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THE PRESENT AND FUTURE CHALLENGES OF THE ANGOLAN ECONOMY

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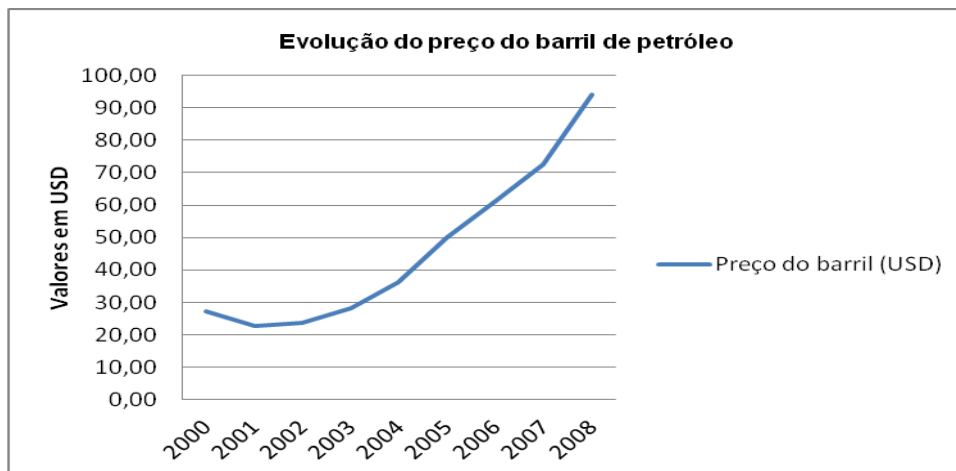
Luanda, March 2015

1.- Recent behavior of the Angolan Economy

Constraints will be present in the future (recurrent since 2002 and that have not been removed by the public policies or by the State investments in the domains of bureaucracy, energy, water and even- despite having already spent about 80 billion dollars in roads, bridges, airports, ports, railways, schools, hospitals and other infrastructure works - in other areas, for the creation of the basic conditions for growth) and severe risks for economic development. As argued in other occasions, the annual dynamics of GDP growth seen between 2002 and 2008 are unlikely to recur in the future, until by 2025.

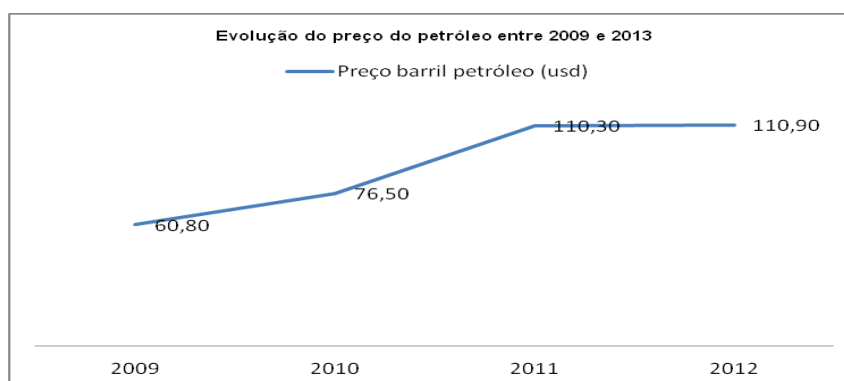
For a better understanding of the different stages of growth of the Angolan economy, three periods were considered, after reaching peace in the country:

2003-2008, during this time the world oil demand and oil prices rose sharply and brought significant revenue to the country. It was then possible to invest in the reconstruction / upgrading of physical infrastructure of the economy and thus give off a stage in which, alongside oil exports, public investment was presented as the second largest GDP growth factor. The average annual growth was 9.8%.



Source: International Monetary Fund – IV Article of Consultation. Angola. September, 2014

2009-2012, in which the great international financial crisis dominated the behavior of all economies – some more than others, but still remain indelible in the present and probably still with some influence for the future - and in Angola led to a drop in public investment of more than 21% between 2008 and 2009, only returning to its previous level in 2012¹. The main factor of this fiscal adjustment in Angola was the significant drop in oil prices in the international market, estimated at 35.3% from 2008 to 2009. The other growth factor, the oil exports, also decreased in a significant basis over the period in reference, reducing from 65.3 billion dollars to 40.1 billion dollars. With the two main drivers of economic growth of the country in visible difficulties, the real rate of GDP growth was the lowest ever after independence (except the monumental breaks in 1994 and 1995 of about 24% and 25%, respectively, also by setbacks linked to oil): less than 3% annual average, between 2009 and 2012.

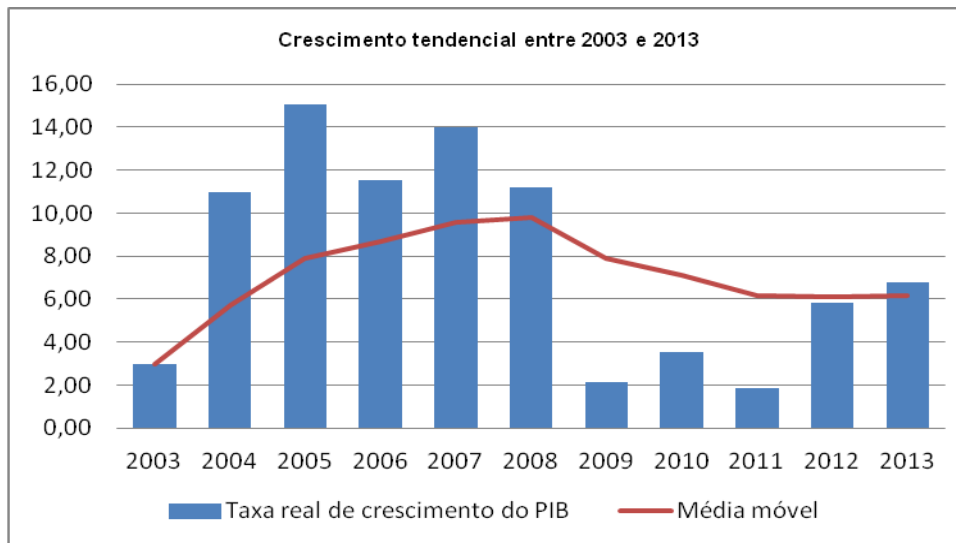


Source: International Monetary Fund- IV Article of Consultation. Angola. September, 2014

2013-2014 in which the main focus of the Government is being the launch of the basis for the diversification of the economy, based on the public investment in infrastructure, much of which has an unusual and harmful degradation speed of economic return of companies and social utility of the population. This period has been characterized by a very erratic behavior of oil production, affected by technical problems, of which I will give, later, a few more indications. Moreover, between 2008 and 2012, the cumulative oil production in Angola decreased 11.7%. You can imagine the financial problems for the country, because its revenues represents 95% of total exports and 70% of the government tax revenues. The average growth rate in this period was 5.5%. The price of oil barrel may decrease, from 2012 to 2014 by about 12.5%, based on an average price, of probably \$ 97 a barrel in 2014.

