WORKING PAPERS

THE GROWTH OF FOREIGN INVESTMENT AND ECONOMIC NATIONALISM IN POST INDEPENDENCE GHANA : 1957 -1975.

by

S. Adei

No. 34 January, 1980

IN ECONOMICS

DEPARTMENT OF ECONOMICS

UNIVERSITY OF SYDNEY

THE GROWTH OF FOREIGN INVESTMENT AND ECONOMIC NATIONALISM IN POST INDEPENDENCE GHANA : 1957 -1975.

by

S. Adei

No. 34 January, 1980

National Library of Australia Card Number and ISBN
0 86837 008 8

The author is a Ph.D. student in the Department of Economics at the University of Sydney, working under the supervision of Associate-Professor J.R. Wilson. This paper forms part of a research into Government policy and direct foreign investment in Ghana.

* * * * * * * * * * * *

I wish to acknowledge helpful comments by Associate-Professor J.R. Wilson, Dr. A.J. Phipps, Mr. L. Haddad and Associate-Professor E.L. Wheelwright. Dr. V.B. Hall and Mrs. L. Ghosh provided invaluable editorial assistance.

A previous draft of the paper benefited from comments made by Dr. R. Ross, Mr. P. Saunders and Professor W.P. Hogan during a University of Sydney staff seminar.

My employers, the Capital Investments Board of Ghana, granted me study leave in order to undertake this research; for this I am most grateful.

THE GROWTH OF FOREIGN INVESTMENT AND ECONOMIC NATIONALISM IN POST INDEPENDENCE GHANA : 1957 - 1975.

1 Introduction

When Jean - Jacques Servan - Schreiber called on his countrymen "to wake up" against American industrial takeover in France, it seems he was a spokesman of nationalists in many countries. His plea has since been echoed by many others.[1]

The world has, in recent decades, seen open door policies give way to restrictions and control of foreign investment. In economies such as Mexico, Cuba and Chile, antagonism has led to expropriation[2] in varying degrees of direct foreign investment (DFI). In the countries of black Africa, misgivings regarding the role of foreign investments did not occur until the beginning of the sixties, when most of them attained political independence.

In this paper it will be argued first that in Ghana what will be called "economic nationalism" has progressively increased since independence, culminating in indigenization of some sectors and forced participation of Ghanaians in other sectors; secondly, that the rising tide of nationalist sentiments to a large degree can be atributed to observed characteristics of DFI in Ghana vis-a-vis the expectations of the people; thirdly, that the mode of implementing the policies reduced drastically the adverse consequences of "economic nationalism"; and fourthly, the main object of the indigenization policies - viz "to capture the commanding heights of the economy" from foreigners-has not been realised despite incidental benefits from the programme.[3] "Economic nationalism" is being used to represent the sentiment, feeling and drive that make the nationals of a country prefer the ownership of the means of production, control over the distribution of output, ownership of wealth and supply of economic services by fellow nationals to that of foreigners.[4] In the extreme, economic nationalism may exclude the operations of DFI from a country. As such, economic nationalism is different from nationalization though it often embraces the latter. Nationalization pertains to public takeover of private industry-foreign or indigenous - for economic, social or other reasons.

Full scale economic nationalism is often preceded by higher taxation of DFI, regulations restricting repatriation of capital and profits, and insistence on increased employment of indigeneous personnel especially to high level positions in foreign enterprises. This method whereby the share of the distribution of gains from DFI is increased in favour of the host economy has been termed "creeping expropriation" by Seymour [34].

The actual transfer of ownership in DFI to nationals may be through outright confiscation, partial compensation[5], or by adequate economic compensation. The mode of achieving economic nationalism is an important determinant of the cost of any such programme. If assets, the subject of DFI, are not confiscated, there is an added burden of transfer of capital. There is also the opportunity cost of committing resources to the purchase of on-going business instead of using it to expand productive capacity. Operational efficiency of the firms may fall too.[6] Its effect on inflow of future DFI when needed may be catastrophic. Given that DFI usually comes in a package of finance, technology and managerial resources, the economy could lose most of the other benefits tied with foreign ownership.

Against the foregoing may be set other gains. These include the possibility of higher levels of employment of nationals, training by doing and saving in profit repatriation. It also provides the chance to dis-aggregate the DFI package so that the host economy could acquire from international sources only factors which are not available locally. All these suggest that it is difficult to determine the consequences of economic nationalism in any country without first examining the particular context within which the policy is implemented.

2 History of Economic Nationalism in Ghana

Ghana has been no exception to the wave of economic nationalism that has emerged in LDCs in the twentieth century. And like its Latin American counterparts the attitude towards DFI has often been ambivalent, which expresses the underlying conflict between the national objectives of development and independence in an inter-dependent world. This dilemma has been lucidly expressed by Baklanoff [2 , p.1] as follows:

> "The dynamics of economic changes in Latin America is the product of two contradictory forces: the desire for accelerated development and the quest for national independence. These diverging propensities yield ambivalent policies towards foreign direct investments. When the balance tilts towards 'independence' the rule of the game may change radically eventuating in expropriation of foreign controlled enterprises."

The ambivalence of Ghana's economic policies is demonstrated by the fact that, notwithstanding the growth of economic nationalism enunciated below, the governments concurrently provided incentives to attract DFI.[7]

2:1 Nationalism under Nkrumah 1957-65

The earlier years of Independent Ghana from 1957 up to 1960 did not show much of the rhetoric and action associated with economic nationalism. The unburnt fuel of pre-independence political nationalism, the exercise of British overlordship, the influence of DFI protagonist epitomized by

Sir Arthur E. Lewis[8] and the favourable even though fast disappearing balance of payments position contributed to dampen the wave of economic nationalism.

When Ghana became a Republic in 1960 the situation was different. Balance of payment problems had begun and have remained ever since, while monetary and fiscal policies became the responsibility of Ghanaians.

Dr. Nkrumah adopted a development policy of rapid industrialization and mechanization though ill-suited to the factor endowment of a peasant, labour (unskilled) abundant economy. The constraints on the economy and the (ultimate) socialist objectives of Nkrumah were the major determinants of the administration policy towards DFI and indigenous private enterprise.

With respect to DFI, on the one hand it was the objective of Nkrumah's Convention People's Party that economic development should make Ghana free of alien control of its economy and thus support the political independence, with economic emancipation.

On the other hand, in the transitionary period DFI was seen to be an indispensable complementary agent with which the state collaborated in setting up joint ventures, ranging from textiles to soap making. Fiscal and other incentives were given to attract DFI whilst at the same time the State set up rival companies to compete with an eventually out-do foreign operations in commerce, shipping, banking and manufacturing.[9]

There is no record of confiscation during Nkrumah's era. Several marginal mines were purchased by the state in 1962 in order to save jobs, some meagre foreign exchange and to avoid the social implications of "ghost towns". Nkrumah therefore, as it turned out, bought foreign liabilities since the foreign owners were ready to close their unprofitable ventures. The other case was the purchase of two foreign trading companies[10] in 1961 to form the nucleus of the Ghana National Trading Corporation. No allegation of expropriation and unfair compensation could be traced.

Whilst Nkrumah did not confiscate or purchase, on any appreciable scale, foreign investments in Ghana, he did pursue a systematic policy of expropriating the proceeds from DFI.

Table I shows that between 1960 and 1965 the corporate income tax on repatriated profits rose from 42½ per cent to 65-70 per cent whilst the corresponding figures for "incomes retained in Ghana" rose from 40 per cent to 45-50 per cent on the average. Moreover for a period of nearly two years foreign operators were required to reinvest up to 60 per cent of their after tax profits in Ghana.[11] Economic nationalism therefore had its roots in the Nkrumah era. Nkrumah's foreign investment policies were however confusing and ambivalent to say the least.

On the whole, however, DFI got a better deal under Nkrumah than did indigenous private business. The latter was suppressed or at best not encouraged due to Nkrumah's fear of the threat of a strong indigenous private sector to his socialist ambition. Table II therefore shows that the growth of the indigenous business sector was largely through state participation in direct production.

2:2 The Ghana Enterprises Decree, 1968, NLCD 323

The overthrow of Nkrumah in February 1966 was accompanied by a swing towards private sector capitalism. However economic nationalism was taken a step further after him. Under the above mentioned legislation all small scale retail and wholesale trade with turnover of less than ¢500,000 and ¢1,000,000 respectively was reserved for nationals.[12] Other industries employing less than 30 people using unsophisticated production techniques as well as overseas manufacturers representation, were also reserved for Ghanaians. A maximum transitional period of 5 years was allowed.

2:3 Ghanaian Business (Promotion) Act, 1970 (Act 34)

In late 1969 a new civilian administration was sworn into office. It soon enacted the Ghanaian Business Promotion Act to supersede the 1968 Legislation. Within two months of the promulgation of the Act, all taxi services, overseas agency representatives, hire purchase, sale of vehicles for taxi and operation of taxi services, hawking and selling in kiosks (an important part of peasant economy distribution) and retail and wholesale trade with turnover of less than ¢500,000 were indigenized. In the case of commercial transportation by land, bakery, non-textile printing, running of beauty salons, produce, brokerage, advertising and publicity, and manufacture of cement blocks, they were to be indigenized in a year. The supervising agency, the Office of Business Promotion, was to explore means of further Ghanaian participation in other sectors.

