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Briefs

Articles have been coordinated as appropriate with other offices within CIA. Comments and queries regarding this publication may be directed to the Chief, Production Staff, Office of African and Latin American Analysis

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Articles

Ethiopia: Mengistu Still in Charge [redacted]

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[redacted] disgruntlement over austerity measures and rumors of coup plotting are increasing in Ethiopia. In our view, however, Chairman Mengistu is still in control, although his problems are likely to increase soon. Addis Ababa thus far has been able to shield key urban and military constituencies from the worst effects of drought and continued fighting. [redacted] 25X1

The Embassy reports that the outlook for economic recovery remains bleak. We believe the government probably will be forced to impose further austerity over the next several months that will irritate the urban and military sectors. The Army has fared poorly in its latest campaign against the northern insurgencies, which is likely to put renewed pressure on Mengistu. In our judgment, however, Mengistu will be able to endure for some time by placating influential groups as much as possible and by relying on his pervasive security service to contain threats to his rule. [redacted] 25X1

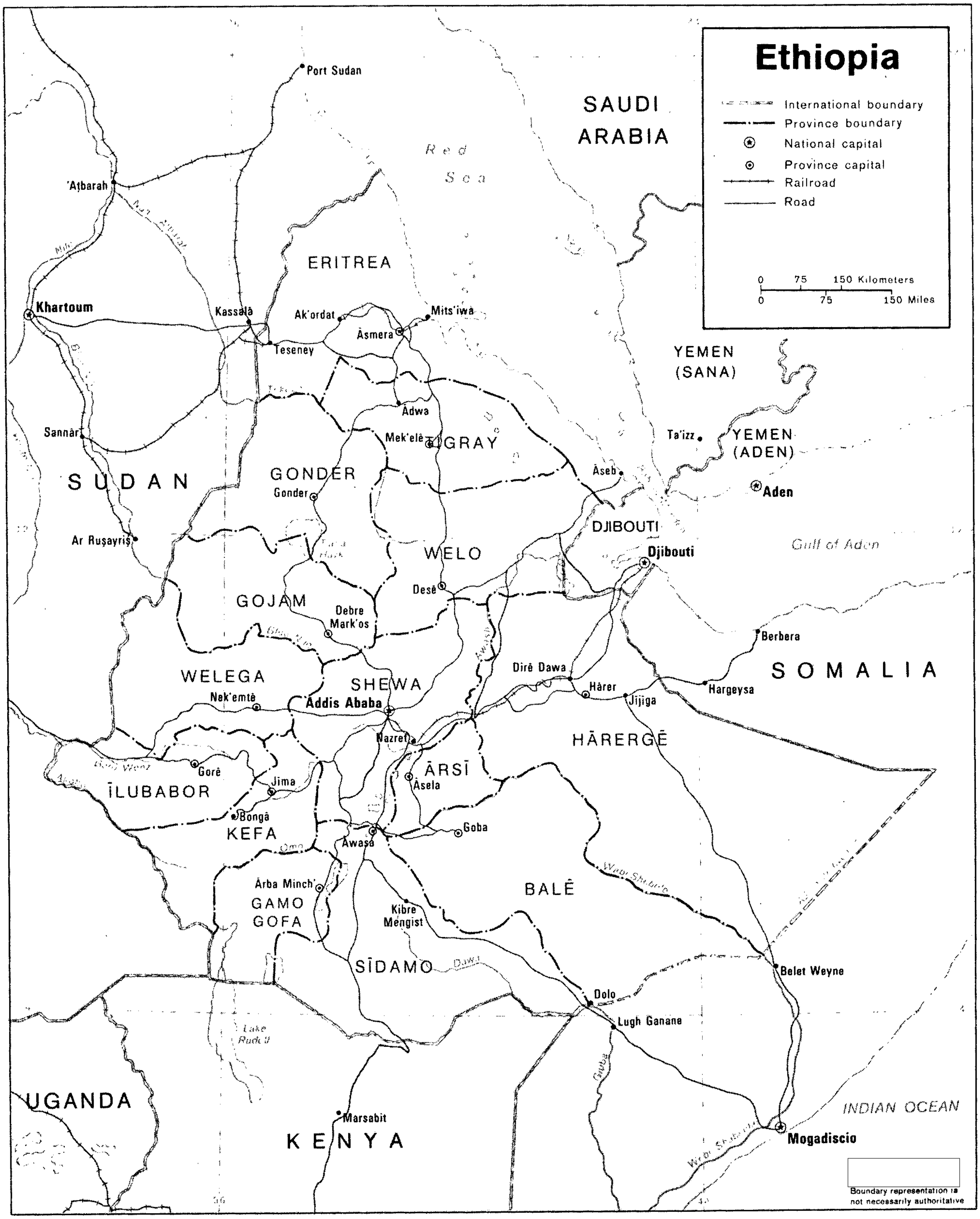
New Challenges

Economic austerity measures were extended last March to the military and officers of the security service for the first time since Mengistu consolidated power in 1977. Mengistu has tempered the impact of these measures—which include gasoline rationing, elimination of free housing and access to special stores, and an end to free use of government cars—by promoting a large number of officers and increasing their pay, according to US Embassy reporting. We believe that Mengistu is trying to demonstrate to the military that it retains special status, despite the cutback in privileges. [redacted] 25X1

Defeats at the hands of the northern insurgents may take some toll on military morale and support for Mengistu, in our view. Addis Ababa began its latest campaign against the insurgents last March, but unlike previous attempts, it confined operations to Tigray Province and Tigrean-inhabited portions of Gondar and Welo Provinces, according to the US Embassy. The offensive apparently was aimed at securing highways and disrupting guerrilla operations and logistics. We believe it also was aimed at stemming the movement of refugees into Sudan, where some guerrilla recruitment and training occur. Recent government setbacks, such as in fighting near Sekota, indicate that the offensive has bogged down and indeed may have emboldened the rebels to increase their attacks. The Embassy reports the rebels in Eritrea have been successful in several significant engagements earlier this month, including assaulting the port of Massawa, near Asmara, and Barentu, a key to Ethiopia's defensive line. [redacted] 25X1

We believe the increased fighting will lead to renewed pressure on Addis Ababa by those in the military who favor a political settlement with the northern insurgencies, including partial autonomy for Eritrea. Mengistu, nonetheless, remains committed to a military solution. The Eritreans have rejected anything less than independence for the province. Fighting, meanwhile, probably will continue to be inconclusive and create additional disgruntlement in the Army. We believe Mengistu, as he has done previously, would move quickly against anyone suspected of antigovernment activities; he might even execute dissidents as an example to other troops. [redacted] 25X1

Although the urban population appears dissatisfied over declining economic conditions, the US Embassy reports that there are few political channels for expressing discontent. The Kebeles, neighborhood associations dominated by Mengistu loyalists, have



