THE POLITICAL ECONOMY OF FOREIGN PRIVATE INVESTMENT IN THE UNDERDEVELOPED COUNTRIES

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The necessary centrality of private foreign investment as the *prime mobile* in the growth process of the underdeveloped countries has often been emphasized and even exaggerated by both capitalist scholars and politicians.[1] That this view is so widely accepted is rather surprising. For as Van Arkadie noted there is little evidence that the leading industrialized countries developed largely as the result of an impetus provided by foreign investment.[2] Yet oblivious of this fact, perhaps, the recent U.N. panel on "Foreign Investment in Developing Countries" that met in Amsterdam,[2a]

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[1]This premise dates back from W. A. Lewis, *The Report on Industrialization and the Gold Coast* (1953), to the various USAID reports, e.g., *Foreign Aid Through Private Initiative* (1965), as well as various IBRD missions to the developing countries.

[2]B. van Arkadie, "Private Foreign Investment: Some Limitations", in P. A. Thomas (ed.), *Private Enterprise and the East African Company* (Dar es Salaam, 1969). For the theoretical argument that private investment is *always* beneficial to the host country, see G. D. A. McDaugall, "The Benefits and Costs of Private Investment from Abroad: a Theoretical Approach", *Bulletin of the Oxford University Institute of Statistics*, Vol. 22, No. 3, August 1960. McDaugall's analysis is limited by his assumption that domestic and foreign investors operate on the *same* marginal efficiency of capital schedule, an assumption that is clearly incompatible with the conditions of the periphery.

[2a]The panel was welcomed by B. J. Uduik, the Minister in charge of development aid of the Netherlands and Philippe de Seynes (the actual organiser of the conference), Under-Secretary General for Economic and Social Affairs of the United Nations. By acclamation, Mr. Seynes chaired the session.

Hosted by the Dutch government, the panel succeeded in bringing together representatives of a selected number of countries of the periphery, including Sr. G. W. Klein of Argentina, R. Barma of Chad, Sr. Carlos Massad of Chile, E. N. Omaboe of Ghana, L. K. Iha of India, M. Sadli of Indonesia, Dr. A. Alikhani of Iran, Abon Doumbia of Ivory Coast, D. R. Clarke of Jamaica, the late Tom Mboya of Kenya, Dr. Ali Attiga of Libya, S. S. Jafri of Pakistan and S. Kilio of Turkey. These eminent men speaking on behalf of the periphery met key figures from the investment community such as David Rockefeller of Chase Manhattan Bank, Dr. Pieter Kuin of Unilever, Sir Duncan Oppenheim of British-American Tobacco, Emilio Collado of Standard Oil, N. J. Donald Meads of ICEC, Thomas J. Bata of Bata Shoes, Dr. Aurelio Peccei of Olivetti, Sumio Hara of the Bank of Tokyo, Charles Dennison of International Minerals and Chemical Corporation, Erik Lionhead of LAMCO, Victor Umbricht of CIBA, Daniel Parker of Parker Pen and Hans Erich Bachem of Kreditanstalt fuer Wiederaufbau as well as representatives of international and regional financial institutions IBRD, Asian Developmen Bank, Inter-American Development Bank, African Development

the Netherlands, from 16 to 20 February, 1969, eloquently recommended a massive increase of foreign private investment to the periphery† as a means of accelerating their economic development.

Background documentation available to the panel consisted of the U.N. Study on "Foreign Investment in Developing Countries" published in 1968; "The Role of Private Enterprise in Investment and Promotion of Exports in Developing Countries" by Dr. Drik Stikker (who attended the conference as a special advisor) at the request of Dr. R. Prebisch for UNCTAD II in New Delhi, and a report by the U.N. Consultant, Mr. Richard Bailey of London, entitled, "Private Foreign Investment and the Development Process". However the document on which the participants focused their attention was a 12-page secretariat working paper containing "Major Issues for Discussion". The paper posed issues on purposes geared to the four main agenda items as follows: (a) functions and priorities for private foreign investment in the developing countries; (b) areas for reconciliation of interests between host governments and foreign investors; (c) institutions for mobilizing foreign investment and (d) bilateral and multilateral measures for the encouragement of foreign investment.

