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Sousa, António Jorge Duarte Rebelo de, 1952-

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EXPORTS AND FDI: POLICY INSTRUMENTS AND ECONOMIC DIPLOMACY[1]

António Rebelo de Sousa
Professor Catedrático da Universidade Lusíada (Full Professor)
President of SOFID – The Portuguese Development Bank
antonio.rebelo.sousa@hotmail.com

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[1] This article corresponds, approximately, to the presentation performed by the author to the representatives of EC, ECB and IMF, in January 2012.
EC - European Commission;
ECB - European Central Bank;
IMF - International Monetary Fund.

Abstract: I intend to explain the different kinds of internationalization, from soft to hard internationalization, as well as the different instruments that can be considered to internationalize the Portuguese Economy.

I will explain the importance of SOFID-Sociedade para o Financiamento do Desenvolvimento and, at the same time, I will make some proposals considering the alternative policies concerning a new development model for the Portuguese Economy.

Resumo: Procura-se explicar as diferentes tipologias da internacionalização, desde a "internacionalização suave" à "forte", bem como os diferentes instrumentos que poderão vir a ser utilizados tendo em vista a internacionalização da Economia Portuguesa.

Procurar-se-á, ainda, explicar a relevância da SOFID- Sociedade para o Financiamento do Desenvolvimento e apresentar algumas propostas alternativas tendo em vista a implementação de um modelo de desenvolvimento da Economia Portuguesa.

Firstly, it is important to distinguish "soft internationalisation" from "hard internationalisation".

Soft internationalisation refers to exports.

Hard internationalisation refers to the direct investment of Portuguese companies in foreign countries.

Both soft internationalisation and hard internationalisation are of crucial importance for the Portuguese Economy internationalisation and, therefore, the State must play an important role as regards the creation of appropriate conditions for an adequate use of competitive advantages existing in our economy.

In fact, the truth is that Portuguese exports as well as the coverage level of imports on exports have been increasing favourably.

But we need to go further.

The State has to provide companies - namely, in conjunction with the effective intervention of AICEP – with adequate information regarding business opportunities, thus enabling the access to a wide network of contacts.

Moreover, it is necessary to ensure financing conditions to companies, which belong to the trading sector, what unfortunately does not actually seem a possibility in the near future.

Banks are now facing a situation which implies the reduction of the volume of credits to be granted and it is possible to verify that even the best export companies are being proposed a financing reduction, which makes the implementation of an "export led growth model" even more difficult.

It is really important to create certain mechanisms in order to allow for a better financial support as regards the export sector, looking at the same time for the anticipation of the mobilization of European structural funds for the trading sector (with a reduction of the national investment contribution and by reviewing the criteria that has been adopted up to the present).

On the other hand, it would be worth considering the possibility, during a transitory term of three years, of granting tax incentives to companies operating within the export sector (including taxes, such as IRC and taxes applicable to the dividends to be distributed).

As regards "hard internationalisation", it is essential to distinguish the direct investment of Portuguese companies – IDEP – as regards developed economies (such as EU and Northern America) from the direct investment of Portuguese companies in less developed countries (LDC), in intermediate countries (IC) and, finally, in what it was decided to designate as Emerging Economies.

As regards the first case, national Commercial Banking and Investment Banking should play a fundamental role.

Specially, CGD (*Caixa Geral de Depósitos)*, as a public capital bank, should have a particularly dynamic intervention in such a domain.

However, as we all know, the Portuguese financial system is facing some problems which, accordingly to my point of view, will only be overcome through a rapid recapitalization, without which there will be no possibility to make the national productive activity more dynamic.

As regards Portuguese companies' direct investment in LDC and in the Intermediate Countries, it will be worth stressing the importance which, in principle, SOFID (Sociedade para o Financiamento do Desenvolvimento) must assume. SOFID is 60% held by the Portuguese State and 40% held by the four more important Portuguese Banks, namely, CGD, BES, BCP and BPI.

SOFID may grant loans, guarantee operations financed by local banking or participate in the companies' share capital. It is still worth referring its participation in two European funds (ITF – Infrastructure Trust Fund, supported by the European Investment Bank, and NIF – Neighbor Infrastructure Facility, supported by the European Commission).

Moreover, SOFID is the entity that manages a Portuguese Fund For Investment Support in Mozambique (INVESTIMOZ), aiming at promoting Luso-Mozambican partnerships, namely, to finance the participation in the share capital of the Portuguese companies located in that country.

SOFID makes also part of the network of EDFIs – European Development Finance Institutions.

However, the financial resources made available to SOFID turned out to be quite limited, thereby requiring the reinforcement of its own capital or, alternatively, to provide for the creation of a fund for the "hard internationalization" managed by itself and in accordance with the principles of additionality, consistency, and efficiency.

Another relevant aspect is the so named economic diplomacy.

In order for this to work effectively, it is essential to have a suitable coordination between the Ministry of Foreign Affairs and the Ministry of Finance, as well as between the Embassies, AICEP and SOFID.

I would like to emphasize the absolute impossibility of implementing consistent action plans without a close cooperation with GPEARI – Gabinete de Planeamento, Estratégia, Avaliação e Relações Internacionais (Planning, Strategy, Assessment and International Relations Office), as well as with the National Treasury Secretariat and the National Budget Secretariat.

On the other hand, I also think it makes all the sense to defend a development model for the Portuguese economy, trying to select the strategic sectors and to adopt policies (in tax and financing domains) that help to maximize the competitive advantages, both existing and potential.

And, in these domains, the Ministry of Economy must play a especially relevant active role.

It is not the diplomacy that dictates the development models to be adopted by those that are responsible for financial and economic issues or which are the strategic sectors and competitive advantages of the economy in question.

Those that are responsible for financial and economic matters should inform the diplomats about the internationalization strategy priorities of the Portuguese economy and not otherwise.

To conclude, it is extremely important to consider the following basic strategic courses of action:

1. Need to distinguish "soft internationalization" from "hard internationalization";
2. Need to recapitalize the Portuguese Financial System within a very short term;
3. Anticipation of the mobilization of European structural funds for the trading sector (with a significant reduction of the national contribution);
4. Exceptional and transitional period of 3 years with the adoption of tax incentives to companies in the export sector;
5. Absolute need to distinguish, in "hard internationalization", IDEP in developed economies from IDEP in LCD and IC;
6. Relevance of banking in general and CGD, in particular, regarding IDEP in developed economies.
7. Relevance of SOFID regarding the IDEP in LDCs and ICs
8. Imperativeness of reinforcing SOFID's own capital or, alternatively, to provide for the creation of a fund for "hard internationalization", to be managed by SOFID itself in the future.
9. Importance of a suitable coordination between the Ministry of Foreign

Affairs and the Ministry of Finance, as well as between Embassies, AICEP and SOFID;

10. Importance of GPEARI (Ministry of Finance), National Treasury Secretariat and National Budget Secretariat in implementing consistent action plans;
11. Relevance of a suitable coordination of all sectors in the Portuguese economy with competitive advantages at an international level.
12. The diplomacy should not inform those that are responsible for the financial and economic sectors of the priorities for the internationalization strategy of the Portuguese economy, but the other way round.

These are a few brief thoughts which I took the liberty to present aiming at a central contribution to overcome the critical situation we live in.

I am sure we will not succeed without an action.

To quote the famous Portuguese poet, Fernando Pessoa, “To act, this is the true intelligence. Success lays in succeeding and not only in having the conditions to be succeeded. Any large land meets the conditions to build a palace, but there will be no palace if nobody builds the palace”.

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