ESSAYS IN INTERNATIONAL FINANCE

No. 27, December 1956

THE CHANGING PATTERN OF INTERNATIONAL INVESTMENT IN SELECTED STERLING COUNTRIES

A. R. CONAN

INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS AND SOCIOLOGY

PRINCETON UNIVERSITY

Princeton, New Jersey

This is the twenty-seventh number in the series ESSAYS IN INTERNATIONAL FINANCE *published from time to time by the International Finance Section of the Department of Economics and Sociology in Princeton University.*

The author has been for a number of years on the staff of the Commonwealth Economic Committee, sitting in London, and is now Assistant Secretary. He is the author of a volume on The Sterling Area *(Macmillan, 1952). In this essay he writes of course in a personal capacity.*

The Section sponsors the essays in this series but takes no further responsibility for the opinions expressed in them. The writers are free to develop their topics as they will. Their ideas may or may not be shared by the editorial committee of the Section or the members of the Department.

The submission of manuscripts for this series is welcomed.

GARDNER PATTERSON, *Director*
International Finance Section

ESSAYS IN INTERNATIONAL FINANCE

No. 27, December 1956

THE CHANGING PATTERN OF INTERNATIONAL INVESTMENT IN SELECTED STERLING COUNTRIES

A. R. CONAN

INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS AND SOCIOLOGY

PRINCETON UNIVERSITY

Princeton, New Jersey

THE CHANGING PATTERN OF INTERNATIONAL INVESTMENT IN SELECTED STERLING COUNTRIES

Two interlocking factors govern the subject matter of this essay. In the first place there is the problem of capital supply. Although at one time the United Kingdom was normally in a position to provide the resources needed for development purposes in Commonwealth countries overseas, since the war it has not been able to spare unlimited finance for this purpose. Secondly, the plans for post-war development in these countries have in several cases enlarged the demand for capital from abroad and to meet this demand new sources of capital supply have been explored. After ten years under these conditions it now seems time to note the results: to measure the actual flow of capital, examine its character, and determine its origin.

Although statistical difficulties preclude a comprehensive survey of the subject, data for a preliminary study can be derived from the detailed balance of payments estimates and cognate studies published in recent years.* These at any rate enable international capital movements to be charted more accurately and in greater detail than formerly. Moreover, the national income estimates now computed for most countries make it possible to assess in quantitative terms the extent of their dependence on external capital.

This paper gives a very summary survey. Its scope has been limited to investment capital as usually understood, thus excluding balance of payments items such as short-term capital and unilateral donations, although in certain cases the latter have been a substitute for investment capital in the normal sense. It excludes also, of course, drawings on a country's own external assets, which represent an inflow of capital only for the formal purposes of a balance of payments account. Furthermore, the survey is confined to those British Commonwealth countries which in the aggregate make up the greater part of the overseas sterling area and in the past have absorbed a large volume of external capital; this limitation excludes certain non-Commonwealth members of the sterling area where the capital inflow has been small as well as those where it is almost wholly concerned with oil production.

* Publications giving balance of payments estimates in considerable detail with explanatory notes and comment are now issued for Australia (Commonwealth Bureau of Census and Statistics) and New Zealand (Department of Census and Statistics).

I. THE VOLUME OF CAPITAL IMPORTS

To simplify the presentation, the countries concerned may be marshalled in a few groups. In the first may be placed Australia and New Zealand, whose rather similar economic structure is characteristically of the primary producing country type; moreover, as debtor countries they have always accounted for a large part of the United Kingdom's overseas investments. South Africa and Rhodesia also are akin by reason of a fundamental likeness in economic structure, which has made them to an exceptional degree dependent on external capital. India, Pakistan and Ceylon naturally fall together in a group which has special problems since all three rank as under-developed countries. Finally, it will be necessary to consider together the United Kingdom's colonial territories, also for the most part in the early stages of development but constituting in the aggregate a very extensive investment field which in recent years has become of increasing importance.

The data available on post-war capital imports into each of these groups will be examined in the following sections.

Australia and New Zealand

The inflow of capital into Australia after the war, as in other periods of rapid expansion, was on a very large scale. The balance of payments figures suggest that in the first 10 post-war years Australia imported from abroad capital of one kind or another which in the aggregate may have amounted to approximately £A1000 million. This total, in millions of Australian pounds, is made up as follows:

Government borrowing overseas	125
Recorded private investment	525
Other capital imports and exports (net)	400

The first two items rest on a firm foundation. The amount of public borrowing overseas is of course accurately known while recorded

For Rhodesia also fairly full coverage is available in the statements published in the *Monthly Digest of Statistics* (Central African Statistical Office). The estimates for South Africa given in the *Quarterly Bulletin of Statistics* of the South African Reserve Bank are unfortunately not nearly so full on the capital account and much the same is true of the estimates for India, Pakistan and Ceylon issued by the central banks of those countries. Little detail is available for the Colonial Territories. Special studies of capital imports have been issued by Australia (Bureau of Census and Statistics, *Survey of Companies with Oversea Affiliations, 1947/48 - 1954/55*, Canberra 1956), New Zealand (Census and Statistics Department, *Report on the Official Estimates of Balance of Payments for the years 1950/51 to 1954/55*, Wellington 1955), and India (Reserve Bank of India, *Report on the Survey of India's Foreign Liabilities and Assets as on 31st December 1953*, Bombay 1955).

