

ECONOMIC DIVERSIFICATION AS A TOOL FOR ECONOMIC RECOVERY IN ANGOLA

RESEARCH ARTICLE

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ABSTRACT: It is in general aimed in this study to analyze the issue of economic diversification as a tool for economic recovery in Angola, seeking to show how important an economic diversification strategy is for the economic recovery of a country in crisis, especially a developing country. An analysis of the economic situation in Angola based on two analysis points was made in order to achieve the general aim set. At the first point, the national economic evolution in Angola is analyzed, based on the economic data for the period 2009-2019, in order to show how the sudden drops in crude oil prices in the international markets affect the national economy, as Angola economy is strongly dependent on the oil sector. At the second point, the economic structure of Angola in 2019 was analyzed in order to show the participation amount of each activity sector to the gross domestic product, based on the data of economic activities in 2019. The document analysis technique based up on the qualitative approach is used to analyze the data used. In the data collection process, is used the data acquisition method based up on the secondary data acquisition technique that consists of publications from public and/or private institutions. Therefore, analyzed data was acquired from electronic database of the National Institute of Statistics of the Republic of Angola and World Bank Group. After the data analyzing process, it was concluded that the Angola economy is heavily dependent on the petroleum sector. To reduce the heavy dependence on the oil sector, it is advised to adopt strategic policies oriented to diversify the national economy in order to diversify the resources of national wealth creation.

Key Words: National Economy, Economic Recovery, Economic Diversification.

Angola'daki Ekonomik Kurtarma İçin Bir Araç Olarak Ekonomik Çeşitlendirme

ÖZ: Ekonomik krizde olan bir ülkenin, özellikle gelişmekte olan bir ülkenin, ekonomik kurtarması için ekonomik çeşitlendirme stratejisinin ne kadar önemli olduğunu göstermek istenerek, Angola'daki ekonomik kurtarma için bir araç olarak ekonomik çeşitlendirme konusunu incelemek bu çalışmada genel olarak amaçlanmıştır. Belirlenen genel amaca ulaşmak için iki analiz noktasına dayalı Angola'daki ekonomik durumun bir analizi yapılmıştır. İlk noktada, 2009-2019 döneminin ekonomik verilerine dayanarak, Angola'nın ekonomisi petrol sektörüne güçlü bir şekilde bağlı olduğundan uluslararası piyasalardaki ham petrol fiyatlarındaki ani düşüşlerin ulusal ekonomi üzerindeki nasıl etkilediğini göstermek amacıyla, Angola'daki ulusal ekonomik evrim incelenmiştir. İkinci noktada ise, 2019'daki ekonomik faaliyetlerin verilerine dayanarak, her bir faaliyet sektörünün katılım miktarını gayrisafi yurtiçi hasılaya göstermek amacıyla, 2019'daki Angola ekonomik yapısı incelenmiştir. Kullanılan verileri analiz etmek için nitel yaklaşıma dayalı doküman analizi tekniği kullanılmıştır. Veri toplama sürecinde, kamusal ve/veya özel kurumların yayınlarından oluşan ikincil veri elde etme tekniğine dayalı veri elde etme yöntemi kullanılmıştır. Dolayısıyla, incelenen veriler Angola Cumhuriyeti Ulusal İstatistik Enstitüsü ve Dünya Bankası Grubu elektronik veri tabanlarından elde edilmiştir. Verilerin incelenmesi süreci ardından, Angola'nın ekonomisinin petrol sektörüne güçlü bir şekilde bağlı olduğu sonucuna varılmıştır. Petrol sektörüne güçlü bir şekilde bağımlılığı azaltmak için, ulusal zenginlik yaratma kaynaklarını çeşitlendirmek için ulusal ekonomiyi çeşitlendirmeyi amaçlayan stratejik politikaların benimsenmesi tavsiye edilmektedir.

