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Multinationals and foreign direct investment: The Portuguese experience (1900-2010)

Abstract

This paper reviews the evolution of inward and outward FDI in Portugal over more than one century. This long term perspective provides an overview of the Portuguese economy in different phases of the world markets integration since the immediate pre-WWI period to the contemporary global economy, moving through the interwar period of neo-mercantilism and witnessing the slow revival of the world economy after WWII. The domestic economic and institutional experience has been at least so diverse as the global context: Portugal moved from a developing to an advanced economy, facing several economic and financial crises, different institutional and political environments more or less conducive to the integration in the world economy. Four issues are especially emphasized: the analysis of the so-called autarchic phase during the Estado Novo period; the role of FDI during the period of the most intense growth of the Portuguese economy (1960s and early 1970s); the entry strategies followed by foreign MNEs during a period of structural transformation in the volume of FDI inflows (1960s-1970s); the reasons for the surge in outward FDI after the late 1990s.

Keywords: Inward FDI; Outward FDI; Portugal; Entry Strategies by MNEs; Joint-ventures

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Introduction

A long-term perspective on the evolution of inward and outward foreign investment in Portugal over the twentieth century is largely absent from the literature. In a few cases the analysis has a greater chronological depth, namely in the studies by Matos (1973). However, even in this case the author zooms in a specific period of time: the 1960s and early 1970s. Other studies provide a long-term synthesis on foreign direct investment (e.g. Leite et al., 2001; Moreira and Dias 2008), but they rely on a descriptive and very superficial approach with the exception of Taveira's doctoral dissertation (1984). The chapters dedicated by the recent and in-depth *História Económica de Portugal* (Lains and Silva 2005, 3) to the internationalization of the Portuguese economy or to capital as a factor of production never address FDI, which is one important weakness of this work.

In the absence of studies with an historical matrix, the disciplinary tradition of economics clarifies some important issues on foreign investment. Firstly, foreign direct investment is approached as a component of the balance of payments (Matos 1973; Lopes 1996; Leite et al. 2001). A second perspective seeks to understand the geographic location and microeconomic impact of foreign investment (Barbosa et al. 2004; Barbosa 2009; Barbosa and Eiriz 2009; Cardoso 2011; Crespo et al. 2009; Farinha and Mata 1996; Forte and Sarmento 2014; Gonçalves and Guimarães 1996; Guimarães et al. 2000; Melo 2012; Melo et al. 2015; Pantea 2011; Pinheiro and Sarmento 2013; Silva et al. 2013; Simões 1993). Finally, other studies investigate the factors attracting FDI, in a much more policy-oriented perspective, in order to design the most effective public policies to attract foreign capital (Barroco et al. 2014; Faria 2015; Júlio et al. 2013; Leitão 2011; Severiano 2011; Simões 1988 and 1992; Wenseleers

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2014). International business studies with a more explicit relationship to management studies are scarcer (Fonseca et al. 2015; Silva and Simões 2012).

Foreign investment has also sparked interest in a literature that seeks an economic approach dictated by a clear opposition to the adverse effects of foreign capital (Castro 1972; Martins 1976; Sideri 1970). The impact of the dependency theory (Gunder Frack, Celso Furtado) is especially visible in the case of Sandro Sideri.

These different approaches surely lack a long-term approach of foreign investment, both in the interpretation of their flows and identification of the protagonists, and in the analysis of the public policies and institutional rules framing FDI. The macro- and micro-economic impact of foreign investment is a topic in which studies are scarce, mostly those with an historical perspective. The field of international business is by definition cross-disciplinary (Dunning 2009). However, the cross-fertilization between economic and business historians, on one hand, and scholars working on international economic and business studies is absent from the studies about foreign investment in Portugal. The business strategies leading foreign multinationals and entrepreneurs to invest in Portugal and their alliances with Portuguese firms are also a missing issue (Barbosa and Louri 2002 is one exception). Some case studies exist on the internationalization of Portuguese firms through foreign operations abroad (Fonseca et al. 2015; Martins 2005), but they remain few in number and without in-depth historical analysis.

This text does not intend to answer to these gaps. It aims, nevertheless, to be more than a revision and synthesis of the literature on foreign investment in Portugal. Using a meta-interpretation of the available interpretation, combined with – very limited – empirical research, this paper addresses the following topics: understanding the institutional framework

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and the public policies directing inward FDI; the evolution of inward and outward FDI flows, trying to characterize their main phases over more than one century; the identification of the main questions for debate and research coming out from this long-term perspective.

Institutional framework and public policies

Attracting foreign investment has been seen as an important engine of economic growth by economists and policy-makers. The creation of specialized institutions to promote the influx of FDI is a trend developing in developed and developing countries over decades (see the case of Ireland, Ruane 2001). In Portugal, no such an autonomous and specialized agency existed until 1977.