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replaced labor unions and most other institutions in the cities as traditional forums for discontent. Although several antigovernment protests have erupted recently over economic issues, they have been small and localized. For example, [redacted] spectators at a soccer match last May between a military and a civilian team shouted antiregime slogans and heckled the military team. Also in May, our Embassy reported that an angry crowd attacked state-appointed church officials in Addis Ababa for moving religious articles from a church to a library. Despite these protests, most austerity measures have been accepted by the populace with little more than grumbling by a handful of protesters. We believe the general public remains cowed by Mengistu's ruthless reputation and memories of the "red terror" of 1977-78, when thousands of civilian opponents of the regime were arrested and killed. [redacted]

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Outlook

We agree with the US Embassy's assessment that while Mengistu has many vulnerabilities, which over time could weaken his rule, none pose a serious threat to him anytime soon. Mengistu continues to maintain power through the Kebeles, his pervasive security service, and his personal control of the military apparatus. He has been careful to co-opt or remove potential opponents and, according to the Embassy, makes all significant decisions personally. [redacted]

Disgruntled officers might be tempted to plot against the government, but we believe the ubiquitous security apparatus would be able to thwart them. Although the government may be forced to take even more draconian measures to deal with the failing economy—particularly to meet food needs and other necessities for the cities and the military—we expect that Mengistu will continue to protect his constituencies. For example, [redacted] the government is cutting back food deliveries to the countryside in favor of the cities and resettlement camps. [redacted]

A few leftwing ideologues within the Politbureau—commonly referred to as the Gang of Four—appear increasingly to have the Chairman's ear. This group may be behind the current austerity program, which is aimed in part at suppressing what remains of the urban middle class. They probably helped to persuade Mengistu to develop the Ethiopian Worker's Party, established last September for the 10th anniversary of the Ethiopian Revolution, as a potential alternative power base to the military. Nevertheless, in our judgment, the ideologues remain loyal to Mengistu and, in any event, probably do not have enough military support to seize power. [redacted] 25X1

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South Africa: Implications of Monetary Reforms

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The Commission of Inquiry into the Monetary System and Monetary Policy of South Africa (the de Kock Commission) released its final report last month, more than seven years after the body was created. The recommendations in the report complement changes in South African monetary policies that Gerhard de Kock, chairman of the commission and governor of the South African Reserve Bank, has been implementing on a piecemeal basis since 1979.[1] Besides streamlining monetary policies, changes proposed by the commission and already implemented in part by de Kock are designed to strengthen the Reserve Bank's role in fighting inflation and charting economic growth. The impact of the changes de Kock has made to date, however, has been offset by the declining exchange rate of the South African rand, which has not only accelerated inflation but spurred domestic criticism of government economic management.

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Monetary Policy Through Controls

South Africa during the 1960s and 1970s relied on monetary policies that placed direct controls on financial outflows and interest rates, and set fixed rates of exchange between the rand and other currencies by government fiat, according to academic studies. These sources note that South Africa had suffered sustained private capital losses during the late 1950s, which accelerated after the well-publicized killing of 69 black protestors by South African police at Sharpeville in March 1960. The drain on government foreign currency and gold reserves sparked by this capital outflow induced Pretoria to resort to a sequence of countermeasures. In addition to foreign borrowing, Pretoria raised interest rates, tightened import controls, increased restrictions on foreign currency purchases by South African residents, and, finally, extended these foreign exchange controls to nonresidents. The last of these measures halted the drain on reserves.

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[1] The Reserve Bank fills roughly the same role in South Africa as the Federal Reserve Bank does in the United States and other central banks do in their respective countries. Most of the monetary reforms cited in this article have already been implemented by other central banks.

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The Role of the Reserve Bank

The Reserve Bank implements monetary policy through its influence over the volume of bank loans made, the interest rates charged on those loans, and the exchange rate between the rand and other currencies. The impact of changes in these variables, in turn, affects the purchasing power of consumers and investors in the economy, and thus influences economic growth, inflation, and the distribution of employment and output across South African industries. Debt-financed consumer purchases, such as houses, cars, and major appliances, are especially sensitive to interest rate changes. Similarly, changes in the value of the rand affect the competitiveness of domestically produced goods relative to imports.

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The Reserve Bank is relatively independent of political processes in the country, but coordinates its policies with the government treasury. Bank Governor de Kock lists the South African central bank as the third most independent in the world, after the US Federal Reserve Bank and the West German central bank, according to US Embassy reports. Treasury and Reserve Bank coordination, however, is important because the magnitude and method of financing government deficits affect the amount of liquidity in the economy and vice versa.

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We believe, however, that direct controls also prompted some adverse consequences. In our view, the prolonged application of foreign exchange restrictions removed the natural check on the growth of domestic purchasing power and contributed to the rise in inflation rates from 10 percent in 1978 to 15 percent in 1983. Money that would otherwise have left the country for investment abroad added to domestic

Commission of Inquiry Into the Monetary System and Monetary Policy of South Africa: A Chronology

June 1961	Exchange controls imposed on nonresidents to stem outflow of capital that began after the shootings at Sharpeville in March 1960; dual exchange rate introduced, effectively penalizing nonresidents withdrawing funds from the country.
August 1977	The Commission of Inquiry into the Monetary System and Monetary Policy in South Africa (the de Kock Commission) appointed.
November 1978	The first interim report of the de Kock Commission is released; recommends moving from fixed exchange rate system to exchange rate determined largely by market forces, but managed by the South African Reserve Bank through sales and purchases of US dollars.
January 1979	Government accepts commission recommendations.
March 1980	Many legal ceilings on interest rates abolished.
January 1983	The second interim report of the de Kock Commission released; proposes more market-oriented monetary policy.
February 1983	Government removes exchange controls on nonresidents and relaxes those on residents; ends dual exchange rate system.
September 1983	Reserve Bank begins paying revenue from gold sales to mining companies in dollars rather than rand to encourage the development of private foreign currency markets in South Africa.
January 1985	Reserve Bank shifts to paying revenues to mines half in dollars, half in rand in order to increase its ability to influence exchange rates.
June 1985	Final report of the de Kock Commission released; proposes gradual phasing out of remaining exchange controls.
September 1986	Reserve Bank to complete its withdrawal from price-setting role in foreign exchange markets.

