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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Congo (Kinshasa): The Current Economic Situation And Prospects

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
June 1971

INTELLIGENCE MEMORANDUM

CONGO (KINSHASA): THE CURRENT ECONOMIC SITUATION AND PROSPECTS

Introduction

1. Congo (Kinshasa), an African country rich in agricultural and mineral resources, has had a tumultuous history since independence in 1960. It has survived army mutinies, secessions, and near-economic collapse. After the accession of Joseph Mobutu to the presidency in 1965, serious economic problems had to be faced: a moribund agriculture, a severe shortage of skilled personnel, a deteriorated and neglected transportation system, inadequate government revenues, meager foreign exchange holdings, and rampant inflation. Nationalization of the one copper company in 1967 and other measures to "Congolize" the economy discouraged foreign investor interest. This memorandum will review the measures taken to counter these economic conditions, assess the progress toward recovery, and indicate the probable course of economic events in the next few years.

Discussion

Seven Years of Deterioration and Stagnation

2. Before 1960 the Congolese economy was one of the most diversified between the Sahara and South Africa. The Belgian colonial administration had encouraged Belgian citizens to establish large plantations, mining complexes, and supporting industry and infrastructure. Development

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

of the mineral-rich interior provinces made the Congo 1/ an important supplier of cobalt, industrial diamonds, copper, columbium-tantalite, and manganese (see Table 1). Agricultural diversification was fairly well advanced, and the Congo exported a wide range of products, including palm oil, coffee, cotton, rubber, and tropical woods (see Figure 2). Belgians constituted the entrepreneurial and managerial class in all economic sectors, and public services, such as health, administration, police, and education, were dependent on the skills of more than 100,000 Belgian and other white expatriates. Colonial planning assumed that Belgian rule would continue indefinitely, and almost no preparations were made for independence. When Brussels reversed its colonial policy and promised independence in 1960, the Congolese were unprepared to assume the burdens of leadership.

3. Within a week of independence, the authority of the central government had collapsed almost completely throughout the Congo. During the ensuing five years, provinces declared themselves independent, tribal warfare became widespread, and whites were beaten and killed by Congolese stirred up by the government's antiwhite propaganda. By the end of 1960, perhaps 60,000 Belgians had fled, and with them went the vital skills that had held the complex economic and administrative structure together. Disintegration of the entire structure followed, and elementary security evaporated in the wake of tribal revolts and army mutinies. During the administrative chaos and recurrent hostilities that continued for the next few years, the transport network deteriorated, both from physical destruction and from neglect, domestic trade fell off sharply, and production of most cash crops fell to about half their pre-independence levels (see Table 2). [redacted] government administration 25X6
worsened the situation, budget deficits mounted, inflation became rampant, and unemployment soared (see Table 3).

4. The one bright spot in the midst of this chaos was the copper industry – production declined only about 4% below the pre-independence level. With virtually a free hand in running its Katangan enterprises, Union Miniere du Haut Katanga (UMHK), owned by Societe Generale de Belgique and Tanganyika Concessios,, Limited, continued to invest in the industry. Investment in concentrating and refining facilities amounted to about $150 million. Because of the decline of the rest of the economy, copper took on new significance by the mid-1960s, providing about 50% of exports (see Figure 2) and half of government revenues.

5. In 1965 a military regime headed by Joseph D. Mobutu replaced the unstable civilian government in Kinshasa and turned its attention to

