

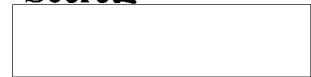


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Liberia: Difficult Passage Ahead



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An Intelligence Assessment

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ALA 83-10090
June 1983

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Liberia: Difficult Passage Ahead



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An Intelligence Assessment

This paper was prepared by 
 Office of African and Latin
American Analysis. It was coordinated with the
Directorate of Operations and the National
Intelligence Council. Comments and queries are
welcome and may be addressed to the Chief, West-
East Africa Division, ALA, 

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**Liberia: Difficult
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Key Judgments*Information available
as of 15 May 1983
was used in this report.*

We believe Liberia's economic and political situation will remain fluid and unpredictable for the near future, with the potential for instability and the threat of Soviet and Libyan meddling. Although Head of State Doe in his three years in office has consolidated personal power, he has failed to arrest Liberia's economic decline, and his vacillating—often impulsive—behavior has generated a constant undercurrent of uncertainty. In our judgment, Doe's popularity has peaked and he faces difficult and potentially unpopular decisions as he attempts to cope with the simultaneous challenges of growing economic deterioration, honoring his promise to restore civilian rule by 1985, and controlling the armed forces.

In our view, Doe has no better than an even chance of coping with Liberia's problems for the next several years even if he receives requisite advice and assistance from foreign donors, especially the United States. We judge that the most likely sources of future instability stem from either the possibility of economic collapse, the possibility that plans for civil rule may be aborted, or the threat of military intervention. To ward off these dangers, Doe needs to adopt more stringent austerity measures, to engineer a transition to civilian rule, and to further discipline the military.

We doubt that Doe has the willingness or ability to take the full range of painful and politically risky steps necessary to reverse Liberia's economic decline, nor do we believe he will achieve more than marginal success in imposing greater discipline on the military. In our view, Doe does not seem to have a clear plan for achieving civil rule and there is an even chance that he may either abort the transition or install himself as the head of a civilian government in order to claim success. US Embassy reporting indicates that public anticipation of civil rule has been an important factor in sustaining popular tolerance for poor economic conditions and administrative lassitude under Doe.


Because Washington is widely viewed as responsible for Liberia's fortunes, we believe serious instability or Doe's backtracking on civil rule could open the United States to criticism in Liberia and Africa, as well as afford propaganda advantages to the Soviets and Libyans. In our judgment, economic collapse would be likely to set the stage for another enlisted men's coup and the possibility of new and unpredictable changes in Liberia's domestic policies and foreign orientation. The cancellation of plans for civilian rule and the perpetuation of military government would diminish internal and international support for Doe and would require increased levels of US support if—as seems likely—the regime was forced to use strong-arm methods to hold onto power.

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We believe Moscow and Tripoli are monitoring developments in Liberia and hoping for a change in government either through the election of civilian leftists or a coup by enlisted men who might prove more susceptible to manipulation.  Doe's strong suspicion of Communism and dependence on Washington for financial assistance have allowed few openings for the Soviets and Libyans, whose presence is small and ineffective. In our judgment, however, any lapse in Washington's response to bailout requests by Doe—while unlikely to lead to a dramatic reversal in relations—could cause Liberia to threaten to establish closer ties with Moscow and Tripoli in hopes that the United States would feel its position vulnerable and provide more funds.

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Doe's penchant for impulsiveness and occasional fits of pique with Washington mean that there will always be the danger of an abrupt policy reversal harmful to US interests. On balance, however, we believe Liberian-US relations will remain reasonably good over the next two years if US aid levels do not decline significantly and if Doe continues the transition to civilian rule. There will probably be no serious threat to valuable US communications and navigation facilities or military access rights. US interests probably would not be significantly affected if Doe chooses to cling to power by becoming the elected head of a civilian government, although his personality would make for some difficulties in working closely with civilians. If Doe perpetuates military government, he will face more active civilian opposition, have to turn to more repressive rule, and require even more US support. Doe's overthrow by another ill-prepared, populist-oriented military regime would usher in a period of protracted instability and raise foreign policy uncertainties, offering potential opportunities for the Soviets and Libyans to meddle.



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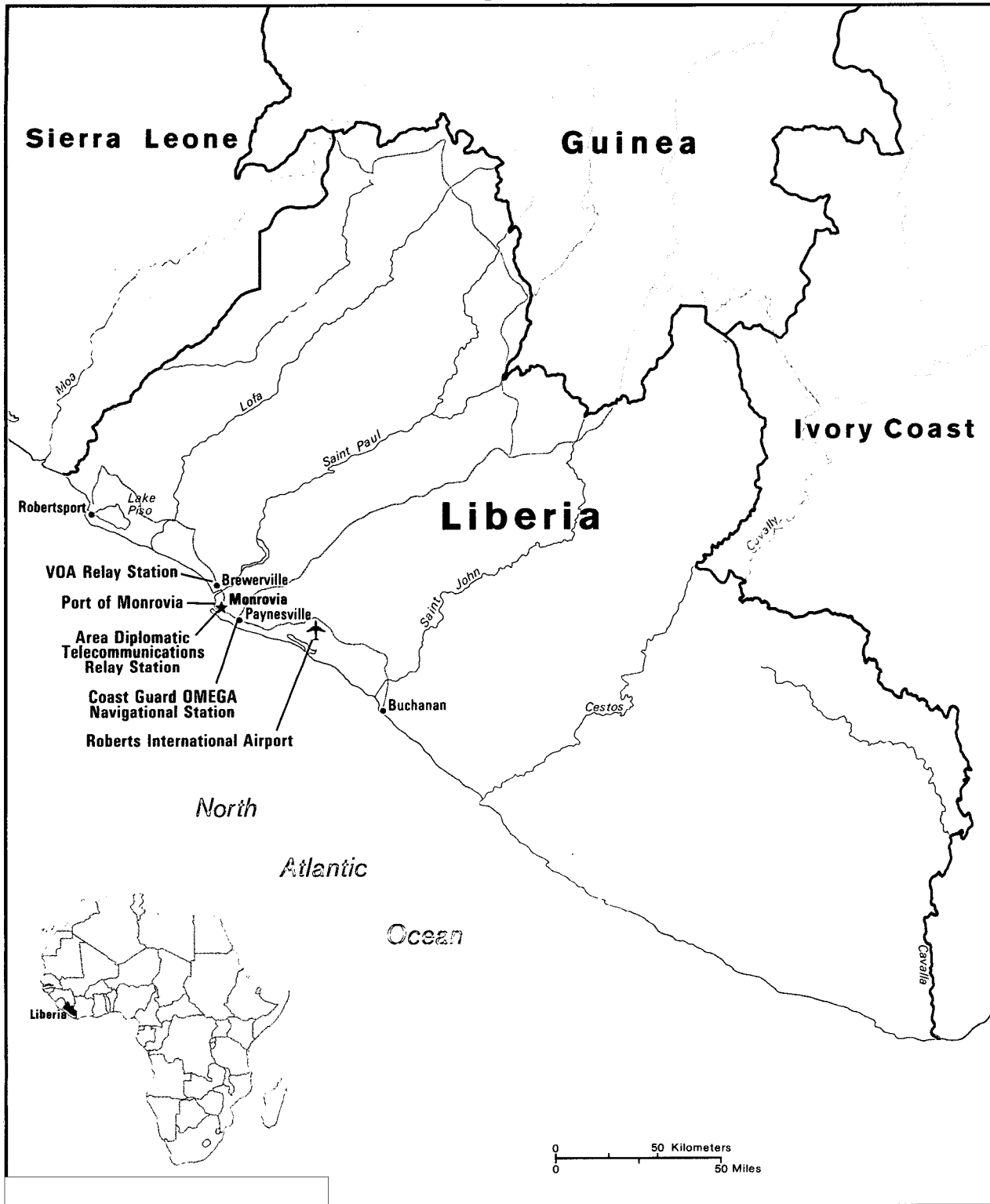
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Liberia: Location of US Facilities and Access Rights



