

Angola: conflict and development, 1961-2002

Manuel Ennes Ferreira

Can a country achieve its development goals or, at least, its economic growth goals when it faces forty years of war? Angola's case is a paradigmatic example to answer this question. From 1961 to 1974, Angolans opposed Portuguese colonial rule by violent, revolutionary struggle. But from 1975 (Angola's independence year) to April 2002 (the date of the last cease-fire), a civil war pitted the ruling MPLA party against the main rebel group, UNITA. Macroeconomic performance differed across these two time-periods. The purpose of this article is to explore the influence of internal and external economic and political conditions on Angola's development, under circumstances of war, and to speculate on Angola's immediate future.

Conflict and development in the colonial context, 1961-1975

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In the early 1960's, when the struggle for independence began, Angola's economic and social structure was typically colonial. Manufacturing industry accounted for only 13 percent of GDP.

Agricultural production, the extractive industry, and international trade were the most important GDP contributors. The main export good was coffee (36 percent of total export value in 1961) which, together with other unprocessed agricultural goods (sisal, maize, sugar, cotton, and wood) amounted to 56 percent of total export value. Mined goods, such as diamonds and iron, contributed another 17 and 4 percent, respectively. Manufactured goods were just 10 percent of total exports but 88 percent of the colony's total imports. Portugal was Angola's principal supplier (44 percent), followed by Great Britain (13 percent) and the U.S. (10 percent), while the latter was Angola's main export client (21 percent), followed by Great Britain (19 percent), and Portugal (14 percent). Even though Angola had a trade surplus vis-à-vis the rest of the world, its substantial trade deficit with Portugal resulted in a negative current account (8 percent of GDP). The government budget surplus ran to 7 percent of GDP. Indigenous economic activity was very low, as was the indigenous level of education and socio-economic achievement.

To lessen criticism from the international anti-colonial community and to rally internal support in Angola and in Portugal, the colonial masters realized that reform measures to foster economic growth and development in Angola were urgently

needed. At the time, Angola's economy was formally integrated (since January 1962) into the Portuguese Economic Area, supposedly a free-trade zone that included Portugal and its colonies. But colonial rules had protected Portuguese manufacturing industry and prevented an independent Angolan industrial take-off, which accounted for the uneven trade between the two countries. Economic openness was restricted, and independent capital and finance were therefore lacking to support Angolan economic growth. An extensive military effort also claimed substantial internal budgetary resources.

Under relaxed colonial policies, Angola then engaged in a mix of economic openness and domestic market protection through a policy of import substitution industrialization. In spite of the anti-colonial military confrontation and consequent high military expenditure, this led to considerable industrial and economic growth in

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Angola. The numbers are as follows. Angola's military expenditure rose from 6 percent of the budget (or 1 percent of GDP) to 15 percent in 1967 (3 percent of GDP) and then fell to 8 percent in the 1970's (2 percent of GDP). A budget surplus was nonetheless achieved in every year, in part because 30 percent of Portugal's military budget was spent in Angola, subsidizing the Angolan military budget. Despite the high military expense, the average annual inflation-adjusted economic growth rate was nearly 5 percent for the 1962 to 1973 period, while that of the manufacturing sector was just over 12 percent.

The strong domestic market meant that industrial goods accounted for more than 90 percent of total imports and led to an increasing shift toward non-Portuguese suppliers (in aggregate 74 percent, Germany being first with 13 percent, and the U.S. second with 10 percent), which were better able than Portugal – then itself a developing country – to respond to Angola's sophisticated and modern domestic demand. From the early 1960's to the early 1970's, the external trade surplus grew ten-fold. In 1969, the Cabinda Gulf American oil company started exporting crude oil from Angola (5 percent of total exports), and a mere four years later oil exports occupied the largest share of total exports (30 percent), the U.S. being the largest customer, receiving 28 percent of all oil exports. The current account turned positive in 1972 and 1973. A shift in the export structure had occurred, putting non-agricultural raw materials (crude oil, diamonds, and iron) in first place with 47 percent of total exports against 33 percent of agricultural raw materials. At the same time, manufacturing products (25 percent of GDP in 1973) and agricultural consumer goods were responding well to domestic demand. Deep involvement of Portuguese,

