

Angola - an Oil Dependant Country in Sub-Saharan Africa

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Abstract

The Sub-Saharan Africa belongs to the most underdeveloped regions in the world economy. This region consists of forty nine countries but it's world GDP share is only a small percentage. There are some very resource rich countries in this region. One of them is Angola. This former Portuguese colony has one of the largest inventories of oil among all African countries. Angola recorded one of the highest growth of GDP between 2004-2008 from all countries in the world economy and nowadays is the third biggest economy in Sub-Saharan Africa after Nigeria and South Africa. The essential problem of Angola is the one-way oriented economy on oil and general on natural resources. Angola will be forced to change their one-way oriented economy to be more diversified and competitive in the future.

Key words

Sub-Saharan Africa, oil, resource curse, China

JEL Classification: O55

Introduction

Sub-Saharan Africa belongs to the most underdeveloped regions of all developing regions. Thirty-four countries of the region belong to the least developed countries within United Nations. One of them is Angola. In spite of abundant natural resources, Angola still belongs to the least developed countries. There were some periods in history when Angola recorded very strong growth of its GDP. This extraordinary growth of Angolan economy was caused mainly by high prices of oil on the global market. The plunge of oil prices cause Angolan economy huge problems every time. One way oriented economy cannot deal with the problems, which are affecting the oil industry. The country has to change the structure of its economy and has to make structural changes to be more diversified in the future. Nowadays many oil rich countries have to consider what to do with their monoculture economies and which are the key sectors to develop.

1 Methodology

The aim of this paper is to evaluate the position of Angola as an oil dependent country in Sub-Saharan Africa. The analysis will focus on evaluation of Angola's share on Sub-Saharan African GDP, the analysis of GDP per capita of selected economies in

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this region, Sub-Saharan African export and import, on commodity export structure and the presence of China in this country. Partial analysis will be used for final synthesis and for making the conclusions.

2 Results and discussion

Sub-Saharan Africa consists of 49 countries and it has a combined population of up to one billion people due to having the highest population growth in the world. This number is expected to more than double by 2050 (KPMG, 2014).

One of the biggest economy of this region is Angola. Angola gained independence from Portugal in 1975 and then there was a civil war for a long time. In 2002, the civil war ended finally. The economic reconstruction after war was financed mainly with revenues from oil (Rodriguez et al., 2014).

Table 1 shows the share of biggest economies of sub-Saharan Africa on region's GDP from 2000 to 2014. As we can see the share of chosen economies on region's GDP has changed during the years. Angola's share has risen from 2.3 per cent in 2000 to 7.3 per cent in 2014. Nigeria also recorded rise of its share on region's GDP from 19.2 per cent in 2000 to 32.8 per cent in 2014. Only South Africa has declined its share on region's GDP from 35.1 per cent in 2000 to 20.2 per cent in 2014. Three biggest economies of region create more than 60 per cent of Sub-Sahara African GDP.

Table 1 Share of selected countries on region's GDP (in %)

	2000	2005	2010	2014
Nigeria	19.2	23.5	27.7	32.8
South Africa	35.1	33.4	28.1	20.2
Angola	2.3	4.3	6.2	7.3
Rest of SSA	43.5	38.8	38.0	39.6

Source: own elaboration, UNCTADstat. (2016). Retrieved from <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

Angola belongs to the biggest economies in sub-Saharan Africa, but oil used to account about half of GDP, nearly all foreign-currency earnings and three-quarters of state revenues (The Economist, 2015). Such dependence makes many countries vulnerable to fluctuations in commodity prices (OECD, 2011).

As mentioned above the Angolan economy is highly vulnerable to oil price shocks. The oil price shock of 2008-09 had an immediate adverse impact on Angolan economy. The price of the country's oil basket fell to 60.8 USD per bbl in 2009 from 93.9 USD per bbl in 2008, leading to very large declines in fiscal revenue and exports. Oil and gas export revenues fell from 62.5 billion of USD in 2008 to 39.8 billion in 2009. The central government oil-related revenues fell from 41.2% of GDP in 2008 to 24.2% in 2009.

Similarly, the oil price shock of 2014-2015 harmed the Angolan economy. Angola oil basket was projected to average 53 USD per bbl in 2015 down from 100 USD per bbl in 2014. Oil and gas revenues declined from 57.9 billion of USD in 2014 to 35.4 bil-

lion of USD in 2015. The central government oil-related revenues fell from 23.4 per cent to 14.6 per cent (IMF, 2015).

