Working Paper CEsA CSG 165/2018

PORTUGAL – CRISIS AND RESTRUCTURING[1]

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Abstract

The presentation proposes an approach to political economy and international relations. It begins by analyzing the main Portuguese macroeconomic indicators in the last years, taking into account internal weaknesses and the degree of external dependence. Afterwards, tries to assess national development on a globalized stage. It lists main current challenges from a geopolitical and geo-economic point of view and how difficult it is to face them. It also tests the hypothesis that Portugal is changing patterns, from crisis and loss of credibility to recovery, and some explanations are given to explain it.

Keywords Portugal, crisis, dependence, restructuring.

Sumário

A apresentação propõe uma abordagem no âmbito da economia política e das relações internacionais. Começa por analisar os principais indicadores macroeconómicos portugueses nos últimos anos, levando em consideração as fragilidades internas e o grau de dependência externa. Depois avalia a evolução nacional num palco globalizado. Listam-se os principais desafios atuais do ponto de vista geopolítico e geoeconómico e as dificuldades em enfrentá-los. Mas também se testa a hipótese de Portugal estar a inverter a tendência de crise e de perda de credibilidade, enquanto segue pelo caminho da reestruturação e apresentam-se algumas explicações para o fenómeno.

Palavras-chave Portugal, crise, dependência, reestruturação.

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com o apoio

WORKING PAPER

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CONTENTS

INTRODUCTION

Portugal is a southwestern country with a strategic triangle including two archipelagos and a territorial slice of the Iberian Peninsula. It's a State-member of the European Union (EU) since 1986. After 2008 faced financial and economic restrain and asked for financial external help from Troika (IMF, European Commission and European Central Bank) between 2011/14.

Taking that in mind, the article contextualizes Portugal's present situation and its trends for the last ten or less years. The first chapter analysis main macroeconomic indicators of Portugal, including the GDP, imports and exports specific performance, consumer price index, net lending/ borrowing by institutional sector, and sovereign ratings from the biggest international agencies. The second chapter evaluates some of the country's inner fragilities, such as lack of industrialization and unbalanced GVA and Employment between major sectors (agriculture, services and industry), Risk of Poverty, Unemployment Rates and major demographic trends. The third chapter focus on external dependence; studies indicators in percentage of the GDP, like the Liquid External Debt, Emigrants' Remittances, Public Transferences from and for the EU, but also the Geographical Distribution of Exports and Imports of Goods by Regions and by countries, and of Foreign Direct Investment (FDI) by Countries. The fourth chapter examines the overseas AICEP network, the Global Peace Index, The Travel & Tourism Competitiveness Index and Portuguese indicators like the revenue and number of bed nights by country of origin. A final chapter has a summarized critical assessment about the hypothesis of the EU becoming a federation and Portugal's part in it.

From the methodological standpoint, the article uses credible sources like AICEP – Global, INE – Statistics of Portugal, Pordata from the Francisco Manuel dos Santos Foundation, the Institute for Economics and Peace, Trading Economics, and The World Economic Forum.

1. MAIN PORTUGUESE MACROECONOMIC INDICATORS

Indicators are key statistics to interpret the most important economic and financial trends of a country. Table 1 show the Portuguese GDP components, and totals, from the expenditure side in annual volume change rates. The real economic growth rate is more useful than the nominal GDP growth rate because it takes into account the effect that inflation has on economic data.

Table 1: Portuguese GDP, market prices, expenditure side (volume change rate; annual)

Year	Final consumption expenditure of resident households	Final consumption expenditure of general government	Final consumption expenditure	Gross capital formation	Domestic demand	Exports of goods (FOB) and services	Imports of goods (FOB) and services	GDP at market prices
2006	1,5	-0,2	1,1	0,0	0,9	12,3	7,5	1,6
2007	2,4	0,7	2,1	2,6	2,2	7,3	5,4	2,5
2008	1,5	0,4	1,3	0,8	1,2	-0,3	2,4	0,2
2009	-2,3	2,6	-1,1	-12,2	-3,5	-10,2	-9,9	-3,0
2010	2,5	-1,3	1,5	3,4	1,8	9,5	7,8	1,9
2011	-3,7	-3,7	-3,6	-14,0	-5,7	7,0	-5,8	-1,8
2012	-5,7	-3,3	-5,0	-18,1	-7,3	3,4	-6,3	-4,0
2013	-1,3	-1,9	-1,4	-5,1	-1,9	6,9	4,7	-1,1
2014	2,4	-0,5	1,7	5,1	2,2	4,3	7,8	0,9
2015Pe	2,6	0,7	2,1	4,7	2,5	6,1	8,2	1,6
2016Pe	2,3	0,5	1,9	-0,6	1,5	4,4	4,5	1,4

Pe=preliminary data. Reference year=2011. Source: INE – Statistics Portugal (2017)

The Portuguese GDP had negative volume change rates in 2009, and from 2011 to 2013. In 2014 the economy stabilized. Based on preliminary data, 2015 had a better performance than 2016. Domestic demand was partially responsible for that, especially between 2014 and 2015. Exports of goods and services also helped, mostly in 2013 and 2015. But in the last three years the volume change rate was higher for imports than for exports, which is not a favorable trend. Final consumption expenditure of general government was under strict control from 2010 to 2014; had a real growth in 2015 and 2016, yet still under 1% a year. (cf. Table 1)

