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Foreign Direct Investment in a Late Industrialising Country: The Portuguese IDP Revisited

Francisco B. Castro

CEMPRE – Centros de Estudos Macroeconómicos e Previsão

FACULDADE DE ECONOMIA
UNIVERSIDADE DO PORTO
www.fep.up.pt

Faculdade de Economia do Porto - R. Dr. Roberto Frias - 4200-464 - Porto - Portugal
Tel . (351) 225 571 100 - Fax. (351) 225 505 050 - http://www.fep.up.pt

FOREIGN DIRECT INVESTMENT IN A LATE INDUSTRIALISING COUNTRY: THE PORTUGUESE IDP REVISITED

FRANCISCO B. CASTRO
CEMPRE[*]*, Faculdade de Economia, Universidade do Porto
Rua Dr. Roberto Frias, 4200-464 Porto, Portugal
email: fcastro@fep.up.pt

ABSTRACT

This article uses the investment development path to analyse the evolution of Portugal's competitiveness in recent years. This is interpreted as the country's capacity to both attract and engage in foreign direct investment. The estimation of the Portuguese IDP confirms previous claims that Portugal has joined other late industrialising countries as a 'stage 4' country, but that this position may not be consolidated. Outward FDI, albeit limited in terms of the number of firms and destinations, seems to show most characteristics expected at this stage of development. However, the fading of export-oriented inward FDI during the 1990s represents a danger in a country where FDI has been critical for market access and industrial diversification despite a much smaller weight in the economy than in other OECD countries

Keywords: Investment Development Path, Inward FDI, Outward FDI, Portugal

JEL: F21, F23

RESUMO

Apoiando-se no conceito de ciclo de desenvolvimento do investimento (CDI), este artigo procura analisar a evolução da competitividade da economia portuguesa nos últimos anos, entendida quer como a capacidade em atrair investimento directo estrangeiro quer pela capacidade das empresas nacionais em investirem no estrangeiro. A estimação do CDI português confirma trabalhos anteriores que apontavam Portugal como tendo recentemente passado a integrar o estádio 4 do CDI, que inclui os países desenvolvidos de industrialização mais recente. Contudo, esta posição não estará ainda plenamente consolidada. Se é verdade que o investimento português no estrangeiro apresenta crescentemente as características esperadas no actual estádio de desenvolvimento, a forte redução de investimento do exterior em Portugal com características exportadoras será uma ameaça num país onde o IDE tem sido fundamental em termos de diversificação industrial e de acesso a novos mercados.

Palavras-chave: Ciclo de Desenvolvimento do Investimento, Investimento Directo Estrangeiro, Portugal

JEL: F21, F23

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1. INTRODUCTION

Having failed to accompany successive industrial revolutions, Portugal has long been one of the poorest countries in Europe. At the end of World War II (in which Portugal did not participate) much of the country did not have electricity, running water or paved roads. About half the working population were engaged in agriculture and only 24 per cent in the manufacturing industries (Rosas, 1994: p. 25). It was only in the 1960s that industrialisation took off in Portugal, bolstered by the abandonment of autarkic policies[1]. Nevertheless, the impact on economic development was considerable. Between 1960 and 1973, the Portuguese GDP per capita grew from one third to half that of the most developed European countries (Gonçalves, 1998: p. 96).

The second half of the 1970s and early 1980s was a difficult period for Portugal. At a time the world was sent into recession by two oil shocks, Portugal had to deal with the economic and social impact of the 1974 revolution. These included new legislation that deeply changed labour relations, the dismantling of the big economic groups that dominated most sectors of the economy, the independence of the African colonies[2], and the overall revolutionary climate. In 1985 - the year before Portugal joined the (then) EEC - relative GDP per capita was similar to that in 1971 (Gonçalves, 1998: p.97).

Despite 18 years of EU membership, Portugal's GDP per capita remains only slightly above half that of the most developed European countries (Gonçalves, 1998, and own calculations). However, the Portuguese economy suffered deep transformations in this period. Using the Portuguese investment development path (Dunning, 1981, 1986; Narula, 1996) it is possible to show that it was in this period that foreign direct investment developed the characteristics of a developed economy to become what is described in the IDP as a *stage 4* country. There are, nevertheless signs that suggest this position may not be fully consolidated, the most worrying being the difficulties in attracting export oriented FDI.

This paper will investigate the Portuguese investment development path and the evidence it summons to the evaluation of country's competitive position. Section 2 describes the evolution of inward and outward FDI in Portugal over the last 40 years. In section 3, the Portuguese IDP is re-estimated and analysed using the evidence summarised in the previous section, while conclusions are presented in section 4.

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[1] Portugal was a founding member of EFTA, in 1960, and joined the GATT in 1961.