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demand. This induced Pretoria to impose additional regulations in a number of unsuccessful attempts to stem growing demand. Ceilings on commercial credit, for example, were instituted to slow lending. This approach failed because politically sensitive interest rates, especially those charged to farmers and homeowners, were kept artificially low. Moreover, the method of subsidizing loans to farmers, which in effect treated their debt as an asset against which banks could make additional loans, increased purchasing power. 25X1

The Market-Oriented Approach

South African officials, led by Reserve Bank Governor Gerhard de Kock, realized that these successive layers of monetary controls were increasing underlying inflationary pressures, according to press reports. As a result, de Kock and other South African economists have pushed since the late 1970s for removal of government controls so that the economy could adjust automatically through interest and exchange rate changes to new economic conditions. In addition, a drop in Western inflation rates since 1980 has raised substantially South Africa's inflation rate relative to its main trading partners (see figure 2). 25X1

Several important moves toward implementing this market-oriented approach were initiated a few years ago, beginning with the demise of the fixed exchange value of the rand in 1979. After a series of devaluations, South Africa gradually moved to a "managed float," in which the value of the rand is chiefly determined by supply and demand. The Reserve Bank purchases and sells US dollars to moderate sharp movements in the rand's exchange value. Pretoria also has lifted many ceilings on interest rates and bank loans. In 1983, Pretoria removed exchange controls on nonresidents. 25X1

Gerhard de Kock

Camera Press ©

Gerhard de Kock has served since 1981 as governor of the South African Reserve Bank, giving him primary responsibility for policies affecting commercial credit and foreign exchange. He had previously served for 10 years as the Reserve Bank's senior deputy governor. Regarded in the press as a monetarist who opposes nonfiscal economic controls, de Kock strongly favors tight budgetary restraints and slower growth of commercial credit as ways to curb South Africa's high inflation rate. Although he approves of President Botha's racial reform policies, according to US Embassy reporting, de Kock has generally avoided involvement in political issues, stressing the bank's independence. Embassy sources note that the South African business community holds de Kock in high regard because of his economic expertise and strong leadership skills. He has an M.A. degree from the University of Pretoria and M.A. and Ph.D. degrees from Harvard. 25X1

According to press accounts, the final report of the de Kock Commission proposes some additional monetary reforms:

- All interest rates should be market oriented, including those charged to homeowners and farmers.
- Interest paid on home mortgages should not be tax deductible.
- Special tax benefits enjoyed by savings and loans that specialize in mortgages should be eliminated.
- Exchange controls on residents should be eased further as the balance of payments improves. Residents should be given freer access to investment opportunities and financial markets abroad.
- Monetary policy should be keyed to targets for growth of purchasing power. These targets should not be rigidly enforced, but should serve as guidelines to make monetary policy more consistent.

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Under the proposed system, the monetary authorities would set 12-month targets for growth of purchasing power each February. The primary goal of monetary policy would be to slow inflation, but with some attention to the short-term impacts on foreign reserve holdings and interest, growth, unemployment, and exchange rates. According to press accounts, President Botha has approved the commission's recommendations.[2]

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Short-Term Economic Effects

Gradual introduction of de Kock's market-oriented approach to monetary policy already has affected economic performance. The elimination of the fixed exchange rate for the rand has allowed its value to float downward from an average of $1.19 in 1979 to about 52 cents this past week. Although combating inflation had been one of de Kock's goals in implementing monetary reforms, in the short term the declining value of the rand has raised the cost of imports and increased inflation rates (see table, "South Africa: Selected Monetary Indicators, 1966-85"). 25X1

[2] Although the appointment last week of Chris Stahl as the new Director General of Finance has been interpreted by some observers in South Africa as a signal that Pretoria will move slowly in implementing new monetary reforms, we believe that President Botha remains committed to de Kock's market-oriented approach. Stahl's earlier objections to some de Kock Commission interim recommendations were based on practical considerations rather than fundamental differences in approach, according to US Embassy reporting. 25X1

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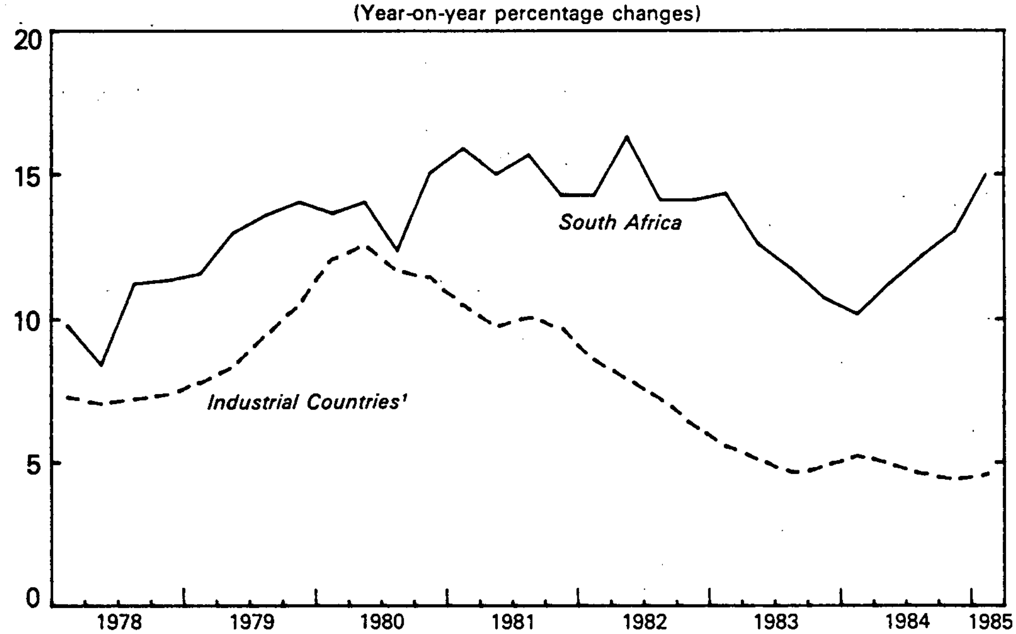
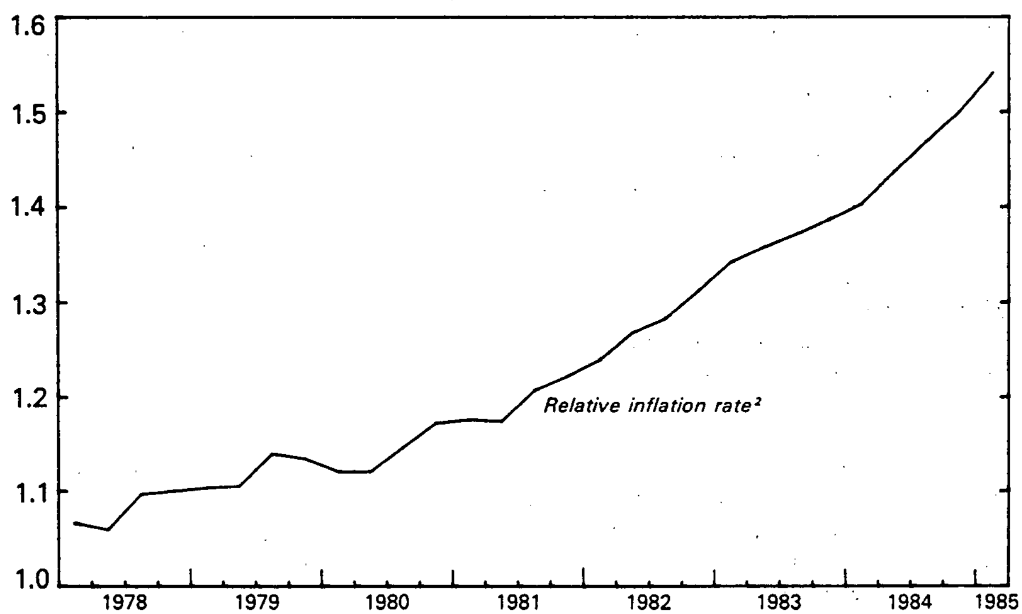
SOUTH AFRICA
CONSUMER PRICE INFLATION
(Year-on-year percentage changes)





Source: IMF, *International Financial Statistics.*
[1]Weighted average of industrial countries' consumer price index, with weights based upon 1975 GDP.
[2]Ratio of the South African CPI index (1975=100) to that of industrial countries, in national currencies.

