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'New horizons for the role and production of services'

# FDI in Services in Portugal: complexities and challenges



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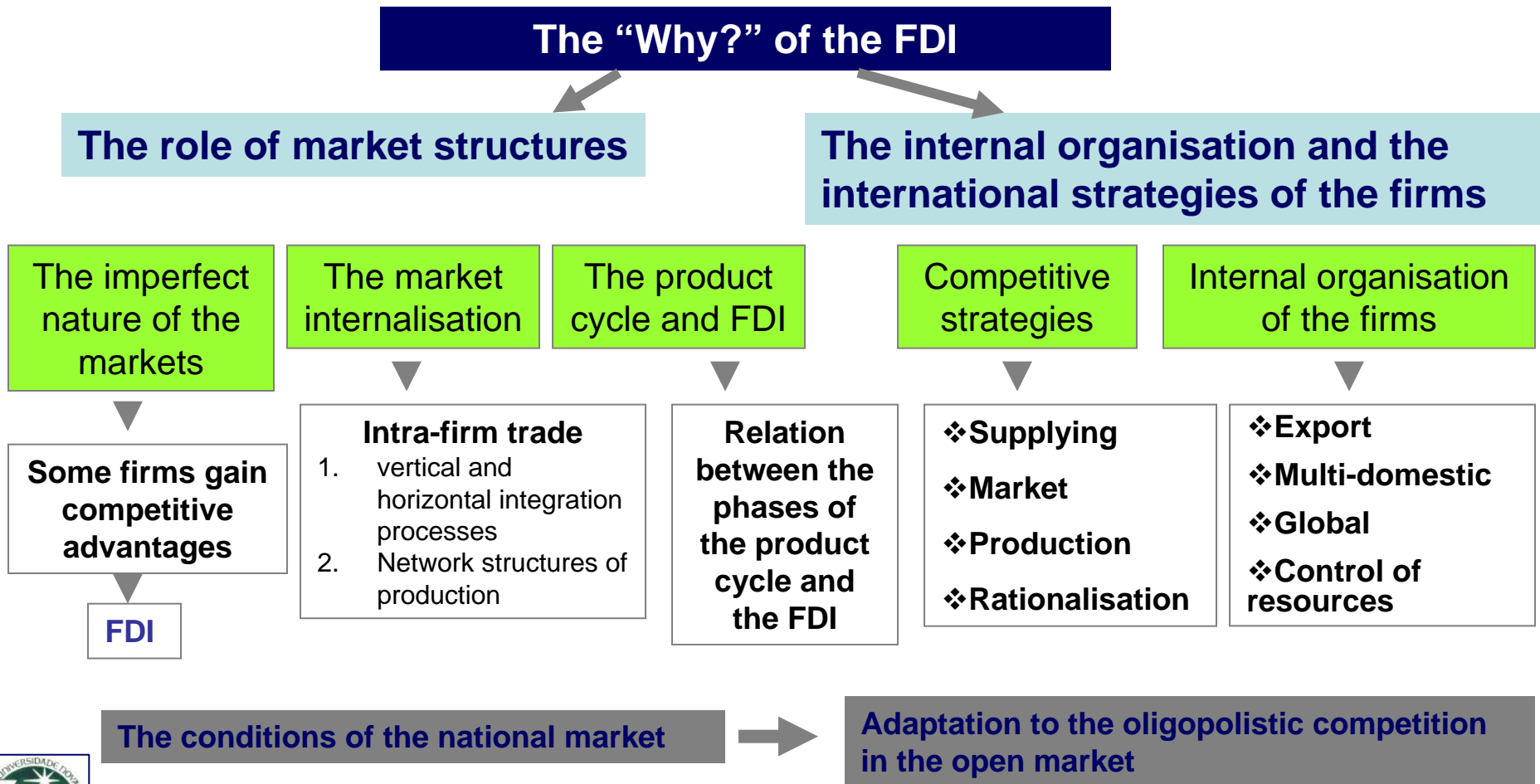
## **FDI in Services in Portugal: complexities and challenges**

- 1. Brief discussion of the FDI theories**
- 2. Determinants of FDI in Services**
- 3. FDI in Services in Portugal**
- 4. Concluding remarks**