Table 2: Exports and Imports of Portugal

Year	Imports of goods (FOB) and services			Exports of goods (FOB) and services			External balance of goods and services
	Total	Imports of goods (FOB)	Imports of services	Total	Exports of goods (FOB)	Exports of services	
	1=2+3	2	3	4=5+6	5	6	7=4-1
2006	68 750,4	60 460,4	8 289,9	53 652,3	40 199,5	13 452,8	-15 098,1
2007	72 485,4	63 709,3	8 776,1	57 575,9	42 410,8	15 165,1	-14 909,5
2008	74 274,6	64 949,8	9 324,8	57 390,1	41 943,0	15 447,1	-16 884,5
2009	66 909,1	58 125,6	8 783,4	51 532,4	37 156,0	14 376,4	-15 376,6
2010	72 151,5	62 789,8	9 361,7	56 438,9	41 286,3	15 152,7	-15 712,6
2011	67 951,9	58 324,5	9 627,4	60 409,9	44 470,8	15 939,1	-7 542,1
2012	63 654,8	54 615,4	9 039,4	62 467,2	46 052,1	16 415,1	-1 187,7
2013	66 624,2	57 379,6	9 244,6	66 831,0	49 212,2	17 618,8	206,8
2014	71 809,1	61 757,2	10 051,9	69 729,0	51 317,5	18 411,6	-2 080,0
2015Pe	77 705,5	67 007,6	10 698,0	73 993,8	54 698,0	19 295,7	-3 711,8
2016Pe	81 167,5	70 250,0	10 917,5	77 273,3	57 268,8	20 004,5	-3 894,2

Unit: 10^6 €. Pe=preliminary data. Reference year=2011. Source: INE – Statistics Portugal (2017)

Annually there is a significant external unbalance between bought and sold goods and services. In 2008 was -16.884,5 10^6 €. In 2013 the country reached a positive relation between exports and imports, which means it's possible to accomplish the goal.

The trend did not last. The negative results returned in 2015 (-3711,8 10^6 €) and were a little worst in the following year (-3894,2 10^6 €). Exports are not the issue, they are growing at a slow but steady rate. Imports are unsustainable for a small economy like Portugal. The demand for external goods is increasing since 2013 and uncontrollably for the last two years (higher in 2015 and especially in 2016 than in 2008). The same path is being followed by the imports of services. (cf. Table 2)

Table 3: Consumer Price Index of Portugal

Period of Reference	Total %	Total (except Housing) %
Dezembro de 2006	3,11	3,10
Dezembro de 2007	2,45	2,43
Dezembro de 2008	2,59	2,56
Dezembro de 2009	-0,83	-0,98
Dezembro de 2010	1,40	1,38
Dezembro de 2011	3,65	3,73
Dezembro de 2012	2,77	2,80
Dezembro de 2013	0,27	0,25
Dezembro de 2014	-0,28	-0,40
Dezembro de 2015	0,49	0,47
Dezembro de 2016	0,61	0,56

Reference year=2012. Source: INE – Statistics Portugal (2017)

The Consumer Price Index (CPI) measures the change in the price of goods and services from the perspective of the consumer. It is a key way to measure changes in purchasing trends and inflation. A rise in CPI led to a deepened recession. In the last two years, the Portuguese CPI is under control after a period of deflation. Housing prices are beginning to rise again. (cf. Table 3)

Table 4: Portuguese net lending /net borrowing by institutional sector (% of GDP; annual)

Year	Total economy	Non-financial corporations	Financial corporations	General government	Households
2006	-9,5	-7,2	0,4	-4,3	1,9
2007	-8,9	-8,6	2,0	-3,0	1,0
2008	-11,4	-10,5	1,2	-3,8	2,0
2009	-9,0	-5,2	1,7	-9,8	4,8
2010	-9,0	-4,1	2,9	-11,2	3,8
2011	-4,0	-3,5	4,3	-7,4	3,0
2012	0,0	-0,3	3,1	-5,7	3,4
2013	2,3	1,4	2,1	-4,8	4,1
2014	1,0	1,2	4,8	-7,2	2,5
2015Pe	0,3	-0,2	3,8	-4,4	x
2016Pe	1,4	0,4	2,2	-2,0	x

Pe=preliminary data. Reference year=2011. Source: INE – Statistics Portugal (2017)

Net borrowing originates a negative balance also called deficit and occurs when transactions in financial assets are lower than transactions in liabilities. Net lending can be a surplus and corresponds to a positive value of the balance of the sector.

Table 4 show financial accounts, to determine if there were savings in diverse sectors of the economy, as well as in the overall. The total economy did not have a stable performance between 2006/2016, but seems to have a more or less positive trend since 2013. Non-financial corporations had a bad 2015, but the years of 2013, 2014 and 2016 were better that the period of 2006/12. 2013 had an increase of currency and deposits, due to the investment of saving certificates and Treasury certificated by households; 2014 recorded a small reduction in the sector. Based on preliminary data, there was a negative financial saving of the general government of 4.4 per cent of GDP in 2015 and of 2% in 2016 (which compares with 11,2% in 2010, 7,4% in 2011 and 7,2% in 2014). The reduction in general government's net borrowing resulted from the capitalization of the NOVO BANCO (New Bank, 2014), which had a more significant impact than the BANIF resolution process (2015).

The country's banking system remained problematic until it was concentrated mostly on foreign hands, which means that now is more stable, but more manipulated from abroad, and therefore dependent of international interests that may not coincide with ours.

Portugal also took measures to follow the new EU's *bail-in* rules that prevent government aid for banks before investors take a hit.

Table 5: Portugal's Ratings

Agency	Ratings	Outlook	Date
Standard & Poor's	BBB- BBB-	Stable Negative	Sep 15 2017 Mar 29 2011
Moody	Ba1 Ba2	Positive Negative	Sep 01 2017 Jul 05 2011
Fitch	BB+ BBB-	Positive Negative Watch	Jun 16 2017 Apr 01 2011
DBRS (Canada)	BBB (low)	Stable	May 23 2014

Source: Trading Economics (2017)

The three biggest credit-rating agencies are Standard & Poor's, Moody's and Fitch with headquarters in New York, USA. DBRS (Dominion Bond Rating Service) is from Canada and is considered the world's fourth-largest.

Canadian DBRS maintained Portugal above the investment grade level in the last years. But the other three agencies left Portugal with a junk investment grade from 2011 to 2017, which means the cost of borrowing was considered higher on sovereign and corporate issuers, based on public debt deterioration and weakening of political commitment to sustainable economic policies.

