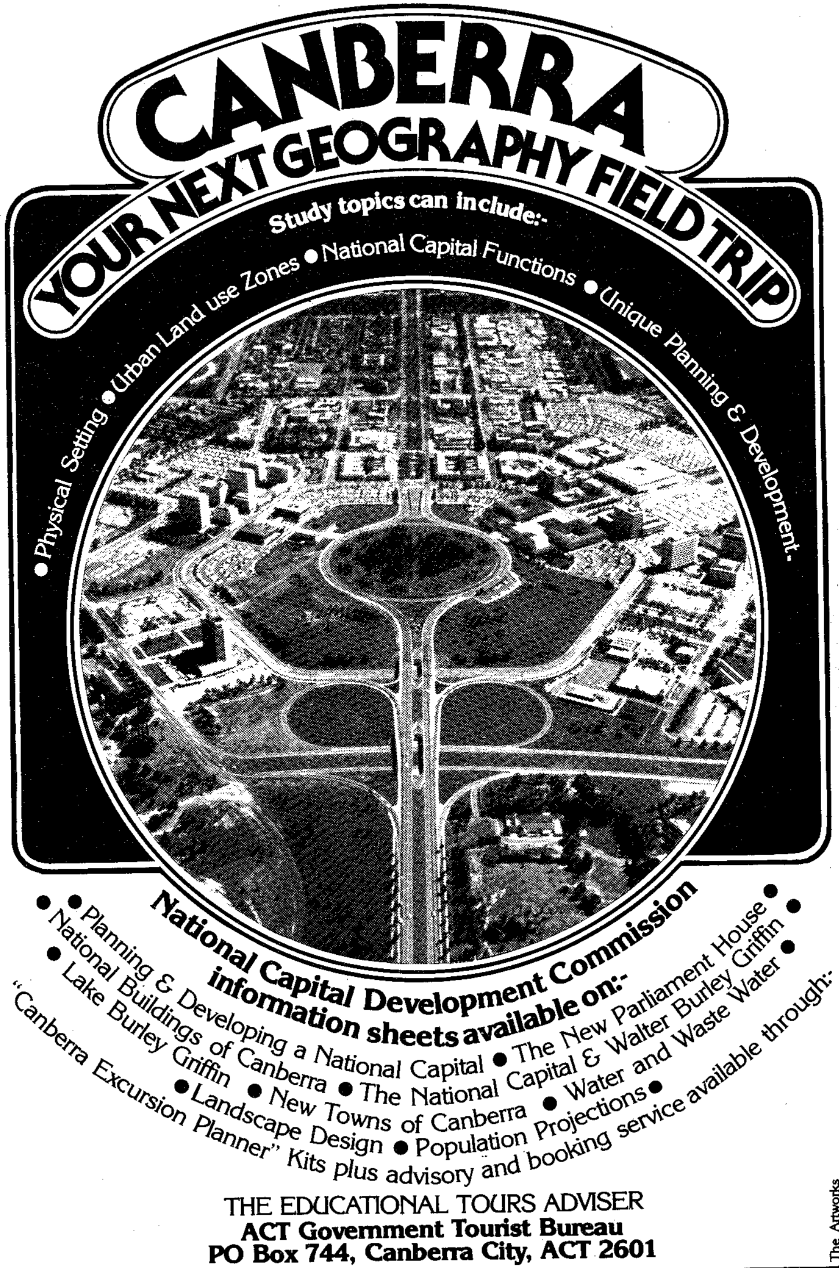

LIBERIA:
A Case Study of Foreign Investment in a Developing Country

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SYNOPSIS

Because of the general nescience which surrounds Liberia, a short geographical, historical, political and economic account is given of the country. This is followed by a description of the foreign investment which has occurred in Liberia, both in the historical and current instances. Following a short analysis of the reasons that companies would wish to invest in Liberia, the main body of the paper is presented: the costs and benefits to Liberia of foreign investment. Advantages to Liberia include such factors as the bringing of new "know-how", developing new resources, defence advantages, more exports, increased revenue through taxation, more employment opportunities, improvements through social investment, acceleration of economic development, higher wages, opening up new areas and raising living standards. On the other hand, disadvantages include profits going overseas, over-dependence on one or two export commodities, companies placing their home countries' interests first, breaking down much of the traditional socio-economic system, introduction of inappropriate technology, growth of a dual economy and the making of the country more dependent on overseas nations. Evidence is provided to support the conclusion that in the past, foreign investment played an essential rôle in the development of Liberia. However, it would probably be unwise for past rates of foreign investment, and the direction of that investment, to continue unchecked.

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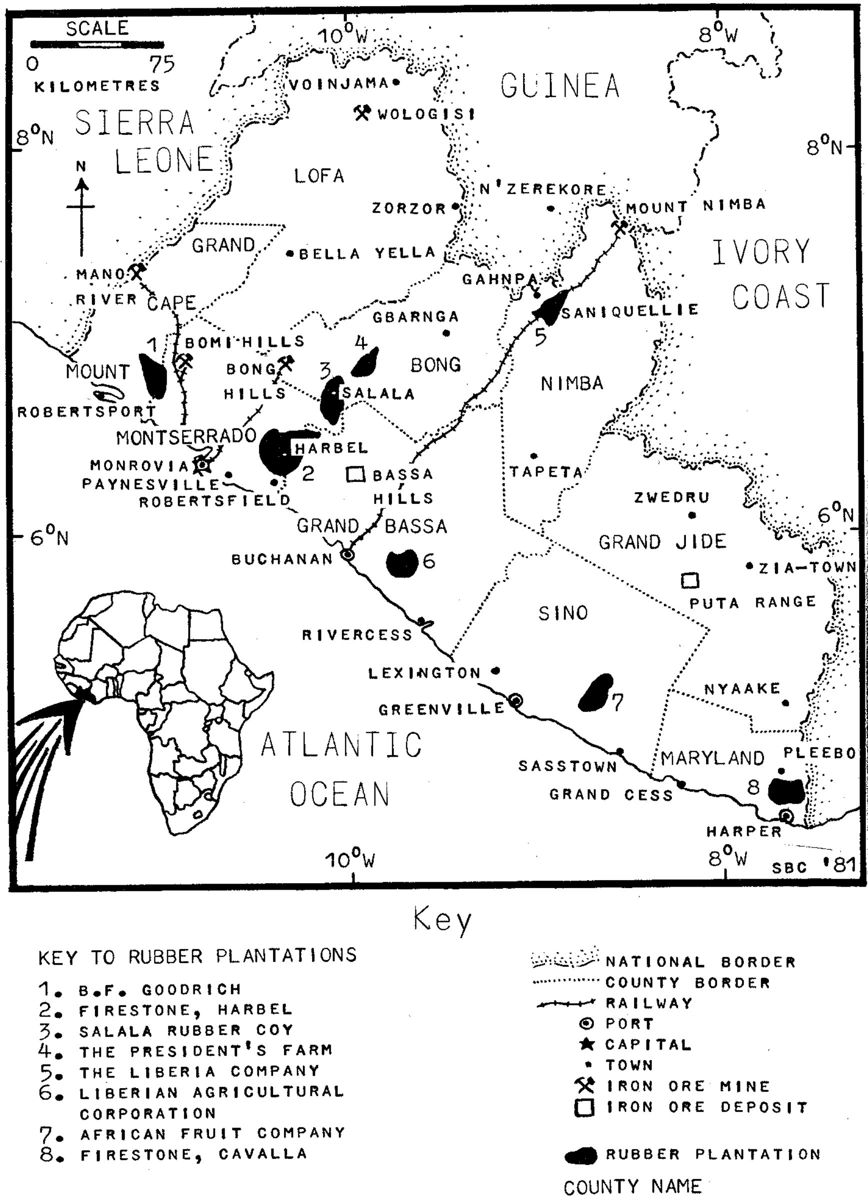
INTRODUCTION

Attitudes vary widely towards foreign investment. On one hand, some believe it is the 'catalyst for growth', while others feel it 'acts like a drug', 'picks the eyes out of industry', or 'poses a threat to the independence of the country'. In reality, foreign investment has both desirable and undesirable effects on the country receiving the investment. These effects are displayed in developing countries in a manner which is quite distinctive from their expression in developed countries. The aim of this paper is to examine these effects with respect to Liberia, a unique developing country which nonetheless displays many of the typical features of foreign investment in developing countries.