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South Africa: Selected Monetary Indicators, 1966-85

Year/ Quarter	Price of Gold (*$/oz*) [a]	Exchange Rate (*$/rand*) [b]	Price of Gold (*rand/oz*)	Money Supply Growth (*percent*) [c]	Treasury Bill Yield (*percent*) [d]	Inflation Rate (*percent*)	Current Account Balance (*billion US $*)
1966	35	1.39	25	8	5	4	0
1967	35	1.39	25	5	5	3	−0.3
1968	38	1.39	28	15	5	2	0.1
1969	41	1.39	29	15	4	3	−0.4
1970	36	1.40	26	3	5	4	−1.2
1971	41	1.40	29	5	6	6	−1.5
1972	58	1.30	45	13	4	7	−0.1
1973	97	1.44	65	15	3	9	−0.1
1974	159	1.47	108	23	6	12	−1.5
1975	161	1.37	118	13	7	14	−2.6
1976	125	1.15	109	6	8	11	−1.9
1977	148	1.15	128	3	8	11	0.5
1978	193	1.15	168	6	7	10	1.5
1979	307	1.19	258	16	4	13	3.4
1980	613	1.29	477	29	6	14	3.5
1981/1	518	1.30	398	35	7	16	0
2	479	1.19	403	40	8	15	−1.6
3	421	1.06	397	33	11	16	−1.5
4	420	1.04	404	34	12	14	−1.2
1982/1	363	1.01	359	37	15	14	−1.3
2	333	0.93	358	24	16	16	−1.3
3	380	0.87	437	26	15	14	−0.4
4	427	0.89	480	16	11	14	−0.1
1983/1	464	0.92	504	15	12	14	0.8
2	428	0.92	465	30	14	13	0.4
3	410	0.90	456	29	16	12	0.1
4	388	0.85	456	26	18	11	−0.9
1984/1	384	0.81	474	35	18	10	−0.4
2	379	0.78	486	27	18	11	−0.3
3	345	0.64	540	32	21	12	−0.3
4	339	0.55	616	41	21	13	0.2
1985/1	302	0.49	616	33	22	15	0.6

[a] Average London daily fixing price.
[b] Average par exchange rate.
[c] Year-to-year change at end of quarter.
[d] Provided as a proxy for the prime lending rate, which varies among banks and for which no readily available quarterly series was found.

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South African mining companies, nonetheless, have benefited from the floating rand. The sharp decline in its exchange value has boosted local currency earnings on gold sales, more than offsetting the fall since 1980 in the world gold price. Indeed, whereas the dollar price of gold has fallen by 50 percent from its 1980 average, the rand price has increased by nearly 30 percent (see table). While the economy as a whole has suffered from reduced foreign currency earnings as a result of the lower world gold price, the monetary reforms have produced profits in the mining industry. Increased profits, in our judgment, have made it possible for large South African mining companies such as Anglo-American Corporation to offer black mineworkers higher wages and ease pressures for unionization in this vital sector of the economy.

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Despite the benefits enjoyed by the mining sector, not all South African companies have gained from the floating rand. Record high interest rates have reduced consumer borrowing, cutting sales in the automobile and construction industries, according to press reports. In addition, many South African companies misjudged the magnitude of the decline in the rand in a floating exchange system, and suffered substantial losses, according to industry sources. Companies that signed contracts to deliver goods based on production costs under one exchange rate, for example, lost money when the fall of the rand raised the local prices of imported raw materials and intermediate goods.

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To provide insurance against this risk, the Reserve Bank has encouraged the development of futures markets in South Africa for foreign currency by making more dollars available to local foreign currency traders.[3] Such markets would enable companies to fix their exchange rates for future purchases of dollars or other foreign currencies. Futures markets, which are well established in the United States and other Western nations, have the added benefit of moderating drastic swings in exchange rates, according to academic studies.

[3] Previously, the Reserve Bank, as the principal seller of South African gold on world markets, had kept the dollars earned from gold sales and paid the mining companies their revenues in rand; under the current arrangement, half of the gold revenues are paid to the mines in dollars with the condition that the companies sell these dollars within five days after their receipt.

De Kock strongly defends the new exchange rate policies, according to US Embassy reporting, and argues that maintaining the value of the rand at an artificially high level as gold prices fell would have drained Pretoria's remaining foreign reserves. Nevertheless, the Reserve Bank has intervened to keep the rand from falling too quickly. De Kock justifies this deviation from the new hands-off approach by arguing that much of the downward pressure on the rand in December 1984 and January 1985 was the result of the poorly developed futures markets. In his view, companies saw the downward path of the rand and panicked, selling rand for dollars or other foreign currency to cover future imports before their rand became even less valuable on world markets. This panic selling, in de Kock's opinion, added to downward pressures on the rand. The currency has stabilized since in the 50 to 55 cents range.

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Political Considerations

The monetary reforms are a bold move politically for Pretoria, in our view, and represent a willingness to risk some short-term support in exchange for long-term economic gain. In common with many elements of President Botha's racial reform program, the streamlining of monetary policy reflects an ideological shift away from the use of government controls to solve social and economic problems, and toward greater reliance on market forces. Although monetary reforms lack the overtly racial considerations involved in modifying apartheid laws, much of the potential gains from the higher economic growth that de Kock envisions will result from monetary reforms would accrue to South African blacks, while most of the immediate costs of higher interest rates are being absorbed by middle-class whites and white farmers, two groups that have traditionally supported the National Party. In our view, President Botha hopes that by accepting the de Kock Commission recommendations, the country's economy will have sufficiently improved by the time of the next elections in 1988 or 1989 to more than offset any political damage. Whether or not this gamble pays off will depend on consistency with which the new market-oriented approach is applied in practice.

