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NATURAL RESOURCES, A BLESSING OR A CURSE? THE IMPACT OF OIL AND  
DIAMONDS ON THE ANGOLAN ECONOMY

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## **Abstract**

Rich in natural resources, especially oil and diamonds, Angola is faced with both opportunities and challenges regarding its economic development. This direct research explores the complex relationship that exists between these resources and the state of Angola's economy between 1960 and the present. Exploring the effects of oil and diamonds on political stability, economic growth, and resource dependency, the study moves through historical contexts to reveal the dual nature of natural resources as both a blessing and a curse

The paper analyses strategic recommendations for Angola's sustainable development, acknowledging the critical balance between resource exploitation and economic diversification, followed by a thorough discussion. Finally, a qualitative and quantitative analysis along with a comparative analysis with the Democratic Republic of Congo are completed to enrich the discussion and conclusion.

**Keywords:** Natural resources, Angolan economy, Oil, Diamonds, Resource dependency

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## Table of Contents

<b>1. Introduction.....</b>	<b>3</b>
<b>2. The economic importance of natural resources .....</b>	<b>4</b>
<b>3. The case of Angola .....</b>	<b>7</b>
<b>3.1 Political and Economic History of Angola .....</b>	<b>7</b>
<b>3.2 Extractive industries.....</b>	<b>12</b>
3.2.1 Diamonds .....	12
3.2.2 Oil .....	15
<b>3.3 Resource dependency .....</b>	<b>18</b>
<b>3.4 A new episode for Angola after the civil war? .....</b>	<b>20</b>
<b>3.5 The need for an economic growth strategy .....</b>	<b>22</b>
3.5.1 Oil Dependency Challenges.....	23
3.5.2 Social Impact and Poverty Rates .....	23
3.5.3 Infrastructure and Economic Activities .....	23
3.5.4 Institutional and Governance Challenges .....	24
3.5.5 Currency Appreciation and Economic Uncertainty .....	24
3.5.6 Reforms and Economic Diversification .....	25
<b>4. Discussion.....</b>	<b>26</b>
<b>5. Recommendations .....</b>	<b>28</b>
<b>6. Conclusion .....</b>	<b>29</b>
<b>7. References .....</b>	<b>31</b>
<b>8. Appendix.....</b>	<b>38</b>

## 1. Introduction

Angola is one of the richest countries when it comes to natural resources. The country has been a major player in the market of oil and diamonds globally. Throughout the 1960s until today, these resources have served as a significant factor in determining the country's economic environment. However, the impact of oil and diamonds on the economy of Angola is a complex and versatile matter (Basedau 2005). While these resources can support economic development and progress, they additionally present difficulties such as resource dependency, unstable economies, as well as issues related to income distribution and governance (Barros 2012). Angola has emerged as one of Africa's fastest-growing economies in recent years, constant in its commitment to expanding its economic prospects for sustainable growth outside of the oil industry. Yet, the nation's efforts to diversify have been hampered by the long-lasting effects of Angola's 27-year civil conflict, the period of political instability from 2002 to 2008, and the subsequent economic downturn brought on by the sharp decline in oil prices since 2014 (Welborn, Cilliers, and Kwasi 2020).

It is crucial to gain a comprehensive understanding of the relationships between the economy and oil and diamonds in order to create strategies and policies towards promoting sustainable development.

Given the multifaceted relationship between Angola's, natural resources, particularly oil and diamonds, and its economic development, the central issue that drives this research is: *How have oil and diamonds influenced Angola economic landscape from 1960 to the present, and in what ways have these resources either helped or obstructed the nation economic advancement and stability?* This question is answered through a thorough literature review and the use of economic data about Angola. Furthermore, a comparison with the Democratic Republic of Congo will be made to analyse Angola's economic and social performance.

This paper will profoundly analyse the central problem. Section 2 will give an overview of the economic importance of natural resources; section 3 encompasses the overall case of Angola, with 3.1 referring to the political and economic history; 3.2 analyses the nation's principal natural resources within the extractive industries, namely, oil and diamonds. Section 3.3 discusses Angola's resource dependency; section 3.4 gives an overview of Angola's growth opportunity after their long period of war; section 3.5 examines the need for an economic growth strategy along with its challenges. Section 4 outlines the discussion, followed by recommendations, Finally, section 6, draws the final conclusion.

## **2. The economic importance of natural resources**

The economic system no longer relies uniquely on the accumulation of physical and human capital to produce goods, services, and human welfare. Yet, many economists now recognize a third form of "capital", specifically: natural and environmental resource proficiency, often termed; natural capital. This acknowledgment represents a shift from regular economic viewpoints by recognising that the availability of natural and environmental resources similarly influences economic processes, in addition to their traditional factors (Barbier 2002).

Under the influence of both the natural environment and human activity, natural resources are goods that come from nature and satisfy human needs. Rich natural resources in an area can provide the energy needed for economic growth, supposedly promoting development. Nevertheless, research suggests that attaining economic prosperity and advancement does not require the presence of abundant natural wealth alone. Nations that are among the richest in the world, for instance, Hong Kong and Switzerland, make it abundantly evident that their wealth is not exclusively derived from natural resources (Gylfason and Zoega 2006). Additionally, global economic trends, however, show that areas endowed with an abundance of natural

resources do not necessarily correlate with higher levels of economic development; in fact, they may face economic stagnation or even decline (Wang, Tan, and Yao 2021). Wright (1990) states that a country's industrial strength and its abundance of its natural resources are unrelated. This disconnection suggests that governance structures, economic policies, technological innovations, or institutional structures, are far more important in determining a nation's strength. Consider Botswana and Sierra Leone, both engaged in diamond exports. Over time, Botswana's efficient management of the profits and leases from its main natural resource has led to impressive economic expansion since the country's independence in 1966. Whereas Sierra Leone, has struggled with ongoing poverty and internal conflicts brought on by warfare for control of the diamond trade (Olsson 2006).