Precisely, because of its external dependency of a financial resource and of a very unstable growth factor, is that the long-term trajectory 2002-2013 translates into an average annual rate of GDP growth of only 6.2%, already considering the adjustments of the National Accounts 2002-2012.

¹ In 2008 the sum was of 11,9 billion dollar and in 2009 of 9,4 billion dollar.



Source: CEIC, Ficheiros "Fiscal Studies" and "Studies on GDP per capita".

2. The Risks and the Challenges

The Base Report for the State Budget for 2015 explains the concerns of the Government regarding the future growth prospects of the national economy, with the GDP growth forecast for 2015 – of 9.7% at constant prices – from my point of view, rather optimistic and totally counter-cyclical to the average annual long-term trend noted above. A justification for this Government overconfidence may be in the recovery of oil production, estimated at 10.5%, after the resolution of some of the technical problems that have afflicted it a few years. However, it turns out, after all, that the national GDP growth remains heavily dependent on the oil economy, which will only be possible to reverse in the medium term if certain political and social assumptions are taken with courage, as, for example, the correction of the excessive enrichment of a tiny part of the population and the increasing impoverishment of tracks set of citizens.

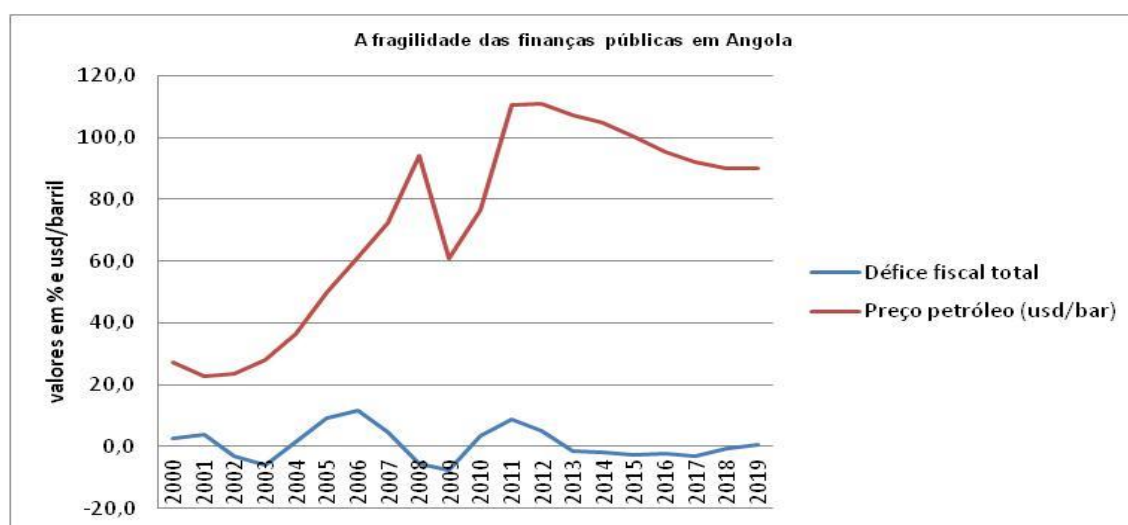
The matter of risks surrounding the national economy deserves some more references, since the same depends on the future capacity of steady increase of GDP in line with the need to improve the living conditions of the majority of the population.

Public Finances Fragility

The medium-term fiscal framework is not positive, and even if the Government admits that only this year and in 2015 public accounts will be unbalanced, the estimates of the International Monetary Fund, The Economist and some international risk agencies are much more pessimistic, admitting that until 2019 the budget deficit will be the dominant note. Not really being a big problem – the so-called "virtuous fiscal deficits" can have positive multiplier effects on the economy – they require,

however, rigorous macroeconomic management and discipline in the use of financial resources that citizens and companies deliver to the State on free and compulsory basis. Is the government able to resist the powerful influence peddling featuring the functioning of its institutions and to vigorously fight corruption?²

The fiscal deficits crisis exposes the weaknesses of the national economy and the risks to which will be subject until 2020. Consequentemente, penso que poucas melhorias serão possíveis na distribuição do rendimento nacional até final da segunda década do século XXI. Consequently, I think that few improvements will be possible in the distribution of national income until the end of the second decade of the 21st Century.



SOURCE: CEIC, File "Fiscal Studies" based on International Monetary Fund – Angola 2014 Article IV Consultation, September 2014.

Deepening social inequalities

Angola is a country of two or multiple realities. The Africa Progress Panel (APC), chaired by Kofi Annan, focuses on the two contributing to what it says is a glaring paradox – for being the country that illustrates "the most powerfully form of divergence between resource wealth and social well-being".

Angola has one of the most unequal income distribution and it is cited as "one of the most finished examples" of a scenario where the activity of the State enterprises hides behind an opaque financial system that does not meet minimum standards of transparency and benefits public or political figures.

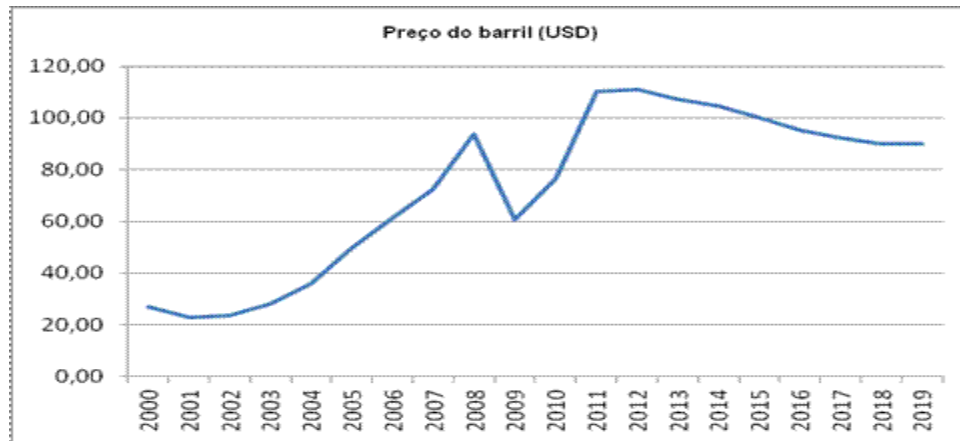
² The Electronic Magazine Africa Monitor, November 2014, regarding further delays in the works of the Pharaonic airport of Luanda, with an expected traffic of 15 million passengers per year, states that the current airport *4 de Fevereiro* could yet still be an alternative to increased air traffic and with incomparably lower costs, but the powerful interests at stake – sale of adjacent lands to the project site and owned by many of the dignitaries of the regime and the presidential family – determined the choice of an expensive option but that guarantees the sharing of that investment.

