Boosting Portuguese International Trade: The Case of Angola

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Abstract

Portuguese international trade of goods to Angola has been growing from 2003 to 2014, where it represented around 7% of total Portuguese exports. Over the last year of 2015 a critical decrease of 35% was registered, impacting thousands of companies and the national economy itself.

It became imperative to find measures to apply on both countries to face this major setback.

Through finding critical success factors for the international trade between Portugal and Angola, some measures were found that could potentially mitigate the current problem and even create conditions to build long-term sustainable businesses between these two countries.

Keywords: International Trade, Exports, Portugal, Angola, Critical Success Factors

Chapter 1. Introduction

In a world that is constantly changing and increasingly globalized, International Trade opens new business' opportunities, while making companies face new competitors and challenges. (Wolf, 2004) In the Portuguese case, it has been one of the pillars of the economic recovery (Felke & Eide, 2014). One of the most important export markets for Portuguese companies is Angola (INE, 2015).

Angola is a developing country. The Angolan economy is heavily dependent on oil's exports. It was the "oileconomy" that financed the country's economic growth after 2002 and it has also been the oil price downturn in the last year of 2015 that became an important factor jeopardizing the Angolan economic activity (Economist Intelligence Unit, 2015).

Angola is a country that imports about 80% of its consumer goods and because of its historical and language relationships, Portuguese companies have been the main providers of this country until 2014, when China became number one buyer and provider. (AICEP, 2015). However, due to the Angolan crisis, from early 2015 until the end of that year, there was a major downturn in Portuguese exports to Angola.

The objective of this study is to find measures that could potentially boost Portuguese commerce to Angola.

In chapter 2 and 3 there is some literature review found relevant about the topic.

Chapter 4 explains the case study in more detail.

Chapter 5 describes the methodology used in this study.

Chapter 6 summarily exposes the obtained results.

Chapter 7 describes the found solutions.

Finally, chapter 8 presents some final conclusions.

Chapter 9 exposes the used literature.

Chapter 2. International Trade

International trade is defined as the process of adapting company's operations (strategy, structure, resources) to international environments (Calof & Beamish, 1995).

Chapter 2.1. Drivers

According to Gamble et al (2013) & Lucas de Freitas (2010), there are five major internationalization drivers: (1) access to new clients; (2) to promote scale economies; (3) to explore competencies developed in the domestic market in some other market; (4) to have better access to resources available in other countries; (5) to spread the business risk for more than one country.

Chapter 2.2. Barriers

However, entering a new market brings companies to face new and different barriers from what they were used to. Those can be divided in internal and external ones (OECD, 2009):

Internal

Information: it can be hard to obtain complete and relevant information about the foreign market;
Functional: lack of capital to finance international businesses, like exports;
Marketing: Difficult to deliver competitive pricing; Complex and hard to access foreign distribution channels; Hard to get control and trust on the foreign representation entity; Security and transport high costs;

External

Procedure: hard to communicate with foreign customers;
Governmental: adverse rules and regulations;
Environment: Bad economic conditions abroad; tariff and non-tariff high barriers; different sociocultural characteristics.

Chapter 2.3.Government & Political Environment

One external factor that can be a strong barrier, especially in developing countries, like Angola, is the Government and Political Environment. However, according to Villa et a. (2014) that is a subject that has rarely been discussed in scientific literature. Although, an analysis to the type of government, its philosophies, stability and attitude fronting foreign investment is very important and should be inserted in the choice of mode of entry. The more developed the political capacity of each company, as well as its ability to combining resources, the greater its ability to react positively to uncertain political environments will be. Also, the more experience they have in international socio-political environments, the lower its allocation of resources to create good relationships with the government will be (Lawton, & Rajwani, 2011; Lawton et al., 2013) (Hadjikhani et al, 2008).