Natural resources make up a significant amount of a country's wealth, frequently more than wealth derived from capital that has been produced. Consequently, one of the most important aspects of economic development is the efficient management of natural resources (World Bank 2006). Although natural resources have the potential to positively contribute to an economy, their influence is intricate. Economic growth may be hampered by an excessive reliance on these resources in the absence of effective management and governance. Macroeconomic vulnerabilities and institutional shortcomings may represent indications of these challenges, highlighting the importance of effective management and diversification approaches within resource-rich economies.

Multiple reasons can be explored for the inefficient management, causing an adverse effect of natural resources on growth. According to Gelb (1988), high natural resource rents have the potential to encourage producers to engage in general rent-seeking, which would take funds away from economically beneficial social endeavours. Profits from natural resource and terms-

of-trade booms can trigger complex political manoeuvring among influential parties, which could lead to gaps in import and export dynamics and current account deficits. These relationships could also result in unequal fiscal redistribution, which would concentrate economic gains within specific sectors or demographics. In great situations, such as witnessed from Africa's diamond wars, in addition to diverting factors of production from socially beneficial uses, windfalls from natural resources can lead to the destruction of societal institutions and the erosion of the rule of law (Gylfason and Zoega 2006). Collier and Hoeffler (2004) highlights how the presence of abundant natural resources increases the likelihood of civil wars. When significant natural resource rents can be readily obtained from a small geographic, such as minerals and oils, the risk is strengthened (Mehlum, Moene, and Torvik 2006).

Secondly, the abundance of natural resources may result in the Dutch disease in different ways. During a boom in natural resources, a spike in exports of raw materials might increase the country's real exchange rate, which might influence exports of manufactured goods and services. In addition, real exchange rate volatility is often increased by repeated periods of prosperity and despair. Consequently, this leads to lower investment in the tradable sector and decreases imports as well as exports. The Dutch disease affects exports' composition, eliminating goods and services that could have a greater positive impact on the country's economy (Barros 2012).

Third, natural resources rich nations, could minimise motivation for both public and private investment in human capital given that they generate large amounts of non-wage income from social spending, dividends, and low taxes.

As stated by van der Ploeg (2011), there is a consistent pattern of decreased public education investments, fewer years of expected schooling, and lower secondary school enrollment rates across national boundaries as the percentage of natural capital in national wealth rises. This

highlights the challenge for natural resource dependent countries' growth as education development positively impacts growth. Lastly, there is a connection between the former point and the belief that a surplus of natural resources might contribute to an incorrect sense of security in people (Rodriguez and Sachs 1999). The protection of institutional quality, acknowledgement of free trade, and the encouragement of sustainable development, might consequently be neglected. This emphasises the chance that an excessive dependence on natural resources could draw attention away from important elements required for sustained economic growth and stability.

All these situations outline the importance of effective governance and policy frameworks to ensure that resource rents must be reinvested into productive assets to be able to promote sustainable development over the long run.

The challenge for resource rich nations is to determine how to use society's total capital stock in the present. This entails improving welfare and economic activities while also considering resource conservation or accumulation for future generations' well-being. Essentially, it emphasises the importance of carefully balancing current needs with resource management to ensure long-term well-being.

### **3. The case of Angola**

#### **3.1 Political and Economic History of Angola**

Angola's economic and political history from 1960 until today has been characterised as being frequently unstable and complex, encompassing a long fight for independence, a civil war, and attempts to reconstruct its economy. From the 16<sup>th</sup> century until its independence in 1975, Angola was a Portuguese colony. As any other colonial authorities, Portugal was mainly

interested in extracting resources, which it accomplished by the enforcement of taxes, forced labour and the required cultivation of profitable agriculture products such as cotton. Political and military conflicts between the Portuguese regime and the Angolan national parties such as the National Front for the Liberation of Angola (FNLA), Popular Movement for the Liberation of Angola (MPLA), and National Union for the Total Independence of Angola (UNITA), existed, fought with guerrilla tactics. Yet, during this “first Angolan war”, the armed movements failed to threaten the colonial state. The Portuguese military gradually detached itself from the extended and costly colonial wars in its African territories. The MFA in Portugal removed the Salazar Caetano regime 1974, leading to the process of decolonisation. Later, in 1975, the Portugal government, the MPLA, the UNITA, and the FNLA, signed the Alvor Accord, offering independence and the endowment for a three-way sharing government. Angola gained its independence on 11 November 1975. However, this Alvor Accord rapidly collapsed due to internal conflict. The prohibition of the FNLA and UNITA from the city and the new government, directly resulted to the formation of a socialist one-party regime under the power of the MPLA, led by Agostinho Neto, the first president of Angola. From 1975 until the late 1980s, the ruling party, the MPLA followed the Marxist-Leninist ideology towards controlling the moulding of state institutions, societal structures and economic policies. The combination of economic, political and social factors that were not successfully addressed during the transition from colonial rule to independence ultimately led to the post-colonial civil war (Meijer and Birmingham 2004).

The leadership of the newly independent nation utilised the departure of the Portuguese owners as a justification to promote and support state ownership, meaning that the government controls and manages the important sectors and industries of the economy. Along with the Marxist ideology, the state is considered as the principal factor for both development and the fair distribution of wealth in society. Moreover, there was a fading mechanism for economic control

during the transition of the recognition of independence in 1974, and the actual independence in 1975, which has led to the creation of parallel activities, such as illegal property affairs by former colonists abroad, and savage property seizure made by national citizens.

Throughout the civil war, the effects of colonialism, political unrest, poor economic management, as well as disruptions during the independence process have confronted the new authorities (MPLA) towards restoring the economy, including the re-establishment of economic sectors such as agriculture, which should have been easier (Gonçalves 2010).

The civil war started since their independence in 1975 from Portugal, and ended in 2002. The MPLA government, initially guided by lofty Marxist-Leninist ideals, has pragmatically and entirely forsaken the objectives it once championed in the fight against colonialism. Instead, it has established a system characterized by oppressive tendencies, fundamental intolerance, and pervasive corruption. The head of state, along with a select few in their inner circle, as well as their families and associates, has effectively turned the remaining functional segments of the state into their private domain. A select few within this faction have amassed considerable wealth through the embezzlement of billions of dollars generated from offshore oil exploration, as on the opposite side an overwhelming majority of the population resides in abject poverty. Besides, UNITA, once a legitimate opposition fighting against MPLA's one-party rule, has devolved into a powerful guerrilla force. Since 1976, it has directed a violent and indiscriminate guerrilla war, inflicting suffering on civilian populations and destroying infrastructure to render the country ungovernable, diverging from its initial goals.