BACKGROUND

With an area of only 111,300 square kilometres, Liberia is a small West African republic, having an estimated population of 1,925,000 (1981). Its climate is hot and monsoonal, giving rise to dense rainforest vegetation despite a short dry season. On the coast, Liberia's capital city, Monrovia, has a mean annual temperature of 26°C, and a mean annual rainfall of 4748 mm. Further inland, the equivalent figures for Tapeta are 26°C and 1935 mm, and for Nimba, the equivalent figures are 19°C and 3167 mm. (For the location of these centres, and most other places mentioned in this article, see Map 1.) Liberia is surrounded to the west by the British-influenced Sierra Leone, to the north by "socialist" Guinea, to the east by the French-influenced Ivory Coast, and to the south by the Atlantic Ocean.



MAP 1

Republic of Liberia, showing principal place names, rubber plantations and iron ore deposits. (Inset shows location in the African continent).

Liberia was first settled in 1820 on Providence Island, near where the nation's capital (Monrovia) now stands, by the American Colonization Society. These first settlers were freed American Negro slaves, sent there because it was felt that there was no place for "free blacks" in the U.S.A. About 4500 ex-slaves were sent to Liberia, and their descendants, who have no ethnic connection with native Liberians and so are called 'Americo-Liberians', are now believed to number about 30000. Despite their small numbers, the Americo-Liberians quickly became the "controllers", or the aristocracy of Liberia. They dressed as southern gentlemen from the United States, wearing climatically unsuitable top hats and tails, built houses in the style of the deep south of the U.S.A., and modelled their flag, constitution and currency after those of the United States. It is only in recent times that tribal people have had any real say in the political or economic affairs of the country.

Liberia declared its independence as a republic on 26th July, 1847, becoming the first independent republic in Africa. For almost a century, it was the only Negroid self-governing country in the world. Furthermore, Liberia is unique in Africa for having never been the colony of a European (or any other) power.

Few countries can claim greater stability and continuity of government than Liberia. The Americo-Liberian dominated True Whig Party was continuously in power from 1869 to 1980. During this period, Liberia was virtually a one-party state. In the 1928 Presidential election, the True Whig candidate won by 600,000 votes over his independent opponent, even though the total electoral roll amounted to less than 15,000. The True Whigs won by 244,937 votes to16 in the 1955 election, and by 530,566 votes to 55 in 1959.[1]

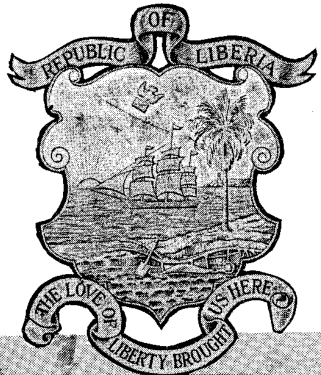
In the 1920s, the Americo-Liberian descendents of former slaves began selling native Liberians into slavery to work for the Spanish on the island of Fernando Po. The much needed "Unification Policy" as outlined by President Tubman in the 1940s stated: "All people must be united into one civilized whole. It has been proved in our lifetime that the civilized population cannot get along without the uncivilized; neither can the uncivilized get along without the civilized . . . For more than eighty years since the Founding Fathers settled here, we have tried to destroy each other by internal wars. Both sides have failed. Now let us for all time bury the hatchet . . . Americo-Liberianism must be forgotten and all of us must register a new era of justice, equality, fair dealing and equal opportunities, for everyone from every part of the country, regardless of tribe, clan, section, element, creed or economic status."[2] Nonetheless, the motto of Liberia remains to this day "The love of Liberty brought us here."

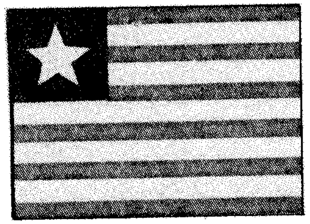
In the late 1970s, many native Liberians became increasingly dissatisfied with the True Whigs. Despite a steady growth in G.D.P. of 1.1% per annum over the preceding decade, G.D.P. per capita in 1978 had only reached $U.S.460. Several other political parties were formed, and the True Whigs were overthrown in a revolution on 12th April, 1980, with Liberia's first non Americo-Liberian leader being Master Sergeant Samuel Doe. Parliament was replaced by the People's Redemption Council (P.R.C.) of the Armed Forces of Liberia, and Liberia became a military state like so many other African nations. Although there were no Americo-Liberians in the P.R.C., there were members of the True Whig Party among its members.

FOREIGN INVESTMENT FRAMEWORK

Foreign investment can take a variety of forms, such as loans, foreign owned businesses, takeovers, and so on. All these are considered below. Foreign aid is a borderline case, but because it suggests a completely different range of advantages and disadvantages, it will not be considered here as foreign investment.

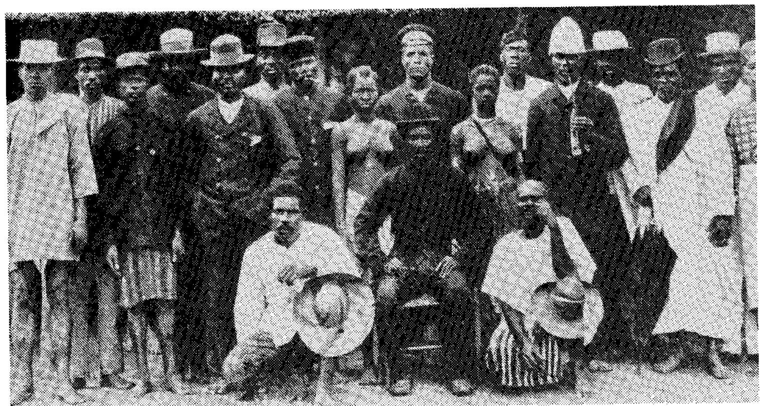
Foreign private investments in Liberia exceed $750 million, or 43% of the total G.D.P. This is an exceptionally large amount for a country of this size. Almost all this investment is sourced from the advanced capitalist countries, and over half





The flag and arms of the Republic of Liberia.

President James Cheeseman and his Cabinet (1892-1896). Although high ranking politicians, they represent Americo-Liberians in traditional dress of the day, reminiscent of the style in the deep south of the U.S.A. (Photo: Simeon Stuart).



Until very recent times, Ethno-Liberians (such as the Krus shown here) suppressed their tribal cultures, and instead tried to copy the dress and habits of the Americo-Liberians as a sign of "civilization". In this way, traditional culture entered a state of transition even before the impact of foreign investment. (Photo: Harry Johnston).

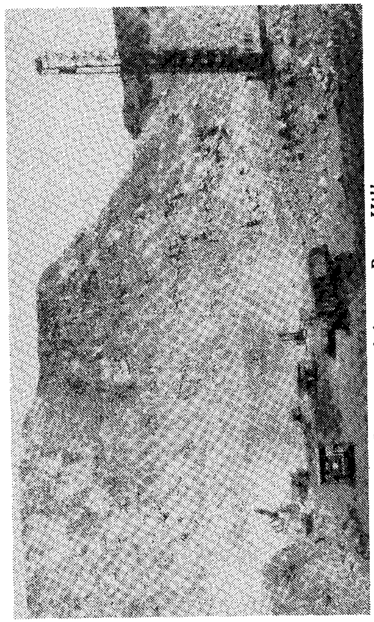
comes from the U.S.A. Foreign investment is concentrated in the rubber, iron ore and timber industries. The large level of foreign investment is directly attributable to the True Whigs' "open-door" policy, which was vigorously promoted by President W. V. S. Tubman when in power from 1943 to 1971. Before Tubman became President, the Liberian government was distrustful of overseas funds. As a result, in 1943, after 96 years as an independent republic, total national revenue was only $1.5 million, and the entire economy was dependent on one crop and one company — rubber produced by the Firestone Rubber Plantation Company. This company began operations in 1926 only on the condition that it guaranteed a $5 million loan to the Government to save it from bankruptcy.