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Djibouti–Libya: Keeping Qadhafi at Bay [redacted] 25X1

In our view, growing domestic unrest in Djibouti—unless kept in check by more vigorous leadership by President Hassan Gouled—may provide Libya with attractive opportunities to improve its position in the Horn of Africa. US Embassy reporting indicates that Libya has kept the Gouled regime off balance with an array of carrot-and-stick tactics, and has succeeded in casting doubt in Djibouti over the depth of French commitment to this strategically located nation. Should Gouled stumble in meeting the internal challenges that lay ahead, we believe Colonel Qadhafi may gain increased room for maneuvering at Western expense. [redacted] 25X1

Mixed Signals

Tripoli's diplomacy of alternating promises and threats has placed Djibouti-Libyan relations in a state of flux. The US Embassy reports the Gouled regime views Qadhafi with a mixture of fear, hope, and suspicion. Gouled fears the potential for increased Libyan meddling at a time of escalating domestic instability, according to the Embassy. At the same time, Libya's diplomatic gains with Sudan, Somalia, and Morocco have enhanced Qadhafi's stature in the eyes of some Djiboutian officials—Foreign Minister Moumin among them—and raised hopes for Libyan assistance to Djibouti's ailing economy. Although dealing with Qadhafi now appears diplomatically fashionable in Africa once again, we believe Gouled will remain suspicious of Libyan intentions and attempt to keep Qadhafi at arm's length. [redacted]

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From our perspective, Qadhafi is intent on establishing broader influence in Djibouti, with a view to enlarging Libya's role in Horn affairs at French expense. US Embassy reporting suggests that the Libyan leader seeks to drive a wedge between Paris and Djibouti by playing on Gouled's fear of isolation in the Arab World. In addition, Qadhafi continues to court the conservative, pro-Western Gouled to grant relay facilities for Radio Tripoli, implying that Libyan economic assistance will be forthcoming in return. Although the Embassy reports no active Libyan aid programs at present, Tripoli recently provided Djibouti with a well-equipped maternity clinic—as yet unopened—that has become an irritant in relations. Embassy officials say Qadhafi is withholding operating funds in an attempt to pressure Gouled to support Libya in international forums.

[redacted] 25X1

Complementing Tripoli's diplomatic pressure tactics are indications of a Libyan campaign to undermine the Gouled government. [redacted] 25X1

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Embassy believes Gouled is not eager to affront Qadhafi, and could not easily dismiss Libyan overtures for improved ties. [redacted] 25X1

Gouled's Growing Vulnerabilities

The US Embassy reports that Gouled faces a growing list of domestic problems—all vulnerable to manipulation by Qadhafi—which threaten the regime's stability and may weaken its will to resist future Libyan advances. Foremost among these problems is a large budget deficit. Faced with severe unemployment and an inability to expand significantly its stagnant economy—which is based on commerce and transit trade with Ethiopia—Djibouti must rely heavily on foreign aid at a time when its primary benefactors—France and Saudi Arabia—are themselves experiencing severe financial difficulties and cutting back assistance programs. Gouled's budget problems are further aggravated by

[redacted] 25X1

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inefficiency, the strain of coping with refugees from Ethiopia and Somalia, and continued tensions between rival Issa and Afar tribesmen. [redacted]

The economic collapse has sparked growing domestic unrest that periodically erupts in small-scale strikes and demonstrations against the government. The US Embassy says a malaise among students, unemployed, businessmen, younger civil servants, and junior army officers has caused the government's public standing to deteriorate visibly in recent months. [redacted]

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The French Role

[redacted] serves as a vital link to French forces in Europe and is a key location for the protection of oil routes through the Suez Canal and Bab el Mandeb Strait. Although concerned over potential Libyan meddling, we believe the Mitterrand government will continue its policy of gradually reducing direct budgetary support to Djibouti—a policy that has reduced French aid by half since 1980 to its present level of about $8.6 million per year. According to the US Embassy, France is looking for ways to share the burden of support for Djibouti with more Western and moderate Arab states, citing budgetary austerity, its commitment to Chad, and the negative impact of a strong US dollar on the French franc. [redacted]

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While seemingly committed to reducing its economic aid to Djibouti, US Embassy reporting indicates that Paris has sought to reassure Gouled that its 4,800-man military contingent will be kept in place. Under the Franco-Djiboutian treaty, Paris is obligated to defend the country against external aggression. The French military presence and spending by French soldiers are important to the local economy. We believe Gouled will forgo dramatic gestures toward improving relations with Qadhafi as long as France maintains its troops there. Should Gouled fail to secure reliable aid sources to compensate for reductions in French support, however, the pressure of looming budget shortfalls and fear of the instability they could engender may induce him to move closer to Qadhafi in hopes of tempering Libyan adventurism and gaining needed economic assistance. [redacted]

Prospects

In our view, Djibouti is entering an increasingly unstable period in which Gouled's leadership abilities will be severely tested. Gathering social tensions, chronic economic distress, and passive allies threaten to open opportunities for Libya. Recent diplomatic successes have bolstered Qadhafi's credibility and lent momentum to those in Gouled's regime who favor warmer ties with Libya. We believe the potential exists for an upgrading of ties, but much depends on Qadhafi's diplomatic skill and how desperate Gouled may become. We believe Qadhafi's hand has never been stronger, and if he cannot entice Gouled with diplomacy and promises of economic aid, the Libyan leader will not hesitate to increase attempts to destabilize Gouled's regime. [redacted] 25X1

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Gouled's future almost certainly depends on supplementing—or restoring—French economic and military commitment to Djibouti, in our judgment. Although Gouled is eager to expand economic ties with moderate Persian Gulf states and the West—particularly the United States—we believe most nations are waiting for France to take the lead. For its part, France may feel its still vital economic and military role will be enough to sustain French influence in the post-Gouled period, no matter how radical his successors. In the event of a coup against Gouled, we believe France would act only to protect its nationals, and take its chances with the successor regime. Meanwhile, the Mitterrand government probably will continue its gradual economic withdrawal—trying to encourage a greater US aid role—while upholding its military commitment to Djibouti for the foreseeable future. [redacted] 25X1

We believe Gouled's odds of holding on are slightly better than even. A more vigorous leadership role—Gouled has a reputation for muddling through—and a reassertion of government authority would go far in enhancing his prospects. The US Embassy reports Gouled has recently begun to show some political muscle in an attempt to crack down on corruption and stanch the erosion of public confidence in his government. In addition, Gouled's political survival will hinge on how shrewdly he manages the balancing

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act between rival interests in Djibouti—Issa and Afar, French and Libyan, Ethiopian and Somali. Should domestic unrest boil over, however, an anti-Western regime could come to power, an event that probably would clear the way for more direct Libyan involvement. 25X1

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Comoros: Ten Years of Independence

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The Federal Islamic Republic of the Comoros faces an uncertain future as it celebrates 10 years of independence this month. Ahmed Abdallah Abderemane is serving his second and final six-year term as President under the constitution he promulgated in 1978. He faces a variety of economic and political challenges resulting from the Comoros's colonial legacy, geographic limitations, postindependence power struggles, and his autocratic style of rule. 25X1

Historical Setting

A variety of cultures influence social and political development of the islands in the Comoran archipelago—Grand Comore, Moheli, Anjouan, and Mayotte. In the 15th century, Shirazi Arab traders established sultanates in the islands, and introduced Sunni Islam to what has now become a largely mixed Afro-Arab population. Moheli and Mayotte, however, eventually fell under the domination of the large island state of Madagascar which plundered the islands' population in slaving raids. The first significant European presence in the islands was established in the mid-19th century when Madagascar ceded Mayotte to France. 25X1

Despite longstanding interisland rivalries among the ruling Shirazi elite, the Comoran sultanates were united by France into part of a larger colony with Madagascar after that island had become a French protectorate in the late 19th century. The center of colonial administration for Comoros remained at Mayotte, which offered the best natural port facilities, until the French bowed to pressure from the ruling elites on the other islands and shifted the capital in 1962 to Moroni on Grand Comore. Mayotte, however, retained close cultural ties with France because, unlike the other islands, its inhabitants are predominately non-Muslim and ethnic Creoles, descendant from the French. 25X1