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Introduction

World recession, coupled with Liberia's continued economic mismanagement and rising corruption, has accelerated economic decline since Head of State Samuel Doe seized power in April 1980. US Embassy reporting indicates that this situation could generate new political instability or reversals of policy threatening to substantial US interests in the country. The Embassy points out that Doe's military regime faces the simultaneous challenges of forestalling social unrest while pursuing economic austerity measures, imposing order on a still unpredictable Army, and steering Liberia back to the civilian rule that has been promised for April 1985. Doe has matured, but he is still prone to unpredictable behavior not in the best interests of Liberia or the United States. [Redacted]

substantial US interests in the country. Unlike the majority of African military figures who seize power with clear goals in mind, Doe seems to have no plan or timetable for dealing with Liberia's problems other than a vague vision of improving the lot of the average Liberian. In practice, Doe is procapitalist and pro-American, although members of the US Embassy have found that his stubborn nationalist streak can sometimes aggravate Washington. [Redacted]

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US Embassy reporting and recent field assessments indicate that the 32-year-old Doe remains a highly ambivalent individual who tends to react to events and pressures rather than anticipating them and is concerned with day-to-day survival. Although the United States enjoys special access to Doe, who has accepted some good counsel from Washington, his government has also been characterized by unwise decisions and rash actions. [Redacted]

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Several other West African states are trying to adjust to serious economic problems and look increasingly to the United States and the West for help, fearing they could become more vulnerable to Libyan and Soviet exploitation. The US Embassy in Monrovia believes that these pro-Western governments in the region view Liberia's fortunes as an indicator of Washington's intentions and reliability because of Monrovia's longstanding special relationship with the United States. [Redacted]

Doe is neither well educated nor politically sophisticated, and in facing problems he vacillates, according to US Embassy officials. Doe's decisions, which often are not well thought through, will be reversed when the implications become clearer. Doe also appears to suffer from abrupt mood shifts, acts on the basis of incomplete information, and has often followed bad advice from less mature colleagues or from those who have their own axes to grind. [Redacted]

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This paper examines Liberia's continued economic decline and how the country is coping with it, the related political problems, and the most likely scenarios looking toward 1985. It addresses the potential for Libyan and Soviet meddling and the implications of instability in Liberia for the region and the United States. [Redacted]

The US Embassy has reported numerous examples of Doe's impulsiveness and backtracking. A recent article in the US press alleging excessive influence by Washington over Liberia prompted Doe to threaten to expel the US Ambassador. A few days later he urged the Ambassador to continue his wise counsel. While trying to improve Liberia's human rights image, Doe secretly executed coup plotters. To eliminate one left-leaning member of the government, Doe almost compelled all civilians in the cabinet—including his most competent officials—to resign. [Redacted]

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Samuel Doe—A Quixotic Leader

We concur with the US Embassy's judgment that Head of State Doe seems likely to play the dominant role in guiding Liberia for the near future. Although the Liberian leader has matured considerably in three years in office and has consolidated his personal authority, Doe's basic unpredictability poses added problems for the US goal of promoting future economic recovery and political stability to safeguard

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Doe's Economic Inheritance ^a

Although Liberia—*independent since 1847—is Africa's oldest republic and was founded by freed American slaves, its pattern of economic and social development was typical of most European colonies in Africa. Two distinct economies emerged: a small, relatively sophisticated modern economy dominated by foreign interests, and an indigenous tribal economy consisting of subsistence agriculture. The rural poor benefited little from the country's export earnings and social service programs, which favored urban areas and the elite.* [redacted]

After steady but unspectacular growth following World War II through the 1950s, Liberia—like many other LDCs—reaped important economic gains in the 1960s and early-to-mid-1970s during the rapid expansion of world trade. Led by the strong demand for its two principal commodity exports, iron ore and rubber, annual economic growth during the period averaged 4.5 percent, making Liberia one of Africa's better performers [redacted]

Booming exports allowed Monrovia to cover a steadily rising volume of imports. These, in turn, went to satisfy the needs of increasingly sophisticated urban consumers and to support a variety of development projects. Cautious government fiscal policies averted inflation and allowed room for steady growth of the private sector. Most of the population, which was engaged in subsistence farming, received few benefits from this prosperity. [redacted]

Accelerating Economic Pressures

As elsewhere in the developing world, the mid-to-late 1970s brought hard times to Monrovia. Skyrocketing oil prices plunged the West into recession that depressed demand for Liberia's primary exports. The slump in world iron ore consumption, for example, forced Liberia's iron ore concessions to slash output nearly 30 percent from 1974 through 1979. Only the boom in tropical commodity prices kept total export revenues from declining. [redacted]

^a This background assessment is based on information from the US Embassy in Monrovia and on statistical data from the IMF and the Liberian Government. [redacted]

While export sales were lagging, imports of goods and services began to rise substantially. By 1980 expenditures on foreign goods had nearly doubled, partly in response to increased demand for consumer goods. Goods imports also were spurred as the government brought in sizable amounts of construction materials and other manufactured goods in preparation for hosting the summit of the Organization of African Unity in 1979. [redacted]

Toward the end of the 1975-79 period, the balance on payments for services deteriorated sharply:

- Fees paid by international shippers to use the Liberian flag of convenience were down because of a slowdown in world commerce.
- Annual interest payments on external debt quadrupled to \$80 million as Monrovia borrowed heavily to pay for ambitious transport and other public works projects. [redacted]