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colonial, and foreign economic interests in the export and domestic sectors combined with proper incentives provided by fiscal and industrial economic policies. This permitted Angola to overcome hindrances on account of military effort and international political isolation and to achieve some degree of economic development. But the dark side of this development was notorious lack of, and lack of promotion of, indigenous capability, despite some palliative improvements that had been introduced over the years.

Civil war and development in a centrally-planned economy, 1975-1992

Following the fall of Portugal's military dictatorship in April 1974, Angola achieved independence in November 1975, the result of military confrontation that had put Portugal in opposition to various nationalist movements. Post-independence political fragmentation into two major groups marked the conditions within which further economic development would have to occur. External support soon materialized for each of the two sides, and made matters worse. Socialist countries – Cuba and the Soviet Union – helped the ruling MPLA, whereas western countries – the U.S., France, and especially South Africa – assisted UNITA. As if this ideological and military bifurcation was not enough to stall Angolan economic development, the MPLA's political ideology and vision of a centrally planned economy made things much worse. The political system was based on rule by a single, Marxist-Leninist party and excluded people from participation in the country's destiny. The economic and political system amounted to an identification of state with party (the MPLA). Capital assets were confiscated and the nationalization of private industry was announced. Except for the oil and diamond sectors, the private sector was thus edged out. Great numbers of skilled workers left the country.

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As civil war spread in the countryside, military effort increased. Simultaneously, problems common to centrally planned economies made their appearance. At no point was there a stable and coherent economic policy. Agricultural production fell year after year, and dependence on imports to assure continued production in the manufacturing sector grew (mostly affecting food and beverage firms, and some light industries). Domestic production in the heavy industries was negatively affected as well. Financial problems in state-owned enterprises appeared and were covered up by subsidies and transfers from the government budget. This permitted enterprises to function under

high average costs even as their product sales prices were subsidized. Non-oil annual economic growth declined sharply. For instance, by 1991 the average value of industrial production was only one-third of what it had been in 1975. As a result, manufacturing industry's contribution to GDP fell to only 5 percent in 1991.

Angola's incapacity to formulate appropriate economic policy in times of civil war should be understood in the context of its political and economic system. For instance, lack of domestic capital should have alerted the Angolan government to attract foreign capital. But foreign capital was seen as endangering Angola's "socialist option." At the same time, the government kept the value of the national currency – the Kwanza – unchanged against the U.S. dollar until March 1991. The Kwanza became increasingly overvalued. Consequently, industrial and even agricultural production were punished by competition from much cheaper imported goods.

Falling domestic production and rising military effort led to the search for regime survival. The need for ever higher hard-currency income to finance imports of consumer and industrial goods, and of military equipment, led the MPLA to ask oil companies from the U.S. and France to increase oil production. Apart from the obvious paradox of private U.S. and French companies sustaining a socialist regime, the "Dutch disease" asserted a tremendous negative effect on the remainder of Angola's economy. (Massive raw material exports, traded in U.S. dollars on the world market, tend to increase a country's currency value – many U.S. dollars per Kwanza – making other exports more expensive to foreigners, and imports to Angola cheaper, thus devastating the non-oil export sector and subjecting domestic industry to import-competition.)

Along with changes occurring in the Soviet Union, the recognition that central planning was actually inhibiting progress toward development eventually induced the Angolan government in 1987 to approve an economic reform program – the Programa de Saneamento Económico e Financeiro (Program for Economic and Financial Restructuring). At the same time Angola applied for full membership in the IMF and World Bank (accession occurred in 1989). But neither this, nor two related programs (the Programa de Recuperação Económica and the Programa de Acção do Governo), which proposed to restructure the state-owned sector, ever came into force. With civil war at an impasse, a peace agreement was signed in May 1991, in Bicesse, Portugal. General and presidential elections took place in September 1992.