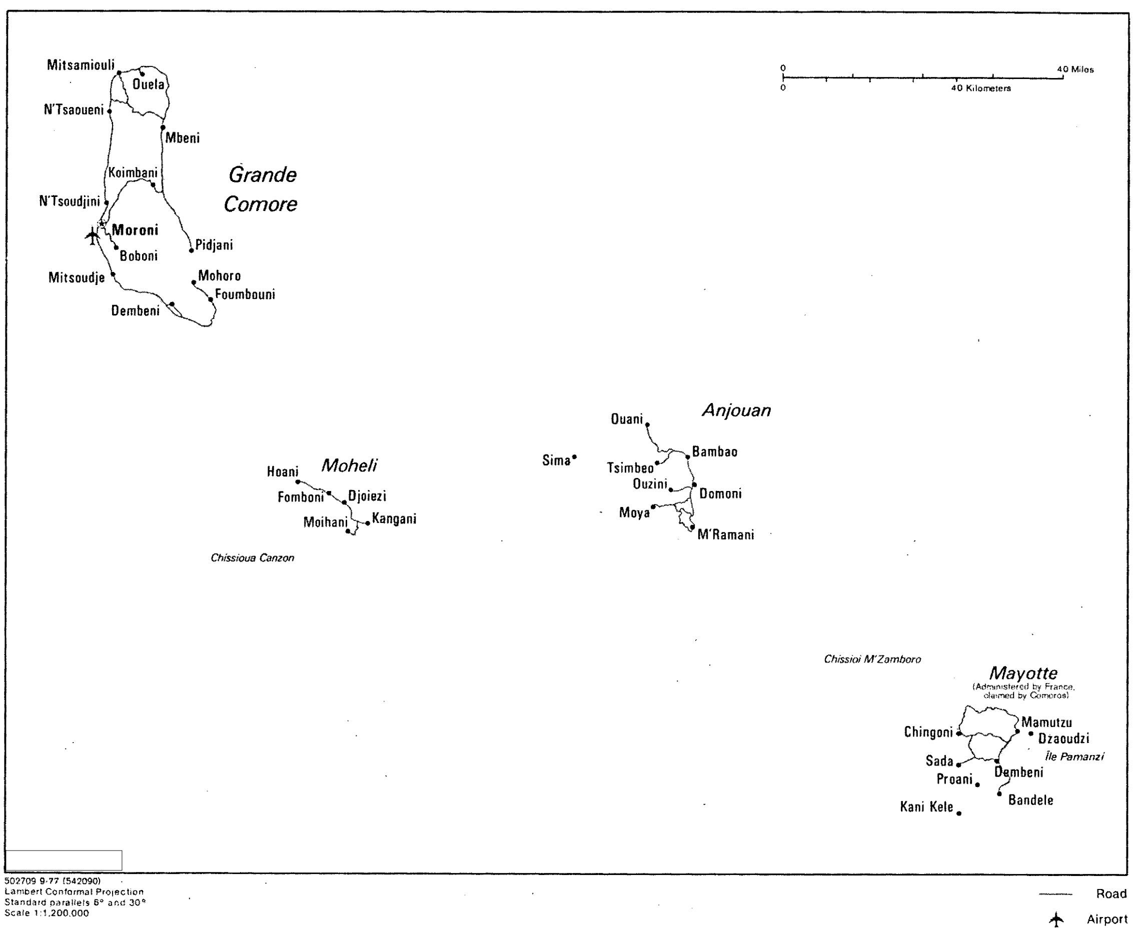
Toward Independence. Comorans voted in a referendum in 1958 for continued French rule with internal self-government carried under a Council of Ministers and a territorial assembly. Despite the referendum, expatriate Comorans on the East African mainland and several influential families in the islands pushed for independence throughout the 1960s. Abdallah, a conservative politician and member of an elite, landowning family from Anjouan, assumed the presidency of the Council of Ministers in 1972 and began to press more vigorously for independence. In 1974, a referendum calling for independence was supported overwhelmingly by all Comorans except a majority of the inhabitants of Mayotte. France agreed to grant independence the following year but, under pressure from politicians from Mayotte, postponed independence pending a second island-by-island plebiscite on the issue. Abdallah unilaterally declared independence for all the islands in July 1975; Mayotte, however, refused to acknowledge Comoran sovereignty and continues to be administered by France. 25X1

The Radical Years: 1975-78. One month after independence, Abdallah's government was toppled by mercenaries working for an amorphous and opportunistic six-party opposition coalition that appointed the radical Ali Soileh as head of state in January 1976. Soileh embarked on a harsh rule designed to restructure Comoran society by replacing many Islamic customs with a "socialist" revolutionary ethic. Soileh relied on youth militia brigades—the *Moissy*—to deter internal opposition through a campaign of terror and violence. Popular discontent grew as Soileh broke with Comoran traditions and his socialist policies accelerated economic decline. In May 1978, Abdallah returned to power after financing a coup led by the well-known mercenary Bob Denard and many of the same mercenaries who had deposed him two years before. 25X1

The Second Abdallah Regime

US Embassy reporting indicates that Abdallah has attempted to keep Comoros on a moderate political course since his return to power. Press reports suggest

Comoros



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that, despite the taint of his mercenary-backed regime, Comorans prefer Abdallah's comparatively benign one-party rule to that of the repressive Soileh largely because he quickly restored Comoran Islamic traditions. Endemic rumors of plotting and coup attempts, however, indicate Abdallah's hold on power is not firm. In our view, the President must surmount a variety of economic and political challenges if he is to survive over the next few years. 25X1

Economy in Disarray. Comoros's geographic limitations clearly have been a significant deterrent to economic growth. The US Embassy reports that the islands have no known mineral resources; the surrounding coastal waters cannot sustain exploitable fisheries because the continental shelf is too narrow; the rocky coastlines contain no natural deep water harbors; and water shortages occur on the most populated island, Grand Comore, because the porous volcanic soil can not sustain surface streams year-round. In addition, according to Embassy reporting, the population is growing at about 3 percent annually, faster than food production can increase and threatening to overwhelm existing social services. 25X1

In our view, government policies have done little to diversify the economy and to expand food production. The regime relies on a plantation-system economy, established under French rule, which monopolizes a majority of what little arable land is available to produce vanilla, copra, spices, and perfume essence for export. Cash crops accounted for 99 percent of the government's foreign exchange earnings in 1984, but the value of exports has declined in recent years because of reduced world market demand. The US Embassy reports that agriculture also suffers from extensive soil overworking and the primitive farming techniques practiced by village farmers, who take advantage of ambiguous sharecropping regulations to encroach on the cash-crop estates and plant subsistence food crops, according to Embassy reporting. 25X1

In our view, the Abdallah regime is becoming excessively dependent on foreign loans for both balance-of-payments support and development schemes. US Embassy statistics indicate that growing