The result was a steady deterioration in Liberia's current account position. To cover the deficit—which was \$118 million in 1979—Liberia successfully solicited new funds from official creditors, particularly the IMF and the United States. Access to private capital, on the other hand, declined, reflecting investor uncertainty over future trends in markets for commodities that dominated Liberia's exports. [redacted]

International assistance was not enough, however, to offset the impact of lower production of iron ore and rubber. By the end of 1979, the economy was producing less in real terms than it was in 1974, while real income had dropped by 15 percent. The burden of this decline fell most heavily on the urban workers, as the elite were able to maintain their living standards through increased corruption and commodity speculation. That the economy had become a potent political issue was graphically illustrated when widespread rioting broke out in Monrovia in April 1979 after the government announced plans for a substantial increase in the price of rice—a Liberian dietary staple. In the months leading up to the Doe coup of April 1980, opposition leaders consistently pointed out the disparity in the living conditions of the elite and masses as they sought to drum up popular support. [redacted]

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Liberia: Balance of Payments

Million US \$

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 ^a	1983 ^b
Trade balance	130.5	111.9	63.2	57.8	-16.1	5.5	30.0	66.5	54.0	50.0	50.0
Exports (f.o.b.)	324.0	400.3	394.4	457.0	447.4	486.4	536.6	600.4	531.4	480.0	450.0
Iron ore	196.7	262.2	293.6	328.7	273.5	274.4	290.0	310.2	331.4	300.0	295.0
Rubber	42.9	64.5	46.2	53.3	59.1	69.2	87.8	102.2	89.2	60.0	55.0
Diamonds	49.3	29.9	18.4	16.6	21.4	30.3	39.6	33.5	23.4	32.0	30.0
Timber	16.6	17.1	12.8	34.6	29.3	46.7	50.1	65.3	36.8	NA	NA
Coffee	5.1	4.0	4.5	6.6	43.0	25.3	27.1	33.0	19.4	NA	NA
Other	13.4	22.5	18.9	17.2	21.1	40.5	42.0	56.2	31.2	NA	NA
Imports (c.i.f.)	-193.5	-288.4	-331.2	-399.2	-463.5	-480.9	-506.6	-533.9	-477.4	-430.0	-400.0
Services and transfers	-135.0	-141.9	-144.4	-103.6	-95.0	-146.0	-148.0	-164.6	-186.0	-200.0	-215.0
Current account balance	-4.5	-30.0	-81.2	-45.8	-111.1	-140.5	-118.0	-98.1	-132.0	-150.0	-165.0
Capital account balance	NA	27.9	76.2	80.2	47.0	40.3	102.6	80.1	40.0	19.0	NA
Official capital	NA	NA	NA	21.4	38.9	64.6	102.6	80.1	50.0	32.0	NA
Private capital	NA	NA	NA	58.8	8.1	-24.3			-10.0	-13.0	NA
Balance on current and capital accounts	NA	-2.1	-5.0	34.4	-64.1	-100.2	-15.4	-18.0	-92.0	-131.0	NA
Net borrowing	NA	-2.4	-5.0	-28.7	15.8	9.5	22.6	4.6	22.5	NA	NA
Change in central government deposits abroad	NA	-4.5	-10.0	-7.2	9.1	-12.5	-29.4	-69.7	-106.0	NA	NA
Errors and omissions	NA			1.5	57.4	78.2	-36.6	-56.3	-36.5	NA	NA

^a Estimated.^b Projected.**Economic Crisis**

When he came to power in 1980, Doe pledged to improve popular living standards and to revive Liberia's economy. However, his government's actions and policies—exacerbated by continuing global recession—have had the opposite effect. US Embassy reporting indicates that national output declined by 10 percent during the two-year period of 1980-81 and probably slipped at least an additional 5 percent last year. Various openly available sources indicate that the country's financial health is at its lowest since at least the 1960s, the modern economy is slowly grinding to a halt, and only substantial international assistance is preventing even greater damage. [redacted]

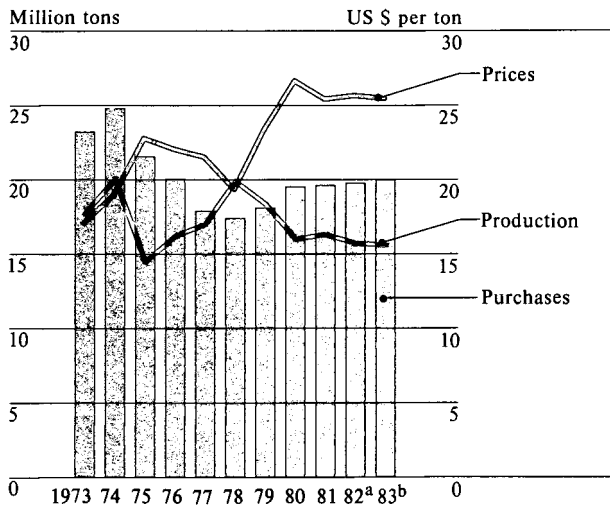
Doe's First Year. One of the Doe government's first acts in 1980 was to execute a number of prominent Americo-Liberians, including President Tolbert, most of his family, and nearly all of his cabinet. The executions received widespread support from the native population, who, in our opinion, saw them as a sign of the end of Americo-Liberian domination. The executions also prompted an exodus of Americo-Liberians from Liberia, which sharply depleted the country's skilled labor pool. Among the emigres were people who occupied senior positions in the government, military, and private industry and held most of the country's wealth. [redacted]

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Figure 1
Liberia: Iron Ore Production, World Prices, and Western Purchases



^a Estimated.

^b Projected.

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A large-scale transfer abroad of funds accompanied the elite's departure. According to the US Embassy, currency withdrawals jumped over 25 percent within weeks of the coup, thereby leaving the government without access to sufficient funds; it has yet to recover. Liberia cannot turn on the printing presses to solve its liquidity crises, as the US dollar is its legal tender. [redacted]

The coup brought to power a group of undereducated, inexperienced soldiers whose lack of expertise in dealing with economic issues quickly became apparent. To redistribute the country's wealth, Doe doubled salaries for civilian government employees and tripled the military pay scale. He also increased subsidies for rice, fuel, and other necessities. In addition, US Embassy officials report that the new regime tacitly supported wildcat strikes against the iron ore and rubber companies that resulted in substantial wage increases and further lowered the attractiveness for Westerners of investing in these industries. Even more worrisome developments, in our judgment, were Doe's

willingness to accept the extravagance of his colleagues on the ruling military council and the lack of fiscal accountability of the various government ministries. These moves boosted operating expenses for 1980 more than 25 percent above the previous year's level. [redacted]

