

**OECD REVIEWS
ON FOREIGN
DIRECT INVESTMENT**

PORTUGAL

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Foreword

This report examines Portugal's foreign direct investment policies. It is the result of an examination held in June 1993 by an OECD Working Group made up of representatives of the Committee on Capital Movements and Invisible Transactions and the Committee on International Investment and Multinational Enterprises. These committees, whose members are officials from ministries of finance, foreign affairs, commerce and industry, and from central banks, promote liberal, non-discriminatory investment policies through the OECD Code of Liberalisation of Capital Movements and the National Treatment Instrument.

The report has been reviewed and adopted by both committees and was derestricted by the OECD Council on 14 April 1994. Factual updating has been made through November 1993.

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Chapter 1

Introduction and summary

After years of isolation Portugal has been gradually restoring outward-looking policies that were characteristic of its past. Government policy has galvanised around the objectives of gradual convergence towards EC income levels and regulatory norms, and full participation in the integration process is under way. The catch-up potential, the appeal of low labour costs and the implementation of the reforms have fostered a strong recovery in the second part of the 80s, with growth rates higher than the EC average. These positive factors are helping Portugal through the present difficult international economic climate, although traditional sectors such as clothing and textiles are experiencing adjustment difficulties.

Foreign direct investment, combined with large EC transfers for infrastructure and convergence, have undoubtedly given a decisive boost to Portugal's economic performance and domestic capital formation. As a vehicle for capital renewal and innovation, Foreign Direct Investment (FDI) has been an instrument for modernising Portugal's industrial and service sectors. FDI has also improved the international competitiveness of the Portuguese economy and deepened its economic ties, particularly with its closest European neighbours. This is paying off, even in the present difficult economic climate, as foreign enterprises have remained an important source of employment and exports. Portuguese investors themselves have recently stepped up their presence abroad by promoting goods and services and establishing distribution in an number of foreign markets.

This study, which examines the role of FDI in the Portuguese economy and Portugal's policies towards inward direct investment, comes at an appropriate time. Portugal had virtually completed by 1992 its transition into the EC, aban-

done its exchange controls, joined the Exchange Rate Mechanism of the European Monetary System and ratified the Maastricht treaty. Its multifaceted Convergence Program for 1992-95 in preparation for the European Monetary Union sets out the removal of structural and financial rigidities as one of its main priorities. Portugal is well on its way towards integrating itself with European industrialised nations.¹

As part of this integration process Portugal has taken a number of important steps to open its economy to foreign direct investment. Prior notification, whereby FDI is permitted unless otherwise provided, has replaced a cumbersome prior authorisation system under which FDI was considered prohibited unless approved. A wide range of sectoral restrictions – in mining, fishing, press enterprises, and road, air and maritime transport – have been removed or relaxed. Restrictions towards EC investors – in banking, tourism and audio-visual works – have altogether disappeared. And a number of state monopolies (international air travel, telecommunications, broadcasting and production and transportation of electricity) have been ended and limited foreign participation in these sectors has been made possible. Privatisation, particularly in the financial sector, has been an important element in Portugal's drive to attract more private capital.

Nevertheless, and notwithstanding the important progress that has been made in liberalising the FDI regime, Portugal's reform programme has been cautious and gradual, with some liberalisations applying to investment by EC firms only. For example, there are special rules for non-EC investment in banking and financial services, insurance, television, and complementary telecommunications services, although non-EC investors can generally get around these restrictions by investing from an EC base. Non-EC firms are also treated differently from their EC counterparts under the "safeguards clause" of Portugal's 1986 Foreign Investment Law (Regulatory Decree Number 24/86 of 18 July 1986), which provides that investments by non-EC firms may be subject to assessment and negotiation, depending on the investment's effect on Portugal's economy. Investment by EC firms is not subject to this safeguards clause. Although the safeguards provisions have never been used to block an investment proposal, the 1986 law is expected to be replaced by a new law that will limit safeguards procedures to very exceptional circumstances, possibly related to public order and security.

Restrictions to foreign investment apply in other sectors, too. In air and maritime transport companies must be headquartered in Portugal and the management and majority of capital controlled by Portuguese. Public telecommunications services may only be carried out by companies whose majority capital is held by Portuguese public entities. Foreign participation in privatisation, which still needs to run its course – particularly as regards the industrial sector – is determined on a case-by-case basis at the discretion of the Portuguese authorities. Moreover, important activities outside the competitive realm and years of government intervention have left a legacy of over-regulation in certain areas.

The Portuguese authorities have placed great emphasis on promoting inward direct investment, and the desire to attract FDI and harmonise Portuguese law with EC law and practice has been a motivating factor for a number of regulatory reforms since 1986. Indeed, the 1986 Foreign Investment Law provides for a “contract system” under which the Portuguese authorities may negotiate with eligible investors tax, financial and other benefits for projects of special interest to Portugal’s economy. The incentive programme, however, has become expensive and increasingly complex.

This study argues that a number of policy changes are possible – and indeed desirable. First, it should be possible with the new foreign investment law under negotiation to eliminate discrimination against non-EC investors, both with respect to general requirements and most sectoral restrictions. Concerning the forthcoming privatisation of industrial and services firms, the report suggests that non-resident investors and established foreign-controlled enterprises should be given ample opportunity to participate in this process, and that procedures should be transparent and clear. Portugal is also encouraged to pursue its demonopolisation efforts with a view to injecting a greater degree of competition in the economy, with foreign firms permitted to participate on an equal footing with domestic firms. Finally, in the effort to attract foreign investment, the report invites the authorities to continue to give top priority to improving the general business climate. Where special incentives are felt necessary to attract investment in underdeveloped regions of the country, the Portuguese authorities should administer investment incentives transparently and without discrimination, and refrain from imposing distorting performance requirements. This is particularly important in view of the size of EC transfers for infrastructure and training.

The study is organised as follows: Chapters 2 and 3 analyse Portugal's FDI trends, the role of FDI in the Portuguese economy and Portugal's FDI policies. Chapter 4 then provides concluding comments and prospects for further liberalisation in Portugal. Annex 1 explains the nature and role of the OECD instruments in promoting liberal FDI policies and details Portugal's position under these instruments. Annex 2 contains a chronology of the main events affecting foreign direct investment in Portugal from 1986 until February 1993. Annex 3 reproduces balance of payments and trade statistics in Portugal while Annex 4 provides a list of the main foreign investors in Portugal by sector. Annex 5 contains general statistics concerning foreign direct investment in the OECD area. Annex 6 is a partial list of useful references.

Chapter 2

The role of foreign direct investment in Portugal

A. Data, methodological and definitional issues

There are two principal sources of data on Portugal's international direct investment flows, the balance of payments data produced by the Bank of Portugal and data published by Investment, Trade and Tourism of Portugal (ICEP – *Investimentos, Comércio e Turismo de Portugal*).

The Bank of Portugal, which relies on statistical declarations, records direct investment on the basis of international settlements. Quarterly and annual data are published in the Central Bank quarterly Bulletin and Annual Report, the later with a greater level of detail. Direct investment flows include reinvested earnings when they are reinvested in equity capital, but until recently excluded long-term intra-company loans. The definition of direct investment used by the Bank of Portugal generally complies with the guidelines of the IMF and the OECD. However, the minimum qualifying threshold is fixed at 20 per cent as opposed to the 10 per cent level suggested by the OECD/IMF benchmark,² and the Portuguese authorities acknowledge that the BOP definition of FDI underestimates somewhat the amounts of these flows in relation to countries using the OECD/IMF benchmark of 10 per cent. There are plans to adopt a definition more closely in line with that of the IMF/OECD, and a bill may be introduced for this purpose by end-1993.

The country classification of the BOP statistics is based upon the country of residence of the foreign creditor or debtor. It does not necessarily reflect the country of ultimate beneficial ownership of the investment, the country of residence, the country of the immediate source of funds, or the country to which amounts borrowed will in fact be repaid. The industry classification of outward

investment relates to the activities of the overseas concerns, and that of inward investment to the business of the affiliates.

ICEP statistics are based on the declarations of intent that individual foreign investors must file with respect to particular direct investment projects and, unlike BOP statistics, do not necessarily reflect the investment that actually took place. ICEP coverage is somewhat broader than the BOP data. ICEP statistics provide a more detailed breakdown of flows by industries and types of operation, and allows for the identification of the biggest projects. They may nevertheless overestimate actual investments as some of the projects filed may fall short of expectations or never materialise.

Foreign investment operations are defined as those acts which have as their objective or which may give rise to stable and long-lasting economic links from which effective decision-making power is obtained or strengthened, either directly or indirectly, immediately or cumulatively, when practised by or with the intervention of:

- a) Non-resident individuals or corporate bodies, which are defined, respectively, as individuals with habitual residence abroad, and as corporate bodies of whatever type with head offices abroad;
- b) Portuguese companies or companies established in Portugal which, through a holding in their capital or by any other means, should be economically connected, either directly or through subsidiaries, to non-resident individuals or corporate bodies.

In accordance with these general principles, foreign investment operations are considered to include the following acts and contracts, even if they do not directly involve the import of capital:

- Establishment or expansion of branches or other forms of representation of companies having head offices abroad, or of new companies owned exclusively by the investor, and total or partial acquisition of companies already existent;
- Participation and acquisition of holdings in the capital of companies or in groups of companies, newly constituted or already existent, in whatever form it may be;
- Implementation and alteration of joint-venture contracts and the association of third parties in holdings or capital quotas;

- Total or partial take-over of commercial or industrial establishments, by acquisition of assets or by means of contracts for the alienation of the business;
- Total or partial take-over of agricultural businesses through leasing contracts or any other form of agreement which implies right or tenure and the commencement of activity by the investor;
- Carrying on a business involving building complexes, whether associated with tourism or not, in whatever legal form this may be made;
- Supplementary calls on capital, advances by partners or shareholders and, in general, loans linked to profit-sharing.

The acquisition of property located in Portugal by non-residents as part of an investment project is also subject to the rules applicable to foreign investment operations.

B. FDI inflows, home countries and sectors

Portugal, like most of its European counterparts, has traditionally been a net recipient of FDI. The adhesion to EFTA in the early 1960s marked the beginning of direct investment in labour-intensive and export-orientated activities by both EFTA partners and the original six founders of the EC. This was interrupted by political developments of the 70s which led to the resumption of import substitution along traditional investments in trading and real estate. The early 80s saw the return of the patterns of the 60s but with a greater emphasis on manufacturing and technological content. The adhesion to the Community in 1986 made possible the full exploitation of these trends on a much larger scale. The Government is encouraging more inward and outward FDI to further integrate Portugal's economy into regional and international markets, to achieve greater economic convergence with other EC Member States, and to promote industrial restructuring in the domestic economy.

FDI into Portugal since 1986 has experienced a spectacular rise, (Table 1 and Chart 1), even compared with the FDI growth in neighbouring Spain or other small OECD countries.³ Average annual inflows were twelve times higher than in the previous decade. From an initial level of \$166 million in 1986, they reached the \$3 billion mark in 1992.⁴ FDI also reached the peak of 4.6 per cent of GDP in

Table 1. Direct investment flows, 1975-1992¹
In US\$ million

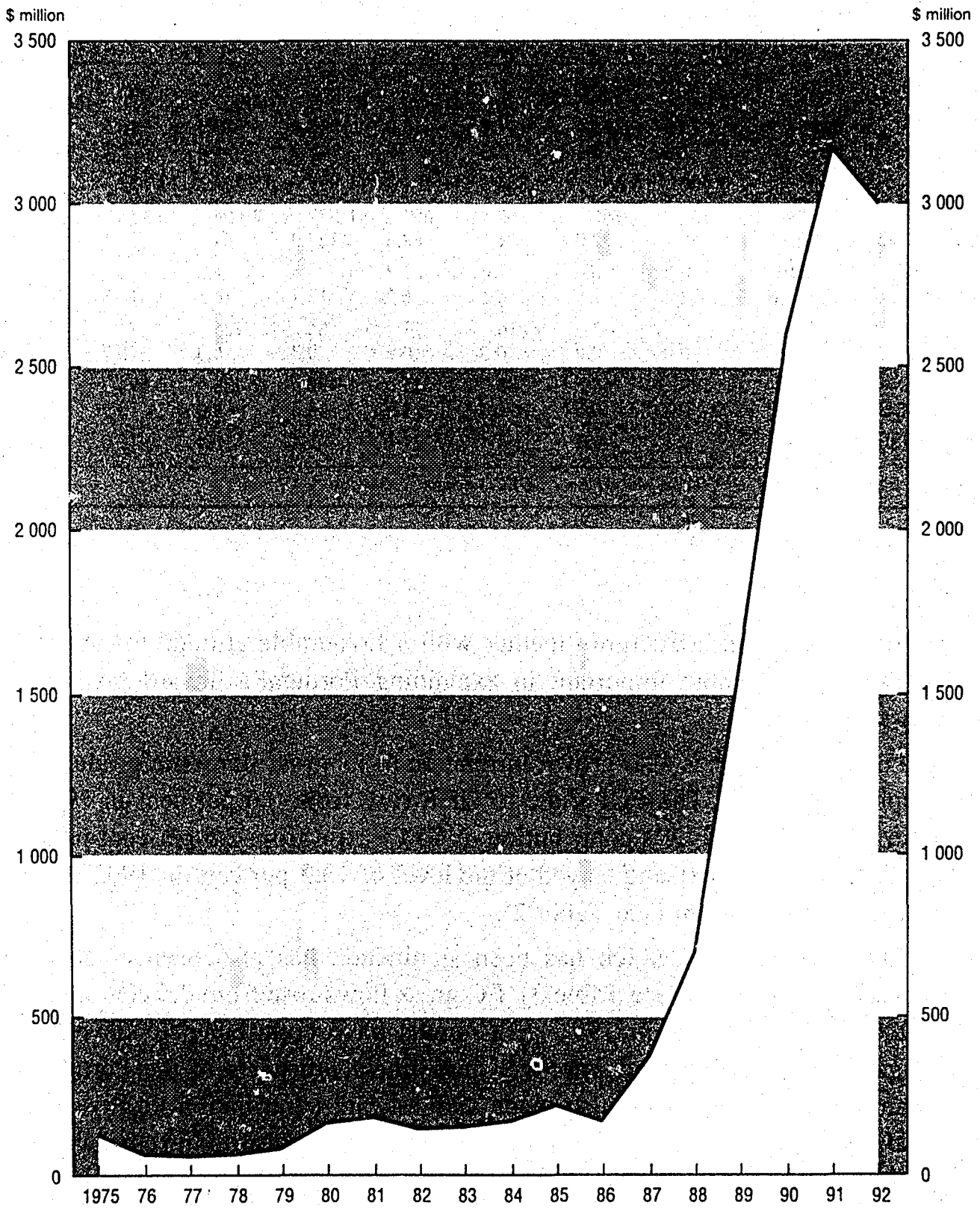
	Inward	Outward
1975	122	4
1976	66	7
1977	60	-
1978	66	2
1979	82	-6
1980	160	14
1981	179	16
1982	145	9
1983	150	17
1984	170	8
1985	218	15
1986	166	-2
1987	367	-16
1988	692	77
1989	1 577	85
1990	2 594	165
1991	3 168	474
1992	2 994	719

1. Balance of payments statistics.
Source: Banco de Portugal.

1991, the highest ratio recorded for OECD countries in that year (see Table 2, Chart 2 and Annex 5). Annual FDI inflows have averaged \$2.6 billion over the last four years. The Portuguese authorities expect FDI into Portugal to continue to grow, although perhaps not at the rate of recent years. They feel they have established the necessary macroeconomic and regulatory conditions needed to attract investors, and that foreign investment has still not reached its potential in the Portuguese market.

