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Zambia: Growing Problems, Gloomy Prospects

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An Intelligence Assessment

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An Intelligence Assessment

This assessment was prepared by [redacted]
[redacted] of the Office of African and Latin
American Analysis. Comments and queries are
welcome and may be directed to the Chief, Southern
Africa Division, ALA, [redacted]

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This assessment was coordinated with the
Directorate of Operations and the National
Intelligence Council. [redacted]

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**Zambia: Growing Problems,
Gloomy Prospects**

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Key Judgments

*Information available
as of 1 February 1983
was used in this report.*

When Zambia became independent in 1964, it was widely viewed as possessing considerable economic promise because of its substantial mineral resources. The country was led by a charismatic African nationalist, Kenneth Kaunda, and ruled by a dynamic political force, the United National Independence Party (UNIP). Today, however, Zambia's economic and political problems typify those of many Third World countries, and the country has fallen far short of realizing its promise.

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Over the past 18 years, the economy has been buffeted by fluctuating world mineral prices, rising costs of oil and other imports, and recurring trade and transport disruptions. In recent years, the worldwide recession has hit Zambia particularly hard. Government mismanagement and corruption, neglect of agriculture, and a costly expansion of social services have added to the country's difficulties. At present, national output is declining, more than a third of the country's wage earners are out of work, and inflation and commodity shortages are worsening.

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The government has recently begun to impose austerity measures to signal the International Monetary Fund (IMF) that it is serious about negotiating a new loan agreement to replace the one that collapsed in 1981. It will be difficult for President Kaunda to meet all of the IMF's austerity requirements, however, because he will be campaigning for reelection later this year. As a result, he will probably try to walk a fine line between satisfying the IMF and maintaining popular support. We expect that Kaunda will win the presidential contest, but by a smaller margin than in the past.

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For a variety of reasons, we believe that for at least the next two years Kaunda should be able to withstand any political turbulence stemming from Zambia's economic and social ills. He remains in firm control of the ruling party and the government. Potential opposition elements—the volatile labor movement, the urban elite, and the Bembas, a perennially disgruntled major tribal-linguistic group—probably lack the power to overthrow him. We believe the one group that seems capable of toppling the regime—the military—lacks the will to attempt a coup, at least in the near term.

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Should Kaunda die, we believe that a period of intense jockeying for power would ensue between pro-Western leaders, such as party Secretary General Humphrey Mulemba, and more doctrinaire supporters of Kaunda's version of African socialism, including defense and security chief Grey Zulu. Any successor, however, would probably find most of Zambia's social and economic problems to be intractable. Although some policy shifts would be likely, a change in government, even a military takeover, probably would not move Zambia far from the nonaligned, socialist course that Kaunda has set.

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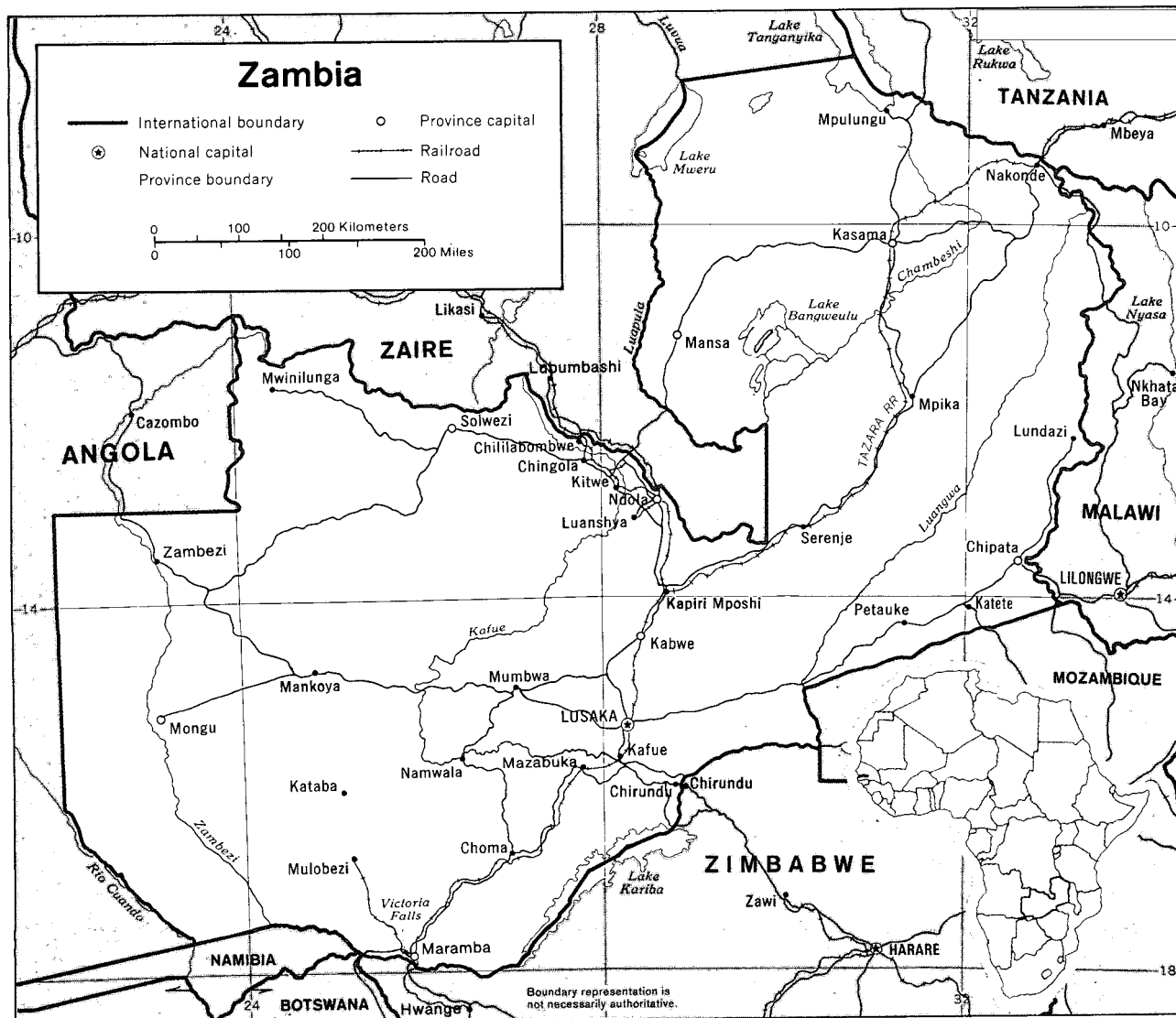
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Zambia: Growing Problems, Gloomy Prospects

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Introduction

Zambia has long suffered from social and economic problems with which its political leaders are ill equipped to deal. Over the past two years the country's problems have intensified, largely because of the deepening of the worldwide recession. According to most observers, growing numbers of Zambians would welcome a change in government. [REDACTED]

This paper examines Zambia's problems and the potential for political unrest in the context of President Kaunda's quest for reelection later this year. The paper also assesses Zambia's longer term economic prospects and the implications for the United States of Kaunda's continued rule or of his replacement by another civilian or a military leader. [REDACTED]

Growing Domestic Problems

Deteriorating Economic Conditions in 1982. By almost any measure, the Zambian economy is worse off today than at any time since the country gained independence in 1964. According to the US Embassy in Lusaka, more than a third of the country's wage earners are out of work, and most of the rest of the population is underemployed. Inflation of 20 to 25 percent in 1982, spurred by commodity shortages and increases in government-controlled prices, has reduced the purchasing power of consumers. In addition, pervasive drought has brought new hardship to the country's 600,000 subsistence farmers. US Embassy officials report that in some rural areas, particularly in western Zambia, much of the population is suffering from severe malnutrition. [REDACTED]

Lusaka and the economically and politically important copper-producing region are better off than the rest of the country, despite the deterioration in overall living standards. The government has kept stores well stocked in those areas through foreign aid and heavy foreign borrowing. The government lightened the economic burden of mineworkers and citydwellers even further by forestalling both layoffs of public-sector employees and large cuts in social spending. [REDACTED]