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Doe clearly did not anticipate that the increase in government spending would be accompanied by a falloff in revenues:

- Customs receipts—an important revenue source—declined shortly after the coup as a result of a 45-percent plunge in the monthly volume of imports.
- The decline in demand associated with the departure of the salaried Americo-Liberian elite hurt business profits and reduced related taxes.
- Ship registrations and associated fees and taxes from the operation of the world's largest flag-of-convenience fleet fell off as the world waited to see how the new government would conduct itself. [redacted]

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The regime's initial policies, such as across-the-board pay raises, were designed to curry favor with the public, but entailed substantial costs to the economy. National output in 1980 fell 7 percentage points from the previous year, the first decline since 1976. The loss of most of the Americo-Liberian community crippled domestic manufacturing, construction, and other private-sector commercial activities. The resulting decline in availability of goods, combined with the hefty salary increases, pushed inflation to over 15 percent, the highest rate since 1974. [redacted]

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The country's international financial performance during 1980 was mixed. In foreign trade Liberia averted disaster because of high export prices for iron ore through part of the year. Actual export volume declined, however, and prices were starting to drop by the end of the year as a result of the international recession. Service payments reached a record level, on the other hand, because of rising interest charges on foreign debt and huge transfers abroad to the exiled Americo-Liberian community. [redacted]

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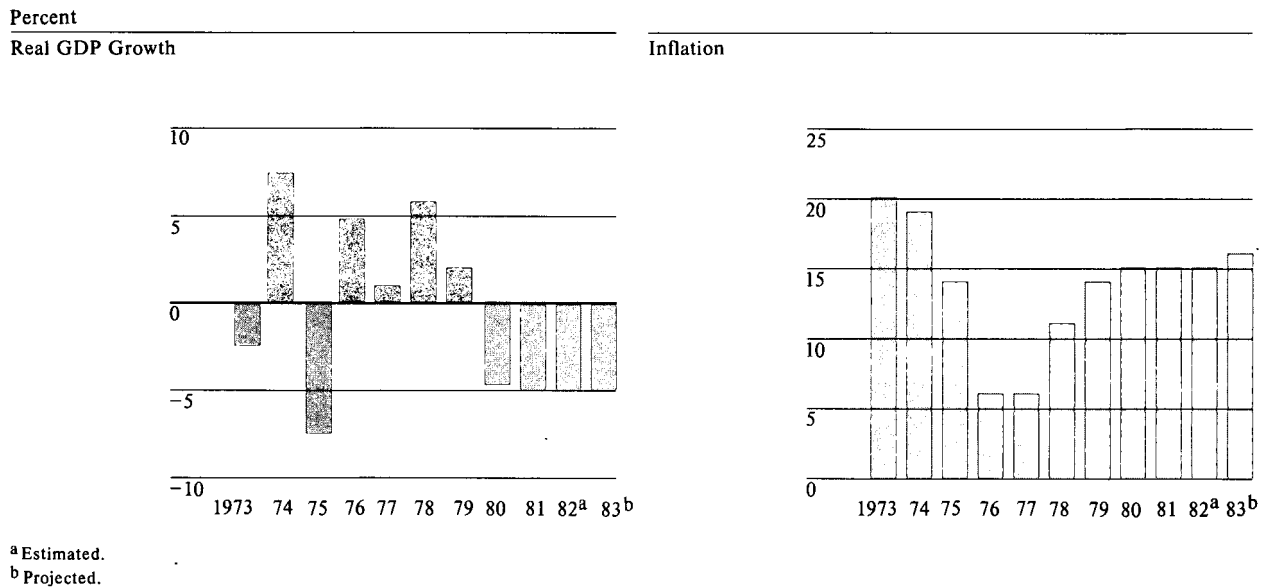
A more worrisome pattern was developing with regard to credit requirements. Local observers reported that unchecked government spending threatened to exhaust available financial resources, and Monrovia had

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Figure 2
Liberia: Real GDP Growth and Inflation



^a Estimated.
^b Projected.

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to resort to international loans just to cover its monthly operating expenses. Only six months after seizing power, the regime was forced to go to the IMF and to secure an agreement with Paris Club members to reschedule payments on part of its nearly \$600 million in outstanding loans. [redacted]

The Decline Intensifies in 1981/82. The combination of appalling economic management by the government and continuing international recession had a telling impact on the economy throughout 1981/82. Statistics from the US Embassy indicate that output declined 5 percent in 1981 and another 5 percent in 1982. Unemployment jumped to at least 30 percent as operators of the iron ore and rubber concessions—Liberia's two largest employers—reduced their work force by one-third to cut costs.¹ Lowered imports of

¹ To keep the concessions going, the government agreed temporarily to exempt the operators from income or export taxes and to assume some of the companies' welfare functions. As part of doing business in Liberia, the companies have had to build and maintain expensive social projects, such as schools, housing, medical facilities, and transport, for their approximately 20,000 workers. [redacted]

machinery, equipment, and spare parts forced other businesses to curtail operations. The resulting shortages of goods frustrated government hopes of reducing inflationary pressures in Monrovia and other import-dependent cities. Real income levels fell further. [redacted]

According to data from the IMF, the falloff in demand for Liberia's exports sliced total foreign exchange earnings by 20 percent during 1981/82, a decline nearly equaled on the import side. Meanwhile, service disbursements reached record levels as a result of rising debt payments and the continued slump in international shipping. Financing the rapidly rising current account deficit proved impossible—Monrovia's poor credit rating cut capital flows to their lowest levels in at least a decade—resulting in the buildup of arrears. [redacted]

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The Americo-Liberian Elite

Liberia was colonized between 1822 and 1865 by a group of 15,000 emancipated American slaves, free-born Negroes and their families. The first group of pioneers settled near the site of what is now Monrovia. Later, as more settlers arrived, other communities were established along the coast. For many years, Americo-Liberians lived in small agrarian communities. Contact with the native population was limited to those tribal groups inhabiting the coastal region and to traders from the interior. [redacted]

Territorial expansion by the Americo-Liberians in the late 19th and early 20th centuries resulted in their subjugation of the nearby tribes. During this period, most of the Americo-Liberians left their farms and formed small urban centers that allowed them to form cohesive political units from which they controlled the entire coastal region. The locus of political power eventually lay with a small number of closely related families in the coastal cities—primarily in Monrovia. These families in turn provided the country's ruling elite for well over a century. [redacted]