According to the Portuguese authorities there were several contributing factors to the growth of FDI. Two factors mentioned are the guaranteed access to a market of 340 million people as a member of the European Community, and the privileged relations with the Portuguese-speaking countries of Africa, Latin America and Asia. The available data show, however, that most of the foreign investment into Portugal (73 per cent) between 1986 and 1992 came from EEC investors. The other factors mentioned by the Portuguese authorities, including political and social stability, competitive wage and productivity costs, and a rapid

Chart 1. Foreign direct investment flows
1975-1992



Source: Banco de Portugal.

Table 2. **Indicators of international direct investment**
In US\$ million

	1975-85 average	1986	1987	1988	1989	1990	1991	1992
GDP	19 845	29 550	36 730	41 700	45 582	60 051	68 778	84 025
Nominal growth (%)	23.8	25.4	17.1	16.0	18.8	19.3	16.5	15.9
Real growth (%)	2.3	4.1	5.3	3.9	5.2	4.4	2.1	1.6
GFCF	5 406	6 594	8 884	11 194	11 999	15 764	17 837	22 569
Inflows	136	166	367	692	1 577	2 594	3 168	2 994
Inflows growth (%)	..	22.0	121.1	88.6	127.9	64.5	22.1	-5.5
Inflows as % of GDP	0.7	0.6	1.0	1.7	3.5	4.3	4.6	3.6
Inflows as % of GFCF	2.5	2.5	4.1	6.2	13.1	16.5	17.8	13.3
Outflows	7	-2	-16	77	85	165	474	719
as % of GDP	0.0	0.0	0.0	0.2	0.2	0.3	0.7	0.9
Inflows - outflows	129	168	383	615	1 492	2 429	2 694	2 275
as % of GDP	0.7	0.6	1.0	1.5	3.3	4.0	3.9	2.7
Outflows/inflows (%)	5.1	-1.2	-4.4	11.1	5.4	6.4	15.0	24.0

Source: Banco de Portugal; OECD National Accounts; OECD Economic Outlook.

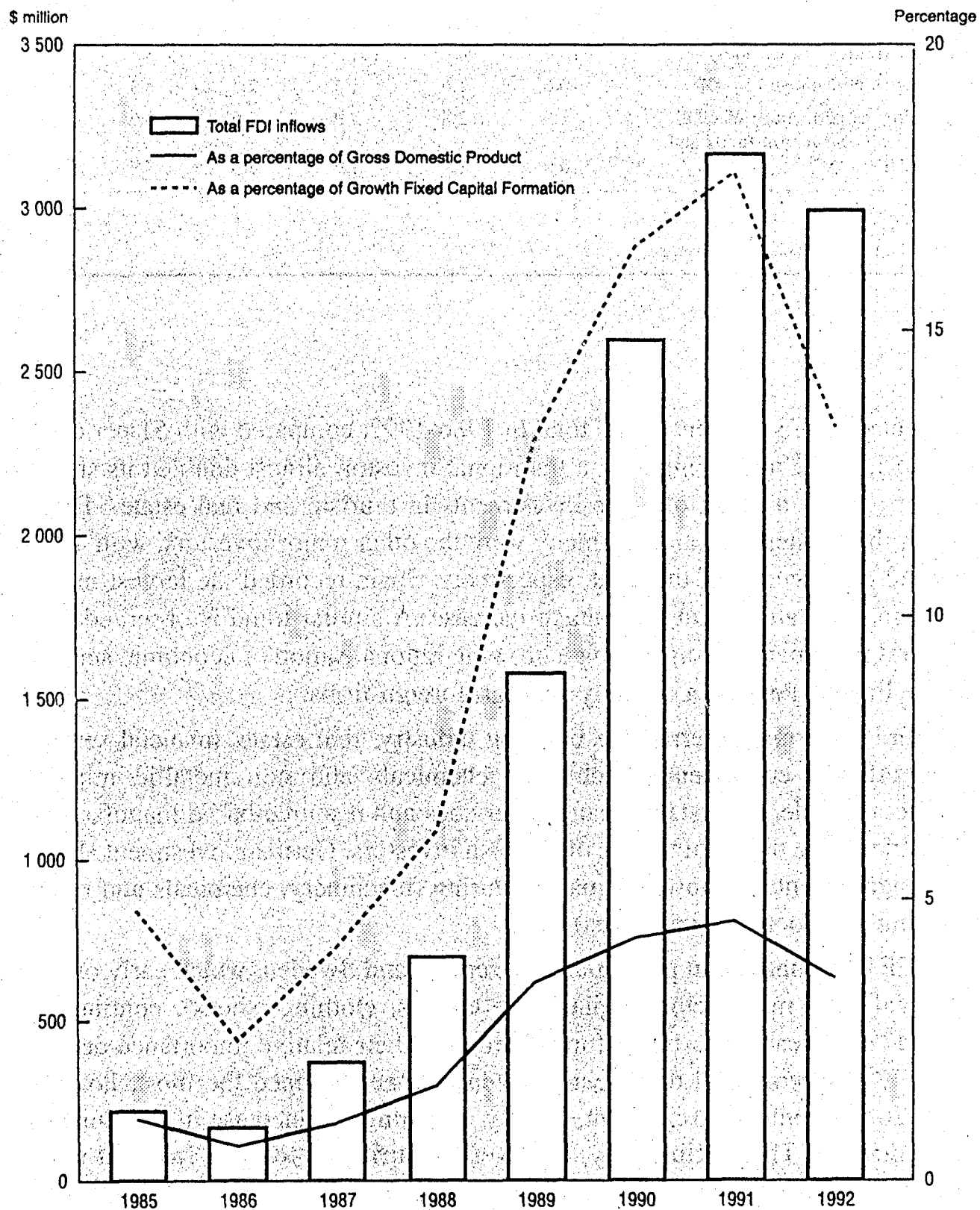
modernisation of infrastructure together with a favourable attitude toward FDI, may therefore be more important in explaining Portugal's inward investment boom since 1986.

Portugal's FDI has also grown in relation to its gross domestic product and its capital formation. The FDI share to GDP rose from 0.6 per cent in 1986 to 4.6 per cent in 1991. FDI's contribution to GFCF rose from 2.5 per cent in 1986 to 17.8 per cent in 1991 and stayed at the level of 13.3 per cent in 1992 despite the economic slowdown (see Table 2).

EEC regional aid, which has been significant, has also been a factor in Portugal's development (see Table 3). EC gross flows rose from 0.6 cent of GDP in 1986 to 3.3 per cent in 1991. EEC funds have contributed to developing Portugal's infrastructure and improved investment prospects in the Portuguese economy. These funds have also made a significant contribution to gross fixed capital formation (GFCF) and their importance would appear to have grown with the recent decline in indigenous investment.⁵

As mentioned earlier, an important recent feature is the sharp increase in the dominance of EEC inward direct investment inflows (Table 4, Chart 3), which

Chart 2. FDI as a percentage of GDP and GFCF
1985-1992



Sources: Banco de Portugal; OECD National Accounts.

Table 3. Financial flows with the EC

	1986	1988	1990	1991	1992 ¹	1993 ²
Net flow (billions of escudos)	26	98	121	231	378	431
Net flow as percentage of GDP	0.6	1.6	1.4	2.3	3.3	3.5
Gross flow as percentage of GDP	1.5	2.8	2.9	3.6	4.6	4.7
of which: Structural funds and PEDIP	0.9	1.9	1.9	3.0	3.9	3.8

1. Budget estimate

2. Budget projection

Source: Portuguese Ministry of Finance

accounted for 73 per cent of the total in 1986-1992, compared with 51 per cent in 1980-85. The United Kingdom, a traditional investor, almost doubled its share to 23 per cent as a result of large investments in tourism and real estate.⁶ France, Spain, the Netherlands and Germany were the other major investors, with 16, 13, 6.6 and 6.5 per cent of the total respectively. Spain recorded the largest individual gain, with an 8 point percentage increase. A similar trend is observed in the bilateral trade patterns suggesting a growing rationalisation of economic activities in the Iberian Peninsula, notably through foreign firms.⁷

French firms preferred the building industry, real estate, financial services, transportation equipment, machinery, chemicals and non metallic minerals. Wholesale trade, real estate, financial services and resource-based manufacturing industries were the main targets of Spanish investors. German investment showed a stronger orientation towards manufacturing (machinery, chemicals and rubber, clothing and footwear industries).⁸

EFTA countries, in particular Switzerland and Sweden, which early on used Portugal as a manufacturing platform (textiles, clothing, shoes), continued to provide significant investment funds, although their relative importance declined from 17 per cent to 11.6 per cent. US investment dropped the most, however, from 20 per cent to 4.3 per cent, largely offsetting the increase in the European concentration. This decline may, however, be attributed to more frequent use by US multinationals of EC-based affiliates, thereby by-passing a legislation which at face value is less liberal towards non-EC investors (see the following chapter). US investors have also played a leading role in the automotive sector which has

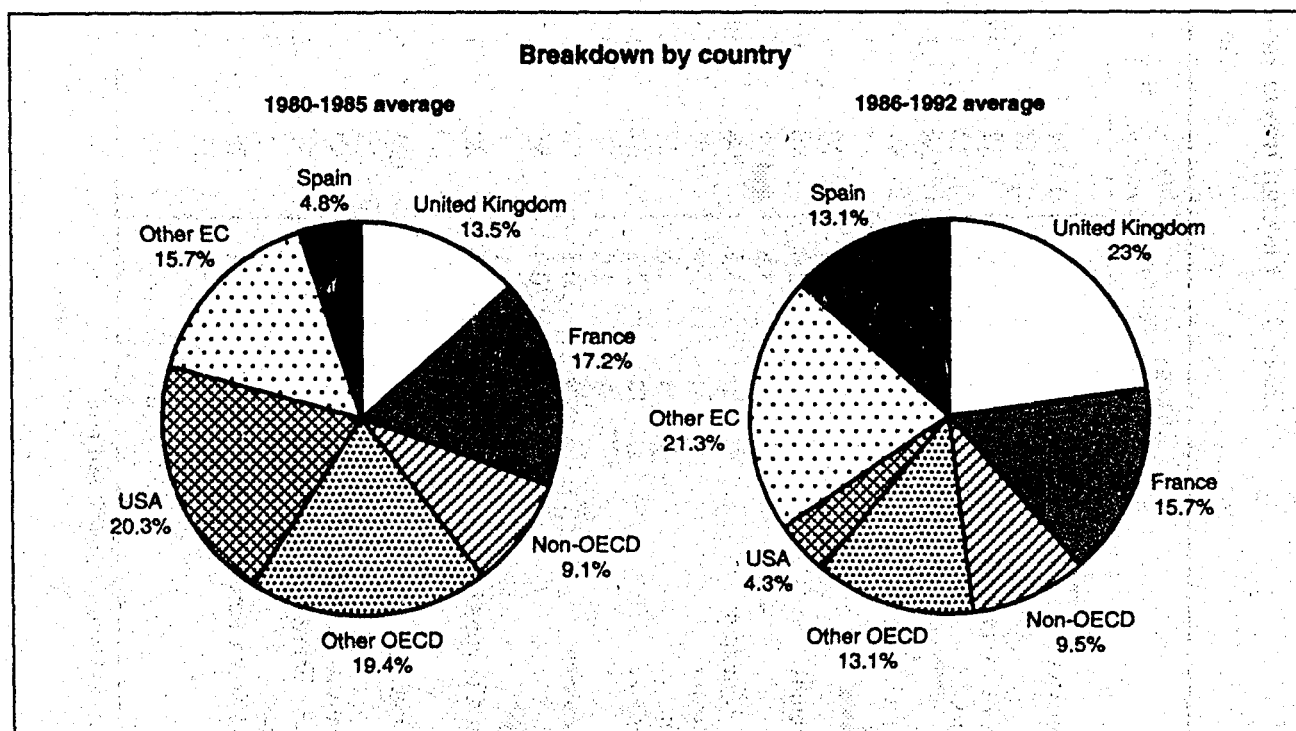
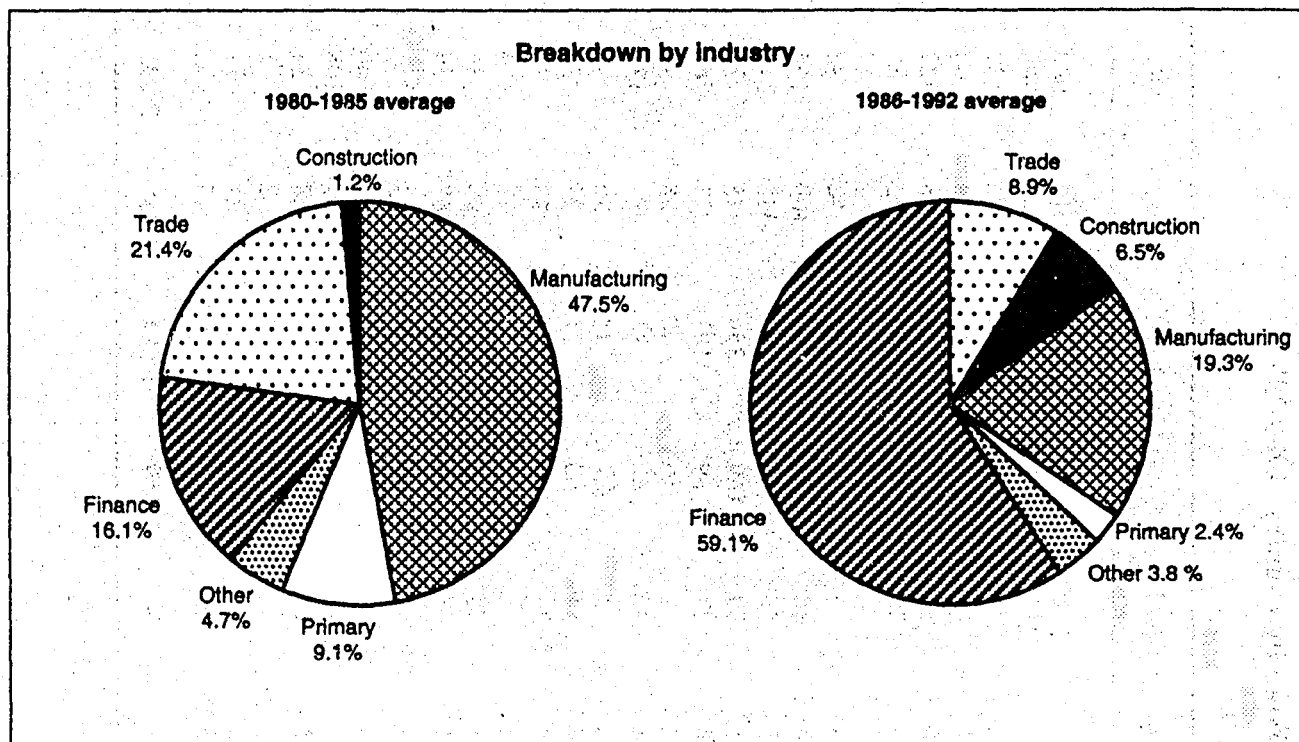
Table 4. Foreign direct investment flows by country, 1980-1992

In US\$ million

	1980-85 average	% of total	1986-92 average	% of total	1986	1987	1988	1989	1990	1991	1992
OECD countries	131	90.9	1 174	90.5	148	291	623	1 348	2 012	2 044	1 754
EEC	74	51.2	948	73.1	117	212	468	1 084	1 599	1 708	1 449
Belgium-Luxembourg	4	3.0	52	4.0	6	3	45	83	176	137	-86
Denmark	1	0.3	22	1.7	..	3	8	17	18	94	13
France	25	17.2	204	15.7	16	33	74	228	428	329	318
Germany	9	6.2	84	6.5	18	26	51	115	142	85	151
Ireland	2	1.3	12	1.0	..	..	2	1	2	47	35
Italy	1	0.3	20	1.5	5	2	5	22	34	54	16
Netherlands	4	2.4	86	6.6	4	10	52	80	109	154	190
Spain	7	4.8	171	13.1	13	56	62	184	345	378	156
United Kingdom	19	13.5	298	23.0	55	79	169	354	345	430	656
Other Europe	24	17.0	150	11.6	16	37	89	181	271	268	189
Sweden	4	2.8	27	2.1	2	1	16	40	88	39	6
Switzerland	18	12.2	67	5.1	14	31	46	93	87	132	63
Other	3	2.0	57	4.4	..	5	27	48	96	97	129
North America	29	20.3	56	4.3	14	34	60	71	73	34	106
USA	29	20.3	55	4.3	14	34	60	71	73	30	106
Canada	..	..	1	0.0	..	..	..	..	..	4	..
Other OECD countries	4	2.4	20	1.5	1	8	6	12	69	34	10
Japan	4	2.4	20	1.5	1	8	6	12	69	34	10
Non-OECD area	13	9.1	123	9.5	7	23	36	156	243	247	150
Africa	..	..	18	1.4	..	..	4	11	42	66	1
Latin America-Caribbean	6	4.2	62	4.8	5	17	28	119	131	108	25
of which: Brazil	1	0.8	31	2.4	2	11	16	69	68	34	16
Middle East	..	..	5	0.4	..	..	1	..	2	1	28
South and South East Asia	2	1.4	28	2.1	..	..	..	9	21	72	91
Other	5	3.5	11	0.9	2	6	3	17	47	..	5
Total	144	100.0	1 297	100.0	155	314	659	1 504	2 255	2 291	1 904

Source: Banco de Portugal, unpublished data.

