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Intelligence Memorandum

Economic Trends in Black Africa

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BLACK AFRICA

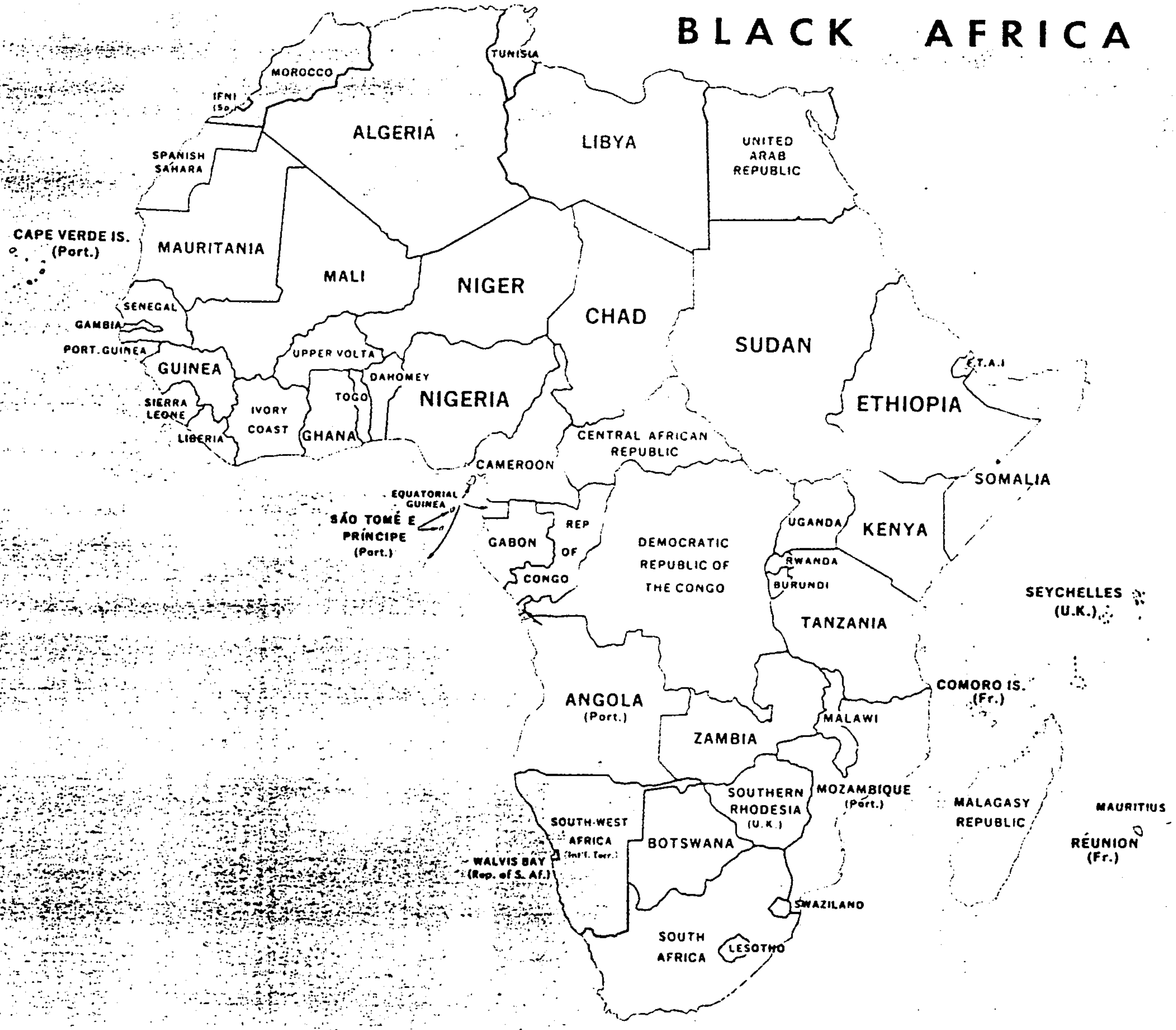

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Figure 1

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1969

INTELLIGENCE MEMORANDUM

Economic Trends in Black Africa

Summary

The hopes of Black African governments for achieving rapid economic growth after independence have been largely unfulfilled, and the prospects for an improvement in economic performance over the next five years or so are not bright. The growth of the region's aggregate gross national product (GNP) since 1960 has averaged some 4 percent annually -- the lowest aggregate and per capita rate of any region in the world. This slow growth reflects reduced world demand for the raw materials that Africa* produces as well as the economic and social disruptions which occurred after independence. African countries do not have the administrators and technicians needed to operate and expand the modern sector of their economies or to control divisive political and ethnic problems such as tribalism. Some of the hardest blows to development came in the more promising countries -- for example, the civil war in Nigeria, the general disaster in the Congo (Kinshasa), bankruptcy in Ghana, and the black-white confrontation between Rhodesia and Zambia. A few countries, such as Kenya and the Ivory Coast, have achieved satisfactory economic growth and development, but in most countries output has barely kept pace with population growth.

Africa's economic growth rate in the 1960's would have been even lower except for substantial outside

* *The term* Africa *as used in this memorandum excludes Arab North Africa -- Morocco, Algeria, Tunisia, Libya, and the UAR -- and South Africa. Included are the nearby islands of Madagascar, Reunion, Mauritius, Seychelles, Comoros, Sao Tome and Principe, and the Cape Verde Islands.*

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

help. In spite of the exodus of Europeans from some countries, thousands of expatriates remain to fill almost 80 percent of Black Africa's high-level manpower positions and to keep business enterprises and government services functioning. Foreign aid provides the funds for almost all of the economic development undertaken and is used in many countries merely to maintain the existing low level of modern economic activity. On a per capita basis, Africa during 1960-68 received 50 percent more foreign aid than the average of all less developed regions. The few African countries that achieved a 5 percent or higher growth rate did so either because of large foreign investments in mineral exploitation, as in Mauritania and Gabon, or because of the presence throughout the economy of large numbers of non-African businessmen, as in Kenya.

The role of Africans in the modern sector has changed little during the past decade. Sales by African farmers have increased only at about the same rate as population, and more than four-fifths of all Africans are still producing just enough food to meet their own consumption needs. The number of Africans employed by foreign-owned plantations and mining enterprises actually has decreased since 1960, even though output has increased. These enterprises have substantially increased worker productivity by using advanced equipment and techniques. The employment loss has been partially offset, however, by an increase in African employment in government, services, trade, and the small manufacturing sector.

African countries have avoided some problems that plague other less developed countries. Most grow enough basic foods to meet both rural and urban needs. Although urban populations have expanded nearly everywhere, there are few of the crowded shanty towns or the mounting groups of unemployed that are common in many countries in Asia and Latin America. Except for a few countries, such as Ghana and Guinea, African states have not spent beyond their slender resources, thus avoiding the inflation and debt repayment problems of many developing countries. By and large, government policies have had less of an adverse impact on economic performance than has the lack of skilled manpower required to operate a government and run an economy.

A continued slow rate of growth and development is the best that can be expected in Africa during

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the next half decade or so. The conditions required to draw substantial numbers of Africans into the cash economy and thus achieve rapid broad-based development will be lacking. There is unlikely to be a sharp rise in the world demand for African-grown agricultural products, and only a few countries will have the leadership or political conditions that would encourage a large influx of foreign entrepreneurs. A growth rate of 5 percent annually or higher can be expected only in Kenya, the Ivory Coast, and Rhodesia -- where there are large white and Asian communities -- and in Liberia, Guinea, Angola, Nigeria, and Mauritania -- where, because of nearly a billion dollars of recent or scheduled investment for exploiting minerals, exports will increase substantially. Among the mineral producers, however, there will be little broad-based development in the near future. The investment will occur primarily in the foreign-owned enclaves, and the large tax revenues received from minerals will mostly be spent in enhancing infrastructure, which, however necessary, will not have much immediate effect on production.

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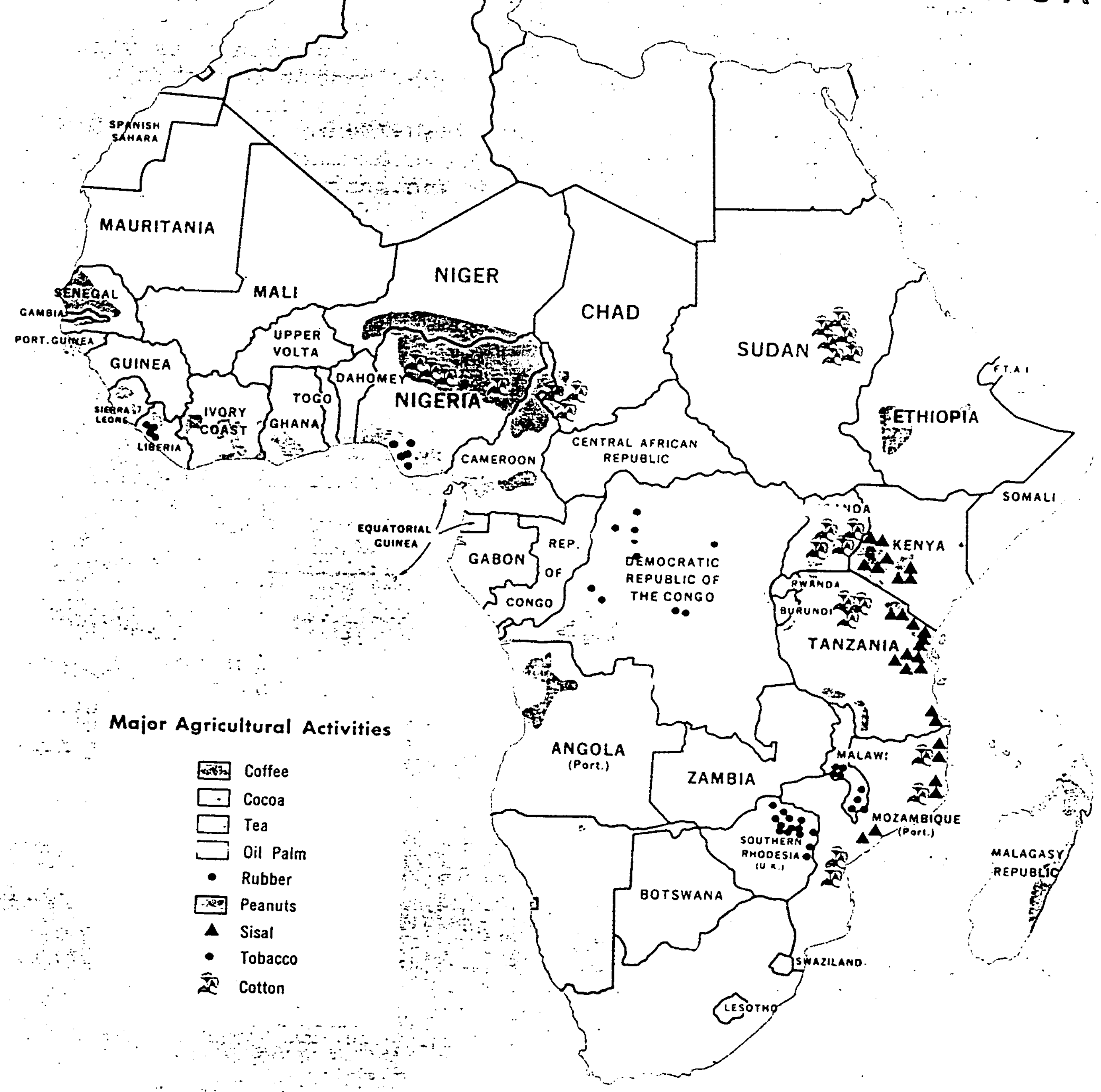

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Figure 2

Economic Characteristics*

1. Economic similarities among Africa's 47 political entities are striking. All are poor and backward; the bulk of the population works the land by primitive means, producing only enough food to maintain a bare subsistence living. The combined volume of modern economic activity of this region of 230 million people is less than that of Argentina, whose population is only about 10 percent of Africa's.