Chapter 2.4. Internationalization Models

Due to the importance of this issue, several streams of research have appeared in an attempt to explain how companies make their international entry mode decision.
There are some main schools of thought that help the decision:

1) Transaction Cost Analysis is a rational approach, which follows, as a starting point, that a company does not only assume the production costs but also transaction costs. They compare all the costs of the entry abroad with their expected profits. It analyzes the total costs (production and trade), in order to decide whether the company should take over the operations internally (internalizing them) or to external companies (outsourcing). Given that, the most cost-effective result is chosen as a M.E. (Anderson & Coughlan, 1987; Anderson & Gatignon, 1986; Gatignon, & Anderson, 1988; Klein et al., 1990).

2) Uppsala Model or Nordic School is based on the idea that companies make an incremental entry in foreign markets. According to this model companies should start by markets with similar cultures, and input modes of lower risk / investment, as exporting, then moving to other markets, and increasing their level of involvement for licensing, joint ventures and finally the creation of own companies abroad. (Villa et al., 2015).

3) The Real Options model analyzes the entry decision, understanding that the company and the market are not static. In turn, the very choice of Entry Mode should not be considered as definitive, but as something that can be changed depending on the reality. The company will therefore theoretically be better prepared to respond to changes on reality, as it tries to study them and provide them early (Kogut & Kulatilaka, 1994).

4) The Eclectic Paradigm or OLI, introduced by Dunning (1988), states that there are three main factors that influence

the decision of the E.M. (Rugman, 1981). (O) Ownership Advantages are the assets and "talents / skills" of a company, such as the size and international experience of it, and its ability to develop differentiated products and services (Dunning, 1993). (L) Location Advantages define how potentially interesting a market can be, according to the possible share of future market competition and risk, taking into account the different cultures and production costs (Root, 1987). Finally, (I) Internalization Advantages analyzes the costs of each E.M., whether it requires more or less investment (Hill et al., 1990).

5) The previous two schools of thought see the company as an independent in its internationalization. The approach of Industrial Networks sees the company otherwise. According to this theory, the established relationships - defined as industrial networks - should be included in the weighting of M.E.. The company operates and is involved in a network of companies with which it establishes relations. These relationships allow the exploration of complementary skills between companies, promoting the achievement of joint goals in several companies. This theory is supported in a sharing of resources between businesses, depending on their position in the network (Johanson & Vahlne, 2009).

6) The Institutional Approach appears as an extension of Eclectic Paradigm (Brouthers et al., 2008). More focused on the institution, according to this approach, different countries with their distinct characteristics influence the formal environments (laws and rules that create a stable environment and allow the creation of contracts) and informal (cultural values and norms, typical of each country, influence the behavior of employees and consumers) of the company (Henisz, & Swaminathan, 2008; North, 1990). To this extent, this theory considers the environment of organizations as a key determinant in choosing the M.E.

7) For Barney (1991) and Daft (1983) the resources of a company lie in its assets and capabilities, organizational processes, knowledge and information, among others, controlled by them, which allow the implementation of strategies that create sustained value.

The Resource Based View Theory focuses on these resources, and suggests that a company, to achieve a good performance in the international market needs certain resources to develop competitive advantages, creating value through products that will be both valuable, rare and unique.

8) Cultural and Psychological Distance are fundamental aspects that significantly influence the behavior and management of international channels, strategy and hence the choice of ME (Sichtmann & von Selasinsky, 2010; Swift, 1999; Evans et al., 2008). Culture means the "collective programming of the mind which distinguishes the members of a category of people of another category" (Hofstede, 1984, p.389). In turn, cultural distance is referred to as the distance between the two cultures: for the scope of this work, is the distance between the country of origin and destination culture (Canabal & White, 2008). The greater the distance, the greater the desired control from the origin company when choosing the E.M.. The smaller the distance, the greater the confidence in this market (Armstrong & Yee, 2001; Bianchi & Saleh, 2010). This distance will influence the efficiency and effectiveness of strategies implemented in the destination country (Chung et al., 2012).

Chapter 2.5. Modes of Entry (M.E.)