2:4 Government Participation Legislations, 1972

Hitherto only small scale enterprises which were dominated by other Africans and some resident Syrians, Lebanese and Indians (resident expatriates) were affected leaving other foreign investments involving multinational companies largely untouched. Under two concurrent pieces of legislation [13] [14] the new military administration in 1972 purchased 55 per cent of the shares in foreign mining operations and the leading foreign timber companies. Hitherto the government had sponsored small scale local entrepreneurs to acquire foreign assets. The 1972 legislation on the other hand involved state acquisitions.

2:5 Investment Policy Decree, 1975

Finally, in 1975, economic nationalism was taken a stage further and under two pieces of legislation [15] [16] all foreign companies operating in Ghana were asked to sell between 40 and 60 per cent of their assets to Ghanaians. The only exceptions were the mining and processing of bauxite into alumina (30%) and oil prospecting (20%) while the Volta Aluminium Company which was left untouched. The participation was by both private Ghanaians and the State with the latter generally taking the bulk of the shares in the largest non-trading enterprises.

In summary, Ghana moved from creeping expropriation in the early sixties to indigenization of small scale establishment on the basis of simplicity of technology involved and smallness of their capital outlay between 1968 and 1972. In 1972 the government acquired 55 per cent majority shares in foreign mining and five leading foreign timber operations. The next step came with the 1975 legislation which left virtually no sector of the economy any longer open to 100 per cent foreign ownership. What factors led to this progressive indigenization policies? What could be the economic implications of the programme? And to what extent were the policy objectives realised? In the next section are examined the characteristics of foreign operations in Ghana which in the light of Ghana's recent economic history and development expectations contributed to the rise of economic nationalism.

3. Characteristics of DFI in Ghana

The quality of statistics is generally poor in LDCs. This is particularly so with respect to DFI since the companies are reluctant to give out information. In Ghana the government has made little effort to gather separate statistics on foreign operations as a group. The meagre information available arose incidentally in implementing the indigenization policies, which were consulted from the working papers of the supervising committee.[13] Published and unpublished information of the Bank of Ghana and the Central Bureau of Statistics of Ghana were also useful data consulted. The result is a mixture of time series and ad hoc data; a mixture of investment and output information with gaps in between. Therefore the specific magnitude must be treated with very considerable caution. It is considered however, that the trend figures are sufficiently adequate to describe the nature of DFI and why it has aroused economic nationalism in Ghana. In the material which follows, I will be particularly concerned with growth, sectoral distribution, modes of finance and the direct effect on the balance of payments.

3:1 Growth and Structure of DFI in Ghana

In 1957, when the country became independent, the non-agricultural sector was completely in the hands of foreigners. Table III gives an indication of foreign control of output in 1957. Ghanaians and other Africans contributed a mere 5 per cent of non-agricultural receipts. Of this group, alien Africans controlled about 80 per cent of the business. Foreigners therefore controlled about 99 per cent of the small modern sector of the economy. European and American (predominantly British) operators accounted for 83.3 per cent of total receipts and "resident expatriates" (Indians, Syrians and Lebanese) a further 10.7 per cent.

A breakdown of the European and American group provides evidence of the structure of foreign investments in Ghana at Independence. Trading and distribution (wholesale and retail, petroleum distribution and motor vehicles in Table III) accounted for 80 per cent of the operational receipts. Vernon's [35] Product Cycle Theory of DFI implies that under an open door policy as it existed in colonial Ghana, with virtually no trade barriers and meagre income tax on trading, foreign investors would service the economy through trading.[14] This was the case in Ghana. Extractive industries, Singer's [32] "traditional industries", accounted for a further 11 per cent. Manufacturing accounted for only about 3 per cent of total receipts. Europeans and Americans controlled the services - banking, insurance, and shipping. The whole modern sector of Ghana was almost a foreign investment colony.

Evidence of the actual size of the stock of foreign investment contained in a paper by Pearce [31, Table 14] showed that in 1946 U.K. "large investing companies" had assets of ¢92.0 million (£46.0) million at book values. The situation was much the same in 1957, since only ¢3.6 (£1.8) million more investments were made between 1946-1955. The total U.K. investment of about ¢98 (£48) million represented about 80 per cent of all DFI in Ghana in 1957 thus making a total of roughly (¢120) (£60) million DFI at the time of independence.

Table II gives a picture of the growth of output of Ghanaian and foreign investment in Ghana between 1962 and 1969. So far as mining is concerned, there has been no new investment in Ghana and the Ghanaian share is largely the result of State purchase of marginal foreign firms in 1962. Foreigners continued to dominate the secondary sector. But with State establishment of competing institutions the share of foreign operations in output fell in the secondary sector. The resident expatriates expanded their investments in the secondary sector too. The major European companies did not undertake much new investment in services, though the volume of their operations continued to expand. The structure of trading business in Ghana as late as 1970 showed that the big importing and wholesale businesses, including departmental stores, were in the hands of Europeans and the state-owned National Trading Corporations. Medium scale enterprise belonged to resident expatriates, with most Ghanaian operators at the lower end. In

1969, if we consider that foreigners on the average owned 75 per cent of joint ventures ("mixed" in Table II), then foreign investments accounted for 67 per cent of manufacturing output, 85 per cent of mineral production and 65 per cent of services. Manufacturing, which was almost non-existent at Independence gives a better indication of the result of comparative participation of Ghanaians and foreigners. By 1962, 63.2 per cent of manufacturing output was in the hands of foreigners with a further 7 per cent from joint ventures with aliens. Most of the Ghanaian output was by State concerns and the better part of joint venture operations were state/foreign ventures. By 1969 40.1 per cent of total manufacturing output was still held wholly by foreign firms and a further 35.8 per cent by joint ventures. Joint ventures increased because of deliberate Government policy under Nkrumah, as well as expected adaptation of foreigners to economic nationalism.

Bos and his Netherlands Economic Institute Colleagues [6] estimated the volume of non-financial direct investments in 194 companies in Ghana in 1963, at ¢128.8 million (about £64 million). (See Table IV) When account is taken of investments in financial institutions and the small scale foreign operations besides the 194 firms above, the total foreign investments would be ¢180 million approximately. Thus between 1957 and 1963 the book value of foreign investment rose by about 50 per cent.

Growth in manufacturing accounted for a large proportion of this increase in DFI. Successive increases in the rates of import duty to raise revenue as well as to promote the national policy of industrialization resulted in substantial import substitution industrialization based on foreign, largely fabricated, inputs.

Despite the relative increase in manufacturing, the colonial pattern of DFI dominated by trading (including petroleum distribution) and extractive industries (mining, quarrying and timber operations) persisted. Foreigners still controlled a substantial part of banking and insurance, though by 1963 the State rival institutions were controlling not less than 30 per cent of business in these sectors. The relatively greater experience of the foreigners in modern business, their control over finance and/or their having large sums of accumulated profits from pre-independence investments ensured their dominance of the emerging manufacturing sector too. This was in a country where leaders in the fifties promised that political independence would eventuate in economic emancipation which came to be understood as Ghanaians controlling major business [25]. British investment by 1970 still constituted about 50 per cent of foreign operations thus giving the impression of colonial dependence and not mere foreign domination.[15]

The overall trend of DFI, however, conceals foreign domination of the small scale sector where an emerging indigenous entrepreneur will have to start to compete. In 1967, before the indigenization, the picture of small scale industries is best described in the words of Adjei-Sefah [1, p. 9].

> "In the retail sector, out of 468 retail establishments in the sole proprietorship, and partnership only 34 per cent was Ghanaian with the actual share of only 33 per cent of total estimated sales volume of ¢40 million. And, as it was naturally expected, Ghanaian share in the industrial sector was estimated to be less than 20 per cent. In addition, hawking, bakery, transport, petty trading (and) overseas representation, were all monopolised by aliens."

He estimated the actual Ghanaian share in wholesale trade as just over 20 per cent. Ghana therefore was in a peculiar position with respect to foreign control of the economy in the sixties. Mining, large scale manufacturing and services were in European/American multi-national companies' hands. At the intermediate level the Levantine resident expatriates dominated. Whilst because of the relatively good opportunities in agriculture coupled with the initial Ghanian disrespect for petty trading until forced out of that attitude by economic necessities of the sixties, alien Africans monopolised the lowest level of non-agricultural operations in the economy.

When we move into the seventies, despite the earlier indigenization attempts, the dominance of foreign investments in mining, timber processing, trading and manufacturing continued.

The O.E.C.D. [29] estimated the total DFI in Ghana in 1974 at ¢397 (US$345 million), of which 50 per cent was still British. This indicates there was an increase of some 140 per cent in foreign investment in Ghana since 1957 with negligible new inflows of capital.[16] From Ghanaian sources the value of DFI in 1975 was estimated at ¢190 million, excluding the giant Volta Aluminium Company Smelter at Tema worth at least a further ¢100 million. Compared with the O.E.C.D. figure the total ¢290 represents underestimation of about ¢107. This must however be expected since the Ghanaian estimates being an official evaluation for acquisition by Ghanaians are likely to be on the lower side.