[2] Trade with the colonies, more than 15 per cent of Portugal's international trade in 1974, was halved in just two years (Lopes, 1996: p.25). The independence also forced the return of a quarter million people, increasing the population by 8 per cent over the summer of 1975 (Castro, 2000: p.60).

2. Foreign Direct Investment in Portugal

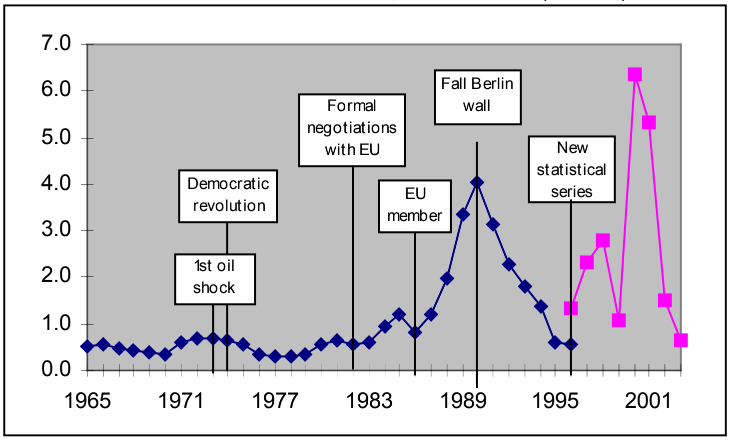
2.1. Inward FDI

Historically an important player in the Portuguese economy, foreign direct investment was all but eliminated by the autocratic nationalist regime that ruled the country after the 1926 military coup. The new authorities were not hostile towards established foreign firms. However, the legislation encouraged the transfer of ownership to Portuguese nationals and severely restricted the entry of new companies (Lopes, 1996: p.167).

This policy suffered a U-turn in 1960, when Portugal joined EFTA as a founding member. The opening of the Portuguese economy was consolidated with GATT membership, the following year, and was accompanied by a new policy towards FDI, albeit excluding a substantial number of industries considered sensitive by the government. As a result, inward FDI flows increased forty-fold on the 1950s figures (Buckley and Castro, 1998). According to Lopes (1996: p.169, citing Matos, 1973), during the 1960s FDI may have represented as much as 30 per cent of GFCF in manufacturing and 20 per cent in commerce.

Our comparison with GDP suggests rather more modest figures, clearly below 1 per cent (Figure 1). Nonetheless, inward FDI is, in this period, credited with the development of new industries (e.g. clothing, electric equipment, pulp, chemicals) and a critical role in the diversification of local industrial structures (Simões, 1985: p.358; Gonçalves and Guimarães, 1996: p.10).

FIGURE 1: INWARD FDI FLOWS, 1965-2003 (%GDP)[3]



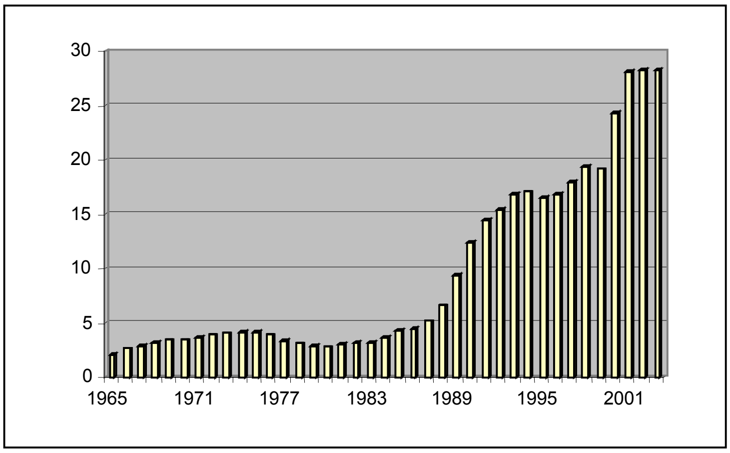
Source: *Own calculations based on Banco de Portugal (several) and INE (2004).*

The 1974 democratic revolution (cf. section 1) did not directly affect foreign owned firms, but the political, social and economic climate was not favourable to investment. In an

[3] A change in methodology (cf. Banco de Portugal, 1998) rendered impossible the integration of data prior to 1996 with the current series. The main difference between the two is the estimation of reinvested earnings, for which no information exists until 1996. This suggest that figures prior to 1996 may be underestimated, especially in the most recent years when many of the investments were mature enough to produce substantial earnings.

international environment also strongly adverse, the surprise is not that inward FDI flows decreased sharply in the period but that they remained positive (Figure 1). The ratio of the stock of inward FDI to GDP, however, dropped every year between 1975 and 1980 (figure 2).

