Directorate of
Intelligence

~~Secret~~

25X1

Ethiopia: Economy in Crisis

25X1

A Research Paper

~~Secret~~

ALA 85-10059
June 1985

Copy 386

Sanitized Copy Approved for Release 2011/04/22 : CIA-RDP86T00589R000200250004-5

Page Denied

Sanitized Copy Approved for Release 2011/04/22 : CIA-RDP86T00589R000200250004-5

Directorate of Intelligence

Secret [redacted] 25X1

Ethiopia: Economy in Crisis [redacted] 25X1

A Research Paper

25X1

25X1

This assessment was prepared by [redacted] of the Office of African and Latin American Analysis, [redacted] 25X1

25X1

[redacted] of the Office of Central Reference and computer support from [redacted] of the Office of African and Latin American Analysis. Comments and queries are welcome and may be directed to the Chief, Africa Division, ALA, on [redacted] or [redacted] 25X1

25X1

25X1

Secret
ALA 85-10059
June 1985

Scope Note

This paper is part of a continuing effort to assess the dimensions of the increasingly serious internal problems facing the Mengistu regime of Ethiopia. A recent study, [redacted] 25X1 analyzed the political and security threat to the Marxist government from the worst drought and famine in decades. Another, [redacted] 25X1 25X1 assessed the impact on the regime of the decades-old insurgencies in the northern provinces of Eritrea and Tigray, where, coincidentally, the impact of the drought has been the greatest. This latest paper takes a broader view of the economic pressures placed on the government by natural devastation and its own inefficient socialist ideology. We caution the reader that, because of the dearth of reliable economic data on Ethiopia, many of the judgments are necessarily impressionistic. 25X1 [redacted]

25X1

Ethiopia: Economy in Crisis

25X1

Key Judgments

Information available as of 20 May 1985 was used in this report.

Socialist Ethiopia—which celebrated its 10th anniversary in September 1984—is embroiled in its worst economic crisis to date. Severe drought and longstanding production problems have caused agriculture—the backbone of the economy—to contract precipitously, and the effects have rippled throughout the rest of the economy. Moreover, Addis Ababa, nearly bankrupt, has been unable to shoulder the burden of a massive relief effort for its starving population, let alone meet the financial pressures inherent in spurring growth.

25X1

Although Ethiopia's economic crisis came to a head abruptly, it was a decade in the making. The Mengistu regime's focus on collectivization, concentration of resources on state-run agriculture, and low producer prices stifled development in the all-important agriculture sector. Industry was hit by nationalizations and resultant uncertainty over the future of the private sector. Scant progress in settling international nationalization claims held up disbursement of Western economic assistance. Moreover, recurrent drought, social and political upheaval, burgeoning domestic insurgencies, war with Somalia, and deteriorating terms of trade held down growth across the board and undermined the regime's ability to purchase needed imports.

25X1

We see little likelihood that the government this year will take the bold policy initiatives—such as price adjustments, technical and financial support to the private sector, and restructuring public spending—necessary to give the economy new life. Instead, we foresee a continued reliance on donor aid to feed the drought-devastated rural population, and the intensification of austerity measures to control balance-of-payments pressures. Moreover, although Addis Ababa almost certainly will ask for aid from the USSR and Libya, we doubt Moscow and Tripoli will come through with enough assistance to ease the crunch.

25X1

Ethiopia's economy will continue to deteriorate, in our judgment. Even if weather is favorable, agricultural activity will be depressed at least through 1986 because the rural labor supply has been disrupted, draft animals have died, seed and other inputs are in short supply, and the land itself needs time to recover from drought. Aside from these drought-related problems, several structural economic constraints will pose additional barriers to development. These include a paucity of developed human and physical resources, low domestic savings and investment rates, and a heavy reliance on fluctuating coffee exports. Thus, even if Mengistu liberalized the economy—a course we deem unlikely at best—substantial and continuing capital flows would be necessary to put the economy squarely on the path to development.

25X1

25X1

Ethiopia's continuing economic problems will deepen Addis Ababa's demand for both Soviet Bloc and Western help. Mengistu almost certainly believes, however, that Soviet security assistance is more important than Western economic aid in ensuring the survival of his regime, and thus will seek above all to maintain strong ties with the USSR. 25X1

Relations with the West will be of secondary importance to Mengistu, in our view, and, because of the premium placed upon security assistance from the USSR, the West will be unable to wean the regime away from the Soviet Union with offers only of economic aid. Nonetheless, we expect Mengistu will be pragmatic enough, if pressed, to yield on relatively minor points—such as unsettled nationalization claims—in an effort to pry loose some more Western aid. 25X1

Relations with the United States will be particularly prickly because of Mengistu's deep suspicions of US intentions in the region. US pressure on the regime is likely to result in a slight moderation of economic policies at best—and this only if leverage is applied privately rather than publicly.