Next table shows selected countries in sub-Saharan Africa and their dependence on oil export's revenue.

Table 2 Selected countries in Africa and their dependence on oil export's revenues in 2014

	Export of oil in billion USD	Total export in billion USD	Export of oil / total export in %
Algeria	40.6	60.0	67.7
Angola	57.9	63.9	90.6
Libya	14.8	15.1	98.0
Nigeria	76.9	83.8	91.8

Source: own elaboration, OPEC, *Annual Statistical Bulletin 2015*.

Except for Algeria, all African members of OPEC are very dependent on oil export's revenues. They have more than 90 per cent of all export revenues from export of oil.

Angola belongs to the countries with the highest GDP per capita in the region. Table 3 shows countries with the highest GDP per capita in Sub-Saharan Africa. As we can see the first five countries have only small population and therefore the GDP per capita is so high. Angola has one of the highest GDP per capita in Sub-Saharan Africa but it does not mean that the country has achieved development in all sectors.

For example, the health service is underdeveloped and the UNICEF figures show that Angola has the highest under-five mortality rate in the world economy. Around 170 000 Angolan children died annually in the recent years (UNICEF, 2016).

Table 3 The GDP per capita of selected countries in Sub-Saharan Africa in 2014

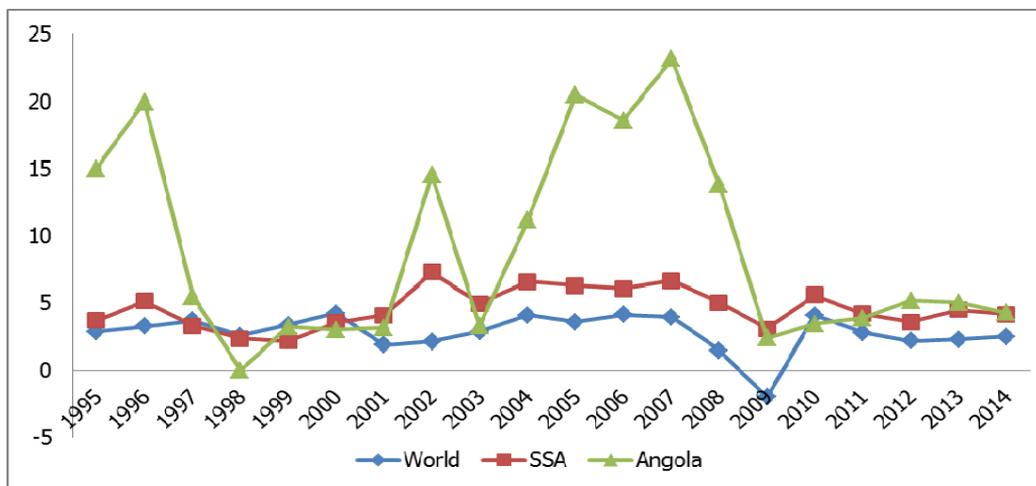
Country	GDP in billion USD	Population in million	GDP per capita in USD
Equatorial Guinea	17.160	0.821	22 055
Seychelles	1.454	0.096	15 581
Mauritius	12.686	1.269	10 156
Gabon	16.973	1.688	9 918
Botswana	15.703	2.220	7 703
South Africa	349.733	53.969	6 581
Angola	125.923	24.228	5 688

Source: own elaboration, UNCTADstat. (2016). Retrieved from <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

Angola achieved very high growth rates of GDP in the past. The growth belonged to the highest in the region and in the world. The next chart shows the growth of GDP of Angola in comparison with the growth of world GDP and Sub-Saharan Africa's GDP. In the year 2007, the growth of GDP reached more than 23 per cent in Angola and it was one of the highest growth of GDP in the world. The financial and economic crisis in the world economy in 2009 has markedly slowed the growth of the GDP. The main

reason was decline of oil’s prices. The next years Angola achieved the growth only between 3.45 to 5.2 %. In the year 2015, the price of oil collapsed again and the Angolan economy was hard hit by the sharp decline in international prices of oil. According to International Monetary Fund, the growth was only 2.9 per cent in Angola in the 2015 (IMF, 2016).