According to our analysis, Zambia's GDP declined in 1982 by a real rate of about 2 percent. Drought reduced agricultural production by almost 20 percent. Transport bottlenecks and import constraints caused factory production to fall by over 5 percent in real terms. Only a slight recovery in mining output from an all-time low in 1981 kept the decline from being more severe. [REDACTED]

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The country's balance-of-payments situation also worsened further. Despite the small rise in production of minerals, the continuing drop in world demand for copper and cobalt caused Zambia's export earnings to fall in 1982 to about 10 percent below the depressed 1981 level. Based on data for January-June 1982, we estimate that Zambians cut imports last year to about 10 percent below the 1981 level. Even so, the country accumulated a payments backlog of over \$800 million on its short-term debt, and its foreign exchange reserves fell to a level sufficient to finance only two weeks' imports. Because of Lusaka's poor creditworthiness and tight world credit conditions, international bankers virtually ceased to extend new credits to Zambia in 1982. [REDACTED]

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Dwindling Financial Options. In view of Zambia's serious economic difficulties, Lusaka in our judgment has no practical alternative to the adoption of at least some tough austerity measures as a condition for new international assistance. Zambia has received substantial amounts of assistance from the International Monetary Fund (IMF) and the World Bank in the past. Its most recent IMF support—a three-year, \$900 million Extended Fund Facility that took effect in May 1981—was suspended late that year because Lusaka failed to meet stipulated performance targets. At the same time, the World Bank, pending a resolution of the status of the IMF program, withdrew its support for several multimillion-dollar projects designed to rehabilitate Zambia's ailing mining industry. [REDACTED]

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A Fragile Economy

The Zambian economy shares many of the characteristics that impede development in other LDCs. Zambia's problems include:

- A widening gap between the rich and the poor, the cities and the countryside.
- A narrow export mix (copper and cobalt provide 95 percent of export earnings, 45 percent of the government's revenues, and 35 percent of GDP) that holds the country hostage to fluctuations in the industrialized world's demand for minerals.
- Interruptions in social services resulting from sharp fluctuations in exports and government revenues.
- Poor internal transportation networks (except those serving the mines) that hinder the movement of agricultural goods and the development of internal markets.

The Zambian economy has performed much worse, however, than those of most LDCs. Even during the copper boom years of 1971-74, and despite heavy foreign borrowing, Zambia's real economic expansion averaged only 4.3 percent annually, compared with 7 percent among other Sub-Saharan African countries.

The government's economic policies have been largely responsible for Zambia's deep-seated structural problems. Since independence in 1964, inefficient state-owned enterprises have steadily taken control of all sectors of the economy except agriculture and construction. This process has discouraged foreign capital inflows and encouraged the flight of expatriate managers and skilled labor needed to develop extractive industries and to keep other production at full capacity. At the same time, Zambia's shift away from food processing, beverage, and tobacco industries toward import-intensive manufacturing of textiles, tires, and chemicals has increased import requirements and strained the country's balance of pay-

ments. Moreover, low producer prices, high internal transport costs, and shortages of credit and public investment have cut farm output.

External factors took a heavy toll after 1974. The sharp decline in world copper prices dealt the worst blow, but there were other setbacks:

- Soaring oil costs boosted petroleum's share of Zambia's import bill.
- Wars in Angola and Rhodesia added to Zambia's problems by effectively closing transport routes through those countries.
- Periodic drought, together with counterproductive agricultural policies, led to food shortages, forcing Lusaka to import maize—the main staple.

As a result of these forces, Zambia was on the brink of bankruptcy during much of the late 1970s. Moreover, per capita income in 1979 was less than 80 percent of the 1974 level.

In 1980, long-nurtured expectations that a "peace dividend" would result from the end of the war in Rhodesia put pressure on the government to eliminate commodity shortages and to raise low industrial inventories. As a result, imports soared, public expenditures exceeded revenues by more than 50 percent, and foreign exchange reserves were nearly exhausted by the end of the year, forcing Lusaka to stop repaying short-term debts.

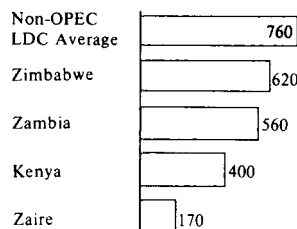
Kaunda's efforts to revive the economy were hampered in 1981 by labor unrest in the mining sector. Prolonged strikes hobbled the copper industry, and production fell 10 percent below the already low level of 1980. Only a respite from drought that allowed farm output to rebound kept the economic situation from worsening further.

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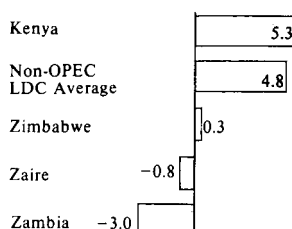
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Figure 1
Zambia: Economic Comparisons

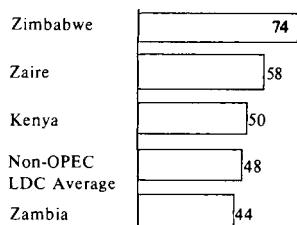
GDP per Capita, 1981
US \$



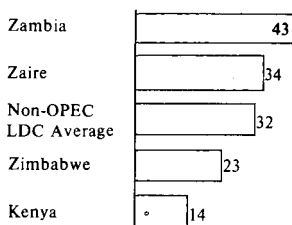
Real GDP Growth, 1977-81^a
Percent



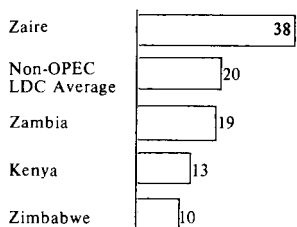
Adult Literacy, 1977
Percent



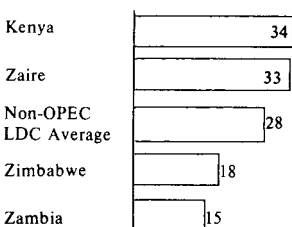
Urban Population, 1980
Percent



Debt Service as a Share of Exports^b, 1980
Percent



Agriculture as a Share of GDP, 1980
Percent



^a Average annual.

^b Excluding arrears.

Since the collapse of the IMF agreement, the Kaunda government has delayed making debt payments, cut imports, and sought new foreign assistance from other sources. [redacted] Kaunda's brief trip to the Middle East last summer in search of aid, and similar missions by other Zambian officials, have produced new commitments of about \$100 million in development loans, mainly from the Arab Development Bank and from Kuwait. This assistance, however, falls far short of meeting Zambia's substantial need for short-term funds. [redacted]

As a result, the government has opened negotiations with the IMF for a one-year, \$225 million standby loan and has taken a series of steps designed to convince the IMF that it is worthy of further assistance. According to the US Embassy in Lusaka, the Zambians in late 1982 began to reduce government spending, raise farm prices, deregulate most consumer prices, and divert internal credit from the mining sector. In early January 1983 Lusaka also devalued the Zambian currency—the kwacha—by 20 percent, placed a 5-percent ceiling on 1983 wage increases, raised interest rates, and indicated that it will continue to pay the interest on its medium- and long-term debt but will suspend payments of principal while it seeks a Paris Club (official debt) rescheduling. Even if the Zambian budget that was announced on 31 January 1983 is sufficiently austere to satisfy the IMF, a further devaluation of the kwacha may be required. [redacted]

