

**Internationalization strategies in
Iberoamerica**
The case of Portuguese trade

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Abstract

The Portuguese trade strategy is an interesting analytical issue. Indeed, as a small economy and contrary to most other similar European countries, Portugal, in the post-war, was late and slowly integrated into the world economy. This was mainly due to the maintenance of an economic logic of empire that has only waned in the late 1960s; and, after a transitory period (1974-1985) where deep macroeconomic imbalances did not allowed a reversal of the trend to neglect the construction of an effective and large trade strategy, the EC membership in 1986 began to influence the substance and institutional framework in this key area for a country with its characteristics. This paper basically focuses on the evolution of Portuguese trade and internationalization strategies between 1996 and 2006.

After a brief overview of the trade strategy and its main stages in the post-war (I), we examine the main changes occurred in Portuguese foreign trade, particularly exports, since 1996 (II). The latter chapter is developed under several perspectives: a) the behavior of exports within the context of the balance of trade in goods and services; b) the overall balance of payments with its flows, giving special emphasis to inward and outward FDI; c) the recent trends to geographical concentration or diversification of goods' exports; d) the analysis of the structure of exports of goods and services, by kind of products. The two following chapters deal with the institutional framework of Portuguese trade strategy. In chapter III, the public agencies with significant influence on the internationalization process are introduced: the PRIME/SIME and QREN programs supervised by the Ministry of Economy and Innovation; AICEP, by far, the most important public body in the field of external promotion (since July 2007, covering trade as well as investment); a shorter presentation of IAPMEI (specialized agency in the support to SMEs), and a view of the cooperation with the Ministry of Foreign Affairs complete the chapter. In chapter IV, the contribution of employers' federation and related organization to the Portuguese trade strategy is appraised, AIP and *Forum para a Competitividade* are examined in more detail; the role of COSEC, the main organization that manages the credit and finance for exports (including public funds), is also considered. In chapter V the Portuguese trade is put within the context of all Ibero-American countries, the bilateral relations with Spain and Brazil, those that have statistical significance are more developed, and deserve some comments. In chapter VI, we treat the export performance of Portuguese firms, and present a few experiences (Qimonda, Renova, Iberomoldes, and EFACEC). Finally, in chapter VII, we sum up the main conclusions of the previous analysis.

In a brief summary of the findings of this research, as far as the external sector is concerned and during the 1990s and 2000s, the Portuguese economy has not yet overcome important negative historical legacies like the fact of remaining relatively closed and showing deep competitive weaknesses. Until the middle of the 2000s, the performance of Portuguese trade was clearly unfavorable from the global and European point of view (one of most striking examples is the substantial reduction of Portugal's share in the German market). However, at the same time, there was an improvement in relevant aspects of the sector; e.g., the weight of new and upgraded products in the exports' structure has been enlarged and trade imbalances have diminished. After 2005, there are a few signs of a positive turn; we can observe a greater diversification of exports by products or geographically, in particular towards outside EU and new member states, and exports are growing at a higher rate than imports and output (in spite of the high value of the euro). One of the fundamental reasons behind the weak trade performance since the early nineties has clearly been the lack of a true and credible strategy of internationalization, particularly when addressed to solve competitive problems in the context of EMU. In this respect, also in the last years, more precise targets have been put forward and need to be seriously implemented. Even if these new initiatives are successful, due to the size and persistence of its fragilities, the competitive transformation of the Portuguese economy in the globalization era will be a long term process.

I. Overview of Portuguese trade strategy

In this report we focus on the Portuguese trade strategy after 1996.¹ A brief historical perspective is usual in the study of national trade strategies, and it is particularly necessary in the Portuguese case. Indeed, the country during the last six decades had experience of very different strategies that left their traces, which, in some grounds, have not yet completely disappeared. Hence, we start with the presentation of the main stages of Portuguese trade strategy in the post-war.

In the late 1940s and 1950s, unlike most Western European countries, Portugal maintained the interwar policies including an imperial perspective of economic “isolationism” and autarky. By the end of the fifties, exports to African and Asian colonies were at their highest point since the beginning of the 19th century (29% of the total in 1959, but only 12% in 1938),² being the most important region of destination for Portuguese exports. However, it was under this very specific context that in 1949 was created the *Fundo de Fomento de Exportações* (FFE) “for the defense of Portuguese products in the foreign markets”, but bearing in mind especially traditional products not the export promotion in the modern sense. The FFE is the ancestor of ICEP, the main Portuguese organization in charge of the promotion of exports during the last decades, incorporated into AICEP in 2007, which will be described further in this report.

About a decade later, in an important historical step, Portugal was in 1960 a founding member of EFTA (European Free Trade Association), although within a special treatment clause for its imports inside this bloc. The country also became member of the GATT in 1962. Nonetheless, the move of Portuguese trade towards Europe was relatively slow till the middle of the 1960s. In fact, the ruling political group was still divided on its dilemma “Europe or Africa”. Only in 1967, exports towards EFTA+EEC³ overtook 50% of the total, while, during the decade, EFTA gradually became the main region of destination. The weight of Europe as a trading partner, and the decline of Africa, has only been clearly accelerated by the last years of the

¹ The research underlying this report was carried out in June-August 2007. Some data were updated in February 2008 when the text was revised. I am grateful to all the people that were interviewed in the beginning of July 2007 (task jointly conducted with Nanno Mulder from CEPAL who wrote a first draft of the meetings) and for the relevant information provided by several institutions. I also had the statistical research assistance of Cristiano Cechella.

² In this point, the figures concerning the Portuguese economy before the early 1990s come mostly from Mateus, 2006, Neves, 1996, and Silva, 1990 and 2002.

³ Within the geographical composition of that time.

regime (the replacement of Salazar in 1968, although not the end of the dictatorship, facilitating the process). In 1973, exports to “Ultramar” (the official denomination of the colonies) were still at 14.8% of the total, and imports at 10.2%; in the following years however this trade collapsed, and despite some surges for the time being, only thirty years later a recovery seems to be perceptible.

During all this period the ratio of exports of goods to GDP remained low (13% in 1973, 11% in 1960, and 9% in 1947). As far as their composition is concerned, figure 1 shows the evolution of three economically representative groups of exports from the pre-wartime to 1990. It should be noted that in 1947, foodstuffs summed to raw materials still were 58.2% of the total exports, textiles, clothing and footwear 19.3%, and machinery and transport equipment a mere 1.6%. However, by the end of the former regime, in 1973, exports of raw materials and foodstuffs still represented 25% of the total, textiles, clothing and footwear 29.9%, but machinery and transport equipment had jumped to 13.2% (from only 3.4% in 1965).

FIGURE 1
THREE SECTORS OF PORTUGUESE EXPORTS, 1938-1990 (% TOTAL)

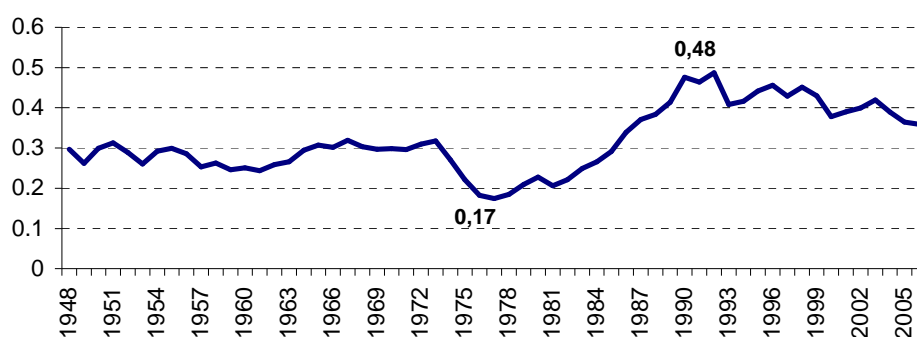


Source: Neves, 1996, p. 348.

Up to the early seventies, therefore, the Portuguese economy was not much exposed to international trade, basically explored its natural resources and the strong development of tourism from the sixties onwards completed this “model”. In addition, during the two first post-war decades, the country experienced a large process of industrialization, by far the most important of its history, essentially based on the rationale of import substitution policies. In spite of that, after 1968, Portugal took clearly an outward orientation, near to the strategy of the newly industrialized countries, and its exports of manufactured goods grew above the world rate. Also, with a new executive body in 1970, FFE became more involved in the exports’ process.

With the 25 of April 1974, after a short period of high political and social instability, Portugal began a new era in its foreign economic relations. Political impediments removed, in 1977, the Portuguese government presented its demand of membership to EEC. Until 1985, however, Portugal “dived in a sea” of great macroeconomic imbalances, particularly in the external payments and public accounts (both deficits reaching, in percent, two digits of GDP in the most critical years). Two agreements were then established with the International Monetary Fund in 1978 and 1983, with the usual conditionality of that time. During this period, policymakers were mainly concerned with the management of short term macroeconomic difficulties; under these circumstances it was not easy to define any consistent trade strategy. Moreover, after a sharp decline in the contribution to the world exports, in 1977, Portugal started a gradual increase in its world share that lasted till the early 1990s (see figure 2). Because of higher inflation relative to its main trading partners, Portugal fell into a period of systematic devaluation of its currency in order to sustain price competitiveness what led to deterioration in the terms of trade.⁴ As a consequence, the weight of standardized industrial goods in exports, the most sensitive to this kind of competitiveness, was maintained if not reinforced; at the same time, many exporting firms were working under subcontracting schemes. Structural measures for the external sector were postponed in the name of the search for short term equilibriums and economic stabilization schemes.

FIGURE 2
PORTUGAL'S SHARE IN THE WORLD EXPORTS OF GOODS
1948-2006



Source: WTO.

⁴ After 1986, among other factors, the collapse of oil price contributed to the reversal of this deterioration; for a view of the evolution of the Portuguese terms of trade since 1950; see for example the Report of the Bank of Portugal 2006, p. 127.

A more positive legacy of this transitional period was the creation of the *Instituto do Investimento Estrangeiro* (IIE) in 1977, what, among other reasons, led to a substantial increase of the FDI inflows (often with significant impact on exports) till the beginning of the 1990s, enlarging the experience of the Portuguese economy with this increasingly key factor of the world economy. Later, IIE was absorbed by ICEP, but reappeared in 2002 as *Agência Portuguesa de Investimentos* (API). In July 2007, AIP and ICEP merged, and gave birth to the above referred to as AICEP.

Portugal became EC member in 1986, and a new stage of its development started, not only concerning foreign economic relations but also the macroeconomic, financial and regulatory context. It is important to stress that, in the six initial years and in relation to previous trends, the macroeconomic imbalances were fairly improved, although the public deficit and inflation rate remained excessive when compared to those of other European partners. In this period, high quantitative growth occurred (GDP grew at 6.1% on annual average in 1986-1990), but mainly in the non-tradable goods sector and public spending in particular soared. All this took place without competitive restructuring of the economy, we need only to take into account to what was, at the same time, happening in Ireland and Spain (with the usual costs like high unemployment), countries submitted to a very similar EU framework. One of the best examples of this posture was the increasing weight of the mostly uncompetitive traditional sector of textiles, clothing and footwear reaching 38.7% of total exports in 1991 (35.1% in 1985, and 30.1% in 1980). By the threshold of the 1990s, however, under a number of circumstances (events and economic trends) like the end of the transitional period to full membership, the drop in the domestic growth rate, and the participation of the escudo in the European Monetary System (April 1992), the imperious need for a true trade and competitiveness strategy began to loom on the horizon. To compete inside and outside the European Union, Portuguese firms should have strong competitive foundations, economically as well as financially, that did not exist and needed to be constructed. Nevertheless, the definition and implementation of such a strategy where various actors, public and private, should participate have revealed to be a highly complex and long enterprise in the Portuguese context. This is one of the main themes of the present report.

Summarizing the Portuguese trade strategy in the post-war:

- From the immediate post-war to 1959. The Portuguese economy was maintained in an autarkic mode of functioning; except for the colonies, the trade and investment links remained weak and at a low historical level; exports were mainly based on natural resources and agriculture products, or industries with low labor costs of the traditional sector.
- 1960-1973. The Portuguese trade becomes increasingly orientated towards Europe (EFTA+EEC), first, in the middle of some contradictions, this path was however strongly strengthened after 1968. At the same time, manufactured goods, traditional and new, quickly gained ground in exports.

Looking at the two first stages since the war, we may acknowledge that in the sub-period 1968-1973, there was a clear trade strategy actively embracing international targets (deeper integration with Western Europe, for example); some of its main features however increased the problems that the Portuguese economy had to overcome in the following steps of its road to internationalization. Indeed, the “model” then adopted was not only based on the acceleration of exports of standard manufactured goods but also in cheap energy prices, and in the building of large units of production (to the Portuguese scale), like oil refineries and dockyards to repair big ships for maritime transport, closely linked to the international markets, under a context of loose environmental requirements. With the oil shock of 1973, and the

beginning of systemic industrial restructuring that followed its aftermath, the features of this model appeared more as a handicap than an advantage for the internationalization of the Portuguese economy. In a way, we may conclude that this strategy arrived too late to be successful, and taking a lesson for the future: reforms must be implemented on time if not they will be more and more costly.

- 1974-1985. Taking into account the major economic and financial imbalances that emerged with the political transition to democracy, short-term macroeconomic management dominated trade issues and no consistent external strategy whatsoever was defined unless the search for closer links with EC at various levels. Due to successive devaluations of the escudo, price competitiveness substantially drove exports after 1977.
- 1986-1991: Despite membership in EC, in these initial years, the weight of traditional products increased in exports; in one hand, the effect of devaluations was still felt, and on the other hand, they “benefited” from some protection through Multi-Fiber Agreement (for example, in relation to Maghreb countries); the share of textiles, clothing and footwear reached an historical peak in the beginning of the 1990s; also, high growth in the non-tradable sector, and substantial transfers from the EU hid the international competitive weaknesses of the Portuguese economic structure.
- 1992 Onwards. Escudo enters in EMS, and Portuguese economy starts its way to Economic and Monetary Union (single European currency); without traditional instruments like the manipulation of the currency, competitive vulnerabilities become more and more evident, and Portugal’s share in world exports begins to gradually shrink, particularly in goods. By the middle of the 1990s, a program to strengthen competitiveness inspired by Michael Porter’s ideas⁵ was neither implemented nor monitored; up to the middle of the new decade slow progress or stagnation characterized trade performance what was aggravated by institutional instability in the national framework of trade and investment. Slowly, but effectively, the profile of exported goods was however shifting from traditional products of low technology to medium (low and high) technology what was probably more induced by the European process rather than by national policies. Also, after 2005, and in relation to 1996, diversification in the exports of goods and services is quite apparent from the geographical and composition perspectives; moreover, the great majority of flows of goods became more balanced, in some cases of services the flows passed from deficit to surplus. Is this an inaugural step of a new stage or a simple short-term twist?

⁵ The main points raised by this program will be summarized later in the point on the *Forum para a Competitividade* (FpC) in the chapter IV.

II. Main changes in Portuguese trade after 1996

In this chapter, we give basic statistical information relevant for the design of a trade strategy. Firstly, we analyze Portuguese trade of goods and services (exports, imports, and the balance), focusing on the evolution post 1996. Secondly, we put the Portuguese trade in the wider context of the balance of payments and present the major trends of FDI flows, a topic of obvious interest for a comprehensive study of trade. Thirdly and fourthly, the geographical distribution and the breakdown of products, particularly of exports,⁶ are examined in some detail. Due to very recent changes in several flows, whenever possible, we discriminate year by year in the 2000s, otherwise they would be less or even not so well perceived.