Nevertheless, as the state remarkably persists through a combination of force and corruption, UNITA shifted its focus to exploit the nation's resources by targeting predominantly diamonds (Malaquias 2001).

Despite the oil interruption after independence, due to political transitions and operational interferences, the nation ruling party restarted and expanded oil extraction. However, whilst the oil extraction industry was growing, the other sectors of its economy, especially agriculture, endorsed a significant decrease in its output. The reduction in its exports and imports have caused in a declining product capacity, minimising overall trade activities, and affecting its currency. Furthermore, until 1990, the absence of price liberalization contributed to Angola's economic instability, caused by price spirals. These quickly rising prices created inflationary pressures, causing economic tension. Meanwhile wages did not increase, the price of a food basket increased significantly. Consequently, informal economic activities were crucial for survival. Whilst the Angolan Kwanza exchange rate against the US dollar remained low, the money supply was increasing substantially in comparison to the availability of goods, leading to hyperinflation (Gonçalves 2010). The MPLA-led government began a massive offensive against UNITA in December 1998, which finally ended in February 2002 when UNITA leader Savimbi was killed in combat, bringing the Angolan civil war to an end.

In the context of Angola's economy, the period between 1992 to 2002 were characterised by a heavy reliance on government budgetary resources derived from natural resources for military purposes, accounting for over 40 percent of all expenditure.

Effective economic policies and political stability are two essential conditions for achieving economic development and growth. It is still feasible, yet certainly more challenging, when political unrest develops as armed conflict or civil war. The conflict in Angola hampered the nation's economic expansion. However, this likely suggests that both were not able to have been generated improvements. In fact, this Civil War served as the ideal excuse for the negligence and failure of the government. The profitable crude oil industry was selected by the ruling MPLA party and its governments as the main source of income to support government

spending, military purchases, and elite rent-seeking. This resulted in an economic catastrophe and essentially amounted to a purposeful, shameful policy to deprive the people of the country of a decent and human livelihood, combined with UNITA's rent-seeking through diamonds to support its leaders and funding that clusters military activities (Ferreira, 2006).

Angola is a major oil producer and OPEC member, ranking second, after Nigeria, in Sub-Saharan Africa. Besides, the nation acquires currently a position of the fourth largest global producer for diamonds (Rahman 2022). Their other mineral resources, such as iron, gold, and copper, are mostly regarded as minor sources of income (Barros 2012).

Until today, oil production continues to be the government's primary source of funding. Both the Dutch disease phenomenon and rent-seeking persisted, as they are by far the most straightforward ways for private capital to amass profits (IMF, 2022).

Since the end of the civil war, the Angolan government implemented several programs for their non-dependence on oil revenues. Angola is still dealing with a complex political and economic environment shaped by both its recent problems and historical legacies. Despite having an abundance of natural resources, the country's diversification efforts highlight the challenges it still faces in managing its economy beyond the oil and diamond industries.

While the nation has made substantial progress towards rebuilding its infrastructure and introducing the necessary policies, there are still discrepancies in many areas, particularly when it comes to the availability of electricity, the productivity and education of its workforce, the availability of skilled labour, access to sufficient credit, and the condition of its road network (Zayone, Henneberry, and Radmehr 2020). Despite being considered one of the wealthiest continents in terms of natural resources, Africa experiences the lowest economic growth, with some regions even facing negative growth (Thorsson 2007).

## 3.2 Extractive industries

### 3.2.1 Diamonds

One of the most treasured elements on Earth are diamonds, currently holding an average price of \$4,079 per one carat (StoneAlgo 2023). This substantial value provides the potential for significant economic growth and development in countries abundant in diamonds. Nevertheless, the actual scenario differs. Presently, some of the world's most diamond-rich nations are also among the poorest, often destroyed by decades of war and civil conflicts (Thorsson 2007).

Angola constitutes one of Africa's largest diamond resources, with significant alluvial and terrace deposits along its rivers, particularly in the northeast of the country, and untapped diamond resources in its numerous known kimberlitic pipes. In terms of value, the country is the fourth largest producer of diamonds in the world, although some market sources believe that if illegal production is considered, Angola would currently be the third largest producer (Rahman 2022). Diamonds are Angola's second largest export after oil, reaching an average of US\$1,153 million per year in 2021 (Statista 2021). Additionally, only 40 percent of their diamond-rich geographical area has been explored, indicating major potential for growth (World Bank 2018). The development of the diamond mining sector is therefore a national priority.

According to Pearce (2004), the beginning of diamond extraction dates to their discovery in 1912, with later, the establishment of (Diamang) Companhia de Diamantes de Angola in 1917. After independence, the MPLA government anticipated their interest towards controlling Diamang. Ultimately, in 1986, it was replaced by an entirely controlled state-enterprise,

Endiama. In contrast with the positive image of diamonds in the Western world, the diamond production in Africa is linked to terrorist and rebel funding, illegal smuggling, and civil wars. The endurance of private property establishments as well as the quality of the extraction process explain the obstacle regarding Angola's social and economic development concerning their diamond mining revenues. Yet, Olsson (2006) underlines the importance between "Alluvial" and "Kimberlite" mining to understand the associated external negativities.

According to Sachs and Warner (2001), there are various credible beliefs towards the external factors concerning diamond mining that could be tied to the bigger picture of the 'natural resource curse', as well as the 'Dutch disease'. Besides, natural resource dependency is related to inadequate human development capital, rent seeking, the presence of weak institutions, and civil war. Yet, it can be argued that natural resource abundance is not always linked to poor economic development. Norway and the United States are an example towards successful resource-driven elaborations. The market dominance of the private South African brand, De Beers, justifies the high and stable prices in the rough diamond market. Furthermore, their feature for extreme ease to smuggle or exploit in illegal trade, serving as a substitute currency for rebels, all contribute towards the unique role of diamonds.

