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EXTERNAL DEPENDENCY, VALUE ADDED GENERATION AND STRUCTURAL CHANGE: AN INTER-INDUSTRY APPROACH

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STRUCTURAL TRANSFORMATION OF PORTUGUESE EXPORTS AND THE ROLE OF FOREIGN-OWNED FIRMS: A DESCRIPTIVE ANALYSIS FOR THE PERIOD 1995-2005

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UNDERSTANDING THE TRANSITION TO WORK FOR FIRST DEGREE UNIVERSITY GRADUATES IN PORTUGAL

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Structural transformation of Portuguese exports and the role of foreign-owned firms: A descriptive analysis for the period 1995-2005*

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resumo

Neste artigo, utilizamos uma medida de “conteúdo de rendimento das exportações de um país” recentemente proposta por Hausmann e outros (2007) para caracterizar a estrutura das exportações portuguesas, a sua evolução recente e o papel das empresas de capital maioritariamente estrangeiro nessa evolução. Os resultados sugerem que, entre 1995 e 2005, o “conteúdo de rendimento” das exportações portuguesas cresceu acima da média mundial, para o que terá contribuído um “efeito de ajustamento estrutural” superior à média, que mais do que terá compensado um desempenho abaixo da média decorrente do facto de uma parte significativa das exportações portuguesas ocorrer em sectores sujeitos a uma concorrência crescente por parte das economias emergentes. Também verificamos que o peso das exportações de “elevado” e “muito elevado” conteúdo de rendimento aumentou consideravelmente no período, com essas duas classes a explicar mais de metade do crescimento das exportações portuguesas. Analisando a presença de empresas de capital estrangeiro nos diferentes sectores, encontramos um peso acima da média nos produtos de “elevado” e “muito elevado” conteúdo de rendimento. Estes e outros resultados sugerem que as empresas de capital estrangeiro têm desempenhado um papel relevante, quer no crescimento das exportações portuguesas, quer no aumento do seu conteúdo de rendimento.

résumé / abstract

In this paper we use a recent measure of the “income level of a country’s exports” proposed by Hausmann et al. (2007) to characterize the structure of the Portuguese export basket, its recent evolution and the role of foreign-owned firms in this process. We find that between 1995 and 2005 the improvement in the “income content” of the Portuguese export basket relative to the world average was achieved through an above-average “structural transformation effect” that more than offset a below-average effect of having a significant share of products exposed to an increasing competition from emerging economies. We find that the weight of exports with “high” and “very high” income content increased considerably in this period, with these two classes explaining more than one half of the total export growth. Analysing the presence of foreign-owned firms in different industries, we find a higher than average share of foreign affiliated firms in products with “High” and “Very High” income content. These and other pieces of evidence suggest that foreign-owned firms have played a relevant role both in the growth of Portuguese exports and in the increase of their income content.

Classificação JEL: C14, F14.

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1. Introduction



In the current debate on the Portuguese economy, there is a view that the country's specialization pattern, traditionally dominated by low-skilled labour intensive products, is a major obstacle to convergence. According to this view, with the emergence of new trading partners in the international arena, the future performance of the Portuguese economy will depend critically on its ability to shift its specialization pattern towards goods with higher productivity content. In this paper, we investigate the extent to which the Portuguese economy has indeed become increasingly specialized in more sophisticated goods and whether such a shift is more evident in sectors with a high presence of foreign-owned firms.

The view that a country's economic performance depends on the specialization pattern has a long tradition in economic thinking, backing from Adam Smith and David Ricardo¹. Empirically, however, this idea has been difficult to test, because a measure of a country specialization pattern that reflects the quality of the goods being exported is not easy to define. In a recent contribution, Hausmann et al. (2007) propose a quantitative index that ranks traded goods in terms of their "implied income". This index (PRODY) is estimated as a weighted average of the per capita GDPs of the countries exporting a product, where the weights reflect the revealed comparative advantage of each country in that product. The authors then compute a measure of sophistication of a country export basket (EXPY) by calculating the export-weighted average PRODY for that country. The authors report a strong correlation between EXPY and per capita GDPs and also find that EXPY is a strong and robust predictor of subsequent economic growth, controlling for standard covariates.

In this paper, we compute a new vector of PRODY indexes, using 1995 and 2005 COMTRADE data for 1235 products and 81 countries. We then use these indexes to characterise the Portuguese export basket and to assess how well it has moved towards products with higher income content. We document that in the period from 1995 to 2005 there has been indeed an upscale move of the Portuguese specialization pattern. Though using a different methodology, our evidence accords with the recent findings of Caldeira Cabral (2008) and Amador et al. (2007) who analysed the changing pattern of the Portuguese exports, using the OECD classification of R&D intensities.

We then investigate the extent to which foreign-owned firms have played a role in this change. Portuguese governments have made significant efforts to support FDI inflows, either through financial incentives (EU funds and tax benefits) or by providing complementary infrastructure. Despite the high year-on-year volatility, FDI net flows to Portugal have a clear upward trend, from 0,43% of GDP in the 1970s to 1,03% in the 1980s, 1,085% in the 1990s and 3,65% in the period 2000-2006 (UNCTAD, 2007). An obvious question is, thus, whether such an effort has helped or impaired the process of structural transformation.

The relationship between FDI and economic performance is a topic of controversy in the economic literature. Policymakers and academics often argue that FDI can be a source of benefits to host countries, through knowledge spillovers or by creating linkages from multinationals to domestic firms². Accordingly, governments all over the world spend large amounts of resources to attract subsidiaries of multinational firms to their jurisdiction.

1 Recent contributions emphasizing the type and the characteristics of the industries wherein a country specializes include Krugman (1987), Lucas (1988), Young (1991), Matsuyama (1992), Rodriguez-Clare (1996) and Rodrik (1996).

2 Fofuri et al. (2001) discuss the spillover effects related to the flow of skilled workers trained by multinationals to other firms in the host country. Rodriguez-Clare (1996a) and Markusen and Venables (1999) examine the linkage effects between multinationals and domestic firms. Many authors remain, however, sceptical about the relationship between FDI and economic performance (e.g., Rodrik, 2007, pp.119-120).