SECRET

elease 2006/11/06 : CIA-RDP79-00927A004100010003-5

14 June 1963

OCI NO. 0284/63A
Copy No. 73

SPECIAL REPORT

OFFICE OF CURRENT INTELLIGENCE

THE CONGO ECONOMY

CENTRAL INTELLIGENCE AGENCY

MORI/CDF Pages 1-10

NO FOREIGN DISSEM

SECRET

GROUP I Excluded from automatic downgrading and declassification

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

DISSEMINATION CONTROLS

This document MUST NOT BE RELEASED TO FOREIGN GOVERNMENTS. If marked with specific dissemination controls in accordance with the provisions of DCID 1/7, the document must be handled within the framework of the limitation so imposed.

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

14 June 1963

THE CONGO ECONOMY

The Congo is potentially a wealthy country. It possesses an eighth of the world's known copper reserves, much of its cobalt, and four fifths of its located industrial diamonds. Most of the land is fertile and not overpopulated, with less than 15 persons per square mile. The Congo's rivers could generate a fifth of the world's hydroelectric power, and its forests are largely uncut. Despite three years of political turmoil since the country received its independence, most of the Belgian-built economy still functions. The development of the country's economic potential, however, is increasingly threatened by Congolese financial mismanagement and by the Leopoldville government's inability to establish its authority outside the capital or to control the unruly Congo Army.

Production Situation

In the aftermath of independence, which arrived on 30 June 1960, most Belgians and other Europeans fled. The economy they deserted was and remains highly centralized organizationally. A few big companies do most of the business and earn most of the foreign exchange. The Europeans, many of whom have returned, still run the companies; in spite of a program of "Africanization," technicians and managers are largely foreign, workers Congolese.

The surest way to make money in the Congo is to dig for it. In 1959, out of $460 million in exports, $270 million were earned by the mines, and work has continued in spite of mutinies, secessions, and wars. The value of some other exports has sharply decreased, but earnings from minerals, except tin and gold, have remained almost constant.

The most profitable pits are in southern Katanga, where the gigantic Union Miniere de Haut Katanga (UMHK) operates, often refining and smelting the metals unearthed. The company's smelters produced a twelfth of the world's copper in 1962--295,000 tons--an increase of five percent over UMHK's 1959 production. Similarly, cobalt production rose by a sixth to almost 10,000 tons, well over half the world's total. Last year, approximately a quarter of a billion dollars worth of minerals was shipped from the area.

The Union Miniere comfortably weathered last January's fighting. Despite Tshombé's threats of scorched earth, only a few detonators were actually exploded on company property. One power substation was wrecked, but the four main hydroelectric plants supplying the UMHK's power were unscathed. Most damage was to power lines and bridges.

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5


REPUBLIC OF THE CONGO
International boundary
Colonial province boundary
National capital
Colonial province capital
Smuggling activity
*ETR = Estimated time of repair
0 100 200 Miles
0 100 200 Kilometers
33516 14 JUNE 1963
CAMEROON
RIO MUNI
GABON
CENTRAL AFRICAN REPUBLIC
SUDAN
UGANDA
RWANDA
BURUNDI
TANGANYIKA
ANGOLA
(Port.)
FEDERATION OF RHODESIA AND NYASALAND
(U.K.)
MOZAMBIQUE
EQUATEUR
ORIENTALE
KIVU
KASAÏ
LÉOPOLDVILLE
KATANGA
BANGUI
Bangassou
Bondo
Titule
Aketi
Bumba
Mungbere
Juba
Gulu
KAMPALA
Entebbe
Kasese
Beni
Stanleyville
Ponthierville
Coquilhatville
Lomela
Kindu
Symetain
Bukavu
KIGALI
USUMBURA
Uvinza
Kigoma
Tabora
Franceville
BRAZZAVILLE
LÉOPOLDVILLE
Pointe Noire
Tshela
Thysville
Matadi
Boma
Port Francqui
Kikwit
Luluabourg
Miba Bakwanga
Kongolo Bridge ETR* Feb. '65
Kabalo
Albertville
Mpanda
Lubilash Bridge ETR* Sept. '63
Manono
Geomines
Kamina
Lualaba Bridge ETR* July '63
Pweto
Kasama
Dilolo Gare
Kolwezi
Tenke
Union Miniere
Jadotville
Elisabethville
Chingola
Ndola
Luanshya
Broken Hill
LUANDA
Barra de Dande
Dondo
Malanje
Porto Amboim
Lobito
Benguela
Nova Lisboa
Vila Serpa Pinto
Sá da Bandeira
VICICONGO
OTRACO
CFL
BCK
BCK Route Nationale
COTTON
PALM OIL
COFFEE
Consumer Goods
Cotton
Gold, Cotton
Coffee
Palm Oil
Ivory, Tea, Coffee
Cotton, Ivory, Coffee, Gold
Diamonds, Gold, Ivory, Coffee
Goods of All Varieties (each way)
LAKE ALBERT
LAKE EDWARD
LAKE VICTORIA
LAKE KIVU
LAKE TANGANYIKA
LAKE MWERU
LAKE BANGWEULU
LAKE RUKWA
BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