Table V gives a breakdown into sectors of foreign operations which were made to sell 40 to 60 per cent of their shares to Ghanaians in 1975. It shows that the underlying structure of investments in 1957 persisted into the seventies. DFI was still dominated by wholesale and retail trading, petroleum distribution, and banking and insurance. The growth in manufacturing was dominated by breweries and distilleries, textiles and garments and, if account is taken of the 1972 Government participation policy, timber industries. Besides the dominance of DFI in all sectors of the Ghanian economy (both wholly foreign owned and joint ventures), and the persistence of the colonial structure of investments, the mode of financing new DFI and expansion of existing industries was another factor in arousing nationalist sentiments.

3:2 Finance

The growth of foreign investment, though initially beneficial, may in the long run be detrimental to the host economy [18]. This is particularly so with respect to the host country's balance of payments. [30, p. 220] When the growth of DFI is largely financed from the firm's internal and domestic (host country) sources the transfer burden increases.[17] Unfortunately nationals do regard such growth of DFI as exploitation and deliberate undermining of their development efforts, two ingredients in nationalist movements.

Table VI shows aggregated private long-term capital inflow into Ghana. Apart from 1963-66 and 1970-71 the total annual inflow has been below $20 million. These years were exceptional. The earlier period's higher levels were accounted for by Volta Aluminium Company's (VALCO) smelter project which had to be specially arranged by the Government of Ghana with the involvement of the United States Government. The latter period increases refer to oil prospecting investments when the possibility of an oil bonanza in Ghana hit the news.

Besides these exceptions the official figures conceal the size of the real inflow of new foreign exchange. It includes suppliers credit to Ghanaian businesses as well as re-invested profits of DFI. The table below shows that between 1965 and 1968 very little new investment flowed into Ghana and these years were not exceptional.

Evidence regarding dependence of owners of DFI on domestic bank lending is difficult to come by, since no separate records existed prior to 1972-3. But from the limited available information, it seems that there was much use of internal sources of funds within DFI firms and bank credit. The majority (estimated at 60 per cent) of new business established in Ghana after independence were undertaken by trading firms. These companies operated import-export trading business during the colonial period. The United African Company Limited (U.A.C.), a subsidiary of Unilever International, for example, controlled at least a quarter of all DFI in manufacturing by volume of operations in the sixties. The returns on investment in trading in Ghana, due to foreign exchange problems and consequent shortages, are often very high. Unofficial estimates sometimes exceed 100 per cent.

Private Capital Inflows 1965-8 (U.S. $'millions)

	1965	1966	1967	1968
Reinvested profits	13.4	12.6	12.6	8.4
Valco	23.2	40.9	16.9	2.6
Private Suppliers Credits	-	-	-	3.9
Others (including new DFI other than Valco's)	0.3	6.2	5.6	5.8
Total	38.4	59.6	38.0	20.8
Total Excluding Valco	15.1	18.8	21.2	18.1

Source: Leith [21, Table V.8]

Note: Comment in bracket inserted. The U.S.$ was approximately equivalent to the Ghanaian cedi over the period.

Table VI shows that by the end of 1976 unrepatriated dividends and profits of DFI between 1962 and 1975 stood at ¢133.7 million. The data also suggests the profitability of trading concerns, though the fact that commerce is classified as a non-priority sector for repatriation purposes would mean the sector is discriminated against in foreign exchange allocation. But the point that the firms had sufficient funds to internally finance expansion and to establish new industries is evident.

Nevertheless, there was every reason for direct foreign investors to depend on the banks too. Their relatively larger size of operation compared to local operators, their experience, and the dominant role of expatriate financial institutions accounting for over 50 per cent of banking business made them preferred customers. One other reason why they would use bank credit instead of all their unrepatriated profits was that the Bank of Ghana, due to Ghana's balance of payment problem, had to control transfers. Thus the Bank from time to time gave facilities for transfer which were allocated according to priority sector ranking. The backlog of funds would no doubt influence the decision. Secondly it served as some sort of pressure on the Government, though it had also the indirect effect of generating economic nationalism as these profits accumulated. Thirdly, nominal interest rates charged by the banks, compared with the level of inflation were tantamount to negative real interest rates. For example between 1964 and 1975 the rate of inflation as indicated by both wholesale and consumer price indices exceeded that of interest rates on deposit by well over 50 per cent for most of the years. [3] Even in 1973, when major timber and mining companies had been forced to sell 55 per cent of shares to the Government and a white paper had been issued for all other DFI operations to transfer between 40 and 60 per cent of shares to Ghanaians, there were still 48 per cent of commercial bank business loans going to DFI operations. [10]

Regarding the financing of DFI growth therefore, it could be said that there was heavy dependence on Ghanaian sources of finance. This took the form of internal financing and borrowing from local banks, the majority of which were subsidiaries of foreign banks.

The mode of financing the growth of DFI meant that despite incentives given by the Government to attract new capital inflow, only very small amounts of foreign exchange came into the country. Meanwhile the size and dominance of DFI increased. Increased repatriation of profits put strain on the already fragile balance of payments situation. These factors contributed to ill-feeling towards foreign ownership.

3:3 Balance of Payments

Of all the effects of DFI on the economies of LDCs, balance of payments' impacts have been particularly stressed. Both orthodox and Marxist writers have shown that the balance of payments effect in the long run is one of the most important adverse effects of DFI on the host country economy. [5] [18] In Ghana, pressures on balance of payments attributable to DFI are probably the most significant factor in economic nationalism.

The debt columns of the "investment income" in Table VI give an overall view of outflows associated with foreign investments. The bulk of it is attributable to direct foreign investments, since foreign portfolio investment in Ghana has been negligible. The annual outflow ranged between U.S. $10 million and U.S. $47 million, averaging $25 million per annum from 1956 to 1974. The trend shows rising repatriation with the years. With the exception of 1963-66 when VALCO investments flowed into Ghana and 1970-1 when speculative oil investments were attracted, these repatriations exceeded the total inflow of private long term capital. Moreover, Table VI included suppliers credit to Ghanaian businesses in the inflow. The annual inflows of DFI for new business or expansion of existing ones, were generally far less than corresponding outflows.

This made owners of DFI an easy scapegoat, even if the overall balance of payments problem of Ghana had been partly due to unrestrained demand, rapid industrialisation based on import substitution, corruption and failure of the export sector to expand.

To the outflow of investment income must be added private transfers which are largely transfers by foreign employees of DFI. This is a kind of cost the economy pays for supposed technical and managerial expertise associated with DFI. These are substantial by any standards if compared with either DFI investment income and/or inflow of foreign investments besides the 1965-68 and 1970-71 exceptional years.[19]

Different data, obtained from Bank of Ghana sources and giving a breakdown of repatriations associated with DFI from 1966 to 1975 into their constituent parts, are in Table VIII. With the exception of the profits and dividend and capital repayments columns the others are payments which Ghanaian companies also made. The impression got from the Bank of Ghana, however, is that at least 80 per cent of these can be attributed directly to DFI. In a country with a balance of payments problem, a ¢169 million (about $150 million) outflow without a corresponding inflow led to resentment.

The size of personal remittances gives a cause for concern. There is evidence in feasibility studies submitted by DFI firms that the salaries of some senior employees have exceeded U.S. $200,000 per annum.[20] The large sum of personal remittances seems to suggest, especially in the case of resident expatriate firms, that this channel is being used to get around the tough restrictions of profit repatriations and the almost automatic allowance of personal remittances. The same may be said of technical and professional service fees, though the latter has some other issues involved.

The management contracts associated with Government participation in large foreign mining and timber companies, including technical management fees, contributed to the rise in these figures after 1972. The same may be said of participation in other sectors by Ghanaians. All the same, a total of nearly ¢170 million in transfers over 10 years was bound to lead to ill-feeling towards DFI. Moreover, one aspect of nationalism is the tendency to magnify the supposed cost of foreign involvement in the domestic economy, whilst playing down its positive contribution. Direct balance of payments pressure exerted by DFI should also take account of accumulated (unrepatriated) profits and dividends in addition to those actually transferred. And Table VII shows that the accumulated profits and dividends stood at ¢133.9 million at the end of 1976.

To conclude this section, the following factors have been put forth as largely responsible for the growth of economic nationalism in Ghana. First, the inflow of new foreign capital into Ghana since Independence has been low despite attempts to stimulate it by way of incentives. And yet through dependence on local sources of finance, DFI continued to grow and dominate not only trading and extractive industries as in the colonial era but the new manufacturing sectors as well. The growth of DFI also meant increasing profits and repatriation demands, thus putting added strain on an already fragile balance of payments situation. Finally, there arose increasing suspicion that DFI companies engage in transfer pricing. That initial suspicion has been confirmed by actual cases leading to confiscation of at least three DFI company assets since 1972. But at what cost, and what were the expected and actual gains of economic nationalism in Ghana? To these issues we now turn our attention. First the mechanism used in effecting the scheme will be examined.