To decide how to enter in a foreign market, a company has to take into account a number of internal and environmental factores (Figure 1), to decide how it will enter this market and, consequently, what degree of control, risk level, allocation of resources, necessary skills and degree of involvement from the company (Anderson & Gatignon, 1986; Pan & Tse, 2000; Lucas de Freitas, 2010).

According to Bradley (2005), the E.M. are often divided into two categories, which differ in terms of investment required and control: equity and non-equity (Pan & Tse, 2000). The equity, most investment-intensive, are part the creation of subsidiary companies, acquisitions (partial or total), and joint ventures. The non-equity modes, with a lower level of control, include licensing / franchising, export subsidiaries and direct and indirect exports (Pan & Tse, 2000; Anderson, & Gatignon, 1986).

Depending on the business that a company intends to internationalize, and once analyzed new country characteristics, the most appropriate entry mode for the company is chosen. To do

this, one must define the financial availability to invest, the risk that you is willing to endure, the time it wants to enter the market and the desired control in the face of external activities.

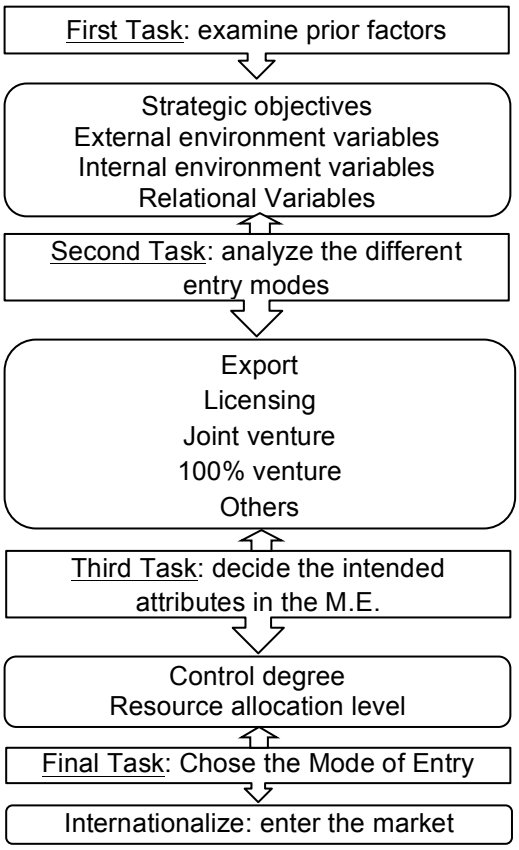

Figure 1: Adapted from Gao (2004, p.40)

Chapter 3. Export & Logistics

Exporting is the most used E.M. by Portuguese companies to the Angolan market (INE, 2015).

The export process consists on a flow of products between two countries, including internal transport activities, vendor, terminal customs, port of origin, international transport terminal port of the destination country, the buyer's customs, and internal transport to the destination. A good planning, implementation and monitoring of these activities (logistics concept) is essential to the success of the process (Carvalho et al. 2010).

The Logistic Performance Index of a country takes into account six components (Arvis et al 2014.):

1- Customs: efficiency of the clearance process by control agencies, in terms of speed, simplicity and predictability of formalities;

2- Infrastructure: Quality of trade and transport infrastructure such as ports, railways, railways, roads and information technology;

3- Logistic Services: Competence and quality of logistics services, such as transport operators or freight operators;

4- Shipping: Easy to organize sea freight at competitive prices;

5- Monitoring: Ability to monitor and track the goods;

6- Punctuality: Punctuality of freight in reaching the final destination within the deadline.

The authors divide these components into two categories being the first 3 the inputs and the last 3 the outputs.

According to existing studies, there is evidence that improvements, especially in legislations and infrastructures may significantly benefit the performance, at both extensive and intensive levels of exports (Portugal-Perez and Wilson, 2010).

Wilson et al., (2003) analyze the trade in the APEC countries. They estimate that there could be an increase of 10% in intra trade flows, if its members would improve their customs and internal transport capacity up to the world average.

To the same extent, logistics improvements - in terms of infrastructure and traffic products (Venables and Limao, 1999), monitoring and constant location of products and time horizon of commercial exchange - in countries with lower LPIs (like emerging countries) are extremely important.