Chart 3. Foreign direct investment



Source: Banco de Portugal, unpublished data.

been further enhanced by the \$3 billion Ford/Volkswagen joint venture in Setúbal, one of the largest new car assembly plant projects in Europe in recent years,⁹ and which is expected to account for 20 per cent of Portugal's exports when it comes fully on stream.

Japan has remained conspicuously absent; its relative share has even declined from the level of 2.4 per cent in the first half of the 80s to 1.5 per cent in 1986-1992. Part of the explanation for Japan's absence may be the relative unfamiliarity of Japanese investors with the Portuguese market, language and cultural differences, and wage levels that, while competitive, are increasing rapidly as productivity rises.

The non OECD area share has remained stable around 10 per cent. Brazil emerged, however, as a leading investor, with a cumulative investment of \$200 million or 2.4 per cent of the total inflow after 1986. Historical ties, the role of Portugal as a gateway to Europe and the relative attractiveness of investments in Portugal as compared to Brazil appear to have been the main contributing factors.

Looking at the sectoral distribution, services attracted 77 per cent of the total as compared to 43 per cent in the first half of the 80s (Table 5, Chart 3). Within this sector banking and insurance took the lion's share following their opening to private entrepreneurship and the privatisation of several financial institutions after 1989. Some \$1.2 billion have actually been invested annually in that sector. The importance of construction also increased with the economic boom. The relative importance of wholesale and retail trade contracted by more than half but still attracted close to \$200 million annually from 1987 to 1991.

The most dramatic shift occurred in the secondary sector which only received 19 per cent of foreign investment funds against 48 per cent in 1980-1985. This figure is distorted, however, by developments in the financial sector and a rising inflation rate, and conceals a three fold increase in the manufacturing sector which, on an annual basis, averaged about \$300 million since 1988. Multinational companies are currently responsible for the largest manufacturing projects in Portugal. Even if lured at times by large cash grants, they have contributed to the integration of Portugal's productive sector into world production and distribution networks, and eased the restructuring of the economy where the share of traditional sectors (textiles, clothing, shoes and agriculture) is still higher than the OECD average. According to the Portuguese authori-

Table 5. Foreign direct investment flows by industry, 1980-1992
In US\$ million

	1980-85 average	% of total	1986-92 average	% of total	1986	1987	1988	1989	1990	1991	1992
Primary	13	9.1	31	2.4	10	24	43	47	36	28	32
Agriculture	4	2.9	18	1.4	3	13	24	22	25	21	17
Mining and quarrying	9	6.2	13	1.0	7	11	19	25	11	7	14
Oil	..	..	..	..	..	..	..	..	..	..	1
Secondary	69	47.5	251	19.3	68	82	222.	304	428	384	269
Food, beverages and tobacco	..	..	..	..	..	..	..	..	..	..	..
Textiles, leather and clothing	..	..	..	..	..	..	..	..	..	..	..
Paper, printing and publishing	..	..	..	..	..	..	..	..	..	..	..
Chemical products	..	..	..	..	..	..	..	..	..	..	..
Coal and petroleum products	..	..	..	..	..	..	..	..	..	..	..
Non-metallic products	..	..	..	..	..	..	..	..	..	..	..
Metal products	..	..	..	..	..	..	..	..	..	..	..
Mechanical equipment	..	..	..	..	..	..	..	..	..	..	..
Electric and electronic equipment	..	..	..	..	..	..	..	..	..	..	..
Motor vehicles	..	..	..	..	..	..	..	..	..	..	..
Other transport equipment	..	..	..	..	..	..	..	..	..	..	..
Other manufacturing	..	..	..	..	..	..	..	..	..	..	..
Tertiary	63	43.4	999	77.0	77	208	394	1 152	1 775	1 837	1 548
Construction	2	1.2	84	6.5	1	4	29	108	152	161	134
Wholesale and retail trade	31	21.4	116	8.9	44	66	119	275	136	246	-75
Transport and storage	2	1.3	18	1.4	3	13	6	17	-1	59	29
Finance, insurance and business services	23	16.1	767	59.1	28	122	223	717	1 476	1 355	1 450
Communication	..	..	..	..	..	..	..	..	..	..	1
Other services	5	3.5	13	1.0	1	3	17	35	12	16	9
Unallocated	..	..	16	1.3	..	..	..	1	16	42	55
Total	145	100.0	1 297	100.0	155	314	659	1 504	2 255	2 291	1 904

Source: Banco de Portugal, unpublished data.

ties, fast growth is expected in such areas as electronics, environmental industries, motor vehicles and car and aircraft components.

There is little information on the breakdown of FDI between greenfield investment, acquisitions and retained earnings. Reinvestment may still account for the largest share but acquisitions would appear to have experienced the strongest growth in the last years, outpacing greenfield investment. Available evidence suggests that the largest acquisitions from 1988 to 1992 took place in oil and gas, textiles, clothing and footwear, real estate, banking and finance and construction building products. They were mainly initiated by France, the United Kingdom and Spain. Minorities and joint ventures over the 1990-1992 period were concentrated in vehicle manufacturing, oil and gas, banking and finance, rubber and plastic products and insurance. France, Spain and Germany were, in this instance, the leading purchasing countries. The Portuguese authorities consider that greenfield investment and acquisitions bring comparable economic benefits to the Portuguese economy, and there are no legal or other provisions giving preference to one form of investment over the other.

C. FDI outflows, host countries and sectors

Despite a sharp rise in recent years, Portuguese outward direct investment has remained small as compared to inward direct investment, amounting to 16 per cent of inward direct investment from 1986 to 1992, a ratio somewhat higher than the 12 per cent ratio observed in the first part of the decade (see Tables 2 and 6 and Chart 4). This is in contrast to the general trend in the OECD where several traditional host countries also became large investors.¹⁰ In part this can be explained by the 1974 nationalisation of Portuguese-owned industry, which stifled the development of large, diversified Portuguese companies and thwarted Portugal's development as a home to foreign investment. As Portuguese firms grew and diversified, however, the value of outflows increased, too, growing twelvefold from the 1980-1985 period to the 1986-1992 period (211 million dollars on average a year from 1986 to 1992) due to a sharp increase in 1990-1991. As previously, this investment was initiated by the financial community, manufacturers and investors in the former Portuguese colonies.

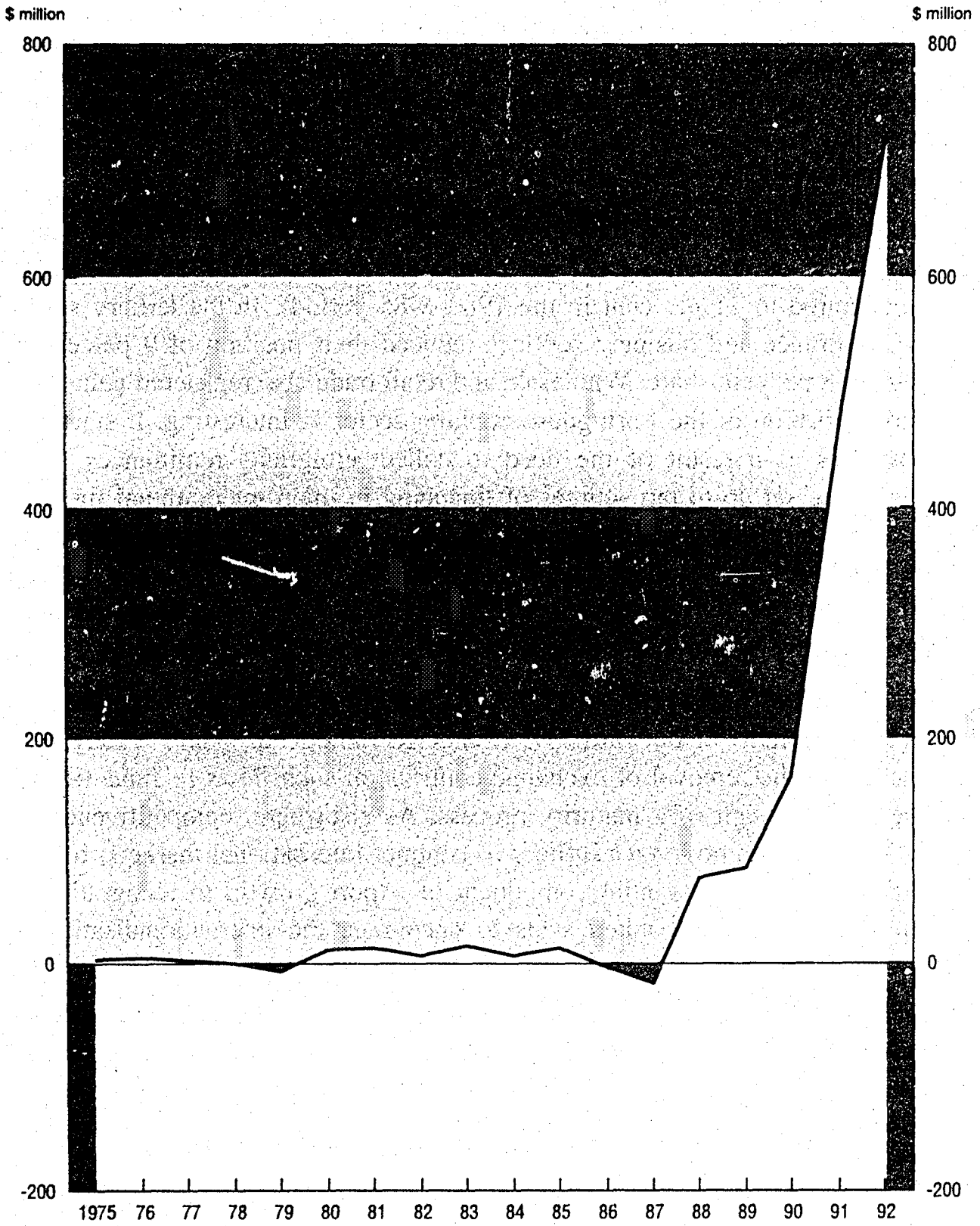
The European pull has also grown stronger: 82.7 per cent of outward flows were invested in the EEC as compared with 50.5 per cent in the 1980-1985

Table 6. Direct investment abroad by country, 1980-1992
In US\$ million

	1980-85 average	% of total	1986	1987	1988	1989	1990	1991	1992
OECD countries									
EEC	12	68.9	-12	-16	78	64	142	422	625
Belgium-Luxembourg	9	50.5	-6	-17	79	61	132	399	576
France	..	..	1	-4	5	..	1	45	40
Germany	6	36.9	2	-21	43	8	19	88	71
Greece	..	..	..	..	..	1	1	1	-
Italy	..	..	..	1	2	..	..	1	-
Netherlands	..	..	..	..	..	..	4	9	3
Spain	..	..	..	..	..	1	..	2	-
United Kingdom	..	..	-1	2	28	12	44	243	372
Other Europe	2	10.7	-8	5	1	39	63	10	90
Austria	..	..	..	-1	..	1	1	10	37
Switzerland	..	..	..	..	..	..	1	..	-
North America	..	..	..	-1	..	1	..	10	14
USA	3	18.4	-6	2	-1	2	9	13	12
Canada	3	18.4	-6	2	-1	2	4	8	12
Non-OECD area	..	..	..	..	..	..	5	5	-
Africa	5	31.1	13	6	4	21	23	51	59
Central and Eastern Europe	3	18.4	7	6	2	6	5	13	19
Latin America-Caribbean	..	..	..	..	..	..	..	..	-
of which: Brazil	..	..	4	..	..	6	11	1	2
South and South East Asia	..	..	..	..	..	6	7	1	-
Other	2	12.6	..	..	2	7	1	7	38
Total	..	..	..	..	..	2	6	30	-
	17	100.0	1	-10	82	85	165	473	684

Source: Banco de Portugal, unpublished data.

Chart 4. Direct Investment abroad
1975-1992



Source: Banco de Portugal.

