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Memorandum for:

The attached memorandum was sent to [redacted] DO/EUR per the DDCI's request. 25X1

EUR M84-10198-X

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Office of European Analysis

EURM 84-10198X

SECRET

22 September 1984

MEMORANDUM FOR: [redacted] 25X1
DO/EUR/

FROM : [redacted]
DI/EURA/WE/IA
[redacted] 25X1
DI/ALA/AF/RI

SUBJECT : Overview of Portuguese Politics, Economics, and Relations with Angola

The Political Scene

The Portuguese party system has kept its shape through five parliamentary elections and 15 major changes of government since the revolution in 1974. To the left, the pro-Moscow Communist Party has not managed to exceed 20 percent of the vote; of Portugal's four major parties, it is the only one not to have been part of a government. To its right, the center-left Socialists (PS), the centrist Social Democrats (PSD), and the conservative Social Democratic Center Party (CDS) have formed a variety of coalitions following each other in and out of government. Socialist Prime Minister Soares's current Socialist-Social Democratic coalition, which took office in June 1983, is the first to grapple seriously with the structural economic problems inherited from the Salazar years and immediate post-revolutionary period. Like its predecessors, however, this government has had difficulty dealing with President Eanes -- a career military officer who sees himself as the guardian of Portuguese democracy and who has used his extensive constitutional powers to intervene sporadically in parliamentary politics. [redacted] 25X1

The centerpiece of the current government program has been tough, IMF-mandated austerity measures. Despite the unpopularity of the government's economic policies, the Social Democrats have been pressing hard for Soares to undertake the additional measures they believe are necessary to restore Portugal's economic health -- primarily, to trim large and inefficient public sector enterprises, to promote private agriculture at the expense of the state-backed collective farms that emerged from the revolution, and to make it easier to fire workers and harder for them to strike. Countervailing pressure from Socialist trade unions and leftists has made Soares reluctant to go along with the PSD's demands. PSD frustration with the government had reached the point earlier this year that Social Democratic Deputy Prime Minister Mota Pinto -- a principal backer of the coalition with Soares -- appeared in danger of losing his post as party leader. The disunity of the Social Democratic dissidents and their reluctance to assume responsibility for precipitating a governmental crisis have reduced that threat somewhat lately. [redacted] 25X1

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Soares's apparent interest in running for President in December 1985 is another strain on the coalition. A large sector of the PSD would like to run its own candidate. Some on the party's right would even like to cooperate in that race with the CDS -- the PSD's partner in the previous government. Socialists and Social Democrats alike, however, appear increasingly inclined to postpone potentially divisive decisions on the presidential race until well into next year. [redacted] 25X1

A basic force for the coalition's stability is the PSD and PS's shared distrust of President Eanes. Rumors circulate in Lisbon that Eanes is considering throwing his weight behind a new presidentialist political party that would compete for votes in the same space on the political spectrum that the Socialists and Social Democrats now occupy. Even the Social Democrats most displeased with Soares worry that falling out with the Socialists could give the President an opportunity to become more involved in party politics. [redacted] 25X1

In any event, the current government's collapse would probably not lead to a major change in the party system. A new presidentialist party would remain an uncertain prospect at best, and Eanes -- a cautious leader -- is almost certainly aware of that fact. The most that he would probably do if the Socialists and Social Democrats parted ways would be to call for new elections or to experiment with a government of presidential initiative that could include independents as well as representatives of the existing parties. In either case, party politics and government policies would likely continue to be shaped by much the same leaders who have been around for most of the past decade. [redacted] 25X1

Economic Overview

Lisbon began an 18-month IMF-mandated stabilization program in August 1983 after its current account deficit ballooned from $1.3 billion in 1980 to $3.3 billion in 1982 and bankers shied away from extending new loans. The agreement set the following targets:

- o Cut the current account deficit to $2.0 billion in 1983 and $1.25 billion this year.
- o Pare the budget deficit from 12.6 percent of GDP in 1982 to about 6 percent of GDP in 1984.
- o Hold foreign debt to $14.6 billion in 1983 and $16 billion in 1984.
- o Restrict domestic credit growth to 27.5 percent in 1983 and 21.5 percent in 1984.
- o Slow inflation to 29 percent last year and to 20 percent this year.