A drafting committee submitted a text of an "Agreed Statement on Private Foreign Investment in the Development Process", which was unanimously approved and adopted by the full panel after only slight modifications were made. The basic highlights of this agreed statement pointed out *inter alia* that there must be a massive increase in foreign capital inflow into the periphery. Though private foreign investment was seen as complementing rather than substituting for public foreign capital, nevertheless it was felt that the former plays a more important role in the economic growth of the periphery not only by supplying much needed capital but also through contributing managerial and technical know-how. For such capital to contribute fully, it was recommended that foreign private capital must find a place within the framework of the national development plans. The conference also recognized that joint ventures ideally provided a highly desirable arrangement for bringing together foreign private capital, host governments and local entrepreneurs. As usual, the need for tax reform to create a suitable investment climate was stressed.

Yet the major thesis of the panel was that, since the most binding constraint on the periphery's process of development was the paucity of

Bank, European Investment Bank and Kuwait Fund for Arab Economic Development). Also present were top officials from such organisations as OECD, International Chamber of Commerc, Commission on International Development, Business International Corporation, Eastern Mediterranean Development Institute, ADELA, UNDP, UNCTAD, FAO, UNIDO and the Department of Economic and Social Affairs of the United Nations.

†The word "periphery" is used throughout this article to refer tn "developing countries". while the "centre" refers to "developed countries".

The details of the conference will be found in *Press Coverage Report on Panel on Foreign Investment in Developing Countries*, by U.N. Centre for Economic and Social Informations, and British National Committee, International Chamber of Commerce, Document No. 07269.

capital and of managerial and technical know-how, the establishment of joint ventures would not only meet the capital needs of these countries but, given their nascent capitalist sector, would *ipso facto* generate and accelerate their economic development. In fact, the panel's major assumption in recommending the wide-spread establishment of joint ventures was that the economic growth of the underdeveloped countries was vitally dependent upon the organizational and technological resources largely possessed by the private corporations of the West. The panel postulated that it is (a) the level of private investment that is crucial, rather than the sectoral distribution and choice of techniques of the said investments, and that it is (b) the growth-inducing effects of borrowed managerial and technical know-how which gives private investment priority over foreign public capital — regardless of the cost of these transfers and their relevance to the factor proportions of the periphery.

I argue firstly that in order to achieve long-run "non-perverse growth"[3] the periphery must consider their investment patterns from the viewpoint of their sectoral distribution and choice of techniques and, secondly, that the vital innovative factor in development is a "learning process", rather than the mere passive absorption of the industrial centres' technological and managerial know-how.

I should first point out, however, that throughout what follows I will refer to direct investment, i.e., investment whereby the physical or legal person in the investing country exercises *de facto* or *de jure* control over the assets in the recipient country by means of the investment. Examples are the formation in the recipient country of a subsidiary of a company in the investing country or the formation in the recipient country of a company in which a company in the investing country has a majority shareholding. This is to contrast it with portfolio investment which consists merely of transferable securities issued or guaranteed by the government of the recipient country owned by nationals of the investing country. This would include securities issued or guaranteed by the government of the recipient country or shares of a company in the recipient country where these do not amount to a controlling share. These distinctions are necessary to make because the latter now retains marginal significance in international capital flows while the former is widely regarded as embodying some of the non-monetary benefits which are felt to be crucial in the overall contribution of foreign investment to the development process of the periphery.[4]

Secondly it is obvious that given the initial conditions of any economy, non-perverse growth will be highest if efforts to transform the industrial structure and to establish international economic links are conducted in

[3]'Non-perverse growth' is the absence of 'perverse growth', i.e., *sustained* short term and long term *structural* growth of output and employment. See especially I. Sachs, "On Growth Potential, Proportional Growth and Perverse Growth", *Czechoslovak Economic Papers*, Vol. 7 (Prague, 1966).