The Portuguese-speaking country, one of the most influential in the southern African region, also stands for the weak levels of development. The infant mortality rate, up to five years, tops the list: is the eighth largest in the world, with 161 deaths in 1000 children each year, which represents 161,000 deaths each year. And this, remember the document, when Angola is the second largest oil exporter in sub-Saharan Africa and the world's fifth largest diamond producer and is among the third (countries) that grew the most between 2000 and 2011 in the world. In 2012, it exceeded the growth rate of China. In the last decade, grew at an average rate of 7% and the average income more than doubled. The effect was virtually nil in the way the majority of the population continues to live. "While the Angolan elite use the oil revenue to buy assets abroad, in Angola children are hungry," notes the report. Malnutrition explains one third of child deaths, he clarifies.

Oil prices behavior

Another risk for future growth is the expected behavior of oil prices, today already much lower than the assumed in the 2014 State Budget (78 USD instead of 98 USD) and is expected to be around 80 USD by 2020 (one US dollar below the considered in the national budget 2015).

To follow up the oil price behavior in the international market one gets the feeling that in the future its stabilization may be around \$ 75 a barrel, at least in 2015. Although the oil weight in GDP represents less now than in the recent past (about 40%), oil revenues will always be important because there is no sustainable alternative in the medium term as for other tax sources of financing of state activities and promoting the economy. Surely one can always resort to the issuance of public debt as a way to ensure certain costs for State development. However, there are also limits given by the sustainable growth capacity of the economy, the generation of foreign exchange by the productive system (which depends on its external competitiveness, currently limited to oil exports), external debt repayment guarantee and remoteness of harmful postures and behaviors, socially and ethically reprehensible, such as corruption, influence trafficking, abuse of power and arrogance that so bad impression cause the external image of the country.



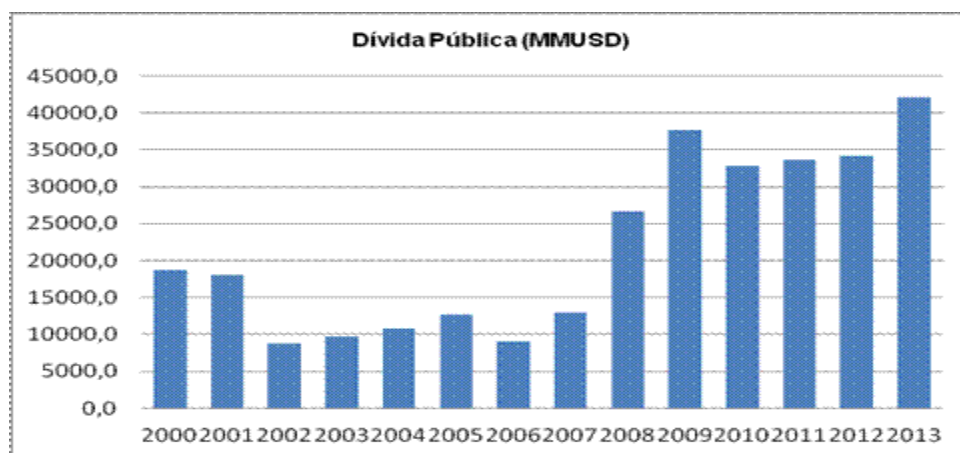
Source: International Monetary Fund – IV Article of Consultation. Angola. September, 2014

Public debt sustainability

Public debt is not a major issue neither for its management nor for the economy. At the end of 2013, according to information from the International Monetary Fund, the overall value was 42.1 billion dollars. Its evolution path has been growing according to the demands of economic growth. As we know, the creation of debt within conventional management limits is a complementary form of the State to finance its activities and its participation in the economy.

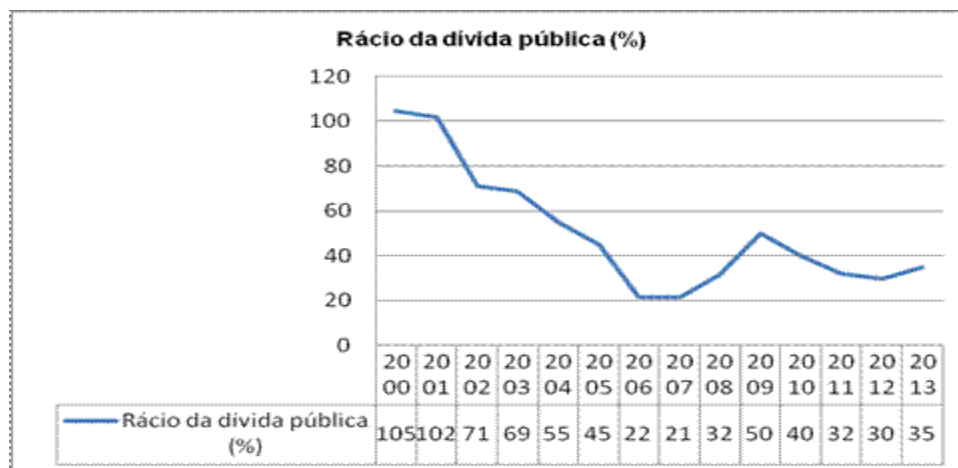
In 2001 and 2002 a significant part of the debt was of a military nature, but the strategy after 2002 for the renegotiation of public debt with the Paris Club and the IMF led to a decline in the amount and payment of annuities due to creditors. That was the situation between 2003 and 2007.

The economic growth funding requirements (at an average annual rate of 9.8% between 2003 and 2008) resulted in a substantial increase: from 8.8 to 26.6 billion dollars.



Source: IMF Angola IV Article, September, 2014.

The debt ratio has been falling consistently since 2000, standing at 34.6% in 2013. This indicator has also revealed the country potential to meet its obligations to its domestic and foreign creditors, which has sponsored the positive ratings of international rating agencies: Angola has been in a comfortable situation in this item.



Source: IMF Angola IV Article, September, 2014.

For the future and according to international forecasts agencies, the ratio of the Angola public debt (internal and external) may have developed as follows: 36.6% in 2014, 38.8% in 2015, 41.1% in 2016 and 43.5% in 2017.

As argued in the previous pages and given the likely decline/stagnation of tax revenues from oil provenance and the tax reform delay setting and other effective alternative sources (in mineral taxation diamonds almost do not count), the public debt of Angola will increase, which is reflected in previous projections.

Still, the sustainability of public debt by 2020 is not pinched. Indeed, the average GDP growth between 2014 and 2019 will be around 5.5%-6% per year, when the implicit interest rate of the Angolan debt is just over 4.5%. So, at least from a theoretical point of view, the state can run its infrastructure program and other support to the economy at the expense of fiscal deficits.

The business environment bottlenecks

The country also continues to be part of the last places in the ranking of the world business environment, according to the World Bank Doing Business Report. And since this Report start being elaborated, that Angola does not present consolidated improvements, although, in some years the country gained some points in some of the items, but which worsen in the coming years. The general weakness of the institutional environment in the country may help to understand the "tracking time" in this indicator, which is a benchmark for international investors, even if, some institutions

of the State Administration show organization and efficiency rates far above the national average.