Wilson et al. (2005), with simulation based on gravity models, tried to predict the total gain of the commercial stream of manufactured goods in countries around the world. If countries that have performances considered below average would improve to half the average, there would be an increase in global trade of 377 mM USD - 42% due to improvements in IT technologies; 28% due to improvements in infrastructures; and 22% due to improvements in customs.

Sánchez et al. (2003) highlights the importance of choosing good logistics partners and importance of mutual cooperation in logistics services between trading partners. According to the Journal of Shipping and Logistics (2012), there are three requirements for success: **1.** the exporting companies should have a clear vision of the role of logistics operators in the process; **2.** the more features these players have, the better the performance; **3**. internalize logistics tends to be positive for a better functioning of the process.

Chapter 4. Case Study

Chapter 4.1. Portugal

Boosting exports is essential for the growth of the Portuguese economy, which is facing major constraints in national consumption (due to the reduced volume of domestic consumption and low purchasing power of the Portuguese and the "health" of the Current Account). Exports are a central necessity to achieve a healthy growth of the economy (IMF, 2013; Felke e Eide, 2014; Banco de Portugal, 2009).

However, national exporting companies have been facing various constraints, according to Felke & Eide (2014) due to: **a)** excessive focus on the eurozone markets, with weak growth; **b)** exporters specialized in labor-intensive products, which are competitive rivals in the markets of Eastern Europe and Asia; **c)** a national economy that is very focused in the non-tradable sector.

Angola appears as a country that steps aside from these problems, and has been a big client for Portuguese companies over the last 14 years. (INE, 2016).

Chapter 4.2. Angola

Angola became independent from Portugal in 1975, and faced a civil war until 2002. Since 1979 the same president has been on charge (José Eduardo dos Santos) (Economist Intelligence Unit, 2015).

As a result of the conflicts during the civil war, the intense destruction of infrastructure disturbed the development of the country (Pereira, 2011). The end of the civil war coincided with major period of growth in oil prices, allowing the country to develop at a rapid pace. This growth was much boosted by foreign direct investment mainly focused on the energy sector (Ecobank, 2013). Until 2014, Oil's revenues represented around 50% of the county's national GDP (AICEP, 2015).

With the decline of almost 50% in oil prices since the end of 2014, came to strongly affect Angola's economy. There was therefore a strong impact on the economy, creating a shortage of access to the dollar, devaluating the national currency (Kwanza) and eventually the payment of imports (U.S.DOE, 2015).

Angola is rich in natural resources. Until its independence, agricultural production was an important source of income (Faostat, 2014). Since then, subsistence farming is the main resource for the majority of the population, accounting for 85% of the workforce, although it only represents about 10% of the GDP.

Angola imports around 80% of its consumed goods (Faostat, 2014).

And although Angola and lots of other commodity-driven countries (majority of African countries) are facing some challenges according to low export's revenues, according to the Economist (2016) Africa is still a promising market. With 1.2 billion people living in developing countries, it holds a boost in revenue derived from the "internalization" of businesses and simply the rush for data services (Boniecki & Marcati, 2016).

Angola's imports declined around 31% over the year of 2015. Portuguese companies exported 35% less than in the previous year of 2014. This has had an important impact in the Portuguese economy, where in 2014 Angola represented 7% of total Portuguese good's exports. (INE, 2016).

Although Angola is a member of some trade associations, the country faces serious challenges to export and import (International Trade Administration, 2016a).

Besides the obviously serious currency issue today, it is known that the country logistics' capacity is deficient (Deloitte, 2014). 90% of Angolan imports are seaborne, and more than 80% of those have the port of Luanda (country's capital) as destination (INE, 2015).

The country faces lots of constraints. But there's a need to fully understand the challenges faced by Portuguese companies in order to create conditions to allow the increase of Portuguese exports to Angola.