[4]See the articles by Rosenstein-Rodan, Pazos and Kafka in Adles, (ed.), *Capital Movements and Economic Development* (New York, 1967).

such a way as to eliminate as soon as possible the existing bottlenecks and to avoid the expansion of output of products and services which do not add to the economy's growth potential. If this is acceptable, then, it would seem that the contribution of foreign private investment must be measured in terms of (a) the nature of the output it will produce, i.e., whether these outputs are designed to break through bottlenecks or are merely luxuries (sectoral distribution), and (b) the spread effects to the rest of the economy, these being largely determined by backward linkages and choice of techniques.

To the extent that the most critical bottlenecks of the periphery's industrial structure consists in the output capacity of industries which will produce capital goods (intermediate and producers capital goods) and goods that will expand the internal market, the potential growth rate of a periphery's economy in the future will be higher the larger the proportion of current investment that is directed towards expanding this sector of industry. It follows that unless foreign private investors are willing to establish these industries, it is unlikely that their investment in other sectors will rectify the deformed structure of the periphery's economy so as to accelerate non-perverse growth.

Moreover one cannot realistically speak merely of a given investment total or rate of investment as contributing to growth potential ignoring consideration as to how it is used, i.e., in what sector it is invested, since the way it is used will inevitably influence the size of the domestic share of the investment in the future. In other words, it is the rate of increase of the increase — the capacity of the growth rate itself to grow that really matters rather than its initial size.[5] In the following section of this article I will try to show that the investment patterns that have been established by private foreign investors both during the colonial period and subsequently are not geared to maximize the growth-potential of the periphery's economy.

During the colonial period foreign private investment flowed into the agricultural and mining sectors as well as the associated infrastructure of the periphery. This sectoral pattern of colonial investment resulted in the "enclave" character of the periphery's economic structure. As is now well-known, such an economic structure is inflexible, being confined primarily to meeting the specific demands of the major industrial powers for food, fuel, metals and other raw materials. In addition, as I have pointed out in an earlier article,[6] the demand for many of these goods is predominantly income inelastic, so that investment in these branches of the economy has declined as demand for them in the industrial centres has declined with rising incomes and income inequalities. This does not imply that private investment will diminish absolutely in strategic mining industries. For as

[5]M. Dobb, *Economic Development and the Underdeveloped Countries* (London, 1962).

[6]J. Rweyemamu, "International Trade and the Developing Countries", *Journal of Modern African Studies*, Vol. 7, No. 2.

Arrighi and Saul have pointed out, investment in extractive industry retains much of its traditional centrality, depending on the nature of mineral deposits and the degree of freedom accorded to the investing enterprise in pricing output.[7]

Indeed the exercise of economic control and hence political control[8] when dealing with foreign raw material supplies is of paramount importance to the monopoly organized mass production industries in the investing country. In industries such as steel, aluminium and oil, the ability to control the source of raw materials is essential to the control of markets and prices of the final products and serves as an effective safety device in protecting the large investment in the manufacture and distribution of final products. When it is recalled that the periphery produces about 50 per cent of the non-socialist world's oil, copper ore, manganese ore and bauxite, 70 per cent of chrome and cobalt, 90 per cent of tin concentrate and 100 per cent of antimony[9] and that all these raw materials are strategic with respect to the existing and anticipated industrial structure of the centres, one begins to realize the extent of the forthcoming capitalist penetration into the periphery in search of these raw materials and the consequent deepening of the periphery's economic deformation.