A. Exports, imports and balance of trade in goods and services

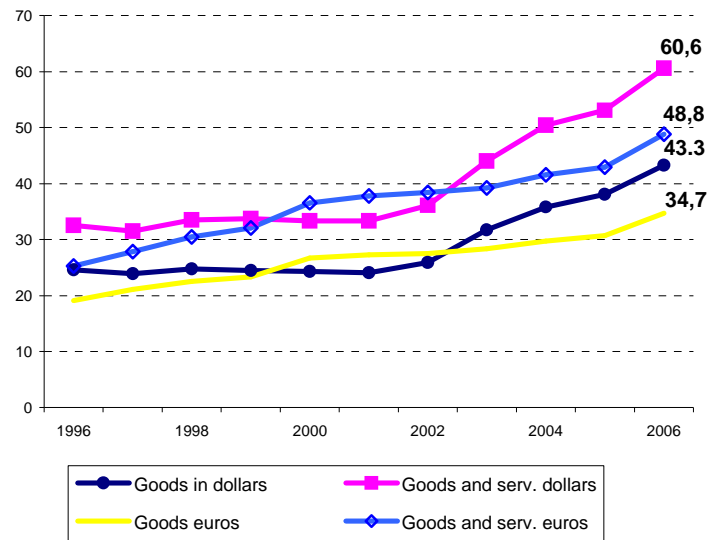
To begin with exports of goods and services, they have increased during the period (either in euros or in USD; see figure 3), but far from stopping the decline of their share in the world exports that began in the first half of the 1990s (figure 4 reproduces and enlarges to other flows the figure 2). There is however a different performance between goods and services; the former shows a clear decrease that, due to its greater weight, influences more the overall balance of trade, although the latter's share is near stability since 1998. Nevertheless, after a period of slow growth, and in relation to the previous year, 2006 witnessed a strong rebound in the export of goods 12.7%, and services 15.3% (rates calculated on the basis of current euros);⁷ an important outcome in light of the relative high value of the euro, but not yet enough to significantly reverse the asymmetry with the world trend. In this first approach to Portuguese trade since the nineties it

⁶ It must be noted that for the Portuguese economy and its strategy of internationalization, the study of exports should be highly emphasized. In fact, this major variable, studied through different techniques and instruments, shows well whether this economy is responsive or not to world demands, the non-responsiveness being one its main weaknesses during the last decades.

⁷ The figures for January-November 2007, provided by GEE and INE, show the maintenance of a sustained growth for exports of goods (8.8% to the equivalent period of 2006), in clear deceleration relative to the previous year but much higher than the annual average of 2001-06 (4.6%); GEE, *Síntese Estatística de Comércio Internacional*, nº 2/2008, p. 5. This more recent trend will likely be pursued, at least in 2008, if we take into account the world effects of the “sub-prime” crisis and of the high value of the euro.

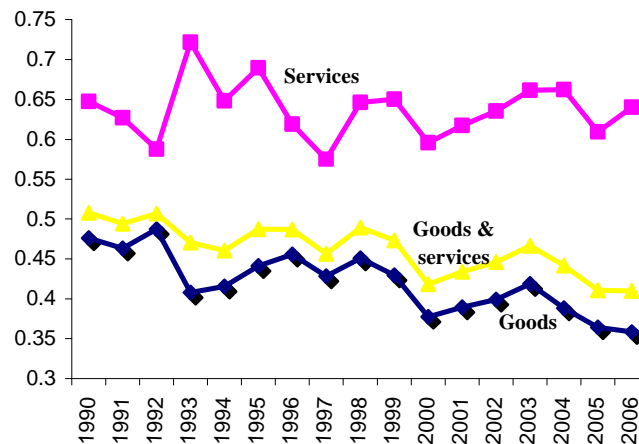
must be highlighted that the balance of goods is traditionally in deficit, and in 2006, its ratio was at 0.76 improving in relation to 2000 and 1996. The balance of trade in services traditionally behaves quite the contrary, but also showing an increasing surplus since the middle of the nineties (1.53 in 2006, and 1.22 in 1996).

FIGURE 3
PORTUGUESE EXPORTS OF GOODS AND GOODS AND SERVICES, 1996-2006
(Thousand millions)



Sources: WTO and Banco de Portugal.

FIGURE 4
PORTUGAL'S SHARES IN THE WORLD EXPORTS OF GOODS AND SERVICES



Source: WTO.

Thus, despite very recent progress in several indicators, the clear decline of Portugal's share in world exports is a major trend that we have to explain in this report. This is all the more

important insofar, at the same time, the ratio of exports of goods and services to GDP has also declined (see table 1).⁸ Unlike what happened in 1990, the Portuguese ratio in 2005 is clearly well below EU averages. Although there is some stagnation in the ratio since 1997, the comparative evolution is quite the opposite of the other EU partners that have increased in a few cases very substantially, and it is a proof that the problems of Portuguese exports have not been seriously tackled in the period under analysis.

TABLE 1
EU: EXPORTS OF GOODS AND SERVICES IN PERCENT OF THE GDP
(US Current prices)

	1990	1997	2003	2005
Austria	37.7	39.7	48.5	53.5
Belgium	69.5	74.0	81.0	86.7
Denmark	37.2	38.9	45.4	48.8
Finland	22.5	38.7	38.6	41.8
France	21.3	25.7	25.6	26.0
Germany	24.8	27.5	35.6	40.9
Greece	15.3	16.6	17.9	18.4
Ireland	56.6	79.2	83.7	81.3
Italy	19.2	25.2	24.6	26.0
Luxemburg	98.4	120.5	135.1	156.3
Netherlands	56.5	63.3	63.0	69.8
Portugal	31.1	28.6	28.0	28.5
Spain	16.1	26.3	26.3	25.7
Sweden	29.8	41.4	43.5	48.5
United Kingdom	24.2	28.9	25.8	26.6
EU-12	25.7	31.0	33.2	35.4
EU-15	26.1	31.6	33.9	36.3
EU-25	25.9	31.7	34.1	36.9
(Mexico)	38.6	30.3	27.8	30.0)

Source: OECD and Eurostat.

If we accept the theoretical assumption of the international economics textbooks that small countries have more advantages in being open than the big countries, i.e., in channeling more of their production to the global marketplace in order to benefit from scale effects, Portugal should show a relatively higher ratio of exports to GDP. In this light, a comparison with the other EU member states is necessary and useful. In 2005, such a ratio was for Portugal near some big EU economies like France, Italy, and UK (Germany evidences a much higher ratio)⁹; among small countries, only Greece has a lower position than Portugal.¹⁰ Looking more closely at this indicator, the contrast with neighboring Spain is rather striking, although also decreasing in relation to 1997, the Spanish ratio strongly increased since 1990, and both economies (the big one represented here by Spain, and the small one by Portugal) show a not so distant percentage of exports of goods and services in GDP in 2005: 25.7% (from 16.1%) and 28.5% (from 29.3%),

⁸ More precisely, the ratio of exports of services to GDP registered a slight increase from 1990 to 2005, and the loss was particularly felt in the exports of goods; in the whole, however, exports have decreased.

⁹ Even Mexico has a higher ratio (see bottom of the table 1).

¹⁰ Anyway, contrary to Portugal, the Greek ratio of 2005 was higher than those of 1990, 1997, and 2003.

respectively. Therefore, in this period, Portugal has clearly lagged behind many other countries, particularly EU member states, in taking advantage of the globalization potential.

We look now briefly at the composition of the Portuguese trade in goods and services, and its balances by groups of products. Table 2 shows the items where Portugal has a positive external balance in goods: only two in ten: clothing and footwear, and wood, cork and paper. In 2006, however, the ratio exports/imports has clearly been improved for all cases except clothing and footwear not only in relation to 2000, but also to 1996. It is interesting to observe that even imports of clothing and footwear have not increased their percentage in the total relative to the previous years that are considered, although the basic figures are quite different. Table 3 allows some similar conclusions about the trade in services. Again, in 2006, comparing with 1996, two of the most important items of this balance, transports and other services to business, became positive. This means that, beyond traditional travel and tourism (basically receipts of tourism), other significant items are now contributing to the rising surplus of services.

TABLE 2
PORTUGAL: BREAKDOWN OF EXPORTS AND IMPORTS, AND RATIO EXPORTS/IMPORTS
BY MAIN GROUPS OF PRODUCTS (1996, 2000, 2006)
(Percent)

Groups of products	Exports			Imports			Exports/Imports		
	1996	2000	2006	1996	2000	2006	1996	2000	2006
Agric. & foodstuffs	7.4	6.4	8.6	13.8	10.7	12.0	37.7	36.9	54.2
Energy	2.3	1.3	5.6	7.6	4.7	15.7	21.0	15.2	27.0
Chemicals & plastics	5.9	7.6	10.5	12.8	13.9	13.9	32.0	38.6	57.1
Wood, cork & paper	9.3	10.1	8.8	4.2	4.4	3.2	156.3	145.9	208.1
Leather & textiles	7.5	6.4	5.0	8.8	6.2	4.4	59.5	69.1	86.0
Clothing & footwear	23.4	19.7	10.7	3.3	3.6	3.3	500.4	345.1	245.4
Minerals & metals	8.9	9.3	10.3	8.3	9.7	10.3	74.7	63.3	75.7
Machinery	16.1	18.8	19.9	21.2	22.9	19.9	53.2	56.4	75.6
Transport equipment	15.6	16.9	13.4	14.3	17.8	11.7	76.2	55.9	86.7
Miscellaneous	3.6	3.4	7.2	5.7	5.9	5.6	43.9	37.6	97.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	69.9	61.0	75.7

Source: INE.

TABLE 3
PORTUGAL: TRADE IN SERVICES – MAIN STATISTICAL GROUPS
1996, 2001, 2006
(Million euros)

	1996			2001			2006		
	Exp.	Imp.	Balance	Exp.	Imp.	Balance	Exp.	Imp.	Balance
Transports	1104	1348	-244	1767	2329	-562	3180	2835	345
Travel & tourism	3686	1763	1923	6124	2363	3761	6649	2625	4024
Communications	216	132	84	224	198	26	541	375	166
Construction	208	180	28	214	87	127	439	106	333
Insurance	41	74	-33	67	107	-40	94	186	-92
Financial services	181	140	41	118	156	-38	197	206	-9
Computer & inf.	31	86	-55	67	171	-104	148	239	-91
Royalties & license fees	15	210	-195	28	279	-251	65	277	-212
Other business services	496	732	-236	1582	1447	135	2475	1782	693
Personal, cultural & rec.	71	121	-50	157	285	-128	202	374	-172
Others	57	237	-180	143	202	-59	147	237	-90
Total	6106	5023	1083	10496	7627	2869	14141	9247	4894

Source: Banco de Portugal.

Although we must take into account that very slow growth in GDP (on average 0.87% in 2001-2006), is depressing for imports, and high growth in the world exports, has the opposite effect on national exports; anyway, from the equilibrium point of view it is clear that, especially in the 2000s, there are indicators that the fundamentals of the Portuguese balance of trade in goods and services are improving, i.e., are becoming less vulnerable structurally speaking. As far as goods are concerned, in all items except one, the ratio exports/imports has increased, and the same happened in the main services' flows. This does not blur the negative evolution of Portuguese trade before world trends since the early nineties, but it is perhaps a sign in the way to a better performance. However, because many of these moves are recent and some of them short term determined, the problem here lies in knowing whether or not they are sustained, and only the medium term can satisfactorily answer to this question.

B. Balance of payments and FDI flows: some relevant aspects for the study of Portuguese trade

In the pursuit of this study, and before deepening our central issue, it is now necessary to look at the balance of payments as a whole, its equilibrium and most significant trends. According to the pattern of the last decades, the surplus of services is not enough to countervail the deficit in goods, both already referred to above, and the equilibrium in the current account was often reduced, more rarely reached, mainly through private transfers due to emigration. In an updated view, the gap of current account is also partially covered by the transfers of capital, coming basically from EU, that produce a surplus in the capital account as shown in table 4 for 2002-2006. It is worth noting that remittances play a decreasing positive role in the current equilibrium, what, beyond obvious exchange reasons,¹¹ is also due to the shrinking of emigration and to the increment of immigration and concomitant moves of transfers.

TABLE 4
CURRENT ACCOUNT AND CAPITAL ACCOUNT
(Balance in percent of GDP)

	2002	2003	2004	2005	2006
Current Account	-8.1	-6.1	-7.7	-9.7	-9.5
Goods and services	-7.9	-6.5	-7.6	-8.7	-7.6
Goods	-10.4	-9.1	-10.4	-11.3	-10.8
Services	2.5	2.6	2.8	2.6	3.2
Travel & tourism	2.8	2.7	2.8	2.5	2.6
Revenue	-2.3	-1.7	-2.0	-2.6	-3.5
Current transfers	2.2	2.1	2.0	1.5	1.6
Remittances of emigrants/immigrants	1.8	1.4	1.4	1.2	1.2
Capital Account	1.5	1.9	1.5	1.2	0.8
For memory:					
Balance of current transf. + balance of capital	3.7	4.0	3.5	2.7	2.4
Current account + capital account	-6.6	-4.2	-6.2	-8.6	-8.7

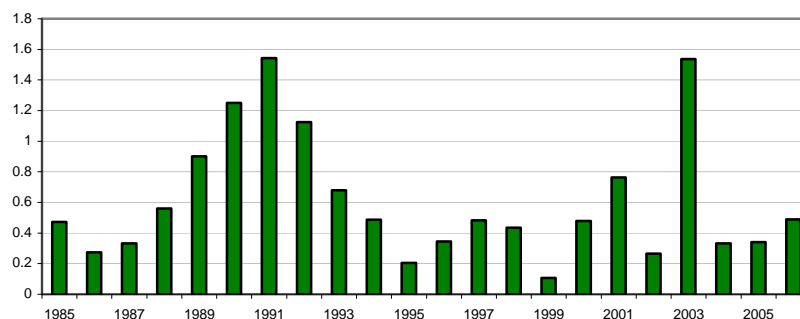
Source: INE and Banco de Portugal.

¹¹ After 2002, the higher value of the euro relative to the USD and other currencies, likely also matters for the increasingly negative contribution of the revenue account to the current equilibrium (see table 4).

The deficit resulting from the sum of current account¹² plus capital account¹³ is, in its turn, covered by the flows of financial account (not shown in table 4). Although the detailed analysis of such flows is out of the reach of this report, some considerations on the subject must be done afterwards, especially as far as concerns foreign direct investment which is relevant for trade in several respects. Indeed, the analysis of FDI is necessary for a better understanding of some major developments of Portuguese trade since the nineties stemming from the internationalization strategy.¹⁴

According to the figure 5, the world share of FDI net inflows to Portugal presents similarity with the correspondent evolution of exports of goods and services, i.e., it is decreasing since 1992, despite higher values in some isolated years, particularly in 2001 and 2003. This means that in relative terms (as a general trend, the world FDI inflows have strongly been increased between 1985 and 2000), Portugal was not able of accompanying the steady global pace of these flows, and its weight has FDI destination has been reduced (and also, very likely, in its world stock). More precisely, the credit of FDI inflows remains significant but also their debit; in every year, positive net inflows have been registered, sometimes at a very low level indeed; in consequence, the entry and the exit of these flows both reached high levels.¹⁵

FIGURE 5
PORTUGAL' SHARE IN WORLD FDI INFLOWS, 1985-2006
(In percent of the total)



Source: UNCTAD.

Since 1996, the Bank of Portugal presents a statistical series on FDI with methodological coherence; table 5 shows the credit, the debit, and the stock of FDI inflows in 1996-2006,¹⁶ also discriminating it according to the main countries and regions of origin. EU represents 73.8% of the stock, where Spain is the main net investor with more than one third of the total, followed by the Netherlands (12.9%), and the United Kingdom (8.9%). As far as concerns the sectors where

¹² The traditionally high deficit of current account is a strong reason to give more policy emphasis to exports.