Anahtar Kelimeler: Ulusal Ekonomi, Ekonomik Kurtarma, Ekonomik Çeşitlendirme.

Introduction

Diversification is a widely used concept across different business sectors with the common goal of reducing the risk of loss by better allocating resources rather than centralizing them. In this study, it is desired to approach diversification from an economic point of view within the scope of a particular developing country, taking the economy of the Republic of Angola as an example.

Studies on the issue of economic diversification continue to show the problem of the strong economic dependence of countries with a large number of natural resources on a single source as a source of income. The commercialization of these natural resources, because it is very profitable, inhibits other sectors of economic activity to develop. Among these natural resources, oil and diamond stand out. With particular mention of oil as a highly sought-after and profitable resource, this natural resource is considered by many developing countries as the only viable source of income for economic development, neglecting other sectors of activity to create national wealth. Taking the Angolan economy as an example, oil continues to have an extremely significant weight in its economy, contributing the largest percentage to its gross domestic product, even though the country has many other natural resources to explore.

Betting the national economy on a single resource as a resource for the creation of national wealth weakens other sectors of national economic activity and therefore leads to the creation of an economic system of national production based on an economic system of production of the single product. A country's strong dependence on the oil sector makes the national economic situation fragile and unstable, putting the economy in a crisis-prone state. Because the oil commercialization market is very volatile and presents instability in the prices of oil barrel trade. Therefore, the need arises for the adoption of strategic policies aimed at diversifying the national economy in order to reduce the strong dependence of the national economy on a single source and to diversify the sources of national wealth creation.

In this study, it's desired to show how important the economic diversification strategy is for the economic recovery of a country in economic crisis, especially a developing country. Thus, it's aimed to analyze the issue of economic diversification as a tool for economic recovery in Angola.

Reasons for the Need for National Economic Diversification

In general, diversification is a strategy of action in different sectors or markets by a particular organization through the production or sale of different types of products and/or services. In this definition, an organization is considered any corporate entity, being it a company or a specific country.

In particular, economic diversification encompasses all efforts by a country to diversify its sources of wealth by investing in the primary, secondary and tertiary sectors and by switching between different sectors such as technology, agriculture and industry, among others. In other words, economic diversification is a strategy that aims to produce new goods and services for different markets. When the country chooses to diversify, it tries to reduce the risks it is exposed to in its economic activities and maximize its earnings by diluting the weaknesses and adding the advantages of each selected sector of activity. Countries that choose to implement an economic diversification strategy in order to diversify their sources of wealth by focusing on investments in the primary, secondary and tertiary sectors avoid being dependent on a single source of income that may render them ineffective and/or inadequate over time. While a country diversifies its economy, it significantly increases the chances of national economic growth as each of the selected sectors of activity will contribute to the formation of its gross domestic product.

Even if a country has a highly sought-after, profitable and abundant natural resource, it needs to adopt strategies that enable it to generate income from different sources. Oil, diamonds or any other valuable natural resource is recognized as a highly sought-after, profitable and abundant natural resource. The reason why it is recommended to adopt strategies that will provide income from different sources is that the commercialization policies of the natural resources in question depend on the accepted trade policies, rules and regulations in the international market. Accepted commercial policies, rules and regulations in the international market can change at any time by positively or negatively affecting the commercialization price of the natural resource in question. Countries with the main and biggest source of income coming from one of these natural resources, especially developing countries, experience serious economic problems that lead to continuous economic crises when there are sudden price drops in the international market. The more uncertainty there is in the international market, the higher the probability that the economies of these countries will enter a crisis situation.

