,075	7,727
1967	16,948	9,140	13,125
1968	17,016	9,963	12,399
1969	15,225	9,762	15,657
1970	14,563	11,424	16,374
1971	14,505	13,080	18,196
1972	14,638	12,766	20,079
1973	15,016	14,004	21,015

SOURCE: Dairy Produce Board, Zambia, 1973 and Economic Report 1973.

TABLE 4.12

PRODUCTION OF SUGAR 1968-73

Harvest Year	Origin	Sugar Cane Production (Metric Tons)	Area (Hectares)	Yield/Hectare	Raw Sugar out put (Metric Tons)	Average Sugar Yield
1968	Estate	175,721	1,406	125.0	21,509	14.5
	Farmers	<u>7,692</u>	<u>77</u>	<u>99.9</u>		
	Total	183,413	1,483	123.7		
1969	Estate	241,705	2,289	105.6	30,417	12.4
	Farmers	<u>15,053</u>	<u>163</u>	<u>92.3</u>		
	Total	256,758	2,452	104.7		
1970	Estate	304,641	2,659	114.6	40,132	14.0
	Farmers	<u>17,016</u>	<u>212</u>	<u>80.3</u>		
	Total	321,657	2,871	112.0		
1971	Estate	309,258	3,315	93.3	41,546	11.6
	Farmers	<u>21,479</u>	<u>260</u>	<u>82.6</u>		
	Total	330,737	3,575	92.5		

TABLE 4.12 continued

Harvest Year	Origin	Sugar Can Production (Metric Tons)	Area (Hectares)	Yield/Hectare	Raw Sugar Out put (Metric Tons)	Average Sugar Yield
1972	Estate	372,328	3,421	108.8	51,118	13.9
	Farmers	<u>25,035</u>	<u>244</u>	<u>102.7</u>		
	Total	397,328	3,665	108.4		
1973	Estate	423,650	4,300	98.5	56,500	13.0
	Farmers	<u>22,700</u>	<u>200</u>	<u>113.5</u>		
	Total	446,350	4,500	99.2		

SOURCE: Zambia Sugar Co., 1973.

TABLE 4.13

RECORDED PIG SLAUGHTERINGS (LINE OF RAIL) 1965-73

YEAR	SLAUGHTERINGS BY PROVINCE		TOTAL SLAUGHTERINGS	SLAUGHTERINGS BY BUTCHER	
	SOUTHERN - CENTRAL	COPPERBELT		ZAPP	PRIVATE BUTCHERS
1965	13,501	3,323	16,824	10,141	6,683
1966	16,069	2,237	18,306	12,117	6,189
1967	17,068	2,924	19,992	12,841	7,151
1968	17,101	5,145	22,246	13,607	8,639
1969	19,160	5,644	24,804	14,430	10,334
1970	25,838	7,290	33,128	21,263	11,865
1971	22,565	9,820	32,385	17,267	15,118
1972	21,078	10,972	32,050	16,859	15,191
1973*	n.a.	n.a.	32,391	20,000	12,391

* Estimate

SOURCE: Cold Storage Board, Zambia.

TABLE 4.14

ESTIMATED MARKETED POULTRY PRODUCTION 1964-1973

YEAR	EGGS		DRESSED OR LIVE CHICKEN		DAY OLD CHICKS FOR EXPORT		TURKEY AND DUCKS		TOTAL VALUE K'000
	QUANTITY '000 EGGS	VALUE K'000	QUANTITY '000 BIRDS	VALUE K'000	QUANTITY '000 BIRDS	VALUE K'000	QUANTITY '000 BIRDS	VALUE K'000	
1964	17,400	795	650	666	-	-	-	-	1,461
1965	21,600	1,013	905	1,001	-	-	-	-	2,013
1966	27,000	1,410	1,410	1,764	-	-	27	90	3,174
1967	36,000	1,800	1,100	2,700	-	-	35	114	4,614
1968	54,000	2,565	3,200	5,280	280	90	40	128	8,063
1969	93,000	4,425	3,800	6,270	440	150	46	147	10,992
1970	99,000	4,950	4,000	6,600	665	225	50	152	11,927
1971	108,000	5,400	4,425	7,302	910	285	25	71	13,058
1972	115,200	6,555	5,500	7,075	1,100	413	40	120	15,163
1973	123,500	7,410	6,200	10,230	1,250	450	30	90	18,180

SOURCE: Poultry Office, Ministry of Rural Development, see also Economic Report 1973, Ministry of Planning and Finance, Lusaka, Zambia, January 1974.

Statistical data contained in Tables 4.3 - 4.14 do indicate, in many instances, a fair amount of increased agricultural activities in Zambia. This, taken together with the inflows of foreign capital given in Tables 4.1 and 4.2 may suggest that foreign capital has encouraged agricultural production by making available certain inputs that would not have been acquired in the absence of foreign aid.

The increased agricultural activities described above were initiated by the government with a view to decreasing dependence on imports of maize, beef, eggs, milk, tobacco, poultry etc. from South Africa and Rhodesia for political reasons and perhaps to be self-sufficient in some of the agricultural commodities like sugar. A major portion of the loans was used for imports of the necessary machinery and equipment. For example the World Bank loan for the afforestation project was used for the purchase of tractors, bulldozers, graders and trucks and on salaries of foreign personnel. The establishment of oil refineries, slaughterhouses, dairy, meat and sugar processing facilities all dependent on foreign financial assistance and the importation of equipment from the countries that provided the funds. Although Zambia (or for that matter any government) has control over imports of capital equipment destined for agriculture and agro-industries, the control becomes ineffective if the government has managerial manpower that knows the type of equipment that is suitable for such industries and where this

equipment is available. In Zambia the choice is limited by historical experience which integrated it into the Western countries. From the colonial relations Zambia looked to the United Kingdom for any equipment and financial support. The colonial civil servants together with foreign firms decided what equipment would be imported. Under flag independence the people who play critical roles, on behalf of the government, in the decision-making process regarding imports of capital equipment are conditioned to look up to the Western World for both capital equipment and the means for financing the imports of such.

With the exception of maize production, agricultural production in beef, eggs, milk, tobacco and poultry while not destined for export, are geared to lessen imports into the urban areas of Zambia. Inflows of foreign capital into the Zambian agricultural sector have helped to increase the production of agricultural commodities that are consumed within the limited urban market. As for tobacco production, large percentage is for export. The consumption of marketed beef, milk, eggs, poultry etc. by peasants is very low in the hinterland.

4.2 MANUFACTURING SECTOR

The manufacturing sector has received a substantial amount of foreign capital but the determination of the actual volume of inflows is difficult. The best that can be done about these inflows is that the presence of foreign capital represents that percentage of shares not nationalized by government. The expansion of the manufacturing sector (to be discussed in Chapter 5) and the import-substitution industrialization programme (to be discussed in Chapter 7) calls for large sums of foreign capital inflows. Planned fixed capital investment in the manufacturing sector for the Second National Development Plan (1972-1976) was estimated at \$560 million of which \$392 million was to be financed from private funds.¹² (see Table 3.11 of Chapter 3 above) Most of the companies that were requested to sell 51 per cent of their shares to government were in the manufacturing sector.¹³ In Chapter 7 Table 7.1 we give a list of the "Mulungushi" companies, that is, the companies that were invited to sell 51 per cent of their shareholding. It is clear from that table that the majority of them fall under the manufacturing sector and that since they were, before semi-nationalized, foreign-owned they represent foreign capital inflows into this sector.

TABLE 4.15

INFLOWS OF FOREIGN CAPITAL INTO THE
MANUFACTURING SECTOR

<u>DONOR/INVESTOR</u>	<u>Amount</u> <u>(Million US Dollars)</u>
International Finance Corporation	2.3
Investments by British Companies	16.5
CDC Investments	17.5
Denmark	3.0
Japanese Firms	19.4
Barclays Overseas Development Corporation	1.2
Denmark	13.0
USA Firms	9.5
Italian Firms	8.3
Anglo American	19.10
W. Germany Firms	4.7
Sweden	5.8
Grindlays Bank International	2.8
Total	<u>113.1</u>

SOURCE: See Appendix C.3 and INDECO Limited Annual Reports 1971/1972, 1972/1973 and 1973/1974.

NOTES: Shares of subsidiary company control and Major Foreign Partners are given in the Reports.

The International Finance Corporation has made two investment loans to Zambia Bata Shoe Company Limited amounting to \$2.3 million. \$1.2 million of which financed the construction and operation by the company of a tannery located at Kafue. The remaining \$1.1 million was made up of a loan totalling \$850,000 and acquisition of equity amounting to \$227,500. Barclays Overseas Development Corporation and National and Grindlays Finance and Development Corporation are participating in the IFC investment.¹⁴

The \$16.5 million investment loans represent contracts won by British Companies to establish the base for manufacturing industries. The loans were used mainly to finance the costs of foreign exchange. Japanese firms have also become very active in Zambia. The \$19.4 million investment loan financed the construction of a fertilizer plant and a copper factory. The loan was intended to meet the requirements for foreign exchange. The \$3.0 million represent a Danish bilateral loan to enable Zambia to purchase capital equipment and services from Denmark for improving the Chilanga Cement Factory.

The Commonwealth Development Corporation (CDC) investments in Zambia are many and varied as to purpose and the form in which they are made. CDC has invested in the Chilanga Cement Limited to the tune of \$4.04 (see the 1971 Report and

Accounts: page 101). Another investment amounting to \$1.4 million was made in the Kafue Textiles of Zambia of which \$600,000 was a loan made in 1971 but subsequently converted into an investment (see CDC Report and Accounts 1971, p. 101; 1972, p. 98 and 1973, p. 87). A CDC loan of \$1.5 million for the manufacture of explosive for the Zambian mining industry was given in 1971 while another loan advance amounting to \$1.9 million went to INDECO for the purpose of INDECO's acquisition of majority control in Chilanga Cement Limited (see Report and Accounts of CDC 1973, p. 85). A \$3.0 million loan was given to Ndola Lime Company Limited, a service company, to the copper mining industry and jointly owned by Nchanga Consolidated Mines Limited and Roan Consolidated Mines Limited. This loan enabled the company (Ndola Lime) to meet the costs of an oil-fired rotary kiln. A second loan amounting to \$1.1 million was also given to finance the installation of a second kiln in Ndola (see Report and Accounts 1973, p. 85).

Finally, CDC holds convertible loan stock amounting to \$4.6 million in the Zambia Sugar Company Limited. Capital Assistance from USA firms and Anglo-American Corporation was mainly invested in the manufactures of non-metallic minerals, manufactures of metal, chemicals, petroleum products and miscellaneous manufactures. Intersomer of Italy and Piacenza of Italy, in partnership with a Lusaka Engineering Company

invested large sums of money and are the main metal vehicle body, furniture and construction material fabricators in Zambia. Fiat and Intersomer both of Italy are major foreign partners of Livingstone Motor Assemblers. The two Italian firms control 30 per cent of the shares in the Fiat Assembly Plant. Grindlays Bank International works in conjunction with Motor Parts Distributors of Zambia and has 25 per cent of the shares. These are the sole importers and distributors of motor vehicle parts in Zambia.

West Germany firms are largely involved in the manufacturing and importation of textiles. The firms involved in this undertaking are Amenital Liechtenstein and Textilconsult, Liechtenstein. Another West Germany company, Coutinho Caro is the glass bottle manufacturer in Zambia. The majority of these foreign partners hold 49 or less per cent of the total shares and 51 or more is held by subsidiaries of INDECO.

The figure of \$115.1 million in Table 4.15 does not cover all foreign capital inflows into the manufacturing sector. For example in cases where Indeco did not have to pay rightaway for the acquired shares there is no record of the amount invested in the manufacturing sector by foreign firms. We indicated above that \$227,500 of a \$1.1 million IFC loan was used by Indeco to pay for part of its shares in the Bata Shoe Company. This was recorded because it had to be paid on the

spot and in convertible currency ie. United States dollars. The Commonwealth Development Corporation made a loan advance of \$1.9 million to enable Indeco to acquire a majority control in the Chilanga Cement Limited. The recorded inflows of foreign capital represent government indebtedness in most cases. Thus inflows which do not involve government liabilities are not recorded. If data were available on these inflows the total figure in Table 4.15 would be much higher.

In Chapter 2 we argued that the inflows of foreign capital into Zambia could be explained more accurately by the theory of investment and the dependence theory. Relying on the investment theory it can be shown that the inflows into the manufacturing industries was induced by high profits. Bata Shoe Company has a monopoly in the production and sale of shoes in Zambia. Thus investment in a country where the product is highly protected by a tariff system is very profitable. This type of investment is market-oriented. Zambian workers' salaries and wages were more than doubled immediately after independence and most of them moved into the urban areas and created demand for shoes.

The establishment of Kafue Textiles of Zambia was also due to demand for textiles and foreign companies moved in quickly to capture the market. The same can be said of the establishment of Zambia Sugar Company Limited, Livingstone

Motor Assemblers, Kapiri Glass Limited. Acceptance of direct foreign investments by the Zambian government on a partnership basis can be explained by the dependence theory. Zambia as a satellite country depended on imports of shoes, textiles, glass, cars etc. to replace imports by domestically produced goods required the establishment of firms that would produce similar goods in quality. This necessitated inviting subsidiaries of companies in the countries that formerly supplied the commodities. The government and the people of Zambia had been conditioned to a certain style of living by the colonial dependent relationship which after political independence translates itself into an economic satellite dependence.

We can conclude that the development of the manufacturing industries in Zambia was, to a large extent, dependent upon imported technology. Because this technology was skill-intensive it meant dependence on foreign managerial and technical skills. In addition to being skill-intensive, the imported capital equipment required, in many cases, inputs of semi-processed raw materials which were not available in Zambia. The end result was that the manufacturing sector of Zambia became dependent on imported equipment, semi-processed inputs, foreign financing, management and technical skills.

Motor Assemblers, Kapiri Glass Limited. Acceptance of direct foreign investments by the Zambian government on a partnership basis can be explained by the dependence theory. Zambia as a satellite country depended on imports of shoes, textiles, glass, cars etc. to replace imports by domestically produced goods required the establishment of firms that would produce similar goods in quality. This necessitated inviting subsidiaries of companies in the countries that formerly supplied the commodities. The government and the people of Zambia had been conditioned to a certain style of living by the colonial dependent relationship which after political independence translates itself into an economic satellite dependence.

We can conclude that the establishment of the manufacturing industries in Zambia is entirely dependent upon the importation of equipment, necessary inputs of raw materials, financing, technology and management skills from the western countries and that developments in the west largely determine the direction of the manufacturing sector in Zambia.

4.3 ELECTRIC POWER, WATER AND GAS: SECTOR

The generation of electric power in Zambia has been for some time determined by the demand for electric power in the mining industry and the manufacturing sector. The mining and manufacturing sectors are depended upon electricity. Since independence the rate of development has caused a tremendous increase in the demand for electric power. The expansion of the manufacturing sector and the mining related industries have led to an increased demand for electric power. Zambia has consequently responded by expanding the generation and distribution of electricity to the increased demand throughout the country.¹⁵ Zambia Electricity Supply Corporation (ZESCO) a corporation charged with the responsibility of generating and distributing electricity in Zambia has, in addition to receiving financial assistance from international financial institutions, been an area of heavy government investment. It is estimated that the amount of foreign capital that has gone into Electric power, water and gas sector is more than \$239 million. The sources of these foreign capital inflows are given in Table 4.16.

The \$40 million World Bank loan was given to the Kariba North Bank Corporation (KNBC) which appointed the Central African Power Corporation (CAPC) to construct a power station

on the northern side of Kariba dam and supply electricity to the Copperbelt and other areas in Zambia. Another World Bank loan amounting to \$115 million was given to the ZESCO in 1973. The purpose of the loan was to enable ZESCO to construct a dam at Kafue and generate electricity.

Internazionale Indrocarbute an Italian company has made an investment of \$78 million. \$33 million of which was invested in the construction of an oil refinery at Ndola and the remaining \$45 million for the construction of an oil pipeline from Ndola to Dar es Salaam. The Commonwealth Development Corporation has made two investment loans amounting to \$6.3. \$4.8 million was made to ZESCO and guaranteed by the Zambian Government. The \$1.5 million was a loan made to Mukonchi East Assisted Tenants Scheme to finance the foreign exchange costs in the construction of a dam and water reticulation system.

TABLE 4.16

FOREIGN CAPITAL INFLOWS INTO THE ELECTRIC
POWER, WATER AND GAS SECTOR

<u>DONOR</u>	<u>AMOUNT (Million US Dollars)</u>	<u>MATURITY (Years)</u>	<u>GRACE Period (Years)</u>	<u>INTEREST (Percentage)</u>
World Bank	40.0	25	5	7
World Bank	115.0	25	5.5	7.25
Internazionale Indrocarbute	33.0	n.a.	n.a.	n.a.
Internazionale Indrocarbute	45.0	n.a.	n.a.	n.a.
CDC	4.8	20	n.a.	n.a.
CDC	<u>1.5</u>	n.a.	n.a.	6
Total	239.3			

SOURCE: World Bank Press Releases Nos. 70/46 July 8, 1970 and 73/53 July 9, 1973 CDC Annual Report and Accounts 1971 p. 103.

NOTES: The estimated total of \$239.3 million were used to meet the cost of foreign exchange.

The demand for \$239.3 million was derived from the demand for foreign machinery and equipment from the main suppliers. The construction of the Kariba dam and Kafue hydro-electric power stations depended on the availability of foreign exchange with which to pay for the equipment. This sector is dominated by foreign companies which account for the inflows of foreign capital into the sector.

4.4 TRANSPORT AND COMMUNICATIONS SECTOR

The importance of the transportation and communications sector in Zambia stems from many factors. Firstly, Zambia is an export economy and secondly it is landlocked. The Zambian economy is entirely dependent upon the exports of copper which must, in turn depend upon improvements in the transportation sector. Zambia imports more than 2.5 million tons of a variety of goods ranging from foodstuffs to machinery and equipment. The relationship between the transportation sector and economic development is a real one and needs no emphasis. In the Zambian case the importance of this sector does not only lie in providing outlets and inlets for exports and imports respectively but also in providing linkages between the fast-growing and industrializing urban sector and the slow-growing hinterland. There used to be a single railway line from Livingstone in the South to the Copperbelt. The rail line was built for the purpose of transporting copper only. Roads are very poor and mostly unusable during the rain season. It should be pointed out that the transport sector and its development over the past fifty years or so has been influenced by mineral deposits; firstly, the discovery of lead and zinc at Kabwe and copper in the Copperbelt Province. What Zambia is now embarked upon is to break away from dependence upon transit through unfriendly

territories for access to the sea. Foreign capital inflows to this sector are in excess of \$330 million. \$200 million of which was for the construction of the Tanzania-Zambia rail line. The \$200 million loan came from Mainland China. Foreign capital inflows into the Transport and Communications sector are given in Table 4.17 . The World Bank has given loans amounting to approximately \$56 million and is only second to China. Marconi, a British Company has invested some \$24 million in the expansion of radio and television system. This is contrasted with Bank loans that went for the construction of roads and mainly to facilitate the acquisition of capital equipment.¹⁶

The Import-Export Bank of the United States provided a \$3.0 million loan to enable Zambia to purchase a Lock Heed L-100 Hercules Plane from the United States and another of \$5.1 million for the purchase of 26 Diesel locomotives from the USA. Foreign capital inflows for telecommunications from the Japanese Government are estimated at \$32.1 million¹⁷ and Nippon Electric Company also invested an additional \$4.1 million for the establishment of a satellite station.¹⁸ Plessay Telecommunications of Britain and L.M. Ericsson Ltd., Stockholm, Sweden invested \$0.7 million and \$5.4 million respectively in telecommunications (electronic exchange and modern telephone exchange).¹⁹

TABLE 4.17

TRANSPORT AND TELECOMMUNICATIONS SECTOR

<u>DONOR</u>	<u>AMOUNT</u> (Million US Dollars)	<u>MATURITY</u> (Years)	<u>GRACE PERIOD</u> (Years)	<u>INTEREST</u> (Percentage)
World Bank	5.0	n.a.	n.a.	n.a.
World Bank	10.7	20	2	6.5
World Bank	17.5	20	4	6
World Bank	13.0	20	4	6
World Bank	10.4	n.a.	n.a.	6.5
Marconi	24.0	n.a.	n.a.	n.a.
China	200.0	30	-	-
Import-Export Bank USA	3.0	n.a.	n.a.	n.a.
Import-Export Bank USA	5.1	n.a.	n.a.	n.a.
CDC	0.6	15	n.a.	n.a.
Japanese Government	32.1	20	7	4.8
Nippon Electric Company	4.1	n.a.	n.a.	n.a.
Plessay Telecommunications	0.7	n.a.	n.a.	n.a.
L.M. Ericsson Ltd., Stockholm	5.4	n.a.	n.a.	n.a.

SOURCE: World Bank Press Releases; CDC Report and Accounts; Zambia Ten Years after; African Development 1974 and Report of the Import-Export Bank of USA, 1972.

4.3 MINING SECTOR

Although the mining industry is of great importance to the Zambian economy there is hardly any information on the inflow of foreign capital into this sector. There is no record of any loans given to either the Government or private mining companies. However, we can conclude that the inflow of foreign capital took the form of direct investments. The mining industry in Zambia was owned and operated by foreign investors until the 51 per cent takeover by the Government. For the mining to have started and grown to the stage where it is, large sums of foreign capital must have been brought into Zambia. In 1966 the USA financial institutions invested about \$53 million in the Roan Selection Trust. They acquired shares valued to this amount.

The Mining Development Corporation (Mindeco) acquired 51 per cent of shares from Roan Consolidated Mines (RCM) valued at \$118 million and \$176 million from Nchanga Consolidated Copper Mines (NCCM). The degree of dependence on foreign investments and management will be discussed in more detail in Chapter 7.

4.6 INFLOWS OF FOREIGN CAPITAL INTO GENERAL DEVELOPMENT

PROGRAMME

We have already pointed out that available information and the form in which data are collected do not make it possible to allocate inflows of foreign capital to the various sectors of the economy of Zambia. In this section we shall include all inflows that cannot be properly recorded under the identifiable sectors. Most of the funds into this artificial sector spillover to many other sectors. The major portion of foreign capital inflows under this section went into social development programmes such as education, health and employment.

The \$17.4 million given to Zambia for education in 1969 was intended to help Zambia expand and improve Zambia's secondary educational system. The project supported by the World Bank loan provided for the construction and equipment of nine new secondary schools, and for the improvement and extension of facilities at 56 existing ones. The total cost of the project was estimated at \$36.2 million and the Bank loan was to cover the estimated foreign exchange requirements. The \$5.3 million Bank loan was designed to help meet Zambia's critical need for more engineers and secondary school teachers. This loan was used for new buildings and additional equipment for the schools of Education and Engineering at

the University of Zambia and the provision of student hostels to accommodate part of the steadily increasing enrolment. The Bank loan financed the estimated foreign exchange component.

In 1973 the World Bank made a \$55 million loan to Zambia for an education project which consists of new construction, extensions to and equipment for 12 medical institutions; a University School of Agricultural Sciences; 7 farmer training centres; three farm institutes and two mobile training units; and Educational Services Centre; 61 secondary schools and four teacher training colleges. The estimated total costs of this project is \$40.1 million. The Bank loan covered all the foreign exchange costs of \$25.3 million and \$7.7 million of local costs. During 1973 another loan totalling \$30 million was approved by the World Bank. This loan was not geared to a particular sector but was intended to help support Zambia's on-going development programmes by providing foreign exchange for essential imports and by using the funds generated by the imports for the investment programme. The reasons for giving this general loan was:

"Zambia formulated an ambitious Second National Development Plan 1972-1976 which emphasizes bridging the gap between urban and rural standards of living, raising the general level of education and developing technical and

managerial skills to reduce dependence on expatriates. It also stresses development of the modern sector, particularly copper mining, and of traditional and commercial agriculture to make the country self-sufficient in basic foodstuffs".²⁰

The foreign exchange provided by this loan was being utilized for essential imports of capital and intermediate goods for the private and public sectors. The \$11.0 loan provided by Yugoslavia enabled Zambia to finance the purchase of capital equipment from Yugoslavia for the four-year development programme. As regards the \$4.4 million from the United Nations Agencies, this amount represented technical assistance. About \$304,496 was technical assistance for social, community and personal services; \$489,286 went into general economic and social planning; \$1,596,082 was for health; labour management and employment received \$490,553; Natural Resources got \$596,492; Relief Activities got technical assistance valued at \$712,323; Science and Technology \$228,507 and social security some \$21,000. The \$4.4 million represents the total value of technical assistance provided by U.N. Agencies in Zambia during the period under study.

Education occupies a unique position in Zambia because of the acute shortage of trained and skilled manpower. Zambia is in greater need of expatriates than most developing countries. The shortage of trained personnel is not only

caused by lack of training facilities in Zambia but also by the high rate of growth of the economy which demands more and more experts. Technical assistance from the United Nations Agencies for education alone is estimated at \$9.2 million.²¹

The Commonwealth Development Corporation has given a \$2.4 million loan to the Zambian Government for housing for lower and middle income groups.²²

The remaining sectors i.e. Construction; Wholesales and Retail Trade; Business; Real Estate; Hotels and Restaurants and Financial Institutions and Insurance cannot be easily categorized as sectors for the purpose of analysing the distribution of foreign capital inflows. For example, construction is connected to almost all other sectors. All that can be said about these sectors, without unduly over-stating any inflows of foreign capital, is that some foreign capital inflows have, in the past, been received and are probably being received. This assumption is based on the action of Government of requiring banks and building societies to sell 51 per cent of their shares to Government and 100 per cent take over of all insurance business. The National Hotels Corporation takeover hotels and restaurants and Real Estate was also taken over on a 51 per cent bases by the Government. The takeover may not be a good indicator of the presence of foreign capital but it is true that whatever business existed in Zambia was in the hands of foreign investors. Foreign investors invariably bring capital into a country.

TABLE 4.18

FOREIGN CAPITAL INFLOWS INTO GENERAL DEVELOPMENT PROGRAMME AND SOCIAL DEVELOPMENT

DONOR	AMOUNT (Million US Dollars)	MATURITY (Years)	GRACE PERIOD (Years)	INTEREST Percentage
World Bank	17.4	25	10	6.5
World Bank	5.3	25	10	7
World Bank	33.0	25	10	7.25
World Bank	30.0	25	5	7.25
U.N. Agencies	4.4	n.a.	n.a.	n.a.
Yugoslavia	11.0	n.a.	n.a.	n.a.
U.N. Agencies	9.2	n.a.	n.a.	n.a.
CDC	2.4	20	n.a.	

SOURCE: World Bank Press Releases Nos. 69/19, April 9, 1969; 69/69 November 19, 1969; 73/34 June 4, 1973 and 73/40 June 18, 1973 CDC Report and Accounts 1971.

CONCLUSION

The purpose of this chapter was to identify the sectors that have received foreign capital and to indicate the purpose for which such inflows were used. We have shown that in almost all cases the loans have been used to meet the costs of foreign exchange and that, with the exception of World Bank and ODA loans, the foreign exchange was used for buying imports from the country that provided the loan. As for World Bank and ODA loans the equipment was provided by member countries.

The second observation we make is that the majority of the sectors receiving foreign capital are closely inter-linked to the import-export enclave which is, in turn, closely attached to the world capitalist market. These sectors are dominated by foreign entrepreneurs, who in the process of expanding the activities of the sectors look to the parent companies to furnish them with the necessary machinery and equipment, thereby promoting and furthering the process of integrating the sectors which they dominate into world capitalist economy.

The third observation from this sectoral distribution of foreign capital inflows data is that foreign capital inflows, foreign ownership and control are intensified in the key sectors of the economy, (as will be demonstrated in Chapter 5). Given the dependence relationship between Zambia and the

industrialized world market it means that the development and growth of the Zambian economy is not based on the exploitability or mobilization of resources in Zambia but rather on the suitability of Zambian raw materials to foreign technology. In other words, this means that the development of the Zambian economy depended entirely on whether or not imported equipment can use Zambian resources as inputs. Zambian dependence on foreign entrepreneurs as initiators of development project necessitates the importation of technology that is not adaptable to local materials. In Chapter 5 we shall discuss in more detail the inputs of some of Indeco companies where it will be shown that companies like Kafue Textiles have equipment that cannot use cotton produced in the Eastern province. The textile plant imported equipment that is particularly suitable for the processing of imported synthetic fibres. The consequence of this is further alienation of the hinterland from the manufacturing sector and integration into the world capitalist market.

NOTES

¹ See Appendix A.4..

² C.R.M. Harvey, "Financial Constraints on Zambia Development", in Constraints on the Economic Development of Zambia, Charles Elliott ed. Nairobi, Oxford University Press, 1971 pp. 121-151.

³ *ibid* p. 121.

⁴ "Summaries of Industrial Development Plans" Volume III, UNIDO, June 1973, p. 464.

⁵ *ibid* p. 466.

⁶ Though the Refugees (UNHCR) total is greater than the agriculture, forestry and fisheries total, it should be noted that the (UNHCR) includes contributions for other sources.

⁷ Economic Report 1973 p. 169.

⁸ Economic Report 1973 and Evaluation Report on Nakambala Sugar Estates 1972, Ministry of Rural Development, Zambia.

⁹ See Africa Research Bulletin: Economic Financial and Technical Series; covering November 15 - December 14, 1974, Volume 11, December 31, 1974 p. 3331.

¹⁰ This is over what had been expected and is due to the increase in demand for poultry following the declaration by the President that every Zambian child must have an egg for breakfast with a glass of milk. The well-to-do Zambians have at least an egg, slice of bacon and glass of milk. This is a sign of Western Civilization.

¹¹ Britain being a former colonial master has found herself somewhat compelled to provide technical assistance to Zambia and, in turn, Zambia more often than not looks up to Britain.

¹²UNIDO, Summaries of Industrial Development Plans, Volume III, Vienna, June 1973, p. 466.

¹³The Mulungushi companies (27) are those that were required to surrender 51 per cent of their shares to Indeco and most of them were in the manufacturing sector. See K.D. Kaunda, "Zambia Towards Economic Independence", in Bastiaan de Gaay Fortman, "After Mulungushi: The Economics of Zambian Humanism", East African Publishing House, Nairobi, 1969, pp. 34-74.

¹⁴IFC Press Releases Nos. 73/17 and No. 72/4 20 March, 1975 June 27, 1973 see also Report of Resident Representative, Resident Mission in Zambia, 1973.

¹⁵Throughout the country refers to the line-of-rail stretching from Livingstone to the Copperbelt and a few off-the-line of rail posts.

¹⁶World Bank Press Releases Nos. 68/53 September 25, 1968; 66/51 September 16, 1966 and World Bank and IDA Annual Reports 1968 and 1971.

¹⁷See Patrick Fungamivango, "Telecommunications: Spate Contracts Signed" in African Development, October 1974, "Zambia's Ten Years 1964-1974, p. 2. 53. The \$32.1 million loan carries an interest rate of 4.75 per cent and payment is spread over a period of 20 years which includes a grace period of 7 years. Part of the loan was used for the construction of Zambia's first satellite earth station.

¹⁸ibid.

¹⁹ibid.

²⁰Bank Press Release No. 73/40 June 18, 1973.

²¹See Appendix B.3.

²²Report and Accounts 1971.

CHAPTER 5

EFFECTS OF FOREIGN CAPITAL INFLOWS

In the introduction to this study we pointed out that development was a complex process that emerges from the interaction of many different national and international elements. This observation enables us to look at development on the basis of how it is shaped by a wide ranging number of economic, social and political objectives pursued by individual countries involved in the development of a particular country. We argued in the introduction that development is not solely concerned with immediate increases in output but that it also must encompass adequate structural transformation within a country. The rate of structural transformation in any developing country is a function of the type of inputs employed. In our case study of Zambia, we are particularly interested in determining the type of the variables that determine the direction of the development process. These we discussed in Chapter 3 and 4. To bring out the effects of foreign capital inflows clearly, we must measure the extent to which they (independent variables) have contributed to the achievement of the goals of Zambia which are brought about by foreign capital inflows.

In defining its development goals, the Government of the Republic of Zambia has invariably indicated that it is pre-occupied with reduction of inequalities in income and

wealth among other things. This objective goal has been emphasized many times in different terminologies. The First National Development Plan (FNDP) alludes to the operational definition of development which we gave in the introduction by stating that one of its main objectives is:

to minimize the inherited economic imbalance between the urban and the rural sectors with a view of raising the capacity of the latter sector for transforming resources into social and economic growth.¹

The President of the Republic of Zambia Dr. Kaunda has on numerous occasions amplified the objectives of the development process required in his country by explicitly stressing that:

National Development is meaningless if it does not develop each of our four million people in the country. No person should starve in Zambia because there is no real land hunger as is the case in many parts of the world. No person should fail to have a decent two or three roomed kimerly brick home. No person should ever dress in rags in Zambia nor indeed go bare-footed and no person should ever suffer from malnutrition in Zambia.²

The implications of the President's much stressed goals indicate the complexity of development in a developing country like Zambia.

In this thesis we are interested in analysing the forces that make some people starve, dress in rags, go bare-footed, fail to build decent two or three roomed homes in Zambia while others can afford to build mansions, own some of the most luxurious cars.

The attainment of the objectives (economic and social development) on the lines implied by the FNDP and the President assumes that both Zambian national and international elements are geared towards structural transformation for the same goals. It is in this vein that, in this chapter, we analyse the impact of foreign capital inflows on the development that has taken place in Zambia during the period 1964-1973. Consideration of the effects of foreign aid and foreign private investment covers a fairly wide terrain of analyses. In order to attempt to bring out the widespread repercussions and ramifications of foreign capital inflows, we shall consider those effects emanating in foreign aid (ie. technical assistance and financial loans and grants) separately from those resulting from foreign direct private investment. The differences in consequences are due to differences in the conditions under which foreign aid and private investments are given to and made in the recipient countries. However, both foreign private investment and foreign aid involve a transfer of real resources from donors to the recipients. The idea that both flows entail transfers of resources is almost universally acceptable and Byres points out that foreign assistance (aid) cannot be

analysed without reference to foreign private investment.³

The two flows have some form of positive relationship.

Thus Byres asserts that foreign aid and private foreign investment flows can be viewed, at times, as competitive or as complementary, and at other times these flows should be viewed as part of a system which is exploitative or beneficent.⁴

In other cases, foreign aid has been used by Zambia to establish industries that compete with subsidiaries of multinational corporations.

5.1 FOREIGN AID AND PERPETUAL DEPENDENCE

The purpose of foreign aid, it is claimed, is to accelerate the economic development of the recipient countries up to the point where a satisfactory rate of growth can be achieved on a self-sustaining basis.⁵ It is further said that the purpose of foreign aid is not the equalization of incomes in different countries but to afford the opportunity to a recipient country to achieve steady growth.⁶ The above statements are made from the point of view of the donor and it is clear that these are merely stated aims which ascribe to foreign aid the attributes of indirectly raising the standard of living in a developing country.

Chenery's view and that of others is that foreign aid plays a very important role in enabling a country to maintain a certain rate of investment and in creating supplementary

incomes only under exceptional circumstances such as when consumer goods are distributed free and through employment of those residents of a country that were formerly unemployed.⁷ However, foreign aid, as we have shown, forms a major component of all foreign capital inflows although there is no guarantee that this inflow (particularly loans and grants) does improve the balance of payments by promoting the domestic production of consumer goods because the establishment of domestic industries creates demand for imported capital equipment⁸ (we shall discuss this in more detail in Chapter 7). The massive loans and grants, technical assistance and direct private foreign investment that were received by the Zambian economy, have consolidated the structures of the inherited economy so that it has become more dependent on foreign factors. It will be argued later that the establishment and enlargement of the Zambian export or urban enclave was facilitated by foreign capital inflows.

In analysing the statements by Chenery and Rosenstein-Rodan one discovers that their assertions can be valid under the assumption that appropriate domestic conditions for development are already in existence to facilitate foreign aid to have favourable effects. The process of development entails the creation of appropriate domestic conditions and the writer contends that foreign aid as such, particularly concessionary loans, do not aim at creating the necessary conditions for development to take place. The rate of economic

development invariably depends upon the rate of capital accumulation, the efficiency of investment in different sectors of the economy and on the absorption capacity for the necessary aid.⁹ The contribution of foreign aid to capital accumulation in Zambia is very minimal, particularly, when consideration is given to the fact that most of the loans classified as foreign aid have been utilized for the acquisition of obsolete capital equipment.¹⁰ The efficiency with which investment is made in the various sectors of the economy is said to be an important determinant of the development process in any developing country. In the case of Zambia as discussed in Chapter 4 (Sectoral Distribution of Foreign Capital) not all the important sectors of the economy have received foreign aid. The implications of this biased distribution of aid are that development was hampered by the unevenness of the level of development. Because of the stringent conditions under which foreign aid loans are granted certain sectors of the Zambian economy are less developed and it is these sectors that retard development of the entire economy. The fact that the manufacturing sector has received a large portion of foreign aid cuts this sector from those sectors that have not received aid. Furthermore, it also implies that the Government and, indeed, the citizens shift their emphasis to this sector (see Chapter 7).