4 Some Consequences of Economic Nationalism in Ghana

The implications of economic nationalism through takeover of and/or participation in DFI enterprises by nationals will largely depend on the terms of purchase which may range from confiscation to full compensation. Regarding foreign exchange gains or losses one would have to specify the expected inflows of new capital and net foreign exchange earnings by DFI firms as against the cost of repatriating both capital and profits. The most important effect in change of ownership of DFI businesses may pertain to possible loss in operational efficiency if nationals happen to be less efficient as compared to foreign operators. Whether more nationals will be employed will vary with whether the state or indigenous private entrepreneurs take over the foreign operations. These are the issues that will be examined in this section, in addition to the policy objective of control in connection with economic nationalism in Ghana.

4.1 Cost of Purchase

The terms of purchase and conditions put on capital transfer had significant effects on the cost of economic nationalism to Ghana. Almost invariably the assets were valued at "book value" as recorded in the published accounts of the companies. By 1973, Adjei-Seffah [21, p. 14] estimated that ¢16.5 million had been spent on the acquisition of small scale enterprises under the 1968 and 1970 legislations.

This figure represents underestimation of foreign enterprises covered by at least 50 per cent. There is the obvious underestimation in using book value and not current market prices. Moreover many of the alien Africans were forced out of the country before they could sell their assets. In a large majority of the cases however, such as hawking, operation of kiosks and petty trading, the foreign businesses merely fell into the laps of Ghanaians since no assets in the conventional accounting estimates existed except maybe goodwill. Ghanaians who previously regarded these vocations as mean clamoured for them in the wave of economic problems that had engulfed them. There were practically no capital transfer problems. There are no data on relative efficiency lost or gained but given the type of technology involved that would not be much, though there has been a well-known general deterioration of retail trading with the departure of the almost legendary "Maame Alata" - the Ghanian designation for the Nigerian petty trader.

The estimated book value of foreign assets in seven mining and timber operations in which the Government took 55 per cent shares in 1972 was at ¢27,668,456, of which ¢17,118,158 and ¢10,550,298 belonged to the mining and timber companies respectively.[21] The 55 per cent of shares purchased by the Government were to be paid for over a period of up to 5 years. In essence the companies were asked to lend ¢15,219,622 to the government at 2½ per cent interest rate. Repatriation of repayments was guaranteed.

The implications are obvious. First the 2½ per cent rate of interest was well below the going rate of interest on time deposits as well as all other saving deposits which in 1972 were between 7½ and 8 per cent. Bank lending rates ranged between 11 and 14½ per cent. Taking the minimum rate of 7½ per cent there was a net loss of 5 per cent or a little over half a million cedis in interest alone in the first year and ¢242,000 in 1977 after three annual payments. As a whole it is estimated that interest payments lost alone will amount to about ¢2 million.

The underestimation by means of using book value figures will be at least half the payments, though the double digit rate of inflation means the actual underestimation could be in the neighbourhood of more than 100 per cent.

The same conclusions emerge by looking at the 1975 investment policies whereby the non-mining sectors (with the exception of the Volta Aluminium Company) were partly Ghanaianised. The book-value of published accounts of the enterprises as at the end of the financial year ending in 1974 was used as the basis for assets valuation. Manufacturing enterprises whose return on employed capital averaged 15 per cent or more over the preceding five years were to be allowed a six per cent inflation premium. [19] Goodwill was generally discounted. Where the above-mentioned procedure led to negative figures, 10 per cent of the "nominal value" of the shares of limited liability companies or 10 per cent of the capital contribution in the case of un-incorporated bodies was taken as the relevant valuation.

Out of a total of 295 companies and enterprises affected, 12 establishments (plus a further one which had voluntarily gone public) with "reserved capital" exceeding ¢500,000 were made to issue public shares to Ghanaians. Thus 22,898,958 shares valued at ¢34,068,054 were sold in this manner to State, Public Statutory Corporations and the Ghanaian general public in the case of the 12 companies. The official supervising committee had to approve the shares valuation. The Investment Policy Implementation Committee at the end of 1977 had supervised further private offers of 12,184,486 shares to the tune of ¢25,215,398 in 130 limited liability companies and ¢1,725,142 in un-incorporated enterprises. A further 12 small scale enterprises were referred to the Ghanian Enterprises Development Commission.

Table IV summarises the activities of the Committee. The total of 35,083,444 shares valued at ¢61,008,594 had been sold and transferred to Ghanaians in 161 establishments with 12 more yet to comply. These do not include a further 107 generally small scale operators but include CFAO Limited, a French Multinational, which went public just before the legislation. It is estimated that about 20 per cent of purchases were represented by the 107 firms. A total expenditure of roughly ¢72 million would be involved altogether. The Government and local financial institutions formed a company, National Trust Holding Company, to purchase the assets of a few foreign shares for which the Committee had not been able to arrange private purchase by the end of 1976, the official deadline for implementation of the scheme.

Using book valuation of assets, it seems that ¢16.5 million, ¢15.2 million and ¢72 million were spent by private Ghanaians, indigenous firms and State and para-governmental institutions, on acquiring the assets of foreigners under the 1968-71, 1972 and 1975 legislation respectively. This represents about a one hundred million cedi - investment (U.S. $85 million). A conservative estimate of undervaluation of ¢75 million ($61) was lost to the foreign operators. If account is taken of the earning capacity of the assets over a reasonable period the rate of undervaluation may be higher hence our conclusion that the compensation was neither adequate nor equitable in the economic sense.[22] However, the issue of the opportunity cost of investing that amount in going concerns is different.

There are three aspects of the opportunity cost of the resources of about ¢100 million between 1968 and 1976 committed to economic nationalism which we would like to touch briefly. These include the domestic resources cost, the foreign exchange cost and the diversion of limited local entrepreneurial resources to existing business.

4.2 Domestic Resource Cost

There is every reason to believe that the relative domestic resources cost to the economy in acquiring DFI assets would be negligible. It has already been mentioned that the use of book value to evaluate assets meant almost halving their commercial values. The second factor is that indiscriminate deficit financing by the Government and unprecedented money creation has meant that inflation in Ghana from 1975 to 1978 ranged between 50 and 150 per cent per annum.[23] Under such conditions ¢100 million is of even further reduced consequence to an economy.[24]

Contrary to the view prevalent in the development economics literature about a lack of savings in less developed economies, Ghana has had a consistent history over the past decade of banks having excess liquidity. The commercial Banks, for example, have always had liquidity ratios of twenty per cent and above the official minimum. In 1974 the statutory requirement was removed probably because of its ineffectiveness. [4]

In any case, except in very few cases where the prospects of the companies were in doubt, the policy implementation committees had a problem of allocating shares to enthusiastic buyers, including the state itself, rather than finding purchasers.[25] Hence it is the foreign exchange cost that demands closer attention. This is especially so if note is taken of the fact that the benefits of DFI are often erroneously measured solely by its direct foreign exchange contribution.

4.3 Foreign Exchange Implications

There are two issues involved in the foreign exchange implications: namely the transfer of the acquisition price; and the effect of the policies on future inflow of DFI. Against these must be set the otherwise profit and other repatriations which should fall with the reduction in foreign ownership.

(a) Transfers

The 1968 and 1970 legislation involved virtually no capital transfers. With respect to the 1972 Government acquisition of 55 per cent interest in large scale Mining and Timber companies, the Government has ensured that the purchase price and 2.5 per cent interest on it is repatriated in 5 years. This works up to a total of about ¢15.5 million. But compared with expected net savings in other transfer costs, the scheme amounts to a huge foreign exchange saving for the economy. With the exception of one of six major companies involved, all the firms made substantial profits between 1973 and 1976. The gross profits over the period amounted to ¢92.72 million though two timber companies incurred a loss of ¢6 million in two of the years. If we take the aggregate net profit of ¢86.72 million and take account of the fact that 55 per cent would have accrued to the State in the form of corporate taxation anyway, the extra profits earned on the Governments 55 per cent share works up to ¢21.5 million. Most of the profits came from a gold mining corporation. This figure far exceeds the acquisition price plus interest of ¢15.5 million. Given the priority afforded to exporting companies for the transfer of profits the ¢21.5 million would have been transferred. The Government over a period as short as 4 years had recovered both its capital investment and made a net profit of about 33.3 per cent at a time when the acquisition price had not been fully paid.[26]

It is expected that at least 50 per cent of the profits of the companies can be maintained over the next 10 years. The foreign exchange gains of the 1975 participation are therefore substantial and the picture would not be much different even if an economic price had been paid for the shares.