Taking in consideration the country's recent economic progress, Standard & Poor's changed its assessment in September 2017. *BBB- stable* is still one grade above junk status, but "stable" means the agency may not downgrade the forecast in the medium term. Also helped the fact that the *World Economic Outlook for 2017* of the International Monetary Fund very recently raised growth projections for Portugal. The country still needs to maintain the good work, before is considered sustainable, but it's better that going downhill.

2. INTERNAL FRAGILITIES

Portugal was shaken by an external shock in 2008. But the country had internal problems that made it vulnerable and stuck in a vicious circle of time-wasting and money-consuming economic reforms with feeble results, high sovereign debt, low productivity and disappointing economic growth that cannot pay its highly sophisticated social model of pensions, unemployment benefits and subsidies, grants and subventions of diverse types and applications.

The country spends way more than produces. In spite of all the external supervision and the implementation of austerity programs, the country never truly decreased the public administration's brut debt in percentage of the GDP (only a small inch in 2015). In 2006, the indicator was 69,2%. In 2016, according to preliminary data, stretches until 130,4%. (cf. Table 6)

Table 6: Debt and Deficit (% of GDP)

	Brut Debt Public Administrations	Deficit Public Administrations
2006	69,2	-4,3
2007	68,4	-3,0
2008	71,7	-3,8
2009	83,6	-9,8
2010	96,2	-11,2
2011	111,4	-7,4
2012	126,2	-5,7
2013	129,0	-4,8
2014	130,6	-7,2
2015 Pe	129,0	-4,4
2016 Pe	130,4	-2,1

Pe: Preliminary Data Source: Pordata (2017)

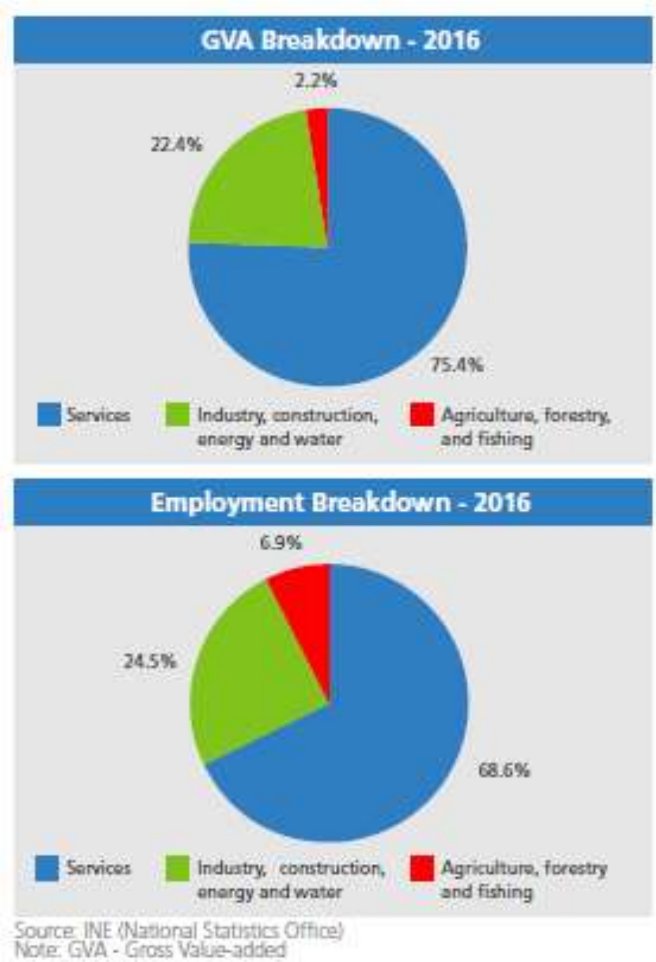
In terms of deficit of the public administration in percentage of the GDP, the worst case scenario was reached in 2010, before the *bail-out*, with 11,2%. In 2016, the situation was better around 2,1%, which is lower that the target defined by the EU (3% of the GDP).

In 2017 things are no longer as bad as they were in 2011/14. But the situation could be more stable and sustainable if the country was more industrialized. (cf. Graphic 1).

Industry, construction, energy and water represented only 22,4% of the Portuguese gross value added (GVA) and 24,5% of the employment in 2016. That's low. Unless the country wants to continue only specialized in services (75,4% of GVA and 68,6% of employment) which perpetuates its vulnerability in other sectors, governmental policies must address the situation immediately.

Portugal needs more industries with large scale production of goods that may create new job opportunities, that prevent unemployment and poverty like other sectors can't guarantee, in all regions, including the interior of the continent and islands. Industrialization also helps developing new modes of transportation making it quicker to export. The system should respect natural resources, and not produce much pollution of land, air and water, since the country is planning its future, not just fixing its present.

Graphic 1: GVA and Employment Breakdown – 2016



Source: AICEP (2017a)

Between 2011/15 the risk of poverty in Portugal was under 20% after social transferences. But was almost 50% before governmental assistance. That is seriously negative in a state-member of the EU that supposedly belongs to the wealthiest group of countries in the world. It also has high inequality income distribution, which affects social cohesion and is responsible for social tensions. (cf. Table 7)

Table 7: Risk of Poverty of Portugal

Period of reference	Risk of Poverty After social transferences Annual (%)	Risk of Poverty Before social transferences Annual (%)	Gini Coefficient of Adult Income Equivalent Annual (%)	Inequality in Income Distribution (Ratio S90/S10) Annual	Risk of Poverty Limit (€); Annual
2011	17,9	45,4	34,5	10,0	4994
2012	18,7	46,9	34,2	10,7	4906
2013	19,5	47,8	34,5	11,1	4937
2014	19,5	47,5	34,0	10,6	5061
2015	19.0	46,1	33,9	10,1	5269

Source: INE – Statistics Portugal (2017)

S90/S10 is the ratio of the 10% of people with highest income (upper bound value of the ninth decile) to that of the first decile. The indicator was 10,7 in 2012. In 2015 was a bit lower, around 10,1.