In his second inaugural address on 7th January, 1952, President Tubman summarized his open-door policy, saying "We shall encourage foreign investments and the granting of foreign concessions where Liberians have not reached the position where they are capable and competent to explore and exploit the potential resources of the country. We shall continue to guarantee protection to investors and concessionaires."[3] Speaking about the "closed-door" policy of his predecessors, President Tubman commented "I will never subscribe to such a supercilious, shortsighted, contracted and phobic policy that paralysed industry and investment, and kept the nation in poverty, suspicion, despair, commotion and turmoil . . ."[4]

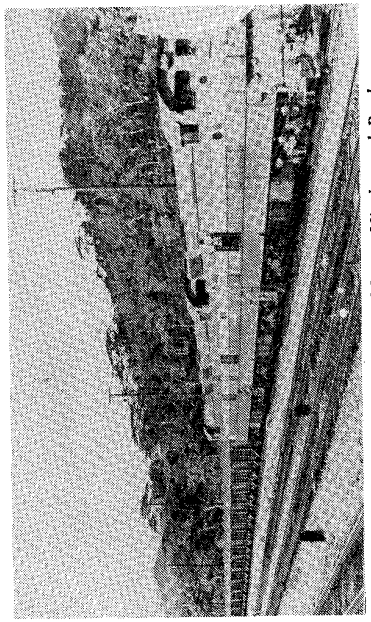
Foreign investment in Liberia is characterized by the granting of "concessions", that is, foreign companies operating in the country under the terms of individual agreements with the Liberian Government which give them special privileges and benefits. For example, in rubber production, the industry is largely oligopolized by Firestone Plantations Company (U.S.A.), B. F. Goodrich (U.S.A.), Liberian Agricultural Corporation (Italy/Netherlands), Salala Rubber (Netherlands/West Germany), the Liberia Company (U.S.A./West Germany) and the African Fruit Company (West Germany). As an example of one concession agreement, that of Firestone in 1925, the company was given the right to lease up to 404,700 hectares, which is about 4% of the total area of Liberia, at a price of 2.4 cents per hectare developed, for a period of 99 years, the first 27 of which were tax free. In 1976, this concession was re-negotiated to increase Firestone's taxation payments to the levels of other concessions.

For many years, rubber was Liberia's principal industry, but iron ore mining has now surpassed this. The iron ore concessionaires are Liberia Mining Company (L.M.C.) at Bomi Hills (U.S. ownership), Liberian American-Swedish Minerals Company (LAMCO) at Mount Nimba (Swedish-U.S. ownership), Bong Mining Company at Bong Hills and Puta Range (West German ownership), National Iron Ore Company (N.I.O.C.) at Mano River (U.S./Liberian ownership) and Liberian Iron and Steel Corporation (LISCO) at Wologisi Range. Timber concessions, which are of much less importance than iron ore or rubber concessions, include Siga Lumber Company (Switzerland/U.K.), Liberian Industrial Forest Corporation — L.I.F.C. (Spain), and Maryland Logging (U.K.). Foreign investors cannot own their concessions, but may only lease them. This is due to provisions in the Liberian constitution which state "No person shall be entitled to hold real estate in this republic unless he be a citizen of the same . . . The great object of forming these colonies being to provide a home for the dispersed and oppressed children of Africa, none but persons of colour shall be admitted to citizenship in this republic."[5]

There is further foreign investment in the Liberian Produce Marketing Corporation (L.P.M.C.), a joint venture of the Liberian Government and the East Asiatic Company of Copenhagen (Denmark). The Corporation is responsible for the buying and marketing of Liberian agricultural produce, and it has a monopoly over the export of all agricultural products. New developments are concerned with oil exploration in offshore Liberia and the Farmington River basin, and concessions have been awarded to Union Carbide, Frontier Oil and Chevron Oil.

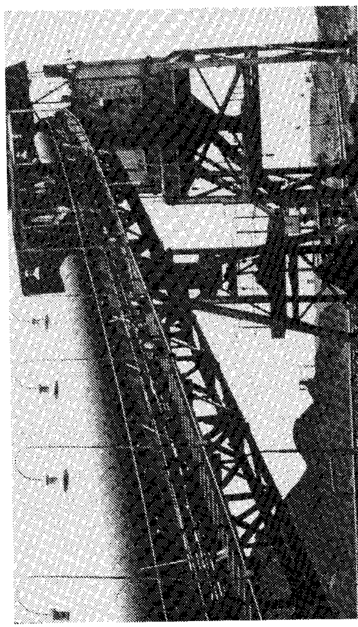


Iron ore mining at Bong Hills. (Photo: Bong Mining Company).



LAMCO iron ore train between Mount Nimba and Buchanan. (Photo: LAMCO).

Rubber tapping at Firestone's Harbel plantation. (Photo: M.I.C.A.T.).



Part of the iron ore pelletizing plant at Buchanan Harbour. (Photo: LAMCO).

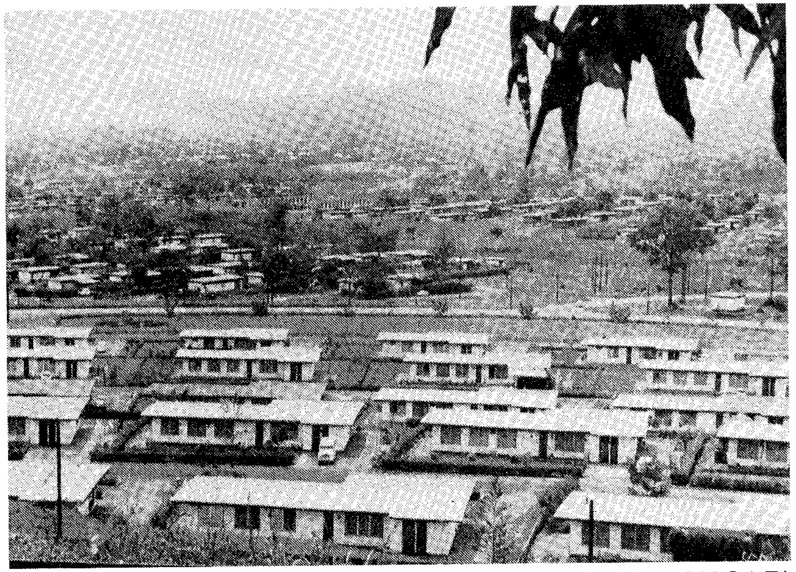
After the April 1980 revolution, Liberia was temporarily ostracized from the world community, and Sergeant Doe was successfully prevented from attending scheduled meetings of the O.A.U. (Organization for African Unity) and ECOWAS (the West African Economic Community). Consequently, foreign aid and investment came to an abrupt halt. On 30th May 1980, Sergeant Doe addressed a meeting of foreign investors at the Executive Pavilion in Monrovia, stating "We intend to strictly abide by all of our agreements and commitments to our foreign partners in progress, and wish to expand upon these friendly relations which we have already established . . . We are prepared now, more than ever, to welcome greater participation by foreign investors in our country. Our investment climate has been improved since our Popular Revolution of April 12, 1980, and the dark social clouds which hung over our economy have now been removed. All that we require and expect is that you will conduct yourselves in no less a manner than to live up to the required expectations of the Liberian masses, who are the real owners of the wealth of this country . . . The Government of the People's Redemption Council confirms its commitment to the free enterprise system of economic pursuit. There will be no nationalization."[6] He added however, "There is a great need to encourage more labour intensive industries, since nearly 70% of the population reside in the rural areas, and presently there is an unemployment rate of 23%."[7]