Moreover, Malaquias (2001) explains that diamonds are recognised to play a central role in the Angolan civil wars. As earlier mentioned, their richness in unstable territories, their high average price, and their small practical size are making them suitable to illicit transactions.

Additionally, the core of the curse of conflict diamonds lies in the simplicity of 'alluvial' mining, where the only need for extraction is labour-intensive technology. This labour-intensive activity is associated with illegal immigration, as well as child labour and health risks. In contrast to 'Kimberlite' mining, where costly capital investments in machinery are

necessary. This supports Olsson (2006) claim that Alluvial mining were a target for rebel groups.

During the civil war in Angola, diamond-rich regions such as Lunda Norte and the Cuango valley were controlled by the rebel group: UNITA. The diamond trade by UNITA allowed them to fund activities such as the purchasing of weapons and supporting their military operations. As a result, these diamonds have played an important role in the financing of the civil war, and are therefore, stated as “blood” or “conflict” diamonds.

However, in the 1990’s British NGO’s had a big impact towards raising international awareness concerning the negative effect of UNITA’s diamond exports. Later, in 1998, the UN Security Council implemented declarations which outlawed all Angolan direct or indirect imports of diamonds that were not certified by the government. De Beer’s termination of diamond purchases from Angola, along with the introduction of the Kimberley Process Certification Scheme (KPCS) in 2003, were aimed to eliminate the trade of conflict diamonds, resulting in UNITA’s faded strength (Olsson 2006).

Endiama's current position within the diamond industry corresponds to that of Sonangol, the state oil company, in the Angolan petroleum industry. They are both state-owned organisations that engage in mineral extraction in collaboration with foreign companies on an individual project basis, providing a large portion of the funding and technical requirements. Similar to Sonangol, Endiama conducts business with its partners and internally in a secrecy-filled environment. However, acquiring readily accessible and transparent data regarding Endiama’s revenue and its contributions to the governments’ budget remains challenging to obtain (Pearce 2004).

### 3.2.2 Oil

Besides diamonds, oil resources shaped Angola's conflict, from financing military operations to destroying the state's legitimacy. Angola's oil industry took root during the colonial era, with the issuance of the first oil exploration licenses occurring prior to the First World War. The Petroleum Company of Angola (Companhia de Petróleos de Angola - Petrangol) initiated oil production in the mid-1950s. As of the Portuguese withdrawal in 1975, Angola had solidified its position as an oil-producing nation, with oil emerging as its primary export commodity.

The Cabinda Gulf Oil Company (CABGOC), a subsidiary of the U.S. company Gulf Oil (acquired by Chevron in 1984), played a central role in Angola's oil production. Beginning oil exploration in the Cabinda region during the 1950s, CABGOC transitioned to production in 1968.

Following Angola's independence in 1976, the MPLA government established the national oil corporation, Sociedade Nacional de Combustiveis (Sonangol). However, instead of following a radical path of nationalisation or substantial modifications to its oil activities, a pragmatic method was selected. Rather than excluding or altering their existing oil operations, the government chose to engage with Western oil companies. Besides from sustaining their current activities, these Western companies benefited from growing activities within Angola's oil sector. Joint ventures were enforced by the government to simplify partnership and production-sharing contracts for oil exploration and production. In this case, in exchange for a share of the produced oil, Sonangol employed the Western oil companies to cover costs and investments. Regardless of their collaboration, the foreign companies controlled the operations. The 1990s identified a new phase of development in the Angolan oil industry, where exploration of new oil areas off the coast of Angola led to an accumulation of international attention.

Angola's attractiveness to foreign investors was further strengthened by its favourable petroleum taxation and comparatively low operating costs.

While UNITA was drowning in blood during the civil war, the MPLA was drowning in oil. Angola's richness in oil was a crucial part for the ruling political party to finance its military budget. However, besides the major role of oil revenues to finance the war, it also placed an impact on the nation's political economy, considering the 'resource-curse'. Characterising an abundance in natural resources that generates war and underdevelopment.

The significant availability of oil revenues, as a method of resource rent, has resulted in a concentration of wealth held by the ruling elite, neglecting diversification of revenues generated from non-oil sectors and economic development incentives.

(Frynas and Wood 2001).

Since the end of the war, Angola undergone exceptional economic growth, driven by higher production and record oil prices. The surge in income from oil which mirrored the growth in production, surging from an average of 450.000 barrels per day during the 1980s to 1.8 million in 2009, displayed in Table 7 in the Appendix. Additionally, this increase was influenced by rising oil prices, particularly notable between 2004 and 2008, as well as, the inflation drop and the stability of the Angolan Kwanza. The total exports of the petroleum sector surged from \$7.651 million in 2002 to \$43.010 million in 2007, which is illustrated in Table 6 in the Appendix. The non-oil sectors grew faster than they had ever done before independence. For instance, the diamond mining, being under closer control, resulting in their production levels going back to that of the late colonial period (Gonçalves 2010). Furthermore, Table 2 in the Appendix shows that during that same period, Angola experienced an increase, with a double percentage growth in construction. However, despite growth in the non-oil and construction

sectors, especially between 2006 and 2007, manufacturing and agriculture endured difficulties. The labour market faced unemployment and underemployment, underscoring the necessity for the creation of jobs and industry diversification. Furthermore, promotion towards infrastructure and a wider social and economic development was fundamental.