To the north, the large rail bridges over the Lualaba and Lubilash were rendered inoperative, closing again the "Route Nationale" between Katanga and Leopoldville. Only about 28 percent of Katanga's minerals were ever exported over the Route Nationale and the main mineral exit route through Angola was reopened in February. Power lines were quickly restored.

East of Luluabourg, in Kasai Province, is the town of Bakwanga, site of the MIBA company, producer of four out of five of the world's industrial diamonds. In 1962, MIBA produced 14 million carats, about the same number it extracted in 1959, despite the tribal wars that have raged around Bakwanga.

Three hundred miles north of Elisabethville is the GEOMINES complex at Manono in northern Katanga; three hundred miles above that are the SYMETAIN works of Kivu. These two companies mined almost a tenth of the world's 1959 tin production. Production has seriously declined--1962 tonnage was only slightly over half that of 1959 --but the plants are intact.

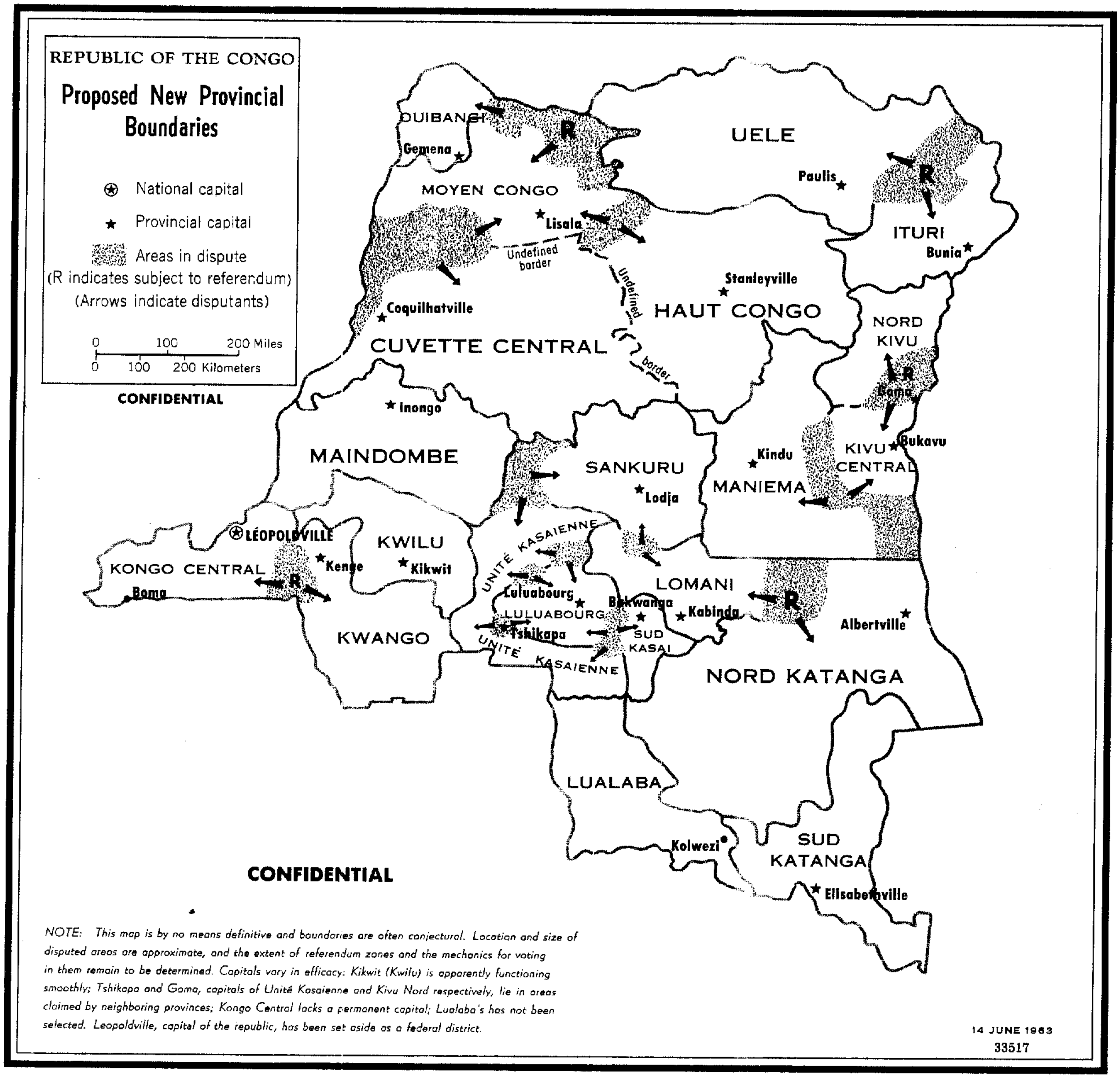
Before independence, a third of the Congo's foreign exchange was earned by agricultural products--chiefly coffee, cotton, and palm products. Europeans own the big plantations, Congolese the smaller farms. The former are holding their own while the latter have gone broke or out of production largely because of the lack of European assistance and trading facilities. Palm products, used in margarine, soap, and livestock feed, are exported now in almost the same quantities as before independence, because palms grow on large, easily accessible plantations along the rivers of the northern provinces. Boats still running on the inland waters carry the crop down to Leopoldville for shipment to the sea.

The plantations--many connected with UNILEVER, a subsidiary of the British Lever combine --are self-sufficient. A typical plantation in Equateur Province covers 24,000 acres and has its own missionary-taught schools (part Roman Catholic and part Baptist) and its own housing, cement works, and 320-bed hospital. Over the past three years the farm has assured its workers of enough to eat by either importation or local procurement. Its trucks have been kept running by company garages, although spare parts are rationed. Roads necessary for production are repaired by plantation crews. As yet unaffected by tribal strife developing to the south, the plantation produces more today than it did in 1959.