1. For principal locations in Democratic Republic of the Congo (Congo, Kinshasa), see the map, Figure 1.

DEMOCRATIC REPUBLIC OF THE CONGO

Figure 1

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Table 1

Congo (Kinshasa): Indexes of Mineral Production

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
		1959 = 100										
Copper	310,955 tons a/	107	105	105	96	98	102	112	114	116	129	136
Cobalt	9,294 tons	98	99	115	87	91	99	134	115	125	126	142
Diamonds	14,856,000 carats	91	123	99	100	99	84	84	89	80	95	95
Tin	10,297 tons	N.A.	N.A.	75	N.A.	56	N.A.	77	70	67	71	61
Manganese ore	402,343 tons	N.A.	N.A.	88	N.A.	79	N.A.	68	75	88	85	95
Coal	294,317 tons	65	27	30	39	40	42	42	49	26	32	32
Zinc concentrates	60,418 tons	97	104	102	59	101	104	112	112	114	116	116
Wolframite	607 tons	N.A.	N.A.	65	N.A.	39	N.A.	41	25	32	39	N.A.
Columbium-tantalite	282 tons	N.A.	N.A.	57	N.A.	18	N.A.	38	57	44	68	63
Cadmium	524 tons	N.A.	N.A.	65	N.A.	99	N.A.	89	60	67	63	N.A.
Silver	163 tons	N.A.	N.A.	34	N.A.	31	N.A.	39	39	45	33	32
Gold	285,724 troy ounces	82	64	53	59	48	22	45	42	48	50	50

a. Throughout this memorandum, tonnages are given in short tons.