However, a 1965 law may be considered as the first legal framework to support inward foreign investment. This new legislation guaranteed the property rights of foreign investors, integrating into the domestic law principles stated in the International Monetary Fund Code for the Liberalisation of Capital Movements (1959) and in the Convention for the Protection of Foreign Property (equal taxation regarding domestic firms, free repatriation of capital and a guarantee against expropriation). These property rights had not previously been in danger, but were firmly stated in the new law.

Two more important clauses were included in the law. The first was the possibility to apply for tax exemptions in "projects with superior interest to the social and economic development of any part of the country". It supported an active policy to attract investment from abroad. The second novelty established free capital investment in many sectors, beyond the very strict rules defined in the Industrial Conditioning Act. The 1965 law thus introduced a considerable legal framework for promoting foreign investment in Portugal.

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The first institution for supporting FDI was created in 1977, exactly the same year that Portugal applied for EEC membership – the *Instituto de Investimento Estrangeiro* (IIE). It developed an important effort in mapping the presence of foreign firms in Portugal and diffusing information abroad on the actual conditions of foreign entrepreneurs in Portugal. The main task for the new institution was restoring confidence of foreign investors after the effects of the 1974 revolutions and the ensuing nationalizations (see below).

In 1990 the IIE disappeared, on the grounds that the liberalization of capital flows in the EC would not justify the existence of a specialized body to promote FDI. It was integrated into the *Instituto de Comércio Externo Português*, responsible for supporting exports and trade from Portugal to foreign destinations. In 2002 a new institutional change occurred when the *Agência Portuguesa para o Investimento* was created, but it was short-lived: five years later the activities for supporting FDI inflows became again part of a single institution to promote exports and FDI, the *Agência para o Investimento e Comércio Externo*. In addition, after 2005 the government institutionalized fast-track mechanisms for supporting foreign investment, streamlining and providing more rapid administrative decisions on investment projects: PIN and PIN+ (*Projectos de Potencial Interesse Nacional*) – this was especially directed to projects in tourism or other activities in which the administrative steps to approve a project are numerous (environmental impacts, decisions at central and municipal administrative level)

These volatile and swinging policies regarding the promotion of FDI are difficult to understand in a country with low levels of foreign investment. Some sort of countercyclical policy affects the institutional framework of FDI: in 1977, when there were very low levels of FDI the IIE was created; in 1990 there was a peak of FDI, but the IIE disappeared and its activities were integrated into ICEP; in 2002 there was a sharp decrease in FDI inflows, and

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the government decided to create a new agency; finally, in 2006, a new peak in FDI coincided with the end of the former agency.

The lack of stability and erratic policies, as well as the partisanship in the nominations for the boards of these different agencies, characterize this institutional framework. The case of Ireland, in contrast, is particularly revealing. An autonomous agency for attracting foreign investment has existed since 1949 (O'Gráda and O'Rourke 1995). Notwithstanding the inevitable changes in policies and agency organization, the institutional continuity of the Investment Development Agency has been sustained (Ruane 2001; Tavares-Lehmann 2007).

The evolution of inward and outward FDI

FDI in Portugal has a history prior to the twentieth century, particularly during the period of time of global economic growth after the mid-nineteenth century. However, the Portuguese economy seems to have benefited little from the global capital flows during the pre-WWI years (more optimistic view in Mata 2008), despite the absence of aggregate statistical data comparable to the period after WWII. During the late nineteenth and early twentieth centuries, FDI clustered in natural resources (mining, agriculture, raw materials) and infrastructures (railways, utilities) (Jones 1996). Portugal was not well endowed in natural resources and its poverty and backwardness prevented large capital inflows to transport infrastructure or utilities, explaining the low evidence of inward FDI. However, some foreign investment existed: electricity and gas (Lisbon and Porto); mining; cork and canned fish manufacturing; colonial ventures (diamonds, plantations).

The black hole in statistical data on inward FDI continues after WWI and until the WWII. However, the scarce information points to very low levels. It is not difficult to imagine a more unfavourable situation regarding FDI inflows to Portugal. The aftermath of WWI was

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characterized by high levels of inflation (surpassed only by the hyperinflation in the defeated countries), monetary instability, very high currency devaluation, as well as high political instability (Silva and Amaral 2011). Only in the mid-1920s did the financial situation start to stabilize and in the late 1920s the authoritarian regime ended the fragile parliamentary regime. However, this financial and political stabilization happened at a time when the Great Depression was dramatically decreasing global investment flows. The Second World War accentuated the international instability, even though Portugal, as a neutral country, became a shelter for thousands of refugees fleeing war and persecution. This condition as a neutral country rarely attracted an important volume of foreign investment, with some exceptions, as in the case of SOFINA, the multinational firm headquartered in Brussels. In short, the first half of the twentieth century was characterized by very low FDI levels, continuing the same structural profile that FDI had during the late nineteenth century.