¹³ This deficit is relatively high, and rising since 2003, but Portugal, contrary to what happened in the period 1974-1985, needs not a short term adjustment shock because now, with the single European currency, is paying the great majority of its imports with its own currency.

¹⁴ The Resolution of the Board of Ministers n°61/97, published in April 15, 1997 (by *Diário da República*), is related to these issues, and it is a relevant document in the development of a strategy addressed to the internationalization of Portuguese firms.

¹⁵ Under this perspective, it must be pointed out that the denominated *permanency rate* (the ratio between the net FDI inflows and the gross FDI inflows) evidences, on annual average, a sharp fall from 1986-1995 to 1996-2005, 78.5% and 16.7% respectively; see Silva, 2006, p. 518. This leads to the conclusion that Portuguese FDI inflows are highly mobile.

¹⁶ In table 5, the stock is calculated according to the usual methodology of UNCTAD: stock equals the accumulation of net FDI inflows (the same methodology is used for FDI outflows in figure 6).

FDI inflows are applied, the same data of the Bank of Portugal are much less transparent; in 1996-2005, for example, the item real estate and service to firms absorbed 61.9% of the total stock of inflows, financial activities 9.2%, transports and communications 7%, and manufacturing a scarce 1.7% (Silva, 2006a, p. 510). Indeed, much of the FDI flows is registered by the Bank of Portugal as undifferentiated services to firms (inflows or outflows), because they come through the holdings of economic groups, and only more detailed studies, not easily available or updated, or direct enquiries to sectors or groups of firms, may proximately determinate the final destination of FDI inflows in terms of sectors of economic activity.

TABLE 5
FDI INFLOWS IN PORTUGAL: COUNTRIES AND REGIONS OF ORIGIN (1996-2006)
(*Thousand euros*)

	Credit	%	Debit	%	Net	%
European Union	195 476 809	85.7	164 846 896	88.3	30 629 914	73.8
Euro Area	154 755 199	67.8	127 773 018	68.5	26 894 559	64.8
Germany	31 323 466	13.7	30 787 490	16.5	535 970	1.3
France	28 744 673	12.6	26 339 258	14.1	2 405 415	5.8
Netherlands	30 445 832	13.3	25 069 777	13.4	5 376 055	12.9
Spain	27 383 302	12.00	13 120 759	7.0	14 262 546	34.4
Other EU	40 712 500	17.9	37 084 275	19.8	3 735 355	9.0
United Kingdom	35 817 297	15.7	32 115 033	17.2	3 702 263	8.9
Rest of the World	32 665 674	14.3	21 785 127	11.7	10 880 551	26.2
USA	7 369 894	3.2	6 571 682	3.5	798 215	1.9
Brazil	1 803 634	0.8	1 839 289	1.0	-35 655	-0.1
Others	23 492 146	10.3	13 374 156	7.1	10 117 991	24.4
Total	228 142 483	100.0	186 632 023	100.0	41 510 465	100.0

Source: Banco de Portugal.

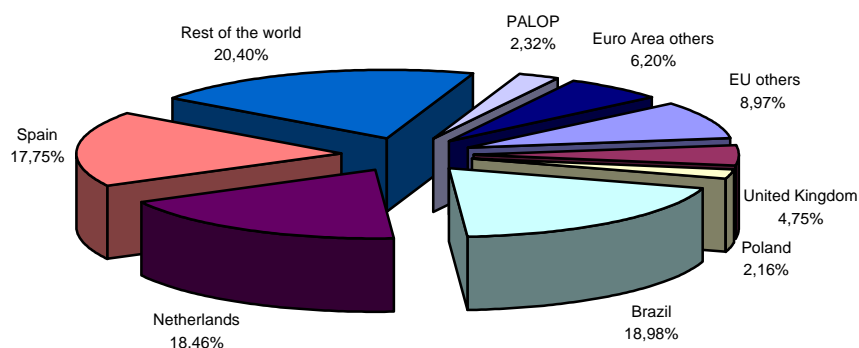
For a deeper study of Portuguese internationalization we also need to take into account the FDI outflows. This matters here because these flows only became significant since the middle of the nineties, just the period covered by our analysis. In 1996, for the first time, the debit of FDI outflows represented more than 1% of the GDP, but the same ratio quickly reached 13.5% in 2000; moreover, every year between 1998 and 2004, except 2003, net outflows exceeded net inflows. Anyway, after 2001, overlapping with the stagnation of Portuguese economy, some decrease is perceptible in the FDI outflows (Silva, 2006a). By reasons exposed later, in the Portuguese case there is no evidence of robust correlation between FDI outflows and trade, particularly exports (sometimes even a substitution effect to the detriment of exports can be observed).¹⁷ In all events, the trend to invest abroad became a major ingredient of the internationalization process of Portuguese firms, and it made possible a more sophisticated interplay between both flows.

The figure 6 shows the geographical distribution of the stock of Portuguese outflows that is more diversified than the stock of inflows. The three main countries of destination, Brazil, Netherlands, and Spain, absorb each of them a proximate share (this set represents 55.2% of the total); we have to acknowledge however that the two last countries are not often the final destination of the outflows. Regarding the distribution by sectors of economic activities according to the series of the Bank of Portugal, like for inflows, the same problem of lack of transparency

¹⁷ We think of the case of moulds industry, where Portugal is internationally competitive. When some major firms, like Simoldes, Logoplaste, and Iberomoldes (this firm will be analyzed later in this report), invested in Brazil, the exports of this product to host country were reduced.

exists; in 1996-2005, the item real estate and services to firms represented 81.7% of the total stock of outflows. An enquiry conducted in Brazil in 2005, directly addressed to Portuguese subsidiaries showed that the great majority of Portuguese firms belonged to the category of commerce and services (69.2%), the share of manufacturing and construction was 21.4%, and that of agriculture and fisheries 9.4% (ICEP, 2005). In the services, tourism had relevance, and 10.4% of the subsidiaries were in the category of hotels. These data lead us to the conclusion that likely FDI outflows correspond, at least to some extent, to the Portuguese specialization, where services like tourism have an advantage.

FIGURE 6
STOCK OF PORTUGUESE OUTFLOWS: COUNTRIES OF DESTINATION, 1996-2006



Source: Banco de Portugal.

Note: Net investment: 42.57 thousand millions euros; Gross investment: 100.88 thousand millions euros.

In spite of the fact that the Portuguese ability to attract FDI inflows did not follow the world pattern since the early nineties, it is necessary to bear in mind that before the eighties, the experience of the Portuguese economy with this flow was neither large nor intense. So, we have to consider that in the last decade, from the historical point of view, the importance of FDI inflows increased, and opened the way to the strengthening of the links with foreign firms. On the other hand, after the middle of the nineties Portuguese FDI outflows also reached levels of statistical significance, contributing to a greater diversification of external economic relations, and to the exploration of new routes abroad. Notwithstanding natural weaknesses in the process, these two trends became highly relevant within the context Portuguese internationalization, and they have incremented its potential.

C. Geographical concentration and diversification

In the first decade of membership 1986-1995, exports to the other partners of EU-15 substantially increased; Spain absorbed however the essential of these gains¹⁸ while some traditional partners only maintained their share or began to shrink. Until the initial years of the new decade, these

¹⁸ In 1984, Spain represented not more than 4.4% of total exports, and 5.4% of total imports; Neves, 1996: 349; regarding these figures and the present ones, it seems like the Portuguese economy goes easily from one extreme to the other. According to some agents involved in the process and recorded later in this report, these flows are overvalued, and do not reflect the reality of bilateral trade.

trends strongly persisted, and the Portuguese exports became highly concentrated in EU, if not in Spain.¹⁹

In the 2000s, according to the table 6, it is clear that the EU-15 destination started, at last, to lose some weight, in the beginning slowly, but accelerating in 2005-06 (despite a recovery in 2007, but still below 2005): in 2006, the last full year we have data, EU-15 absorbed 75.4% of total exports after being relatively stable, around 80% in 1995-2004. In the meanwhile, the share of Spain continued to grow, overtaking Germany since the early 2000s, consolidating its position as first client (and as first provider), showing only a very slight decrease in 2006. United Kingdom in the first post-war decades and Germany in the 1980s and 1990s were the main markets for Portuguese exports, but by the middle of the new decade their position in the ranking was much more modest, especially the former. In its turn, France, another traditional partner, only slightly declines, seeming in a more stable position, and ranking as third destination of Portuguese exports, being very close to Germany in 2003-2007. It may be concluded that, in the EU-15 context, the orientation of Portuguese exports reinforced the geographical proximity factor.

TABLE 6
PORTUGUESE EXPORTS OF GOODS BY GEOGRAPHICAL BREAKDOWN, 1995, 2000-2007
(Per cent)

	1995	2000	2001	2002	2003	2004	2005	2006	2007*
EU (15)	80.6	80.2	79.9	79.8	79.3	79.2	78.1	75.4	76.8
Spain	14.8	18.9	19.3	20.8	23.8	25.8	26.8	26.4	28.1
Germany	21.7	17.8	19.0	17.5	14.6	13.4	12.1	12.8	13.2
France	14.1	12.7	12.7	13.5	13.2	13.8	13.7	11.9	12.6
United Kingdom	10.8	11.0	10.0	10.2	10.3	9.4	8.5	6.6	6.1
New EU members**	0.6	1.3	1.4	1.5	1.7	1.6	1.9	1.8	2.4
EFTA	2.9	2.3	2.2	1.5	1.9	1.3	1.1	1.1	1.0
Rest of Europe	3.5	2.8	2.8	1.7	2.6	2.2	2.3	1.4	1.2
North America	5.0	6.3	6.3	5.8	6.4	6.4	5.8	6.5	5.2
USA	4.5	5.8	5.7	5.7	5.7	5.8	5.4	6.1	4.8
Latin America	1.6	1.5	1.9	1.8	1.1	1.3	1.3	1.7	1.9
Brazil	0.8	0.7	0.8	0.6	0.4	0.5	0.6	0.7	0.6
Mexico	0.0	0.2	0.3	0.3	0.2	0.2	0.3	0.4	0.3
Africa	3.8	3.7	4.2	4.5	4.6	4.7	4.7	5.7	7.0
PALOP	2.2	2.0	2.8	3.0	3.1	3.0	3.3	4.4	5.4
Angola	1.7	1.4	1.9	2.1	2.3	2.2	2.6	3.5	4.4
Asia	3.2	2.4	2.7	2.7	3.2	3.4	3.5	4.2	5.6
Japan	0.8	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.8
China	0.1	0.2	0.2	0.3	0.5	0.3	0.6	0.6	0.5
India	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Oceania	0.3	0.5	0.4	0.4	0.4	0.3	0.3	0.2	0.2
Others	1.3	1.3	0.7	0.8	0.6	1.3	2.0	1.9	1.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Euros value***	17.5	26.4	26.9	27.4	28.1	29.9	30.6	34.5	34.7

Source: INE.

* January-November.

** Enlargements of 2004 and 2007.

*** Thousand millions euros.

Nevertheless, in the new decade, and especially since 2002, Portuguese exports also experienced other relevant geographical changes. Asia, year after year is becoming a more

¹⁹ Portugal even, in the beginning of the 2000s, became the member state whose trade was more concentrated in EU; Silva, 2002, pp. 163-173.

important partner,²⁰ with the China particularly increasing its share, and the same is valid for the new EU Member states (from 0.6% in 1995 to 2.4% in 2007). Africa, and especially PALOP (acronym of African Countries Officially Speaking Portuguese); above all oil booming Angola, is clearly recovering its place as destination of exports. The trend is not so evident for the Americas, but even so, gains are clear in some particular cases; for example in Mexico, although starting from a very low level, is becoming a more interesting market (Portuguese exports amounted by 139 millions euros in 2006, representing about a half of the more traditional Brazilian market).²¹ An explanation for the exports' performance towards Mexico probably lies in the Free Trade Area agreement with EU, suggesting a possible way to more intense trade relations between EU member states and Latin America countries.

If we take into account these two trends of Portuguese exports (inside and outside EU), a move towards diversification is clear, obviously in part favored by short term conditions like the boom in commodities market (that led to an increase of the purchasing power of some traditional partners in the developing world). Portuguese exports and trade in general were described too many times as rigidly oriented, lacking flexibility, and having great difficulties in penetrating into new markets (particularly when they are distant and not ex-colonies), even in the short run;²² this seems to be slightly changing, at least in relation to the nineties. In any case, even if it is too early to take for granted all these developments, the idea of prolonged stagnation concerning geographical distribution is being somewhat broken, perhaps opening the way to reduce the dependency on close neighborhood from the cultural or gravitational points of view (with the possible exception of EU-15). This change will be very important for a small economy like Portugal, to be too dependent on very few markets, even if they are highly industrialized like EU member states, may seriously handicap the possibilities of exploring other alternatives, and taking full profit of its own competitive advantages; it also leaves the country more exposed to unwanted turns in a very scarce number of partners. All these dimensions are relevant in order to be taken into account in the design of the advanced trade strategy that Portugal needs.

D. Analysis of the Portuguese exports: shifting from traditional to new products

As referred to above, in this point we will focus on the changes of the structure of Portuguese exports of goods and services. Table 4 presents major aspects of this process as far as exports of goods are concerned, through a set of selected years between 1986 and 2006. Firstly, between 1996 and 2006, the weight of traditional goods (including agriculture, forestry and manufactured products) has considerably decreased from 47.7% to 32.5% of the total, and is no longer the most significant part of exports has happened up to the early 1990s. Textiles, clothing and footwear are however the responsible for this drop; the shares of the other traditional products - like wine, and some fruits or forestry products - have remained basically stable in overall around 17% of the total what means that they are likely becoming more competitive, and have a new basis to be developed (differentiation through quality instead of price). Secondly, machinery and transport

²⁰ In January-November 2007, Asia has supplanted the traditional North American market as destination for Portuguese exports (table 6).

²¹ In 2006, there was no product clearly dominating the Portuguese exports to Mexico, they were composed by 8473 – *parts of machines for data processing* with 12.3%; 2901 – *acid hydrocarbon* with 12.1%; 2701 – *oil* with 7%; 6109 – *T shirts etc.* with 5.4%, all the other smaller items representing 57% of the total; on the contrary, Portuguese imports from Mexico were highly concentrated in 2709 – *brut oil* with 83.7% of the total; exports to Brazil will be examined later in this report.

²² For example, the Portuguese exports have neither profited from the oil exporting markets in the 1970s nor from the US recoveries in the 1980s and 1990s, the Japanese market in the 1980s, etc.

equipment was in 2006 the most important group by great categories of goods. Comparing this item in 1996 and 2006, there is no substantial change in the share. But, if we consider as starting point 1986, we may conclude otherwise. Indeed, as Auto-Europa (Volkswagen) started its functioning in 1996 (as full year), and represents directly or indirectly a large part of the sub-item motor vehicles and other transport equipment, the evolution of this group machinery and transport equipment (including optical & precision instruments) is impressive: from 15.8% in 1986 to 33.9% of the total exports in 2006. On the other hand, since 1996, the sub-item motor vehicles etc. is losing ground, and the figures already available for 2007 show that this decline continues, whilst the other sub-item machinery, equipment basically maintains its weight of the 2000s. Thirdly, mineral and metals also substantially increased their share in the 2000s, it must be acknowledged that again the booming price of raw materials in the period (in copper, for example, where Portugal is an exporter) has certainly contributed to this performance, and consequently may be temporary; anyway, it is another sign of exports' diversification. Fourthly, the group chemicals, plastic and rubber almost doubled its share between 1996 and 2006. So, traditional goods, essentially textiles, clothing and footwear lost weight²³ for new and likely more upgraded products, and this process also led to a greater diversification, under this specific taxonomy of goods.