The Gini coefficient compares cumulative proportions of the population with cumulative proportions of income they receive. It ranges between 0% (perfect equality) and 100% (perfect inequality). In Portugal was 34,5% in 2011 and 2013, and 33,9% in 2015.

In 2015, the risk of poverty limit was annually 5269 euros and monthly 439 euros. Back in 2012 was 4906 annually and around 409 euros monthly. The overall situation is getting better even though may be considered low in the EU. (cf. Table 7)

Table 8: Unemployment Rates (%) of Portugal

	2016	2015	2014	2013	2012	2011
Man and Woman	11,1	12,4	13,9	16,2	15,5	12,7
Man	11, 0	12,2	13,5	16, 0	15,6	12,3
Woman	11,2	12,7	14,3	16,4	15,5	13, 0

Source: INE – Statistics Portugal (2017)

Unemployment rates have been improving (11,1% in 2016). In the case of woman are still higher than man's (except in 2012). (cf. Table 8) But the country recovered from a very difficult stand point (16,2% in 2013)

When the labor market was under stress and could not offer as many opportunities as its active population needed, the country suffered the strongest emigration trend since the 1960´s. And it was one of the countries with highest emigration in proportion of its population of the EU. In total, lost up to 20% of its active population to migration.

Table 9: Resident Populations in Portugal – By Region

	Portugal	North	Center	Lisbon	Alentejo	Algarve	Azores	Madeira
Total Population (Nº)								
2010	10 572 721	3 693 585	2 331 642	2 822 761	758 707	451 304	246 757	267 965
2011	10 542 398	3 687 224	2 316 169	2 827 050	754 385	446 140	247 194	264 236
2012	10 487 289	3 666 234	2 298 938	2 818 388	748 699	444 390	247 549	263 091
2013	10 427 301	3 644 195	2 281 164	2 807 525	743 306	442 358	247 440	261 313
2014	10 374 822	3 621 785	2 263 992	2 809 168	733 370	441 468	246 353	258 686
2015	10 341 330	3 603 778	2 256 364	2 812 678	724 391	441 929	245 766	256 424
Men (Nº)								
2010	5 053 543	1 768 846	1 113 554	1 335 590	367 484	220 145	121 518	126 406
2011	5 030 437	1 763 848	1 103 433	1 336 350	365 209	216 150	121 693	123 754
2012	4 995 697	1 750 568	1 093 565	1 329 450	362 261	214 946	121 768	123 139
2013	4 958 020	1 736 838	1 083 228	1 321 167	359 439	213 656	121 646	122 046
2014	4 923 666	1 720 635	1 073 816	1 321 402	353 231	212 756	120 758	121 068
2015	4 901 509	1 709 888	1 069 996	1 320 895	348 859	211 884	120 352	119 635
Women (Nº)								
2010	5 519 178	1 924 739	1 218 088	1 487 171	391 223	231 159	125 239	141 559
2011	5 511 961	1 923 376	1 212 736	1 490 700	389 176	229 990	125 501	140 482
2012	5 491 592	1 915 666	1 205 373	1 488 938	386 438	229 444	125 781	139 952
2013	5 469 281	1 907 357	1 197 936	1 486 358	383 867	228 702	125 794	139 267
2014	5 451 156	1 901 150	1 190 176	1 487 766	380 139	228 712	125 595	137 618
2015	5 439 821	1 893 890	1 186 368	1 491 783	375 532	230 045	125 414	136 789

Source: INE – Statistics of Portugal (2016)

Table 9 is all about resident populations in Portugal, for the entire country as well as by region. The general outlook is negative, because numbers decreased significantly between 2010 and 2015. The emigration trends seem to be changing in the two most developed regions, Lisbon and Algarve, especially because of woman, who are increasing in these areas.

Table 10: Resident Populations in Portugal – By Region

	Portugal	North	Center	Lisbon	Alentejo	Algarve	Azores	Madeira
Effective Growth Rate (%)								
2010	-0,01	-0,34	-0,26	0,52	-0,44	1,22	-0,06	0,47
2011	-0,29	-0,17	-0,67	0,15	-0,57	-1,15	0,18	-1,40
2012	-0,52	-0,57	-0,75	-0,31	-0,76	-0,39	0,14	-0,43
2013	-0,57	-0,60	-0,78	-0,39	-0,72	-0,46	-0,04	-0,68
2014	-0,50	-0,62	-0,76	0,06	-1,35	-0,20	-0,44	-1,01
2015	-0,32	-0,50	-0,34	0,12	-1,23	0,10	-0,24	-0,88
Natural Growth Rate (%)								
2010	-0,04	0,02	-0,34	0,22	-0,54	0,08	0,10	-0,04
2011	-0,06	ə	-0,34	0,21	-0,52	-0,01	0,15	-0,03
2012	-0,17	-0,12	-0,47	0,11	-0,60	-0,15	0,11	-0,20
2013	-0,23	-0,17	-0,51	0,03	-0,65	-0,24	-0,04	-0,23
2014	-0,22	-0,17	-0,49	0,06	-0,65	-0,21	ə	-0,38
2015	-0,22	-0,17	-0,50	0,04	-0,68	-0,17	-0,02	-0,26
Migration Growth Rate (%)								
2010	0,04	-0,35	0,08	0,29	0,10	1,14	-0,16	0,51
2011	-0,23	-0,17	-0,32	-0,05	-0,05	-1,14	0,03	-1,37
2012	-0,36	-0,45	-0,27	-0,41	-0,16	-0,24	0,03	-0,23
2013	-0,35	-0,43	-0,27	-0,42	-0,07	-0,22	ə	-0,45
2014	-0,29	-0,44	-0,27	ə	-0,70	0,01	-0,44	-0,63
2015	-0,10	-0,32	0,17	0,09	-0,55	0,27	-0,22	-0,62

Source: INE – Statistics of Portugal (2016)

Population is defined as the number of people that live in Portugal. Growth rates are the annual changes in population resulting from births, deaths and net migration during the year.