2. Cash income is mainly derived from supplying raw materials and foods to the developed world. African countries have little economic contact with one another, and their own markets are very limited. Accordingly, sales abroad are the main determinants of the size and rate of growth of their economies outside the subsistence sector. The majority of overseas exports are from foreign-owned and operated plantations and mines using unskilled and semiskilled African labor with white managers and technicians. The copper companies in Zambia and Congo (Kinshasa) are examples of these modern enclaves. Additional exports are gathered in small lots from numerous farmers who sell some of their output to pay school taxes or buy inexpensive consumer goods. In a few countries, significant numbers of African farmers, whose individual sales rarely exceed several hundred dollars annually, devote most of their efforts to cash crops. These countries -- the Ivory Coast, Senegal, Ghana, and Uganda -- have made the most progress in broad-based development. Their exports per capita, after excluding those of the foreign enclaves, range between $25 and $60 a year, while those of other countries fall below $15 a year (see Figure 4).

3. In order to develop, Africa must draw into the modern cash-oriented economy those who now live a primitive rural existence. Africa has proportionately the smallest and most rudimentary cash economy in the world and is the least able to develop rapidly through its own means. It lags far behind Asia, Latin America, and the Middle East in the availability of domestic expertise to manage and operate a modern economy. The difference is striking -- foreigners represent 80 percent of the high-level manpower in Africa and about 1 percent in the rest of the less developed world.

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* *See Figures 2 and 3 and Appendix Table 1.*

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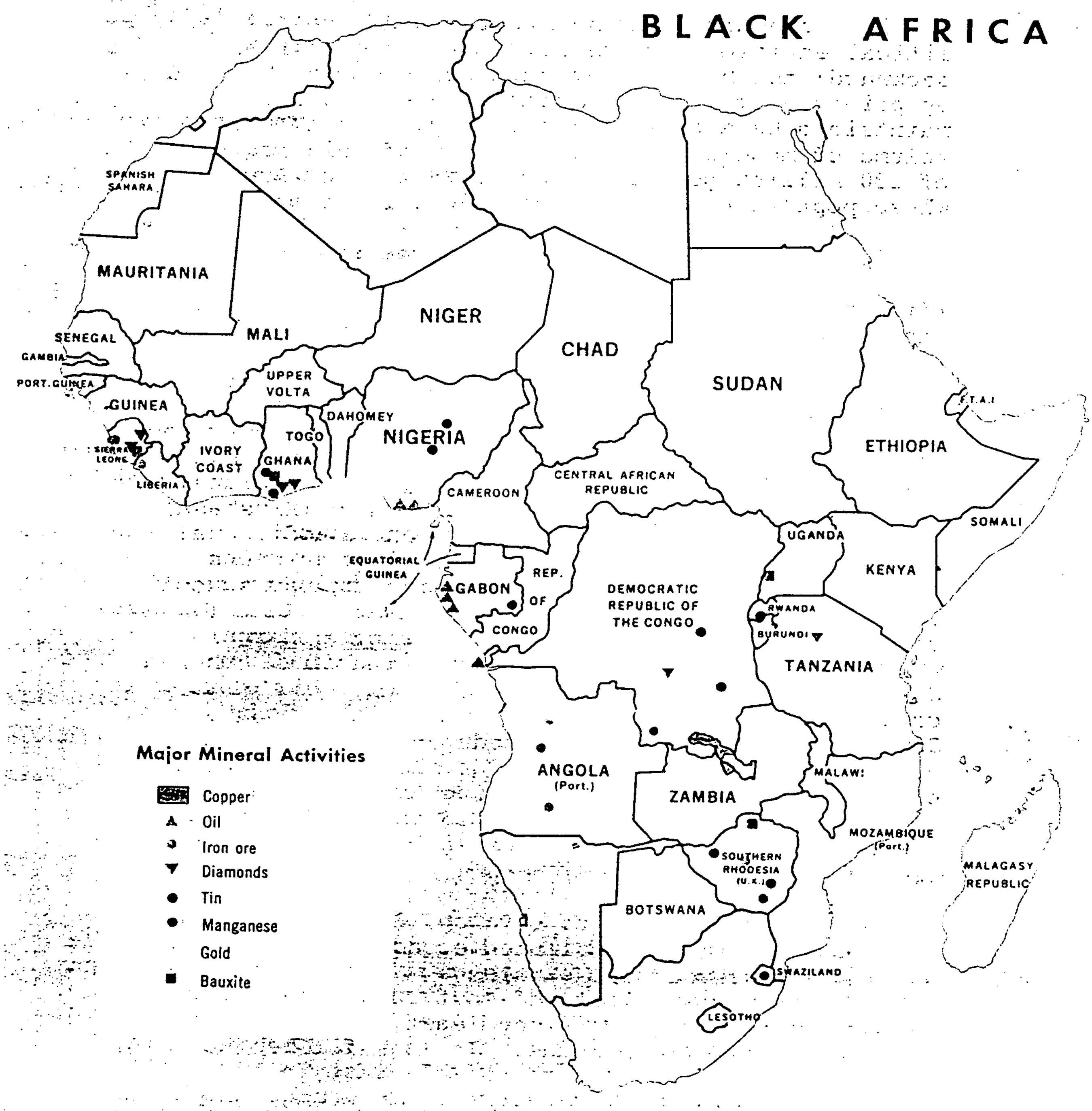

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Figure 3

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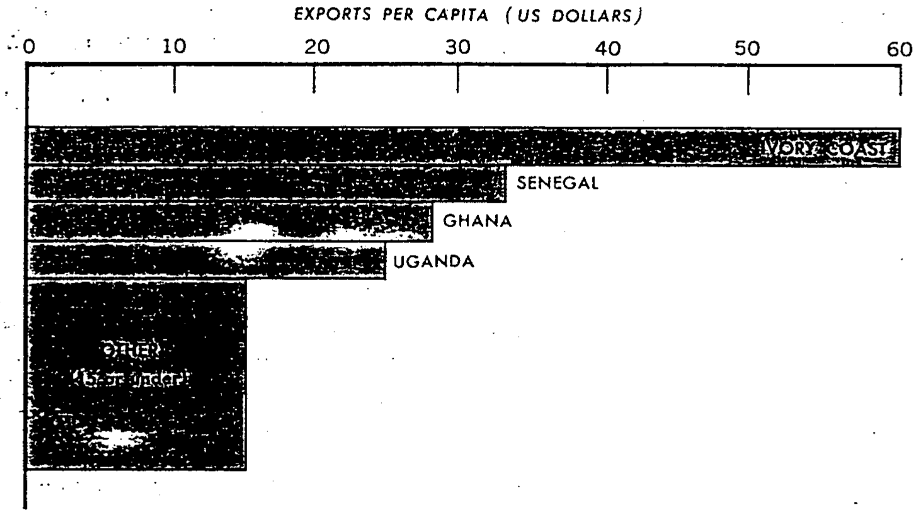
Figure 4

BLACK AFRICA: Exports Per Capita of African-Grown* Agricultural Products

1967



*Excluding output of foreign-owned or operated agricultural and mineral enclaves.

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4. Despite its low level of development, Africa is spared some serious problems that other less developed areas face. With few exceptions, African countries do not have the agonizing overpopulation problems that force many Asian governments to direct considerable resources and energies to achieving self-sufficiency in food production. In Africa, food output is generally adequate to supply the rural area and the growing requirements of the cities. A great deal of the cultivable land is still not used because of low population densities in many regions, so that output could be increased considerably even without improving the primitive production techniques. Moreover, there are almost none of the economic and social problems created by a land-owning elite such as those in Latin America and parts of Asia,

with the result that there is a greater potential for farmer initiative in Africa.

5. At Africa's stage of development, economic growth can be achieved as a consequence of increased exports either of African-grown agricultural products or of foreign-owned enclaves. The impact of these two potential forms of growth, however, is strikingly different. In the case of higher sales of African-grown products, there is a broad participation in the growth process, and development obstacles can be surmounted relatively easily because of the ability and willingness of African farmers to increase cash cropping, given a market for their products. Moreover, there is little strain on the government's financial and manpower resources. On the other hand, enclave exports have little direct effect on most of the country's population outside the enclave, and the government has difficulty in fostering development with the revenues from those exports because of the limited skilled manpower resources available. Skill bottlenecks inhibit efforts to develop new lines of economic activity and to expand the size and scope of government administration with reasonable efficiency.

A Prelude to Independence

6. The last decade of the colonial era, the 1950's, was a period of dramatic economic growth (see Figure 5). Regional gross domestic product in real terms increased about 5 percent annually, probably the highest growth rate among less developed regions except for Middle East oil producers. This growth was fueled by the booming postwar demand in the industrial countries for many tropical food items and industrial raw materials. The volume of African exports of copper and peanuts, for example, doubled during the decade. In addition, coffee exports tripled as consumers switched from brewed coffee to newly developed instants, which use the cheaper Robusta grades produced mainly in Africa.