FIGURE 2: ESTIMATED INWARD FDI STOCKS, 1965-2003 (%GDP)[4]



Source: *Own calculations based on Banco de Portugal (several) and INE (2004).*

The progressive stabilisation of the country and the prospect of EEC membership painted a new picture after 1980 and, especially, after January 1st 1986, when Portugal joined what is now the European Union, the same day as Spain. The political cycle was also favourable with far more stable governments being formed since 1983.

EU membership was a critical moment for Portugal. First, it represented free access to a consolidating single market from a low labour costs platform and a reassurance of economic and political stability. Second, it triggered economic integration with Spain, Portugal's only neighbour but with whom economic relations have always been rather limited[5].

Prompted by the new international conditions, inward FDI flows were especially high between 1988 and 1993 (see figure 1, above). Lopes (1996: pp.173-175) considered that they was also encouraged by the privatisation program, which started in 1988, better infrastructure, and EU sponsored incentives to new projects in manufacturing, tourism and agriculture. However, after 1991 the trend was already of sharp decline, even though real figures might be a bit less dramatic than those reported (cf. footnote 3).

The same factors that justified growth in the late 1980s probably explain the decline in the 1990s. If EU membership and the single market programme created new investment

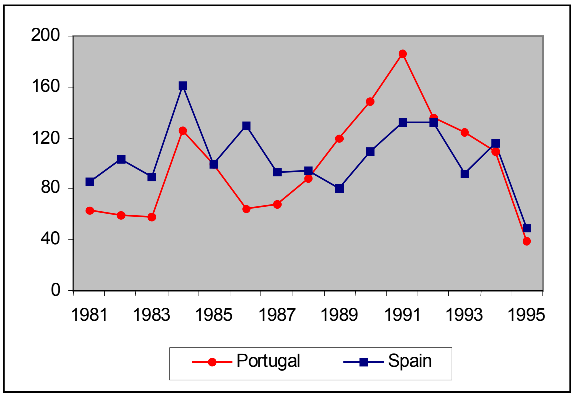
[4] The estimation used the 1996 FDI stock figures (Banco de Portugal, 1998) as a starting point. Figures for 1997-2003 was calculated by adding annual flows (Banco de Portugal, 2004), while stocks prior to 1996 were calculated using the growth rates implicit in the flows published by Banco de Portugal (1997a)

[5] In 1985, Spain account for less than 6 per cent of Portugal's international trade (United Nations, 1992).

opportunities for European and non-European firms alike[6], it is reasonable to assume that they would have been fully exploited by the time the single market programme was completed, in 1992. Similarly, the privatisation program necessarily slowed down after the main companies had been sold. Furthermore, the European economy entered a period of recession, while the fall of communism in Central and Eastern Europe radically changed Portugal's position in the geopolitical map of Europe.

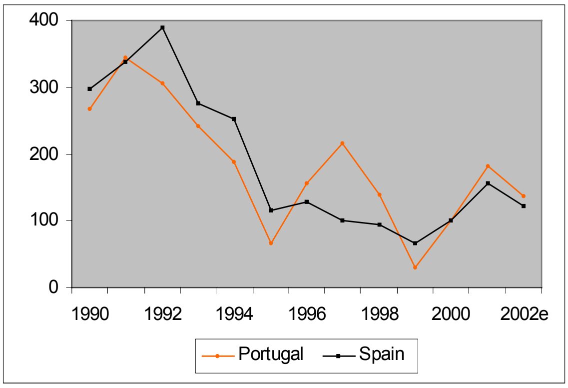
Figures 3 and 4 seem to support the idea that Portugal's relative attractiveness in Europe increased in the second half of the 1980s and decreased in the 1990s[7]. The pattern is very similar to what happened in Spain in the same period, which suggests that external factors were probably more important than internal ones in shaping recent FDI inflows in Portugal.

FIGURE 3: SHARE OF EU12 INWARD FDI FLOWS
(BASE 1985=100)



Source: Buckley and Castro (2001: p.227).

FIGURE 4: SHARE OF EU15 INWARD FDI FLOWS
(BASE 2000=100)



Source: Own calculations based on OECD (2004).

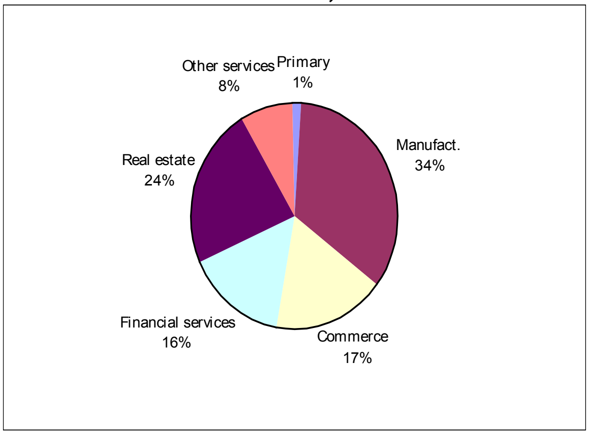
External factors are also the likely explanation for the exceptional figures in 2000 and 2001. Portugal’s (and Spain’s) share increased in this period (Figure 4), but by far less than what could be expected from Figure 2. The true is that World FDI reached record levels in 2000 and in 2001, driven by a wave of mergers and acquisitions (UNCTAD, 2002).

