The Angolan Economy and the World Bank

by a Special Correspondent

The collapse of the cease-fire between the Angolan government and the South African-backed bandit group UNITA, agreed at Gbadolite in June this year, has dashed immediate hopes that work would soon begin on the urgent task of reconstructing the Angolan economy. So long as Angola, potentially one of Africa's richest countries, is torn apart by war, its government will have to continue to pour hard-earned resources into defence and security expenditure, rather than concentrating on development projects.

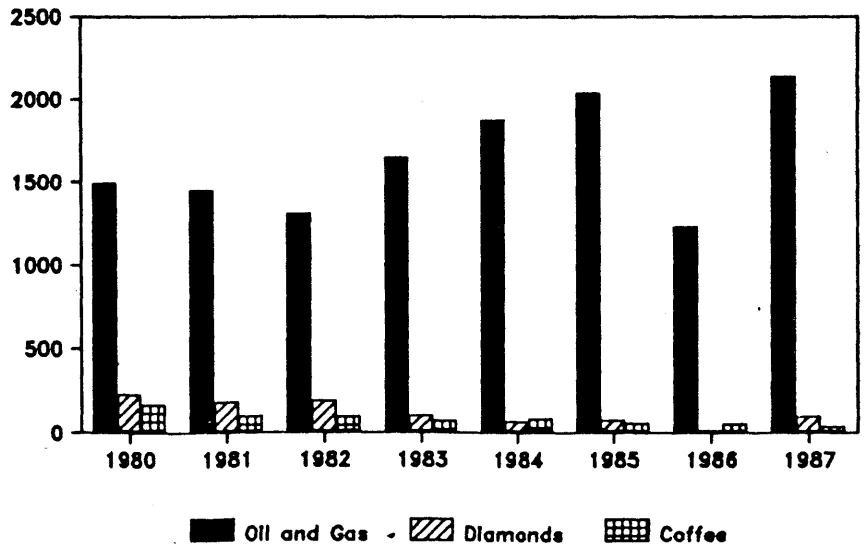
The cease-fire, although short-lived, was made possible by the events following on from the joint Angolan and Cuban victory over South African forces at Cuito Cuanavale in early 1988, which forced Pretoria to the negotiating table and opened the way for Namibian independence. From the economic point of view, however, major shifts are now underway, not just in the military balance of power in south-eastern Africa, but in the actual policy direction followed by the ruling Angolan MPLA-Workers' Party. In September this year the MPLA, which transformed itself into a Marxist-Leninist vanguard party soon after independence in 1975, finally led Angola into the World Bank and the IMF. Angola became the newest member of two international organisations whose economic philosophy stands in direct contradiction to her ruling party's cherished socialist aspirations.

The Resource Base

Angola's resource base, in minerals, in agriculture and fisheries and in the energy sector is impressive. Arable land is abundant, and average population density is low at around 7.2 inhabitants per square kilometre. The diversity of climatic zones, ranging from the near desert of Namibe Province to the temperate plateau around Huambo, allows for the cultivation of a wide range of cash and food crops, including cotton, coffee, sugar, and maize, as well as for the practice of animal husbandry. The national cattle herd was estimated at 3.42 million head in 1987.

The most important mineral resources are oil and diamonds. Angola's proven crude oil reserves amount to 1,418 million barrels, and in early 1988 production was running at about 450,000 barrels per day. This means that the country's reserves-to-production ratio is just below ten years. The sector is relatively well developed, and requires little in the way of new investment. Diamonds are the other major mineral resource, and Angola has some of the largest kimberlite pipes in the world, especially at Catoca, Camatue, Camatchia and Camafuca-Camazombo. There are also significant alluvial and terrace reserves. In the first nine months of 1988, diamond exports earned a net profit of over US$40 million for Angola. Unfortunately, there are major problems with theft and smuggling of diamonds, especially to Zaire and Portugal, which may amount to as much as half the value of production.