7. Growth was not uniform throughout the region, however. The Rhodesian Federation, the Belgian Congo, Gabon, and Kenya grew at around 10 percent per year, largely because of a significant infusion of skills and capital from Europe. Since most settlers and investors believed during the 1950's that political and economic control would remain with

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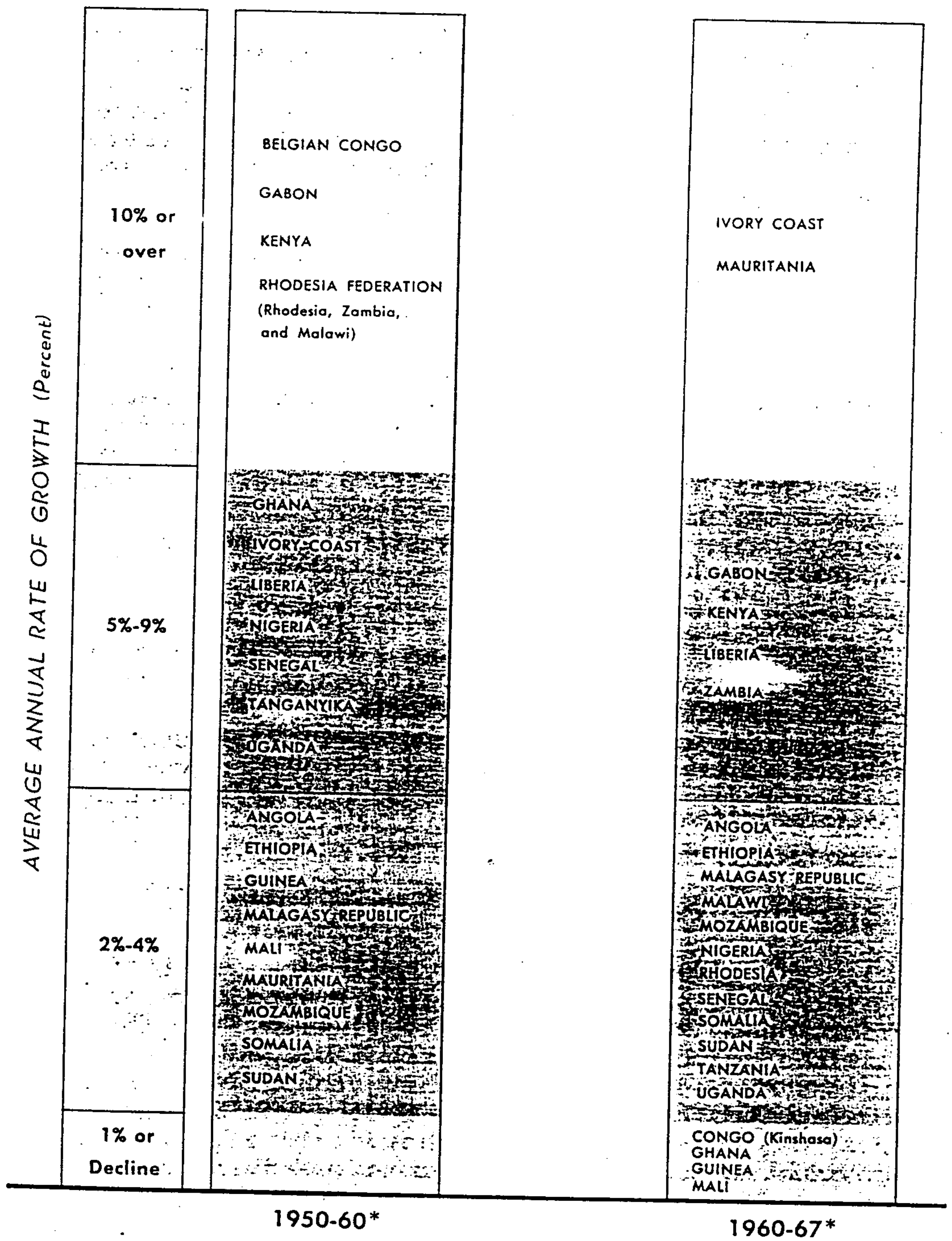
Figure 5

BLACK AFRICA: Average Annual Real Growth of Gross National Product in Selected Countries 1950-60 and 1960-67



*Average annual growth rates are computed between the terminal years.

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the metropole, they established in the colonies modern economic sectors which were small-scale versions of those in their home countries. Besides expanding agriculture and mining, they developed transport and other infrastructure to support these new endeavors and established numerous manufacturing and other businesses to supply the needs of the growing European communities. African participation in these economies was limited mainly to unskilled wage employment, except in the Belgian Congo, where there were numerous African semiskilled workers and cash croppers.

8. Good but not spectacular growth took place in the Gold Coast (Ghana), Nigeria, Uganda, Tanganyika, Senegal, and the Ivory Coast. Here the growth -- about 5 percent annually -- was largely due to increased sales of African-grown products. The demand for these commodities was sufficient both to increase the output of regular producers and to rapidly draw many new participants into cash cropping. Because of their much longer experience in producing for export markets, Africans in these countries are more responsive than elsewhere to shifts in demand for their products.

9. In other countries -- such as the landlocked French territories, Somalia, and Ethiopia -- output barely kept pace with population growth. The modernizing influence of contacts with Europeans was small in these countries because of isolation or the lack of exploitable natural resources. Consequently, they remain extremely backward, unable or unwilling to change their primitive traditional way of life and content merely to provide for bare necessities.

<u>Economic Performance During the 1960's</u>

10. The advent or prospect of independence in the early 1960's brought with it a rising tide of expectations. Many African leaders felt that the end of the colonial era would see their nations' economies expand rapidly and that standards of living equivalent to those of Western Europe would be within reach. Many economists and others in the developed world gave support to this optimism, arguing that growth in Africa would be rapid because the region is not encumbered with rigidities, such as uneven distribution of wealth, that affected other parts of the less developed world. Consequently, grandiose

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development programs were conceived and substantial increases in assistance were sought from both Western and Communist countries.

11. Despite considerable increases in foreign assistance, economic growth in the 1960's actually slowed down about 20 percent to a rate that is the lowest among less developed regions. The real value of exports increased only about 4 percent annually between 1960 and 1967, compared with an 8-percent annual rise during the 1950's. Agricultural exports slowed because of the reduced growth of demand in industrial nations. The market for Robusta-type coffee became saturated, and there were no new major agricultural commodities to take its place. Only mineral exports continued to increase rapidly. Newly opened oilfields in Nigeria and iron ore mines in Liberia and Mauritania were among the important contributors to rising mineral exports.

12. Among sectors whose output is mainly consumed locally, manufacturing showed significant growth. New plants producing textiles, cigarettes, and many other types of nondurable consumer goods sprang up all over the region. Most consumer goods and nearly all capital goods and components are still imported, however, and local demand is very small. The manufacturing sector still accounts for only a small share of total output.

13. Growth has been hampered not only by the limitations in export demand and the small size of the domestic markets but also by the transition to independence. The new governments replaced expatriate civil servants at a faster rate than adequately trained Africans became available. This Africanization process adversely affected efficiency of administration not only in the general governments but also in many publicly owned utilities, transport corporations, and -- more importantly -- the agricultural extension services which are of decisive importance in increasing African agricultural output. Foreign investors hesitate to commit new funds because of the postcolonial upheavals and uncertainties over the new governments' economic policies.

14. Many newly independent governments have been either unable or unwilling to suppress political and

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ethnic problems that had been contained by the colonial regimes. The emergence of tribal hostilities has had an adverse economic impact in Nigeria and the Congo (Kinshasa). Rhodesia and Zambia suffer from the conflict between the new black-ruled states and the remaining white-dominated ones. The United Nations' sanctions imposed against Rhodesia slowed that country's growth rate, and Zambia's hasty efforts to break its deeply embedded ties with Rhodesia caused major disruptions in the Zambian economy.

15. Only the Ivory Coast and Kenya experienced major upsurges in economic activity along with a wide distribution of the gains. These reflected the high degree of political stability achieved under Presidents Houphouet-Boigny and Kenyatta, respectively, and the large European communities that were given considerable freedom to engage in business activities. The Europeans not only increased the output of their own enterprises but also helped the Africans to boost their agricultural production by providing technical assistance and by using their marketing expertise to dispose of the increasing amounts of African-grown produce on world markets.

16. Four countries -- Liberia, Gabon, Mauritania, and Nigeria -- grew because of increased mineral and plantation output, but there has been little diffusion of the new income throughout the population. Most of the new projects used highly modern production techniques, which require only small inputs of unskilled local labor and domestically produced goods. The governments have been able to increase expenditures because of the higher revenues from mineral exports, but there has been little spreading of economic growth. Most new outlays are spent on improving education, health, and infrastructure, which will only gradually bring increased African participation in the modern economy.

17. Near stagnation characterizes the remaining countries since 1960. Some, like Angola, Mozambique, and Tanzania, have been able to grow at rates slightly exceeding population increases; but for the others, output just about kept up. The numerous small ex-French African territories, the two ex-Belgian areas of Burundi and Rwanda, and Somalia remain dependent on aid from Western Europe even to maintain their pitifully small monetary sectors. Senegal and Uganda,

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where relatively large portions of the African population sell some cash crops, have been better able to maintain themselves without foreign financial assistance, but progress is slow because of their inability to increase exports of traditional African-grown products.

18. The enthusiasm of the independence era was dulled by the failure of most countries to develop rapidly. The elaborate development plans, which had been adopted with great fanfare, were either shelved or largely ignored. Many leaders lost interest in coping with economic problems and had their hands full just trying to remain in office. Only a few, such as Presidents Nkrumah of Ghana and Touré of Guinea, steadfastly attempted to achieve Elysian goals. Even with substantial foreign aid, the results in these countries were administrative and financial chaos and economic stagnation.

19. In most countries, despite low growth rates, there have been steady improvements in education and the availability of transport and electric power. African governments have spent most of the available development funds on these improvements, although such outlays will have little effect on African cash production for some time. They are constrained in spending more funds directly on increasing production in industry because of the scarcity of skilled manpower and, in agriculture, because of limited internal and external markets.

Employment, Productivity, and Urban Unemployment

20. Employment in the monetary sector has not kept up with even the slow pace of economic growth of the last decade. African statistics, although inadequate, suggest that the total number of wage and salary earners probably has dropped. By importing modern equipment for their operations, mines and plantations have increased production while simultaneously reducing the number of employees. For employment trends in selected African countries, see Figure 6.

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Figure 6

BLACK AFRICA

EMPLOYMENT* TRENDS IN SELECTED COUNTRIES 1956-67

SIZE OF WAGE AND SALARY LABOR FORCE	COUNTRY	CHANGE 1956-67**
500,000 TO 1,000,000	RHODESIA	DOWN SINCE 1960
	CONGO (KINSHASA)	DOWN CONSIDERABLY
	KENYA	DOWN SLIGHTLY
	NIGERIA	UP SLIGHTLY
250,000 TO 499,000	GHANA	DOWN FROM 1962 PEAK
	ZAMBIA	DOWN UNTIL 1965; UP SLIGHTLY SINCE
	TANZANIA	DOWN MODERATELY
	ANGOLA	NOT AVAILABLE
100,000 TO 249,000	CAMEROON	DOWN MODERATELY UNTIL 1964; UP SLIGHTLY SINCE
	ETHIOPIA	NOT AVAILABLE
	IVORY COAST	UP 5 PERCENT PER YEAR
	MALAGASY REPUBLIC	DOWN MODERATELY
	MALAWI	DOWN UNTIL 1964; UP SLIGHTLY SINCE
	MAURITIUS	DOWN CONSIDERABLY
	MOZAMBIQUE	NOT AVAILABLE
	SENEGAL	ABOUT THE SAME
	SIERRA LEONE	UP SLIGHTLY
	SUDAN	NOT AVAILABLE
	UGANDA	ABOUT THE SAME