It is difficult to be positive about the 1975 participation programme. Of the ¢61 million[27] Ghanaian acquisition ¢53 million were judged repatriable by the supervising committee. Assuming the Government would honour the transfer we can only infer that that compares favourably with ¢167 million outflows associated with DFI (Table VIII) over the period 1962 - 1976 plus a backlog of unrepatriated profits of ¢134 million. Of the transfers in Table VIII ¢44 million were profit and dividend transfers which, when added to the backlog, give a staggering figure of ¢178 million in an economy which has experienced practically no new investments since independence.[27] The participation of Ghanaians in DFI of between 40 and 60 per cent will at least halve such repatriations. The immediate foreign exchange gains in the indigenization and participation scheme therefore cannot be disputed.

(b) Future inflow of new DFI

In theory one would expect economic nationalism to discourage new investors. In the past, apart from an aluminium smelter in 1962-65 and oil prospecting investment, new inflows of DFI have averaged under ¢5 million per annum.

This is no doubt a very small amount, the loss of which would be inconsequential. But to forestall even that possibility, the Government, concurrent to the 1975 participation, began to set up an industrial free zone for export oriented foreign manufacturing companies, room for traditional and import substituting industrialization having become very limited.

Ghana, it seems, would still need foreign assistance in developing its alumina and some few large scale projects which hold much promise for the economy. But once again special arrangements along the lines of the smelter giving generous concessions and government guarantees could be employed. On the question of future inflow of DFI, one can only conclude that, if the past is any guide, the expected loss will be small and that special incentives can be made to cover the cases of large scale investments in oil and alumina and export - oriented manufacturing which the Government has already begun to do.

4:4 Employment of Ghanaians and Operational Efficiency[28]

Distinction would have to be made between high level and technical manpower, and other employees. Forsyth and Solomon [11] found that foreign operators were more efficient in economizing on "scarce" technical manpower in Ghana. To the extent that their results are right, two issues follow. The future expansion of business largely by indigenous entrepreneurs could lead to less employment of unskilled workers and inefficient usage of technical and high level manpower. Their findings are, however, short of comprehensive. The fact that foreign firms are relatively older than Ghanaians' alone could explain their conclusion.[29]

With regard to the actual firms in which Ghanaians acquired part of the shares, technical management was left in the hands of the foreign partners. Besides management fees which now have to be paid in few circumstances such as the mining and timber firms, one cannot envisage any drastic changes in operational efficiency. Transfer pricing may however increase where the foreigners control external transactions. Neither would the training policies of local personnel be expected to change. In most cases Ghanaian deputies have been appointed to important positions. Opportunity for the nationals to learn from their foreign partners has therefore increased.

Whilst one can only speculate about firms in which private Ghanaians took shares, there is no doubt that where the Government acquired 55 per cent of the shares, the rate of employment of Ghanaians and their training has been speeded up. In such cases the Government appointed the Deputy Managing Directors and had majority representation on the board of Directors. But more importantly, the companies were made to adopt Ghanaianization of top level manpower and the result of this in the biggest company, Ashanti Goldfields Corporation (AGC) Limited, is illustrated below.

Ghanaianization of Senior Staff at AGC Ltd.[30]

Year	Expatriates		Ghanaians	
	Number	Percentage Fall	Number	Percentage Increase
1972	132		160	
1973	117	11.4%	193	20.6%
1974	93	20.5%	245	27%
1975	91	2.2%	275	12.3%
1976	88	3.3%	288	4.3%

The table above shows a rapid fall in expatriates by 33.3 per cent whilst the number of senior staff Ghanaians nearly doubled in five years. This trend had not prevailed before the Government participation in 1972. Besides, the company was sponsoring 9 university students and 80 technical college candidates for future employment in 1976.[31]

4:5 Control

The policies of indigenization have been aimed at transfering control of business to Ghanaians. In connection with the small scale businesses, which were either confiscated or purchased over the 1968-71 period, this objective was largely achieved. There were a few exceptions of foreigners using Ghanaians as front-men to cover their alien ownership.

When the rest of the programme is examined one cannot be sure that the same results were achieved by the subsequent legislation. We noted that technical management remained in the hands of the foreigners in the case of the 1972 Government participation in mining and timber operations. In most of the other cases the Ghanaian participation of 40 - 60 per cent was spread over several individuals and local companies. Effective control therefore remained with the foreigners. The major and possibly the only achievement would be an opportunity for the interested Ghanaians to take a closer look at how foreigners do business.

The representatives of the Ghanaian shareholders including the Government are either inexperienced or former employees of those very foreign companies. They are therefore not likely to have the technical competence to superintend the foreign management or may still keep their allegiance to the one time employers in the case of the latter.

Summary and Conclusions

A prominent characteristic feature of economic policy in Ghana since Independence on 6th March 1957 has been the rise of economic nationalism. By 1975 legislation had been passed closing virtually all sectors of the economy to fully foreign owned operations. The economic nationalism which started with increasing expropriation of the output of DFI in the early sixties, passed through complete indigenization of small scale industries at the turn of sixties to eventually forced participation of Ghanaians in all DFI operations. The only exception was a giant aluminium smelter which was set up under special arrangements with the involvement of the United States government. The fact that the fifties were largely free from open nationalism against DFI may be largely attributable to the healthy balance of payments position, the unburnt fuel of pre-independence political nationalism and the exercise of British overlordship. Also there was a belief in the general economic philosophy that DFI had a role in contributing to the economic development of the country at least through its demonstration effect on local operators.

The economic problems of Ghana which gave rise to the anti-foreign policies were partly due to the country's own economic mismanagement, especially the adoption of rapid industrialization through import substitution based on foreign inputs; inability to restrain demand for foreign goods; the failure to expand and develop new export industries; and the collapse of the food production sector through neglect. Nevertheless the characteristics of foreign operations were themselves a significant contributory factor to this phenomenon of economic nationalism.

Of the characteristics of foreign firms in Ghana the following are particularly significant. Foreign companies dominated the modern sector at Independence. This pattern continued into the seventies despite the relative improvement of Ghanaian shares in all sectors. British investments still constituted about half of all DFI thus giving the impression of colonial dependency.

In response to restrictions on repatriation of profits, the availability of cheap domestic finance, and increasing tariff protection, foreign investors ploughed back their profits, especially from high returns on trading, into establishing import-dependent manufacturing industries. As such size of DFI continued to grow without any evidence of foreign exchange inflow into the economy. Their dependence on foreign dominated bank loans was also significant.

In the face of chronic and persistent balance of payment deficits, backlogs of unrepatriated profits on foreign investments and transfers associated with foreign business became too exacting on the economy.

The net result of all these was forced sale of small foreign business between 1968 and 1971. Between 1972 and 1975, further pieces of legislation were decreed which transferred 40 to 60 per cent of foreign assets to Ghanaians at book values. Coupled with restrictions on repatriation of capital and low interest rates, the effective price to the economy of the acquisitions was at least halved. The domestic resource cost was therefore reduced to only about ¢100 million.

It has been argued from the small rate of new DFI inflow, even without indigenization, and the heavy repatriation otherwise associated with DFI, that the domestic resource cost was not only negligible but that there will be a net saving in foreign exchange through the policies.

At the same time the expected loss in operational efficiency has not been significant, because technical management has largely been left in foreign hands despite their minority share holdings. Transfer pricing may, however, increase but that may be a price to be paid for the increased training and employment of Ghanaians.

Notwithstanding the foregoing incidental benefits of economic nationalism, the stated objective of "transfering the commanding heights of the economy" to Ghanaians is far from realised. Effective managerial control is still in foreign hands. This in some ways would limit the engagement of the limited entrepreneurial skills in the economy in existing industries.

Table I: Rates of Company Tax in Ghana

YEARS	INCOME RETAINED IN GHANA (%)	INCOMES NOT RETAINED IN GHANA (%)	COMMENT
1944-45 to 1945-46[a]	25	n.a.	
1946-47 to 1951-52[a]	37½	n.a.	
1952-53 to 1957-58[a]	45	n.a.	(1) March 6, 1957 Independence
1958-59 to 1962-63[ab]	40	42½	(2) 1960 Republic with Nkrumah's policies starting 1961
1963-64 to 1964-65[ab]	45	65	
1965-66[b]			
(i) Timber, mining and heavy industrial concerns as in Act 312	37½	57½	
(ii) Manufacturing companies	45	65	(3) Nkrumah overthrown
(iii) All other companies	50	70	
1966-67[b]			
(i) Timber, mining and manufacturing companies	45	65	
(ii) All other companies	50	70	
1967-68[b]	50	70	
1968-69[b]	50	62½	
1969-70[b]			
(i) For companies under Excise Ordinance 1953 (No. 31) i.e., manufacturing companies	50	57½	
(ii) All other companies	55	62½	
1970-71			
(i) Companies under Excise Ordinance 1953 (No. 31)	50	50	
(ii) All other companies	55	55	
1971-72	Same as 1970-71		
1972-73 to 1974-75[c]	No change except for Ghanaian small business - see note c		

Table I (cont'd)

YEARS	INCOME RETAINED IN GHANA (%)	INCOMES NOT RETAINED IN GHANA (%)	COMMENT
1975-76[c]			
(i) Commercial houses	65	n.a.	
(ii) Industrial houses	55	n.a.	
(iii) Farming operations	50	n.a.	
1976-77	No change from 1975-76		
1977-78[c]			
(i) Commercial houses	60	n.a.	
(ii) (Manufacturing) industrial houses	55	n.a.	
(iii) Farming operations	50	n.a.	