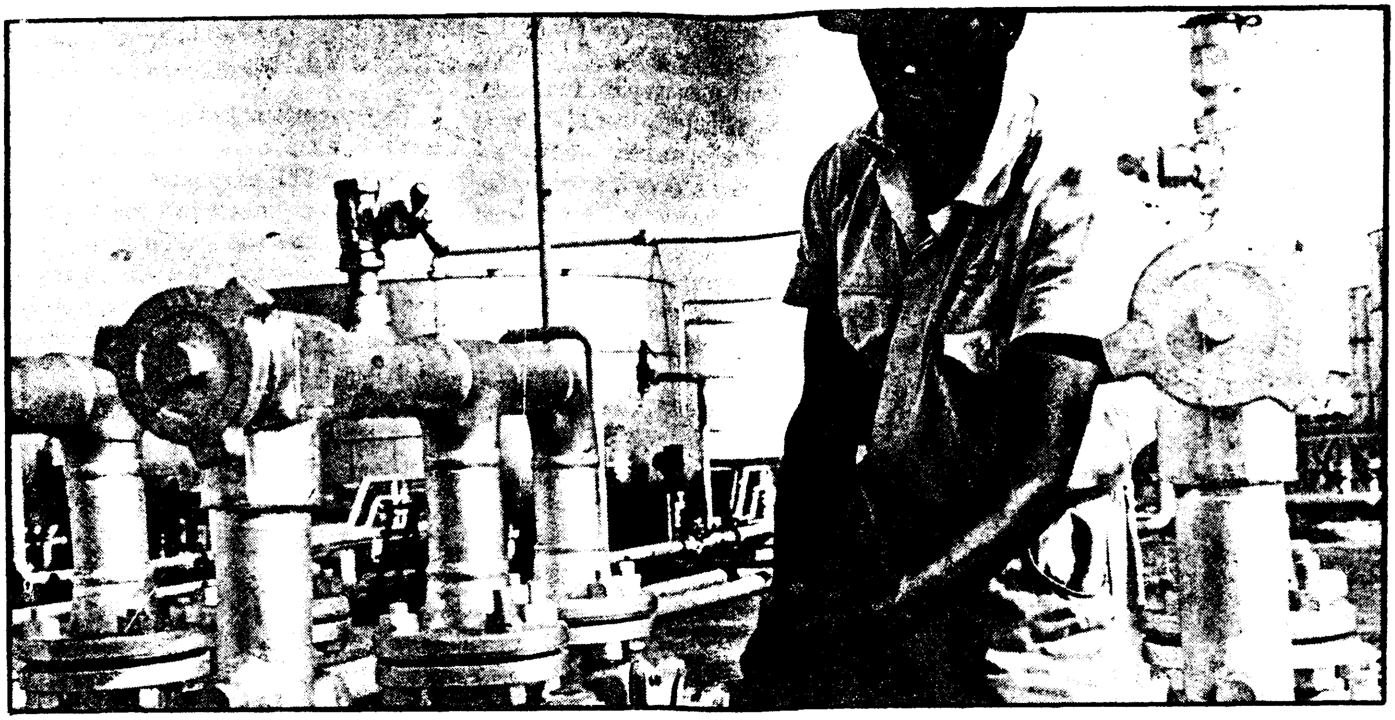
Angola's Export Earnings, 1980–1987 in US$ millions



Source: Angolan Ministry of Finance

The Three Cycles

The history of the Angolan economy since the arrival of the Portuguese in the late fifteenth century has been divided by scholars into three major "cycles" or periods, during which the relationship between the local and dependent economy, and a colonial or external power has in each case led to the practical dominance of a par-



Oil Refinery in Angola

ticular market or product over the whole system. In our own time, the strategic objective of the MPLA-Workers' Party's development policy is to break out of this succession of cycles, and to try to transform the Angolan economy into a balanced system which would meet the basic needs of the people, rather than of foreign interests.

The three cycles were the slave-trade to Brazil, the coffee trade to Portugal, and the sale of petroleum products to the United States. The first of these was the epoch of the alliance between the Kingdom of Portugal and the Kingdom of the Kongo, during which a massive south Atlantic slave trade developed. In the second period, marked by the arrival of Portuguese settlers who appropriated land from the local inhabitants, took up permanent residence, and used forced labour for cultivation, a transition took place away from the slave trade towards an export-oriented coffee economy. The transition lasted for at least a century, and the coffee cycle only really ended in the early 1970s, just before independence, when the world oil crisis increased petroleum prices dramatically.