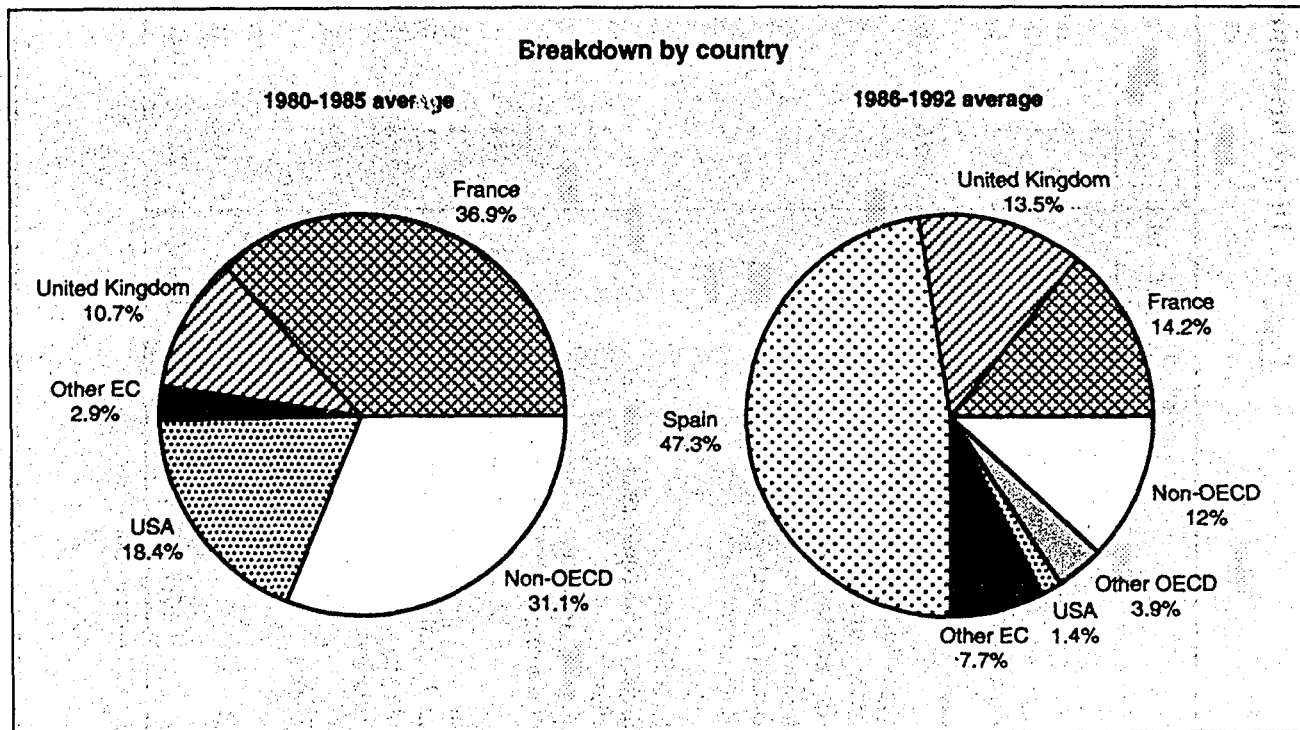
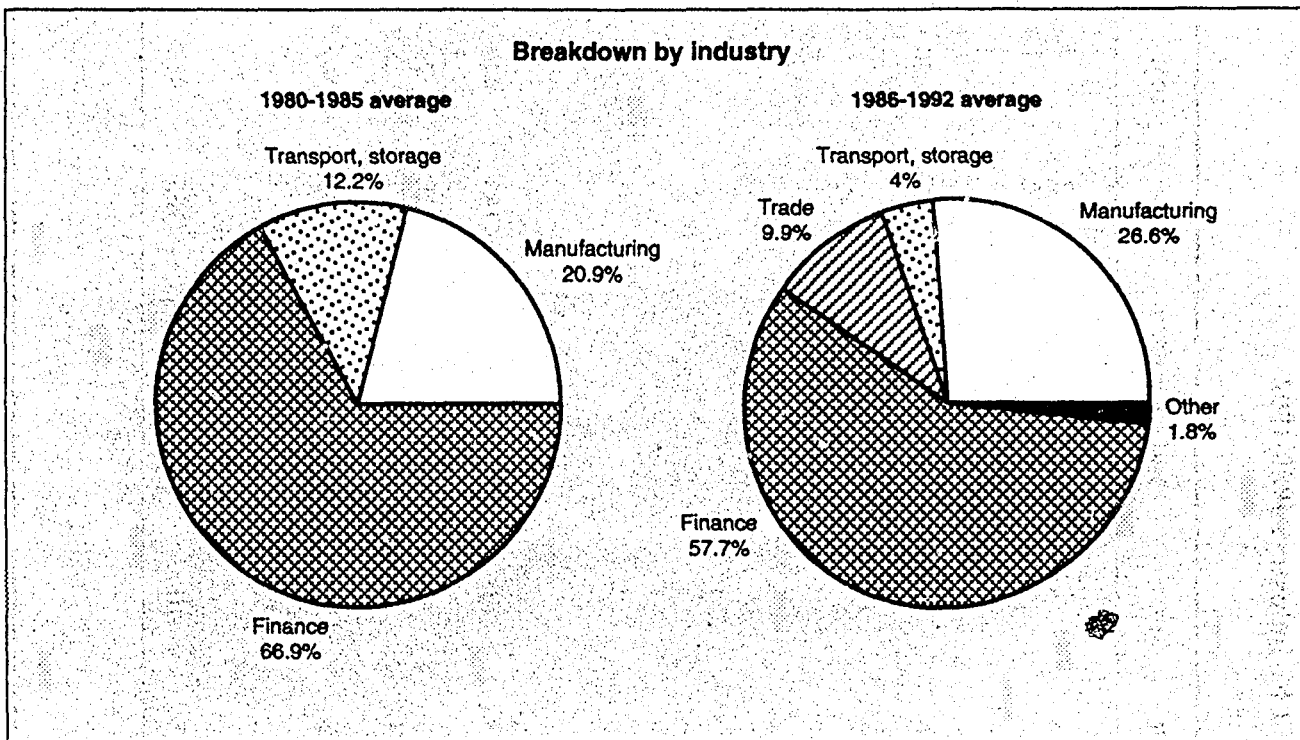
period (Table 6, Chart 5). Spain became the main destination (47 per cent), another indication of the growing integration between the two economies. This was mainly at the expense of the United States and the non OECD area which saw their shares drop to 1.4 per cent and 12 per cent respectively (18.4 and 31.1 per cent in 1980-1985). Poor economic performance in Africa and Latin America may have been responsible for the latter. France's share also dropped from 37 to 14 per cent (Table 6, Chart 5).

The secondary sector gained ground to the tertiary sector as the recipient of the Portuguese outward flows (27 per cent of the total in the 1986-1992 period when compared to 21 per cent in the 1980-1985 period). In the tertiary sector, finance, insurance and business services reduced their position of 9 percentage points to a 58 per cent share. Wholesale and retail trade also registered gains. The internationalisation of the Portuguese banking sector is interesting. It started in the early 60s as a result of the need to collect emigrants remittances. Then branches were set up to tap sources of financing in main international financial centres. The third stage, which began in the early 90s, has involved the acquisition of banking interests in Spain. The internationalisation of Portuguese banks should help support outward investment by Portuguese manufacturers and other Portuguese firms by providing a network of Portuguese banks abroad.

The two-fold increase in 1990 (to \$165 million) and threefold increase in 1991 (\$474 million) of outward FDI cannot go unnoticed. While it may have benefited from the removal of exchange controls on such flows in June 1991, it may be an early sign of a maturity process. As elsewhere, competitiveness of domestic production no longer suffices to conquer international markets; foreign investment is now an essential component of export growth. In recognition of this, the government has taken steps to encourage the internationalisation of Portuguese firms.

These efforts include a programme to support the internationalisation of Portuguese companies (PAIEP). This programme creates an integrated system of support which helps define individual company policies for foreign investment. ICEP is managing and implementing this programme, which involves co-operating with a number of different financial institutions, including: Banco de Fomento e Exterior, a state development bank; Companhia de Seguros de Crédito, a Portuguese credit and bond insurance company; Fundo para a Cooperação Económica, the Economic Co-operation Fund, Investimentos e Par-

Chart 5. Direct investment abroad



Source: Banco de Portugal, unpublished data.

Table 7. Direct investment abroad by industry, 1980-1992

In US\$ million

	1980-85 average	1986	1987	1988	1989	1990	1991	1992
		1986-92 average	% of total					
Primary	..	2	0.9					
Agriculture	..	1	0.5			3	4	6
Mining and quarrying	..	1	0.4			2	1	4
Oil	..	..	..			1	3	2
Secondary	4	56	26.6		29	8	20	318
Food, beverages and tobacco	..	..	..		..	..	..	..
Textiles, leather and clothing	..	..	..		..	..	..	..
Paper, printing and publishing	..	..	..		..	..	..	..
Chemical products	..	..	..		..	..	..	..
Coal and petroleum products	..	..	..		..	..	..	..
Non-metallic products	..	..	..		..	..	..	..
Metal products	..	..	..		..	..	..	..
Mechanical equipment	..	..	..		..	..	..	..
Electric and electronic equipment	..	..	..		..	..	..	..
Motor vehicles	..	..	..		..	..	..	..
Other transport equipment	..	..	..		..	..	..	..
Other manufacturing	..	..	..		..	..	..	..
Tertiary	15	153	72.3		56	153	449	360
Construction	..	1	0.7		3	5	1	1
Wholesale and retail trade	..	21	9.9		4	28	71	42
Transport and storage	2	8	4.0		5	17	8	16
Finance, insurance and business services	13	122	57.7		40	103	369	301
Communication	..	..	..		..	..	..	..
Other services	..	..	..		..	..	..	..
Unallocated	..	0.4	0.2		..	1	..	..
Total	19	211	100.0		85	165	473	684

Source: Banco de Portugal, unpublished data.

ticipacoes Empresariais (IPE), and banks, venture capital firms and leasing and real estate companies. A new innovative programme, FRIES, has also been created to finance the acquisition of equity shares in firms involved in direct investment abroad or trying to construct productive facilities abroad.

Chapter 3

Portugal's foreign direct investment policies

A. Introduction

Portugal's legislation on foreign direct investment was significantly liberalised when the country joined the European Community in 1986. Prior authorisation was replaced by a prior notification requirement, and foreigners gained access to nearly all sectors open to private enterprise on the same basis as Portuguese nationals. Sectoral restrictions in mining, fishing, press enterprises (newspapers and periodicals), regular air transport, and international road transport were lifted or relaxed. Provisions were made to issue temporary concessions to domestic and foreign investors to invest in activities related to public order and security.

Since then, other steps have been taken, too. Transitory restrictions against EC investors agreed in the Treaty of Accession which concerned general review thresholds have been removed, as have restrictions on foreign investment in credit and financial institutions and cinema. Insurance and maritime transport have also been liberalised in accordance with the Single Market programme. Air transport, telecommunications, and television have been partially deregulated. An ambitious privatisation programme has been launched, although foreign investors are limited in the amount of equity they can hold in privatised firms. The Portuguese Government has also made demonopolisation and deregulation a corner-stone of its present convergence programme to EC regulatory norms.

Some of the liberalisations have not been fully extended to non-EC investors, however. Under the "safeguards clause" of Portugal's foreign investment law, for example, investors from outside the European Community are treated differently from their EC counterparts. Individuals or enterprises who are not

resident or do not have their head offices in an EC Member state may have their investment proposals assessed by the Portuguese authorities and then possibly subject to negotiation, depending on the project's effect on Portugal's economy. EC investors, however, are not subject to this safeguard clause which has never been used and is expected to be revised and made more limited in a new investment law currently under consideration. Certain sectoral restrictions, too, apply only to investments by non-EC investors, as in banking and financial services, insurance, television and complementary telecommunications services.

The Portuguese Government is trying to encourage investment in depressed areas or industries, as well as in particular sectors of the economy which are deemed important to Portugal in terms of technology and market development. An extensive system of incentives is being used for this purpose, and there is a special "contract system" under which investments above 5 million Escudos may qualify for tax, financial and other benefits. These incentives are equally available to Portuguese and foreign investors.

B. General requirements

i) The prior declaration system

All foreign investment operations in Portugal require prior declaration, except those covered by an investment contract which are covered by a separate Regulatory Decree (Number 24/86 of 18 July 1986). Certain subscriptions to or acquisitions of capital in Portuguese joint-stock companies, and certain transactions between EC nationals who reside or have their head office in an EC Member State are covered by special regulations and must be registered with the competent authority within 30 days (Article 5 of Decree-Law number 197-D/86). Investment projects submitted by individuals or bodies who are not resident or do not have their head offices in an EC Member State may be the object of assessment and possible negotiation in light of their effect on Portugal's economy (Article 8). Investment projects, including those by EC nationals, may be rejected for reasons of public order, security or health (Article 7).

Before starting any operation the investor must submit the project to the competent authority, which for the Portuguese mainland is the ICEP (Directorate for Foreign Investment). All necessary documentation and information must

accompany the investment project. ICEP has two months to give a final decision on the project. If no decision is given within the two-month period, the investor may proceed with the investment. Moreover, during those months he may get authorisation from ICEP to proceed with any urgent matters relating to the project. The prior declaration system operates in the same way for greenfield and acquisition investments.

ICEP may only reject investment projects on a preliminary basis if information on the projects is incomplete, and such projects may be corrected or completed in the periods and conditions established. There are limited and exceptional circumstances under which investment proposals by non-EC investors may be restricted. This is discussed below in the section on the "safeguards" clause.

The transfer between non-residents of holdings, contractual rights, or legal positions forming part of foreign investment operations is also subject to prior declaration, as are the activities described earlier in this report. There are two exceptions to these rules, however, which are subject to special regulations and must be registered with the competent authority within 30 days. The exceptions are as follows:

- a) Subscriptions to or acquisitions of holding in the capital of Portuguese joint-stock companies if, as a result of such subscription or acquisition the proportion of shares held by non-resident individuals or corporate bodies does not exceed 20 per cent of the capital of the Portuguese company and is not related to other deals or contracts which could give to stable and enduring economic links or imply, directly or indirectly, immediately or cumulatively, acquisition or strengthening of effective decision-making power in the company;
- b) The transfer between non-residents of holdings, contractual rights, or legal positions forming part of foreign investment operations if both buyer and seller are EC nationals and have their habitual residence or head office located in an EC Member State.

ii) The safeguards clause

Although ICEP will not intervene in any project that complies with legal requirements, it does reserve the right in specific cases to assess and possibly negotiate investment projects submitted by individuals or enterprises who are not

resident or do not have their head office in an EC Member state. Investment proposals from EC investors are not subject to the "safeguards provisions" of the 1986 Foreign Investment Law, however. Proposals by non-EC investors may be assessed in light of their effect on the Portuguese economy, which may take into account the following:

- a) job creation;
- b) balance of payments impact;
- c) improvement and transformation of national resources;
- d) use of Portuguese goods and services;
- e) contribution towards industrial reconversion projects;
- f) localisation, taking into account regional development programmes;
- g) production of new goods and services or improvement in the quality of products already manufactured in Portugal;
- h) introduction of advanced technology;
- i) high added value;
- j) amount foreseen for recourse to domestic loans to finance business capital;
- k) professional training for Portuguese workers;
- l) reduced industrial pollution.

This "safeguards clause" was adopted as part of the 1986 Foreign Investment Law in an effort to retain some discretionary authority following the abolition of the prior authorisation system and its replacement by a system of prior notification. The "safeguards clause" has never been used, however, and legislation is pending that would narrow its application to exceptional circumstances, as in situations involving public order and security. The new safeguards provisions would apply equally to investment by EC and non-EC firms.

C. Investment incentives

Portugal has a relatively extensive system of incentives designed to promote inward direct investment. In addition to priority regions and sectors where the Portuguese offer various incentives, large foreign investment projects (over Esc 5 billion) may benefit from tax, financial and other incentives under the so-called contractual regime. The Portuguese authorities maintain that these incen-

tives are needed to attract investment in certain activities and regions, but that Portugal's strong workforce, sound economic policies and improving infrastructure remain the more important determinants of FDI inflows.

Investment incentives are available to non-resident and established foreign-controlled enterprises on the same terms and conditions as Portuguese investors. Both EC and non-EC firms have benefited from Portugal's incentive programme. The main priority for granting assistance is not the nationality of the investor but the quality of the project being proposed, as judged by its contribution to the Portuguese economy.

The OECD Member countries have recognised the need to strengthen international co-operation in the area of investment incentives (and disincentives), and to take account of Member country interests affected by them. Member countries have agreed to make such measures as transparent as possible so that their scale and purpose could be easily determined (see the 1976 Declaration on International Investment and Multinational Enterprises and the 1984 Second Revised Decision on International Investment Incentives and Disincentives).

i) Targeted industries and activities

In an effort to promote regional development and the development of certain targeted industries or activities, the Portuguese Government, with substantial support from the European Community, is trying to stimulate investment in various areas and industries. The programmes are aimed at promoting investment projects which will contribute to technological modernisation, a positive foreign exchange balance, the provision of high value-added products, and the creation of new jobs.

Government assistance is at present offered largely through programmes in agriculture, energy, industry, telecommunications, tourism, trade, and for certain regions. These programmes provide subsidies for foreign and Portuguese investors which represent a percentage of the total qualifying investment, which for large projects is 25-30 per cent of the investment and somewhat less for small projects.

ICEP has identified opportunities in particular sectors of the economy which are deemed to be of special significance for Portugal's technological and market development. These include:

- information technology, including electronic components, consumer electronics, and office automation and communications equipment;
- biotechnology, including pharmaceutical products, laboratory testing equipment, and essential oils and fragrances;
- ceramics and special purpose plastics;
- hospital and surgical equipment;
- food processing;
- automotive components;
- tourism.

ii) The contractual regime

When the foreign investment law of 1986 was adopted the Portuguese authorities decided to retain a special regime for large foreign investment projects. A new "contractual regime" for foreign investment was made law on 1 June 1993 (Regulatory Decree number 17/93). Investments under the contractual regime may benefit from tax, financial, and other incentives. Under the new law projects meeting the following requirements may be considered under the contractual regime:

- i)* Investment in the project equals or exceeds Esc 5 billion;
- ii)* The project will have a structural impact on the Portuguese economy;
- iii)* The project will contribute to the development and internationalisation of the Portuguese economy.