25X1

Sanitized Copy Approved for Release 2011/04/22 : CIA-RDP86T00589R000200250004-5

25X1

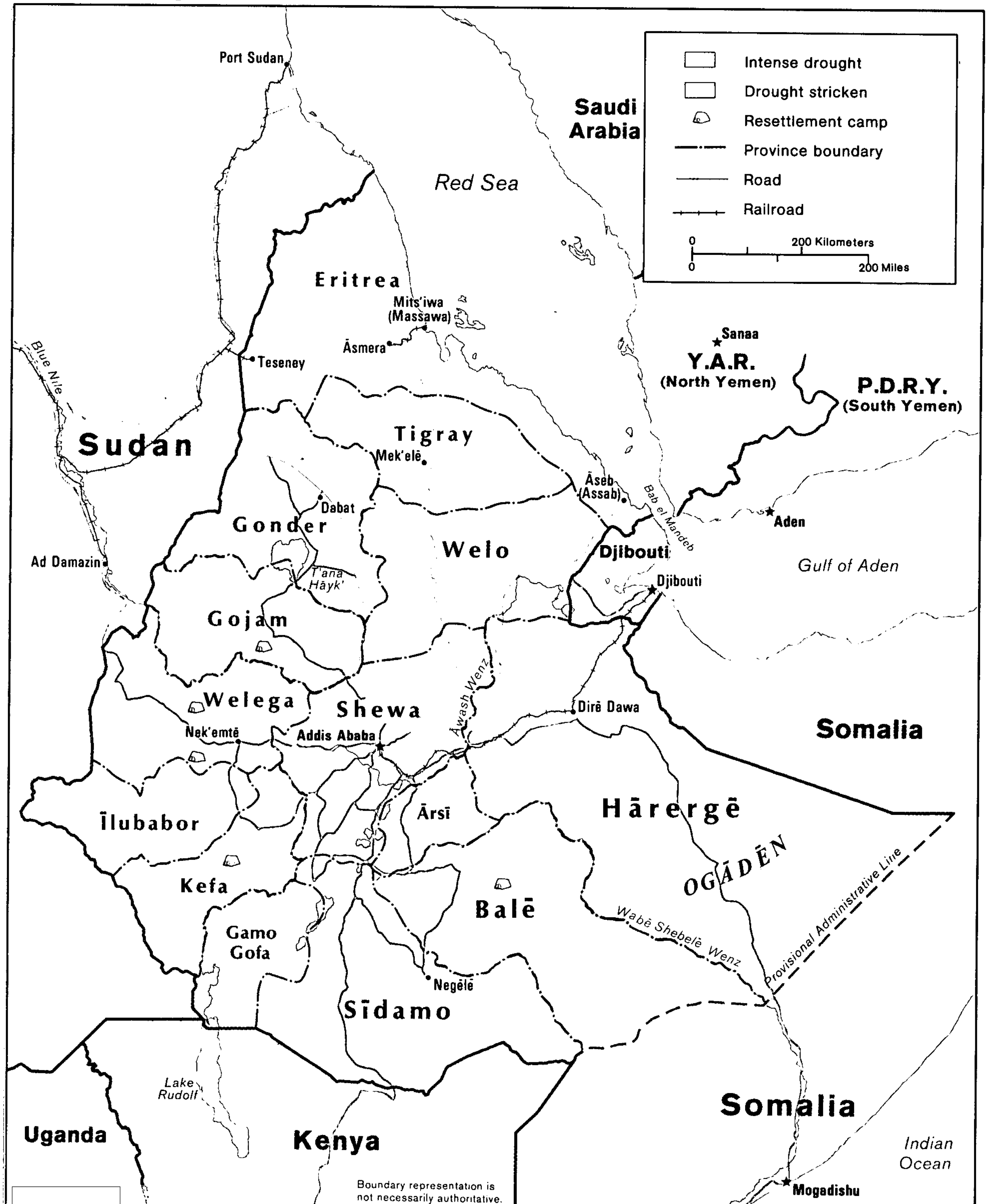
Contents

Sanitized Copy Approved for Release 2011/04/22 : CIA-RDP86T00589R000200250004-5

Secret

25X1

Figure 1
Drought in Ethiopia



705261 (544695) 6-85

25X1

25X1

Ethiopia: Economy in Crisis

25X1

Introduction

The drought, famine, and refugee problems that have focused international attention on Ethiopia over much of the past year have tended to obscure the fact that the country's economic crisis has been a decade in the making. The government's inefficient socialist policies have inhibited production and investment, held up the disbursement of Western aid, and driven away skilled managers. In addition, recurrent drought, social and political upheavals, burgeoning domestic insurgencies, war with Somalia, and deteriorating terms of trade have combined in varying degrees to cut output, create dislocations in trade and transportation, and divert resources to security at the expense of development.

25X1

These underlying trends increased Ethiopia's vulnerability to economic disruption, and it thus is not surprising that drought last year helped precipitate a widespread crisis. Moreover, we see little prospect for any improvement this year, and Mengistu likely will have to impose tougher austerity measures if he is to revive the economy over the longer term. As economic stresses continue, the potential for unrest from important political constituencies will increase.

25X1

The Crisis Strikes

Ethiopia's economy deteriorated sharply last year. In our judgment, economic activity may have contracted by an average annual rate of as much as 3 percent, in contrast to the average 3-percent annual expansion the government claimed for 1982-83 or the almost 1.5-percent annual growth of 1973-75, the period of the previous catastrophic drought. Neither Addis Ababa nor international financial institutions such as the IMF have issued any official estimates of the downturn, but the magnitude of food shortages reported by relief organizations, the government's severe financial crunch, and a surge in inflation in the capital city all suggest that the already weakened economy fared worse last year than during 1973-75.

25X1

The First 10 Years: Economic and Social Restructuring

Major changes were imposed on Ethiopia's economic and social structure during the revolution's first decade (1974-84). All land was nationalized soon after the overthrow of Haile Selassie, and, although farmers were given user rights to land they were working before the revolution, the government urged collectivization strongly. The government also took control of all banking and insurance firms, shipping, railroads, airlines, utilities, most large-scale manufacturing, and a large part of the construction sector. Nonetheless, the private sector still dominated handicrafts and small industry, domestic trade, and road transport.

25X1

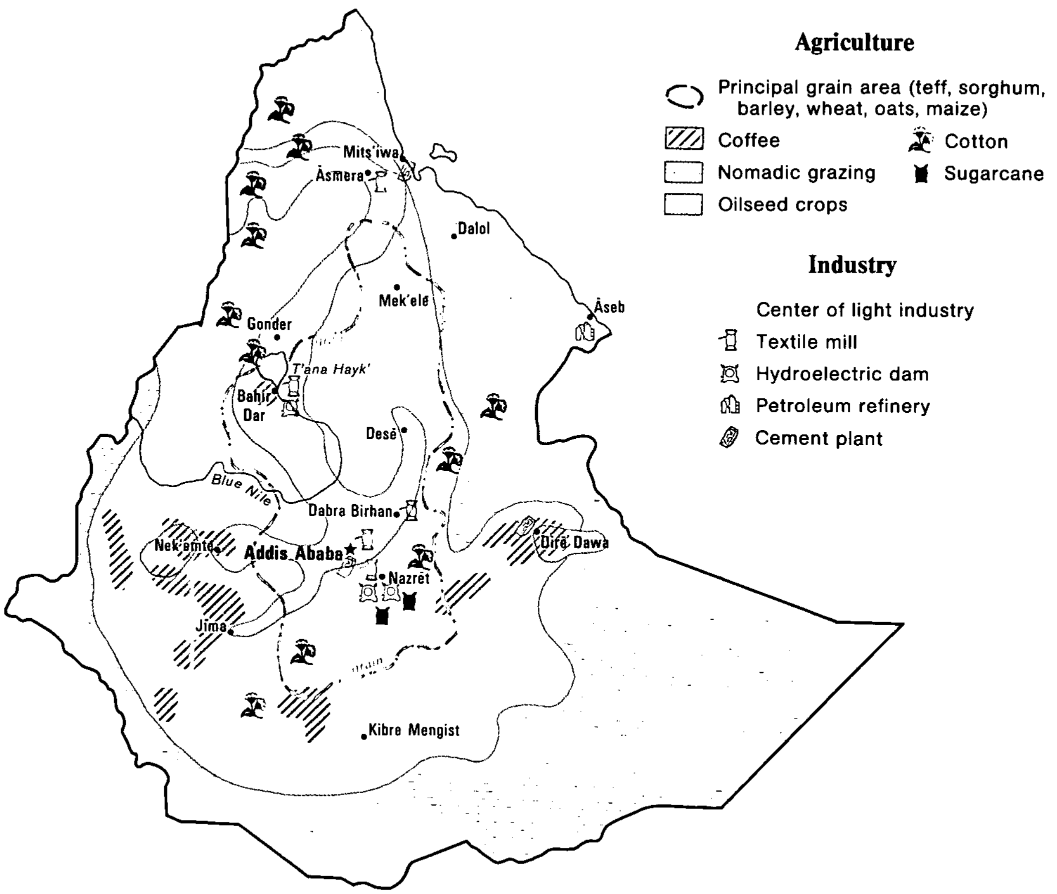
The government achieved considerable social progress and a more equal income distribution, according to the World Bank, although living standards remained very low. World Bank reports indicate that agrarian reform and the abolition of rent—paid in crops—led to an improvement in the food intake and real incomes of the rural population. We believe this came at the expense of the urban population and resulted in a decline in rural-urban income differentials. In addition, the school enrollment rate of elementary-school-age children increased from 19 percent to 47 percent, and access to health care services increased from 15 percent to about 40 percent of the population, according to World Bank statistics. Even so, health services, housing, and sanitation facilities are limited, and life expectancy in 1982 was only about 46 years, compared with 59 for all low-income countries.

25X1

The Domestic Accounts

Agriculture. Ethiopia's famine alone provides dramatic witness to the downturn last year of the agricultural sector—which accounts for almost half of national

Figure 2
Economic Activity in Ethiopia



25X1

Boundary representation is not necessarily authoritative.

705270 6-85

output and 85 percent of employment, according to the IMF. Having pieced together information from government sources, the US Embassy and relief groups, we believe agricultural production could have fallen by as much as 15 percent in 1984, compared with a 3-percent decline in 1973-75. In our judgment, however, drought only compounded adverse conditions that such sources as the FAO, the World Bank, the IMF, and the US Embassy had long reported as chronic constraints on the sector:

- Soil degradation caused by erosion, deforestation, and primitive farming techniques, and recurrent drought and lack of irrigation for smallholders, which limits water control even in years of sufficient rain, have held down output.

- An underlying population growth rate of between 2 and 2.5 percent annually and accompanying increases in national consumption requirements have placed added pressures on already overworked land.

- Such government policies as low producer prices, marketing restrictions, and limitations on interregional grain movements have reduced incentives for farmers to produce for market. Scarce credit, grossly inadequate extension services, insufficient and expensive fertilizer and seeds (all a result of the government's decision to concentrate resources on state-run agriculture rather than smallholders), and an increasingly overvalued currency have capped production of food and export crops alike.