The first wave of inward FDI starts during the golden age of Portuguese economic growth (1960-1974), when rates of per capita GDP growth attained levels never again reached in the economic history of Portugal (Amaral 2010). It was the first time FDI attained some expression, emphasizing the novelty of the period (see Figure 1). The sharp increase in foreign investment started in 1960, with a stagnation in the late 1960s, but another surge after 1971. This breakthrough in the evolution of FDI justifies its historical singularity. In fact, before 1960 investment coming from abroad was relatively low. The annual average of FDI between 1943 and 1960 was 1.2m US dollars at fixed prices, but it increased more than 30 times (38.1 million dollars per year) throughout the 1960s. The total of all FDI in the 1950s is the same value as the FDI in the single year of 1961. The importance of the 1960s with regard to foreign investment in Portugal is also clear if we look at another indicator. In 1979 about

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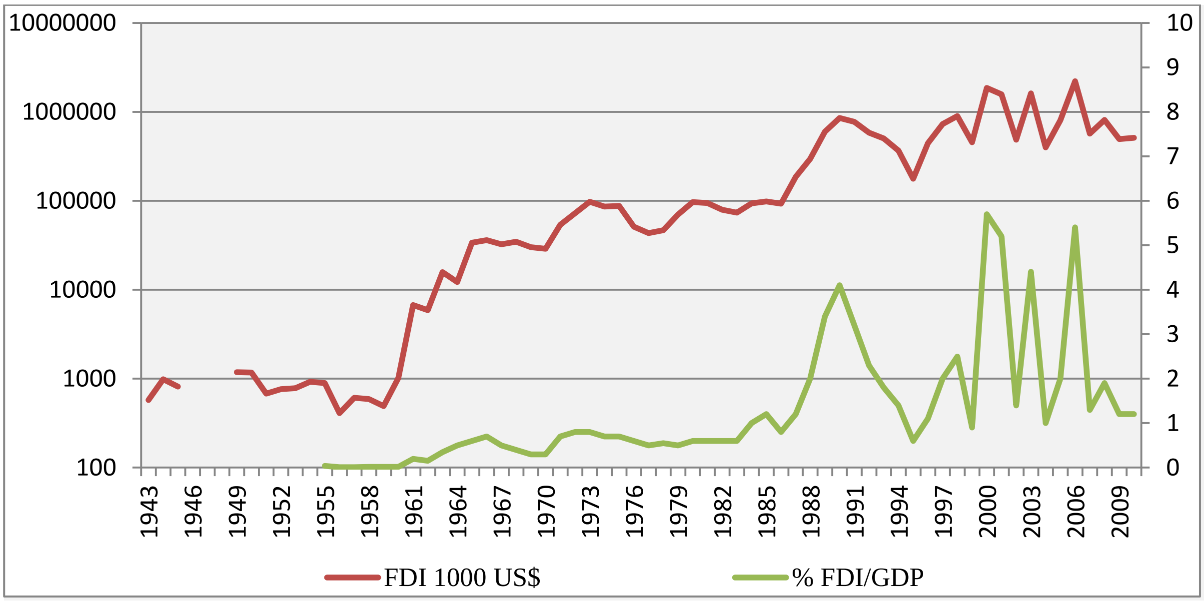
two thirds of the foreign firms operating in Portugal had been created in the period from 1961 to 1973 (Simões 1982). This result is impressive considering that there was foreign disinvestment after the 1974 Revolution, which means that some firms created before 1974 disappeared during the period 1974-1979.

Figure 1. Inward Foreign Direct Investment in 1970 USA dollars and as % of Portuguese GDP



Source: Banco de Portugal, 1997 and 1990-2012 (own calculations).

The external environment also influenced the evolution of FDI. Immediately following the agreement with EFTA (1959) FDI inflow had a six fold increase. Following the 1970's agreement with the EEC the level of FDI trebled.

This period of large capital inflows ended in 1975, after the fall of the authoritarian regime (*Estado Novo*) in 1974, when the political instability and the anti-business policies of the new governments installed fear in foreign markets. In 1975, the government nationalized every domestic financial institution, as well as the largest firms in industries such as energy, steel, transportation, media, shipbuilding and repair, cement, paper pulp, chemicals, and petrochemicals. There was not a single foreign investment affected by the nationalizations.

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Even so, foreign capital fled the country, facing a surge in labour costs, industrial unrest, and political instability. As a result, inward FDI flows decreased sharply in the period after the nationalizations. The ratio of the FDI stock to GDP dropped every year between 1975 and 1980.

Foreign investment flows regained traction after the mid-1980s. This was the beginning of a period characterized by economic liberalization, European integration and privatization of the firms nationalized in 1975. The privatization process started in the late 1980s, reducing in 20 years the number of state-owned firms: by the mid-1990s only CGD remained a state-owned bank; in the non-financial sector and by 2010, state ownership remained only in rail, air and urban transport, and water supply. This was the period of time when foreign investment gained an important stronghold in the Portuguese financial sector (Neves and Silva 2016). The recent effects of the financial crisis in the Portuguese corporate structure not only increased this presence of foreign capital, but also the dominance of foreign ownership in some of the largest incumbent firms privatized after the late 1980s (telecoms and electricity, for instance) (Silva and Neves 2014). The privatization of the last state assets in the energy and telecommunications industries, combined with the retrenchment and divesting strategies of Portuguese business groups and firms, attracted foreign investment to assets sold at a discount ("fire-sale FDI hypothesis" – Alquist et al. 2016; Weitzel et al. 2014).