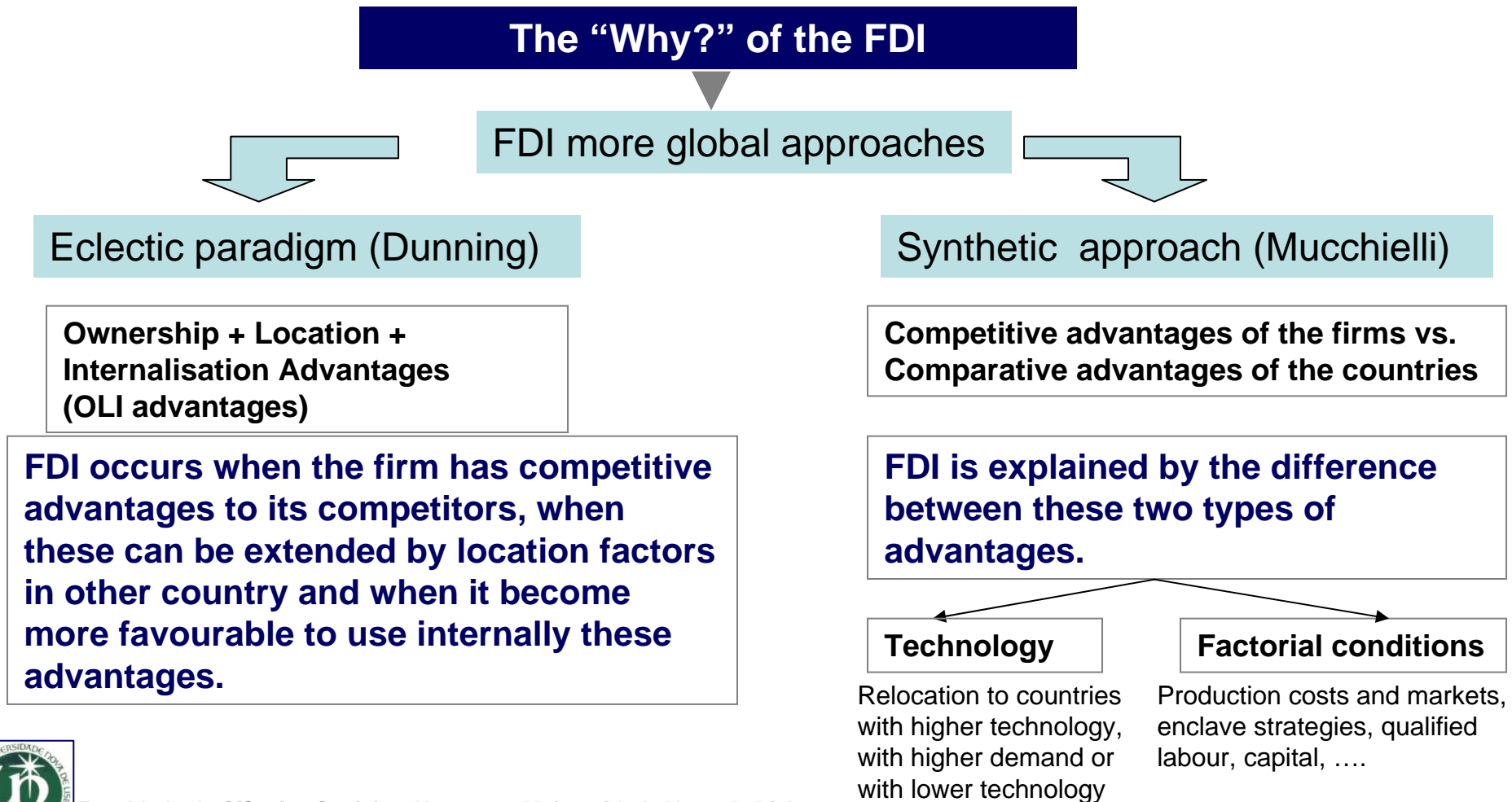
## 1. Brief discussion of the FDI theories

- **Before 80's:** Little role of spatial dimension; **non territorial approaches**; application of the classic location theories at the international scale;
- Firms will invest abroad only if they possess the three OLI types of advantages (Dunning, 1977, 1992): **ownership, location, and internalisation**

## 1. Brief discussion of the FDI theories



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### The “Why?” of the FDI

#### A “territorial” approach

The characteristics of the territory are important to understand the type of investment

Classical factors:  
Labour costs and qualification;  
the market size;  
the infrastructures

New conditions:  
Potential of innovation;  
social and economic  
regulation; institutional and  
inter-firm cooperation;  
international insertion

The “territorialization” of the firms

How can some types of territorial organisation stimulate the emergence of new factors of international competitiveness?