The urban centers also became the center for the country's iron ore and rubber operations, which were the basis of the Americo-Liberians' economic for-

tunes. By working closely with foreign investors, the elite controlled the development of the country's natural resources and appropriated much of the profits for themselves. Few if any benefits were passed on to the tribal population, except for some jobs in the iron mines and on the rubber plantations. The economic and social exclusiveness of the Americo-Liberian elite—it barred even Americo-Liberians reared in rural areas or of mixed parentage—was the most important determinant of Liberia's political development and was instrumental in the popular support given the ouster of the Tolbert regime by Doe, who belongs to the Krahn tribe. [redacted]

The Americo-Liberian community has suffered significant losses in the three years since the military coup. Their leadership either was killed during the rash of executions that followed the coup or went into exile in neighboring countries or the United States. Only a few ministerial-level holdovers remain from the previous regime, and they have been reduced primarily to advisory roles. Personal property and other financial assets were destroyed or confiscated by the Doe government; former owners have not yet received compensation. [redacted]

The muddled attitudes and policies of the Doe regime were clearly instrumental in the decline. US Embassy reporting indicates that Western creditors were particularly disturbed by Doe's refusal to accept bad news from his advisers. Their concern was underscored by Doe's dismissal of Planning Minister Tarr and the Bank of Liberia's president, both of whom were viewed by international bankers as the only senior officials left with any appreciation of what had to be done to keep the economy going. Monrovia also did not inspire the support of foreign and local business by continuing to interfere in day-to-day operations and demanding exorbitant fees and taxes in return for immunity from physical violence and arrest. [redacted]

Growing Pressure for Reform. Admitting his ignorance of economic issues, Doe decided to call on Washington to help sort out the country's day-to-day

cash flow problems. By early 1982, the US Embassy became instrumental in orchestrating efforts of the Liberian Government, the country's major creditors, and the IMF in heading off successive crises. In addition to viewing the United States as a financial coordinator, Monrovia looked to Washington for timely monetary assistance. Throughout most of 1982, US advice and funds were the only barrier between Liberia and massive financial default. [redacted]

This US Government support, although critical, could not by itself stem a growing sense of concern in international banking circles for the Doe regime's mismanagement. According to US Embassy reporting, Liberia's creditors, increasingly concerned about

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the country's continuing financial crises and the regime's reluctance to improve the situation, decided in late 1982 on a much tougher approach in their dealings with Monrovia:

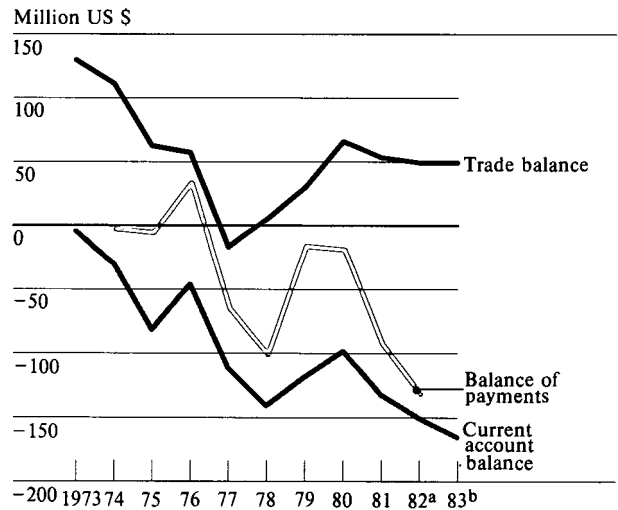
- Private banks, particularly in the United States, refused to extend new loans unless they were guaranteed by the US Government. In November 1982 the banks decided not to continue a \$50 million oil facility that had financed Liberia's petroleum imports for several years. Government efforts to replace the facility with spot market purchases have been only partially successful because of the lack of timely money.
- Also in November, the IMF expressed its displeasure with Liberia's performance—particularly the absence of a 15-percent budget cut requested by the Fund in mid-1982—by suspending a \$10 million disbursement until the budgetary reforms were in place. The Fund's position was enhanced substantially, in our opinion, when the US Congress linked continued official aid to Doe's ability to satisfy the IMF.

Doe apparently understood the message and in December announced budgetary reforms that went far in meeting IMF requirements. These included across-the-board civil service and military salary cuts of between 16 and 25 percent, immediate retirement for government workers aged 65 or above, restrictions on government travel, and reduced subsidies on gasoline for government employees. The implementation and results of these measures has been poor, however.

Patterns in 1983. The earliest indicators for stabilization make it plain that the Liberian economy is still in deep trouble in 1983. The US Embassy points out that Monrovia narrowly missed meeting IMF guidelines on the budget deficit in April 1983. Revenues were substantially lower than anticipated, reflecting, in our judgment, the continued slump in export receipts and local business activity, as well as government reluctance to pursue a more vigorous collection effort.

We see no signs that the Liberian economy will turn around any time soon, and certainly not during 1983. We believe Monrovia will experience the fourth consecutive year of declining output, perhaps again

Figure 3
Liberia: Trade, Current Account, and Balance-of-Payments Position



^a Estimated.

^b Projected.

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around 5 percent. Slow real growth this year for the Western economies indicate, in our opinion, no meaningful improvement in international demand for Liberian exports, particularly iron ore.² Without a sharp increase in export earnings, Monrovia will not be able to increase imports needed to expand production of local industries. Neither can the Doe regime count on sizable increases in capital flows as long as it is unable to control government finances. Fiscal discipline, however, is questionable in view of the lack of experienced technocrats in the government and the prevalence of corruption at high levels. Doe has indicated to US Embassy officials that he would be reluctant to move beyond last December's limited austerity program. In our opinion, the foregoing factors point to continuation of the periodic domestic financial crises that have plagued the Doe regime almost from the moment it seized power.

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² The methodological basis of these and other financial forecasts is explained in appendix A.

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Attendant Political Problems

Although Doe has not been threatened by serious economically motivated public protests so far, US Embassy reporting indicates that the regime's inability to arrest the economy's decline and to reduce corruption have eroded its legitimacy and generated discontent. [redacted]

[redacted] a hard economic line—additional severe government payroll cuts, layoff of civil servants, and inflation—could generate potentially explosive anti-government sentiment. [redacted]

The US Embassy reports the military's ban on strikes has not completely suppressed discontent. Teachers and medical workers in the public sector have mounted sporadic, short-lived work stoppages to protest deteriorating living standards as have foreign concession workers. Many concession workers have been laid off, and those who remain have had to contend with the elimination or reduction of social services provided by their employers, including medical care, housing, schooling, and transportation. [redacted]

Students, although currently quiescent, provoked two major protests last year over deteriorating campus living conditions and government restraints on political activity. The US Embassy reports that continued misappropriation of funds in the Education Ministry and the increase of some tuition fees by nearly 300 percent since last year will perpetuate student grievances. The Embassy also notes that job prospects for graduates in the 57,000-person civil service, traditionally the country's largest single source of employment, remain bleak because of a continued government hiring freeze. [redacted]