Furthermore, recent years brought about a profound change in the relative importance of industries. In particular, Manufacturing FDI is in clear decline. Four of the last eight years registered disinvestments, including 2002 and 2003[8]. Manufacturing represents now just slightly more than 4 per cent of the stock of inward FDI in Portugal, down from 34 per cent in

[6] Dunning (1996); Agarwal (1997); Pain and Lansbury (1997).
[7] It must be born in mind that data for Portugal in Figure 5 is affected by the limitations described in footnote 3. The difference between 1995 and 1996 figures, for example, can be attributed to the use of the new methodology for 1996 but not for 1995. The old methodology produced very similar figures in both years (Banco de Portugal, 1997b).
[8] 2003 data must be analysed with caution. Estimated figures, as it is the case, are often profoundly revised by Bank of Portugal.

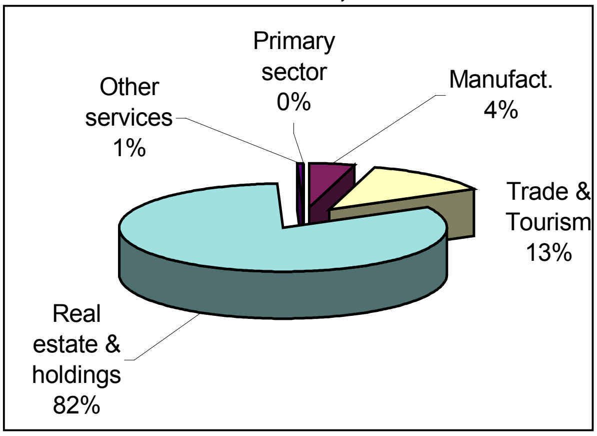
1996 (Figures 5 and 6) and 18 per cent in 2000 (own calculations based on Banco de Portugal, 1998, 2004).

FIGURE 5: STOCK OF INWARD FDI IN PORTUGAL BY INDUSTRY, 1996



Source: Buckley and Castro (2001: p.227).

FIGURE 6: STOCK OF INWARD FDI IN PORTUGAL BY INDUSTRY, 2003



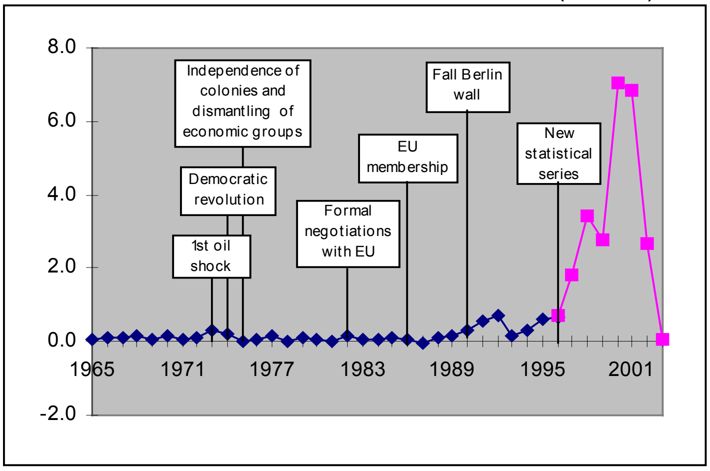
Source: Own calculations based on Banco de Portugal (1998, 2004)

The evolution of the composition of inward FDI was accompanied by a change in the investors' goals. According to Buckley and Castro (2001: p.247), in 1986-90 cost reduction was the main motivation for foreign investment in Portugal. This is consistent with a strong export orientation of firms which invested in that period (Castro, 2000: p.97). The only other period in Portugal's recent history when this happened was in 1960-74. The latter follows the creation of EFTA and the former is the period immediately after Portugal joined the EEC. However, firms created or acquired in the 1990s seem to be, on average, much more local market-oriented than older firms, including those created between 1975 and 1985 (Buckley and Castro, 2001: p.247; Castro, 2000: p.97).

2.2. Outward FDI

On the face of the novelty of the industrialisation process (see Castro, 2000: pp.57-61), it is hardly surprising that outward foreign direct investment is a very recent phenomenon in Portugal. There were several important investments between 1970 and 1974 by the economic groups that dominated the Portuguese economy at the time. Manufacturing and primary sector FDI, the most important, was directed to the (then) African colonies, and financial investment to countries with large Portuguese communities (Simões, 1985: p. 341). However, even in this period outward FDI flows averaged just 0.2 per cent of GDP (Figure 7). Furthermore, the investments did not resist the dismantling of the economic groups and the independence of the colonies, both in 1975.