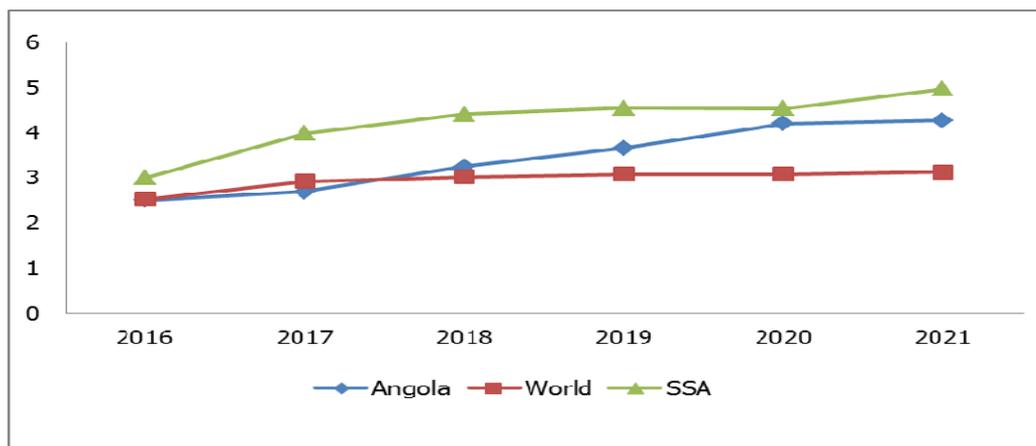
Graph 1 The growth of GDP in years 1995 to 2014 in per cent



Source: own elaboration, UNCTADstat. (2016). Retrieved from <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

Following the predictions of International Monetary Fund Angola will be growing from the next year until 2021, but the increase of GDP will be lower than the increase of GDP of Sub-Saharan Africa as we can see in the graph 2. The highest growth the International Monetary Fund predicts for countries – Democratic Republic of Congo, Ethiopia, Mozambique and Rwanda (IMF, 2016).

Graph 2 The growth of GDP in years 2016 to 2021 in per cent



Source: own elaboration, International Monetary Fund. (2016). Retrieved from <http://www.imf.org/external/pubs/ft/weo/2016/01/weodata/weoselco.aspx?g=2001&sg=All+countries>

There are many problems in Angolan economy nowadays. The governance and transparency is insufficient, the country has poor infrastructure, ineffective agriculture and little savings for the future (AfDB, 2015).

Lack of infrastructure is one of the main problems of African countries that causes the dependence on natural resource in their foreign trade. As we can see in Table 4, more than 99 % of Angolan export comprises from oil, gas and diamonds.

Trade theories both old (such as Ricardian, Mercantilist) and new (Heckscher & Ohlin) have shown that few countries have developed quickly because of exports of solely primary products. A more diversified exports structure reduces vulnerability to demand shocks and hence creates greater opportunities in regional as well as global markets (Fonchamanyo & Akame, 2016).

Table 4 Share of selected commodities on Angolan export in 2014

	In billion USD	Share on export in %
Petroleum oils, crude	59.9	96.05
Petroleum oils or bituminous minerals > 70 % oil	0.73	1.18
Liquefied propane and butane	0.33	0.54
Natural gas, whether or not liquefied	0.30	0.48
Pearls, precious and semi-precious stones	0.83	1.33

Source: own elaboration, UNCTADstat. (2016). Retrieved from <http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>

Maybe there is an opportunity when the prices of commodities start to grow. The countries have to invest large shares of their natural resources into infrastructure and other forms of capital that support long-term growth (Collier & Laroche, 2015).

According to the 'resource curse' hypothesis, petroleum and mineral wealth in a developing country can cause poor economic performance and human development, and may cause corruption, poor governance, and conflict. Angola is often shown as an example of the resource curse due to its decade-long resource-fuelled civil war (Ovadia, 2012).

Dependence on the export of natural resources can impede the development and industrialization. As an example (Habiyaemye, 2013):

- the volatility in export revenues can make barriers for planning;
- the exchange rate appreciation in periods of price booms can make other sectors less competitive;

Table 5 shows that Angolan import is much more diversified than export. Ten dominant items makes 30.46% of all imports. The main imported products are ships, furniture and oil.

Africa has important place for China, because Africa has created good opportunity for Chinese investors and boosts consumption of cheap goods and Chinese building activities (Baláž, Szökeová & Zábajník, 2012).