To accomplish these goals, the Socialists pushed through Parliament a one-time 2-percent tax on fourth-quarter 1983 incomes and other tax hikes, raised interest rates, cut back or abandoned government investment projects, and curtailed state enterprise borrowing activities. [redacted] 25X1

The Fund also demanded that Lisbon raise government-subsidized food and transportation prices, limit wage gains to 20 percent, and begin serious efforts to reform the financially troubled and overstaffed public sector enterprises and the Byzantine tax system. 25X1

Lisbon met all its quantitative targets last year except for inflation. A dramatic improvement in trade cut the current account deficit to $1.7 billion. Imports fell $1.3 billion because of drawdowns of petroleum and food stocks, a 7-percent drop in real domestic demand, and difficulties in obtaining international financing. Spurred by two devaluations of 2 percent and 12 percent and an increase in the escudo's monthly rate of depreciation to 1 percent, exports increased $400 million. With its borrowing needs reduced, foreign debt rose only slightly to $14.3 billion, just within the IMF's limit. Inflation, on the other hand, accelerated to 34 percent after Lisbon reduced subsidies on government-controlled prices. While the austerity program succeeded in regaining bankers' confidence and easing Lisbon's liquidity problems, it entailed some hardships for Portuguese workers. Real disposable income fell 5 percent and unemployment rose above 10 percent. Per capita income -- already the lowest in Western Europe except for Turkey -- fell about 10 percent. 25X1

Concerned about the possibility of a deep recession, Lisbon won a relaxation of the ceilings on domestic credit and inflation from the IMF earlier this year. In return, the Fund insisted that the Soares government make good its promise to reform state-owned firms and taxes. While the Portuguese have not yet agreed to the terms of a World Bank Structural Adjustment Loan, they have drawn up a three-year restructuring program that includes plans to weed out unviable state enterprises and to revise tax codes. According to the plan's macroeconomic projections, private consumption will not grow at all in 1985 while the current account deficit will stabilize at around $1.25 billion. This suggests that Lisbon intends to extend austerity one more year. Whether the Portuguese actually do so depends on the coalition government's survival and its resolve to attack difficult economic problems in the face of political opposition, a further deterioration of workers' living standards, and demands for expansionary policies. 25X1

The Portuguese have been somewhat less successful in winning concessions from the EC during accession negotiations. The Community has agreed to keep 85 percent of Portugal's inefficient agricultural sector out of the CAP for the first five years of membership and integrate it gradually over the next five years. On the other hand, the Ten will not allow Portugal's competitive tomato concentrate and port wine exports free entry initially for fear of the effects on their own farmers. Similarly, negotiators have settled on a ten-year period during which the EC and Lisbon cannot fish in each other's waters, but they are deadlocked on the length of time that Portuguese sardine exports should be restricted. In negotiations on the last important chapter remaining open -- social affairs -- Lisbon has accepted a seven-year transition period for free movement of emigrant workers. Arguments currently center on benefits to emigrants and on Luxembourg's request to extend the transition period since Portuguese workers already represent 11 percent of its population. The Ten cannot give up much ground because it would set a bad precedent for negotiations with the Spanish. 25X1

With EC entry around the corner -- January 1986 if negotiations are completed this year -- Lisbon recognizes that it must press ahead with structural reforms. Reforming the backward and neglected farming sector will be particularly difficult because of Communist-dominated collectives in the south. In the industrial sector, uncompetitive firms have survived because of an array of import barriers and government subsidies. Lisbon's limited resources, the plethora of such firms, and its reluctance to lay off large numbers of workers probably will hinder progress. [redacted] 25X1