NOTES:

n.a. Means not applicable, i.e., no discrimination, the same rate as incomes retained in Ghana.

a For these years incomes exceeding ¢20,000 had different rates as follows:
For every cedi in excess of ¢20,000 of the chargeable income of such company where the company is licenced under the Excise Ordinance 1953 (No. 31) (i.e., manufacturing mainly) the rate was 50%. Otherwise 55%.

b The difference between repatriated and retained incomes is due to a "withholding tax".

Sources:

1. Central Revenue Department (CRD) Annual Reports, 1960-1971.
2. General Information on Taxation in Ghana, CRD, Mimeo.
3. Budget Statements, Several.

c Since 1972-73 different rates have been applied to Ghanaian Companies with turnover not exceeding ¢200,000 as follows:

Income Group	Rate (%) 1972-73 to 1974-75	1975-76 to 1976-77	1977-78
1st ¢5,000	30	35	35
Next ¢5,000	35	45	45
Next ¢10,000	45	50	50
In excess of ¢20,000			
(a) (Under Customs and Excise Decree, 1972)	50	55	55
(b) Others	55	65	60

Table II: Growth of Industry According to Nationality: Gross Output at Current Prices (a), Percentage Distribution (b) and Number of Establishments Employing 30 or more Persons (c), 1962-69

	1962			1963			1964			1965			1966			1967			1968			1969		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
	¢'m	%	No.	¢'m	%	No.	¢'m	%	No.	¢'m	%	No.	¢'m	%	No.	¢'m	%	No.	¢'m	%	No.	¢'m	%	No.
MANUFACTURING Ghanaian: Total:	17.7	24.8	67	23.0	24.8	67	24.8	23.2	73	32.0	26.6	81	41.5	29.2	98	51.7	30.3	95	63.2	28.4	132	67.6	24.1	138
Private:	9.3	15.0	40	9.8	10.5	36	9.9	9.2	38	11.3	9.4	43	13.9	9.2	52		—			—			—	
Non-Ghanaian:	45.1	63.2	82	57.8	61.0	87	67.1	62.7	96	67.7	56.4	98	70.0	49.3	103	77.5	45.4	122	92.1	41.3	162	112.6	40.1	156
Mixed:	8.5	7.0	18	13.3	9.2	22	15.1	14.1	18	20.3	17.0	22	30.4	21.4	29	41.6	24.3	31	67.5	30.3	52	100.8	35.8	62
MINING Ghanaian:													6.4	13.1	6	8.6	15.7	6	9.2	16.9	6	8.3	15.9	5
Non-Ghanaian:													42.4	86.7	8	45.8	82.9	8	45.0	82.9	8	44.0	84.1	9
Mixed													.7	.2	1	.5	.1	1	.1	.1	1	.05	0	1
SERVICES Ghanaian:													65.3	30.8	126	75.2	31.6	123	91.0	30.8	160	97.6	27.5	164
Non-Ghanaian:													112.4	46.3	111	123.2	51.1	130	137.1	46.3	170	156.7	44.1	165
Mixed:													30.5	22.9	30	41.6	17.3	32	67.6	22.9	53	100.9	28.4	63

Sources: A.N. Hakam, "Impediments to the Growth of Indigenous Industrial Entrepreneurship in Ghana, 1946-1963"; Economic Bulletin for Ghana 2, 1973: 3 - 29; Industrial Statistics, 1966-69.

N.B. No corresponding data prior to 1962 existed whilst, due to supposed shortage of staff, the Central Bureau of Statistics virtually ceased compilation of industrial statistics after 1969.

Table III: 1957: Number of Enterprises and Receipts from Operation of Business Classified by Nationality and Industry

INDUSTRY	GHANAIANS AND OTHER AFRICANS		EUROPEANS/ AMERICANS		INDIANS		SYRIANS AND LEBANESE		OTHERS		TOTALS		% of receipts
Wholesale and Retail	87	8,242	50	94,513	37	5,378	205	13,057	10	926	389	112,118	64.6
Manufacturing	41	422	10	4,441	--	--	22	374	4	112	77	5,350	2.8
Cinema	3	94	2	25	1	46	4	33	--	--	10	198	.1
Transport	3	17	2	202	--	--	13	289	--	--	18	508	.3
Logging-Sawmilling	54	569	20	4,752	--	--	6	615	--	--	80	5,936	3.1
Motor Dealers	--	--	8	10,421	--	--	2	218	--	--	10	10,639	5.6
Laundry	2	8	--	--	1	13	--	--	--	--	3	21	0
Building and Construction	12	283	27	5,976	--	--	11	344	--	--	50	6,604	3.5
Hotels and Catering	4	65	9	341	--	--	--	--	--	--	13	406	.2
Mining and Quarrying	6	68	13	18,680	--	--	--	--	--	--	19	18,749	9.9
Banking	3	232	2	1,232	--	--	--	--	--	--	5	1,464	.8
Insurance	--	--	32	650	--	--	--	--	--	--	32	650	.3
Professorial Firms	1	1	20	563	--	--	--	--	2	6	23	571	.3
Electricity	--	--	1	325	--	--	--	--	--	--	1	325	.2
Shipping and Travel	--	--	9	2,274	--	--	--	--	--	--	9	2,727	1.4
Petroleum Distribution	--	--	5	12,215	--	--	--	--	--	--	5	12,215	6.5
TOTAL	216	10,003	208	157,005	39	5,437	263	14,932	16	1,045	744	188,841	100
% OF TOTAL	30	5.3	28	83.1	5	2.8	35	7.9	2	.9	100	100	

Source: A.N. Hakam, "Impediments to Growth ... ", The Economic Bulletin for Ghana 2, 1973.

Table IV: Analysis of Total Non-Financial Direct Investments in Ghana

1963 (N¢ '000)

NATURE OF BUSINESS	NO. OF COMPANIES	AMOUNT
Trading	82	44,074
Manufacturing	36	15,056
Other Services (including Electricity)	42	2,606
Construction	7	290
Transport, Storage and Communications	10	1,090
Petroleum and Refining	8	20,554
Mining and Quarrying	6	44,552
Agriculture and Fishing	3	566
TOTAL	194	128,788

Source: H.C. Bos, et al, "Private Foreign Investment in Developing Countries", OECD, 1974, p. 232.

Table V: Value of Capital Acquired by Ghanaians under the Investments Policy Decree, 1975

	Industry	1 Total Foreign Companies	2 Number involved in Capital sold (3)	3 Value of Capital Acquired by Ghanaians ¢[2]
A	Timber and Sawmills	51	21	668,819[3]
B	Petroleum Distribution	5	5	5,286,789
C	Cinema and Amusements	10	5	159,141
D	Textiles and Garments [1]	43	23	5,271,701
E	Assembly of Motor Vehicles	6	4	1,516,151
F	Banking and Insurance	7	7	5,710,856
G	Breweries and Distilleries	7	4	7,789,173
H	Pharmaceuticals and Cosmetics	24	19	2,485,581
I	Paints and Varnishes	7	3	274,376
J	Agencies for Machines	9	8	1,924,608
K	Footwear	6	4	175,610
L	Motor Workshops	24	7	128,487
M	Household Electrical Equipment	5	2	1,900
N	Shipping and Clearing	4	2	246,009
O	Plastic and Rubber Products	17	11	1,250,062
P	Soaps and Detergents	3	2	950,000
Q	Aluminium and Metal Products	9	6	421,365
R	Wire, Nails, Bolts and Nuts	3	-	-
S	Commercial Enterprises	21	16	15,356,666
T	Milk, Flour and Salt	3	2	1,356,666
U	Miscellaneous	16	10	9,881,923
	TOTAL	280	161	61,008,594

1. One large textile company which sold assets (60%) to Ghanaians just before the decree was included in the total estimates.

2. At book value.

3. Excludes larger 5 companies.

Source: Investment Policy Implementation Committee files

Table V (cont'd)

Industry	4 Estimated total book values of companies in column 2
A	¢ 1,945,358
B	12,944,340
C	418,446
D	26,628,842
E	3,730,378
F	15,023,390
G	15,585,236
H	3,956,418
I	620,772
J	3,396,394
K	351,220
L	410,676
M	6,500
N	605,022
O	2,645,212
P	5,090,000
Q	1,139,900
R	--
S	38,955,756
T	10,755,728
U	18,390,882
TOTAL	162,000,470

Table VI: Ghana: Balance of Payment Flows Related to D.F.I.