What is the link between civil war and development in this period of time in Angola? Impressive resources were taken from the budget to finance the war: officially, more than a quarter in the second half of the 1970's and

Impressive resources were taken from the budget to finance the war: more than a quarter of the government's budget in the latter 1970's, sometimes more than 40 percent in the 1980's, and 20 percent in the 1990's.

sometimes more than 40 percent in the 1980's. This amounted to 14 percent of GDP in 1978, 28 percent in 1986, and 20 percent in the early 1990's. Consequently, development resources were lacking. Moreover, foreign capital was discouraged, as was private economic activity. The exception was the petroleum sector. Crude oil accounted for two-thirds of fiscal revenues and for more than 90 percent of total exports, assuring a trade balance surplus. The U.S. took 57 percent of Angola's total exports. Inflows of foreign capital from oil companies helped the balance of payments, although from 1985 onward external debt and arrears became a huge problem for Angola's economy. The ratios of total external debt to exports of goods and services and to GNP jumped, respectively, from 128 percent and 52 percent in 1982 to 240 percent and 141 percent in 1991. In the same period, military external debt accounted for almost 70 percent of the country's total external debt.

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The attractiveness of crude-oil production to finance military needs and imports of consumer goods led the MPLA government to neglect its duties toward the nation as a whole. A rigid hierarchical network of vested interests emerged inside the state and the party. Private appropriation of public assets and massive rent-seeking began in the mid-1980's. The existence of state monopolies in external trade and domestic marketing facilitated privileged access and acted against the national interest of domestic industries. The war certainly conditioned Angola's economic performance but the main obstacle was utterly inappropriate economic policy and a political system that fostered a rent-seeking elite.

Civil war and development in a market-oriented economy, 1992-2002

Not accepting the results of Angola's first-ever elections in September 1992, UNITA resumed civil war. Neither the Lusaka peace agreement signed in 1994, nor the 1997 creation of a Government of National Unity and Reconciliation put an end to war. Two quite different and important characteristics of this renewed turmoil need emphasizing. First, the war now spread throughout the entire country and for the first time it included towns. UNITA's access to diamond mines increased, permitting it to become financially self-sufficient and to acquire and use heavy military equipment. Second, Angola involved itself militarily in the internal affairs of its neighbors, the Republic of Congo and the Democratic Republic of Congo (ex-Zaire). This resulted in a humanitarian catastrophe and thousands of displaced people. In December 1998, the MPLA-dominated government launched a large-scale offensive against UNITA which ended in February 2002 when UNITA leader Savimbi died in battle. A

Memorando de Entendimento signed in April that year finally brought the tragic Angolan civil wars to an end.

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Economically, the decade of 1992 to 2002 was marked by an intensive use of government budgetary resources for military purposes, absorbing more than 40 percent of total expenditures. Inflation rose sharply to 1,837 percent in 1993, 3,783 percent two years later, before declining to 268 percent in 2000, and a mere 116 percent in 2001. The fiscal deficit to GDP ratio remained high at 27 percent of GDP in 1995 and 15 percent in 1999. Agricultural and manufacturing activities continued to decline, the latter to no more than 5 percent of GDP. Crude-oil exports rose in 1994 to an astonishing 94 percent of total exports and even in 2000 still accounted for a whopping 88 percent. Correspondingly, oil money increasingly financed fiscal revenues: 67 percent in 1995 and 87 percent in 1999. The U.S. remained in the top slot as a destination for Angolan exports (more than 60 percent) and was second as a supplier (around 15 percent). Despite oil exports, for much of the 1990's the current account got worse: 11 percent of GDP in 1992, 20 percent in 1995, and 25 percent in 1999, but became positive in 2000 (9 percent). Foreign loans were secured with pledges against future crude-oil deliveries. Total external debt rose and arrears accumulated. In 2000, the ratio of total external debt to exports of goods and services was 109 percent.