The transformation of specific territorial advantages in firm advantages

## 2. Determinants of FDI in Services

### (1) The growth of FDI in services

- Today, Services is the most important sector for FDI;
- Between 1990 and 2002:
  - Services grew faster than other sectors (UNCTAD 2004);
  - FDI in Services is dominated by developed countries;
  - The growth on FDI in Services was more important among developing countries ;
  - Finance and trading activities decline in Services FDI and new industries begun to emerge (business activities, communications, electricity, gas and water,...)

## 2. Determinants of FDI in Services

### (2) Main reasons for the rapid growth of FDI in Services:

- Services are more and more important in the economies;
- Privatization of public utilities;
- Cross border investment (M&A) in the telecommunications, banking, water supply, ...);
- Importance of offshore and outsourcing of services to low cost locations;
- The development of IC Technologies, mainly internet.

## 2. Determinants of FDI in Services

### (3) Distinct characteristics of the Services Sector with respect to FDI:

- More restrictive (vis-à-vis manufacturing);
- The need to adapt services to the local responsiveness could be greater than in the manufacturing sector;
- Some services are location bounded (non tradable; require face to face contact, ...)
- Lack of technological specification and legal protection (vis-à-vis goods production).

### 3. FDI in Services in Portugal

**FOREIGN DIRECT INVESTMENT IN PORTUGAL, by economic sector of the resident company (1996-2007)- 1000€**

	Credit	%	Debit	%	Balance	Balance in % of credit
<b>PRIMARY</b>	1259631	0,5	975573	0,5	284058	22,6
<b>MANUFACTURING</b>	91543059	34,7	89336892	41,3	2206167	2,4
<b>SERVICES</b>	170507952	64,7	125860929	58,2	44647023	26,2
<b>Total</b>	<b>263310630</b>	<b>100,0</b>	<b>216173382</b>	<b>100,0</b>	<b>47137248</b>	<b>17,9</b>

Source: Banco de Portugal.

**Services is the main receptor of FDI in Portugal – Credit (64,7%); Debit - 58,2%**

Main Reasons:

“terciarisation” process; liberalisation of regulated activities; advance in ICTs; new services (information and knowledge); M&As; ...

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### 3. FDI in Services in Portugal

**FOREIGN DIRECT INVESTMENT IN PORTUGAL, by economic activity of the resident company (1996-2007)- 1000€**

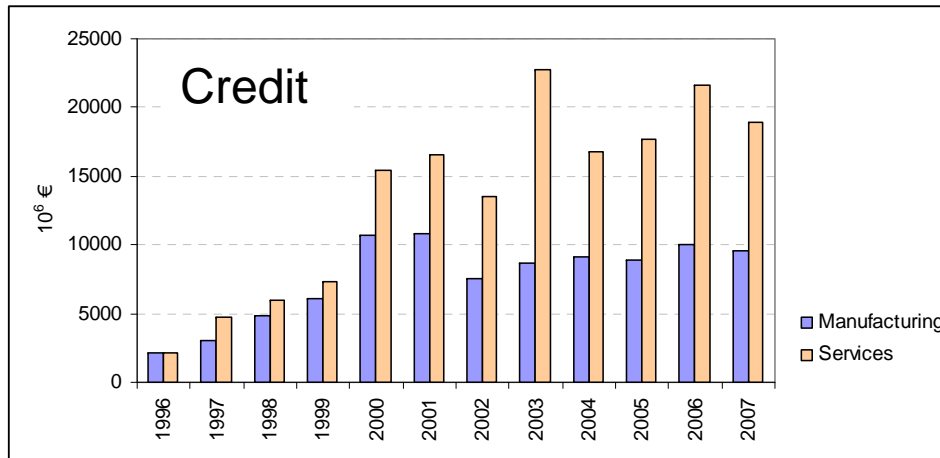
	Credit	%	Debit	%	Balance	Balance in % of credit
Agriculture, hunting, forestry and fishing mining and quarrying	1259631	0,5	975573	0,5	284058	22,6
Manufacturing and Production and distribution of electricity, gas and water	88528491	33,6	87371012	40,4	1157479	1,3
Construction	3014568	1,1	1965880	0,9	1048688	34,8
Wholesale and retail trade, repairs, hotels and restaurants	67172863	25,5	65851441	30,5	1321422	2,0
Transports, storage and communications	9141136	3,5	6367663	2,9	2773473	30,3
Financial and Monetary intermediation	18535796	7,0	11400127	5,3	7135669	38,5
Real estate, rentals and business activities	68490380	26,0	39782961	18,4	28707419	41,9
Other activities	7167777	2,7	2458737	1,1	4709040	65,7
<b>Total</b>	<b>263310630</b>	<b>100,0</b>	<b>216173382</b>	<b>100,0</b>	<b>47137248</b>	<b>17,9</b>