	1956		1957		1958		1959		1960		1961		1962		1963		1964	
	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr
Investment Income	14.0	15.7	14.6	16.8	14.6	18.2	14.0	18.48	12.3	27.7	10.0	25.4	8.4	22.6	8.1	33.3	6.0	23.8
Private Transfers	0.28	2.52	0.28	2.50	0.28	6.44	0.28	5.32	0.56	12.32	0.6	13.1	0.2	14.0	0.6	17.0	1.6	21.7
Long-Term Private Capital (NIE)	-	2.8	-	11.5	-	11.5	22.4	9.8	10.4	-	2.6	15.4	22.1	-	30.9	-	35.9	4.8

	1965		1966		1967		1968		1969		1970		1971		1972		1973		1974	
	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr
Investment Income	4.4	31.4	4.2	24.3	3.2	27.4	2.9	35.0	5.3	42.0	2.8	43.1	3.4	47.4	4.1	28.7	6.9	22.9	4.3	26.7
Private Transfers	4.7	19.2	4.1	16.5	1.7	17.2	1.5	17.4	0.8	14.0	2.0	13.8	4.3	15.0	5.7	9.1	3.8	10.2	5.7	9.3
Long-term Private Capital (NIE)	87.9	2.0	56.1	6.9	34.7	3.4	22.9	3.1	10.2	1.2	20.5	1.7	43.9	5.7	16.0	5.3	17.7	4.8	13.4	8.0

Source: J.C. Leith, op.cit. 1956-1970, Economic Survey 1972-74 for 1971-74 figures.

Table VII: Outstanding Applications to Bank of Ghana for Repatriation of Profits $ Dividends

(Remittances by Companies)

A

Sector	Number of Companies	Total Outstanding Profits and Dividends at 7.1.76 ¢
Priority		
Mining and Timber Companies	7	9,510,026.39
Manufacturing Primarily for Exports	1	9,800.00
Manufacturing Substantially for Exports	4	2,775,213.81
Manufacturing Occassional Exporting	2	2,019,060.50
Manufacturing Attempting to Export	6	2,017,349.00
Manufacturing Others	23	31,939,714.39
TOTAL	43	48,271,164.09
Non-Priority		
Commerce	37	72,854,785.72
Insurance	12	2,839,839.05
Banking (inc. NIB-JT Venture)	3	7,377,767.01
Shipping	3	227,938.68
Others	14	2,330,076.38
TOTAL	69	85,630,406.94
GRAND TOTAL	112	133,901,571.03

B

Year	Priority Sectors	Outstanding Balance: Non-Priority Sectors
1962 and before	4,896.05	121,504.28
1963	16,866.88	484,113.40
1964	174,365.40	1,988,258.75
1965	202,212.00	3,224,848.07
1966	104,091.21	3,640,304.35
1967	1,182,874.78	3,392,697.27
1968	1,041,147.10	6,137,461.10
1969	7,531,690.77	7,808,125.00
1970	5,379,732.74	10,494,637.62
1971	5,711,039.75	9,677,771.12
1972	4,954,667.50	12,908,070.61
1973	5,412,803.70	11,389,113.72
1974	6,733,269.50	12,914,599.65
1975	8,245,000.00	780,325.00
Unspecified	1,571,006.73	668,517.00
TOTAL	48,271,164.09	85,630,406.94

Source: Bank of Ghana

Table VIII: Outflows of Funds in Ghana by Type: 1966-75 Associated with Direct Investments

Year	Profits and Dividends	Technical and Professional Service Fees	Copyrights Patents and Royalties	Personal Quota Remittances	Repayment of Cash Loans	Capital Repayments and Grants	TOTAL
1966	2,400,000	51,021	15,663	2,762,930	n.a.	51,297	5,280,911
1967	3,898,834	1,115,421	-	5,805,580	251,941	356,754	11,428,529
1968	4,232,849	973,765	48,647	16,026,250	397,445	367,200	22,046,106
1969	6,608,805	1,946,608	64,026	9,224,971	265,205	-	18,199,705
1970	4,394,345	1,312,041	51,304	6,994,933	2,378,805	970,848	16,102,275
1971	5,055,234	2,074,914	50,127	9,483,113	1,047,425	2,730,996	20,441,808
1972	2,996,734	2,242,778	59,214	8,473,428	289,407	18,350	14,079,912
1973	2,028,648	1,828,445	108,682	7,792,178	771,347	438,731	12,668,031
1974	8,406,096	3,122,155	1,834,870	5,428,708	4,631,728	1,409,810	24,833,365
1975	3,878,953	9,253,796	1,012,028	6,567,794	2,635,832	570,272	23,918,316
TOTAL	43,900,498	23,920,943	3,244,561	78,559,885	12,669,226	6,611,459	168,998,954

Source: Bank of Ghana
Totals do not tally because of roundings

The total figures are not directly comparable with columns from Table VI.

FOOTNOTES

1. See Sewan-Schreiber [31]; Breton [8] and Levitt [22] for Canadian cases; and Brash [7] and Penrose [28] for Australian examples.

2. Baklanoff [2].

3. The objective of "control" by Ghanaians implicit in the policies of the sixties was explicitly stated in the policies of the seventies. See Government of Ghana [18], [14], [15].

4. Breton [8] and Johnson [19] discuss the theory of economic nationalism.

5. Compensation may be partial as a result of foreign assets being acquired at book values, delay in payment of purchase price and/or restrictions on capital repatriation.

6. This may occur if foreign operators are more efficient than nationals.

7. See especially Government of Ghana [17].

8. Lewis [23], extracts to be found in Meier [25].

9. The extent of Nkrumah's ambivalent policies towards DFI is seen in the fact that soon after enacting the Capital Investment Act, 1963 (141) to attract DFI he published a strongly worded anti-DFI book [28].

10. The Companies were Commonwealth Trust Limited (British) and A.G. Levents Ltd. (Greek).

11. 1962/3-1963/4 Financial years.

12. The Ghanaian currency cedi (¢) fell progressively through successive devaluations in July 1967 December 1971 and revaluation in February 1972 from the equivalence of US$1.4 in the early years of the period under study to US$.8696 in 1975. £stg. 1 = ¢1.00 has been applied throughout the paper.

13. The supervising committee of the 1975 legislation was called the Investment Policy Implementation Committee.

14. The view that tariff barriers at least precipitate the decision by foreigners to establish local non-trading subsidiaries is widely supported in the literature. [e.g. 35]

15. Pearce [31] records that in 1971 British Investments in Ghana amounted to ¢146 (£73m). Given that the most optimistic estimates of total DFI in Ghana in 1973 was ¢397 (OECD[29]) the estimated UK share of 50 per cent in 1970 is fairly accurate.

16. See section 3.2, Finance.

17. The tendency of foreigners to rely on local finance is often the rational response to host country restrictions on repatriation of profits coupled with negative interest rates.

18. Two representative works are MacDougal [24] and Baran [5] for orthodox and Marxist views respectively.

19. Appendix VI.

20. Source: Feasibility studies submitted to Government agencies dealing with DFI in Ghana.

21. Source: Ministry of Lands and Mineral Resources. The foreign owners valued their assets between 2 and 7 times book values accepted by the Ghana Government.

22. Some writers justify confiscation on the basis of colonial exploitation and economic imperialism. As far back as 1955 Brofenbrenner [9] sought analytically to demonstrate the effectiveness of confiscation as a means of economic development. Despite his Russian and Chinese examples his conclusion rested on the shaky proposition that the host country would convert conspicuous consumption of foreigners and transfers associated with DFI into capital formation.

23. Estimates by the Bank of Ghana, Central Bureau of Statistics of Ghana and the International Monetary Fund's International Financial Statistics, May 1978), conform to this range.

24. Money supply in Ghana is estimated as doubling in two years between 1975 and 1977. The Government deficit financing was a major cause of the inflation. The 1976-77 Budget Statement (p.1) opened with a self-confession by the Government as follows: "The Government ... once more resort(ed) to the banking system for the financing of its expenditure. This led to a high increase of 36.6 per cent in money supply in 1975."

25. The Investment Policy Implementation Committee reported of over-subscription for shares in majority of the companies. The apparent excess - liquidity in Ghana is due to the foreign exchange constraint on the economy especially with the system geared towards import dependence.

26. Information presented in this paragraph came from the annual reports of the companies concerned and other material available within the Ministry of Lands and Mineral Resources.

27. 107 small enterprises are not included in the figure.

28. Operation characteristics of DFI as comapred with local enterprises are the subject matter of another study.

29. Forsyth and Soloman's study [25] is yet to be confirmed by other studies. However the fact that they did not find any statistically significant difference between the scale DFI and local operations is open to question. Their use of "technical personnel" to include clerical staff implies that a "messenger" (who posts letters) is classified as skilled which an operator may not. The study mentioned in 28 above will deal with these issues in detail.

30. Source: Annual Reports, 1972-1976, Ashanti Goldfields Corporation Ltd. (AGC Ltd.).

31 Profitability of A.G.C. Ltd. rose sharply after the Government acquisition but that was due mainly to trends in world gold prices. Output actually declined.

REFERENCES

[1] Adjei-Sefah, K., Ghanaian Business Promotion Legislations 1968-1975, University of Ghana (mimeo), Leqon, 1977, BSc (Economics) Essay.

[2] Baklanoff, E., Expropriation of U.S. Investments in Cuba, Mexico and Chile, Praeger, 1975.

[3] Bank of Ghana, Annual Reports 1964-1975, Accra.

[4] Bank of Ghana, Annual Report 1975, Accra.