The position of the country worsened again in relation to the 2014 Report: from 179 to 181 in Doing Business 2015.

Business Climate in Angola

Item	Nº procedures	Days	Cost (% GNP per capita)	Position
To start a business	8	66	123,5	174
To obtain construction licenses	10	203	28,6	67
Access to electricity	7	145	660,7	157
Property registry	7	190	3% labour value	164
Credit Access	-	-	-	180
Investor Protection	-	-	-	94
Tax payment	30	282 hours/year	52,1% tax rate	144
Free trade	-	-	-	167
Contracts	46	1296	44,4% s/ contract	187
Controversy resolution	-	-	-	189

Source: World Bank – Doing Business 2015.

The preceding information, when compared with other countries, also point towards the competitiveness of Angola. Among the countries that more and better carried out administrative and economic reforms between 2013 and 2014 are included Benin (151), Togo (149), Ivory Coast (147), Senegal (161) and the Democratic Republic of the Congo (184 place).

The competitiveness by prices, the position that the country occupies on the African panorama and measured by Real Effective Exchange Rate (REER) is unfavorable, as evidenced by the information of the following table.

COMPETITIVENESS BY PRICE

(Real effective rate of annual average exchange; indexed to 100 in 2000)

Countries	2011	2012	2013
Angola	243,1	268,4	287,6
Cameroon	108,6	104,1	107,0
Congo	124,1	122,3	129,1
Gabon	105,8	103,4	105,4
Nigeria	147,2	166,7	187,3
Botswana	108,9	105,0	100,4
Mauritius	100,4	101,8	101,7
Namibia	112,8	108,2	90,7
South Africa	106,3	100,5	89,9
Zambia	160,1	165,3	171,5

Source: International Monetary Fund - Regional Economic Outlook, Sub-Saharan Africa, April 2014.

Angola is the African country with the worst levels of competitiveness on price, not only by the evidence of the previous framework, but even compared to most other sub-Saharan African countries.³

World oil demand

According to the prospective studies of British Petroleum, the world oil demand will be shown in decline by 2035⁴:

- "Primary energy demand increases by 41% between 2012 and 2035, with growth averaging 1.5% per annum. Growth slows, from 2.2% p.a. for 2005-2015, to 1.7% p.a. 2015-2025 and just 1.1% p.a. in the final decade".
- "We are leaving a phase of very high energy consumption growth, driven by the industrialization and electrification of non-OECD economies, notably China. The 2002-2012 decade recorded the largest ever growth of energy consumption in volume terms over any ten year period, and this is unlikely to be surpassed in our timeframe".
- "There is a clear long-run shift in energy growth from the OECD to the non-OECD. Virtually all (95%) of the projected growth is in the non-OECD, with energy consumption growing at 2,3% p.a."
- "China has emerged as the key growth contributor, but by the end of the forecast China's contribution is starting to fade."

3.- PROSPECTS FOR GROWTH

The medium-term forecast presented by different institutions and international agencies points to a yearly average rate of national GDP variation of between 5.5% and 6% until 2020. By the way, the National Development Plan 2013-2017 also admits a lesser intensity of growth up to 2017, with 4,3% of variation in this last year.

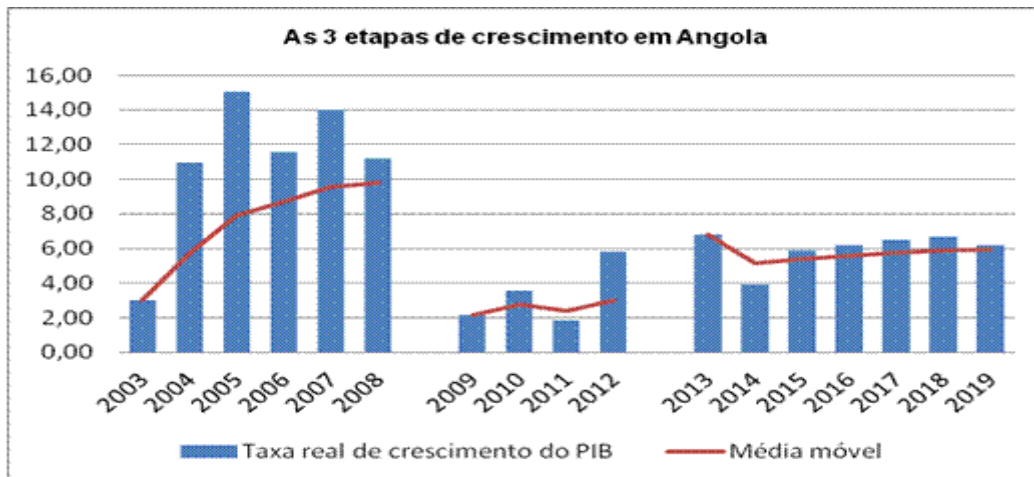
The average annual growth rate of GDP between 2013 and 2019 will be around 5.5% to 6%, insufficient for the realization of some of the Millennium Development Goals subscribed to by Angola, including the sustained reduction of poverty indices. Between growth and poverty reduction, a concrete theoretical relation will be established – more growth and less poverty – but dependent on the model of the allocation of the results of this growth. When this model favors the asymptotic accumulation of income, more growth can even generate more poverty. For an

³ The last Mercer Report still considers Luanda as the most expensive city in the world.

⁴ BP Energy Outlook 2035, January 2014.

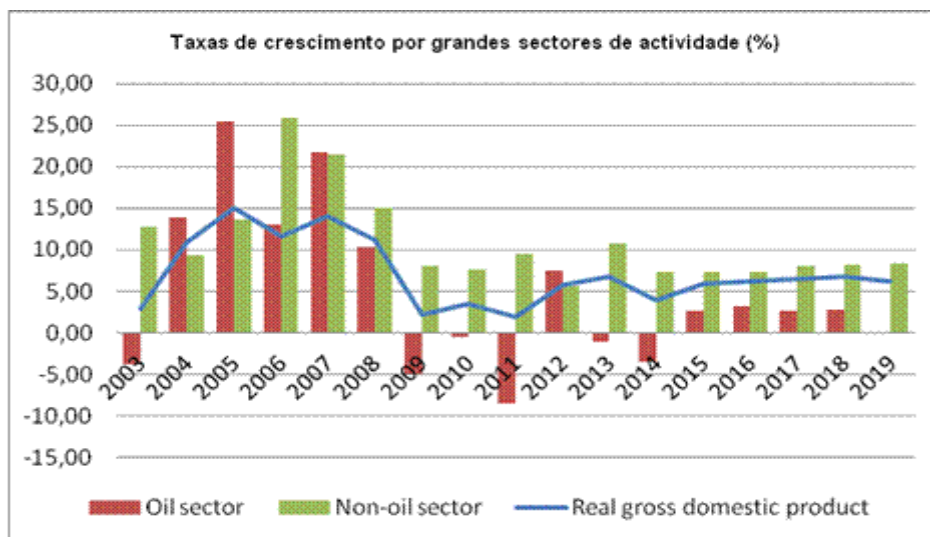
average annual rate of GDP of 5.5% and a yield-poverty elasticity of -0.8, the poverty rate in 2019 could be 46.3%⁵. That is why a better distribution of national income must necessarily undergo a deep change in the current process of access to oil revenues, based on the trafficking of influences and the favouring of groups and families related to the installed political power.