FOREIGN INVESTMENT FROM THE COMPANIES' PERSPECTIVES

When considering the advantages and disadvantages of foreign investment, we should first consider why a company would wish to invest money into Liberia, or examine the advantages and disadvantages of foreign investment to the company. The principal reason for the inflow of foreign funds into the rubber and timber industries was the favourability of Liberia's climate for the growth of these crops. With increasing industrialization and development of motor vehicle transportation in developed countries, demand for rubber (in particular) and timber increased, and climatically suitable sources had to be found. Thus, rubber plantations were started which were functionally part of the developed industrialized countries which provided the markets, and there was little inter-relationship with Liberia in functional terms. The earliest production of rubber in Liberia was from wild rubber trees on behalf of a British company early in the twentieth century. Then, in 1907, about 810 hectares were planted on Mount Barclay by Sir Harry Johnston's Liberia Rubber Company. The plantation was abandoned in 1920 due to poor prices. Firestone was attracted to Liberia by the very attractive concession agreement which they were able to negotiate, and because it was one of the very few places in the tropical world which had experienced U.S. influence rather than that of colonial Europe. Firestone's original plantation at Harbel (named after *Har*vey and Ida*bel*le Firestone) is currently the world's largest single rubber plantation.

In the iron ore industry, foreign capital was attracted by the huge reserves of extremely high quality. In 1980, Liberian iron ore reserves were conservatively estimated at over 1,000,000,000 tonnes, making Liberia one of the world's largest sources of iron ore. LAMCO's Mount Nimba deposits have an iron content of approximately 66%, as do the Bong Hills deposits. L.M.C.'s Bomi Hills deposits have an iron concentration of 43% to 66%, while those of N.I.O.C. at Mano River have a concentration of 54%. Where deposits are not on the surface, there is usually less than half a metre of surface soil, and this is negligible for the purpose of mining. Liberia is also particularly attractive to its European iron ore customers, having a transit time of only 10 days compared with 20 to 30 days from Goa and Brazil, the previous main suppliers.

Liberia is attractive to foreign investors for a number of other reasons. There are no restrictions on capital repatriation, 100% foreign investment is allowed and welcomed, there is no discrimination placed on foreign businesses with respect to locally owned businesses, the currency is freely convertible (national currency



Yekepa, the LAMCO-financed mineworkers' village at Mount Nimba. (Photo: M.I.C.A.T.).

Radio announcer Fannie Cole at LAMCO's broadcasting station at Mount Nimba. (Photo: M.I.C.A.T.).

remains the U.S. dollar), the country is politically stable in the long term (despite the revolution in 1980), and it is seen as "Western". Furthermore, extensive tariff protection is guaranteed, annual inflation is fairly low, labour is cheap and English is the country's national language.

ADVANTAGES OF FOREIGN INVESTMENT FOR LIBERIA

(a) Introduction of new techniques

The first advantage of foreign investment to Liberia is that it introduces new technology and "know-how" from the investing country. This can include such factors as new techniques of production, more efficient management, organization and distribution, better research facilities, and so on. However, this can also be a disadvantage, particularly if local skills are drained due to the fact that preliminary research is done overseas. There is also the loss of money in the payment of royalties, patent rights, service fees, etc. Another related disadvantage (of limited significance to Liberia) is the loss of benefits from local inventions and techniques because of preferences for "established" overseas techniques.

There are many examples of foreign investment introducing new techniques into Liberia. As a result of iron ore mining, the techniques of processing have been introduced. A $52 million pelletizing and washing plant was inaugurated in 1968 for LAMCO near the port of Buchanan, and a similar plant was opened in 1971 for the Bong Mining Company.

In rubber cultivation, the foreign concessions have introduced more productive techniques than those used by indigenous farmers (mostly Americo-Liberians). In 1970, foreign owned rubber farms produced 69% of total rubber output despite only having 47% of the total area under cultivation. This gives a productivity (production to area) ratio of 1.46 for foreign farms, compared with 0.59 for Liberian owned farms. The higher productivity of the foreign farms is largely due to the fact that they have introduced higher-yielding strains known as "proven cloves". These have been grafted on to the original trees, and this has resulted in an increase in yields from 65-90 kilograms per hectare to about 330 kilograms per hectare.

Nonetheless, the productivity of Liberian owned farms is increasing at a faster rate than the foreign owned farms, and there are several reasons for this. Prospective local rubber farmers can call upon Firestone's Plantations Department for advice. The company provides general information, assists in the development of nurseries, conducts surveys, supplies advanced strains of tree (developed by Firestone) free of charge, and can organize rubber tapping. Other technology is also introduced, such as the clerical and mechanical training given by the mining companies, and the schools run by Firestone, which have lower drop-out rates than the government and mission-run schools.

(b) Develops new resources

Another advantage of foreign investment in Liberia is that it has developed resources which would not otherwise have been developed. Liberia does not have the capacity to develop its resources without outside assistance, and therefore provides many examples of this. Indeed, one of the more frequent themes in President Tubman's policy speeches was that riches buried in the ground are valueless to an owner who cannot afford to buy a shovel. In order to invest, savings must be high, but this is impossible in Liberia because of the large portion of incomes which is needed to buy basic necessities such as food, clothing and housing. In 1971, total demand deposits were only $20.16 million[8] (or about $12.83 per head), illustrating the need for foreign capital. Thus, the rubber industry was first started by the British, developed by U.S. interests, and then developed further by a variety of foreign investors to the extent that it was Liberia's principal export for many years. In fact, Church stated that "Rubber is grown for export in Liberia, not only because of suitable climatic and soil conditions, but especially because the Firestone Rubber Company could obtain large concessions."[9] The Liberian iron ore deposits were first explored by a Dutch group, later by a U.S. corporation, and finally by the U.S. Geological Survey. Later, in the early 1960s, they were developed by a variety of U.S., Swedish and West German concerns so that iron ore has now replaced rubber as Liberia's principal export.

(c) Defence

Another advantage said to come with foreign investment is that the investing country will be more likely to help defend the recipient country in the event of war in order to protect its investments. In 1926, when the Firestone concessions were arranged, border attacks by the armed forces of the colonial powers which surrounded Liberia ceased almost entirely. During World War II, President Barclay was reluctant to align Liberia with the U.S.A. However, President Tubman's first action on becoming President was to declare war on Germany and Japan. This made Liberia eligible for Lend-Lease funds, which built the $22 million free port of Monrovia. Before it was opened in July 1948, ships had to anchor off-shore, with goods being loaded and unloaded by surfboats through the notoriously dangerous Liberian surf. This ruled out the import of heavy machinery, and made it difficult to export any commodity economically. Today, Monrovia has one of the best ports in Africa. Liberia's ship registry is the largest in the world, and ships under the Liberian flag carry more cargo in the foreign trade of the U.S.A. than those under the U.S. flag.[10] In 1979, 17% of the world's shipping tonnage was registered in Liberia, and 28% of the world's oil tanker capacity was Liberian registered. Except for two large bulk carriers, all these ships are foreign owned, registered in Liberia as a "flag of convenience", and attracted by Liberia's low registration fee of $1.20 per net registered ton and annual tax of 10 cents per net registered ton.

During World War II, the U.S.A. built, developed and maintained Robertsfield airport, which is now Monrovia's international airport. The Liberian and Sri Lankan rubber plantations were the only regular sources of natural rubber latex available to the Allies during World War II, and as a result, the U.S.A. also built roads and other defence structures throughout the country. The military understanding between Liberia and the U.S.A. is not solely to Liberia's benefit, however. Liberia provides the base for one of the world's largest Voice of America relay stations.