The effective growth rate was negative in the period 2010/2015, except in Lisbon (0,52% in 2010 and 0,12% in 2015) and Algarve (1,22% in Algarve and 0,1% in 2015). The patterns translate perfectly the impact of the international crisis in the country.

Natural growth represents the births and deaths in a country's population and does not take into account migration. It's the difference between natality rate and mortality rate. They were only moderately positive in the Lisbon area.

The migration growth rate for 2015 corroborate the indicators analyzed before. Many Portuguese citizens rather emigrate than try to establish themselves in the country that has invested in their formal education for decades. This pattern could be explained with lack of employment or working conditions, but there is also lack of patriotism, of private entrepreneurship and unwillingness to perform certain activities in Portugal that sometimes are done abroad. It must be a cultural thing.

3. EXTERNAL DEPENDENCY

Portugal had some economic recovery, especially in the last two years. It is still unsustainable, because of its domestic vulnerabilities, but also its external dependency. Table 11 has information about the country's liquid external debt, the emigrants' remittances and public transferences in percentage of the GDP.

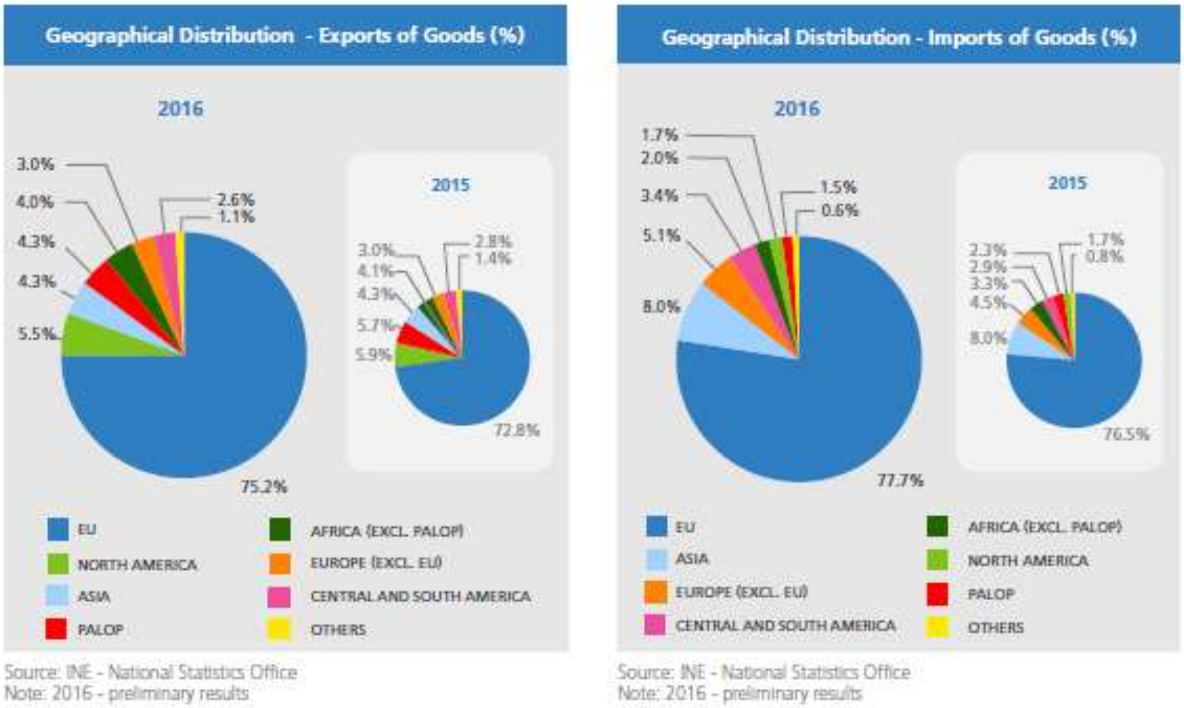
Table 11: Data (% of GDP)

	Liquid External Debt	Emigrants' Remittances	Public Transferences from the European Union	Public Transferences for the European Union
2006	56,6	1.5	2,3	1,1
2007	64,7	1,5	2,2	0,9
2008	74,6	1,4	2	0,9
2009	82,9	1,3	2,3	1,1
2010	81,2	1,3	2,6	1,1
2011	84,5	1,4	2,8	1,1
2012	101,8	1,6	3,4	1,1
2013	99,8	1,8	3	1,1
2014	104,8	1,8	2,6	1
2015 Pe	101,5	1,8	2,3	1
2016 Pe	94,4	1.8	2,1	1

Pe: Preliminary Data Source: Pordata (2017)

Back to 2006, the liquid external debt was more or less controlled, around 56,6% of the GDP. It is frightening how escalated up to 101,8% of GDP in six years, which is almost the double. An international crisis was partially responsible for this disaster and the financial assistance may also have contributed for it but, in the overall, it's clear that the country was badly managed in this period. The situation simply shouldn't had reached the 104,8% of the GDP in 2014. Indicators have decreased since then, which is good. But unless they return to the preexistent situation, around 50% of the GDP, the situation is not sustainable, will maintain the country at jeopardy and vulnerable to international pressure.

Graphics 2/3: Geographical Distribution of Exports and Imports of Goods – by Regions



Source: AICEP (2017a)