* WAGE AND SALARY WORKERS
** 1967 ESTIMATED

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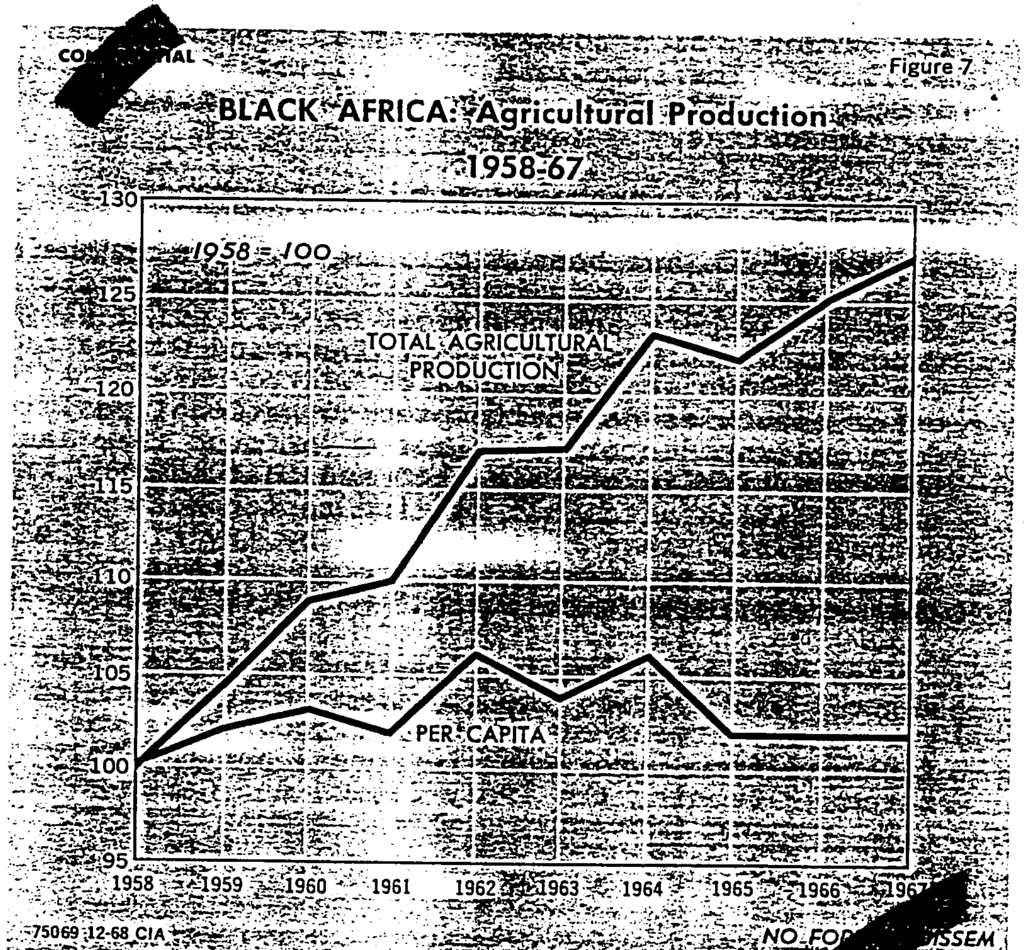
21. Gains in employment in manufacturing and government have partially offset declines within the enclaves. Manufacturers also have adopted many capital-intensive methods, but the sector's rapid expansion has required additional manpower. Employment gains in the public sector, especially since independence, have been accompanied by reductions in efficiency because each expatriate has been replaced by a number of less trained Africans. The African civil servant is, however, usually paid less than the expatriate.

22. Productivity gains in the vast rural areas have been minimal. Some African farmers have increased their output as a consequence of contact with extension services, which provide seed, credit, information, and marketing services. Increased output, however, has been mainly the result of more Africans tilling more land. For trends in agricultural production, see Figure 7.



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23. As elsewhere in the world, African cities have been growing faster than the rural population. The increasing urban-rural pay differential, the prestige of living in a city, and larger numbers of graduating students and dropouts all contributed to the urban migration. Some new urban dwellers have found clerical positions in the civil service or jobs in the new manufacturing establishments, but most have remained unemployed or underemployed. Rather than return to the rural areas, they prefer to remain unemployed city dwellers seeking jobs while earning some income as petty traders or from occasional wage labor. Many survive by living with employed relatives who are obliged by custom to help support their less fortunate kin.

24. Urban unemployment has worsened over the last decade but still is much less extensive than in the urban shanty towns of Asia and Latin America. African cities are comparatively small; only a few have a population above one million. Even the larger cities are sprawling, with adequate living space and room for gardens which go a long way in feeding urban dwellers. The immediate urban hinterlands also are drawing African farmers who provide traditional food for the cities.

Continuing Dependence on Outside Assistance*

25. There has been little improvement in the new countries' ability to run their own modern sectors; foreign managers and technical experts still play a crucial role. The efforts of Ghana and Guinea to run their own economic affairs led to chaos. A few other countries have attempted to nationalize large foreign-owned enterprises but soon found they lacked the expertise to operate them and that in many instances it is difficult to find replacement personnel elsewhere. Most ended up by inviting the same firms back under one guise or another to keep the enterprises functioning.

26. The need for foreign funds has increased since 1960. During the colonial period, much of the public investment of seven major countries was financed from government revenues, but now only three -- Zambia, the Ivory Coast, and Gabon -- are in

* *See Figure 8.*

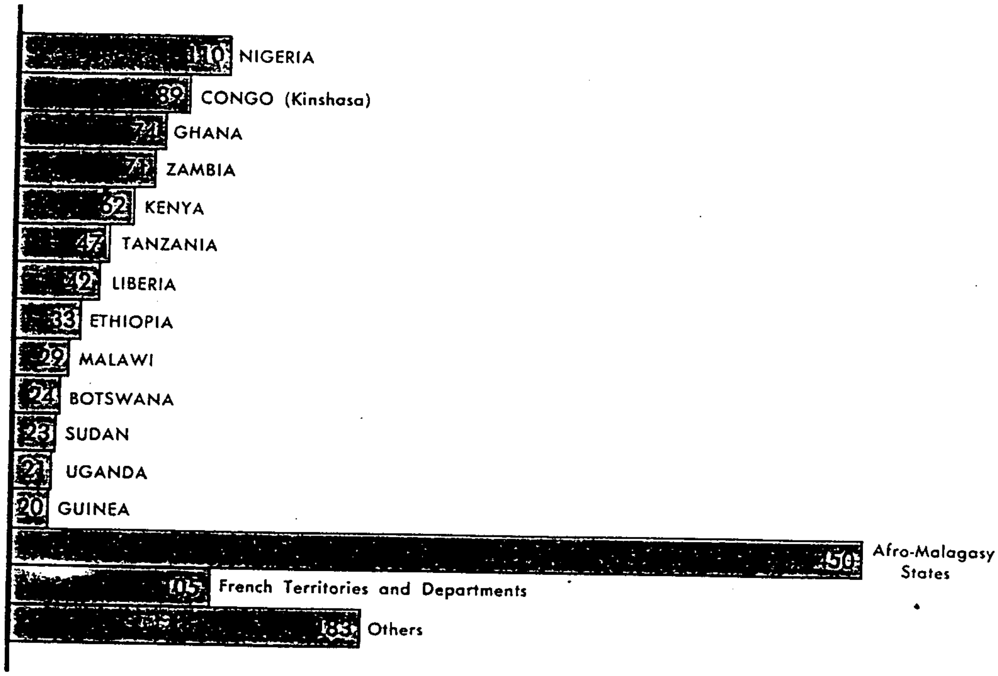
BLACK AFRICA:

Figure 8

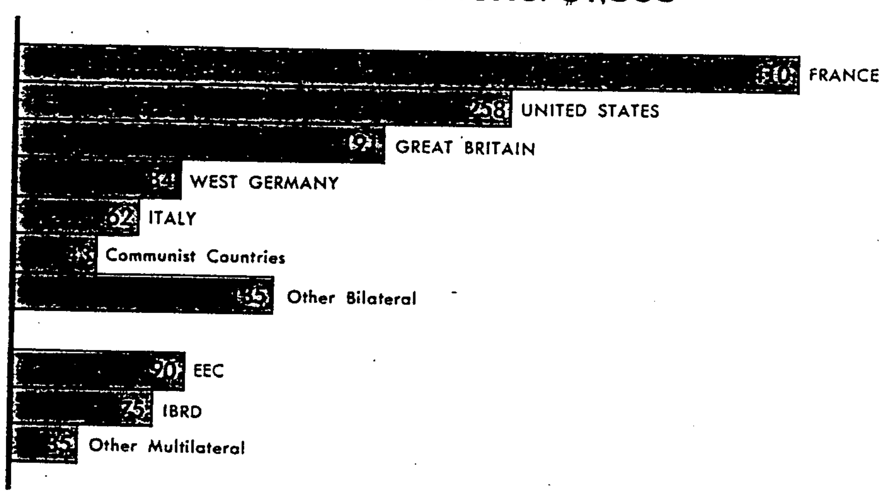
Major Foreign Aid Recipients and Donors, 1967*

MILLION US DOLLARS

TOTAL RECIPIENTS: $1,383



TOTAL DONORS: $1,383



In gross disbursements except for the IBRD.

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this position. Several other states, including Ghana and Sudan, were temporarily able to live off previously built-up foreign exchange reserves. Institutions designed to tap domestic savings are underdeveloped. There are still only rudimentary money markets in Lagos and Nairobi and a moderately developed one in Salisbury.

27. Almost all the additional capital inflow has been in the form of public foreign assistance which doubled between 1960 and 1967, from an annual level of $700 million to $1.4 billion. As a whole, Africa receives 50 percent more foreign aid per capita than the average for all Free World less developed regions -- $6 versus $4. At least two-thirds of the foreign assistance is used to maintain school, health, and other service facilities. A large portion of the additional foreign aid since independence has been used to overcome new problems arising since independence. Since 1960, more than a quarter of the total increase (annual increments above $700 million), or nearly a billion dollars, has been spent to prevent an even worse disaster in the Congo, and more recently, additional sums have been required to straighten out the economic mess in Ghana created by Nkrumah.

28. The inflow of private capital, which can be only roughly estimated because of inadequate statistics, has remained about constant, at roughly $400 million per year. Private investments in minerals rose; other private investment declined. Excepting the Ivory Coast, the newly independent countries have been unable or unwilling to sell bonds on the European private capital markets, a method that was often employed by the colonial governments of the Belgian Congo, Kenya, and the Rhodesian Federation to raise development funds.

29. Although economic relations with the rest of the world are essential to Africa, the reverse is not true. Trade with Africa accounts for only 3 percent of world trade, and, if necessary, within a relatively short time most African exports could be bought from other continents. Africa has practically no economic significance for the United States, and even those Western European countries that have the closest economic ties with Africa could take the loss of these markets and supplies without much break in their economic progress.

Ex-French Area*

30. Among the newly independent countries, the ex-French territories retain the closest economic links with the metropole. France insulates its ex-colonies, now called the Afro-Malagasy States,** from many economic and financial problems by guaranteeing the full convertibility of the Afro-Malagasy currencies into French francs, by providing sheltered markets for exports, and by furnishing about $300 million annually in financial and technical assistance, mainly as grants. In return, through formal and informal means, the French have secured guaranteed markets for their products in the Afro-Malagasy States, and private French interests dominate most local enterprises. Furthermore, France protects itself from possible African mismanagement by retaining a degree of fiscal and monetary control. Frenchmen serve as directors on all the region's central banks, and French advisers usually have strong influence on government budget and development decisions.