When foreign aid is given, careful consideration, ought to be given to the absorption capacity for the available aid.

The question of relevant aid has serious repercussions for the development of a country. If a country receives aid that it can not absorb, this implies that available and usable resources will be tied to unproductive processes instead of being utilized where they could make some contributions though at a lower pace.

In addition to the above determinants of the rate of development, there are other important variables such as human resources, education and training, entrepreneurial innovations, productive technology, changes in the composition of output and the development of new institutions on the basis of a country's endowments. Analysis of these variables and the importance attached to each of them is of paramount importance in studying the impact of foreign aid in Zambia.

Table 5.1 gives the number of established industries, employees, gross and net output of the manufacturing sector in Zambia for the period 1963-1971. It is noted that the established industries increased from a small number of 255 in 1963 to 504 in 1971 a 98 per cent increase. The increase in these establishments is a measurement of the importance attached to this sector by the Zambian government. The establishment of these industries required large sums of foreign exchange to pay for imported equipment. Foreign loans and grants as discussed in Chapter 4 made it possible. Accordingly the value of gross output from the manufacturing sector increased from \$81 million to \$556 million representing

an impressive 585 per cent increase during the same period.

These achievements took place along the line-of-rail. Government invested heavily into the manufacturing sector. Copper earnings, tax revenues and government loans financed the establishment of manufacturing industries. Indeco, a government corporation was the partner of foreign firms in the industrial sector. We have already pointed out that the decision to establish an industry, where to locate it and the type of technology to be used has been and will always be left to the foreign partners. During this period foreign investment were undertaken to capture a small but growing market. It is for this reason that beverages and tobacco accounted for 21 per cent of the gross increase of the manufacturing sector. This was and still is one of the most profitable investments in Zambia. Food accounted for 23 per cent, while chemicals, petroleum, coal, rubber and plastic products represented 15 per cent and non-metallic minerals and basic metal industries, fabricated metal products, machinery and equipment accounted for 24 per cent in 1971.

The breweries and tobacco industries were wholly owned and foreign operated until 1969 when the government acquired 51 per cent of the shares. This acquisition did not, however, transfer the operations to government due to lack of local know-how. Although the President has on occasions pointed out he was not happy with the rate of consumption of liquor in Zambia, it is, nevertheless, surprising to notice that his

government invests large sums of scarce resources in the production of what he regards as socially undesirable goods.¹¹

The 24 per cent increase in basic metal products and related minerals can be explained by the fact that such locally manufactured (rather assembled) goods are essential for the extraction of copper in Zambia.

Foreign loans invariably have been given to Zambia for investments in the sectors that support integration of the Zambian export-urban enclave with the international capitalist markets. The established industries in Zambia particularly those in the manufacture (or mixing and labelling) of metal and non-metallic products necessitate the importation of equipment, machinery parts, and a variety of intermediate inputs. By requiring continuous imports, the manufacturing sector creates demand for foreign loans and perpetuates Zambia's peripheral dependence on developments in the developed countries.

TABLE 5.1

MANUFACTURING PRODUCTION 1963-1971

COMMODITY	YEAR	NUMBER OF ESTABLISHMENT	TOTAL NUMBER EMPLOYED	WAGES & SALARIES ('000 US DOLLARS)	GROSS OUTPUT ('000 US DOLLARS)	NET OUTPUT ('000 US DOLLARS)
TOTAL MANUFACTURING	1963	255	15,169	15,747	81,819	36,246
	1964	258	18,431	24,418	106,386	40,854
	1965	523	26,203	31,731	166,722	67,383
	1966	582	31,469	38,085	218,358	85,200
	1967	669	33,180	47,139	271,067	113,144
	1968	449	33,294	54,560	337,776	160,538
	1969	434	36,976	59,918	407,085	191,199
	1970	446	40,604	69,771	465,059	212,019
	1971	504	43,333	80,630	556,260	250,137
	1972	598	44,479	91,740	656,985	282,750
FOOD PRODUCTS	1963	40	3,303	2,994	30,102	6,777
	1964	41	3,474	3,384	33,780	6,585

TABLE 5.1 continued

1965	66	4,122	4,170	40,551	8,415
1966	71	4,481	4,665	49,347	9,336
1967	99	4,888	5,651	53,438	9,608
1968	61	5,393	7,317	68,843	15,251
1969	81	8,518	10,556	100,137	24,878
1970	82	8,908	12,195	112,106	30,498
1971	86	9,597	15,081	129,812	37,958
BEVERAGES AND TOBACCO					
1963	11	1,223	1,671	14,247	7,611
1964	14	1,728	2,663	16,977	6,084
1965	29	2,194	3,672	33,678	19,029
1966	30	2,320	3,879	48,294	27,990
1967	30	2,748	5,681	61,743	38,219
1968	25	3,288	8,366	87,276	63,464
1969	24	3,759	9,479	89,913	71,793
1970	23	3,523	8,717	102,248	80,753
1971	20	3,526	8,870	114,486	93,057

TABLE 5.1 continued

TEXTILES, WEARING	1963	17	918	537	3,051	1,239
APPAREL AND	1964	25	1,330	903	6,123	2,382
LEATHER INDUSTRIES	1965	70	3,154	2,166	13,995	5,367
	1966	96	4,810	3,561	20,523	6,708
	1967	116	5,558	4,773	26,293	11,780
	1968	106	6,086	6,852	32,598	10,131
	1969	101	6,262	7,491	39,531	16,443
	1970	97	7,534	9,242	45,984	18,374
	1971	98	8,162	11,165	53,801	19,913
PAPER AND PAPER PRODUCTS	1963	19	880	1,425	2,967	1,908
PRINTING AND PUBLISHING	1964	18	1,035	1,977	4,251	2,628
	1965	25	1,218	2,331	6,168	2,967
	1966	25	1,241	2,445	6,927	3,537
	1967	29	1,464	4,064	11,646	5,178
	1968	31	1,576	3,180	11,253	7,665
	1969					
	1970	35	2,382	5,567	16,031	7,448
	1971	39	2,361	6,026	20,477	8,864

TABLE 5.1 continued

							VALUE ADDED AT
WOOD AND WOOD PRODUCTS INCLUDING FURNITURE	1963						
	1964	40	3,680	2,553	8,304	3,798	
	1965	42	3,963	2,976	10,449	4,482	
	1966	66	2,778	2,325	10,202	4,013	
	1968	29	2,831	2,342	11,691	9,600	
	1969	20	2,889	3,314	14,880	7,175	
	1970	23	3,345	4,002	17,264	8,090	
	1971	32	3,224	3,849	15,024	5,369	
CHEMICALS PETROLEUM COAL RUBBER AND PLASTIC PRODUCTS	1963						
	1964						
	1965	24	1,096	1,929	10,251	3,429	
	1966	17	1,779	2,754	16,185	4,773	
	1967	28	2,374	4,316	28,517	9,174	
	1968	31	2,371	4,590	28,608	10,898	
	1969	34	2,947	6,888	52,707	21,560	

TABLE 5.1 continued

1970	36	5,265	10,551	68,594	20,858
1971	37	4,337	11,873	85,202	26,496

NON-METALLIC MINERAL PRODUCTS

1963					
1964					
1965	52	3,215	2,955	13,779	8,916
1966	56	4,125	3,393	16,107	9,078
1967	68	3,950	4,254	18,305	10,308
1968	35	3,861	5,534	23,546	12,642
1969	40	3,449	5,159	23,781	12,300
1970	37	3,647	5,648	22,983	13,763
1971	43	3,596	6,242	28,260	14,757

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BASIC METAL INDUSTRIES, FABRICATED METAL PRODUCTS, MACHINERY AND EQUIPMENT

1963)					
1964)					
1965	212	7,435	11,850	39,303	15,189
1966	226	8,553	14,148	49,521	18,861
1967	213	9,159	15,651	60,254	24,149
1968	126	7,680	15,966	72,996	30,305
1969	91	6,230	11,492	70,623	29,856
1970	102	6,013	11,869	71,414	27,693
1971	141	8,319	17,214	107,957	43,011

include in other manufacturing industries

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TABLE 5.1 continued

OTHER MANUFACTURING INDUSTRIES	1963	138	8,845	9,120	31,105	18,711
	1964	160	10,864	11,490	45,255	23,166
	1965	5	89	105	687	273
	1966	9	197	264	1,005	435
	1967	20	261	426	2,166	717
	1968	5	208	414	966	584
	1969					
	1970	9	190	366	963	569
	1971	8	211	312	1,247	714

SOURCE: Economic Report 1973, Ministry of Planning and Finance, Zambia. January 1974.

- (a) Net output = value added and indirect taxes
- (2) Vehicles assembly and repair excluding 1968 and there after
- (1) Non-industrial services rendered is excluded and resales is included for the years 1969, 1970 and 1971.

The Second National Development Plan emphasized import-substitution as a means of lessening dependence on imported manufactured and semi-manufactured goods.¹² While this is a desirable and welcome goal, it is important to note that successful replacement of imports by domestically produced manufactured goods largely depends on the form such import substitution programme takes and its scale. In the Zambia case, import-substitution industrialization was undertaken at a large scale and it thus called for large investment funds. Export copper earnings became insufficient for the imported and expensive equipment. The designers of industrial plants came from the western countries and could only design structures that they were familiar with. The demand for foreign aid can in this case be traced to the dependence of Zambia on foreign advisers, managers, engineers and western technology. Furthermore, after the 51 per cent takeover by the government, it (the government) was obliged to invest up to 51 per cent and this called for further foreign aid loans while a sizeable portion of the profits from the manufacturing sector was being remitted abroad as dividends.

Government participation depended on foreign aid (see Table 4.15). The 51 per cent participation by government in the manufacturing sector meant investing into this sector approximately \$230.8 million - a large part of this being borrowed from abroad (see Tables 3.6, 3.7 and 3.8).

The locational distribution of manufacturing industries in Zambia, though investment financing comes from both government and private investors, nullifies the objective of creating more employment opportunities for the masses nor does it redistribute income to the masses. Table 5.1 shows a 27 per cent increase in employment for the period 1966-1971. This increase is misleading in the sense that the manufacturing sector requires, at least, semi-skilled and skilled workers. The increase in employment in this sector represents an increase in the employment of foreigners who have the required skills and the employment of Zambians that were lured from other sectors which had given the workers some skills which could be adapted to the manufacturing. The number of employees in the manufacturing sector that came from the rural areas is less than 5 per cent and most of them are employed as night watchmen and janitors to carry out menial jobs.¹³

The disappointing observation is that costly foreign loans have been used for the establishment of manufacturing industries in the urban areas where only 25 - 30 per cent of the Zambian population lives. The production techniques require high skills and those with such skills enjoy high wages and salaries. These high wages in turn, promote urban proliferation and the result is serious problems of urban unemployment.

The main argument here is that foreign aid loans and grants have not been instrumental in helping Zambia achieve some of

its development objectives such as the creation of employment opportunities, redistribution of income to the rural areas and balanced urban and rural development. Instead, the loans and grants given under foreign aid have perpetuated and promoted the establishment of industries along the line-of-rail which defines the urban area. Given the scarcity of financial resources, the expansion of the urban area has been undertaken at the expense of the rural sector. This has perpetuated the development of a dual economy characterised by a relatively modern sector using relatively modern technology acquired through foreign aid on the one hand and a relatively stagnant traditional sector of subsistence agriculture using traditional methods of production. The modern sector through its partial integration into and dependence on the world capitalist system shows signs of development but such development is a reflection of developments in the industrialized countries while the traditional sector with weak links with both the modern sector in Zambia and international capital experiences underdevelopment relative to the modern sector. The degree of dependence of the Zambian economy surfaced in 1975 when the economy collapsed to its lowest ebb ever.¹⁴ Essential commodities like soap, cooking oil, toilet paper, (even cigarettes and beer) matches, sugar etc. could not be found in many shops for periods varying from 2 to 3 weeks. These goods are manufactured in Zambia but some of the raw materials are imported. The cause for the shortage was the closure of the border with Rhodesia, congestion at Dar es Salaam

TABLE 5.2

LARGE-SCALE INDUSTRIAL UNITS ADDED TO THE ZAMBIAN ECONOMY BY THE FIRST NATIONAL DEVELOPMENT PLAN (1966-1970)

<u>Name and Location of Units</u>	<u>Products</u>	<u>Annual Capacity</u>	<u>Year of Starting Production</u>
Zambia Sugar Co.	Raw Sugar	40,000 tons	1968
Mwinilunga Fruit Canning Factory	Canned pineapples	300 tons	1970
Indeco Milling Ltd.	Mealie meals Bran	40,000 tons 5,000 tons	1968 1968
Lusaka Brewery	Beer	Expanded to 200 million bottles	1968
Kafue Textiles Ltd.	Textile fabrics	12.5 million metres	1970
Kabwe Industrial Fabrics Ltd.	Funny bags Hessian cloth	5 million pieces 1.3 million metres	1970 1970
Zambia Clay Industries	Salt-glazed Clay pipes Bricks	6,200 tons 2.7 million pieces	1969 1969
Chilanga Cement Ltd.	Cement	Expanded to 500,000 tons	1969
Dunlop Zambia Ltd. (Ndola)	Tyres	100,000 pieces	1969

TABLE 5.2 continued

<u>Name and Location of Units</u>	<u>Products</u>	<u>Annual Capacity</u>	<u>Year of Starting Production</u>
Nitrogen Chemical Ltd. (Kafue)	Fertilizers and Blasting Compounds	75,000 tons	1970
Kafironda Explosives	Explosives	7,000 tons	1970
Truck Assembly Plant (Luanshya)	Trucks	20 per month	n.a.
Metal Fabricators of Zambia (Luanshya)	Copper wire and cable	1,500 tons	1970
	Aluminium cable	200 tons	1970

SOURCE: UNIDO, Summaries of Industrial Development Plans, Vol. III June 1973 pp. 446.

and the war in Angola. The shortage in cigarettes was said to be caused by the absence of wrapping paper and filters which were held in Lobito, Angola because of the war and at Dar es Salaam because of congestion at the port. The other explanation was the shortage of foreign exchange. In November 1975 for example, the Bank of Zambia issued an order preventing any bank from giving foreign exchange. Travellers were allowed only \$30.00.

Thus we see an economy that was admired and envied by many developing countries during the first few years of political independence collapse because foreign aid and foreign investments induced the leaders to perpetuate and promote the maintenance of inherited structures of the economy to a point where it is entirely dependent upon external factors. At the time the investments were carried out, it would seem that the Zambian leaders preferred the implantation of western technology as this represented symbols of modernity and westernization the aspiration of many developing countries.

One of the main reasons for the failure of foreign aid loans to promote economic development that is based on the resources available in a country and which can reduce dependence on external factors is best stated in the words of Professor L. Black:

"As the home of man and the locus of human activity, the physical environment cannot, or at least should, not be ignored. Yet the average aid official has little or no

appreciation, and less understanding, of the potentialities and liabilities of nature. The quality of land, the vagaries of climate and the sensitive inter-relationships of all the elements of the physical environment each have a significant bearing on the potential for success or failure of development efforts."¹⁵

The inflows of foreign aid (ie. loans, grants and technical assistance) are induced by dependency as discussed in Chapter 2 section 5. Here our main concern is with the result of these inflows. First, we see that prior to flag independence, there was almost zero investment in human capital. After independence this vacuum had to be filled by expatriates who in some cases were not familiar with the Zambian environment. Their ignorance of local social and economic conditions militated against their 'good' intentions to help Zambia develop a viable economy. The best that they could do under the circumstances was to advise the Zambian government to develop industries that were mirror images of the western countries and to do this it necessitated heavy reliance on foreign loans and grants, importation of capital equipment and semi-processed raw materials from the developed countries and reliance on foreign managerial and technical cadres. The end result is that development becomes dependent on foreign exchange earnings. To maintain the same level of growth necessitates promotion of the traditional export sector (the mining sector) and the establishment of import competing industries.

Subsidiaries of multinational corporations succeed in business because their interests in the developing countries are congruent to those of the parent companies in the developed countries. The same cannot be said of the governments of developing countries and multinational corporations. Material progress can be achieved, in some cases, without foreign aid if the main-springs of progress are present.

Some of the foreign aid received by Zambia has been used to promote and establish enterprises that are designed to compete with the affiliates of multinational corporations.¹⁶ For example a \$2.3 million loan was used to establish Zambia Bata Shoe Company to compete with foreign enterprises in shoe making.

Such affiliates are concerned with the production of those goods that are either exported to the developed countries or have a profitable local market. The success of such aid financed enterprises depends very much on external contacts, market opportunities abroad in addition to the presence of appropriate local conditions. Bauer argues that the small size of the domestic market does not preclude private investment.¹⁷ This is true in so far as the private foreign investor is concerned - he has a ready market abroad. For a local private investor the smallness of the market is a determining factor of success. In Zambia, there is no domestic market for copper and the takeover (51 per cent) by the government implies that the Zambian Government must depend

upon the international market for the sales of its copper output. The buyers of this copper are the parent companies of the subsidiaries that were forced to sell 51 per cent of their shares to the government.

The Western pattern of capitalist development is built on the premises of free enterprise and it is these enterprises that are expected to cooperate in their own destruction by providing funds to throw them out of business. Foreign aid is mainly provided by western countries whose governments are very sensitive and responsive to the needs of firms operating in developing countries. When the Zambian government took 51 per cent of the shares on the two mining giants the sensitivity and responsiveness of western governments to the needs of the firms abroad became clear through the pressure exerted on the Zambian government to guarantee the ZIMCO bonds with its "full faith and credit". Any default on payments of interest and principal and failure to abide by any of the provisions of the agreement of the "Takeover" would have been tantamount to a breach of the agreement and would be taken to the International Centre for the Settlement of Investment Disputes an affiliate of the World Bank. Thus any breach would not be ignored by the rest of the western world. Zambia's development being dependent on its international borrowing powers could not refuse to pay interests and principal in convertible foreign currency because its credit worthiness was at stake. Furthermore, the takeover of minority interests in

Roan Selection Trust by American Metal Climax was challenged in courts in USA.

This sensitivity is further illustrated by Italian technical assistance in aviation. Alitalia used to have exclusive rights with Zambian Airways and when Zambia decided to limit the operations of Alitalia, Italian technical assistance has largely been withdrawn from Zambia.

PROMOTION OF FOREIGN AID-FINANCED
IMPORTS AND DEPENDENCE

The theory of dependence expounded in Chapter 2 gives us analytical tools to study and understand the centre-satellite economic relationship.

It is well known that almost all the equipment needed and used in developing countries is produced in the developed market economies. We can also argue that the knowledge of the availability of this equipment may only be a necessary but not a sufficient condition for the developing countries to acquire it. In the previous section we discussed the suitability and adaptability of imported equipment to local conditions. Thus in a rational world, one assumes that a developing country, once aware of the existence of technology, endeavours to determine whether it can be adapted to local conditions. The two important criteria for selection and then importation of foreign equipment appear to be the suitability of technology to local conditions and the availability of funds with which to pay for the imported equipment. Our aim in this section is to determine which of the two factors has been used by Zambia in accepting equipment from the developed countries.

We know that bilateral foreign aid (loans and grants) is tied to the purchase of goods and services of the donor country. We also know that the design and manufacture of the equipment is done without taking into account the prevailing conditions

in any developing country. Given this information we wish to determine the role of foreign aid in promoting imports into Zambia.

Developed countries by virtue of being in the centre are looked upon by the periphery as leaders and directors of events. These countries suggest what equipment is available by tying that equipment to the available loans. The system of tying loans to the purchase of equipment promotes imports of equipment into the developing countries. For example, when Zambia was faced with the problem of how to transport its copper from the Copperbelt Province to Dar es Salaam, the Import-Export Bank made a loan available to the Zambian government if she wished to purchase heavy transport trucks from the United States. The amount of the loan and the number of trucks bought are not disclosed. The heavy duty trucks arrived in Dar es Salaam between April and June 1975. 15 of them were driven from Dar es Salaam into Zambia with full loads of goods. When they arrived in Zambia no other vehicle could use the 1,000 mile tarmac road. The highway was completely destroyed.¹⁸ It was speculated that the rest would stay in Dar es Salaam and that those already in Zambia would be returned to Dar es Salaam and eventually back to the United States as the trucks were unsuitable for Zambian roads. This is one among many illustrations of the inappropriateness of the machinery and equipment imported due to the availability of tied aid. There was no analysis of the prevailing conditions so as to determine the suitability of

the trucks to local conditions. The only criterion ever considered seems to have been the availability of a loan.

It is argued here that the availability of foreign aid prevents, in some cases, an analysis of the appropriateness of technology in the production process as well as the design of the products in relation to local conditions and requirements, and, in particular, with respect to the problem of absorbing the abundant unskilled and semi-skilled labor. For example, if American aid was not tied, smaller trucks could have been imported and used or better still more locomotives and rail trucks could have been purchased to transport exports and imports between Kapiri Mposhi and Dar es Salaam. The Kafue Textiles which requires semi-processed synthetic fiber contributes very little to employment no do they use unskilled Zambian labor. Zambia had the alternative of establishing a textile factory that used cotton that is produced in the Eastern Province. This would not only provide employment and income to the cotton producers but also to those employed in the processing of raw cotton so that it could be ready to be used in the textile factories.

The rate of agricultural mechanization in Zambia has been impressive only in terms of the number of tractors and combines available to both subsistence and commercial farmers. Foreign aid has made this possible as discussed in Chapter 4. However, in terms of output and development the chosen strategy of agricultural mechanization is, at present, a failure.

Zambia is an importer of grain despite the fact that it has excellent arable land. Some of the tractors are used by the peasants as means of transport. More labor intensive techniques are available in Zambia but the desire by the Zambian officials to look more western and the availability of foreign aid to purchase symbols of modernity prevent the choice of labor intensive techniques. Zambia has an acute shortage of skilled manpower and this problem is aggravated by the importation of capital - intensive technology which requires specialized skills. The consequence is not only dependence on foreign technology but also dependence on foreign experts who can only be lured into Zambia by very high salaries and wages part of which they remit to their countries thereby reducing foreign exchange earnings and creating demand for foreign financing.

FOREIGN AID AND SPECIFIC PROJECTS

Aid from the donor countries is available for specific projects. This means that the selection and implementation of projects is heavily influenced by the available loans and grants. This has led the selection and implementation of extremely wasteful projects which make large losses year after year and which absorb more local resources than the value of their output.¹⁹ In Zambia one sees costly projects like the Lusaka International Airport second only to Jan Smuts in South Africa, the University of Zambia with its modern buildings and the import-substitution industries to be discussed in more details in Chapter 7. All of which have proved thoroughly wasteful and making an insignificant effect on dependence.

The implementation of wasteful projects is a consequence of Zambia's position within international capitalism. Local resources and foreign resources when brought to use have to conform to the technological imperatives of the capitalist centre which generates the needs for these resources and, in some cases, where these resources are geared to the local market they must conform to the pattern of demand created by a social system that is distorted and inequitable and which itself is but the objective manifestation of underdevelopment and dependency within international capitalism.

Thomas argues that:-

"--- when faced with what is likely to be a take-it-or-leave-it situation, the government more often than not

concedes to these requests. ---- as these governments see it their primary interest and objective is to promote maximum inflow of foreign resources, foreign technology, and foreign skills in order to create their apparent" industrial structure.²⁰

While it is the fault of the government that wasteful and insignificant industrial structures are created in Zambia, we must realize that this is a consequence of being integrated into the world capitalist economic system in which the poorer members of the system are playing the "catching-up" game.

It may be argued that because of the sophistication of the technology Zambia is forced to tie up its most productive resources to this technology. This point can be illustrated by the need to have the most educated personnel employed in industrial and agricultural ventures that use modern equipment. These semi-skilled and skilled workers and professionals are withdrawn from areas of economic activity where they are most productive. The inflow of foreign aid is also accompanied by an influx of expatriate staff and for the government to have close economic controls, it must have its best manpower working side by side with the expatriate. The young professionals have to be politicized first. This politicization diverts the attention, energies and activities of able and enterprising people from economic activity to politics and administration. The parastatal corporations of Zambia have been filled with able young people who would have been employed elsewhere and become more productive - this is a clear case of misallocation of

resources which directly results from the inflow of foreign aid into Zambia. It can be inferred further that the inflow of foreign aid obscures the necessity for the able young people to develop facilities, attitudes and institutions which are necessary for social and economic development in Zambia so that they may achieve substantial material progress.

The specific projects by demanding able Zambians to work side by side with the expatriates orient these people to acquire the mode of behavior that is exhibited by the expatriates. These are the decision makers and end up making investment decisions conducive for their own benefits. This is verified by the concept of "Leadership Code" introduced by the President in 1969.²¹ They set the standard of living and their consumption is satisfied by goods and services produced abroad. Here again we take advice from Clive Thomas, who in commenting on localization of management of transnational corporations says:-

"---- it nevertheless seriously underestimates the social power of these institutions and their almost total control over individual lives. ---- the local persons, when appointed to positions in these companies, inevitably move into particular institutional structures which in turn have developed their own particular ethos, values, life-styles, and ways of doing things, all in direct relation to the imperatives of exploiting local resources for the benefit of metropolitan capital. These nationals,

therefore, function in an institutional situation where there are strong historically built-in pressures to conform to the patterns of behavior of the enterprises. But as this socialization process continues, it becomes evident that instead of the company becoming more and more national in its outlook, character, and purpose, it is in fact the nationals who are becoming more and more integrated into this foreign system and who usually end up as extensions of the exploiting corporation."²²

CONCLUSION

Foreign loans and grants whether bilateral or multilateral have been used in Zambia to secure imports from the developed countries. Investments that are initiated by government are, to a large extent, shaped by the availability of foreign aid and indirectly dependent on technology developed in the developed countries. Foreign technology once implanted into a country, compels the government to continue supporting such investments. It became clear as early as 1970 that some of the Indeco investments were not benefiting the country but these projects have not been abandoned. Abandonment of projects that had previously been pronounced as signs of dedication to serve the nation by both the Party and Government would have been politically catastrophic. It will be shown in Chapter 6 that these investments represent high public debt and are claiming

a large portion of foreign exchange earnings in the form of debt servicing.

In chapter 3 we showed that there were many sources from which Zambia gets foreign aid, in summarizing this section we wish to point out the consequences of such aid. Dependence on foreign aid which is tied to the purchase of goods and services from the donor leads to the importation and implantation of different types of equipment which is not easily integrated. For example, the colonial government built the railway system of Zambia using British equipment and after political independence, the Chinese built the Tanzam railway line. The two railways are different and cannot be integrated. Copper bars are loaded on rail trucks in the Copperbelt Province and transported to Kapiri Mposhi some 100 miles only to be off-loaded from those trucks and re-loaded on the Chinese made trucks for the 1,000 mile journey to Dar es Salaam. The railway system of Zambia is that of the British and Chinese trains cannot use the same rail roads. When in Dar es Salaam, copper must be carried on Tanzanian rail roads for the last two miles to the harbour. Thus the consequences of accepting foreign aid from a variety of sources can lead to a state of confusion in the sense that a recipient country ends up with a jumbled conglomeration of fine pieces of equipment which cannot be fitted together.

Foreign aid promotes imports of equipment into developing country but not all the equipment is suitable for use in the recipient country. Once the equipment is purchased it has to

stay even if it has negative results because of the amount of money tied into the equipment. Good developmental projects have to wait until the past loans have been liquidated.

A feasibility study carried out by the World Bank in the middle 1960's concluded that a railway line between Tanzania and Zambia was uneconomic. However by 1968 the Chinese concluded that it was economic and were ready to provide the necessary funds. This explains why these are two rail systems in Zambia. If the Chinese did not provide the aid the railway would not be there. Zambia reluctantly accepted the Chinese aid and the conditions attached thereto. The geographical position of Zambia and the political hostilities in the South were important factors. Zambia desperately needed an outlet to the sea and besides this was a warning to the west that aid can come from the east also.

5.2 DEVELOPMENT OF FOREIGN ENCLAVES AND MARGINALIZATION
OF THE HINTERLAND

Grant Reuber and others state that "Private foreign investment is a voluntary activity undertaken for purposes of making a private profit. Not only does the size of international capital flows respond to the relative attractiveness of investing abroad as compared to investing at home but also the allocation of foreign investment among countries and among industries reflects profit prospects as seen by the investor".²³ In Zambia like in any other developing country, foreign private investments are playing an important role in the economic growth of that country by supplying not only the much needed capital but also managerial and technological know-how. Private foreign investments mainly by multinational corporations have been credited with the introduction of new and modern technology into the economies of developing countries.²⁴ It is further pointed out that "In many developing countries, the presence of multinational corporations is of increasing significance relative to total capital flows from industrial countries and to the output of the domestic sector".²⁵

In Chapter 3 section 9 we attempted to estimate the inflow of direct private foreign investments and in Chapter 4 sections 2 and 5 we pointed out that direct private foreign investments were concentrated in the manufacturing and mining sectors both of which form the urban area defined as the area along the line-of-rail in Zambia.²⁶ The consequences of this bias by direct private foreign investments for the urban area has been

the development of a modern sector of production using relatively more advanced techniques of production in the urban areas of Zambia. Both the mining industry and the manufacturing industry in Zambia heavily dependent upon direct private foreign investments and foreign aid. Foreign capital inflows and technical assistance established production and commercial links between the modern sector of Zambia and international capitalism as represented by transnational corporations, international financial institutions and developed countries. Thomas says that this strategy of development and industrialization is characteristic of high-growth economies among developing countries:

One striking characteristic of these high-growth performances has been that the pattern of industrialization that has emerged is heavily confined to terminal activities. This can be observed in the extent to which domestic production has concentrated on the traditional sectors, on mining, and on the simple processing of primary materials for export. In addition to a focus on the traditional simple processing of primary materials for export, there has also been a growth in the much-vaunted modern sector characterized by the rapid establishment of industries for the assembly of consumer products imported in a prefabricated condition.²⁷

Capital foreign inflows and technical assistance by concentrating in the modern sector promote the development of a dual economy in a developing country. What is a crucial

importance is that reliance on the assembly and fabrications of consumer goods from the industrial capitalist countries can to a large extent pre-empt the shape of the future intermediate and capital goods industries which serve the consumer sector. Thus the foreign import-export enclave develops relative to the traditional sector of subsistence agriculture. Because the two sectors are not integrated, the growth of the modern sector not only depends on foreign technology but also on semi-processed imports of raw materials thereby consolidating the production and commercial relations with industrial capitalist countries.

Rural development programmes such as those being implemented under the Intensified Development Zone (IDZ) scheme, are labour-intensive and have largely failed to attract foreign investments. Subsidiaries of multinational corporations and private foreign enterprises have very little incentive, particularly, as they operate in a protected market, to invest in the hinterland or to engage in continuous technical improvement. These firms are quite happy with importing their requirements from the parent companies abroad. Foreign firms in Zambia are mainly concentrated in extractive industries, they dominate the mining industries - copper, zinc, lead, coal, cement and the industries related to mining activities. Activities like copper production whose market structure are vertically integrated oligopoly make it easy for foreign investment to continue. This market structure explains the dominance of multinational corporations in the extractive industry.

Seidman has also pointed out that multinational corporations still make decisions as to the rate of development of many important sectors in Zambia. She points out that the entire import and manufacturing sector, is in the hands of the affiliates of the multinational corporations because of historical ties with Southern Africa.²⁸ As the Zambian Government started to demand the establishment of a manufacturing sector, its development and growth increasingly became dependent upon imported materials. Local value added is insignificant, for example the Kafue Textile Mill is entirely dependent upon imported cotton and imported equipment. The argument advanced by management is that imported equipment enables the mills to double their capacity. The equipment is, particularly, suitable for the processing of imported synthetic fibres. This has hit the Zambian cotton farmers very harshly, Seidman concludes.²⁹

The manufacturing sector which is dominated by textiles, beverages and tobacco is protected by tariffs that keep out competitors under the guise of protecting infant industries. In cases where the activities of foreign investors are not mainly concerned with the extraction of mineral ores for export purposes, there seems to be evidence to suggest that multinational investors are more inclined to concentrate also in those industries with simple technologies and fairly broad mass markets where they maximize profits. For example, the Commonwealth Development Corporation has heavily invested in selected companies of Zambia. It has invested in the Chilanga Cement

Ltd. in Lusaka, in Contract Haulage Ltd. based in Lusaka, Kafue Textiles of Zambia Ltd. 30 miles south of Lusaka on the line-of-rail, Kariba North Bank Company Ltd., to help provide electricity to the Copperbelt, Mukonchi Tobacco Training and Settlement Scheme, Ndola Lime Co. Ltd., Zambia Electricity Supply Corporation Ltd., Zambia Housing and Zambia Sugar Co. Ltd.

Indeco has since 1968 become a participant in all these industries and factories. Its participation through government acquisition of 51 per cent of the shares did not, however, cause any changes in the activities of the companies. It has no control over economic activities of these companies. Theoretically, control over economic activity is distinct from ownership. Effective control is still in the hands of foreigners. According to Thomas there are at least three basic reasons why the policy of majority shareholder (i.e. the 51 per cent formula) is incapable of leading to effective control of local resources;

First, given an absence of local confidence regarding that knowledge of the technical marketing, and managerial processes of the firm, such participation in ownership has been frequently counteracted by the practice of simultaneously entering into management contracts with foreign capitalists.

Second, experience has shown that contracts made for these services often constitute a significant income drain

Third, the fundamental weakness of this strategy lies in a basic misunderstanding of what a multinational corporation, and particularly an exporting corporation, represents locally:

(It is essentially a plant. It is not a firm. It is true that there are titles such as Directors, Managers, Managing Directors etc. But the local expression ---- makes no decision as regards prices --- output --- levels of investment or the market. All these are done at the head office.)³⁰

Indeco cannot under the circumstances make important decisions because of it lacks managerial and entrepreneurial expertise. Indeco's partners are able to deploy substantial financial, technical and personnel resources which are far much larger than Indeco. Indeco cannot have effective control over the activities of the multinational corporations because it depends predominantly on foreign funds, personnel and initiatives. Thus we see that despite state participation in the industrial sector there still is more emphasis on allocating scarce resources for the development of the urban export-import enclave and total neglect of the hinterland. Tax revenues and borrowed investible funds support the expansion of the enclave.

The policy of government is that Indeco companies must be run on the basis of maximization of profits. The result of concentrating efforts on the expansion of the export enclave in Zambia has been a high degree of marginalization of the

masses, that is, the majority of the population of Zambia which is engaged in subsistence agriculture is left out of the main economic stream and using only marginal inputs and forming a marginal market for the goods and services produced within the modern sector. This has made it possible for the dual economy to develop in Zambia. The less than 30 per cent Zambians in the cities and towns have benefited from whatever developments have taken place since independence. We cannot say that peasants in Zambia are now better off than they were before independence. Marginalization of masses in Zambia is characterized by an influx into the towns because of the growing population density without any corresponding growing demand for manpower in the hinterland. If Indeco shifted its emphasis from the export enclave into the hinterland and established some industries there, demand for rural workers would be created. The second cause of this urban influx is the spread of education and facility of movement which makes such moves seem attractive.

Thus majority of what is produced in the export enclave is not consumed by the marginalized workers. The masses in the hinterland are unable to purchase many of the goods produced by the export-import enclave industries since the imported materials are expensive and this is transferred to the final products so that the goods are sold at prices which the rural people cannot afford to pay. For example, the Fiat passenger car assembled in Livingstone is not sold to the

masses in the hinterland; shoes, clothing, and other essential commodities made in Zambia do not have a market in the hinterland.

CONCLUSION

Foreign investments sought to maximize profits in Zambia, a peripheral country, so that in the process of achieving this goal, they carved out and established a foreign enclave that now prevents the development of a nationally integrated economy. The proliferation of multinational corporations into those sectors of the Zambian economy that yielded high profit returns became a major factor in designing the present structure of industrialization in Zambia. Given this structure, it became difficult for government to conceive and initiate a different pattern of industrial development. Under the circumstances, both foreign aid and domestic investible funds went into investments conceived by foreign enterprises. Such industrialization depended on foreign inputs. The achievement of maximum profit heavily depended on the importation and implantation of high skill and sophisticated technology because the use of local material resources and labor would have been unprofitable.