Public resentment of high-level corruption and conspicuous consumption by ranking officials is growing, according to the US Embassy. Reporting indicates that evidence of official corruption is widespread and often highly visible. Members of the military council and cabinet officials often abuse privileges and perquisites, and even Doe has built a lavish mansion in his hometown. The US Embassy reports endemic cronyism—extending even to Doe who is widely perceived as favoring his own Krahn tribe—has undercut the regime's highly publicized anticorruption drives and lessened public willingness to pay taxes and customs duties. [redacted]

Reports from the US Defense Attache indicate that, although the military of just under 7,000 men is well paid by civilian standards, morale and discipline remain less than satisfactory. Doe has faced repeated coup plotting over bread and butter grievances, including complaints over payroll delays, and the US Embassy reports disgruntlement and jealousy among the enlisted ranks over the wealth and perquisites enjoyed by senior officers. [redacted]

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Muted Reaction. Despite the evidence of economical-ly based grievances, the Embassy reports that most of the public is resigned to the limited austerity measures. Although unhappy about their reduced income, public-sector employees have grudgingly accepted pay cuts because of the government's promise to regularize salary payments and to avoid large-scale dismissals. In addition, the Embassy reports that the traditional extended family welfare system and the ability so far of rural areas to reabsorb many of the now unemployed foreign concession workers in subsistence agriculture have helped cushion some of the worst effects of the economic downturn. [redacted]

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We believe Doe's harsh repression of any signs of opposition has had an intimidating effect and limited public protest. The US Embassy reports that labor unions have been repeatedly quieted by wholesale firings or threats of layoffs in response to strike actions. One major student demonstration ended in early 1982 after Doe arrested and threatened to execute student leaders. In addition, the Embassy reports opposition political activity has virtually disappeared as a result of a strict military ban on politicking. [redacted]

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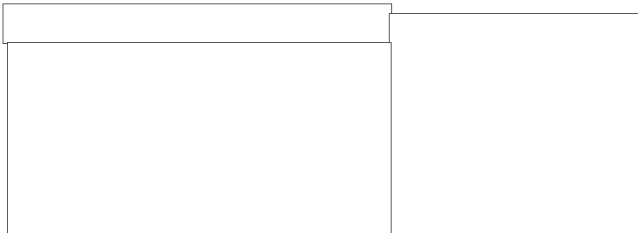
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The Need for New Economic Policies. In view of Liberia's bleak economic prospects, we and the US Embassy believe that the likelihood of further economic decline will be a major source of potential political instability. Restoring Liberia to economic health requires, at a minimum, a substantial increase in world demand for its iron ore and rubber exports—a development we do not anticipate until at least after the 1980s. In the meantime, much will depend on Doe's willingness and ability to implement sterner adjustment measures so as to maintain Monrovia's access to IMF and Western aid flows. [redacted]

Continuing Threat to Stability. We believe public passivity and the image of the regime as an agency of "national redemption"—initially fostered by post-coup promises of economic recovery and elimination of dishonesty in government—will be offset by continued economic decline, corruption, and government ineptitude. According to the US Embassy, acceptance of future economic hardships depends in no little part on the government's continued ability to regularly pay the military and civil servants and to keep the promised return to civilian rule on track. The Embassy reports current levels of muffled discontent, if catalyzed by growing perceptions that the government is drifting aimlessly and breaking its promises, could spur more open confrontations with the government. In addition, US diplomats believe more severe austerity measures, without stronger efforts by Doe to stabilize the economy and check corruption, would increase the potential for public disorder. [redacted]

In the area of reforms, the greatest need is to reduce the role of government in the economy. Doe is mulling the need to cut the bloated civil service by up to 25 percent and eliminate or turn over to private enterprise most of the country's unproductive state-run corporations. In addition, the US Embassy reports Monrovia is weighing the postponement of nonessential development projects such as road and other building projects, implementing stricter financial accounting procedures, and adopting a tough energy conservation program to cut costly oil import bills. [redacted]

If future public disorders are sparked by civil servants, labor, or large numbers of urban unemployed, we believe politicians and intellectuals could be emboldened to take the lead in articulating popular grievances and that this could lead to a coup. Such a situation developed before the 1979 rice riots, when opposition leaders exploited public dissatisfaction by railing against the government, thus contributing to its overthrow. [redacted]

We believe, on the basis of Doe's erratic economic record, that he will resist taking comprehensive economic steps as long as possible, and look to emergency US aid to bail him out of any immediate financial crisis. If, as we anticipate, Liberia's creditors prevail on Doe to adopt tougher austerity measures, we believe he will reverse his decision if serious popular opposition is encountered. Moreover, enforcement by the cumbersome and inefficient Liberian bureaucracy will be less than perfect. In our view, Doe believes his freedom of action on economic matters is constrained by a need to preserve his position as Liberia's "redeemer," while minimizing the risk of assassination or a coup. [redacted]

Looking Toward 1985: Some Key Factors

US Embassy reporting suggests that the economic and political situation in Liberia is likely to remain fluid and unpredictable for the next several years. We judge that the most likely sources of future instability would be either:

- The possibility of economic collapse.
- The abortion of plans for civil rule.
- The danger of military intervention. [redacted]

Meeting the Timetable for Civil Rule. Despite a public commitment to restore civilian government by April 1985, US Embassy reporting indicates that Doe's intentions wax and wane depending on his mood. In conversations with US officials, Doe at [redacted]

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times voices weariness with the burdens of governing and professes a desire to achieve civil rule and retire. On other occasions, especially in recent months, Doe has voiced serious doubts about the wisdom or feasibility of proceeding toward civil rule and professes growing enjoyment of the power and trappings of office. The Embassy attributes Doe's indecisiveness to his inexperience, distrust of politicians, worries over Liberia's economic troubles as well as attitudes within the military and his own future. Doe has publicly conditioned the return to civilian rule on progress toward solving the country's economic mess and providing adequate benefits—such as housing—to the military. Failure to make such progress could give Doe an excuse to backtrack. [redacted]

Doe has revealed no public timetable for restoring civilian government, and much remains to be done. The US Embassy reported that a new constitution was submitted by a civilian drafting commission to Doe last March. The constitution will be reviewed this August by a constitutional advisory assembly, whose 59 civilian delegates are being chosen by county conventions, and then submitted with recommendations to the ruling military council for approval. Doe publicly promised in March to complete a census by next February to help establish electoral constituencies. If and when the constitution is ratified and the census has been conducted, Doe would then face the decision of whether or not to lift the ban on politics to permit the formation of political parties and the organization of elections. [redacted]