- A continuing civil war has held down food output in the north.

- Poor roads and misallocations of vehicles, the inefficient government marketing system, and inadequate storage facilities have hampered food distribution throughout the country.

As a result of conditions such as these, the agricultural sector has been in trouble for much of the past 15 years. On the basis of World Bank data, for example, farm output has grown less than 1 percent annually since 1970, compared with over 2 percent yearly in the previous decade. Drought and internal turmoil caused production to stagnate throughout much of the 1970s, [redacted] and per capita
25X1 output declined markedly. Even a 2.5-percent growth rate of farm output in the late 1970s and early 1980s barely covered per capita requirements, and allowed no recovery to previous consumption levels. [redacted]
25X1

We believe that subsistence food crops, which, [redacted] constitute between one-half and two-thirds of total
25X1 agricultural production, were hit hardest last year.
25X1 According to the press and the US Embassy, conditions were particularly critical in the traditionally food-deficit northern region, where rain had not fallen in significant amounts for three to four years. Severe pest infestations and the failure last year of the seasonal small rains that usually begin about February or March devastated the midyear crop, which normally accounts for between 5 and 15 percent of total food production. FAO estimates indicate that the main basic grains harvest in November and December of 1984 fell as much as 25 percent below the average of the previous three years. [redacted] 25X1

In our judgment, state-run and export agriculture were less affected last year by drought and the longer term constraints on production, although some losses probably did occur, particularly in the last half of the year when the drought intensified and transport bottlenecks almost certainly disrupted the supply of needed inputs. US Embassy reporting suggests that water shortages were not as bad in the central region of the country, where most state farms, which produce such crops as wheat, sugar, and cotton, are located, or in the south, where coffee is grown. Moreover, state farms were somewhat protected from the drought because, even though they represent only 5 percent of cultivated acreage, they contain most of Ethiopia's irrigated farmland and are allocated close to 80 percent of the fertilizer and 70 percent of the seeds imported by the government, according to IMF data. In addition, coffee, which provides more than three-fifths of Ethiopia's export earnings, is fairly resistant to drought. [redacted]
25X1

Industry. We believe industry, which accounts for about 10 percent of national output and probably employs less than 10 percent of the labor force, also was hit by input shortages and transportation bottlenecks associated with the drought:

- According to the IMF, Ethiopia's meager industrial base is largely comprised of agricultural processing and import substitution (motor vehicle assembly, metal products, cement, and chemicals) that are mostly government owned, and cottage industries that are mainly in private hands. Output is aimed almost exclusively at the domestic market. Consequently, industry would have been hit on the supply side by a falloff in basic grain, livestock, cotton, and fruit and vegetable production, and on the demand side by sluggish consumer spending.

- On the basis of US Embassy reports, Ethiopia's ports were congested with food aid, and the internal transport system was tied up with the relief effort (including the government's resettlement program), especially in the last quarter of 1984. These transport bottlenecks probably disrupted the supply of industrial imports and the distribution of finished goods.

Even before the drought, however, the industrial sector was reported by the IMF and World Bank to be suffering from chronic shortages of raw materials, modern equipment, and spare parts—which likely worsened with import cutbacks instituted last year as the foreign exchange crunch intensified—and from capacity constraints. Moreover, widespread nationalizations in the 1970s and consequent uncertainty over the future of the private sector had held back investment in handicraft and small industry

25X1

25X1

Services. The government sector and privately owned services—primarily road transport and domestic trade—probably made some gains last year, but only because of the massive, largely foreign-financed, relief effort. If recent trends are any guide, government spending probably grew on the order of 10 percent last year, even though Addis Ababa's official response to the famine was lackluster, according to most press reports and statements from relief officials. Nonetheless, the government provided administrative personnel to relief camps throughout the country, undertook a sizable resettlement campaign to move people from drought-stricken areas of the north to more fertile areas in the southern parts of the country, and was responsible for part of the cost of moving food inland.

25X1

The drought was not the only impetus for government spending. On the basis of official budget statistics, we estimate that defense spending, particularly on the northern insurgencies, annually drains almost $400 million in public funds, or almost half of all current expenditures.[1] These military allocations are used mainly to cover foreign and domestic personnel, fuel, transport, and food costs; expenditures have remained high since the late 1970s as the regime has responded to the growing insurgent threat. Although the government was to have started repaying its $2 billion arms sales debt to the Soviet Union last year, we believe Moscow, realizing the extent of Addis Ababa's financial crunch, rescheduled the approximately $200 million due.

25X1

Prices. Further evidence of Ethiopia's economic deterioration is a surge in inflation last year. The IMF reported that inflation in the capital city jumped to an annual rate of 30 percent during April through September, and we estimate that it probably averaged about that for the year as a whole. Although that rate of price increase pales in comparison with those of Latin American LDCs and even such African states as Somalia or Uganda, it is a marked contrast to the slight price decrease reported in official data for the city of Addis Ababa for 1983. Moreover, US Embassy reporting indicates that prices in rural areas also increased significantly last year.

25X1

A number of factors probably contributed to Ethiopia's domestic inflation. Certainly, shortages of food, fuel, and other domestic and imported goods pushed up prices. We also suspect that the financially pressed government covered a part of its deficit by expanding the money supply because it was unable to obtain adequate financing from abroad.[2]

25X1

External Accounts

The malaise in Ethiopia's domestic economy was mirrored by continued problems with the external accounts. IMF statistics indicate the financial gap (current account deficit plus debt amortization obligations) already had shifted from a $45 million surplus in 1974 to a roughly $310 million deficit in 1983, according to IMF statistics. On the basis of preliminary data from the IMF, we calculate that the shortfall narrowed slightly last year, but still was a near record $280 million:

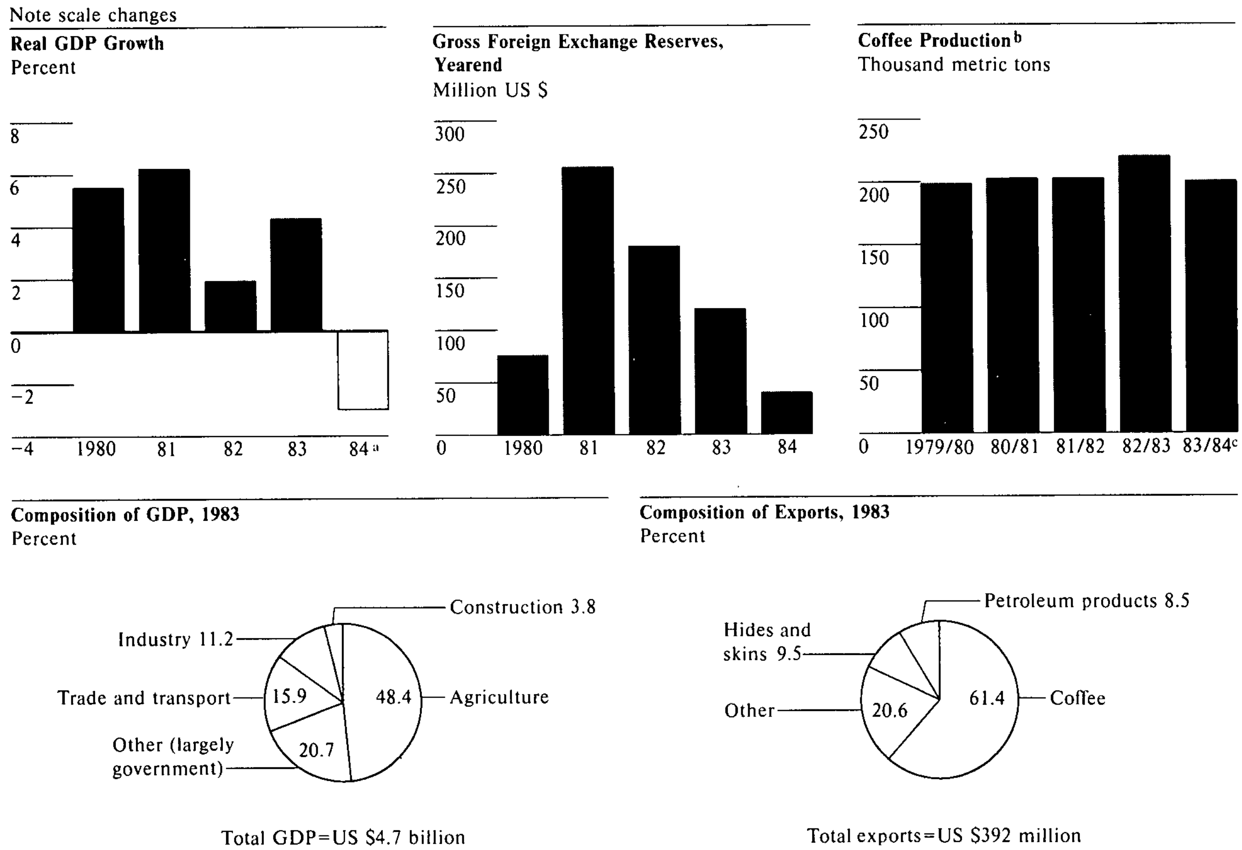
- Export earnings grew only minimally, according to our calculations, largely because a 10-percent falloff in coffee sales prevented Addis Ababa from taking