In World War I, Liberia's war commitments did not pay such handsome dividends, and the neighbouring colonial powers, Britain and France, remained unfriendly towards Liberia despite the fact that she entered the war on the side of the Allies in 1917. As a result of this declaration, Liberia was obliged to expel all German traders; this nearly brought the country to bankruptcy, as Germans controlled about 75% of Liberian foreign trade at the time. In retaliation for this action, a German submarine bombarded Monrovia on 10th April, 1918.

(d) Marketing

Yet another advantage of foreign investment in the development of a nation's resources is that additional exports can be gained because of additional or improved marketing affiliations. A typical example of this working in Liberia is LAMCO's contracts to sell fixed amounts of iron ore to Bethlehem Steel (a part owner of LAMCO in the United States) on an annual basis at fixed prices. Moreover, LAMCO was able to obtain contracts for over 2 million tonnes of iron ore annually to West Germany from 1964 to 1984, with options to 1999. In 1965, the second year of production at LAMCO's Mount Nimba mine, 12% of Western Europe's iron ore was coming from the mine.

"In the present state and organization of the world iron ore industry, any viable mine must be a large one, holding fixed, long-term contracts."[11] Therefore, a close relationship develops between the iron ore consumer (who is also the investor) and those interested in opening up new deposits. Many Africans see a relationship such as this as neo-colonialist exploitation, where the advanced industrialized country is the main beneficiary.

(e) Taxation revenue

Enterprises operated by foreign investors can be used by the government in the recipient country as a source of taxation revenue which can be used elsewhere in the country's development. In Liberia, the government acquires "partnership revenue" in certain large concessions, whereby the government receives a set share of net profits, guaranteeing that Liberians will benefit directly. Liberians can also gain by buying shares in some of the foreign companies; Liberia is one of the very few states in black Africa where this is possible. For example, Liberian Iron Ore offered its stocks to Liberian citizens at 80% of market price, and they were given three years to pay, without interest.[12] Table 1 gives an indication of the relative importance of different types of taxation for the most recent year for which statistics have been issued, 1968.

TABLE 1
Sources of Government Revenue, Republic of Liberia, 1968

	$ ('000)	%
Import duties	15786	30.47
Other customs charges	5414	10.52
Corporation and Partnership incomes	7290	14.07
Personal income tax (incl. Hut tax)	1656	3.20
Austerity tax	2549	4.92
Iron ore profit sharing	7649	14.77
Maritime revenues	3821	7.38
Other	7639	14.67
TOTAL	51804	100.00

SOURCE: Condensed from Shoup, C. S., *et. al.* (1970) pp. 55-58.

Some of the most important government works that have been able to have been carried out from these taxes are the building of the main trading road from Monrovia to Gahnpa and on to N'Zérékoré in Guinea, and the construction of the Gabriel Tucker Bridge in 1979, linking Monrovia with Providence and Bushrod Islands. Other important government projects include the Mount Coffee hydro-electric project, the Monrovia Sewer Project, extensions to the Martha Tubman Memorial Hospital in Zwedru, three highway projects, and numerous medical and educational capital projects.

(f) Business for local population

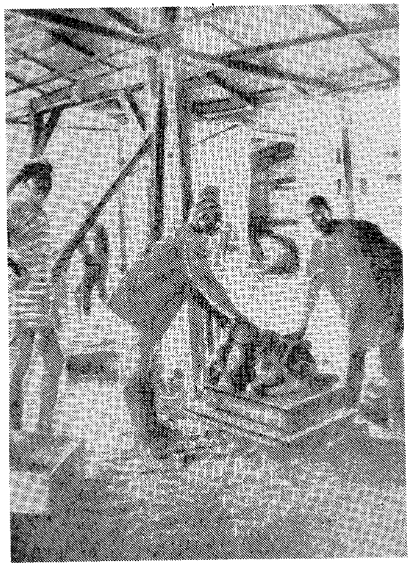
The advantages of foreign investment to the recipient country's population will be greater if the rate of profit "plough-back" by the foreign interests is high. There is a multiplier effect, where each $1 invested becomes re-circulated so that it acquires many times this value in reality. However, the impact of the multiplier effect will be diminished if materials are not purchased from the recipient country, as is often the case in Liberia. Examples of the multiplier effect in action in Liberia are provided by Firestone's purchases of millions of kilograms of rice annually from local farms, which it re-sells at subsidized prices to its employees, and LAMCO's construction of a railway from the Mount Nimba deposits to Buchanan Harbour ($60 million), and the construction of Buchanan Harbour ($35 million), both undertaken by a Liberian construction firm.

(g) Employment

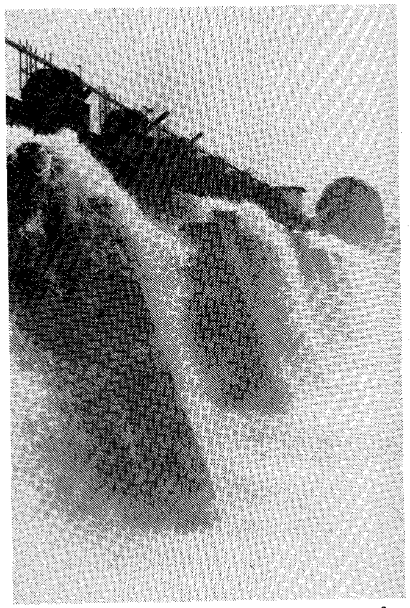
The increased economic activity arising from foreign investment results in greater employment of local people, at least in the advanced sector of the economy. In Liberia in 1978, foreign businesses employed 52,800 Liberians from a total work force of 180,000. Over three-quarters of this 52,800 were employed in the labour intensive rubber industry, and Firestone's labour force alone accounts for 50% of the 52,800 figure. In the more capital intensive iron ore industry, LAMCO employed

Transporting wood by traditional methods along a narrow pathway of the type which formed the main transport network in Liberia before large-scale foreign investment. (Photo: M.I.C.A.T.).

Timber transport, using heavy trucks and well formed roads. Much of Liberia's road network has been built by foreign investors. (Photo: M.I.C.A.T.).



Weighing rubber at Greenville in 1905. This shows the operations of the small scale Monrovian Rubber Company (later Liberian Rubber Corporation). This was the first foreign investor in Liberia, commencing operations in 1904 with British finance. (Photo: Harry Johnston).



Mount Coffee Reservoir dam, centre of a government-financed hydro-electric project, constructed largely with the royalties and taxes from foreign investors. (Photo: M.I.C.A.T.).

4355 people by the end of 1978, of whom 3593 were manual workers and 762 salaried staff. Liberians constituted over 90% of LAMCO's work force, including over 200 salaried staff. Since the beginning of the project, LAMCO has conducted a process of "Liberianization" where possible, and today the First Assistant to LAMCO's President is a native Liberian. In its "General Economic Policy", the People's Redemption Council has stated "This Government is firmly dedicated towards the Liberianization of the economy. In its Liberianization policy, the Government will place emphasis on the provision of maximum training, employment and ownership opportunities for Liberians. Needed foreign enterprise will be directed to work in a manner consistent with the rapid transfer of technical know-how of Liberians in the technical, professional and managerial fields."[13]

The employment situation is not, and has not been, as rosy as this suggests, however. The True Whig Government was generally considered to be anti-unionist. For a strike to be "legal", long, difficult and time-consuming channels had to be pursued, giving details of reasons, actions planned, and so on, and then official permission had to be awaited. There has never been a legal strike in Liberia. In February 1966, an illegal strike by 10,000 Firestone employees, demanding a basic wage of 15 cents per hour instead of a flat 65 cents per day, resulted in the destruction of latex, the setting on fire of company property and the causing of several hundred thousand dollars damage. One worker was shot to death and two others wounded when troops and strikers clashed. Unemployment continues at a very high level in Liberia.