investment (which includes reinvestment from profits) has since 1947 been computed from the results of special surveys which are believed to cover the most significant elements of private overseas investment in Australia.* The remaining item, however, is the residual in the balance of payments statement and is therefore more doubtful; it includes not only errors and omissions in the estimates (thought to be relatively unimportant) but also short-term capital, which for a time bulked large because of the prospects for an appreciation of the Australian pound. The inflow of genuine investment capital (public and private) may thus be put at a minimum of £A700 while if some of the residual item should properly be classed as investment capital, the total must be raised accordingly. On a fairly conservative basis it would probably be reasonable for present purposes to adopt a round figure of £A750 million as representing new investment from abroad. This may well be an under-estimate.

In any case, the data indicate a very high rate of capital absorption. The pre-war total of external capital invested in Australia, for the most part received over a period of perhaps 70 years (1870-1940), was probably appreciably less than £A1000 million, this figure including the public overseas debt of £600 million and known private investment of more than £200 million.† Thus, even when allowance is made for changes in the value of money, the estimates imply that since the war Australia has been importing capital at a rate very considerably greater than formerly.

The economy of New Zealand in many respects resembles that of Australia but is of course on a much smaller scale, while the lack of mineral resources tends to restrict development. In absolute terms, therefore, New Zealand's capital needs are very much less than those of Australia. Before the war the total external capital invested in the country was approximately £200 million, over three-quarters of this sum being represented by the external public debt.

Nevertheless, New Zealand, like Australia, has traditionally been dependent on capital imports for development: as lately as 1933 public debt held overseas represented more than 50 per cent of the total public debt. In post-war years, however, it has proved possible to maintain a high rate of development by utilising domestic resources, Government capital expenditure being financed partly through budget surpluses and

* Full figures for 1955-1956 are not yet available; the total shown should probably be increased by another £A50 million.

† The estimate of known private investment is from *The Australian Balance of Payments, 1928-29 to 1948-49*, p. 32 (Commonwealth Bureau of Census and Statistics, 1950).

partly through a very large expansion in the domestic debt. Public overseas borrowing up to 1955 was confined to two London loans, each of £10 million, and a loan of 16 million dollars from the Export-Import Bank. In addition there has been a certain inflow of private capital for investment; although details are not available for the earlier post-war years, the special surveys show that between 1949 and 1955 over £40 million was received in this way. With some allowance for the period 1946-1949, the aggregate inflow of capital from abroad since the war may thus be put at approximately £75 million.

South Africa and Rhodesia

South Africa has in recent years ranked with Australia as a field for the investment of capital from abroad, but unfortunately there is as yet no detailed survey of the amount involved; a census of foreign investment is to be taken in 1957. On the evidence of the balance of payments estimates the total inflow of new capital during the 10 years 1946-1955 was nearly £700 million. This figure, which up to 1951 is based on the residual element in the estimates, includes certain short-term funds and much flight capital transferred to the Union in the early post-war years; on the other hand it takes no account of reinvestment from profits. For present purposes possible over-estimation by the inclusion of flight capital may perhaps be taken to offset the exclusion of reinvestment. The more detailed figures published after 1951 show only a very small short-term or residual element.

In the past South Africa's development was effected mainly by means of large-scale capital imports: even in the 1920's these accounted for some 40 per cent of the Union's net investment and by 1936 the cumulative total of external capital received was estimated by Frankel at more than £500 million. Unlike Australia, however, public capital was not predominant. Although geographical factors necessitated heavy expenditure of public money on railways and harbour development, less than half (£224 million) of the estimated capital inflow represented borrowing on public account. The remainder (some £300 million) was invested in productive enterprise, concentrated very largely in the mining industry, which accounted for about two-thirds of all recorded private investment.

The heavy investment in mining and the extent to which this had occasioned an inflow of capital from abroad may be attributed to the part played by gold in the South African economy. The gold mines provided the chief attraction for capital and the main stimulus to development. In post-war years the same stimulus has operated since large-scale capital outlays were needed to open up the new Orange

Free gold mines; by 1955 about £200 million had been spent for this purpose. But in recent years development has comprised not only heavy investment in mining and massive Government expenditure on basic services but also a very great expansion in manufacturing industry. This in turn involved an additional demand for capital, which proved to be even greater than that from the mining industry.

A characteristic feature of the post-war inflow of capital was the extent to which private capital was predominant. Although the Union Government borrowed abroad on a not inconsiderable scale (approximately £100 million), much the greater part of the total (nearly £600 million) is represented by the inflow of private capital.

