88

IPRIS Viewpoints

MARCH 2012

# The EU and Emerging Markets: Portugal's Economic Partnerships in Times of Crisis

ANDRÉ MONTEIRO*
Diplomat, Portugal

Martin Schulz, the President of the European Parliament, made a reference, in a debate on the role of national Parliaments in the European Union (EU) last February, to the visit of the Portuguese Prime Minister to Angola in November 2011, detailing that, according to what he read in a newspaper, "Passos Coelho asked the Angolan government to invest more in Portugal" due to Angola's current wealth. He continued by adding "that is the future of Portugal, a decline, also a social danger for people, if we do not understand that economically, and above all with our [Europe's] stable democratic model together with our economic stability, we will only stand a chance within the framework of the EU".[1] Schulz thus questioned Europe's eagerness to look for investment and trade with non-EU countries.

Although these statements were not solely focused on Portugal – which was only used as an example for a broader European strategy of economic diplomacy – harsh reactions were heard in Portugal.[2] Martin Schulz promptly dismissed any attempt of interference in any country's internal politics, stressing that he intended to cast attention on the urgent need to increase solidarity within the EU, otherwise "Europe as such will become irrelevant, and Europe will have a decline threat".[3] As such, and given the current European economic crisis, his considerations point out some important questions regarding the profile of the economic diplomacy strategy and the economic exchanges between, on one side, EU and extra-EU countries and, on the other, regarding Portugal's attempts – particularly concerning Angola – to broaden its commercial partners. It is then important to understand if this diversification strategy is a consequence of the current economic crisis – as it was suggested by Schulz – or if it has deeper roots.

It is commonplace these days to see the development of economic ties with emerging markets (both trade of goods and services and flows of foreign investment, which should not be taken as one) as the way out for economic stagnation. Western countries consider Southeast Asia, the Gulf, Latin America, as well as large parts of sub-Saharan Africa as a market destination for their exports, but also as a source of foreign direct investment, in particular those countries rich in natural resources. Statistics can justify that option: in terms of world trade of goods, developed countries will register a 2.3% growth in 2012 and 4.3% in 2013. On the other hand, developing countries will boast a 5.1% and 7.8% growth in those

1 Pedro Carreira Garcia, "European Parliament: President considers Portugal is fated to "decline"" (*Portugal Daily View*, 9 February 2012).

2 See, for instance, Miguel Castelo-Branco, Nuno Castelo-Branco, and Samuel de Paiva Pires, "An open letter to Europe" (*Estado Sentido*, 10 February 2012).

3 "Statement by Martin Shultz, EP President on Portugal: Extracts" (European Commission, Audiovisual Services, 9 February 2012).

years.[4] Concerning GDP, Western Europe should register a 0.5% recession this year and a 0.8% growth in 2013. Non-OECD countries will reach a 5.4% growth in 2012 and, next year, it should reach 6.3%.[5]

Facing these numbers, it is normal for EU countries to try to tap into some of this impressive growth. Just to name two examples swiftly, one can point out the UK Trade & Investment corporate strategy, which states its "ambition of doubling trade with (…): Brazil, China (…) Qatar, Russia, Saudi Arabia, (…) Turkey, UAE and Vietnam" over five years.[6] UK Foreign Secretary William Hague clearly stated that his economic diplomacy strategy will focus on these countries, as well as Angola.[7] In Spain, every Foreign Affairs Minister since the transition to democracy wrote a joint opinion piece defending that Spain "is the only European country that has special ties with two of the bigger cultural and economic areas of the world", the Ibero-American and Maghreb regions, and that in both cases new "business opportunities must be politically supported".[8]

However, statistics can sometimes be misleading and exaggerate opportunities. Schulz's concerns regarding the attention given to non-EU countries seem to be overrated if one takes into consideration the following trade positions: in 2010, Spain sold more goods to Portugal, the UK to Ireland, and France to Belgium, individually, than to China.[9] Portugal sold more goods to the Spanish region of Andalucía (€797.8 million in 2011) than to Brazil, or to China, Russia, South Africa, India and Nigeria together.[10] Although these refer to trade of goods and not investment flows, usually trade and investments partners do not differ greatly.