CONGO (Kinshasa): Exports

Figure 2

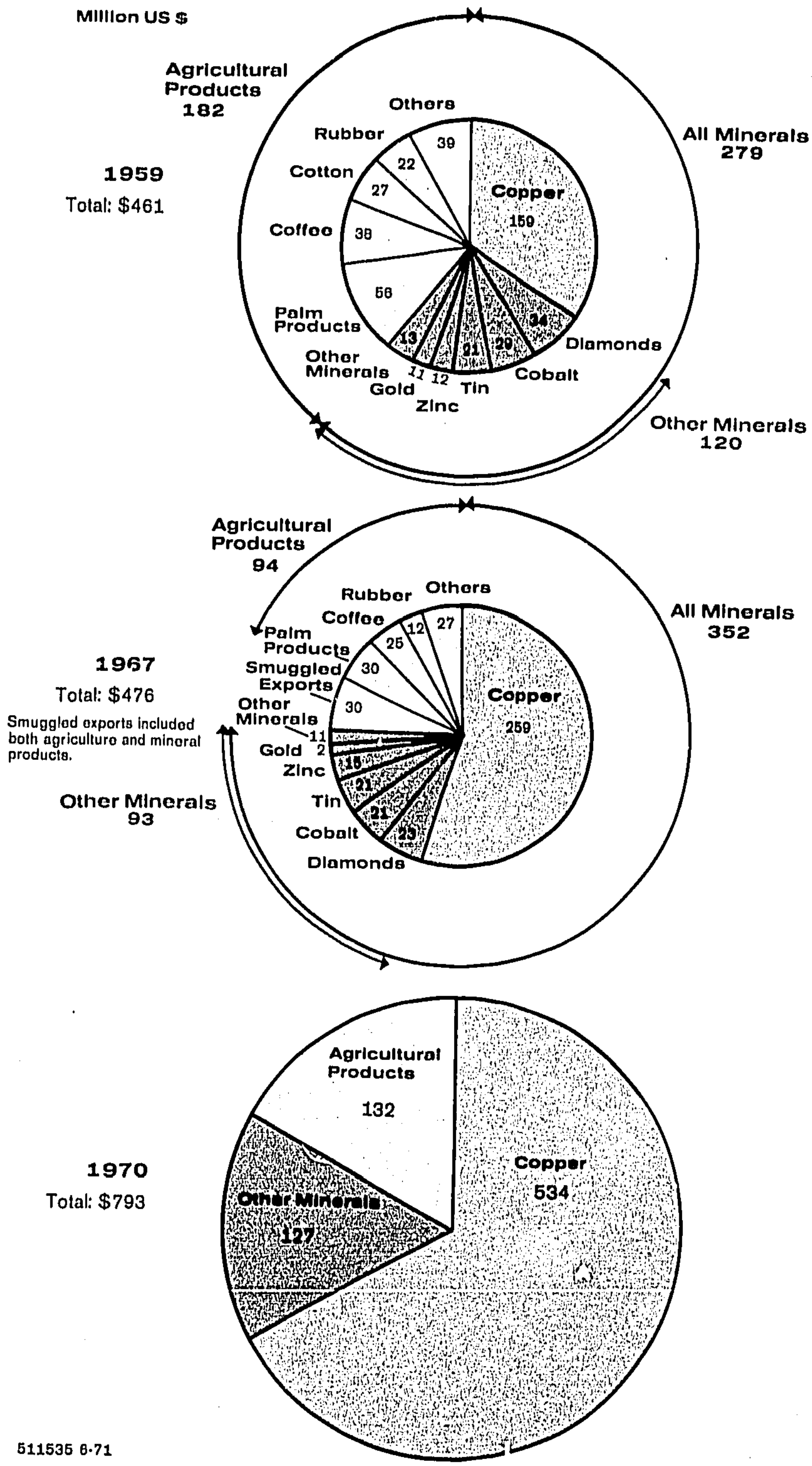

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Table 2

Congo (Kinshasa): Indexes of Cash Crop Production

1959 = 100

	1962	1963	1964	1965	1966	1967	1968	1969	1970 a/
Palm oil	78	73	72	56	60	73	84	82	82
Coffee	52	76	63	39	58	67	74	82	84
Rubber	93	94	88	53	76	80	102	91	80
Cotton	30	N.A.	24	7	12	13	19	30	30
Sugar	107	97	70	85	83	90	99	93	N.A.
Wood	N.A.	N.A.	83	73	72	63	58	58	49

a. Estimated.

Table 3

Congo (Kinshasa): Indexes of Economic Indicators

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	1959 = 100										
Estimated gross domestic product (constant prices)	N.A.	N.A.	N.A.	N.A.	94	N.A.	107	106	114	122	134 a/
Employment											
Private sector											
Africans b/	96	84	75	80	78	73	41	44	44	N.A.	N.A.
Expatriates	97	63	58	63	67	70	70	70	63	N.A.	N.A.
Public sector	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	156	160	170
	June 1960 = 100										
Retail prices (end of year)											
African markets	113	152	274	393	451	489	616	1,074	1,276	1,437	1,466
European stores	N.A.	149	180	261	377	425	476	892	1,061	1,132	1,172

a. Gross domestic product in 1970 in current prices estimated at $2,020 million.
b. In 1959, there were 1,281,490 Congolese in salaried positions or active in cash crop agriculture.

the foreign interests that dominated the economy. Legislative measures were taken to "Congolize" the economy and to assert control of natural resources. Mining concessions granted prior to independence were revoked, and concessionaires were required to reapply for future use of their holdings.

6. Relations with the UMHK particularly were strained, because of Congolese bitterness over the fact that the firm had backed Katangan secession after independence. UMHK's annual earnings fell from $70 million in 1959 to an annual average of $12 million between 1962 and 1965. Taxation rose sharply, and although sales revenues rose substantially in 1966 as a result of higher copper prices, profits after taxes increased only slightly above the 1965 level of $16 million, far below pre-independence levels. At the time of the takeover, more than $7 million in back dividends was being held back, because the Congolese government refused to make the necessary foreign exchange available.

7. UMHK was nationalized on 1 January 1967 with no provision for compensation. UMHK reacted by stopping copper production, halting the transfer of foreign exchange to the Congo, and threatening legal action against anyone who purchased Katangan metals from the Congolese. As a result, the Congo's foreign exchange reserves fell below one month's imports, and stocks of consumer goods and industrial supplies dwindled. In February 1967 the Congolese agreed to have the Belgian firm Societe Generale des Minerais (SGM), which had handled marketing for UMHK, manage the Katangan operations (later named Gecomines) and market the output. 2/

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2. Compensation for UMHK was not resolved until September 1969 after the personal intervention of World Bank President Robert McNamara. SGM agreed to manage Gecomines for 25 years. During the first 15 years, SGM would receive 6% of the value of all minerals produced (predominantly copper, but also including cobalt, zinc, germanium, silver, and gold) minus marketing costs; the 6% commission includes compensation to UMHK and a management fee. After 15 years, compensation payment would cease, and SGM's fee would fall to 1% of minerals sales minus marketing costs; this charge is roughly in line with other similar management contracts. If Gecomines expansion proceeds as scheduled, UMHK will receive more than $500 million. Payment to SGM in 1969 was about $23 million, or about $5 million more than the 1968 payment for management services alone.