Thus, we see that it becomes difficult to employ Zambians and to use local resources. This in itself ensures the continued underdevelopment of the rural sector of Zambia and

creates a dual economy characterized by an export enclave structurally integrated into the capitalist world and a rural sector which sells its labor surplus at very low wages to ensure high profits. The participation of the masses in the modernized import-export enclave is limited by the strong relations that exist between the modern sector and the capitalist world economy. The demand for unskilled labor from the rural sector by the modern sector is marginal and the goods and services produced by this modern sector have a marginal market in this traditional sector.

5.3 FOREIGN CAPITAL INFLOWS AND THE DISTORTION OF DEVELOPMENT PRIORITIES

The presence of foreign private investments, particularly, in large amounts and in key sectors of a developing country, greatly distorts development priorities of the host country. It has been pointed that foreign investors dominate the mining, manufacturing and retail sectors of the Zambian economy. The Amsterdam Panel on Foreign Investment in Developing Countries indicated that if foreign investment was to contribute fully to the development objectives of developing countries, it must find its place in their national development programmes.³¹

The inability of government to direct investments is a result of three main factors. Historically, all investments in the productive sectors of Zambia were made by private foreign enterprises. From a profit point of view, these investments were highly successful so that after independence profit making became an important motivation for determining the success of development projects. Second, feasibility studies to determine the viability of projects can only be carried out by those who have experience in investment projects. In this case, foreign enterprises had the necessary experience and expertise which gave them power to determine investments. Finally, government investment initiatives are delegated to parastatal organizations which are in partnership with private foreign enterprises. Here again government representatives are heavily dependent upon private foreign enterprise directors to carry out the

decision-making process in the field of investment.

It is the interplay of this trinity that makes it difficult for the government of Zambia to direct investment. Domestic private enterprises are still in their embryonic stage of development and as such do not make it difficult for the Zambian government to allocate their investment as is the case with private foreign enterprises.

It is for this reason that in some cases governments of developing countries concentrate on the allocation of public resources rather than re-orientation of private foreign investment for those that have tried to re-orient the investment pattern of private foreign enterprises have found it most difficult to persuade them to alter their investment pattern.³² The ability to determine the pattern of investment, gives private foreign enterprises control over the most important sectors of the economy so that when national development plans are being drawn up, the interests of private foreign enterprises heavily influence what can be done during the plan period. This implies that development priorities that are specified in the plan reflect also the interests of foreign enterprises. Furthermore, schism between national priorities and goals of foreign investments is harmonized in order to conclude contractual arrangements that are supposed to be advantageous to both parties.³³ For example, soon after independence both foreign and resident private enterprises were requested to identify themselves with national policies and priorities.³⁴

However, an appreciably large number chose "to remain outside the national family".³⁵ President Kaunda in reacting to foreign investments informed the nation that:-

"They have kept only one foot in Zambia in order to take advantage of the economic boom created by the Trans-national and the First National Development Plan. The other foot they have kept outside Zambia, in South Africa, Britain, Europe, India or wherever they come from, ready to jump when they have made enough money, or when they think that the country no longer suits them. I am afraid the period of grace is over."³⁶

The partnership arrangements that exist in Zambia explain the industrial location along the line-of-rail because foreign enterprises could not provide capital equipment needed for off-the-line-of-rail rural projects. The forces at work are rooted in the degree of dependence on foreign factors, the desire of parastatal organizations to maximize profits and the lack of experience and expertise on the part of the government representatives.

The Industrial Development Corporation of Zambia which is charged with the responsibility of initiating and implementing development projects follows the ^{philosophy} philosophy of commercial profitability in selecting projects. For these projects to be profitable, it means that Zambia must import large quantities of capital equipment which in turn, creates demand for foreign exchange. It is the need for foreign exchange that promotes

the development of export oriented projects. Indeco being dependent on its foreign partners on technical and managerial skills, the decision as to where to establish development projects and the technology to be used is left to the foreign entrepreneur. Development priorities, given this relationship between foreign firms and Indeco are de facto determined by foreign firms. If this were not so, we would have seen projects that create employment opportunities for Zambians, projects that help to bridge the gap between the urban and rural sectors being implemented. Almost all of Indeco's subsidiary and main associated companies are in the urban areas of Zambia (see appendix 7.A). This failure can be explained in terms of the dependency relationship between Zambia, the periphery and Western countries, the centre in which the dependent country because of its position in the world economy fails to achieve its stated development objectives. Sunkel writing on the Latin American region observed that

- the experience of the region in last two decades seems to suggest :

- a) that the existing model requires a volume of foreign resources which the industrial world - particularly private enterprise - is not interested in transferring to the periphery;
- b) that the model of industrialization by import substitution, after a period of great dynamism tends to stagnation even in larger countries of the region;

c) that in spite of the industrialization efforts and social policies, a large sector of the population remains unable to integrate itself into economic, social, cultural or political life.³⁷

The distortion of development priorities in Zambia are due to the fact that Zambia is trying to develop within the capitalist world economic system in which the power to decide the mode of production and the distribution of the surplus is invested in the centre countries. The economic structure by itself militates against the pronounced objectives of development in that international capitalism aims at appropriating the surplus from Zambia. The powers of the state and those of transnational corporations are of different dimensions and are not readily comparable in the sense that transnational corporations derive their power from their capacity to initiate technological development, development of management systems, mobilization and efficient utilization of human and other resources and new marketing and world-wide distribution systems. Since all these important elements of growth and development are the assets of transnational corporations, Indeco the partner without these instruments cannot impose its will over those of the private foreign enterprises.

The main point in this analysis is that although the development of the copper industry was a high priority, it has received more than its share. The gains that have been realised so far are far much less than the losses incurred in

the other sectors of the economy. The number of university graduates that are employed in management and executive positions of corporations dealing with the mining industry and the manufacturing industry represents a misallocation of a scarce factor of production. Add to this, the fact that these graduates are merely watch-dogs and that their contribution to the development process would be higher in other industries.

The failure of Indeco and the Zambian government to implement developmental projects that would achieve the goals stipulated in the SNDP is due to the fact that a large proportion of investment fund is foreign. It is either borrowed or provided by private foreign investors. Whether borrowed or privately invested, the kinds of projects that such funds may finance may not necessarily coincide with the priorities of the nation. The control of government over borrowed funds is limited by its dependence on those Zambians who are co-managers/directors of parastatal corporations. We have indicated above that these Zambians are, in turn, dependent on foreign entrepreneurs. Therefore, development priorities are altered in order to attract the inflows of foreign capital. In 1969 the Economic Commission for Africa noted that there were more "-loans forthcoming for infrastructure and technical assistance rather than directly for productive projects"³⁸ and Ann Seidman gives us the motive for this --- "Western governments seek to create conditions that are conducive to investment or sales of products of their national private firms".³⁹ This is illustrated

by the loans that have been given to Zambia for the 1,000 mile rail road and highway Tanzam lin to Dar es Salaam and the Kafue Hydroelectric power station to provide electric energy to the mining industry.

We argued in Chapter 2 that some form of collaboration between the Zambian elite market and foreigners has been established. This relationship was made possible by inflows of foreign capital which gave some benefits to a few elites. The potential dangers of the emergence of such groups of well-to-do Zambians who benefit from the expansion of the export enclave is that the majority of them are in positions of power in the machinery of the state and the parastatal organizations. Because of their powerful positions they influence the shapping of institutions and retard any efforts to restructure the economy so as to maintain the status quo.

It is this group of Zambian elites who in co-operation with Fiat of Italy conceived of and implemented the Livingstone Motor Assembly project under the guise of producing a Zambian car. This project is a last stage assembly which imports parts and materials from Italy. The Kafironda Explosives plant which according to Zambians produces explosives is nothing but a processing plant in name only since it imports semi-finished parts and materials which with little work will then be packaged, marked "made in Zambia" then sold.

To the extent that foreign loans and private investments funds are earmarked for certain projects, the availability of

such funds distorts priorities of development in that
Zambian officials will select for implementation only those
projects that qualify for the funds.

Reginald Green on discussing the distortion of develop-
ment priorities points out that this is due to dependence on
external factors:

"Institutions are to a significant - in some cases over-
whelming - extent foreign-designed, directed, controlled
and manned. Both are channels of decision-taking and the
advice influencing the decisions taken - are heavily
shaped by the heritage of colonialism and the present
realities of economic, educational technical and high
manpower dependence."⁴⁰

TABLE 5.3

PLANNED FIXED CAPITAL INVESTMENT IN MAJOR GROUPS
OF MANUFACTURING 1972-1976 AT 1969 PRICES

(Million US Dollars)

Food	24.8
Tobacco	0.7
Textiles and Clothing	18.9
Leather and Footwear	13.2
Wood and Furniture	4.5
Paper	21.8
Printing	0.6
Chemicals	53.9
Beverages	14.1
Petroleum products	41.8
Rubber products	3.1
Plastic products	2.7
Pottery and Glass	10.2
Non-metallic mineral industry	8.8
Basic metal industry	79.8
Metalworking and machinery	39.5
Other manufacturing	3.5
Total manufacturing	<u>341.6</u>

SOURCE: Supplement to the Second National Development Plan, 1972, Programmes and Projects, January 1972.

Total capital investment in this sector including working capital is estimated to amount to \$560 million of which 70 per cent i.e. \$392 million is to be financed from private funds and the rest from government and public sources. Investment expenditure by private enterprises of \$392 million is a measurement of the profitability of mining ventures. Because of the eagerness of the government to maintain its share of 51 per cent, it meant that active participation in the mining industry became one of the top priorities in the SNDP. In Chapter 4 it was shown that a majority of foreign capital inflows went into the manufacturing industries that are located in the urban centres of Zambia. This lopsided industrial location is contrary to the stated goals and objectives of the SNDP which put more emphasis on the redistribution of income from the urban to rural areas, and balanced regional development by channelling more investments in money to the rural areas.

About 38 per cent of planned fixed capital investment is taken up by non-metallic minerals, basic metals and metal-working and machinery which are closely tied to the mining industry where, again, private foreign investments are most active in that they account for 57 per cent of total fixed capital investment. It is in this sense that the mining sector is seen as a top major priority in the Zambian economy. The contribution of this sector to the attainment of other objectives is small since a large proportion of the surplus is appropriated private foreign firms (see Chapter 6).

TABLE 5.4

CAPITAL EXPENDITURE IN MINING 1971 AND 1972/76

(at Constant Prices 1969)

(Million US Dollars)

	<u>1971</u>	<u>1972-1976</u>
Copper projects	128.5	523.4
Lead and zinc projects	4.1	23.7
Coal projects	4.3	6.4
Other mining and quarrying	0.4	2.1
Other projects	0.8	65.2
Promotion of mining	1.4	43.1
Total mining	139.5	663.9
Prospecting, exploration and research of:	7.1	34.6
Copper mines	(3.6)	(17.4)
Lead and zinc mines	(0.1)	(0.4)
Other	(3.4)	(16.8)
Geological Survey Department	<u>1.1</u>	<u>8.7</u>
Total	146.6	707.2

SOURCE: Second National Development Plan, January 1972 -
December 1976 and Supplement to the SNDP 1972-1976
Programmes and Projects January 1972.

The Mining Development Corporation (MINDECO) a separate parastatal body set up in 1970 to handle government interests in mining business on commercial basis holds 51 per cent participation. On the basis of this participation it can be assumed that multinational corporations provide at least 49 per cent of the planned investment expenditure in the mining industry.

Another sector of the Zambian economy that has been attractive to foreign investors and for which the Government has borrowed heavily from abroad is electricity. Expenditures on electricity are very much interrelated to expenditures on industrial development. We indicated in Chapter 4 that foreign capital has been substantial in the electric industry in Zambia. The derived demand for electricity is due to the high demand for industries that depend on electric power. For example, the mining industry alone consumed 75 per cent of total electricity supplied to Zambia in 1973.⁴¹ It is estimated that during the SNDP capital expenditure on electric energy projects for the 1972-1976 period will be \$278.4 million and that this expenditure will bring about an average annual increase of 21.3 per cent⁴² from the 1971 figure of 619.95 (MW) to 1,633.65 (MW) installed generating capacity in 1976. For expenditures on electricity investment see Table 5.5.

TABLE 5.5

CAPITAL EXPENDITURE OF ELECTRIC ENERGY

PROJECTS 1972-1976

(Million US Dollars)

<u>Project</u>	
Kariba (North)	74.6
Kafue (Stage I)	16.7
Kafue (Stage II)	78.4
Regional Projects	32.2
Control Centres	3.5
Municipality Schemes	23.8
Rural Electrification	6.2
Other Projects	33.9
Surveys and Research	5.3
Other	3.8
Total	<u>278.4</u>

SOURCE: Supplement to the Second National Development Plan, 1972-1976, Programmes and Projects, January 1972.

The contribution of foreign capital inflows is estimated to be very high. The Kariba and the two Kafue projects are financed largely from World Bank loans. The other projects are financed from private foreign investments because the demand for electricity has increased and the rate of return is similarly very high. Zambia Electricity Supply Corporation Limited (ZESCO) a government corporation and the Central African Power Corporation (CAPC) a private corporation are responsible for the generation of electricity in Zambia.

It is clear from Table 5.5 that capital investment expenditures on electricity are designed to provide electricity for the mining, commerce and services and the manufacturing and construction sectors which together consume 91 per cent of the produced electricity. The important fact to be noted is that the growth of the mining sector necessitates investments in supportive industries to the extent that the scarce financial resources are all tied up in mining and related activities leaving very few resources for the agricultural sector which accommodates approximately 66 per cent of the Zambian population (see chapter 1). The aims of the SNDP of balanced growth and increased employment are frustrated by this heavy emphasis on a few sectors.

We can conclude that this high expenditure is partly due to foreign capital inflows in the form of aid and private foreign investments thereby making mining a high priority sector. Success of the mining and manufacturing sectors depends, in addition to electric energy, on adequate transport infrastructures connecting the various centres and completing the investment relationship in this urban import-export enclave. It is for this reason that the SNDP includes a plan for the development of auxiliaries such as road and railway transportation systems to facilitate the importation of inputs and consumer goods as well as the exportation of mining products. While the growth of the mining and manufacturing sectors are in concordial agreement with the goals of development in Zambia, the sole emphasis in

TABLE 5.6

CONSUMPTION OF ELECTRICITY BY SECTORS 1971 AND 1976

<u>Sector</u>	<u>Per Cent</u>	
	<u>1971</u>	<u>1976</u>
Agriculture	0.7	0.8
Mining	61.1	53.9
Manufacturing and Construction	13.0	13.9
Transport	6.0	3.8
Commerce and Services	19.0	23.3
Exports	0.2	4.3
Total	100.0%	100.0%

SOURCE: Summary of the Industrial Development Plan of Zambia 1972-1976, in Summaries of Industrial Development Plans, Volume III, United Nations Industrial Development Organization, Vienna, June 1973, p. 469.

TABLE 5.7

TOTAL INVESTMENT IN TRANSPORTATION AND COMMUNICATION SECTOR 1972-1976

	Million US Dollars	DISTRIBUTION OF INVESTMENT	PERCENTAGE SHARE OF:	
			DOMESTIC SOURCES	FOREIGN SOURCES
Road Transport	116.1	23.0%	73.7	26.3
Railway Transport	249.9	49.5%	11.1	89.0
Air Transport	28.7	5.8%	78.9	21.1
Water Transport	4.3	0.9%	29.0	71.0
Travelling and Forwarding Agents	1.4	0.3%	100.0	-
Tamam Pipeline	35.0	6.9%	33.2	66.8
Telecommunications and Postal Services	68.6	13.6%	67.8	32.2
Total	504.0	100.0%	39.0	61.0

SOURCE: Supplement to the Second National Development Plan, 1972-1976.

these sectors at the neglect of other sectors is contrary to goals of national development and it means that the neglected sectors experiences underdevelopment.

CONCLUSION

In summing up the discussion in this section we can note some interesting observations of the Department of Economic and Social Affairs of the United Nations in 1973⁴³ in which it was pointed out that the issue of sovereignty is related to the ability of a country to shape its own objectives and formulating, explicitly, such objectives in a national development plan. The Zambian situation is characterised by the absence of domestic capitalists. This vacuum is filled by parastatal organizations working in close collaboration with foreign capitalists. Managing directors of state corporations are relatively new and largely inexperienced in the field of investment. They depend on foreign know-how, technical skills and technology all of which are owned and controlled by the minority shareholder partners. Project preparation, appraisal and implementation is largely dependent on the activities of multinational corporations. The government having delegated investment duties to its state corporations has in fact become a captive of its own corporations. State corporations are themselves captives of multinational

corporations. A classic example of this situation is described in more detail in chapter 7.2 where mining exploration, development, investment financing, declaration of dividends etc. were declared the sole right and privilege of the "B" minority shareholders. The "B" board of directors represent shareholders with 49 per cent of the total shares and yet they have the power to veto any decision by "A" board of directors representing 51 per cent of the government shares. It is clear that investment decisions in the modern sector are those of foreign firms and that development priorities depend on what "B" directors are willing to do.^{5b}

5.4 FOREIGN CAPITAL INFLOWS AND TECHNOLOGICAL DEPENDENCE

The inflow of private foreign investments has enabled developing countries to acquire most of the western technology. However, it is difficult to find evidence to prove that such technology is imported into a developing country after due consideration has been given to prevailing economic conditions. What emerges from a study of Zambia is that the importation and implantation of foreign technology is not necessarily governed by the special requirements of the national economy but by the needs of the import-export foreign enclave. This observation has been noted in other developing countries where studies have been conducted by international organizations.⁴⁴ We have argued that foreign capital inflows promote the importation of capital, equipment and that in many cases this equipment is labor-saving and as such creates relatively fewer jobs for the largely unskilled Zambian labor force. If less capital intensive techniques were used in Zambia, more jobs would have been created and some of the commodities would be produced in spite of shortages of foreign exchange and in this way the whole society would be relatively better off. Continued inflows of foreign capital lead to continued imports of advanced western technology so that the country's production structure becomes more dependent on foreign technology. Because of the scarcity of foreign exchange not all sectors of the Zambian economy can be supplied with relatively modern technology. The result of this uneven distribution of modern technology is the development of

a technologically dual economy in which the modern sector uses relatively more advanced technology while the rural sector uses traditional techniques of production.

Governments of developing countries enter into agreements with foreign enterprises aiming at solving the problem of lack of technology and dependence on imported goods. The contracts often involve tied purchases of imports of raw materials and intermediate inputs, including plant equipment and spare parts. In 1969/70 Zambia successfully negotiated what seemed to be a good deal with FIAT of Italy to assemble three small types of FIAT cars in Livingstone a town on the southern border with Rhodesia. It was agreed that upholstery and paint work would eventually be carried out in Zambia.⁴⁵ Tyres were to be manufactured by Dunlop Tyres Ltd. of Zambia. The Fiat was to be the only motor car in Zambia and to ensure this, high tariffs were imposed on any other cars. However, by the end of 1976 all parts, paints etc. were still being imported from Turin, Italy.

Technology is a factor of production that is embodied in other factors so that its transfer is very closely linked with the import of technology-embodiment inputs. The parent company in Italy has pointed out that the use of local materials for seats would make the Zambian assembled Fiat inferior to other Fiat cars. It might be noted only in passing that the Zambian Fiat is not exported so that the question of inferiority does not arise. What is important to observe is that the Italian

company has secured itself a safe market. It is clear that the choice of a particular technology uniquely determines sources of supply of tools, accessories, and material inputs. In cases where manufacturing is confined to assembly operations as the FIAT assembly, the tied purchases of components are insisted upon for the purpose of guaranteeing the quality of the FIAT. The tying-purchase clauses, in this case, have been used as a mechanism for withdrawing profits from Zambia.⁴⁶ Most of the inputs could be available at lower prices at international markets and the tying has deprived Zambia of the possibility of exploiting market opportunities so that Zambia is now faced with a single market structure that is uniquely determined by Italy. By reason of this exclusive position, Italy is able to charge higher prices than for comparable equipment and other inputs that could otherwise be obtained elsewhere. These inputs affect production costs (I was, however, unable to ascertain whether or not there was any overpricing of inputs). Whenever the transfer of technology is tied to the purchase of spares and other inputs, there will always be the possibility of the existence of indirect effects of the country.⁴⁷ It is also suggested that countries supplying, in particular investors, conceive of the transfer process as one entailing the problem of removing barriers to commercial operations.⁴⁸

This phenomenon is not found in the car assembly plant only but throughout the entire manufacturing sector.

Manufacturing industries depend on foreign technology to the extent that any changes in the foreign markets greatly affect economic activity in Zambia. Before and after political independence the choice of technology was and still is left to the individual foreign-owned manufacturing firms. Theoretically Indeco and its foreign partners jointly decide what type of technology to import but in practice it is the foreign partners which select the type of technology on the basis of commercial profitability. Thus the desire for profit maximization militates against the importation of equipment that would create more employment opportunities, and use local resources so as to save foreign exchange earnings for the most essential imports.

This modern equipment is designed in the industrialised countries to suit capital intensive production techniques. It is not only capital intensive but also demands high-level scientific and technical manpower which Zambia cannot afford at this stage of development. The feature of being capital- and skill-intensive makes this technology most suitable for the production of sophisticated goods and services which the masses of Zambia cannot afford to pay for. Seidman has pointed out that only a small part of the population can and do buy the products of this modern equipment because of the prohibitive prices.⁴⁹

In its desire for industrialization Zambia has encouraged Indeco to import inappropriate technology and financed it through borrowing abroad. The problem of dependence cannot be

solved by importation of modern equipment. The level of technology in the developed countries largely depends on investments in scientific and technical potential. Since such investments do not exist in Zambia, industrialization has to depend upon imports of foreign equipment. Growth of the manufacturing industry increases the demand for foreign technology. As imports of modern equipment increase, Zambia becomes technically more and more dependent on monopoly suppliers. Furthermore, the less developed the scientific and technical potential of Zambia is, the less the possibility of ever providing its own servicing for the complex modern equipment, of repairing it, of providing the equipment with spare parts, special types of lubricants and other materials and of even making any improvements or adjustment so that the equipment uses more domestic materials. The result of this technical development is stronger dependence on foreign technology which, in turn, influences decision on the type of industrial projects to be implemented, how and where.

Tables 5.3, 5.4, 5.5 and 5.7 show planned capital investments in the manufacturing, mining, electricity and transport and communication sectors of the Zambian economy for the period 1972-1976. A very large portion of the capital expenditure has been used for purchasing modern equipment. It is the capital - intensiveness of the imported technology that necessitates such large capital investments. Because this technology requires highly skilled personnel, very few

Zambians are actually employed. Dependence on foreign technology implies dependence on foreign specialists. Add to this, the fact that modern technology by design requires raw materials made to certain specifications, domestic raw materials become unsuitable for the highly specialized imported equipment. Thus dependence on foreign technology explicitly leads to dependence on foreign personnel and imports of spare parts and raw materials. The size of foreign personnel in Zambia can be appreciated by analysing data in appendix 3.C.

Finally, because of the complexity of modern technology, entrepreneurial and management functions have substantially remained in the hands of technology suppliers so that the affiliates of multinational corporations still exercise control.⁵⁰ This is true of mining and manufacturing (see contractual agreements between the Zambian government and the two big mining companies discussed in Chapter 7 below. Through maintenance of technological monopoly, the suppliers of this technology make sure that staffing remains under their control. For a detailed discussion on the exercise of control in Zambia see Raphael Kaplinsky "Issues of Conflict and Mechanisms for the Exercise of Control".⁵¹

CONCLUSION

Technology being an important determinant of development, its absence in a developing country, therefore, establishes the material base of underdevelopment. This realization by developing countries creates the demand for the importation and implantation of foreign technology in their economies thereby pre-empting the possibilities of developing an indigenous technology which would be the basis for anorganic integration of domestic production and demand structures. In this section we argued that some of the imported technology is inappropriate and is not easily adaptable to local conditions in Zambia. This technology is largely capital- and skill-intensive, it does not create adequate employment opportunities for the largely unskilled labor force of Zambia, because it is expensive it can only be supplied to sectors that produce exportables to earn foreign exchange with the consequence that the economy of Zambia becomes divided into two sectors one employing modern technology from the Western countries and the other employing traditional production techniques, and that its continued importation serves to strengthen the dependence of Zambia on technological developments in the capitalist world.

Thus the consequences of technological dependence are the development of technological dualistic production system and prevention of establishing an integrated national economic system. Technological dependence in Zambia is also illustrated

by management arrangements between the parastatal corporations and subsidiaries of transnational corporations. These contracts reinforce Zambia's dependence on the technology of a particular firm as in the case of the FIAT passenger car assembled in Livingstone. Restriction on the imports of parts from other suppliers or their local manufacture is rationalized under the pretext of protecting and maintaining the quality of the brand name (FIAT).

5.5 . CAPITAL INFLOWS: THEIR EFFECTS ON EMPLOYMENT AND
INCOME DISTRIBUTION

Employment in Zambia is said to have shown a steady increase from 248,000 in 1964 to 366,000 in 1971. This growth in the number of employed people represented an increase of 47.3 per cent.⁵² We can deduce the increase in employment from Table 1.3 where overall employment increased by 68.8 per cent during the 1964-1973 period. This seemingly phenomenal increase in employment is normal, particularly, in light of the increase in the gross domestic product of approximately 128.9 per cent during the same period. We have already pointed out that the growth of the gross domestic product measured in money terms was largely dependent upon investments supported by foreign borrowing and foreign investments. Employment by the public sector was responsible for the increase in employment rising from 35 per cent in 1969 to 43 per cent in 1971 while the share of the private sector which is dominated by foreign investors fell from 60.6 per cent to 58 per cent during the same period.⁵³

In 1966 the public sector employed a total number of 98,970 of which 91,000 were Africans and the rest Non-Africans. By 1971 employees of the public sector were 147,830 (141,000 Africans and 6,000 Non-Africans). During the same period the private sector reduced its employees from 22,280 (203,510 Africans and 21,770 Non-Africans) to 217,720 comprising

TABLE 5.8

PERCENTAGE EMPLOYMENT DISTRIBUTION BY MAJOR INDUSTRIAL DIVISION 1964-1973

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Agriculture	14.15	13.57	11.72	11.68	10.42	11.24	10.09	10.76	9.7	9.6
Forestry and Fisheries										
Mining and Quarrying	<u>20.72</u>	19.94	18.15	17.54	<u>17.18</u>	<u>17.01</u>	16.81	15.91	<u>15.83</u>	15.31
Manufacturing	8.64	10.19	10.21	10.71	10.39	10.53	11.13	11.50	11.1	11.2
Electricity and Water	0.89	1.54	1.24	1.24	1.11	1.13	0.93	1.11	1.3	1.5
Construction and Allied Repairs	16.24	19.66	23.60	21.64	20.08	18.90	20.04	18.02	19.30	19.65
Distribution, Restaurants and Hotels	8.83	10.12	9.43	9.75	<u>10.23</u>	10.00	9.51	10.38	10.14	9.37
Transport and Communications	4.82	4.67	6.86	6.51	7.39	6.86	6.51	6.18	7.02	6.85
Finance, Insurance, Real Estate and Business Services					2.30	2.61	2.76	2.89	3.26	3.56
Community, Social and Personal Services	<u>25.64</u>	<u>20.31</u>	<u>18.79</u>	<u>20.93</u>	<u>20.83</u>	<u>21.71</u>	<u>22.22</u>	<u>23.27</u>	<u>22.48</u>	<u>21.94</u>
	100	100	100	100	100	100	100	100	100	100

SOURCE: Reports on Employment and Earnings 1966-1968 and 1969-1971, Central Statistical Office Lusaka Zambia, 1970 and 1974.

This is a breakdown of the Industrial sector.

197,000 Africans and 21,170 Non-Africans. "All data relating to employment and earnings in this section are found in the 1966-68 and 1969-71 Reports on Employment and Earnings."⁵⁴

Employment generation in Zambia is intended to absorb Zambians but these figures indicate that the private sector has done very little in creating employment opportunities for Zambians particularly the unskilled and semi-skilled Zambians. As early as 1966 the government declared that Zambians were to be given preference over non-Zambians. However, Zambianization efforts did not open up many opportunities for Zambians as they were not adequately qualified to replace expatriates.

Foreign firms whether operating in partnership with parastatal organizations or not, do not only provide capital and enjoy control through ownership but also supply products, technology and other resources and even promote specific economic as well as political or social structures to assure and advance their multiple objectives within the oligopolistic markets. The power to decide on the type of technology to be used has direct implications on employment of Zambians. In the extractive industry (mining and quarrying) technological requirements imply a very high capital-intensity. Dependence on imported technology, discussed above, implies less employment because technological development in the developed countries has been labor-saving over time. National enterprises and the parastatal organizations are thus forced

to choose similar techniques if they have to compete in the national and international markets. On the positive side we can note that less employment opportunities in the extractive industry are somewhat offset relatively in terms of labor (income effects) by the relatively high wages paid in the mining sector compared to the wage structure of the rest of the economy.

The manufacturing sector in Zambia is also characterised by relatively high capital intensity though not as high as the mining industry. Its size and scale of operation in such a small market (in the sense that it produces for only a few Zambians) imply relatively little direct employment generation. Indeco, a profit maximizing parastatal organization which depends of foreign financing for its investments in the presence of foreign investments provides less direct labor utilization per unit of capital committed. Quality requirements to preserve product homogeneity and identification with brand names lead to capital intensive preferences.

It is argued that low levels of employment by the key sectors reflects the capital-intensiveness of the sector. The acquisition of equipment depends on loans and investments by foreign companies. Dependence on foreign capital and investments makes it difficult to import labor-intensive technology so as to increase employment opportunities. In 1966 Non-Africans employed by the private sector were 9.7 per cent of its total employment and by 1971 this was still 9.3 per cent. Foreign technology besides failing to create employment for the Zambians makes the country dependent on foreign personnel.

TABLE 5.9

CAPITAL-OUTPUT RATIOS 1972

	<u>Average</u>	<u>Marginal</u>
Mining	2.46	-
Metal ore mining	2.42	-
Other mining	4.25	7.18
Manufacturing	0.95	1.31
Food, beverages and tobacco	0.64	0.55
Textiles and leather	1.01	3.13
Wood and wood products	1.37	-
Paper and printing	0.89	1.70
Chemicals	1.84	3.06
Non-metallic mineral products	2.26	1.47
Basic metals	1.09	2.76
Metal products and machinery	0.83	1.39
Other manufacturing	0.30	-
Electricity and Water	-	6.0
Electricity, private units	4.33	5.78
Water supply and works	-	5.45
Construction	-	2.54
Private construction units	0.73	2.79
Public construction units	-	1.73

NOTES: The average capital-output ratio is defined by Zambia Central Statistical Office, as the ratio between the net fixed assets at the beginning of the year and the contribution to the gross domestic product in producers' values during the year. While marginal capital-output ratio has been defined as the ratio

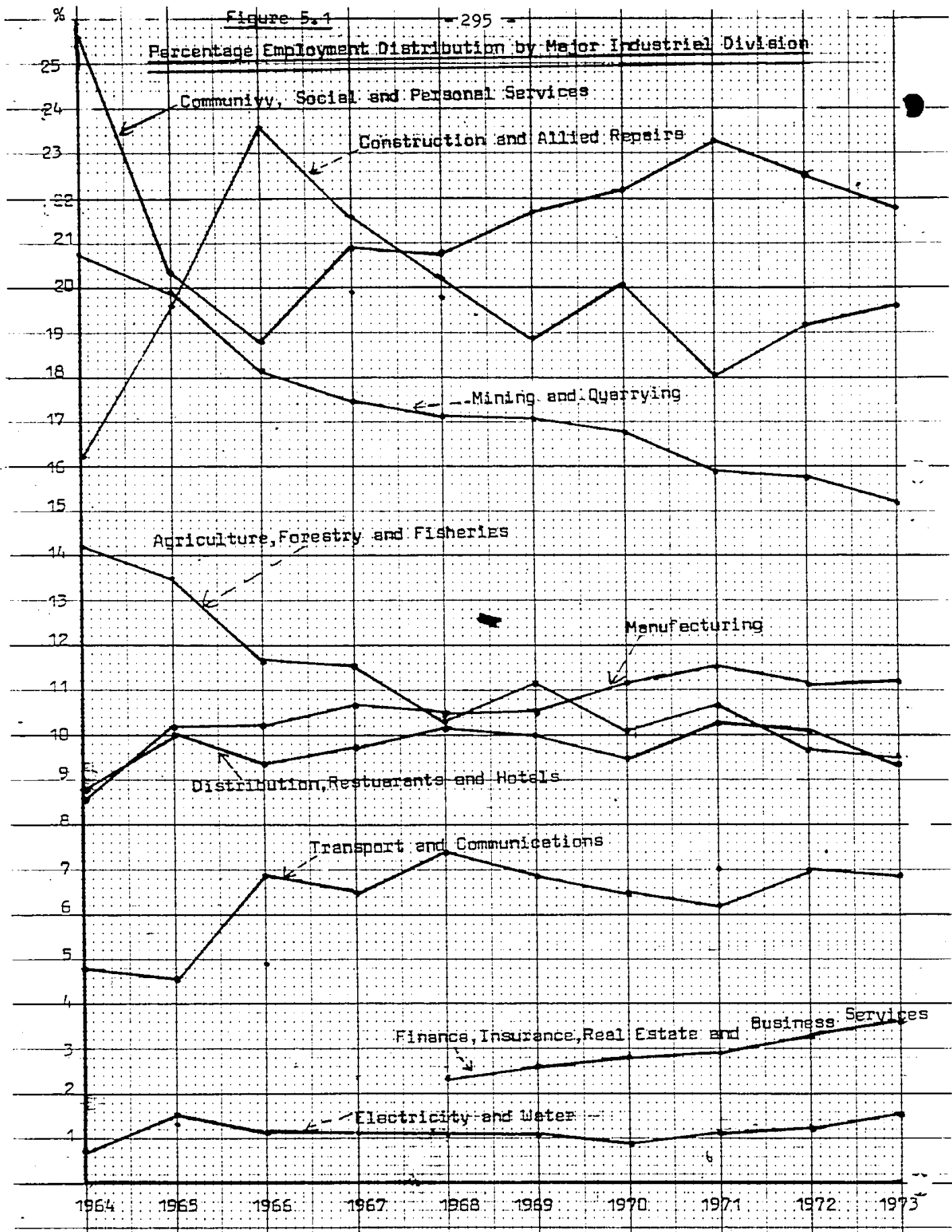
TABLE 5.9 continued

between the gross fixed capital formation during the year and the growth in the contribution of the industry to gross domestic product during the succeeding year.

SOURCE: Table 0.5 "Some Analytical Ratios 1972", Census of Industrial Production 1972; Central Statistical Office, Lusaka, 1974.

Figure 5.1

Percentage Employment Distribution by Major Industrial Division



An average capital-output ratio of 2.42 in the mining industry is indicative of the capital-intensiveness of the techniques used in production. This observation is applicable to the manufacturing, electricity and construction sectors as shown in Table 5.9. Indeco and its foreign partners is the producer of non-durable consumer goods and is not necessarily a user of labor-intensive technology as the high capital-output ratio indicates.

The construction sector in Zambia shows a sharp increase in employment. One explanation is the use of relatively unsophisticated technology. Figure 5.1 shows that the mining and quarrying industries have reduced their percentage of employment from a high of 21 per cent to a low percentage of 15.9. The largest employer in community, social and personal ^{services} services sector which accounts for 22 per cent of the employed labor force. In a developing country like Zambia, the importation and implantation of sophisticated skill-intensive technology whether by foreign entrepreneurs or state organizations does not lead to optimal utilization of resources such as labor and locally produced inputs. Parastatal organizations and their partners undertake diverse training programmes for their employees though the number of people being trained is insignificant when compared to the total labor force. On-or-off-the job training improves the profitability of the investments but it does not increase employment opportunities for Zambians.

When foreign firms bring their technology it is accompanied by additional technological inputs such as detailed engineering, product design, feasibility studies, some equipment specifications and routine plant lay-out requirements etc. This know-how is of generally limited exclusivity and if developed by undertaking a specific task, it can be used in similar activities in other industries with potentially significant multiplier effects in an economy. Host countries do not develop many of these human resource elements because they are supplied in a package form by foreign investors, thereby limiting seriously the growth potential from local efforts. This, in turn, affects direct and indirect employment generation. If foreign technology utilized local inputs, industries in other sectors would increase their activities thereby creating more employment for Zambians. Demand for Zambian labor would be derived from the demand for raw materials by the modern sector.