An overview of the prospects for growth is given by the following graph.



SOURCE: International Monetary Fund – Angola 2014 Article IV Consultation, September 2014.

From another point of view, it turns out that some opportunities could have been exploited so that this crisis situation did not have the impact that it might have in the future.



FONTE: International Monetary Fund – Angola 2014 Article IV Consultation, September 2014.

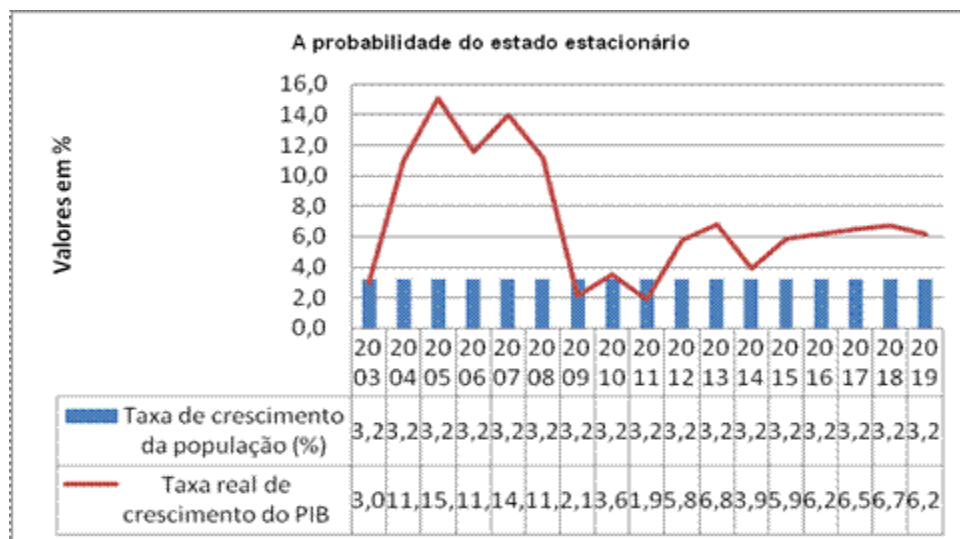
Between 2003 and 2008 there should have been created the propitious conditions and bases for the alteration of the model of distribution of the national

⁵ It is known that there is some controversy about the poverty rate of 36.6% of IBEP in 2008/2009, not from the point of view of the methodology, but mainly from the realism of its value.

income, making it more inclusive. Perhaps in this way they could avoid/mitigate the symptoms of growth crisis that emerged in 2009 with the international financial crisis, whose negative effects will endure beyond 2020. A more inclusive model would have allowed a significant improvement of the living conditions of the population, an increase of family consumption, efficient augment of internal supply and growth in productivity.

In spite of the implementation the National Strategy of Valuation of Cadres and the corresponding National Plan of Valorization of Cadres, the effects on the indexes of competitiveness and the creation of knowledge will appear only in the medium and long term. The other component – better distribution of national income – has, until 2020, less opportunities to be embedded in the national system for improvement of the living conditions of the population and the valorization of natural resources, through the increase in the aggregate value of the economy.

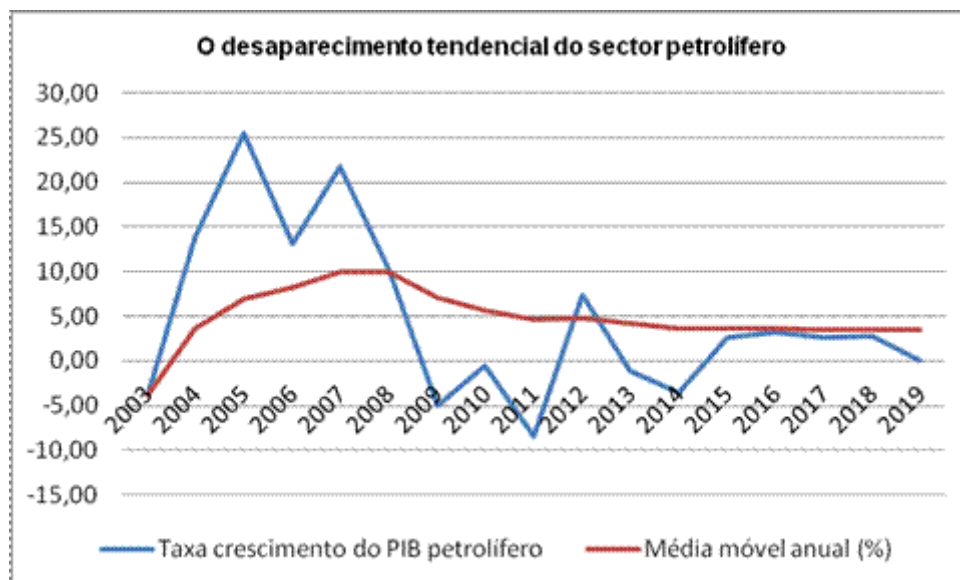
In fact, an average annual GDP growth rate of 5.5% between 2014 and 2020 is insufficient to attain these proposals. It is true that the oil sector, after seeing that it will lose momentum until 2020, weighs in this mathematics of 5.5%, having, thus, the non-oil economy to compensate for this reduction in the growth intensity of the petroleum economy. Theoretically it is possible, but it will be essential, as a basic condition, to change the development models of agriculture and the processing industry and change the channels of access to oil revenue.



SOURCE: International Monetary Fund – Angola 2014 Article IV Consultation, September 2014.

The oil sector will be presenting a very low annual growth dynamics between 2014 and 2020: an average growth rate of just 3%, of which, at this rate, will require between 23 and 25 years to double its production, [which is] very far from the register of a multiplication by more than 12 between the date of national independence and 2014 referred to by the Minister of Petroleum. If, with the current knowledge and

without considering the dream (?) of the pre-salt, oil reserves last for another 20 years, we could be talking about a significant reduction in the weight of this sector in the national economy⁶. Will we be prepared to live without the ease of oil income and rent-seeking?