In the 1940s, the economy of colonial Angola entered a period of growth, based on the booming world market for coffee. It was this rapid growth which stimulated the massive emigration to Angola of white Portuguese settlers; between 1940 and 1974 the settler population increased from 44,000 to roughly 325,000. But until 1961, it was favourable external trade conditions which fuelled the growth.

Angola has not known peace since the early 1960s, when first the UPA (later to become the FNLA) and then, on 4 February 1961, the MPLA launched the armed struggle for national liberation against the Portuguese. After the Portuguese coup of 25 April 1974, the colonial authorities were unable to resolve the conflict between the MPLA and two other nationalist movements, the FNLA and UNITA, and so, on 11 November 1975, they simply declared the country independent and sailed off back to Lisbon.

In 1961, with the launching of the armed struggle by the MPLA, Lisbon responded by relaxing some of the constraints on industrialisation in Angola. This last period, characterised by some analysts as the crisis of colonial capitalism, led up to the oil boom of 1973-1974, when OPEC increased prices, and the MPLA won independence after the Portuguese coup d'etat of 25 April.

The newly independent People's Republic of Angola, under the MPLA government, was attacked from the north by the FNLA, with Zairean support, and from the south by the South African Defence Force, the SADF. Thanks to the internationalist solidarity of Cuba, which sent troops to the assistance of Angola, these attacks were beaten off.

The World Bank Moves In

It is already clear that the World Bank is planning major changes in economic policy as the price for its financial backing. Reports have appeared recently that the 1989 edition of the Bank's country study on Angola, a useful guide to the organisation's thinking on possible future policy, identifies three factors as the principle causes of the country's poor economic performance. The first two are relatively uncontroversial; the third, the Bank's experts argue uncompromisingly, was the attempt to realise a socialist transformation in Angola.

The first factor is identified as the war waged since independence against the MPLA government by South Africa, which has repeatedly invaded Angolan territory since 1975, and by UNITA. The Bank estimates that as much as 80 percent of rural Angola has been affected by the war, and in many areas agricultural production and marketing of both cash and food crops has virtually come to a halt. Cotton production, for instance, has fallen from more than 86,000 tons in 1971 to just over 300 tons in 1986. Coffee, once Angola's dominant cash crop, has dropped from 240,000 tons in

1974 to 13,500 tons in 1987. Food crops have also been dramatically affected. Maize production in 1971 reached 710,000 tons; by 1987 it was down by nearly two-thirds to 250,000 tons. The story is similar for cassava, millet, rice and ground-nuts.

The war has also had a negative impact on infrastructure, such as power plants, electricity transmission lines, bridges, and railways, as well as schools and health posts, and has displaced an estimated 600,000 people, forcing them into cities where facilities were already under strain. Finally, of course, the war has cost the Angolan government and people huge amounts of money - an estimated forty percent of the national budget goes into the defence and security account - which might otherwise have been used for development.

The second factor which the Bank's report identifies is the flight back to Portugal in 1974-1975 of about ninety percent of the white settlers in the country - about 300,000 people, many of them with administrative or managerial skills which they had not bothered to communicate to the black population. Scarcity of skilled labour, it is argued, remains to this day one of the major constraints on economic development.

Lastly, and most controversially, the Bank's experts identify what they term "inefficient economic management and inadequate economic policies" (that is to say, a socialist programme) as a contributory factor in the country's poor performance. Without the oil industry, which provided approximately 30 percent of GDP, and between 40 and 65 percent of government revenue in the 1980s, the situation would have been considerably bleaker. Export sales of petroleum products accounted for around 93 percent of total exports, and paid for running the war and feeding the urban population.