Chapter 5. Methodology

Trying to deeply understand the issues Portuguese companies face in Angola, the study followed two steps:

1- A set of interviews, made to 5 different top tier managers of companies that have been internationalized in Angola for more than 5 years, so that they have a good understanding of the reality. These were convenience samples.

2- Supported by the interviews' answers, a questionnaire was made in

order to expand the sample. It was sent to the top 100 Portuguese exporters in 2015. There was also some other 7 export companies that were convenience sample. After the deeply understanding of the situations and variables lived in Angola by Portuguese companies, there were defined 3 Critical Success Factors to Portuguese business in Angola. After that, a *benchmarking* approach was followed. The *benchmarking* aimed to provide measures to apply by Portuguese or Angolan companies or governments that could help boosting Portuguese exports to the country.

Chapter 6. Interviews and Questionnaires

The interviewed were asked about the biggest challenges they face in Angola, their biggest competitive advantages and how they thought Angola was going to evolve from this difficult stage.

Portuguese companies internationalized in Angola find their main drivers to be the access to new customers, creating economies of scale and to explore competencies developed in the domestic market abroad. Given the small size of the Portuguese market in the absence of constant innovation, companies can only grow exploring other markets.
According to the respondents, Angola is and will continue to face a general restructuring of its economy. It is necessary to end the almost exclusive dependence on oil and to create a sustainable economic structure in the country. Starting with a considerable increase in production in the primary sector, in order to supply the processing industry, which will appear later, and will be responsible for greatly reducing dependence in 80% of consumer goods imported by the country. There is a lot of Chinese competition available to accompany Angolan companies in this restructuring. However, it is extremely important that Portuguese companies enhance its advantages and create facilitative measures to assist the entry of their products, since they will still be quite necessary during several years to the development of the processing sector. In addition to the exported products, the presence of Portuguese companies may also be very beneficial helping the restructuring of the economy, given the existence of cultural and psychic proximity and a long-term stay in the Angolan market perspective.
From all questionaires sent, only 26 answers were received. There were 7 (out of 9) questions that received valid considered answers.
From the more to least importance, the answers to the questions on the questionaire are as follows:

1) Biggest challenges in the export process?
1. Unloading ships
2. Local workforce
3. Payments
4. Customs

2) Competive advantages of products?
1. Quality
2. Good reputation
3. Good distribution
4. Price

3) Competitive advantages of the company?
1. Know-how
2. Network

4) The type of current internationaization?
1. Direct export to final client
2. Indirect export
3. Direct export to distributor
4. Local production

5) Expected integration in 5 years?
1. Direct export to distributor
2. Direct export to final client
3. Indirect export
4. Leaving the market

6) Motives for a deeper integration?
1. Streamline distribution
2. Access to currency
3. Production costs
4. Fiscal benefits

7) Biggest problem found in deeper integration?
1. Quality workforce
2. Workers absenteeism
3. Logistic
4. Government

Posteriorly to receiving the answers, there was made some cross tabulations between answers of different questions to extend the conclusions.
It was found that most of the challenges happen regardless of existing competitive advantages.
Also, companies with greater integration in Angola have more competitive advantages and competitive advantages are important to the desire to stay in the market.

Given the collected and interpreted information, some sugestions are made for

portuguese companies intending to enter or foster theis angolan business:
To help select the desired entry mode it is suggested the approach of Industrial **Networks** and the **Resource Based View**. The first sees the company as owned and surrounded by a network of companies with whom establishes relationships, explores and shares complementary skills and promotes the achievement of shared goals. An analysis of existing companies in Angola, those that wish to enter should be made by potential new entries.
Similarly, the questionnaire's responses underline the importance of internal resources to create competitive advantages for internationalized companies in Angola. Given this aspect, the RBV approach is proposed to choose the input mode in Angola. The company's resources in terms of assets, capabilities, organizational processes, attributes, knowledge or information with the appropriate M.E. will help design and implement sustainable strategies in Angola.