TABLE 7
PORTUGUESE NOMINAL EXPORTS OF GOODS BY GROUPS OF PRODUCTS
Weights in total nominal exports (per cent)

	1986	1996	1999	2003	2004	2005	2006
Traditional goods	62.1	47.7	44.3	38.8	36.5	35.0	32.5
Agriculture		3.1	2.8	3.2	3.6	3.8	3.7
Food products		4.3	4.2	4.3	4.1	4.2	4.2
Wood, cork		4.6	4.8	4.7	4.7	4.5	4.2
Pulp, paper		4.7	4.6	4.9	4.5	4.6	4.5
Textile products		7.1	7.4	5.8	5.3	5.1	4.7
Clothing		15.6	13.3	10.5	9.5	8.3	7.2
Footwear		7.8	6.9	5.1	4.5	4.2	3.7
Leather, leather products		0.4	0.3	0.3	0.3	0.3	0.3
Minerals and metals	12.5	11.2	11.1	12.3	14.6	16.7	19.2
Mineral fuels		2.3	1.8	2.4	2.9	4.3	5.5
Mineral, ores		5.0	4.4	4.2	4.8	5.0	5.4
Basic metals		3.8	4.8	5.7	6.9	7.4	8.4
Chemicals, plastic and rubber	6.8	5.9	6.8	8.7	9.4	10.5	10.3
Chemicals		3.4	3.6	4.4	4.6	5.3	5.1
Plastic, rubber products		2.5	3.2	4.4	4.8	5.2	5.3
Machinery and transport equip.	15.8	32.7	35.2	36.2	35.3	33.6	33.9

(Continued)

²³ Such a fall may be linked to the losses in the Portugal's share in some European traditional markets like UK, EFTA, and even, in part, Germany (see table 6). According to an interpretation heard at the *Forum para a Competitividade* (see later), both trends are not that much to blame, after all. In spite of the fact that they are advanced economies, Portuguese exports to these European markets were largely characterized by products of the lower stages of value chain (again, low-cost labor intensive and relatively protected by regional integration and MFA, textiles, clothing and footwear were the best example of this). In this light, the situation had its roots in the developments across the continent during the previous decades. In the 1960s, under the context of EFTA, many northern European firms in these industries, searching for low labor costs, outsourced to Portugal, as well as to other southern European countries, and the relation was more or less maintained during the two following decades. When, in the 1990s and 2000s, new competitors coming from emergent economies with substantial labor cost advantages, penetrated into European markets that had become more open, the Portuguese share quickly diminished. To some extent, this is probably true; the problem however lies in the answer to the following question: why Portuguese producers and exporters took so much time in adapting to more qualified demands from European markets? Why the government has not promoted incentive measures in order to speed this process of change in due time?

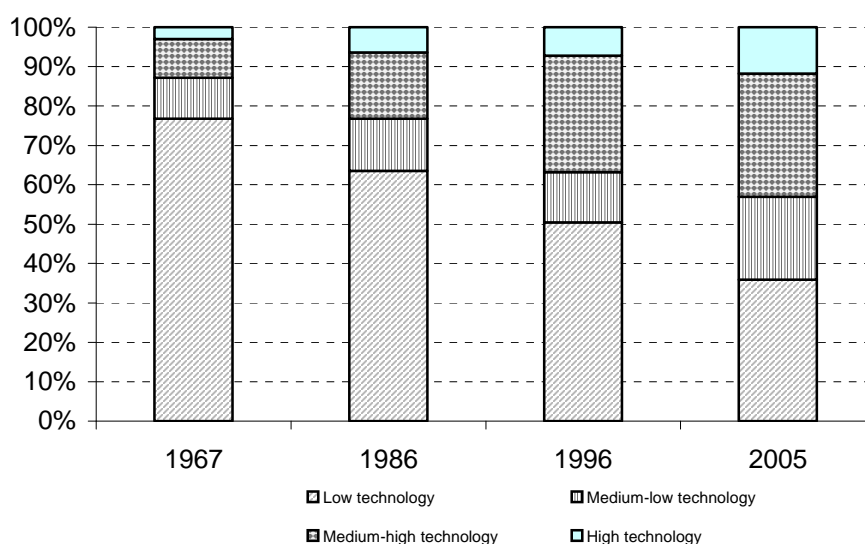
Table 7 (Conclusion)

Machinery, equipment		16.1	19.0	19.7	19.0	18.7	19.8
Motor vehicles, other trans. equip.		15.6	15.3	15.3	15.3	14.0	13.2
Optical & precision instruments		1.0	0.8	1.1	1.0	0.9	0.9
Other products	2.7	2.6	2.6	4.0	4.2	4.2	4.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: *Ministério da Economia e Inovação – Gabinete de Estratégia e Estudos*, INE and Banco de Portugal.

Figure 7 shows the transformation we have just referred to above in another fundamental respect, in so far it introduces the technological content of exports. Indeed, simple statistical characterization of industries according to the type of economic activity is no longer sufficient to understand what is going on in international trade; for instance, in agriculture, or even textiles and footwear we may have quite different components from the technological point of view (more specifically among the firms of each industry). Therefore, looking at the figure 7, it is clear that products incorporating low technology, overwhelming in the 1967, and even in 1986, were near parity with the others in 1996 but, in the period under more detailed analysis; they clearly lose ground and no longer represent the majority of exports. The weight of high technology goods in exports, however, although increasing is still low (11.8% of the total in 2005, but 7.3% in 1996, and 6.5% in 1986), and the gains went mainly to the share of medium high and medium low technology products that together represent now more than half of the Portuguese exports. In general, they are exposed to tough international competition, especially coming from Asian countries and other competitive areas in this range of products. Hence, in spite of the improvement in the composition of exports towards higher technological content, the process seems to have been too slow in comparison with other historical experiences, especially those of more integrated countries into the world economy (Lall, 2001); so, the changes are relevant but the Portuguese exports remain vulnerable to the world dynamic competition.

FIGURE 7
COMPOSITION OF PORTUGUESE EXPORTS



Source: Chelem database.

Note: The aggregation of the manufacturing sectors according to its technological intensity is based on the classification by the OECD. See OECD Science, Technology and Industry Scorecard, 2005.

Similar trends can be observed as far as concerns the exports of commercial services since 1996 (see tables 8 and 9), whose weight has somewhat been increased in total exports, from 27.1% in 2000 to 29.1% in 2006. Again, the traditional pillar of these flows travel and tourism is losing ground, and in 2006, for the first time since long ago, is below 50% of the total of these exports. In turn, transport and other business services have strongly strengthened their position in the ranking as second and third contributors to the exports of services, and together are quickly approximating the amount of travel and tourism receipts.²⁴ Although to a lesser extent in absolute terms, communications and construction also increased their share in relation to the beginning of the 2000s (not to 1996). The value of exports of the other items remain minor in the whole, although substantially increasing in some cases (in relation to 1996, the exports of computer and information have been multiplied by 4.8, royalties and license fees by 4.3, and the total only by 2.3). So, a trend towards diversification in the exports of commercial services, increasingly with new products, is also quite apparent; some more qualified flows remain nevertheless inexpressive. These moves, if they become consolidated, are of great significance insofar we take into account the contribution of services flows to the total balance of trade, and consider the Portuguese international specialization in this same field.

TABLE 8
PORTUGUESE EXPORTS OF SERVICES, 1996, 2000-2006
(Thousand million euros)

	1996	2000	2001	2002	2003	2004	2005	2006
Travel & tourism	3686	5719	6124	6093	5848	6195	6198	6649
Transport	1204	1585	1767	1939	2114	2322	2584	3180
Other business services	497	1444	1582	1774	1738	1837	1995	2475
Merchanting & other trade rel. ser.	138	853	852	841	825	819	876	1022
Operational leasing services	22	27	34	43	30	39	54	74
Miscellaneous services	337	564	696	890	883	979	1064	1379
Communications	216	187	224	265	318	389	462	541
Construction	208	163	214	217	273	348	293	439
Personal, cultural & recreational	75	148	157	122	118	156	166	202
Financial services	181	261	119	159	141	188	171	197
Computer & inf.	31	82	67	82	96	116	122	148
Others	58	132	144	146	146	156	132	147
Insurance	41	64	67	79	83	110	80	94
Royalties and license fees	15	31	28	31	32	33	48	65
Total	6112	9819	10496	10910	10912	11853	12255	14141

Source: INE.

TABLE 9
PORTUGUESE EXPORTS OF SERVICES, 1996, 2000-2006
(Percent)

	1996	2000	2001	2002	2003	2004	2005	2006
Travel & tourism	60.3	58.2	58.3	55.8	53.6	52.3	50.6	47.0
Transport	19.7	16.1	16.8	17.8	19.4	19.6	21.1	22.5
Other business services	8.1	14.7	15.1	16.3	15.9	15.5	16.3	17.5
Merchanting & other trade rel. ser.	2.2	8.7	8.1	7.6	7.6	7.0	7.2	7.2
Operational leasing services	0.3	0.3	0.3	0.4	0.3	0.3	0.4	0.5

(Continued)

²⁴ We must acknowledge that also tourism underwent some changes in the positive way during the 2000s; for example, “more heritage and culture and less dependency on sun”, by receipts the region of Lisbon overtook that of Algarve since 2004, and some segments like golf tourism became more present in the offer of Portuguese tourism.

Table 9 (Conclusion)

Miscellaneous services	5.6	5.7	6.7	8.2	8.0	8.2	8.7	9.8
Communications	3.5	1.9	2.1	2.4	2.9	3.3	3.8	3.8
Construction	3.4	1.7	2.0	2.0	2.5	2.9	2.4	3.1
Personal, cultural & recreational	1.2	1.5	1.5	1.1	1.1	1.3	1.4	1.4
Financial services	3.0	2.7	1.1	1.5	1.3	1.6	1.4	1.4
Computer & inf.	0.5	0.8	0.6	0.8	0.9	1.0	1.0	1.0
Others	0.9	1.3	1.4	1.3	1.3	1.3	1.1	1.0
Insurance	0.7	0.7	0.6	0.7	0.8	0.9	0.7	0.7
Royalties & license fees	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Banco de Portugal.

So, Portuguese trade in goods and services, particularly exports, underwent major changes in 1996-2006 in their bases (for instance towards greater equilibrium), and greater diversification by geographical breakdown and the kind of products. Some of them are very recent; others correspond to trends that have been slowly gaining momentum during the previous decades. In a way, we may say that only very recently the composition of Portuguese trade is truly closer to the pattern of the other European partners, particularly at the level of EU-15, being more diversified, less dependent on natural resources and factors, and, eventually, on low labor costs and non qualified human resources. Yet the process still needs to be deepened and consolidated in the coming years. In any case, the context of qualitative transformation is becoming more evident in the evolution of Portuguese trade during the last decade, and this will have certainly impact on the implementation of trade strategies.

It is important to add some more information about the evolution of Portuguese trade since the middle of the nineties using other indicators like specialization coefficients, market shares, and import shares. In a study on the Portuguese trade within the context of EU-15 in 1995-2004, Amaral (2006) calculated some of these indicators on a time comparative basis. The selection of the EU-15 makes sense insofar it stably absorbed about 80% of the total exports in this period; in the following step, 45 products (at four digits) whose exports were above 100 million euros representing 47.8% of the total, were chosen for the analysis. The results as far as concerns specialization coefficients are in table 10: between 1995 and 2004, they show a positive evolution to the extent that according to the standard interpretation of the three indicators, intra-industry trade has raised its level between 1995 and 2004.²⁵

TABLE 10
SPECIALIZATION COEFFICIENTS

Coefficients	1995	2004
Balassa	0.429	0.389
Grubel and Lloyd	0.611	0.682
Adjusted Grubel and Lloyd	0.707	0.864

Source: Amaral, 2006, p. 10.

However, regarding market shares and import shares of the 45 products, the results are clearly more disappointing. The author compared the periods 1995-2000 and 2000-2004. In the latter, 21 products, representing 41.4% of exports, had lost market and import shares a worse result than in 1995-2000, where only 15 products (26.2% of the total) had simultaneously lost

²⁵ For technical details, see the original source, available in www.gee.min-economia.pt.

both shares. At the same time, in 2000-2004, the number of winner products in the two indicators had decreased in relation to the previous period, from 21 to 14 (and their drop in total exports was from 53.1% to 29.4%). Between the two periods there was an increase of the products, among the 45 more exported to EU-15, which had lost market share (17 to 25) or import share (22 to 27). Although the commercial services do not make part of the sample that was studied by Amaral, he points out that the item travel and tourism also lose share in EU market between 1995-2000 and 2000-2003 (p. 11). These findings are all the more interesting to the extent they confirm the main trends we have referred to before, and put the question about how deep are some signs of change we have just noticed in our analysis of Portuguese trade after 2005 (indeed, these years have not been included in the study we are referring to).

III. The institutional framework of Portuguese trade strategy (I): The public agencies

A. The Programs supervised by the Ministry of Economy and Innovation – *PRIME and QREN*

1) PRIME and SIME (Public Initiative with EU support)

Due to the lack of consistent international trade strategies in the past, the EU support has been crucial in promoting the internationalization of SMEs in Portugal,²⁶ providing roughly two thirds of the total public assistance. From 2000 to 2006, the main EU program supporting firms focused on modernization, and was called Incentive System for Enterprise Modernization (SIME – *Sistema de Incentivos à Modernização Empresarial*), but it also had a component called *SIME-Internacional*. SIME was a key part under the Program for Modernization of the Economy (PRIME), and far as internationalization was concerned the projects in the following areas were eligible for funding:

- Market studies;
- Actions of research and presence in foreign markets;
- International marketing;
- Acquisition and registration of brands, warranties, patents and licenses;
- Financial effort to capital sharing associated with new productive investments in European Union companies.

PRIME had a national scope and included all sectors of the economy (and in some cases all kinds of firms); between 2000 and 2006 where it was in force, more than 15700 projects were approved, representing a total investment of 18 thousand millions euros.²⁷ Firms from all sectors

²⁶ Although more internationalized, big firms represent a tiny proportion of the total in Portugal, and they need less support or operate through other routes like economic diplomacy.

²⁷ In each approved project, the SME firm should invest at least 150 thousand euros and the non SME firm 600 thousand euros.

were eligible for support, and there were almost 40.000 applications. In practical terms, in the name of modernization, many of the subsidies went to SMEs in the non tradable sectors. The SIME funds, in particular, were used in great part to modernize capital (buildings, equipment) and labor training, whereas relatively few funds were allocated to internationalization activities. The limited amount of funds used for export promotion was mostly spent on marketing products abroad. According to these views widely recognized, even by governmental bodies, in 2006, PRIME was reformed, and became the New PRIME more focused on innovation, training and internationalization.

2) From PRIME to QREN Program (Public Initiative with EU support)

Since PRIME is officially finished, the pursuit of the “new strategy”, started to be implemented in 2006, will be assured by QREN (*Quadro de Referência Estratégico Nacional* – National Strategic Framework of Reference) in the period 2007-2013.²⁸ Institutionally, the QREN is to a large extent the continuation of what was previously known as *QCA - Quadro Comunitário de Apoio* (Community Framework of Support) I, II and III, in force between 1987 and 2006, under which the essential of EU structural funds transferred to Portugal was channeled and managed on the basis of specific projects. The QREN is announced as being much more selective, prioritizing projects which have internationalization, knowledge and innovation as their key parameters. As a consequence, priority will be given to tradable sectors and the focus on internationalization instead of modernization is now clear. In the present program, the strategic key item Factors of Competitiveness has 6.001 million euros available in funds to distribute. Nevertheless, public (EU) funds can only finance a minor share of internationalization efforts. The limits are 7.5% of “eligible” cost for medium sized enterprises and 15% for small firms, and, as just referred to above, another limitation of the EU funds is that they only contribute for internationalization efforts within the EU but not outside.