Source: Banco de Portugal.

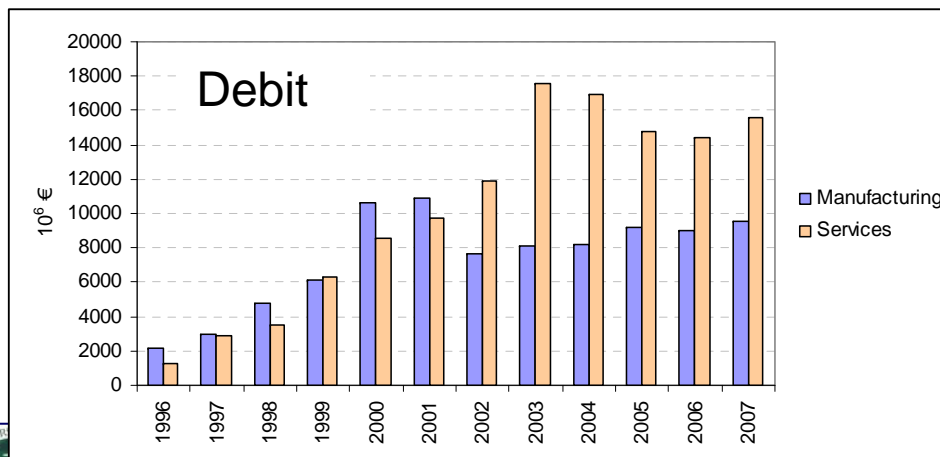


### 3. FDI in Services in Portugal

#### FOREIGN DIRECT INVESTMENT IN PORTUGAL, in Manufacturing and Services (1996-2007)- 10<sup>6</sup>€



Credit values are higher in services than in manufacturing, mainly after 2000

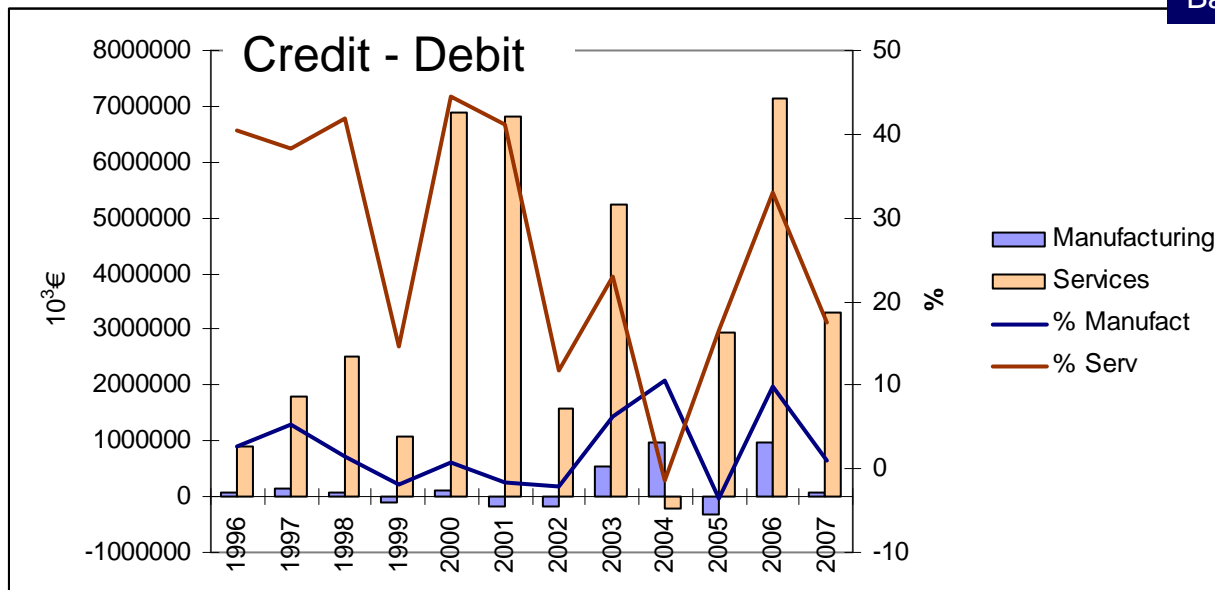


Debit values before 2001 are higher in manufacturing; in the last phase services dominate.