[redacted] 25X1

Recovery and Prosperity

8. The economic nadir of the nearly bankrupt Kinshasa government came in 1967. At that point, on the advice of the International Monetary Fund (IMF), the government agreed to a 67% devaluation and to sweeping fiscal reform measures. Uncontrolled deficit spending by the government was ended, export incentives were restored, and import restrictions that had protected the manufacturing sector (see Table 4) were lifted. Less than two weeks after the monetary reforms were announced, unfortunately, mercenary-led revolutionaries occupied Bukavu (the leading commercial center of eastern Congo), and elsewhere antiwhite army brutality resulted in further departure of Europeans. Manganese mining was disrupted for many months, and diamond production (usually the second or third most important mineral export) fell off because of pilferage and smuggling by the troops and by resettled refugees. Nevertheless, Mobutu's efforts to improve security and achieve economic reform slowed the departure of Europeans and permitted nearly normal operations in the Copperbelt and most other important economic installations.

9. A prolonged US copper strike, which touched off a sharp price rise (see Figure 3), from July 1967 to April 1968 did even more to benefit the Congo. This windfall allowed the Congo to finance its current budget without a deficit – revenues from Gecomines alone (see Table 5) were almost equal to total government revenues the year before (see Table 6). Total exports rose 24% (see Table 7), largely because copper exports rose 48%, and net foreign exchange holdings increased steadily from virtually nothing in June 1967 to $138 million at the end of 1968.

10. By 1969, relative calm and prosperity prevailed. Restrictions on funds blocked before the devaluation were relaxed, and expatriates were invited back to run key industries and utilities. A liberal investment code guaranteeing profit repatriation was issued, and in September 1969 a settlement with UMHK was reached. Copper revenue continued to rise, as economic growth in industrial countries as well as Vietnam war requirements kept demand strong and world prices high. Because of unprecedented tax collections, government spending was able to rise almost unchecked. Equipment was purchased to repair bridges and roads, public works were undertaken, and funds were allocated for schools and dispensaries. Wages of the 285,000 workers on the government payroll (almost one-third of total wage and salary earners) were raised, bringing the government's annual wagebill to about $250 million – about 55% of current budget expenditures. [redacted] in 1969, [redacted] the first post-independence budget surplus was recorded (see Table 6),