Until 2006, at least, taking into account that the distribution of funds inside EU is largely made in administrative and political bases, the economic evaluation of these policies by independent bodies would have been necessary, in particular as far as internationalization is concerned (comparing with funds destined to other areas). However, the results of such evaluations are not systematically conducted, are disperse, and not easily available. An effort to develop these schemes would be useful for the future rationalization and enhancement of such programs.

B. AICEP (*Agência para o Investimento e o Comércio Externo de Portugal*) – Agency for Investment and Foreign Trade of Portugal, and “ICEP” experience

Several public institutions, coordinated by the Ministry of Economy and Innovation, participate directly or indirectly in the export promotion. The main institution in charge of promoting exports and investment abroad is presently the *Agência para o Investimento e Comércio Externo de Portugal* (AICEP), which is the merge of ICEP (exports) and API – *Agência Portuguesa de Investimento* (investment). This merge has become effective as of July 2007, after both

²⁸ At the time, of our inquiry, in July 2007, the situation was more complex on the ground; the chief representatives of PRIME were still operating, managing the support given to projects in the previous years, and QREN, that should be in force since January 2007, had not yet received the official green light from Brussels to start, although this was expected at any moment. In fact, only by the end of 2007 it was announced that applications for QREN funding would be soonly accepted.

institutions were separated in 2002 as well in 1977-1990 (to mention the major institutional changes that occurred in the last decades not only involving trade and investment organizations but also tourism). A comparison between past ICEP and present AICEP will be made a little further. Due to its relevance to the Portuguese exports, let us first make a presentation of ICEP.

As mentioned earlier, under different names,²⁹ ICEP exists since the late forties. Obviously, here we will not give account of all these changes. Up to the nineties, ICEP had accumulated experience in export promotion; its efficiency was variable, sometimes influenced by the vision (or its lack) of executives and boards, but other determinants, like devaluations after 1977 till the second half of the eighties,³⁰ rather than promotion activities seemed much more decisive for governments in order to increase exports. For a long time ICEP was a public agency, surely useful in the diffusion of information abroad, but limited by institutional and financial means and scope; for example, the promotion of exports through a strong and operative network of foreign representations is relatively recent. Indeed, the foreign network of ICEP has remained relatively small comparing to the personnel working inside Portugal (AICEP is now aiming at strengthening the former).

In 2005, ICEP entered a more dynamical path of its existence. By the middle of this year, its central objective was clearly defined, and translated into two main targets and four great lines of strategic orientation. There was not a specific link with the unsatisfactory performance of exports between the beginning of the nineties and the middle of the 2000, but of course this influenced the new program as background. Afterwards, we present its most important points.

Central Objective:

To act in the assistance to exports of Portuguese firms.

Two main targets:

- To increase the market share of Portugal through *a growth rate of exports higher than that of international trade* (the italic is ours);
- Trade internationalization of Portuguese firms in view of the support to exports.

Great lines of strategic orientation:

- To improve the levels of efficiency in the support to exporting firms through the international network of ICEP.
- To implement a strategy of *Marca Portugal*, unified for goods and services of the Portuguese firms in all sectors and chains.
- To create mechanisms for actual support to firms in their actions of export and international trade.
- To carry out and to expand public-private partnerships with the associations' employers, in order to increase the efficiency of the promotional effort.

In relation with this new strategy more precise and ambitious measures were also announced (partly referred to below). Moreover they were scheduled to be achieved, and the door was open to be subsequently submitted to independent evaluation. It was stressed that the foreign branches would play a central role in the invigorating of ICEP. Under this context, among other activities, regular meetings with delegates to the main markets (including sometimes ambassadors

²⁹ Even in 2005, ICEP took the official name of *ICEP Portugal – Instituto das Empresas para os Mercados Externos*.

³⁰ Also, many firms at that time, exported under subcontracting schemes what did not required a deeply rationalized branch of the statecraft.

or other representatives of the Ministry of Foreign Affairs) to monitor the process and exchange experiences and qualified information are also a key element. It is true that some dimensions of this strategy were already included in the past activities of ICEP, but now they are integrated in a full and coherent program.

One of the main strategic features of the Portuguese internationalization carried out by ICEP, particularly as far as the promotion of exports is concerned, is the setting up of priorities in relation to foreign markets. In the 1990s, and with more emphasis since the beginning of the new decade, Spain has been chosen as the first prioritized market. ICEP, in partnership with IAPMEI (see later), has in the neighboring country a large network of branches, including Madrid, Barcelona, Vigo, Seville and Mérida. Maintaining this option, the program of 2005 however stressed more the importance of the diversification of exports, and of the search for new destinations to the Portuguese products. ICEP was also committed to intervene in the international distribution, and it was announced the creation of five Centers of Distribution in other prioritized markets like Angola, China, USA, Brazil, and Russia (measure to be implemented till the end 2007). According to the documentation provided by ICEP, “Centers of Distribution are logistic platforms composed by a warranted store and a show room; in this site, the firms can show their products to the market, and to store them, before they enter in the chains of distribution”. Not only ICEP but also local as well as Portuguese entities (AIP, AEP, etc.) can be partners in this process. The creation of the Centers of Distribution should be complemented by the expansion of the network of Portuguese Business Centers (“*Centros Portugueses de Negócios*”) which are a logistic structure, an office, usually in the physical installations of foreign branches of ICEP that firms may use in the beginning of their export activities in the new market. In 2005, twelve *Centros Portugueses de Negócios* already existed, and ICEP planned the increase of their number in the following years.

It must be stressed that, at the time of launching the new strategic orientation, oil and natural gas producing countries as well as the new EU member states also became prioritized markets. Here, again, it is true that, acknowledging the fact of the excessive concentration of Portuguese trade, geographically and by products, the ICEP started a policy of diversification in the beginning of the 2000s, establishing new geographical priorities especially outside EU non traditional markets.³¹ This policy orientation was strengthened after 2005. In the light of the export performance in 2006-2007, after almost two decades of high concentration in EU, particularly in Spain, it seems to be producing some results, but as already underlined before, it is too early to fully evaluate its effects, even from this point of view.³²

In the last years ICEP has been equipped with new instruments in order to promote exports through financing, training³³ and consultancy. Under the general program *Portugal a Exportar* + (presented at the 1st Congress of exporting firms held in Porto, in October 2005), several specific lines were developed as possible avenues to assist firms in their exports: *Começar a Exportar – PME Internacional, ABC Mercado, Ganhar Mercado, Unir para Exportar, etc.* In 2006, ICEP had as available funds 100 million euros to promote exports (about three quarters

³¹ In order to be better targeted non traditional markets were defined in 2005 as being Brazil, Czech Republic, Poland, Hungary, Russia, Ireland, Algeria, Morocco, Mexico, USA, and China.

³² For example, the figures for the first semester of 2007 do not plainly confirm all the good results of exports in 2006 from the perspective of diversification (*Público*, August 10, 2007). The increase of exports to outside EU is of 15.8% (26.9% in 2006), and the results are mixed to the main markets of this area: a decrease to the USA, Brazil and Mexico, and an increase of share of Asia (52.5% in the 1st semester of 2007), and Angola (42.3%). On the other hand, in spite of the reduction of the remaining EU-15 countries, Spain continues to increase its share of Portuguese exports (see table 6).

³³ ICEP has developed a program of training addressed to young people just graduated that are initiated in international activities in its branches outside Portugal and in related organizations like chambers of commerce.

coming from PRIME, and the rest from the Associations of Employers) what meant an increase of 122% in relation to 2005 with only 45 million euros, and likely a more active promotion policy.

Thus, it is after a few years of change in the institutional landscape of Portuguese trade, especially since 2005 that took place the recent merge between ICEP and AIP, leading to AICEP. From the organizational point of view, ICEP and AICEP are different in several respects (see table 11), being the latter more involved and focused on the projects and actions to be implemented, under a modern public company approach.

TABLE 11
ORGANIZATIONAL DIFFERENCES BETWEEN AICEP AND ICEP

Dimension	AICEP	ICEP
Status	Company Ltd (SA), public	Government agency
Services	Differentiated: large vs. SMEs	Universal, standardized
Pricing	Pricing to cost	Low or zero cost
Areas	Trade and investment	Trade most of the time

Source: The author.

Beyond trade and investment, AICEP must also centralize the Portuguese representation abroad in all the areas of interest for external economic relations. For example, although there is a special agency in charge of promoting tourism (*Instituto do Turismo de Portugal*), AICEP also assures its representation abroad, and diffuses its materials, as otherwise was done by ICEP before. All this is coordinated by the Ministry of Economy and Innovation, but as referred to below, the search for a closer partnership with the Ministry of Foreign Affairs is in course too.

C. IAPMEI (*Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento*) - Institute of Support to Small and Medium Sized Enterprises and Investment

Another key agency for SMEs export promotion is IAPMEI, also under the Ministry of Economy and Innovation. IAPMEI plays a significant role in the EU programs for internationalization; indeed, it manages a large part of the funds channeled to firms because SMEs, as shown later in this report, represent the great majority of Portuguese firms. In contrast with other public agencies like AICEP, IAPMEI is specifically orientated towards individual firms and projects, particularly at their infant phases. Also, this institute is well placed to benefit from synergies with the other agencies (including in other areas like innovation). In spite of the fact that its programs, under previous *QCAs*, as underlined before, have mainly supported modernization, in general, not necessarily internationalization, since 2006, there was a major change in its strategy following that of PRIME/SIME: the Institute is now much more focused on innovation and internationalization in the projects that are approved, and in a very selective way. Within this new strategy, IAPMEI also participates in the management of technological centers, and try to make the bridge with SMEs for commercial and applied purposes. As far as the prioritized sectors are concerned, we refer to some technological niches in renewable energies (wind, tides), biotechnology, and pharmaceuticals, at the same time the innovation in traditional sectors is also strongly encouraged and some successful experiences emerged, especially in footwear, where a few initially small competitive firms have grown and consolidated their position. At the same

time, in the course of the internationalization process, IAPMEI has supported firms that already export and have showed some potential to be further developed.

D. Ministry of Foreign Affairs and the economic diplomacy issue

Since the early 2000s, there were policy initiatives, particularly led by the Portuguese governments that entered in functions in 2002 and 2005, towards closer cooperation in the internationalization process between the agencies of the Ministry of Economy and Innovation and the Ministry of Foreign Affairs. In the meantime, more integration between the two external bodies became reality (for instance, they hold joint meetings on prioritized markets, and ICEP/AICEP agents now respond to both hierarchies).³⁴ Thus, there is a natural move to work together and to explore all synergies. In any case, the foundations of a true “economic diplomacy” and its strategic mode of operation, despite many references, officially as well as in the media, are not yet quite clear, and some problems need to be previously solved (for example, different cultures in each public administrative body involved in the process, etc.; Ribeiro, 2007). Probably, this cooperation will become more consistent in the future if the institutional framework for internationalization stabilizes and also becomes consolidated.

³⁴ In November 2006, it was created a commission to steer the cooperation between both Ministries.

IV. The institutional framework of Portuguese trade strategy (II): Employers' federations and related organizations

Obviously, what follows is not a complete picture of all the private actors playing a role in the Portuguese internationalization scenery, and that contribute to the design and implementation of a trade strategy at a national level. In this chapter, we only refer to the most representative federations or those organizations that, for some reason, have a relevant impact on this process.

A. AIP (*Associação Industrial Portuguesa, Confederação Empresarial*) – Portuguese Industrial Association, Confederation of Employers

AIP-Associação Industrial Portuguesa is the oldest companies' association in Portugal and in 2007 celebrated its 170th anniversary. In present-day, it continues to play a major role in the Portuguese strategy of internationalization. Within AIP, member firms pay a fee and are regionally organized —by *distrito*, an intermediate level of the Portuguese political administration—, benefiting from some support services, particularly in their international activities (participations in fairs, information on foreign markets, in the search for international partners, and so on). AIP has a national expression, but its activities and links are more concentrated in South and Centre of Portugal.

As an organization, AIP has three sections: institutional, enterprises, and instrumental (the organization of missions —receiving and sending—, and training activities with COPRAI, its center for professional training). It is important to note that especially in the post-war, AIP has persistently lobbied for the internationalization of Portuguese economy and firms, even before 1974: among other actions, it was a strong supporter of the EFTA membership in 1960, and it was one of the main negotiators of the 1972 agreement with EEC defending a greater openness to the Portuguese economy. Also, under its auspices, it was elaborated the first “*Guia do Investidor Estrangeiro*” (a guide for the foreign investor) in Portugal. More importantly in practical terms, in

the 1960s, AIP started the organization of the *Feira Internacional de Lisboa* that has progressively been expanded to many industries.

Beyond numerous bilateral partnerships throughout the world, AIP has a large score of international links including Business Europe, BIAC (OCDE), UEAPME (UE), AICO (*Associação Ibero-americana de Comércio*). Outside Portugal, AIP also disposes of branches in Brussels, Luanda, and Maputo. It must be stressed that, in its international activities, AIP has a close partnership with public agencies and related organizations (like Chambers of Commerce), and it is closely heard by the governments on many specific issues.

As far as the internationalization and competitiveness strategy is concerned, AIP, since 2003, publishes yearly the *Carta Magna da Competitividade*. In the introduction to the 2006 report (that of 2007, will be published later this year), AIP exposes its vision in order to make Portugal, “*in the next ten years, one of the most developed and attractive ten countries of the European Union*”, and considers as substance of this strategy “*the creation of competitive advantages in the traditional European markets, and the diversification of the trade and investment relations imply more intense connections between the economy and the technological and scientific system with advanced markets and partners*”. Regarding geographical orientation outside EU, in its preamble the Carta Magna prioritizes the USA and the countries of CPLP, the Community of Portuguese-speaking countries (Brazil, PALOP and East Timor). Before making the analysis of the competitiveness’s performance, the report presents the “great objectives” through a list of targets concerning two levels 1) the new strategies of firms, 2) and the public policies. The document also proposes a set of good practices and “intelligent strategies” for these private and public actors. Indeed, during the last years, AIP has insisted on the crucial importance of the creation of networks and economic intelligence mechanisms within the context of Portuguese firms’ internationalization.

AEP (Associação Empresarial de Portugal) - Employers Association of Portugal (the sister association of AIP)

The AEP- *Associação Empresarial de Portugal* is rather similar to AIP in many respects, particularly in the way they are organized, and in the activities they develop. Like AIP, AEP has a national expression, but is more concentrated in the Northern part (thus, in a way, there is a territorial division of the country between both organizations). Although there is no common body between them, AEP and AIP share some projects, and jointly organize international events like fairs in Angola and Mozambique.

B. Forum para a Competitividade (FpC), and the Report led by M. Porter

The *Forum* is a relatively small organization but, by reasons partly exposed just below, has influence on the definition of trade and internationalization strategies. It is specifically focused on competitiveness and related issues. All the main employers’ associations and public bodies related to firms are represented in the *Forum* (private like AIP, AEP, CIP, as well as public like IAPMEI). It is presently located at AIP headquarters in Lisbon. It must be pointed out however its close links with CIP- *Confederação da Indústria Portuguesa*, the most representative organization of Portuguese employers. Every year, CIP actively participates, with other

employers' confederations,³⁵ the trade unions and the government, in the negotiations leading to the national guidelines for wages and other social policies, known as the negotiations of the social partners (“*concertação social*”). As AIP, CIP also participates in Business Europe. To some extent, we may fairly consider the Forum as the voice of CIP on the subject of international competitiveness.

In its regular activities, the FpC diffuses views and the results of studies and reports on Portuguese competitiveness, focusing on specific cases of firms, particularly successful examples, and some of its members frequently write or speak in the media calling attention to competitive problems of national industries and firms. From time to time, the Forum also organizes conferences and meetings on competitiveness.