Under this system negotiations can be carried out on a contract basis with the Government for large projects, particularly those involving high technology or the establishment, expansion, conversion, or modernisation of economic units. These negotiations could involve the conditions under which the investment will take place, and the potential incentives the Government is prepared to offer. The procedure usually involves defining the company's obligations during the duration of the contract and the Government's commitments to various incentives and benefits.

The procedure usually involves defining and quantifying what will be expected of the investing company during the duration of the contract period. The kind and quantity of incentives to be granted and guaranteed by the State are then

agreed. The investor's performance in meeting his obligations under the contract is monitored throughout the duration of the contract.

Investors who want to negotiate an investment contract should as a first step contact ICEP. The first application to ICEP should contain sufficient details to describe and justify the project. ICEP will then give a decision, which after confirmation by the Ministry of Trade and Tourism, enables negotiations to begin.

In the initial assessment of foreign investment proposals under the contract system and in the negotiations that follow, the competent authority will take into particular consideration:

- a) The technical, economic and financial feasibility of the projects;
- b) Projects which are geared to sectors where foreign investment is considered to be of most interest, by reason of its contribution to regional development and technological modernisation;
- c) Forecasts of positive foreign exchange balance, high value added and opening up of new jobs;
- d) Significant financial coverage of projects from own resources;
- e) Suitable development of technologies and the quality of personnel training programmes.

Projects to be considered under the contractual regime may entail the establishment, expansion or modernisation of economic units. Projects are evaluated on the same basis for EC and non-EC investors. The overriding factor in decisions regarding the level and type of tax, financial and other benefits to be granted for any one project is the contribution the project can make to Portugal's economy.

D. Privatisation

The privatisation programme that was launched in 1989 was one of the most important outcomes of the 1988 Constitutional reforms. Privatisation has played an important part in Portugal's drive to improve efficiency in the productive sector, reduce the state's role in the economy, strengthen its entrepreneurial base and widen share ownership – particularly among the privatised companies' employees. Foreign investment has played some part in the privatisation process,

although its role has varied according to policy changes in the privatisation regime. Portugal initially maintained limits on the amount of equity foreign firms could take in privatised companies, typically in the 30-40 per cent range. These limits have applied equally to EC and non-EC investors. For a number of privatised companies, there were also restrictions on who could purchase shares, and certain classes of shares could not be sold to residents or non-residents during a specified period of time, generally three to five years. A new privatisation law enacted in November 1993 makes no distinction between residents and non-residents, either EC or non-EC, but sets a 10 per cent threshold beyond which all investors must get prior approval from the Minister of Finance to purchase shares in companies to be privatised.

Portugal's privatisation programme, like its FDI regime, has evolved over time. Under the original privatisation plan, only certain companies were to be privatised, with the Government retaining majority control and limiting foreign participation. The specific rules were set out in Law 84/88 of 20 June, which provided that stakes of up to 49 per cent of selected public companies could be privatised, although foreign ownership of the privatised companies' total stock would be limited to 5 per cent. This law was changed in April 1990, however, to allow full privatisation of state-owned enterprises, and to allow Portugal's Council of Ministers to establish limits on foreign participation in the capital of privatised companies on a case by case basis. The 1990 Privatisations Act (Law 11/90, 5 April) also mandated that 80 per cent of revenue generated by the privatisations go to public debt redemption, with the remainder going to strengthen the capital base of other state-owned companies.

As a result of the 1990 law a number of firms have been fully privatised and foreigners' participation in a few privatisations has not been restricted. In the cases of Transinsular and Portline, for example, foreign access to the companies' shares was unrestricted. Still, as a general rule foreigners were prevented from acquiring full control of privatised companies.

The financial sector was given priority in the sequencing of structural reforms that were initiated in 1986. As a result, the financial sector, in particular, has seen a substantial drop in the state's domination of the market. Seven banks have been privatised so far, and state banks' presence shrank from 89 to 39 per cent of the market from 1987 to 1992. It is expected that the privatisation of banks will be completed in 1993. In insurance, the privatisation programme is

virtually completed. Six companies have returned to private hands and state companies' share of the insurance market fell from 65 to 23 per cent from 1988 to 1992. The major privatisations in the non-financial sector have been two breweries, UNICER and CENTRALCER, and 25 per cent of Portugal's largest corporation and leading refiner and distributor, PETROGAL.

Auctions in the stock exchange have been, by far, the preferred method of selling the state's assets, although public tenders have also been used in a few cases. Of the 33 privatisation operations so far, the only exceptions were the following:

- BFB (banking): a block of 80 per cent was sold by public tender to a single bidder. The remaining 20 per cent was sold by auction;
- COSEC (specialised insurer): a 43 per cent stake first sold by auction; 45 per cent block sold by direct sale;
- PETROGAL (fuel refiner and distributor): 25 per cent block sold to a consortium which is obliged to buy additional 26 per cent stake in three years.

In general the control block has been sold simultaneously to other blocks reserved to the general public, small subscribers and emigrants and employers.

Major privatisations planned for 1995 include a further 26 per cent stake in PETROGAL. PORTUCEL, a large pulp and paper firm and TAP, the national airlines company, will also be up for privatisation. It is estimated that by 1995, 27 non financial companies will have been fully or partially privatised: 13 industrial companies, three in energy, two in telecommunications, four in transport, and six in miscellaneous sectors.

Clearly, an important consideration in the decision to privatise was the inefficiency and financial burden of many state enterprises and the desire to reduce the state's role in the Portuguese economy. This objective, which has to some extent driven the privatisation programme, has been addressed with some success. In the first four years of the programme (1989-1992) the public enterprise sector shrank from 17 to 12 per cent of GDP, and more than US\$4 billion was raised. As was mentioned previously, 80 per cent of these revenues must be used to reduce the public debt. The Portuguese authorities hope to have reduced the public enterprise's share of GDP to around 9 per cent when the privatisation programme is completed in 1995. The Government will maintain an interest in

privatised companies in which there is an important public interest by holding a majority of capital and exercising its rights and obligations in the same way as other commercial shareholders.

Another important objective and declared aim of the privatisation programme has been to ensure that privatised companies' capital is purchased principally by Portuguese investors. Indeed, privatisation has been seen as an important element in the effort to strengthen Portugal's national entrepreneurial capacity, which was stifled by the nationalisation of Portuguese firms during the 1974 revolution. Foreign-owned firms, unlike Portuguese companies, were not affected by the nationalisations. There was a clear desire, therefore, to make available to Portuguese assets that were nationalised in the 1974-1976 period. This objective has largely been met. It is estimated that 90 per cent of privatised companies are controlled by Portuguese groups.

The Government recently adopted a more flexible approach towards non-Portuguese participation in its privatisation programme. In the privatisation of BPSM, for example, the last of the major banks to be privatised, 80 per cent of the company's capital was sold in October, 1993 without any limits on foreign participation.

On 15 November 1993 the Portuguese Government adopted a new Decree-Law on privatisation (Decree-Law number 380/93) under which the Council of Ministers will no longer be able to set discretionary thresholds for foreign participation in companies to be privatised. Any individual investor or company, resident or non-resident, that wants to purchase more than 10 per cent of a privatised company's shares must get prior authorisation from Minister of Finance. The new Decree-Law makes no distinction between residents and non-residents, either EC or non-EC, and it applies to all investors without discrimination.

E. Monopolies and concessions

The Portuguese Government has made important efforts in recent years to demonopolise a wide range of services and activities in the Portuguese economy, and to open them to private participation. Greater access to and competition

within economic sectors has been an important part of the Government's efforts to reduce the state's role in the economy and improve competitiveness.

The scope of activities that have been opened to the private sector is impressive. The first openings took place in 1988 with the enactment of Decree-Law No. 449/88, which was followed by further liberalisations in September 1991 and the enactment of Decree-Law No. 336/91. These two laws made it possible for private enterprises to engage in a broad range of important economic fields, including petroleum refining, basic petrochemicals, steelmaking, gas and electrical production and distribution. The most recent liberalisation took place on 5 November 1993, when water production and distribution for public use, and basic sanitation services were opened to private investors under a concession system. Under Decree-Law 379/93, foreign and Portuguese private investors can hold up to 45 per cent of the equity of companies engaged in these activities. Concessions will be granted on a non-discriminatory basis.

In most cases closed sectors and activities have been opened to private participation through a system of concessions, contracts, and licenses, which are granted to foreign investors on the same terms and conditions as Portuguese. There are a number of specific activities where concessions are needed, including:

- telecommunications (as a public service);
- exploitation of subsoil and natural resources;
- petrochemical industries;
- public service television;
- production and distribution of water for public use;
- waste treatment.

Some activities, like electrical energy distribution and the operation of airports, were legally opened to private business under the 1988 and 1991 legislation but remain a state monopoly in practice in the absence of specific regulations. This is due to change, however, as new legislation comes into force which will open electrical energy distribution and airport operations to private enterprises.

As in many other OECD countries, a number of activities remain public monopolies, including postal communications, basic sanitation (except waste treatment), rail transport, and the operation of sea and air ports.

F. Public order and security

Portugal maintains a general right to reject investment proposals that are seen to threaten public order, security or health. The 1986 foreign investment law makes it possible to reject investment projects, including those submitted by nationals of an EC Member State, in the following cases:

- a) If they have as an objective an activity which in Portugal, albeit only occasionally, is related to the exercise of public authority;
- b) If by their nature, terms, or conditions of execution they risk affecting public order, security or health;
- c) If directly or indirectly they relate to the production or trading of arms, ammunition or war material;
- d) If they contravene any provision of the law.

This exceptional measure has never been used and no project has been rejected on the basis of public order and security.

G. Sectoral issues

Portugal's sectoral restrictions cover investment by foreigners in a number of activities. In some cases, as in the banking and financial sectors, insurance, television, travel agencies and complementary telecommunications services, there are special restrictions on investment by non-EC investors. In other cases, as in air and maritime transport, companies must be headquartered in Portugal and the majority of capital and management held by Portuguese. Public television and public telecommunications services can only be carried out by companies whose majority capital is held by Portuguese public entities.

i) Financial sector

Portugal's financial sector was until recently characterised by closed markets and the predominance of a large state sector. Indeed, Portugal's is a relatively underdeveloped financial sector, but one with significant growth potential. In banking the market has been dominated by large state-owned commercial banks and credit institutions. Capital controls have given savers little choice but those available from an oligostic, publicly-controlled system, which was

obliged to fund the Government deficit and other targeted sectors at regulated interest rates. These arrangements effectively crowded out much private sector capital and placed a tax on savers and users of limited financial services.

This is changing quickly, however, as Portugal embraces economic liberalisation and privatisation, both of which have resulted in increasing ownership of financial institutions by public, private, and group investors, some of which are foreign. through the liberalisation of exchange controls, the entry of foreign banks and moves to privatise banks and deregulate interest rates and lending controls, the Portuguese Government is steadily chipping away at the system.

In March 1975 the Government nationalised all Portuguese-owned banks, twenty two in all, and later took over the savings banks and agricultural credit institutions. Denationalisation of banks is therefore an important feature of Portugal's current privatisation programme. Between 1989 and 1992 eleven banks were privatised, generating by far the largest share of privatisation revenues. The weight of the private sector had reached 61 per cent of the banking market in 1992, compared with 10 per cent in 1987. The number of foreign banks with operating branches and subsidiaries is increasing, too, as barriers to European cross-border investment are removed. There has also been significant development of specialised and investment institutions. It still appears, nevertheless, that the state-owned banks play a very large role in the banking sector, at least in volume terms. It is expected that by the end of 1993 privatisations in the banking industry will have been nearly completed.

Substantial liberalisation of Portugal's financial sector and the subsequent increase in private sector participation resulted from the adoption of the new banking law in 1992 (Decree 298/92 of 31 December), which regulates the creation or establishment of credit institutions and financial companies. The new banking law introduced far-reaching reforms in the financial sector, including the removal of the legal distinction between commercial and investment banks and the enlargement of activities that credit institutions can undertake. Specialised credit institutions such as leasing and factoring companies, and financial companies such as broker/dealers, investment fund managers and portfolio managers have increased in Portugal in recent years, in part because of the new, more liberal laws governing activities in the financial sector.

In addition, Portugal's adoption of the EC's Second Banking Directive opened the banking market by essentially ensuring unrestricted access to

Portugal's market for EC banks. Due to the drive towards harmonisation and mutual recognition of prudential standards within the European Community, investors incorporated to operate as a bank within the Community may be granted an EC banking license. This means financial services can be provided into Portugal on a cross-border or branch establishment basis by any bank incorporated in an EC country. Portugal will be required under the EC Second Banking Directive to take reciprocity considerations into account when considering applications by non-EC banks to establish a subsidiary in Portugal.

According to the new law, the creation of new credit institutions or finance companies, the acquisition of a controlling interest in such companies, and the establishment of subsidiaries are governed by the following:

- a) authorisation by the Banco de Portugal, subject exclusively to prudential requirements, is needed in cases where the new credit institution or finance company is controlled or the majority of votes held, by natural or legal persons who are nationals of or have their main office and central management in an EC Member State. Such authorisation is also needed for subsidiaries of credit institutions or financial institutions authorised in another EC Member State.
- b) authorisation for all other cases is needed from the Ministry of Finance, which, in addition to prudential requirements, may also consider other criteria, such as the effect on the efficiency of the national banking system and the internationalisation of the Portuguese economy.

There is no essential difference in the way authorisations are granted for the creation, acquisition, or establishment of credit institutions and finance companies in Portugal. The main difference is in the institutions that grant the authorisations, with Banco de Portugal handling applications from EC Member States and the Ministry of Finance dealing with all other applications.

ii) Insurance

Like the financial sector, the insurance industry in Portugal has until recently been dominated by state-owned companies, which the Government has been privatising in an effort to increase competition and efficiency in the insurance market. Indeed, insurance companies played an important part in the

Government's privatisation programme, second only to banking in terms of revenues raised during the 1989-1992 period. Six insurance companies were totally or partially privatised between 1989 and 1992 and state-owned enterprises' share of the market fell from 61 per cent in 1989 to 12 per cent in 1992.

The *Instituto de Seguros de Portugal* (ISP) is responsible for regulating and supervising insurance activities in Portugal. Under Portuguese law, agencies of EC companies are free to establish in the Portuguese market on equivalent terms and conditions. Insurance companies from non-EC countries are treated differently, however. Foreign insurers from non-EC member countries who want to establish an agency in Portugal are subject to a special deposit and financial guarantee. In addition, the parent company must have been authorised for such an activity for at least five years.

The requirement of financial guarantees that applies to non-EC firms is designed to protect consumers, according to the Portuguese authorities, and the compulsory deposit falls within the framework of the relevant EEC directive [73/239/EEC (Articles 23 to 29)]. The five year requirement was established to evaluate the seriousness and competence of foreign companies wishing to establish agencies in Portugal. The Portuguese authorities have explained these special requirements for the establishment of agencies from non-EC member countries by pointing out that, unlike insurers from non-EC countries, EC insurers share a common regulatory regime.

There have been restrictions on the acquisition of Portuguese insurance companies by both EC and non-EC investors. These restrictions were applied in the context of Portugal's privatisation programme, discussed above.

iii) Air transport

Domestic and international air transport were a public monopoly until 1989. In July of that year Decree-Law 234/89 established a license regime for regular air transport in continental space, which included private sector participation. A similar licensing regime was established for international air space in 1992 under Decree-Law No. 66/92.