31. Both France and the Afro-Malagasy States benefit from their present arrangements. The extremely poor countries -- a large majority -- have modern economic sectors only because of the French presence. The French, for their part, have business and trade opportunities relatively free from competition. Moreover, the net cost to the French balance of payments of its large aid expenditures is offset by exports to its ex-colonies and the sizable earnings of French citizens working in Africa.

32. A portion of the French support of the Afro-Malagasy States has been shifted to the European Economic Community (EEC) in recent years. In 1961, Paris supplied about 90 percent of the aid to the area, but by 1966 this share had dropped to 65 percent and the EEC portion had risen to about 25 percent. French price subsidies and tariff concessions on Afro-Malagasy export products have been removed in favor of less extensive common EEC preferences and subsidies. In the commercial sphere, however,

* *See Figure 9.*

** *The Afro-Malagasy States include Cameroon, the Central African Republic, Chad, Congo (Brazzaville), Dahomey, Gabon, the Ivory Coast, the Malagasy Republic, Mali, Mauritania, Niger, Senegal, Togo, and Upper Volta.*

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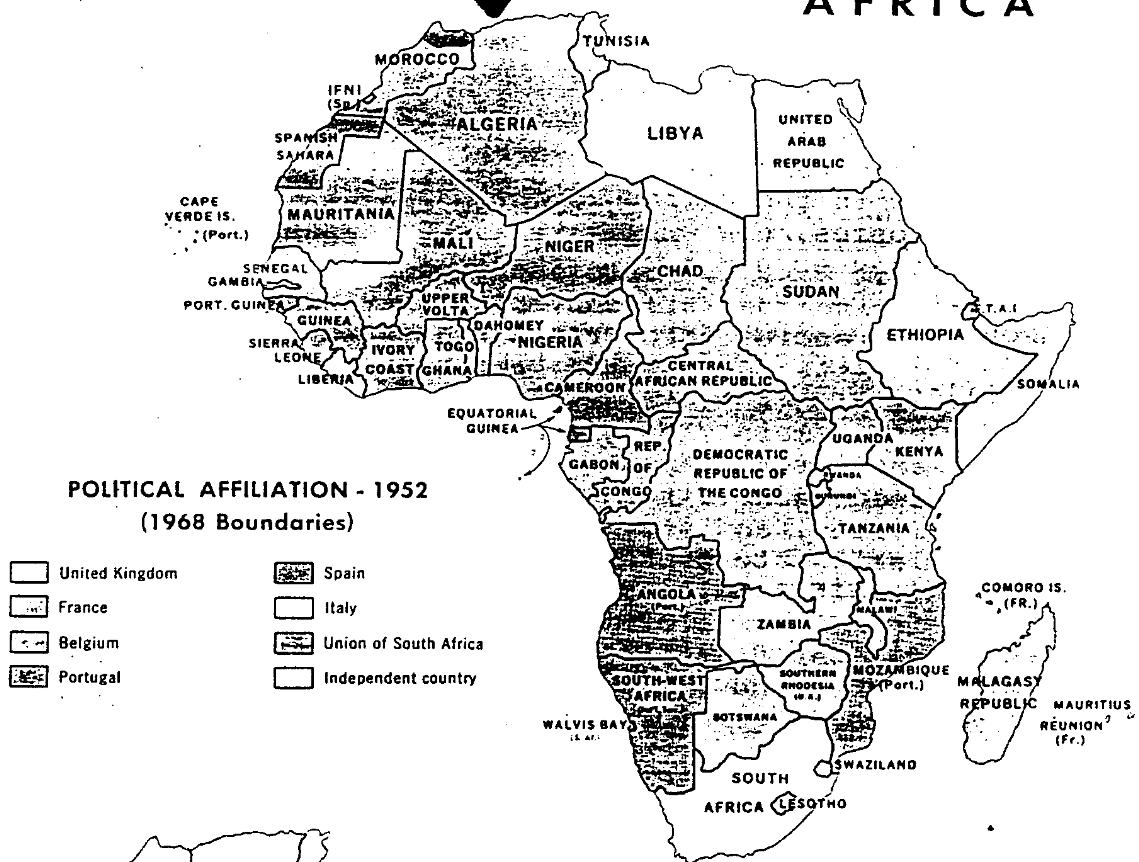

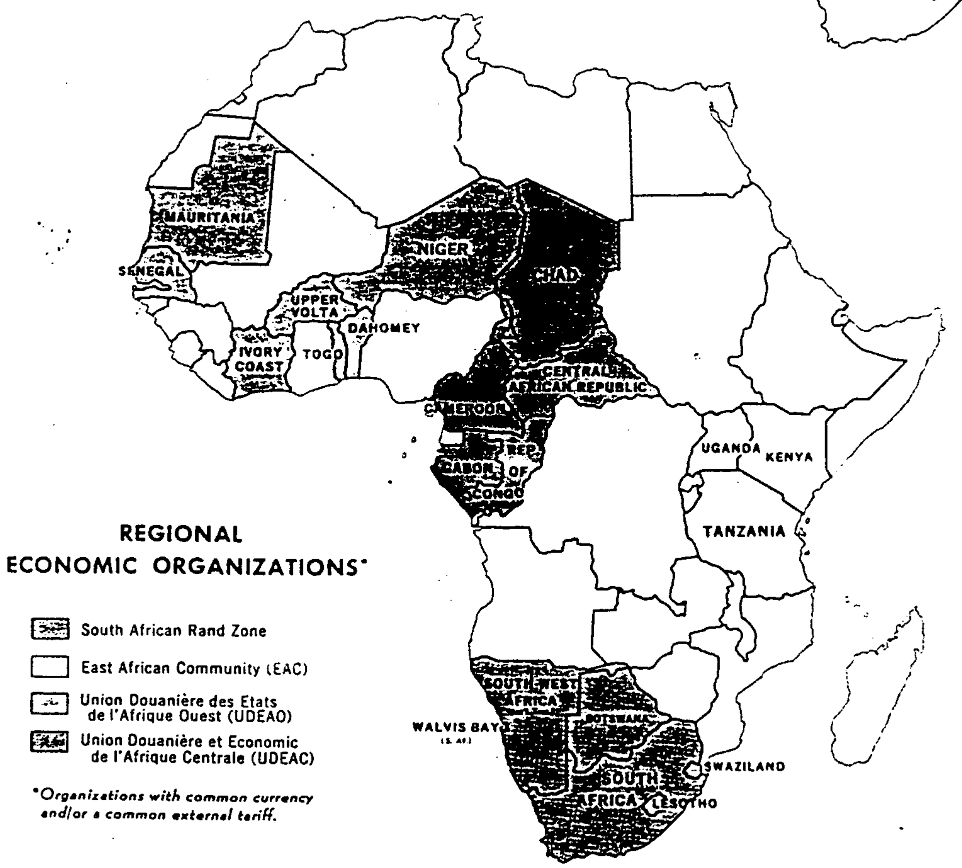

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Figure 9

few non-French firms have encroached upon France's domination, and France has retained its 50-percent share of the Afro-Malagasy import market.

Ex-United Kingdom Area

33. In comparison to the Afro-Malagasy States, the ex-British territories are quite independent in making economic and financial decisions. Although most remain in the sterling area, their financial ties to the United Kingdom have become progressively weaker. African sterling countries have been selling sterling for several years to diversify their foreign exchange holdings, and many have imposed restrictions on capital movements to other sterling bloc members. Although they receive British tariff concessions and subsidies, most African sterling countries do not grant preferential treatment to UK goods.

34. British firms and banks still control most business activity, and in most cases the United Kingdom remains the major trading partner. The UK's economic and financial stake in Africa is diminishing, however, as Western European, US, and Japanese businessmen make considerable inroads. The UK share of its ex-colonies' imports dropped from about 45 percent to 30 percent between 1956 and 1966. In Rhodesia and Nigeria, where in each case the British have more than a $100 million investment, major political problems have adversely affected UK economic interests.

35. The United Kingdom is less generous than France in aiding former African colonies. London's $200 million a year in aid to its former colonies amounts to less than $2 per capita compared with $6 per capita for Paris. Like the French, the British send a considerable portion of their aid to the poorer ex-colonial countries: UK aid to Malawi and Botswana, for example, is used to maintain their modern economic sectors. About 20 percent of the aid has been spent in Kenya to finance the transfer of the numerous white-owned farms to black ownership. Former British colonies also have received sizable aid from the United States, the International Bank for Reconstruction and Development (IBRD) and its affiliates, and -- to a lesser extent -- Germany, Italy, numerous smaller Western European countries, and Communist China. As a result, London now provides less than 40 percent of the aid these countries receive.

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Portuguese Area

36. Lisbon exercises tight control over the economic and monetary affairs of its colonies, Angola, Mozambique, and Portuguese Guinea. The Portuguese dominate business within the territories and protect these interests by restricting non-Portuguese investments. In order to speed up economic development, the Portuguese government in recent years has relaxed these controls and allowed a steadily increasing flow of foreign capital into its colonies. In most cases, however, the ownership and/or the majority voting rights have been retained by Portuguese. Lisbon supplies almost all foreign public aid -- about $30 million annually, or about $2 per capita -- to its African colonies.

Other

37. Congo (Kinshasa) generally remains the preserve of Belgian business interests. Part of the once extensive Belgian business community has remained to protect what is left of its holdings, and new private investment from any source has been negligible. While formal monetary links have been dissolved, the Belgian central bank and the country's commercial banks still provide most of the Congo's external financial services. The United States has furnished most of the post-independence aid, mainly by financing balance-of-payments deficits. Belgian official aid is still considerable, primarily as technical assistance to keep public services functioning.

38. Countries elsewhere have independent currencies, except Liberia, which uses the dollar as its official currency and does not have a separate central bank. The US private investment in Liberia -- some $200 million -- is the largest private US stake in Africa, and the US government supplies most of the aid funds. In Ethiopia the United States is the main source of aid, but the Italians are more important commercially. In neighboring Somalia the Italians are important in both commerce and aid. Somalia's only major export -- bananas -- is given protection in the Italian market. Although Guinea and Mali left the franc zone in the early 1960's, Mali has partially returned. Both countries have received relatively large amounts of aid from Communist countries, but US firms are the principal

owners of the major commercial enterprise in Guinea, the $170 million Fria bauxite mine and alumina works.

Monetary Policies and Problems

39. Most African countries have avoided the monetary instability characteristic of countries at a later stage of economic development, particularly in Latin America. There has been little inflation; deficit spending has been kept under control; foreign borrowing has been within reasonable limits; and foreign exchange reserves by and large have been maintained. Fiscal and monetary policies in almost all countries are guided by Europeans who continue to occupy high positions in both the treasuries and the central banks. Moreover, most of the new regimes have continued on their own the prudent money management policies typical of most colonial governments. There are good reasons for this condition -- the money economy in most African countries is too small and the production base too narrow to provide much opportunity to stimulate development through monetary expansion.

