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DIRECTORATE OF INTELLIGENCE

Intelligence Memorandum

The Economy of Congo (Kinshasa): Trends Since Independence and Prospects

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June 1968

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
June 1968

INTELLIGENCE MEMORANDUM

The Economy of Congo (Kinshasa): Trends Since Independence and Prospects

Summary

The measures initiated one year ago by President Mobutu of Congo (Kinshasa) to stem inflation, stimulate exports, and liberalize imports have helped to halt an economic decline which had been almost continuous since independence in 1960. There is little hope, however, that the Congo can reverse the trend and acquire either the capital or the skills needed to support a significant economic development program. Indeed, the prospects favor moderate economic deterioration over the next few years.

The lack of administrative, technical, and managerial skills will continue for many years to be the highest barrier to economic recovery and growth. An adequate number of skilled expatriates cannot be induced to work in the Congo because of the absence of physical and economic security. Although many native Congolese are being trained, a decade or more will be required before there are enough of them to make a difference.

Large amounts of aid would be necessary to restore the transport network, to increase agricultural output, and to reintegrate scattered centers of economic activity. But aid of the required magnitude is not likely to be found. Although

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

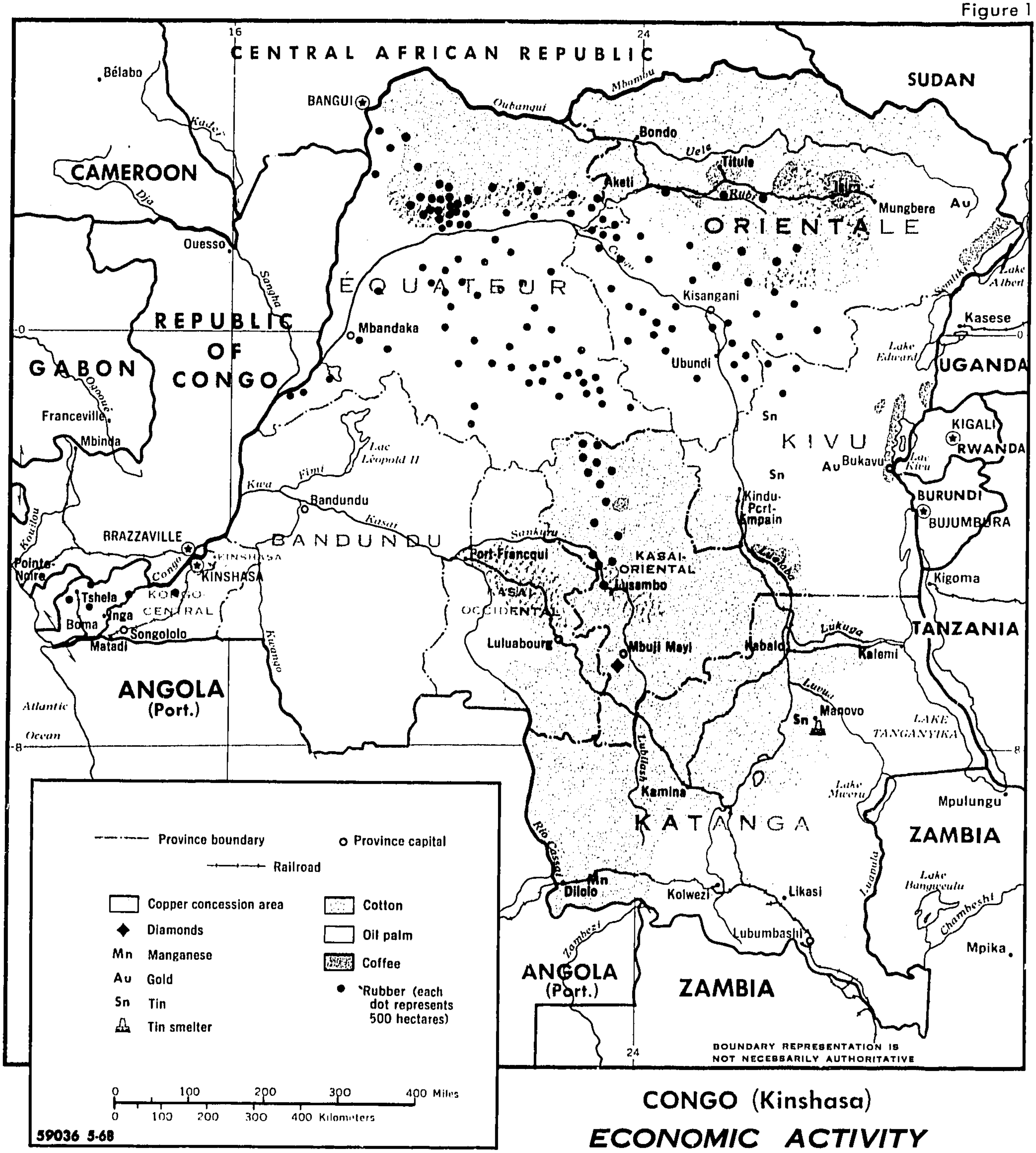
substantial assistance from Belgium and the United States is expected to continue, most of this is required to maintain current levels of activity. Private foreign capital investment will continue to be discouraged by internal instability and by relatively unattractive prospects in both the domestic market and the world market for the country's most exploitable resources. Since Congolese tax rates are already among the highest among the underdeveloped countries, prospects for increasing local funds for restoration and development are dim.

At independence, Kinshasa inherited one of the most advanced economies in sub-Saharan Africa, with a well-integrated and efficiently run infrastructure, abundant natural resources, thriving agriculture, and an expanding mining sector. But there were no native Congolese in the upper echelons of either government or business, and it took more than 100,000 Belgians -- administrators, mining engineers, plantation owners, technicians, and teachers -- to hold the complex economic structure together.

By the end of 1960, perhaps 60,000 Belgians had fled, many in fear for their lives, and with them went the vital skills without which the Congo could not properly function. The whole structure began to disintegrate, and elementary security evaporated in the wake of tribal revolts and army mutinies. During the years of administrative chaos and recurrent hostilities that followed, the transport network deteriorated badly -- less from physical destruction than from neglect. Agricultural exports fell to about half their preindependence levels as transport bottlenecks and periodic warfare destroyed incentive to produce for export. Corruption and inefficiency in government administration exacerbated the situation, budget deficits mounted, inflation was rampant, and unemployment soared. By the end of 1967 the real wages for those who had jobs averaged only about 40 percent of the 1960 level.

Two factors kept the modern economy from collapse after independence in 1960: more than a billion dollars in foreign aid and the continued near-normal operation of the copper mining industry. As other sectors of the economy declined, the copper industry assumed an increasingly important role; by 1966 it was providing about 70 percent of total exports and 50 percent of government revenues. The only area benefiting from the chaos has been the lower Congo region, which includes Kinshasa. Here, small-scale African farmers and local manufacturers increased their output to meet the requirements of the rapidly growing population of the region and to offset the sharp decline in foodstuffs available from other regions.