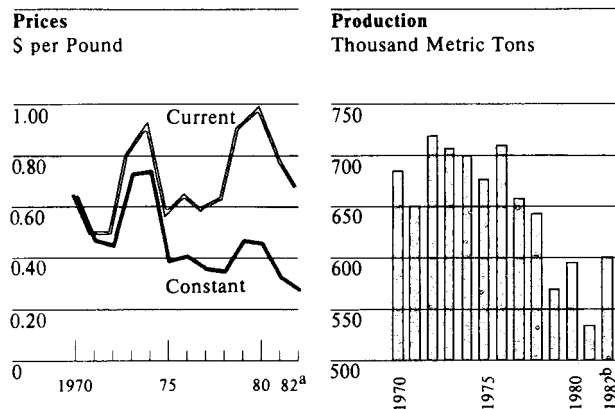
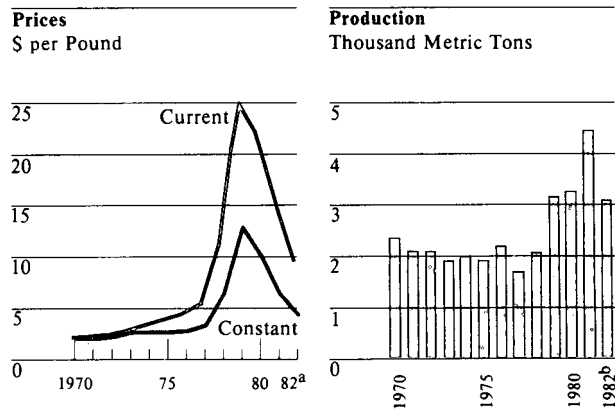
Political and Social Developments

Zambia's mounting economic difficulties have eroded popular confidence in the government, according to the US Embassy in Lusaka, but critics usually have not blamed Kaunda personally. Moreover, Kaunda has managed to maintain the upper hand with potential opposition groups. [redacted]

Government and labor leaders observed what amounted to an uneasy truce in 1982. Kaunda's jailing of four key union officials following labor unrest in 1981 evidently dampened labor's enthusiasm for confronting the government directly. The government placated workers in the volatile copper belt by concentrating

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Figure 2
Zambia: Mineral Prices and Production Trends

Copper**Cobalt**

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Zambia: Selected Economic and Financial Indicators

	1978	1979	1980 ^a	1981 ^b	1982 ^c	1983 ^d	1983 ^e
<i>Million US \$</i>							
Current account balance	-241	133	-402	-550	-600	-500	-150
Trade balance	57	426	-5	70	60	60	350
Exports, f.o.b.	828	1,374	1,405	1,220	1,100	1,250	1,250
Imports, c.i.f.	-771	-948	1,410	1,150	1,040	1,150	900
Net services and transfers	-298	-293	-397	-620	-660	-600	-500
<i>Percent</i>							
Debt service as a share of exports ^f	23.4	21.1	19.0	23.0	25.0	NA	NA
Inflation rate	16	12	20.0	20.0	20-25	35-40	40-50
Real GDP growth	0.5	-8.9	-0.9	-1.8	-2.0	1.0	-2.0

^a Preliminary.^b Estimated.^c Projected; excluding arrears.^d Projected; assuming an IMF standby program in early 1983 and a rescheduling of most debt (including arrears) due in 1983.^e Projected; assuming a failure to get an IMF standby or debt rescheduling.^f Excluding arrears.

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The President's Assets

Political. President Kaunda makes virtually all major policy decisions, according to US Embassy officials in Lusaka. He controls the ruling United National Independence Party. He appoints—and periodically reshuffles—members of UNIP's Central Committee, the country's preeminent policymaking body, as well as Cabinet ministers. The Zambian Parliament occasionally engages in lively debates over government policy but in the end invariably endorses executive decisions. [REDACTED]

Kaunda—despite some erosion of his popularity—retains considerable personal and political assets. Zambian media, although at times critical of the government's shortcomings, are government-controlled and consistently supportive of Kaunda's leadership. Kaunda plays effectively on his carefully cultivated image as Zambia's indispensable leader; many Zambians still believe there is no acceptable alternative. Most seem to respect him—with reason, we believe—for honesty and integrity. [REDACTED]

Kaunda seems to enjoy his greatest support in the countryside, where 60 percent of the population lives. The vast majority of rural Zambians are engaged in subsistence agriculture. They have a tendency to remain passive despite scarcities and other economic hardships. They have little contact with the modern economy aside from bartering for cooking oil and kerosene. These farmers have few dealings with the government aside from a few primitive schools and clinics. Long inured to hardship and without any tradition of violence, they have been too busy making

ends meet to find time for political action—though many do vote. Kaunda is still their revered leader, and suffering is seldom attributed directly to him. [REDACTED]

Military. We believe that members of the Zambian military are generally loyal to Kaunda, despite some dissatisfaction over poor pay and perquisites. The military has a strength of about 20,000, including a 5,000- to 6,000-man paramilitary force and 1,500-man Air Force. [REDACTED]

In recent years, Kaunda has taken a number of steps to reduce the risk of a military move against his government. These include:

- Rotating senior commanders periodically, making it more difficult for any to develop independent power bases. No Zambian service chief has been permitted to remain at his post beyond the age of 40.

- Purchasing sophisticated arms—notably \$200 million worth of weapons from the Soviet Union in 1979—partly to placate members of the military critical of Zambia's weak defenses.
- Striving for ethnic balance within the military. To be effective, a concerted move against the regime would probably require military support from more than one major tribe. [REDACTED]

consumer goods there at the expense of other areas of the country and by replacing an unpopular labor minister with a less controversial one. [REDACTED]

The potentially troublesome nongovernmental urban elite was also quiescent in 1982. Alleged coup plotting in late 1980 by a number of prominent professionals had made better educated, relatively prosperous Zambians outside the ruling power structure suspect in the

government's eyes. The detention of those accused probably had a chilling effect on the political activities of others. Church leaders, however, took strong exception in March 1982 to Kaunda's endorsement of a controversial proposal to introduce a Marxist curriculum in Zambian schools, and since then the government has done little to implement it. [REDACTED]

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Kaunda inspecting the troops

Times of Zambia

The Bembas, Kaunda's principal tribal critics, many of whom are prominent members of the urban elite and of the labor movement, remained without a spokesman of national stature in 1982. Many probably were disappointed that labor leader Frederick Chiluba failed to play this role aggressively.

The military has remained subservient to the government although, according to US Embassy officials, Kaunda has been deeply concerned about the possibility of a military coup. Most senior officers, particularly Army Commander Malimba Masheke, have been loyal to Kaunda, however, and seem to be without political aspirations. Kaunda apparently believes—correctly in our view—that any military coup attempt most likely would be led by a small group of middle- or junior-level officers or enlisted men.