25X1

Table 4

Congo (Kinshasa): Indexes of Selected Manufactures

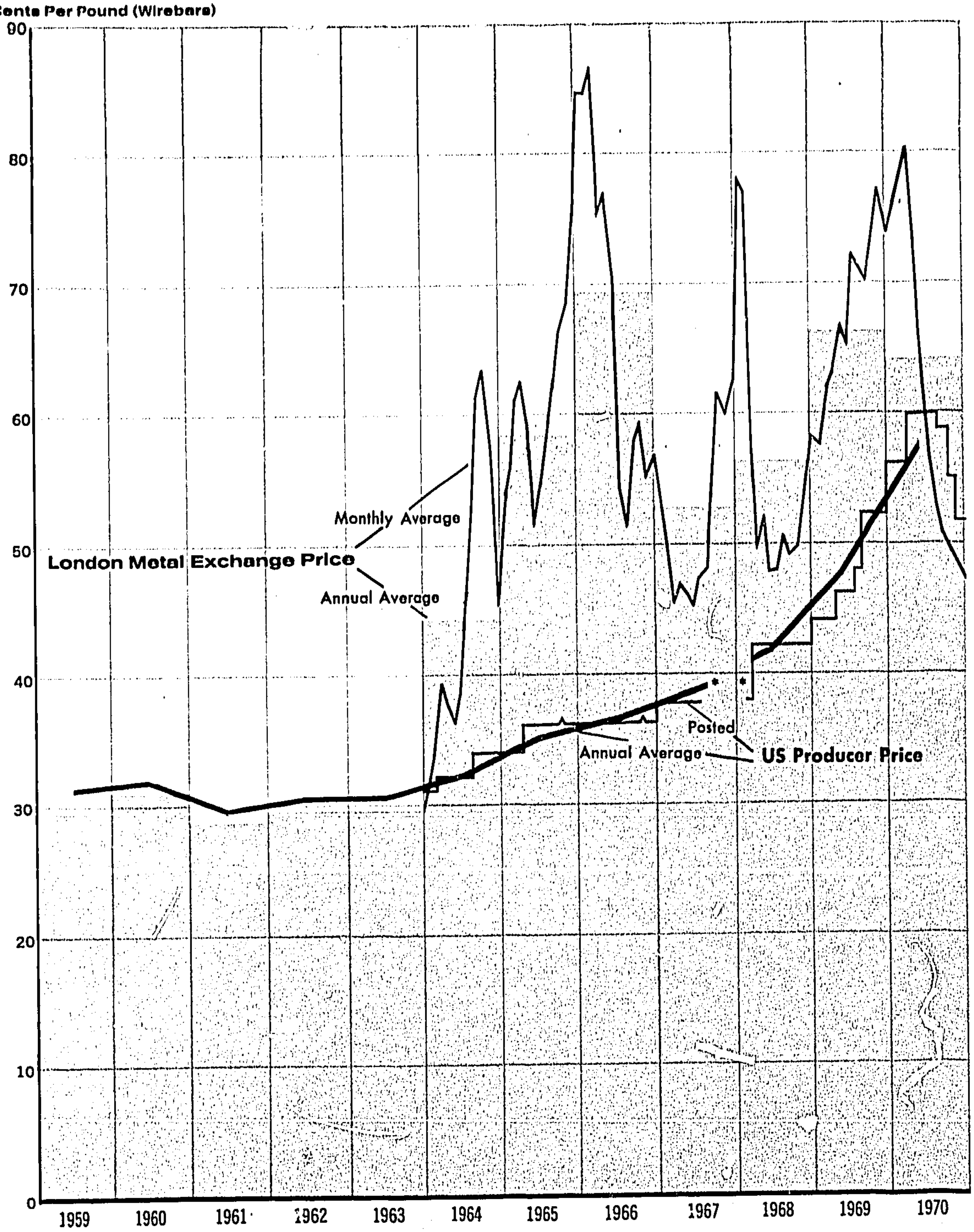
1958-59 Average = 100 a/

	1962	1963	1964	1965	1966	1967	1968	1969	1970 b/
Table oil	279	278	302	322	303	305	249	300	377
Beer	165	163	148	159	176	175	175	213	245
Cigarettes	60	85	49	66	76	72	71	83	94
Cotton cloth	90	106	110	115	118	114	92	107	107
Metal furniture	298	238	207	282	371	471	379	500	629
Sulphuric acid	85	78	88	96	102	108	107	104	109
Explosives	100	105	123	147	130	131	120	200	224
Soap	75	70	68	75	112	100	101	99	103
Cement	53	66	61	67	76	80	79	87	105
Metal barrels	55	45	45	44	48	32	33	38	29

a. Unless otherwise indicated.
b. Estimated.

Copper Prices

Figure 3



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No posted price during strike.

[redacted] 25X1

Table 5

Congo (Kinshasa): Taxes and Duties Paid by Gecomines

	1967	1968	1969	1970 Total [a]	1970 Jan-Jun	1970 Jul-Dec
	Million US $					
Export taxes	80	151	177	N.A.	111	N.A.
Copper surtax	0	0	26	N.A.	31	N.A.
Import duties	2	9	9	N.A.	6	N.A.
Other taxes	9	31	53	N.A.	32	N.A.
Total payments	*91*	*191*	*265*	*306*	*180*	*126*
	Percent					
Percent of all domestically generated revenue	46	51	49	54	57	44

a. 1970 partly estimated.

Table 6

Congo (Kinshasa):
Government Budgetary Operations

Million US $

	1967	1968	1969	1970
Total expenditures	247.2	457.4	598.4	653.8
Current	218.3	371.4	459.9	N.A.
Capital	28.9	86.0	138.5	N.A.
Total receipts	235.8	420.8	600.3	630.6
Domestic revenues	199.2	375.1	539.9	570.6
Gecomines taxes	91.1	191.2	264.8	306.0
Foreign assistance	36.6	45.7	60.4	60.0
Surplus/deficit	-11.4	-36.6	+1.9	-23.2

Table 7

Congo (Kinshasa): Foreign Accounts

Million US $

	1966	1967	1968	1969	1970
Total exports	488.4	476.2	588.6	684.0	793.0
Copper exports	267.0	259.0	384.0	443.[illegible]	534.0
Imports	378.8	319.8	360.2	472.4	620.0
Net foreign assets (end of year) a/	16.9	116.3	169.8	225.2	217.8

a. Net foreign assets is the difference between foreign assets and liabilities of the entire Congolese banking system.

and foreign debt service was a modest 4% of 1969's export earnings and domestic debt service only 5% of domestically generated revenues.