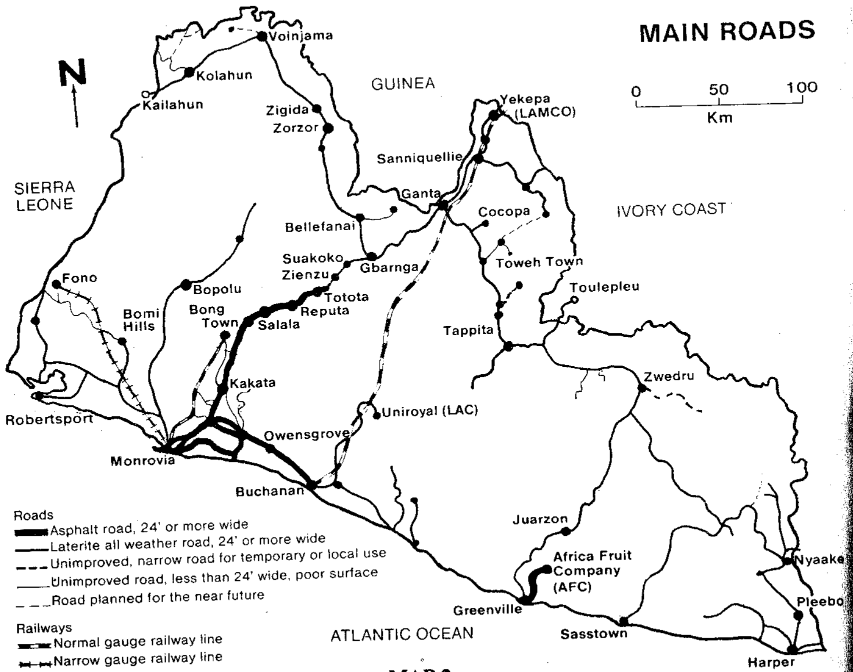
(h) Services

A further advantage of foreign investment to Liberians is the "social investment" provided by the concessionaires. As one example, 50% of LAMCO's entire financial investment of $275 million was devoted to social investment; 40% (of the 100%) was put into infrastructure in the form of roads, harbour facilities and railways. The remaining 10% was in the form of hospitals, dwellings, educational facilities, etc. Once the concession has terminated, all roads, harbours, airstrips, railways, houses, mineral rights and so on revert to the Liberian Government. LAMCO also provides free, high quality medical treatment to staff and to Liberians in general — 20% to 40% of all medical assistance is given to Liberians who are not connected directly or indirectly with LAMCO. Infant mortality rates in LAMCO's hospitals are a quarter those of the rest of Liberia. Recreational facilities provided by LAMCO include woodwork, weaving, music appreciation, ceramics, jewellery, painting, sewing, cooking, childcare, metalwork, photography, movies, dances, a cafeteria, barber shop, basketball, table tennis, football, track and field, volleyball, golf, swimming, tennis, a newspaper, radio station, etc. Other foreign concessions are similarly "high-minded", and Firestone spends as much on medical services for its 27,000 employees as the Government spends on the entire population. A typical rubber plantation has decent roads (rare in Liberia), schools, clinics, housing, workshops, laboratories, a golf course, power station, radio station, brickworks and a Coca-Cola bottling plant. (Liberians are per capita the world's largest consumers of Coca-Cola).

There are no government railways in Liberia. All Liberia's railways have been built by the iron ore concessionaires, and these railways are used for general traffic to assist other sectors of the economy. For example, timber, oil, palm and rubber are carried in large quantities along LAMCO's Mount Nimba to Buchanan line (see Map 2). Construction of roads and railways is all the more important as they are opening up some of the most remote parts of Africa for the first time. Thus, it can be seen that although the foreign concessions are generating large earnings from Liberia, they are repaying much of this in "social investment".

(i) Raising of wage levels

Foreign investment in Liberia has tended to raise wage levels. One striking example of this is provided by LAMCO — in 1968 is was paying its mechanics $1.20



MAP 2

Republic of Liberia, showing main roads and railways.

(Reproduced with permission by the Ministry of Information, Cultural Affairs and Tourism, Monrovia, Liberia)

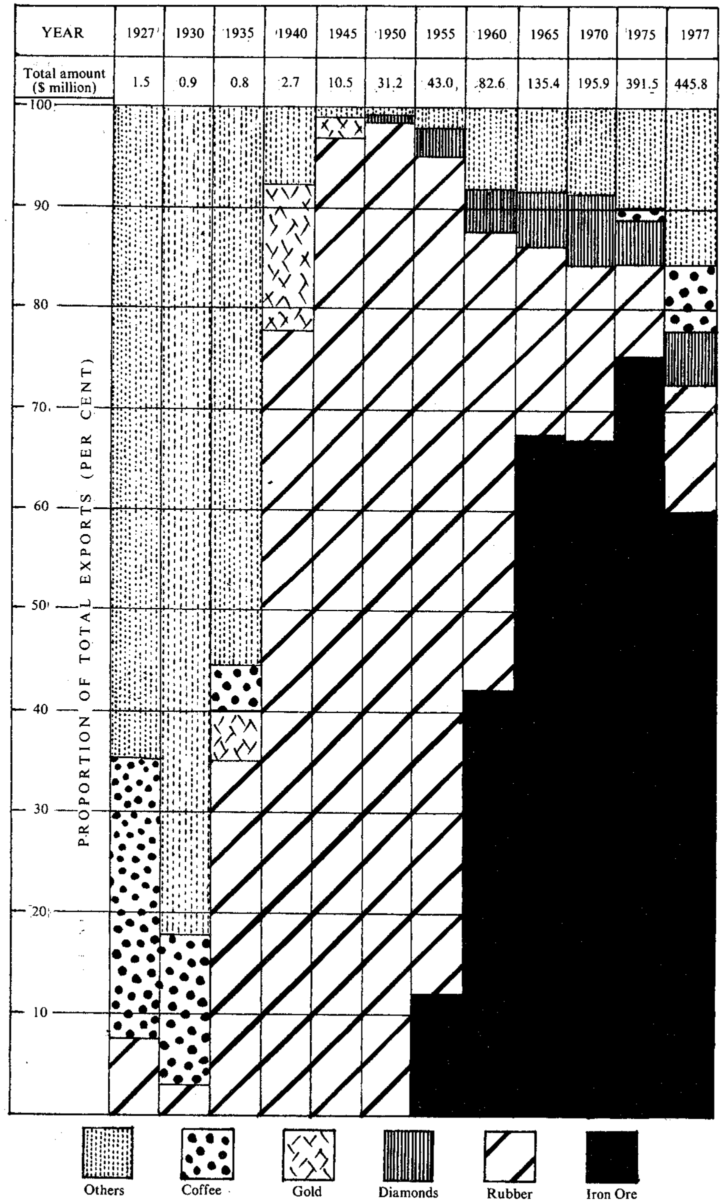
an *hour,* twice what Firestone was paying unskilled labourers per *day* six years earlier. Since that time, wage levels have doubled again, although they would be considered very low when compared to the levels prevailing in developed countries. Soon after the Revolution in 1980, the wage levels of all Government employees were raised to $200 per month, or just over $1.00 per hour.