Potential Opposition Groups

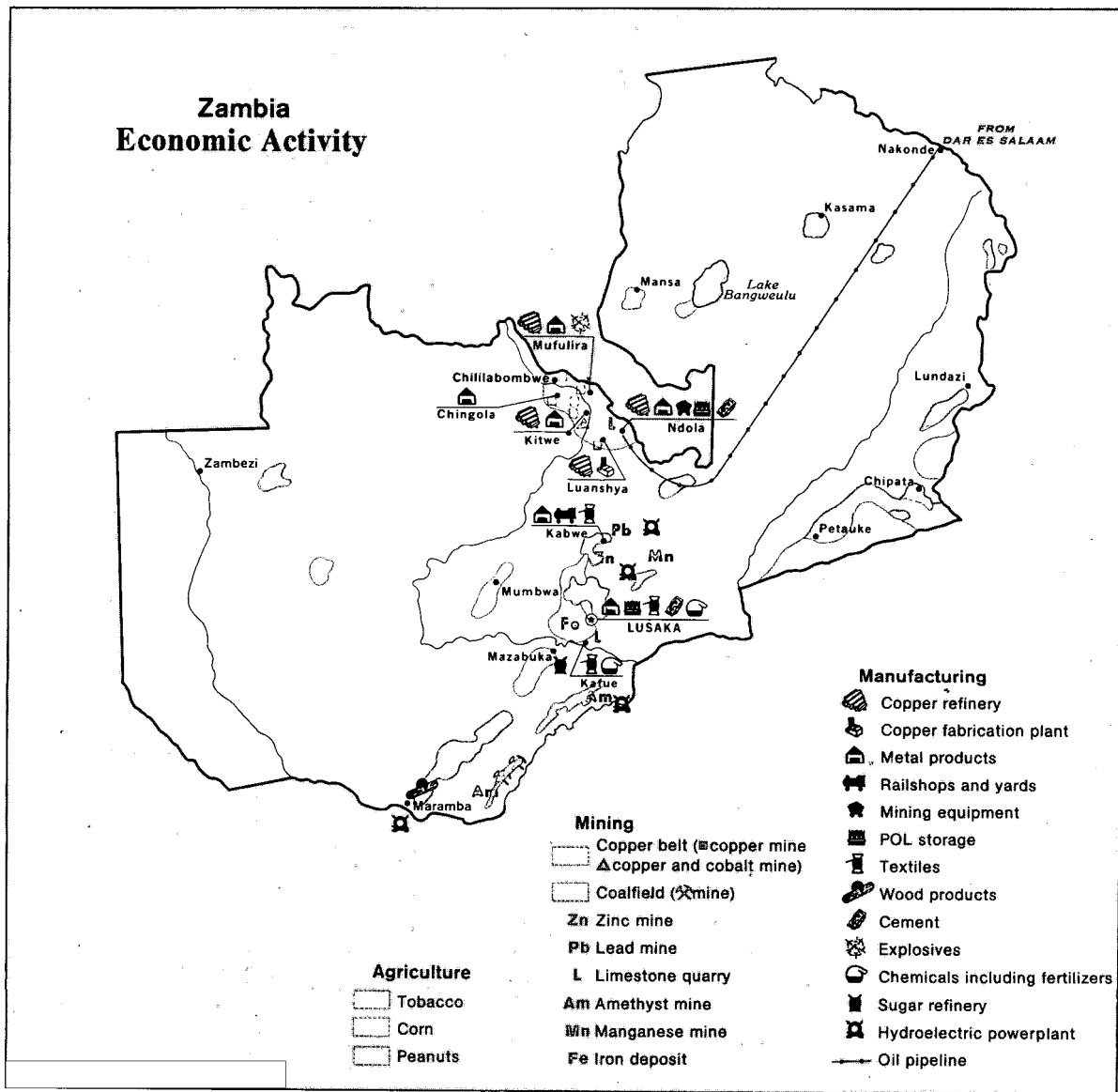
The Unions. Zambia's powerful trade unions long have been at odds with the government. Frederick Chiluba, the head of the *Zambian Congress of Trade Unions*, which represents approximately 60 percent of the country's 375,000 wage earners, portrays the unions as champions not just of labor but of the population as a whole. He and other labor leaders have confronted the government not only on wages, pensions, and other bread-and-butter issues, but also on such broader questions as the government's management of the economy.

The Urban Elite. We know from US Embassy and other reports that many members of Zambia's non-governmental urban elite—businessmen, professionals, church leaders, and former government officials—are privately critical of Kaunda's rule. These influential Zambians, who tend to be better educated and more Western-oriented than most officials in the Kaunda regime, generally advocate more pragmatic, less socialist-inspired approaches to the country's economic problems. They also tend to hold UNIP in low esteem and to dislike the constraints of one-party rule. They view most of the present generation of government and party leaders as excessively wedded to Kaunda's socialist policies and insufficiently educated to deal with the country's difficulties.

The Bemba. Kaunda, whose tribal origins are obscure, has long encountered opposition from members of the country's largest and most influential tribal-linguistic group, the Bemba (see map), who comprise about a third of the population and reside mainly in the copper belt and other parts of northern Zambia. They view Kaunda's efforts to maintain a balance of power among various regional groups as inimical to their interests. Many resent Kaunda's heavy reliance on defense chief A. Grey Zulu, party boss Reuben Kamanga, and other prominent Nyanja-speaking, eastern Zambians in key party and government jobs.

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In mid-1982, in an apparent effort to ensure military loyalty, the government ordered that all new recruits be members of the governing United National Independence Party (UNIP) party. It also proceeded with efforts to form a new presidential security detachment with North Korean assistance and to strengthen the country's paramilitary forces. Such units could be used in a crisis to counter mutinous or other unreliable Army troops.

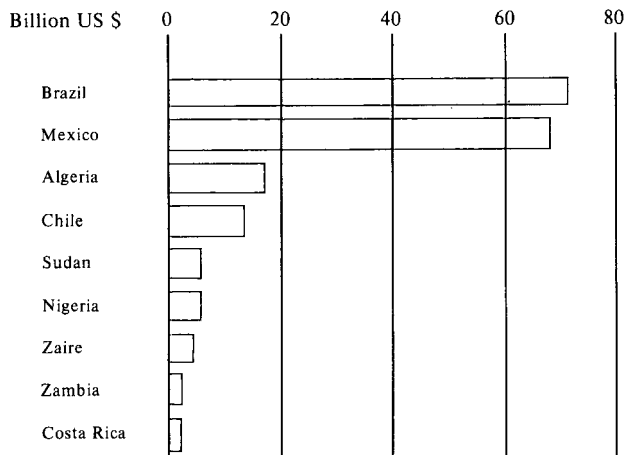
Outlook for 1983

Somber Economic Prospects. Even if Zambia reaches an agreement with the IMF, we believe that economic pressures on the Kaunda regime will continue to mount and will pose more difficult problems in the future. Zambia's economic fate will remain largely dependent on world demand for copper and cobalt, which we expect to remain slack throughout 1983.

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Figure 3
Selected Countries: Total Debt End of 1981



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An IMF accord would probably make international creditors more receptive to rescheduling Zambia's \$2.2 billion medium- and long-term debt and at least part of its burgeoning short-term debt. Zambia is now more than a year behind in making scheduled payments of principal to several Western official creditors, including the US Export-Import Bank and West Germany; it is also delinquent in repaying a number of private Western creditors.

Even if Lusaka comes to terms with the IMF, there would probably be a substantial timelag of six months to a year before debt rescheduling agreements could be signed because of the large number of Zambia's creditors and of Zambian inexperience in compiling the kind of documentation that would be required. Much of the financial benefit of an IMF standby loan, therefore, probably will be lost because part of the proceeds would have to go toward meeting overdue commercial debt payments and interest on longer term debt until rescheduling agreements are concluded.

The Best Case. According to our analysis, even under the best of circumstances the Zambian economy can achieve a real rate of growth in GDP of no better than 1 to 2 percent in 1983.¹ This scenario assumes that Zambia secures IMF agreement on a standby loan of \$225 million in early 1983, that it is able to meet performance requirements stipulated by the Fund, but that private lenders remain wary until rescheduling agreements are completed. The IMF loan would allow Zambia to increase imports only about 10 percent over their 1982 level, an amount not adequate to bring about a strong recovery in the capital-intensive mining and industrial sectors. Moreover, the IMF would require cuts in public spending and restrictions on domestic credit that would further limit growth.

Much of the stimulus to growth in this case would have to come from a recovery in agriculture, which accounts for about 15 percent of GDP. The key factor would be the cessation of drought rather than any positive programs to increase output.

A Worst Case. If Lusaka fails to reach an agreement with the IMF and to reschedule its debt, the government would not have enough foreign exchange to finance essential imports of oil, food, and producers' goods. Moreover, the backlog of payments on Zambia's commercial credit obligations would continue to mount and Lusaka might have to default on some outstanding loans.

Because of a need to increase export volume in order to generate foreign exchange, Lusaka would have to give the mining sector a greater share of the country's scarce credit and other resources, despite the unprofitability of the mines. On the basis of its past performance, we believe that the government also would try to compensate for declining revenue from import duties by increasing the already heavy tax burden on profitable enterprises, a measure that would further dampen private initiatives.

The important agricultural sector may again suffer a severe drought. In any case, imports of farming equipment and supplies of chemicals and fertilizers

¹ See appendix A for methodology.