1970's Turnabout

11. Although the wave of prosperity continued through the early months of 1970, new fears of nationalization were touched off. In February, a Kinshasa court closed an auto dealership, which had operated through a Brussels parent, and found the firm guilty of currency fraud and false invoicing. A surge of capital flight ensued as a hastily formed holding company prepared to take over control of the remaining dealerships. [redacted] 25X1 A visit of the King and Queen of Belgium during independence celebrations in July and an announcement that Union Miniere would return to the Congo to open new copper mines at Tenke and Fungurume in Katanga did little to quiet the uneasy business community. In December, a leading European bank was closed and its director arrested for abetting tax evasion and illegal transfer of funds to Belgian banks – further adding to Congolese xenophobia.

12. Belgian businessmen feared that the Congolese intended to replace them with Americans when Mobutu went to the United States in August seeking new foreign investment. The president suddenly reversed himself on the Tenke-Fungurume concession and awarded it to an American-led consortium. As presidential and legislative elections (the first since Mobutu seized power) approached, Belgian-baiting was a recurrent theme. In his inaugural address in December, Mobutu stressed the need to wrest the economy from foreign monopolies.

13. The price of copper on the London Metal Exchange (LME) crested in April, but its implications for the economy went largely unnoticed in the Congo. On the strength of copper exports, up 21% from 1969 in value terms and accounting for 67% of the total, exports reached a new high, although agricultural exports were still some 27% below pre-independence levels. Lagging production of foodstuffs did not affect the average urban Congolese, moreover, because substantial imports were available; some 70% of meat consumed was imported, as well as corn and other food crops. Preoccupied with domestic issues, Mobutu sent only a low-level delegation to the November meeting of the Intergovernmental Council of Copper

Exporting Countries (CIPEC) 3/ which was concerned with the decline in the price of copper.

14. By year end, the effect of the steady outflow of capital and the fall in copper prices became increasingly clear. The independence celebrations, the royal visit, political payoffs, and topheavy operating expenditures wiped out the surplus in government accounts that had existed in the first quarter of 1970 (see Table 8). With imports rising sharply -- 31% higher than in the year before -- and sluggish capital inflows, net foreign assets dropped by $32 million in six months. The selling of the Congo currency (the zaire) at a 25% discount on the Brussels market revealed the lack of confidence in the Congo by Belgian businessmen.

15. Following 1970's budget deficit and declining copper earnings, spending plans for 1971 were scaled down. Total spending was set at $569 million, almost 15% below 1970, and a $25 million loan on commercial terms was secured from a US bank for the public investment program -- raising net foreign debt to more than $300 million. Lavish spending has become difficult to stop, however, and government spending rose still further during the first three months of 1971, partly owing to a January wage increase that affected low-level government workers and also to President Mobutu's expenses for trips to promote the Congo and secure foreign investment. Although central government revenues have continued to decline as the LME copper price has hovered around 50¢ a pound, further increase in the government's wage bill is scheduled for October. If current trends continue, a 1971 deficit of $100 million to $150 million is likely.

Major Investment Projects

16. Foreign investment that may well double the Congo's copper output by the end of the 1970s is well under way (for copper production in 1969-74, see Figure 4). A Japanese group (including Nippon Mining,

3. The Congo, along with Chile, Zambia, and Peru, formed CIPEC in 1967 to obtain "legitimate increased revenues." While CIPEC has the potential for monopolistic behavior because its members account for 80% of world copper exports, policy differences have prevented any concerted market action. The Congolese have never been enthusiastic supporters of CIPEC, because they see themselves supplying only European consumers and the Latin American suppliers facing a different sector of the market. In Paris they held to their earlier position that their share of the market -- 5% to 6% -- is too small to force prices up by cutting back production and that their long-term interest lies in expanding production to increase copper income. 25X1