There are restrictions on who may obtain air transport licenses in Portugal. Only companies headquartered in Portugal, whose majority of capital and management control belong to Portuguese national entities, can get licenses to operate

air transport there. Regular inland transport, including connections between the Azores and between them, remains a public monopoly.

A foreign-controlled company incorporated under Portuguese law would not be considered a "national entity" in the context of air transport. Such a company could not, therefore, be granted a license under the air transport regime in Portugal. There are no plans at present to further liberalise the rules under which licenses are granted to engage in air transport in Portugal, but this will ultimately depend on bilateral agreements and developments in the EEC. It is also not expected that the 1994-1995 privatisation of TAP, the national airlines company, will affect the licensing system.

iv) Maritime transport

Maritime transport activities are regulated under Portuguese law by Decree-Law 414/86 of December 1986 and by Decree-Law 123/91 of March 1991, although the legislation is about to be altered to comply with EEC regulations. The 1986 law provides that maritime transport activities can only be carried out by companies, registered as shipowners, that comply with the following:

- they must pursue maritime transport activity exclusively;
- their capital must not be less than 15 or 50 million Escudos, depending on the geographical area in which they operate;
- they must be majority owned by Portuguese entities;
- their headquarters and administration must be in Portugal;
- they must possess their own fleet, from which at least one vessel must navigate under the Portuguese flag.

Vessels can only be registered in Portugal if they are owned by national companies.

Along with these restrictions there are some limitations on traffic, which were loosened in March 1991. Until that time, Portugal maintained a system of cargo reservations that gave preferential treatment to the Portuguese merchant fleet. On March 21, 1991 the Portuguese Government adopted Decree-Law No. 123/91 that did away with this preference system, but contained a reciprocity provision for maritime transport of liquid fuels. Under this provision, the maritime transport of liquid fuels for the supply of the country had to be carried out by vessels flying the Portuguese flag, the European Community Members' flag,

or the OECD members' flag on a reciprocity basis. The reciprocity requirement for transporting liquid fuels applied only to the cross-border provision of the service and did not extend to establishment and/or already existing foreign firms. This reciprocity requirement was lifted, however, on 28 October 1993 by Decree-Law number 368/93.

Moreover, maritime transport between mainland and island ports, and between island ports themselves, may only be operated by national shipowners. The March 1991 Decree-Law also reserved transport of passengers and goods between national ports to vessels flying the Portuguese flag, although waivers can be granted on a case by case basis. This restriction, according to the Portuguese authorities, has a public order and security dimension. Regular services between Portugal and the Azores needs to be assured in order to avoid social and economic problems in those regions.

v) Telecommunications

Telecommunications was opened to private participation in 1989, although the opening was gradual and there are still restrictions on the percentages of capital that can be held by foreign entities in various parts of the telecommunications industry.

The Portuguese Government will only grant concessions for public service telecommunications to companies whose majority capital is owned by Portuguese public entities. Foreign investors' direct or indirect participation in the capital of public service operators may not exceed 25 per cent. The complementary telecommunications service is subject to licensing and non-EC investors may not hold more than 25 per cent of a complementary telecommunications operator's capital. Finally, the so-called "value-added telecommunication services to the basic net" is fully open to the private sector, with no restrictions on the percentage of capital controlled by foreign entities (Decree-Law 329/90).

vi) Cinema and television

Cinema

Portugal used to maintain restrictions on non-EC participation in the cinema industry, according to legislation dating back to 1971, but the authorities have dropped this restriction. Financial assistance and subsidies are to be awarded for

the production of Portuguese films or for co-productions between national producers and producers of countries with a co-production agreement, under certain conditions, including the composition of social capital and guarantees.

Television

Television services were opened to private participation in September 1990 under Decree-Law 58/90. Public television services are granted through a public concession contract and must be performed by an operator whose majority of capital is held by a Portuguese public entity. Television service can be performed by private entities as long as the operator has its head office in Portugal and the foreign participation in the company's capital does not exceed 15 per cent. This restriction is based on the desire to protect Portugal's cultural heritage.

vii) Travel agencies

Until May 1993 foreign investors could not establish travel agencies in Portugal except by incorporating there. Decree-Law number 298/93 of 27 May 1993 liberalised investment in travel agencies for investors from the EEC.

H. Rules, regulations, and private practices

Various rules, regulations, and requirements in a number of countries can have the effect of frustrating foreign investors. Often these rules and practices are not aimed at foreigners specifically, but their impact falls more heavily and sometimes exclusively on foreign investors.

In the case of a number of OECD countries, the ownership and control structure of finance and industry within those countries results in barriers to foreign investment. Companies can engage in practices that have the effect, intended or not, of discriminating against foreigners. These include rules barring foreigners from holding seats on company boards or from holding certain levels of shares, limitations on foreign participation in wholesale and distribution networks, and the practice of cross-shareholding, whereby companies, banks, and other financial institutions hold each others' stocks, making it difficult for foreigners to invest in those institutions.

Portugal's has been a highly regulated economy which the Government has been steadily liberalising. As liberalisations go forward and new freedoms and opportunities arise for private investors, the role of foreign investment in the economy should increase. In certain instances, however, foreigners may not be as aware of new possibilities as local investors, many of whom have been operating along side state companies for many years and understand the state bureaucracy's most important concerns and constraints. In other cases, as in privatisation, restrictions on foreign participation will limit the extent to which foreigners can engage in a number of important economic activities that were formerly under the state's reserve. Indeed, foreigners' rights to engage in demonopolised activities may be restricted by statute, practice or policy.

Chapter 4

Conclusions

Portugal is transforming its economy from one in which the state has played a large and visible role to one where its presence is more limited and clearly defined. The state's partial disengagement from the productive sectors of the economy has opened more opportunities for Portuguese and foreign firms and helped integrate Portugal more fully into the European and global economy. The very significant rise of FDI into Portugal and the preponderance of investment from EEC states attests to the important role foreign investment is playing in the integration process.

That Portugal's approach to foreign investment has changed – and continues to change – is made clear by the evolution of FDI law and practice there. A fundamental change came with the removal in 1986 of the prior authorisation procedure under which foreign investment was deemed prohibited unless explicitly approved. Indeed, the prior notification system that replaced the old system operates on the opposite assumption: that FDI is permitted unless otherwise provided. The authorities are now considering an even more liberal investment law, whereby the prior notification system will be replaced by an *a posteriori* procedure that in most cases requires investors to notify the Portuguese authorities that an investment has been made. This new law, which is expected to soon come into force, would continue the evolution of FDI law and practice in Portugal, which has increasingly become more open and receptive.

Portugal's wide range of incentives for foreign investors also attests to the importance attached to FDI. The Government provides capital grants which can cover 20-75 per cent of fixed capital expenditures, and has a special contract

regime under which tax, financial and other benefits may be offered for large projects of special interest to the Portuguese economy.

The Portuguese Government has not however, abandoned its role in the productive sector of the economy nor has it completely opened all activities that were formerly closed to foreigners. Liberalisation has been cautious if steady, spurred mostly by Portugal's joining the EEC and its accompanying obligations to free capital movements for EC Members. Indeed, a number of liberalisations apply to investment by EC firms only, as in banking and financial services, insurance, television and complementary telecommunications services.

Moreover, Portugal's 1986 Foreign Investment Law has a general safeguards provision under which investments by non-EC investors, but not EC investors, may be subject to assessment and possible negotiation. Although this provision has apparently never been formally applied, it may adversely affect foreign investment from non-EC countries and suggests the Portuguese authorities remain reluctant to fully extend liberalisation to all investors from OECD countries.

The privatisation programme initially showed a reticence to fully engage foreign investors in a wide range of economic activities that were formerly under the purview of the state. Although the threshold for foreign equity holdings in privatised companies has been progressively raised to 30-40 per cent, foreign investors were rarely allowed to gain a controlling interest in privatised firms. Part of the explanation for this is that foreign enterprises were not affected by the wave of nationalisations from 1974-1976, and the Portuguese authorities therefore wanted to give Portuguese investors first claim on privatised companies' shares. This has been explained by a desire to engage Portuguese investors and the public at large in private sector activity, build the nation's entrepreneurial base and strengthen its private productive capacity. But foreign investors can contribute to most of these objectives as well or better than their domestic counterparts. A number of OECD countries with similar objectives have privatised state-owned enterprises and allowed foreign investors full access to state assets in many cases.¹¹

The Portuguese authorities are now willing to treat foreign and Portuguese investors equally in the privatisation programme, and under a new Decree-Law adopted in November 1993, anyone wishing to acquire more than 10 per cent of a privatised company's capital must get prior authorisation from the Minister of

Finance. The law makes no distinction between residents and non-residents, either EC or non-EC.

The Portuguese Government has made substantial progress in liberalising its direct investment regime, and the new FDI legislation that has been proposed should make it easier to invest there. Policies to further open Portugal's economy to direct foreign investment will reinforce broader efforts to integrate Portugal more fully into the European and global economy. In that effort foreign direct investment should make a substantial contribution.

Notes

1. See interview of Minister Jorge Bragade Maceda by José Alves and Isabelle Gravière, *Les Échos*, 14 May 1993.
2. Under the IMF/OECD indicative benchmark definition, foreign direct investment refers to investment that involves a long-term relationship reflecting a lasting interest of a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor. The direct investor's purpose is to exert a significant degree of influence on the management of the enterprise resident in the other economy. This is defined as a 10 per cent or more ownership of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. See *Detailed Benchmark Definition of Foreign Direct Investment*, OECD, 1992.
3. Such as Austria, Belgium, Denmark, Finland, Greece or Norway.
4. The figures presented in this chapter are based on an FDI data bank in the OECD Directorate for Financial, Fiscal and Enterprise Affairs.
5. The Economist Intelligence Unit estimates the share of EC and private foreign companies in total Portuguese investment to have risen to 45 per cent in 1992, accounting for most of the growth of the economy (see Portugal's Country Report No. 4 1992).
6. This figure includes, however, capital transited via the Channel Islands which benefit from a very liberal tax regime. Also, a long-standing double taxation agreement between Portugal and the United Kingdom may have enhanced the attraction of the United Kingdom as the base for FDI in Portugal.
7. It is well known, for instance, that Spanish investment into Portugal has been attributed to affiliates of multinationals based in other countries. For a full list of MNEs in Portugal see annex 4.
8. These observations draw on the sectoral distribution on FDI in Portugal found in a recent study by V. Corado-Simoes entitled *Globalisation and the Small Less Advanced Countries, the Case of Portugal*, Commission of the European Communities, Science Research and Development Series, Volume 22.
9. General Motors and Ford had also already made two big (and subsidised) investments for the production of automotive components.
10. See *International Direct Investment: Policies and Trends in the 1980s*, OECD, 1992. The Ford/VW deal was concluded in 1990 and started operations in 1992.

11. In New Zealand, for example, where the government engaged in a sweeping privatisation of state enterprises in steel, shipping, air transport and banking and insurance, restrictions on foreign investment were the exception rather than the rule. See *OECD Reviews on Foreign Direct Investment: New Zealand*, OECD, 1993.

Annex 1

Portugal's current position under the Code of Liberalisation of Capital Movements and the National Treatment Instrument

Introduction

As a signatory to the OECD Code of Liberalisation of Capital Movements (the Code) and the National Treatment Instrument (NTI), Portugal has undertaken a number of obligations in the foreign direct investment field. This annex highlights the main provisions of these instruments as well as Portugal's position under them.

The OECD commitments

The Code and the NTI are the two main instruments for co-operation among OECD members in the field of foreign direct investment.

The Code, which has the legal status of OECD Council Decisions and is binding on all Member countries, covers the main aspects of the right of establishment for non-resident enterprises and requires OECD members to progressively liberalise their investment regimes on a non-discriminatory basis and treat resident and non-resident investors alike.

The NTI is a "policy commitment" by Member countries to accord to established foreign-controlled enterprises treatment no less favourable than that accorded to domestic enterprises in like situations. While the NTI is a non-binding agreement among OECD Member countries, all measures constituting exceptions to this principle and any other measures which have a bearing on it must be reported to the OECD.

Member countries need not, however, to liberalise all their restrictions upon adherence to the above instruments. Rather, the goal of full liberalisation is to be achieved progressively over time. Accordingly, members unable to fully liberalise are permitted to maintain "reservations" to the Code of Capital Movements and "exceptions" to the NTI for outstanding foreign investment restrictions. These limitations to the liberalisation obligations may be lodged at the time a member adheres to the Codes, whenever specific obligations begin to apply to a member, or whenever new obligations are added to the instruments.

The investment obligations of the Code and the NTI are, in fact, complementary, both dealing with the laws, policies and practices of Member countries in the field of direct investment. However, the Code addresses the subject from the point of view of non-resident investors in an OECD host country, while the NTI is concerned with the rights of established foreign-controlled enterprises. Limitations on non-resident (as opposed to resident) investors affecting the enterprises' operations and other requirements set at the time of entry or establishment are covered by the Code. The investment operations of foreign-controlled enterprises after entry, including new investment, is covered by the National Treatment Instrument.

Measures pertaining to **subsidiaries** fall under the purview of the Code or the NTI, depending on whether they set conditions on entry/establishment or concern the activities of foreign-controlled enterprises already established. As to **branches**, the *1991 Review of the OECD Declaration and Decisions on International Investment and Multinational Enterprises* introduced a distinction between "direct" branches of non-resident enterprises and "indirect" branches, that is branches of already established foreign-controlled enterprises. The latter are subject to all the five categories of measures covered by the NTI (investment by established enterprises, government procurement, official aids and subsidies, access to local financing and tax obligations). The investment activities of "direct" branches of non-resident enterprises, which concerns the category of measures covered by the NTI, fall however, exclusively under the purview of the Code.

The Committee on Capital Movements and Invisible Transactions and the Committee on International Investment and Multinational Enterprises together conduct country examinations of Member country measures covered by these OECD commitments. These examinations involve a face to face discussion between representatives of the two Committees and experts from the country being examined. The discussion is based on submission by the Member concerned and a document prepared by the Secretariat. The objective is to clarify the nature and purpose of remaining restrictions and to identify possible areas for further liberalisation. The examinations usually conclude with modifications to the Member country's position and recommendations by the OECD Council to the Member's authorities concerning the future direction of the country's foreign direct investment policies.

Portugal's position under the Code and the National Treatment Instrument

Portugal's regime for FDI has undergone substantial liberalisation since the country was last examined under the Capital Movements Code in 1987. Foreign investment policy in Portugal has moved from being cautious and tentative to one in which foreign investment is generally welcomed and even sought. This liberalisation has been reflected in the progressive narrowing and removal of a number of exceptions and reservations under the Code and NTI.

In the course of the examination carried out by the CMIT and CIME in 1993, Portugal proposed to substantially limit and remove a number of items under the two instruments, and to add for purposes of clarity several items that reflect restrictions

following demonopolisation in air transport, telecommunications and television. As shown in the attached list Portugal's exceptions and reservations are now essentially confined to investment by non-EC entities in new credit institutions or finance companies, insurance agencies, and television and complementary telecommunications services. There are also restrictions not limited to non-EC investors in air and maritime transport, ownership of Portuguese flag vessels, and for the acquisition of capital in privatised enterprises.

a) Portugal's reservations on inward direct investment under the Capital Movements Code

“List A, Direct investment:

I/A

- In the country concerned by non-residents.