25X1

[2] US Embassy reporting indicates that Addis Ababa also responded to the deficit by piling up arrearages on debt owed to domestic suppliers.

25X1

Figure 3
Ethiopia: Selected Economic Indicators, 1980-84



25X1

Source: IMF.

25X1

305747 5-85

advantage of higher world prices. Problems were particularly intense in the last quarter of the year, when a late harvest, a shortage of pickers, transportation difficulties, and smuggling problems caused exports to fall more than 75 percent below the same period in 1983, according to US Embassy reporting. We believe other exports—such as oilseeds, sugar, fruits, vegetables, and hides—also were hit by drought and transport bottlenecks.

- On the other hand, on the basis of an assessment of IMF data, we believe that Ethiopia's imports fell slightly in 1984. Imports rose during the first half of the year because of the $120 million purchase of two Boeing 767 aircraft, but, as financial conditions and

Ethiopia: Balance of Payments

Million US $

	1980	1981	1982	1983	1984 [a]	1985 [b]
Current account	−232	−222	−180	−257	−200	−100
Trade balance	−222	−229	−251	−352	−330	−280
Exports (f.o.b.)	433	384	409	392	400	350
Imports (f.o.b.)	655	613	660	744	730	630
Net services	−90	−92	−83	−106	−110	−90
Net transfers	80	99	154	201	240	270
Amortization	20	28	33	50	80	100
Financial gap	−252	−250	−213	−307	−280	−200
Capital account	155	430	136	248	200	200
Change in gross foreign exchange reserves	−97	180	−77	−59	−80	0

[a] Estimated, assuming deliveries of $40 million of food aid. Figures rounded to the nearest $10 million.
[b] Projected, assuming no change in gross foreign exchange reserves, capital account inflows at about the 1984 level, and 1.3 million metric tons of food aid worth about $185 million.

25X1 [redacted]

transport disruptions worsened, we believe the government cut back its purchases. Indeed, the US Embassy reports that, by the end of the year, the Central Bank was refusing requests for foreign exchange.

- As far as the debt burden is concerned, both interest and amortization added to the country's foreign exchange woes. Servicing the approximately $1 billion nonmilitary debt took up about 30 percent of merchandise export earnings, according to our calculations, compared with less than 10 percent in 1980.

Only a raise in transfers—mainly famine-related aid—provided a spot of relief. [redacted] 25X1

Addis Ababa was not able to close its growing financial gap last year through external sources because, according to our calculations, capital inflows fell. Soviet financing declined sharply because, unlike the previous year, Moscow apparently did not sell oil to Ethiopia on credit.[3] If data from the first half of the year are any indication, disbursements from the World Bank and the African Development Bank—Ethiopia's two largest institutional lenders—also declined. Moreover, medium- and long-term capital inflows from private sources probably remained low because bankers were reluctant to shore up the faltering economy. Only financing associated with the Boeing deal—Addis Ababa last year had to cover only 15 percent of the package with its own money—and perhaps increased use of short-term trade credits slowed the decline. [redacted] 25X1

By the end of the year, therefore, gross foreign exchange reserves had plummeted to $41 million, [redacted] down from $119 million at the end of 1983. The 1984 level was the lowest in more than 30 years and equivalent to only two and a half weeks' import cover. [redacted] 25X1 25X1

The Government Response

We believe Mengistu and his inner circle of key ideologues were late in realizing the intensity and extent of Ethiopia's economic problems. The government, for example, did not stiffen import and payments controls enough to prevent a continued decline

25X1 [redacted]

in foreign exchange reserves last year. We also see no evidence that the regime used the media, including newspaper articles, speeches, and the like, to prepare the urban population for coming hardships. [redacted]

25X1

In our judgment, a variety of factors played a role in the regime's procrastination, including lack of information and managerial expertise, poor communications between various arms and levels of the government, and preoccupation with the extravagant 10th anniversary celebration in September 1984. During the emergency airlift of food to Mek'ele in October 1984, for example, the head of Ethiopia's relief organization initially was unable to pry loose transport aircraft from the country's armed forces. The necessary planes were dispatched only after the resident Italian ambassador discussed the countrywide transportation problem with Mengistu. [redacted]

25X1

The regime did little to rectify some of the underlying causes of the deteriorating economy, such as lagging exports, inappropriate agricultural policies, and low investment and savings rates. Instead, Addis Ababa responded by minimizing the political fallout of the countrywide economic decline in propping up the living standards of the military and urban population:

- The government, according to US Embassy reporting, ensured that soldiers and their families received rations of basic foodstuffs, including commodities no longer available in the capital. It also sought to meet the equipment needs of the armed forces—another major concern of the military—with continued imports from the Soviet Union.

- According to the Embassy, the regime purchased food on international markets specifically for Addis Ababa and other urban areas.

- On the basis of trade and financial data and US Embassy reporting, Addis Ababa resorted to stopgap measures and drew down foreign reserves for as long as possible rather than cut imports sharply. Early in the year, for example, the government scrambled to ease its cash crunch by issuing unbacked checks to foreign suppliers of luxury goods and by delaying the deposit of funds sent through the banking system to foreigners and international organizations resident in Ethiopia. [redacted]

25X1

The government's response went beyond ensuring resources for the military and sensitive urban consumers. Addis Ababa also attempted to insulate the cities from the poor economic conditions by waging a media campaign. The regime publicized the international relief effort to show that it was responding to famine, and, according to Embassy reporting, even used troops to prevent refugees from entering the capital and displaying the true dimensions of the problem. At the same time, the government charged publicly that the famine was not the result of Ethiopian policies, but of an inadequate Western response to Addis Ababa's earlier warnings about the seriousness of the drought. [redacted]

25X1

The government was apparently successful in its efforts to defuse potential unrest among its most important backers. [redacted] nothing beyond typical sporadic spot shortages—caused by poor logistics—occurred in the military, and the delivery of weapons and hardware continued apace. On the basis of Embassy reporting, we do not believe the government was able to completely cover urban food and consumer goods demands, but we suspect that memories of the 1977-78 "Red Terror" that was imposed by the regime's security forces muted public outcries.[4] [redacted]

25X1

25X1

25X1

Further Economic Deterioration Likely

Ethiopia's economic policies this year are likely to continue along the lines already drawn and will not reverse the economic deterioration. Western donors probably will continue to concentrate on alleviating the immediate impact of the crisis, rather than pushing Addis Ababa to address its causes. Moreover, even if foreign governments were willing to press for fundamental changes in Ethiopia's economic policies

[4] The *Red Terror* was a government-sponsored campaign to root out opposition to the regime. Begun in November 1977, it had by February 1978 resulted in the death of as many as 5,000 people in Addis Ababa alone, according to published accounts. (U)

[redacted]

25X1

Famine and the Insurgencies

The Mengistu government has been quick to take advantage of the famine as a means of undermining the northern insurgencies. The government has refused to authorize the movement of relief aid to rebel-held areas and has hindered international efforts to reach those most at risk by, for example, denying travel permits to officials from international aid organizations. It also has tried to divert economic resources away from the north; for example, the regime recently excluded Eritrea and Tigray from an International Fund for Agricultural Development project, according to US Embassy reporting.