This macroeconomic landscape developed in the context of promoting a market-oriented economy. Public enterprises were privatized – from manufacturing industry to agriculture and commerce – but essentially benefitted a small group of “emergent entrepreneurs and economic groups” closely related to the MPLA, the ruling political party. These people received privileged access to credit and hard currency (and sold it in the parallel foreign exchange market or used it to guarantee themselves lucrative import business), in the process driving out those who were genuinely interested in the recovery of domestic production. As the economy stagnated, oil production remained the essential financial support pillar of the government. The “Dutch disease” phenomenon continued, as did rent-seeking, by far the easiest way to profitably accumulate private capital. This sort of economic nepotism became a formidable barrier to entry for any new economic activity. Despite the fact that some foreign investors appeared in local markets, the over-all economic and political country-risk remained at a very high level. Lack of transparency and bad governance got worse over time. Corruption and embezzlement were at the center of criticism from multilateral institutions and from Angola's civil society.

Every new economic program that was launched (for instance, the Programas Económico e Social or the Programa Nova Vida) soon saw its goals and targets not achieved. Lack of economic strategy for the medium and long-term prevented economic policy from being effective and was, in turn, subject to vested economic and political interests. The economic imbalances of the Angolan economy, the urgent need for foreign capital, and the need to renegotiate its external debt should have resulted in a much more dedicated commitment by the Angolan authorities. But this was not the case. Even pressure exerted by the IMF, following an agreement signed by Angola, did not result in any success.

Just as the new economic “openness” was undermined, so the new political movement toward democracy was strongly subverted. Small parties were subject to pressure by the MPLA and the government, promoting divisions within them. Not even the largest opposition party, UNITA, escaped from this practice and resulted in the emergence of a splinter-group, UNITA-Renovada. Likewise, civil society initiatives came under pressure. Human rights and press freedom were two special targets. Informal repression became an important means of controlling Angolan society at large. As it had done before, the government pointed to the on-going civil war by way of excuse for Angola’s abysmal economic performance. Accusing UNITA to be merely interested in promoting war out of greed, the MPLA government tried to hide the kernels of genuine grievance that underlay the civil war – and the quasi-greed motivation of both sides.

Prospects for the future

The civil war was a perfect ruse to excuse government incompetence and irresponsibility. The government’s choices, in conjunction with UNITA’s rent-seeking, amounted to a deliberate, shameful policy to deprive the country’s people of a decent and humane livelihood.

Angolan war inhibited the country’s economic growth and development. But that does not at all imply that the latter could not have been improved. Indeed, the civil war was a perfect ruse to excuse government incompetence and irresponsibility. The ruling party, the MPLA, and its government chose the lucrative crude-oil sector as the primary cash-cow to finance government revenue, military imports, and rent-seeking among the elite. This, in conjunction with the diamond-based

Political stability and good economic policies are two important requirements to achieve economic growth and development. When political instability takes the shape of military confrontation and civil war, the task is still possible but obviously made more difficult. For forty-odd years, since 1961, it is unquestionably true that resources devoted to fight the

rent-seeking by UNITA to enrich its leaders and finance that group’s military activities, led to economic catastrophe and essentially amounted to a deliberate, shameful policy to deprive the country’s people of a decent and humane livelihood.

What are Angola’s prospects? It would be wrong to understand the on-going political events as a zero-sum game. Neither is economic activity a zero-sum game. One main challenge concerns the need to share economic and political benefits resulting from the new peace framework not merely between the two old opponents – the MPLA and UNITA – but among the wide variety of actual and potential players in Angola. Democracy must be unrestricted, respecting all political parties, and encouraging involvement by civil society. In democracies, social pressure, such as that stemming from labor strikes, are legitimate forms of contest that must be welcomed and protected. Further, barriers that would prevent new economic agents, domestic or foreign, from entering the Angolan economy must be removed so as to permit these agents to participate in and contribute to the economic development of the country.