Figure 1



CONGO (Kinshasa)

ECONOMIC ACTIVITY

The Congolese Economic Inheritance

1. At independence on 30 June 1960, the Congo had the most modern economy of any country between the Sahara and South Africa. (For a map of Congo (Kinshasa), see Figure 1.) The Belgians had established large, relatively efficient plantations, mining complexes, and industrial plants and the infrastructure to support them. Although the foundations of this economy were laid during the half century preceding World War II, the most ambitious development period in the Belgian Congo occurred in the decade and a half after the war, when more than $2 billion was invested to greatly expand existing economic and social facilities. Gross investment averaged about one-fourth of gross national product -- a rate matched by few other countries in the world.

2. The Congo's wide variety of natural resources spurred development in the years before independence. Rich mineral deposits in southern Katanga have long been an important world source of copper and zinc and the leading source of cobalt. Industrial diamonds from Kasai now account for three-quarters of the Free World's total output. Marked variations in climate ranging from tropical to temperate permit a considerable range of products such as palm oil, coffee, cotton, corn, wheat, and garden vegetables. Extensive tropical forests provide large quantities of valuable timber, and the Congo River is one of the world's leaders in hydroelectric potential.

3. The productive areas are located mainly along the periphery of the country, which is about the size of the United States east of the Mississippi River. Most of the interior Congo Basin is thinly populated and heavily wooded. The long distances and difficult terrain separating economic centers make it difficult to shape a country-wide economic unit. In an effort to overcome these problems, the Belgians spent about $400 million during the 1950's to improve transport links. The enclaves of modern economic activity are the Katanga Copperbelt in the south, the rich farm area of the temperate eastern highlands, and the tropical plantations of the northeast and lower Congo area around Kinshasa, which is also the hub of transport and commercial services and the site of many consumer industries. Most of the Congo's foreign

trade funnels through Kinshasa to Matadi, the country's only major ocean port.

4. Few other colonial powers involved the native inhabitants as fully in the economy as did the Belgians toward the end of the colonial era. Although Belgians constituted the entrepreneurial class, Europeans were excluded from many jobs. In the late 1950's, for example, Congolese drove trains and operated power shovels, in contrast to British-ruled Northern Rhodesia (now Zambia), where the local population was considered capable of only menial tasks. As a result of these efforts, more than a million Congolese were wage earners, and, of these, more than three-quarters were engaged in urban occupations. Another million of the estimated 1960 population of 13 million was drawn from the traditional subsistence economy into a Belgian-organized quasi-modern agricultural system -- the *paysannats indigene* -- which considerably raised the participating Congolese standards of living. The average real income of the Congolese more than doubled in the 10 years prior to independence, and there emerged a middle class, including building contractors, tradesmen, small manufacturers, and transport contractors. In addition, the country had relatively well-developed health, administrative, police, and educational systems. For example, in 1959, almost four-fifths of the children of elementary school age attended class, whereas in French African colonies the ratio was about one-third.

5. Congolese involvement in the economy, however, stopped short of the higher levels of industry and administration. Belgian planning assumed indefinite colonial rule and very slow political advance, and in 1959, when Brussels reversed its colonial policy and promised independence, there were no Congolese engineers and no Congolese in the upper levels of the government. The economy and the social services were almost entirely dependent on the skill, knowledge, and experience supplied by more than 100,000 Belgian and other white expatriates. The absence of Congolese trained to cope with -- or even understand -- the managerial problems of an economy as complex as the Congo's has been a major cause of many serious postindependence difficulties.

Seven Years of Deterioration and Stagnation

6. Within a week of independence, the authority of the central government throughout the Congo had almost completely collapsed. Provinces declared themselves independent, tribal warfare became widespread, and whites were beaten and killed by Congolese stirred up by the government's antiwhite propaganda. Some 60,000 Belgians fled and modern economic activity dropped sharply.

7. By mid-1963 with UN aid a semblance of order was restored, and many Belgians returned, but confidence soon evaporated as the "Simba rebellion" of 1964 and 1965 took place. The rebels, with technicians and weapons supplied by radical African and Communist countries, controlled and terrorized almost a quarter of the country. The Congo government regained control in early 1966 with the use of white mercenaries, but security deteriorated again in July 1966 with the revolt of Katangan troops and later with the mercenary-led rebellion of 1967. Moreover, security in many areas controlled by the Congolese National Army (ANC) has been weak or nonexistent, and in some instances the Army itself, which lacks effective leadership, has pillaged and destroyed.

8. The Belgian expatriates suffered enormous losses but they could and did leave the country while the Congolese, who also fared badly, lacked the option to leave. Congolese who had been drawn into Belgian-organized agricultural schemes were driven from them, either to return to subsistence production or to swell the ranks of the urban unemployed. Some have been absorbed by the rapidly expanding government bureaucracy, but most remain without any permanent jobs. For those Congolese who have jobs, money wages have increased since independence, but prices have risen much faster, and real wages by the end of 1967 were about 40 percent of the 1960 level. Throughout the country, but especially in rural areas, social services, including medical services, have deteriorated markedly.

Changes in the Economic Structure

9. Basic structural changes have been wrought by seven years of deterioration. Before 1960,

large Belgian-based holding companies controlled most major productive enterprises, and individual Belgians owned the numerous small shops that handled much of the trade and services. Both groups had a relatively free hand in running their businesses. Under Congolese rule, however, economic policy has been to remove the Belgians from positions of control and to put Congolese in charge whether or not they were ready for it. As a result the momentum of development was quickly halted. Those Belgian businessmen who stayed on did so mainly to protect their remaining investments. For many urbanized Congolese, undisciplined in business management, graft and corruption have become a way of life.

10. The Belgian Congo's highly developed financial structure has been undermined. The colonial Congo franc was, except for temporary restrictions in capital movements, freely convertible into Belgian francs. Leopoldville had financed a large part of its massive development efforts with loans guaranteed by Brussels. Moreover, the colony's well-run public finance system usually had generated sufficient revenues to meet regular government spending and to finance some development as well. When cut off from the discipline enforced by Brussels, the Congolese financial system succumbed to the stress of local events. Payrolls were swollen grotesquely, and poor fiscal controls, combined with declining revenues, resulted in large budget deficits. For the first three years of independence, half of government expenditures were financed by deficit spending.

11. The Congo economy has been further weakened by inflation. Large budget deficits since independence pumped money rapidly into the economy while the supply of goods available declined, and as a result the cost of living rose sixfold between mid-1960 and mid-1967 (see the chart, Figure 2). Concurrently there was a sharp drop in the international free market value of the Congolese currency. Nevertheless, the government maintained an artificially high official exchange rate through most of the postindependence period, thereby causing an increasingly severe cost-price squeeze for exporters, whose production costs soared while export revenues remained constant. As a consequence, many exporters turned to smuggling. Illicit exports of agricultural products and diamonds grew rapidly and have amounted

to perhaps $40 million or $50 million annually for the last few years. The unrealistic exchange rate also increased the demand for imports, because in terms of local currency the prices of imported goods were artificially low. At these low prices, demand for imports was greater than the economy could support, and import controls were imposed. The Congo's import control system soon became ridden with corruption and hampered by bureaucracy, causing long delays in the receipt of goods.