Related to increasing wage levels is a further advantage of foreign investment — that it provides more opportunities in general for Liberians to advance themselves in the developed sector of the economy. It has provided the framework for thousands of Liberians to come into contact for the first time — tribe with tribe as well as tribe with Americo-Liberian. In 1969, the then Minister for Commerce and Industry stated "... the citizens of Liberia have acquired more and more economic security, have taken confidence in their destinies, and have acquired the feeling of dignity."[14]

DISADVANTAGES OF FOREIGN INVESTMENT FOR LIBERIA

(a) Over-dependence on a narrow range of exports

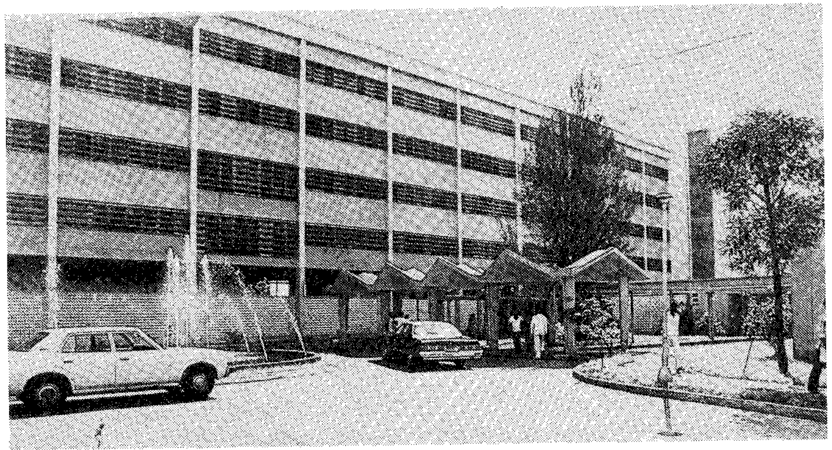
Foreign investment in Liberia has made the country over-dependent on only one or two exports in its overseas trade. This can be seen with reference to Figure 1. Despite the very dominant position of iron ore and rubber in Liberia's economy, its output is only a relatively small part (5%) of the world scene. Because of this, Liberians are price-takers, not price-setters. Obviously, any fluctuations in world commodity prices for rubber and iron ore will affect the Liberian economy greatly. Liberia has been brought to the brink of bankruptcy several times as a result of this situation, examples including the times of depressed rubber prices in the aftermath of



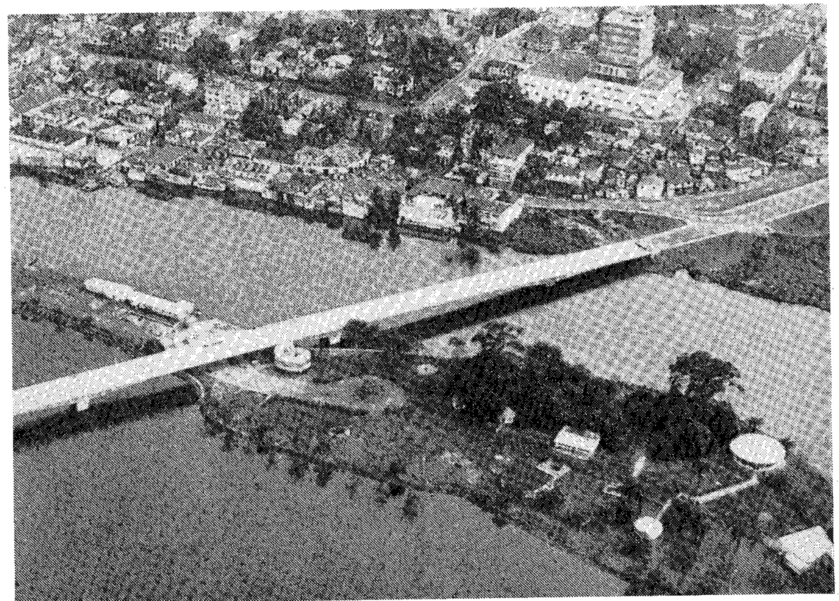
SOURCE: Derived from data in Hanson, E. P. (1947) p. 59; and Hasselman, K. H. (1979), various.

FIGURE 1

The Changing Pattern of Liberia's Exports, 1927 to 1977.



The John F. Kennedy Medical Centre in Monrovia was opened in 1971, and is Liberia's major referral centre. Along with the Martha Tubman Memorial Hospital in Zwedru, it is indicative of major public works carried out by the government designed to improve public welfare using taxes from foreign investors. The name of the Medical Centre emphasizes the continuing memory among Americo-Liberians of their nation's origins. (Photo: M.I.C.A.T.).



The Gabriel Tucker Bridge, linking Monrovia with Providence and Bushrod Islands, was opened in 1979, and provides evidence of increasing public works in Liberia, greater affluence, and increasing mobility of city dwellers with the use of private motor vehicles. (Photo: M.I.C.A.T.).

the Korean War boom, and in 1959 when iron ore prices fell by 25% due to an increase in world supply. More recently, a decline in the demand for iron ore in 1977 resulted in a substantial reduction in output, and thus revenue. In 1980 to 1981, Liberia was affected by a decline in earnings from iron ore production due to a world wide recession in steel production, coupled with a decline in rubber sales as a result of the depressed state of the U.S. automobile market. There is increasing pressure in Liberia for a diversification of land use into agricultural crops for export to overcome this situation. This would also develop export-oriented industries which are functionally more a part of Liberia rather than overseas industrialized countries.

(b) Expropriation of profits

Given that the aim of foreign investment from a company's point of view is to earn profits, it is natural to expect that these profits will be expropriated to the investing country. Streeten says of this situation "Foreign companies are sometimes accused of sacrificing the national development of the country to their desire for profits. It would be both unreasonable and possibly undesirable to expect foreign companies to act altruistically in promoting local development."[15] Firestone is fairly typical of the Liberian situation in this regard — since World War II the company's $32 million investment has been re-paid many times over, and average profit after taxes is about $15 million per annum.

(c) Destruction of traditional values

The activities of overseas companies in Liberia are to some extent breaking down much of the traditional socio-economic system, although it is doubtful if many of the traditional beliefs and customs could have survived into the last quarter of the twentieth century anyway. Traditionally, tribal Liberians work seasonally and collectively for family or village ends. This system has been broken down somewhat with the plantations enticing workers from their villages, and expecting them to work regular hours. When workers for the iron ore mines come to live at the site, their families usually come along too, and perhaps not unreasonably, expect to be supported. This can involve large numbers of people when the size of some extended families in Liberia is considered. In an effort to force these people to return to the land or to find useful employment, a vagrancy law was enacted in 1964 which allowed the mining companies to evict excess population from their compounds.

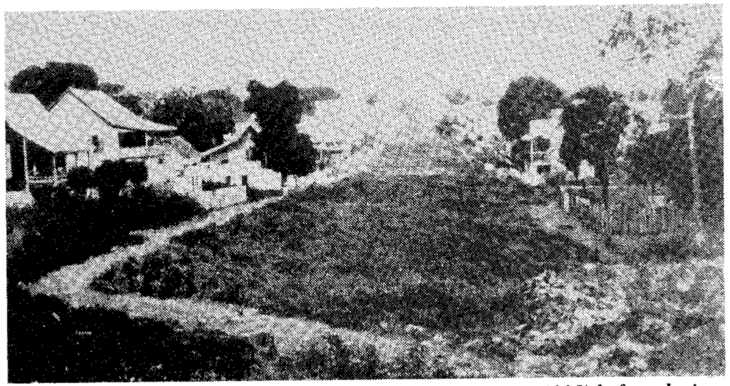
(d) Importation of inappropriate technology

When foreign investors bring new technology to Liberia, this is often done with little or no regard for the requirements of the recipient country, and can sometimes amount to little more than the wholesale import of advanced technology suited to the needs of the industrialized foreign country. The technology which is imported is usually developed in advanced economies, and is oriented towards solving the advanced countries' problems by methods appropriate to their factor endowment. In general, industrialized countries have a relative scarcity of labour and surplus of capital, whereas developing countries (such as Liberia) have a relative scarcity of capital and a surplus of labour.

Swindell has commented ". . . the most modern mechanized facilities for open-cast mining, crushing, handling, stockpiling and loading of ore have been installed at Nimba and Buchanan."[16] While this may be efficient from the points of view of the companies concerned, it is scarcely appropriate for Liberia's employment and capital endowments. Indeed, if the aim of the investors in the iron ore industry was to minimize the employment opportunities in the industry, it is difficult to see how they could better achieve it than employ the technology they have installed. The Liberian Government indirectly encourages the use of capital intensive techniques by having very low tariffs on the import of capital equipment.