The idea that a country considers a single resource as the greatest resource for the creation of national wealth is not recommended, even if that resource is very sought-after, profitable and numerous. Thus, the need for the adoption of strategic economic diversification policies arises. It is true that this economic

diversification strategy presents a high degree of complexity and difficulty, requiring critical government leadership skills that cannot be neglected. Implementing this strategy can also be time consuming and expensive. However, despite this, the implementation of the economic diversification strategy remains an important reference for the good economic functioning of the country. Implementation of this strategy requires competent human resources under competent leadership and an efficient management process based on organization, planning and continuous control techniques. When a country implements strategic economic diversification policies, it gains the ability to find solutions to problems that can lead to a national economic crisis in the dynamic environment of difficult economic situations. A country reduces the risk of falling into social, economic and financial crisis while having multiple sources of national wealth creation.

Overview of Economic Recovery

The economic recovery is a specific phase of the economic cycle. This stage marks the end of the recession or economic crisis and initiates a period of growth. The economic recovery is characterized by a consistent growth trend in production where economic agents begin to gain confidence in the current economic situation. In the economic recovery, companies are starting to produce more and more products and offer more services. As the employment rate increases, people regain their purchasing power and consume more. At this stage, the investment volume also shows significant progress.

Economic recovery is one of the stages of the economic cycle. The concept of the economic cycle refers to fluctuations in economic activity over a period of time. On the other hand, economic activity is the result of the combination of factors of production (labor, raw materials, equipment, etc.) in order to produce goods and services. In general sense, all activities assume a product input (goods or services), a value-added compounding process, and a product output (goods or services), regardless of the productive factors that make up the good or service produced.

The economic cycle includes an alternation of periods of relative stagnation or decline (recession and/or economic crisis) and periods of relatively rapid growth of gross domestic product (recovery and/or economic growth). Economic cycles are changes that occur in a certain country's economy. These periodic changes in the economy consist of economic variables such as production, employment, consumption, investment and other relevant economic variables. According to Joseph Alois Schumpeter (1939), changes in economic cycles are determined by periods of expansion, recession, crisis and recovery. The economic expansion phase takes place from low growth to highest growth in a certain economy. This phase continues until the peak of economic growth in a specific country. At this stage, companies produce more (between goods and services), consumers have more purchasing power (with a growing employment rate), and the volume of investment also increases significantly. Economic recession is a phase of contraction of the economic cycle, which is determined by a decrease in the level of production (measured by gross domestic product), an increase in unemployment, a decrease in family income, a decrease in the rate of profit, an increase in the number of bankruptcies and compositions, increase in idle capacity and decrease in the level of investment, that is, it is a general phase of withdrawal from economic activity for a certain period of time. It is generally accepted that an economy has entered a recessive phase after its gross domestic product has fallen for two consecutive quarters. The economic crisis phase consists of a long period marked by multiple bankruptcies, abnormally high unemployment, credit shortages, low levels of production and investment, declining business transactions, high exchange rate volatility, deflation or hyperinflation, and a general crisis of confidence. An economic crisis is more severe than an economic recession, which is considered a normal downturn in the economic cycle. The usual convention for describing an economic crisis is either a drastic decline (about 10% of gross domestic product) or a long-term recession (three or four years).

Analysis of the Need for Economic Diversification for Economic Recovery in Angola

Angola, officially the Republic of Angola, is a country placed in the western region of southern Africa with a total surface area of 1.246.700 square kilometers. The capital of Angola is Luanda. Territory of Angola is bordered to the north and northeast by the Democratic Republic of the Congo, to the east by the Republic of Zambia, to the south by the Republic of Namibia and to the west by the Atlantic ocean. In terms of its economic trajectory, Angola is a country in which it has tried two models of economic orientation, market economy and centralized economy, throughout its experience. In the centralized model, the state owned the means of production where it was responsible for the planning, production,

and distribution of goods. Angola, with the opening of the market, experiences the non-centralized economic model in which intervention is divided between the State and the private sector. In this model, the State acts as a legislator, regulator, supervisor and guide of the economy (passive intervention) and, when necessary, acts as a producer of goods and/or services (active intervention). In terms of natural resources, Angola is a potentially rich country in mineral resources. Subsoil of Angola is estimated to have 35 of the 45 most important sources of world trade. The main mineral resources of Angola are petroleum, natural gas, diamonds, phosphates, bituminous materials, iron, copper, magnesium, gold, ornamental resources, manganese, salt, mica, lead, tin, silver and platinum. Angola economy is based on the primary sector with emphasis for extractivism activities. The country is a major producer of oil, natural gas and diamonds. Angola is one of the main petroleum producing countries in Africa¹.