The Federation of Rhodesia and Nyasaland has an economy in many ways similar to that of the Union of South Africa, not least in respect of capital needs. In both cases the European population is small as compared with the African population (which tends to limit domestic savings) and much of the national income is derived from a highly-capitalised form of mining. In both, too, there has been a very great post-war expansion. The exploitation of the Orange Free State goldfields in the Union has been paralleled in the Federation by further development of the copper mines in Northern Rhodesia while in Southern Rhodesia, as in the Union, industrialisation has made rapid progress.

The territories which now constitute the Federation have accordingly needed, and have been able to secure, very substantial imports of capital. To finance development the Government of Southern Rhodesia undertook soon after the war an extensive programme of overseas borrowing and the progress of development in the Colony soon attracted private capital; in Northern Rhodesia the mining companies invested heavily in the mines and in the provision of ancillary services. As a result of these diverse factors the inflow of different types of capital was in the aggregate very large. Between 1946 and 1955 Government borrowing abroad exceeded £100 million (about as much as in Australia or South Africa) while the balance of payments estimates indicate that private capital receipts may have amounted to approximately £200 million; of this sum the copper mining companies of Northern Rhodesia probably accounted for about £50 million.

The significance of these figures is brought out by comparison with the data for pre-war years. In the three territories now included in the Federation the cumulative total of external capital received up to 1936 has been estimated at £110 million, the main channels of investment, again according to Frankel, being the railways (£31 million) and the copper mines (£25 million). The figures for the past 10 years are a measure of the rapidity of post-war expansion, a total of some £300 million being received in this period as against not much more than £100 million in 50 years.

India, Pakistan and Ceylon

Although India is generally regarded as an under-developed country, it has in fact for many years experienced a continuing process of development. As part of this process a considerable volume of external capital was absorbed. Before World War I the amount of British capital invested in the country was estimated to be as much as £400 million, made up in approximately equal parts of public overseas debt and private investment. By 1930 the public overseas debt had risen to £400 million while private investment may have been about £350 million.*

During the war India's external indebtedness was transformed in two ways. In the first place, practically all of the Government sterling debt was repaid. Secondly, Indians acquired a good deal (perhaps as much as one-quarter) of the pre-war holdings of non-nationals in business investments. When the new India came into being in 1948 there was thus virtually no external debt on Government account but much foreign capital was still invested in private undertakings. In that year the book value of these investments was nearly £250 million; the market value was considerably higher, being estimated by the Reserve Bank of India at almost £400 million.

The Government of India has not borrowed in London since the war but within a very few years incurred quite a large dollar debt: by 1955 this was approximately 300 million dollars, one-quarter of the pre-war sterling debt, which of course had accumulated over a long period (and was in part allocable to the areas which became Pakistan). Dollar borrowing has comprised several different elements. International Bank loans account for just over 80 million dollars (excluding those to Indian companies under the guarantee of the Government of India). Debt owed to the United States Government is mainly the Wheat Loan of 1951 (190 million dollars) which, though originating in consumption needs, can be deemed a contribution to development since the sales proceeds of the loan wheat were credited to a special Development Fund. In addition, a proportion of United States Aid to India has recently been on a loan basis.

* The figure for public debt includes the sterling debt of the Government of India (£366 million in 1930) and a further amount of over £20 million attributable to other public borrowing. The estimate of private investment is based on the results of the 1948 census with allowance for war-time sales and investment in Pakistan.

In the private sector, post-war investment of external capital in business undertakings in India appears to have been very considerable: an estimate by the Reserve Bank of India, in its 1955 *Survey of India's Foreign Liabilities and Assets*, puts the total for the years 1948-53 at approximately £135 million. This seems high since it implies an increase of about one-half of the book value of the total in 1948 and the balance of payments figures give no indication of any inflow of such magnitude. The Bank's estimate, however, is based on the view that very little of the new capital was received as cash for investment, much the greater part being attributable either to reinvested profits or receipts in the form of goods and machinery. It is believed that since 1953 the inflow of private capital has continued at much the same rate.

Pakistan presents a different picture. In contrast with (post-partition) India, the territories which now constitute Pakistan seem in the past to have attracted relatively little investment capital, although of course they shared in public capital expenditure financed in part by overseas borrowing. Since the inauguration of the new state there is little evidence of any considerable inflow of capital from abroad. The Government development programme has in the main been financed from domestic resources, supplemented by United States aid and assistance under the Colombo Plan. Public borrowing overseas has been confined to loans from the International Bank totalling 30 million dollars, a £10 million loan from the United Kingdom Government, and the loan part of United States aid (20 million dollars). The International Bank has also lent 50 million dollars to Pakistan undertakings but private capital investment from abroad seems to have been very small; according to the exchange control records a total of less than £10 million was received up to 1955 and there is no evidence that there was any considerable inflow of capital in the form of goods and machinery not involving transactions in foreign exchange.