The global crisis that began in the US in 2008, negatively impacted Angolan accounts in the following years (Gonçalves 2010). As a result, liabilities were created for unpaid salaries and service provider debt, the abrupt decline in oil prices also resulted in large changes to the General State Budget (OGE). This reduction, caused delays in the process of instituting structure in the nation, which limited its potential and resulted in slower economic growth and a lower structural employment rate (Gonçalves 2010). Even though oil-producing countries suffered globally, a few could revive their industries when oil prices recovered. However, Angola lagged among other nations, observing in 2018 their lowest level of oil production since 2007 (Nakhle 2019). As a result of Angola's historical dependence on the world's oil demand, its economy has always experienced unstable growth as well as enduring poverty and inequality. Reforms over the past five years have attempted to improve public sector governance and macroeconomic management. Macroeconomic stability has improved as an outcome these efforts thanks to policies like budget consolidation, a more flexible exchange rate, central bank autonomy, and sound monetary policy. The stability of the financial sector has been enhanced by constitutional changes which made it more accessible to the private sector to participate (World Bank 2023). Angola's economy grew by 3% in 2022, a significant increase over the previous year, stimulated by growth in non-oil sectors and a slight increase in oil production. An increase in oil prices encouraged monetary expansion, particularly in public investments, which strengthened the national currency and increased private

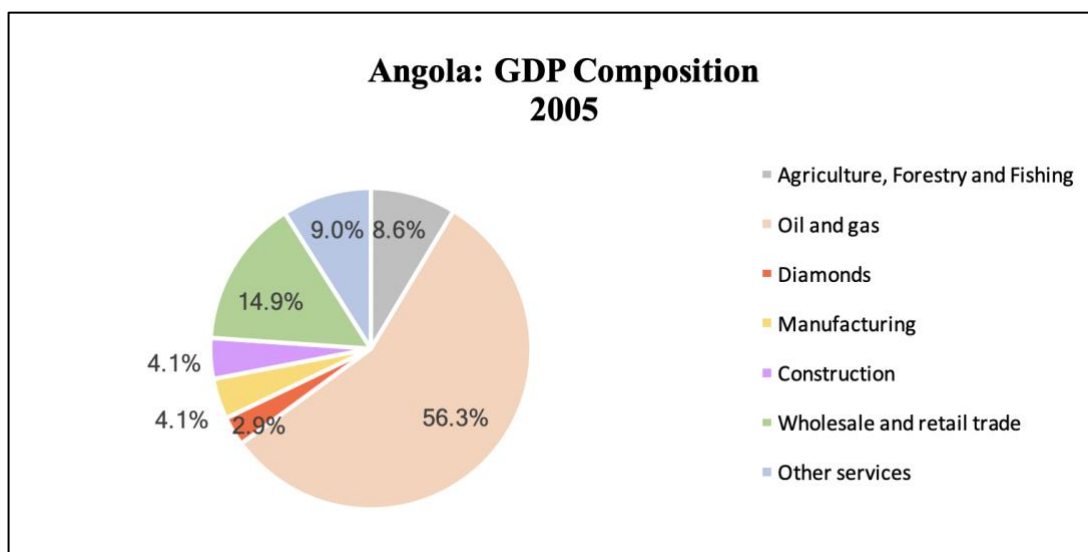
consumption by 7%. The non-oil sectors; agriculture, fishing, services, and construction, also contributed significantly to economic expansion (World Bank 2023).

Notwithstanding, further effort is required to change Angola's economic model into one that is inclusive, sustainable, and driven by the private sector.

### 3.3 Resource dependency

The abundance of unskilled labour and natural resources have resulted in the concentration of primary commodities in Africa's exports (Zayone, Henneberry, and Radmehr 2020). According to Golub and Varun (2016), Angola has one of the most concentrated economies in the world because of its heavy reliance on oil and, to a lesser extent, diamonds.

With the oil and gas industry being accountable for 95 percent of Angola's exports in 2022, their economy is highly sensitive to fluctuations in global oil prices, as was proved during the oil price crash in 2014, which led to a recession (World Bank 2023). Additionally, according to OECD (2007) diamonds mining contributed about 5 percent of Angola's total exports in 2005, whilst representing almost 3% of its GDP composition, displayed in Figure 1<sup>1</sup>.



**Figure 1:** GDP Composition of Angola 2005

<sup>1</sup> Source: OECD. 2007. "Angola: GDP by sector in 2005." <https://www.oecd.org/countries/angola/38561655.pdf>

These indicators support Angola's claim of being a resource dependent nation, largely on oil (IMF 2022).

Before gaining independence in 1975, Angola was a major coffee exporter with agriculture as the economic backbone. Agriculture was crucial for the Angolan economy, with both food and cash crops making substantial contributions to the country's GDP and balance of payments. In addition to being the fourth-largest exporter of coffee in the world, Angola became one of the major exporters of staple foods in Sub-Saharan Africa by exporting over 400,000 metric tonnes of maize per year. Although oil had been found prior to independence, production had not yet increased to the significant levels seen in the 1980s and later (Steven 2002).

Since the time of colonialism, Angola's economy has been mainly dependent on oil. This dependence intensified after 2002, when oil income was vital to the nation's budget, infrastructure restoration, and market growth (Gonçalves 2010). Nowadays, Angola's economy still largely relies on the extractive industries, particularly the diamond and oil industry.

According to Magud and Sosa (2013), a strong economic argument claims that an increase in revenue from natural resources causes the exchange rate to appreciate, therefore, lowering the competitiveness of other industries. Besides, disruption may also be created by volatile fluctuations in commodity prices. This implies that the increased income from natural resources, frequently linked to the Dutch disease, results in a strengthened currency, diminishing the competitiveness of non-resource sectors such as manufacturing and agriculture. Consequently, these sectors witness a reduction in investments and a decline in overall economic activity, constraining their potential for growth (Brahmbhatt, Canuto, and Vostroknutova 2010). Mikidadu (2018) asserts that there is no substantial impact of economic growth on oil production in Angola, and therefore, does not act as a significant driver influencing changes in the level of oil production. Thus, Angola's economic prosperity is

heavily dependent on the global demand for its oil exports. Encouraging policies that foster investments in energy infrastructure, particularly within the oil production industry, align with a persistent positive causal connection between economic growth and oil production. These measures can be considered as measured strategies to optimize the financial benefits derived from increased oil production.

The deceleration in global economic activity with the post-2008 slowdown, coupled with the surplus of oil in the international market and declining oil prices, raises concerns among policymakers about the ongoing dependence on oil exports as a driver for economic growth in Angola. Therefore, to lessen the effects of unfavourable shocks to the global economy linked to a sharp decline in the demand for oil, policymakers should think about diversifying the economy to include other expanding sectors (Mikidadu 2018).

