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PRIVATIZATION AND TRANSNATIONALIZATION IN PORTUGAL (1980-2005)

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Abstract

This text tries to assess the relation between the privatization and transnationalization processes in the Portuguese economy in the last two decades of the 20^{th} century and the early 21^{st} century. It concludes that the privatization process changed the Portuguese economic system from a strong State capitalism to a weakly regulated capitalism, and promoted both passive transnationalization, i. e. the penetration of foreign economic groups into the Portuguese economy, and the formation, restoration or reinforcement of Portuguese economic groups, some of which started an active transnationalization process. All these processes unfolded according to what could be expected in a European and World context, although Portuguese investments abroad presented some specificities, mainly related to the importance of the Portuguese-speaking countries, the network services and strategical alliances with Spanish enterprises.

Key words: Multinational firms; Government Policy and Regulation; Privatization

JEL classification : F23; G38; L33

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References

1. Introduction: the Portuguese public enterprise sector in 1980 and its privatization

The extensive nationalization process, which took place between 1974 and 1976, during the transition from the authoritarian regime that ruled the country until the revolution of 25 April 1974 to the democratic regime that prevailed after the enactment of the Constitution of 1976 two years later, created the largest public enterprise sector that ever existed in the Portuguese economy[1].

Article 83 of the new Constitution established the irreversibility of the direct nationalizations carried out between 1974 and 1976 and included provisions limiting the possibility of privatization of the indirectly nationalized enterprises. Law 46/77 of 8 July 1977 sought to settle the limits of the public and private sectors, guaranteeing the freedom of private enterprise (in particular, within the context of specific legislation about foreign investment), but at the same time banning it from several sectors. These were: banking (except for savings banks, agricultural credit cooperatives and parabanking companies), insurance (except for mutual insurance societies), electricity and gas production and distribution, the distribution of water for public consumption, sanitation, postal services, telegraph services, telephones, air transport, rail transport, urban public transport (except in taxis), ports, airports and arms industries, oil refining, basic petrochemical industries, iron and steel, fertilisers and cements (and also allowing the government to ban private enterprise from the tobacco and match industries, if it so wished). In the mining sector, public ownership of mines was established together with the possibility of the temporary concession of the right to their exploitation.

Thus, by 1980, a significant part of the Portuguese economy (roughly 23% of gross added value, 19% of employment and 43% of the gross fixed capital formation) was under state control under the form of public enterprises[2]. A comparison with the other national economies of the South-West of Europe shows that extensive public enterprise sectors also existed in neighbour, countries, but nowhere they were as pervasive as in Portugal.

1 On the long term evolution of the public enterprise sector, see Nunes, Bastien, Valério (2005).
2 On the public enterprise sector around 1980, see Martins, Rosa (1979).

Relative importance of public enterprises in several branches

branch	France	Italy	Spain	Portugal
air transportation	S	S	S	S
banking	M	S	M	S
electricity	S	S	M	S
iron and steel	S	S	S	S
oil	M	S	M	S
railroads	S	S	S	S
telecommunication	S	S	S	S
television	M	M	M	S
tobacco	S	S	S	S
urban transportation	S	S	S	S
water supply	P	S	S	S

Source: Goldstein, 1999 and authors' elaboration

Key: S – State owned or dominated; M – mixed; P – private owned or controlled

At the beginning of the 1980s, however, the political climate in relation to the public enterprise sector began to change in the world in general and in Portugal in particular. This resulted in new laws establishing the limits of the public and private sectors, successively more open to private enterprise[3].

At the end of the 1980s and thereafter, the agenda ceased to be simply a question of reducing the number of sectors reserved exclusively for public enterprise and began to be a question of actually reprivatizing the nationalized enterprises. Portugal's accession to the European Communities in 1986 was certainly not unrelated to this turnaround, although there was a transitional period for the adoption of the so-called *acquis communautaire* [Community patrimony] originally envisaged to last until 1995 (the end of this period was later brought forward to 1993).