The economy of Ceylon, while in many ways similar to that of India and Pakistan, differs from each in certain respects. In the present context there is a contrast with Pakistan in that before the war Ceylon had attracted a great deal of external capital for investment in productive activity; on the other hand there is a contrast with India since there was very little overseas public debt, the capital inflow being mainly concerned with the plantation industries of tea and rubber. External capital invested in companies in Ceylon before the war has been estimated at some £65 million, including paid-up capital, reserves and debentures. The overseas public debt in 1939 was no more than £12 million. With some allowance for other investment the total external indebtedness may be reckoned as of the order of £100 million.

Post-war development has not involved any considerable inflow of capital on either public or private account. The Government has borrowed abroad on only two occasions; a £5 million loan was floated on the London market in 1954 and a loan of 19 million dollars was obtained from the International Bank in the same year. The balance of payments estimates afford no indication of any appreciable volume of private investment from abroad and in fact there has been a certain outflow of capital as Ceylon nationals have purchased existing enterprises established earlier by overseas interests.

The Colonial Territories

The overseas dependencies of the United Kingdom, though comprising territories which differ greatly in their economic structure, may for the most part be termed under-developed in the sense that before the war capital investment in individual colonies had usually been relatively small. In certain cases, however, (notably Malaya) a great deal of external capital had been invested and the total was in absolute terms quite considerable. Excluding Ceylon and Rhodesia, the figure for the whole colonial empire may have been as much as £400 million.*

The post-war years have brought a marked acceleration in the pace of development. This is evident in the development plans of colonial Governments, which assume the availability of finance on a scale much bigger than that formerly accepted as normal. Thus, in 1954 the estimated cost of the approved 10-year development plans (which of course refer to public expenditure only) amounted to no less than £450 million. The plans provide for about one-third of the required sum to be found by public borrowing.

Unlike some other sectors of the overseas sterling area, the Colonies were not before the war heavily indebted on Government account, the total of their loans being no more than £80 million. Since the war, from the re-opening of the London market in 1948, colonial Governments have borrowed fairly freely: up to 1955 loans floated in London (excluding conversion issues) amounted to more than £120 million. The flow of capital from the market was supplemented by a considerable volume of investment through public corporations created and financed by the United Kingdom Government. The Overseas Food Corporation spent some £40 million in Tanganyika (nearly all on the abortive groundnut scheme) while the Colonial Development Corporation by 1955 had invested capital to the extent of over £40 million.

* Estimate based on data drawn from the following sources. Frankel: *Capital Investment in Africa*. Callis: *Capital in S.E.Asia*. Royal Institute of International Affairs: Memoranda for International Studies Conference, Paris (1937).

From these three sources alone, therefore, a total of £200 million was received. In addition the Colonies were enabled to apply for loans from the International Bank but so far (apart from Rhodesia) there has been only one colonial borrower, the East Africa High Commission receiving a loan of 24 million dollars in 1955.

The amount of private capital invested in the colonies since the war cannot be computed with any claim to accuracy but an official estimate* puts the total at approximately £300 million and much the greater part of this sum can be attributed to individual colonies or large investment projects. The total would include as major items the cost of the new refinery at Aden (nearly £50 million); investment in Nigeria (probably at least £25 million); and a substantial though unknown figure (perhaps as much as £100 million) for East Africa. In the West Indies, oil investment in Trinidad may have exceeded £25 million while the bauxite industry in Jamaica accounted for more than £20 million. British Guiana is known to have absorbed at least £15 million. In the Far East a great deal of capital from China was transferred to Hong Kong but it is noteworthy that, apart from re-investment, there has been very little capital inflow into Malaya.

II. POST-WAR TRENDS AND SOME EXPLANATIONS

A study of this kind yields significant results only if organised on a comparative basis. It is accordingly necessary to set out the estimates given in the preceding section so as to facilitate comparisons between the different countries under review, with reference back to earlier data. Juxtaposition of the figures in this way shows the relative magnitudes involved, gives a synoptic view of post-war trends and helps to bring out the factors underlying such changes as have occurred.

Post-war Inflow and Pre-war Totals

The summary table below shows how the flow of capital was distributed among the various recipients. In Australia, South Africa and the Colonies capital imports, on a rather conservative estimate, appear in each case to have amounted to some £500-700 million; for the Federation of Rhodesia the comparable figure was about £300 million. On the other hand, in the immense territory of India, Pakistan and Ceylon taken as a whole the capital inflow was relatively small. In India it is estimated to have been over £250 million (though much of this was of a special character) but in Pakistan and Ceylon only very minor sums were recorded. The figure for New Zealand

* Hansard, 14th May 1956, col. 1802.

also was rather small even taking into account the scale of the New Zealand economy.

TABLE I

External Capital Investment in Sterling Countries
(In millions of pounds sterling)

	Pre-war Total	*Post-war Inflow*
Australia	800	600
South Africa	500	700
Colonial Territories	400	500
Rhodesia	100	300
India, Pakistan & Ceylon	800	300
New Zealand	200	75

The comparison may be extended by relating the post-war inflow to the pre-war totals. On this basis it can be seen that in Australia, South Africa, and the Colonies capital imports since the war have been very large not only in absolute figures but also in relation to the volume of investment effected earlier. Both South Africa and the Colonies seem to have absorbed within ten years more external capital (in monetary terms) than had previously been invested over a period of fifty years. In Australia the inflow, though still very large, was possibly somewhat less than the pre-war total and in New Zealand this trend was still more marked. Elsewhere the estimates indicate two major changes, opposite in character. In the case of Rhodesia, an area formerly rather under-capitalised, the inflow of capital was exceptionally heavy (three times as much as the pre-war total); on the other hand, in the group comprising India, Pakistan and Ceylon, comparatively little external capital (less than half the pre-war figure) has been invested since the war in a region which at one time had been able to attract very large sums.