[5] Baran, P., The Political Economy of Growth, Monthly Review, New York, 1957.

[6] Bos, H.C., et.al., Private Foreign Investment in Developing Countries, R. Reidel Publishing Co., Holland, 1974.

[7] Brash, D., American Investments in Australian Industry, A.N.U. Press, Canberra, 1966.

[8] Bretton, A., "The Economics of Nationalism", Journal of Political Economy, LXXII, 1964.

[9] Brofenbrenner, M., "The Appeal of Confiscation in Economic Development", Economic Development and Cultural Change, 3 April, 1955.

[10] Central Bureau of Statistics, Economic Survey 1972-74, Accra, Appendix XIV.

[11] Forsyth, D.J.C., and Solomon, R.F., "Changing of Technology and Nationality of Ownership in Manufacturing in a Developing Country", Oxford Economic Papers, July 1977.

[12] Government of Ghana, Seven-Year Development Plan 1963/4-1970/1, Government Printer, Accra, 1963.

[13] Government of Ghana, Mining Operations (Government Participation) Decree, 1972 (NRCD 132), Government Printer, Accra, 1972.

[14] Government of Ghana, Timber Operations (Government Participation) Decree, 1972(NRCD, 139), Government Printer, Accra, 1972.

[15] Government of Ghana, Investment Policy Decree, 1975 (NRCD 329), Government Printer, Accra, 1975.

[16] Government of Ghana, Ghanaian Enterprises Development Decree, 1975 (NRCD...), Government Printer, Accra, 1975.

[17] Government of Ghana (a) Capital Investment Act, 1963 (Act 171), (b) Capital Investment Decree 1973 (NRCD 141).

[18] Hirschman, A.O., "How to Divest in Latin America and Why", Essays in International Finance, No.76, Princeton University Press, 1969.

[19] Investment Policy Implementation Committee, Working Papers, Accra, Ghana.

[20] Johnson, H.G., "A Theoretical Model of Economic Nationalism in New and Developing Countries", Political Science Quarterly, Vol. LXXX, June 1965.

[21] Leith, J.C., Foreign Regimes and Economic Development: Ghana 1974.

[22] Levitt, K., Silent Surrender, Macmillan of Canada, Toronto, 1970.

[23] Lewis, A.E. (Sir), Report on Industrialization and the Gold Coast, Government Printing Department, Accra, 1953.

[24] MacDougal, G.D.A., "The Benefits and Cost of Private Investment from Abroad: A Theoretical Approach", Economic Record, Vol.36, 1960, pp.13-35.

[25] Meier, G.M. (ed.), Leading Issues in Economic Development, Oxford University Press, 1970, pp.309-331.

[26] Nkrumah, K., Towards Colonial Freedom, Heinemann, London, 1946.

[27] Nkrumah, K., I Speak of Freedom, Heinemann, Praeger, New York, 1961.

[28] Nkrumah, K., Neo-Colonialism - The Last Stage of Imperialism, Nelson, London, 1965.

[29] O.E.C.D., Development Corporation Review, Paris, 1977.

[30] Penrose, E., "Foreign Investment and the Growth of the Firm", Economic Journal, Vol. 66, 1956, pp.220-230.

[31] Pearce, R.D., "British Investments in Less Developed Countries - A General Survey", Univ. of Reading Discussion Papers in International Investment and Business Studies, No.31, Jan. 1977, Table 14.

[32] Singer, H.W., "The Distribution of Gains Between Investing and Borrowing Nations", American Economic Review, 1950, pp.473-485.

[33] Sevan-Schreiber, J-J., Le' De'fi American, Avon Books, New York, 1969.

[34] Seymour, R., Private Foreign Investment - Legal and Economic Realities, Baltimore, 1956, pp.37-43.

[35] Vernon, R., "International Investment and International Trade in the Product Cycle", Quarterly Journal of Economics, Vol. 80, 1966.

WORKING PAPERS IN ECONOMICS

* 1	I.G. Sharpe	A Framework for Analysis of the Money Supply Process in Australia
* 2	I.G. Sharpe & R.G. Walker	Asset Revaluation and Stock Market Prices
* 3	N.V. Lam	Incidence and Stabilization Impact of Tin Export Taxation in West Malaysia
* 4	V.B. Hall & M.L. King	Inflationary Expectations in New Zealand: A Preliminary Study
* 5	A.J. Phipps	Strike Activity and Inflation in Australia
6	N.V. Lam	Incidence of the Rice Export Premium in Thailand
* 7	I.G. Sharpe	Secondary Reserve Requirements, the Monetary Base and the Money Supply in Australia
8	P. Saunders	Labour Demand Functions and the Quasi-Fixity Hypothesis: Some Empirical Results for U.K. Manufacturing Industries, 1963-1974
* 9	W.P. Hogan	Economic Strategies for Recovery
10	T.P. Truong	Asset Revaluation and Share Prices: A Study using the M.S.A.E. Regression Technique
11	S. Kim	Instability of Primary Exports, Income Stabilization Policies and Welfare
*12	I.G. Sharpe & P.A. Volker	Institutional Change, Specification Error, Inflation and the Stability of the Demand for Money Function in the United States, 1901-1974
13	I.G. Sharpe & P.A. Volker	The Impact of Institutional Changes on the Australian Short-Run Money Demand Function
*14	W.P. Hogan	The Connections Between Foreign Trade and Economic Development: An Empirical Study
*15	F. Gill	The Case of the Black Exodus from the Southern U.S., 1910-1970: Some Lessons for Theory and Applied Theory
*16	A.J. Phipps	The Impact of Wage Indexation on Wage Inflation and Strike Activity in Australia
*17	V.B. Hall	Pricing Behaviour in Australia: A Data Evaluation Study
*18	I.G. Sharpe	Australian Money Supply Analysis: Direct Controls and the Relationship Between the Monetary Base, Secondary Reserve and the Money Supply
*19	L. Haddad	Economic Systems: Towards a New Classification
20	G. Lewis	A Strategy for Winning at Roulette

21	R.L. Brown	A Test of the Black and Scholes Model of Option Valuation in Australia
*22	V.B. Hall	Pricing Behaviour in Australian Manufacturing Industry: Hypothesis Testing 1955-1956 to 1967-1968
*23	I.G. Sharpe & P.A Volker	The Selection of Monetary Policy Instruments: Evidence from Reduced Form Estimates of the Demand and Supply of Money in Australia
*24	V.B. Hall	Excess Demand and Expectations Influences on Price Changes in Australian Manufacturing Industry
*25	I.G. Sharpe & P.A. Volker	The Tradeoff Between Improved Monetary Control and Market Interest Rate Variability in Australia: An Application of Optimal Control Techniques
26	Evan Jones with the assistance of Mary MacDonald	An Examination of Earnings Differentials in Australian Manufacturing Industry
27	W.P. Hogan	Questions on Structural Adjustment Policies
28	P. Saunders	Price and Cost Expectations in Australian Manufacturing Firms
29	W.P. Hogan, I.G. Sharpe & P.A. Volker	Regulation, Risk and the Pricing of Australian Bank Shares 1957-1976
30	W.P. Hogan	Quicksands of Policy-Making
31	C. Emerson	Taxing Natural Resources Projects
32	R.W. Bailey, V.B. Hall & P.C.B. Phillips	A Small Model of Output, Employment, Capital Formation and Inflation, applied to the New Zealand Economy
33	W.P. Hogan	Eurofinancing: Currencies, Loans and Bonds
34	S. Adei	The Growth of Foreign Investment and Economic Nationalism in Post Independence Ghana: 1957-1975

* * * * *

Papers marked with an asterisk are out of stock. Copies of the others are available upon request from:

Department of Economics
The University of Sydney,
N.S.W. 2006

Working Papers in Economics that have been accepted for publication elsewhere

2	I.G. Sharpe & R.G. Walker	Journal of Accounting Research, Fall 1975, 293-310
3	N.V. Lam	Journal of the Developing Economies, Vol. 17, No. 1, March 1979
4	V.B. Hall & M.L. King	New Zealand Economic Papers, 1976, 118-51
5	A.J. Phipps	Economic Record, September 1977, 297-319
6	N.V. Lam	Journal of Development Studies, Vol. 14, No. 1, October 1977
7	I.G. Sharpe	Australian Journal of Management, April 1976, 85-106
9	W.P. Hogan	Economic Papers, No. 55, The Economic Society of Australia and New Zealand, 29-57
13	I.G. Sharpe & P.A. Volker	Kredit und Kapital, Vol. 12, No. 1, 1979
14	W.P. Hogan	Some Calculations in Stability and Inflation, A.R. Bergstrom et.al (eds) John Wiley and Sons, 1978
21	R.L. Brown	Australian Journal of Management, Vol. 3, No. 1, April 1978, 17-36
23	I.G. Sharpe & P.A. Volker	The Australian Monetary System in the 1970s, M. Porter (ed.) Supplement to the Economic Record, 1978, 160-170
30	W.P. Hogan	Australian Economic Papers, Vol. 18, No. 33, December 1979