Although Angola is a country rich in mineral resources and has an extension of fertile land for agricultural production, a large part of the income that makes up its gross domestic product comes from the crude oil sector, making its economy heavily dependent on the oil sector. According to the World Bank Group, the crude oil sector represents approximately one-third of the country's gross domestic product and more than 90% of total exports. Its economy, because it is heavily dependent on hydrocarbon production, has become vulnerable to fluctuations in crude oil prices in international markets. With the stability of crude oil prices in international markets over years, strong economic growth in Angola has been recorded. However, the Angola economy has been in crisis since 2014 with the sudden decrease in crude oil prices in international markets. As the oil sector is the largest contributor to gross domestic product, Angola economy has been falling sharply in the last years. To find a solution to this situation, the need arises to adopt strategic economic diversification policies in Angola to generate new sources of income that can contribute to the national economic recovery.

Studies on the issue of economic diversification approach the economic dependence issue of countries on natural resources, such as Angola economic dependence on petroleum. These studies are based on the *Dutch Disease* approach to try to explain the problem of economic dependence of countries on natural resources. In economics, *Dutch Disease* refers to the relationship between the export of natural resources and the decline of the manufacturing sector. The abundance of natural resources creates comparative advantages for the country that owns them, leading the country in question to specialize in the production of these goods and not industrialize or de-industrialize. The non-industrialization or deindustrialization issue of a country in the long term, because of the sources of income to create national wealth that leads to economic development are strongly dependent on a single natural source, hinders the national economic development process. Although *Dutch Disease* is most commonly used to refer to the exploration of natural resources such as petroleum and gas, it can also refer to any development that results in a large inflow of foreign currency, including sudden increases in the prices of natural resources, foreign aid or foreign investment in a large amount.

As it's mentioned in the *Dutch Disease* approach, the same situation is experienced in Angola. Petroleum, because it's abundant in Angola, has created comparative advantages for the country. As a result of this situation, there is a strong tendency towards specialization in oil production in the country, causing a strong dependence on the oil sector and not investing significantly in other sectors of economic activity. Due to the strong dependence on the oil sector, an economic and financial crisis has been experienced in the country since 2014, when the sudden declines in crude oil prices in international markets began. The abundance of natural resources from the oil sector neglects the effective exploration of other natural resources, hindering the development of other economic sectors that can create national wealth, such as industry, agriculture, fisheries, livestock, tourism and other services. The impediment to the development of other economic sectors that can generate national wealth conditions the economic diversification process in Angola.

To find a solution to the economic crisis situation in Angola, there is a need to implement economic measures based on structural reforms in various sectors of economic activity in order to promote national economic diversification. For this, it's needed to create attractive interest rates, greater convenience in obtaining bank loans and government incentives for production, create a business environment conducive and a stable macroeconomic environment to attract domestic and foreign

¹ Maria, 2022, ss.89-90

investment, develop human resources, realize technological innovations, qualify public institutions, build more infrastructure, manage public funds transparently, seriously fight corruption in the public sector and invest significantly in the development of the non-oil sector.

Analysis of Economic Evolution in Angola

Based on the economic data for the period 2009-2019, the national economic evolution in Angola in this point is analyzed in order to show how sudden drops in crude oil prices in international markets have affected the national economy, as Angola economy is strongly dependent on the oil sector. The data used in the framework of the analysis, which is in the form of annual data, belongs to Angola and includes the period 2009-2019. The analyzed data were obtained from the World Bank Group electronic databases.

