Sub-Saharan Report

Sub-Saharan Africa is one of the focal regions of Global Challenge 2015.
These reports are by Mr. Kenshi Tsunemine, an expatriate employee working in Johannesburg with a view across the region.

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In order for the Marubeni Research Institute to acquire live information from the field and contribute to the Company's strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.

One bunch of asparagus for 5,500 yen ($46)! One head of cabbage for 1,300 yen ($10.40)! One notebook for 500 yen ($4.10)! You may have heard rumors that prices are high in Angola; however, it is really hits you if you see them with your own eyes (pictures 1, 2 and 3).

Table 1: Angola Country Information

Basic Data (2014)	
Population	24 million
Land Area	1.247 million ㎢
Nominal GDP	$129 billion
Per Capital GDP	$5,273
Official Language	Portugeuse

Source: IMF

Picture 1: One bunch of asparagus for 5,050 kwanza (≒5,500 yen or $46)

Picture 2: One head of cabbage for 1,145 kwanza (≒1,300 yen or $10.40)

Picture 3: One notebook for 449 kwanza (≒500 yen or $4.10)

Consumer prices in Angola were the highest in the world in both 2013 and 2014 making it a country with an extremely high cost of living. It is this country, Angola, in which Marubeni, coincidentally, has a relatively strong business presence, that I would like to introduce this time (table 1 above) (note 1).

Angola is located in the southwestern part of the African continent facing the Atlantic Ocean in the west and bordered by the Democratic Republic of the Congo in the north, Zambia in the east and Namibia in the south. In terms of climate, the country is partly located in the inter-tropical convergence zone, also known as the doldrums, but also has a sub-tropical climate along with an arid and semi-arid climate in the southeastern region of the country due to its proximity to the Kalahari Desert. Along the coast temperatures tend to be rather mild due to the relatively cold Benguela Current from the Atlantic Ocean, with the average temperature in the capital of Luanda being 24 degrees centigrade (picture 4). Marubeni has a Representative Office in Luanda involved in trade and new project development and a Textile Plant Project Office carrying out textile plant rehabilitation (phase I, II and III) at state-run textile factories in the cities of Luanda, Benguela, and Dondo (picture 5).

Picture 4: The city of Luanda's coastline has a tropical atmosphere

Picture 5: Textile plant rehabilitation phase II (towel and sheet spinning zone)

There are a number of reasons for the high prices, which I referred to at the beginning of this article, in Angola. The first is Angola's nearly 30-year civil war (see below) which left Angola's domestic industry in ruins and undeveloped, resulting in an economy that is still overly dependent on imports even for many of the basic necessities of life, including daily food items. The second reason is the high transport costs due to a lack of transportation infrastructure. And third is the accelerating influx of capital and people accompanying Angola's rapidly progressing oil development.

In looking back at Angola's history, we cannot possibly pass over the history of their civil war. The war of independence against Portugal began from 1961 led by such disparate separatist groups as the Popular Movement for the Liberation of Angola (MPLA), the National Front for the Liberation of Angola (NFLA) and the National Union for the Total Independence of Angola (UNITA), and finally attained independence in 1975. Mr. António Agostinho Neto, leader of the MPLA, which played the central role in the war of independence (and would be the ruling party in Angola), took up the post of president. However, the NFLA and UNITA, which held different parts of the country, could not agree with the MPLA over governing and conflict broke out, eventually turning into civil war.

During this time, the Angolan Civil War became deeply linked with the Cold War between the U.S. and the Soviet Union, Namibia's war of independence with the apartheid government of South Africa and the growing condemnation of apartheid in South Africa by the international community. Unable to avoid this geopolitical scenario, the MPLA drew support from Cuba and Russia and they in turn backed Namibia. UNITA was supported by South Africa and the U.S., while the FNLA was backed by Zaire (now the Democratic Republic of the Congo) and France. What emerged was a very chaotic situation backed by complex alignments that led to 27 years of civil war.

During this period many attempts at political mediation and arbitration were tried but failed. In 2002, following the death of the leader of UNITA, Jonas Savimbi, in the civil war, a temporary ceasefire between the MPLA and UNITA was implemented in March and a permanent ceasefire was reached in April which would finally put an end to the 27-year civil war.