25X1

Moreover, the Embassy reports that Addis Ababa—perhaps believing that famine and insurgent relief activities have weakened the rebels' fighting capabilities—recently has conducted large-scale sweep operations along the highways in Tigray Province. The campaign appears designed to secure the highways, thereby disrupting guerrilla operations and logistic flows and stemming the movement of refugees into Sudan, where some of them are recruited and trained for guerrilla operations.

25X1

Finally, partly in an effort to undercut support for the insurgencies, Addis Ababa has embarked upon a plan to resettle by the end of 1985 some 900,000 northerners—down from the originally planned 1.5 million, but still about one-tenth of the population of that region—to other areas of the country. The government, however, has encountered problems supporting the program, and we believe the resettled population will be unable to harvest a crop before the end of the year. Addis Ababa, according to US Embassy reporting, has been unable to provide the seeds, equipment, and animals necessary for planting—not to mention the medical care, facilities, and food needed to keep the new settlers healthy. Unfamiliar farming techniques, ethnic tensions, and spontaneous repatriation to the north also are slowing the transformation to food self-sufficiency.

25X1

We believe that, over the longer run, the regime is likely to concentrate more resources on the resettlement areas than on extension services in the north—particularly if the newly settled land is collectivized. In our judgment, the combination of more fertile land and continued government attention to the program will allow the resettlement areas to produce more food than similar plots in the north. Nonetheless, the continued provision of substantial amounts of government aid would increase the likelihood of the program becoming a long-term drain on government finances—especially if the farmers were allowed to keep most of their food rather than selling it to the government.

25X1

this year, we doubt they would have enough leverage on the Mengistu regime to be successful.

25X1

We do, however, expect Mengistu to maintain policies pragmatic enough to ensure Ethiopia the support it needs from the military, urban dwellers, and the international community. We have no doubts that Mengistu is ideologically committed to radical socialization of the economy, and he has publicly stated these views on numerous occasions. Nonetheless, he has proved himself to be a pragmatist willing to slow the pace of his economic revolution if need be. For example, according to the Embassy, the government quickly scaled down the goals of its resettlement effort from 1.5 million to 900,000 people in the face of difficult logistic problems. We expect the regime to react with similar pragmatism throughout the year.

25X1

Supply of Critical Goods

On the basis of the attention Mengistu has paid so far to the loyalty of the military, we believe his priority is to ensure it sufficient food, fuel, and other supplies. During the recent petroleum crunch, for example, military aircraft received fuel while relief planes were grounded, according to the US Embassy. If potentially serious food shortages develop in the armed forces, as some US Embassy sources expect, we believe the government would not hesitate to divert relief shipments to the military. Moreover, on the basis of the relatively greater importance the regime has placed on urban areas, we believe the government is willing to seize private supplies stored in rural areas to deliver

The Question of Leverage

The intensification of Ethiopia's economic problems subtly alters the leverage available to Addis Ababa, Western capitals, and Moscow in their dealings with one another. Some of the actors involved will aggressively continue to take advantage of these changes to achieve various political goals, and tensions between major players almost certainly will rise.

25X1

Addis Ababa can use its economic woes to stimulate international official and public support for increased aid flows, to cleave Western allies on their policies toward Ethiopia, and to push for softer conditionality on Western aid. The government already has employed the first two tactics. Addis Ababa's continued willingness to host foreign government and press representatives, for example, obviously has been aimed at generating worldwide sympathy—and aid. The propaganda gesture in early March, when the Ethiopian Foreign Minister called in Western ambassadors to decry alleged US plans to "send thousands of trucks and aircraft" into Ethiopian territory to deliver relief supplies, was an equally obvious attempt to divide Western governments.

25X1

In addition, Mengistu could continue attempts to extract more assistance from Moscow by highlighting the growing Western involvement in Ethiopia. The Soviet Union, according to US Embassy reporting, objected to the stepped-up Western presence. After Mengistu visited Moscow in December 1984 to discuss the famine, however, the USSR came through with a modest amount of economic aid.

25X1

Addis Ababa's ability to gain aid is likely to wane in coming months. As famine spreads through the African continent, donor governments will have to make tough decisions regarding the allocation of limited food resources among increasing numbers of countries at need. Widespread publicity over famine in other African countries could push the Ethiopian problem from the forefront of public awareness, with a consequent falloff of private contributions. Moreover, adverse publicity over the regime's policies toward such issues as resettlement and food for the rebel-held areas has the potential of weakening both official and public support.

25X1

Ethiopia's economic troubles and the accompanying rise in Western exposure in the country increase the West's leverage over Addis Ababa, because the cessation of trade, aid, and commercial ties to Ethiopia would have a greater impact now than before. OECD countries could apply pressure in an effort to liberalize Ethiopia's economic policies, moderate the government's foreign stance, or reduce internal repression. The amount of leverage applied, however, is heavily dependent upon the degree of cooperation among the participating governments.

25X1

Although the provision of substantial amounts of food aid has increased US leverage over Ethiopia, the overall level still is limited. US food aid is distributed in rural areas, which are not a high-priority concern of the Mengistu government. Moreover, the United States alone is unable to exert much pressure on the regime in trade and financial matters; coffee—Addis Ababa's major export to the United States—is in demand in other markets as well, and US banks and investors have only a small exposure in Ethiopia.

25X1

Given Mengistu's nationalism and deep distrust of the United States, we believe public pressure for policy changes would only serve to stiffen the regime's resolve to oppose US positions. We believe Mengistu's public strategy would be to deflect attention away from the issue without fundamentally changing his policy stance. Addis Ababa's agreement in March to undertake feeding activities in the north reflects this approach, because the sites chosen already are government-feeding areas.

25X1

We see no major changes in Soviet leverage over Addis Ababa. We believe Moscow will continue to provide military aid, and Mengistu's need for this equipment will keep Ethiopian-Soviet ties strong. Moreover, we believe Addis Ababa's desire for these goods will more than counterbalance any discontent over the paltry amount of relief assistance that Moscow has given.

25X1

to the cities. In fact, US Embassy reporting indicates that a disproportionate share of Ethiopia's scarce transport resources were being used to move food to the capital earlier this year. [redacted]

25X1 Political concerns also will dictate the government's policies on the supply of food to famine-stricken areas and refugees, in our view. Addis Ababa has made no secret that it will rely on Western donors to feed the rural population, and we believe that, as conditions worsen in government resettlement camps, donors—who thus far have been reluctant to openly support the coercive program—will be pressured to expand feeding operations there. At the same time, Addis Ababa will continue to oppose food relief for rebel-held areas, especially if such aid gets much publicity. Even though an agreement reached in Geneva last March between Western donors and the head of the government's relief organization calls for more food aid to the rebel-held north, the regime is willing to allow distribution only in areas clearly under government control, according to the Embassy. Moreover, the Embassy reports that some food aid under government control has been shipped to resettlement areas instead of the north, as intended; we expect these sorts of diversions to continue. [redacted]