These variations in the rate of absorption of external capital are in part explicable by variations in the level of domestic savings. Australia and New Zealand, each with a relatively developed economy, were able to provide for post-war expansion from their own resources to a much greater extent than formerly and were therefore much less dependent on external capital. To some extent this was true of South Africa also, but in the Union capital supply and demand involved two special factors: on the supply side the white population (which does most of the saving) was comparatively small (2 million persons as against Australia's 8 million) while on the demand side there were not only general development needs but also the requirements of new large-scale mining enterprises. The Union was accordingly still heavily dependent on a continuing inflow of capital. The same dependence on external resources is apparent also in the Colonies, as yet, for the most part, in the early stages of development and because of low national incomes unable to provide adequate finance from domestic resources. Rhodesia is a specific instance of this type of economy although in some degree exceptional since in the Federation the needs of the mining industries were super-imposed on the claims of development finance.

The extent to which all these countries were able to satisfy their demand for capital is in contrast with the facts recorded for India, Pakistan and Ceylon. In the past both India (including the territory later falling to Pakistan) and Ceylon had been notably successful in this respect: although ranked as under-developed, on the estimates given the region had in fact absorbed as much external capital as any of the other countries shown. Since the war, however, the pattern has been very different. All three countries were able to provide for public needs by borrowing from the International Bank and other sources while in addition large sums were received as external aid; but there was a marked shortfall in respect of private capital. The facts suggest that this shortfall was in the main attributable to political factors such as the fear of nationalisation and discouraging restrictions on foreign investors.

Capital Inflow and Domestic Capital Formation

The function of external capital in the development process can be evaluated more precisely by comparison with the figures for domestic capital formation. Although these estimates are rarely on a fully comparable basis, they yield results which are probably valid in broad terms even if subject to a sizeable margin of error. Data for the chief countries concerned are shown below.

The estimates imply that in at least three cases, South Africa, Rhodesia and the Colonies, the capital inflow was in fact essential for the rapid development which has occurred. In the Union it accounted for over 20 per cent of all investment since the war. As, however, the Union Government borrowed abroad only to a limited extent, a better comparison is derived from relating the inflow of private capital to the total of private investment in mining, industry, and commerce. On this basis the proportion would be nearer one-half, though it should be added that with the growth of domestic savings the figure for recent

TABLE 2

Post-war Capital Inflow in Relation to Capital Formation (a)

	Capital Formation (b)	*Capital Inflow*	*External Capital as per cent of total*
Australia (£Amillion)	8500	750	9
New Zealand (£NZmillion)	1400	75	5
South Africa (£million)	3000	700	23
Rhodesia (£million)	650	300	45
Colonial Territories (£million)	2800	700(c)	25

(a) Pakistan and Ceylon are not included in this table (or in Tables 3 and 5) because their capital imports were very small; India has been excluded here because of inadequate data.
(b) Partly estimated.
(c) Including some £200 million of grant aid.

years would be much smaller. In the Federation the possibility of financing development from domestic resources was of course very limited and dependence on external resources correspondingly great; the capital inflow accordingly represented nearly 50 per cent of all investment.

The estimates for the Colonies are limited in scope and in any case are probably subject to a margin of error too great for any firm conclusion. The data suggest that external capital (including grant aid) may have accounted for about 25 per cent of the major forms of investment; this proportion is consistent with the provision made for one-third of the public investment under the Development Plans to be financed by borrowing.

There remain three countries where external capital seems to have played a comparatively minor part. In Australia, now at a fairly advanced stage of development, there has been a high rate of capital inflow as measured by former standards but domestic resources have sufficed for nearly all its development expenditure. Nevertheless, although external capital is here a minor element in the total, it is of great importance in certain cases. In Australia's manufacturing industry, for example, overseas capital has since the war been responsible for about one-third of all new investment. New Zealand also has been able to maintain a high rate of development without much dependence on external capital, partly because special methods were adopted to reserve foreign exchange for development needs. In India, on the other hand, there has been a rather low rate of development and a restricted inflow of capital; moreover, the capital inflow was not supplemented to any considerable extent by drawings on external reserves since these assets were not, on the whole, utilised to cover current deficits.

Public versus Private Sources of Capital Imports

It is now necessary to analyse the post-war inflow of capital in order to see how changes in the total volume of investment derive from changes in its component parts. This involves setting out the figures in terms of different types of capital. In the first instance they may be classified as either public capital (loans to Governments) or private capital (investment in business undertakings), although the distinction is not as clear-cut as formerly. When the data are shown in this way it will be found that as compared with pre-war there have been very marked changes in the proportion which each bears to the total. The breakdown for individual countries is given below.