The Forum is perhaps the main legacy, at least symbolically, of a study conducted by Michael Porter's team in the first half of the 1990s on the Portuguese competitiveness, and published under its responsibility with the title *Construir as Vantagens Competitivas de Portugal* (1994), i.e., to construct the competitive advantages of the Portuguese economy. The follow-up of the “*Relatório Porter*” was however quite poor. According to the President of the Forum (a former Minister of Industry³⁶ before 1995) here lies a significant part of the explanation about the weak performance of the Portuguese economy during the last decade, particularly as far as international competitiveness is concerned. Due to the importance of this subject in order to understand the complexities of Portuguese trade strategy and its disappointing results since the middle of the nineties, we make just afterwards a short synthesis of the main questions raised by the Porter's Report (PR).

The “Relatório Porter” as an attempt to build and strengthen the competitive advantages of Portugal: a presentation and some reflections.

One of the main messages of the PR was the need for an upgrading of the traditional industries. In this vein, those that were selected to be intensively clustered, and monitored in the light of their advances towards greater competitiveness, the most important part of what was called “Initiatives for the Action” in the Report's terminology, belonged to the traditional sector (agriculture, manufacturing or services): automobile, footwear, knitwear, tourism, wine, wood products, where only the first did not clearly fit into this category. Additionally, in the way to stronger competitiveness, the selected clusters should be complemented with public policies in the areas of education, financing, forestry management, management abilities, and S&T (for more details on this subject, see Porter, 1994). It is natural that such recommendations raised polemics; insofar some people expected that a technological “big bang” was perhaps the right solution for Portuguese competitive weaknesses. However, in the light of the Portuguese industrial structure and international specialization in the beginning of the 1990s, the PR obviously offered a more gradual approach, and, for its authors the essential was in the methodology of clusters rather than in this or that selected industry.

In retrospect, we have to recognize that the PR made valuable and reasonable contributions to the improvement of Portuguese competitiveness, and tried to build it in a much

³⁵ Beyond CIP, and from the employers' side, this negotiation also includes CAP – *Confederação dos Agricultores de Portugal* (agriculture), CCS – *Confederação do Comércio e Serviços* (retail and services), and CT – *Confederação do Turismo* (tourism).

³⁶ It is important to add that, at the time of the preparation of the Report, there were a Ministry of Industry (and Energy), and a Ministry of Foreign Trade, and some disputes over competences had then arisen between them. The initiative of the Report belonged to the former. This also means, institutionally speaking of course, that Portugal was still far from a deep integration between industrial and trade policies, as the experience of Japan and other Asian countries had popularized in the post war era, especially after the 1970s.

more solid basis. Above all, it clearly showed the inexistence of true clusters in the Portuguese economy; indeed they were shallow and embryonic. This can be easily illustrated if we compare the forestry cluster in Portugal and Sweden (Porter, 1998, p. 233), a range of products where resides one of the main comparative advantages of the Portuguese economy. To build strong and dense clusters was thus fundamental. The optimization and the development of the linkages inside them would lead not only to more international competitiveness but also to increased value added exports, and very likely to more national added value exports.

In its search for new paradigms that could lead the Portuguese economy to a better performance, the Report also stressed the need for the adoption of innovative strategies of competitiveness, not based on the factor price (through currency devaluations) which was the main pattern since the second half of the seventies, like the differentiation of the product, with the introduction of brands, and better logistic and distribution networks. We must emphasize however another key aspect of the PR, it was the first important document (of “semi-official” nature) stressing the risks of maintaining the Portuguese competitiveness based on a rationale of non-dynamic labor costs, and to show the inconsistency of this model inside the EU, particularly where most member states were steadily walking towards EMU. From this perspective, the marginalization of the PR was a dramatic turn: the Portuguese economy had a very poor performance in labor and total factor productivities from 1995 to 2005, inasmuch as the national level of labor productivity was already comparatively very low.³⁷ Under the circumstances where the Portuguese economy was, the naïve belief that the abundance of non qualified labor, consequently low paid, was an advantage (according to a superficial interpretation of the theoretical predictions of Hecksher-Ohlin theorem) proved to be more of an obstacle in the way to rising competitiveness. Moreover, the lack of a large industrial restructuring explicitly addressed to boost international competitiveness is one of the main reasons that explain why Portugal had so low unemployment rates relative to EU partners in the 1980s and 1990s (think of other “cohesion countries” like Ireland and Spain): the proposals of the PR in this field would probably bring adjustment costs in the short term but could positively contribute to the overcoming of the most serious competitive problems in the medium/long run. In a final comment on this subject, we may say that with the non-implementation of the Report’s proposals good and not so good things alike were all rejected, being the outcome a net loss for the Portuguese economy and its competitiveness that had unfavorable effects on the expected benefits of trade strategies.³⁸

In addition to the previous remarks, in the second half of the 1990s, disagreements between the new government and the employers’ associations and major entrepreneurs about who should lead the actions to construct the Portuguese competitiveness (government or employers? each group proposing the other one as the driver of the process!) reinforced the trend to its non-sequitur, and subsequent oblivion, that is being reflected on the FpC current activities.

³⁷ See the data in European Commission, 2006, pp. 26-9; in particular there is strong contrast between Portugal and the other member states of the “Cohesion” group, like Ireland, Greece, and even Spain; a very low level of productivity characterized the Portuguese economy before the middle of the nineties, and this was maintained in the last decade, for example, in 2000-2005, labor productivity per person employed on annual average grew at 0.3% in Portugal, 1.9% in Spain, 2.2% in Ireland, and 3.3% in Greece.

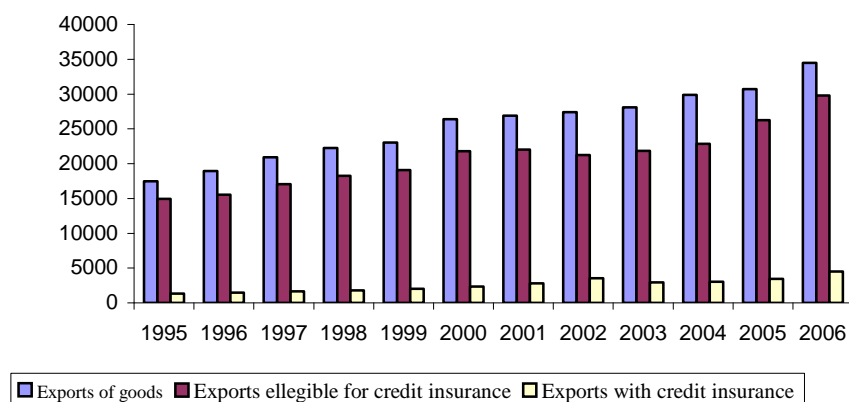
³⁸ It is interesting to point out that a few years before the study of Porter in Portugal, a similar experience occurred in Catalonia, the most competitive region of the Iberian Peninsula, that was appropriately monitored and was successful in various respects; see Porter, 1998, pp. 266-269.

C. COSEC and the organization of credit and finance for exports

COSEC (*Companhia de Seguros de Créditos*) is a different organization from those previously described, but it is important to be considered in our context. It is the main export credit insurance company, leader in of the market in this critical area of Portuguese export. COSEC is organized according to OECD guidelines for premiums and terms. It is a private company and its main shareholder is Allianz (Euler-Hermes Branch). In particular, its insurances are organized around two great operational areas: regular risk, and countries with political risk. Basically, short term trade risks are insured and managed by COSEC private system, while medium/long term trade risks benefit from a state guarantee also managed by COSEC, under contract. Recently, the company has also developed a new product covering the Portuguese FDI outflows, whose relevance is increasing as we saw earlier in this report; this new line however is not yet much known. As far as these credits are concerned, as occurs in similar cases, there is some discretion in terms of the coverage offered by export destination.

The figures 8 and 9 illustrate some aspects of the activity of COSEC in the coverage of exports during the last ten years or so. It is clear that only a small part of Portuguese exporters insures its exports (eligible or not). Nevertheless, the number of exports with insurance is increasing, but slowly, around 15% of the total in 2006, still less considering the eligible exports. We may conclude that the great majority of the exports have no insurances; very likely this has a relation to the willingness of Portugal to penetrate into new and less known markets. For example, in the 1970s and in the 1980s, most Portuguese exporting firms had financial difficulties, and of course they preferred to export to safe countries in order not to run more risks, and much of this “culture” still persists, it is changing, but rather slowly.

FIGURE 8
EVOLUTION OF THE CREDIT INSURANCE FOR EXPORTS
(Million of euros)

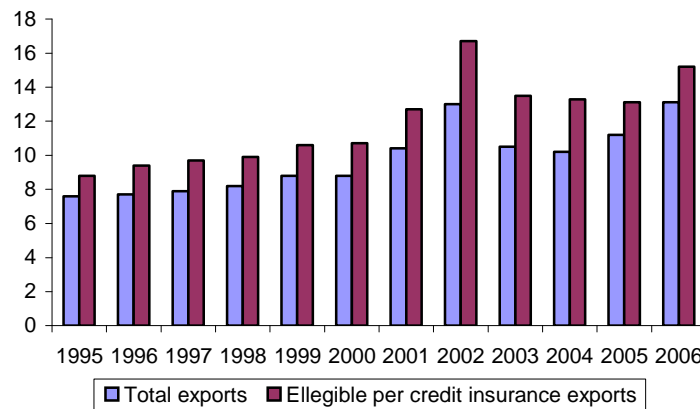


Source: COSEC.

Regarding specifically countries with political risk, the public credits for exports managed by COSEC, are being used to promote exports to some destinations, according to the guidelines established by the government (for example, respecting prioritized markets). In 2006, Angola absorbed 88.7% of credit available under these conditions. Nevertheless, the total amount of these credits has been negligible. Although in 2007, taking into consideration the objective of increasing exports, the government approved more substantial credit lines for operations with political risk, at the level of 300 million euros. This instrument may be an important push for

exports to some specific markets. Anyway in the short term it is not likely possible to change significantly this context; indeed, the limits to substantial increases in public credit are great, what certainly is connected with the general difficult situation of the Portuguese public finances in the last years, and the urgent need for their adjustment in order to create a new starting point.³⁹ Hence, in the short term, the Portuguese state can hardly concede more substantial support to exporting firms in order to enter in less safe markets, or even to explore new markets, what is reflected in the present of export flows. It must be also stressed that, according to the figure 9, the great majority of the available credit insurance is used by firms, showing that this instrument may be an important stimulus for exports.

FIGURE 9
COVER RATE OF PORTUGUESE EXPORTS BY CREDIT INSURANCE



Source: COSEC.

³⁹ Considering the evolution since the 1970s, the Portuguese state lacks credibility regarding the management of public finances (in this respect, it was the first country to officially violate the Stability Pact in 2001, and where the public deficit reached a higher level in 2005; this situation is however changing in the two last years, and the fundamentals of public finance are improving); in these circumstances, a prior effort towards a relative equilibrium is thus necessary in order to gain a new status in the market.

V. Trade relations with Spain, Brazil, and other Ibero-american countries

The report must also include the analysis of Portuguese trade relations with the other countries of Iberoamerica; this is made in the present chapter. Let us first look at the two most important partners: Spain and Brazil, and to comment some aspects of these bilateral relations.

As already underlined before, Spain became the main trading partner of Portugal in the 1990s and particularly for exports in the early 2000s. However, during most of the 20th century, notwithstanding neighborhood, Spain was a relatively secondary partner, and only after the eighties, especially since 1986, when both countries entered the EC, trade and other flows started to rise, in absolute and relative terms, almost every year without interruption up to 2007. In 2006, the last year we have complete data, Spain absorbed 94.1% of the Portuguese total exports to Iberoamerica; a little less as supplier, but also a very high figure of 87.1% (table 12; see the table 6 for the case of EU-15 and other international partners). Some actors in the bilateral process⁴⁰ consider that these figures on the trade between both countries are overvalued; for example, on the basis of better maritime transport network in Spain (e.g., the case of Vigo's port, very near to the Portuguese Northern border), the reverse not being true; also, the existence of more favorable and larger public schemes to support exports, led Portuguese firms, when possible, to use the Spanish channels instead of national ones; we think however that only further research can confirm if these arguments have any substance.

The high concentration of Portuguese trade in Spain has raised some debate (Dias, 2006). To a certain extent, it is a natural phenomenon insofar both economies remained relatively closed till the seventies and eighties of the last century, and consequently, there was a historical gap in their reciprocal trade that would be fulfilled in the conditions of freer circulation. Also, a part of these flows is upgraded trade, indeed, the level of intra-industry and intra-firm increased often being the result of FDI where subsidiaries of the same multinational corporation located in both sides of the border export to each other components like parts of vehicles as in the case of Auto-Europa. However, this concentration has developed at a time where the Portuguese economy clearly lacked a global and European strategy: during the two last decades, the gains of European market share have been much more significant for Spain than for Portugal. Moreover, if we look

⁴⁰ For example, in the interviews we made in July 2007.

at pairs of other similar European countries (among others, Finland-Sweden, Greece-Italy, Netherlands-Germany, Ireland-United Kingdom), since the eighties the pattern of such bilateral trade cases is more towards relative reduction, especially of exports, rather than its increase (Dias, 2006, pp. 521-524). Taking into consideration the comparative low level of Portuguese openness (see table 1), surely, this does not mean that the trade with Spain will decrease in absolute terms, but that trade links with other countries, including other member states of EU, might grow at a relatively higher rate if a more comprehensive and global strategy is defined.

TABLE 12
PORTUGAL: TRADE WITH IBEROAMERICA
(Million euros)

	IMPORTS					EXPORTS				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
Spain	12265	12545	13750	14238	15378	5738	6687	7541	7943	9139
Brazil	657	661	858	984	1232	164	129	154	178	255
Mexico	172	129	158	256	261	73	58	71	87	139
Venezuela	123	25	17	11	211	14	6	10	12	17
Colombia	82	86	124	151	168	7	5	4	4	7
Argentina	172	181	161	150	98	26	26	29	36	49
Costa Rica	47	49	43	31	37	3	6	4	2	3
Chile	31	31	37	38	37	45	44	49	52	56
Peru	5	7	6	8	20	3	4	6	4	6
Cuba	20	19	36	8	19	5	3	3	4	6
Ecuador	29	30	31	38	19	4	2	2	2	3
Uruguay	13	15	19	21	17	4	2	2	1	3
Paraguay	2	5	13	4	8	2	0	0	0	1
Honduras	3	4	4	6	7	1	1	1	2	2
Guatemala	1	1	2	3	3	3	2	2	3	2
Panama	16	13	10	14	3	5	4	3	6	6
Andorra	0	1	0	2	2	3	3	3	4	3
Salvador	1	1	1	1	1	3	1	2	4	8
Nicaragua	1	0	1	1	1	1	1	1	0	1
Bolivia	0	0	0	0	1	1	0	0	0	1
Dominican Republic	0	0	0	0	1	6	3	2	2	4
CIP IBEROAMERICA	13643	13802	15273	15964	17524	6109	6988	7891	8345	9710
CIP TOTAL PORTUGAL	42466	41754	45861	47644	51286	27398	28092	29576	29680	33631
CIP IBEROAMERICANS(%)	32.1	33.1	33.3	33.5	34.2	22.3	24.9	26.7	28.1	28.9
Spain/CIP-IBEROAMER.(%)	89.9	90.9	90.0	89.2	87.8	93.9	95.7	95.6	95.2	94.1

Source: ICEP.