25X1

Dealing With Financial Problems

The government is likely to continue its patchwork approach to the financial crisis. We believe the regime already has asked and will continue to petition the Soviet Bloc for more aid. Moscow is likely to come up with some project assistance—for example, an irrigation project agreement recently was signed—but probably will not furnish enough new aid to ease substantially the payments crunch. Indeed, the US Embassy reported that a recent jet fuel shortage was caused because the Ethiopian Government failed to allocate sufficient foreign exchange and Moscow refused to deliver without a cash payment.[5] Nonetheless, we do believe the Soviets will provide sufficient aid to prevent serious threats to Mengistu's hold on power, and may further reschedule repayments on Ethiopia's military debt. [redacted]

25X1 Mengistu could turn to Libya, but we doubt Qadhafi would come through with large amounts of new assistance. Tripoli already has disbursed much of the $800 million promised under the Tripartite Agreement of 1980 and has not been pleased with Ethiopia's use of some of the funds, [redacted] Moreover, the soft world oil market has placed Libya in a financial bind of its own. Finally, on the basis of some of his statements, Qadhafi, in our judgment, may think he lacks sufficient support from Ethiopia in various political arenas, such as the OAU, to make further large investments worthwhile. [redacted] 25X1 25X1 25X1

In the absence of substantial external support, the government probably will have to widen its recently announced austerity program. We do not believe the measures—proclaimed in February and tightened in March—will be enough to completely ease financial pressures. Mengistu has called for strict petroleum rationing and import cutbacks, including banning importation of automobiles, "unnecessary" luxury items, and textiles. In addition, Mengistu has imposed a national drought-relief tax—similar to a decree enacted during the 1973-75 drought—that will equal one month's pay for all workers, and has declared that all Ethiopians will be called on to serve tours at relief shelters and resettlement camps. [redacted] 25X1

Other strategies for dealing with the financial crisis also are available. We believe continued rejiggering of the budget and development plan—perhaps including some consumer price increases—and more widespread import cutbacks are likely. In addition, Addis Ababa could sell more of its roughly $60 million in gold reserves, consummate a deal with Iran to sell all or part of its aging fleet of F-5 fighter aircraft, begin to build up arrearages—a practice not followed in the past—or seek a rescheduling of its nonmilitary debt, first through bilateral approaches and only secondarily through the Paris Club.[6] [redacted] 25X1

The government also might overcome its unwillingness to go to the IMF, which, if official pronouncements are any guide, it apparently views as an arm of

[5] In our judgment, the shortfall likely also resulted from Moscow's continuing difficulties this year in producing and supplying crude oil to its international customers. [redacted]

[6] The US Embassy reports that in January this year Addis Ababa sold some 13,000 troy ounces of gold, then worth about $4 million. [redacted] 25X1

Addis Ababa, according to US Embassy reporting, has offered virtually its entire fleet of F-5s to Iran at a total price of $63 million. Although the Ethiopian Government technically must request US permission to sell the planes, we doubt it will do so if the deal is set. [redacted] 25X1

US foreign policy. We believe Addis Ababa would concentrate its efforts on obtaining compensatory financing for export shortfalls and would only reluctantly undertake negotiations for a standby arrangement. The Fund, however, would require politically unpalatable measures such as a devaluation of the birr, which is pegged to the US dollar, in return for a standby. As a result of the perceived political cost of such measures, we believe there is a good chance that Ethiopia soon would fall out of compliance with the Fund. [redacted]

25X1

Economic Restructuring

We do not believe the economic crisis will lead Addis Ababa to change its socialist development path. In our judgment, environmental, financial, and ideological constraints will sharply limit the government's ability to spur agricultural production in the short run, and we expect only minimal adjustments in agricultural policies. Indeed, the US Embassy has reported that Addis Ababa is backing off from producer price and other adjustments recently agreed to with the World Bank because the regime, under pressure from some Western governments to liberalize agriculture, increasingly views the issue in political terms. Moreover, although we do not rule out some modest increase in producer prices, we doubt the government has the money to fully offset the 10- to 20-percent decline in real producer prices that occurred just from 1980 to 1983. We believe that the government also lacks the funds to substantially increase supplies of consumer goods to the peasants—an inducement to produce for market—or improve extension services, including the provision of agricultural inputs, improved technology, and credit. Given the current cash crunch, such a program probably would involve substantial reductions in resources available to state farms, which would be ideologically unacceptable. [redacted]

25X1

Instead, we believe Addis Ababa will continue using its economic and financial troubles to expand control over economic activity. The government already has pushed the relatively few remaining private traders out of the coffee export market in an attempt to control sales, [redacted] and has turned bread, fruit, and vegetable distribution over to the *kebeles*—neighborhood associations to which all urban Ethiopians must belong. The transport of over

25X1

2,000 party cadres to organize the 360,000 people already resettled suggests that the government will continue its efforts to collectivize agriculture. The US Embassy has reported rumors that the regime will also soon monopolize imports of tires and spare parts. [redacted]

25X1

Result: A Faltering Economy

The effects of drought and Addis Ababa's probable responses will ensure continued economic deterioration this year. US Embassy reporting indicates that carryover stocks from the poor harvest in November/December will be be exhausted by mid-September, and we believe the minor crop due to be harvested this June will not fill the remaining gap. The disruption of rural labor supplies by massive refugee flows and the government's resettlement program, a lack of seeds, draft animals, and other inputs, the late arrival of the small rains, and pest infestations could cut production by one-fourth, according to the US Embassy. Moreover, we do not believe these problems will be overcome in time for the main harvest this winter. Market and transport problems will continue to inhibit distribution of the crops that are grown. [redacted]

25X1

Under these circumstances, we believe the food crisis will worsen, and official estimates of the number of people at risk are likely to climb above the current 7.7 million. As more people are considered to be at risk, the 1.3-million-metric-ton emergency food aid requirement established by the United Nations and Addis Ababa's relief organization in December 1984 will become increasingly outdated. Recent cutbacks in Canadian and EC food aid suggest, moreover, that donations will not even reach the December estimate, and much of the food that already has arrived has not been distributed. As a result, famine and disease—particularly cholera, measles, and pneumonia—are likely to spread to other parts of the country. Food shortages likely will worsen in the cities, although we do not believe conditions will be nearly as desperate as in rural areas. Economic dislocation will be particularly severe in the north, where we estimate at least one-third of the population will have moved to Sudan or to feeding camps in government-controlled areas or have been transported to resettlement sites by the end of the year.

25X1 Other economic activity is likely to be dragged down as well. The US Embassy reports that coffee bushes flowered sparsely and berries matured late as the drought marched south, and quality as well as quantity of production probably will be affected. We believe other commercial crops—such as oilseeds, fruits, and vegetables—have been hit not only by drought, but also by shortages of fertilizer, pesticides, and agricultural equipment on the state farms where they are grown. We expect the small industrial sector to be increasingly strapped by input constraints caused by reduced production of domestic agricultural products, import cutbacks, and transport problems that will disrupt distribution.

25X1 Looking at the external economy, we judge that balance-of-payments problems will continue to plague Addis Ababa:

- We expect export earnings to drop significantly, possibly to $350 million. Embassy reporting suggests that Addis Ababa may not be able to meet its International Coffee Organization quota of almost 90,000 metric tons because of production problems, lack of trucks to transport coffee to the ports, and increased smuggling. Moreover, most experts expect world coffee prices to fall this year as exports pick up elsewhere in response to quota increases. Sales of other agricultural products—livestock and commercial crops—also could drop.

- Commercial grain purchases will continue to eat up foreign exchange revenues. We estimate that it would cost the government about $70 million to cover the capital city's grain needs for one year using only spot purchases on the world market and no domestic supplies. We doubt, however, that the regime will have to pay out this much; if it were to cover only three-fourths of the country's needs with imports and obtain deals such as the one recently concluded with the French, this year's foreign exchange costs would drop as low as $15 million.

- Amortization payments will grow by one-fourth, to reach about $100 million, according to our calculations.