TABLE 3

External Capital Investment: Public versus Private

(In millions of pounds sterling)

	Pre-war Total		*Post-war Inflow*	
	Public	*Private*	*Public*	*Private*
Australia	600	200	100	500
South Africa	200	300	100	600
Colonial Territories	100	300	200(a)	300
Rhodesia	50	60	100	200
India	400(b)	350	100	150

(a) Includes investment by the Overseas Food Corporation and Colonial Development Corporation.

(b) Figure is for undivided India, i.e. including Pakistan. As, however, Pakistan's post-war capital imports were very small, the comparison is substantially correct.

It is clear that of the four cases where the post-war capital inflow was exceptionally heavy, a radical change has occurred in two; Australia and South Africa. In the former country, where in the past public authorities had been active in executing development works (including railways), pre-war investment from abroad was predominantly on Government account, the overseas public debt constituting 75 per cent of the total external indebtedness. Since the war, however, public borrowing overseas has been of minor importance, accounting for less than 20 per cent of the estimated capital inflow. In South Africa there has been a similar change although in this respect the Union formerly differed from Australia as the public overseas debt was the minor component, no more than 40 per cent of the total. The proportion attributable to public capital has now fallen further to a figure even lower than that recorded for Australia. On the other hand this trend has not operated in Rhodesia. Although public borrowing in the Federation, as in the Union, is quantitatively the less important factor, the proportion it bears to the total has been fairly well maintained while in absolute terms there has been a twofold increase. A similar increase in absolute terms is apparent in the figures for the Colonies and in this case the share of the total attributable to public capital has risen also.

The varying importance of overseas public debt as evidenced by the data summarised above is easily explicable: generally, it is a function of the stage of development attained. In several cases the progress of development has been such as to enable Governments to borrow at home on a scale far exceeding what had formerly been practicable. This was first discovered during the war. The discovery has since been further exploited and the magnitude of the change in the countries where it has been most notable is evident in the structure of the public debt.

TABLE 4

Public Debt of Commonwealth Countries

(In millions)

	Australia (Australian pounds)			*New Zealand (New Zealand pounds)*	
	Internal	*External*		*Internal*	*External*
1939	703	644	1939	146	164
1945	2066	618	1945	403	170
1955	3314	608	1955	631	100

	South Africa (Pounds sterling)			*India (Rupees)*	
	Internal	*External*		*Internal*	*External*
1939	178	101	1939	7100	4691
1945	522	18	1945	15714	381
1955	872	62	1955	28404	1332

The figures show that countries such as Australia, New Zealand and South Africa can now provide from domestic sources much the greater part of their loan needs. To say this is not to imply that in every case it has been easy to borrow on the home market. In New Zealand, for example, the domestic debt was expanded in the main by utilising departmental funds and the Farm Industry Reserves—which represented export receipts and thus foreign exchange. But whatever the methods used, it is clear that in these countries overseas borrowing has become of merely secondary importance and is to a great extent employed only for special purposes, e.g. to obtain dollars. On the other hand, where the economy is under-developed, as in Rhodesia or the Colonies, the funds which can be tapped either for Government needs or for private investment remain small and a large inflow of capital on both public and private account is accordingly necessary for rapid development. India is perhaps a special case because while the post-war inflow of public capital was only one-quarter of the pre-war figure, it was supplemented very substantially by economic aid from various sources. In this case too, however, the enormous increase in the domestic debt must be accounted of high significance in determining the extent of overseas borrowing.

Changing Character of Private Foreign Investment

The analysis of capital imports according to type can be carried further by examining the character of private investment capital. In some of the countries concerned (though not in all) special surveys for recent years yield information on this point.*

It is well known that since the war portfolio investment has been much less prominent than formerly and direct investment through branches or subsidiaries has been of major importance. A capital inflow of this kind can, however, take different forms: these may include the remittance of cash, the provision of plant or other goods without corresponding payment, and the reinvestment of profits. In three cases, Australia, New Zealand and India, it is possible to determine the constituents of the total and it will be found that in all three the main constituents are in broadly the same proportions. This is the more noteworthy since in other respects, as noted above, the investment history of these countries has differed to a marked extent. In Australia the data indicate that a very substantial part of the recorded investment has come from reinvested profits. During the years for which details are available (1947-1955) undistributed income accounted for approximately one-third of the total recorded investment in companies and this proportion has tended to increase in recent years; the greater part of the remainder came in almost equal proportions from capital received as such or finance made available by parent companies to subsidiaries through inter-company accounts. In New Zealand also about one-third of the total was attributable to reinvestment but in this case finance by inter-company accounts was much more prominent, making up approximately half the aggregate capital inflow. In India,

* The data summarised in the following paragraph are derived from the special studies listed in the note on p. 1.

according to the Reserve Bank's estimate, the new capital received in cash for investment during the years 1948-1953 was very small (one-sixth of the total) and a very large part of the investment (perhaps one-half) is taken to have been received in the form of machinery etc. not involving exchange transactions; it is believed that, as in the other countries mentioned, retained profits accounted for about one-third of the total investment.