Given these figures, one can quickly assess that, even without a thorough statistical survey, at the European level most trade is done within doors (and naturally with other OECD countries). As such, the attempt to explore new markets as a means to expand foreign trade is a natural strategy that is pursed by most EU countries. However, it would be wrong to say that the domestic EU market is being swapped by extra-European ones. This strategy naturally aims to maintain current flows of intra-EU trade (and investment) and, on the other hand, to explore the impressive growth rates and potential in these emerging markets.

Centering the discussion back to Schulz's example – Portugal's courtship of Angolan investment – it would be correct to frame it within the broader European strategy of market diversification. As such, Portugal has been seeking to explore markets where it perceives it holds some kind of comparative advantage over its fellow European countries: Lusophone Africa, Latin America, the Maghreb, China and even the Gulf.[11] However, as we have seen, Portugal's main economic partners remain in the EU: in 2011, 74.1% of Portugal's good exports were concentrated in that region. Still, Angola was Portugal's fourth client (absorbing 5.5% of all exports). The main sources of foreign direct investment from January to November 2011 were Spain (20.3% of the total invested in Portugal), France (16.8%) and the UK (16.1%) – Angola was 23rd (0.2%, 70.3 million invested, although it is important to note that some Angolan investment may be sourced from other countries and that, in 2009, Angola was the 14th largest investor, with €115.6 million applied)[12]. Angola is then a very important destination for Portuguese goods, but one can hardly understand Schulz's alarming remarks concerning Angolan investment – indeed there seems to be a great window of opportunity to encourage further Angolan investment in Portugal and no risk at all of slowing down on European investment.

These figures, in particular the impressive Portuguese exports to Angola, coupled with the important Portuguese investments made in that country, fail to reveal one fact: the increasing commercial ties with Angola are not a reaction to the current economic crisis or solely the result of economic-driven interest. They are instead the result of a long-term stable political and economic commitment, which gained an economic diplomacy angle over 25 years ago.[13] This economic diplomacy angle was built upon existing strong historical bilateral ties – not only political but also cultural, linguistic and personal ones. The affinities between the two countries are undeniable and built upon mutually beneficial processes of exchange, i.e. they are not dominated by one partner. This is evident in political forums, such as the Community of Portuguese-speaking Countries (CPLP), whose presidency is currently held by Angola.

This strong bilateral relationship framework also affects the economic domain. Portuguese businesses started to establish a foothold during in the peace periods in 1991-92 and from 1994 to 1998 (when hardly any other country explored opportunities in Angola) and registered a major growth after the 2002 final peace and consequent national reconstruction process debuted by the Angolan government, when Portuguese construction firms began to play a major role, alongside Chinese ones. Portuguese firms that have been in Angola for some time have already set up joint ventures with local partners, something very

4 See Economist Intelligence Unit, Global Forecasting Service (15 February 2012).

5 Idem.

6 "Britain Open for Business – Growth through International Trade and Investment" (UK Trade and Investment, May 2011).

7 "Hague praises "economic diplomacy"" (*Financial Times*, 21 November 2011).

8 "Una política exterior al servicio de España" (*El Mundo*, 5 February 2012), p. 16.

9 Main trade partners for each country available at the CIA World Factbook.

10 INE/AICEP/ICEX – In 2011, Portuguese exports of goods to Brazil reached €585.6M and to the selected group of countries €786.9M.

11 On these cf. Pedro Seabra and Paulo Gorjão, "Portugal and Angola: Ties that bind?" (*IPRIS Policy Brief*, No. 4, July 2010); Pedro Seabra, "Is Portugal Rediscovering Latin America?" (*IPRIS Lusophone Countries Bulletin*, No. 24, October 2011); Diogo Noivo, "Portugal and Algeria: Still looking for greater strategic depth?" (*IPRIS Viewpoints*, No. 23, November 2010); Paulo Gorjão, "Portugal and China: The rise of a new strategic geography?" (*IPRIS Viewpoints*, No. 81, January 2012); Pedro Seabra, "Portugal and the craving for sovereign funds" (*IPRIS Viewpoints*, No. 65, July 2011).