Table 8

Congo (Kinshasa): Recent Developments a/

Million US $

	1970 Jan-Mar	1970 Apr-Jun	1970 Jul-Sep	1970 Oct-Dec	1970 Total	1971 Jan-Mar
Budget						
Receipts	161.6	164.6	157.4	147.0	630.6	130.2
Expenditures	127.6	187.4	170.4	168.4	653.8	171.8
Surplus/deficit	+34.0	-22.8	-13.0	-21.4	-23.2	-41.6

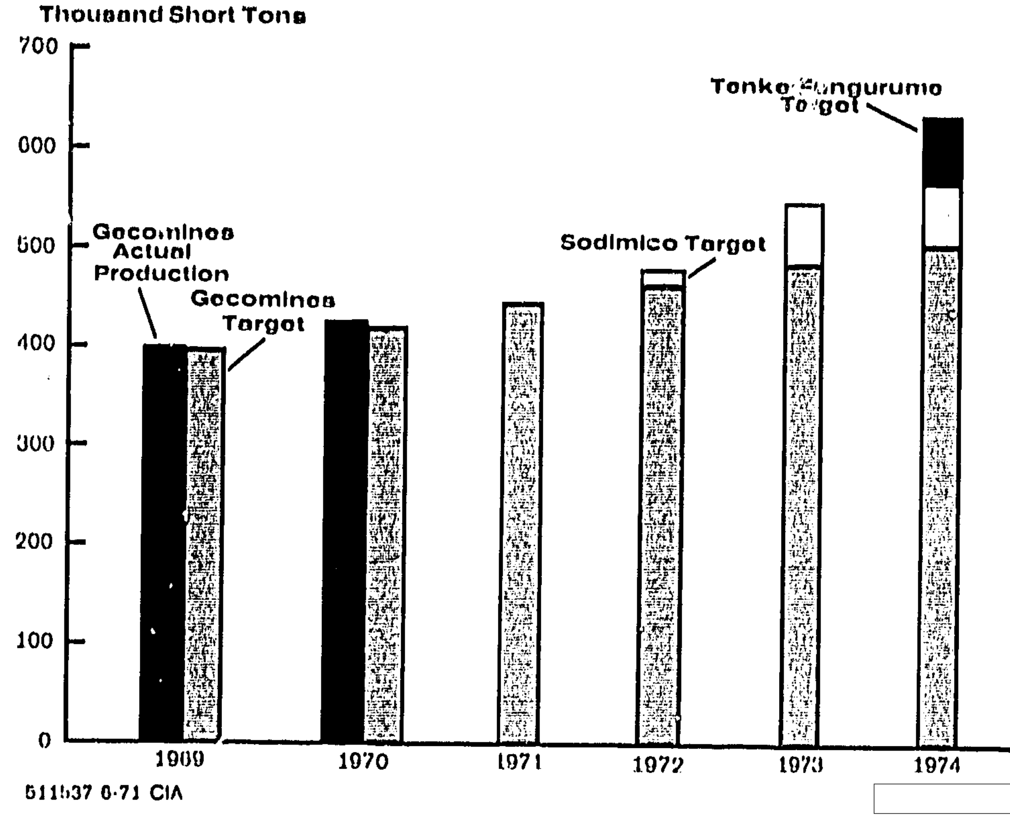
	Jan-Jun	Jul-Dec	Total
Trade			
Exports	419.4	373.6	793.0
Imports	297.2	322.8	620.0

	Oct-Dec 1969	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Net foreign assets	225.2	248.4	249.9	223.9	217-8

a. Partly estimated.