Source: Banco de Portugal.

## 3. FDI in Services in Portugal

**FOREIGN DIRECT INVESTMENT IN PORTUGAL, in Manufacturing and services (1996-2007)- 10<sup>3</sup>€**



**Balance/credit in Manufacturing and Services**

	% Manuf	% Services
1996	2,7	40,6
1997	5,3	38,4
1998	1,5	41,9
1999	-1,9	14,7
2000	0,9	44,5
2001	-1,5	41,2
2002	-2,2	11,8
2003	6,2	23,0
2004	10,5	-1,3
2005	-3,6	16,6
2006	9,8	33,1
2007	1,0	17,5

Source: Banco de Portugal.

Net values are clearly more important in Services. After 2000 we have large investment in services (banking; telecommunications, real estate activities, retailing,...)

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### 3. FDI in Services in Portugal

#### FOREIGN DIRECT INVESTMENT IN PORTUGAL in Services (1996-2007)- 1000€

	Credit	%	Debit	%	Balance	Balance /credit (%)
Wholesale and retail trade, repairs, hotels and restaurants	67172863	38,9	65851441	50,7	1321422	2,0
Transports, storage and communications	9141136	5,3	6367663	4,9	2773473	30,3
Financial and Monetary intermediation	18535796	10,7	11400127	8,8	7135669	38,5
Real estate, rentals and business activities	68490380	39,7	39782961	30,7	28707419	41,9
Other activities	9141136	5,3	6367663	4,9	2773473	30,3
	<b>172481311</b>	<b>100,0</b>	<b>129769855</b>	<b>100,0</b>	<b>42711456</b>	<b>24,8</b>

Source: Banco de Portugal.

### 3. FDI in Services in Portugal

#### FOREIGN DIRECT INVESTMENT IN PORTUGAL

	Credit	%	Debit	%
PRIMARY	1259631	0,5	975573	0,5
MANUFACTURING	91543059	34,7	89336892	41,3
SERVICES	170507952	64,7	125860929	58,2
<b>Total</b>	<b>263310630</b>	<b>100,0</b>	<b>216173382</b>	<b>100,0</b>

#### PORTUGUESE DIRECT INVESTMENT ABROAD

	Credit	%	Debit	%
PRIMARY	41431	0,1	35209	0,0
MANUFACTURING	3578836	5,3	6190056	5,3
SERVICES	63933398	94,6	109629617	94,6
<b>Total</b>	<b>67553665</b>	<b>100,0</b>	<b>115854882</b>	<b>100,0</b>

Source: Banco de Portugal.

### 3. FDI in Services in Portugal

## PORTUGUESE DIRECT INVESTMENT ABROAD

	Credit	%	Debit	%
Agriculture, hunting, forestry and fishing mining and quarrying	41431	0,1	35209	0,0
Manufacturing and Production and distribution of electricity, gas and water	2399933	3,6	5182025	4,5
Construction	1178903	1,7	1008031	0,9
Wholesale and retail trade, repairs, hotels and restaurants	4238372	6,3	6371364	5,5
Transports, storage and communications	328774	0,5	589823	0,5
Financial and Monetary intermediation	9090669	13,5	14003048	12,1
Real estate, rentals and business activities	49412231	73,1	86998649	75,1
Other activities	863352	1,3	1666733	1,4
<b>Total</b>	<b>67553672</b>	<b>100,0</b>	<b>115854891</b>	<b>100,0</b>

Source: Banco de Portugal.

## 4. Concluding remarks

- FDI in Portugal was very important in the last decade, and services are the main sector of investment;
- The main reasons to FDI in services in Portugal are:
  - the previous low development of services;
  - the privatisation of several services industries;
  - M&As; changes in policies ;
  - improvements in infrastructures and technology.
- Services is also the main sector of the Portuguese Direct Investment abroad. Real estate and business activities are the most important investment domains.