40. In those few countries that deviated from conservative monetary and fiscal policies -- Ghana, Guinea, Mali, and to a lesser extent Sierra Leone -- considerably increased government spending brought about inflation, declines in the free market value of the national currencies, and sharp declines in foreign exchange reserves. At the same time, economic expansion was nil or negligible, partly because of shortages of imported goods as foreign exchange supplies dwindled. In addition, these countries borrowed so heavily abroad that they soon found themselves unable to repay their debts and were forced to reschedule or default on payments. Mali's schedule of debt repayments, for example, considerably exceeds its export earnings.

Attempts at Regional Integration

41. Although economic integration among African states has been widely supported since independence by Africans and by outsiders seeking solutions to the continent's problems, many existing economic links have actually been broken and no successful new unions have been formed. The UN Economic Commission for Africa, following the lead of sister

organizations on other continents, formed subregional groupings and held numerous conferences on the ways and means of promoting economic cooperation and establishing free trade and payment areas. Its officials attempted to convince the governments of the member states that the small size of each national market is a severe limitation to industrialization.

42. Africa inherited some of the world's oldest economic unions, but many of these have disintegrated, particularly in former UK colonies. A steady deterioration of regional institutions in East Africa -- Kenya, Uganda, and Tanzania -- began when the common currency was abandoned in 1966 and various restrictions were placed on the formerly free flow of goods, services, and capital. While a new cooperative agreement was signed in 1967, which at least prevented further disintegration, little new cooperation is yet apparent. The Rhodesian Federation, a political and economic union, broke up at the end of 1963; since late 1965 all but one of the common services have been disbanded, mainly because of the political conflict between Rhodesia and Zambia. Most ex-French states have continued to use a common currency, and the Equatorial States (UDEAC) have common external tariffs. These connections, however, are designed primarily to retain French control over monetary policy and have not resulted in much economic cooperation among the member states.

43. Economic nationalism is a principal factor hindering the development of intra-African cooperation. While African leaders continue to pay lip service to closer cooperation, they act in their own narrow self-interest. Each desires to have his own symbols of economic progress, such as oil refineries and textile mills. Thus similar industrial plants have been built in many nations, each supplying only a small national market and many unable to attain an efficient operating size. This duplication process has already been partially responsible for the decline of intra-African trade by some 20 percent from 1965 through 1967. Even at its peak in 1965, however, these exports accounted for less than 10 percent of all African exports.

<u>Export Markets</u>*

44. Increases in exports of African-grown agricultural products, the key to broad-based

* *See Figures 10 and 11 and Appendix Table 2.*

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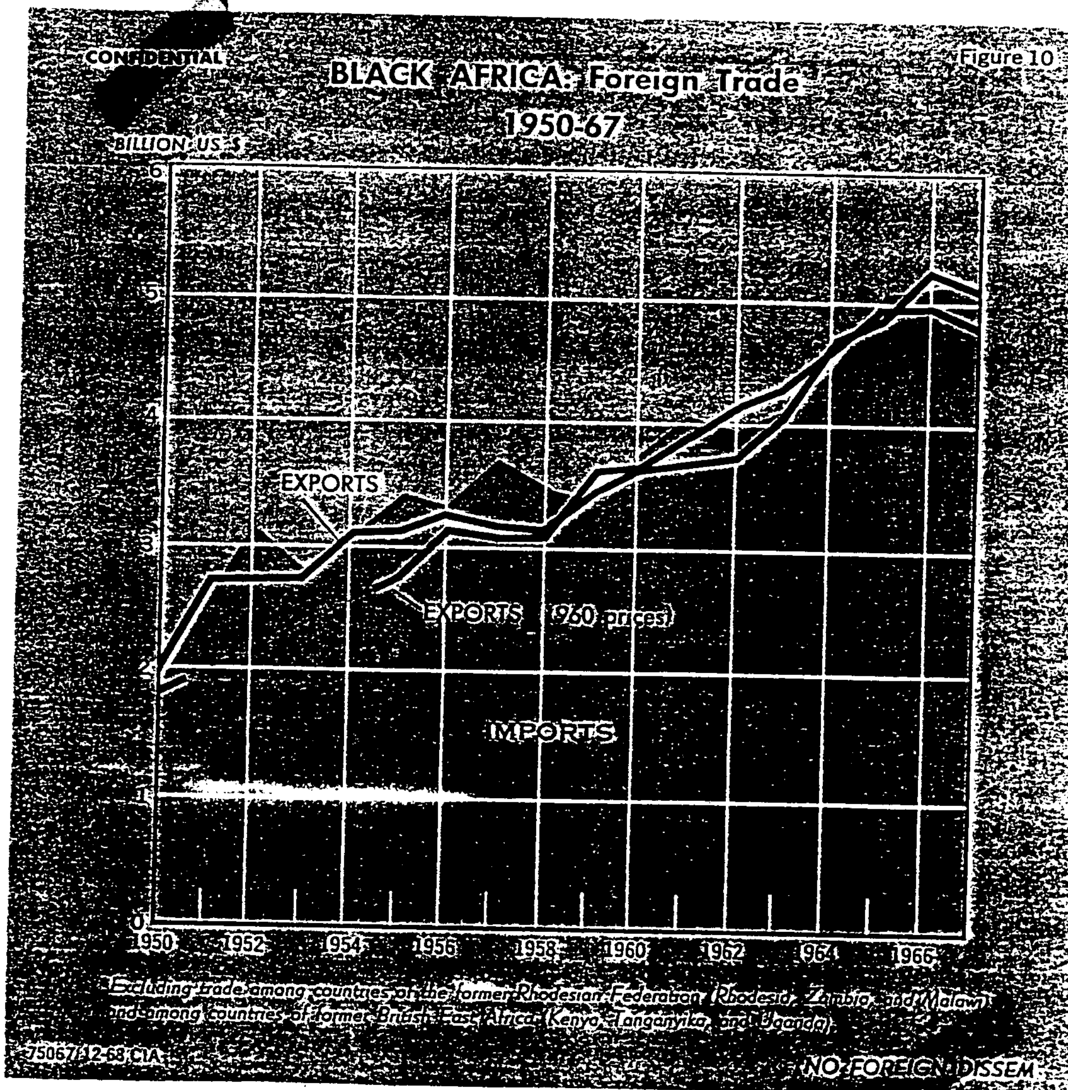

development, have been small because of the slow growth in world demand. Consumer expenditures for most of these commodities in industrial countries have been rising at a much lower rate than aggregate income. Income in other less developed regions is still too low to permit substantial imports of African products, and many of the poorer nations of Asia, Latin America, and the Near East produce the same commodities grown in Africa. Competition from synthetic materials has depressed African exports of cotton, sisal, and rubber. Peanuts are beginning to suffer from competition with other oilseeds, such as soybeans, which yield a higher percentage of feedstock -- now in greater demand than the oil content.

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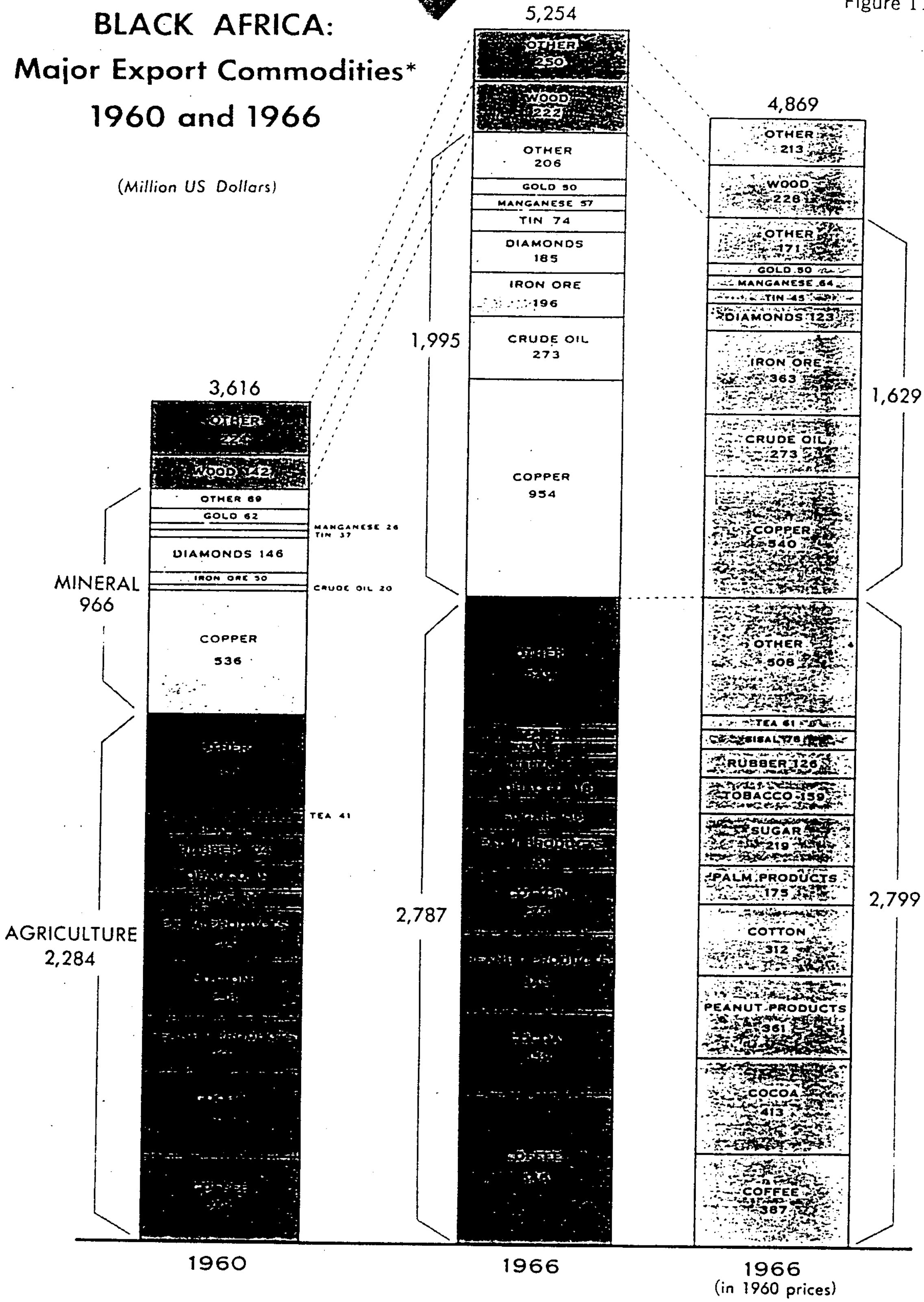
Figure 11

BLACK AFRICA: Major Export Commodities* 1960 and 1966

(Million US Dollars)



*Excluding trade among countries of the former Rhodesian Federation (Rhodesia, Zambia, and Malawi) and among countries of former British East Africa (Kenya, Tanganyika, and Uganda).

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Exports of a few minor products such as tea, pineapples, and hides and skins have increased rapidly, but their total value is small.

45. Agricultural exports of the Afro-Malagasy States have suffered from the loss of French preferences and subsidies. During the early 1960's these countries earned an additional $70 million annually from this special treatment -- a substantial sum, especially for countries like Senegal, whose principal export crop, peanuts, was sold at some 75 percent above world market prices in 1961. Most of the French preferences and subsidies have been phased out and replaced with considerably less favorable EEC ones. Most of the remaining subsidies are slated to end in 1969. Some additional preferences and subsidy benefits may result when the agreements between the EEC and its associated African states are renegotiated in 1969, but any gains are likely to fall short of the previous French benefits.