Mr. Neto, the first president of Angola, died in 1979 and was succeeded by Mr. Jose Eduardo dos Santos who has served as president ever since. Parliamentary elections were carried out in 2008 and the ruling MLPA party won in a landslide victory. In the 2012 elections the MLPA won again and Mr. Dos Santos was re-elected president. The next general election is scheduled for 2017 and the ruling MLPA is likely headed for a solid win. However, the focal point of discussion is whether or not Mr. Dos Santos will continue his long-term reign as president or appoint a successor.

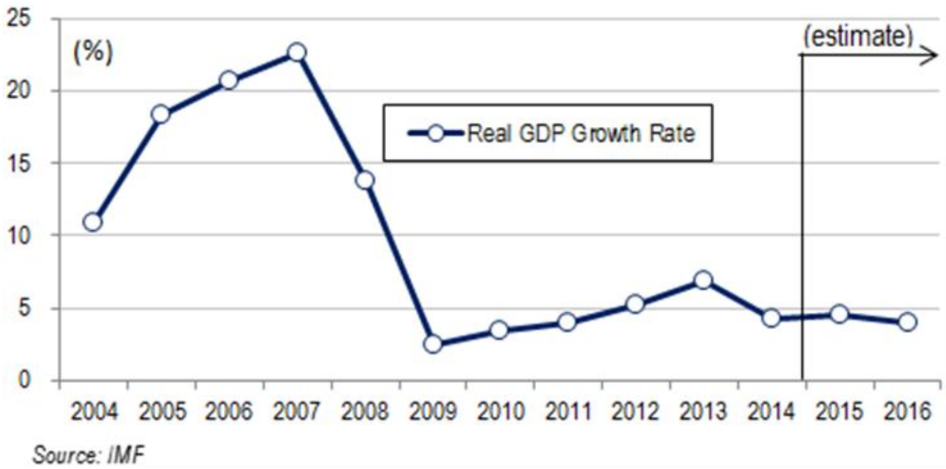
[Picture 6] Luanda's high rise skyline shows Angola's construction boom

Turning to the Angolan economy, simply put it is the oil and gas industry that underpins the entire economy. Since 1993, deep sea oil fields have been discovered one after another leading to dramatic increases in oil production to the point where Angola is now a large oil-producing country and member of OPEC (note 2).

Due to oil industry development, the Angolan economy recorded annual economic growth rates of more than 20% around the mid-2000s. Currently the oil sector accounts for 75% of all government revenues and makes up 98% of Angola's exports in terms of value. This oil development has also made Angola the 3rd largest economy in sub-Saharan Africa (table 2) (picture 6) (note 3).