The modern sector (import-export enclave) of Zambia has been developed through foreign borrowing and foreign direct investment while the much larger non-modern sector (hinterland) has been neglected. It is argued here that the availability of loans used by Indeco and direct foreign investments in Zambia has prevented attempts to tackle the development of the major part of that society by methods and types of technology that they finance. This technology fails to utilize both the physical potential of the land and its human capital.

The exploitation of all the resources of the country would generate employment for many Zambians in the hinterland and income would thus be distributed to the poor masses.

Specifically foreign loans and investments prevent the development and use of the modern sector to meet the needs and achievements of a vitalised rural sector. It is futile to build a modern sector first hoping, irrationally, that it will absorb the reservoir of villagers into wage-paid employment. Schumacher also points out that "Rural areas are largely bypassed by aid and development".⁵⁵

Average earnings showed an annual increase of 10 per cent in the public sector and a 23 per cent in the private sector during 1966-68. For the period 1969-71 earnings for all employees rose from \$1,655 to \$1,973, an increase of 19.2 per cent. However, earnings for Zambians rose from \$1,131 to \$1,476 indicating a 30 per cent rise while Non-Zambians experienced a 16 per cent rise from \$7,000 to \$8,500 for the period 1966-1971. The mining and quarrying industry has the highest rates of average earnings of \$3,170 per annum with financial industry recording annual wages of \$3,063 per capita in 1971. Agriculture paid the lowest with \$600 as it employs more Zambians than any other single sector. However, earnings of Non-Zambians were over \$6,000. Zambians do not have the skills to justify higher salaries and the masses in the agricultural sector are self-employed.

CONCLUSION

The availability of foreign capital which finances foreign technology and the failure of the government to select the appropriate capital equipment lead to methods of production that are capital-intensive and to the creation of a small modern sector which does not generate employment opportunities for the abundant unskilled labor. The available foreign capital facilitates the establishment of pockets of growth which are surrounded by a desert of economic stagnation. This type of development leads to polarization within a country and clashes with objectives of national planning and national integration. This polarization expresses itself in widening income disparities, larger numbers of people exposed to extreme poverty, and, above all, rising unemployment. In explaining capital-intensive techniques, we note that, it is the imported technology that determines the production mix and factor use in developing countries. We note, further, that since the given technology is the modern technology of developed countries (i.e. capital-intensive, skill-intensive, raw material-saving, labor-saving and raw material-substituting) neither the technology used nor the production mix corresponds to the factor endowment of Zambia. Unemployment and extreme shortage of capital inside, and in particular, outside this small modern sector result as the natural outcome of this situation. What is being argued here is that dependence on foreign capital makes it rather difficult for a

country like Zambia to implement development plans that deal with acute problems facing the country.

It is increasingly becoming evident that imported technology in addition to promoting dependence as discussed earlier, also underdevelops the recipient country by failing to stimulate the use of domestic resources. It has been argued that for jobs to be created on anything like the required scale "---technology and methods of production must be appropriate to the conditions of poor people in poor countries"⁵⁶. The technology and methods of production must be simple enough to be used by Zambians who do not have the sophisticated technical and managerial skills.

Another consequence of this type of development is that peasants have been marginalized to the extent that they cannot find jobs and do not, therefore, earn incomes necessary for the purchasing of the small modern sector products. The end result is that the small modern import-export enclave is completely cut off from the rural sector both in the production process and in the consumption pattern. Thus, the achievement of national economic and social integration, employment creation and equitable distribution of income are frustrated by forces of dependence on foreign capital inflows. We discussed earlier how cotton farmers of the Eastern Province were deprived of their source of income because of the establishment of Kafue Textiles which use imported semi-processed synthetic fibers. On the consumption side, the Zambian assembled Fiat car is there to meet the demands of a few upper and middle class Zambians who are employed in the small modern sector.

NOTES

¹First National Development Plan, Office of National Development and Planning, Lusaka, 1966. After 4 years this objective had not yet been achieved.

²K.D. Kaunda, "Towards Complete Independence" Zambia Information Services, 1969. A speech delivered at the National Council of the United National Independence Party on August 11, 1969 at Matero in Lusaka. The major theme of the speech was the takeover of the mining companies in Zambia.

³T.J. Byres (ed), "A Symposium, on the Report of the Pearson Commission: Foreign Resources and Economic Development", Frank Cass, London 1972. Introduction pp. VIII - XI.

⁴Foreign investments particularly in the extractive industries have been complementary in exploiting Zambia Copper mines. See Byres op. cit.

⁵Rosenstein-Rodan, P.N. "International Aid for Underdeveloped Countries", Review of Economics and Statistics, May 1961 pp. 107 - 138.

⁶H.B. Chenery and A. MacEwan, "Optimal Patterns of Growth and Aid: The Case of Pakistan," Pakistan Development Review, Summer 1966.

⁷H.B. Chenery and I. Adelman, "Foreign Aid and Economic Development: The Case of Greece", Review of Economics and Statistics, 1966.

⁸H.B. Chenery, "Foreign Assistance and Economic Development", in Capital Movements and Economic Development, edited by J.H. Adler, Macmillan, 1967.

⁹R. Hal Mason, "Some Observations on the Choice of Technology by Multinational Firms in Developing Countries", Review of Economics and Statistics, August 1973.

¹⁰C.E. Moody Jr. and Norman Kessel, "Productivity change in Zambian Mining" *The South African Journal of Economics*, March 1972. pp. 61 - 71.

¹¹The President once threatened to resign because he did not want to lead a nation of drunken people. Beer consumption in Zambia is very high by any standard.

¹²Second National Development Plan, 1971 and see also The 27 Mulungushi Companies that were required to surrender 51 per cent of their shares were in the manufacturing sector. See K.D. Kaunda, "Zambia Towards Economic Independence", in Bastiaan de Gaay Fortman (ed) "After Mulungushi: The Economics of Zambia Humanism", East African Publishing House, 1969, pp. 34 - 74.

¹³A survey of ten manufacturing industries in Lusaka and personal interviews with 50 employees I found only 7 people who had come from the rural areas and all of them were messengers.

¹⁴The shortage of foreign exchange brought most of manufacturing industries to a halt as they could not produce any goods without imported inputs. This, in turn, resulted in an acute shortage of essential goods.

¹⁵L.D. Black, The Strategy of Foreign Aid, D. Van Nestrand, Princeton, 1968.

¹⁶A large portion of foreign aid was used by the government to pay for part of the 51 per cent shareholding in the mining companies in 1974. Originally these shares were to be paid for out of future Mindeco profits but in 1974 the government wanted to change the management contracts. These contracts could not be changed as long as the government shares were not fully paid up. The government borrowed to pay for its shares.

¹⁷P.T. Bauer, "Foreign Aid Forever ? Critical Reflections on a Myth of Our Time", *Encounter*, March/April 1974.

¹⁸Zambia Times, July 5, 1975.

¹⁹A. Seidman, "The Distorted Growth of Import-Substitution Industry: The Zambian Case", *the Journal of Modern African*

Studies, Volume 12 number 4, December 1974. pp. 601 - 631.

²⁰ Clive Y. Thomas, "Dependence and Transformation : The Economics of the Transition to Socialism" Monthly Review Press, New York, 1974. p. 113.

²¹ K.D. Kaunda, "Towards Complete Independence" op. cit. p. 62.

²² Clive Y. Thomas, op. cit. p. 89.

²³ Grant L. Reuber, H. Crookell, M. Emerson and G. Gallais-Hamonno; Private Foreign Investment in Development; Clarendon Press, Oxford 1973, p. 47.

²⁴ Panel on Foreign Investment in Developing Countries, Amsterdam, 16 - 20 February, 1969 United Nations.

²⁵ Multinational Corporations in World Developments Department of Economic and Social Affairs, United Nations New York, 1973.

²⁶ A. Seidman, op. cit.

²⁷ Clive Y. Thomas, op. cit. p. 100.

²⁸ A. Seidman, op. cit.

²⁹ *ibid.*

³⁰ Clive Y. Thomas, op. cit. pp. 94 - 95.

³¹ See Panel on Foreign Investment in Developing Countries, Amsterdam, 16 - 20 February, 1969: United Nations Publication, New York, 1969, para. 3.

For detailed discussions of this subject see Multinational Corporations in World Development, Department of Economic and Social Affairs, United Nations, New York 1973 (ST/ECA/190; R.O. Keohane and J.S. Nye "Transnational Relations and World Politics", Introduction, International Organization, Volume 25, 1971.

³²This difficulty can be found in the words of the President. See "Zambia's Economic Revolution" address by His Excellency The President, Dr. K.D. Kaunda, at Mulungushi, April 1968. See also Michael Faber, "The Development of the Manufacturing sector" in Constraints on the Economic Development of Zambia, edited by Charles Elliott, Oxford University Press, 1971.

³³See The Impact of Foreign Investment on Developing Countries in the context of National Development Priorities: Panel on Foreign Investment in Developing Countries, Tokyo, November 29 - December 2, 1971. United Nations Publication, New York, 1972. See also the Contract signed at the time of takeover of the Mining Industries in Zambia.

³⁴Zambia Towards Economic Independence by Dr. K.D. Kaunda, President of the Republic of Zambia in "After Mulungushi", edited by Bastiaan de Gaay Fortman, East Africa Publishing House 1969. p. 50.

³⁵ibid. p. 50.

³⁶ibid. p. 51.

³⁷Osvald Sunkel, "National Development Policy and External Dependence in Latin America" Journal of Development Studies, October 1969. pp. 23 - 48.

³⁸Economic Commission for Africa, "Economic Bulletin for Africa", 60, June 1, 1969.

³⁹Ann Seidman, "Planning for Development in Sub-Saharan Africa", Tanzania Publishing House, Dar es Salaam, 1974. p. 267.

⁴⁰R.H. Green, "Political Independence and the National Economy: an Essay on the Political Economy of Decolonisation", in Christopher Allen and R.W. Johnson (eds) "African Perspectives" Cambridge University Press, 1970 pp. 273 - 324.

⁴¹1973 Economic Report, Lusaka, Ministry of Planning and Finance, Zambia, January 1974. pp. 240 - 244.

⁴² Summary of the Industrial Development Plan 1972-1976 op. cit.

⁴³ See Multinational Corporations in World Development: Department of Economic and Social Affairs, United Nations, New York 1973, p. 47 and J.N. Behrman, National Interests and Multinational Enterprises: Tensions among the North Atlantic Countries (Englewood, N.J. Prentice Hall, 1970) pp. 101 - 113.

⁴⁴ The Multinational Corporation: Studies on U.S. Foreign Investment, Volume 1 U.S. Department of Commerce, Bureau of International Commerce, March 1972. See also Major Issues arising from the Transfer of Technology to Developing Countries: Report by the UNCTAD Secretariat, United Nations, New York 1975.

⁴⁵ However, Fiat management has refused to make paint and upholstery in Zambia claiming that this would make the car inferior to that assembled in Italy.

⁴⁶ The President has complained of "price rings operated by expatriates with their parent companies so that profits are remitted abroad. See K.D. Kaunda "Towards Economic Independence", Zambia Information Services, 1968. Mulungushi speech April 19, 1968.

⁴⁷ For a detailed analysis on these effects see "Major Issues Arising from the Transfer of Technology to Developing Countries: The Case of Chile, UNCTAD.

⁴⁸ W.B. Reddaway, S.J. Potter and C.T. Taylor; Effects U.K. Direct Investment Overseas. Final Report, Cambridge University Press, 1968.

⁴⁹ Seidman, "The Distorted Growth of Import-Substitution Industry: The Case of Zambia", The Journal of Modern African Studies, 12, 4, 1974. pp. 601 - 631.

⁵⁰ M. Volkov, "The Developing Countries: The Choice of Technology", Problems of Economics, IASP Journal of Translations, Volume XVIII, number 4, August 1975. pp. 3 - 35.

⁵¹ Raphael Kaplinsky, "Accumulation and the Transfer of Technology: Issues of Conflict and Mechanisms for the Exercise of Control", World Development, Volume 4, number 3, March 1976. pp. 197 - 224.

⁵² Republic of Zambia, Report on Employment and Earnings 1966-1968, p. 4 and 1969-1971 p. 5.

⁵³ Republic of Zambia, Report on Employment and Earnings 1969-1971, Central Statistical Office, Lusaka, October 1974 p. 7.

⁵⁴ Data relating to employment and earnings in this section are from the 1966-1968 and 1969-1971 Reports on Employment and Earnings.

⁵⁵ E.F. Schumacher, "The Work of Intermediate Technology Development Group in Africa", in "Employment in Africa: Some Critical Issues", International Labour Organization, Geneva, 1973. pp. 131-151.

⁵⁶ *ibid.* See also Constantine V. Vaitzos, "Employment Effects of Foreign Direct Investments in Developing Countries" in Edgar O. Edwards (ed), "Employment in Developing Countries: Report on a Ford Foundation Study", Columbia University Press, New York, 1974. pp. 331-349.

CHAPTER 6

FOREIGN CAPITAL INFLOWS, DEBT PROBLEMS AND
BALANCE OF PAYMENTS

In this chapter we shall attempt to estimate the size of debt in Zambia and examine the possible effect of such debts on the development process and dependence. Statistical data on the magnitude of debts in developing countries are hard to come-by because of the variety of the forms of foreign capital inflows. There is no systematic recording of debts in developing countries.

Inflows of foreign capital in the form of loans and direct foreign investments into a country eventually entail outflows of capital from that country. These outflows reduce foreign exchange and surplus that would be invested. Therefore, debt problems in their widest sense stem from the accumulation of external liabilities by a developing country. Debts comprise both contractual and non-contractual liabilities in the form of private overseas (foreign) direct investments. The main difference between contractual liabilities and non-contractual liabilities is that the magnitude and timing of service payments on private foreign direct investments are not pre-determined while contractual debts such as those between a developing country and the World Bank or the International Development Association, Official Development Assistance debt, export credit, private bank credit etc., the amortization and

interest payments are always spelled out clearly so that the recipient country is aware of its obligations. Because both contractual and non-contractual liabilities entail an outflow of foreign exchange their economic effects on development are similar, if not, identical.

Maurice Williams, chairman of the Development Assistance Committee (DAC) estimated the total volume of resources provided up to and still outstanding (i.e. net of amortization and disinvestment) at the end of 1972 to be \$177 billion for all developing countries. This amount was made up of \$75 billion debt disbursed, \$52 billion private overseas direct investments (book value) and \$50 billion interest other than technical assistance, extended by DAC countries since 1950.¹ The review points out that total foreign liabilities, both contractual and non-contractual amounted to \$127 billion. Although these figures relate to all developing countries, it will be shown in this chapter that Zambia is also among those developing countries that have received large sums of foreign financial resources both contractual and non-contractual as discussed in chapter 3 of this study.

Zambia's economy was one of the fastest growing economies among the developing countries immediately after independence in 1964. This high rate of economic growth depended on a high rate of foreign capital inflows. Foreign exchange availabilities play a central role in the development process while debt service payments constitute a prior claim on those resources so

that any assessment of the debt problem must, of necessity, take into account the impact of debt problems on development.² Investment components of a development programme such as those envisaged in the Second National Development Plan and which we discussed in chapter 5, must have been based on the expectation of the availability of foreign exchange because of their high import content. When foreign exchange availabilities fall below imports required to sustain a minimum acceptable development objective, the debt-servicing capacity of a country is seriously impaired.

6.1 ZAMBIA'S EXTERNAL PUBLIC DEBTS

Foreign capital inflows discussed in chapter 3 give rise to debts and it is estimated and argued that Zambia's external and contractual liabilities have a direct link with the inflows of foreign capital. Table 6.1 gives details of contractual liabilities of Zambia for the period 1965-1973. The figures appear to be small because of lack of data on private foreign direct investments and their remittances. Outstanding debt does not include interest payments. An analysis of total external public debt of Zambia shows that in four out of eight years the total annual inflows (disbursements) were less than total annual outflows (service payments on the principal and interest). Disbursements from the beginning of 1965 to the end of 1972 amounted to approximately \$558,800,000 against this amount there

was an outflow in repayments of the principal amounts amounting to \$159,184,000 in addition to this there was an outflow in interest payments amounting to \$128,490,000. Total service payments on the principal amounts and interest for the period 1965-1972 was about \$287,674,000. The figure of \$287.7 million is paid out of earned foreign exchange.

Although the terms under which foreign capital inflows were given to Zambia are not available, it will be noticed that loans from other governments accounted for a very small portion of the annual total inflows. International organizations, particularly, the World Bank and DAC governments provided a large portion of the loans. It should be noted that Zambia has not been given IDA loans. The largest contributors of foreign capital to Zambia were the Other Private Creditors". This observation is particularly important in analysing the debt problems of Zambia and their impact of the availability of foreign exchange. The terms of the loans may not be conducive to the development needs of Zambia. Zambia borrowed heavily from other private creditors in 1970 because of the fall in the copper price at the London Metal Exchange in 1970 (see Chapter 1 for a detailed discussion). Since 1971 the average annual outstanding debt (disbursed only) has not been below \$332 million and average annual total service payments to other private creditors has been approximately \$48 million. It will also be noticed that total service payments on loans from international organizations and DAC governments averaged between \$5 million annually.

TABLE 6.1

EXTERNAL PUBLIC DEBT OUTSTANDING, COMMITMENTS, DISBURSEMENTS AND SERVICE PAYMENTS
ZAMBIA BY CATEGORY OF DEBT 1965-1973

(Thousands of US Dollars)

Year	Debt Outstanding beginning of period		Transactions during period				Cancellations, Adjustments		
	Disbursed only	Including undisbursed	Commitments	Disbursements	Principal	Service Payments Interest Total			
1965	156,056	166,206	1,078	4,370	5,658	8,352	14,010	-231	
1966	154,603	161,395	39,043	8,140	5,211	8,710	13,921	-502	
1967	157,029	194,725	73,271	50,672	7,263	8,678	15,941	-18,991	
1968	184,650	241,742	43,161	16,795	11,984	8,578	20,562	-198	
1969	189,264	272,721	33,194	22,990	10,765	12,054	22,819	-1,418	
1970	201,240	293,732	553,950	334,582	26,602	22,703	49,305	-6,465	
1971	506,688	814,615	6,355	33,753	38,933	29,488	68,421	11,649	
1972	510,972	793,686	56,604	87,498	52,768	29,927	82,695	-10,076	
1973	536,816	787,446							
			TOTAL EXTERNAL PUBLIC DEBT						

TABLE 6.1 continued

	CREDITS FROM OTHER PRIVATE CREDITORS							
1965	58,605	58,605	0	0	1,149	3,350	4,499	-163
1966	57,293	57,293	0	0	933	3,378	4,311	-504
1967	55,856	55,856	34,876	27,455	1,165	3,241	4,406	-7,789
1968	74,357	81,778	10,114	8,955	1,176	2,862	4,038	-203
1969	81,933	94,513	0	6,458	2,755	5,390	8,145	-300
1970	85,336	87,458	296,509	297,889	18,511	15,830	34,341	-2,910
1971	361,804	362,546	0	368	28,518	21,777	50,295	3,946
1972	337,557	337,974	1,485	1,485	39,652	20,416	60,068	-1,074
1973	298,316	298,733						
	LOANS FROM INTERNATIONAL ORGANIZATIONS							
1965	52,944	56,794	0	2,374	2,827	2,401	5,228	-2
1966	52,490	53,965	17,500	1,474	2,970	2,599	5,569	1
1967	50,994	68,496	0	4,108	3,120	2,496	5,616	0
1968	51,982	65,376	16,000	4,609	3,371	2,608	5,979	2
1969	53,222	78,007	25,200	9,357	3,540	3,096	6,636	-1
1970	59,038	99,666	45,500	5,593	4,197	3,665	7,862	-3,300
1971	60,433	137,669	700	8,362	4,403	3,861	8,264	60
1972	64,452	134,026	0	13,820	4,587	4,319	8,906	-1,193
1973	73,685	128,246						

TABLE 6.1 continued

LOANS FROM OTHER GOVERNMENTS

1965	28	29	0	0	6	2	8	0
1966	23	23	0	0	6	2	8	1
1967	18	18	0	0	6	2	8	0
1968	12	12	15,972	0	6	2	8	0
1969	6	15,978	0	1,118	6	2	8	-448
1970	1,118	15,524	0	3,270	0	0	0	0
1971	4,389	15,524	0	1,868	0	0	0	854
1972	6,702	16,378	0	9,680	1,671	0	1,671	5

SOURCE: World Bank Debt Tables: External Public Debt of LDC's, December 15, 1974 pp. 177-178.

Zambia is one of the developing countries in Africa with a large per capita income.³ Experience suggests that developing countries and for that matter even developed countries with a larger per capita income tend to have a larger share of private debt and this is borne out in the case of Zambia (see Table 6.1). Debt crises are often preceded by extreme pressures on the balance of payments,⁴ a relatively high rate of inflation,⁵ capital flight and heavy borrowing from abroad sometimes on hard terms. By 1975 Zambia was facing an acute shortage of foreign exchange and the Bank of Zambia issued an order stopping commercial banks from giving foreign exchange.⁶ This shortage of foreign exchange led to a shortage of imported inputs and thereby the supply of many hitherto domestically produced goods.

Debt crises may be attributable to mismanagement of the economy, however, it is here suggested that the major source of the difficulty in Zambia was embedded in the structure of the economy long before specific financial pressures came to surface. The economic reforms of 1968 and 1969 were intended to restructure the economy so as to avoid the difficulties of 1975 but it would appear the reforms were not adequate enough to uproot the problems. The First and Second National Development Plans embodied the difficulties of an inherited economy. This meant that it was difficult to accurately forecast the import content of the development plans. The parastatal corporations which operate on commercial bases and which are, in the

main, still controlled by foreign private corporations, in so far as the policies on production techniques are concerned, make it almost impossible to determine the requirements of imported inputs well in advance. In Chapter 5 we referred to the behaviour of foreign firms as leaning towards imported inputs and thereby making the economy more dependent on foreign markets for its inputs.

The development plans, in particular SNDP, which lays more emphasis on import-substitution industries states that (---the plan will mark a significant stage in the diversification of industrial growth through import-substitution).⁷ However, to be successfully implemented without causing debt problems and balance of payments problems, account should have been taken of the numerous and complex factors which may generate directly or indirectly a level of demand for imports that exceed the planned one. Foreign investors are prone to imports of inputs as any industrialization in a developing country which they support leads to increased imports to meet domestic production needs.⁸ This will be discussed in more detail in Chapter 7. The domestic sector in Zambia appears to have failed to produce import substitutes that were planned and the pressure on domestic demand turned out to be higher than anticipated and has thus spilled over into imports. The combined effects of increased demand for imported inputs to support domestic production under the import-substitution programme and the failure of import-substitution programmes to produce import substitutes result in an increased demand for

foreign exchange which in turn forces the government to borrow from abroad thereby increasing the debt.

The SNDP was based on, partly, the export-earning potential and it would seem that in the Zambian case, such potential was conjectural and may have erred on the optimistic side. When earnings fall short of expectations, further borrowing becomes necessary. This can be seen from Table 6.1 in which borrowings increased in 1971 as a result of a fall in export earnings in 1970. The other course of action that was open to Zambia was import restrictions to a level below that required to maintain the level of economic development and growth that it had achieved. However, interruption of the development programme was not only socially and politically unacceptable but economically retrogressive. Foreign borrowing in Zambia during this period can also be ascribed to a variety of factors of cyclical or short-term nature such as the disaster of the Mufulira copper mine,⁹ the failure of agriculture¹⁰ due to poor rains, and the application of sanctions against Rhodesia by Zambia.

In assessing the impact of debt service payments on the development process in Zambia we note that export surplus represented foreign exchange earnings which would be used for the acquisition of the much needed capital equipment for development projects, but debt service payments reduce the amount of foreign exchange earned by exports. Public debt service payments have been growing since 1970 when 9 per cent

of earned foreign exchange was used for servicing public debts. In 1971 53 per cent and in 1972 39 per cent of the export earnings were taken up by service payments expenditures see Table 6.2. If we include remittances of private overseas direct investments the percentage of foreign exchange export-earnings taken out of the country may be very high. The implications of these developments on the economic development process in Zambia are serious in the sense that development projects conceived by the government cannot be implemented. We have already pointed out that loans from international organizations and foreign governments are made available to developing countries if the projects to be financed by such loans are, in the donor's eyes, likely to be successful so as to enable the borrower to repay the loan. It, therefore, means that projects which have no commercial profitability, but are essentially intended to improve the social welfare of those who live in the hinterland cannot be implemented. Debt service payments by reducing the amount of available foreign exchange to a developing country, indirectly interfere with development priorities of the government.

It can be argued further that the only other way of financing investments is through borrowing since export earnings are largely used for repaying past debts.

TABLE 6.2

VALUE OF EXPORT SURPLUS AND ANNUAL PUBLIC DEBT SERVICE PAYMENTS 1964-1973

(Thousand US Dollars)

Year	Export Surplus	Public Debt Service Payments	Service Payments as Percentage of Export Surplus
1964	268,620	-	-
1965	254,328	14,010	5%
1966	371,013	13,921	4%
1967	250,484	15,941	6%
1968	328,487	20,562	5%
1969	682,038	22,819	3%
1970	561,480	49,305	9%
1971	128,843	68,421	53%
1972	209,640	82,695	39%
1973	622,500	-	-

SOURCE: Value of export Surplus data extracted from Table 1.12 and for Public Debt Service Payments see Table 6.4.

Private overseas direct investment is more often than not lumped together with official aid¹¹ as a quantum with which to fill the resources gaps. It has already been said that private overseas direct investment is accredited with the provision of capital, entrepreneurship, technology, management, marketing and its contribution to foreign exchange availability on the assumption that such investment is import replacing without excessive protection and that it is export oriented without excessive government subsidy.

These are some of the many often cited benefits of private overseas direct investment but we are in this section interested in investigating the effects of such investments on the debts of Zambia. There is no adequate information of the magnitude of direct foreign investments in Zambia. A major element in the cost of private foreign direct investment in a developing country is the service costs entailed by foreign payments of dividends, interest, royalties, rentals, management and licence fees, service charges, and by foreign claims on undistributed profits.¹² The service costs just mentioned have a claim on the scarce foreign exchange earned by exports. This implies that the presence of private overseas firms in a country requires the setting aside of the limited foreign exchange. Once foreign firms invest in a developing country a debt is implicitly incurred in the sense that the country concerned must provide foreign exchange. In the Zambian case the outflow of foreign exchange by private foreign investors was one of the

main causes for the 51 per cent takeover by Government.

Ann Seidman¹³ points out that on August 31, 1973 the President of Zambia revealed that the government has been compelled by circumstances to refinance its purchase of 51 per cent shares of the mines. The refinancing had been prompted by the specific features of the original agreement which as the President put it "had proved detrimental to our national interest". The mining companies, which have 49 per cent of the shares fully paid for, continued to have absolute control over the way the mines financed investments. The management of the mines was predominantly foreign due to the fact that the 51 per cent government shares were not yet paid up. This management did not exercise foreign exchange controls to limit remission of profits, dividends, management and sales fees. The tax provisions permitted the companies to write off all capital expenditures in full in the year in which they were incurred; this had the effect of reducing government tax revenue. In 1972 about \$69 million of the \$204 million of the outstanding debt (i.e. debt in the sense that this was the total amount to be remitted abroad by foreign investors) was to be financed out of Zambia's foreign reserves. The rise in copper prices in 1973 earned Zambia a large amount of foreign exchange but the profits of the mining companies also increased and the total remission in that year is estimated at \$136 million and this was financed by a Eurodollar loan. The remission of profits abroad in convertible

currencies deprives Zambia of investible surplus.

The dependency theory which is our framework for the analysis of the development process in Zambia, can explain remittances of profits, interests and dividends abroad as representing expropriation of economic surplus from Zambia and its appropriation by international capitalism. The amounts remitted abroad represent potentially investible economic surplus which is no longer available to the Zambian society. Inflows of foreign capital do stimulate, initially, investments thereby establishing economic relations with the country where such investments are made. These inflows are welcomed by developing countries because these countries are integrated into the capitalist world system and have learned to live with the contradictions of international capitalism. These contradictions, once implanted, reinforce the process of underdevelopment of some sectors in developing countries. Foreign capital inflows facilitated, on the one hand, the construction of monumental buildings in the cities, the establishment of a car assembly, the extraction of minerals, the construction of roads, and the establishment of parasitic manufacturing industries to supply manufactured goods to a small percentage of the population while on the other hand, it established channels through which economic surplus produced in Zambia is appropriated by international capitalism. This decapitalization of the Zambian economy consolidates its dependency on external factors and reinforces the underdevelopment of the rural area of Zambia.

6.2 DEBT SERVICING AND THE BALANCE OF PAYMENTS

A United Nations Panel on Foreign Investment in Developing Countries noted in December 1971 that certain studies that had been carried out had demonstrated that foreign investments had favourable effects on the balances of payments of developing countries.¹⁴ Such studies¹⁵ proceed by observing that when foreign capital inflows take place, they ease the balance of payments problems in that they immediately generate the supply of foreign exchange. Thus immediately providing balance of payments relief. The panel further noted that most studies place on the credit side the aggregate gross export and local sales of foreign enterprises. Attention is often confined to the analysis of aggregate inflows and the cost of servicing the capital.

This type of analysis is a very narrow point of view of the impact of financial capital inflows on the balance of payments of a developing country. It leads to the conclusion that all exports of foreign-owned enterprises have favourable effects on the balance of payments since they earn foreign exchange and that all domestic sales produced by foreign investors should be regarded as substituting for imports. The validity of this analysis is based on the erroneous assumption that in the absence of foreign investors the exports and local sales in question would not take place. Foreign investments make a contribution to the betterment of the balance of payments if the production of exportables and domestically consumed goods

represent an increase over and above what would have been produced in the absence of foreign investments. The net contribution is the difference between the increased exports and domestic sales directly attributable to foreign investments and what would have been exported and imported.

Reuber and others in their enumeration of the adverse effects of direct foreign investments point out that an inflow of foreign investments leads to the ever-present threat of heavy dependence on private foreign investment¹⁶ which, in turn, seriously constrains domestic policies as discussed in Chapter 5.

In assessing the effects of external financing on a country's development programmes, it is not easy to draw a clear-cut distinction between official loans and private credits. In Chapter 3 we gave a rough estimate of the various inflows. Until 1964, it is reported that, official foreign grant and loan aid to Zambia was very limited and came almost entirely from the United Kingdom. However, by 1969 Zambia was receiving financial aid or technical assistance from more than 19 developed countries. Although there is no official estimate for the magnitude of total foreign investment in Zambia, it is clear that the foreign-owned copper mines with their refineries and auxiliary industries represent substantial sums of direct foreign investments. In mid - 1968 it was estimated that the United States investors alone accounted for \$80 million book value or more than \$200 million at the 1968 market

value. These inflows took place when the economy of Zambia was very healthy and attractive to foreign investments.

Since an inflow of foreign capital eventually entails an outflow of capital, it is this aspect that calls for further analysis in the case of Zambia. Direct foreign investments lead to balance of payments costs due to repatriation of profits and other remittances that together may outpace the inflow of foreign capital. Foreign investors repatriate most of their profits and if these profits were re-invested in Zambia the balance of payments problems would not have assumed such great magnitudes in 1975. It is true that these gross profits are taxed but what remains in the hands of foreign investors is very large in the context of a developing country. Ann Seidman has referred to this as "Investible Surpluses produced in Zambia".¹⁷ Table 6.3 shows that in 1970 investible surpluses produced in Zambia totalled \$868 million and that 53 per cent of this was produced by mining companies, while investible surpluses from high salaried people amounted to 16 per cent and the rest of the economy accounted for 30 per cent.

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TABLE 6.3

INVESTIBLE SURPLUSES' PRODUCED IN ZAMBIA 1970

	Million US \$	Per cent of total
Produced by Mining Companies	464	53.3
Obtained by individuals as high salaries over consumption requirements	140	16.1
Produced by rest of the economy	264	30.4
Total	868	100.0%

SOURCE: Putting the Mines' Surplus into Agriculture, by Anne Seidman, African Development October 1974 pp. 55-62.

A large percentage of these investible surpluses are sent out of Zambia see Table 6.7 below. If these investible surpluses were not being shipped out, they would be utilized for investment in social development projects. This outflow compels the government to seek further foreign financial assistance if social development programmes are to be mounted.

In 1968 it was reported that net private capital inflows into Zambia amounted to \$27.6 million. This amount was less than one fifth of the total outflow of investible surpluses produced during that year. This indicates the impact of private foreign investments on the balance of payments. The larger the inflows the larger the outflow thereby creating chronic balance of payments problems for Zambia. It is known that an inflow of private foreign investments brings with it experts whose salaries are very high and who repatriate part of their salaries. Given the acute shortage of Zambian skilled manpower, it means that there is a large number of expatriate experts.

It is estimated that about \$98-112 million remains in the hands of high salaried earners after taxes and that a larger share of the high salaries goes to the expatriate personnel who send most of their savings out of Zambia thus further adversely affecting the balance of payments. This can be deduced from Table 6.4 where the outflow of Zambian money from contract salaries and gratuity rose \$11.6 million in 1968 to \$70.1 million in 1972.

TABLE 6.4

OUTFLOWS OF ZAMBIAN MONEY 1968-1972 ON CURRENT ACCOUNT IN MILLION US DOLLARS

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Investment income	- 83.3	- 89.3	- 87.1	- 92.3	- 56.9
Other services	- 31.4	- 33.3	- 42.1	- 37.9	- 25.6
Contract Salary and gratuity transfer	- 11.6	- 24.4	- 48.4	- 60.3	- 70.1
Gifts and maintenance transfer	- 1.3	- 2.1	- 3.2	- 3.6	- 3.2
Emigrants' transfer	- 14.1	- 28.6	- 35.0	- 34.7	- 22.5
Other private unrequited transfers	- 10.4	- 21.1	- 63.7	- 56.1	- 43.0
Total Outflow	<u>-152.2</u>	<u>-198.8</u>	<u>-279.8</u>	<u>-285.1</u>	<u>-231.4</u>
Percent of export earnings	20.1%	18.8%	28.1%	42.4%	38.8%

SOURCE: Anne Seidman. Putting the Mines' Surplus into Agriculture, African Development, October 1974. pp. 55-62.

In Table 6.5 we have attempted to approximate the outflow of foreign exchange from the copper mining industry in Zambia. Direct foreign investments do not contain the same contractual obligations as loans which we discussed in section 6.1 above. RCM and NCCM which were formed after the 1969 economic reforms (details in Chapter 7) and in which foreign investors hold 49 per cent of the shares are the major mining companies in Zambia. RST and Zamanglo the two mining giants have deprived Zambia of most of its foreign exchange and are to a very large extent responsible for the balance of payments problems. The balance of payments of Zambia is very sensitive to changes in the price of copper at the London Metal Exchange. A rise in copper prices improves the balance of payments position and that stimulates economic activity particularly in the modern sector. The high rate of economic growth that Zambia experienced during the early years of political independence were dependent upon copper prices. It is the copper prices which are dependent on international market conditions that determine the level of economic activity and the balance of payments position. However, after the 51 per cent partial nationalization the higher the copper prices the higher the amount of surplus remitted abroad. This anomaly was included in the management agreements because Zambia offered to pay for the acquired shares from future profits.

A large proportion of profits after taxation are shipped out of the country. Dividends declared for RCM are very high

representing 39 per cent of net profits in 1970, 45 per cent in 1971, 49 per cent in 1972, 66 per cent in 1973 and 56.1 per cent in 1974. The same is true for NCCM as its declared dividends for the years 1971 to 1974 are 53, 53, 43, and 59 per cent of the net profits respectively. It is argued here that this outflow represents a net loss of foreign exchange and a drain on Zambian foreign exchange reserves as these dividends are payable in convertible American dollars.

Technological dependence adds another problem in the Zambian case. At the time of the takeover, management contracts were entered into between RCM and RST and RCM pays .75 per cent of gross sales proceeds to RST plus 2 per cent consolidated profit before income tax but after deducting mineral tax. These amounts are paid in American dollars in respect of general services provided by RST to RCM. This we estimate to be \$3 million dollars annually as shown in Table 6.5.

In addition to these outflows, compensation payments cost Zambia something like \$29 million in foreign exchange annually for the 51 per cent of the shares that the government acquired. To this add 6 per cent interest on the issued ZIMCO bonds. The master agreement also permitted both Zamanglo and RST to externalize their assets valued at \$41.25 million in the case of Zamanglo together with its pension funds. This amount was taken out in monthly instalments over a period of two and half years. For RST, \$26.85 million worth of assets were externalized by monthly instalments in two years.