The FDI flows increased after entering the EEC in 1986, surpassing the 1960s and early 1970s levels: in 1990 it attained more than 4% of the GDP against less than 1% before the 1974 revolution. This surge in the FDI inflows was short-lived: after 1991 it started a rapid decline to levels very low (0.5% of GDP). Only after 1996 was there a new wave of growth, increasing rapidly until 2000. In short, the 20 years followung the late 1980s saw a constant

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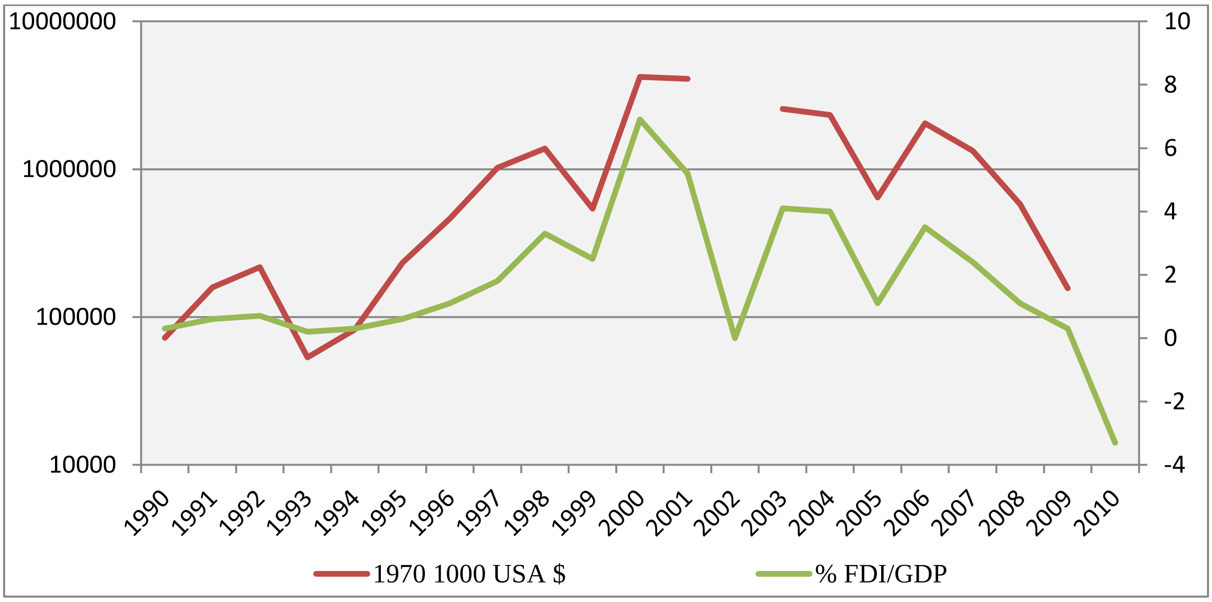
volatility in foreign investment, with two short-lived, but distinct waves of inward FDI: from 1986 to 1990 and in the late 1990s. The early twenty-first century is characterized by a new pattern in the levels of FDI: increasing volatility, with yearly movements in a positive or negative direction and negative net inflows of FDI in some years (Simões and Cartaxo 2013).

There is no significant outward foreign investment before the late 1990s (Figure 2). The largest Portuguese firms and business groups before 1975 nationalizations did not target foreign markets as an investment destination (for a different opinion, see Simões 1985). Investment in the colonial territories had been the most important destination for capital flows originating in Portuguese firms. The 1960s and early 1970s were particularly important for the interest to invest in Africa. The most important business groups at the time expanded their activities to the Portuguese colonial territories (Silva, Amaral, and Neves 2016), repeating a similar interest visible in the late nineteenth and early twentieth centuries, but vanishing with the impact of the Great Depression (Silva and Neves 2014).

Figure 2. Outward Foreign Direct Investment in 1970 USA dollars and as Percent of Portuguese GDP



Source: Banco de Portugal, 1990-2012 (own calculations).

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The political instability and the decolonization in 1975 interrupted this flow and was even responsible by a reverse flow of capital repatriation from the former colonies. No other territory replaced this overseas investment, explaining why outward FDI was so low for two decades.

It was not until the 1990s that outward FDI became truly important in the Portuguese economy (Fonseca 2015). After 1995 the pace of growth is impressive and between 1998 and 2002 outward FDI flows were even greater than inward flows (Simões and Cartaxo 2013). Nevertheless, sharp volatility characterizes these capital movements, emphasizing the small number of players involved. In addition, there is a strong concentration of outward FDI in only a few markets characterized by geographical proximity (Spain), cultural proximity (Brazil, Angola), and new Eastern markets (Poland). These locational characteristics stress the limited ownership-advantages Portuguese firms have, as emphasized by Castro (2004).