46. Many countries have tried to boost agricultural exports by introducing new crops, and the EEC has committed several hundred million dollars to this end. Progress has been disappointing, mainly because almost all tropical products face saturated markets. Moreover, the international commodity agreements, through output quota systems for specific products, freeze the proportion of the market presently held by each producing country.

47. In sharp contrast to most agricultural exports, mineral and oil exports have been rising sharply. Their share in total exports increased from about 25 percent to about 40 percent during the last decade. The trend is continuing because new mineral investments, amounting to nearly a billion dollars, are now being undertaken or are soon scheduled to get under way. Most of the money is being spent in countries that already have seen considerable expansion of mineral output, such as Nigeria, Liberia, Mauritania, Rhodesia, and Guinea, but one new country also is now becoming a major mineral producer. In Angola, $225 million is being spent to increase petroleum output and open up new iron ore mines. For existing major private foreign investment projects and those being undertaken, see Figure 12.

48. The growth in demand for some African minerals is due mainly to their competitive advantage. As

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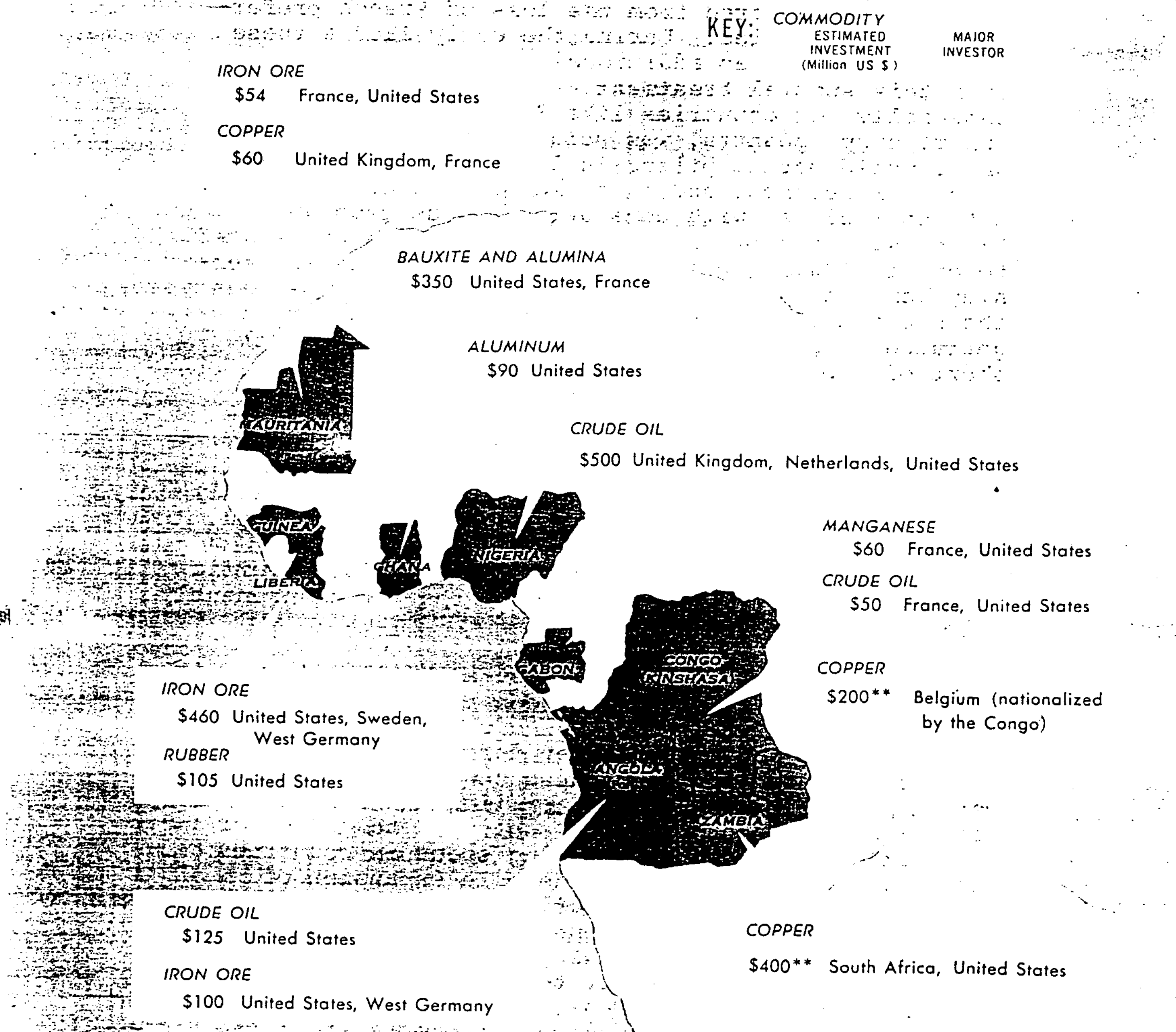
Figure 12

BLACK AFRICA: Major Private Foreign Investment*



*Existing and being undertaken.

**Book value of fixed assets.

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older sources of supply of basic minerals such as iron ore and bauxite are being depleted elsewhere, exploitation of the richer African deposits is increasing. West African crude oil has the advantage of low sulfur content, which causes less air pollution than oils from a number of the world's major producing countries.

49. Some traditional African minerals such as copper and diamonds do not have a competitive advantage that would allow them to enlarge their share of the world market. Moreover, world demand for such minerals is not growing rapidly. Technological improvements are reducing input requirements of certain raw materials per unit of manufacturing output -- for example, the new thinwall copper tubing has considerably reduced copper requirements. There is strong competition from certain manmade materials. Industrial diamonds have been hurt by synthetic diamonds, and many metals face competition from plastics.

50. Changes in world market prices for Africa's agricultural and mineral exports have had little impact on the economies of most African countries in recent years. The decline from the unusually high prices after World War II and during the Korean conflict had been completed by 1960, and since then prices have been relatively stable. Short-term declines have been handled relatively easily, even by those countries that are highly dependent on one commodity. They have temporarily drawn down their foreign exchange holdings and/or adjusted their level of imports to export receipts.

Country Performance

Countries Achieving Broad-Based Development

Ivory Coast

51. The Ivory Coast's substantial 10-percent growth rate since independence in 1960 has been made possible by large injections of French personnel and money. The number of resident Frenchmen increased from only 5,000 to over 30,000, and new private investment averaged over $50 million a year. In large measure this increased French presence reflects the political stability provided by President Houphouet-Boigny. Rapid growth has occurred in this

agriculture-based country despite the slowdown in world demand for many of its products. The Ivory Coast was able to significantly increase its world market share of several agricultural products because its foreign-run semipublic companies have marketed them aggressively, thus permitting the output of small-scale African producers to grow along with the production from foreign-owned plantations. Increased government revenues from economic expansion created large budget surpluses which were applied to development schemes to boost production still further.

Kenya

52. Economic growth in Kenya has averaged about 5 percent annually since 1960. Although agriculture and manufacturing increased, tourism led all sectors and is fast becoming the country's foremost earner of foreign exchange. Kenya is the only African country where tourism has reached significant proportions, amounting to $42 million in 1967. President Kenyatta has given the country stability by holding in check the rivalry between the country's two main tribes and by preventing a black-white confrontation through a gradual shift of the white-dominated cash agriculture to African ownership. Large amounts of aid from the United Kingdom to pay white settlers for their farms have helped bring about this peaceful transfer. In spite of occasional spurts of emigration, of the large pre-independence non-African community have remained because they were allowed relative freedom in the operation of their businesses.

<u>Countries Whose Growth Is Based Exclusively on Foreign Enclaves</u>

53. Mauritania, Gabon, and Liberia are small countries whose growth has been almost entirely due to expanded output of foreign enclaves. For example, Mauritania, with only a million people and land that is almost all desert, had chronic trade deficits and was supported by foreign aid until the opening of its iron ore mine in 1963. Since then, Mauritania has achieved a growth rate of about 10 percent per year, a trade surplus, and a considerable improvement in its overall balance-of-payments position. It has been able to reduce its dependence on foreign aid because government revenues from mining now

finance both operating expenditures and some economic development. Only a few Mauritanians, however, have prospered by employment in the new enterprises, and the majority of the populace are still poor nomads or subsistence farmers. The growth of enclaves in Gabon and Liberia has brought results similar to those in Mauritania.

Countries Affected by Political Strife

Congo (Kinshasa)

54. The Congo was by far the most serious casualty of Africa's post-independence upheavals. In 1960, Kinshasa inherited one of the most advanced economies in Africa, including a well-developed transport system and other infrastructure and a thriving African agricultural sector. The economy, however, was dependent on more than 100,000 Belgian businessmen, technicians, and teachers. The seven years of civil strife following independence caused the departure of the majority of the Belgians, a substantial deterioration in the infrastructure, and a sharp drop in cash crop production, especially among Africans. Although the country now has a modicum of security, the economy is stagnant because it has lost the driving force of a large foreign community eager to invest and grow.

Nigeria

55. Nigeria has had its prospects dampened considerably by the tribal hatreds that caused the current civil war. This most populous African country has benefited since independence in 1960 from more than a half-billion dollar investment in oil production, and a large part of the pre-civil war growth rate of 5 percent annually was attributable to the emerging oil industry. By 1966, government revenues from oil were approaching $50 million annually and were climbing rapidly. The civil war, which started in mid-1967, resulted in about a 40-percent decline in exports, mainly because of the loss of petroleum, palm, and other export products from the productive Eastern Region (Biafra). There has also been a decline in the efficiency of transport and communications throughout the country, mostly because the Ibos who staffed these services were slaughtered or fled in terror back to Biafra.

When the civil war ends, the Federal government will have great difficulty in reintegrating the Biafrans into the Nigerian economy.

Countries Undertaking Overambitious Development Programs

Ghana

56. Among those countries -- Ghana, Guinea, and Mali -- that have attempted to complete unrealistic development programs, Ghana has the best resources. It has a larger share of its population in the cash economy -- about 50 percent -- than any other Black African country and one of the highest literacy rates. It also had at the time of independence in 1957 more than $500 million in foreign exchange. But even these resources were inadequate to handle the ambitious development program that Nkrumah embarked upon. Economic development projects were poorly planned and unprofitable. In addition, much of the money went into ostentatious public buildings. Government services became progressively chaotic, and economic growth declined until by 1965 it had practically stopped. Meanwhile, Nkrumah used up the foreign exchange reserves and borrowed heavily overseas, and the government soon found that it was unable to meet its repayment commitments. Since the overthrow of Nkrumah in 1966 the new government has made some progress in correcting these problems, but it has been hampered by the large repayment obligations on foreign debt and numerous unproductive and costly white elephants inherited from the previous regime.