For other reasons, the case of Brazil is also very interesting and must be closely examined. After a long decline and stagnation since the beginning of the 20th century, the economic relations between Portugal and Brazil started to rise again in the early 1990s. In fact, during this period most of the bilateral flows have strongly been incremented but trade in goods, particularly Portuguese exports, lagged clearly behind the others (Silva, 2002, 2006b). Indeed, outside EU, and after the USA, since the late nineties Brazil became the most important economic partner (i.e., not only considering trade in goods but also all the other remaining flows like FDI and those of services). In particular, at the initial stage of the internationalization of Portuguese firms through FDI, in 1996-2000, Brazil was the main destination of these outflows (Silva, 2005), and it still is the most salient presence from the outward FDI stock perspective (figure 6). This was an important move in order to diversify Portuguese economic relations until then highly

concentrated in EU, but a significant part of these investments came from firms of the services, like utilities of the telecommunications and electric energy (firms like Portugal Telecom and EDP – initially *Electricidade de Portugal* -, invested a large part of the total), searching for an expansion in the Brazilian market in order to increase their scale at a world level, and had no impact on trade. Also several commercial services like tourism and transports have considerably been boosted since the nineties (in this bilateral case, increased trade in services has been almost comparable to trade in goods during the 2000s), and the same is true of transfers, revenues, and other flows, often in both ways. In spite of being more important in the context of Portuguese foreign trade relative to previous decades,⁴¹ by the middle of the 2000s, trade in goods had clearly lost weight in the whole of bilateral economic relations since the early nineties (Silva, 2006b). Moreover, according to the data provided by INE, exports to Brazil remain dominated by traditional products: olive oil, wines, fish, etc.,⁴² and trade is basically inter-industry. So, exports to this country, in its dynamics, do not seem to follow the rest of the other flows of current and financial accounts, despite the general increase in these links.

Regarding the other Iberoamerican countries, in 2006, only in four cases the Portuguese exports represented more than 10 million euros: Mexico, Chile, Argentina, and Venezuela. Almost all these countries are more important as suppliers; and the larger and the most consistent surplus in 2002-2006 was observed in the trade with Chile (table 12); it is relevant to stress that there is also an Association Agreement between Chile and EU since 2003 (like for Mexico, as already underlined before). If we exclude Spain and Brazil, however, the Portuguese exports to these countries presented a very modest figure of only 0.67% of the total in 2004, decreasing in relation to 1994 (0.81%); for the same years, imports were 1.43% and 1.49% of the total, respectively. It is obvious that they are quite marginal trade partners for Portugal except in very few cases like Mexico, Argentina and Chile. As far as exports are concerned, it is claimed by the Portuguese side that barriers still persist in many cases; this is perhaps true insofar trade agreements with EU seem to have contributed to raise trade with Mexico and Chile. Anyway, there is no specific and continuous approach to these markets that for Spain are relevant clients. In 2003, for example, Portugal exported to these countries (i.e., excluding Brazil) no more than 171 million euros, while Spain exported 2633.4 million euros, a ratio of only 6.5%; in contrast the Spain is relatively much more present in the Brazilian market (table 13).

TABLE 13
EXPORTS OF PORTUGAL AND SPAIN TO BRAZIL 1996-2006
(Million US dollars)

	Portugal	Spain	Ratio %
1996	210	900	23.3
1997	220	1114	19.8
1998	222	1190	18.7
1999	151	1180	12.8
2000	169	1120	15.1
2001	198	1222	16.2

(Continued)

⁴¹ In 1990, in the trade of goods, Brazil was the 12th supplier and the 23rd client; the equivalent figures for 1998 were 11th and 14th, and for 2006 are 8th and 13th, respectively; although some instability exists in these flows, mainly due to exchange turbulence in 1998-2003.

⁴² According to the data of INE at four digits for 2006: 1509 – *olive oil* with 23.2%; 2603 – *copper mineral* with 13.5%; 0305 – *dry fish* with 9.9%; 2710 – *oil* with 8.5%; and 2204 – *wine* with 6.4% represented 61.5% of the total exports of goods to Brazil; the same five products represented 57.2% of the total in 2005. It has been proved to be very difficult to change the pattern of Portuguese products exported to Brazil, even in spite of the substantial increase of all the other flows.

Table 13 (Conclusion)

2002	169	970	17.4
2003	143	970	14.7
2004	190	1170	16.2
2005	227	1330	17.1
2006	312	1430	21.8

Source: MDIC.

Summing up, except in the case of Spain, and to some extent Brazil, this important world region seems not yet to have been explored by Portuguese exporters. It does not make much sense if Portugal has very intense and integrated trade links with Spain, and has relevant economic ties with Brazil in a long term perspective, that the relations with the other Iberoamerican countries are almost without meaning.

VI. Export performance of firms: Some cases

In this chapter, we are focused in the export performance of firms: firstly, we give a brief account of the distribution of Portuguese firms by size, pointing out the small number of internationalized firms, and the role of big exporters among them; secondly we analyze a few selected cases of exporting firms according to the relevant information that was available at the time of the research. Of course, more large and in-depth studies are absolutely necessary in this key area for internationalization, but, in our context, the chapter is mainly instrumental in order to have a more complete view of the Portuguese trade scene, and to know how it actually works.

The figures provided by INE (table 14), and using the criterion of employment, show that the smashing majority of Portuguese must be can be considered as SMEs – micro, small, and medium sized firms. In 2004, big firms represented less than one thousand (873), but they assured 25% of the employment, and 30% of the overall turnover. Within SMEs, micro firms were 87%, the small ones 11%, and the medium-sized firms were no more than 1.6% of the total; in terms of employment and turnover, however, these three categories share relative approximate proportions from what is not absorbed by the exiguous although significant number of big firms.

TABLE 14
DISTRIBUTION OF PORTUGUESE FIRMS BY SIZE*(2004)

	Number	Percent			Average size (employment)
		N° firms	Employment	Turnover	
Micro	315 thousand	87%	27%	23%	2
Small	41 thousand	11%	28%	24%	19
Medium	5.9 thousand	1.6%	20%	23%	95
SMEs	362 thousand	99.8%	75%	70%	6
Big	873	0.2%	25%	30%	778

Source: File of statistical unities of INE.

*Only using the criterion of employment.

In the universe of Portuguese firms (the total number of societies is 363 thousand, not considering entrepreneurs in individual name), only a tiny part develop export activities. According to the figures provided by AIP,⁴³ about 28 thousand firms are registered as having some time exported and the number is being increased in recent years, yet not more than 10 thousand have regular export activities (what means proximately 2.75% of the universe, 21% if we exclude the micro firms). In these circumstances, it is obvious why presently one of the main objectives of the Portuguese trade strategy, where public and private actors agree, is to increase the number of exporting firms.

Portuguese firms are also few among big exporters (table 15). Indeed, within the twenty greatest exporting firms that assured 30.7% of the total exports of goods in the 1st quarter of 2006,⁴⁴ only five had the majority of their shares in the hands of Portuguese owners, and three of them exported forestry products (paper and cork). Foreign investment was thus leading from this perspective, and Germany is the most represented country, with six firms, including three among the five big exporters, if we consider in the group Qimonda, whose capital is disperse but has its headquarters in Munich and was created by a German firm, as detailed just afterwards. In the list, the USA had four presences; and the other firms were of various national origins (France, Norway, Canada), and included two Spanish subsidiaries: Repsol,⁴⁵ and *Siderurgia Nacional* (Ensidesa).⁴⁶ In this same respect, it is interesting to refer to another database (COFACE),⁴⁷ because it offers the ranking of exporting firms in goods and services (thus, including construction, transports, etc.); in general, this source confirms the previous distribution by origin with a few exceptions. So, for the full year of 2006, in the ranking of the twenty greatest exporting firms there were six Portuguese, four Germans, three from USA, three French (including one with joint Greek capital), and the remaining four were from Italy, Canada,⁴⁸ UK, and Norway.

It must be pointed out that, by number, the automotive industry was the most represented sector in table 15 with seven firms.⁴⁹ Nevertheless, two of them, Opel Azambuja (Germany) and Delphi (USA), just closed their factories in 2007, the first is concentrating its installations in Spain and the second went to Romania (illustrating what we have written about the high mobility of Portuguese FDI inflows). This seems to confirm what was emphasized in the empirical part of this report (chapter II, point D), that the item “motor vehicles and other transport equipment” is losing some weight in the context of Portuguese exports of the 2000s (table 7). The case of Auto-Europa (Volkswagen group) is also representative of this evolution: its turnover reached a peak in

⁴³ AIP Newsletter, November 2006.

⁴⁴ In relation to the same period of 2005, where the percentage of the twenty greatest exporting firms was 27.2% of total this is a considerable increase.

⁴⁵ The most important Spanish investment from the point of view of exports was the acquisition by Repsol of the complex Borealis at Sines Refinery site; oil prices helping, Repsol that has also a large network of petrol distribution stations, ranked 5th in the exports list; it must be added that the project of Sines, launched in the period 1968-1973, as referred to in the beginning of this report, functioned for decades at a very low level of its capacity, the maintenance of high costs and the lack of external linkages not allowing its optimization from the economic point of view.

⁴⁶ Siderurgia Nacional is the main Portuguese firm in the basic metallurgy industry; it was active since the beginning of the sixties, and was nationalized in 1975, after restructuring that led to a drastic reduction of its capacity, it was privatized in the nineties and acquired by foreign firms. The Spanish Ensidesa presently owns the largest part of its shares, with two factories mainly producing the so called “aços longos”; also, Siderurgia Nacional – Lusosider (owned by the Brazilian company CSN - Companhia Siderúrgica Nacional) ranks second in the production of the sector with “aços planos”.

⁴⁷ The following data come from *Forum Empresarial*, Vol. X, nº 138, published with *Jornal de Negócios*, February, 22, 2008.

⁴⁸ Like in table 15, it is Somincor, linked to the extraction of copper.

⁴⁹ Blaupunkt, for example, is owned by the group Bosch/Siemens and mainly produces auto-radios.

2001, and the peak of unities produced was reached in 1998 with 138.890; after a period of relative stabilization until 2001, the total production gradually fell to 81.835 unities in 2006. Nevertheless, regarding this firm, some recovery is expected for 2007 and in the coming years, with the launching of the new model EOS.⁵⁰

TABLE 15
PORTUGAL: 20 GREATEST EXPORTING FIRMS IN 1ST QUARTER OF 2006

	Ranking in 2005
1 - Petrogal (Energy/Portugal)	2°
2 - Qimonda (Technology/Disperse but German origin)	3°
3 - Auto-Europa (Automotive/Germany)	1°
4 - Opel Azambuja (Automotive/Germany)	4°
5 - Repsol (Energy/Spain)	6°
6 - Soporcel Figueira da Foz (Paper/Portugal)	5°
7 - Blaupunkt (Automotive/Germany)	7°
8 - Peugeot-Citroen (Automotive/France)	9°
9 - Portucel Setúbal (Paper/Portugal)	8°
10 - Continental Mabor (Automotive/Germany)	10°
11 - Hydro Aluminium (Aluminium/ Norway)	13°
12 - Delphi Automotive System (Automotive/USA)	12°
13 - Comp. Aveirense Comp. Ind. (Automotive/Portugal)	11°
14 - Somincor (Mining/Canada)	15°
15 - Visteon Portuguesa (Electronics/USA)	18°
16 - Phillip Morris- Tabaqueira (Tobacco/USA)	19°
17 - Amorim & Filhos (Cork/Portugal)	23°
18 - Dow Europe (Plastics/USA)	17°
19 - Vulcano (Heaters/Germany)	20°
20 - Siderurgia Nacional (Steel/Spain)	34°

Source: INE and Câmara Portuguesa de Comércio no Brasil.

Afterwards we refer to several cases of internationalization carried out by individual firms, particularly in the field of goods' exports. We do not intend to show a set of representative cases of the whole universe of Portuguese firms (including foreign subsidiaries) in relation to our central matter, rather we aim at the emergence of new problems and perspectives relevant to this study through the record of recent experience of a few firms.

“Qimonda Portugal – Leader of national exports”

Qimonda Portugal (ex-Infineon Technologies) that has a factory of semi-conductors at Vila do Conde, Northern Portugal, is the new leader of national exports.⁵¹ Between January and March 2007, and according to INE, the firm jumped to the first place in the ranking exporters (this place belonged to Auto-Europa, on annual basis, between 1996 and 2005).⁵² Indeed, it was the firm that has more contributed to boost the total exports of goods by 10.7% and, consequently, to the fact that the Portuguese economy had an improvement of 6% in coverage of its balance of trade. Comparing with the equivalent period of 2006, Qimonda Portugal exports

⁵⁰ *Expresso*, August, 18, 2007.

⁵¹ This phrase was picked up from the Portuguese economic media by the middle of July 2007 (for example, in *Público* 11.07.2007).

⁵² Not surprisingly, according to COFACE sources, just referred to in the main text, the first place in the annual ranking of 2006 went to Petrogal – Petróleos de Portugal, SA.

evidenced an increase of 40.8%. In the first fiscal semester that ended in March 31, 2007, the sales of this firm reached 2.1 thousand million euros.

With 1800 employees, Qimonda is the greatest European factory of assembly and test of memory products, property of Qimonda AG, whose headquarters are in Germany. Its production of semi-conductors, in particular DRAM memories, is destined to computers, servers, and other digital terminals, like MP3 devices, cell phones, digital cameras, and game consoles. In 2005, Qimonda Portugal had a turnover of 997 million euros and 1413 employees. The firm exports all its production to distribution centers located in Asia, Europe and the USA, from where they arrive to the clients. In 2004, Qimonda had exported 842.7 million euros.

At the origin of this firm was Infineon Technologies – Fabrico de Semicondutores Portugal created by the Siemens group in 1996, through a greenfield investment under the initial denomination of Siemens Semicondutores. Later, Siemens made a spin-off and 30% of the firm's shares were distributed in the New York and Frankfurt Stock Exchanges and took the name of Infineon Technologies AG. In the beginning of 2006, Infineon acquired the rest of the shares belonging to Siemens, becoming the owner of all its capital. In May 2006, Infineon Technologies Portugal changed its name to Qimonda Portugal.

At the time where Qimonda was emerging as first exporter, in March 2007, after negotiations with API, the firm had signed with the Portuguese government a contract of investment of 70 million euros, and was planning the creation of 140 new jobs; from this amount, four million euros would be channeled to professional training.⁵³ With the completion of the present program of investments, Qimonda will become the second greatest foreign investment in Portugal (after Auto-Europa).

Why such developments? It is not easy to find an accurate answer. *Prima facie*, by the scale of its exports, Qimonda Portugal seems an isolated case of success in the high technology industries. Perhaps the main explanation lies in its original ties with Siemens subsidiaries in the North of Portugal.⁵⁴ We must take into account that, some time ago, Siemens established in this area a pole of technological excellence at international level (its location was recently disputed by several countries), but with its local connections and “good knowledge of the territory”, and in fact, it was also this group that founded Qimonda which reaped the benefits from Siemens linkages, inside and outside Portugal. As referred to in the beginning, German FDI now seems not to be as present in this Portugal as it was before the nineties,⁵⁵ but maintains its roots and has provided some of the best examples of impact on exports (see table 15), particularly of new and upgraded products.

This case of Qimonda illustrates well the potential of the Portuguese economy in the export of a new product of high technology through the gradual accumulation of small advantages. It is necessary however to expand and to strengthen experiences like this one, providing it with a more competitive environment. The future of Qimonda will be at risk if it remains an enclave vis-à-vis the rest of Portuguese economy and exports. For example, in the middle of the 1990s, there were strong expectations concerning the automobile industry, but the lack of a deep and effective competitive cluster, seems to have contributed to its present weaker position.

⁵³ The financial support of professional training, through EU funds, European Social Fund in particular, is one of the main forms of public aid to investment, namely for foreign firms.

⁵⁴ Siemens is in Portugal since 1905; in the last decade invested around 1000 million euros in several projects and has 2000 employees.

⁵⁵ According to the data of AICEP, Germany was however in 2006, the country with the highest contracted investment, but not necessarily that with the highest effective annual investment.