The model of an investment development path (IDP) was introduced by Dunning as a dynamic approach to the OLI paradigm and is an interesting attempt to merge the evolution of inward and outward FDI into a single analytical framework. The country's level of development (by GDP per capita) interacts in a dynamic and recursive relationship with its international investment position (outward FDI stocks minus inward FDI stocks per capita). The country economic development affects the conditions facing both domestic and foreign firms, influencing the flows and characteristics of inward and outward FDI. The flows and patterns of inward and outward FDI influence the country's economy, closing the recursive interaction (Dunning and Narula 1996).

The first attempt to apply the IDP framework to Portugal was in a paper by Buckley and Castro (1998). The analysis of the Portuguese investment development path supports John

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Dunning's claim of a permanent interaction between a country's economic structure and the volume and characteristics of both inward and outward FDI (see Castro 2004, Figure 11). It suggests that Portugal was a stage 1 country until the early 1960s. The transition to stage 2 of the IDP happened during the 1960s, but may have not been concluded as the institutional shock represented by the regime change and nationalizations affected the normal course of investment flows. After the 1980s and until the mid-1990s, the Portuguese IDP points to a stage 3 country, and by the mid-1990s Portugal seemed to have started the transition to stage 4 (see also Fonseca et al. 2007).

International comparisons suggest that Portugal is now a stage 4 country (Duran and Ubeda 2001), but its position in the international production network seems not to be fully established, according to Castro (2004). The growth of outward FDI in the late 1990s matched a significant decline of inward FDI, which became more local-market oriented than before. In the previous boom periods of inward FDI, export-oriented manufacturing subsidiaries of multinational enterprises accounted for a substantial part of new investments in Portugal. This suggests that export-oriented FDI was the most affected for the current decline and supports the idea that it results from the declining competitiveness of Portugal as a location for FDI. Multinationals are choosing other locations for manufacturing activities, explaining why employment in foreign subsidiaries is the lowest for OECD countries, with the exception of Japan. In the same vein "Portugal's transnationality index (UNCTAD) is only slightly above half that of Greece or Spain, and about one quarter that of Ireland" (Castro 2004). Multinational enterprises escape the productivity gap revealed by the Portuguese economy by locating their export-oriented investment in other countries.

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This perspective on the evolution of inward and outward FDI highlights some questions of debate and interpretation. Firstly, the idea is repeatedly stressed in different syntheses on the evolution of FDI in Portugal during the *Estado Novo* period, stating that the regime was characterized by an autarchic turn and a hostility toward foreign investment. The second question, much more intractable in the current state of the research, regards the role of FDI for the period of the most intense growth of the Portuguese economy – the 1960s and early 1970s. It will also be important to understand the entry strategies followed by foreign firms during the periods when a structural transformation took place in the volume of FDI inflows (1960s-1970s, late 1980s, and late 1990s). Especially interesting must be the situation in the former period, when the influx of FDI coexisted with some protection. Finally, the reasons for the surge in outward FDI following the late 1990s remain largely unexplored.

Questions of interpretation

Autarchic phase and hostility to FDI during the 1930s and 1940s

Almost every work on inward FDI in Portugal has a short synthesis on its evolution during the twentieth century, namely during the *Estado Novo*. Expressions like "autarchic economic policy" and "prejudice against foreign investors" are used to characterize the *Estado Novo* until the mid-1960s (Simões 1985, 1993; Leite et al. 2001).

However, more than a deliberate economic policy aimed at pushing away foreign investors, the drop in FDI was the result of very unfavourable economic and political events: the impact of financial and political instability in the 1920s; the effects of the Great Depression in the international capital flows; the outbreak of World War II. This context provides the backdrop to understand the very low levels of FDI, as well as the particular institutional and policy framework during the 1930s and 1940: protectionism, domestic-oriented policies, and lack of interest of foreign investors regarding risky investments.

In addition, there are other reasons explaining why Portugal had witnessed low structural levels of FDI before the 1960s. The first is the deficiency of natural resources at a time when FDI was motivated by supply-oriented investment and not so much by a market-oriented investment. Geographical and cultural proximity is one of the reasons for foreign investments. Being the Southwestern-most peripheral country in Europe and having as neighbour a country with a similar pattern of economic specialization helped to accentuate the low structural levels of FDI.

Nevertheless, the Capital Nationalization Law (*Lei da Nacionalização dos Capitais*, 1943) is routinely invoked in the literature as an illustration of this autarchic phase, as it constitutes the first specific legal framework for FDI in Portugal. It reserved to domestic firms investment in several sectors: public services and utilities; sectors subject to exclusive concession by the state; defence industries; and "strategic sectors" to be defined in future legislation. This law was a threat to foreign interests in certain areas of the Portuguese economy in which foreign investment was higher, such as transport and communications, public utilities, and agricultural concessions in the colonies. Still, no deadlines were established for the transfer of foreign control to domestic, and the results were very slight, especially when compared to what was expected given the wording of the law. Some foreign companies in the colonies were nationalized (*Companhia de Moçambique* and *Companhia do Porto da Beira*), but this law was never used as a legal device to take over foreign firms acting in urban and railway transport, power or communications, for instance. Moreover, "the regime never used the most severe mechanism against foreign capital, the prohibition to repatriate profits."