12 See INE/AICEP.

13 The political rapprochement with Angola can be precisely traced back to 1985, when Portuguese Foreign Affairs Minister Pires de Miranda travelled to Luanda. See Manuel Ennes Ferreira and Francisco Rocha Gonçalves, "Diplomacia Económica e Empresas de Bandeira" (*Relações Internacionais*, Dezembro 2009), pp. 115-133.

visible in the banking sector (BCP, BES, BPI, CGD) and construction (Mota-Engil, Edifer and Alves Ribeiro), thus contributing to the diversification of the local economy and professional training of its working force. Moreover, Angolan investments in Portugal are not new: Angolan capital, represented by national oil company Sonangol, is indirectly present in the oil company Galp since 2006 (although it recently reaffirmed its intention to acquire a direct participation[14]) and directly in the Millennium BCP bank since 2007. This historical process of business exchanges, based on relations that largely exceed economic ones, developed a strong network of interwoven interests that shape and inform the current relations between the two countries.[15] This allows Portugal to promote the reinforcement of trade and investment, and Angolans to continue investing in Portugal, despite the current European economic crisis.

One could argue that, beyond Angola and also Brazil and Mozambique, Portugal will have to work much harder and compete with other European countries to access other markets and attract investment (especially in the Gulf and Southeast Asia), although it will build on existing privileged relations.[16] For now, Portugal has attracted Chinese investment for a stake in its electric utility company, EDP, as well as Chinese and Omani investment for it energy grid company, REN. With the continuation of the privatization program, foreign investment from emerging markets will be very much welcomed, including from Angola. However, when confronted with Schulz's comments, Angolan Foreign Affairs Minister Georges Chicoti was very clear, stating that Luanda's "investments would be made elsewhere".[17] This warning is certainly valid for any other investor.

The current economic stagnation of traditional Portuguese markets has forced the country, as well as its EU companions, to place their bets on emerging markets. This bet has great visibility, usually including state visits or major business delegations. Luanda has certainly received many of these over the last couple of years, and not only from Portugal, like Angela's Merkel visit to Luanda in July 2011, among others. This high profile tends to grant these markets with unprecedented importance, thus prompting reactions like Schulz's. However, both the need to explore new markets and these high-profile visits hide two realities: first, both for the EU and Portugal, the most important market is, and will continue to be in a foreseeable future, Europe, not only due to its great dimension but also because of its demanding business environment, which is paramount to creating and sustaining competitive businesses. Second, the current attention paid to emerging markets usually rests on decade-long strategies, and is consequently not a result of the current crisis, as it is illustrated by the Portuguese-Angolan ties, which are not subjugated by economic interests and have been growing for more than two decades. Since investment and trade are not a zero-sum game, the key challenge for Portugal will be to maintain its European market and, in parallel, build on its existing relations with non-EU countries to expand economic relationships.

14 "Sonangol diz estar a negociar compra da participação da ENI na Galp" (*Público*, 24 F ebruary 2012).

15 For a more detailed analysis of Portuguese-Angolan relations, especially since 2002, see Pedro Seabra and Paulo Gorjão, "Intertwined Paths: Portugal and Rising Angola" (South African Institute of International Affairs, Occasional Paper No. 89, August 2011).

16 On the adaption of the Portuguese economic diplomacy to the current international situation see Paulo Gorjão, "Portugal's economic diplomacy: A new paradigm or old rhetoric?" (*IPRIS Viewpoints*, No. 84, January 2012).

17 "Se Portugal rejeitar o dinheiro angolano o investimento será feito noutro lado - ministro Relações Exteriores de Angola" (*Lusa*, 20 February 2012).

* The views expressed in this article do not necessarily reflect the position of the Portuguese government.

EDITOR | Paulo Gorjão
ASSISTANT EDITORS | Kai Thaler • Sean Goforth

DESIGN | Atelier Teresa Cardoso Bastos

Portuguese Institute of International Relations and Security (IPRIS)
Rua Vitorino Nemésio, 5 - 1750-306 Lisboa
PORTUGAL

http://www.ipris.org
email: ipris@ipris.org

IPRIS Viewpoints is a publication of IPRIS.
The opinions expressed are solely those of the authors and do not necessarily reflect the views of IPRIS.