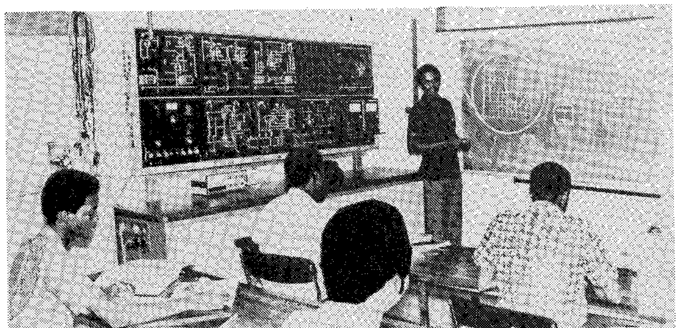
(e) Dual economy

A dual economy is said to exist when there is both an "advanced" and a "traditional" economy within the one country, operating simultaneously yet independently. Foreign investment has led to a dual economy in Liberia in which



A typical grassy street in Liberia's capital, Monrovia (circa. 1905) before the impact of either automobiles or foreign investment funds. Note the "southern states" architecture. (Photo: Harry Johnston).

The main street (Broad Street) of contemporary Monrovia shows the signs of increasing "Westernization", and greater affluence, at least in the Republic's capital. (Photo: M.I.C.A.T.).



Electronics class, conducted by LAMCO, and led by an Ethno-Liberian lecturer. (Photo: LAMCO).

there is negligible interaction between the iron ore mines, cash croppers and town dwellers on one hand, and the subsistence cultivators (producing mainly rice), tribal and village communities on the other. Commenting on the situation in Liberia, Miller and Carter commented "If . . . economic development is a process of generating investment by saving, borrowing, and/or profit making, and afterwards re-investing such funds in a continuing upward spiral, then the imposition of a dual economy, where capital and profits are withdrawn from the country, is by definition inimical to national progress."[17]

(f) Loss of sovereignty

A frequently quoted disadvantage of foreign investment is that it makes the country in some way less independent. The most obvious expression of this in Liberia is that it has allowed its strategic resources to pass into overseas hands. Apart from this, the open-door policy has provided a cover for almost total control of Liberia's commercial activities by Lebanese merchants. Furthermore, Liberia's monetary agent for many years, the Bank of Monrovia, began as a subsidiary of Firestone, and later became a subsidiary of the First National City Bank of New York. Liberia's national banking functions are now performed by the Liberian owned National Bank of Liberia.

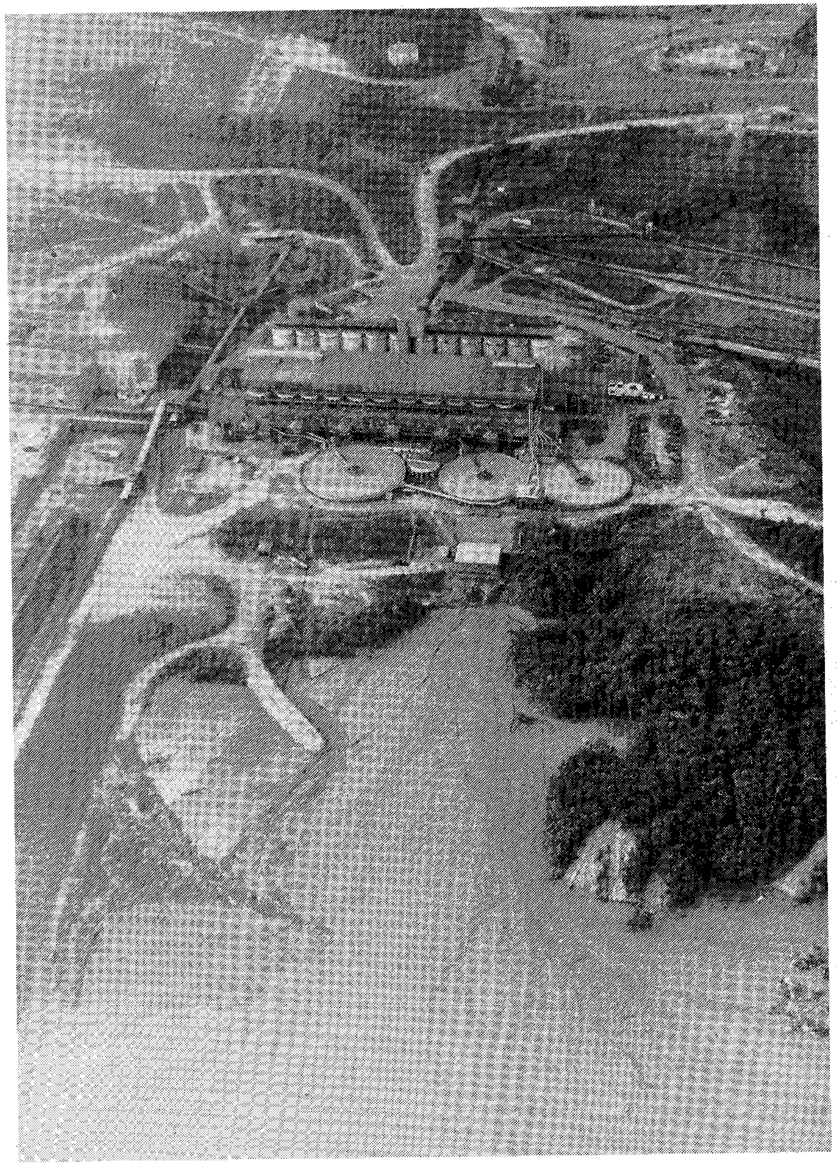
CONCLUSION

Discussing foreign investment in developing countries in general, Singer commented "the investing country, being the seat of the multi-national corporations, being the home of the developing technology, being a nationally integrated society . . . will tend to be the chief gainer from any type of relationship, whether the trade or investment involves primary commodities or manufactured goods. Vice versa, the borrowing country will not gain, except for groups which are geographically part of the borrowing country . . ."[18]

Historically, it could probably be argued that Liberia has gained more from foreign investment than it has lost. It is difficult to see any appreciable development as having taken place in Liberia since the level of eighty years ago if it had not been for foreign investment. As Gunther wrote, foreign investment in Liberia has fulfilled a necessary historical rôle.[19]

The future, however, is not quite as certain. Foreign investment in the past has not been without its problems, and the nature of these problems is such that their impact is likely to increase with the passage of time. In 1972, Miller and Carter calculated that the net cost of retaining the open-door policy as opposed to abolishing it would be between $130 million and $300 million to Liberia for the period 1969 to 1984.[20] The People's Redemption Council administration came to office proclaiming to be socialist in nature, but dependence on foreign investment for economic stability (and consequent political support) has meant a virtual continuation of the True Whigs' open-door policy. As Liebenow commented in 1981, "The greatest restraint on a drastic reformist revolution is the nature of the Liberian economy . . . A drastic departure from an economy based on state capitalism, private enterprise of the multinational corporation variety, and peasant subsistence cultivation seems unlikely in the immediate future. The continued use of the American dollar as the medium of exchange symbolizes Liberian economic dependence on external forces."[21]

Nonetheless, Liberians are realizing that foreign investment brings costs as well as benefits. The People's Redemption Council cannot appear to lean towards socialism or threaten nationalization of foreign investment without undermining the country's economic structure, probably to the point of collapse. The most they can really do to improve the situation for Liberians is to insist upon further transfers of management positions to Liberians. Liberia's new Government will have to steer a fine path of at least appearing to demand a better deal from foreign investors while still attracting the overseas funds upon which the country has become dependent for development. The open-door era must enter a new phase.



Iron ore concentrator at Bong Hills. This photograph illustrates the capital intensity of iron ore mining in Liberia, and the changes it has forced upon the rainforest-dominated natural environment. (Photo: Bong Mining Company).

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