

**Bankers Trust
Company**  **Country
Assessment**

International Economics

280 Park Avenue, New York, N.Y. 10017 U.S.A.

ANGOLA: EXECUTIVE SUMMARY

William H. Overholt

Vice President
Political Assessment Group

PAG 203/1-D 07 May 1984

This executive summary presents the findings of a much longer study completed in March 1984, updated to reflect recent developments.

DRAFT

This is a working document and is not in final form; the statements contained in it may need to be revised or corrected. It is reproduced for private circulation only, not for general distribution or publication, and it should not be cited or quoted without the permission of the author.

Drafts are reproduced at the discretion of the author, with no Bank review procedure, and thus no opinions, statements of fact, or conclusions contained in this document can be attributed to the Bank or its clients.

ANGOLA: EXECUTIVE SUMMARY

Angola is in the midst of an increasingly bitter civil war in which the opposition UNITA is attacking an already severely troubled economy and gradually chipping away at areas under government control.

Angola's Government

Angola is governed by a group of relatively faceless bureaucrats. The government is divided among orthodox Leninists on the left, black nationalists on the right, and a center group led by Jose Eduardo dos Santos, who is also head of the party and of the government. He is a bureaucratic balancer, who maintains position by periodically purging the left and the right. He has offered the country no new synthesis and no new political or economic policy, and he lacks political charisma. Overall, the leadership is the most orthodox communist leadership in Africa. It consists heavily of mestizos, and relies heavily on the backing of whites and mestizos. This leadership has only governed in the context of civil war. Its skills and values focus on political-military management, and it has had little time or inclination to create strong economic and political institutions.

The most impressive institutions are the central bank and the national oil company Sonangol. The key managers of these firms are highly educated and pragmatic. To their political disadvantage, they are also conspicuously white. By all accounts, these institutions are run much more honestly and efficiently than their Nigerian counterparts.

The governing communist party (MPLA) and the army have maintained their positions in charge of politics and military operations respectively, but are much less competent than the oil company and the national bank and have been riven by severe divisions. There is some deterioration of party organization and morale, derived from dos Santos' weaknesses and increasing pressure from the opposition UNITA guerrillas. Some important managers are leaving the party. The army had severe struggles for influence with the state security apparatus, but appears to have won some of those battles after UNITA's victory at the Kafunfo diamond mine, whose security had been entrusted to the state security services.

Other institutions, particularly economic institutions, are run by ideologues and are extremely weak and inefficient.

The government's political base consists primarily of the Kimbundu tribal area in northern Angola and the educated, politicized sectors of the urban areas. The MPLA has made inroads in recent years into the Kikongo regions of the north, formerly FNLA strongholds, but has weakened in all other areas of the country and--crucially--has lost some Kimbundu support to UNITA. The government's economic policies have alienated the business class and much of the peasantry. Were it not for foreign support from Cubans, the Soviet Union, and key Western oil companies, the MPLA would be in the same position as Chiang Kai-shek's armies in China during the late 1940s.

The government's economic policies have been disastrous, outside the extremely well-managed oil sector, and the government is making some efforts to change these policies. Dos Santos has begun a crackdown on corruption. Agricultural spending will shift to peasant producers, and marketing networks will remain private. The government has offered special economic privileges to skilled labor. So far, however, these policies have had less impact than the large and increasing economic losses caused by the UNITA insurgency, which has destroyed dams, factories, bridges, roads, railroads, and power plants, and in addition, has destroyed the coffee industry and made the diamond industry a net foreign exchange liability.

The average Angolan worker earns 15,000 kwanzas per month. One kilogram of bananas costs 5,000 kwanzas. The markets are largely bare. Cigarettes are a more acceptable currency than kwanzas. Crime is increasing rapidly.

The Opposition

The opposition guerrilla movement, UNITA, controls about half of the country and operates in two-thirds of the country. It is led by Dr. Jonas Savimbi, a charismatic black leader who was educated in Portugal and at the Nanking Military Academy in China. UNITA is strongest in the central southeast and western parts of the country and is growing stronger in the northeast. Its traditional ethnic base is the Ovimbundu tribe, the country's largest. UNITA has a far larger base of popular support than the MPLA, but the MPLA has far more educated and trained people. Savimbi represents the blacks and the deprived peasantry, whereas the MPLA represents primarily the mestizos and the urban, educated groups. Savimbi's agricultural policies generate broad public support, but his people have none of the skills to run an urban industrial economy, and their attitudes tend to be the chiliastic peasant attitudes toward industry and toward foreign capitalists that the West associates with Mao Tse-tung.