In addition, international corporations have recently tended to invest in those economies with a relatively developed and rapidly expanding structure. This development is related, of course, to the prevailing mode of capitalist accumulation in the periphery under the existing oligopolistic structure and in a context of revolutionized technology. The existence of an expanding industrial structure ensures the smooth operation of capitalist manufacturing enterprises from the standpoint of outlets for their products and sources of factors of production.[10]

From a number of studies which have been made on the motivation for this new pattern of investment in the periphery, we can delineate the major characteristics of these flows.[11] Firstly, these investments are defensive in the sense that they are directed towards avoiding the loss of a foreign market by anticipated or existing competition or avoiding a loss in competitiveness in an established foreign export market due to an increase in trade barriers or transportation costs. Zenoff[12] quotes T. C. Towe, President of American Cyanamid, as saying that:

> "At the moment Cyanamid is exporting synthetic resins to 40 countries, but believes that if it is to maintain its five to ten per cent overseas plastics growth rate, more emphasis must be placed on local production in view of the increasing import restrictions . . . . Competition from producers abroad and the pressures arising from dollar exchange allocations have prompted Cyanamid to install facilities in . . . Argentina, Brazil, and Mexico for the production and refining of antibiotics, sulfa drugs and other pharmaceuticals."

In other words the existence of a local market for the production of the foreign concern is not a sufficient condition for the establishment of a subsidiary unless the government is able to set up competitive establishments. However the periphery's governments are least able to set up competitive capital goods industries. It is thus not surprising to find the bulk of the new investments concentrated in consumer goods industries and intermediate capital goods in the form of assembly plants.

Secondly these international corporations do not play the part which traditional theory assigns them — namely, the transferring to other sectors of the economy of considerable and spontaneous flow of savings for investment purposes.[13] Capitalist theoreticians constantly point out that the recipient government can always channel the requisite funds to diversify the economy through taxation.[14] Yet the degree of freedom afforded to host government in this direction is largely exaggerated, for in order for them to do that it would be necessary to supplement the stimulus of foreign investment with spontaneous saving and domestic investment sufficient to ensure a rate of balanced growth comparable to that resulting from foreign capital flows.

Thirdly, these multinational firms apply to all their branches technical methods corresponding to their capital, irrespective of the factor proportions in the territories where they settle. Their capital-output ratios are by and large the same everywhere.

What are the implications with respect to growth of these characteristics of the new pattern of foreign private investments to the periphery? On the one hand it is obvious that these investments are biased in favour of

[7] G. Arrighi and J. Saul, "Nationalism and Revolution in Tropical Africa", *Socialist Register,* 1969.

[8] The political arguments used in support of these economic controls are that the exploitation of these raw materials by the Western corporations (a) keeps critical raw materials out of the hands of the 'Communists', (b) contributes to strengthen the security of the 'free world', and (c) increases political stability and forestalls totalitarian revolution through promoting increased output and productivity and higher living standards and through fostering the development of a "middle class". For a further assessment of the developed countries' vital economic and strategic interests in the natural resources of the developing countries, see M. N. J. M. Broekmeijer, *Developing Countries and NATO,* Leyden, 1963 and B. Goodman, "The Political Economy of Private International Investment", *Economic Development and Cultural Change,* January 1957.

[9] Jalee, *The Pillage of the Third World* (New York, 1967).

[10] Arrighi and J. Saul, *op. cit.*

[11] For example P. P. Gabriel, *International Transfer of Corporate Skills* (Harvard, 1967); M. Kidron, *Foreign Investments in India* (Oxford University Press, London, 1965); R. F. Mikesell, *U.S. Private and Government Investment Abroad* (Oregon, 1962); W. G. Fridman and G. Kalmanoff, *Joint International Business Ventures,* (Columbia University Press, New York, 1961); S. Hymer, *The International Operations of Foreign Firms: A Study of Direct Foreign Investment,* unpublished Ph.D. dissertation, M.I.T., 1960.

[12] D. B. Zenoff, "Joint Ventures as a Source of Industrial Finance", UNIDO, ID/W.G.5/10, September, 1967.

[13] M. Bye, "Self-Financed Multiterritorial Units and their Time Horizon", *International Economic Papers,* No. 8 (London, 1958).

[14] G. Helleiner, "New Forms of Private Investment in Africa", *Journal of Modern African Studies,* Vol. 6, No. 1.

capital-intensive techniques and against a capital goods sector. As Arrighi has pointed out, these biases reinforce each other.[15] The choice of capital-intensive techniques within each industry favours the use of specialized machinery and consequently restrains the growth of demand for capital goods that could be produced in the periphery. The lack of investment in the capital goods sector, in turn, prevents the development of capital goods embodying a modern labour-intensive technology which may reduce the bias in favour of capital intensity.