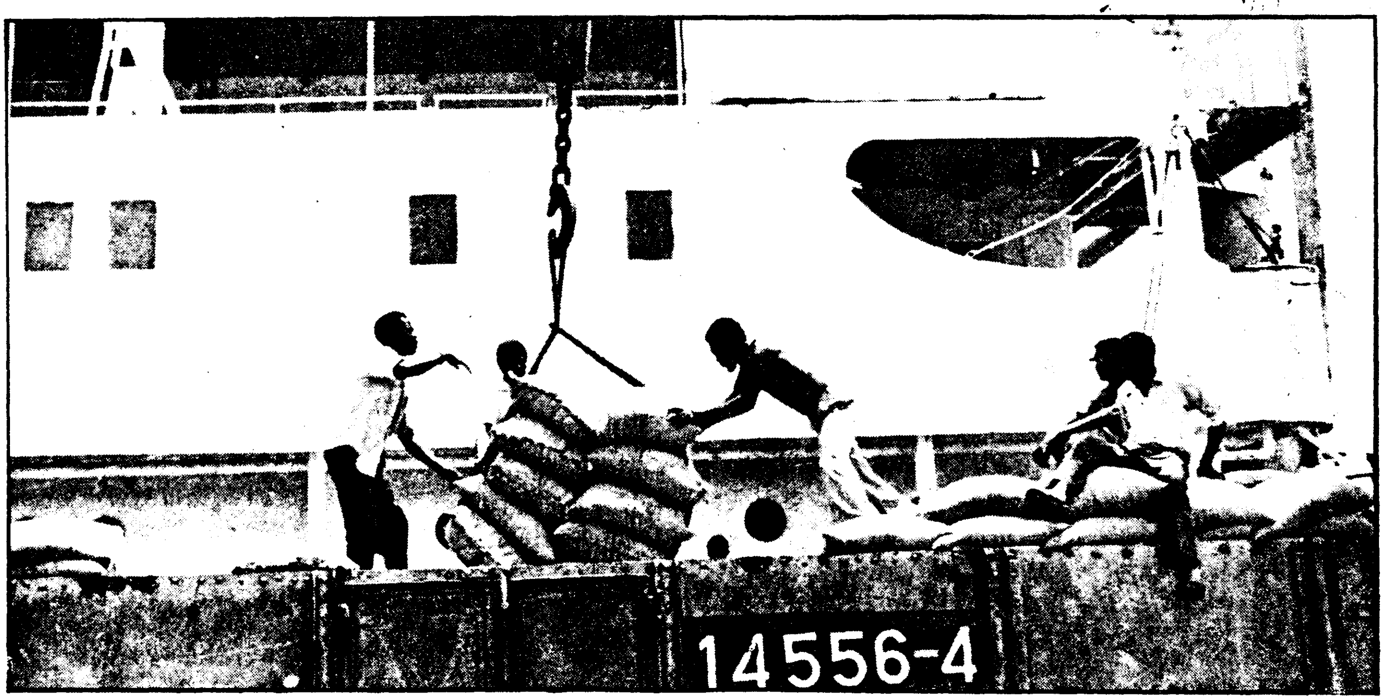
The Angolan government is criticised for attempting to run the economy by administrative decree, and the Bank says quite explicitly that "one of the fundamental reforms of the Angolan economic system should be to introduce a more important role for market forces. However, the rapid transformation of a system in which the official, centrally controlled economy runs alongside a network of black-market operations charging hugely inflated prices will involve "very harsh decisions" admits the report.

The Economic And Financial Clean-up (SEF)

The government had recognised that the economy was in crisis as early as 1980, and in 1987 the SEF programme (Saneamento Economico e Financeiro - roughly translatable as Economic and Financial Clean-Up) was announced. The SEF is designed to achieve two main objectives, namely a stabilisation of the financial situation, and an overhaul of the economic system as as whole.

The first objective is to be realised by reducing inflationary pressures, the huge budget deficits, loss-making parastatal enterprises, cleaning up the banking system, clearing the arrears in foreign debt payments, and working out new debt servicing arrangements. The general economic reform is intended to bring levels of productivity up to reasonable levels again, improve resource allocation, and create conditions for eventual balanced economic growth and development.

It is clear that the World Bank sees SEF (which is a strategic programme), and the tactical "Programa de Recuperacao Economica" (Economic Recovery Programme, or PRE) introduced in 1989, as windows of opportunity for the introduction of the all-too-familiar measures of structural adjustment. ●



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