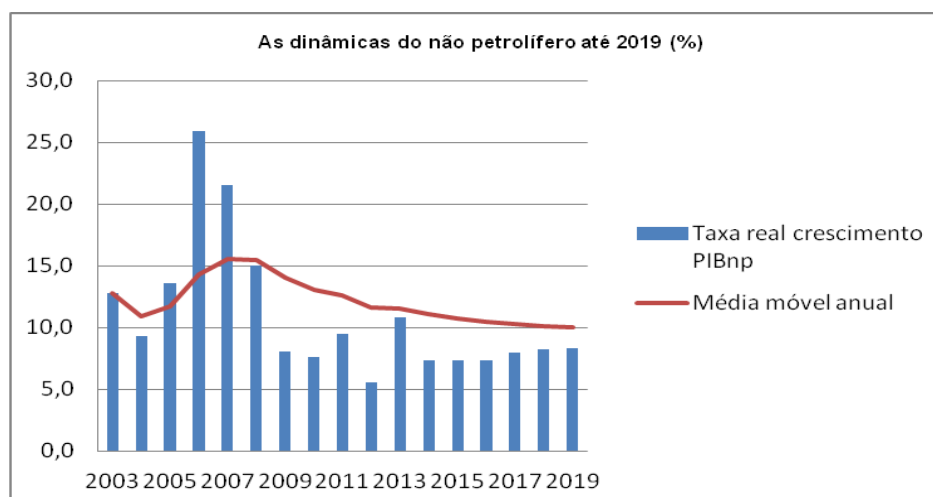
SOURCE: International Monetary Fund – Angola 2014 Article IV Consultation, September 2014.

Since 2008, there has been a regular fall in oil production, explained as technical problems. However, notwithstanding this official explanation, it is known that in blocks where the Petroleum Company/State (Sonangol) production share has changed from 50%/50% to 30%/70%, demotivation set in within the foreign companies, causing them to relax the processes and modalities of maintenance and conservation of their mineral extraction apparatus. It is feared that they will keep this attitude of "laxity" in the future, resulting in the lost of some growth dynamics of the past.

The average rate variation of the oil production of 3% until 2020 is a symptom of some lack of interest of oil multinationals to continue in Angola or of a tendency to decrease the volume of reserves justifying the realization of investment for prospection and development. It is in this context that the oil production assumes itself, also, as an uncertainty in the medium term in the functioning of the national economy.

With an average annual growth rate of 10%, the non-oil economy requires only 7 years to double the value of its GDP (2022). How will one value work, entrepreneurship, honesty, productivity and competitiveness, and rely only on ourselves?

⁶ Conoco Phillips and Statoil announced the end of subsalt searches in Angola, after having accumulated huge losses: 140 million dollars and 350 million dollars respectively.



SOURCE: International Monetary Fund – Angola 2014 Article IV Consultation, September 2014.

4.- INDUSTRIALIZATION AND DIVERSIFICATION OF THE ECONOMY

At the First Conference on Manufacturing Industry held in 21 November 2013, entitled "The Paths of Industrialization of Angola", it was clear that the preoccupation of the Minister of Industry to give a definitive boost to national manufacturing, after the "failures?" of the reindustrialization plans elaborated in previous years (the rest, the minister preferred to speak about the country's industrialization and no longer about reindustrialization, with evident concern about finding a proper model to build a national industry, giving it greater coherence and higher competitiveness). Reindustrialise could be confused with the recovery of the colonial model of industrialization, even though at that epoch it had given very positive results.

It is known that the manufacturing industry is one of the three fundamental parts of a sustained process of diversification of any economy, being necessary to find the right model, the adequate strategy and the most efficient policies. The other two key sectors are agriculture and related activities and construction. Besides, evidently, of the "creative destruction" of Schumpeter, on the heart of the incessant processes of innovation/creation.

In terms of the structure of Gross Domestic Product, the manufacturing and agriculture have no worthy representativeness. For example, the sector "agriculture, cattle and forests" that was thought to have a relative participation in GDP of about 8% to 10%, now appears in the real accounting of the country's economy, given by the National Accounts, with an average percentage weight, between 2002 and 2010, of only 4%. That can have different readings:

- Considered as a structuring sector of economic transformations and an important piece of the country's productive diversification, 4% of participation is too little.
- However, this value can also mean that the margin of progression is high, not presenting this activity next to its limits of expansion and contribution to the national aggregated value.

Recent research suggests that the process of economic growth is very tributary of permanent and systematic structural reforms and presents a common pattern in terms of productivity: the passage of low productive activities to those of greater economic efficiency. The productivity is, in fact, the nuclear question of industrialization, diversification and structural transformations. All cases of rapid and sustained growth present as common denominator a structured and high value-added industrial sector.

Behavior of industrial production

Manufacturing industry continues to confront itself with problems that have delayed the taking of a decisive and central position in the national economic tissue. In various Economic Reports, the Center of Studies and Scientific Research (of the Catholic University of Angola)⁷ has presented studies and reflections on the manufacturing industry in Angola, the causes of the de-industrialization after independence and which extends to today (the National Accounts of the INE – the most recent and trusted macroeconomic statistics of the country – attribute to this sector 4% of national GDP [during colonial times it was of 20% and in the countries that have industrialization as support of the processes of economic diversification, job creation and income generation, its relative weight is 25%⁸]), the necessary conditions for its diversification, and the growth of exports (the overvaluation of the exchange rate of the *Kwanza* is an impediment, despite many sectors of opinion to defend it as a means of control of the inflation, in a country that imports 70% of what it needs to produce and to consume and that still has very few marketable industrial goods) and its role in the creation of an integrated domestic market and with high productive densification rates. While, from an institutional point of view, the manufacturing industry keeps various and different subordinations, it will continue to be difficult to define coherent, consistent and rigorous industrial policies. Also, the lack of reliable industrial statistics impedes the real and effective knowledge of the situation of the

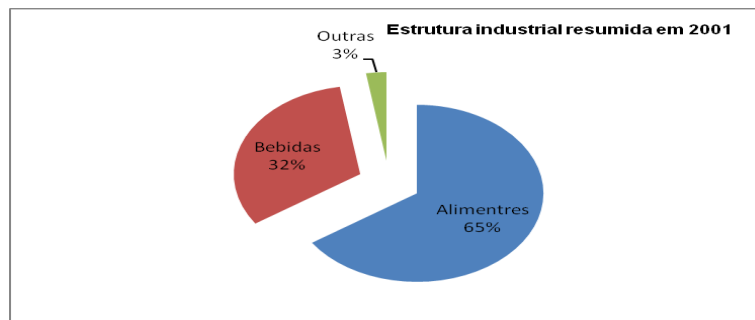
⁷ CEIC – Relatório Económico de Angola 2011, 2012 e 2013.

⁸ Alves da Rocha – As Transformações Económicas Estruturais na África Subsariana, Editora Mayamba, Setembro de 2013.