FIGURE 7: OUTWARD FDI FLOWS, 1965-2003 (%GDP)[9]



Source: *Own calculations based on Banco de Portugal (several).*

It was not until the 1990s that outward FDI became truly relevant in the Portuguese economy. However, the pace of growth was impressive (Figure 7) and between 1998 and 2002 Portugal's outward FDI flows were even larger than inward flows. In this context, 2003 was absolutely atypical since net outward FDI was virtually nil. These figures are still estimates (cf. footnote 8), but probably expectable on the face of the country's deep economic recession and the generalised reduction of FDI flows across Europe (Hunya and Stankovsky, 2004).

The industry distribution of outward FDI is difficult to assess. Figures are based on industry of the investing rather than the recipient company, and most groups invested through holding companies[10]. It is safe to say, however, that outward FDI is by and large the responsibility of a very small number of firms (Simões, 1997; Castro, 2000; Silva, Fernandes and Costa 2002), most of them in the services sectors: telecommunications, electricity, financial services and retail trade. Manufacturing firms are credited with just 4.4 per cent of the stock of outward FDI in 2003 (own calculations based on Banco de Portugal, 2000, 2004).

Another characteristic of the Portuguese outward FDI is that it is very much concentrated in Brazil and Spain (Figure 8). This conforms to the literature: it represents expansion to less developed or neighbouring territories (Dunning, 1981, 1986), as well as the influence of psychic proximity (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). It is also part of the evidence found by Castro (2000: pp.147-148) of limited ownership-advantages by Portuguese firms.

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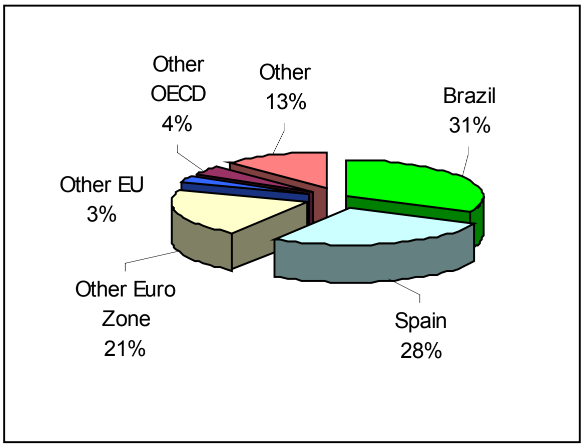
[9] The methodological change mentioned in footnote 3 barely affected outward FDI figures. This may be explained by outward investments being, in 1996, too few and too recent to generate sizable profits that could have been reinvested.

[10] This explains why 79% of the 2003 stock of outward FDI is attributed to 'Real estate and business activities' (own calculations based on Banco de Portugal, 2000 and 2004).

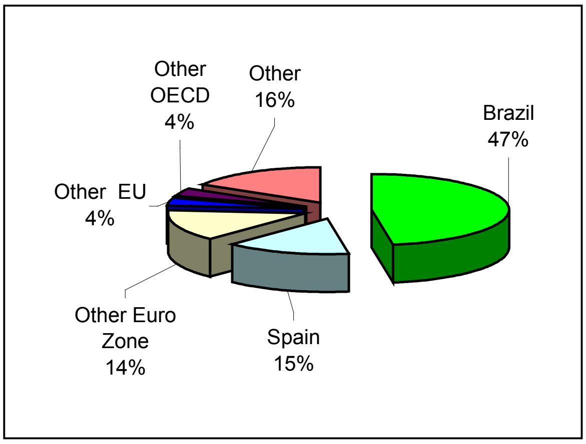
FIGURE 8. STOCK OF OUTWARD FDI, PER COUNTRY, 2003



Source: *Own calculations based on Banco de Portugal (2000, 2004).*

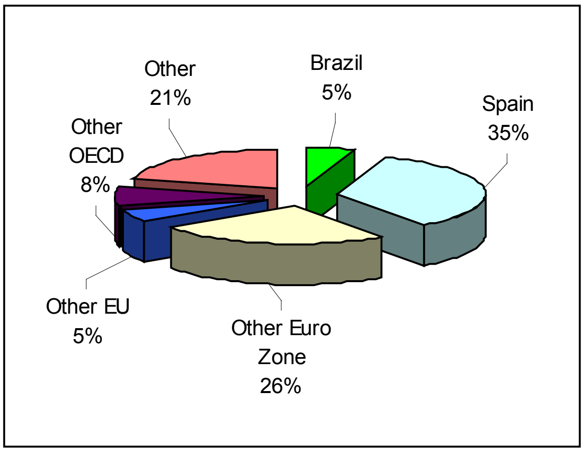
As for the timing of the explosion of outward FDI, it yields only limited information on the characteristics of the Portuguese economy or of the investing firms. In the case of Brazil, in particular, the growth of Portuguese FDI was triggered by the economic conditions created by the stabilisation programme of 1995/96, rather than by a sudden explosion of the investors' ownership-advantages. This explains the concentration of very high flows in the period between 1998 and 2001. Nevertheless, in 2000, Brazil was host to 47 per cent of the Portuguese investments abroad (Figure 9).