Before independence, coffee was second only to palm products among agricultural exports. There are two types of Congolese coffee: Arabica and Robusta. The former is grown exclusively by Europeans on large farms in the eastern highlands of Kivu and Orientale, and in spite of disturbances in eastern Kivu

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5



NOTE: This map is by no means definitive and boundaries are often conjectural. Location and size of disputed areas are approximate, and the extent of referendum zones and the mechanics for voting in them remain to be determined. Capitals vary in efficacy: Kikwit (Kwilu) is apparently functioning smoothly; Tshikapa and Goma, capitals of Unité Kasaienne and Kivu Nord respectively, lie in areas claimed by neighboring provinces; Kongo Central lacks a permanent capital; Lualaba's has not been selected. Leopoldville, capital of the republic, has been set aside as a federal district.

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

caused by various tribes vying for power in the newly formed provinces, these European planters produced about as much Arabica coffee last year as they did in 1959. Growers of Robusta --mostly Congolese on small, marginal farms scattered throughout the country--have not maintained previous levels of production.

Immediate Difficulties

Most of the conditions threatening the stability of the Congo economy still exist, and may become more acute. The Leopoldville government's authority does not extend much beyond the city limits. Although scheduled to be retrained and reorganized, the Congo National Army (ANC) is as undisciplined as ever. Ineffective as a dependable arm of the government, it has often joined rather than quelled tribal disturbances, and creates more trouble than it allays. Short of funds, food, beer, or equipment, it requisitions what it wants and generally terrorizes the local population, both European and Congolese.