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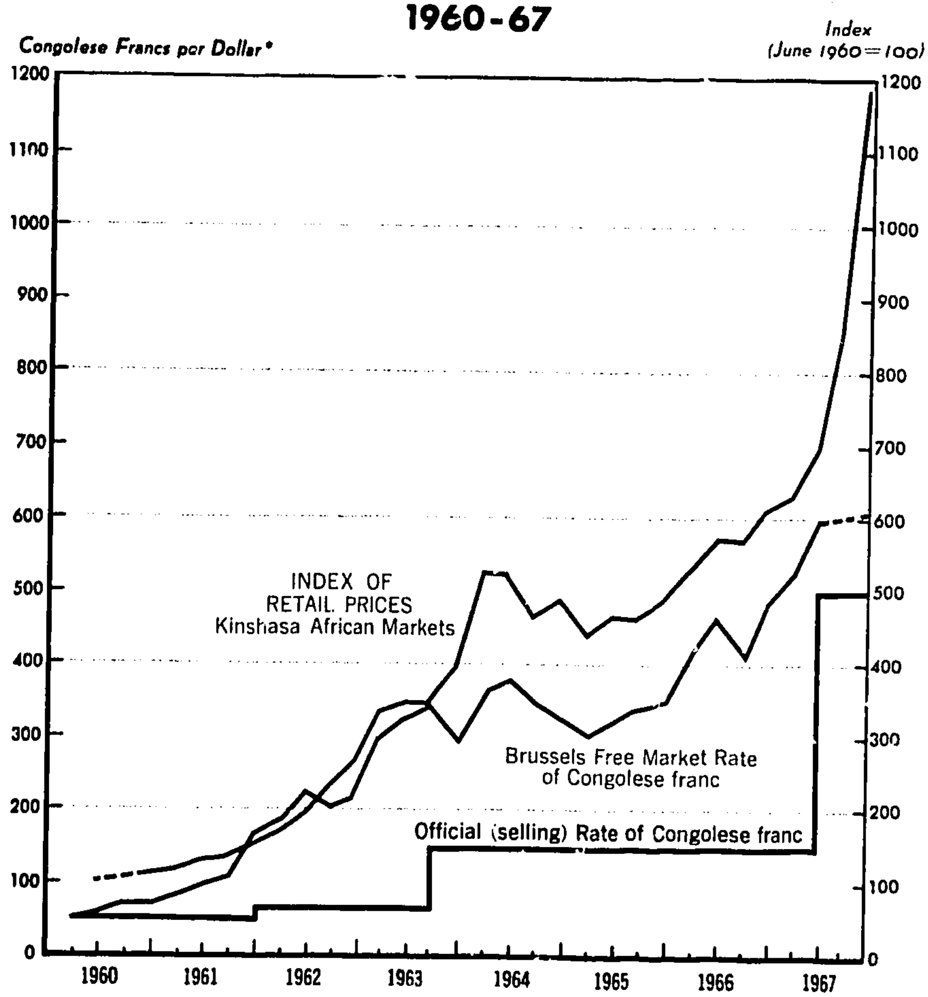
Figure 2

Congo (Kinshasa): Monetary Indicators
1960-67



*In June 1967, a new monetary unit (the zaire) was established with 1 zaire equal to 1,000 of the retired Congolese francs.

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12. It took well over $1 billion in foreign assistance to keep the Congo afloat from independence in 1960 through mid-1967. This is substantially more

than has been received by any other sub-Saharan country, and almost all of it has been in the form of grants or lenient loans. The nearly $600 million supplied by the United States was used mainly to allow the Congo to import US foods and industrial supplies. (For US aid, see Table 1.) Belgium provided most of the technical assistance and has spent about $50 million annually to meet debt and pension obligations incurred during the colonial period, which the independent government has refused to pay. Since most aid was used to cushion the severe economic decline, only negligible amounts were spent on development.

Transport System Deterioration

13. The deterioration of the once efficient rail, river, and road transport network built during the colonial period has had a particularly severe impact because almost all agricultural and mineral exports are produced in separated enclaves, which are a thousand miles from ocean ports. Waterborne transport capacity has fallen because of a lack of maintenance, an absence of new investment, and a shortage of trained personnel. Barges and steamers plying the 10,000 miles of navigable waterways are the backbone of the Congo transport system, but the Office d'Exploitation des Transports au Congo (OTRACO), a quasi-government agency responsible for most river transport, now can handle no more than 65 percent of the 1958 volume of traffic. The loss has been felt especially hard by agriculture because almost all cash crops are moved by water. (For photographs of transport equipment and facilities, see Figure 3.)

14. A lack of maintenance has left many important feeder roads between the farms and railheads or river ports impassable even during the dry season. Numerous bridges either have fallen or have been so weakened that only the lightest vehicles can pass. A truck shortage has made the problem worse. The Societe des Chemins de Fer Vicinaux du Congo (VICICONGO), the main road hauler in the northeast, had 470 trucks in 1959, but now has only 80 trucks, many of which are sidelined for lack of spare parts. Because of recurring disorders, VICICONGO has been unable to increase its truck inventory. In July 1966, for example, mutinying Katangan troops confiscated many trucks and the Army stole or expropriated much of what was left. Few trucks were recovered in serviceable condition. Some agricultural commodities are still moved by small private truckers, mainly Greeks, and by trucks supplied under various US aid programs.

Table 1

US Aid to Congo (Kinshasa)
Fiscal Years 1961 Through 1967 a/

Million US $

	Fiscal Years							
	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	Total
Economic	75.5	83.1	73.4	41.6	29.8	48.9	45.1	397.4
UN operation b/	36.1	58.2	39.4	7.5	5.0	4.7	3.5	154.4
Bilateral	39.4	[illegible].9	34.0	34.1	24.8	44.2	41.6	243.0
Military	68.6	45.9	38.5	22.8	2.3	3.6	5.1	186.8
UN operation b/	68.6	45.9	38.4	17.8				170.7 c/
Bilateral			0.1	5.0	2.3	3.6	5.1	16.1
Total Aid	*144.1*	*129.0*	*111.9*	*64.4*	*32.1*	*52.5*	*50.2*	*584.2*

a. Fiscal year: 1 July to 30 June.
b. Implemented through the United Nations.
c. Including assessed contribution, $88.9 million; voluntary contribution, $43.4 million; UN bonds, $38.4 million.

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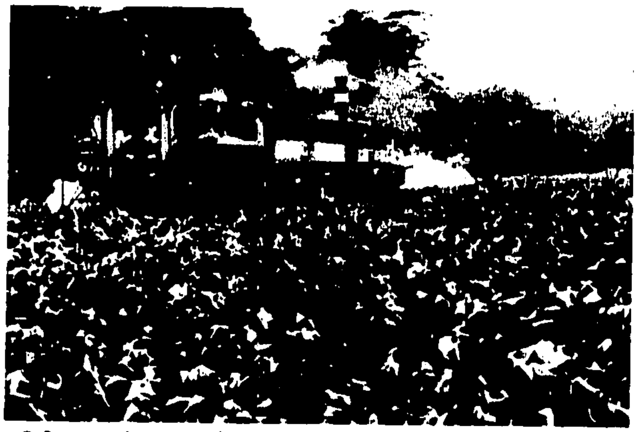
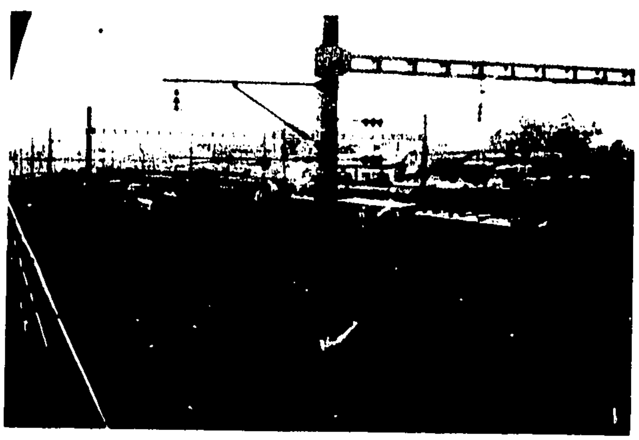
FIGURE 3. CONGO (KINSHASA): TRANSPORT EQUIPMENT AND FACILITIES