TABLE 6.5

ESTIMATED OUTFLOWS DUE TO DIRECT FOREIGN INVESTMENTS IN COPPER MINING 1970-1974

	(Million US Dollars)								
	RCM				NCCM				
	1970	1971	1972	1973	1974	1971	1972	1973	1974
1. Total Sales Revenue	267.0	328.2	286.5	355.8	611.6	673.5	522.0	544.0	832.5
2. Gross Profits	163.1	127.4	80.6	113.6	333.8	306.0	150.0	150.	415.5
3. Profits After Taxation	58.2	73.2	64.5	70.8	117.8	145.5	102.0	115.5	169.5
4. Dividends Declared	22.5	33.0	30.8	46.5	66.5	76.5	54.0	54.0	100.5
5. Management and Consultancy Fees Paid to RST by RCM	3.6	3.8	3.0	3.8	-				
6. Compensation Payments to RST and Zamanglo	14.7	14.7	14.7	14.7	14.7	14.9	14.9	14.9	14.9
7. 6% Interest on Bonds	7.1	6.2	5.3	4.4	3.5	10.7	9.8	8.9	8.0
8. Transfer of Assets		13.4	13.4			16.5	16.5	8.3	
Total of 4+5+6+7+8 =	47.9	71.1	67.2	69.4	84.7	118.6	95.2	86.1	123.4

TABLE 6.3 continued

- NOTES:- Gross profits is profit before taxation. Profits after taxation are net profits of Roan Consolidated Mines and Nchanga Consolidated Copper Mines. 49 per cent of the profits belong to RST and Zamanglo for example in 1971 the two companies were entitled to \$107.163 million part of which could be declared as dividends and remitted abroad.
- Row 4 does not accurately reflect the amount of dividends remitted abroad. It simply shows what RCM and NCCM declared as dividends.
 - Management and consultancy fees represent an outflow of Zambian money. No account has been taken of 15 per cent gross emoluments of a recruit that is also payable to RST in US dollars.

SOURCE: Annual Reports of NCCM and RCM 1970-1975; see also C.M. Ushewokunze, "The Legal Framework of Copper Production in Zambia", pp. 75-100.

Accordingly Table 6.5 estimates that the annual loss of foreign exchange because of Zananglo and RST are \$189.7 million 1971; \$162.4 million 1972; \$155.5 million 1973 and \$208.1 million 1974. These figures are too large to have no impact on the balance of payments and availability of foreign exchange. It can be argued that debt service payments plus these outflows are directly responsible for the acute shortage of foreign exchange in 1975.

The government made payment on shares above their market value because it wanted to persuade Anglo-American Corporation and Roan Selection Trust to continue managing and operating the copper mines. Without these two mining giants the government could not operate the mines, implying that government is entirely dependent upon these corporations for mining activities. In any case this was the price that had to be paid by a country that is integrated into the capitalist world economic system and still strives to operate within the system. The high payments on shares as compensation together with special arrangements for these corporations to remit dividends, profits and management fees abroad represent expropriation of economic surplus from Zambia and its appropriation by foreigners.

For example Anglo-American of Zambia (a South African Company) was allowed to show the value of its assets as \$266.87 million an amount well above its market value so that in acquiring 51 per cent of the shares, ZIMCO, a government corporation paid 6 per cent on government bonds worth \$253.24

million while the shares acquired were worth only \$191.46 million. In the case of RST, ZIMCO received 51 per cent of \$247.5 million book value and the government paid \$151.31 million for assets worth \$117.81 million. In both cases the compensation is almost twice the value of the acquired assets. Furthermore, the compensation is payable in dollars, it is tax free, and it is not subject to foreign exchange control restrictions. This is not all Zambia's dependence on foreign personnel and management skills provided yet another channel for the expropriation of its surplus by international capitalism. Government agreed to pay an additional .75 per cent of gross turnover plus 2 per cent on net profit to the corporations for managing the mines. It paid .75 of 1 per cent of gross proceeds for sales and marketing services provided by the corporations and a further 2.5 per cent of the cobalt produced. All these amounts were paid in convertible currencies.

The question of why Zambia agreed to pay all these sums of money can only be found in its relations with the Western capitalist world. "The Terms of the Takeover" as given in Appendix A of "Economic Independence and Zambian Copper: A Case Study of Foreign Investment" edited by Bostock and Harvey gives the figures quoted above and shows that under Settlement of Disputes :-

As part of the takeover, the Zambian Government agreed to adhere to the convention establishing the International Centre for the Settlement of Investment Disputes (ICSID).

----- The Zambian Government and ZIMCO agreed that all dispute arising under the following documents be governed by arbitration by ICSID ----- "18

To maintain its international reputation and credit worthiness Zambia had to pay the above amounts.

CONCLUSION

Foreign capital inflows do not only establish economic links between a satellite country and the centre but also create channels through which economic surplus is expropriated from the satellite. We have shown that Zambia has a serious debt problem that affects its development because a large portion of investible funds is set aside to service debts. The balance of payments problem is directly connected to the outflow of this surplus in the form of profit remittances and debt service payments.

Because of these outflows, further development has to rely on foreign financing and this perpetuates and reinforces Zambia's dependence on foreign factors. This dependence exposes Zambia to the exploitative forces of international capitalism.

NOTES

¹1974 Review: Development Co-operation: Efforts and Policies of the Members of the Development Assistance Committee, OECD. Paris, 1974. p. 154.

²The same sentiments are shared by UNCTAD Secretariat. See Report by UNCTAD Secretariat, "Debt Problems in the Context of Development", U.N., New York 1974.

³Zambia has GNP per capita of \$380 and is third after Gabon with GNP per capita of \$700 which is Second to Libyan Arab Republic with \$1,450 see Table 74 p. 276, OECD 1974 Review, op. cit.

⁴Charles R.M. Harvey, "Financial Constraints on Zambian Development" and Stephen Goodman; "The Foreign Exchange Constraint" in Charles Elliott, op. cit.

⁵Max Kauseni, "Fighting Inflation" Zambia's Ten Years 1964-1974 in African Development, October 1974.

⁶During November/December 1975 on field work in Zambia I was not allowed any foreign exchange. There was a three month freeze on the issuance of foreign exchange. This situation was to be reviewed on January 30, 1976.

⁷Second National Development Plan op. cit.

⁸Gyorgy Cukor, Strategies for Industrialization in Developing Countries, C. Hurstand Company London, 1974. pp. 90-108.

⁹In 1970 there was a disaster in workers died when the Mufulira Mine collapsed and production stopped for several months. See Africa Research Bulletin Volume 11, December 1974. p. 3375.

¹⁰See Guy Arnold, Agriculture's Missed Opportunities and Guy Scott, Why Agriculture Declined in Zambia's Ten Years 1964-1974, African Development, October, 1974.

¹¹See Table 14 Comparison of Flows by Type 1972 Development Co-operation: Efforts and Policies of the Members of the Development Assistance Committee, OECD. 1974 Review, p. 214.

¹²Grant L. Reuber and associates. op. cit. p. 141.

¹³Ann Seidman, "What to Do with the Copper Surplus", in Zambia's Ten Years 1964-1974, African Development, October 1974. p. 59.

¹⁴See Panel on Foreign Investment in Developing Countries op. cit. pp. 12-13.*

¹⁵See Chenery and Adelman op. cit., Chenery and Bruno, op. cit., L.B. Pearson, Partners in Development: Report of the Commission on International Development: Praeger Publishers, New York, 1969.

¹⁶Grant L. Reuber and associates. op. cit. p. 19.

¹⁷Ann Seidman, "Putting the Mines' Surplus Profits into Agriculture", African Development October 1974, pp. 757-762.

¹⁸Mark Bostock and Charles Harvey (eds), "Economic Independence and Zambian Copper: A Case Study of Foreign Investment", Praeger Publishers, New York 1972. Appendix A "The Terms of the Takeover", pp. 219-239.

CHAPTER 7

GOVERNMENT ECONOMIC INTERVENTION: Confrontation,
Collaboration and Dependence

The takeover of major sectors of the Zambian economy by the Government was prompted by the realization that private investors, particularly affiliates of multinational corporations who though being powerful engines of growth and development, tended to accentuate rather than reduce inequalities in the absence of proper government policies. In some cases, the presence of private foreign investors prevented the implementation of necessary social reforms. It is not accidental that most of the activities of foreign investors are located in the most developed areas of Zambia and that their investments do not spontaneously flow to the areas where they are needed most for a more balanced economy. The depressed areas look up to the government for aid and this highlights the fact that private foreign investment is by no means a substitute for government aid. Foreign investors often concentrate on higher technology industries employing capital intensive techniques. Although such industries may contribute to the modernization of the industrial structure of Zambia, they may not necessarily serve one or more of the immediate prime objectives of development. For example such capital intensive industries cannot increase employment opportunities in a five year period

as the projected 200,000 new jobs in the Second National Development Plan to cater for 67,000 people entering the labour force annually. Further, many of the products that foreign investments specialize in cater to the demand in the high income countries. Where these products are marketed in developing countries they in some instances, introduce patterns of consumption not conducive to sustained economic development and confer little benefits to the vast majority of the population.

Foreign investors, particularly, affiliates of multinational corporations, it is alleged, often exploit natural resources in the developing countries for export to world markets.¹ Bearing in mind all these considerations, it was necessary for the Zambian Government to formulate its development strategies clearly in order to direct private foreign investments in a way that was consistent with national goals and policies. These included, inter alia, income distribution, employment, industrialization and a balanced external balance.

In formulating development strategies account was taken of the role that these affiliates of multinational corporations might play in the development of the country. The importance attached to the contribution to development made by private foreign investment is easily explained by the fact that the Zambian Government chose to jointly participate with foreign investors. If the Government were not cognizant of the valuable

contribution of foreign direct investment, it would have nationalized all sectors at 100 per cent. The 51 per cent takeover was intended to give the Government some measure of control over the decision making.²

The Zambian Government being aware of the fact that foreign investors (Multinational Corporations) invariably introduce into a country a package of resources and capabilities which they (corporations) own and control, invited the corporations to give 51 per cent of the ownership and control to Government so as to direct these resources and capabilities into areas where they are needed most for social and economic development. Experience has shown that multinational corporations can, and do, divert resources from where they are most needed to where they are most profitably sold. For example, such scarce domestic resources as local managerial, technical, scientific skills, natural resources and financial resources are misallocated in the sense that they are allocated towards the management of the modern sector and dealings with multinational corporations rather than towards raising yields of traditional agriculture. Spurs by multinational corporations do not always provide a basis for sustained and sound development. In strictly economic terms a wider vision and deeper probing beneath the surface essentially reveals these spurs in the Zambian case. Multinational corporations have invested in a few investment projects in the country and these isolated foreign enclaves have few linkages with the domestic economy

thus further promoting the development of a dual economy. The extraction of natural resources, in which foreign investors are engaged in Zambia, does generate a few processing industries but it has done very little to raise the level of local skills. This is to be expected since these are branch plants operating as off-shoots of their parent companies such as component manufacturers and to a large extent assemblers. This implies that they are unlikely to integrate fully into the local economy.

In Chapters 5 and 6 we discussed in detail the effects of foreign capital inflows. Complete nationalization would not have been the best strategy since foreign investments do have positive effects. Partnership appeared to maximize the gains and minimize losses. The UN Department of Economic and Social Affairs has remarked that "---- host governments seem to look upon their contribution as positive, although at the same time they tacitly attempt to obtain an acceptable trade-off between political, economic and socio-cultural costs and benefits".³ Economic reforms were made so that economic activities in Zambia conformed to the Zambian ideology of Humanism. In essence Zambian Humanism demands total commitment towards the development of each one of the four and a half million people. It was under the umbrella of the ideology of Humanism that the President revealed that he would announce some economic reforms:- "-- Let me emphasize that I intend to lay out the foundations for major economic reforms of the nation to enable

it to achieve its goal of economic independence under Humanism".⁴ This was the climax of an uphill journey to gaining sovereignty over natural resources and key industries in Zambia. However, the journey has as yet to be completed and there is no indication that it will unless fundamental changes take place.

7.1 ECONOMIC REFORMS

The capacity to make and enforce decisions is a fundamental issue for any country. This is more so for a one resource rich country such as Zambia. Foreign investments affect the objectives of national development plans through the control of strategic or key sectors of the economy. In Chapter 1 we showed that copper mining and the quarrying industries were the backbone of the Zambian economy. In Zambia not only the mining industry was under the ownership and complete control of private foreign investors but also such auxiliary sectors of equally strategic importance as the manufacturing, financial and communications sectors. It was this domination of the essential sectors of the economy by private foreign investors that raised deep concern over the future development of the economy. Any emerging indigenous investors were forced out of the market because the parent companies in collaboration with their affiliates and/or subsidiaries not only controlled the

and manufacturing sectors but also had great impact on the over-all monetary, financial and trade policies both within Zambia and outside Zambia. Zambia, as a developing country in search for a sense of national identity and desiring to shake-off or at least reduce its dependence on developed countries, had good cause to be anxious over who owns and controls the more important economic resources of the country.

It all started with the Zambian Government persuading foreign investors to consider the goals of the Government in their investment projects. It is clear that the inclusion of Government goals in private investment objectives would have resulted in lower profits. It was because of the failure of foreign private investors to invest in a way that would have promoted social and economic development that the government finally used the mighty hand of nationalizing 51 per cent of foreign investments. In this Chapter we shall look into three major economic reforms that dealt with the manufacturing, mining and financial sectors.

1968 Economic Reforms: Manufacturing Industries

The first of the major economic reforms were announced by the President on April 19, 1968 in a speech delivered at the National Council of the ruling party, the United National Independence Party (U.N.I.P.) at Mulungushi.⁵ These reforms aimed at lessening the economic power of non-Zambians and dependence on foreign capital and expertise. It was pointed out that direct foreign investments had failed to cater for local participation and that foreign investments had been made in areas that did not improve the welfare of Zambians. Efforts to encourage private investments in the rural sector had produced no results.

Four years before the announcement of the 1968 reforms, the government had set up a corporation that would lend investible capital to private enterprises if such enterprises invested in the rural sector. The corporation was the forerunner of the present Industrial Development Corporation. The Ministry of Commerce and Industry issued a white paper titled "An Outline of Government's Industrial Policy",⁶ in 1964 in which Indeco was established. The old Indeco was not controlled by government shareholders and it functioned mainly as a provider of loanable investment funds to a very limited number of projects. By 1966 it had become apparent that Indeco under those circumstances could not initiate

industrial projects to the satisfaction of government. Thus shareholders of Indeco were bought out by government. This alone could not assure implementation of viable projects as Indeco still had to compete with foreign private enterprises with strong financial and managerial backing from the parent companies. The economic boom of the first four years attracted more foreign investments into the manufacturing sector of Zambia.

It became evident to government that a new policy was needed and the government acted promptly. The first reforms were directed mainly at the manufacturing industries. The revived Indeco owned and controlled by government was, in addition to its own industries, to embark on partnership with private foreign companies. Very few companies joined Indeco. Zambian ownership could not be achieved in this way as very few, if any, Zambians had the necessary capital and expertise to mount large viable manufacturing industries although the economic climate was very favourable. The takeover was intended to prevent exploitation by foreign- and expatriate-controlled companies. The title of the takeover speech "Zambia Towards Economic Independence", seems to suggest that in government quarters control of the manufacturing sector by foreign enterprises implied dependence on foreign activities.

Having failed to achieve Zambian ownership of the manufacturing industries through persuasion the government simply proclaimed that some companies in the manufacturing industries must surrender 51 per cent of their shares to Indeco a government corporation. The victims of the 1968 reforms now popularly known as the "Mulungushi Companies" are listed in Table 7.1. It is claimed that they were singled out because they made excessive profits. The government of Zambia wished to curtail those excessive profits. A quotation from the takeover speech amplifies this belief:

"They operate price rings because of buoyant demand and the difficult supply position. They do not make enough effort to move away from unacceptable sources of supply and outdated management philosophies. They still maintain personnel and training policies which are not in accord with the Nation's present needs. They are failing to re-invest a sufficient proportion of their profits for general expansion and development. ---- We have to safeguard the national economy and prevent unfair exploitation of the present boom conditions. The field that has suffered most so far is the construction industry. Because of the pressure of demand and difficult supply position, prices have soared to astronomic heights."

(The quotations in this section unless otherwise stated are extracted from the President's speech see note 5).

The Mulungushi companies (i.e. those ordered to sell 51 per cent of their shares to Indeco) fall into 9 groups each dealing with an important manufacturing industry. First, the construction industry was selected because it had (--- suffered most so far and prices have soared to astronomic heights---), prices soared to astronomic heights because of high costs of building materials both local and imported. Anros Industries, Monarch Ltd. and Crittal Hope Ltd. were the only manufacturers of window and door frames. Group B companies in Table 7.1 were the building material merchants and group C the suppliers of crushed stones throughout Zambia. These companies are subsidiaries of South African companies. 51 per cent of their shares were surrendered to Zambia Steel and Building Supplies Ltd. a company created and wholly-owned by Indeco.

Construction was one of the most profitable businesses during the first few years of political independence. Demand for housing and office space was very high. Government was obliged to provide accommodation in towns particularly for Africans. Old huts were being replaced by medium and high density houses. This had been promised during the struggle for independence.

The brewing industry was under a single monopolist the Northern Breweries Ltd. which supplied alcoholic beverages with the help of its subsidiary Hendrichs Syndicate Ltd.

Government intervention in the transport sector was not motivated by high prices and excessive profits but rather by the desire to control and direct transportation according to its needs. In the President's words taking over the transport sector was intended to (----- rationalize and co-ordinate the activities of our major transport organizations so as to direct them to operate more in the national interest.) He added that (-- In keeping with the policy of Zambianization I want to see a great number of Zambian businessmen operating buses, taxis, lorries for distribution to the rural areas and so on.).

In the retail wholesale sector only five companies surrendered 51 per cent of their shares to Zambia National Wholesale Corporation which was created and wholly-owned by Indeco. The reason given for 51 per cent acquisition by government was that the price policies of the companies concerned were inflationary (--- I want to have a retail state organization operating alongside them so that we have some measure of control over their activities and check on price inflation.)

Similar reasons were given for the 51 per cent takeover of the companies in groups G, H and I in Table 7.1. To put more teeth into the takeover mechanism, it was announced that the issuance of trading licences would be restricted to Zambians only. This appeared possible since retail business could be undertaken by people with less expertise than Indians and other expatriates. Expatriates would be granted retail trading licences only in restricted areas, that is, the urban areas. Road service licences would be issued to companies in which 75 per cent of members were Zambians. Building mineral permits were limited to Zambian enterprises.

TABLE 7.1

THE 'MULUNGUSHI' COMPANIES, i.e. THOSE WHICH WERE
INVITED TO OFFER 51 PER CENT OF THEIR
SHAREHOLDING TO THE GOVERNMENT

- A. Window and door frame manufacturers
Anros Industries
Monarch (Zambia) Ltd.
Crittall Hope (Zambia) Ltd.
- B. Building material merchants
Anglo African Glass Company Ltd.
P.G. Timbers
Baldwins Ltd.
Steel Supplies of Zambia Ltd.
Zamtinber Ltd.
May and Hassell (Zambia) Ltd.
Johnson and Fletcher
- C. Crushed stone suppliers
Nicholas Quarries
Gerry's Quarries
Greystone Quarry
Crushed Stone Sales Ltd. (wholly-owned subsidiary of
other quarrying companies)
- D. Breweries
Northern Breweries Ltd.
Heinrich's Syndicate Ltd.
- E. Road transporters
Smith & Youngson Ltd.
Central African Road Services Ltd.
- F. Wholesale and retail distribution
C.B.C. Stores

- O.K. Bazaars
 - Standard Trading
 - Solanki Brothers Ltd.
 - Mwaiseni Store Ltd.

- G. Timber extractors
 - Zambesi Sawmills Ltd.
 - Mining Timber Ltd.

- H. Fish refrigeration and distribution
 - Irvin and Johnson

- I. Newspaper Publishers
 - Zambia Newspapers Ltd.

SOURCE: "Zambia Towards Economic Independence" A speech by His Excellency, The President of the Republic of Zambia, Dr. K.D. Kaunda, delivered at The National Council of the United National Independence Party at Mulungushi, April 19, 1968.

The 1968 economic reforms were intended to transfer economic control from foreigners to Zambians. Very little was achieved in terms of effective control by Zambians. In the retail business Asians transferred their business to their children who were by birth and registration Zambians. Although Zambian born Asians are by birth Zambians, socially and culturally they regard themselves as Asians and still send money out of Zambia to their relatives in India. The government did, however, achieve one of its objectives, that is, to prevent excessive outflow of money in that, at least, 51 per cent of the profits remained within the country. To some limited extent the government became involved in the decision-making process of foreign-owned companies. However, since Zambians lacked experience and expertise, decision-making effectively remained in the hands of foreign management while Zambian managers were present as observers and learners. These foreigners continued to be the initiators of investment projects.

FINANCIAL REFORMS

Meaningful participation by Zambians was not only handicapped by the absence of trained and skilled manpower but it was actually prevented by financial market conditions. To support reforms affecting the manufacturing industries the government found it necessary to reform the financial system. The financial market in Zambia was almost closed to Zambians. It was virtually impossible for Zambians to obtain loans for large investment projects.

The financial reforms limited local borrowing by resident expatriates. The Minister of Finance issued instructions to the effect that local borrowings of expatriate enterprises were to be treated on the same footing as foreign controlled enterprises. In announcing this, the President said (..- from now on, the banks, the building societies, the hire purchase companies and all other financial institutions in the country, before approving a loan for business purposes to a company or partnership or an individual businessman must ascertain that:

- a) If it is a company, its members, its shareholders are Zambians ----,
- b) If it is a partnership, that all partners are Zambians,
- c) If it is an individual, that he is a Zambian with a Zambian passport)?

Applications for loans by non-Zambians were to be referred to the Exchange Control authorities for approval. If approved, the amount of a loan depended upon the amount of money initially brought into the country by the expatriate. Annual payments of dividends were to be limited to 30 per cent of equity capital (--- from now on the exchange control regulations will be amended to allow them to remit dividends abroad only when those dividends do not exceed 30 per cent of the equity capital of the company, provided that the 30 per cent did not exceed half of their profits).

The new financial regulations affected all foreign-and expatriate-owned enterprises in Zambia. Zambia Anglo-American Corporation and the Roan Selection Trust, the two giant mining companies in an effort to beat the new restrictions on remittances of dividends abroad, increased their monetary capital so as to remit a large portion of dividends abroad. Anglo-American doubled the capital of the company from \$23.1 million to \$45.4 million in shares of \$1.50 each by a one for one capitalization issue in December 1968. During the financial year 1967/68 dividends of Zambia Anglo-American Corporation had amounted to .76 per cent of equity capital. In a similar manner, RST increased its issued share capital from \$65.54 million to \$131.89 million by a bonus issue.⁸

1969 ECONOMIC REFORMS: MINING INDUSTRY

The 1969 economic reforms now commonly known as "The Matero Speech" were contained in a speech delivered at the National Council of The United National Independence Party on August 11, 1969 at Matero. The major part of the speech was concerned with the mining industry and the text relating to mining industry is reproduced in appendix 7.B. The emphasis on mining had been foreshadowed at Mulungushi in 1968 when the President expressed his disappointment at the (virtual lack of mining development since independence). The takeover of the mining industry was regarded as having accomplished the objective of moving towards independence as indicated by the title of the speech "Towards Complete Independence".⁹ The speech touched on the problem of foreign exchange outflows and inflated prices by expatriate and foreign enterprises.

"Time and again I have spoken of unscrupulous people who in collusion with their suppliers overseas, inflate the prices of merchandise and in this way build fat accounts for themselves overseas while the nation is suffering from foreign exchange drain and from inflated prices."

State companies were to be created so that imports of goods

would be handled by the state rather than the unscrupulous people. The speech also included a section indicating the activities of INDECO and how well this industrial organization had worked. To prove that Zambia was moving towards economic independence and that foreign capital was most welcome in Zambia six major industrial projects in which Indeco was in partnership with foreign companies were announced and they are:- an oil refinery located in Ndola (Indeco and ENI 50 per cent interest each); a car assembly in Livingstone (Indeco 70 per cent, Fiat 30 per cent); a National Oil Marketing Company (Indeco and Agip a subsidiary of ENI 50 per cent each); an integrated iron and steel plant (Indeco 100 per cent); a glass project at Kapiri Mposhi; and an agricultural implements project.

Another major announcement was the change of the tax system. The old tax system which had three elements and to which mining companies had expressed dissatisfaction several times. Briefly, mining companies were required to pay a royalty tax of 13.5 per cent of the price of copper less \$24 per ton produced. This was a tax on production charged whether copper was sold or not. No consideration was given to production costs. This may have been a deterrent to increased production and lack of mining development since independence.

Second, there was an export tax at the rate of 40 per cent of the price of copper in excess of \$900 per ton exported.

This tax, like the royalty tax was levied without regard to production costs. As a production tax it might have deterred further mining developments.

The third tax was a profit tax levied on profits remaining after the payment of royalty and export taxes. It was at a rate of 37.5 per cent on the first \$300,000 of profits and 45 per cent on the remainder.

The reformed tax system abolished the royalties and copper export tax. In its place a new mineral tax based on profits was introduced which was thought to be what the mining companies had long asked for. In announcing these changes the President said:-

"Instead of royalties and instead of the export tax, I ask the mining companies to pay 51 per cent of their profits in the form of a new mineral tax which I intend to introduce. The mineral tax which replaces the royalties and copper export tax, is based on profit and in this way I have met the mining companies' demands 100 per cent."

The income tax of 45 per cent of mining companies' profits after the payment of the new mineral tax would continue. The new mineral tax and the income tax together result in a tax rate on mining companies' profits of 73.05 per cent.

In November 1970 the takeover of the main commercial banks, all the building societies and a complete transfer of all insurance business to a state-owned insurance organization

was announced. By 1971 the economy of Zambia was, on the surface, under the control of the state. The reforms essentially established an economic system of 51 per cent or more state participation through Indeco, Mindeco, Findeco etc. supported by a variety of state organizations and controls such as state import monopolies, import/export licensing, price control, exchange control on overseas remittances of profits, control over local borrowing by foreign-owned companies. It should be emphasized here that policies are changed so that the new policy may facilitate the attainment of certain goals. Therefore, the reforms that were made during the 1968-1970 period which led to the takeovers of the key industries in Zambia sought to achieve a lofty objective that is economic independence. It is more appropriate to say that the reforms aimed at reducing economic dependence rather than achieving complete independence as this is not feasible.

7.2 EFFECTS OF TAKEOVER ON DEPENDENCE

We have shown that the reforms that took place were in the form of pronouncements and requests to foreign companies to give the state 51 or more per cent of their shares. Theoretically this gave the state 51 per cent of voting power implying that control of the industries fell under the partner with a larger percentage of the shares. This is only true if certain conditions are fulfilled. These conditions are major determinants of any takeover measures. In the Zambian case there is no evidence that these conditions were fulfilled.¹⁰

For the 51 per cent takeover to have given Zambians control of the economy it was necessary that Zambians have the technical expertise possessed by the former management of the manufacturing and mining industries. It also meant that Zambians must have had similar experience with the marketing and financial mechanism to run the mines efficiently. The supply of intermediate inputs and sale of the products in domestic and world markets demand a lot of experience and the development of warm relationships with both the factor and product markets. Unless these conditions are satisfied 51 per cent takeover confers very little, if any, control to the Government or Zambians. The case is even worse when the party taking over 51 per cent of shares has to depend entirely on the former owners.

MINING INDUSTRY

The Anglo-American Corporation group of mines amalgamated into a single company Nchanga Consolidated Copper Mines (NCCM) and the Roan Selection Trust group of mines formed the Roan Consolidated Mines (RCM). This grouping facilitated the participation of ZIMCO the superstructure of the various corporations (see Chapter 1 section 3). The Mining Development Corporation (MINDECO) acquired 51 per cent interest in NCCM and RCM. Mindeco's 51 per cent shares in NCCM were valued (at \$176 million and were "being paid for by issue of 6 per cent ZIMCO loan stock to be paid off in installments every 6 months over 12 years."¹¹ The share of Mindeco in RCM was valued at \$118 million. This too was by issue of 6 per cent ZIMCO bonds to be paid off in installments every 6 months over 8 years.¹² Annual payments amounted to \$20.7 million for NCCM and \$18.9 million for RCM. Payments were to be made from Mindeco dividends.

Since these payments were to be made overseas it meant that for 8 years Zambia was to lose foreign exchange amounting to \$39.6 million plus 6 per cent interest annually. This payment was not subject to Zambian tax or exchange control. This outflow of foreign exchange has an impact on the balance of payment and development as discussed in Chapter 6. In the short-run these payments retard implementation of certain

projects that require foreign exchange. However, in the long-run this outflow would be Mindeco's profits which would be invested in Zambia. This is the price that Zambia had to pay for economic independence. Bastock and Harvey predicted in 1972 that these payments would have serious effects on the balance of payments (see their Table 7.4).¹³ The shortages of many consumer goods in Zambia since the beginning of 1975 are partly due to shortages of foreign exchange. The agreements were very specific in that payments beside being free from Zambian tax and exchange control had to be paid when due. In short repayments have prior claim on foreign exchange. If consumer goods cannot be produced because of a shortage of foreign exchange, it becomes necessary for a government to invite foreign enterprises to produce such goods. These enterprises will participate if given attractive conditions such as tax holidays, remittances of profits etc.

MANAGEMENT OF COPPER MINES

Management contracts were given to the two major mining groups i.e. Anglo-American Corporation and Roan Selection Trust. This was done because Zambia lacked the necessary experience and expertise. It was agreed that :

"RST shall provide to RCM all managerial, financial,

commercial, technical and other services which, prior to 1st January, 1970 were supplied or produced by the RST group to Mufulira, Luanshya and Mwinilunga with the intention that the business affairs and operations of RCM shall be maintained in a manner no less efficient and standard no less than those before 1st January, 1970, and which shall be directed towards the optimization of production and profit of RCM and any subsidiary companies."¹⁴

The agreements signed by RCM, NCCM and the Zambian Government gave more power to the directors representing private shareholders. The management of the mining industry was to fall under two types of directors. The "A Directors" who came from Mindeco and the "B Directors" from RST and Zamanglo. The agreement of NCCM with Government gave Anglo-American similar rights to those of RST so that B directors acted as one and enjoyed identical privileges.

The B directors were responsible for providing vital services to the mining industry and services included:

"Technical services such as preparing progress reports, short and long term plans and viability studies for maintaining, expanding or improving operations and production, capital expenditure estimates, advice on operating problems in the mining, geological, metallurgical and engineering activities, advice on scheduling copper

production, recommending policies on ore reserves, research and development, and the provision or procurement of further technical services if reasonably called upon to do so."¹⁵

The crucial point here is that all the important decisions regarding the running of the mines are, in fact, given to Anglo-American and RST the two foreign agents of NCCM and RCM respectively. The B directors representing 49 per cent minority interest are, therefore, responsible for decisions on investment and financing of investment. If these directors decide to pay out more dividends abroad, there would have to be less investments. The takeover was supposed to give control of the mining industry to Zambia but at the end of the takeover we see that there was in fact no transfer of control whatsoever. Zambia gained 51 per cent of profits from the mining industry.

It is true that Mindeco gets 51 per cent of the profits from the mines but because of the management contracts the two agents RST and Anglo-American charge a management fee of .75 per cent of turnover and 2 per cent of profits after mineral tax but before income tax. As long as the former parent companies continue to have exclusive sales contracts, exclusive contracts for overseas purchases and exclusive recruiting contracts for 15 per cent of top management the mining industry in Zambia will continue to be dependent upon foreign capital

and management. The outflow of foreign exchange will continue see Chapter 6. Since the representatives of private shareholders decide when to invest, how much to invest and how to finance investment, perpetual dependence may be guaranteed. In Chapter 1 we discussed the importance of copper mining and showed that the entire economy is depended on copper production. Expansion of copper production determines the growth rate of other sectors. It may be inferred here that through control of the mining industry foreigners indirectly control the other sectors of the economy.¹⁶

7.3 IMPORT-SUBSTITUTION INDUSTRIALIZATION: AN INADEQUATE
STRATEGY FOR ECONOMIC INDEPENDENCE

Import substitution as a strategy for development has been tried and adopted by many developing countries. The adoption of import substitution can be traced to the disenchantment with the slow pace of industrialization, the disillusion with export prospects and to a variety of problems faced by developing countries -- prominent among problems are pressures on the balance of payments, acute shortages of manufactured goods and economic dependence on the developed countries. In Zambia, the adoption of an import substitution strategy was, as in most developing countries, in response to the desire for economic independence, rapid economic growth through industrialization and to some extent pressure on the balance of payments difficulties. These problems face many developing countries.¹⁷

It is stated that Zambia embarked on import substitution with a view to lessening its economic dependence on the South (particularly South Africa and Rhodesia).¹⁸ In the Zambian case, the question of dependence on the South was aggravated by dependence on a single industry, copper mining. Import substitution required Government intervention in the economy so as to speed up the industrialization process. It had become apparent that the free capitalist system inherited from the

colonial era was an insufficient mechanism to successfully enable the nation to achieve industrialization and other social goals.¹⁹ This realization made it imperative for the Government to give the task of industrialization to a parastatal organization the Industrial Development Corporation (INDECO) to implement import-substitution industrialization projects.

The desire for economic development through industrial diversification was also the result of the natural growth process of the domestic market which demanded more domestic industries to supply industrial goods. The demand for industrial goods had increased since independence and these goods were being supplied by foreign-owned enterprises or imported from abroad. Furthermore, it can be argued that, it was in the national and social interest to establish a much more diverse economic base to lessen dependence on the copper mining industry whose industrial development was full of uncertainty. Post-independence investment decisions often reflected the interests of foreign businessmen and their shareholders whose interests could hardly be expected to coincide with those of the people of Zambia. The national goals vis-a-vis industrialization in Zambia were first mentioned in "Outline of the Government's Industrial Policy"²⁰ in which the basic objectives were clearly spelled out as:

"The basic principle of government policy is to support selected industries which can make a net contribution to the development and diversification of the economy. It will encourage, where applicable, industries that will contribute towards making the country self-supporting in consumer goods which are in more general demand, thereby reducing imports and saving foreign exchange.

Special emphasis will be placed on those industries which are labour-intensive: a corner-stone of the Government's policy is to support those ventures that contribute significantly to the reduction of unemployment and to the development of the skills of the people.

Government will encourage especially those industries which have a potential likely to lead to the establishment of other related industries and will be prepared to consider special assistance where the product not only will meet the requirements of the local market but also provide a surplus for export at competitive prices.

It is Government policy to actively encourage, where practicable, the setting up of industries outside the main centres, so that the benefits of development may spread throughout the country."

This quotation speaks for itself and indicates that Govern-

ment intervention was due to disillusion with the activities of the private sector as a prime mover of industrial diversification. As early as 1966 we see that the Zambian Government was concerned with setting up industries that would reduce unemployment, save foreign exchange and redistribute income equitably between the urban and rural areas. INDECO projects have been accredited with reducing foreign exchange requirements. The importance of these industrial projects was summarized by the President as follows:-

All these industries together will provide direct employment to at least four thousand people. But more importantly, they will save the Nation large sums in foreign exchange, and will prove a very firm step forward in our Industrial Revolution and on the road to Economic Independence.²¹

Industrialization of the Manufacturing Sector

When Zambia attained independence in 1964, it had a very limited manufacturing sector. This sector was only limited to the metal working sector which supplied the copper mines. Rhodesia's unilateral declaration of independence (UDI) and more recently the closure of the Rhodesian/Zambia border

reinforced diversification of the manufacturing sector. After UDI relations between Zambia and Rhodesia were at their lowest ebb and this became a motivating factor for industrialization and protection was granted to industries in Zambia. Rhodesian and South African private investors moved their manufacturing concerns to Zambia to capture the high rates of return during the first few years of independence. Such private initiatives were the basis of the growth in the production of clothing and metal products but this was insufficient. Multi-million dollar investment projects like the Dunlop tyre factory or the Bata shoe factory were few and far between. The Government gave investment incentives to foreign investors but found out that foreigners invested in the most profitable projects and quickly remitted their profits abroad. In response to this the Government promoted its 100 per cent controlled Industrial Development Corporation as the nation's main industrial investor.