Table 5 Share of selected commodities on Angolan import in 2014

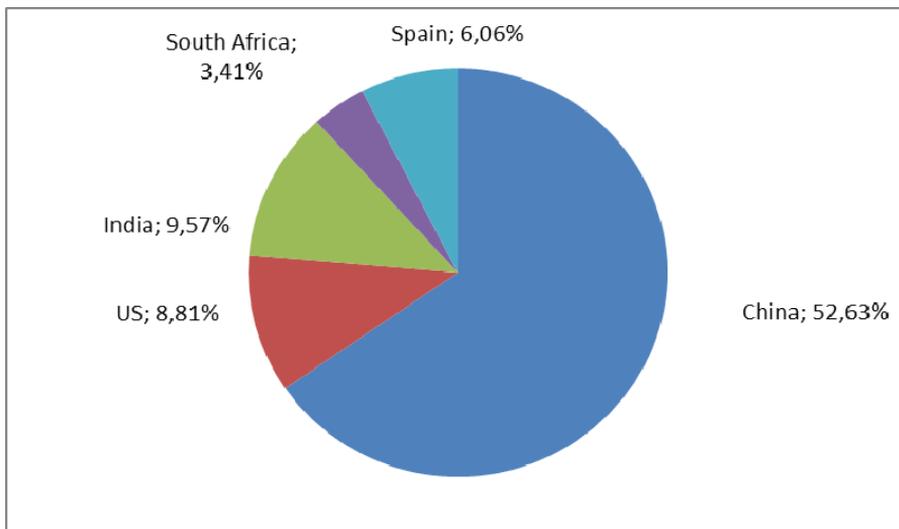
	In billion USD	Share on import in %
Other meat and edible meat	0.75	2.67
Alcoholic beverages	0.55	1.95
Petroleum oils or bituminous minerals > 70 % oil	1.07	3.81
Tubes, pipes & hollow profiles, fittings, iron, steel	0.85	3.00
Manufactures of base metal, n.e.s.	0.58	2.05
Civil engineering & contractors' plant & equipment	0,77	2,74
Motor vehicles for transport of persons	0.60	2.15
Motor vehicles for transport of goods	0.55	1.96
Ships, boats & floating structures	1.82	6.43
Furniture & parts	1.04	3.68

Source: own elaboration, UNCTADstat. (2016). Retrieved from <http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>

Just as public and private Chinese companies are active in Angolan territories buildings roads to transport raw materials needed to fuel their industries and factories back home, the same approach can be followed in other sectors, such as agriculture, manufacture, and services (Burgos & Ear, 2012).

Graph 3 shows the territorial structure of Angolan oil export. As we can see the main export partner for Angolan oil is China with 52.63% share on Angolan export in 2014. The second and third most important markets are the markets in India and US. These three markets comprise more than 2/3 of all oil export.

Graph 3 The key export territory for Angolan oil in 2014



Source: own elaboration, UNCTADstat. (2016). Retrieved from <http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>

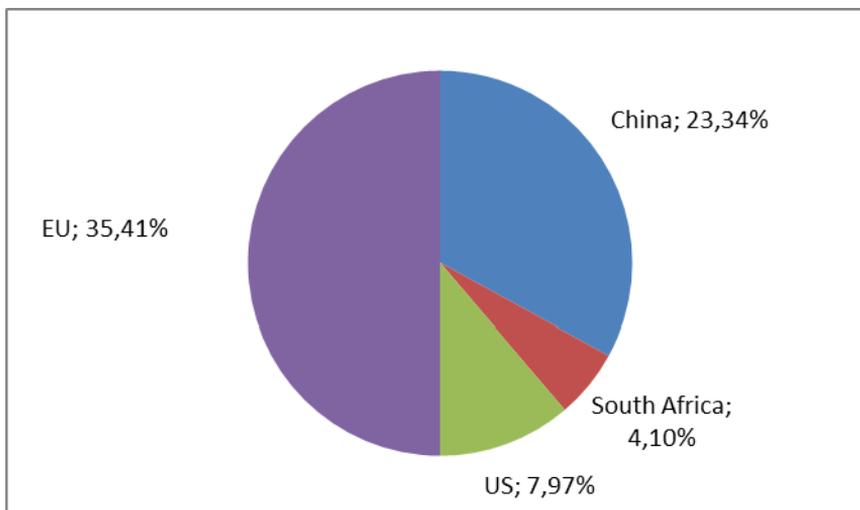
There are three motives for Chinese oil companies' interest in country. First, China have invested in other countries and one of them is Angola. Second, the Chinese oil companies have plans for a far future, their responsibility is to secure enough oil for

growing economy of China, and the Angolan crude oil has very high quality (Aguilar & Goldstein, 2009).

The 'Angola model' is often referred to as a 'infrastructure-for-oil' relationship as the country is spending incomes from exporting crude for development of infrastructure (Schiere, 2014).