Clearing the Congo River of water hyacinths to facilitate transport

Bridge destroyed by Katangan mercenaries in January 1963



Rail yards at Lubumbashi

River port of Kinshasa

15. The 250-mile-long narrow-gauge VICICONGO railroad, which traverses the northern Congo from Mungbere to the river port of Aketi, is another important carrier of agricultural goods. But traffic is only about one-third of preindependence levels, and railroad officials estimate that even without new Simba uprisings the pre-1960 level will not be reached for at least five years.

16. Four transport routes are available to and from the Katanga Copperbelt. Two of them are efficient all-rail routes, one through Zambia, Rhodesia, and Mozambique to the Indian Ocean and the other through Angola to the Atlantic coast. The government has urged mining companies to use an all-Congo route -- the Voie Nationale -- to save foreign exchange, but this is a much less efficient route that now can handle less than half of the Katangan traffic, mainly because of deteriorated equipment and the loss of trained personnel since 1960. A fourth route -- involving rail-barge-rail use -- through Tanzania to the Indian Ocean port of Dar es Salaam can handle only a small portion of Katanga's traffic.

Decline in Internal Trade

17. The deterioration of the transport system has caused a sharp decline in regional trade and a breakdown of the regional specialization developed during the colonial period. Modern economic activity now is concentrated in the generally self-contained areas of the lower Congo region near Kinshasa and the Copperbelt. While these two areas have grown, other once important commercial centers such as Kisangani (Stanleyville), Kalemi (Albertville), and Bukavu have deteriorated.

18. The populace of the vast rural areas, left to themselves or to the disruptive whims of the Army, have fallen back to growing just enough produce for family consumption and little if any for market. Congolese farmers in the lower Congo, however, have benefited from the disorders. The population of Kinshasa increased from 400,000 in 1959 to over a million in 1967, while food shipments from the traditional supply areas, Kasai and Kivu Provinces, dropped to a quarter of the 1959 level. Farmers near Kinshasa turned increasingly to market gardening

and now supply most of the domestically grown food consumed in the capital region. Their increased output was a response to the rise in food prices which was much more rapid than the rise in prices of manufactured products.

Agricultural Losses

19. Cash crop production (largely for export), which was seriously affected by the disorders, now is about half the level of the late 1950's. Official agricultural exports valued at about $180 million annually prior to 1960 were only about half this in 1967 (see the chart, Figure 4). Perhaps $30 million to $40 million worth of agricultural goods are also smuggled out of the Congo each year. Many products previously provided by local growers must now be imported. For example, in 1959 the Congo produced about 150,000 metric tons of cotton, about two-thirds of which was exported, but in 1966 the crop was only about 20,000 metric tons, and the Congo had to import cotton to keep its textile mills operating.

20. The postindependence chaos had its most disastrous impact on native Congolese farmers whose output of cash crops plummeted. By 1964, cotton grown by the Congolese was only 10 percent of the preindependence level, rice 30 percent, and corn 50 percent (see the chart, Figure 5). The decline occurred mainly because the highly organized agricultural schemes developed during the colonial period collapsed as the Belgian supervisory personnel left the country. The output of most other Congolese cash crop producers also dropped rapidly because they were dependent on Belgian firms to provide credit, seed, and other supplies, and to buy, process, and transport their output. Government-sponsored extension services and research organizations also have been severely weakened.

21. Plantations were in a better position than the individual farmers to continue operations after independence because they were able to supply many of their own needs. Output was relatively stable until the Simba rebellion in 1964-65, which ravaged the north and east where most plantations are located. Many of these large estates were then abandoned, and plantation output dropped by about