### **3.4 A new episode for Angola after the civil war?**

After the end of a long period of war, Angola experienced a period of great post-war growth from 2002 till 2008. This period showed a peak of high performance indicated by high real GDP growth. As illustrated in Table 4 in the Appendix, in 2002, Angola's real GDP stood at 96.434 million US dollars, reaching a value of 179.361 million US dollars in 2008. After 1999, the Angolan government implemented a macroeconomic stabilisation programme, which successfully resulted in a decline in inflation as well as increasing tax revenues (da Rocha 2012). This effective stabilisation created the opportunity for a more encouraging environment for economic activities. When the stabilisation procedures commenced, the rate of inflation stood at 325% in 2000; by 2008, it had settled at 12,5%, as is shown in Table 5 in the Appendix, revealing the success of the macroeconomic stabilisation programme execution.

Additionally, being a heavily reliant economy in the global oil market, the rise in oil prices throughout this phase resulted in the nation’s strong performance through improving their reinforcement of public investment projects. Thus, both the internal and external environment contributed towards this growth.

However, this tremendous “golden age” came to an end, yet, growth was still occurring, although at a lower rate (da Rocha 2012). According to the International Monetary Fund (2023), Angola’s real GDP, embraces a value of 247.98 US billion dollars in 2022, positioning them number 67 in the world (CIA.gov 2023).

A good illustration of Angola’s overall performance can be completed by a comparison to another country. Table 1 <sup>2</sup> below demonstrates that on behalf of these indicators, Angola performs better compared to the Democratic Republic of Congo, in terms of real GDP, GDP per capita, and HDI, within the African context.

		2002	2008	2014	2019
Real GDP at constant 2017 national prices (in mil. 2017 US\$)	Angola	96.434	179.362	234.383	222.151
	DRC	33.898	48.199	72.169	90.531
Real GDP per capita at constant 2017 national prices (in mil. 2017US\$)	Angola	5504,413	8267,1782	8699,621	6980,330
	DRC	679,704	797,856	978,335	1043,091
Human Development Index (HDI)	Angola	0,4	0,5	0,6	0,6
	DRC	0,4	0,4	0,5	0,5

**Table 1:** Comparison GDP, GDP per capita, HDI Angola and DRC (2002-2019)

De Oliveira (2015) states that in a decade Angola will be able to successfully move from war to peace, from poverty to prosperity, and from reliance on oil to a diversified economy, given their newfound optimism. The government must therefore commit to prioritise human

<sup>2</sup> Source: Countryeconomy. 2023. “Human Development Index: HDI.” Accessed September 16, 2023. <https://countryeconomy.com/hdi>

Penn World Table. 2023. “PWT 10.01.” Accessed September 16, 2023.

<https://www.rug.nl/ggdc/productivity/pwt/?lang=en>

Notes: Comparison between Angola and DRC, real GDP, real GDP per Capita, and HDI.

development for its natural resources to result in sustainable growth, representing a departure of Angola's long decades of economic mismanagement of the past (Welborn, Cilliers, and Kwasi 2020).

Besides Angola's GDP growth, social indicators, such as the Human Development Index in Table 3 in the Appendix, reaching 0.59 in 2021, compared to 0,4 in 2002, position Angola as a Middle-Income Country (MIC), and reflect improvements, underscoring the nation's progress on the path from recovery to a more diversified and flourishing future.

The end of the civil war marked a new episode for Angola, where the government effectively utilised oil revenue along with economic reforms as a stimulus for economic recovery. This significant application of Angola's post-war oil income has proven to be beneficial for the nation's development, participating a vital role in driving economic growth and simplifying the reconstruction process.

### **3.5 The need for an economic growth strategy**

Over the last twenty years, Angola's economy has experienced economic growth, owing to its oil industry, yet, it failed to promote equitable development (Jover, Pintos, and Marchand 2012). The previously mentioned decrease in Angola's oil production, clarifies that the nation is currently a victim of an economic downturn. Angola's oil industry dependency, along with its vulnerability to global commodity price fluctuations, has already been analysed before, however, there are many other challenges associated with such dependence.

### 3.5.1 Oil Dependency Challenges

Even though today Angola acquires large oil revenues, the country's oil reserves will one day run out. Waiting until they run out or until the price of oil collapses globally, is a certain way to destroy the future since it requires a long time to develop alternative sources of economic income. Subsequently, it is believed that in the following years, the global shift towards a low-carbon economy, leading to reduced new investments within the oil industry, will persist Angola's downward trend (Word Bank Group 2022).

### 3.5.2 Social Impact and Poverty Rates

Furthermore, due to distortions brought about by the size of current oil revenues in relation to the overall economy, a significant portion of the population suffers significantly as a result. This majority consists of most rural smallholders who make up most the population, as well as the poorest segments of society. Based on the latest statistics, 32 percent of the population is determined to live below the national poverty line (World Bank 2022). Limited access to basic amenities including education, healthcare, and social security contributes to the continuation of poverty and hinders the development of human capital. These inadequate facilities that generate challenges in human capital development, further impede innovation, entrepreneurship, and economic diversification.

### 3.5.3 Infrastructure and Economic Activities

Besides, Angola's underdeveloped infrastructure, with inadequate telecommunications, limited access to electricity, and poor transportation networks, generates boundaries for economic

activities. The deficiency of infrastructure makes the nation less competitive within the international market whilst rendering its ability to draw private sector investment.

#### 3.5.4 Institutional and Governance Challenges

The nation's economic development is further affected by its institutional and governance challenges. Limited transparency, corruption, and bureaucracy additionally act as obstacles for public trust, investment, business development, and economic growth. According to Transparency International's Corruption Perceptions Index (2021), Angola encounters high levels of corruption as it is ranked 136th out of 180 countries.

Established on these results, regardless the significant contribution of oil to GDP growth, and some improvements in social indicators, there was no reduction of poverty, nor the establishment of foundations for a diversified and sustainable economic growth.

#### 3.5.5 Currency Appreciation and Economic Uncertainty

Furthermore, the appreciation of the Angolan Kwanza, caused by high inflation which is clarified in Table 5 in the Appendix, reaching 26 percent in 2021, increased import costs and affected the balance of payments, causing economic uncertainty. Angola's complex business environment, accompanied by its challenges, has restricted its development of non-oil industries, representing them as a classic example of the resource curse theory (Hammond 2011).