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Therefore, the Capital Nationalization Law seems more a legislative act that must be understood within the context of a war economy and a vague programme of import-substitution than a strategy to attack foreign economic interests operating in Portugal. This programme of import-substitution is in line with other measures seeking to overcome the disarticulation between the provisioning circuits in the world economy and the deviation by the belligerent countries of productive capacity to the war effort.

To sum up, the second quarter of the twentieth century with the sequence of economic crisis and war explains the collapse of capital flows in the international economy, as well as the attempt to preserve the domestic market for national entrepreneurs through the development of nationalistic economic policies. This was a common tendency and not so much a refusal in principle of FDI. When conditions changed and capital flows reanimated after the war, the country was also affected by this new favourable trend – even before any legal change.

What was the real importance of FDI in the golden age of economic growth?

This is one of the most important questions for understanding this critical period in Portuguese economic growth, but is also one of the most intractable. Alfredo de Sousa (Sousa 1969) estimated that 30% of private investment in Portugal was financed through foreign sources and Simões Lopes states a similar conclusion (Lopes 1996). Other approaches to the importance of foreign firms in the Portuguese economy of the 1960s and early 1970s stated that FDI was responsible for 37% of exports (Fernandes 1992). In addition, the importance of FDI to productivity gains associated with better technology is emphasized in other studies and related to the performance of the Portuguese economy at the time, but more as a generic appreciation than anchored in any empirical basis (Amaral 2002; Mateus 2001; Neves 1994).

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The importance of FDI should not be overrated. There is a complete lack of analytical studies on this issue for the 1960s and early 1970s, in contrast with what occurs when we look at the second surge of FDI after the mid-1980s (e.g., Barbosa 2009; Cardoso 2011; Farinha and Mata 1996; Pantea 2011). However, the importance of foreign investment for the Portuguese economy can be better understood if put into a comparative perspective, assessing its weight within overall public and private investment, and comparing it with the evolution of the GDP at the time.

The period between 1985 and 1994 helps to place the volume of FDI throughout the 1960s in its real dimension. The late 1980s and early 1990s were exceptionally good periods for attracting foreign investment into the Portuguese economy. In 1990 and 1991 it accounted for 3-4% of the GDP. However, throughout the 1960s the FDI never reached a similar level. Even in the most favourable years, the FDI rate never rose above 0.7%. In the same way, when FDI is compared with total investment in the Portuguese economy in the 1960s, its importance becomes mitigated, always under 5% of private and public investment.

The same happens if we compare the FDI in Portugal to the foreign capital flows to other European countries at the time. Between 1960 and 1973 Portugal had the lowest proportion of the total FDI received by the former EU cohesion countries of Greece, Ireland, Portugal and Spain, receiving less than 10% of the total FDI in these countries. The foreign capital flows into Portugal were around 50% of the FDI into Greece for the same period. The per capita comparison with Spain is also illuminating: it was 50% lower in the Portuguese case (Coelho 1992; Baklanoff 1978). To sum up: the impact of FDI during the most important phase of economic growth in the history of Portugal deserves a thorough investigation.

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Entry strategies for foreign firms in the 1960s and early 1970s

FDI may cluster in some specific industries and the study of this issue becomes particularly interesting to understand the profile of foreign investment during this period of economic growth. Even more important is the analysis of the business strategies followed by foreign firms to enter into the Portuguese market (Barbosa and Louri 2002 from an econometric perspective).

Table 1 shows the significance of FDI in different industries and the following paragraphs address the most important conclusions resulting from an analytical framework that may be applied to other periods of time.

Table 1. Relative weight of foreign firms in different industries, 1971

<table>
<tr><th>Percent of equity (%)</th><th>Type of Industries</th><th>Industries</th></tr>
<tr><td rowspan="3">> 40</td><td>Technologically advanced capital goods</td><td>Chemicals
Electrical machinery
Transportation equipment
Rubber products</td></tr>
<tr><td>Natural resources</td><td>Paper</td></tr>
<tr><td>Other sectors</td><td>Cement</td></tr>
<tr><td rowspan="4">20 – 40</td><td>Labour intensive consumer goods</td><td>Apparel</td></tr>
<tr><td>Other capital goods</td><td>Primary metals</td></tr>
<tr><td>Natural resources</td><td>Mining
Tourism</td></tr>
<tr><td>Other sectors</td><td>Wholesale distribution
Real estate and services</td></tr>
<tr><td rowspan="7">< 20</td><td>Gas, electricity, water</td><td></td></tr>
<tr><td>Consumer goods</td><td>Food
Textiles</td></tr>
<tr><td>Transports</td><td></td></tr>
<tr><td>Finance</td><td></td></tr>
<tr><td>Construction and public works</td><td></td></tr>
<tr><td>Agriculture</td><td></td></tr>
<tr><td>Retail distribution</td><td></td></tr>
</table>