Remark: the reservation applies only to:

- i) Investment by non-EC investors may be subject to an authorisation procedure taking into account its effects on the national economy;
- ii) Creation of a new credit institution or financial company owned or controlled by non-EC investors;
- iii) Establishment of agencies of foreign insurers originating in non-EC Member States for which a special deposit and financial guarantee are required, and the parent company must have been authorised for at least five years;
- iv) Establishment of enterprises engaged in coastal trade, unless the majority of the equity capital is held by Portuguese and the majority of shareholders are Portuguese; and ownership of Portuguese flag vessels other than through an enterprise incorporated in Portugal;
- v) Investment by non-EC investors in regular air transport (domestic and international) exceeding 49 per cent of the company's capital;
- vi) Investment in television operations exceeding 15 per cent of capital by a single non-EC investor;
- vii) Investment exceeding a total of 25 per cent of capital in complementary telecommunications services by non-EC investors;
- viii) Establishment of travel agencies by non-EC investors except through an enterprise incorporated in Portugal.”

b) List of measures reported as exceptions to National treatment instrument

A. Exceptions at national level

I. Investment by established foreign-controlled enterprises

Trans-sectoral

In general, all investments are subject to prior notification. The sale between non-residents of shares in foreign investment operations is subject to a simple registration,

a posteriori, when: 1) the parties concerned are nationals and residents of the EC; 2) the acquisition of such shares does not exceed 20 per cent of the capital of the company or does not imply effective control or a strengthening of decision making power. Authorisation may be required for investments by non-EC companies.

Air transport

Establishment in regular domestic and international air transport unless through national companies, engaged in this activity on an exclusive basis, which are headquartered in Portugal and where the majority of capital and the management control belong to national entities. These restrictions are applied without prejudice to EEC law.

Maritime transport

Regular internal maritime transport is reserved to companies registered as shipowners. To become a shipowner, a company must be owned by a majority of Portuguese entities and must possess their own fleet; at least one vessel of this fleet must navigate under the Portuguese flag. Vessels can only be registered in Portugal if they are owned by national companies. These restrictions are applied without prejudice to EEC law.

Television

15 per cent foreign ownership limitation for non-EC enterprises in any one individual operator.

Telecommunications

Direct or indirect participation by non-EEC foreign investors (physical or moral persons) in the capital of complementary telecommunication operators may not exceed 25 per cent.

New credit institutions

Creation of a new credit institution or financial company owned or controlled by non-EC investors may be restricted.

II. Official aids and subsidies

Film production

Financial assistance and subsidies are awarded to the production of Portuguese films or to co-productions between national producers and producers of countries with a co-production agreement, under certain conditions (composition of social capital and guarantees).

III. Tax obligations

None.

c) List of measures reported for transparency purposes

A. Transparency measures at the level of national government

I. Measures based on public order and essential security considerations

a) Investment by established foreign controlled enterprises

Maritime transport

Maritime cabotage between the Portuguese mainland and the Azores and between the Azores reserved to the national flag.

Telecommunications

Direct or indirect participation by foreign investors (physical or moral persons) in the capital of public service operators may not exceed 25 per cent.

b) Corporate organisation

None.

c) Government purchasing

None.

d) Official aids and subsidies

None.

II. Other measures reported for transparency

None.

B. Measures reported for transparency at the level of territorial subdivisions

None.

Annex 2

Chronology of main events affecting foreign direct investment 1986-1993

1986

January

Abolition of prior authorisation requirement for investment by EEC Member countries under ECUs 1.5 million. It was also announced that this limit will be raised by ECUs 300 000 a year up to 1990 when the authorisation requirement will be completely abolished.

1987

February

Introduction of a forward exchange market.

June

Stock-exchange-listed firms required to disclose information on their trading during the first half of each year.

December

Progressive liberalisation of capital movements started.

1988

March

Enactment by Parliament of the government bill on the privatisation of public enterprises; for constitutional reasons, privatisation is limited to 49 per cent of equity capital.

April

Reform of legalisation on financial markets and particularly stock markets adopted by Council of Ministers. Conditions for stock market listing revised, along with the legislation on movable and immovable assets. Stockbroking and estate management companies authorised, with introduction of a special set of regulations.

June

Government announces that the first two enterprises to be "privatised" are the Totta e Açores bank and the Unicer brewery. Pending the constitutional reform, privatisation to be limited to 49 per cent of equity capital, with the first phase scheduled to be completed not before spring 1989.

October

Legal status of The Totta e Açores bank changed to allow partial privatisation.

November

The government decides to go ahead with the partial privatisation of two public insurance enterprises (up to 49 per cent of their equity capital), because of the delay in revising the constitution.

December

Approval of a law widening the scope of the Public Debt Management Fund (Fundo de Regularização de Dívida Pública) in order to include receipts from privatisation and expenditures related to the privatisation process and to the financial reform of public enterprises. Receipts from privatisation will be used mainly for public-debt redemption. Up to a maximum of 20 per cent of the total may be used in the financial restructuring of public enterprises.

March

Several fiscal benefits were created, aiming at equalising fiscal treatment of different saving instruments. A special fiscal treatment was set for domestic and foreign investment projects above Esc 10 billion that are assessed to have an exceptional impact on the balance of payments, allowing to negotiate tax exemptions.

April

Approval of the Privatisation Law.

1990

October

Privatisation of 51 per cent of the capital of Companhia de Seguros Tranquilidade, the fourth largest insurance company, yielding Esc 18.9 billion.

November

Total privatisation of Centralcer brewery, yielding Esc 34.6 billion.

The Government decides to end the monopolies of the state airline (TAP) on international air travel and of the state-owned company EDP on the production and transportation of electricity.

December

Privatisation of 33 per cent of the capital of Banco Portugues do Atlântico, yielding Esc 49.8 billion.

1991

January

In order to supplement Portuguese capital in the privatisation process, a wider share of the capital of non-strategic enterprises will be made available to foreign investors.

May

Full privatisation of the investment bank Socieda Financeira Portuguesa, yielding Esc 16.5 billion, and of the newspaper Diario de Noticias, yielding Esc 9 billion.

June

Privatisation of 40 per cent of the capital of the BESCL bank, yielding Esc 60.9 billion.

July

The EC Commission approves a plan to grant Esc 97 billion in aid to Ford Motor Company and Volkswagen AG to build a passenger-van plant in Setubal.

August

A White Paper on the financial system recommends the adoption of the system of global banking and the strengthening of existing prudential rules.

1992

February

Privatisation of the remaining 60 per cent public stake in BESCL, the country's third largest bank (yielding Esc 89 billion).

April

The escudo joins the exchange-rate mechanism of the EMS, with a central rate of 178.135 escudos per Ecu and a fluctuation band of 6 per cent around the central rate.

Full privatisation of the insurance company *Mundial Confiança* (yielding Esc 33.4 billion).

May

Privatisation of 17.6 per cent of *Banco Portugues do Atlantico* (yielding Esc 50.6 billion).

June

Privatisation of 25 per cent of the largest oil company Petrogal (yielding Esc 40.8 billion).

November

Full privatisation of the insurance company *Imperio* (yielding Esc 25.5 billion).

December

The Parliament ratifies the Maastricht Treaty.

Full liberalisation of all external borrowings by residents, regardless of their nature or maturity.

Full privatisation of the bank *Credito Predial Portugues* (yielding Esc 40.8 billion).

Adoption of new banking law, strengthening prudential surveillance (supervision on a consolidated basis) and putting into effect provisions of the EC Second Banking Co-ordination Directive.

1993

February

Privatisation of 61 per cent of the bank *União de Bancos Portugueses*.

Annex 3

Balance of payments and trade statistics

Foreign trade by main commodity groups
Million US\$ and percentages

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Imports total (million US\$)	9 540.7	8 256.7	7 975.3	7 649.7	9 454.0	13 965.7	17 884.8	19 043.1	25 332.6	26 328.6	30 278.8
As a percentage of total											
Food and beverages	11.3	10.7	11.5	11.0	11.0	10.6	10.3	9.9	9.7	11.2	12.5
Basic material and semi-finished goods	35.9	37.1	42.3	39.1	25.0	19.4	15.9	17.5	16.9	14.5	8.0
Manufactures	52.6	51.9	46.0	49.6	63.4	69.6	73.7	72.5	73.3	74.2	79.5
Chemicals	9.2	10.0	9.9	10.2	11.3	10.5	9.8	9.2	9.1	9.0	11.3
Goods classified chiefly by material	13.3	12.4	12.0	14.5	17.7	19.2	19.2	19.8	19.6	19.5	24.1
Machinery and transport equipment	26.4	26.1	21.1	21.6	29.3	33.9	38.3	36.8	36.9	36.5	38.1
Miscellaneous	3.6	3.4	3.0	3.3	5.1	6.1	6.3	6.7	7.7	9.2	6.0
Unspecified	0.2	0.3	0.2	0.3	0.6	0.3	0.1	0.1	0.1	0.1	0.0
Exports, total (million US\$)	4 173.3	4 601.3	5 207.5	5 685.4	7 204.9	9 318.3	10 989.7	12 797.7	16 415.7	16 326.1	18 335.1
As a percentage of total											
Food and beverages	9.7	9.6	8.8	7.8	8.2	7.3	7.7	7.0	6.6	7.3	7.7
Basic material and semi-finished goods	15.2	15.6	15.2	14.5	12.2	11.9	12.8	14.0	12.8	10.5	2.9
Manufactures	73.3	72.6	75.3	76.0	78.4	80.1	79.1	78.6	80.3	81.9	89.3
Chemicals	8.2	7.5	7.7	7.0	6.1	5.4	6.0	5.6	5.2	4.6	5.3
Goods classified chiefly by material	29.9	28.7	28.1	27.7	26.4	25.4	25.4	23.7	23.4	24.1	55.3
Machinery and transport equipment	14.0	15.4	17.3	15.6	15.7	16.5	16.7	19.1	19.6	19.7	21.7
Miscellaneous	21.1	21.0	22.2	25.7	30.3	32.8	31.0	30.3	32.1	33.6	7.0
Unspecified	1.8	2.2	0.8	1.7	1.2	0.7	0.4	0.4	0.3	0.3	0.1

Source: OECD, Foreign Trade Statistics, Series C.

Geographical breakdown of foreign trade
Billion escudos and percentages

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Exports, total (billion escudos)	356.7	508.6	760.6	971.7	1 082.3	1 311.0	1 582.0	2 015.7	2 335.8	2 354.1	2 475.2
As a percentage of total OECD countries											
EC	82.0	82.8	84.1	85.4	89.1	91.0	90.6	90.7	91.2	91.0	89.2
Germany	61.0	63.1	62.1	62.6	68.3	71.1	72.0	71.8	73.9	75.4	75.0
France	13.1	13.6	13.8	13.8	14.7	15.4	14.7	15.7	16.7	19.2	19.1
Italy	13.1	13.7	12.5	12.7	15.2	15.8	15.2	15.0	15.5	14.4	14.2
United Kingdom	4.8	4.1	4.3	4.0	3.9	3.9	4.2	4.3	4.1	4.0	3.9
Spain	14.8	14.7	15.4	14.6	14.2	14.1	14.3	12.3	12.1	10.8	11.1
Other EC	3.6	4.1	4.4	4.2	6.9	9.3	11.5	12.7	13.5	15.1	14.8
United States	6.1	6.0	8.8	9.2	7.0	6.4	5.9	5.9	4.8	3.8	3.5
Other OECD countries	14.9	13.7	13.1	13.6	13.8	13.5	12.6	12.9	12.5	11.7	10.7
Non-OECD countries	15.9	15.5	14.5	13.3	10.0	8.2	8.1	8.3	7.8	8.0	10.8
of which:											
OPEC	2.9	3.6	2.5	2.5	1.6	1.5	1.1	0.7	0.6	0.5	0.6
Previous Escudo Area	4.9	4.5	4.4	3.9	2.1	2.1	2.7	3.3	3.4	4.1	5.2
Imports, total (billion escudos)	809.0	899.3	1 160.6	1 326.5	1 444.0	1 965.3	2 570.3	3 003.2	3 589.6	3 811.1	4 087.6
As a percentage of total OECD countries											
EC	69.3	69.8	66.7	67.1	78.4	81.7	84.0	83.5	83.4	85.5	86.8
Germany	46.7	44.9	43.3	46.1	58.9	63.8	67.3	68.2	69.2	72.0	73.8
France	11.9	11.5	10.2	11.7	14.4	15.1	14.7	14.6	14.4	15.0	15.1
Italy	8.6	8.1	7.9	8.0	10.0	11.2	11.5	11.7	11.5	12.0	12.9
United Kingdom	5.5	5.1	4.7	5.1	7.9	8.7	9.3	9.1	10.0	10.2	10.2
Spain	7.7	7.7	6.8	7.5	7.5	8.1	8.3	7.5	7.6	7.5	7.1
Other EC	6.1	5.2	7.1	7.4	11.0	11.7	13.2	14.5	14.4	15.8	16.6
United States	6.9	7.3	6.4	6.3	8.2	8.9	10.3	10.8	11.3	11.5	12.0
Other OECD countries	10.8	14.3	13.6	9.7	7.0	4.8	4.3	4.4	3.9	3.4	3.0
Non-OECD countries	11.8	10.6	9.8	11.3	12.4	13.0	12.5	10.3	10.3	10.1	10.0
of which:											
OPEC	30.3	29.7	32.8	32.0	21.2	18.2	15.9	16.5	16.5	14.5	13.2
Previous Escudo Area	19.5	18.6	18.9	17.6	8.5	6.0	4.9	6.1	6.7	4.7	3.8
	0.4	0.4	0.7	1.2	0.8	0.4	0.2	0.4	0.4	0.5	0.5

Source: INE, Boletim mensal das estatísticas do comércio externo.

Balance of payments
Million US\$

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Exports, fob	4 108	4 569	5 177	5 673	7 202	9 268	10 875	12 716	16 301	16 223	18 275
Imports, fob	8 941	7 643	7 307	7 177	8 882	12 849	16 393	17 594	23 129	24 078	27 675
Trade balance	-4 833	-3 074	-2 130	-1 504	-1 680	-3 581	-5 518	-4 878	-6 828	-7 855	-9 400
Services, net	-1 092	-742	-674	-361	-85	250	137	478	1 147	1 151	1 583
Travel	609	588	728	901	1 203	1 721	1 869	2 102	2 688	2 686	2 556
Transportation	-282	-200	-192	-184	-135	-373	-587	-663	-889	-1 023	-1 104
Investment income	-1 269	-1 066	-1 202	-1 152	-1 014	-932	-877	-718	-233	82	666
Government transactions	-65	-37	-40	-44	-56	-123	-131	-135	-162	-182	-189
Other services	-85	-27	32	118	-83	-43	-137	-108	-257	-412	-346
Transfers, net	2 680	2 171	2 179	2 251	2 915	3 775	4 317	4 539	5 500	5 962	7 797
Current balance	-3 245	-1 645	-625	386	1 150	444	-1 064	139	-181	-742	-20
Medium and long term capital	2 582	1 458	1 333	1 109	-293	194	843	2 798	3 576	3 981	-612
Private	1 946	858	835	729	-196	195	811	2 243	2 215	2 936	-529
Official	636	600	498	380	-97	-1	32	555	1 361	1 045	-83
Short-term and unrecorded	786	-564	-221	-523	-1 079	1 273	1 826	993	553	1 766	983
Non-monetary transactions, net	123	-751	487	972	-222	1 911	1 605	3 930	3 948	5 005	351
Private monetary institutions, short-term capital	-15	-310	-289	4	199	-101	-671	633	-446	771	-550
Balance on official settlements	108	-1 061	198	976	-23	1 810	934	4 563	3 502	5 776	199
Use of IMF credit	-43	366	221	0	0	0	0	0	0	0	0
Miscellaneous official accounts	-103	0	-287	-284	-82	-309	-556	92	26	-87	10
Changes in reserves (increase = -)	38	695	-132	-692	105	-1 501	-378	-4 655	-3 528	-5 689	189

Source: Bank of Portugal.

Annex 4

Major investors in Portugal in the period 1980 to 1992, by sector of activity

This partial list of foreign firms in Portugal is from *Guide for Investors in Portugal*, a 1992 ICEP publication supported and sponsored by Deloitte & Touche. Except for tourism, it does not include foreign firms engaged in service industries such as banks, finance companies or other services.