- Addis Ababa cannot afford to further draw down reserves. 25X1

On the basis of the critically low level of foreign exchange reserves and in the absence of extraordinary increases in export earnings—such as the sale of Ethiopia's F-5 aircraft—or increased capital account inflows, non-food-aid imports necessarily will drop this year. Addis Ababa already has taken some steps to reduce its import bill. On the basis of Ethiopian trade data from previous years, we believe the announced cessation of durable consumer goods and textile purchases will cut imports by some $80 million. The regime's petroleum conservation campaign should net some additional foreign exchange savings; if Addis Ababa were able to cut total oil consumption by one-fourth—admittedly a herculean feat considering the oil used by the military and in resettlement activities—Ethiopian trade statistics lead us to believe that the petroleum bill would fall $40 million or so this year. 25X1

Addis Ababa, however, likely will have to cut back even further to make ends meet. We expect the government to concentrate its next efforts on capital goods, which generally account for one-third of all purchases, and raw and intermediate goods, which make up almost one-fifth of the import bill. Under these circumstances, the small industrial sector would be hardest hit. Because durable consumer goods imports have been banned, any further attempts to cut consumer imports probably would require reductions in commercial food purchases—potentially a politically explosive move, and therefore likely to be taken only as a last resort. 25X1

Political Fallout

Ethiopia's economic problems and the government's probable responses will contribute to political instability and the prospect of coup attempts. On balance, however, we believe Mengistu will be able to hold on to power because he will successfully manipulate the political constituencies—the military and the urban population—needed to maintain control. Indeed, if previous research is any guide, deteriorating economic conditions per se are not likely to endanger governments.[7] Rather, it is the skewed impact of recession—and of attempts to cure it—on politically important groups that is threatening. In that regard, we expect Mengistu to try to insulate especially his military power base from hardship as much as possible.

25X1

Increased spot shortages or reductions in military rations could occur, but overall we believe Mengistu will ensure that the Armed Forces receive adequate provisions of food and materiel. Moreover, we believe Mengistu will give the military additional benefits; the recent promotion of a large number of senior officers, for example, may have been the regime's attempt to ease dissatisfaction over austerity measures. In addition to these inducements, however, Mengistu will continue to monitor the military closely for any signs of dissent and, in our judgment, will move quickly and effectively against potential troublemakers.

25X1

Urban areas will not fare as well despite the government's attempts to purchase food commercially and truck in stocks from outlying areas. The US Embassy is increasingly reporting shortages of food and other basic commodities, and living conditions for the average city dweller are likely to deteriorate further in coming months as the government implements additional austerity measures and as industrial output falls. Moreover, the Embassy reports that the drought-relief tax announced in February is expected to break many small businesses and make Ethiopian workers with no savings on which to draw dependent on special allowances to live. Inflation and black-market activities will continue on the upswing as shortages become more pervasive.

25X1

Urban unemployment is likely to grow as economic activity decelerates. To this end, Mengistu's recent call for all Ethiopians to work for a time in relief shelters—although probably designed primarily to highlight the government's role in addressing the famine and drive home the urbanites' higher standard of living compared with the drought-devastated rural poor—may also have been planned to sop up idle workers. The regime also could increase military inductions from the ranks of the unemployed as it has before. 25X1

As overall living standards worsen, we believe Mengistu is likely to step up his publicity campaign stressing the need for austerity in the face of a countrywide natural disaster. He also will rely on his spies—both within the military and the civilian *kebeles*—to find and report on emerging discontent, which the regime's security forces will quickly crush. The US Embassy reports that, although discontent is at record levels in Addis Ababa, residents are careful to complain only in private conversations, because they are frightened and because there are no independent organizations, such as labor unions, through which they can voice dissent. Moreover, many civilians, according to the Embassy, fear that a successor regime would be even worse than the current one. 25X1

If all else failed and serious unrest erupted in the capital, the *kebeles* and the Army probably could maintain order, at least initially. Moscow would be likely to continue its unwavering support for Mengistu and, along with the Cubans, probably would supply additional security assistance to contain a regime-threatening outburst. 25X1

Alternative Policy Scenarios in 1985

Turning to the East . . .

Mengistu, in our view, might contemplate long-term economic integration with the Soviet Bloc in an attempt to gain more economic aid or as a reaction to concerted pressure applied by the West to restructure the economy or moderate Ethiopia's foreign policy. As part of this strategy, he would try to interweave Ethiopia's economy with that of the USSR through such moves as shifting trade largely to the Soviet

25X1

Soviet Economic Aid: Comparison and Contrast

Ethiopia's economic relations with the USSR are relatively limited, and it is the West, rather than the Soviet Bloc, that remains the primary source of Ethiopia's nonmilitary trade and aid flows. Moscow's leverage over Addis Ababa is gained through its arms deliveries, which have totaled about $3 billion since 1974. The $2 billion debt incurred from these sales is denominated in hard currency, but we believe Moscow has rescheduled payments that were due to begin last year. Moscow also almost certainly helps cover the cost of the approximately 5,500 Cuban military personnel—down from 9,000 to 11,000 in 1983—that are stationed in Ethiopia.

25X1

Ethiopia's economic relations with the USSR differ from those of economically dependent Communist client states, such as Cuba, Mongolia, and Vietnam, in several key aspects. The level of Soviet aid flows and Moscow's involvement in Ethiopia's economy are substantially less. Trade transactions are carried out in hard currency rather than soft, and Addis Ababa does not receive a subsidized price for exports to the USSR, as does Cuba. Moscow also does not extend balance-of-payments support to cover trade deficits. Nonetheless, Addis Ababa does receive some concessions—oil subsidies and commodity credits—that are granted to few other nonclient LDCs.

Almost all of Ethiopian-Soviet trade—which generally accounts for about 15 percent of Ethiopia's total nonmilitary trade—consists of Addis Ababa's oil imports. Moscow has met nearly all of Ethiopia's crude and refined petroleum needs since 1980. The USSR offers the crude oil at a discount from world prices but has insisted on increasingly tough terms during renegotiation each year, according to US Embassy reporting Moscow also provides small amounts of machinery and equipment. Ethiopia's exports to the Soviet Union generally are negligible in value and consist mainly of agricultural products. 25X1

25X1

The USSR has disbursed almost $600 million in economic aid since 1974, 25X1
compared with more than $1.5 billion in official development assistance from the West. About half of Moscow's aid has been in the form of commodity credits and oil subsidies—an unusual concession by the USSR when dealing with a Third World ally, and one also granted only to Afghanistan. Ethiopia is the second-largest recipient of Soviet aid extended to Sub-Saharan Africa, behind Nigeria. 25X1

25X1

Bloc—which now accounts for about one-third of imports and less than 5 percent of Ethiopia's exports—and allowing greater Soviet input into economic policy making.

25X1

We do not think this course is likely. Mengistu and his advisers almost certainly realize that Soviet aid generally is paltry and Soviet goods are of poor quality. Moreover, Moscow's aid program traditionally does not supply direct hard currency support and only meager food assistance. Finally, we believe Mengistu's desire for autonomy will limit his willingness to increase Ethiopia's economic dependence on the Soviet Union

On the Soviet side, Moscow has sufficient leverage on Ethiopia with current arms deliveries, and we do not believe the USSR is willing to take on the burden of another economically dependent client state. Economic stringencies at home have brought about a converging interest in both the USSR and Eastern Europe to keep economic aid levels from growing. In addition, concessionary grants make up only a small part of the Soviet aid program, and Moscow instead emphasizes assistance projects in LDCs that benefit its own economy. If the Soviet Union did perceive the Mengistu regime to be under a direct threat caused by

25X1

economic problems, we believe Moscow would respond with military and security support rather than stepped-up economic assistance. [redacted]

25X1

. . . Or Turning to the West

We agree with the US Embassy assessment that chances are remote that Mengistu over the coming year will reverse his present policies in favor of a large-scale economic reform program designed to revitalize the private sector. To lay the groundwork for significant economic progress, such a program would have to include: disbanding agricultural collectives, returning nationalized property to the private sector and settling compensation claims, freeing prices, and rationalizing budget expenditures. The last move probably would require cuts in defense spending—now accounting for two-fifths of current expenditures—which would weaken the regime's ability to deal with the debilitating northern insurgencies. [redacted]