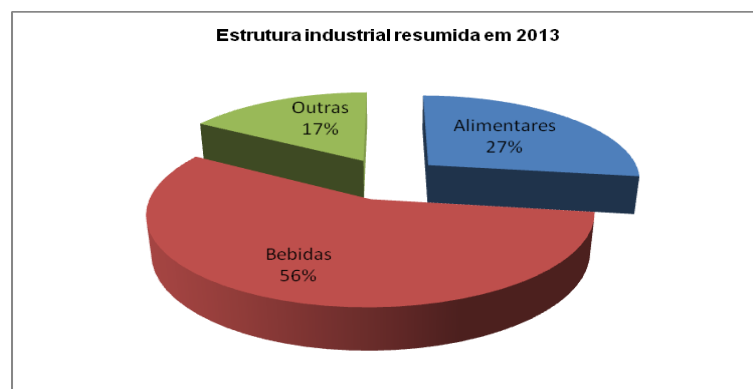
manufacturing industry and therefore the design of effective forms of public intervention and support to the private sector⁹.

The National Development Plan 2013-2017 chooses, as strategic goal for manufacturing industry, the creation of the food cluster and in terms too general "its role as support to the diversification of the economy, generation of employment on a sustainable basis and use of agricultural raw materials and minerals...". Of the list of 30 products whose growth targets are set (page 85), only 3 are food, probably insufficient to build a tissue of intense and expressive industrial and commercial relations in order to give body to the cluster. The average annual growth rates (2012/2017) here established are: 18.3% for the cooking oil, 16.9% for pasteurized milk, 5.9% for powder milk and 5.5% for yoghurts. Indeed, a very limited range of products, and even if the growth rates of some of them express a duplication over the period of the plan, the capitation of their amounts is very low.

The manufacturing industry continues to introduce indexes drawbacks of excessive concentration of its production in beverages, at least since 1998. In spite of this, the signs of a bigger percentile participation of other transformation activities are positive, especially in areas connected to construction materials.



SOURCE: CEIC, Estudos sobre a diversificação da economia.



SOURCE: CEIC, Estudos sobre a diversificação da economia.

⁹ The results of the CIANG are awaited – Census of the Industry in Angola, realised in 2013

PRODUCTS	INDEX IN 2012	INDEX IN 2013
Sausages	100	70,3
Cooking oil	100	101,8
Pasteurized milk	100	86,6
Powdered milk	100	95,5
Yoghurts	100	102,8
Butter	100	96,4
Corn flour	100	41,4
Bread	100	3,5
Beer	100	108,9
Soft Drinks	100	90,1
Table water	100	114,3
Spirit drinks	100	112,3
Cement	100	86,5
Steel rod	100	89,8
Paints and similar	100	83,9
Pants	100	151,5
Shirts	100	103,4
Skirts	100	81,1
Paper	100	130,3
Textbooks	100	113,1

In General, there appears to have been a decrease in industrial production in the country in 2013, with exceptions relating to clothing and spirits.

From another angle of the analysis, industrial production can be observed through data of macroeconomic nature.

MANUFACTURING INDUSTRY						
	2002	2007	2009	2011	2012	2013
VAB (million USD)	584,3	2225,2	2360,2	4797,2	5996,7	6207,8
JOB	56255,0	58138,0	63292,0	69051,4	69051,4	72454,4
PRODUTIVITY (USD)	10386,5	38274,9	37291,0	115758,9	172399,9	173130,2
GROWTH RATE	10,3	2,0	7,0	19,2	3,8	6,5
VAB PER CAPITA	42,9	140,0	139,7	266,6	322,8	323,6

SOURCE: CEIC, Economic Report file of 2013.

Two highlight notes:

- The apparent contradiction between the growth rates of 6% in 2013, with partial information in the previous table.
- The low per capita value of Gross Added Value of the Manufacturing Industry, attesting to the existence of a huge margin of progression to be occupied by efficient national production, that is, without tariff defenses that will protect the most inefficient entrepreneurs.

Industrial policies

From the National Development Plan 2013/2017 are the following industrial policy measures (the most relevant among the 30 proposed):

- a) Ensure the functioning of the National Council for Quality, the Technical Standardisation Committees, and the other Working Groups.
- b) Approve the credit agreement with the Japan Bank for International Cooperation to facilitate the financing of the rehabilitation and modernization of the Textile Africa Company.
- c) Create a system of management of the industrial framework, statistics, and the general computerization of the Ministry of Industry.
- d) Promote the creation of an Information Technology Centre and an Industrial Centre of Advanced Technology for the industrial zone of Viana.
- e) Strengthen the Angolan Institutes of Industrial Development, of Standardisation and Quality, of Industrial Property and the national directorates of the Ministry.
- f) Elaborate a Program of Industrialization of Angola, comprehensive and with well-defined strategies to achieve the objectives of industrial development.
- g) Support the creation of Centres of Innovation and Competence.
- h) Elaborate a specific study for the building materials industry.
- i) Elaborate studies aimed at the creation of poles of industrial development of Matala, Kunge, Dondo, Soyo, Uíge, Lunda Sul, Malange and Kassinga.
- j) Build the industrial development poles of Viana, Bom Jesus, Lucala, Caála, Catumbela and Fútila.
- k) Promote the creation of ginning and cotton spinning factories.
- l) Rehabilitate the Textang II, Africa Textile, and SATEC companies.
- m) Follow-up on the building of the 23 ceramic companies promoted by the Ministry of Urbanism and Construction¹⁰.
- n) Support the creation of an Industrial Technical Training Institute.

¹⁰ Here is a clear example of multiple manufacturing subordination in the country, inviable of the definition and implementation of consistent and solid industrial policies

The diversification of the economy is not compatible with such weak competitiveness indexes. In an open economy, the "fight" against imports must take place via prices and quality of products and not through the general increase of customs tariffs or quantitative restrictions. Proceeding in this way for a long time will produce a defective economy, more unequal (sectorially and factorwise), less competitive and less efficient. The risks to economic growth, the diversification of tax revenues and the stability and sustainability of public finances associated with low indexes of competitiveness are very high.

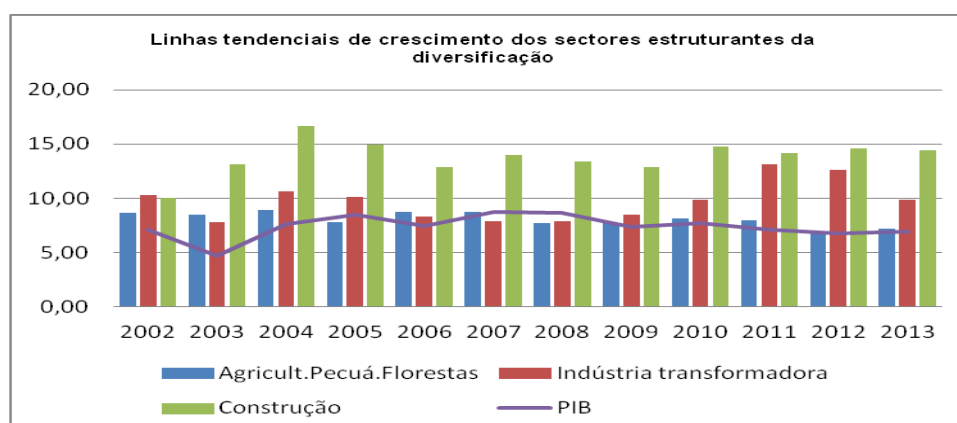
Agriculture and industry are the pillars of an industrialization process with diversification, efficiency and sustainability. Naturally also, the correct and adjusted policies in the macroeconomic domain, such as budgetary and monetary measures. The Angolan processes of industrialization – without repeating the colonial model, based on light industry and low wages – and diversification are in a very preliminary stage, exemplified by the apparently structural difficulty of the manufacturing industry to assume a strong representation in the Gross Domestic Product and the insurmountable obstacles thus far for agriculture to assume the essential of the supplies of raw materials transformable for the industry. The INE 2002-2012 National Accounts report an average of 4.5% for the relative weight of manufacturing in the GDP, and about 5% for agriculture.