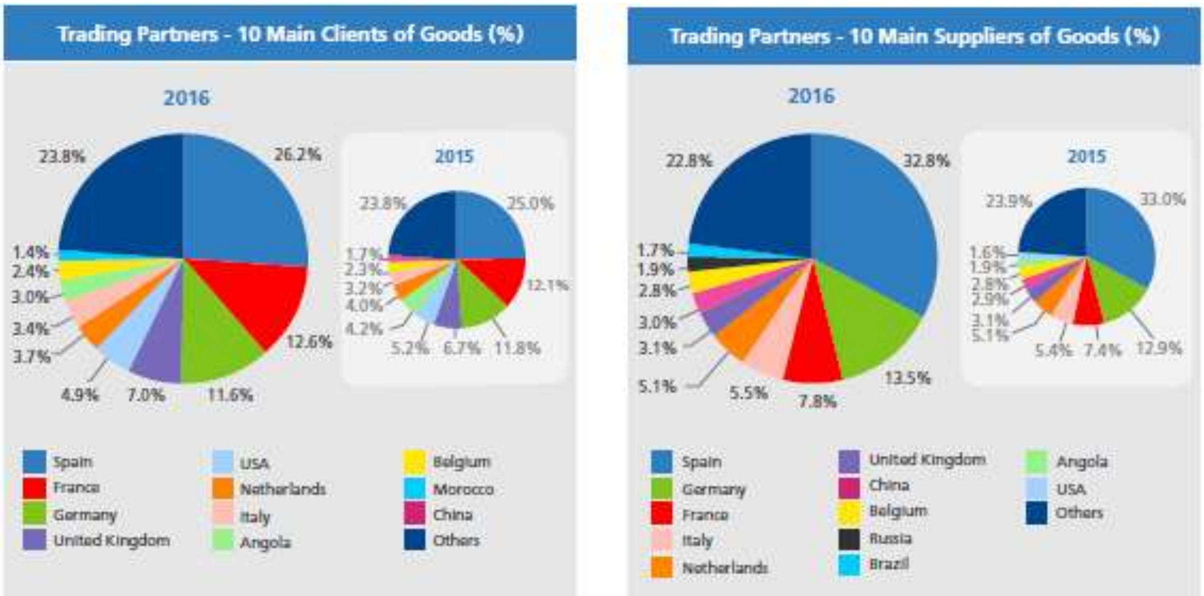
Another indicator of dependency is the fact that Portugal is not diversifying markets or opportunities to grow faster without being subjected to chocks as much as before. It's increasingly trading inside the EU when the regional block cannot give, for the time being, new big chances to Portuguese exporting companies.

The Eurozone had some gradual improvement in the last two years, but its markets are over booked and the eastern countries are in direct competition with Portugal's economy. Exports for the EU represented 72,8% in 2015, but were higher in 2016 (75,2%). Portuguese imports from the EU were 76,5% in 2015 and 77,7% in 2016. (cf. Graphics 2 and 3)

Spain, France and Germany are three privileged countries for Portugal, from a client and supplier standpoint, which means that a shock in these markets would have major negative impact in a country that is already counting possible losses because of Brexit. (cf. Graphics 4 and 5)

The UK bought 7% of the Portuguese goods in 2016 (6,7% in 2015) and sold 3,1% of merchandises to Portugal in the last two years. Thus Brexit can be an issue for Portugal. UK is a traditional client and supplier for many years, since the time of EFTA, and even before. Negotiations are still in the beginning, so things still depend of the final agreement. Some sort of compromise must be found for settling a treaty out the new relationship, to be ratified and implemented which is all time-consuming.

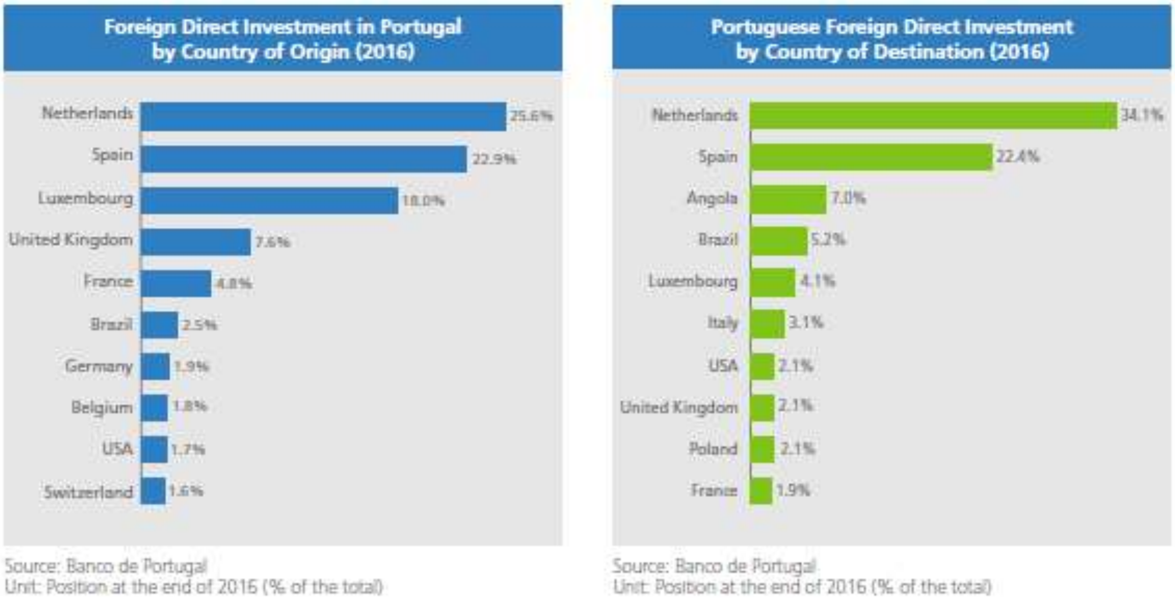
Graphics 4/5: Geographical Distribution of Exports and Imports of Goods – by Countries



Source: AICEP (2017a)

The Graphics 6 and 7 display information about FDI inflows and outflows. But interpreting data requires some precaution, since several Portuguese companies moved to the Netherlands for fiscal reasons, lack of patriotism and because they could do it without being penalized by the government or by the markets. Apparently this country had less restrictive laws and a more effective justice system. Therefore, large financial flows from Portugal to the Netherlands and back again are not *real investments* but rather *round-trip investments*. Dutch letterbox companies are used to avoid paying taxes in Portugal. There is no double taxation.

Graphics 6/7: Geographical Distribution of FDI – by Countries



Source: AICEP (2017a)

Portugal is also heavily dependent of its neighboring country. Not only because Spain is the largest client and supplier of goods, but also for being the second biggest country of origin and destination of FDI. This cannot continue for much longer. It's totally unacceptable, unless Portugal wants to become Iberic or Spanish in the nearby future.