25X1

Moscow's response to such a strategy probably would be muted as long as the regime did not permit major increases in Western influence or sever its military relationship with the USSR. Indeed, Moscow might acquiesce if the strategy resulted in Western aid flows large enough to reduce the Soviets' need—and Mengistu's requests—to provide economic support. [redacted]

25X1

Wide-ranging economic liberalization, however, would not be a quick fix to Ethiopia's problems because the country lacks the physical and social infrastructure to support sustained, balanced growth. Even if reforms were undertaken, therefore, substantial and continuing Western capital flows—far above the recent average annual levels of $200-250 million coming primarily from the EC, the World Bank, [redacted]—would be necessary to build a foundation for expansion. [redacted]

25X1

25X1

25X1

Beyond 1985

We expect the effects of drought to plague Ethiopia at least through 1986 and perhaps longer. Moreover, without the kind of fundamental and wide-ranging policy changes outlined above, the country will be no better able to deal with future crises than it is now. Indeed, the US Embassy estimates that, even if the seasonal main rains come, about another 1 million metric tons of food aid will be required next year to cover consumption requirements. The longer the continentwide famine lasts and the wider it spreads, however, the lower the probability that donors will be willing to cover so much of Ethiopia's needs. Refugee flows and deaths, therefore, are likely to stay high. [redacted]

25X1

Drought and famine aside, severe structural problems will continue to impede economic development at least through the remainder of the decade. A paucity of physical and human resources—as evidenced by poor transport and communications systems, and low adult-literacy and life expectancy statistics—will cap growth potential. Ethiopia will be unable to generate the level of investment necessary to spur development; a continued heavy reliance on fluctuating coffee exports will limit foreign exchange earnings; and official development assistance flows probably will remain relatively low because of increasing donor budget constraints.[8] Moreover, high spending on combating the northern insurgencies will continue to drain economic resources from development. The government's socialist economic policies will only intensify these problems. [redacted]

25X1

A lack of substantial capital inflows, a dearth of domestic capital, and susceptibility to recurrent drought and famine will, in our judgment, translate into continued economic problems and, probably, declining living standards over the next several years. Under these circumstances, increasing numbers of people likely will turn to subsistence livelihoods, and the black market will account for a growing share of economic activity. Corruption will increase. Pressures for economic liberalization will grow, as they have, for example, in Somalia, Sudan, Tanzania, and Cuba. [redacted]

25X1

The economy will become an increasing liability of the Mengistu regime over the next few years as the

[8] Ethiopia receives only about $6 per capita annually in Official Development Assistance, compared with about $20 annually for all developing countries in Africa, according to the World Bank [redacted] 25X1

government finds it more difficult to cover military and urban consumption requirements. The danger of instability most likely will come from the military, in our judgment, and Mengistu, realizing this, will no doubt try to defuse the threat by attempting to concentrate resources on the armed forces at the expense of the rest of the population. We do not expect declining living standards and increasing numbers of unemployed to quickly translate into urban unrest because people have been cowed by the regime's pervasive security apparatus, expectations for improved living standards are not high, and the relatively small urban population will be more preoccupied with covering basic consumption requirements. Rural dwellers—who constitute about 85 percent of Ethiopia's population—are isolated and, barring continued drought, are largely self-reliant. [redacted]

25X1

Implications

Ethiopia's economic problems clearly will deepen Addis Ababa's need for both Soviet Bloc and Western support. On the one hand, Mengistu is sure to continue to view the Soviet Union as the ideological model to justify rule by a small clique, as well as the source of military materiel necessary to maintain the support of the armed forces, battle the northern insurgencies, and offset Somali irredentism. On the other hand, the regime will require increasing amounts of Western assistance to prop up the battered economy. [redacted]

25X1

Mengistu almost certainly believes that Soviet security assistance is more important than Western economic aid in ensuring the survival of his regime, and thus will seek above all to maintain strong ties to the USSR. Moscow, for its part, is sure to promote close Soviet-Ethiopian ties in order to retain access to facilities useful in supporting Soviet naval forces in the Indian Ocean and Persian Gulf. [redacted]

25X1

This is not to say, however, that relations with the Soviet Union will run smoothly. We believe that Mengistu will strongly resist efforts to rein in his autonomy and flexibility in governing Ethiopia, and that he probably will continue to be dissatisfied with the level of Soviet assistance. Moscow, on the other hand, will keep pressing for change in Ethiopia that will institutionalize its influence and ensure a long-term role for the Soviet Union in Ethiopian affairs. [redacted]

25X1

Given his ideological and security concerns, relations with the West will be of secondary importance to Mengistu. In our view, the West would be unable to wean the regime away from the Soviet Union with any realistic offers of economic assistance. On the contrary, the regime has been successful in gaining Western economic aid over the past decade without substantially altering its socialist economic policies. Nonetheless, we expect Mengistu will be pragmatic enough to yield on relatively minor points—if pressed—in an effort to pry loose some additional Western aid. [redacted]

25X1

Relations with the United States will be particularly prickly because of Mengistu's continuing deep suspicions of US intentions in the region. As a result, we doubt that Mengistu will attempt to attract much US aid as long as he can continue to glean economic assistance from other Western countries, [redacted]

25X1

25X1

Appendix

Mengistu and His Economic Advisers

Mengistu Haile-Mariam has become his country's preeminent political figure through his control of Ethiopia's top government, party, and military positions, as well as his demonstrated willingness to wield power by the use of terror, purges, and imprisonment.[9] He dominates economic decision making as he does in virtually all other government matters, and policy decisions are made on political, rather than economic, grounds. Nonetheless [redacted] and pragmatic leader relies on a group of moderate technocrats to run the economy on a day-to-day basis. [redacted]

25X6

25X1

Mengistu's Economic Advisers: Sign of a Pragmatic Approach

Mengistu has several key advisers on economic affairs:

- *Addis Tedla*, deputy chairman of the National Revolutionary Development Campaign and of the Central Planning Supreme Council and member of the Standing Committee of the Provisional Administrative Military Council (PMAC).
- *Tesfaye Dinka*, Minister of Finance.
- *Wolle Chekol*, Minister of Foreign Trade
- *Berhanu Bayeh*, Minister of Labor and Social Affairs, member of the PMAC Standing Committee, and chairman of the National Relief Coordinating Committee.
- *Goshu Wolde*, Minister of Foreign Affairs. [redacted]

25X1

These men share many common characteristics that ease their interaction with Western officials. They are all experienced government administrators, who have held positions in the regime for many years. They are experienced in dealing with foreign governments and have attained international credibility for their abilities. Moreover, they are generally more moderate and pro-Western than most of their colleagues in Ethiopia's Marxist-Leninist government, and almost all privately favor improving relations with the West, including the United States. They speak English, and almost all of them have received training in the United States; two (Goshu and Wolle) have advanced degrees from US universities. [redacted]

25X1

The five do not, however, pose a political threat to Mengistu. They have no authority to make critical decisions in their areas of responsibility, according to US Embassy reporting. In addition, note Embassy officials, they lack independent power bases. [redacted]

25X1

These shared characteristics strongly suggest, in our judgment, that Mengistu selected these economic advisers at least partly to smooth Ethiopia's relations with Western governments so as to obtain increased economic aid. We believe the five—although occasionally harshly critical of Western actions—serve, in effect, as buffers between Mengistu, who closely identifies with the USSR and is committed to a Soviet-style regime in Ethiopia, and his major sources of aid. [redacted]

25X1

[9] He is chairman of the Provisional Military Administrative Council, general secretary of the Worker's Party of Ethiopia (WPE), and Commander in Chief of the Armed Forces. (U)

Page Denied

Sanitized Copy Approved for Release 2011/04/22 : CIA-RDP86T00589R000200250004-5