ZAIRE: A POOR PROGNOSIS

The large, former Belgian colony of Zaire has extensive untapped mineral and agricultural resources and a per capita income a little above the poorest African countries. In 1975, its GNP was $3.7 billion, but with over 25 million people, per capita GNP was about $150.

While most of the population engages in subsistence agriculture, Zaire possesses a significant modern sector geared primarily to the export of copper. The erratic price movements in world copper markets have produced erratic Zairian economic growth.

Currently, the Zairian economy is in serious difficulty owing to a combination of internal mismanagement and external factors beyond Zaire's control. In 1975, GNP dropped 2.5 percent while the population continued to grow—also by about 2.5 percent. Copper prices fell and Zairian debt rose steeply. Even if expected increases in copper prices should materialize, Zairian officials will be unable, without substantial outside assistance, to get the economy growing again and meet foreign debt payments.

The Record of Mismanagement. In the early 1970's, as the import bill rose sharply and caused repeated balance of payments deficits, the government did not try to curb the growth in imports. Instead, it obtained short- and medium-term credits to cover the shortfalls.

Underlying the government's course was the expectation that copper prices would remain high and that expanding production and exports would correct the payments deficit. The international financial community shared the government's assessment of the copper outlook and, with substantial loanable Eurocurrency funds, arranged
the credits to cover the payments deficits. By 1976, Zaire had taken on nearly $3 billion in debts; 30 percent of 1976 export earnings would have been required for interest and principal payments. In the first six months of 1976, Zaire failed to meet over $150 million in debt repayment obligations.

The government has followed a changeable path in respect to private business, both foreign and nationally owned. When the Zairianization and Radicalization Decrees of 1973 and 1974 proved disastrous, in part because business inventories were sold off and the proceeds were not used for stock replacement, the government moved in 1975 to return companies to their former owners. But the cumulative effect has been to discourage private investment for fear of another reversal of government policy.

The government centered its attention on the industrial sector of the economy, allowing agriculture, which employs 70 percent of Zaire's working population, to stagnate. Agriculture obtained only 2 percent of government-sponsored investment, and only 1 percent of the potentially arable land was cultivated. Government efforts to improve the situation—for example, upgrading farm-to-market roads—were stymied by local officials who diverted the funds for personal use. Moreover, agricultural acquisition prices have been kept too low to encourage production, since the government fears that higher food prices would increase worker discontent in the cities and become a cause of political instability.

The agricultural sector's poor performance worsened the balance of payments problems. The volume of exports of agricultural commodities declined 11 percent from 1972-74. Imports of foodstuffs increased 10 percent a year (totaling over $200 million in 1976) as large numbers of rural dwellers, formerly engaged in subsistence agriculture, moved to the cities.

"Prestige" projects have not suffered the same fate as agriculture. Despite the financial crisis, work has continued apace on such ventures as a world trade center in Kinshasa and a satellite communications network. Neither of these projects directly increases Zaire's productive capacity by anything near its cost in foreign exchange (about $130 million for the two). But government officials justify them on prestige grounds.

The Copper Sector. Copper accounts for nearly 25 percent of Zaire's gross domestic product and copper exports for two-thirds of foreign exchange earnings. Copper prices,
which stood at $1.54 per pound in April of 1974, averaged only $0.60 per pound in 1975. After rising in early 1976, the price has again fallen and the 1976 average will be below the $0.67 per pound that was projected. Industry sources predict that the price will rise somewhat in 1977, but they do not see a return, in the medium term, to anything near the 1974 record high.

Production in 1976 will be in the range of 400,000 to 440,000 tons, 10-20 percent below normal levels. Production should return to normal levels in 1977 (about 480,000 tons), but no substantial increase will be possible until the completion of an expansion project, now expected in 1979.

Transportation. Zaire is dependent on the transportation network of other southern African countries for the export of its copper and the import of essential supplies (see map). The Benguela Railroad was Zaire's most direct and least expensive outlet until the Angolan civil war forced its closure in 1975. Then the shortfall was taken up by increased use of the National Railroad and the route through Zambia and Rhodesia to South African ports.

When the Benguela Railroad was closed, supplies of petroleum and spare parts for the copper industry had to be rerouted, and copper production cutbacks resulted. Now the company that owns the Benguela claims that all necessary repairs have been made. But guerrilla forces threaten to cut the line again if international traffic resumes.

If the situation in Rhodesia deteriorated and that rail connection was severed, further strains would be placed on the system. Initially, copper production would have to be sharply cut back, until supplies of coal and other essential imports could be rerouted. When import supplies resumed, copper would have to be stockpiled until reliable service on the Benguela Railroad was possible, as Zaire's other rail connections are being used to capacity.

Stabilization Program. As Zaire fell increasingly in arrears on its foreign obligations, the government sought IMF assistance. In March 1976, under IMF guidelines, the government announced a stabilization program aimed at reducing Zaire's financial crisis through the cutback of nonessential imports and rescheduling of Zaire's debt repayments. The major points of the program include:

- devaluing the currency by 42.6 percent; the Zaire, which had been valued at 1Z=$2.00, was reduced to 1Z=1.15SDR (currently $1.15);
--limiting credit expansion to 44 million Zaires, a 14-percent increase;  
--balancing the budget; and  
--applying to major creditors, private and official, for debt rescheduling.

The devaluation's beneficial initial impact was blunted by government refusal to allow the price of imported goods to rise immediately afterward. The lid has been kept on credit expansion, however, and this, inter alia, has dampened import demand. There is some evidence, nevertheless, that businesses with government connections are having a much easier time obtaining loans.

The budget is a critical element of Zaire's stabilization program both because the government is a major purchaser of imported goods and because of the inflationary impact of deficit spending. A balanced budget has not been achieved thus far, one more to revenue shortfalls than to overspending. Import taxes and custom duties, the major components of government income, are down from projected levels since copper prices and volume are down.

In June 1976, Zairian officials met in Paris with major official creditors to reach agreement on debt repayment terms. Zaire was successful in rescheduling payments for 1976 but was unable to have the agreement extended beyond one year. While with debt rescheduling, Zaire could face the present high debt service ratio, about 30 percent, for the next 10 years. This severe burden leaves little prospect of Zaire's being able to finance a level of imports necessary for growth.

Zaire has also reached agreement with its private creditors. Under the terms of the latest agreement, Zaire is to receive up to $250 million in new loans in return for increasing current payments of interest and principal and applying for a third tranche standby credit from the IMF under strict economic conditions.

Whether or not Zaire will be able to adhere to IMF guidelines depends as much on political as on economic factors. President Mobutu suffered a serious political reverse in backing the losing side in the Angolan civil war. This political reversal came as it did when the economy was deteriorating from years of official mismanagement and the fall in copper prices weakened the President's political
base considerably. Thus far, his government has been willing to use force to quell worker discontent over austerity measures. Further or more widespread discontent may convince the government that it has to relax such measures to ensure its survival. Political considerations are also behind the government's insistence on continuing the prestige projects, some of which are so far along that canceling them could be viewed as an admission of the gravity of the economic situation.

Outlook. The short-term outlook for Zaire is for continued balance of payments problems, little if any economic growth, the need for austerity measures, and increased popular discontent. For the outlook to improve in the longer run, several fundamental problems that have plagued the economy will have to be resolved. Agricultural policies will have to be changed in order to increase food output, and available investment funds should be channeled into productive projects. If, however, the international financial community continues to make loans without strict conditions, or sufficient bilateral or international aid funds become available, Zaire will be able to muddle through the present financial crisis without changing, even so far as it can, the reasons for the deficits in its balance of payments.