Figure 4

Congo (Kinshasa): Exports, 1959 and 1966

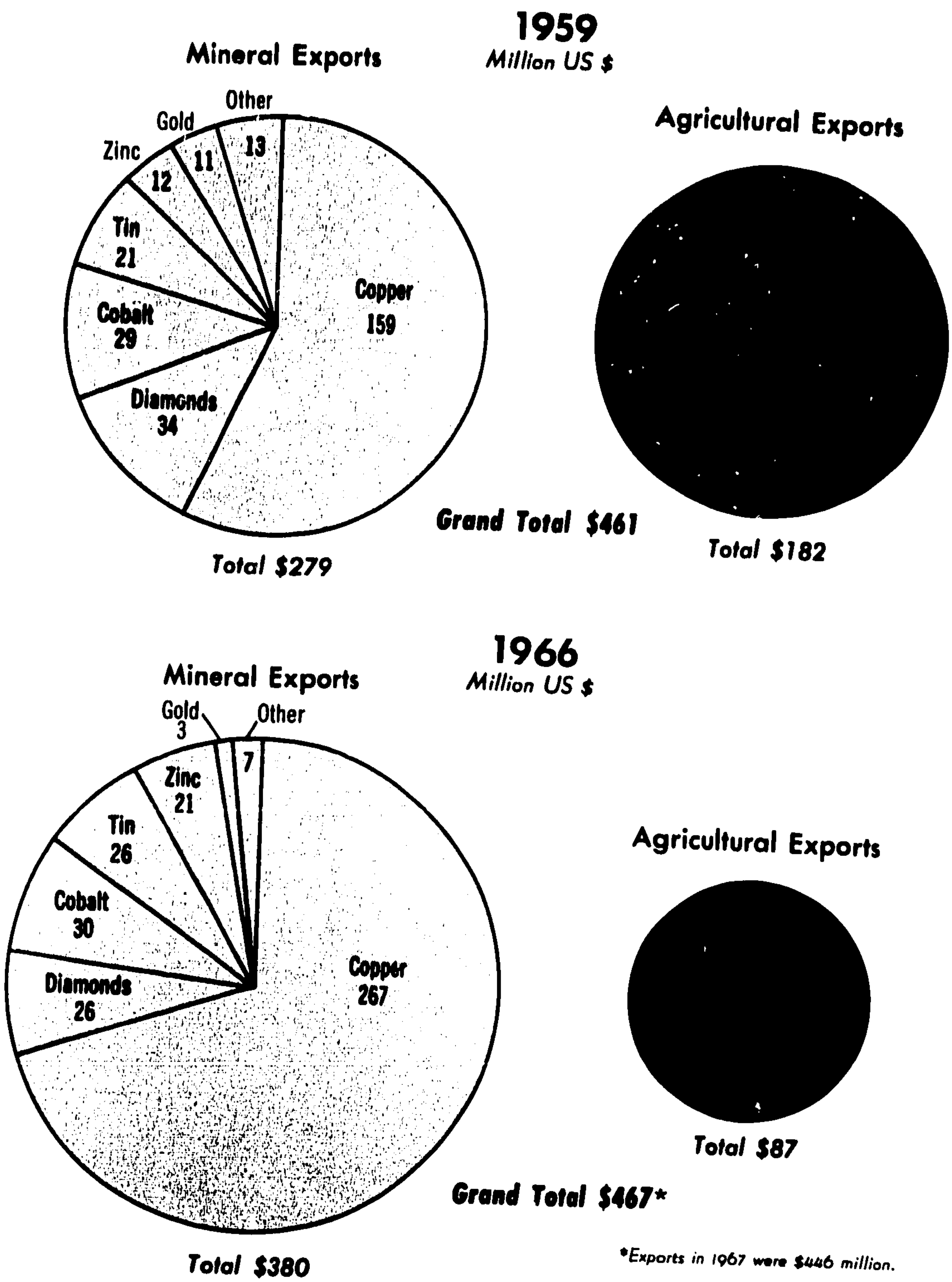


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Figure 5

Congo (Kinshasa): Indexes of Cash Crop Production

1957-59 Average and 1961-66

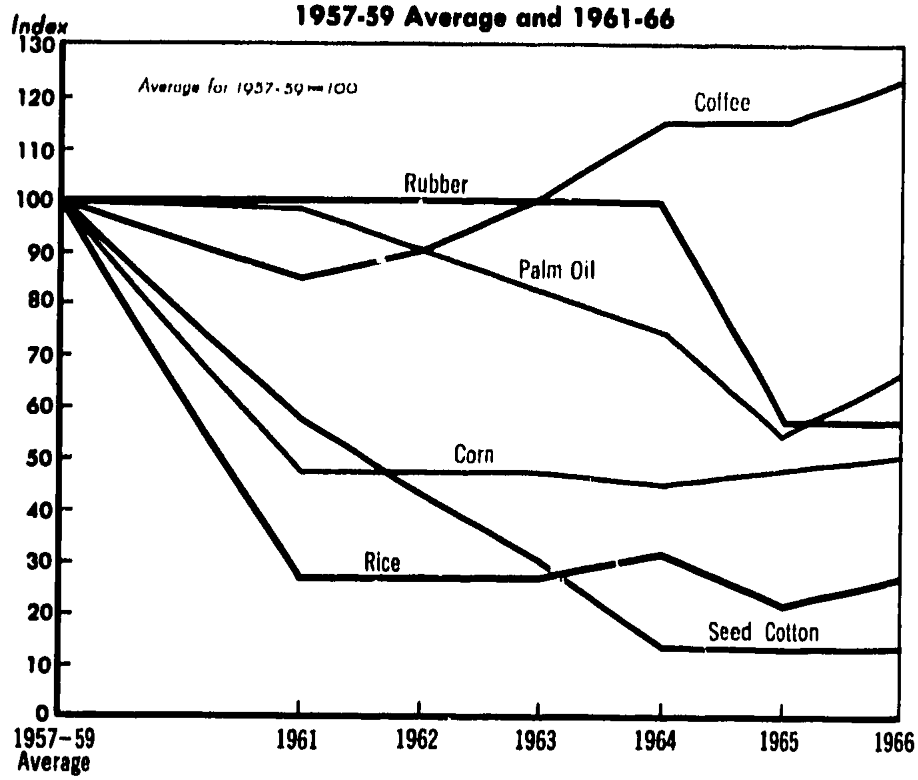

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Table 2

Production of Selected Mineral Products
in Congo (Kinshasa)
1959-66

	1959	1960	1961	1962	1963	1964	1965	1966
	Thousand Metric Tons							
Cobalt	8.4	8.2	8.3	9.7	7.4	7.7	8.4	11.3
Copper	282	303	295	297	271	277	289	317
Tin	9.2	9.2	6.6	7.0	7.0	5.2	6.1	7.2
Zinc	111	109	99	95	100	105	119	117
	Thousand Troy Ounces							
Gold	384	314	234	204	215	187	90	159
	Million Carats							
Industrial diamonds	14.2	13.4	18.1	14.4	14.5	14.5	12.5	12.4

half. Although the Belgians subsequently reopened some plantations, renewed disorders over the last two years have negated most efforts to increase production. Moreover, inflation raised costs while export revenue remained unchanged at the overvalued official exchange rate. The problem was worsened by the breakdown of the transport system. Nevertheless, because cash crop production of individual Congolese has fallen so sharply, plantations now account for more than 85 percent of all agricultural exports.

Problems in the Noncopper Mining Sector

22. The volume of output of gold, diamonds, and tin, which accounts for most mined production outside the Copperbelt, declined by 25 percent between 1959 and 1966, and their combined export value was down 17 percent. (For volumes of production, see Table 2.) High tin prices prevented the value of exports from falling as much as output. Tin and gold are extracted mainly in the eastern areas, where the equipment not destroyed by insurrection is old and obsolete. New investment is minimal and geared to replacing wornout units to maintain present production. Many gold mines have closed because rising costs, combined with fixed world prices, have made them unprofitable.

23. Legal exports of industrial diamonds have declined because of a deterioration in world market conditions which is partly of the Congo's own making. About a third of Congolese stones sold abroad are mined illegally on mining company property, smuggled outside the country, and sold at prices below those established by the Central Selling Organization (CSO), the international diamond marketing cartel. In order to maintain prices in a market further depressed by the increasing use of manmade substitutes, the CSO has reduced the legal output in the Congo, which accounts for three-quarters of the Free World's natural output of industrial diamonds, to about 12.5 million carats a year from the previous level of nearly 15 million carats. About 5 million carats are smuggled out annually.

24. Diamond smuggling has cost the country about $10 million a year in foreign exchange earnings and several million dollars in government revenues.

Kinshasa has periodically attempted to reduce these illegal exports but has failed largely because of internal corruption. For example, in 1966, when the Army was called on to enforce the law, smuggling was reduced, possibly by 20 percent, but it soon resumed and in 1967 may even have surpassed 6 million carats. The government's failure to halt illegal diamond mining and smuggling stems largely from the susceptibility of the Army and the judiciary to bribes. Illegal diamond diggers are soon released from jail or given light sentences, and they quickly resume operations.

<u>The Special Case of Katanga</u>

25. Two factors have kept the modern sector of the Congo's economy from complete collapse: the maintenance of output by Union Minière du Haut Katanga (UMHK) and massive foreign aid. Production of copper, cobalt, and zinc, the UMHK's three most important minerals, reached an all-time high in 1966 -- some 5 percent higher than in 1960. The value of output, about $325 million, also was at a record level because of soaring copper prices. The UMHK, unlike most other foreign firms, continued its large investment program in the Congo for some time after independence. This paid off in the early 1960's when new refining facilities permitted a more finished and thus higher valued product to be exported. But since then, investment programs have been cut and geared to replacing wornout or obsolete equipment.

26. As economic activity declined in other sectors, the Congo became increasingly dependent on Katangan mineral sales. Katanga's share of total exports rose from about 50 percent in the immediate preindependence period to 80 percent in 1967. While foreign exchange earnings from mineral exports are reduced by expenditures abroad for mining supplies and freight and for a portion of the expatriates' salaries, the net foreign exchange obtained by the Congo from UMHK sales has been sizable, amounting to $200 million in 1966. Government revenues from UMHK operations increased from about a third of total treasury receipts before 1960 to about half in 1966.