Doe could seize on a variety of circumstances to prevent further progress toward civil rule. The US Embassy has reported that Doe fears a repetition in Liberia of the conditions that set the stage for Rawlings's second coup in Ghana—a chaotic transition to a shaky civilian government that faced severe economic problems and lacked public and military support. The Embassy also indicates some senior Liberian executive mansion officials and key army officers worry that the country's worsening economic situation could lead to civil disturbances before elections can be scheduled. In addition, in his conversations with the US Ambassador, Doe has expressed concern that politicking in the preelection period could prove disruptive or produce so many competing political factions as to make the country ungovernable. Doe also is

concerned about his ability to work with the political leaders and groups that emerge once the ban on politics is lifted. Even if the 1985 deadline can be met, Doe worries that an abrupt plunge into freewheeling democracy under untested politicians could result in chaos and disruption. [redacted]

On balance, we believe there is an even chance that Doe will renege on his promise of civilian government. US Embassy reporting indicates public anticipation of civilian rule has so far helped temper frustrations with poor economic conditions and government maladministration. The Embassy suggests that many Liberians assume civilian leaders will have better financial and managerial expertise and deal more effectively with Liberia's economic crisis. The abandonment of the goal of civil rule, the Embassy believes, would risk alienating key civilian groups and heighten the potential for serious instability. One way out for Doe, however—which would allow him to retain power and yet return to civil rule—would be to run for the presidency himself. [redacted]

Correcting Shortcomings of the Armed Forces. Reporting from the US Defense Attache and US Embassy indicates that the survival of the Doe regime and whatever government that may follow depends ultimately on the Liberian military. Despite some progress, the armed forces still suffer from a lack of professionalism, a sense of purpose, and discipline among enlisted men. Attache reporting also reveals some concern among officers and soldiers that a return to civil government would entail a loss of privileges and material gains or possibly lead to retribution for their malfeasances. [redacted]

With US security assistance, some of the more glaring deficiencies of the Liberian military are being addressed. US-funded barracks should be completed by 1985, to afford decent housing for the military if

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civilian rule follows. The Minister of Defense has moved to disarm enlisted men and punish those who harass civilians. One army battalion has been assigned to growing food crops for the armed forces, and the military academy is being upgraded to improve officer training. [redacted]

We believe the regime at best will make only slow progress toward overcoming the longstanding problems of the armed forces. In our judgment, Doe will continue to face the threat of coup plotting and random violence from the lower ranks that will increase if, as we expect, the economy continues to deteriorate. In addition, in the event of serious public disturbances, we believe enlisted men are likely to be as unreliable as they were when called upon to subdue the 1979 rice riots. In our view, overt signs of serious opposition in the Army toward proceeding with civil rule plans would tip the balance in Doe's mind and cause him to abort the process. [redacted]

Potential for Meddling

As long as the economic and political situation in Liberia remains unsettled, the danger of meddling by outside powers will remain. We concur with the US Embassy, however, that Doe's strong suspicion of Communism, Liberia's traditional pro-Western orientation, and its heavy dependence on Washington for financial assistance have limited opportunities for the Soviets and their allies to gain influence either with the regime or among the people. Soon after Doe came to power, Liberia briefly promoted closer ties with Moscow and Tripoli in hopes of attracting desperately needed assistance and because of the influence of the new leftist foreign minister. [redacted]

[redacted] as Doe gained experience he realized that better relations with Moscow and its allies would result in no significant increase in aid, and he became far more wary of Soviet and Libyan intentions. In mid-1981 Doe expelled two Soviet diplomats for espionage and with strong US encouragement reduced the Soviet Embassy to seven officials. He also closed the Libyan mission [redacted]

[redacted]

[redacted] relations with the Soviets and Libyans remain distant. Nevertheless, the US Embassy notes that Doe and his

advisers occasionally publicly advocate better relations with Moscow and radical African countries like Libya and Ethiopia as leverage to extract additional financial assistance from Washington and in hopes of expanding Liberia's base of foreign economic donors. [redacted]

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We believe Soviet and Libyan reluctance to respond positively to Monrovia's initial requests for money was due to a recognition that they could not successfully compete with high US aid levels and that any aid would only help bolster a pro-Western regime. In our judgment, Moscow and Tripoli will continue to maintain a distant relationship with Doe, hoping a change in government—either by the election of civilian leftists or a coup by populist enlisted men susceptible to manipulation—would improve their chances of gaining influence in Monrovia at Washington's expense. [redacted]

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The Soviets. US Embassy reporting [redacted]

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[redacted] indicate that Liberia's leftist foreign minister has continued to urge closer bilateral relations with the Soviets. Since 1981 Moscow and Monrovia have signed commercial air service and cultural exchange agreements, but the Liberians have stopped all educational exchanges with Moscow [redacted]

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reporting [redacted] indicate that Moscow's

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ability to conduct subversive activities and increase its

influence is limited by Soviet unwillingness to provide

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economic assistance, the small size of its mission, and

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the lack of appeal of Communism to Liberia's traditionally conservative and agrarian society. [redacted]

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[redacted]

Libya. Tripoli has attempted, despite the closure of its mission in Monrovia, to maintain limited commercial and political contacts with Liberia. The US Embassy has reported that in 1982 Libya purchased \$7 million of coffee from Monrovia, enabling Liberia to dispose

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of its surplus and providing some desperately needed foreign exchange. A Libyan-Liberian holding company also still functions in Monrovia, allowing Tripoli to maintain a presence and probably providing a cover for intelligence activity. According to the US Embassy, the company recently constructed an \$11 million commercial building that includes offices, shops, and apartments. It is considering plans for low-cost housing and agricultural projects. [redacted]



Washington, however, means that there always will be the danger of an abrupt policy reversal or backlash harmful to US interests. In our view if Liberia's IMF agreement runs into more serious trouble or collapses, the United States will face a marked increase in Doe's concerns about what he can expect from Washington to offset the loss of IMF and other funds. We believe Doe would almost certainly blame Washington for any public unrest associated with continued economic decline or harsher austerity measures adopted under US pressure. [redacted]

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Assuming that Doe is able to continue in power for at least the next two years, we think that any lapse in Washington responding to bailout requests by his government would cause Liberia to explore more actively means of applying pressure on the United States to increase its aid levels. Monrovia could once again publicly declare its readiness to establish better relations with the Soviets, Libyans, or other radical states in hopes that Washington would feel its position threatened and provide more funds. As a last resort, the regime could try to extract more economic assistance by tacitly threatening to charge rent for US communications and navigation facilities that were acquired over the last 25 years either gratis or for a modest one-time payment. [redacted]