Chemicals

Abott
Air Liquide
BP
Bayer
Ciba-Geigy
Colgate-Palmolive
Dow Chemical
Firestone
Gist Brocades
Henkel
Hoechst
ICI
Merck, Sharp & Dohme
Mitsubishi
Mitsui
Mobil Oil
Pfizer
Reckitt & Colman
Sapac
Shell
Shering
Solvay

Unilever
Upjohn
Nestle
Continental AG

Electric and electronic equipment

Acumulador Tudor
Alcatel
Bosch
Brown Boveri
Control Data
Delco Remy
Ford
General Electric
General Motors
Grundig
ITT
Legrand
Merloni
Moulinex
Philips
Roederstein
Samsung
Siemens
Singer
Texas Instruments
Vitrohm
Yasaki

Foodstuffs and beverages

Altana
Central Soya
Coca Cola
Cockburn
Dan Cake
Eru
Heinz
Knorr
Martini & Rossi
Nabisco Brands
Nestlé
Panrico
R.J. Reynolds
Sapco
Seagram
Tate & Lyle
Unilever

Vittel
Warner Lambert
Pepsico

Mining and quarrying

Billington
Elf-Aquitaine
Rio Tinto Zinc
Solvay

Paper, glass

Hermann Heye
Rhone Poulenc
Saint-Gobain
Stora
Wiggins Teape

Textiles and footwear

Coats Pattons
Courtaulds
D.D. Lee
Eccolet
Elefanten
Fritz Blaser
Gotz
Kurt Rieker
Macintosh
Melka
Montagut
Triumph International
Vitos
Vix
Yoshido

Tourism

Bovis
Caesar Park
Ditco
Grampian
McInerney
Mérilien
Novotel
Quinta park
Sheraton
United Investments
Woburn Holding

Machinery and transport equipment

Bendix
Brown & Boveri
Citroen
Cofap
Continental Mabor
Fiat
Ford
General Motors
Renault
Toyota
Valmet Tractor
Ford/Volkswagen

Annex 5

Direct investment flows in OECD countries

Table 1. Foreign direct investment flows in OECD countries: inflows 1971-1992
US\$ million

	Cumulative flows		Flows of foreign direct investment													
	1971-1980	1981-1990	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992		
Australia	11 295	38 902	2 349	2 286	2 994	428	2 099	3 457	3 852	7 599	7 289	6 549	4 763	4 641		
Austria	1 455	3 276	318	206	220	117	168	182	403	437	578	647	359	888		
Belgium-																
Luxembourg ¹	9 215	27 537	1 352	1 390	1 271	360	957	631	2 338	4 990	6 731	7 517	8 923	10 786		
Canada	5 534	11 448	-3 670	-831	243	1 313	-2 050	990	3 469	3 614	1 773	6 597	6 544	4 963		
Denmark	1 561	3 387	100	135	64	9	109	161	88	504	1 084	1 133	1 530	1 015		
Finland	376	2 837	99	-4	84	138	110	340	265	530	488	787	-247	180		
France ¹	16 908	43 194	2 426	1 563	1 631	2 198	2 210	2 749	4 621	7 204	9 552	9 040	11 073	15 928		
Germany ¹	13 969	17 826	341	819	1 774	553	587	1 191	1 900	1 202	7 126	2 333	3 723	3 869		
Greece	..	6 145	520	436	439	485	447	471	683	907	752	1 005	1 135	1 144		
Iceland ¹	..	12	..	..	..	14	23	8	2	-14	-27	6	35	17
Ireland	1 659	1 212	204	241	168	119	159	-43	89	91	85	99	97	102		
Italy ¹	5 698	24 888	1 153	605	1 200	1 329	1 071	-21	4 144	6 882	2 181	6 344	2 481	3 161		
Japan ¹	1 424	3 281	189	439	416	-10	642	226	1 165	-485	-1 054	1 753	1 368	2 728		
Netherlands	10 822	27 831	1 520	965	757	587	641	1 861	2 307	4 077	6 370	8 746	5 156	5 144		
New Zealand	2 598	3 945	177	275	243	119	227	390	238	156	434	1 686	1 724	..		
Norway	3 074	4 708	686	424	336	-210	-412	1 023	184	285	1 511	881	-338	869		
Portugal ²	535	6 256	177	145	150	170	218	166	367	692	1 577	2 594	3 168	2 994		
Spain ¹	7 060	46 000	1 714	1 801	1 647	1 773	1 945	3 442	4 548	7 016	8 433	13 681	10 423	8 114		
Sweden	897	7 989	182	357	223	289	398	952	599	1 499	1 530	1 960	5 727	300		
Switzerland	..	12 425	..	..	286	520	1 050	1 778	2 044	42	2 254	4 451	1 996	..
Turkey ³	228	2 356	95	55	46	113	99	125	106	354	663	700	810	844		
United Kingdom	40 503	130 479	5 891	5 286	5 132	-241	5 782	8 557	15 450	21 356	30 369	32 897	15 933	18 156		
United States	56 276	368 309	25 195	13 810	11 518	25 567	20 490	36 145	59 581	58 571	69 010	48 422	25 446	3 388		
Total	188 249	794 243	41 018	30 403	30 842	35 740	36 970	64 781	108 443	127 509	158 709	159 828	111 829	89 231		

1. Reinvested earnings are not included in national statistics.

2. Figures for Portugal are only available from 1975 onward.

3. Cumulated inflows since 1954.

Source: OECD/DAF - Based on official national statistics from the balance of payments converted in \$ at daily average exchange rate.

Table 2. Foreign direct investment in OECD countries: inflows 1981-1991
As a percentage of GDP

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Australia	1.4	1.4	1.8	0.2	1.3	2.1	2.0	3.0	2.6	2.2	1.6	1.6
Austria	0.5	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.5	0.4	0.2	0.5
Belgium-Luxembourg ¹	1.3	1.6	1.5	0.4	1.1	0.5	1.6	3.2	4.2	3.7	4.3	4.7
Canada	-1.2	-0.3	0.1	0.4	-0.6	0.3	0.8	0.7	0.3	1.2	1.1	0.9
Denmark	0.2	0.2	0.1	0.0	0.2	0.2	0.1	0.5	1.0	0.9	1.2	0.7
Finland	0.2	0.0	0.2	0.3	0.2	0.5	0.3	0.5	0.4	0.6	-0.2	0.2
France ¹	0.4	0.3	0.3	0.4	0.4	0.4	0.5	0.7	1.0	0.8	0.9	1.2
Germany ¹	0.1	0.1	0.3	0.1	0.1	0.1	0.2	0.1	0.6	0.2	0.2	0.2
Greece	1.4	1.1	1.3	1.4	1.3	1.2	1.5	1.7	1.4	1.5	1.6	1.5
Iceland ¹	0.0	0.0	0.0	0.5	0.8	0.2	0.0	-0.2	-0.5	0.1	0.5	0.3
Ireland	1.1	1.3	0.9	0.7	0.8	-0.2	0.3	0.3	0.2	0.2	0.2	0.2
Italy ¹	0.3	0.2	0.3	0.3	0.3	-0.0	0.5	0.8	0.3	0.6	0.2	0.3
Japan ¹	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	-0.0	-0.0	0.1	0.0	0.1
Netherlands	1.1	0.7	0.6	0.5	0.5	1.0	1.1	1.8	2.8	3.1	1.8	1.6
New Zealand	0.7	1.2	1.0	0.5	1.0	1.4	0.7	0.4	1.0	3.9	4.1	..
Norway	1.2	0.8	0.6	-0.4	-0.7	1.5	0.2	0.3	1.7	0.8	-0.3	0.8
Portugal	0.7	0.6	0.7	0.9	1.1	0.6	1.0	1.7	3.5	4.3	4.6	3.6
Spain ¹	0.9	1.0	1.0	1.1	1.2	1.5	1.6	2.0	2.2	2.8	2.0	1.4
Sweden	0.2	0.4	0.2	0.3	0.4	0.7	0.4	0.8	0.8	0.9	2.4	0.1
Switzerland	0.0	0.0	0.3	0.6	1.1	1.3	1.2	0.0	1.3	2.0	0.9	..
Turkey	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.5	0.8	0.6	0.7	0.8
United Kingdom	1.2	1.1	1.1	-0.1	1.3	1.5	2.2	2.6	3.6	3.4	1.6	1.7
United States	0.8	0.4	0.3	0.7	0.5	0.9	1.3	1.2	1.3	0.9	0.5	0.1

1. Reinvested earnings are not included in national statistics.

Source: OECD/DAF - Based on official national statistics from the balance of payments.

Table 3. Direct investment abroad from OECD countries: outflows 1971-1992
US\$ million

	Cumulative flows		Flows of foreign direct investment													
	1971-1980	1981-1990	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992		
Australia	2 510	22 610	734	693	518	1 403	1 887	3 419	4 981	4 860	2 831	1 284	2 026	-629		
Austria	578	4 132	206	142	190	68	74	313	312	309	855	1 663	1 288	1 959		
Belgium-Luxembourg ¹	3 213	20 811	30	-77	358	282	231	1 627	2 680	3 609	6 114	5 957	6 068	10 889		
Canada	11 335	39 571	5 756	709	2 758	2 277	2 855	4 066	7 069	5 278	4 603	4 200	5 409	3 723		
Denmark	1 063	6 292	141	77	159	93	303	646	618	719	2 027	1 509	1 851	2 225		
Finland	605	12 150	129	85	143	493	352	810	1 141	2 608	3 106	3 283	1 064	974		
France ¹	13 940	85 810	4 615	3 063	1 841	2 126	2 226	5 230	8 704	12 756	18 137	27 112	20 529	18 816		
Germany ¹	24 846	86 506	3 860	2 479	3 168	4 390	4 806	9 621	9 100	11 416	14 538	23 128	22 334	17 987		
Iceland ¹	"	27	"	"	"	"	"	2	7	1	8	9	10	27		
Italy ¹	3 597	28 707	1 425	1 025	2 133	2 012	1 820	2 652	2 339	5 554	2 135	7 612	7 326	5 956		
Japan ¹	18 052	185 826	4 894	4 540	3 612	5 965	6 452	14 480	19 519	34 210	44 130	48 024	30 726	17 222		
Netherlands	27 829	52 797	3 629	2 610	2 098	2 530	2 829	3 147	7 087	4 073	11 521	13 273	12 177	11 049		
New Zealand	375	4 563	103	87	404	31	174	87	562	615	135	2 365	528	"		
Norway	1 079	8 943	185	317	360	612	1 228	1 605	890	968	1 352	1 426	1 804	437		
Portugal ²	21	374	16	9	17	8	15	-2	-16	77	85	165	474	719		
Spain ¹	1 274	8 277	272	505	245	249	252	457	754	1 228	1 470	2 845	3 573	1 271		
Sweden	4 597	46 178	854	1 237	1 461	1 506	1 783	3 723	4 522	7 226	9 796	14 070	6 802	1 401		
Switzerland	"	31 862	"	"	492	1 139	4 572	1 461	1 274	8 696	7 852	6 376	4 502	"		
Turkey ¹	"	273	"	"	"	"	"	"	27	8	56	182	27	65		
United Kingdom	55 112	186 026	12 065	7 145	8 211	8 031	10 842	17 119	31 458	37 254	35 172	18 725	15 597	16 543		
United States	134 354	171 626	9 623	1 078	6 686	11 649	12 724	17 706	28 980	17 871	37 604	27 705	32 098	37 122		
Total	302 306	1 003 361	48 537	25 724	34 854	44 864	55 425	88 169	132 008	159 336	203 527	210 917	176 213	147 756		

1. Reinvested earnings are not included in national statistics.

2. Figures for Portugal are only available from 1975 onward.

3. Includes cumulative investment since 1954.

Source: OECD/DAF - Based on official national statistics from the balance of payments converted in \$ at daily average exchange rate.

Table 4. Direct investment abroad from OECD countries: outflows 1981-1991
As a percentage of GDP

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Australia	0.4	0.4	0.3	0.8	1.2	2.0	2.5	2.0	1.0	0.4	0.7	-0.2
Austria	0.3	0.2	0.3	0.1	0.1	0.3	0.3	0.2	0.7	1.0	0.8	1.1
Belgium-Luxembourg ¹	0.0	-0.1	0.4	0.4	0.3	1.4	1.8	2.3	3.8	3.0	2.9	4.7
Canada	2.0	0.2	0.8	0.7	0.8	1.1	1.7	1.1	0.8	0.7	0.9	0.7
Denmark	0.2	0.1	0.3	0.2	0.5	0.8	0.6	0.7	1.9	1.2	1.4	1.6
Finland	0.3	0.2	0.3	1.0	0.7	1.2	1.3	2.5	2.7	2.4	0.9	0.9
France ¹	0.8	0.6	0.4	0.4	0.4	0.7	1.0	1.3	1.9	2.3	1.7	1.4
Germany ¹	0.6	0.4	0.5	0.7	0.8	1.1	0.8	1.0	1.2	1.5	1.4	1.0
Iceland ¹	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.2	0.4
Italy ¹	0.3	0.3	0.5	0.5	0.4	0.4	0.3	0.7	0.2	0.7	0.6	0.5
Japan ¹	0.4	0.4	0.3	0.5	0.5	0.7	0.8	1.2	1.5	1.6	0.9	0.5
Netherlands	2.5	1.9	1.5	2.0	2.2	1.8	3.3	1.8	5.0	4.7	4.2	3.4
New Zealand	0.4	0.4	1.7	0.1	0.8	0.3	1.5	1.4	0.3	5.4	1.3	..
Norway	0.3	0.6	0.7	1.1	2.1	2.3	1.1	1.1	1.5	1.4	1.7	0.4
Portugal	0.1	0.0	0.1	0.0	0.1	0.0	-0.0	0.2	0.2	0.3	0.7	0.9
Spain ¹	0.1	0.3	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.6	0.7	0.2
Sweden	0.7	1.2	1.6	1.6	1.8	2.8	2.8	4.0	5.1	6.1	2.8	0.6
Switzerland	0.0	0.0	0.5	1.3	4.9	1.1	0.7	4.7	4.4	2.8	1.9	..
Turkey	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.0	0.1
United Kingdom	2.4	1.5	1.8	1.9	2.4	3.0	4.6	4.5	4.2	1.9	1.5	1.6
United States	0.3	0.0	0.2	0.3	0.3	0.4	0.6	0.4	0.7	0.5	0.6	0.6

1. Reinvested earnings are not included in national statistics.

Source: OECD/DAF - Based on official national statistics from the balance of payments.

Annex 6

References

Government offices and sources

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Banco de Portugal
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Tel: (01) 346-2931
Fax: (01) 346-7486

Ministry of Commerce and Tourism
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Tel: (01) 796-3586

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Regions of the New Europe: A Comparative Assessment of Key Factors in Choosing your Location, Ernst & Young Corporate Location Service, 1992.

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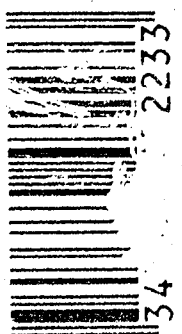
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Foreign direct investment (FDI) in Portugal has soared since the mid-1980s. Today, foreign enterprises constitute an important source of employment and exports in Portugal. The Portuguese government has taken a number of important steps to open its economy to foreign direct investment by removing a wide range of sectoral restrictions, replacing a cumbersome prior authorisation system with a streamlined prior notification system, and offering incentives to promote investment from abroad. However, a number of restrictions remain on investment from outside the European Union, creating more opportunities to open the economy to private investors and increase competition in the Portuguese market.

This study examines the role of FDI in Portugal's economy and the progressive liberalisation undertaken by the Portuguese government in its direct investment regime. It recommends additional steps that might be taken to further open the economy to direct investment and integrate Portugal more fully into the European and global economy.



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