Source: Matos, 1973; IIE, 1978 (own calculations)

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Three types of industries have a small presence of foreign firms:

- The consumer goods industries oriented to household consumption (food, beverages, around 10%), illustrating that the small and low-income domestic market did not attract foreign investment.
- Industries dominated by domestic firms since the beginning of the twentieth century (5 to 13%): textiles, banking and insurance, transports and communications (public utilities is a special case with two large foreign firms).
- Construction and public works (4%).

Other industries, in contrast, concentrated FDI:

- Technologically developed industries dedicated to the production of capital goods: chemicals, electrical machinery, transportation equipment (40-81%). These industries were characterized by the importance of ownership advantages detained by MNEs.
- Consumer goods, like apparel and footwear, in which foreign investment was mostly export-oriented, constituting a specific case of supply-oriented investment increasing its importance after the early 1960s.
- Pulp paper and tourism, which take advantage of Portugal’s natural resources.

Market- or supply-orientation can be associated with three different situations.

- Capital-intensive industries, like the production of industrial chemicals, rubber, and other chemical products, were directed to the domestic market.
- Some other modern industries, like electrical machinery and transportation equipment, exported 30 to 40% of their production.
- Finally, labour-intensive consumer goods (apparel and footwear) had most of their production directed to foreign markets.

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Table 2 summarizes the available evidence and proposes a taxonomy of the entry strategies used by MNCs in several industries (Jones 1996). The first possibility concerns the advanced technological sectors, with strong ownership advantages, derived from research, branding, or organizational capabilities. In this case, a wholly-owned firm is established, usually through greenfield investment. This solution is found in the electronics and telecommunications sectors (Texas Instruments and Vitrohm); the production of electrical machinery, with the creation of firms like Efacec (Westinghouse), Rabor (ITT), and Motra (Siemens); the inorganic chemistry and the synthetic resin sector, with Sociedade Portuguesa de Ar Líquido (Air Liquide), Soda Póvoa (Solvay), CIRES (Mitsui), and Resiquímica (Hoechst); the manufacture of synthetic fibres, with CIFE (Akzo) and FISIPE (Mitsubishi); and finally in the car industry. When there is domestic involvement this is by means of the association of Portuguese banks to these projects. For instance, Efacec (electrical machinery and engineering) is a joint-venture between Westinghouse and Banco Fonsecas & Burnay; CIRES (PVC manufacturing) results from the alliance between the Japanese firm Mitsui and two Portuguese banks, Banco Português do Atlântico and Banco Sotto Mayor; FISIPE (synthetic fibres) links Mitsubishi with Banco Espírito Santo e Comercial de Lisboa.

The presence of banks in the equity of some of these advanced-technology firms in chemicals and electrical engineering may explain the position taken by Maria Belmira Martins (1976, 59), but without further confirmation, who claims that in the 1960s the volume of FDI was lower than the volume of firm creation by foreigners, considering the resort to the domestic capital market. The resort to domestic sources of capital was justifiable, considering the very low level of the real interest rate in Portugal throughout the period (Amaral 2002).

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Table 2. Typology of business strategies for FDI investment (1960s-1970s)

Type of industry	Strategy of entry	Industries
New technology, strong ownership advantages	Subsidiaries, without any alliances with domestic firms	Telecommunications, electronics Electrical machinery Synthetic fibres
	Financial partnership with domestic banks	Automobiles
Consumer goods	Joint-ventures with domestic distribution firms	Food (margarine and ice-creams) Household and laundry products
Industries with a previous presence of large domestic firms	Joint-ventures with domestic manufacturing firms	Paper pulp Shipyards Fabricated metal products Glass Primary metals
"Protected" industries	Joint-ventures with domestic firms	Energy
Tourism	FDI, without any alliances with domestic firms	
	Financial partnership with domestic banks	

Source: Own elaboration from Table 1 and qualitative evidence about entry strategies mentioned in the article.

In the consumer goods sector, there is an joint-venture between Unilever and a Portuguese retail distribution firm, Jerónimo Martins. This joint-venture created FIMA (margarine and oil), IGLO (ice-creams), and LEVER Portuguesa (personal, household, and laundry products). In some traditional industries, in which the presence of domestic business groups was important, joint-ventures with local manufacturing firms were also common. The largest Portuguese business group (CUF) has several partnerships in different industries: with Ludlow Corporation (USA) it created SITENOR, a textile firm that manufactures jute and sisal; in the paint and varnish industry it established Tinco, with British ICI, and Flexcote, with the French firm, Roussel-Nobel; in primary metals it created the *Companhia Portuguesa*

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de Cobre, with the French firm Trefimetaux; in paper pulp it joined the Swedish firm Billerud to set up CELBI; and the creation of LISNAVE (shipyards), with Swedish and Dutch participation. Although only the example of the CUF group is considered, identical combinations between MNCs and Portuguese firms can be found in other industries, where there was already a long-established presence of domestic capital, as was the case of cement, glass, and metal products.