Table I below, indicating the sectoral distribution of non-portfolio foreign private investment in East Africa for the year 1964 bears out some of the above considerations. As is shown, most of the foreign investment in East Africa flows into raw material industries, generally for export (Tanzania 60.1 per cent, Uganda 50.4 per cent), and the supporting services (banking, insurance, export-import trade, etc.) while in the less developed areas (Tanzania, Uganda), there is less investment in the intermediate capital goods sector. In Kenya, on the other hand, this sector is almost as large as the consumer goods and the raw materials sectors.

TABLE 1. AMOUNT AND PERCENTAGE OF DIRECT FOREIGN INVESTMENT IN EAST AFRICA, 1964, SECTORALLY DISTRIBUTED[16]

Sectors	UGANDA Amount in £'000	% of total	KENYA Amount in £'000	% of total	TANZANIA Amount in £'000	% of total
Raw materials	5,506	50·4	10,982	24·8	7,352	60·1
Services	5,254	48·2	9,971	22·5	1,782	14·6
Consumer goods	102	0·9	10,941	24·7	2,393	19·6
Intermediate goods	32	0·3	10,564	23·9	86	0·7
Producer goods	23	0·2	1,827	4·1	613	5·0
TOTAL	10,934	100·0	44,285	100·0	12,229	100·0

On the other hand this investment pattern with high profit expectations at the shortest period of time have obvious balance of payments implications. Both Morgan and Professor Raj show that there is considerable evidence to document this point. In a survey conducted among British firms that were either investing or were potential investors in East Africa, the respondents indicated that they required a rate of return of over 20 per cent within three years.[17] And in his lectures on *Indian Economic Growth — Performance and Prospects*, Professor K. N. Raj of the Delhi School of Economics on the basis of data from a sample study of the Reserve Bank of India on foreign collaboration in the chemical industry estimates that total foreign exchange outflow per annum in the case of the companies with foreign collaboration covered by the sample works out to nearly 24

[15]G. Arrighi, "International Corporations, Labour Aristocracies and Economic Development in Tropical Africa", *The Corporations and the Cold War* (edited by D. Horowitz, London, 1968).
[16]Computed from P. von Marlin, *The Impact of External Economic Relations on the Economic Development of East Africa*, IFO-Institut, Munich, June, 1966.
[17]D. J. Morgan, *British Investment in East Africa*, (IDS, London, 1965).

per cent of the capital invested by the participants, "which is higher than the servicing burden on even the most onerous of loan capital received so far."[18] But as has been shown by Domar[19] and Kalecki,[20] the long-run impact of continuous foreign direct investment on the balance of payments of the recipient country must be negative (leaving aside the consideration of the indirect consequences in the form of additional exports or imports substitution, which would be the same regardless of the form of financing the new plant), unless the inflow of foreign investment grows substantially from year to year. Yet the rate of foreign investment is unlikely to grow at 10 to 12 per cent as would be necessitated by the rate of capital outflow in order to obviate the balance of payments difficulties of the host countries.

Table II showing the inflow and outflow of private international long term capital for Tanzania and Kenya indicates the fact that the participants of the panel and the non-invited members of the periphery have little to gain from the new pattern of investments.

There are, of course, in addition to the *recorded* adverse effects of foreign private investment on these economies, other forms of transfers which invariably go unrecorded. These include profits on the importation of machinery, over-invoicing of other imports bought from or through affiliated

TABLE 2. OUTFLOW OF INTERNATIONAL INVESTMENT INCOME (GROSS) AND INFLOW OF PRIVATE LONG-TERM CAPITAL (NET) IN TANZANIA AND KENYA, 1961–1968 (IN SHS. MILLION)[21]