The trade-off between short-term and long-term in Angola is as follows:

- a) In the short term, the achieved financial balances will have to be strictly maintained, although dependent on excess oil, and earning competitiveness through prices, this being fundamental for reduction of the context costs stated above. This approach could allow the maintenance of GDP growth rates around 7-8% per year, with interesting effects on the capacity to generate employment and income.
- b) In the long run, the route is sustained increase in productivity and negotiation of a sustainable social contract of fair sharing of gains from diversification between labor, capital and technology. Sustainability requires, simultaneously, efficiency and economic growth, without which there will be no new resources to distribute.
- c) The gains of efficiency may, however, be demanding on wage flexibility and labour mobility, somewhat incompatible premises with a strongly redistributive social contract. Moreover, the layoffs elasticity is, additionally, claimed by inter-generational equity, which can jeopardize the right to permanent employment.

The vulnerability of the country is due to two reasons: the excessive concentration of productive activity in the oil and the lack of general competitiveness of the economy.

The figure below permits confirmation of still being in the preliminary phases of the effective and consolidated structural transformations processes.



Source: CEIC, Ficheiro "estudo e análise da eficiência da produção nacional".

The following table shows the values of four indicators that, usually, are used to measure the degree of diversification of the economies¹¹. Any one of them shows a very low index of diversification of the productive activity of the country, the reason why its degree of exposure to external shocks is much larger, without, in most cases, the national economic policy contradicting its negative effects.

INDICATORS OF DIVERSIFICATION OF THE ANGOLAN ECONOMY

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
ÍDIEC	0,529	0,524	0,525	0,530	0,531	0,530	0,520	0,519	0,520	0,530	0,527
ITEI	0,363	0,313	0,938	1,615	1,510	1,996	3,044	0,118	0,175	0,253	0,275
ITEE	0,964	0,334	0,956	-0,141	0,963	0,148	2,195	1,104	0,811	-0,127	-0,299
ICAE	0,359	0,367	0,441	0,410	0,441	0,457	0,342	0,390	0,433	0,419	0,425

SOURCE: CEIC, Ficheiro "Estudos sobre a diversificação da economia".

NOTES:

- ITEI – Transformation index of industrial structure.
- ITEE – Transformation index of the economic structure.
- ICAE – Concentration index of the economic activity.
- IDIEC – Index of the diversification of the economy.

¹¹ The Hirschmann index, frequently used to measure the degree of exports concentration of a country, was adapted to measure the level of concentration of economic activity in Angola. The diversification index of the economic structure was calculated – indeed, as the previous one, taking into account the 182 activities identified in the CTCI – about the activities of mineral extraction. The remaining indexes compare, in time, the transformations realized and have been calculated on the basis of the economic structure and of the industrial structure of the country.

CONCLUSIONS

Diversification requires an intelligent combination of various factors¹²:

- A reasonable and permanent macroeconomic stability (the control of inflation and fiscal deficit – to avoid crowding out – and an exchange rate adjusted to the availability of foreign currencies and to the imperatives of competitiveness are part of the package of this item). This "requirement" of the diversification process will be challenged in Angola – where after the end of civil war and thanks to the huge foreign exchange revenues derived from oil exports, it was possible to control the inflation (by the exchange rate anchor), accumulate positive budgetary balances, and relatively equilibrate the foreign exchange market – in a situation of strong lack of financial resources of the State and the economy.
- An open policy of the economy to the exterior (although with restrictive measures to protect the nascent industries, necessarily transient and only acceptable when results increase [and are] sustained by internal supply)¹³.
- A policy of intensive use of export income of non-renewable natural resources in favour of the productivity increase of other potentially exporting sectors and for the reduction of the economy's production costs.
- A strategy of valorization of national human capital, of entrepreneurship, research and innovation. All levels of education are essentials for growth sustainability and for the process of diversification of the economy to be inclusive and, above all, competitive.
- The existence of public and private institutions and of political and economic leadership with strategic vision. Or in more commonly used language, the institutional capital. As previously mentioned, the pertinent question is whether exporting countries of non-renewable natural resources have "capabilities"¹⁴ and institutions able to effectively manage high levels of income and the corresponding dependency. Therefore, it is clearly insufficient to abandon natural resources, more relevant being the way they are managed, in the name of diversification, of competitiveness, and the improvement income distribution. Weak institutional development in Angola is usually regarded as an obstacle to greater share and widespread distribution of the results economic growth. The lack of transparency,

¹² The expression intelligent is used in the sense that the institutions that define public policies and the process "drivers" should have an absolute dominion over the relations (complementary, contradictory and adverse) between objectives and the instruments of political economy.

¹³ For those interested in understanding the theoretical foundations of protection, consult any manual of international economy to verify that the "protection of nascent industries" has scientific assumptions that cannot be ignored.

¹⁴ The English expression is preferred for being more complex, comprehensive and effective than its Portuguese counterpart "*capacidades/capacities*"

excessive bureaucracy, corruption, low administrative productivity, relative laxity with which the problems of companies and the population are viewed, reviewed and resolved by the public services are negatively influencing factors of business organization and the structuring of family cells. The perverse effects of the lack of institutional capacity in Angola are now present, when the oil price crisis emerged¹⁵. A significant portion of tax revenues from the oil was used in the process of creating very rich and wealthy political elite, at the expense of the population, training and upgrading of the national workforce and setting up internal competitive productive bases.

- Recognized ability of good governance (which ultimately connects to institutional capital). An informed, prescient and visionary management, and attentive also to the behavior of markets with high price volatility must, in countries dependent on the export of non-renewable natural resources, reserve a percentage to address situations of shortfalls of prices and revenues. These are the known Revenue Stabilization funds. Known empirical evidence shows the existence of elevated bad governance in oil-exporting African countries.
- Availability of economic infrastructures, in quantity and quality, which contribute to cost reduction.

¹⁵ View Alves da Rocha – E agora ... 2015?, Semanário Expansão 9 de Janeiro de 2015.