Zambia

57. Since independence in late 1964, Zambian economic growth has averaged over 5 percent annually, but output of basic commodities has not increased appreciably. The growth has been almost entirely due to vastly increased government spending on roads, schools, and other infrastructure paid for by soaring revenues resulting from high copper prices. There has been little or no progress in increasing the country's agricultural and mineral production, primarily because of the extreme scarcity of skilled manpower. Transport and supply problems stemming from the UN trade boycott against Rhodesia also dampened Zambia's economic progress because of its heavy reliance on Rhodesia.

The Stagnant Countries

58. Somalia is typical of the numerous small African countries whose economies barely keep up with population growth. Like most of these countries, Somalia receives relatively large amounts of foreign aid -- $10 per capita versus $6 for the region as a whole over the past several years. Part of this assistance is used to keep Somalia's very limited modern economy functioning and the government budget in balance, but the major portion is used to improve infrastructure and to establish new productive enterprises. Aid has failed to improve output substantially because of the acute lack of physical and human resources to make effective use of it. Furthermore, there are few if any commercial agricultural products that could be grown to compete in world markets. Italian-owned banana plantations whose output makes up half of Somalia's meager exports exist only because of guaranteed markets in Italy at higher than world prices.

Outlook

59. Africa's fundamental economic structure has changed little during the past two decades and will remain about the same in at least the next half decade. The population will still be mostly engaged in subsistence activities, and the small modern sector will lack sufficient skilled personnel to run and staff additional modern enterprises. The requirements for rapid broad-based development are likely to be the same as those in the past: a large expansion in exports of African-grown products, a high degree of political security, and a relatively large foreign participation in the economy.

60. A rapid expansion in exports of African-grown products has been the greatest stimulus to broad-based indigenous development in several countries. During the next half decade, however, these exports are not likely to increase at more than 2 percent annually because of sluggish world demand for tropical products. There is even a possibility of a sharp decline in the region's main agricultural export -- coffee. If consumer preference develops for new freeze-dried instant coffee, which requires high-quality Arabica coffee produced mainly in Latin America, the market for regular instants using African Robustas would decline. Kenya and Ethiopia, the only

major African Arabica producers, would benefit from this trend, but the much bigger Robusta growers -- Angola, the Ivory Coast, and Uganda -- could suffer substantial losses.

61. The combination of political stability and large foreign communities that has been instrumental in the development of Kenya and the Ivory Coast is unlikely to occur in other black-ruled African countries. Although many others also have natural resources for development, only a few will be able to create the proper climate essential to foreign private investment.

62. The majority of African countries will have to be content with modest progress at best. Although several countries will earn development funds from mineral exports, most will rely on foreign aid. But major aid donors -- France, the United Kingdom, and the United States -- have been reducing their commitments. Other large donors, such as Germany, Italy, the EEC, and the IBRD, may do little more than keep the aid levels from falling. Among the Communist countries, China's aid is likely to rise substantially as that country follows through on its commitment to build the Tanzania-Zambia railroad. But even this costly project would add only about 5 percent to the present level of total aid receipts.

63. The development process will be slow even in those countries receiving large funds from foreign aid or mineral revenues. Because of the limited export markets available, only a small portion of government development spending can profitably be used to increase African agricultural production. Most outlays will be for projects which only indirectly affect African production -- roads, schools, and agricultural extension services -- and which can only bring about gradual development.

64. A high rate of economic growth -- 5 to 10 percent annually -- and broad-based development is likely in black-ruled Kenya and Ivory Coast and should occur in white-ruled Rhodesia once the UN sanctions have been ended. If the new Lisbon government further relaxes its restrictions on non-Portuguese investments, the Portuguese territories could also experience a high rate of economic development.

65. Growth rates above 5 percent annually will almost certainly take place in those few countries with rapidly expanding mineral exports, especially Mauritania, Guinea, Liberia, and Nigeria. Prospects are fairly good for new investments in copper and diamonds in Botswana and in uranium in Niger. New investments planned over the next few years in Zambia and Congo (Kinshasa), however, will increase revenue from copper only moderately. The supply of this metal may be greater than world demand for several years, and prices are likely to decline. Nonetheless, copper revenues will continue to supply the bulk of foreign exchange and government revenues in both Zambia and Congo (Kinshasa).

66. In most African countries, economic growth will remain between 2 and 4 percent a year. In some countries -- Tanzania, Uganda, Ghana, and Sudan -- expansion of the indigenous cash economy may take place at a somewhat faster pace than the annual population growth of between 2 and 3 percent a year because of improvements brought about by development spending. Those countries which are poorest in commercially exploitable natural resources will at best grow at about the same rate as population.

67. A number of African countries probably will experience political instability at one time or another in the next few years; this would almost certainly reduce their rates of economic growth. Some of the leaders who have fostered development seem likely to be out of office in the next few years. Their replacements may not be able to exert effective control over such divisive factors as deep-seated tribal animosities. In some countries the danger persists that economic factors such as falling exports and reduced foreign aid may cause leaders to become xenophobic and force the departure of those foreigners who are essential to operate the modern economy.

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STATISTICAL APPENDIX

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Table 1

Black Afri[redacted]: Selected Economic Statistics
1967 a/

Country	Population as of Mid-1967 (Thousand Persons)			Wage Earners		Electric Power Capacity (Thousand Kilowatts)	Million US $		
	Total	Non-African: European and American	Non-African: Other	Year	Thousand Persons		Exports f.o.b. b/	Imports c.i.f.	Foreign Aid Received
Angola	5,300	175	55			345	238	275	
Botswana	600	5	Negl.			5	c/	c/	24
Burundi	3,300	5	Negl.			7	17	17	3
Cameroon	5,500	15	Negl.	1966	156	190	137	182	32
Central African Republic	1,500	5	Negl.	1965	49	8	29	44	
Chad	3,400	5	Negl.	1967	34	14	27	40	10
Congo (Brazzaville)	900	10	Negl.	1965	70	39	47	82	
Congo (Kinshasa)	16,700	45	Negl.	1957	1,147	715	446	238	89
Dahomey	2,500	Negl.	Negl.	1966	29	8	15	43	
Equatorial Guinea	300	5	Negl.			3	33 d/	15 d/	
Ethiopia	23,500	30	20	1965	100	137	101	143	33
French Territory of Afars and Issas	100	5	10			9			8
Gabon	500	5	Negl.	1966	47	15	120	67	
Gambia	300	Negl.	5	1966	9	3	18	20	
Ghana	8,100	10	10	1967	356	700	310	319	74
Guinea	3,700	Negl.	Negl.	1966	90	90	51	53	20
Ivory Coast	4,000	30	5	1967	235	135	325	263	
Kenya	9,900	40	230	1966	603	170	241	316	62
Lesotho	900	Negl.	Negl.			3	c/	c/	14
Liberia	1,100	5	Negl.	1965	88	152	159	126	42
Malagasy Republic	6,400	40	25	1964	196	80	104	145	
Malawi	4,100	5	10	1966	150	38	57	80	29
Mali	4,700	Negl.	Negl.	1966	60	18	13	33	
Mauritania	1,100	5	Negl.	1965	16	19	71	25	11
Mauritius	800	5	410	1966	125	55	64	76	5
Mozambique	7,100	100	50			232	122	199	
Niger	3,500	5	Negl.	1965	26	38	26	46	
Nigeria	45,000	25	5	1964	561	592	680	626	110
Portuguese Guinea	500	Negl.	Negl.			1	4 e/	15 e/	
Reunion	400	5	Negl.			54	38	116	85
Rhodesia	4,500	225	10	1967	696	1,187	282	295	
Rwanda	3,300	Negl.	Negl.			12	15	15	12
Senegal	3,700	40	20	1967	150	124	137	164	
Seychelles	100	Negl.	Negl.			2	2 f/	4 f/	2
Sierra Leone	2,400	Negl.	5	1966	114	45	70	90	8
Somalia	2,700	5	30	1966	35	9	30 f/	42 f/	17
South Africa	18,700	3,565	2,420			7,460	2,993	2,945	
South-West Africa	600	95	Negl.			95	c/	c/	
Spanish Sahara	100	Negl.	Negl.			Negl.			
Sudan	14,400	5	Negl.			132	214	214	23
Swaziland	400	10	Negl.			40	c/	c/	11
Tanzania	12,200	15	100	1966	336	78	250	240	47
Togo	1,700	Negl.	Negl.	1966	25	10	37	50	
Uganda	7,900	10	95	1966	246	150	218	159	21
Upper Volta	5,100	5	Negl.	1967	22	11	18	36	
Zambia	3,900	70	10	1966	333	281	658	483	71
Other (mainly Afro-Malagasy States)									520
Total (excluding South Africa)	228,700	1,100 g/	1,100 g/		N.A.	6,052	5,424	5,416	1,383

a. Unless otherwise indicated.
b. Including reexports and gold.
c. Included in data for South Africa.
d. Data are for 1964.
e. Data are for 1965.
f. Data are for 1966.
g. Rounded to the nearest 100,000.

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Table 2

Black Africa: Major Export Commodities of Selected Countries
1966

Million

Country	Total Exports a/	Coffee	Cocoa	Cotton	Palm Products	Peanut Products	Tobacco	Tea	Rubber	Sisal	Sugar	Wood	Copper	Diamonds	Iron Ore	Tin	Phosphates	Crude Oil and Petroleum Products	Oth Minerals
Angola	221	106		4	5		2			10	3	4		39	5			2	
Burundi	14	12		1															
Cameroon	145	38	46	12	4	2	1		3			15							21
Central African Republic	31	7		5					1			1		16					
Chad	24			18															
Congo (Brazzaville)	43				1							22		15					
Congo (Kinshasa)	467	26	1		28				13			7	267	26		26			6
Dahomey	10			1	5														
Ethiopia	111	63																	
Gabon	100	1	1									40						16	40
Gambia	15					6													
Ghana	268	3	162									30		15					42
Guinea	52	5			3														33
Ivory Coast	311	124	61	1	1							75							
Kenya b/	174	53		2			1	24		9								16	
Liberia	150	6			2				29					5	105				
Malagasy Republic	98	31				1	4			4	6								5
Malawi b/	49			3		5	15	12											
Mali	13			3		2													
Mauritania	69														64				
Mauritius	71										65								
Mozambique	112			17		4	1	9		4	16	6						10	
Niger	35			2		25													
Nigeria	793	4	79	15	103	154			32			19				43		261	
Reunion	39										32								
Rhodesia b/	184					1	82				12		26		8				52
Rwanda	11	7														4			
Senegal	149					116											10		
Sierra Leone	83	5	2		7									44	14				
Somalia	33																		
Sudan	203			100		21													
Tanzania b/	250	42		49		1	2	6		33		2		25		1			
Togo	36	8	7	1	2	1											15		
Uganda b/	188	97		43		1	2	9			1		16						
Upper Volta	16																		
Zambia b/	686			1		1	6					1	645						
Other		8				2				1	1								25
Total	5,254	646	359	278	161	343	116	60	78	61	136	222	954	185	196	74	25	305	279

a. Including reexports and gold.
b. Excluding trade among countries of the former Rhodesian Federation (Rhodesia, Zambia, and Malawi) and among countries of former British East Africa (Kenya, Tanganyika, and Uganda).

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