FIGURE 9.
STOCK OF OUTWARD FDI, PER COUNTRY, 2000



Source: Own calculations based on Banco de Portugal (2000)

FIGURE 10.
STOCK OF OUTWARD FDI, PER COUNTRY, 1996



Source: Own calculations based on Banco de Portugal (2000, 2004)

In the case of Spain, the picture is slightly different. Spain was already an important destination for Portuguese outward FDI in 1996 (Figure 10), but total figures were small. The biggest investments were concentrated in the period 2000-2002. As in Brazil, the investors were essentially domestic leaders in industries with mature domestic markets (financial services, electricity, cement, wood products, paint). However, in Spain outward FDI seems to have been as much defensive (a reaction to the fast consolidation of the Iberian markets) as part of a strategy of growth out of small domestic markets. The latter was the main motivation for investments in Brazil (Castro: 2000: p.152).

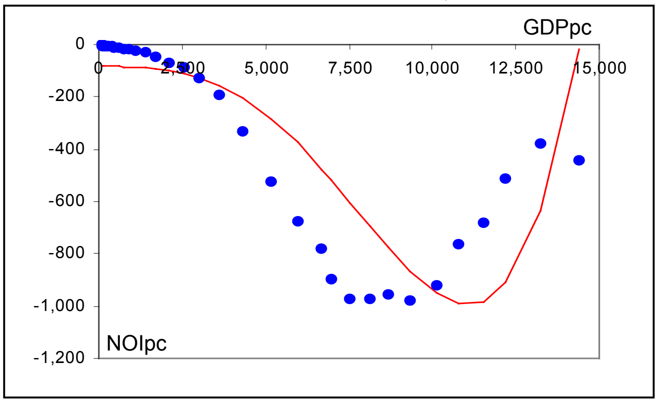
3. THE PORTUGUESE INVESTMENT DEVELOPMENT PATH

The notion of an investment development path (IDP) was introduced by Dunning as a dynamic approach to the OLI paradigm (Dunning, 1981, 1986)[11]. The IDP suggests an interaction between a country's level of development (proxied by GDP *per capita*) and its international investment position (outward FDI stocks minus inward FDI stocks, *per capita*).

The underlying argument is that, as the country develops, the conditions facing both domestic and foreign firms change. This will inevitably have an impact on the flows and characteristics of inward and outward FDI. In turn, the latter influence the country's economic structure, in a dynamic interaction between foreign and domestic economic agents. In the IDP framework, governments play a significant role in shaping the country's investment conditions, henceforth affecting both inward and outward FDI flows and stocks.

Buckley and Castro (1998) applied the IDP to the Portuguese case. Their statistical analysis was updated in Appendix A using revised and new figures for inward and outward FDI (Banco de Portugal, 1998, 2000, 2004). The result is summarised in Figure 11.

FIGURE 11: THE PORTUGUESE IDP, 1965-2003



Source: *Own calculations*

The estimation confirms Buckley and Castro's (1998: p.10) suggestion that Portugal was a stage 1 country until the early 1960s. The transition to stage 2 of the IDP occurred during the 1960s, but may have not been concluded until the early 1980s. In the following fifteen years, the Portuguese IDP points to a stage 3 country, and by the middle 1990s Portugal seemed to have started the transition to stage 4.

[11] For a detailed description of the IDP, cf. Dunning and Narula (1996).

However, there were in the past several moments when Portugal seemed to be entering stage 4 of the IDP (Narula, 1996; Duran and Ubeda, 2001) always to be refuted later. Although international comparisons suggest that Portugal is now fully a stage 4 country (Duran and Ubeda, 2003), its position in the international production network seems to be far from consolidated.

To start with, the positive evolution of Portugal's NOIpc in the 1990s owes as much to the growth of outward FDI as it does to a relative stagnation of inward FDI. Furthermore, the latter became progressively more local-market oriented, in contrast with the previous decade when export-oriented manufacturing subsidiaries accounted for a substantial part of new investments in Portugal (cf. section 2). Even in industries where foreign subsidiaries have traditionally been largely export oriented, like machinery and equipment, FDI inflows were substantially re-directed towards the local market during the 1990s (Castro, 2002: p.15).