Year	TANZANIA Profit outflow	TANZANIA Capital inflow	KENYA Profit outflow	KENYA Capital inflow
1961	− 71·2	+ 50	−140	− 6
1962	− 73	+ 58	−144	+ 2
1963	−123	+155	−202	−116
1964	− 93	+ 79	−208	−306
1965	−110	− 6	−208	+ 62
1966	−114	+138	−224	+202
1967	−159	− 66	−264	+178
1968	−114	+ 76	−268	+210

companies or branches, under-invoicing of exports sold to or through affiliated companies or branches and remittances of payments to overseas head offices for management fees, royalties, agency fees, etc. Yaffey quotes a case in Tanzania which supports the pervasive existence of these hidden forms of profits. He claims that—

> "for example prior to nationalization, one expatriate trading company paid its overseas parent company an agency fee of 2½ per cent on the f.o.b. value of *all* its imports and exports (although (only) about 30 per cent of this business was handled in any way by the parent

[18]K. N. Raj, *Indian Economic Growth — Performance and Prospects*, (New Delhi, 1965), p. 23.
[19]E. Domar, "The Effect of Foreign Investment on the Balance of Payments", *American Economic Review*, December 1950.
[20]Kalecki, "Foreign Aid and Economic Development", *Social Sciences*, May, 1966.
[21]These figures are taken from Yaffey, *Balance of Payments of Tanzania*, (IFO, Munich, 1969 forthcoming) and the *Economic Surveys of Kenya*, annual. The Kenyan figures have been adjusted to take care of official transactions.

company) and in addition certain supplies of imports paid secret commissions to the parent company which reached 9 per cent in one established case. Allowing, for example, a profit of 10 per cent on capital goods and 2½ per cent on all other imports would provide in 1966 an additional Shs. 75 million to the declared Shs. 110 million."[22]

Nor are these drawbacks of foreign private investment made good by the claim that it embodies the badly needed managerial and technical skills at little or no extra cost to the periphery's industry. For research and development of the international corporations is invariably conducted abroad, the fruits of development being imported if at all at very high cost in royalties, management and consultancy fees and similar payments. In India, for example, these payments accounted for 2/7 of the total foreign exchange loss between 1948-1961.[23] Furthermore, through production and staffing policies, the parent companies attempt to systematize a continuing control of know-how and of new products. It can do this by acquiring either majority or management control or as is often the case, both. In fact, the various studies on foreign investment behaviour of business enterprises around the world have confirmed that very often the corporate manager hopes to secure a majority ownership position and effective control over the operations of any partnership arrangement entered into by his firm. One of the reasons frequently given for this preference is of course to ensure that the operation is successful and the assets of the firm well-utilized and protected. A second reason is more revealing. It is that any large multi-national investor who is the leader in his industry and/or has unique technological capabilities tries to protect its dominant position by settling for not less than complete control of any ventures in which it invests, including close supervision of the production process to ensure adequate quality control.

The implications of these controls on the learning process need some emphasis. For although these large corporations bring in complex technology with known processes, they foreclose any sustained technological experimentation and the concomitant training in innovation. The point, often forgotten though it is of greater significance, is that even when the earlier industries in the now industrialized countries were predominantly in the light consumer goods stage, they were already producing their own capital goods, if only by artisan methods.[24]

Moreover, it is worth noting that because skills are embodied in machinery as well as in men, technological dependence is a factor in import dependence. Together they sustain the flow of excess capital imports in all its forms, adding to the burden of servicing payments.

From what has been said above it may be wondered why the panel was

[22]Yaffey, *op. cit.*, introduction.
[23]M. Kidron, *op. cit.*, p. 268.
[24]A. O. Hirschman, "The Political Economy of Import-Substitution", *Quarterly Journal of Economics*, Vol. LXXXII, No. 1, February, 1968.

hailed as a great success despite the fact that it did not touch on the crucial issues of foreign investment. In order to answer this question it is important to examine the various interests of the participants. Firstly, it is fairly obvious that it was only those countries of the periphery that already welcomed and were in fact subservient to the interests of the investors that were represented. None of those countries professing socialist ideology, e.g., Algeria, Guinea, Tanzania, United Arab Republic, Zambia or even Uganda among the African countries were invited to the panel. This was as the organizers intended. They were at pains to point out that this was not to be a conference of "contestation" but of participation and dialogue! So the conference was not about whether foreign private enterprise had a part to play in the periphery but what part it should play.