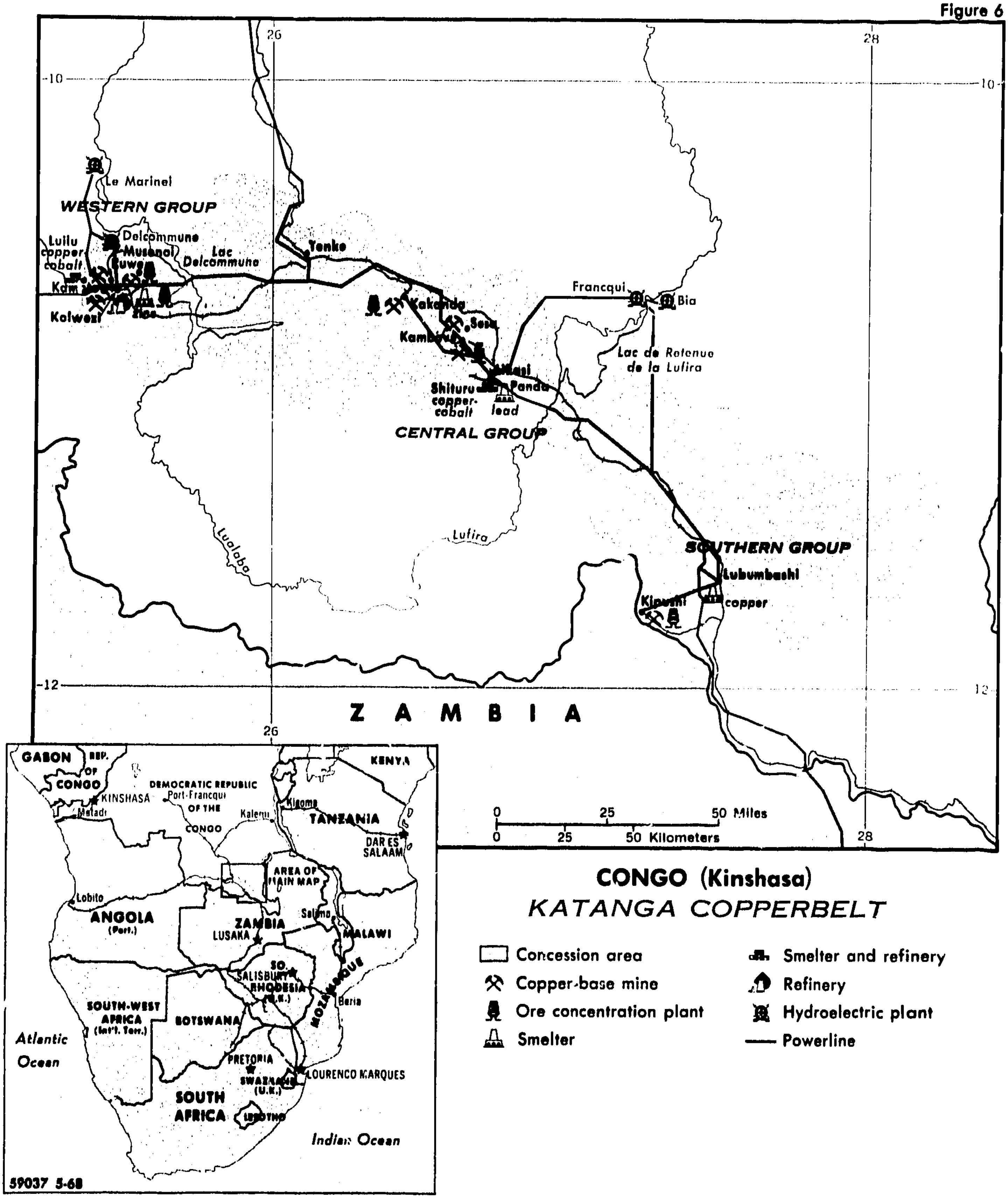
27. UMHK kept up production after independence because it had virtually a free hand in running its Katangan enterprises. The Copperbelt has been operated like a self-contained company town. (For

a map of the Katanga Copperbelt, see Figure 6; for photographs of equipment and facilities, see Figure 7.) UMHK helped establish local firms to meet many of the company's needs and those of the Katangan populace as well. These firms include metal-processing plants, a coal mine, hydroelectric power complexes, an electrical distribution system, cement and chemical plants, and agricultural processing firms. Most independent companies in Katanga depend on sales to UMHK or its employees. Furthermore, the 20,000 UMHK workers and their 90,000 dependents are housed, educated, and given medical treatment by the company.

28. After UMHK was nationalized at the end of 1966, the operation of the Katanga mining complex remained essentially unchanged. The Congolese have established their own operating company -- Societe Generale Congolaise de Minerais (GECOMIN) -- to control the ex-UMHK properties, but actual management is still in the hands of the Belgians, most of whom formerly worked for UMHK. The most damaging aspect of nationalization was the exodus of expatriate workers. GECOMIN had 1,750 expatriate employees in January 1967, but by the year's end more than 600 had left. The expatriates left in two waves: the first because they were reluctant to work for the Congolese government and had good offers at home, and the second wave, because of the mercenary-led mutiny in July 1967 and the subsequent excesses perpetrated by the Army. As security improved, the remaining Belgians stayed chiefly because their social status and living standards are much higher in Katanga than they would be in Belgium. The number of GECOMIN foreign personnel has stabilized at about 1,300, which is a sufficient number to maintain the present annual output of almost 320,000 metric tons of copper. However, 300 to 400 additional foreign technicians would be required to carry out long-range research and exploration.

29. The agreement between Société Générale de Minerais (SGM), the management company for the copper properties, and the Congo government has assured continuation of copper production, but it poses serious implications for the industry's future. SGM is paid 4½ percent of sales, less taxes, for managing the Copperbelt complex. SGM can increase its profits only if output is increased. Because processing facilities are being utilized at near capacity, SGM

Figure 6



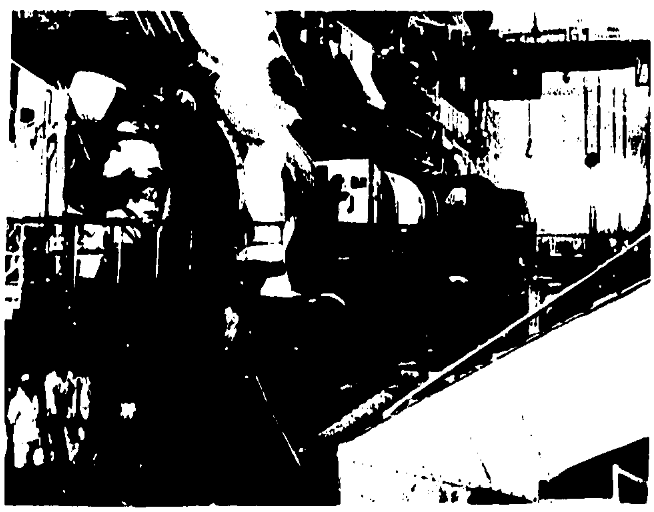
CONGO (Kinshasa)

KATANGA COPPERBELT

FIGURE 7. CONGO (KINSHASA): KATANGAN COPPERBELT MINING EQUIPMENT AND FACILITIES

Open pit copper mine near Kolwezi

Lubumbashi smelter plant



Copper converter at the Lubumbashi smelter plant

Delcommune: one of four major hydroelectric powerplant complexes producing electricity for the Copperbelt is working only the richest ore bodies. This assures the largest possible quantity of copper and other minerals per ton of ore processed. For example, during 1967 (the company's first year in operation), copper output was slightly above the 1966 level, but the amount of ore processed dropped about 10 percent. Processing only rich ores results in maximum output in the short term, but has adverse long-run implications because the poorer grades are bypassed and the life of the mine is shortened.