### 3.5.6 Reforms and Economic Diversification

Angola has implemented reforms in different areas, encompassing diversification, with the aim to enhance its resilience against commodity price volatility by reducing its reliance on oil exports and stimulate non-oil exports. This has been carried out through investment incentives, regulatory modifications, and infrastructure development projects (Garwi 2023).

One of these reforms is the PRODESI program, which was introduced in 2018, aimed at supporting production, export diversification, and import substitution, as part of its 2018-2022 National Development Plan. This program was created with the purpose of promoting economic diversification through the development of industries and encouraging its capacity to achieve long-term growth and resilience. According to PRODESI, since its establishment in 2018, it has contributed to the creation of 66,878 jobs and approximately 537.493 billion kwanzas of GDP, which together amounts to about 2% of the GDP in 2020. However, stronger improvements are needed to successfully diversify the economy (International Monetary Fund 2022).

Later, to encourage equitable and sustainable economic growth, Angola established the Economic Diversification Support Programme (EDSP), which aims to improve economic diversification through private sector investment and more effective public investment management. In response to declining oil revenue, the programme intended to assist the government by enhancing the governance of natural resources, increasing the efficiency and effectiveness of public investment, and introducing reforms that would facilitate economic diversification (African Development Bank Group, 2022). Besides these various reforms executions, Angola is still undergoing economic growth challenges. To tackle these confronts, all reforms require ongoing efforts to successful promote inclusive growth and development (Garwi 2023).

#### 4. Discussion

The overall question of this study is whether oil and diamonds occur to be a curse or a blessing for Angola's economy. The previous chapters have identified the historical context, socio-political behaviour and economic figures associated to these fundamental natural resources. The aim of this research was to gain a better understanding of the intricate relationship between the abundance of natural resources and prosperity. This study showed various intricate connections towards the establishment of the nations' economic landscape.

Oil and diamonds have both played a significant role throughout Angola's history. The nations' prominent role in the global oil and diamond market has allowed them to gain international recognition and some scope of power. For instance, being a member of the OPEC (Organisation of the Petroleum Exporting Countries), enhanced the country's image. Additionally, some amount of the revenue generated from its primary natural resources has been directed towards infrastructure projects, featuring the substantial economic impact of oil on the country's GDP. Nevertheless, international fluctuations in oil prices are posing a challenge to this economic reliance.

While diamonds served as a significant revenue stream for UNITA during the civil war, their contribution to Angola's GDP has never paralleled that of oil, which remains the dominant economic driver for the country. Golub and Varun (2016) already affirmed that Angola is heavily dependent on oil, and to a much lesser extent to diamonds.

Following the 2008 crisis, the Angolan government employed reforms towards diversifying its economy by supporting non-oil industries. Since then, diamonds only represent 1% of Angola's GDP (World Bank 2018). Yet, in terms of volume, the nation is currently the sixth largest diamond producer in the world, and the fourth largest by value (Rahman 2022). Affirmed by

The World Bank (2018), Angola's diamond industry suggests substantial potential for growth. In addition, the historical significance of the diamond industry distinguishes possibilities as well as obstacles that should be comprehended concerning effective resource management. As stated in the literature by Magud and Sosa (2013), Angola's economic dependency on both oil and diamonds are associated with governmental encounters and unstable revenues, supporting the literature of the 'resource curse' and 'Dutch disease' theory. Apart from Angola's poor institutional framework and corrupt system, their excessive reliance on oil has led to this phenomenon, which additionally impeded the development of Angola's non-extractive industries. This reflects cohesion between resource-rich countries, however, each nations' practice with resource abundancy is unique due to its specific historical, political and social features. This can be disclosed by Angola's juxtaposition to the Democratic Republic of Congo within the African context, where it becomes evident that Angola underwent a period of growth, generally surpassing its counterpart.

The findings of the report state that in terms of 'social', the unequal distribution of the nation's resources has sustained disparities in income. Gylfason and Zoega (2006) identified that politically, the mismanagement of resource revenue hampered by government issues, have severely impacted Angola's political stability. These insights are proven by the data gathered in this study. Despite being rich in resources, Angola encounters challenges towards converting their economic growth into an overall reduction in poverty and improved living standards.

The understanding whether Angola has been cursed or blessed considers multiple factors, containing governmental organisations, structures, and the resource background, as the interplay of oil and diamonds. Therefore, as earlier stated by Basedau (2005); the impact of oil and diamonds are a complex interplay rather than a simple blessing or curse.

## 5. Recommendations

Multiple recommendations can be made to efficiently use Angola's natural resources as a factor to create jobs, reduce poverty, and drive growth. Angola could implement a privatisation scheme as a key measure to decrease the dependence on the oil industry and to diversify the economy. Major state-owned enterprises, such as Endiama and Sonangol, could be privatised, leading to opportunities for foreign investors. This privatisation as part of the diversification strategy, will make Angola's economy less vulnerable to fluctuations in global commodity markets, as it will lead to increased efficiency and competition, whilst creating a strong and sustainable financial system. Furthermore, the growth of private sector enterprises along with Foreign Direct Investment (FDI) will again be complemented with expertise, capital, competitiveness, and innovation, contributing to the nation's competitiveness and overall economic growth. The expansion of private companies along with greater investment within different industries may result in the creation of employment, leading to lower unemployment rates. Overall, privatisation and diversification exertion will contribute to Angola's economic development, however, sustained and well-executed initiatives are crucial for ensuring their overall success.

The assessment whether Angola's oil and diamonds are a blessing or a curse, depends upon the nations' ability towards building strong mechanisms of efficiently managing and employing these natural resources in the future. Therefore, further research near the future can be made with the hand of Angola's latest data. Only if the benefits of these natural resources are widespread, they will stimulate sustainable growth and tackle the possible issues triggered by the resource curse. In addition, the impact of resource abundance on institutional quality remains a challenging area for future research. Evaluating the causal relationship between

resource abundance and institutional quality should constitute the primary objective for future research, as should closely monitoring any variables that may have been disregarded.