RENOVA

Within the Portuguese context, Renova is an interesting case of internationalization, often referred to as an example, especially as a brand that gained its own place in the foreign markets. Located in Torres Novas, in central region of Portugal, the firm is presently one of the most important fabricants of hygienic and cleaning products in Southern Europe. But, for generations, it was a simple old familiar company, whose roots go back to 19th century, and, taking into account this background, has around 200 shareholders.

Let us start with some basic data about Renova:

- Main countries to where the firm exports: Spain, France, Belgium, Luxemburg, USA, and Angola; but has received orders from 57 different countries from Dubai to New Zealand;
- International presence: France (Renova France Sasu), Spain (Renova España, SA), twenty agents in the European markets, and one in the USA;⁵⁶
- Annual turnover: in 2005, 120 million €;
- % of exports in turnover: in 2005, for the first time, more than 50%.

In 1991, Renova began its internationalization by Spain, more precisely in Andalusia, but quickly moved to Madrid where the main distribution networks were centralized, and, therefore more accessible. The Spanish market of these products was then close to saturation. To penetrate and gain roots the firm was “condemned” to innovate in what it was successful, creating and strengthening its brand. In 2002, Renova arrived in France, and, in 2005, it was the time of Belgium and Luxemburg. At the same time, the firm also reached the United States, giving to the internationalization of its brand a more global flavor.

It is clear that Renova constructed its way to gain share in the foreign markets⁵⁷ based on innovation (instead of price which was the more traditional behavior of Portuguese firms and leaders) and put the proximity to the client at the core of the company’s strategy. Analyzing the internationalization path of Renova, its marketing director emphasized: “we are always launching new products, we know that innovation is ephemeral, in our market the products are easily imitated; more difficult is to imitate the behavior of the mark, that of innovating all the time”.⁵⁸ According to the information provided by the firm, on average, two new products are launched every month.⁵⁹ As complement to this strategy, and in order to advertise the new products, the Renova has had an “aggressive” way of communication through marketing campaigns that became one of its more outstanding images for the general public. Of course, innovation and the commercial launching of new products require previous research which is the other key element of the company’s strategy. Contrary to many other Portuguese firms, Renova is well equipped from this point of view, and has its own technology for production. Research teams are organized aiming at the study of the qualities of intermediate goods used in the manufacturing of its products, among others, in the areas of aroma and the development of fibers.

⁵⁶ Renova has recently announced that was planning to build its first unity of production outside Portugal, in Angola.

⁵⁷ Being leader in Portugal, Renova has 6% of the Spanish market in its range of products, but it is also leader in the neighbor country in the segment of kidnappings; and 2% of the French market where is associated with Auchan and Carrefour.

⁵⁸ Luís Samarago to *Diário Económico*, November 11, 2006.

⁵⁹ Prior to its entry in the US market with a luxury product, Renova had to patent its innovation.

Iberomoldes

Iberomoldes was founded in 1975, and it is a representative firm of the moulds industry where Portugal became internationally competitive in the last decades. Before describing this case, we pay some attention to the development of this industry in order to understand its environments and main problems. Almost inexistent in the early 1970s, by the middle of the 2000s, it was composed by 300 firms, in the great majority SMEs, basically concentrated in Marinha Grande and Oliveira de Azeméis, both in the central region of the Portuguese littoral, slightly to the north, and are separated by around 150 km. The labor force in this industry is about 7500 people. In 2005, its production was of 334 million euros, and the exports 303 million euros (i.e. 90.7% of the total); being clearly dependent on international markets (the USA have been the most important client of the Portuguese moulds). In a way, and according to what was underlined in the beginning of the report, this industry grew first in the period where devaluations determined the evolution of Portuguese exports, but later, since the nineties it succeeded in adapting to the new competitive conditions. Of course, it is not a battle definitively won, and in the last years, with the depreciation of the USD, rising price of oil (with deep effects in the plastics industry, their main client as sector) and until 2005, a stagnation in some big European economies, these firms are living in a difficult situation, but most of them stay in the world competition trying to overcome the challenges.

Iberomoldes is located in Marinha Grande, an old manufacturing area (with a long tradition in the glass industry, but that is now fading), where are the majority of firms producing moulds. With 900 employees, Iberomoldes has gradually developed towards a complex structure of an economic group with, among other divisions: a branch of engineering and development of the product, six unities of production, five specialized unities, a professional training school, and an international department. The use of the available most advanced technology has been a persistent characteristic of this firm since its creation. In fact, Iberomoldes is one of the greatest world groups in the project and production of moulds of precision for the plastics industry and injected foundry of light metallic compounds; it has also a factory in Brazil, and offices in Sweden and China.

Since its very beginning, Iberomoldes has a strong export vocation, and presently 95% of its production goes to foreign markets (like, for example, Spain, Germany, Slovakia, Israel, Mexico, Argentina, and China). In the segment of moulds to the automotive industry, the firm exports 90% of the production, and the remaining 10% goes basically to Auto-Europa, but its dependency on this local client has been reduced since a few years ago. Beyond innovation, taking into account that the main interface of Iberomoldes is with R&D departments of big firms that naturally want to innovate; perhaps its more outstanding contribution to promote the Portuguese internationalization lies in the fields of professionals training and logistics. According to its president and founder,⁶⁰ by the threshold of the 1990s, it was realized by the executive board that tough world competition would come in the near future, particularly from China (with much lesser labor costs), what implied more intensive and qualified training of people to specifically operate in the international markets. As a consequence, the firm has presently a set of technicians that is “always” traveling to get information in several respects, and is trained according to its needs and fragilities. Furthermore, Iberomoldes also makes all the time a remarkable logistic effort because, every day, it has to deliver its products in very distant places like Germany, USA, Argentina, and China.

⁶⁰ Henrique Neto *in* Revista Portugal em Exame (25.05.2006).

EFACEC

EFACEC is another relevant case of internationalization of the last decade. Almost one hundred years old, and with cycles in its existence,⁶¹ it is the greatest national group of electro mechanics. The company employs more than 2000 people in Portugal (three complexes, and a share of 30% of the market), and has 500 employees abroad. Through investment and trade, EFACEC has been constructing a large international network, and is present in more than one hundred countries, having gained, often in partnership, many contracts of technical provision and assistance throughout the world.⁶² Its president claims that EFACEC although maintaining its Portuguese root is “probably the most internationalized of Portuguese firms”.⁶³

EFACEC is organized around three fundamental areas: solutions for energy, solutions for transports and logistics, and solutions for engineering and services. According to the information provided, EFACEC is world leader in the technology of very big transformers called the transformers of Shell power type. Its exports are basically constituted by technology and solutions technologically sophisticated, particularly when applied to energy and transports. In 2006, its turnover reached 370 million euros, with 35% obtained in foreign markets; and exported 104.7 million euros around 43% of the production in Portugal.

Being in a difficult situation a few years ago (the firm had losses of 25 million euros in 2001), EFACEC succeeded in achieving a complete turn around where its international activities made a significant contribution; and in 2005, even got the second best performance in the Portuguese stock exchange.⁶⁴ More recently, considering that foreign markets are its main factor of growth, EFACEC in order to substantially increase its size, presented an expansion plan, dividing its operations in six great platforms: 1 – Portugal and Spain; 2 – United States; 3 – China and India; 4 – Brazil, Argentina, and Chile; 5 – Angola, Mozambique and South of Africa; 6 – Northern African countries. Outside Portugal, the group has factories in China, Malaysia, Angola, Mozambique, Brazil, and Argentina. In the context of Portugal, playing at the same time in exports and in the internationalization of its production, the group has demonstrated to be a successful example in both fields. Although supplying relatively diverse products to different areas of economic activity, EFACEC is specialized in the niche of very big transformers of the Shell power type, and it is important to emphasize that its international reputation is closely related to the quality of its products, particularly its durability.

Obviously, here, we will not develop all the international extensions of EFACEC, but we only make some remarks to that purpose. The USA is the main destination of its exports, and maintains a prioritized place in its expansion plan for the coming years (with a target of 100 million euros as turnover in this country until 2012). Looking now at its Latin American activities, where the group is focused on medium power, engineering and transports, and is growing on the basis of the triangle: Brazil, Argentina, and Chile. In this region its internationalization began in Brazil, where EFACEC owns a factory in São Paulo, an office in Salvador, and recently acquired a small specialized firm in Recife; in 2007, on the other hand, a new unity was inaugurated, after enlargement, in Cordoba, Argentina. In its turn, Chile is a client since fifteen years ago, and in 2006, for example, EFACEC exported to this country 11 million USD in products, 7 million from Portugal, and 4 million from Argentina. Through its new plans,

⁶¹ Contrary to Renova however, during a very long time EFACEC was tied to core foreign firms, initially of Belgian origin, and after Westinghouse, Mitsubishi, and others; later, it was acquired by Portuguese groups.

⁶² Some of its clients include NASA, European Spatial Agency, and CERN.

⁶³ Luís Filipe Pereira in *Expresso* (16.06.2007).

⁶⁴ However, EFACEC went out of the stock exchange in 2006, alleging that the group needs a cohesive core of shareholders in this phase of its expansion, and that will return later.

EFACEC has now a comprehensive approach to these three Latin American markets, while, at the same time, it also seeks to expand its links towards the rest of the region.

At last, in an example that shows how operates the Portuguese system of support to exports, EFACEC had approved by the government (in 2007) an incentive to increase its capacity of production of big transformers for exports, from twelve to twenty unities; the firm will invest 9 million and 266 thousand euros, and the contribution of SIME will be of 2 million and 517 thousand euros; other similar projects are being prepared by the firm.

VII. Concluding remarks

Previously, in this report, we examined the major issues with respect to Portuguese trade strategy, particularly focusing on the period post 1996.

- i) In an overview of what has happened since the war, despite being regarded as a small economy, Portugal has demonstrated during these decades and through different stages, a relative neglect of trade strategy, and trade issues have been often approached under short term considerations and other forms of contempt (e.g., the preference for the production of non traded goods), in particular, a solid basis for a sustained and competitive growth of exports has not yet been developed.
- ii) In the period under closer scrutiny, the empirical data evidence several main trends in a complex landscape: a) Portugal's share in the world exports, particularly in goods, has substantially shrunk since the early nineties; also, comparing to 1990, unlike the majority of the other EU member states, the ratio of exports of goods and services to GDP was reduced, and in 2005, well below EU averages; b) exports of goods are shifting from low to medium (low and high) technology products; traditionally uncompetitive products of textiles, clothing and footwear have significantly lost weight in the total; c) the exports of commercial services have also been diversified, they are now less dependent on traditional tourism receipts, and new items have increased their share in the total; d) considerable current account imbalances remain, but the balance of goods and services has improved in various important items, especially in the last years; e) after a decade of very high concentration of exports in the European Union-14, particularly in Spain, a move towards their diversification is perceptible after 2005; Africa (Angola), Asia, and the new EU member states are clearly gaining weight as regions of destination of goods.
- iii) The analysis of the programs of public agencies managing EU funds shows that they have incorporated a component of internationalization; but only in 2006, the internationalization and competitiveness issues became effectively more focused on precise targets, and a tighter control of the process also seems to be in course of implementation. ICEP, that recently became part of AICEP, has a potential, but most of the time has been a relatively passive player in the foreign trade scene by several reasons (for example due to the instability of institutional framework or to the lack of

clear strategic objectives); after 2005, however, a more dynamic path of ICEP, AICEP since July 2007, towards a sustained internationalization was initiated. Given its proximity to firms, particularly SMEs, and to the management of specific projects with EU funding, IAPMEI can play the role of a lever in the internationalization process. In the institutional context relevant for trade, the issue of “economic diplomacy” (thus, also including the Ministry of Foreign Affairs) has raised some interest as instrument of promotion parallel to other institutions, yet the bases of the process do not seem clear or stable.

- iv) Employers’ federations and related organizations are important players in the elaboration of a strategy addressed to the problems of trade, competitiveness, and internationalization, and they cooperate in many actions with public agencies. Nevertheless, a more ambitious plan to develop a closer partnership aiming at the construction of the competitive advantages of Portugal, based on Michael Porter’s methodology of clusters was blocked in the middle of the nineties on several grounds, and did not produce the expected systemic effects. More recently, AIP has insisted on the necessity of creating international networks and implementing economic intelligence schemes in the approach to international markets by Portuguese firms. At the same time, the organization of credit and finance for exports, particularly as far as concerns public guarantees does not seem much developed yet, and it is a limitation for firms that want to operate in unknown markets or with political risk (except in a few cases, particularly in Angola).
- v) In the 2000s, Portuguese trade with Iberoamerica has been highly concentrated in Spain, and although the economic relations with Brazil have also undeniable importance (i.e., FDI, commercial services, remittances, etc.), trade in goods, particularly exports, remains a small expression in the total. From the trade promotion point of view, these two countries have been prioritized targets, particularly Spain, but the rest of region has been generally neglected: the economic relations have not been optimized nor object of a comprehensive approach, and the Portuguese flows with the other Iberoamerica are clearly under potential.
- vi) Only a tiny proportion of the Portuguese firms develop export activities, and foreign firms clearly dominate the list of big exporters. The report analyzes some cases of firms, Portuguese or with foreign origin, that have had an active role in exports during the last decade: it is obvious that there is in many firms a high potential for exports, including the launching of new products and the entry in new areas and regions, especially when their orientation is well focused on the client, and they take profit of advantages, sometimes relatively ancient, through adjustment to present-day demand and technology. Taking into account the overall results of exports since the nineties, one of the main problems of Portuguese trade seems to lie in the difficulties of multiplying the good examples of a few firms and in giving them a greater scale like other European countries have made during the post-war, including in the more recent decades of economic restructuring.

In his study on trade relationships with European Union (14) in 1995-2004, Ferreira do Amaral, an influent policymaker adviser, summarizes the main problems of Portuguese trade in the following terms:

“Portugal is suffering in its foreign trade, from the exports point of view, the greatest negative shock, in peacetime, since reliable statistics are available.

The reasons of this shock are tied to the emergence of big countries in the world economy such as China and India, and to the EU membership of Eastern European countries which is

having a very profound effect on exports to the German market that until a few years ago was our main client.

The Portuguese economy was not able to become adapted, in due time, to this double shock, perfectly predictable and that was predicted. On the contrary, during more than a decade economic policies were adopted that, objectively, privileged the production of non traded goods to the detriment of the production of traded goods. Only very recently the economic policy shifted away from this course and some significant improvements were possible in the attraction of foreign investment and in the creation of a more favorable environment to the output of traded goods” (2006, p. 4).

This author is right in emphasizing the importance of adaptation in order to overcome the main challenges the Portuguese economy is facing in the field of international competitiveness and increased competition entailed by globalization in Europe and elsewhere. As member of the European Union, and particularly as participant in the Euro Area, Portugal has a lot of opportunities and advantages (almost no constraints in the balance of payments, easy access to the most advanced industrialized markets, structural transfers, etc.) that are not available for many other countries throughout the globe. It has been demonstrated however that the country has had difficulties in taking advantage of these favorable conditions, particularly in their transformation as levers of a successful trade in comparative terms. Under this perspective, the importance of economic adjustment and restructuring to world demand, in due time if not in anticipation, is crucial. As we have put it in the beginning of this report, in the analysis of the last decade or so, one of the main questions of the ongoing debate is whether changes occurring in the Portuguese trade scene after 2005 are (or not) a turning point in the path to deeper adaptation, leading to a more competitive integration into the world economy. Of course, a few steps in the good direction have been taken, yet it is too early to give a fair answer to such a question, and the evolution is not enough clear in several important respects; thus, acknowledging some actual signs of change, we are in face of an evolution that must be closely monitored. Anyway, a deep turn towards greater competitiveness needs solid foundations, and their construction is a long term process.

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