Picture 4: The city of Luanda's coastline has a tropical atmosphere

Graph 1: Real GDP Growth Rate

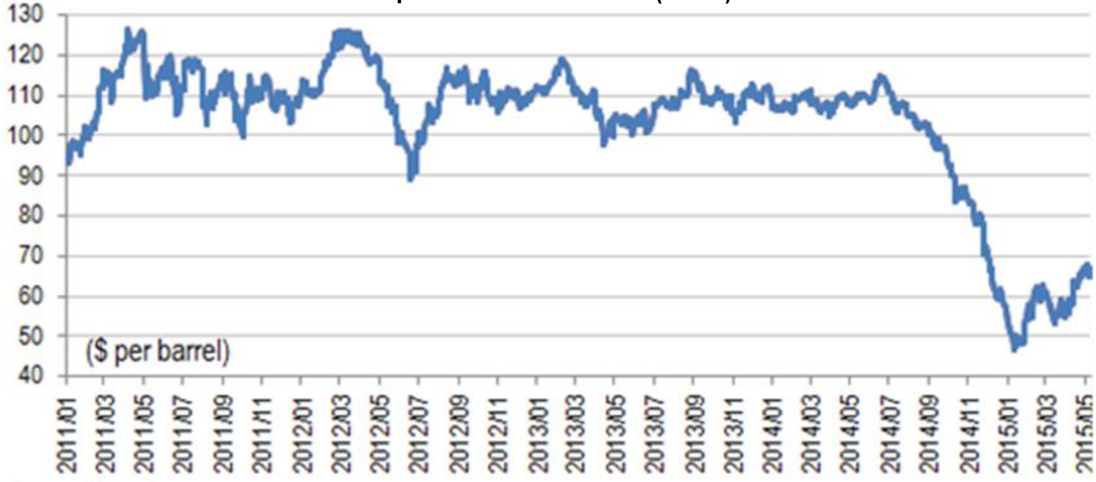


As Angola's economic structure is highly dependent on the oil industry, the rapid fall in oil prices in the 2nd half of 2014 has led to a difficult situation with worries of a deepening economic downturn due to a drastic reduction in government revenues and the depreciation of the national currency, the kwanza, among other worsening conditions (table 3).

The 2015 government budget was originally based on an oil price of $81 per barrel which significantly exceeds the current market price, creating numerous uncertainties in the capital markets over Angola's 2015 budget. In response, the government has revised its price assumptions downward to $40 per barrel and has cut expenditures for basic road construction and other non-essential infrastructure to reduced budget spending. This has led to a reduction of 1.8 trillion kwanza ($16.4 billion) in government spending and is the first time in memory that the government has adopted a policy of fiscal austerity. Moreover, to prevent foreign currency outflows the central bank is limiting the amount of foreign currency made available and has placed restrictions on imports which is having the effect of limiting economic activity in the country.

On the other hand, the amended budget has gained the confidence of capital markets and fortunately oil prices are exceeding the revised budget assumptions, so further deterioration in the economy seems to have been avoided creating a slight sense of relief. However, vigilance must still be maintained over rising prices (inflation) which have been rekindled by the restrictions placed on imports.

Graph 2: Crude Oil Prices (Brent)



Source: Bloomberg

The basic problem for Angola is that the economic structure is overly dependent on oil and as such the biggest challenge facing it is to diversify its economy and develop various industries. Although the government is quite aware of this problem it has so far made little progress toward economic diversification. However, in March of 2015, as part of Angola's overall strategy to attract foreign investment including that of Japan, it invited 100 people from various Japanese companies to participate in the Angola-Japan Business Forum. Presently, the construction of a large-scale oil refinery is planned, and the country, which is already one of the world's largest diamond producers, is looking to develop its diamond processing capability as well, using its natural resource sector as a first step in its policy to develop various industries and diversify the economy.

In this regard, the rehabilitation of textile plants that Marubeni is undertaking in Angola is directly contributing to both the fostering of industry and the diversification of the economy in the country.

It certainly can't be denied that Angola's economy is up against some stiff headwinds due to the drop in oil prices. However, given its oil and diamond resource potential and the current political stability following its long-term civil war, the country is becoming more appealing. Angola is now a comparatively rich country in Africa with a per capita GDP of over $5,000. So going forward, the types of business opportunities in Angola should broaden greatly beyond just plant-related projects.

Even with such hardships as Angola's high inflation and the risk of contracting malaria, Marubeni Group employees are working in Angola as consultants and supervisors engaged in helping develop and diversify Angola's industries. Thanks to them we have built a good reputation in business there respected by both the government of Angola and even other Japanese companies operating in the country. So, take advantage of our strong presence in Angola to come and find new business opportunities. And, if you come be sure to try the Longtooth grouper (fish), which is a luxury in Japan but more reasonably priced in Angola.

Note 1: *According to the organizational and human resources consulting firm Mercer, prices in the capital of Luanda were ranked number 1 in the world in 2013 and 2014. Number 2 was N'Djamena (Chad) followed by Hong Kong and Singapore. Tokyo was ranked number 7.*
http://www.mercer.com/content/mercer/global/all/en/newsroom/cost-of-living-survey.html

Note 2: *Angola is the 2nd largest oil producer in sub-Saharan Africa after Nigeria, and is number 14 in the world.*

Note 3: *In 2014 Angola's nominal GDP ($129 billion) was the 3rd largest in sub-Saharan Africa following Nigeria ($574 billion) and South Africa ($350 billion).*

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