Furthermore, an investigation with focus on the environmental impact of these natural resources as well as examples of other resource-rich countries which effectually managed their abundant resources are needed for additional perceptions. In general, more work needs to be done to manage the revenues from natural resources in a way that encourages sustainable growth, reduces poverty, and avoids conflict.

## **6. Conclusion**

Angola's oil and diamonds have provided an important contribution to its economy and its development. From 1960 until today, these resources have played a role towards funding infrastructure projects, generating government revenues, and foreign exchange. Furthermore, they have demonstrated that mineral wealth has not only stimulated Angola's war but has also created constraints of the war. This has been explained by the MPLA's oil revenues in combination with UNITA's diamonds revenues.

However, the relationship between natural resources and inclusive economic growth is shown to depend on the quality of institutions. If a ruling group uses a significant portion of rents for personal enrichment, rather than public goods, the impact on growth is negative. The importance of pre-existing strong institutions and effective resource management strategies are needed to benefit positively from abundant natural resources. It seems that in the case of Angola, natural resources can act as a curse if they are explored and extracted before, and during the presence of a weak and corrupt institution.

The evolving nature of global markets, the complexities of political and social contexts, and the dependency on readily accessible data deliver challenges towards determining this research

conclusion. Still, an in depth understanding of the impact of oil and diamonds on the Angolan economy is performed through a literature review and analysis of available data.

While oil has been the primary driver of Angola's consistent growth, the presence and discovery of both diamonds and oil, along with additional natural resources should have been a considerable blessing for the country. Unfortunately, an unstable political environment has resulted in civil wars, ultimately transforming these valuable natural resources into a curse.

Nevertheless, a definitive judgment on whether these resources are a curse or a blessing cannot be determined at this point. To draw a conclusion on this matter, more time is required to observe how Angola's economy unfolds in the future.

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## 8. Appendix

Year	Industry (including construction), value added (annual % growth)
2003	-0,1
2004	14,8
2005	20,5
2006	13,2
2007	19,8
2008	9,6

**Table 2:** Angola's Industry (including construction), value added (annual % growth)

Source: The World Bank. 2023. "Industry (including construction), value added (annual % growth): Angola."

<https://data.worldbank.org/indicator/NV.IND.TOTL.KD.ZG?locations=AO>

Year	Human Development Index (HDI)
2000	0.38
2001	0.39
2002	0.4
2003	0.42
2004	0.43
2005	0.45
2006	0.46
2007	0.48
2008	0.49
2009	0.5
2010	0.51
2011	0.53
2012	0.54
2013	0.55
2014	0.56
2015	0.58
2016	0.6
2017	0.6
2018	0.6
2019	0.6
2020	0.59
2021	0.59

**Table 3:** Angola's Human Development Index

Source: Countryeconomy. 2023. "Angola Human Development Index: HDI."

<https://countryeconomy.com/hdi/angola>

Year	Real GDP at constant 2017 national prices (in mil. 2017US\$)	Real GDP per capita at constant 2017 national prices (in mil. 2017US\$)
1990	72.166	6.091
1991	72.881	5.950
1992	68.626	5.422
1993	52.167	3.990
1994	52.866	3.915
1995	60.796	4.360
1996	69.030	4.794
1997	74.052	4.979
1998	77.526	5.047
1999	79.217	4.993
2000	81.636	4.979
2001	84.200	4.969
2002	96.434	5.504
2003	99.317	5.481
2004	110.196	5.875
2005	126.757	6.523
2006	141.522	7.023
2007	161.348	7.718
2008	179.362	8.267
2009	180.902	8.035
2010	189.692	8.122
2011	196.278	8.104
2012	213.044	8.485
2013	223.600	8.595
2014	234.383	8.700
2015	236.595	8.485
2016	230.491	7.991
2017	230.151	7.719
2018	225.540	7.320
2019	222.151	6.980

**Table 4:** Angola's real GDP and real GDP per capita

Source: Penn World Table. 2023. "PWT 10.01." Accessed September 16, 2023.

<https://www.rug.nl/ggdc/productivity/pwt/?lang=en>

Year	Inflation, consumer prices (annual %)
1999	248,20
2000	325,00
2001	152,56
2002	108,90
2003	98,22
2004	43,54
2005	22,95
2006	13,31
2007	12,25
2008	12,48
2009	13,73
2010	14,47
2011	13,48
2012	10,28
2013	8,78
2014	7,28
2015	9,35
2016	30,70
2017	29,84
2018	19,63
2019	17,08
2020	22,27
2021	25,75

**Table 5:** Angola's inflation of consumer prices (annual %)

Source: The World Bank. 2023. "Inflation: consumer prices (annual %): Angola."

<https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=AO>

Year	Value of petroleum exports (m \$)
2000	7083
2001	5783
2002	7651
2003	8677
2004	12618
2005	22650
2006	30949
2007	43010
2008	63197
2009	39732
2010	49379
2011	65215
2012	69954
2013	65965
2014	56614
2015	31929
2016	26022
2017	32026
2018	37801
2019	32230
2020	18782
2021	28837
2022	41241

**Table 6:** Angola's value of petroleum exports (in million \$)

Source: OPEC. 2023. "Data Download OPEC Members: values of petroleum exports (m \$)."

[https://asb.opec.org/data/ASB\\_Data.php](https://asb.opec.org/data/ASB_Data.php)

Year	Crude oil production (1,000 b/d)
2000	736
2001	740
2002	894
2003	901
2004	1.020
2005	1.241
2006	1.385
2007	1.695
2008	1.896
2009	1.739
2010	1.758
2011	1.618
2012	1.704
2013	1.701
2014	1.654
2015	1.767
2016	1.722
2017	1.632
2018	1.473
2019	1.373
2020	1.271
2021	1.124
2022	1.137

**Table 7:** Angola's crude oil production in million barrels per day (mbpd)

Source: OPEC. 2023. "Data Download OPEC Members: World crude oil production by country." [https://asb.opec.org/data/ASB\\_Data.php](https://asb.opec.org/data/ASB_Data.php)