Keystone ©

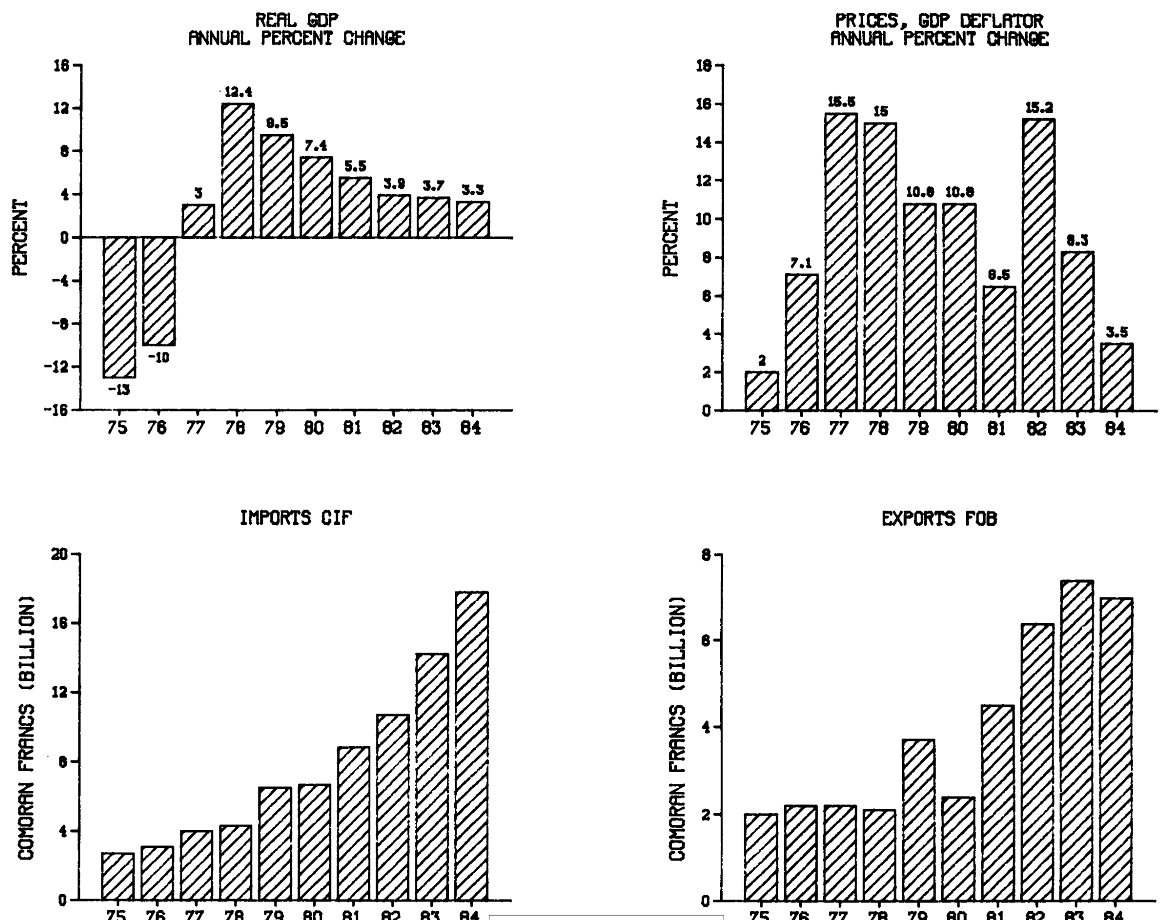
President Abdallah

foreign indebtedness has boosted public debt from 38 percent of GDP in 1980 to 116 percent of GDP in 1984. Increased amounts of foreign exchange reserves are being spent on food imports. Embassy officials say that the growing current account deficit—21 percent of GDP by yearend 1984—is becoming a major problem. This year the regime briefly attempted to economize by eliminating the military's meat ration and halting salary payments to teachers and civil servants until France provided some emergency funds, according to the Embassy. 25X1

Foreign Relations. US Embassy reporting indicates that Abdallah consistently has pursued a staunch pro-Western foreign policy. He has sought to expand on traditional ties with France and moderate Arab states, and to strengthen relations with the United States. Embassy officials say that the President, for example, repeatedly has pressed the United States and France to accept his longstanding offer to establish military facilities in Comoros. He also has moved to improve cool relations with neighboring left-leaning Mozambique and Madagascar, and he has established better informal commercial relations with Pretoria. 25X1

Abdallah has rebuffed most Soviet efforts to strengthen relations because, according to US Embassy officials, he believes that Islam and Communism are incompatible. Moscow most likely seeks access to local port and air facilities, although

Selected Economic Indicators — 1975–84



25X1

such access probably is not vital to limited Soviet operations in the region. Late last summer, however, the President accepted a Soviet offer of 13 scholarships, a gesture we believe was designed to convey to the West his displeasure with aid levels, and to indicate that he has alternative sources of support. [redacted] 25X1

Abdallah almost certainly views maintaining reasonably good relations with France as essential to the survival of his regime. France provides the majority of Western economic development assistance and almost all balance-of-payments support as well as limited security aid. Bilateral relations, however, are not entirely smooth, according to US Embassy reporting. Abdallah most likely resents France's repeated withholding of assistance funds because of poor Comoran fiscal accountability. [redacted] 25X1

The US Embassy reports that relations with France also are strained by Abdallah's persistent accusations that Paris is deliberately delaying measures to bring French-administered Mayotte under Comoran rule. France has a garrison of foreign legionnaires and a small naval facility on Mayotte. A second referendum to decide Mayotte's future is tentatively scheduled for later this year. In our view, Abdallah seeks to integrate Mayotte not only for nationalistic reasons, but also because Mayotte is the most prosperous and developed island in the archipelago. Embassy reporting suggests Abdallah still faces strong opposition to unification from the island's inhabitants, who are fearful integration with the other, poorer islands will depress Mayotte's economy. [redacted] 25X1

Internal Dynamics. Abdallah has consistently sought to suppress all political opposition since his return to power. His political party, the Comoran Union for Progress, was made the country's sole legal party in 1982. We believe that Abdallah amended the Constitution two years later to undermine the influence of political rivals. He abolished the post of Prime Minister and altered the succession procedure probably to ensure that the designated successor—longtime rival Mohamed Taki—could not assume power. Last January, the President consolidated his authority further by shuffling the Cabinet and reducing four rivals to coequal status as ministers of state. [redacted] 25X1

We believe, on the basis of US Embassy reporting, that, although Abdallah's political rivals lack sufficient national stature to successfully challenge his hold on power, the President's maneuverings have not completely eliminated opportunities for his opponents to destabilize the regime. For example, press reports suggest that Taki, now residing in France, may be garnering influence with a small but vocal group of exiled oppositionists and possibly also with French elements opposed to Abdallah's recent openings toward South Africa. We know little about internal civilian opposition to Abdallah, other than that it probably is fragmented and espouses a leftist ideology. [redacted] 25X1

In our view, the military poses the greatest threat to Abdallah's rule. The President has attempted to minimize military coup plotting by dispersing the military and gendarmerie throughout the three islands. However, US Embassy reporting suggests that disgruntlement in the military is growing over Abdallah's preferential treatment of his personal protection unit, the white mercenary-led presidential guard. A narrowly averted coup last March by disgruntled Comoran members of the unit, however, underscores [redacted] the President has responded to the coup attempt by doubling the number of white mercenaries in the guard to 50. 25X1 [redacted] 25X1

Short-Term Outlook

Abdallah will have to tread carefully so long as military frustration continues over his apparent favoritism toward the presidential guard and the white mercenaries. In our view, there is a reasonable chance that elements in the military may attempt to move against the regime again, but we believe that any coup plots probably would be thwarted by the upgraded mercenary contingent. In our judgment, however, the mercenaries themselves could become a source of new difficulties for Abdallah. US Embassy reporting suggests that the white leadership is splitting into two discernible factions: an older element oriented politically toward South Africa and seemingly loyal to Bob Denard, and a younger, less

25X1

experienced group amenable to French interests and loyal to the guard commander, a Belgian mercenary known as "Commander Charles."