In itself, this change does not contradict the IDP. However, multinationals are far less active in Portugal than in most other developed countries. Portugal's transnationality index (UNCTAD, 2002: p.21) is only slightly above half that of Greece or Spain, and about one quarter that of Ireland. In Portugal, only 8 per cent of manufacturing employment is with foreign affiliates, the lowest of all OECD countries for which data is available but Japan (Table 1).

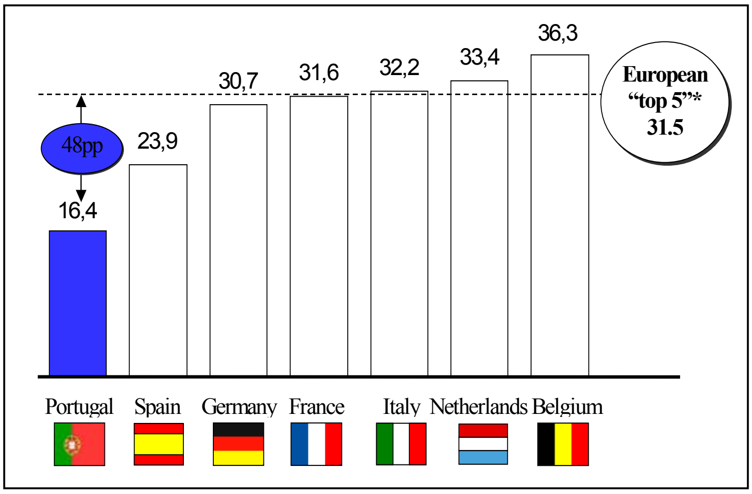
TABLE 1: EMPLOYMENT IN FOREIGN AFFILIATES IN THE MANUFACTURING SECTOR (%)

Austria	27.6	UK	18.0
Finland	12.8	US	15.8
France	22.7	Japan	1.8
Germany	16.5	Norway	13.2
Ireland	36.8	Brazil	13.4
Italy	14.0	Slovenia	14.9
Netherlands	24.1	Hong Kong	22.5
Portugal	7.9	Taiwan	10.6

Source: *UNCTAD (2002: p.16)*

Adding to this, the Portuguese economy exhibits a substantial productivity gap when compared to other European countries. According to a recent study by McKinsey (2003), Portugal's productivity is only two thirds that of Spain and half the productivity of the most developed economies in the European Union (Figure 12).

FIGURE 12: PORTUGAL'S PRODUCTIVITY GAP



Source: *McKinsey (2003).*

The reasons advanced by McKinsey (2000) included insufficient investment in capital and limited use of international 'best practices'. In the past, inward FDI was important in addressing these long standing constraints of the Portuguese economy (Castro, 2000: p.162). Despite substantial changes in recent years, it still is. McKinsey (2000: p.7) claims that the local "industrial heritage is in itself a barrier to productivity". Companies are small and have a "propensity to position themselves in low value-added activities with little knowledge of the final client". In other words, manufacturing FDI remains critical if Portugal is to expand and consolidate its international competitive position.

As for Outward FDI, the evidence is probably more favourable in terms of the characteristics of a stage 4 country. The number of firms involved remains small and investments are geographically concentrated in Brazil and Spain. However, the recent success of several of the biggest Portuguese firms in Spain, a more competitive economic environment than Brazil, can be interpreted as evidence of stronger ownership advantages. In addition, investment in other European countries is small but growing, and anecdotal evidence pouring from the press suggests a wider range of countries being sought by firms in a growing number of industries.

In effect, the evolution and characteristics of the Portuguese outward FDI is not very different from what Barry et al. (2003) described for Ireland, another late industrialising country which entered stage 4 of the IDP in the middle 1990s (Duran and Ubeda, 2001). According to Barry et al. (2003: p.343), over 70 per cent of the Irish outward investment was made in just two countries: the US and the UK. As in the case of the Portuguese foreign investment, cultural links and geographic proximity (in the case of the UK) seem to be central to the path of internationalisation in Ireland. Similar conclusions were reached by Pla (2000: p.147) for Spain.

4. CONCLUSION

The analysis of the Portuguese investment development path supports John Dunning's (1981, 1986) claim of a permanent interaction between a country's economic structure and the volume and characteristics of both inward and outward FDI.

Being one of the poorest countries in Europe, Portugal attracted little FDI until the end of the 1950s. A dramatic change in policies, in 1960, opened the country to trade and investment, embracing internationalisation as the engine for growth. The newly established foreign subsidiaries were important providers of much needed capital and a vehicle to access new markets, contributing decisively to the diversification of the country's industrial structure (Simões, 1985: p.358; Gonçalves and Guimarães, 1996: p.10).