The Evolving Military Balance

Savimbi laid low from 1976 to 1980, building up his organization from 2,000 people to 9,000. In 1981 to 1983, UNITA moved out from a tiny southeastern base to assume control of about half of the country and to cripple the government's coffee, food and diamond sectors. Now, UNITA has about 30,000 armed troops. In late 1983, the government augmented the Cuban forces to 30,000 troops from 20,000 and pushed UNITA back from approximately 200 kilometers outside of Luanda to perhaps 500 kilometers. The government consolidated a coastal enclave from Luanda up to the Cabinda oilfield areas, while Savimbi consolidated control of the central highlands, some of the north, the eastern salient of Angola that juts into Zambia, and the areas that were already under his control. On March 25, 1984, Savimbi struck back, overrunning Sumbe, an important coastal city in the heartland of the Kimbundu area, only 150 kilometers from Luanda, despite the presence of a large government and Cuban garrison.

Savimbi's military strategy is based on economic sabotage. That strategy has been clearly stated over the years and coherently implemented. In July of

1983, he stated that UNITA would destroy the coffee industry, then the diamond industry, and then the oil industry. With assistance from MPLA economic policies, he effectively destroyed the coffee industry by the end of 1983 and turned the diamond industry into a net foreign exchange liability. In February 1984, he captured the diamond mine at Kafunfo and seized 77 technicians as hostages. He is holding British hostages and demanding the withdrawal of foreign support, particularly British, from the state-owned diamond organization Diamong.

In April 1984, Savimbi stated that his main future targets will be the diamond mines and the Cabinda oil industry, and he specified that Gulf, Elf Aquitaine, and Texaco would be hit.

Savimbi has the capability to overrun temporarily the land-based operations of Gulf and Sonangol and to blow up any land-based facilities. According to estimates of oil managers, loss of any single piece of equipment could be replaced in a week or two, and it appears that the facilities could be adequately protected and even extensive land damage repaired within several weeks. UNITA does not have the capability to seize and hold the land-based facilities. Without South African help, which is unlikely to be forthcoming in the next year, UNITA is not able to destroy the more critical offshore facilities. Therefore, it would not be surprising if UNITA were to knock out one or more major oil operations for a period of three to six weeks over the next sixteen months, but it is unlikely to be able to do much more than that. After the summer of 1985, the relative balance of military capabilities is much less predictable.

Savimbi's political strategy is to force a coalition government. He does not want a Pyrrhic victory over the MPLA, which would simply lead to an indefinite continuation of civil war. He recognizes that, in order to govern successfully, he needs the skills of the more educated and industrially experienced officials of the current government. However, the MPLA is terrified of Savimbi's charismatic personality, and the MPLA's mestizos are frightened by the black nationalism of Savimbi's popular base. Therefore the MPLA has taken the position that it will under no circumstances negotiate with Savimbi or consider a coalition. Savimbi has just announced that, if the MPLA continues to refuse to negotiate, he will begin attacks on Angolan cities. If he chooses to do so, he has the capability to destroy Luanda. Such destruction, even if achieved, would not imply victory over the MPLA. So far there is no way that Savimbi's 30,000 troops could completely defeat 40,000 government troops backed up by 30,000 Cubans.

International Aspects

The MPLA government is completely dependent on Soviet and Cuban support, for which it is supposed to pay. Currently, it is paying the Soviet Union approximately one-third of what it owes, a situation which is probably quite tolerable to the U.S.S.R. There is no sign of political developments in Cuba or the Soviet Union which would lead them to withdraw. However, Angola must continue to pay for the Cuban troops and to do so it must increase oil production. If Savimbi comes up with a political or military strategy to reduce oil revenues, he could win. Otherwise he cannot.

Until recently, UNITA was highly dependent on South African support. South Africa has provided logistics, equipment, finance, and fuel, as well as direct combat support in key operations. Under the terms of an international accord reached in early 1984, South Africa will withdraw its troops from Angola and reduce its support to UNITA, in return for Angola's denying SWAPO (the Namibian liberation movement) the use of Angolan territory as a sanctuary. This agreement will reduce, but not eliminate, South Africa's support for Savimbi. In the meantime, Savimbi has money and weapons sufficient for perhaps two years of operations, and he has strong support from Zaire, Zambia, and Kenya. With this, he could in principle fight on indefinitely.

Prospects

The Angolan civil war has continued for 10 years since independence and has not yet reached its peak. It may continue indefinitely. Its impact on the Angolan economy is increasing. Neither side has any real prospect of victory. The impact of the war on oil operations will increase, but will probably remain limited for the next year or so. After the summer of 1985, the course of events is unpredictable.

Savimbi is verbally committed to punish the foreign companies, particularly oil companies, that have supported his enemy. Were he to achieve coalition or victory, however, there would be pragmatic pressures to maintain continuity of oil production and its financing. The most one can say is that the outcome of such pressures is uncertain.