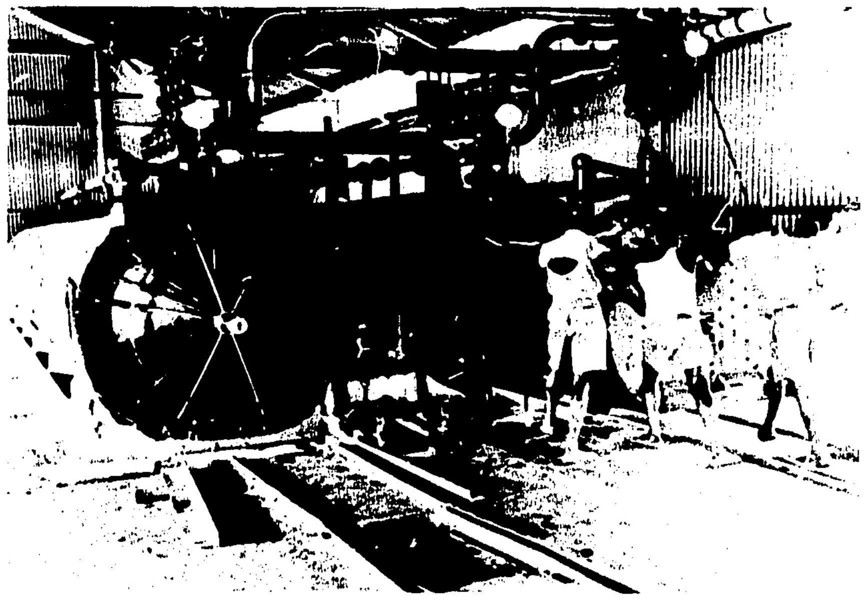
A Small but Growing Manufacturing Sector

30. Between 1962 and 1966, manufacturing output increased by about 25 percent, mainly in the Kinshasa area and Katanga. Restrictions on imports sparked consumer goods production, and the breakdown in internal Congolese trade spurred development of plants to service the lower Congo and the Copperbelt. The output of producers' and construction goods, however, has either stagnated or declined. Moreover, small manufacturing centers like Bukavu and Kisangani have declined because of civil strife.

31. Despite the rapid growth of manufacturing, many plants have been plagued by shortages. A steady flow of imports is especially important because most of the manufacturing plants are essentially assembly operations and because nearly all spare parts are imported. US loans to the Congo government to purchase such goods in the United Stated have been a major factor in maintaining and increasing output of the local manufacturing sector, but Kinshasa's corrupt and excessively bureaucratic import system has caused periodic shortages of those needed supplies.

32. The Congo's manufacturing sector is minuscule compared with more advanced developing countries such as Mexico, but by sub-Saharan standards the industry is large. The Congo leads the area in the production of beer and processed food products and ranks high in textiles, cigarettes, and metal and chemical products used in the mining industry. (For photographs of manufacturing equipment and facilities, see Figure 8). The Copperbelt, for example, produces its own explosives, sulfuric acid, and many other chemicals used in processing minerals, while neighboring Zambia's much larger copper industry is dependent on South Africa and Rhodesia for these supplies.

FIGURE 8. CONGO (KINSHASA): MANUFACTURING EQUIPMENT AND FACILITIES



Palm oil extraction plant

Brewery at Kinshasa

Efforts at Financial and Economic Reform

33. On 24 June 1967 the government, with support from the International Monetary Fund (IMF), instituted sweeping reforms to correct the country's distorted financial system. The key provision of the program was a 67 percent devaluation in the official exchange rate for the Congo currency to bring it more in line with its actual purchasing power. Such a move immediately improved the profit position of companies producing for export thus stimulating foreign sales. Some of the increased profits earned by exporters from devaluation is being siphoned off through higher taxes in an effort to achieve a small budget surplus.

34. The government has liberalized the import control system, hoping to eliminate much of the corruptive practices of importers and thus to offset some of the price increases of imported goods. Also considerably eased were restrictions on payments abroad for services such as transport and travel and the remittance of earnings by Belgian and other expatriates. The reforms are also designed to attract new foreign investment through such measures as allowing profits to be repatriated starting in 1969.

35. The IMF supported the reform program by giving the Congo government a $27 million standby credit. In return the Congolese government pledged itself to certain IMF-suggested guidelines intended to prevent the dissipation of all the immediate gains of devaluation. Wages are supposed to rise only 40 percent in the first 18 months after devaluation despite an expected doubling of prices. There are credit ceilings on loans by the private sector and a moratorium on any new government borrowing from the banking system. Recurring government expenditures are to be constrained sufficiently to allow a 10 percent budget surplus, which is to be spent on development projects.

A Year of Reforms

36. Less than two weeks after the monetary reforms were announced, the mercenary-led revolt broke out. When the mercenaries occupied Bukavu, economic activities at this leading commercial center of eastern Congo came to a near standstill. Elsewhere

in the country the antiwhite brutality of the Army resulted in the departure of some 15,000 Europeans, causing further dislocation. An abortive mercenary invasion from Angola in November 1967 completely disrupted manganese mining in western Katanga for many months. The Congo economy weathered these crises, however, as Mobutu's efforts to improve security slowed down the departure of Europeans and permitted near normal operations in the Copperbelt and at most other important economic installations.

37. For almost a year the financial reform program benefited from the prolonged US copper strike, which kept copper prices high. This windfall may allow the Congo to balance its budget during the reform's first year despite higher than planned government spending. A similarly favorable situation has developed in the Congo's external accounts. Net foreign exchange holdings increased steadily from minus $6 million on 23 June 1967 to $123 million by the end of February 1968, and the Congo has not yet had to utilize the standby credit extended by the IMF. About a third of the reserve buildup reflects the sale of copper that had been produced and stockpiled during the dispute with the UMHK in early 1967. Although the more liberal terms granted for salary remittances by foreign nationals as well as the almost complete removal of restrictions on Congolese spending abroad increased foreign exchange expenditures in the last half of 1967, there was an offsetting decline in imports. Foreign purchases were held down by delays in getting the liberalized licensing system under way and by a slack in demand caused by the sharply increased prices following devaluation. A small reduction in reserves may occur before June 1968, however, because a large volume of imports has been ordered to replenish low inventories.

38. Because the financial situation has improved, Kinshasa has been able to generally follow the IMF guidelines. Wages and prices have increased about as planned. Kinshasa has generally refrained from borrowing from the banking system, has set aside 10 percent of its budget receipts for development, and has restricted private credit. Although economic activity in the northeast agricultural areas has revived somewhat, this is probably a reflection of better security rather than the reforms. There are, however, complaints from plantation owners that

increased export duties on agricultural exports -- now an extraordinarily high 40 percent -- are canceling much of the profit incentive gained from devaluation.