Among the largest projects initiated by INDECO are the Kafironda explosives factory, Kapiri Glass Products and Kabwe Industrial Fabrics. Industrialization of the manufacturing sector in Zambia was partly due to the belief that there was a ready market in Zambia. This belief is supported by available evidence. Indeco's industrialization policy, in practice, was stimulated by the availability of Government revenue arising

from high copper prices which enabled the Government to expand its expenditures and effective demand among the African wage earners. It should be recalled that soon after independence the incomes of the Africans were increased tremendously. A high proportion of the African household salaries and wages was directed towards the purchase of domestically produced goods. Government high investment expenditures in the construction sector increased the demand for locally manufactured material inputs. The contention that Indeco's industrialization policy was demand oriented can be seen from the companies in Appendix 7.A which can be divided into Building Industry and an industry comprising firms to produce African Household Goods. High Government expenditure in construction enabled Indeco to invest heavily in the Building industry. The created demand for cement, bricks, worked timber, flooring blocks, cut glass tiles, metal doors and windows, porcelain and metal sinks and bowls, asbestors and metal roofings was the basis of Indeco's investments. The demand for these enabled Indeco to prosper. We shall discuss Steelbuild Holdings Limited a subsidiary of Indeco a little later when we consider the 1973/75 principal subsidiary and associate companies of Indeco.

The other industry (African Household Goods, for lack of a better term) comprised companies that produced (the majority of them partially nationalized) clothing of all sorts, processed

foodstuffs, cigarettes, beer, blankets, bicycles and furniture of all kinds. The companies engaged in this line of production were greatly aided by tariffs and import licensing arrangements. The success was due to the expressed demand by the African household for manufactured goods.

Indeco's Principal Subsidiaries

By 1973 Indeco had created about six principal subsidiary companies over which it had 100 per cent control. It also had some shares in other subsidiaries and associated companies.²² The six principal subsidiaries are Indeco Breweries Limited, Indeco Chemicals Ltd., Indeco Industrial Holdings Ltd., Indeco Real Estate Ltd., Rucom Holdings Ltd., and Steelbuild Holdings Ltd. Each of these subsidiaries holds shares ranging from 51 to 100 per cent in companies engaged in the manufacturing sector. In essence this meant that private companies owned by foreigners and those formed after independence were categorized according to their economic activities. The various economic activities fit into the six subsidiaries of Indeco.

Indeco Breweries Limited

Under this subsidiary of Indeco a few of the most important companies are the National Breweries Ltd., where Indeco Breweries Ltd. a subsidiary holds 51 per cent of the shares and 49 per cent is held by Lonrho of the United Kingdom. The principal activity of National Breweries is the brewing of opaque beer which has a large market in Zambia. Indeco Breweries holds 55 per cent of shares in Zambia Breweries Ltd. and the remaining 45 per cent belongs to Labatts of Canada. Its main activity is the brewing of lager beer. A third important company under Indeco Breweries is the Zambia Sugar Company in which Indeco Breweries now controls 51 per cent leaving 49 per cent to a subsidiary of Tate and Lyle of the United Kingdom. Zambia Sugar company owns a sugar refinery at Ndola and through its subsidiary operates the Nakambala Estate at Mazabuka. The fourth company under this subsidiary is Norgroup Plastics Limited which is 100 per cent Indeco controlled and is responsible for the manufacturing of plastic products.

Indeco Chemicals Limited

Indeco Chemicals Limited holds shares in companies involved with the manufacturing and importation of goods that

can be classified as chemicals. To illustrate the broad activities of this subsidiary only six major companies will be discussed.

Kafironda Limited is an explosives factory established to supply the Zambian mining industry with explosives. Indeco chemicals holds 54 per cent of the shares. The remaining 46 per cent of the shares is shared by Cobar (Overseas) Holdings Ltd., Cahow Ltd., and Covenant Industries Ltd. It is reported that this company (Kafironda) is operating profitably.²³

Kapiri Glass Products Limited sold 65 per cent of its shares to Indeco Chemicals leaving Coutinho Caro of West Germany with 35 per cent control. It is located at Kapiri Mposhi and is the manufacturer of glass bottles in Zambia. Kapiri Glass Products Ltd. has its own subsidiaries in a few big towns in Zambia.

The manufacturing of soaps, detergents, candles, edible fats and oils in Zambia is now under ROP Limited which is 100 per cent controlled by Indeco Chemicals.

The fourth company of importance in this group is the Nitrogen Chemicals of Zambia Limited controlled 99 per cent by Indeco Chemicals. Kobe Steel of Japan has one per cent interest in the manufacture of ammonium nitrate, fertilizer and explosives. The manufacturing of intravenous fluids and drugs is the responsibility of a wholly controlled company the General Pharmaceuticals Limited. Finally under Indeco Chemicals

Limited, it is worth considering a company controlling firms involved in the manufacturing of industrial gas. This is the Zambia Oxygen Limited in which Indeco Chemicals has 51 per cent interest while British Oxygen of Britain enjoys 49 per cent of the company's shares.

Chemicals limited as a subsidiary of Indeco has been faced with the problem of acute shortage of raw materials since these have to be imported. The shortage of soaps, detergents and cooking oils resulted in the rationing of these commodities towards the end of 1975.

Indeco Industrial Holdings Limited

Consolidated Tyre Services Limited and Kabwe Industrial Fabrics Limited are both wholly-owned by Indeco Industrial Holdings. The former company is mainly engaged in the manufacturing of tyres, batteries sales and repairs while the latter is a manufacturer of twine, rope and bags. An interesting company under this subsidiary of Indeco is the Kafue Textiles of Zambia Limited in which Indeco holds 55 per cent of the shares through its subsidiary Industrial Holdings. The remaining 45 per cent of the shares are shared by four private overseas partners of Indeco Industrial Holdings. Amenital Holding

Registered Trust of Vaduz (Liechtenstein) has 22.5 per cent of shares. Part of this has been sold to Textilconsult (Liechtenstein), Barclays Overseas Development Corporation has 10 per cent of the shares and the Commonwealth Development Corporation has 12.5 per cent of the shares. Kafue Textiles of Zambia are the manufacturers and importers of textiles. The partners together are responsible for spinning, weaving, dyeing and finishing.

Livingstone Motor Assemblers Limited is 70 per cent controlled by Indeco Industrial Holdings and 30 per cent of the shares are split between Fiat and Intersomer both of Italy. This company assembles Fiat passenger cars in Zambia. All the parts are imported from Italy. Another company concerned with vehicles in Zambia and which is 75 per cent Indeco controlled is the Motor Parts Distributors Limited. Grindlays Bank International holds 25 per cent of the shares. This company is a motor vehicle parts importer and distributor.

Metal Fabricators of Zambia Ltd. (ZAMEFA) in which Indeco Industrial Holdings owns 51 per cent of the shares while Phelps Dodge of the United States, Continental Ore Corporation, USA and Svenska Metalverken of Sweden together share 49 per cent of the capital shares is the manufacturer of copper cables.

Indeco Real Estate Limited

Indeco Properties Limited controls residential property while commercial and industrial property is under the control of Mwaiseni Properties Ltd. Kafue Estate Limited concerns itself with residential and industrial estates. All these companies are wholly-owned by Indeco Real Estate Limited. Viak, A.B. Sweden is the only foreign partner in Indeconsult where it holds 40 per cent of the shares for the control of pollution

Rucom Holdings Limited

The majority of the companies under this subsidiary are supposed to be engaged in the industrialization of the rural areas. Rucom Industries Limited which are 100 per cent Indeco-owned are the promoters of small scale rural enterprises in Zambia. Indeco Milling Limited 100 per cent owned by Indeco has firms that are maize millers and producers of stockfeeds. Maize is the staple food in Zambia and is produced mainly by rural dwellers and a few Zambian commercial farmers. Zambezi Sawmills Limited is one of the Mulungushi companies responsible for controlling firms that are timber fellers, sawers and merchants. However, industrial timber products because of the

importance of these products to the mining industry are produced by the Mining Timbers Limited company in which the Government acquired 51 per cent of the shares through Rucom Holdings. Another company under Rucom Holdings in which foreign partners are involved is the National Milling company²⁴ where Chartered Consolidated of the United Kingdom still has 49 per cent of the shares. Firms under this company are the millers and distributors of flour, maize and other products. National Milling company differs from Indeco Milling Limited in that National serves the urban areas and wherever possible exports and imports its products whereas Indeco Millings produces for the rural areas mainly.

Steelbuild Holdings Limited

Companies under this subsidiary consist of Chilanga Cement where Indeco acquired 51 per cent shares and the Commonwealth Development Corporation of Britain kept 49 per cent. Chilanga Cement manufactures cement at the Ndola and Chilanga factories and supplies the nation's cement requirements. Crushed Stone Sales and Monarch Zambia Limited are 100 per cent owned by Steelbuild. The former is concerned with the manufacture of stone quarries and lime while the latter manufactures construction materials. Intersomer and Piacenza

both of Italy have 40 per cent of shares in the Lusaka Engineering Company Limited which supervises metal vehicle body, furniture and construction material fabrication.

Other Subsidiaries and Associated Companies

Indeco acquired 51 per cent shares from Eagle Travel Limited a travel agency and 42 per cent of the shares in Duncan, Gilbey and Matheson of U.K. the liquor blenders. Dunlop Zambia Limited sold only 23 per cent of its shares. It manufactures tyres and rubber products.

In all these takeovers and active participation by government there was no meaningful transfer of control to Indeco. The only benefits accruing to Zambia were profits. Indeco still depended upon its foreign partners to provide the know-how and personnel. The result of import substitution industrialization is more dependence and consolidation of the inherited colonial structures which prevent development that is based on exploitation and mobilization of local resources.

Import Substitution and the Balance of Payments

The preceding discussion has indicated that the strategy of import substitution in Zambia was initiated by government and that the key industries were those that produced manufactured goods. These industries were to produce consumer goods for which there was a local market. Thus import substitution in Zambia was designed to satisfy demand previously satisfied by imports. Tariff protection and licencing arrangements guaranteed a market for domestically produced goods.²⁵ This strategy had been tried in Brazil. Morley and Smith in their study of the Brazilian import substitution industrialization found that "In order to achieve the substitution, intensive use of subsidies, tax advantages, high tariffs, and direct government investment were employed."²⁶ Indeco represents direct government investments in the key sectors of the economy.

Like in Brazil import substitution in Zambia has been very favourable to foreign investments. Indeco and its foreign partners are protected by high tariffs and enjoy monopoly profits. Because of its dependence on foreign capital and inputs, import substitution in Zambia has failed to ease the balance of payments pressures. The balance of payments deficit has since the establishment of the import-substitution programme worsened.

Imports are defined as encompassing the intermediate goods implicit in the import bill since the newly required intermediate inputs for the industries were previously supplied indirectly or implicitly by the importation of the final products. Table 7.2 gives an idea of the success of the manufacturing sector in Zambia. Heavy concentration in the production of consumer goods, particularly non-durables, is visible in food, beverages, and tobacco value-added for the period 1965-1973. In 1965 food manufacturing as a percentage of the total of the output of the manufacturing sector was 13.5 while beverages and tobacco accounted for 27 per cent. By 1973 food, beverages and tobacco together accounted for 54.3 per cent of the total value-added by the manufacturing sector to the gross domestic product. Industries for these manufactures (food, tobacco and beverages) require low initial capital outlay and use simpler technologies.

TABLE 7.2

VALUE-ADDED IN MANUFACTURING IN ZAMBIA 1965-1973

(Per cent of each manufacturing industry)

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Manufacturing Industries	13.7	11.3	8.6	10.2	12.7	13.8	14.4	53.1	54.3
Food	27.0	29.2	30.0	40.2	37.9	40.7	39.7		
Beverages and tobacco	8.1	6.7	9.7	6.6	8.5	7.9	7.0	7.4	7.3
Textiles and wearing apparel	5.0	5.2	3.2	2.2	4.4	3.9	2.3	2.6	2.4
Wood and wood products, including furniture	4.4	3.7	4.1	5.0	3.6	3.6	3.8	3.6	3.1
Paper, paper products, publishing and printin	1.6	1.4	1.6	1.5	2.6	2.5	3.5	11.3	13.3
Rubber products	5.8	5.2	6.9	6.0	7.7	5.0	4.6		
Chemicals, chemical petroleum and plastic products	12.7	9.2	8.1	7.3	6.6	8.4	6.7	5.5	4.9
Non-metallic mineral products	12.0	8.4	6.3	4.9	2.1	2.0	1.6	1.7	1.6
Basic metal products	9.1	19.2	20.8	15.7	13.5	12.0	16.2	14.7	13.0
Fabricated metal products, machinery and equipment	0.2	0.5	0.6	0.4	0.4	0.2	0.2	0.1	0.1
Other manufacturing	100	100	100	100	100	100	100	100	100

SOURCE: Calculated from Monthly Digest of Statistics Vol. XI, Nos. 11 and 12 November/December 1975 page 54. See also Table 1.6 of this study.

The basis of manufacturing industries in Zambia was foreign capital goods. This meant an increase in imports of intermediate inputs, machinery and equipment as can be seen from Table 7.3. In 1964, imports of machinery and equipment and transport equipment were valued at \$63.6 million. Four years later the value was \$201.6 million. This increase in demand for machinery and equipment was due to heavy import-substitution industrialization. It would appear that import substitution is a poor strategy for solving the problem of balance of payments deficit and attainment of an acceptable degree of dependence particularly in the presence of large amounts of foreign investments.

TABLE 7.3

IMPORTS OF MANUFACTURED AND PROCESSED GOODS 1964-1973

(Million US Dollars)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
1 Processed Foodstuffs, Animal and vegetable oils and fats	16.2	19.9	24.9	27.8	29.2	31.2	36.6	36.4	41.6	35.4
2 Beverages	1.8	2.0	1.7	2.8	3.1	3.1	2.9	3.2	2.9	2.8
3 Manufactured Tobacco	2.6	2.2	2.6	0.4	0.2	0.2	0.1	0.1	0.1	0.1
4 Clothing	15.6	16.1	11.6	15.1	11.9	17.6	17.8	10.2	21.2	17.6
5 Footwear	4.1	4.9	5.4	7.2	4.4	6.2	6.4	5.7	8.1	4.7
Total (1 - 5)	40.2	45.1	46.3	53.3	48.7	58.2	63.8	55.6	73.8	60.5
6 Inedible materials including coke	2.7	3.2	4.2	5.0	5.7	5.0	5.6	7.5	7.4	6.3
7 Petroleum products	7.7	11.0	8.7	18.8	19.9	22.2	20.9	24.0	26.3	19.8
8 Chemicals	24.5	30.2	28.9	31.2	33.9	33.8	36.4	44.2	46.1	53.6
9 Leather, furs and rubber	4.9	6.2	6.9	9.6	13.4	10.7	8.4	10.7	9.4	11.4
10 Wood and cork manufactures	1.0	2.1	2.6	2.8	2.7	1.6	2.9	1.7	1.8	1.6
11 Paper manufactures	4.6	5.9	7.7	8.9	10.7	8.9	10.2	10.9	10.2	9.8
12 Textiles	14.3	22.5	22.6	31.3	28.4	20.9	20.3	14.8	22.7	23.1
13 Non-metallic minerals	4.7	6.4	9.1	7.9	11.3	6.7	6.5	6.7	6.9	9.0
14 Manufactures of metal	22.2	31.7	33.8	37.7	44.7	41.9	44.6	61.7	55.1	47.8

TABLE 7.3 continued

15 Machinery	42.8	67.3	90.8	106.7	122.5	135.1	124.7	142.9	168.7	158.9
16 Transport equipment	20.8	37.1	56.2	82.8	79.2	49.5	59.8	81.4	66.7	54.6
17 Miscellaneous manufactures (not clothing and footwear)	12.0	17.9	18.7	20.3	19.7	17.9	20.2	22.6	24.1	19.0
Total (6 - 17)	162.2	241.3	290.0	363.1	392.1	354.4	360.5	429.1	445.5	414.8
All manufactured Imports	201.9	286.5	336.3	416.4	440.8	412.6	424.3	484.7	519.3	475.3
Total Imports	234.7	316.1	369.2	459.5	487.8	467.7	511.1	598.9	603.7	520.3
Imports of manufactures as percentage of total imports	86.1	90.6	91.1	90.6	90.3	88.2	83.0	80.9	86.0	91.3

SOURCE: For the years 1964-1969 figures adopted from A. Young, "Industrial Diversification in Zambia", Praeger, New York, 1973. Table 5.2 p. 15. See also Annual Statements of External Trade 1965-1973, Lusaka, Central Statistical Office and Yearbook of International Trade Statistics 1974 Volumes I and II, United Nations, New York 1974. pp. 1014-1019.

7.4 IMPACT OF TAKEOVERS AND IMPORT SUBSTITUTION ON DEPENDENCE
AND BALANCE OF PAYMENTS

The extent to which import substitution reduces economic dependence largely depends on how it is implemented. If import substitution uses imported materials, its effects on dependence are likely to be negligible. Bruton has pointed out that import substitution ought to be regarded as a catalyst which creates an environment that activates the already available, but unrealized resources.²⁷ This means that import substitution in the manufacturing sector must be based on local resources if it is to reduce economic dependence.

Indeco has been praised for its activities on the basis of its contribution to gross domestic product. The contribution of the manufacturing sector to GDP measured in money terms doubled from 6.7 per cent in 1965 to 13 per cent in 1973 (see Table 1.9). This growth rate is a poor measurement of the effect of import substitution on economic dependence. In some cases aggregate import-GDP ratios have been used but these ratios hide the impact of import substitution policies on specific sectors. Import-GDP ratios for Zambia as calculated from Tables 1.6 and 1.13 are:

1965	30%	1970	27%
1966	29	1971	34
1967	32	1972	31
1968	31	1973	21
1969	24.		

The fall of imports as a percentage of GDP in 1969 can be explained by the economic reforms of 1968 and 1969 such as the import licensing policies, the tightening of foreign exchange controls, uncertainty created by the reforms and the general political and economic upheaval in Southern Africa.

Indeco's industrial projects are heavily depended on foreign inputs. Seidman has argued that "Local value-added actually declined from half to about a third of the gross output of the manufacturing sector."²⁸ We have already pointed out that import substitution in Zambia puts more emphasis on replacing foreign owners by Indeco. The production system is basically that which existed before independence. It has not brought about structural changes. Table 7.2 shows that manufacturing is dominated by tobacco and beverages industries and that value-added from other industries has declined since political independence. Thus import substitution industrialization of Indeco is substantially unchanged, the sources of inputs are still the same, the output and the product market are substantially unchanged. The only visible change that resulted from the economic reforms is that there is joint ownership of firms and that goods formerly imported are now produced domestically. This achievement has no bearing on economic dependence. Indeco and Mindeco operate

with a view to maximize profits. These state corporations are in partnership with foreign and resident expatriate entrepreneurs. The latter partner is more experienced and largely decides where to make investments. We see that at the decision making level Indeco and Mindeco are dependent on foreign experience. This is a partial explanation of the persistence of the inherited system of free enterprise, that is, letting market forces shape the decisions as to which industries in the manufacturing sector ought to be established, where they should be established and what technique should be employed. Attainment of the objective of economic independence under these circumstances becomes a difficult task. In Table 5.3 we listed large scale industrial units established during the First National Development Plan. All, but, Mwinilunga Fruit Canning Factory are located in the urban area i.e. along the line-of-rail. All these established factories and plants are producing goods that were produced before the reforms.

It is argued that investment of this kind creates limited employment and that it raises national income which in turn leads to a higher demand for imported goods. Table 7.3 shows the volume of imports of manufactures. Netto and Leff in a case study of Brazil²⁹ showed that imports stimulated by higher national income more than offset the foreign exchange saved by domestic production of goods formerly imported. The point to be made here is that Zambian import substitution programme

uses intermediates which are not produced domestically thereby making a claim on the foreign exchange saved and more important making the whole economy dependent on foreign resources. This pattern of industrialization has been observed elsewhere by Morley and Smith.³⁰

The rural area has not received a fair share of the economic growth that has been taking place despite Government pronouncements and desire to improve the lives of rural inhabitants. This is due to the fact that investment decisions are made by foreign investors. It is this persistence of dependence that seriously limits modernization and technological improvement of the hinterland. Agricultural production is adversely affected and is not responsive to the growth of urban incomes and population. This is another explanation for the continued increase in imports of manufactured goods given in Table 7.3 . The absence of interdependence between the urban area and the rural area aggravates the problem of dependence. Hirschman comes to the conclusion that import substitution industrialization that fails to link all sectors in an economy also fails to bring about social changes.³¹ As the demand for manufactures increases due to population growth, urban immigration and the higher urban incomes, the demand for imports of manufactures will also increase. To satisfy this demand by domestically produced goods, domestic investment

must be increased. Indeco and its partners have to establish industries whose technology is labour-saving creating a problem of unemployment. The significant point is that the growth of the manufacturing industries will be dependent on foreign materials and parts.

To maintain the same growth rate Indeco will be compelled to borrow from abroad and this borrowing has its own problems discussed in Chapter 6. The Livingstone Car Assembly, Kafue Textiles and Kafironda Explosives are only a few examples of Indeco's industries which depend completely on foreign inputs and which are intended to satisfy the consumption demands of the urban area. Kafue Textiles imported equipment and machinery that is designed to use rayon and polyester. What was required was to establish a textiles plant that uses cotton produced in the Eastern Province of Zambia where the production of cotton has been reduced because of a limited market.

CONCLUSION

Import substitution industrialization of Indeco in partnership with foreign or resident expatriate entrepreneurs represents extensive investment which is dependent upon imports of parts and materials. This pattern of industrialization is very unlikely to induce structural changes nor reduce economic dependence but more likely to lead the economy to extreme external vulnerability since any change in foreign markets causes grave difficulties. The problems of 1975 and 1976 revealed the vulnerability of the Zambian economy.

The creation of Indeco, Mindeco and other state corporations and the strategy of import substitution show the desire for self-determination, independence and reduction in foreign economic dependence. However, these objectives cannot be achieved easily, particularly, in an economic system that is intensively enmeshed in a system of international economic relations. Zambia does not have a developed national capital goods industry and its import substitution industries heavily depend on imports of parts and materials. This is the root cause of the failure of import substitution policy in reducing dependence on foreign factors. The economic reforms and the implementation of import-substitution have resulted in an economic system that is characterized by a high proportion of import of capital and intermediate goods necessary to produce

consumer goods. The structure of manufacturing production is now organized basically to produce domestically consumed goods. It is this structure that is making the economy more dependent, more vulnerable and more unstable.

The Zambian import substitution process, instead of reducing import requirements, has in actual fact increased them. Furthermore, the increase in demand raises the cost of imports as the economy becomes prone to import ever more technically complicated, advanced, monopolized and costly equipment from the metropolis.³² It is argued here that this import substitution cannot reach the point at which the satellite ceases to be dependent on the metropolis for its equipment, technology and critical raw materials. The strategy adopted by Zambia can be characterized as an industrial blind alley leading the country away from, rather than towards, domestic production of necessities utilizing domestic resources. What merges is that mobilization of resources is incomplete, the rural sector is being underdeveloped relative to the modern sector and a dual economy is being consolidated.

Import-substitution industrialization that depends on foreign investments and imported technology and raw materials runs into difficulties when means of payments for imports decline. This happened in Zambia in 1975 and 1976. The inevitable result is resort to foreign loans. Foreign loans, we saw in Chapter 6, imply that a larger share of foreign exchange earnings must be devoted to servicing the loans. The

debtor country is put at the mercy of the creditor and the satellite dependency is finally used by the creditor to obtain more and greater concessions as was the case with the agreements reached between the Zambian government and the major copper mining companies.

NOTES

¹The copper mines of Zambia are an excellent example of foreign investments in extractive industries where the product has a market in the developed countries. Such investments are the provinces of multinational corporations. Anglo-American Corporation and the Roan Selection Trust are the major copper mining groups in Zambia. For a detailed analysis of the activities of multinational corporations see: UN. Department of Economic and Social Affairs "Multinational Corporations in World Development" Praeger New York, 1974. pp. 10 - 15.

²Foreign investors have minority representation on the boards of the companies in accordance with their shareholdings. They, however, provide the day-to-day management. It is reported that foreign investors find joint ventures attractive ---- local participation will ensure that managerial control lies with the foreign investor A. Seidman, "The Distorted Growth of Import Substitution Industry: The Zambian Case", the Journal of Modern African Studies, December 1974. pp. 601-631. See also Africa Research Bulletin: Economic, Financial and Technical Series November 15 - December 14, 1974 Vol. 11 No. 11, December 31, 1974. pp. 3324-3326.

³See: United Nations Department of Economic and Social Affairs, "Multinational Corporations in World Development", Praeger, New York, 1974. p. 50.

⁴K.D. Kaunda, Humanism in Zambia, in Bastiaan de Gaay Fortman, editor "AFTER MULUNGUSHI: The Economics of Zambia Humanism", East African Publishing House, Nairobi, 1969.

⁵K.D. Kaunda, "Zambia Towards Economic Independence", Zambia Information Services, Lusaka, 1968. This is a speech delivered at Mulungushi at the National Council of the United National Independence Party (U.N.I.P.) on April 19, 1968.

⁶Ministry of Commerce and Industry, Outline of Government's Industrial Policy, Government Printer, Lusaka, January 3, 1966.

⁷K.D. Kaunda, "Zambia Towards Economic Independence" op. cit.

⁸Mark Bastock, "The Background to Participation" in Mark Bastock and Charles Harvey, eds. "Economic Independence and Zambian Copper: A case study of Foreign Investment", Praeger, New York 1972. pp. 10

⁹K.D. Kaunda, "Towards Complete Independence", Zambia Information Services, Lusaka, 1969. Reproduced as Appendix 7.B of this study.

¹⁰C.M. Ushewokunze, "The Legal Framework of Copper Production in Zambia, Zambia Law Journal, Volume 6, 1974. pp. 75-100.

¹¹Mark Bastock and Charles Harvey "The Takeover", in Mark Bastock and Charles Harvey eds., op. cit. pp. 145-179. The analysis that is relevant is on page 146 of their Chapter 7.

¹²ibid p. 146.

¹³ibid p. 164.

¹⁴See appendix A: The Terms of the Takeover, pp. 219-239 in Bastock and Harvey, eds. op. cit.

¹⁵ibid pp. 229-233. This meant the running of the mining industry in Zambia was in the hands of the B directors.

¹⁶Alistair Young, "Industrial Diversification in Zambia" Praeger, New York, 1973. Chapters 4 and 7. See also Norman Girvan, "Foreign Capital and Economic Underdevelopment in Jamaica", Unwin Brothers Ltd., Surrey, 1971. pp. 260-269.

¹⁷Albert O. Hirschman, "Political Economy of Import-Substitution Industrialization in Latin America", The Quarterly Journal of Economics, Volume LXXXII, February 1968. pp. 1-32.

See also G.K. Helleiner, "International Trade and Economic Development" Penguin 1970 Chapter 6: Import-Substitution. pp. 96-106.

¹⁸A. Young, op. cit. Chapter 7.

¹⁹Summary of the Industrial Development Plan of Zambia 1972-1976, in Summaries of Industrial Development Plans, Volume III, United Nations Industrial Development Organization, Vienna, June 1973. p. 456.

²⁰Ministry of Commerce and Industry, op. cit.

²¹K.D. Kaunda, "Towards Complete Independence", Zambia Information Services, Lusaka 1969. p. 19. This was a speech delivered at the National Council of U.N.I.P. at Matero by His Excellency The President, on August 11, 1969.

²²INDECO Annual Reports 1970/71 - 1974/75.

²³See Annual Reports and Statements of Accounts of the Commonwealth Development Corporation for the years ending December 31, 1970, 1971, 1972 and 1973.

²⁴The National Milling Company tookover an Asian-owned Ndola Milling and Produce Company. This Asian firm used to be the major supplier of stockfeeds to the Copperbelt Province farmers. An official of Indeco told factory workers after the surprise physical takeover by police and Indeco officials that the firm's trading licence had been revoked by President Kaunda in accordance with the provisions of the Trades Licensing Act: See Times of Zambia 21st Setptember, 1973.

²⁵The establishment of a State Import-Export Licensing organization to be responsible for monitoring imports prevented the private sector from importing goods that would be in competition with those produced industries under Indeco.

²⁶Samuel A. Morley and Gordon W. Smith, "Import Substitution and Foreign Investment in Brazil", Oxford Economic Papers, 1971, Volume 23. pp. 121-135.

²⁷For a more elaborate discussion, see H. Bruton, "Import Substitution Strategy of Economic Development", Pakistan Development Review, Volume 10, 1970. pp. 123-146.

²⁸A. Seidman, "The Distorted Growth of Import Substitution Industry: The Zambian Case", The Journal of Modern African Studies, Volume 12, No. 4, December, 1974. pp. 601-631. See also Jaleel Ahmad, "Import Substitution and Structural Change in Indian Manufacturing Industry 1950-1966", Journal of Development Studies, April 1968. pp. 352-377.

²⁹Nathaniel H. Leff and Anthony D. Netto, "Import Substitution, Foreign Investment and International Disequilibrium in Brazil", Journal of Development Studies, Volume 2, April 1966. pp. 218-233.

³⁰S.A. Morley and G.W. Smith, op. cit.

³¹A.O. Hirschman, "The Political Economy of Import Substitution Industrialization in Latin America", The Quarterly Journal of Economics, Volume LXXXII, February 1968.

³²Oswaldo Sunkel, "National Development Policy and External Dependence in Latin America", The Journal of Development Studies, Volume 6, October 1969. pp. 23-48

CHAPTER 8

CONCLUSIONS AND BROADER IMPLICATIONS

The central objective of this study has been the determination of the effects of all forms of foreign capital inflows on the economy of Zambia. In particular this study has been concerned with the question of dependence on foreign capital and the implications of that dependence on the pattern of economic development in Zambia. It aimed at determining the contribution of foreign capital to the establishment of a nationally integrated economy whose growth is dependent upon the mobilization and utilization of locally available resources.

The study has also sought to establish the factors that induce foreign capital inflows. The Two-Gap Theory has been found to be an insufficient reason to explain foreign capital inflows in the Zambian case. First, the insufficiency of domestic savings in Zambia is caused by the type of investment projects conceived and implemented by the government and its foreign owned partners. Private foreign companies largely determine the type of techniques to be used. The costly equipment is produced by monopolies in the industrialized countries. A large share of savings accrues to foreign firms and is sent out of Zambia thereby causing a shortage of savings. These savings would have been used to finance investment projects. Therefore, the root cause of the investment-savings gap is the dependence

of the Zambian economy on foreign technology and direct private investors.

Second , this study has shown that the import-export gap was never the root cause of foreign capital inflows. Foreign exchange earnings from exports were large enough to pay for most of the essential imports. However, here again the copper export earnings were the sole property of multinational corporations which paid out as dividends to their shareholders abroad a high portion of the export earnings. Thus this study concludes that the inflows of foreign capital into Zambia can be meaningfully explained by the presence of foreign direct investment and the dependence of that economy on external factors rather than the Two-Gap Theory.

8.1 SUMMARY OF CONCLUSIONS

The degree of dependence of the Zambian economy on the economies of industrialized countries coupled with the desire by the Zambian government to industrialize fast created the demand for loans and grants. Government initiated projects that depended on the availability of foreign technology which was financed through foreign aid loans and grants. The increase in imports of both capital equipment and consumer goods was induced by loans and grants from the metropolis.

An inflow of foreign capital, whether in the form of a loan, grant or private foreign direct investment, into certain sectors of an economy is bound to create disparities between the externally financed sectors and those not qualifying for such investment funds. In Zambia the urban area (modern sector) received massive injections of both private foreign investments and government initiated investments financed through borrowing from abroad. These inflows were instrumental in the establishment and consolidation of an export-import enclave in Zambia which is integrated into the capitalist world. Its distinguishable characteristic is the degree of dependence on foreign markets for its inputs and outputs. A limited quantity of what is in Zambia is consumed domestically because the price of the products is too high for the masses of the population. High levels of consumption of imports by the upper class and the labor aristocracy contribute to the marginalization of the rural people who cannot be employed in the enclave industries

and are thereby left out of the development process. Because the technology used in the modern sector is highly skill-intensive the result is that unskilled and semi-skilled Zambians do not only fail to get jobs but are denied the income with which to purchase the products of the modern factories. This not only facilitates the establishment of a dual economy from the point of view of production techniques but also from the point of view of consumption patterns. The few Zambians within the modern sector use more advanced equipment and methods of production relative to the masses of the population living in the traditional sector of subsistence agriculture. These differences in production techniques easily translate into differences in consumption patterns. These developments make it possible for the few Zambians in the modern sector to align themselves with international capitalism for it is through this association that they are able to enjoy a higher standard of living than the masses. These are the social, economic and political forces that work for the integration of the modern sector of a developing country into the capitalist world economic system and prevent the development of a balanced and nationally integrated economic system.

The maintenance of a high rate of economic growth that Zambia experienced during the first five years of flag independence was due to its dependence on foreign technology and the package deal that accompanies it. In this case study of Zambia, it seems that the theory of technological dualism and that of dependence converge in various zones as discussed

in chapter 2 section 5. This convergence is a powerful tool for the analysis of the coexistence of extreme poverty and affluency in Zambia and in many other developing countries. The dual economy of Zambia in which the modern sector develops as a reflection of developments in the Western countries defines the dependence relationship between the core or centre countries and Zambia, the periphery and facilitates the determination of the development patterns in Zambia by external forces. Following this position of superiority occupied by international capitalism, it becomes easy for international capitalism to expropriate some of the economic surplus produced in Zambia. This expropriation and appropriation of Zambian economic surplus decapitalizes the economy so that any investments have to depend on either foreign aid (loans and grants) or direct private foreign investments.

It is the existence of these forces that induce foreign capital inflows into a developing country. In Chapter 3 we showed that a large portion of foreign capital inflows into Zambia came from the Western countries (the capitalist world) and in Chapter 4 we analysed the sectoral distribution of these inflows and found out the main recipient sectors of foreign capital inflows were sectors along the line-of-rail which defines the modern sector of Zambia. Such inflows, we argued, facilitated the development of and growth of the manufacturing, mining, transport, wholesale and retail trade, and electricity industries in Zambia. A strong economic relationship has

been established between these sectors and international capitalism. These developments depended on foreign loans, grants and direct private foreign investments. Loan facilitated the export of interest from Zambia while foreign investments facilitated the exportation of profits all of which are appropriated by residents of the Western countries.

In chapter 5 we analysed the effects of foreign capital inflows and reached the conclusion that foreign aid (ie. technical assistance, loans and grants) while promoting economic growth and some development, the net effect is that such development and growth reinforced perpetual dependence of the entire economy on external factors. Because of the scarcity of domestic and foreign resources, only a few sectors of the Zambian economy could receive the financial and manpower resources. We concluded that it was the combination of the scarcity of resources and the conditions under which foreign capital was given that led to the development of a foreign enclave in Zambia. This enclave is foreign in the sense that it depended on foreign inputs of capital equipment and some semi-processed raw materials. The other sector not in receipt of such foreign capital became less attractive to domestic investors so that it became relatively underdeveloped as compared to the modern sector. The inhabitants of this sector are largely peasants and because they do not possess the skills required to work with the imported technology in the modern sector their relationship with this enclave is marginal.

Furthermore, they do not earn high enough incomes with which to purchase the products of the modern sector. The lack of strong ties between the traditional sector in the hinterland and the modern sector in the urban area reinforces the integration of the modern sector into the capitalist world economy and its dependency.

The reliance on external factors distorts development priorities in that national development objectives have to be changed so as to make them attractive to the providers of financial resources. In cases, where emphasis is on rural development as pronounced in the two National Development Plans of Zambia, the availability of foreign capital inflows worked against this objective as these were not forthcoming for such development projects. Under these circumstances, it would appear the government opted to develop the modern sector where financial resources were available. Because major developments took place within the modern sector, employment opportunities were also created within this sector. This we argued was against the objectives of equitable distribution of income and balanced development between urban and rural areas.

Given the established economic and social relationship between Zambia and the developed countries, and that, initially, inflows of foreign capital, in the form of loans and foreign investments, stimulate growth and have positive effects on the balance of payments, we showed that debt servicing hindered growth that is based on domestic resources.

The balance of payments is adversely affected by outflows of domestically produced surplus. Zambia found itself with high rates of external public debt which meant that a large portion of foreign exchange earnings had to be used for repayment of principal loans and payment of salaries of expatriate personnel. This was not all. Foreign exchange earnings mainly from copper was lost to foreign companies which paid high dividends to shareholders in the developed countries and charged high management fees. Thus the end result of dependency was appropriation of economic surplus by international capitalism and decapitalization of the Zambian economy and reinforcement and consolidation of Zambia's dependency and satellite status within the Western world economy.