The constitutional revision brought about by the Constitutional Law 1/89 of 8 July 1989 introduced profound changes to the former Article 83 (now Article 85) of the Constitution, providing for "The reprivatization of the ownership or the right to exploit means of production and other assets

3 Nowadays, Law 88-A/97 of 25 July 1997 restricts sectors from which private enterprise is banned to the distribution of water for public consumption, sanitation, postal services, railway transport and ports, although opening up the possibility of the concession of such activities to private enterprise under public regulation. Moreover, it establishes a special restrictive regime for the arms industry.

nationalized after 25 April 1974", "under the terms of a framework law approved by an absolute majority of the members of parliament".

This framework law was Law 11/90 of 5 April 1990. According to this law, public enterprises could be transformed into joint-stock companies after a prior independent valuation had been carried out and could be privatized through the sale of shares or capital increases effected by means of a public request for tenders, a public offer for sale, a public subscription, a restricted request for tenders or a direct sale. Whatever the case, it was established that part of the capital to be privatized would be reserved for emigrants, small subscribers and workers of the company itself. The possibility was also established that restrictions could be placed on the purchase of shares by foreigners. A framework was therefore established whereby enterprises could be handed to Portuguese or foreign economic groups, in combination with a scheme of popular capitalism.

During the following fifteen years, nearly 200 operations were undertaken for the sale of nearly 150 firms. This process did not follow any general plan. It rather tried to profit from market opportunities. This seems in accordance with the usual scheme in European countries. Most of the firms were sold without much concern for the future of their activity, which was clearly not considered as involving any public interest. In some cases, schemes such as residual public participations or golden shares were established, so that the Portuguese government retained some control of their destiny. In many cases, privatization was not undertaken, either because of strategical reasons, or because of the difficult financial situation of the firms (which were, nevertheless, maintained, because they were considered of public interest). As a consequence, the public enterprises of the sectors of beer, tobacco, iron and steel, maritime and road transport, and telecommunications were completely privatized. The public enterprises of the sectors of banking, insurance, the production, transport and distribution of electricity and gas, cellulose and paper pulp, cement, oil refining, the chemical industry, shipbuilding and repairing, arms industries and the media were partially privatized. The public enterprises of the sectors of distribution of water for public consumption, sanitation, air transport, rail transport, urban public transport, ports, airports and postal services remained under public ownership.[4]

2. Privatization and transnationalization: a general view

The privatization process promoted transnationalization in two ways:

a) Passive transnationalization, that is to say the penetration of foreign economic groups into the Portuguese economy. This happened either by direct purchase of privatized firms, or by second

4 On the privatization process, see GAFEEP (1995), Vilar et allii (1998) and DGEP (1999).

hand purchase from Portuguese entrepreneurs seeking to cash the surplus value of the firms they had bought from the government. In some cases, the Portuguese government promoted the formation of groups of core owners involving alliances of Portuguese capitalists and foreign strategical partners.

b) Active transnationalization, that is to say the penetration of Portuguese economic groups into foreign economies. This happened by means of the formation, restoration or reinforcement of Portuguese economic groups, strong enough to start a transnationalization process. In some cases, active transnationalization was made by enterprises that remained in the hands of the government.

Sections 3 and 4 will review the main aspects and cases of passive and active transnationalization in the Portuguese economy, respectively. The cases of privatization that did not give rise to significant transnationalization (that is to say, where Portuguese groups bought the firms and did not engage in active transnationalization) will not be dealt with. Of course, passive and active transnationalization often mingled in the same sector and even the same firm. Each case will be considered either in section 3 or in section 4 according to the relative importance of passive and active transnationalization elements present in each particular sector or firm.