Special attention needs to be paid to non-oil activities. Of highest priority is the recovery of agricultural production, beginning with basic food stuffs for domestic consumption before turning attention to export crops. Enlargement of the domestic market would, in time, create conditions to relaunch manufacturing activities. Of course, basic transportation infrastructure (e.g., repairing roads and bridges) must be provided to stitch the country back together. Security threats to life and property must be drastically diminished, if not altogether abolished. It follows that economic policy must attend to measures that stimulate renewed economic participation by the people, and this includes the design and implementation of proper credit, trade, and foreign-exchange policies. Monetary policy to control inflation should lead to a diminished fiscal deficit. A goodly portion of military expenditure should be erased and re-oriented toward social and economic targets. Demobilization and reintegration of ex-combatants are another area of policy concern.

None of this will be easy to bring about. As with other developing countries, military expenditure is resilient. Angola is dealing not merely with a simple economic problem but with the political problem of military reform. The prominence that military institutions have achieved in Angola since independence suggests caution. But not only military expenditure needs re-orienting; so does the entirety of the public budget, in favor of the hitherto much neglected health and education sectors. This is compounded by the need to facilitate the return of displaced people to their places of origin and to provide them with adequate services. In addition, with more than 60 percent of Angolans in poverty, anti-poverty programs are most urgently needed.

Another economic problem

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concerns Angola's external debt. For years, Angola and the IMF have discussed terms of an economic adjustment program. The government oscillated between criticizing the IMF on account of the expected negative social impact of just such a program to begging for urgently implementing it, while the IMF charged the government with not reaching agreed-upon targets of the monitoring agreement and accusing it of lack of transparency of the public accounts, primarily the oil account. It is not unfair to state that the Angolan government is more interested in signing an agreement with the ulterior purpose of appearing before the Paris Club to reschedule its external debt and be free to contract new loans than to genuinely proceed and correct the economic imbalances that are currently damaging the Angolan economy and hurting its people. Either way, it is understood that an IMF "green light" would help the country to attract foreign capital. But foreign capital into which sectors? Fawned upon by U.S. and French oil interests, the elites surely are tempted to reproduce the rent-seeking that characterized Angola's path.

The U.S. in particular has recently expressed a peculiar interest in Angola, for two main reasons. First, in distinction to the troublesome Middle East, Angola is a convenient alternative source for medium and long-run oil supplies. Second, the notion that Angola could potentially fill a useful role as an African regional peacemaker sounds good to the American administration. But potential vested economic interests require actual political stability. It would therefore be interesting to know to what degree, if any, UNITA's military defeat was linked to U.S. intelligence or other support, or was tied in any way to the U.S. desire to "resolve" annoying conflicts in the context of its post-September 11, 2001 anti-terrorism campaign. At any rate, Angola's unfortunate but substantial military experience – both inside and outside the country (direct interventions in Sao Tome, Congo-Brazzaville, Congo-Kinshasa, Namibia, Zambia, and now, it is said, Cote d'Ivoire) – well aligns current U.S. interests with Angolan aspirations to become a regional power. In a bid to counterbalance South African leadership, it is therefore quite possible that Angola's renewed engagement within the Southern African Development Community will shift from the free-rider position it assumed thus far to a much more active agenda. The end of Angola's civil war might have brought hidden ambitions of its rulers to the fore.

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Certainly, much is possible and Angola's elite has once more received an opportunity to better the country. Wasting it should be considered a crime against the Angolan people. Without the excuse of colonial or civil war,

what reason could possibly be given if another development failure does occur?

Note

Manuel Ennes Ferreira is a professor at the Department of Economics at the Instituto Superior de Economia e Gestão (ISEG) of the Universidade Técnica de Lisboa, Portugal. He thanks Jurgen Brauer for helpful comments on this article.

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