The contradiction of capitalism did not go unnoticed in Zambia. Just four years after flag independence, Zambia sought to reduce its dependency on external factors through a series of economic reforms starting in 1968 right through 1973. Aware of its dependency on a capitalist economic system and the extent to which its elite has been assimilated, Zambia opted for partial nationalization or co-operation with international capitalism. The leading foreign owned and managed industries were asked to surrender 51 per cent of their shares to government corporations. It was hoped that the 51 per cent government participation in the commanding heights of the economy would give more control to Zambia. However, we showed in chapter 7 that this strategy was not enough to give control and

power to government. We showed that the agreements entered into facilitated expropriation of more economic surplus from Zambia particularly within the mining industry which is completely dependent upon foreign know-how.

It became evident also that the import-substitution industrialization strategy of reducing dependence on imported manufactured goods so as to improve the balance of trade by producing domestically formerly imported goods did not achieve the desired goals.

The establishment of import substitution industries depended on imported technology, capital equipment and semi-processed raw materials. The import bill resulting therefrom was greater than the bill of manufactured goods. The reason for this was that the goods to be manufactured in Zambia were expected to be identical in quality as those produced in the Western countries. Here, as elsewhere, we found that instead of reducing dependency on external factors and restructuring the economy, the Zambian economy has become more dependent, it has been integrated further into the capitalist world and has reached a position of extreme vulnerability to changes in the capitalist world. Clive Thomas summarizes a situation such as we find in Zambia by showing the differences between the demand of masses of the population and the pattern of production that is outward oriented by saying:-

If the material manifestations of underdevelopment have been expressed as the dynamic divergence in the pattern of

domestic resource use, domestic demand, and needs, in the absence of an indigenous technology to provide the basis for an organic link between them, then the principal goal must be to seek a dynamic convergence of these relationships. When put in this way, two basic problems of an economic strategy tailored to achieving this goal become clear. The first is to find out how to effect a convergence of the pattern and rate of domestic resource use and domestic demand as it has developed and is likely to develop (if we interpret the latter from universal human experience and relate it to the context of the particular society). The second issue centers on finding out how the community's demand can be structured so that it conforms more closely than at present to domestic resource availability and domestic use.

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BROADER IMPLICATIONS OF THE EXISTING STRATEGY OF
DEVELOPMENT AND OF AN ALTERNATIVE STRATEGY

We have in this study of dependence and underdevelopment argued that as long as Zambia opts to develop within the economic system of international capitalism its chances of ever reducing its extreme dependence on external factors and of attaining the desired objective of eliminating underdevelopment are almost nil. The problems of dependence and underdevelopment are the consequences of the fact that Zambia has been trying to develop within the framework of a process of dependent production and reproduction. Promoting capitalist world development strategies subjects the economy of Zambia to the contradictions of international capitalism as discussed in the main body of the thesis.

The implications of this system are, that Zambia will remain a perpetual satellite dependent upon developments in the capitalist economic system and will continue to lose its economic surplus. This, therefore, calls for a different set of strategies. The alternative that seems to suggest possibilities of reducing economic dependence; of solving the problem of underdevelopment; of preventing expropriation and appropriation of Zambian economic surplus; and of destroying the dependency relationship is structural transformation of the Zambian productive system. This strategy requires fundamental modification of industrial policies and customs that were copied automatically from the capitalist world after the

attainment of flag independence. The inherited industrial production is presently characterized by high costs and substantially idle capacity because of its dependence on foreign technology which facilitates the production of articles whose size and design are not suited to Zambian demand needs. Within the industrial sector, planned implementation of a structure of domestic output must be consistent with domestic demand patterns. This means that projects that are prepared for industrialization should not constitute a shopping list for foreign aid and private foreign investments. The necessary structural transformation requires a consistent plan of domestic production of those basic domestic materials which require as primary inputs for the manufacture of basic goods for the community so that it becomes necessary to ensure that these basic materials are derived from domestic resources. This, then, constitutes the necessary if not a sufficient condition for the growth of an indigenously oriented technology ie. technology rooted in the use of domestic resources and servicing domestic needs. Such a strategy not only reduces dependence but also tries to solve the problems of poverty and underdevelopment of the traditional sector of subsistence agriculture and integrates this sector into the modern sector.

This strategy is likely to lead to major industrial thrust which further ensures the dynamic interaction of domestic resource use and domestic needs. One of the most important elements of a capital goods sector to be planned and integrated



into the basic materials sector is that of the machinery and machine tools industries. In the long-run when this is well established it reduces dependence on foreign technology and prevents exploitation of Zambian resources by foreign enterprises. Its development and growth ensures that domestic basic materials of Zambian inputs must be linked to the domestic basic goods as outputs.

The partial nationalization of the mining and manufacturing sectors and other sectors have not achieved the desired goals. Because of Zambia's level of technological development in the mining industry nationalization should not have been undertaken. Taxation of profits should have been the proper strategy of taking revenue from foreign mining companies. The revenue collected should have been used to develop the basic materials, capital, machinery and machine tools sectors. The Zambian skilled manpower would have been available for employment in other sectors.

As regards the agricultural sector, transformation is necessary if the shortage of basic food materials is to be avoided. Utilization of productive farming units and their operation through marketing and managerial arrangements all organized by state cooperative farming units which are larger than what is presently available to individual peasants is a better strategy than the present. The present system of private ownership of small plots by each peasant is inefficient and most of these peasants cannot even produce enough for themselves. Cooperative

farming would make it possible for the government to make sure that every such farm has the required equipment, personnel etc.

This alternative development strategy would promote a dynamic convergence of resource use and needs which is a precondition specific to the requirements of overcoming underdevelopment and domination of neocolonial relationship in the international economy.

APPENDIX 3.A

DEFINITIONS OF TERMS

AID PROGRAMME:

The public expenditure programme which provides the money for official development assistance to developing countries.

AMORTIZATION:

The repayment of the capital of a loan. A concessional feature of most development assistance loans is amortization periods longer than those for commercial lending.

CAPITAL GOODS AID:

The provision of external resources to finance the importation of capital goods which form part of much larger investment projects, most of the goods for which can be provided by the recipient country or by other donors.

COMMERCIAL CREDITS:

The export of capital and other goods and services on deferred terms the finance being provided by commercial sources.

COMMITMENT:

Arrangement for financial aid or technical assistance incorporated in a signed agreement specifying terms and conditions.

COMMODITY ASSISTANCE:

Aid provided in the form of fresh or deferred payment supplies of specified commodities.

APPENDIX 3.A continued

COMMONWEALTH DEVELOPMENT CORPORATION:

Established in 1948 as a statutory body to promote economic development by investing in developing countries, not for maximum profitability but for maximum development value, although it is expected to pay its way taking one year with another. It is solely dependent on loans for its capital resources, its main source of funds is Exchequer advances.

CONCESSIONAL:

The degree to which the terms of a loan result in a smaller return to the lender than the normal return from the commercial investment of the funds.

CREDIT MIXTURE:

An arrangement whereby an official concessional loan is made conditional on the acceptance of normal commercial credit from the donor country.

DEBT RELIEF, REFINANCING, RESCHEDULING:

A loan is refinanced when the creditor country makes a new loan to enable the debtor country to meet the debt service payments on an earlier loan. A loan is rescheduled when the amortization or interest payments or both on the outstanding portion are rearranged to make payment easier.

DEBT SERVICE:

The payment of interest on a loan and amortization.

DEVELOPMENT ASSISTANCE:

In the overseas development context economic aid as distinct from military aid means either:

- (a) financial resource flows, both official and private, to developing countries, as counted for the UNCTAD aid target; or

APPENDIX 3.A continued

- (b) official development assistance flows. In the United Kingdom this is the aid programme.

DEVELOPMENT ASSISTANCE COMMITTEE (DAC):

This is a committee of the OECD which provides a forum for consultation among the 16 main donor countries. Its main aim is to increase the resources channelled to the developing countries and to improve their effectiveness.

DISBURSEMENTS:

Payments made to recipient countries which have been finally charged against funds approved by parliament (in the case of bilateral aid). These rather than commitments are the basis of the published aid programme totals.

EXPORT CREDITS GUARANTEE DEPARTMENT (UK):

This is a government department established in 1919 and run on commercial lines to provide insurance for exporters against the main risks in selling overseas and also guarantees to banks providing export finance. It thus supports export credits to developing countries as part of its normal operations.

FINANCIAL ASSISTANCE OR CAPITAL AID:

This comprises all financial flows, excluding the cost of technical assistance.

FLOWS:

Transactions involving a transfer of funds or the value of goods or services from one country to another. To avoid the ambiguities involved in the use of the term aid, the term financial flows or flows of financial resources is used internationally to designate official and private transactions taken together and they are separately referred to as official flows and private flows.

APPENDIX 3.A continued

GRACE PERIOD:

The period at the beginning of the term of a loan during which the borrower is excused amortization.

GRANT:

Includes financial assistance provided as a gift and the cost of technical assistance. Grants may be made bilaterally, from government to government, or as contribution to international organizations with development assistance programmes. Half of British aid is in the form of grants.

GRANT ELEMENT:

A measure of the extent to which the terms of a loan are below the normal commercial rates obtaining at the time.

GROSS AID:

The total amount of official development assistance, before deduction of amortization or interest payment.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD):

It plays an important role in appraising and advising on the development programmes of developing countries. The World Bank Group consists of the IBRD, the International Development Association and the International Finance Corporation.

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA):

Established in 1960 as an affiliate of the IBRD to help developing countries with the growing need for an ability to use outside capital but inadequate foreign exchange to service conventional loans. Credits for approved projects are given interest free for 50 years with a 10 year grace period.

APPENDIX 3.A continued

INTERNATIONAL FINANCE CORPORATION (IFC):

Established in 1965 as an affiliate of the IBRD to assist the development of its less developed members through investment in and loans to productive private enterprises and financial intermediaries, such as investment and development banks. Finance is always provided in association with private investors where sufficient capital is not available on reasonable terms.

INVESTMENT GUARANTEE:

A guarantee given by a government usually for a fee, to its nationals investing in foreign countries to cover the risks, such as expropriation, that cannot be provided for commercially.

MAINTENANCE AID:

Assistance to enable a developing country to import raw materials, components and spare parts required to maintain or increase production from domestic plant and equipment already installed.

MATURITY PERIOD:

The time from the date of the coming into force of a loan agreement until the loan is due for complete repayment.

MULTILATERAL AGENCIES OR ORGANIZATIONS:

International organizations to which individual countries contribute funds for subsequent disbursement by those organizations. The main multilateral agencies are the United Nations and its specialized agencies, IBRD and its affiliate the International development banks.

MULTILATERAL AID:

Contributions (forming part of Official Development Assistance) made to an international institution for use in or on behalf of a developing country. It also refers to financial and technical assistance provided by an international institution to developing countries.

APPENDIX 3.A continued

NET AID:

Gross official development assistance less amortization. This is the basis of reporting for the UNCTAD volume of aid and target.

NET TRANSFER:

Gross official development assistance less amortization and interest receipts.

NON-PROJECT AID:

This consists of financial assistance other than project aid, and includes budgetary assistance, debt relief, assistance for pensions and compensation (other than technical assistance), programme aid and maintenance aid.

OFFICIAL DEVELOPMENT ASSISTANCE:

In international usage it consists of official (i.e. government provided) flows contributed to assist in the social and economic development of developing countries and which are intended to be concessional in character. In the United Kingdom it refers to the aid programme.

OFFICIAL FLOWS:


For the purposes of the UNCTAD volume of aid target official flows consist of official development assistance aid other official flows.

OTHER OFFICIAL FLOWS:

Official flows whose amortization is not primarily that of economic and social development or which are not intended to be concessional; they are mainly official exports credits.

PRIVATE FLOWS:

For the purposes of the UNCTAD volume of aid target



APPENDIX 3.A continued

private flows consist of:

- (a) officially guaranteed private export credits, net of amortization;
- (b) private investment (direct and portfolio) net of disinvestment;
- (c) since 1970 grants by private voluntary agencies i.e. charitable organizations and missionary societies which assist developing countries.

PROGRAMME AID:

One form of non-project aid. This is general support by a donor for an investment programme. Aid is made available to finance imported goods and services needed to carry the programme out.

PROJECT AID:

Grants or loans to finance the establishment of new, or the expansion of existing, production and infrastructure facilities; for example a hydro-electric installation, railway expansion, equipment for education programmes, finance for agricultural development banks. The aid is tied to a specific project in contrast to programme aid.

SOFT AND HARD TERMS:

Loans of a comparatively more concessional character are described as soft, those with less or no concessional element as hard.

TECHNICAL ASSISTANCE:

Technical assistance is concerned with the transfer of skills and the provision of advice to the developing countries, mainly in the form of administrative, scientific professional and technical fields.

TERMS OF AID:

The conditions applying to a particular offer of aid i.e. rate of interest, grace period, maturity period waiver period.

APPENDIX 3.A continued

TIED AID:

Fully tied development assistance is made available by the donor country solely for the purchase of its own goods and services. Assistance is partly tied when it is tied to the goods and services of either the donor or recipient country. Assistance is double-tied when it is tied as to both the origin and the nature of the goods or project.

WAIVER PERIOD:

The period at the beginning of the term of a loan during which the borrower is excused interest.

APPENDIX 3.B

EXTERNALLY FINANCED PRE-INVESTMENT AND TECHNICAL ASSISTANCE PROJECTS AND ACTIVITIES

Zambia		Sector: Agriculture, Forestry and Fisheries		
Project/Activity (Title)	Source of Assistance	Assistance Committed US\$ Equiv.	Duration Begin-End Dates	Nature of Assistance and Location
Forest Industries Feasibility Study.	UNDP/FAO	15,000	Jan. 1972 - Mar. 1972	Two experts for 6 m/m in forestry production.
Small-Scale Irrigation Development and Training	UNDP/FAO	248,639	Feb. 1969 - Dec. 1972	Research and training in cultivation of fruits and vegetables using irrigation.
Pasture Research and Extension Expert	UNDP/FAO	25,558	Mar. 1970 - Feb. 1973	1 Expert to advise on appropriate management techniques for enclosed
Chief Horticulturist	UNDP/FAO	22,831	June 1970 - May 1973	1 Expert to assist in implementation of horticultural projects. Lusaka.
Luangwa Valley Conservation and Development	UNDP/FAO	375,242	June 1969	5 Experts to formulate and implement a development of the Luangwa Valley with emphasis on Wildlife conservation and promotion of tourism.

APPENDIX 3.B continued

Central Fisheries Research Institute	UNDP/FAO	192,600	April 1969 - April 1973	9 Experts, fellowships, equipment Limnology research and research into fish processing technology and fish distribution methods.
Chief Soil Scientist	UNDP/FAO	21,371	Jan. 1972 - Dec. 1972	Expert to advise on soil conserva- tion programmes and soil research.
Animal Health Adviser	UNDP/FAO	27,848	Jan. 1971 - Jan. 1973	Adviser and Technician to work as a team to control contagious bovine pleuro-pneumonia and to develop laboratory techniques. Lusaka.
Animal Health Technician	UNDP/FAO	23,097	May 1971 - Dec. 1972	
Forestry Production Manage- ment Expert	UNDP/FAO	21,879	1972	1 OPAS Expert in forestry production.
Rural Institutions Adviser	UNDP/FAO	30,004	Nov. 1970 - Nov. 1975	Adviser to the President on high- level policy matters regarding rural development.
Agricultural Planning Coordinator	UNDP/FAO	15,401	May 1972 - June 1975	An expert to fill the post of Under- Secretary for Planning in the Ministry of Rural Development.
Sunflower Production	UNDP/FAO	15,750	May 1972 - Nov. 1972	Consultancy in production of sunflower which led to project ZAM/72/017.
		<u>1,035,221</u>		

APPENDIX 3.B continued

Rural Development	CIDA	365,000(i)	1970-1974	5 experts in agro-economy providing advice in the Central Planning Unit.
Senior Co-op. Adviser	CIDA	140,000(i)	1968-1974	1 expert to advise on new legislation, training etc.
10 Forestry fellowships	CIDA	70,000(i)	1972-1975	For studies at University level.
Animal Health	DENMARK	50,000 (est.)	1972	3 veterinary doctors.
Assistance in the Field of Forestry	DENMARK	50,000 (est.)	1972	3 foresters.
Agricultural Assistance (1)	DENMARK	60,000 (est.)	1972	6 agronomists.
Agricultural Assistance (2)	DENMARK	10,000	1972	5 volunteers working in various fields of agriculture and rural development.
Agricultural Statistician	FINLAND	30,000	1971-1973	1 expert in the Central Statistical Office.
Programme for Expansion of Growing of Rice	FRANCE	n/a	1969-Present	5 experts and 2 consultants in Luapula Province.
Veterinary Adviser	Fed. Rep. of GERMANY	30,000	1970-Present	1 expert to advise on Game Cropping Scheme and on sleeping sickness - Luangwa Valley and Mazabuka.

(i) Cover the whole duration - not only 1972.

APPENDIX 3.B continued

	Fed. Rep. of GERMANY	120,000	March 1972	4 experts and equipment - Monze.
Integrated Pig Management Scheme	ITALY	15,000	1972	1 expert and 1 volunteer - Chirundu.
Assistance to Zambezi Training Farm	NETHERLANDS	50,000	1969-Present	7 volunteers, 70 m/m
Assistance to Cooperatives	NETHERLANDS	48,000	1969-Present	8 volunteers, 72 m/m
Assistance to the Department of Agriculture	NETHERLANDS	32,000	1969-Present	4 volunteers, 48 m/m
Assistance to Animal Husbandry	NETHERLANDS	10,000	1970-Present	2 volunteers, 15 m/m
Assistance to Agricultural Research Station	NETHERLANDS	48,000	1965-Present	5 volunteers, 1 staff member, 172/ m/m.
Kasempa, Rural Development Training Scheme	NETHERLANDS	38,000	1969-Present	5 volunteers, 56 m/m
Assistance to Community Development	NETHERLANDS	37,000	1971-1974	4 volunteers, 2 staff members 54 m/m . Mansa.
Assistance to Research Station	NETHERLANDS	19,077	1972	1 Associate expert, 12 m/m
Assistance to Wild Life	NETHERLANDS	3,569	1972	1 Associate expert, 1 m/m

APPENDIX 3.B continued

Assistance to Intensive Development Zones	SWEDEN	25,000	Sept. 1972 - Present	1 member in the Central Planning Team; 1 adviser to Permanent Secretary
Cooperative Research and Planning	SWEDEN	70,000	Augu. 1972 - Present	3 experts in the Department of Cooperatives, 2 experts for Mobile Education Team.
Assistance to Zambia College of Agriculture	SWEDEN	28,000	Sept. 1972 - Present	1 principal designate, 1 farm manager.
Farm Management Training	SWEDEN	200,000	1969-1975	SIDA/FAO Farm Management Project in Luapula Province.
Agricultural Personnel	SWEDEN	550,000	1971-1976	An average of 28 experts in agriculture, land-use and forestry.
Animal Production and Health	UK	n/a	1972	30 experts in veterinary and animal husbandry/1 volunteer in veterinary research.
Fisheries	UK	n/a	1972	6 experts
Forestry	UK	n/a	1972	12 experts, 15 volunteers in agricultural institutions/services and rural training/land and water use.
Rural Development	World Council of Churches	n/a	1967-Present	Rural Training Teams.

APPENDIX 3.B continued

Assistance in Livestock and Horticulture	Christian Aid	n/a	1969-1972	Support for a livestock officer and a horticulturist.
Intensive Development Zone	ECA	20,000	1972	1 expert Adviser for eight months on planning on IDZ.

TOTAL

3,153,866

APPENDIX 3.B continued

ZAMBIA	Sector: Culture and Social and Human Sciences
Assistance to National Commission Publications	UNESCO/Reg. n/a 1972 Office equipment
Assistance to Kenneth Kaunda Foundation	UNESCO/Reg. 8,600 1972 Equipment assistance in recording of oral tradition.
Tax Inspection Training	INDIA n/a 1972 9 fellowships of 6 months in India.
Training in Journalism	INDIA n/a 1972 1 fellowship in India.
Urban Social Development	NETHERLANDS 2,302 Oct. 1972 - May 1973 1 fellowship, 3 m/m in 1972.
Personnel Assistance	SWEDEN 10,500 1971-1975 1 librarian/Dag Hammarskjöld Memorial Library.
Broadcasting and Film Production	UK n/a 1972 8 experts
Libraries and Documentation	UK n/a 1972 3 expert librarians/2 volunteers in the Zambia Library Service/1 volunteer working for "Orbit" Magazine.
Information Services	UK n/a 1972 1 expert in Information Services.

APPENDIX 3.B continued

Assistance to Mindolo Ecumenical Foundation	World Council of Churches	279,594	1972	Youth leadership training.
Copperbelt Youth	World Council of Churches	3,500	1972-1973	Training, consultation services, work camps.
	TOTAL	<u>304,496</u>		

APPENDIX 3.B continued

ZAMBIA		Sector: Education		
Training of Secondary School Teachers	UNDP/UNESCO	222,247 +170,000	Sept. 1967 - May 1975	12 lecturers in the School of Education of UNZA.
Rural Broadcasting	UNDP/UNESCO	30,000	Jan. 1970 - Dec. 1972	1 expert to organize radio broadcasting to support literacy programme . Lusaka.
Curriculum Development Expert	UNDP/UNESCO	30,000	Aug. 1970 - Dec. 1972	1 expert to assist in the preparation of the basic primary school course in Zambia, Lusaka.
Adult Literacy Adviser	UNDP/UNESCO	30,000	April 1969	1 expert to assist the Government in implementing a functional literacy project.
Adaptation of the School Curricula to the Environment	UNDP/UNESCO	11,750	May 1972	3 consultants.
School-Leaver Problem	UNICEF	20,000	Jan. 1972 - June 1973	1 consultant to assist, through the Ministry of Education, in establishing pilot programmes for School Leavers.
Prevocational Training	UNICEF	70,000	Until 1972	Assistance to the establishment of six Pre-Vocational Training Centres; equipment.

APPENDIX 3.B continued

Mining and Prospecting in Developing Countries	AUSTRIA	1,100	Nov. 1972 - June 1973	8-month scholarship in Leoben, Austria.
Technical Education and Vocational Training	CIDA	6,059,000 ⁽¹⁾	1970-1977	40 advisers/teachers to set up programme and train counterparts.
Architectural Service for Zambia Institute of Technology	CIDA	500,000 ⁽¹⁾	1971-1972	1 expert to prepare drawings and specifications for ZIT.
Assistance to Zambian Educational Institutes	DENMARK	400,000 (est.)	1972	38 teachers at various levels.
Training - Education	DENMARK	50,000 (est.)	1972	26 fellowships.
Educational Assistance	DENMARK	60,000 (est.)	1972	30 volunteers working as teachers at all levels.
Training Courses	FINLAND	18,000	1972	Arranged in cooperation with IITL/ participants from South-East African countries.
Assistance to the University of Zambia	FINLAND	60,000	1971-1973	2 lecturers in mathematics.
Assistance to Educational Institutions	FRANCE	n/a	1966-Present	35 secondary and University teachers, 1 counsellor in pedagogy, 6 professors; 36 fellowship of 3 months, 2 fellowships of 9 months and 4 fellowships of 3 years; material assistance.

(1) Covers the whole duration of the project, not only 1972.

APPENDIX 3.B continued

	FED. REP. of GERMANY	60,000	July 1969 - Present	
Academic Teaching Staff				8 professors and lecturers in UNZA, under Zambian contracts; salaries topped up by German Academic Exchange Service.
4 Fellowships	INDIA	n/a	1972-Present	4 fellowships of 3-4 years in medicine, pharmacy, B. Com., and B.Sc.
1 Language Course	INDIA	n/a	1972	10 fellowships of 1 year.
Training Courses	ISRAEL	n/a	1972	10 Zambian participants.
Fellowships	ITALY	21,500	1972	5 scholarships of 8 months.
Assistance in the Fields of Education	NETHERLANDS	25,046	March 1972 - June 1973	11 teachers, 104 m/m.
Research Training for Local Authority	NETHERLANDS	50,738	Sept. 1972	1 adviser, 4 m/m.
Development of the Technical Faculty at UNZA.	NETHERLANDS	24,277	-	2 technical teachers, 17 m/m.
Assistance in the fields of Engineering and Electronics	NETHERLANDS	13,231	-	7 advisers, 38 m/m.
Literature Programme	NETHERLANDS	3,077	-	n/a.
Zambia World Bank Education Project	MORAD	342,196	1972	Consulting Services.

APPENDIX 3.B continued

Technical Assistance in the Education Project	NORAD	895,366	1972	Project Unit, Building Supervision: Director, Architect Officer, 10 Supervisors, 52 Teachers, 2 Inspectors, 1 Headmaster, 2 Architects.
Assistance to Nkumbi International College	NORAD	25,424	1972	Expansion of facilities.
Assistance of Sefulu Secondary School	SWITZERLAND	12,400	April 1972	2 volunteers as teachers.
Assistance to Education Administration and Inspectorate	UK	n/a	1972	8 experts.
Teacher Training	UK	n/a	1972	2 experts.
Primary and Secondary Education	UK	n/a	1972	536 primary and secondary school teachers/45 volunteers in primary and secondary schools.
Assistance to UNZA.	UK	n/a	1972	66 lecturers and administrative staff at UNZA.
Science Teaching	UK	n/a	1972	6 experts.
Youth Activities and Adult Education	UK	n/a	1972	54 experts and 3 volunteers in technical and vocational training.
Mass Media and Audio-Visual Education	UK	n/a	1972	2 experts.

APPENDIX 3.B continued

Assistance to Curriculum Development Centre	UK	n/a	1972	3 volunteers.
Assistance to Outward Bound School	UK	n/a	1972	1 volunteer.
Educational Assistance	USSR	n/a	1972	70 teachers.
TOTAL		<u>9,205,352</u>		

APPENDIX 3.B continued

ZAMBIA	Sector:	General Economic and Social Policy Planning		
Economic Planning and Projections	UNDP/UN	32,387	Jan. 1970 - May 1973	1 OPAS sectoral planner, 1 OPAS regional planner to assist SNDF preparation and revision.
Regional Economic Planning Adviser	UNDP/UN	19,167	May 1970	1 OPAS expert to assist in the preparation of regional plans including regional investment programmes.
National Accounts Statistician, CSO	UNDP/UN	27,500	July 1964 - Dec. 1972	To assist in the preparation of National Accounts, Lusaka.
Economic Planning and Development	UNDP/UN	105,000	Dec. 1969	4 experts in the Development Planning Division.
Senior Marketing Economist	UNDP/FAO	30,090	Nov. 1970 - Nov. 1973	1 expert to advise on marketing of agricultural products. Lusaka.
Cartographer	UNDP/UN	26,165	Dec. 1971 -	1 cartographer responsible for the cartography relating to regional planning needs. Lusaka.
Savings and Credit Advisers	UNDP/UN	11,500	Oct. 1972 - Nov. 1973	2 experts to advise and assist in the organizing of Savings Banks in Zambia.
Agricultural Statistician	UNDP/FAO	30,000	Jan. 1970 - Dec. 1972	1 expert to assist in collection of statistics for National Agricultural Census. Lusaka.

APPENDIX 3.B continued

Expert on Town Planning and Slum Clearance	AUSTRIA	n/a	Sept. 1972 - Sept. 1973	Advisory Services for Ministry of Housing and Local Government and Ndola City Council. Ndola.
Assistance in the Field of Statistics	DENMARK	10,000 (est.)	1972	1 Statistician.
Economic Advisory Group	FED. REP. of GERMANY	120,000	1971	4 experts in the Regional Planning Unit and IDZ Working Group in the Ministry of Development Planning. Lusaka.
Fellowships in Economics	ITALY	6,000	1972	2 scholarships of 8 months for a course in economics of banking for intermediate and executive staff.
Assistance in the Field of Economics	NETHERLANDS	41,477	1972	4 associate experts, 17 m/m.
Assistance to National Commercial Bank	SWEDEN	30,000	1971-1973	1 expert
Assistance to Economic and Social Administration	UK	n/a	1972	33 experts
Assistance in Economic Planning	UK	n/a	1972	7 economists and statisticians.
Accounts and Audit	UK	n/a	1972	50 experts in Accounts and Audit and 15 computer experts.

APPENDIX 3.B continued

Inland Revenue and Customs	UK	n/a	1972	43 experts.
Police and Immigration	UK	n/a	1972	24 experts.
Fire Service	UK	n/a	1972	12 experts.
Legal Affairs	UK	n/a	1972	15 experts.
Assistance to Co-operatives	ACOSCA	n/a	1971-1976	Assistance to National Committees of Co-ops/National Seminar in co-operative savings and credit society work
Assistance to Co-operatives	ICA/AUSTRIAN MEMBER MOVEMENT	n/a	1971-1972	Training programme in the field of co-operatives/support for co-op Development Committees and Ministry of Rural Development.

TOTAL

489,286

APPENDIX 3.B continued

ZAMBIA		Sector: Health		
National Health Planner	UNDP/WHO	20,292	Jan. 1970 - Oct. 1972	1 expert to prepare the health programme within the SNDP framework. Lusaka.
National Food and Nutrition Programme	UNDP/FAO	178,036	April 1970 - April 1973	2 nutritionists, one rural sociologist to carry out food consumption surveys, and to establish measures to improve nutrition and training.
Food Control Legislation	UNDP/FAO	3,250	Aug. 1972	1 consultant to draft food control legislation. Lusaka.
Hospital Administration	UNDP/WHO	2,466	Jan. 1972 - June 1972	6-months fellowships in hospital administration.
Health Services	UNICEF	100,000	1970-1974	Equipment to Under-Five Clinics; DPT-vaccine, teaching aids, transport and training grants.
Smallpox Eradication	WHO	43,792	1967 - Dec. 1973	2 technical officers; supplies and equipment.
Development of Basic Health Services	WHO/UNICEF	99,819	1971-Present	1 medical officer, 1 technical officer (Laboratory), 1 health inspector and 2 public health nurse educators and supplies and equipment to develop health services in rural areas.

APPENDIX 3.B continued

Medical School, Lusaka	WHO	20,000	1972	A grant to develop the Medical School, Lusaka.
Training of Health Personnel	WHO	20,000	1972	Fellowships.
Consultant Services, Malaria	WHO/Inter-Country	138,208	April 1971 - May 1973	1 malarialogist, 1 laboratory technician, 2 technical officers, supplies and equipment to assess the malaria situation in Zambia.
Consultant Services in Health Education	WHO/UNFPA	36,344	1972	1 consultant, 1 health educator, supplies and equipment.
Assistance in the Field of Nutrition	DENMARK	40,000 (est.)	1972	4 nutrition experts.
Strengthening of Food Control	DANIDA/FAO Funds-in-Trust	401,400 (1)	1970-1974	4 experts.
Assistance in the Field of Health	DENMARK	50,000 (est.)	1972	25 volunteers working in various posts in health services and administration.
Health Services	FRANCE	n/a	1969-Present	3 medical doctors (2 in Northern Province and 1 in Ndola).
Course in Nutrition	ISRAEL	n/a	1972	5 Zambian participants.

APPENDIX 3.B continued

Public Health Training	ISRAEL	n/a	1972	1 Zambian doctor on a 14-month course in Israel.
Mother and Child Care	NETHERLANDS	224,000	Nov. 1969 -	28 volunteers working in hospitals.
Hospital Construction	NETHERLANDS	10,000	1972	2 volunteers, 15 m/m.
Public Health	NETHERLANDS	4,000	1972	2 volunteers, 7 m/m.
Public Health	NETHERLANDS	1,846	Feb. 1967 - May 1973	1 nurse
Public Health	NETHERLANDS	43,754	n/a	12 physicians, 56 m/m.
Public Health	SWEDEN	112,000	n/a	11 nurses for Under-Five Clinics, Northern Province/1 clinical instructor, Kitwe.
Assistance to Lukulu Hospital	SWITZERLAND	6,875	June 1972 - May 1974	2 volunteer nurses.
Public Health	UK	n/a	1972	41 doctors and specialists, 25 pharmacists, 3 nurses, 9 volunteer nurses, 35 sub-professional staff.
Nurse Education	UK	n/a	1972	10 nurse tutors and physiotherapists.
Nutrition	UK	n/a	1972	2 volunteers.

APPENDIX 3.B continued

Assistance to Flying Doctor Service	UK	n/a	1972	3 volunteers.
Assistance to Public Health Services	OXFAM	n/a	1968 - 1972	Vehicles, equipment, salaries, ca- pital and running costs for hospi- tals, antenatal clinics, nutrition education programmes and other medical work.
Assistance to Health Services	USSR	n/a	1972	19 doctors
Assistance to the University Teaching Hospital	USSR	40,000	1972	Medical equipment.
	TOTAL	<u>1,596,082.</u>		

APPENDIX 3.B continued

ZAMBIA	Sector:	Industry
UNDP/UNIDO	149,574	Jan. 1971 - Jan. 1974
UNDP/UNIDO	15,000	July 1972 - Dec. 1972
AUSTRIA	230,000	1972 - Jan. 1974
CIDA	580,000(1)	1972-1975
CIDA	350,000(1)	1972-1974
CIDA	100,000(1)	1972-1974
DEMMARK	20,000 (est.)	1972

Development of Small-Scale Industries
5 experts to assist in the development of small-scale enterprise in Zambia.

Industrial Training Advisory Services
6 expert man-months (short-term consultancy).

Assistance to Zambian Copper Industry
Equipment to increase output in copper refining process. Chambishi Mines.

Assistance to INDECO
8 experts to provide management for INDECO Central and certain vital subsidiary organizations. Fellowships.

Refrigeration Study
Vegetable and Fruit Processing Storage Feasibility Study.

Wheat Storage Study
Wheat Storage Facilities Feasibility Study.

Assistance in the Field of Construction
2 building experts.

(1) - Covers the whole duration of the project, not only 1972.

APPENDIX 3.B continued

Assistance in the Fields of Industry	DENMARK	30,000 (est.)	1972	15 volunteers.
Assistance in the Field of Construction	ITALY	n/a	1972	1 volunteer.
Industrial Relations Course	NETHERLANDS	2,298	Oct. 1972 - May 1973	1 fellowship, 3 m/m.
Industry Planning and Programming	UK	n/a	1972	66 civil, electrical, mechanical and mining engineers, 3 volunteers in engineering, surveyors and state valuers, 1 volunteer in valuation, 8 industrial chemists, 23 geologists, 268 sub-professional technicians.
Assistance to Small-Scale	TECHNOSERVE, INC.	25,000	1970-1973	Evaluation of potential processing concerns.
TOTAL		<u>1,501,872</u>		

APPENDIX 3.B continued

ZAMBIA		Sector: International Trade		
Buying Techniques - Timber Products	UNDP/UNCTAD	1,854	Jan. 1972 - April 1972	4-month fellowship/continuation to Finnish bilateral fellowship (see below).
Special Course for Customs Officials	AUSTRIA	700	Aug. 1972 - Oct. 1972	1 Zambian fellowship holder in Austria.
Trade Promotion	INDIA	n/a	1972	1 fellowship of 3 months in India.
Export/Import Training	INDIA	n/a	1972	3 fellowships of 3 months.
Assistance to the Ministry of Trade and Industry	INDIA	n/a	1972	2 experts to advise on International Trade
Business Administration	NETHERLANDS	6,308	Aug. 1971 - Aug. 1972	1 OPAS expert, 7 m/m in 1972
TOTAL		8,862		

APPENDIX 3.B continued

ZAMBIA	Sector: Labour, Management and Employment
National Industrial Vocational and Occupational Training Scheme	UNDP/ILO 185,115 1968 - 1972 6 experts located at the Lusaka Trades Institute. Equipment and fellowships.
Labour Administration Adviser	UNDP/ILO 13,500 Aug. 1970 - June 1972 1 expert to advise on development and improvement of the Labour Inspection Service, Ministry of Labour. Lusaka
Pre-Vocational Training Adviser	UNDP/ILO 30,000 Nov. 1971 - Oct. 1972 1 expert to advise on development of National Pre-Vocational Training Scheme. Lusaka.
Cooperative Education and Training Adviser	UNDP/ILO 25,000 Nov. 1971 - Oct. 1972 1 expert to advise on cooperative education.
Manpower Planning Adviser	UNDP/ILO 30,000 Jan. 1971 1 expert attached to the Ministry of Development Planning. Lusaka.
Management Development Training and Advisory Centre	UNDP/ILO 118,938 March 1971 - March 1974 4 experts and 1 associate expert to give
Assistance in Vocational Training	DENMARK 32,000 1972 16 volunteers working as teachers etc.