In choosing the periphery's participants to the panel and a cross-section of the centre's captains of industry, Mr. Seynes was obviously looking forward to a continuing trend of the already examined pattern of foreign private investment. Yet if this is the case the developing countries have little gain. For as I have already pointed out, in order to have a more positive function, investments must be geared to altering the economic structure of these countries apart from contributing significant net additional real resources to the periphery.

Yet the panel instead of discussing ways and means of bringing about such investment, merely discussed the ways of creating a suitable investment climate, stressed the need for host governments to recognize the position and interests of the foreign private investor (as if enough had not been done on this score!) and debated various forms of clearing mechanisms of investment opportunities in developing countries and entrepreneurs looking for them. Perhaps this was inevitable as the choice of participants excluded discussants who would have raised these more significant issues.

Had the panel been more representative of the periphery participants, the agreed statement would surely have included some suggestion of minimum conditions which, from the viewpoint of the host country, should be respected in order to make the inflow of foreign private capital useful to *both* parties, such as:

(a) an acceptance that foreign-owned enterprises whether in joint-ventures or otherwise should have their books audited by the government audit corporation or a similar body especially with the view to ascertaining whether the declared export prices are too low and the declared import prices for materials and equipment are not too high;

(b) an acceptance that in order to avoid a protracted balance of payments situation, foreign firms should observe foreign exchange regulations relating to royalties, transfers of profits and repatriation of capital, and should accept having their re-invested profits treated as

domestic capital: that is, the profits derived from their reinvestment should not be repatriated at any future date;

(c) an acceptance that foreign-owned enterprises should only invest in ventures where they will stimulate growth in wider areas of an increasingly integrated national economy, i.e., they should invest largely in industries that will expand the internal market, but where export-oriented industries are set up they should also have some substantial backward linkages.

Certainly given the political and financial strength of the giant oligopolies represented at the conference and the weak bargaining position of the periphery's representatives, it is unlikely that the latter would have been able to negotiate these minimum conditions. Yet from what has been said above, if private investment cannot even meet these requirements it is perhaps better not to have it at all.

TANZANIA — SOCIALIST TRANSFORMATION AND PARTY DEVELOPMENT

H. BIENEN, *Tanzania — Party Transformation and Economic Development* (Princeton University Press, 1967).

LIONEL CLIFFE*

Anyone who sets out to write a book analyzing the contemporary working of some African political system, embarks on a risky venture. The chances of being out-dated by events are especially great if the author is concerned with some political institution. If the writer is fortunate he might be able finally to publish his opus as the "background" to the declaration, revolution. coup or whatever upheaval has occurred since he first set pen to paper. Often, however, the pace of change makes the data about the working of a party or government institution of historical interest only and even the questions posed may be literally "academic". Henry Bienen's book — published at the end of 1967 on the basis of field work then some three years old — is obviously prone to these risks. Although there has been a continuity in the regime in Tanzania, there have been significant changes in both party and government organs since the author left East Africa.

For instance, although Bienen reports the results of the 1965 Parliamentary Elections under the contested single party system, he was unable to assess their impact on the overall political system, especially the changed relations between party, parliament and government. In 1965 it was "too early to evaluate the . . . functioning of (T.A.N.U.) cells" (p. 359).[1] Yet these new units based on groups of ten houses (not ten members as he indicates) have, to varying extents in different parts of the country, given TANU a more effective grass roots presence. At present the cell leaders form the membership of the Village Development Committees, a change in the lowest unit of local authority which has occurred since Bienen wrote — and within a few months further changes will most likely take place at this level. Moving up a further stage, the contested electoral system was applied to local government elections in 1966, resulting in a considerable influx of new blood.

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[1]All references with page number in brackets refer to H. Bienen, *Tanzania Party Transformation and Economic Development* unless otherwise stated.