CONGO (Kinshasa): Copper Production Levels

Figure 4



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Sumitomo Metal Mining, Mitsubishi Mining and Smelting, Furukawa Mining, Toho Zinc, and the trading firm, Nissho) formed a joint venture – known as Sodimico – with the Congolese government in 1967 to develop a concession of 14,000 square miles in Katanga where two major copper deposits have been identified. One of these, a 30-million-ton deposit containing ores with an average metal content of 3.3% is south of the Gecomines mines at Musoshi. The second deposit, at Tshinsenda, is of similar size but is even richer, with ores averaging 5.5% metal content. This deposit will be developed later. Another concession was ceded from the old UMHK holdings at Tenke and Fungurume in 1970 to an American-led consortium headed by Standard Oil of Indiana and including Leon Templesman and Son, Charter Consolidated, Mitsui, and the French Bureau de Recherche Geologique et Miniere. The two projects could mean investment of more than $300 million through the 1970s and increased copper production of 150,000 to 200,000 tons annually by the end of the decade. Gecomines also is in the midst of an expansion program designed to raise production to more than 500,000 tons annually by 1974 and more than 600,000 tons by the end of 1978. Much of the program has been financed from company profits, but after April 1970, when sales receipts were reduced and high taxation squeezed profits, Gecomines began borrowing abroad.

17. Public investment is focused on developing a heavy industrial complex in Kongo-Central Province. An ambitious multiphase scheme to harness the hydro-electric potential of the lower Congo River at Inga is central to the entire development. Power potential at the site is estimated at 30,000 megawatts, which would make the installation the largest in the world. The present phase, scheduled for completion by 1974, involves a $78 million outlay to provide 300 megawatts of hydro-electricity. Most of the cost of the Inga dam and generating plant, about $60 million, will be borne by the government, while $18 million in grant and loan aid from the European Community has been secured for transmission lines and transformers. A considerable part of the government's use of suppliers' credits has been to finance the Inga project. The major power consumer will be an aluminum smelter, which, if current negotiations are concluded, will produce some 150,000 tons of aluminum ingots from imported alumina by 1975. The smelter is a joint project led by Kaiser Aluminum, with participation by Pechiney of France and Societe Generale de Belgique. Although the smelter itself will be financed by the Kaiser group at an estimated cost of $200 million, facilities for transport and other services will most likely be the responsibility of the Congolese.

Prospects

18. The economic boom of recent years is unlikely to continue in the next few years. With copper prices down and likely to average around 50¢ a pound, earnings will fall by about $90 million in 1971 and it will take two to three years before the increase in copper production will offset the effect of lower prices. Prospects are somewhat better for agricultural exports, especially palm products, rubber, and coffee, but the price of tin also has fallen. With wages rising and liberal import policies, introduced several years ago at IMF urging, being pursued, imports probably will continue to rise in 1971. The government has already made recourse to supplier credits and longer term foreign borrowing and has sought more official foreign loans. The overall capital in-flow should increase in 1971, but not nearly enough to cover the increased current account deficit. Foreign exchange reserves are, therefore, likely to continue declining, which may lead to a serious foreign exchange shortage before the end of the year.

19. When the crisis comes, the Congolese government will be faced with the choice of either cutting expenditures (particularly the government

payroll) or imposing tight import controls – either course would be politically almost impossible. To postpone capital expenditures -- especially transport improvements – would slow the pace of economic development considerably. Tighter import controls would also spur inflation.

20. The large foreign investments now under way to develop the Congo's metal resources will not do much to improve the government's financial position for a number of years. Large increases in copper production will not begin before 1973-74. Transport bottlenecks continue to hinder growth of mining output outside of Katanga Province. Because tax holidays on new investments extend well into the mid-1970s, increases in production will not immediately bring increased revenues.

21. Prospects for expansion of manufacturing and plantation production are uncertain. A number of new industries are being established and some existing facilities, all expatriate-owned, are being enlarged. These advances could evaporate, however, if the Mobutu regimes were to "Congolize" the major foreign-owned firms or if greater restrictions were placed on profit remittances. Moreover, since the tax burden on corporations already is heavy, any significant increase is more likely to trigger tax evasion than result in greater receipts. Although expatriates are beginning to invest in plantations, transport difficulties and rising wages make their position vulnerable.

22. In any event economic progress will be concentrated in a few large urban centers and surrounding areas – especially around Kinshasa and the Copperbelt. The rural areas will almost certainly continue to be neglected, although some slow progress may be made in rebuilding the rural infrastructure that fell apart after independence. Even in the urban economy, no relief from the growing unemployment problem is in sight. Total employment in the modern sector is still far below the pre-independence level; public investment will be limited by financial constraints, and in any case is concentrated in capital-intensive areas, like electric power, which use little labor.