Table 1.1.

National Economic Evolution in the Period 2009-2019

US\$

Years	GDP/Million	Growth Rate (%)	GDP Per Capita	Average Oil Price
2009	70 307	0,9	3 147	61,76
2010	83 799	4,9	3 641	79,04
2011	111 790	3,5	4 716	104,01
2012	128 053	8,5	5 245	105,01
2013	136 710	5,0	5 437	104,08
2014	145 712	4,8	5 626	96,24
2015	116 194	0,9	4 355	50,75
2016	101 124	-2,6	3 677	42,81
2017	122 022	-0,2	4 300	52,80
2018	101 353	-2,0	3 290	68,35
2019	84 516	-0,5	2 656	61,41

Source: The World Bank Group, 2022

Table 1.1 presents the evolution of annual economic growth in Angola, along with the annual growth rate and annual gross domestic product per capita. The annual variation of the international oil price is also presented in order to show how the changes in crude oil prices in the international markets affect the national economy, since the largest part of the resources constituting the gross domestic product comes from the petroleum sector. According to Table 1.1, the highest point of national economic growth in the period 2009-2019 was in 2012, with an annual growth rate of 8,5% and a gross domestic product of US\$ 128.053 million. On the other hand, the biggest national economic downturn occurred in 2017 with a negative annual growth rate of 0,2% and a gross domestic product of US\$ 122.022 million. A slowdown in national economic growth was recorded from 2013 to 2015, falling from 5% to 0,9%. Although in a oscillation form, the national economic growth rate has fallen in negative territory over the last four years. The national economy was growing normally with a positive growth rate until 2014. However, after 2014, it started to decline to a large extent with a negative growth rate. As it can be seen, the sudden decreases in crude petroleum prices in the international markets started in 2014 with a price

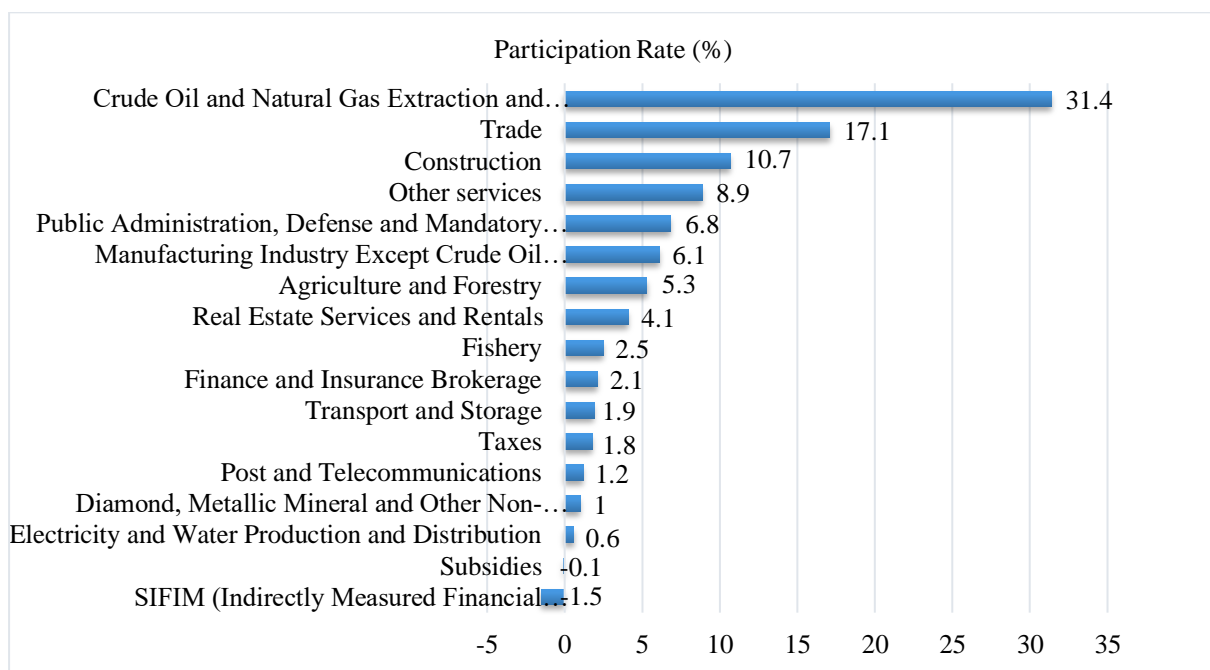
going down from US\$ 104,08 to US\$ 96,24. Sudden decreases in crude oil prices in international markets, having a significant impact from 2015, began to negatively affect Angola economy in the second half of 2014. For this reason the national growth rate in 2014 is positive, having the largest gross domestic product relative to any other.