This January, for example, Congolese soldiers in Kasai stole 40 MIBA trucks to pursue nearby enemies; in their rampage, the soldiers laid waste to a broad swath of territory west of Bakwanga. The ANC "conquerors" of Katanga in the wake of now-departing UN forces are making life uncomfortable for UMHK employees. On 15 May, hundreds of European workers took to the streets of Jadotville and went on strike to protest the fatal clubbing of a Belgian by ANC members. With UN troops scheduled to leave at the end of this year and possibly even before--and certainly before the ANC can become a responsible guarantor of law and order--a continuation of such incidents could precipitate an economically crippling exodus of Europeans.

The increase in the number of provinces, voted during the past year by the Leopoldville legislature, compounds the Congo's economic problems. Instead of six expensive and corrupt provincial administrations, there now are at least twenty-one. Originally created to reflect tribal paramountcies, the new provinces cause internecine troubles within the provinces and boundary disputes among them. The hitherto peaceful Equateur area is now the scene of developing power struggles. The old provinces of Kivu and Kasai have dissolved into eight warring segments. The proposed Lualaba province in Katanga not only portends tribal disruptions, but also cuts the Union Miniere concession into two major parts, a division which in the future will doubtless cause tax disputes. As the new provinces quarrel and divide, their responsibilities are neglected.

Political troubles, and the accompanying breakdown of administration, are major factors in the disruption of the country's transport system--a particularly serious problem. Most roads,

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

maintenance of which is the responsibility of the provinces, have not been repaired since independence. Relatively small companies like GEOMINES and SYMETAIN, remote and dependent on trucking, have been especially vulnerable to the highway deterioration. Prevented from sending tin north by rail because of the destruction of the Kongolo bridge in North Katanga, GEOMINES has been forced to ship its product over ill-kept roads to Albertville in the east. A casualty of tribal wars and the worsening roads, SYMETAIN production has virtually ceased.

The smaller, isolated agricultural enterprises have been injured likewise. When Congolese farmers succeed in growing Robusta coffee, the scarcity of trucks and the impassable condition of provincial highways prevent them from getting the crop to market. Cotton, which once earned the Congo almost $30 million a year, has similarly suffered. In Orientale Province, where much of the cotton is raised, the area's transportation company, VICICONGO, can field only half its fleet of 525 trucks; the rest sit in garages, awaiting repairs, while parts and gasoline are smuggled out across the border to Uganda, whose shillings are a more respected currency than Congolese francs.

Smuggling, increasingly widespread since 1959, has become a major drain on the foreign exchange earnings and export tax income of the central government. Corrupt and inefficient customs officials allowed almost the entire 1962 crop of Arabica coffee, like most of Orientale Province's cotton production, to slip out of the country eastward to Uganda and Rwanda. Diamonds, estimated in the millions of carats, have been stolen from MIBA concession lands and other Kasai areas and smuggled across the Congo to Brazzaville by truck and by plane. An Amercian customs advisory team touring Congolese border posts earlier this year found confusion, extremely lax procedures, and evidence of wholesale bribery of Congo border guards.

Government's Economic Burdens

Leopoldville is not only the seat of the central government, but also serves as depot, factory, and bank for the entire country outside Katanga. As a depot, it collects products coming from the interior, loads them on trains, and sends them past the rapids in the lower Congo River to Matadi, the Congo's biggest seaport. As a factory the city turns out Congolese-produced consumer goods--textiles, beer, soap, shoes, and cigarettes. As a bank it controls the country's finance.

Leopoldville performs its first two functions satisfactorily. Although trains are slow and crates get lost, the 227-mile Matadi-Leopoldville line is presently able to carry the traffic that accumulates at either end. The manufacture of consumer goods in the Leopoldville

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

area has increased 30 percent since independence.