Chapter 7. *Benchmarking*

For Portuguese companies to achieve greater success in Angola, it is necessary to ensure protective measures and/or facilitators to try to reduce the major challenges encountered so far. With interviews and questionnaires these challenges currently identified by the Portuguese companies in Angola were found. Through those, there are understood as critical success factors for the business:
1) Ease of Doing Business;
2) Export Logistics;
3) Local Workforce.
To this end, a benchmarking analysis was performed for each of the points, trying to find measures used by other countries that may be adopted for trade between Portugal and Angola.

Ease of Doing Business

A suggestion for a facilitative and regulatory measure is the creation of an Agreement between the CPLP member countries, with similar points to the current TPP Agreement. Like the TPP agreement, this agreement should try to create quality, safety and productivity standards, control prices through tax control and efficiency improvements, using the specific advantages of each country as well as from new technologies. It will be an agreement to all kinds of companies and should assist them in understanding the best way to take advantage from it. The agreement reduces the cost of export, increases competitiveness and promotes fair and transparent trade between the countries involved. (International Trade Administration, 2016).
It rests mostly in these five measures to:
1- Market access: elimination or reduction of tariff and non-tariff barriers to trade of goods and services between the countries of the CPLP;
2- Regional approach to commitments: to facilitate the development of production and supply chains, needs to act on measures to improve their efficiency, while it follows the aim of creating jobs, raising living standards, facilitating transnational integration and opening domestic markets.
3- Addressing new challenges of trade: the agreement promotes innovation, productivity and competitiveness in a way that it addresses the current challenges such as the development of the digital economy and the role of state enterprises in the global economy.
4- Inclusive trade: this measure helps SMEs business to understand the Agreement, take advantage of opportunities and express the challenges they encounter in their government.
5- Platform for regional integration: The supposed CPLP agreement is intended to be a platform for regional economic integration and plans to eventually include other economies in the African area.

Export Logistics

There are various measures suggested in order to improve the logistics of Angolan imports:
a) Infrastructure:
1- Make a dredging in the port's bay in order to increase its draft up to 16 meters, thus allowing the entry of the largest cargo ships. These new ships will allow cargo of more than four times the current load. This measurement must be accompanied by a change of the existing cranes, since they are not suited for these larger vessels.
2- Put in proper functioning the already existing rail line service serving the port of Luanda.
3- Alternatively, the creation of a new port in Barra do Dante, about 30km north of

Luanda, which would effectively replace the current port.
b) Information technology: recognize the importance of cooperation between different actors. It is important to adopt a computer platform that allows the gathering and sharing of information among all the players involved in the chain of the process of importing goods.
c) Customs: Improving human relations and information sharing, increase the transparency of processes and reduce tariff and non-tariff barriers.
d) Logistics services: the creation of an IT platform will make it easier to adjust resources as needed.

Local Workforce

Either for its lack of quality or absenteeism, the "workforce problem" comes on top of the problems identified by companies with business in Angola. This challenge is a reflection of the very weak existing education system in the country. The following measures are suggested:
1- As between Belgium and its former colony of Republic of Congo, Portugal could create more supportive measures to the Angolan education system. Some possibilities are: strong cooperation in the revitalization of the educational system, both in the university and non-university; sending Portuguese experts and technicians from telecommunications, agriculture, industry and health in order to transmit knowledge to the locals; increase the number of scholarships for Angolan students in Portugal; support for agricultural production and rural development and support on the revitalization of the overall economy (OCDE, 2005).
2- The agreement suggested between CPLP countries should focus on: creating transparent regulatory laws of hours, minimum wages and safety; eliminate discrimination at work; elimination of tax and child labor; create measures to promote attendance and productivity for both public and private companies, large or small (International Trade Administration, 2016).
These measures become quite relevant in this new phase of the Angola economy. With its diversification, the new agriculture and industry will gain further importance. There is little local experience to face this new reality, and the Portuguese aid could be an added value for Angola.

Chapter 8. Final Conclusions

The motivation for this work was and continues to be strong. Due to the great historical and economic relationship between Angola and Portugal, it will be really important for both countries the aid of Portugal to Angola in this process, possibly through some of the proposed measures.

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