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will probably be curtailed by the country's financial problems. Thus, agricultural output could be stagnant or even decline slightly again [redacted]

In this situation, Lusaka would almost certainly increase the money supply and government spending in an attempt to alleviate some of the public distress. Because of the impending election, Kaunda would feel particularly compelled to take such measures to shore up popular support. On balance, we believe that this chain of events could lead to a real decline in GDP of 2 percent—or more—and inflation closer to 40 percent. [redacted]

The Most Likely Outcome. In our judgment, Kaunda will try to reach an accord with the IMF as soon as possible in view of Zambia's worsening financial situation. Fund officials are likely to drive a harder bargain in 1983 than they did two years ago, however, because the IMF concluded—correctly, in our view—that Lusaka showed bad faith in 1981 when it used Fund credits primarily to purchase imports rather than to pay off overdue debts. We expect, therefore, that Zambia will not be able to conclude an IMF agreement until the second quarter of this year and that debt reschedulings probably will be delayed another six months to a year while Zambia assembles the necessary paperwork. [redacted]

As a result, we expect that Zambia's 1983 economic performance will fall somewhere between the two extreme cases. An infusion of IMF funds might well come too late in the year to have much impact on the economy. Until Lusaka reschedules its debt, IMF requirements to stem payments backlogs on short-term debt will cut severely into the foreign currency supplied by the Fund. Thus, in our judgment, Zambia probably will continue to experience recurrent foreign exchange crises leading to shortages of spare parts and other essential items. [redacted]

Regardless of when or whether Zambia reaches agreement with the IMF, the austerity measures announced in January 1983 are likely to constrain economic growth severely. Restrictions on credit and cuts in public spending, particularly reductions in government subsidies to mining and industry, will cramp production. Meanwhile, higher import costs, comprehensive price increases, wage ceilings, and

rising unemployment will dampen the purchasing power of consumers. [redacted]

Political Consequences. In our view, there will be a deterioration in living standards even if Lusaka obtains an IMF agreement, and Zambians will blame the government. At present, Kaunda's most powerful critics, the labor unions, are relatively quiet, largely because urban shops are still fairly well stocked. Unless new sources of aid can be found soon, however, local businessmen predict that stores will be nearly empty in three to four months. [redacted]

At the same time, acceptance of IMF conditions would impose a different type of austerity. IMF-inspired budget cuts could compel the government to lay off hundreds of public employees, causing economic hardship in urban areas where Kaunda's political standing already is weak. Moreover, the Fund's insistence that Zambia place a ceiling on wages and reduce subsidies to the unprofitable mining sector—in which the present return on each dollar invested is only about 80 cents—could well spark violent labor unrest. [redacted]

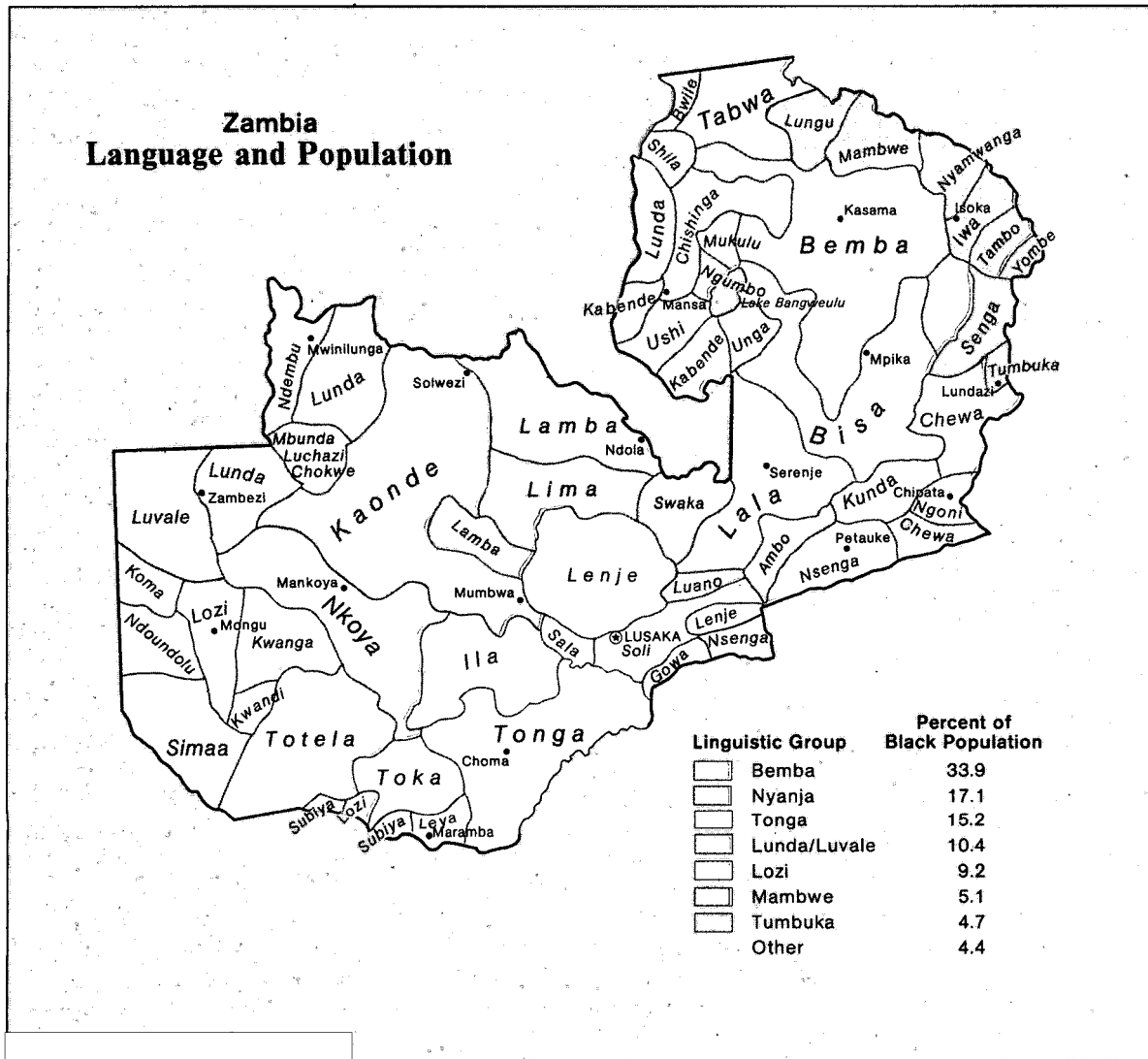
In the past, Kaunda has displayed a willingness to be tough when necessary. For example, when violent labor strikes erupted, he did not hesitate to take strong measures against recalcitrant labor leaders. Likewise, he has kept most of the alleged coup plotters of 1980, whose marathon trial has not yet ended, in jail for over two years. These actions will make potential opponents of the regime reluctant to challenge Kaunda's authority unless they assess their chances of success as extremely high. [redacted]

The Elections. Kaunda will be campaigning for re-election later this year.² Assuming that Zambia reaches an accord with the IMF, Kaunda will probably try to delay implementing or to water down at

² Under the Zambian Constitution, presidential and legislative elections must be held every five years. They were last held in 1978. The UNIP General Conference, a broad body of party officials, elects the party president, who becomes the sole candidate for president of the country in what amounts to a popular referendum. The candidate is elected if he receives a majority of the popular vote cast in a "yes-no" ballot. If he fails to achieve a majority, the General Conference reconvenes to choose another nominee for a second election. [redacted]

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least some of the belt-tightening reforms mandated by the Fund until after the voting in December. Even if Kaunda is required to ask Zambians to swallow a large measure of the bitter economic medicine the Fund is prescribing, we do not believe he will face a serious electoral challenge. Among his political assets are his control over the party, the machinery of state (including, at least for the time being, the military), and the media, as well as his still-considerable—although probably declining—support among the people.