Similar details are not available for either South Africa or Rhodesia but in these countries also a very large proportion of the capital needed for new investment has undoubtedly been obtained from other than market sources, in particular by reinvestment of profits. In the Union the importance of this source of finance is evidenced by the data derived from the national income estimates. These show that during the 10 years 1945-1955 foreign concerns allocated for this purpose some £200 million, nearly one-third of profits after taxes. In Rhodesia also the operations of the mining companies have been to a very great extent financed from their own resources: as a concrete example may be cited the fact that from the end of the war to 1954 the Rhodesian companies of the Anglo American Corporation provided from profits and reserves £30 million for development and expansion as against £16 million of new capital raised abroad.

Changing Sources of External Capital

To some extent changes in the character of the capital inflow may be linked with changes in the source of capital supply, and these now call for examination. Before the war virtually all the capital needs of the overseas sterling area were met by the United Kingdom but latterly investment originating elsewhere has been substantial. The table below sets out, in necessarily approximate terms, estimates of the amounts received from the main sources of supply. It will be seen that the United Kingdom is still predominant, accounting for some £1700 million (more than two-thirds of the total) but it is clear also that capital from the United States and the International Bank ranks high both in absolute terms (£600 million) and in the proportion (over one-fourth) which it bears to the total.

The estimates indicate that three countries, Australia, South Africa and India, between them accounted for much the greater part of the investment from the United States. In the case of India, however, the inflow of private investment capital was very small (only about £15 million), the remainder being aid of one kind or another on a loan basis; if aid on a grant basis were to be included, the amount shown would of course be greatly increased. On the other hand, for Australia and

TABLE 5

Estimated Capital Inflow, 1946-1955, by Source of Supply

(In millions of pounds sterling)

Destination	*Source of Supply*				
	UK	USA	World Bank	Other	Total
Australia	350	100	100	50	600
South Africa	500	100	50	50	700
Colonial Territories	450	50	10	10	500
Rhodesia	250	25	15	10	300
India	100	100	50	—	250

South Africa the figures represent for the most part an inflow of private capital in the ordinary course of business. In Australia this inflow was primarily for investment in industry: over £100 million (including some from Canada) was recorded in the special surveys up to 1955. Before the war Australia was exceptional in that the Commonwealth Government had borrowed to some extent (£50 million) in New York. In post-war years, however, dollar borrowing on public account (apart from International Bank loans) was confined to one small flotation in Canada in 1955. In South Africa the figure given (which is derived from the balance of payments estimates) includes sums borrowed by the Union Government in the United States, but as these amounted to only £24 million the greater part represents an inflow of capital for investment in business undertakings. A good deal appears to have been devoted to mining: the Kennecott Copper Corporation put over £10 million into the Orange Free State gold mines while the Export-Import Bank lent 20 million dollars for electricity production in connection with the output of uranium and granted credits to the gold mining companies for the same purpose. Rhodesia and the Colonies appear to have received much less in the way of dollar capital. In the former case the balance of payments record for the years of 1950-1955 shows £13 million of private capital from dollar sources with a smaller sum on public account in the form of loans under United States aid programs. The figure given for the Colonies includes over £20 million of Canadian capital invested in bauxite in the West Indies.*

In quantitative terms the International Bank's contribution to development finance in these countries was appreciably smaller than that

* A recent official estimate (Hansard, 20th June 1956 col. 1509) puts United States investment in the Colonies at £30 million for the years 1950-1955 but this includes investment in copper in Rhodesia.

of the United States but perhaps no less significant. The Bank was of course a wholly new source of finance and the total of some £250 million invested in the countries surveyed was a very substantial supplement to the capital obtained from other sources. As nearly all the International Bank loans represented borrowing by Governments, much the greater part of the total under this head must be classed as public debt; as such it offset in part the reduction in public borrowing in London which was so notable a feature of post-war financial policy in countries such as Australia, South Africa, and India. The geographical distribution of the loans is of some interest. Australia was by far the biggest borrower from the Bank, receiving twice as much as either South Africa or India. This perhaps is indicative of Australia's special need of dollar resources since South Africa could cover its dollar deficit with gold while India's dollar supplies included United States Aid.

Notwithstanding the substantial amounts received from the United States and the International Bank, the role of dollar capital must not be over-estimated. Nearly all the countries shown in the table remained dependent on the United Kingdom for the major part of their capital needs. The dependence was least marked in India, where rather less than half of the estimated capital inflow seems to have been of United Kingdom origin. This case, however, was exceptional because of the high proportion of public capital derived from the United States (as aid of one kind or another) and the International Bank. If the comparison be made on the basis of investment capital in a more restricted sense, the picture would be very different. The Reserve Bank of India census figures show that between 1948 and 1953 the United Kingdom accounted for virtually the whole of the net inflow of business capital apart from the small amount received from the United States. For Australia the proportion of capital supplied by the United Kingdom may not have been much more than one-half, mainly because of the large amounts received from the United States and the International Bank, but in this case too the survey of Australian companies shows that the United Kingdom was responsible for two-thirds of the total invested in that channel, £250 million being recorded as of United Kingdom origin for the years 1947-1955. In the table an estimate has been included for the years not covered by the investment surveys and for unrecorded capital.