As it can be seen, Angola economy, because it's strongly dependent on the oil sector, started to decline when the sudden declines in crude oil prices in international markets began. It is concluded that the reasons for the growth and/or decline of the Angola gross domestic product are largely related to the change in crude oil prices in international markets during the period in question.

In order to show the participation amount of each activity sector to the gross domestic product, based on the data of the economic activities in 2019, the economic structure of Angola in 2019, which consists of the oil sector to the largest extent, is analyzed in the chart 1.1 below.

Chart 1.1.

Participation of Activity Sectors in the 2019 Gross Domestic Product



Source: INE, 2022

As it is seen in the chart 1.1, in the activity sectors participating in the gross domestic product in 2019, crude oil and natural gas extraction and refining with 31,4%, trade with 17,1%, construction with 10,7%, other services with 8,9% and public administration, defense and mandatory social security with 6,8% are emphasized. The national economy in 2019 dropped significantly from US\$ 101.353 to US\$ 84.516 due to the sudden drop in crude oil prices in international markets, which went down from US\$ 68,35 to US\$ 61,41. For this reason the contribution of the oil sector to the gross domestic product in 2019 was only 31,4%.

Conclusion

It is generally aimed in this study to analyze the issue of economic diversification as a tool for economic recovery in Angola. In this study, it is desired to show how important the economic diversification strategy is for the economic recovery of a country in economic crisis, especially a developing country. In order to create the theoretical framework, a general literature review was conducted on the research topic analyzed in this study. In the revised literature, it was concluded that the lack of economic diversity in a certain country is related to the presence of a great number of very valuable natural resources in that country. The more a certain country has a large number of valuable natural resources, the less likely that country is to diversify its economy. This relationship can be described in the *Dutch Disease* approach.

In order to achieve the determined general purpose, the economic situation in Angola was analyzed through a two-point analysis by choosing a specific analysis period. In the first point, based on economic data for the period 2009-2019, the national economic evolution in Angola is analyzed in order to show how sudden drops in crude oil prices in international markets have affected the national economy, as Angola economy is strongly dependent on the oil sector. In the second point, based on the data of the 2019 economic activities, the economic structure of Angola in 2019 is analyzed in order to show the participation amount of each activity sector to the gross domestic product. As a result of the analyses, it was concluded that the sudden declines in crude oil prices in the international markets make the national economy vulnerable, due to the Angola economy is strongly dependent on the oil sector. It was also concluded that Angola economy, because it is heavily dependent on the oil sector, is poorly diversified. Petroleum has an extremely significant weight on the Angola economy, contributing by the largest percentage to its gross domestic product, even though the country has many other natural resources to explore. In order to reduce its strong dependence on the oil sector, it is recommended that the country adopts strategic policies aimed at diversifying the national economy in order to diversify its sources of national wealth creation. The strategic policies to be adopted must be related to economic measures based on structural reforms in various sectors of economic activity. In this way, it would be providing a solution to the economic crisis situation that is being experienced in the country.

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