As banker and financial manager, however, Leopoldville has been a nearly disastrous failure. Inflation threatens to become runaway. On the free market in 1959 the dollar could buy 50 francs; today it can purchase over 300. Internal prices are in a sharp uphill curve. Since the end of 1962 price inflation in the Leopoldville area has reached a monthly rate of 10 percent and shows every sign of accelerating.

The rise in prices is accompanied by expanding pressure on the balance of payments and a widespread evasion of foreign exchange controls. As local money declines in value, individuals, small companies, provincial authorities, and even branches of the central government disregard the Congo government mechanism's control over the inflow and outflow of harder currencies. The increased tendency to deal directly with the outside is also reflected by the rampant smuggling. Foreign exchange leakage, chiefly in the form of illegal transfers abroad, was estimated at over 2.5 billion francs in 1962. Last year's balance-of-payments deficit of 6 billion francs was principally financed from aid and from the depleted Congolese foreign exchange reserve. Half of the Congo's imports last year were externally financed.

The basic cause of inflation is the imbalance of the central government's receipts and expenditures. For every franc the government receives, it pays out almost five--4.2 billion Congolese francs were collected in 1962 while 19.7 billion were spent.

Part of the reason for the situation is the centralized banking system the Congo inherited from the Belgians. A central bank handled expenditures as well as receipts throughout the country. Payment orders presented to bank branches by authorized agents were automatically honored, and branches were immediately replenished from Leopoldville. The system worked under the Belgians because it was accompanied by careful control of provincial agents and expenditures. After independence, the system remained but controls vanished. Payment orders have multiplied, and to keep up with demand, the central bank issues new currency. It has been estimated that since independence, there has been at least a threefold increase in the money supply.

The two biggest recipients of the central government's snowballing expenditures are the army and the provinces. The cost of the army, whose dubious loyalty has had to be bought, since independence rose nearly 500 percent between 1959 and 1962, as army salaries mushroomed and army rolls increased. One fifth of the government's outlay is on the military.

Transfers to the provinces account for more than half of

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

government expenses. As in Leopoldville, large amounts of money are lost to corrupt politicians. Most of the rest is spent on education. Although large numbers of Congolese children attend school, few get past primary grades and many dropouts sink back into illiteracy. A large proportion of the money disbursed to schools thus does not bring the economic return that it might.

Government revenues have increased since independence, but the pace of advance is slow compared to the rise in outlay. New income from the UMHK, which started paying its taxes to the central government last January when Katanga's secession collapsed, increases government intake, but not enough to appreciably affect the imbalance.

The effects of continued inflation could be dangerous. Expansion of prices has not been attended with a concomitant increase in wages. Although salaries paid to members of Parliament and soldiers in the army are vastly higher than before, wages earned by industrial workers and teachers, for example, have risen comparatively little. It was estimated last October that the purchasing power of an unskilled laborer in Leopoldville had declined 23 percent since independence. Doubtless, his real earnings are even less today.

With a large influx of new money into the economy expected, the two main ties that bind the provinces to Leopoldville may fray or break. The first, central government subsidy, wanes in value as money cheapens. The second, the army (Leopoldville's only physical method of forcing obedience), may lose its flimsy allegiance to the central government if it discovers local prices are outpacing its wages. The future will undoubtedly bring further demands of autonomy from the provinces if inflation goes unchecked.

Even if current difficulties were resolved, a background of older problems remains. There was a public debt of $900 million as of independence day, due in part to large deficits incurred by the Belgian colonial administration in 1958 and 1959, in connection with what was to have been a ten-year development plan. At present much of the debt is being serviced by Belgium, whose bill this year will be approximately $60 million in interest payments alone. Belgium has no intention of picking up this tab indefinitely, however, and now is attempting to get the Congo to assume part of the load. A burden of this size would be heavy on the Congo even if its economy were stable.

Furthermore, for all its potential wealth, the Congo is today a poor and underdeveloped country. Per capita income is still less than $50 a year, and trained administrators are few. It is estimated that the country will need $175 million this year from outside sources merely to stay afloat economically, and there is little prospect that the strong executive political authority necessary to make effective use of the government's resources will develop soon. (CONFIDENTIAL)

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5

Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5
SECRET

SECRET
Approved For Release 2006/11/06 : CIA-RDP79-00927A004100010003-5