Elsewhere the United Kingdom seems to have supplied a much greater proportion of the total. An estimate of official origin puts United Kingdom investment in the Union at some £500 million for the years 1947-1955.* This would imply that over two-thirds of the post-war capital

* Statement by the Prime Minister of S. Africa reported in *South African Progress*, June, 1956.

inflow came from the United Kingdom. In the private sector the total would include the major part of the new capital required for the Orange Free State goldfields and probably also for that involved in the establishment of new secondary industries. In Rhodesia and the Colonies the proportion must be set even higher than in South Africa: in both cases, apart from the amounts known to have been received from the United States and the International Bank, there is little evidence of any considerable inflow from sources other than the United Kingdom. In the Federation it has been estimated, by the Director of the Federation of Rhodesian Industries, that as much as 90 per cent of post-war industrial development has been financed by British capital. The copper mines are perhaps a special case since one of the two chief groups is a subsidiary of the Anglo American Corporation of South Africa and the other is mainly American-owned, but probably the greater part of the capital involved may be deemed to be directly or indirectly of United Kingdom origin. For the Colonies a recent official statement puts the total of United Kingdom investment during the years 1950-1955 as high as £450 million.*

The inflow of capital from sources other than those detailed above seems to have been relatively small. South Africa was able to obtain finance from European countries such as Switzerland and the Netherlands but compared with the figure for the United Kingdom the amount involved (£50 million) was very limited. It included on public account £18 million from the two countries mentioned (more than the Union Government raised in London). The Anglo American group obtained over £10 million in Europe (as against £25 million in London) and its Rhodesian companies also borrowed to some extent, about £5 million, in Europe. In Australia the Commonwealth Government borrowed on a small scale, £10 million, in Switzerland but there seems to have been little private investment from Europe as over 90 per cent of the total recorded for companies was from the United Kingdom, the United States, and Canada.

III. CONCLUSION

It is not easy at the present time to say whether the new trends noted in this essay are likely to persist or whether, on the contrary, they stem from conditions which may prove transient. It is already evident, for example, that the flow of capital was sharply checked in 1955 and it is by no means certain that during the next few years the rate of investment will be as high as during the first post-war decade.

* Hansard, 14th May 1956, col. 1802.

But even a summary survey makes it possible roughly to gauge the extent to which new factors have governed the course of international investment in the sterling area. The evidence to date shows that within a relatively short period there have been radical changes in the rate of absorption of capital in different sectors, that the composition of international capital movements has altered significantly, and that new sources of capital supply have been exploited. The statistical data make it plain that the scale of these developments has been such as to effect a marked alteration in the pattern of international investment. It is clear, too, that in discussion of capital needs the concept of capital scarcity requires closer scrutiny than it usually gets since in some countries which at one time borrowed heavily overseas the demand for capital can now be met predominantly from domestic resources.

RECENT PUBLICATIONS OF INTERNATIONAL FINANCE SECTION

Survey of United States International Finance.
By International Finance Section Staff.

1.	Volume covering 1949	$1.75
2.	Volume covering 1950	$2.25
3.	Volume covering 1951	$2.25
4.	Volume covering 1952	$2.75
5.	Volume covering 1953	$2.75

Order from any bookseller or from PRINCETON UNIVERSITY PRESS.

The International Finance Section also publishes from time to time papers in three series, which should be ordered directly from the Section. The STUDIES are distributed without charge to persons abroad, but there is a fee of $0.25 in coin or stamps to cover postage and handling costs for United States residents. The ESSAYS and the SPECIAL PAPERS are distributed without charge by the Section to all interested persons and standing requests to receive new numbers as they are published will be honored. Numbers in these three series still in print are as follows.

PRINCETON STUDIES IN INTERNATIONAL FINANCE

Postwar Bilateral Payments Agreements. By Merlyn N. Trued and Raymond F. Mikesell. (April 1955)

The First Three Years of the Schuman Plan. By Derek Curtis Bok. (December 1955)

ESSAYS IN INTERNATIONAL FINANCE

The Bank for International Settlements, 1930-1955. By Roger Auboin. (May 1955)

International Cost-Sharing Arrangements. By Thomas C. Schelling. (September 1955)

The Belgium-Luxembourg Economic Union, 1921-1939. By James E. Meade. (March 1956)

Two Approaches to the Exchange-Rate Problem: The United Kingdom and Canada. By Samuel I. Katz. (August 1956)

SPECIAL PAPERS IN INTERNATIONAL ECONOMICS

A Survey of International Trade Theory. By Gottfried Haberler. (September 1955)

The Validity of International Gold Movement Statistics. By Oskar Morgenstern. (November 1955)