4. PORTUGAL – ECONOMIC RECOVERY

4.1. MAIN GEOPOLITICAL AND GEO-ECONOMIC CHALLENGES

Portugal is reversing the trend of crisis or loss of credibility, following a gradual, slow but hopefully steady path of restructuring. Besides Brexit, the country will be dealing with challenges that other state-members of the EU will also face.

Geopolitical instability around the world creates problems, since markets need stability to trade, for transferences and plans of FDI. Economy of war (like selling and buying weapons) involves millions of euros but its risks for society do not compensate them at all. Terrorist attacks do destabilize the system, especially people's rational decisions to go or not go somewhere and why, and therefore revenues in the sector of tourism.

Digital and data flows are also being discussed in the EU. This is a tricky subject that governments are trying to address as possible, for it affects cybercommerce (e-commerce), security on the internet and jobs. It will open a door to a paradigm shift, given its social impact. The question is not how technology will change in the future, but how people will cope with it.

The level of confidence in the EU's institutions is also shifting and turning. During the acute phase of the Euro crisis, confidence declined considerably. Things are a little better now, but there is general disinterest and distance from people and the communitarian establishment. Brussels' bureaucracy seems to be pushing for an agenda that is not scrutinized in elections or referendums with fear that citizens may not want it. That's not democratic and may lead to disruptions in the forthcoming years.

4.2. PEACEFUL COUNTRY

Portugal was considered the fifth most peaceful country of the world in 2016. This is good for domestic reasons, for the overall well-being of its citizens. It is also import for international trade, FDI and tourism. (cf. Table 12)

The relevance of this indicator can be checked in the Map 1. It gives a big picture about peace and security prospects globally. In fact, Portugal is well positioned nowadays as a *sanctuary* or refuge economy, and an alternative to other concurrent markets like Spain, France, Italy, Greece, the UK, eastern European countries or even from north of Africa. Things may change if a bloody terrorist attack occurs in Portugal. Which doesn't mean the country doesn't have problems about security with economic negative impact, concerning locals as well as foreigners, since there are large scale fires every summer. A major issue that must be resolved quickly.

Table 12: Global Peace Index – 2016

Rank	Country	Index	State of the Peace
1	Iceland	1,192	Very High
2	Denmark	1,246	Very High
3	Austria	1,278	Very High
4	New Zealand	1,287	Very High
5	**Portugal**	**1,356**	**Very High**
6	Czech Republic	1,360	Very High
7	Switzerland	1,370	Very High
8	Canada	1,388	Very High
9	Japan	1,395	Very High
10	Slovenia	1,408	Very High
25	Spain	1,604	High
39	Italy	1,774	High
46	France	1,829	High
47	UK	1,830	High
82	Greece	2,044	Medium

Source: Institute for Economics & Peace (2016)

Map 1: Global Peace Index – 2016

Source: Institute for Economics & Peace (2016)

Map 2 can be compared with Map 1. Shows where the Portuguese government is encouraging companies to trade and invest. The *Aicep Portugal Global – Trade & Investment* is a one-stop-shop partner with an extensive foreign network working with the Ministry of Foreign Affairs to help in the process of internationalization, as well as export and investment prospects and activities.

Map 2: AICEP Markets over the World – 2017

Source: AICEP (2017b)

Portugal doesn't target only very peaceful markets. It follows the money, the resources, but also tries to maintain cultural ties of decades, if not centuries, kept from the days when Portugal was a global empire. The AICEP network, takes this legacy into account and it spreads in countries where the EU may not have specific interests.

4.3. TOURISTIC COUNTRY

Prospects are increasingly good in the sector of services. According to the travel and tourism competitiveness index of 2017, Portugal was the 14th country in a high paced ranking, which corresponds to a better position than in 2015. It helps the fact that it is a peaceful country.

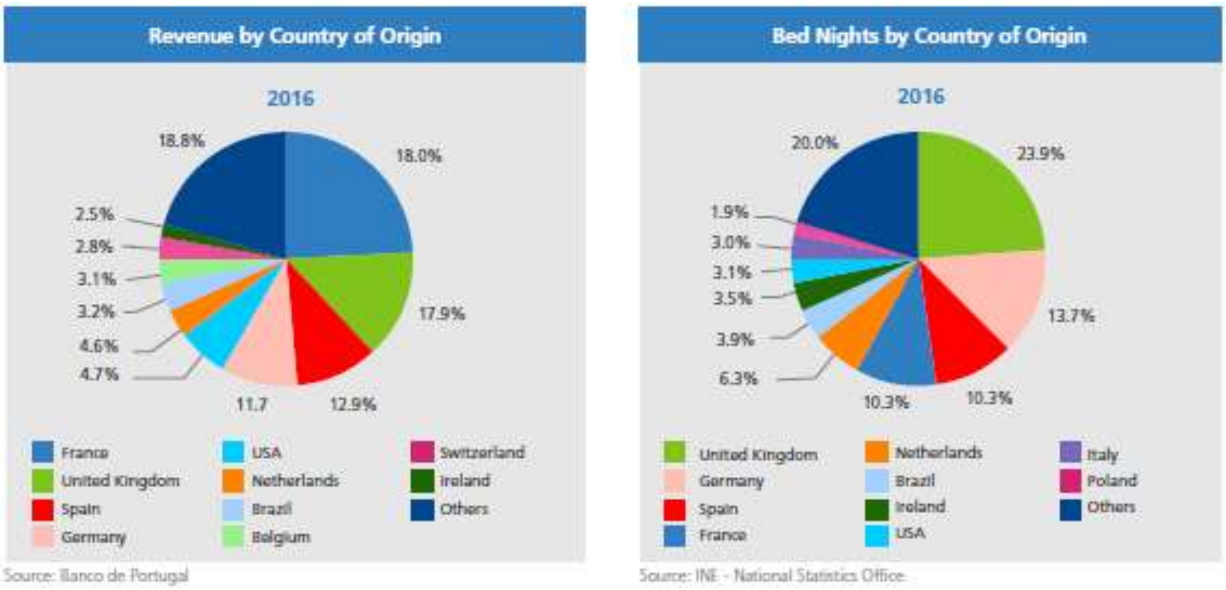
Table 13: The Travel & Tourism Competitiveness Index – 2017