Kaunda will present himself as the only politician who can effectively unite and lead Zambia. He probably will blame the country's economic troubles largely on factors beyond his government's control, such as the world recession, the high cost of oil and other essential imports, and what he regards as insufficient levels of external assistance. He will also emphasize his role as a peacemaker and Third World statesman; he will continue to cast his meeting in April 1982 with Prime Minister Botha of South Africa in a favorable light,

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interpreting it as a positive step toward achieving a dialogue with South Africa and progress toward Namibian independence. [REDACTED]

We expect that the Zambian electorate will return Kaunda to office, although perhaps by a smaller margin than in the past.³ Kaunda probably will fare best in the Nyanja-speaking areas of eastern Zambia and worst in areas of traditional antigovernment sentiment, such as the south and the mining regions where Tonga and Bemba speakers, respectively, are dominant. Discontent over the economic situation probably will lead to defeats for some influential members of the party and government running for reelection to Parliament, as occurred in the 1978 general elections. [REDACTED]

Policy Directions. Kaunda will probably interpret his reelection as a mandate for more of the same policies he has long espoused. He may shuffle some senior Cabinet and UNIP officials, as he has often done in the past, but his longtime political cronies will probably continue to dominate the upper ranks of the party and government. [REDACTED]

Kaunda's preference for collectivist and authoritarian policies is reflected in programs he has endorsed in recent years to create large state farms, to establish a curriculum based on "scientific socialism" in Zambian schools, and to tighten government control over the media. A small group of committed Marxists, several of whom occupy key posts in the government and party, will urge Kaunda to press forward with these policies, which for the most part are still in early stages of implementation. According to the US Embassy [REDACTED] these leftists look to Kaunda's longtime crony, defense and security chief A. Grey Zulu, as the main protector and promoter of their interests. The principal members of the group are Henry Meebelo, Minister for National Planning; Leonard Chivuno, Director of the National Commission for Development Planning; and Henry Matipa, a prominent UNIP Central Committee member. [REDACTED]

³ In 1978, Kaunda obtained approximately 82 percent of the vote; the turnout that year was 67 percent. Five years earlier, he won an 88-percent majority, although only 43 percent of registered voters cast ballots. [REDACTED]

At least until he is reelected, we expect that Kaunda will subordinate his socialist sympathies to the need for reaching an accord with the IMF. He can count on a moderate, pro-Western group identified with UNIP Secretary General Humphrey Mulemba to support this approach and to oppose any further drift in a socialist direction. Kaunda, moreover, finds it useful to encourage competing factions among his subordinates as a way of preventing any single group or individual from becoming so powerful as to threaten his own control. [REDACTED]

The Longer Term

The Economy. We see little chance that there will be a recovery in mineral prices over the next several years adequate to redress Zambia's severe economic problems. International demand for copper will remain directly dependent on economic conditions in the industrialized world. Longer term demand for cobalt already has been dampened by past high prices that have led to the use of other minerals as substitutes. [REDACTED]

Moreover, Zambia's need for foreign exchange to pay for imported oil, food, and capital goods—and to pay overdue debt—will force Lusaka to continue diverting scarce credit and other resources to the unprofitable mining industry. Even so, cost-cutting measures in the mining sector—including cutbacks in skilled foreign labor, capital, and operating expenses—run the risk of reducing production. [REDACTED]

As the world economy recovers, the demand for copper will be accentuated because stocks in consuming countries have been allowed to drop to extremely low levels. When demand picks up, we would expect a rapid turnaround in Zambia's trade balance as Lusaka sells off its inventories. The resurgence in copper prices probably will enable Zambia to achieve an annual real rate of growth of 2 to 4 percent. The rise in Zambia's export earnings could be briefly broken, however, by a lag in raising copper production once again to levels of the early or mid-1970s. [REDACTED]

In time, Zambia's leaders will probably conclude from the harsh economic realities of the late 1970s and early 1980s that they need to diversify their economy

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further. We believe that they will try to build on the modest steps that Kaunda has taken to expand the agricultural sector to avoid heavy dependence on food imports. They will probably also try to decrease Zambia's dependence on imports of oil by pushing ahead on planned electrification projects using the country's considerable hydroelectric potential. We doubt, however, that Zambia will move far from Kaunda's commitment to a largely government-run economy. []

Succession Scenarios. Despite Zambia's economic difficulties and the government's declining popularity, we do not expect Kaunda to leave office any time soon. []

At 58, Kaunda—a teetotaler and a nonsmoker—seems to be in good health. Should he depart the scene unexpectedly by natural causes, however, we believe that constitutional procedures for an orderly succession probably would be followed. []

The Zambian Constitution provides that the Secretary General of the ruling party—currently Mulemba—would become president for three months. A meeting of the party's General Conference would be convened during this period to select a new party leader, who would then be confirmed or rejected in a general election. []

We believe that, in practice, fewer than a dozen influential members of UNIP's Central Committee would choose the new leader, most likely from among themselves. Mulemba, as Secretary General, would have the advantage of dominating the party machinery and of acting as temporary chief executive. His efforts to succeed Kaunda probably would be opposed, however, by a coalition of other influential party leaders such as Zulu and Reuben Kamanga. There would probably be a period of intense jockeying for power. []

Should these factions reach a stalemate, a darkhorse candidate acceptable to both, such as Prime Minister Nalumino Mundia, most likely would be chosen as party leader and president. This choice probably would be ratified by the party and electorate. []

In our view, any successor to Kaunda would probably be in a weak position at the outset because he would lack the personal prestige that Kaunda enjoys. As a result, he would probably continue most of Kaunda's present policies in an effort to maintain the support of as many government and party officials as possible. We believe that his longer term prospects would depend largely on the degree to which his government is representative of Zambia's major tribal and regional groups and is able to deal with the country's economic problems. []

Although we do not expect a military coup against Kaunda, we do not rule out the possibility that elements in the military might be tempted to seize power. They might do so in exasperation over the failings of the regime or in the event of a protracted succession struggle following Kaunda's demise. We believe a military regime might be somewhat more zealous than a civilian government in efforts to root out corruption, at least initially. It would, however, probably lack the skills needed to rule without substantial civilian participation. []

Because many officers have been educated in the West and identify to some extent with Western values, a military government, in our judgment, would probably be friendly to the United States. Although the emergence of some left-leaning or populist-oriented junior officer as a strongman cannot be ruled out, we believe that almost any government, whether military or civilian, sooner or later would feel compelled to look to the West for new aid, investment, and markets for Zambia's mineral resources. []

Implications for the United States

Kaunda assumes that Washington holds the key to meeting Zambia's immediate economic needs because of US influence in the IMF. If the IMF does not grant the economic assistance that Zambia needs, we believe Kaunda will try to make the United States a scapegoat for the country's problems. In the past, he has on occasion tried to link the United States and South Africa in what he evidently viewed as a wide-ranging "capitalist conspiracy" against his government. Zambia's relations with the United States have

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improved considerably, however, since the low point in June 1981, when Lusaka expelled two US diplomats and arrested a Zambian Foreign Ministry official on charges of spying for Washington. [REDACTED]

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Should Mulemba or another pro-Western leader succeed Kaunda, he probably would try to encourage greater Western investment and place greater emphasis on private enterprise. We believe that he would find it difficult, however, to curtail drastically the major role that the state now plays in the Zambian economy because so many Zambians have a vested interest in the system. Moreover, like Kaunda, Mulemba or another pro-Western leader probably would quietly support US efforts to resolve the Namibian problem and seek to maintain Zambia's status as a reliable supplier of copper and cobalt to the West. [REDACTED]

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In the unlikely event that Zulu or another influential leftist-oriented figure takes over, the government probably would take a more doctrinaire turn domestically and move closer to the Soviet Union in foreign policy. Such a shift might be tempered, however, by the desire of the new leadership to build some degree of consensus for its policies and to establish a stable governing coalition. We believe that such a government would seek to tighten control over the country's major institutions, including the party, the educational system, and the media, and that it would take an increasingly tough stance toward dissent. It probably would continue to supply minerals to the West for lack of alternative markets, but it would oppose many US positions at the United Nations and in Third World forums. [REDACTED]

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Should a more leftist government come to power in Lusaka, Zambia's uneasy relations with South Africa probably would deteriorate. Officials in Pretoria almost certainly would interpret such a change in Zambia as potentially threatening and tending to confirm their "onslaught" theories. In our view, South Africa would then become more inclined to intervene economically, and possibly militarily, in Zambian affairs. [REDACTED]

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Appendix A

Methodological Notes on Economic Forecasts

In assembling and producing the economic data presented in this assessment, we relied primarily on analyses by several US government and nongovernment sources. In addition, we made various assumptions concerning the performance of the world economy and key commodity markets. [REDACTED]

Lacking timely official Zambian statistics, we used several other sources to establish primary data. Our principal sources were publications of the International Monetary Fund and the World Bank, whose consultations with the Zambian Government produce the most current and consistent series of data on domestic economic indicators. [REDACTED]

Trade and International Financial Developments

In preparing our estimates of Zambia's current account position for 1983, we made certain key assumptions about factors affecting global demand for copper and cobalt:

- We assume only a slight economic recovery in the industrialized countries in 1983, resulting in average OECD growth of about 1.5 percent. This assumes that activity in major Western economies will not pick up significantly until the second half of this year. Moreover, several major US minerals forecasters predict that any recovery in the industrialized world will result in increased utilization of existing capacity rather than new capital expenditures.
- We assume that the so-called Newly Industrialized Countries, which accounted for an increasingly large share of world copper purchases in the 1970s, will continue to experience sluggish growth in 1983.
- We assume some buildup in consumer countries' copper stocks this year, given their current low level and lowered interest rates that should boost demand in the copper-intensive housing and auto industries.