Tourism and real estate is another sector in which one finds cases of association between MNCs and Portuguese financial groups, side by side with isolated initiatives by foreign firms. For instance, the foreign group Leon Levy launched its own firms as Explotel and Finalgarve, but is associated with the Banco Nacional Ultramarino in Albel and Findal. The Sheraton Hotel, in Lisbon, was the result of an alliance between ITT and the Banco Espírito Santo e Comercial de Lisboa. Meanwhile, the Costain group acts alone to create tourist undertakings, such as Vale do Lobo and Costimar.

This overview of different entry strategies of foreign firms during a period of structural change in FDI inflows points to some characteristics:

1. When foreign firms had strong ownership advantages (technological, managerial or organizational) they likely dominated these industries and operated without any joint-venture with domestic firms. The exceptions are industries in which large domestic firms and groups were already present (chemicals, shipbuilding, primary metals, paper pulp). Specific joint-ventures may also take place between foreign MNEs and Portuguese financial institutions.

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2. In industries in which administrative decisions are critical (e.g. real estate, tourism, energy), joint-ventures with domestic interests are common, both with financial and non-financial firms.

This pattern of entry by MNEs in a developing economy with strong, but indirect (without major state-owned firms) state intervention and diversified business groups raises other reasons for joint-ventures besides the ones presented by Buckley and Casson (2010). Political risk and a constricted institutional environment (even when free foreign capital entry was formally instituted after the mid-1960s) may be an important driver to promote joint-ventures between foreign multinationals and local firms.

Reasons for the rise of outward FDI after the late 1990s

The industry distribution of outward FDI is difficult to assess. Figures are based on the industry of the investing rather than the recipient company, and most firms invested through holding companies. It is safe to say, however, that outward FDI is by and large the responsibility of a very small number of firms in a relatively small number of industries (Castro 2004): telecommunications, electricity, financial services, and retailing.

The examination of the reasons for the rise of outward foreign investment (Fonseca 2015; Fonseca et al. 2015; Simões 2001) does not take into consideration changes in the business strategy by the largest firms and groups over time. Portugal may be characterized by two waves of business groups (Silva and Neves, forthcoming):

- the first, ending with the 1975 nationalizations;
- the second, starting with the massive privatizations program and liberalization policy followed after the late 1980s.

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The new business groups after the 1990s (Sonae, Jerónimo Martins, Amorim, Espírito Santo, Mello, and Mota-Engil) become more active in the international markets, moving from domestic-centric to multinational groups, in contrast with the first wave of business groups nationalized in 1975. Their turnover abroad already represents the largest share of the group's operations. For instance, the Sonae group, in shopping mall construction and management or laminated wood manufacturing has the largest part of these activities developed abroad. In the case of the production of laminated wood (the original manufacturing activity of the group and where it is a world leader) it has 21 plants across three continents. The Amorim group is present in different business segments, but it originated in cork manufacturing. It is today the world's largest producer of cork products and its manufacturing company is one of the most internationalized Portuguese firms. Business groups based on construction but having a trend to unrelated diversification (Mota-Engil) also have the largest share of their business activities outside Portugal. Therefore, second wave business groups turned to a multinational strategy after the late twentieth century as a way to escape the constraints of the small domestic market and also to increase competitiveness. In fact, internationalization acts in a recursive relationship with the accumulation of competitive resources and capabilities. They are needed to compete abroad and, simultaneously, being exposed to foreign competition strengthens their competitiveness. This contrasts with the domestic orientation of pre-1975 business groups.

Finally, and as was mentioned above, these investments abroad were geographically (Spain) and culturally (Brazil, Angola) close. This also testifies to the limited ownership advantages by many Portuguese firms (exceptions are some of the groups mentioned above).

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Conclusion

The internationalization of the Portuguese economy today faces the "productivity gap dilemma", which prevents growth and is behind the lost years of the early twentieth-first century. More than the effects of the global 2008 financial crisis and the European sovereign debt crunch, the Portuguese problem is fundamentally economic, associated with declining competitiveness and the productivity gap with the developed European economies (about 50% of its average) and with the new European Union Eastern countries. The new economic geography of Europe and the challenges posed by the entry in the European Union of Eastern European countries led to a reconfiguration of FDI inflows, affecting the Portuguese economy. Export-oriented foreign investment has been particularly affected by this new trend, unlike foreign investment in the financial or other services sectors.

The challenges lying ahead to the Portuguese economy, economic agents, and policy makers also constitute challenges to the research about international business in Portugal. This review, even though incomplete in its scope, reveals that much has to be achieved to scholars working in the different fields of international business.

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