Relations with Angola

Angola has been attempting for several years to expand its relations with the West -- with Portugal being one of its key targets -- in an effort to offset the political and economic influence of the Soviet bloc and Cuba and to help breathe life into Angola's moribund economy. The effort has been to a large measure frustrated, however, by Luanda's perceived need for Soviet and Cuban military assistance in the face of the continuing guerrilla war and by Havana's and Moscow's effort to keep Angola closely aligned with the "socialist bloc." [redacted] 25X1

Since taking office in 1979 after the death of Augustino Neto, President Eduardo dos Santos has moved gradually to increase his power and reduce the influence of two key factions within the government. One faction, led by the mulatto Lucio Lara, was firmly committed to backing the SWAPO-led struggle against South African control of Namibia, strongly supported the Cuban troop presence, and opposed accommodation with South Africa or UNITA. Another group, black nationalists known as the "Catete faction," sought to end the dominance of mulattos in the party and to lessen Angola's dependence on Soviet and Cuban aid. [redacted] 25X1

In the past four years dos Santos has built his own power base by downgrading some members of both factions and winning the support of others. With his enhanced power he created a system of regional military councils last year headed by senior party members who report directly to him. In early 1948 he created a special "Council for Defense and Security" composed of party leaders with key security positions and members of the General Staff. The council was given a charter to deal with key national security questions and includes firm backers of dos Santos. [redacted] 25X1

The Catete faction is now defunct and the hardline faction led by Lara has been reduced in power but retains some influence. Because of their superior education, members of the Lara group serve in many key government posts and appear to dominate the party's propaganda organs. They receive significant support from the Soviets and Cubans, who have pressured the regime on several occasions not to undercut them politically. The Soviets, Cubans, and East Germans, [redacted] are also well informed on 25X1
developments within the party and government and probably furnish covert aid to people they believe to be allies. [redacted] 25X1

Despite continued factionalism, the leadership shares fundamental goals. All senior party members appear to seek the creation of a Marxist state controlled by a party that they will continue to dominate. Most senior party figures go along -- with varying degrees of enthuasism -- with dos Santos's effort to negotiate a South African withdrawal from Namibia and a cut off of Pretoria's aid to UNITA in exchange for the withdrawal of Cuban troops from Angola. Most, including members of the Lara group, also probably want the massive and unpopular Cuban and Soviet troop and advisory presence reduced significantly as soon as security conditions allows. 25X1

The Angolan leadership believes that one way it can reduce its ties to Moscow and Havana -- even while Luanda is still locked into a massive military assistance relationship with both countries -- is to expand political and economic ties with the West. One country it has attempted to cultivate especially has been Portugal, which continues to have emotional ties to Angola and ambitions to regain some influence among its former colonies. 25X1

In 1982, a rapprochement appeared to be well underway following a visit to Luanda by President Eanes. During the year both countries made an effort to expand their trade, and Portugal agreed to help Angola in port management, tourism, professional training programs, oil exploration, and the expansion of a dam on the Kuanza River. The limits to the relationship were defined, however, by the limited amount of credit Portugal had available to finance its aid and trade. The two sides also discussed various forms of military assistance, and the Portuguese contemplated sending a military force to Angola to replace the Cubans. 25X1

In early 1983 bilateral relations began a serious decline. In shrill press statements, Luanda began charging that UNITA was being given a completely free hand in Lisbon. By December, after announcing it would undertake "economic reprisals" against Portugal, Luanda excluded a Portuguese oil company from exploring off shore and formed a high level committee to review all technical assistance agreements with Portugal. 25X1

Early this year, Lisbon sent Foreign Minister Jaime Gama to Luanda to smoothe over relations. Angolan Foreign Minister Palo Jorge lectured him on aiding UNITA and demanded more foreign assistance. Gama publicly promised not to allow Portugal to be used as a platform for destablization and subsequently offered further credits for trade. Angolan press attacks against Lisbon have subsequently abated, but Luanda has since hosted -- with considerable publicity -- a delegation headed by the Secretary General of the Portuguese Communist Party and the bilateral relationship remains cool. 25X1

Commercial ties remain limited, although both sides appear to be interested in expanding trade.

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