APPENDIX 3.B continued

Labour Management	NETHERLANDS	56,000	1965 -	3 volunteers, 4 staff members, 46 m/m, Lusaka.
Manpower Planning	UK	n/a	1972	8 O & M staff/5 stenographers and clerical staff.
Factory Inspections	UK	n/a	1972	6 experts.
	TOTAL	<u>490,553</u>		

ZAMBIA

Sector: Natural Resources

Natural Resources Development	UNDP/UN	14,350	Jan. 1970	1 expert to advise on the mining exploration and prospecting programmes.
Senior Electrical Adviser	UNDP/UN	30,000	Jan. 1970	1 expert assisted by an associate expert to advise on formulation and implementation of electric power projects.
Economic Geologist	UNDP/UN	24,000	Jan. 1969	1 OPAS expert to assist in evaluating economic aspects of the mining industry.

APPENDIX 3.B continued

Detailed Mineral Exploration West of Kabwe	UNDP/UNEP	129,142	Jan. 1969 - June 1973	5 experts to locate bore and retains metals in exploitable quantities and to train Zambians in exploration techniques. Fellowships, equipment.
5 Fellowships in mining	CIDA	35,000 ⁽¹⁾	1972-1975	Studies at University level.
Land Surveys	DENMARK	4,000	1972	2 volunteers as land surveyors.
Assistance to the Geological Survey Department	FRANCE	n/a	1972	1 engineer.
Assistance to INDENI	ITALY	n/a	1972	1 volunteer
Assistance to Kafue Gorge Power Station	SWEDEN	360,000	1971-1976	11 engineers.
	TOTAL	596,492		

(1) Cover the whole duration of the project, not only 1972.

APPENDIX 3.B continued

	ZAMBIA	Sector:	Relief Activities
United Nations Educational and Training Programme for Southern Africa 1)	UN	126,000	1967
Refugee - Assistance 1)	UNHCR	561,323	1965
Assistance to refugees	World Council of Churches	n/a	1971
Assistance to refugees	AACC	25,000	1972-1973
	TOTAL	<u>712,323</u>	

1) As seen under the "Nature of Assistance", these forms of development assistance were primarily for refugees in Zambia and not for Zambian nationals.

APPENDIX 3.B continued

	ZAMBIA	Sector: Science and Technology
Radioisotope Applications Adviser	UNDP/IAEA 30,000	Oct. 1970
4 Fellowships for Scientific Research	CIDA 25,000 ¹⁾	1972-1975
Assistance in the Field of Science and Research	DENMARK 10,000 (est.)	1972
Assistance in the Field of Electronics	NETHERLANDS 8,923	Dec. 1971 - July 1972
Assistance to Computer Technology	NETHERLANDS 11,108	Aug. 1971 - Aug. 1973
Assistance to G.P.O. Staff Training College	NETHERLANDS 33,476	1972
Meteorology	UK n/a	1972
Assistance in the Field of Transmission Development	USSR 110,000	Oct. 1972 - March 1974
	<u>TOTAL</u> 228,507	

1 expert within Radioisotope unit/
National Council for Scientific
Research.

Studies at University level.

5 volunteers.

1 operational expert 6 m/m in 1972.

1 Computer expert, 12 m/m in 1972.

3 Associate experts (1 Mathematics,
2 in Electronics), 18 m/m.

5 experts.

Specialists preparing Study Report
on Transmission Development.

¹⁾ Covers the whole duration of the project, not only 1972.

APPENDIX 3.B continued

	ZAMBIA	Sector:	Social Security and Other Social Services
Social Services Adviser	UN/UNDP Regular	21,000 Jan. 1970 Aug. 1972	1 expert attached to Ministry of Development Planning (2 man months, in 1972 financed from UN Regular Programme, 6 m/m from IPF)
Volunteer Service	GERMANY	n/a	35 volunteers all over the country.
Comprehensive Regional Resettle- ment Scheme	ISRAEL	n/a	8 experts giving assistance to 600 resettled Zambian Families.
	TOTAL	21,000	

APPENDIX 3.B continued

	ZAMBIA	Sector:	Transport and Communication
Shipping Officer	UNDP/UNCTAD	24,000	Nov. 1970
1 expert to assist in devising policies and procedures for ocean and inland waterway transport.			
Telecommunication Adviser	UNDP/ITU	30,000	March 1970 - Dec. 1975
1 expert to advise on telecommunications policy and projects.			
Senior Transport Economist	UNDP/UN	11,645	July 1971 - May 1972
1 expert attached to Ministry of Dev. Planning to prepare SNDF transport projections.			
Civil Aviation and Meteorological Training School	UNDP/ICAO	124,022	March 1971 - Feb. 1974
4 experts to train Zambians in fields of Civil Aviation and related Meteorological fields.			
Training of Railway Personnel	UNDP/ILO	185,750	1971-1976
8 experts giving training to railways personnel at middle and low level complementary to CIDA - project.			
G.P.O. Staff Training College, Ndola	UNDP/ITU/UPU	153,778	March 1971 - Feb. 1974
4 experts and 3 associate experts to assist in curriculum development and teaching.			
Assistance to Zambia Railways (1)	CIDA/UN	2,500,000 ¹⁾	1970-1975
25 Management specialists to train Zambians/loan financing.			

1) Covers the whole duration of the project, not only 1972.

APPENDIX 3.B continued

Assistance to Zambia Railway (2). %	CIDA	1,799,000 ¹⁾	1970-1975	Provision of heavy inventory i.e. tank, cars, diesel locomotives/ Loan financing.
Assistance in the fields of Transport	DENMARK	16,000	1972	8 volunteers working in various parts.
Assistance to Zambia Airways	ITALY	n/a	1972	1 volunteer.
Assistance to Ministry of Power, Transport and Works	NETHERLANDS	32,000	1970-Present	4 volunteers, 48 m/m
Assistance in Fields of Telecommunications	SWEDEN	100,000	1972-1974	Director of Telecommunications/ Planning Personnel in the Ministry of Power, Transport and Works; equipment.
Assistance to Air Transport	UK	n/a	1972	51 experts in the Department of Civil Aviation.
Assistance to Postal Services	UK	n/a	1972	204 experts in the Post Office.
	TOTAL	<u>4,976,195</u>		

1) Covers the whole duration of the project, not only 1972.

SOURCE: Office of Resident Representative of World Bank, Lusaka, Zambia 1975.

APPENDIX 3.C

CAPITAL ASSISTANCE TO ZAMBIA

<u>Agricultural Sector:-</u>		<u>US Dollars</u>
WFP	Grant of milk valued at \$575.800 committed for the period 1969/72 to facilitate development of milk production	\$ 575,800
IBRD	Loan for agricultural projects 1973-1976	33,000,000
ADB	Loan for commercial farming project 1071-75	700,000
<u>Education:</u>		
USSR	Loan for equipment of the University at 2.5% interest for 1968-1973	700,000
<u>General Economic and Social Policy Planning:</u>		
CIDA	Soft loan for 1973-1975 for the purchase of goods and services in support of the Second National Development Plan	4,000,000
<u>Health:</u>		
UNICEF	Grant for the development of Mother and Child Care Clinics i.e. equipment and training for the period mid 1970 - mid 1975	194,000
UNICEF	Grant for equipment and training for an approved nutrition project, mid 1965 - mid 1973	150,000
<u>Industry:</u>		
FRANCE	Loan for Water supply for the period 1970-1976 negotiated in 1969 at 5.75% paribas	1,300,000
FRANCE	Loan for consultancy negotiated in 1969 for the period 1971-1975 at 5.75% paribas	930,000
FRANCE	Loan at 5.75% negotiated in 1970 for the period 1971-1978 to purchase machine tools	330,000
FRANCE	Loan negotiated in 1969 at 5.75% paribas for the period 1970-1980 industrial projects	690,000

APPENDIX 3.C continued

Federal Republic of Germany	Capital aid earmarked for Mulobezi Saw Mill Project in Livingstone	5,000,000
CDC	Two loans for Kafironda Explosives	1,468,900
CDC/IBRD	Loans to finish expanded Mukonchi Tobacco Training programme: \$1,400,234 from CDC and \$1,801,366 from IBRD	3,201,600

International Trade:

Federal Republic of Germany	Fredrich Ebert Foundation committed funds for 1971 towards the cost of building and operating costs for the first three years of President's Citi- zenship College at Mulungushi	2,800,000
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Natural Resources:

IBRD	Loans of \$40 million at 7% committed in 1971 for the construction of the Power Station on North Bank of Zambezi River at Kariba	40,000,000
Yugoslavia	A \$50.1 million loan at 6% for the period 1972-1981 for the Energy Pro- ject for Kafue Hydroelectric Schem, negotiated in 1968	50,100,000
USSR	A loan for the period 1972-1975 at 2.5% interest for the construction of six Diesel Power Stations	750,000
CDC	A loan to the Zambia Electricity Supply Corporation Limited, repayable 1965 - 86	2,880,000

Relief Activities:

WFP	Settlement of Refugees, Assistance committed for supply of food in 1971	250,000
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Science and Technology:

USSR	Loan for 1971-1974 at 3.5% negotiated in 1970 for Drilling Rigs	400,000
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APPENDIX 3.C continued

Social Security and Other Services:

CDC	Housing loan repayable 1965-1982 for lower and middle income groups	2,400,000
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Transport and Communication:

IBRD	Loan for 1964-1976 negotiated in 1958 at 5.4% (purpose not specified)	8,400,000
IBRD	Another IBRD loan negotiated in 1954 for the then Rhodesia Railways jointly owned by Zambia and Rhodesia at 4.75% for 1963-1972	14,000,000
IBRD	Loan for the construction of roads negotiated in 1967 and 1968 at 6.5%	24,900,000
CHINA	Loan for the construction of the Tan-Zam Railway line for the period 1970-1975 negotiated in 1968	200,000,000
ITALY	A loan of 12.66 Italian lire for the expansion of the Ndola - Dar es Salaam pipeline	
USSR	Loan for road construction for 1971-1974 earmarked for the purchase of road building machinery at 3.5%	265,000
WFP	Grants for refugees	310,000

SOURCE: Office of Resident Representative of World Bank, Lusaka, Zambia, 1975.

APPENDIX 4.A

SUMMARY OF THE INDUSTRIAL DEVELOPMENT PLAN OF ZAMBIA 1972-76

1. General Goals and Objectives:

(i) Planned Growth:

	<u>1971</u>	<u>1976</u>	<u>Average annual growth</u>
Manufacturing GDP/capita (\$)	32.2	55.6	11.5%
Industrial GDP/capita (\$)	165.2	214.4	5.3%
Total GDP/capita (\$)	343.0	427.1	4.5%
Population (000)	4,336	4,999	2.9%
Manufacturing GDP (million US \$)	139.7	277.8	14.7%
Industrial GDP (million US \$)	716.1	1,071.5	8.4%
Total GDP (million US \$)*	1,487.3	2,134.9	7.5%
Manufacturing % of total GDP	9.4	13.0	
Industry % of total GDP	48.1	50.2	
Consumption (million US \$)	861.5	1,126.1	5.5%
Exports (million US \$)	42.0	86.8	15.6%
Investment (million US \$)	462.0	630.0	6.4%
Employment (000)	405	505	4.5%

* at factor (constant prices).

SOURCE: Extract from UNIDO Summaries of The Industrial Development Plans, pp. 456 - 463.

APPENDIX 4.A continued

(ii) Other Objectives:

- to improve income distribution between urban and rural areas;
- to expand and diversify industry and mining to promote further import-substitution;
- to develop tourism more intensively;
- to achieve self-sufficiency in energy and eliminate electricity imports;
- to initiate regional development by channelling more investments in money, material and skills to rural areas which have not so far benefited from past development programmes.

2. Strategy and Policy:

(i) General:

The Second National Development Plan will mark a significant stage in the diversification of industrial growth through import-substitution. Import-substitution of consumer goods (textiles, leather, passenger cars, etc.) and of certain intermediate and capital goods (sulphuric acid, fertilizers, explosives, building materials, etc.) require that a critical examination be undertaken of the present capacities of existing enterprises.

(ii) Manpower and Productivity:

Education:

In primary schools, special attention will be given to the upper primary sector concentrating on social studies, environmental science, homecraft and manual craft trainings.

Secondary Education:

The World Bank Education Project which began at the end of the last plan is scheduled to be completed. Established academic schools will be strengthened in proportion to the manpower requirement in their respective fields. The School of Agricultural Science

will occupy the highest priority in the University's academic development and work in close collaboration with the Natural Resources Development College. The teacher training capacity will be used to the best advantage before a complete staff survey will allow for revised projections. The expansion planned will only cover the minimum requirements. Technical and vocational training will be strengthened.

Planned Development of Education 1972-1976

	Number of Classes		Enrolment	
	1972	1976	1972	1976
Primary	19,653	22,942	754,100	880,300
Secondary	1,607	2,853	58,150	74,500
Vocational training and technical				
Education	n.a.	n.a.	4,210	9,310
University	n.a.	n.a.	1,752	3,012

APPENDIX 4.A continued

MINISTRY OF TRADE AND INDUSTRY 1972-1976 INVESTMENT PROGRAMME:

Manufacturing Sector: (000 US \$)

	<u>1972</u>	<u>1973-1976</u>	<u>1972-1976</u>
<u>Responsible Agency</u>			
Rural Industries	840	4,361	5,201
Fish Buying and Processing	280	1,673	1,953
Brick-Burning	140	837	977
Grain-Milling	42	1,926	1,968
Zambezi Saw-Milling	190	277	467
Saw-Milling: New West Bank	-	4,115	4,114
Saw-Milling: Ndeeba	-	490	490
Extension to Nitrogen Chemicals	182	9,520	9,702
Kabwe Industrial Fabrics	-	2,800	2,800
Kafue Textiles Extension	-	5,005	5,005
Glass Project	902	1,768	2,670
Oil Refinery	280	155	435
Pulp and Paper Mill	-	1,844	1,844
Kenafye Development	8	-	8
Total	<u>2,864</u>	<u>34,771</u>	<u>37,635</u>

APPENDIX 4.A continued

FIXED CAPITAL INVESTMENT IN THE MAJOR GROUPS OF MANUFACTURING

1972-1976 at 1969 PRICES

	(Million US \$)
Food	24.8
Beverages	14.1
Tobacco	0.7
Textiles and Clothing	18.9
Leather and Footwear	13.2
Wood and Furniture	4.5
Paper	21.8
Printing	0.6
Chemicals	53.9
Petroleum Products	41.8
Rubber Products	3.1
Plastic Products	2.7
Pottery and Glass	10.2
Non-metallic mineral industry	8.8
Basic Metal Industry	79.8
Metalworking and Machinery	39.5
Other Manufacturing	3.2
Total Manufacturing	<u>341.6</u> =====

APPENDIX 4.A continued

Planned Output (Diplomas, Certificates and Vocational) 1976

<u>Occupation</u>	<u>Planned Output 1976</u>	<u>Annual Requirement (Zambian Manpower)</u>
Accountants	94	254
Engineers	518	198
Architects	36	25
Chemists	28	3
Other Scientists	42	16
Pharmaceutical Chemists	14	7
Health Technicians	89	53
Other Technicians	30	377
Other Technical Professionals	173	393
Administrators and Managers	259	1,910
Book-keepers, cashiers	93	506
Secretaries, Stenographers	108	150
Typists	186	400
Total	<u>1,670</u>	<u>4,794</u>

Employment:

Employment by Sectors 1971-1976

	<u>December 1971</u>		<u>December 1976</u>	
	<u>Number (000)</u>	<u>%</u>	<u>Number (000)</u>	<u>%</u>
Agriculture	36	8.9	46	9.1
Mining and Quarrying	64	15.8	66	13.1
Manufacturing	38	9.4	63	12.5
Construction	78	19.3	108	21.4
Hotels, Restaurants, Tourism	35	8.6	38	7.5
Transport and Communications	23	5.7	28	5.5
All Services [*]	131	32.3	156	30.9
Total	<u>405</u>	<u>100.0</u>	<u>505^{**}</u>	<u>100.0</u>

- * Including approximately 35,000 in the domestic services.
- ** In addition to the organised sector of the economy a good number of wage-paid and self-employed opportunities would arise in the various small shops, enterprises and services.

It is imperative to use labour-intensive methods in order to increase the level of employment. The Government will set up a system whereby wage increases are linked to increases in productivity; it will also be necessary to assure labour a minimum level of wages in all industries; new labour laws on the relationship between labour and management will be introduced (worker's councils with code of discipline). In order to narrow the gap between rural and urban income, it may be necessary to provide incentives, such as a subsidy for rural industries, tax holidays and some concessions in transport.

(iii) Investment and Capacity Utilization:

The plan envisages a total investment outlay of \$3,025 million.

	1972-1976	
	(Million US \$)	Percentage Share
Public Sector	2,066	68.3%
Private Sector	959	31.7
Total	<u>3,025</u>	<u>100.0</u>

Of the total public sector outlay \$1,779 million represent the fixed capital investment, the residual amount will be spent for current expenditures. Private sector figures include only the fixed capital investment.

The private sector has been defined as inclusive of those parastatal organizations in which the Government holds 51 per cent of the share capital. The introduction of an Industrial Investment Code will be an incentive for the much needed private investment from local and foreign sources.

Of the total fixed capital investment \$341.6 million will be spent for the manufacturing sector; the share of the public sector amounts to 42.2 per cent and of the private sector to 57.8 per cent.

APPENDIX 7.A

INDECO's subsidiary and main associate companies, December 1968

(K1 = \$1.5)

Company	Business	Eventual capital (K'000)	INDECO voting %	Fixed Assets (eventual value) (K'000)	Eventual employment
Country Hotels	Rural hotels and game lodges	3,000	100	3,000	225
Indeco Milling	Rural maize roller mills	750	100	450	120
Indeco Properties	Staff housing	9	100	1,350	13
Kabwe Industrial Fabrics	Grain bag and hessian manufacture	2,400	100	3,000	750
Kafue Estate	Residential and industrial township	300	100	18,000	100
Mukonchi Tobacco	Virginia tobacco farming	450	100	285	270
Mwaiseni Properties	Commercial development	60	100	1,800	-
Progressive Development	Factory leasing	4	100	150	-
Rucoy Industries	Food canning and rural industries	750	100	240	22
Zambia Steel and Building Supplies	Wholesale of steel and building materials	1,500	100	1,500	800
Anros Industries	Metal windows and door frames	300	52	900	540
Consumer Buying Corporation of Zambia	Department stores	4,875	51	6,000	2,000

APPENDIX 7.A continued

Crushed Stone Sales		300	51	675	380
Lake Fisheries of Zambia	Quarry sales				
Metal Fabricators of Zambia	Fish catching and marketing	1,500	85	3,750	165
Mining Timber	Fabricator of copper and aluminium	1,800	51	3,000	80
Monarch (Zambia)	Timber for mines	120	51	825	195
Mwaiseni Stores	Metal windows, etc.	450	51	525	360
National Breweries	Retail selling	450	51	405	300
Nitrogen Chemicals of Zambia	Opaque beer	n.a.	51	10,500	600
Northern Breweries	Ammonium nitrate manufacture	12,000	83	24,000	600
Smith and Youngson	Lager beer, stout, & ale	8,400	51	15,000	1,200
Tazam Pipelines	Freight transport	150	51	5,250	1,100
Transport Holdings of Zambia	Oil transportation	750	67	48,000	200
Zambesi Sawmills	Freight and passenger transport	3,000	51	10,250	3,120
Zambia Clay Industries	Sleepers and parquet blocks	750	51	705	1,160
Zambia Hotel Properties	Salt-glazed pipes and face bricks	900	56	1,170	140
Z.O.K.	Major hotels	3,120	80	6,750	550
African Farming Equipment	Trading stores	.75	51	2,250	220
Chilanga Cement	Supplier of agricultural equipment	127	29	450	200
	Cement manufacture and sales	12,000	45	24,000	800

APPENDIX 7.A continued

Duncan, Gilbey and Matheson Zambia	Distillery and bottling plant	450	33	375	25
Dunlop Zambia	Tyres and tubes	3,300	23	6,000	435
Kafironda	Explosives for mines	2,850	33	8,750	500
Kafue Textiles of Zambia	Spinning, weaving, dyeing and finishing	3,000	50	5,250	960
Nkwazi Manufacturing	Fishing nets and twine	237	5	202	93
Scaw-Tow Foundries	Castings and grinding balls	1,275	2	1,294	600
Miller and Wixley	Pharmaceuticals, cosmetics and technical instruments	150	40	300	64.
Zambia Sugar	Sugar estate, factory, and refinery	6,360	12	21,000	2,500
Zambia-Tanzania Road Services	International road transport	4,500	35	15,000	2,000

Note: n.a. = not available.

Sources: INDECO Annual Report, 1968; Enterprise, First Quarter, 1969.

APPENDIX 7.B

1969 ECONOMIC REFORMS-MINING INDUSTRY Takeover Speech:

(extract from K.D. Kaunda, "Towards Complete Independence" pp. 29-39)

I would now like to say a word or two on the mining companies. You will recollect, comrades, that last year I expressed my disappointment at the virtual lack of mining development since Independence. I said of the mining companies:

"First of all, I want to say to the mining companies that I am very disappointed at the virtual lack of mining development since Independence. Apart from very small developments at Kalengwa and Mimbula Fitula and some further development at existing mines, we have seen nothing. The companies claim that the royalty system has been against new development. Nevertheless I think they have not done enough towards further development of the country in which they make their great profits. I have been following their accounts and I know very well that they could have embarked upon further expansion if they chose to devote part of their profits for this purpose. Instead of re-investing they have been distributing over 80 per cent of their profits every year as dividends."

I am afraid, having gone into the matter very thoroughly in my capacity as Minister of Mines, I now hold even stronger views than I did last year. You are all familiar as to how Cecil Rhodes and his clique in the British South Africa Company, at the beginning of the century, acquired mineral concessions from our chiefs. On Independence we took over the mineral rights which were held by the British South Africa Company. However, in practice this meant nothing except that we were able to levy a royalty on the extraction of minerals from our own soils.

We found that all areas which were rich in mineral deposits were passed on in perpetuity by the British South Africa Company to the two major mining groups, the Anglo-American Corporation and the Rhodesia Selection Trust which is now Roan Selection Trust.

If you examine a geological map of Zambia you will find that most of the northern area of the country, the Copperbelt and the

APPENDIX 7.B continued

North-Western Province, is shared between these two groups. These groups hold the mining rights in perpetuity i.e., forever and ever. All we obtained on Independence was the right to charge a royalty on the value of the minerals which were extracted from our soils. However, in order to charge the royalty we had to wait for the pleasure of the mining companies to develop a mine. Since they had the mining rights in perpetuity they were not particularly in a hurry to embark upon further development. We, as a people's Government, had legally no power to force them. We as a people's Government, had legally no power to take away their mineral rights and offer them to other groups which were willing and able to commence new mining developments. Regardless of whether we needed development very badly we could not safeguard against a possible drop in the price of copper and consequent loss of Government revenues which would bring a halt to our development plans, present and future. We could not tell the mining companies, you either develop the areas which you have or we shall take them away from you and give them to somebody else who is willing to do so. We could not even tell them we shall take them away and develop them ourselves in the interests of the nation. The Constitution which was handed down to us by our previous colonial masters made sure that we did not have this power.

Clause 18 of the Constitution was inserted for this specific purpose. And what is worse, clause 18 could not be repealed by an Act of Parliament but only by a Referendum and in order to win the Referendum the Government, as I explained earlier, had to get a YES vote from at least 51 per cent of all the voters registered on the Voters' Roll.

Now that the nation has given me the mandate through the Referendum I am able to announce far-reaching mining economic reforms which will set this nation well and truly on the road to its economic independence. In the interest of the nation and depending on the mandate that it gave me on the 17th June, 1969, I hereby proclaim that all rights of ownership or partial ownership of minerals must revert to the state. These include:

- (1) The North Charterland Concession which covers almost the entire Eastern Province and which is owned by LONRHO.
- (2) The Rhodesia Katanga Concessions around Mkushi area and which is partially owned by a British Company called the Tanganyika Concessions.

APPENDIX 7.B continued

rate of extraction. If they are prepared to give me programmes for accelerated extraction they will get a bigger area. If their extraction is slow they will naturally get a smaller area.

SECOND

If the holder of Special Grants have discovered a mineral deposit they can have a choice: either they apply for an exploration licence which will give them sufficient time to prepare a programme for mining development with subsequent right of a mining lease or they can apply directly for a mining lease. The exploration licence will give them a period of three years to complete their exploration and prepare their mining programme. The mining lease will cover adequate reserves to enable them to mine for the period of twenty-five years. But they must fulfill one other condition. They must give the State the right to obtain 51 per cent of the mining venture.

THIRD

If the holders of the Special Grants are still exploring the area, they will be able to apply for an Exploration Licence in order to complete their task. These licences will give them the right to apply for a mining lease for twenty-five years if they discover a mineral and they will give the State the right to obtain 51 per cent of the mining venture.

If they are not carrying out prospecting operations in their Special Grants or if they cannot produce evidence that they have done so since Independence they must hand the Special Grant back to the State immediately.

Before I leave this subject, Comrades, I must cover some anomalies of the mining set-up and inform you how I propose to deal with them.

There are some small mines, especially in the Central Province, which are being worked by small private individuals under tribute agreement, with the holders of the Special Grant. In other words, these unfortunate men slave away and sometimes are unable to make a living out of a small mine and yet they have to pay a percentage to the holders of the Special Grant who most of the time are not even residents of the country. When in difficulties these small-scale miners have often received royalty exemption from the Government. Yet they had to pay the tribute. Sometimes they came to Government for financial assistance, which the holder of the Special Grant refuses to provide and yet carries on receiving tribute.

APPENDIX 7.B continued

EXCLUSIVE PROSPECTING LICENCES.

These confer the right to prospect for the discovery of minerals in specified areas in the country. There are a number of such licences in existence, most of them extending up to the end of 1970. I am going to allow these licences to cover their full course but the holders of these licences will have to accept the new conditions that I shall impose upon them. The most important condition is that the State will have the right to take up (at least) 51 per cent of the shares in any mine that may be established as a result of a discovery of minerals.

SPECIAL GRANTS AND MINING LOCATIONS.

These are the rights that Cecil Rhodes and his successors, the British South Africa Company, have passed on mainly to the two mining groups in Zambia to enjoy in perpetuity i.e. forever and ever. These Special Grants cover vast areas of the country. Some of them have been lying idle, and the holders of the Special Grants did not even make an attempt to explore in these areas for the existence of minerals. Some of them are in the process of being explored now. Some of them have been explored and minerals have, in fact, been discovered. Some of them represent the existing mines on the Copperbelt and elsewhere..

Now, comrades, I intend to tell you how I propose to deal with them. Before that, let me say again: In the interests of the nation and upon the mandate it gave me on the 17th June, 1969, all rights of ownership or partial ownership of Minerals must revert to the State. Cecil Rhodes perpetuity or his 'forever and ever' is now buried and I hope and pray never to rise again in this part of Africa. I, therefore, proclaim that all Special Grants of any type, whether they are lying idle or are in the process of being explored, or contain minerals which have been discovered or contain mines which are in operation will revert to the State. Having made this quite clear I must now reveal to you, comrades, how I propose to deal with them:

FIRST

Existing mines: Where there is a mine in operation I propose to give the owners of the mine a lease to work the mine for twenty five years. I am afraid Cecil Rhodes has not lived in perpetuity i.e. forever and ever and I am not as generous as he was to give away national rights forever and ever to anyone. As I said, I shall give them a lease for twenty-five years over an area immediately surrounding the mine which contains sufficient ore for them to keep them going over the period. The size of the area will, therefore, depend on the

APPENDIX 7.B continued

- (3) The Big Concession which is partially owned by the African Gold and Base Metal Holdings, an affiliate of the Anglo-American Corporation.
- (4) Six ten-square mile areas, partially owned by Bechuanaland Exploration Company.

Three ten-square mile areas which are partially owned by the Kafue Development Company.

The Rhodesia Railways Farms.

Kawimbe Farm and Nyamokolo Farms entirely owned by the London Missionary Society.

These Concessions I just mentioned gave the holders the right to all minerals in the areas. In addition, they gave them the right to explore and mine these minerals for their own account without even paying royalty to the state. Furthermore, they gave them the right to grant mining rights to others and charge a royalty for their own benefit.

We have been trying since Independence to negotiate with the holders to purchase back these concessions in the interests of the nation. We were faced with demands amounting to as high as half a million Kwacha (\$750,000) and this only for some of them.

Comrades, this is an important moment for this young nation. As I said already, in the interests of the nation and upon the mandate that it gave me on the 17th June, 1969, I hereby announce that I shall be cancelling all these concessions.

I shall now deal with the other types of Mineral Rights. LITUNGA'S RIGHTS: The Litunga holds rights to determine conditions of prospecting licences, mining leases etc., and to claim royalty on minerals in certain areas. I am afraid I have to terminate these rights completely and without compensation. The rights of the Litunga should not be different to those of our traditional rulers. The rights of the Litunga are not different to those of the nation, and I and my Government are the elected custodians of the interests of the nation. The Litunga can rest assured, however, that we shall exercise these rights in the best interests of the nation as a whole.

APPENDIX 7.B continued

Comrades, I admire these small-scale miners. I admire their self-denial, their hard work and their faith in the country. For this reason I shall give them the right to apply for a mining lease and not the exploiters who have been sitting back and enjoying the fruits of other people's labour. The mining lease will, of course, be subject to the usual conditions, including the rights of the State for participation.

The very last anomaly is the Bwana Mkubwa and Kansanshi Mines, the so-called royalty-free mines. I do not want to waste my breath, comrades, over this ridiculous issue. Bwana Mkubwa and Kansanshi, like all other mines, will be entitled to a mining lease similar to those I have already described as applicable to existing mines.

I think, comrades, you have already seen what I meant when I blamed the mining companies for lack of mining development since Independence. If they had all the areas which are potentially rich in minerals under their control and they have done nothing to start new mines, I must blame them of course, I do remember that one of their arguments was that the royalties were too high and, as a result, they could not afford to develop new mines.

Countrymen, we have been charging the mining companies royalties on exactly the same formula as the British South Africa Company was charging them. I do not remember that they complained about it. I do not remember any chairmen of the mining companies in their annual statements to their shareholders complaining that the royalties charged by The British South Africa Company were too high. But after Independence we have been hearing nothing else.

Countrymen, all the same I always say that wise men do not live in the past. Last year I promised that I would review the royalty formula and that I would base it on profitability in order to meet the mining companies' point of view. I like to think that we keep our promises and I now wish to announce the new royalty system which will incorporate the export tax which is in existence at the moment.

Instead of royalties and instead of the export tax I ask the mining companies to pay 51 per cent of their profits in the form of a new mineral tax which I intend to introduce. The mineral tax, which replaces the royalties and copper export tax, is based on profit and in this I have met the mining companies' demands 100 per cent.

APPENDIX 7.B continued

I wish to clarify this so that there is no shadow of misunderstanding that the mineral tax is being introduced to replace the royalty and export tax. It has nothing to do with the income tax which naturally will have to be paid on the balance of profits.

I wish now to explain the method of collection of the mineral tax. As you know, royalty and export tax are collected almost immediately whereas taxes based on profits have to wait until audited accounts become available and until the Minister of Finance, through his Commissioner of Taxes, has had time to calculate the amount of tax payable. However, we cannot afford to give the mining companies a tax holiday until their audited accounts are ready before they pay the mineral tax. We need to collect this tax immediately because we need the money for our development plans. The mineral tax will, therefore, be collected on the PAYE basis in the form of a fixed charge per ton of copper produced. This will be calculated and announced by the Minister responsible for Mines at three-month intervals, in the light of prevailing conditions, so as the total collected in the form of a fixed charge will be as close as possible to the Government share of the anticipated profits. Naturally, when the accounts of the mines are ready an adjustment will be made so as the total payment shall not exceed or fall short of the 51 per cent of the total taxable profits.

Comrades, I have given a great deal of thought to the mining economic reforms which I have just announced. I am confident that they cover every aspect of mining development part, present and future and I have no doubt that they will lead to an increase of mining investment. However, when I opened the subject I said that I wanted the mining economic reforms to set the Nation well and truly towards its economic independence. I do not think that this can be achieved without the Nation acquiring full control of the existing mines, as it intends to do for the mines which will open from now on.

I have, therefore, decided that I shall ask the owners of the mines to invite the Government to join their mining enterprises. I am asking the owners of the mines to give 51 per cent of their shares to the State.

I wish to remind the owners of the mines that according to the exchange control regulations, they can only remit 50 per cent of their profits outside the country. I wish to

APPENDIX 7.B continued

point out to them that it is to their advantage to offer 51 per cent of their shares to the Government in that as a result and in line with what announced earlier their remittance of dividends will no longer be subject to exchange control.

Also wish them to know that the Government's business record is excellent and the companies, which have associated themselves with INDECO in line with last year's Mulungushi Reforms are perfectly happy and satisfied with INDECO business-like approach, both in concluding negotiations and subsequently in managing the enterprises under its control.

This year again I intend to leave it to INDECO to negotiate the value and terms of payment but again I want to make it clear that what INDECO will pay is a fair value represented by the book value. At the same time I want to make it clear that the Government has no money to pay as a deposit against these shares; it also cannot afford to release part of the mineral tax or the income tax in payment for these shares. The revenue from the mineral tax and the income tax is badly needed for our development programme. INDECO will, therefore, have to negotiate payment out of future dividends bearing in mind the advantage the shareholders will derive from associating with the State.

Before I leave this subject I must say a few words about my plans for future mining development. As you have seen, I am giving the mining companies twenty-five years to operate, under Government control, all mines working for profit. I am giving them the opportunity to prepare plans for mining development for areas which they have already explored and where they have located minerals. I am also giving them the opportunity to complete their investigation in areas where they are carrying out prospecting now and prepare programmes for mining development if they locate mineral deposits. But they will have to surrender, immediately the Parliament passes the necessary legislation, all other areas which they hold in perpetuity forever and ever.

These areas as I said will revert to the State and in my capacity as Head of State and as Minister of Mines I shall procure groups from other parts of the world to come and develop these mines as a joint venture with the State. The new rules which will apply in regard to future mining development, whether by mining companies already operating in Zambia or by new ones to come, will be as follows:

First and foremost, all minerals belong to the Nation and cannot be given to anybody in perpetuity. They will only

APPENDIX 7.B continued

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First and foremost, all minerals belong to the Nation and cannot be given to anybody in perpetuity. They will only

APPENDIX 7.B continued

be leased for periods of up to twenty-five years for exploration by companies in which the State holds at least 51 per cent of the shares. In other words, from now on all new mining companies, which are going to emerge, will be controlled by the State and the State will have the majority on their boards of directors. I am confident, Comrades, that many organizations from many parts of the world will come forward and establish mining ventures jointly with the Government of Zambia.

For the sake of our investors, I now wish to outline the procedure which will be followed in future for the establishment of new mines. Potential investors will obtain a prospecting licence or an exploration licence to look for minerals. These licences will have two main conditions:

- (i) That if they locate minerals they will be entitled as of right to a mining lease not exceeding twenty-five years.
- (ii) That the State will be entitled to obtain 51 per cent of the new mining venture.

When the State participates in a new mining venture it will undertake to pay its share in the prospecting and Exploration expenses which have already been incurred. If no minerals are located, however, the prospecting and exploration costs will be the entire responsibility of the investor.

A new mine will be subject to the same conditions as all other mines, and therefore subject to the payment of mineral tax. However, the Minister responsible for mines will have the right to postpone the payment of mineral tax or even exempt the mine altogether from payment for a number of years until the operation of the mine has reached satisfactory profitability.

I wish to take this opportunity to remind our mining companies and at the same time inform potential investors of our extremely generous tax incentives for new mining development provided for in our already existing income tax legislation.

According to the Income Tax Act of 1966 the following most favourable allowances have been provided:

Any capital expenditure incurred in the first year of

APPENDIX 7.B continued

opening a mine is divided by five. One-fifth of the capital expenditure is, therefore, written off against profits in the first year. In the second year, the balance from the first year, which has not been allowed, is added to the capital expenditure in the second year and this figure is divided by four. Therefore a quarter is written off. In the third year to the balance which has so far not been written off is added the capital expenditure of the third year and one-third is written off. This process continues until the fifth-year, when all the outstanding capital expenditure and the capital expenditure for that year is all written off. From that time on, all capital expenditure in a given tax year is allowable as a deduction against the profits of the company.

It can, therefore, be seen from this summary that we are encouraging mining operators to open new mines by allowing all capital expenditure to be written off against the profits of the company. I must emphasize that the provisions only apply to the mining operations of a mining company and not to any other interests they may have.

On my part and indeed on your behalf I want to assure potential investors in the field that we intend that all these companies in which the State has majority control shall be run on strictly businesslike lines.

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