Country/Economy	Ranking	Score	Change since 2015
Spain	1	5.43	0
France	2	5.32	0
Germany	3	5.28	0
Japan	4	5.26	5
United Kingdom	5	5.20	0
United States	6	5.12	–2
Australia	7	5.10	0
Italy	8	4.99	0
Canada	9	4.97	1
Switzerland	10	4.94	–4
Hong Kong SAR	11	4.86	2
Austria	12	4.86	0
Singapore	13	4.85	–2
Portugal	14	4.74	1
China	15	4.72	2

Source: World Economic Forum (2017)

Spain continues to lead the index in 2017, as previously in 2015. Since it is a neighboring country, Portugal may benefit from that. There are six European countries in the top 10 and eight in the top 15, which means that the continent is still preferred as destination by tourists worldwide.

Graphics 8/9: Indicators of Tourism in Portugal



Source: AICEP (2017a)

Portuguese indicators of Tourism like revenue and bed nights according to the country of origin are shown in the Graphics 8 and 9. In the overall French, British, Spanish and Germans were our main costumers in 2016.

France represented 18% of the revenue and 10,3% of the bed nights booked in Portugal, which means those tourists are not yet coming in larger numbers but that expend more money.

The UK corresponded to 17,9% of the revenue and 23,9% of the bed nights. British tend to buy less expensive vacations in Portugal and go mostly to Lisbon and Algarve.

In 2016, Spain related to 12,9% of the revenue and 10,3% of the bed nights. Many Spanish tourists come comfortably by car and easily visit the continental part of Portugal, for they don't live very far from our borders. Since plane tickets so not very expensive, this market can expand to the entire country in the following years.

Germany booked 13,7% of bed nights and represented 11,7% of the revenue left in Portugal in 2016. These tourists usually like the peaceful and sunny characteristics of our country.

5. UNITED STATES OF EUROPE – PORTUGAL'S PROSPECTS

Portugal is a state-member of the EU. The regional block doesn't have to become a federation. If it does, in the nearby future, that means Portugal will become a state of the United States of Europe.

As peripheral, with only ten million people and limited territory, already has difficulties defending itself in a proportional system that favors countries that are bigger in number and extension of land. Without the UK (strong financial market but geographically as western as Portugal) in the equation, the center of operations will inevitably move east, probably lead by France (the armed force) and Germany (the economic power) of the EU.

With no external policy of its own, Portugal will be discouraged to have privileged political and economic relations with countries that other state-members don't relate (like the Portuguese language nations). It will import rival tensions from Spain (in the north of Africa and in Latin America), Germany (with Russia and ex-soviet republics) and France in different parts of the world and Portugal doesn't. At the very best, Portugal may negotiate good financial agreements capable of buying a peacefully full integration.

But Portugal is an Atlantic country and a State-Nation (one State, one Nation) that claims to have the oldest and most stable frontiers of the European continent (from the XIIth century onwards). It was the first global empire of the world and the only European empire, after the romans that lasted over five centuries (1415/1999). This means that it's an historical country that should be able to govern itself without constant and overwhelming supranational supervision.

This is not the first time that Portugal surrenders towards external pressure. Between 1580/1640 Portugal accepted the domination of the House of Habsburg of Filipe II, inherited from the Holy Roman Emperor Charles V. Today Germany rules the EU and Portuguese banks are under Spanish influence. It's not the same thing but, in the overall, is not that much different.

Portugal is negotiating the extension of its continental platform. Thus one of the possibilities is becoming a country for phishing, specialized in the ocean and the exploration of its resources (something like Alaska in the USA).

Another hypothesis is Portugal becoming specialized in services, in tourism (probably a Florida in the USA) or entertainment and the arts.

In a Federation, the UE will represent our country in almost everything outside the regional block. Portugal will never become a relevant power in international relations again – which is not for a long time. More than that, it will never be the master of its own destiny again, a restrictive path that can still be reverted with a different and more self-governing national paradigm.

CONCLUSION

Portugal is a state-member of the EU that was negatively impacted by the financial international crisis of 2008. The country received external assistance and supervision from Troika (International Monetary Fund, European Central Bank and European Commission) between 2011 and 2014.

Since then financial indicators were corrected, at least temporarily and economic indicators are being slowly addressed. Short-term reforms were implemented. But many structural unbalances coexist with higher expectations that may not be fulfilled, unless the country's budget pays for them, which is not currently healthy, with low economic growth, for it would mean more deficit and debt from public administrations. The situation is not stable yet. Thus problems may rise again, sooner or later.

Portugal is an open economy that should benefit from it, rather than be penalized by the fact that its imports are constantly higher and growing faster than exports. As a small market with limited material resources, should at least have strong human capital, capable of overcoming vulnerabilities and transforming them into opportunities, since the biggest advantages of a country can also be its biggest advantages. Unfortunately strong emigration trends and larger brain's drain (of highly qualified workforce) since about 2010, is not allowing the country to recover as fast as it could. The good thing is that Portuguese emigrants are sending higher remittances to its country of origin. These financial transferences contribute positively to the GDP.

As one of the most peaceful countries in the world nowadays, Portugal is benefiting from the fact; especially in terms of tourism and overall services. Since the country is becoming more and more specialized in those sectors, the GDP is growing with the help of exports and also a bit pushed by internal demand. Bu the lack of industrialization doesn't make this pattern sustainable in the long run, also because imports of manufacturing goods are increasing in a startling way.

As an Atlantic country, Portugal is a door to a big ocean and nurtures big expectations, as a mediator in multilateral negotiations or as a partner in multilevel agreements, some of them not yet fully accomplished. The situation may even be more complicated, from the political and economic standpoint, if the UE becomes a federation of states, for it limits Portugal's actions outside the regional block.

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