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The US Embassy reports deep-rooted suspicions of Libya and its designs in West Africa among Liberia's senior military, which is dominated by non-Muslims. Liberia's Muslims also make up only about 20 percent of the population, have little political or military influence, and keep a low profile. The majority are moderate Sunnis to whom Qadhafi's radical brand of Islam does not hold great appeal. Although Libya provides limited funds to at least one of Liberia's handful of Islamic groups, most funding is provided by Saudi Arabia and Egypt. [redacted]

Outlook and Implications for the United States

In our view Liberia's economic and political situation will remain fragile for the near future. We believe Doe has an even chance to muddle through the next several years, but to do so he will remain heavily dependent on advice and assistance from external donors, especially the United States. Doe's penchant for impulsiveness and occasional fits of pique with

Instability, whatever its cause, or the indefinite continuation of military rule would probably result in criticism of Washington by moderate Africans, and in propaganda advantages for the Soviets and Libyans because the United States is widely identified in the region as being responsible for events in Liberia and for championing democratic principles. Economic collapse would unravel Doe's political authority, spur widespread popular unrest, and set the stage for a military coup. Most official US observers believe a successor government would be no better suited to address the country's problems than the one now in power. [redacted]

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In our view Doe's departure under such circumstances would probably lead to the installation of yet another ill-prepared military regime dominated by populist-oriented enlisted men. We believe such a regime would be beset with political weaknesses and foreign policy uncertainties of the sort that characterized the

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US Interests ^a

The United States has been perceived by Liberians as their "mother country" since before independence in 1847. Liberia claims a special historic relationship with the United States dating from its colonization in the early 19th century by freed American slaves, and many Liberians view Washington as morally obliged to assist Liberia in solving its problems. Other Africans view Liberia as traditionally linked to the United States and regard Washington's commitment to Monrovia as a bellwether of US interest in and ability to influence events elsewhere in Africa. [redacted]

The United States has formal military access in emergencies to Monrovia's port and international airfield, a right enjoyed nowhere else in West Africa. These facilities can help for rapid staging for US forces into Africa and the Persian Gulf and were used to support peacekeeping operations in Zaire in 1960 and 1978. The United States will spend \$5 million this year to upgrade fueling, servicing, and storage facilities at the airport. [redacted]

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Liberia has the largest concentration of US assets in black Africa. Washington maintains three important, rent-free communications and navigation facilities in Liberia: a Voice of America relay station, an area telecommunications relay system servicing 40 embassies and consulates, and one of eight Coast Guard Omega stations worldwide that provide an all-weather navigation system for civilian and military aircraft and ships. The facilities occupy over 3,000 acres and would cost over \$100 million to relocate elsewhere if other African countries could be found to accept them. Potential advances in satellite technology could diminish their usefulness by the end of the decade. [redacted]

American private business investment totals \$300 million, mainly in mining and rubber industries, and American banks have outstanding US loans of \$400 million. The United States imports less than 5 percent of its iron ore, rubber, and timber from Liberia. Some 75 percent of US-owned shipping is under Liberian flag-of-convenience registry, the world's largest. US aid to Liberia this year will total \$71.2 million, which is the highest per capita aid level in Sub-Saharan Africa. Of this amount, \$32 million is for budgetary support, \$12 million for development, \$11.4 million for PL-480 food imports, and \$15.8 million for military assistance. [redacted]

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^a This background assessment is based on information provided by the US Embassy in Monrovia. [redacted]

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first year of the Doe regime. The new government would probably prove more difficult for the West to deal with initially, usher in a period of protracted instability, and offer Moscow and Tripoli at least short-term opportunities to ingratiate themselves with what would very likely be naive and directionless leaders. [redacted]

spurs more active opposition to Doe among students, labor, and ex-politicians, he would have to resort to more strong-arm measures to maintain power. We believe Doe's regime would gradually become more ineffectual and corrupt as it became clear to regime members and the general population that the government could not solve the country's intractable problems, and as officials attempted to maximize their own gains through graft. In these circumstances, the Doe regime would probably prove more resistant to pressure for economic reform and require even higher levels of US assistance to sustain. [redacted]

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We believe there would be less civilian criticism if Doe were to engineer his election as Liberia's future civilian president than if he canceled plans for democratic government. The latter development probably would increase civil-military frictions, make it more difficult to attract talented civilians to the Doe government, and increase the regime's vulnerability to outside meddling. If the perpetuation of military rule

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Appendix

Methodological Notes on Economic Forecasts

The economic data in this assessment are derived largely from the IMF, whose quarterly meetings with the Liberian Government produce the most current and consistent series of domestic economic indicators. Various US Government sources also were used, primarily to confirm information provided by the Fund. In addition, we had to make various assumptions concerning the performance of the world economy and key commodity markets. Available published Liberian statistics proved unsuitable because they were frequently untimely, internally inconsistent, and ignored developments in areas of the country other than Monrovia. [redacted]

Trade and International Financial Developments

In preparing our estimates of Liberia's balance-of-payments position for 1983, we relied on certain key assumptions about factors affecting demand for Monrovia's exports, particularly iron ore and rubber:

- We assumed only a slight recovery in major industrialized countries, resulting in average developed country growth of about 2 percent. This forecast assumed that activity in major Western economies would not pick up appreciably until some time in the latter half of 1983. Our projected growth rate of 2 percent also is in line with official projections of the Organization for Economic Cooperation and Development (OECD).
- This assumption of a slow and limited economic recovery in the West this year should result in no significant increase in demand for—or prices of—Liberia's mineral or agricultural exports. This conclusion is supported by commodity market analysts both inside and outside the US Government. [redacted]

In deriving our estimates for import expenditures this year, we assume that the government's austerity measures, including wage cuts and reduced consumer subsidies, will hold down purchases of consumer goods. Orders for machinery and other equipment will

feel the impact of the business community's uncertainty over Monrovia's fiscal policies and the retrenchment program started by the iron ore and rubber producers to hold the line on production costs. [redacted]

We also anticipate further weakening this year in Monrovia's payments position for imported services. The primary factor is the increase in interest payments on foreign debt, as reflected by data from the World Bank on medium- and long-term debt. Receipts, on the other hand, remain depressed because of the impact of the slow recovery in the West on international shipping and Monrovia's ability to offer the use of its flag of convenience. [redacted]

These trends suggest a \$165 million deficit on current account for Liberia this year, about the same as the \$150 million that the IMF and other sources estimate for last year. Financing this deficit requires monetary resources beyond the country's capability. Capital flows will continue to lag because of concern in international circles about the Doe regime's ability to move ahead on financial and other essential economic reforms. In the interim, we expect Monrovia will build up short-term arrears and miss deadlines on payments on foreign debt. [redacted]

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