Prospects Beyond Mid-1968

39. The performance of the Congolese economy over the next several years will tend to be uneven. The rural areas probably will continue to be neglected, and poor security conditions in the interior may last for many years. Little if any economic progress is expected in these areas. The government's attention will be focused on the lower Congo and the Copperbelt, where it has better control, and most of the Congo's development will occur here.

40. Prospects for more than a modest rise in agricultural output and exports are dim. Although plantation output could be increased substantially because there has been little damage to palm, coffee, and rubber trees, transport limitations would make it difficult to get the additional produce to market. River vessels are working near capacity, and there are no plans to purchase new ones. Dredging channels that were allowed to become silted during years of neglect would be a long and costly process. Moreover, there is a critical shortage of trained personnel.

41. It will be even more difficult to increase commercial sales by Congolese farmers, who depend almost entirely on expatriate-run institutions to supply goods and credits and to buy and transport crops. The number of private traders and technicians is not likely to increase sufficiently, especially in the agriculturally important northeast, because of the government's inability to maintain security there. Although the cash crop production of Congolese farmers over the next several years will almost certainly rise above the very low level of 1966, it seems unlikely to achieve the level of the late 1950's. Even if output should increase significantly, sales to major economic centers and for export would be hampered by deficiencies in the marketing and transport system.

42. Kinshasa hopes that, by 1971, copper production will reach 450,000 metric tons, 40 percent higher than in 1967, but prospects for achieving

this goal are poor. A 15 percent rise could be achieved soon because a new ore concentrator, begun several years ago, is scheduled to be completed late this year. The additional 25 percent increase would entail new investment of about $100 million and a large number of additional foreign technicians. Except for the concentrator, no other new facilities are under construction. The prospects for obtaining funds to finance, or technicians to engineer, a large increase in copper output are not bright. A worldwide cost-price squeeze is developing in copper, and the Congo will find profits barely adequate to replace wornout equipment. Copper prices, which at their peak in February 1968 were $0.70 a pound, began to fall after the US strike was settled in March 1968. By the end of April they fell to $0.47 and are likely to fall further, perhaps to about $0.40 per pound by the end of the year, or about 25 percent below the average price received during the last two years. World output has been increasing much faster than demand, and Free World consumption may not catch up to productive capacity for several years. On the cost side, wages in the Congo will continue to rise throughout 1968 as workers attempt to recoup much of the purchasing power that they lost when the currency was devalued in June 1967. The mining sector will also have to pay higher prices for goods and services purchased locally as suppliers pass on their increased costs.

43. President Mobutu's attempt to find funds abroad for copper expansion is not likely to be successful. He has tried to sell 40 percent of GECOMIN's stock to such large foreign concerns as Anglo-American Company, Roan Selection Trust, and the Rothschild-controlled organizations in France and Belgium. Mobutu has done virtually nothing to settle the issue of compensation for property expropriated from UMHK, however, and until this issue is resolved most foreign firms will not invest in the Congo.

44. In December 1967, Kinshasa signed an agreement with the Nippon Mining Company to investigate further a large copper deposit south of Lubumbashi, outside the original UMHK concession area. The Japanese hope that production could start in 1972 at an annual rate of 42,000 metric tons. Because

of technical and mining problems, however, this project would be economically feasible only if Kinshasa granted generous tax concessions. Lengthy haggling and procrastination typical of Congolese authorities are likely to delay the project at least a year or so beyond the 1972 goal.

45. The output of other minerals in the Congo is not likely to increase. Most companies working old, small, and scattered tin and gold mines of eastern Congo are content if they can maintain production. With the expiration of a US agreement at the end of 1967 to buy about 20 percent of the Congo's diamond production for the strategic stockpile, the demand for industrial diamonds is likely to soften. Finding new customers for these stones will be difficult. [redacted] 25X1

46. Most of the Congo's manufacturing plants are operating well below capacity largely because of shortages of imported components and supplies. The lifting of some of the restrictions on imports under the monetary reform may permit an increase in output. Only moderate industrial growth is possible in the short run, however. Sizable increases in manufacturing production in the important Kinshasa center would cause a shortage of electrical power, which would be relieved only after the $60 million Inga hydroelectric plant is completed in 1970 or 1971. Prospects for manufacturing in the Copperbelt are also limited except in the unlikely event that mining activity increases substantially. Smaller regional industrial centers such as Kisangani, Bukavu, and Kalemi have been seriously affected by civil strife, and major new industrial endeavors are not likely to be undertaken for many years in these areas.

47. The financial situation is likely to deteriorate for the next several years. The modest budget surplus recorded during the first few months of reform is already giving way to deficits, which will grow as copper prices fall. As a consequence, prospects include recurring budget deficits, inflation, a decline in the international value of the Congolese currency, and continued smuggling. However, the moderating influence of the IMF and the expatriate advisers with the National Bank, whose recommendations have usually been followed by Mobutu, will probably keep financial problems within workable limits. If assistance by foreign governments in

financing imports continues at the level of the past few years ($25 million to $50 million annually), this would be a major benefit to the Congo's balance of payments.

48. Development in the Congo is impeded by a shortage of skills and investment funds. The possibility for significant tax increases is small; taxes on company revenues now are among the highest in the world and any new tax hike would dampen production incentives further. Almost the entire operational profit of GECOMIN is taxed away at present. In addition, the government's borrowing capacity is limited. Any major rise in its outstanding internal debt would be inflationary, as the money supply would increase much more rapidly than the amount of goods and services that would become available. Foreign borrowing on commercial terms could not be sustained because, with the prospective decline in export earnings over the next several years, the Congo would soon find repayment of large short- and medium-term loans difficult.

49. Kinshasa would need foreign aid grants or loans on noncommercial terms to finance any new major development effort, but it is not likely to obtain the required sums. It now receives $150 million a year in foreign aid, mainly in the form of commodities and technical assistance, and this amount will be required for at least several more years to keep the economy afloat. The United States and Belgium supply a large portion of this aid and would be reluctant to provide much development assistance in addition. The largest increase in aid for the next few years probably will come from the European Common Market's development fund, which already has pledged $57 million in project assistance. This aid is to be spent primarily on restoring transport and agriculture.

50. Even if development funds were found, the Congo's lack of personnel to manage an expanding modern sector of the economy and its attendant social superstructure would be a barrier to any major development effort. It will be at least a decade or so before the Congolese can achieve a reasonable level of sophistication and develop a trained cadre able to run the modern sector of the economy. Meanwhile the number of foreign experts in the Congo, already

inadequate, has been declining. The Belgian technical assistance program -- by far the largest -- has been cut over 40 percent during the last two years, adversely affecting the operations of much of the economic and social infrastructure. The number of UN-supplied technicians also has been dropping steadily. Although France and a few other countries have expanded their programs, they have only made up for a small part of the loss.

51. Lack of development will not necessarily cause serious problems. Kinshasa may be relatively content with a status quo economy over the next few years. A few prestigious development projects may be enough for Mobutu or any successor. The populace is likely to continue to grow sufficient foodstuffs to meet most basic needs and will probably, as in the past, absorb large doses of economic punishment without significant political reaction. Violence and a new round of chaos is, however, always possible. A new Simba type of uprising, another period of xenophobia, or the passing of Mobutu could lead to further major disruptions in economic activities.