- We assume that the process of satisfying a substantial share of international cobalt demand by drawing down European cobalt stockpiles will continue through 1983. European inventories are now the equivalent of one year's world supply. [REDACTED]

We expect that these conditions will result in world demand for copper of about 7.2 metric million tons in 1983, slightly above the level of 1982. Assuming that Zambia will account for about the same proportion of copper production in the non-Communist world that it has since the mid-1970s—9 percent—we believe that it will export about 0.7 million tons of copper in 1983. This would permit sales of about \$1.0 billion, based on our projections that world copper prices will average about 75 cents per pound in 1983. [REDACTED]

World demand for cobalt is expected to remain low. Experience suggests that Zambia will probably maintain cobalt production at about the 1982 level of approximately 4,500 tons. Even though cobalt prices may rise somewhat from their current low levels, we believe that average prices in 1983 will probably be about \$5 to \$6 a pound, representing a 30 to 40 percent drop from the 1982 average. As a result, Zambian cobalt sales revenue would amount to only \$50-60 million in 1983. [REDACTED]

In deriving our estimates of expenditures for imported goods for 1982, we assume that Lusaka will continue to give a higher priority to keeping import levels stable than to repaying overdue debt. The US Embassy reports a steadily increasing payments backlog on its short-term debt, with total claims of more than \$800 million as of late 1982. [REDACTED]

In projecting imports and net services for 1983, we constructed two scenarios. In the first, we assume that an IMF standby agreement is quickly negotiated and that most debts due in 1983 are rescheduled. In the second, we assume that Zambia fails to get an IMF

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agreement or a rescheduling of its debts in 1983. Neither scenario portends a bright balance-of-payments picture for Zambia. []

Under the first scenario, we would expect the IMF to impose strict foreign exchange constraints to keep the government from again using IMF funds to flood the country with imports, as it did in 1980. As a result, we would project only a 10-percent increase in imports in 1983. We would predict a slight decrease in net services and transfers in 1983 because of a probable decline in Zambian interest payments on foreign debt. That would result, in turn, from Lusaka's inability to enter as heavily into the short-term Eurocurrency financial market as in 1982. These circumstances would suggest that, under the first scenario, Zambia would have a current account deficit in 1983 of about \$500 million, slightly lower than the \$600 million we projected for 1982. []

Under the second scenario, we would predict that Zambia will have to cut imports in 1983 by at least 10 percent. This judgment is based on the assumption that, without an IMF agreement, Zambia's sources of foreign exchange from bilateral donors and international bankers would dry up, leaving Lusaka to depend solely on export receipts to finance imports. Under these conditions, we would also predict a large drop in service payments as Zambia becomes unable to secure any short-term financing in 1983. This situation would leave Lusaka with a current account deficit for 1983 of approximately \$150 million. []

Domestic Indicators

In estimating Zambia's domestic economic indicators, we focused mainly on production in the mining and agricultural sectors, which together account for almost half of GDP. Although services account for another one-third of GDP, this mainly represents government employment and is unlikely to change much over the near term. []

In assessing the rate of real growth in GDP in 1982, we estimated an increase in output in the mineral sector of about 10 percent. The increase was outweighed, however, by declines of almost 20 percent in the agricultural sector and over 5 percent in the industrial sector. We believe that even if other sectors of the economy managed a modest improvement, GDP probably fell in 1982 by a real rate of as much as 2 percent. []

The key factor suggesting a continued worsening in GDP in 1983 is the probable decrease in copper production caused by continued low world demand and a shortage of imported parts for the mining industry. We believe that the only way Zambia might achieve positive economic growth in 1983 would be if good weather enables agricultural output to outweigh the negative impact of the mining sector. Under the best of circumstances, however, we expect no more than 20 percent growth in agriculture this year. []

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Appendix B

President Kaunda: A Troubled Leader

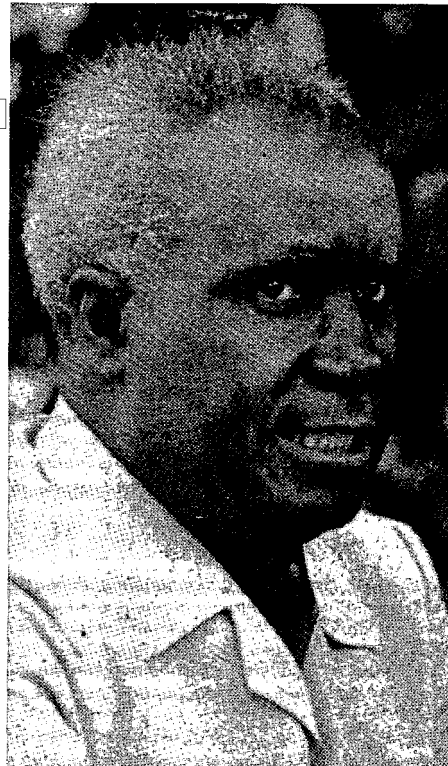
President Kaunda, 58, has been the preeminent political figure in Zambia for over two decades. Since coming to power at independence in 1964, he also has been one of Africa's most respected heads of state. [REDACTED]

Kaunda is the son of Presbyterian missionary parents who came to Zambia from present-day Malawi. His obscure ethnic origins have enabled him to portray himself as a truly national leader untainted by too close an association with any Zambian tribal group. [REDACTED]

Although highly intelligent, according to US Embassy officials in Lusaka, Kaunda received only a secondary school education. He was a teacher by profession before becoming involved in Zambian politics over 30 years ago. During the independence struggle, Kaunda was twice imprisoned for his political activities. In 1960, he helped found the United National Independence Party, under whose banner he led Zambia to independence. [REDACTED]

Kaunda is an emotional man who often weeps in public as he did at a White House reception when he last visited the United States in 1978. He does not smoke or drink and is highly religious. Unlike many other African leaders, he has not sought to build a cult of personality or to amass a fortune at the public's expense. He has sought to rule by consensus when possible but has resorted to harsher tactics on occasion. [REDACTED]

Kaunda has propagated a pet philosophy, "Zambian Humanism," which is a blend of Christian, socialist, and traditional African values. He has frequently used this philosophy to justify a wide range of policies—from the nationalization of much of Zambia's mineral-based economy to his government's strong commitment to black majority rule in southern Africa as a whole. [REDACTED]



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Appendix C

Potential Successors



Humphrey Mulemba

UNIP Secretary General Mulemba, 50, wields considerable influence in party and government circles and is, at present, constitutionally first in line to succeed Kaunda. A former mineworker and trade union leader, he has become wealthy as a businessman. According to US Embassy officials in Lusaka, Mulemba is intelligent, articulate, and a good administrator, but his name has been linked to scandals and corruption. Kaunda probably appointed him Secretary General in part because Mulemba, as a member of the small Kaonde tribe of North-Western Province, is generally acceptable to leaders of the large Bemba tribe in neighboring Copperbelt Province. Mulemba is outspokenly pro-Western and advocates a greater role for private investment in the Zambian economy.



Reuben Kamanga

Kamanga, 53, is a longtime friend and confidant of Kaunda from the Nyanja-speaking region of eastern Zambia. During the independence struggle, Kamanga spent more time as a political prisoner than any other nationalist leader. Since independence he has held a number of senior government and party posts, including the now-abolished office of vice president. He is a key member of UNIP's powerful Central Committee and after Kaunda is its most influential spokesman on foreign policy. According to US Embassy officials in Lusaka, Kamanga is a tough and wily politician with a reputation for sexual escapades and shady business dealings. He is a native of eastern Zambia and a staunch proponent of socialism. In his speeches, Kamanga often praises the Soviets for assisting Zambia and South African insurgents. He is generally critical of US policy in the region.