After 1980, the prospect of joining the (then) EEC and actual membership, in 1986, marked a second important period of fast transformation of the Portuguese economy. Both longitudinal and cross-sectional estimations (Appendix A; Durand and Ubeda, 2003) confirm that this new period corresponds to stage 3 of the IDP for Portugal. Inward FDI reached unprecedented levels and was, once again, a major actor in the development of the country's industrial structure (Castro, 2000).

Since 1991 the picture is a bit less clear. Cross-section studies point to Portugal having joined at the end of the decade other late industrialising developed economies as a stage 4 country (Duran and Ubeda, 2003). However, the evidence summoned up in this paper is mixed on Portugal's true position in the IDP.

Outward FDI has probably most of the characteristics expected from a late industrialising country. Despite the impressive figures registered between 1997 and 2002, much of the investment can be attributed to a small number of big firms. Destinations are also very limited, with Brazil and Spain attracting almost 60 per cent of the investment. This complies with previous evidence of the Portuguese multinationals' limited ownership-advantages (Castro, 2000).

However, the growing importance of Spain over Brazil, and an emerging diversification to other European countries are positive signs of the evolution of those ownership advantages. Moreover, the Portuguese outward investment seems to have many of the characteristics described for FDI from Spain (Pla, 2000) or from Ireland (Barry et al., 2003), probably the two late industrialising countries closer to Portugal.

The conclusion is rather different for inward FDI. The post cold war period shows an irregular but negative evolution of Portugal's share of FDI into the European Union. That the same happened in Spain suggests that external factors are probably more important than internal ones in this trend. There is also evidence that export-oriented FDI was the most affected, which can be taken as further support for the declining competitiveness of Portugal as a location for FDI.

On the face of the new geopolitical map of Europe, this may not be surprising. However, inward FDI plays a much smaller role in the Portuguese economy than in most developed countries, as attested by the transnationality index (UNCTAD, 2002: p.21) or simply by the share of foreign affiliates in manufacturing employment (UNCTAD, 2002: p.16). The figure of 8 per cent is much smaller than in most other EU countries and one of the lowest in the OECD.

The Portuguese authorities are aware that, at this stage of the country's development, governments have a dual active role both in attracting foreign investment and in the promotion of the internationalisation of domestic firms (Dunning, 1981: p.41). The recently created investment promotion agency (API, in the Portuguese acronym) and FIEP, a public-private venture capital fund for the internationalisation of domestic firms are the most obvious instruments.

Nonetheless, much remains to be done to improve the attractiveness of Portugal as a location for FDI and the ability for Portuguese firms to compete internationally. In other words, much remains to be done to improve Portugal's competitiveness and to consolidate the country's position in 'stage 4' of the IDP, that is, as a late industrialising but developed economy. Red tape is still long and a major obstacle to business (McKinsey, 2003). The same can be said of the fiscal an tax systems (McKinsey, 2003). Created assets are limited and, in the case of human capital, compare badly with Portugal's EU partners, including most of the accession countries.

On the positive side, Portugal is now a long established democracy with a stable macroeconomic environment. The costs of adjustment to the competitive pressure of Europe's single market have already been born and local markets are mature. Several bigger firms, as well as some smaller ones, possess now sufficient ownership advantages to venture overseas where they might make up for some of the shortcomings of the home economy. Outward FDI is certainly already shaping the home economy as much as inward FDI did in the past and will continue doing in the foreseeable future.

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APPENDIX A.
ESTIMATION OF THE PORTUGUESE IDP FOR THE PERIOD 1965-2003

The model uses the functional relationship between net outward FDI per capita (NOIpc) and gross domestic product per capita (GDPpc) suggested by Buckley and Castro (1998). As argued by Buckley and Castro (1998: p.7), this fits better the IDP rational than the quadratic function traditionally used (Dunning 1981, Tolentino, 1993, Narula, 1996).

The model still leaves out stage 5 of the IDP because it does not capture the relative stabilisation of NOIpc around zero predicted by Narula (1996) for countries with very high GDPpc. Since Portugal remains a middle income country, this creates no difficulties to our estimation.

The model: $NOIpc_t = \alpha + \beta_1\ GDPpc_t^3 + \beta_2\ GDPpc_t^5 + u_t$

where: NOIpc represents net outward FDI stock per capita
GDPpc Portugal's gross domestic product per capita.

Results of the estimation (using SPSS 12.0):

Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,863(a)	,745	,731	191,9092472	,462

a Predictors: (Constant), GDPpcB5, GDPpcB3
b Dependent Variable: NOIpc

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-83,798	37,379		-2,242	,031
	GDPpcB3	-1,676	,174	-3,210	-9,607	,000
	GDPpcB5	,008	,001	2,803	8,390	,000

a Dependent Variable: NOIpc

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