The economic picture will remain, in our view, bleak, and Comoros's geographic limitations, shortsighted economic policies, and history of poor fiscal management suggest that the islands will be dependent on foreign largesse for the foreseeable future. From our perspective, Abdallah almost certainly will avoid provoking a cutoff in French financial assistance, so he probably will not go beyond rhetoric designed mainly for domestic political consumption in pressing France for the integration of Mayotte. Abdallah most likely will seek increased aid from the United States following the scheduled opening of the US Embassy in Moroni this August.

We believe that cool relations with the Soviet Union are unlikely to improve appreciably over the near term. The Soviet Union appears unwilling to provide Abdallah with the levels of economic assistance Comoros requires, and Abdallah probably would refuse Soviet enticements of military assistance. In our view, however, relations with Moscow could improve should Abdallah, who is in his mid-60s, die while in office. We believe there is a chance succession provisions could be ignored and that any ensuing power struggle would hold uncertain prospects for pro-West elements. Similarly, a successful coup could bring to power elements inclined to move closer to Moscow. 25X1

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Africa Briefs

West Africa

Narcotics Traffic [redacted] 25X1

French drug enforcement officials are working with authorities in Benin and Togo to curb traffic of heroin, cocaine, and marijuana, primarily to France and the United States. The investigation reportedly indicates that large quantities of heroin and cocaine are arriving in Cotonou, Lome, and Accra from a network operating through Lagos. [redacted] the narcotics—heroin 25X1 from Pakistan and cocaine from Latin America—are flown into Lagos, smuggled into Cotonou, and then concealed in the luggage of Beninese who are flying to Paris. The narcotics are often transported by women, who are believed less likely to arouse suspicion. Money is exchanged in Paris, after which the drugs are again concealed and flown to the United States. The Embassy estimates that the total volume of narcotics involved is substantial given the number of people believed to be taking part. [redacted] 25X1

Over the past year, several hundred kilograms per month of marijuana, which is grown in substantial amounts in Benin's northern mountainous region, have reached Paris from Cotonou, [redacted]. The marijuana is often 25X1 shipped as unaccompanied baggage, labeled fruits and vegetables. The quantities involved and the method of shipping suggest the complicity of the local airlines, as well as customs and immigration officials. The Beninese Ministry of Interior has issued instructions to transfer all customs and immigration officials at Cotonou Airport to other locations. Embassy officials, however, believe that the move will bring only temporary improvement because of widespread corruption within these services. [redacted] 25X1

[redacted] Beninese and Togolese police authorities are 25X1 cooperating. Both countries have accepted a French offer to train security officials on drug control techniques. Beninese police arrested members of two of the four drug-smuggling operations known to be operating through Cotonou, but members of a third operation escaped to Ghana. A fourth ring of both French and Beninese 25X1 traffickers continues to operate [redacted]. So far, no attempt has been made to obtain help from Nigeria because [redacted] 25X1 the Nigerian security services are too corrupt to permit an effective investigation. [redacted] 25X1

Benin

Austerity Measures Provoke Unrest [redacted] 25X1

Public discontent, especially among student and labor groups, over economic reforms imposed by President Kerekou has increased sharply, according to the US Embassy. Kerekou's decision to halt guaranteed government employment for all university graduates prompted student strikes in April and May. [redacted] 25X1 [redacted] 25X1

[redacted] According 25X1
to the US Embassy, Foreign Minister Affo claims that he has concrete evidence that the Libyan Peoples Bureau in Cotonou was involved with the students. [redacted] 25X1
25X1

Kerekou responded harshly by closing schools and ordering police and security forces to shoot demonstrators on sight. He dismissed Minister of Higher Education, Col. Michel Alladaye, who was a principle instigator of the October 1972 coup that brought Kerekou to power. [redacted] 25X1

25X1

The schools reopened last month without incident, but we believe that additional austerity measures could provoke more unrest. In our view, further turmoil may encourage hardcore leftists in the military to seek Libyan or Soviet backing to overthrow Kerekou. Kerekou has turned to the West in the past several years in search of economic aid, and the Libyans and Soviets probably would be eager to lend support to coup plotters in an effort to restore formerly close ties to Benin. [redacted] 25X1

South Africa

Controversial Anglican Synod [redacted] 25X1

South Africa's predominantly nonwhite Anglican Church passed a series of controversial resolutions at its triennial synod in July that may prompt a split in the 1.5 million-member church, according to the US Embassy. The church formally condemned several recent government measures to counter black unrest, including the growing number of detentions and deaths and the unexplained disappearances of black activists. In addition, the synod sent telegrams to senior government officials requesting an inquiry into police and military activities in the townships. The Anglican Church belongs to the multiracial, interdenominational South African Council of Churches, which demanded last month that President P. W. Botha immediately withdraw the army and riot police from black townships, charging that security forces were actually responsible for much of the violence. Whites, who make up about 20 percent of the Anglicans but provide more than 70 percent of church funds, probably will react to these decisions by the nonwhite majority by reducing contributions and perhaps leaving the church. [redacted] 25X1

Malawi

Military Expansion [redacted] 25X1

Despite economic constraints, Malawi recently began a military buildup that apparently is prompted by concern over the worsening security situation in neighboring Mozambique. Malawian exports and imports transiting Mozambique continue to be disrupted by the Mozambican rebels, and Lilongwe is unable to stop the insurgents from using its territory for safehaven. An influx of Mozambican refugees and worsening violence in border areas have increased prospects that the conflict may spill over into Malawi. [redacted] 25X1

Military expansion plans call for a doubling of troop strength, currently 6,800, and increased recruitment has started. The Army is seeking to augment its stocks of modern small arms and upgrade field communications and air defenses, according to [redacted] has already purchased four obsolete but 25X1 serviceable South African Eland armored cars with ammunition, and at least one military patrol boat from France. Although the Army completed extensive combat training on the Elands in July, we believe additional purchases of South African arms, including more Elands, are likely only if the South Africans continue to offer competitive financing. The one-year-old militia has been expanded to 1,200 men, and has established regional commanders and regular training and pay periods. [redacted] 25X1