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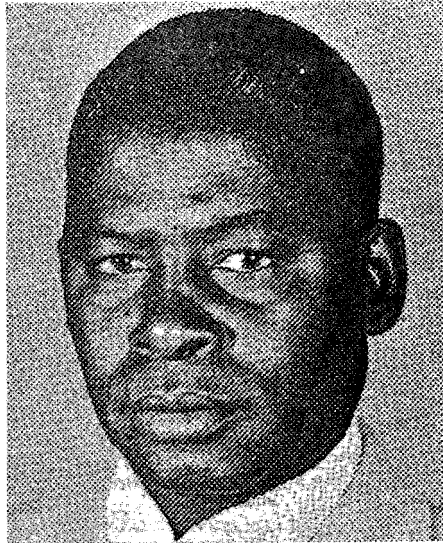
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**Alexander Grey Zulu**

Secretary of State for Defense and Security Zulu, 57, has long been among Kaunda's closest advisers. He ranks fourth in the formal power structure behind Mulemba and Mundia but probably wields greater authority with Kaunda, to whom he reports directly, than either of the other two men. US Embassy officials in Lusaka describe Zulu as a man of modest intelligence and little demonstrated administrative ability. Nevertheless, he has acquired considerable power through his control over the military, police, and intelligence service. Zulu, who is a Nyanja speaker from eastern Zambia, has often been described in the Western press and elsewhere as head of a loosely defined leftist faction within the Zambian leadership. We do not believe Zulu is a doctrinaire Marxist, but Embassy reporting indicates that he is anti-Western in outlook and favors closer ties with the USSR and its allies. [redacted]

**Nalumino Mundia**

Prime Minister Mundia, 55, is a talented administrator, well educated, and relatively honest according to US Embassy officials in Lusaka. Although a founding member of UNIP, Mundia, a member of the Lozi tribe from western Zambia, broke with Kaunda in the late 1960s to form a regionally based splinter party. He rejoined UNIP in 1974, a year after Kaunda had made Zambia a one-party state. Mundia has remained outside of Kaunda's inner circle, however, and his appointment as Prime Minister last year probably was intended primarily to add regional and ethnic balance to the country's senior leadership. Kaunda's decision to assign him the finance portfolio, in addition to his other responsibilities, as a part of a Cabinet shuffle in early January 1983 reflects Kaunda's confidence in him. He seems to take a pragmatic, middle-of-the-road approach to most domestic and foreign policy issues [redacted]

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Appendix D

Central Committee of the United National Independence Party ^a
(as of 1 January 1983)

Name	Position	Tribe	Province
Kenneth Kaunda	President		
Humphrey Mulemba	Secretary General	Kaonde	North-Western
Nalumino Mundia	Prime Minister	Lozi	Western
Reuben Kamanga	Chairman, Political and Legal Subcommittee	Chewa	Eastern
Elijah Mudenda	Chairman, Economic and Finance Subcommittee	Tonga	Southern
Daniel Lisulo	Chairman, Appointments and Disciplinary Subcommittee	Lozi	Western
J. Bob Litana	Chairman, Elections and Publicity Subcommittee	Lamba	Copperbelt
A. Grey Zulu	Chairman, Defense and Security Subcommittee	Ngoni	Eastern
Kapasa Makasa	Chairman, Rural Development Subcommittee	Bemba	Northern
Henry Matipa	Chairman, Social and Cultural Subcommittee	Chishinga	Luapula
Shadrack Soko	Chairman, Industrialization Subcommittee	Ngoni	Eastern
Chibesa Kankasa	Executive Secretary, Women's League	Bisa	Northern
Bautis Kapulu	Executive Secretary, Youth League	Lamba	Copperbelt
Axon Soko	Administrative Secretary to the Secretary General	Ngoni	Eastern
Pius Kasutu	Member for Central Province	Bemba	Northern
Alex Shapi	Member for Copperbelt Province	Ushi	Luapula
Joshua Mumpanshya	Member for Eastern Province	Soli	Lusaka
Mary Fulano	Member for Luapula Province	Bisa	Central
Fines Bulawayo	Member for Lusaka Province	Lunda	North-Western
Joseph Mutale	Member for Northern Province	Bemba	Northern
Fine Liboma	Member for North-Western Province	Lozi	Western
Edward Liso	Member for Southern Province	Ila	Southern
Felix Luputa	Member for Western Province	Chikunda	Lusaka
Maxwell Beyani	Member	Tonga	Southern
Samuel Mbilishi	Member	Lunda	North-Western

^a The Central Committee consists of 25 members including the President. The party General Conference elects 20 members and the President appoints three. The Prime Minister serves as an ex-officio member. The President names the party Secretary General from among the members of the Central Committee.

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Appendix E

**Zambian Cabinet
(as of 1 January 1983)**

Name	Position	Tribe	Province
Kenneth Kaunda	President		
Humphrey Mulemba	UNIP Secretary General	Kaonde	North-Western
Nalumino Mundia	Prime Minister	Lozi	Western
A. Grey Zulu	Secretary of State for Defense and Security	Ngoni	Eastern
Wilson Chakulya	Defense	Ushi	Luapula
Lameck Goma	Foreign Affairs	Tumbuka	Eastern
Kebby Musokotwane	Finance and Technical Cooperation	Toka	Southern
Gibson Chigaga	Legal Affairs and Attorney General	Ngoni	Eastern
Frederick Chomba	Home Affairs	Bisa	Northern
Unia Mwila	Agriculture and Water Development	Bemba	Northern
Mufaya Mumbuna	General Education and Culture	Lozi	Western
Remmy Chisupa	Higher Education	Ushi	Luapula
Haswell Mwale ^a	Power, Transport, and Communications	Chewa	Eastern
Haswell Mwale	Works and Supply	Chewa	Eastern
Henry Meebelo	National Planning and Development	Tonga	Southern
Ben Kakoma	Health	Lunda/Luvale	North-Western
Frederick Hapunda	Labor and Social Services	Tonga	Southern
Basil Kabwe	Mines	Ushi	Northern
Clement Mwananshiku	Commerce, Industry, and Foreign Trade	Ushi	Luapula
Mark Tambatamba	Information and Broadcasting Services	Kaonde	North-Western
Rodger Sakuhuka	Tourism	Luvale	North-Western
Kingsley Chinkuli	Youth and Sports	Lenje	Central
Arnold Simuchimba	National Guidance	Nyamwanga	Northern
Fitzpatrick Chuula	Lands and Natural Resources	Tonga	Southern

^a Acting Minister.

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Appendix F

Distribution of Senior Party and Cabinet Posts by Linguistic Group ^a
(as of 1 January 1983)

Linguistic Group	Central Committee Members	Cabinet Members	Total ^b (percent)	Percentage of Population in Linguistic Group
Total	24	23	47 (100)	100.0
Bemba	9	6	15 (32)	33.9
Nyanja	5	4	9 (19)	17.1
Tonga	4	5	9 (19)	15.2
Lunda/Luvale	2	2	4 (9)	10.4
Lozi	3	2	5 (11)	9.2
Mambwe	0	1	1 (2)	5.1
Tumbuka	0	1	1 (2)	4.7
Other	1	2	3 (6)	4.4

^a Does not include President Kaunda.^b Members of both the Central Committee and Cabinet are counted twice.

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Appendix G

Distribution of Senior Party and Cabinet Posts by Province ^a (as of 1 January 1983)

Province	Central Committee Members	Cabinet Members	Total ^b (percent)	Percentage of Population in Province
Total	24	23	47 (100)	100
Central	1	1	2 (4)	12
Copperbelt	2	0	2 (4)	20
Eastern	4	5	9 (19)	13
Luapula	2	3	5 (11)	8
Lusaka	2	0	2 (4)	6
Northern	4	4	8 (17)	13
North-Western	3	4	7 (15)	6
Southern	3	4	7 (15)	12
Western	3	2	5 (11)	10

^a Does not include President Kaunda.

^b Members of both the Central Committee and Cabinet are counted twice.



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