As we can see in graph 4, China has become the key exporter to Angola. China's imports share on the whole import was more than 23% in 2014. EU was the biggest exporter to Angola. However, when we look at the single countries of EU the main exporter from EU – Portugal – exported only 16.7% of all Angolan imports.

Graph 4 The main Angolan import partners in 2014



Source: own elaboration, UNCTADstat. (2016). Retrieved from <http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>

Angola had borrowed approximately 12 billion USD from China since 2002 to 2012 through Chinese banks. According to the Angolan Ministry of Finance, these loans were used for building roads, rail and another infrastructure (US Government Accountability Office, 2013).

Angola belongs to the countries with the worst climate of doing business. The World Bank makes the ranking of the economies with focusing on doing business yearly. Angola achieved rank 181 from 189 countries in 2016. From Sub-Saharan Africa is worse only Chad, Democratic Republic of Congo, Central African Republic, South Sudan, Libya and Eritrea. The most problematic issues in Angolan economy are - resolving insolvency, enforcing contracts, trading across border and getting credit. Only protecting minority investors was assessed as not so bad (The World Bank, 2016). Despite ongoing government efforts to foster the creation of small and medium-sized enterprises, as well as services such as tourism, in order to boost job creation, the development of a dynamic private sector will be hindered further by weak human capital, poor regulation, inefficient power supply, high levels of corruption and the crowding-out of private investment by the public sector (The Economist Intelligence Unit, 2015).

The agricultural sector in Angola plays important economic role, either indirectly in the support of the agro-business activity and as a catalyst for upstream businesses, or directly as a contributor to national GDP. Angola has many natural resources, have been classified by the United Nations Organization as the sixteenth country with the greatest agricultural potential in the world. However, only 3% of 58 million hectares of arable land is under exploitation (WTO, 2015).

Conclusion

Most of Sub-Saharan Africa countries are the least developed and poorest countries in the world economy. Thirty-four countries of this region belong to the least developed countries, which are classified within United Nations. Angola is one of them. This country has abundance of natural resources especially oil and diamonds. Many economists have marked Angola as an example for country with resource curse. Huge reserves of resources has driven the long civil war that ended in 2002 although Lusaka Protocol was signed in 1995. After the war, Angola recorded one of the highest growth of GDP in the world economy. Notably during the years 2005 and 2007 the growth of GDP was more than 20% a year. Nevertheless, the predictions of International Monetary Fund are not so optimistic for the next years. Angola will reach the highest growth in 2020 and 2021 and it will be only about 4%. It will be much lesser than in successful years in the past.

Angola is the third biggest economy in Sub-Saharan Africa after Nigeria and South Africa nowadays. Country also belongs to the ten economies with the highest GDP per capita in Sub-Saharan Africa. The essential problem of Angola is the one-way oriented economy on oil and general on natural resources. Therefore, the country is very sensitive to price shocks of commodities in the world's market.

When the price of oil collapsed in 2008, the central government oil-related revenues fell from 41.2% of GDP in 2008 to 24.2% in 2009. Similarly, the oil price shock of 2014-2015 caused that oil and gas revenues declined from 57.6 billion of USD in 2014 to 35.4 billion of USD in 2015.

Another example of the high dependency on oil are the export revenues. More than 90.6% of export's revenues are from the export of oil. The analysis of Angolan export has shown that more than 99% of it comprises only from three commodities – oil, gas and diamonds. In addition, the territorial analysis of Angolan export has shown high dependency only on a few markets. Especially the country is dependent on Chinese market, Indian market and US market. These three countries received more than two third of Angolan oil export.

Chinese presence in Angola is the next issue for the country. Nowadays is China the biggest exports market and the biggest exporter to Angola. The share of imports was 23.34% in 2014. It was 6% more than imports from the former colonizer Portugal. The Chinese and Angolan infrastructure-for-oil relationship means using oil revenues to finance the reconstruction of the country, including key public investment projects in infrastructure, telecommunications, and agro-business.

Angola has to diversify its economy in the future. The oil shocks revealed the vulnerability of Angolan economy. Angola has to change the climate of doing business because in the World Bank's ranking it belongs to the worst in the world. Another opportunity is the development of tourist business and the development of agricultural industry. Angola is one of the countries with the greatest agricultural potential in the world with only 3% of arable land under cultivation. When the prices of oil will rise, the revenues should be used for changing the economy and decreasing the dependence on oil and other natural resources.

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