3. Foreign capital in the Portuguese economy

Foreign investments in the Portuguese economy date back from many centuries ago. Italian and Flemish traders, among others, participated in several ways in the financing of Portuguese discoveries and the exploitation of overseas trade from the 15th century on. Foreign capital, mainly British and French, was very important in the introduction of economic innovations, such as railroads, telephones and modern urban transportation, in Portugal in the 19th century. The Portuguese colonial empire and specific sectors in which Portugal had traditional comparative advantages (such as wine, cork and canned fish) also attracted significant foreign investments during the first half of the 20th century. These flows increased in size and diversified by sector during the third quarter of the 20th century, both because this was the golden age of Portuguese modern economic growth, and because of Portuguese participation in the process of European economic integration (at the time in the framework of the European Free Trade Association).

Foreign capital invested in Portugal was not directly disturbed by nationalizations. Thus, foreign firms that worked in Portugal in the early 1970s kept their business with more or less success during the following years. Others began to work in Portugal after the sectors previously restricted to public enterprises began to open to private initiative during the 1980s. Privatization opened new opportunities and several foreign firms profited from the occasion. In this section we will review the main situations of passive transnationalization linked to privatization. They may be divided into three groups according to their final result:

a) Successful endeavours leading to the stable presence of foreign firms in the Portuguese economy. These may be found mainly in the banking and insurance, beer, tobacco, mining and chemical industry sectors.

b) Unsuccessful endeavours leading to the closing down of the Portuguese firms involved. These may be found mainly in the shipbuilding and repairing and iron and steel sectors.

c) Dubious situations of (often unease) partnership between foreign firms, Portuguese capitalists and the Portuguese government. These may be found mainly in the energy, and air transport sectors.

Banking and insurance

Before the 1975 nationalization of the banking sector, foreign presence in this sector was restricted to three banks: London & South America, Crédit Lyonnais and Banco do Brasil. During the 1980s several other foreign banks attempted to enter the market and some even established their own retail network. The main cases were the Spanish Banco Santander and some banks that later merged as BBVA (Banco Bilbao Vizcaya Argentaria). However, privatization of nationalized banks was designed so that the main Portuguese banks would remain in Portuguese hands.

The process did not unfold as planned. The first disturbance came from the Spanish group Banesto, who attempted to acquire one of the main Portuguese banks – Banco Totta & Açores[5] – by secret use of a Portuguese intermediary (1991). Everything came out when the Spanish mother house broke in a notorious manner (1993). The Portuguese government had to be rescued by António Champalimaud, an entrepreneur owner of one of the main industrial groups of the pre-nationalizations epoch, who bought Banco Totta & Açores from Banesto, and, as a compensation, acquired two other financial institutions, one bank – Banco Pinto e Sotto Mayor – and one insurance company – Mundial-Confiança – paying a favourable price[6].

Meanwhile, Banco Central Hispano tried to penetrate the Portuguese market by means of an alliance with BCP (a new Portuguese financial group to be dealt with below in section 4). The merger of Banco Santander and Banco Central Hispano in the mid-1990s completely changed the situation. The new Banco Santander Central Hispano broke with the BCP group and developed a more aggressive strategy: to buy from António Champalimaud the banking – Banco Totta & Açores and Banco Pinto & Sotto Mayor – and insurance – Mundial-Confiança – institutions he had acquired

5 Which had already acquired control of another bank – Crédito Predial Português.

6 It was generally believed at the time that the deal included a complementary gentlemen's agreement with two clauses: Champalimaud would withdraw his claims against the Portuguese government for indemnities related to the nationalization of his former industrial group, and promised not to sell his new acquisitions for a period of several years.

in the Banesto incident (1998)[7]. The result was fresh conflict with the Portuguese government, who blockaded the Santander-Champalimaud deal invoking the dubious control of the majority of capital in a significant banking institution it would create[8]. The conflict ended (1999) with Santander retaining Banco Totta & Açores, but disgorging Mundial-Confiança and Banco Pinto & Sotto Mayor to CGD (a State-owned Portuguese financial group to be dealt with below in section 4).

Beer

The main Portuguese beer producers were indirectly nationalized in the mid-1970s and became for a while public enterprises. During this period, they were organized into two firms: Unicer and Centralcer. Privatization proceeded with success and both firms ended up in the hands of Portuguese capitalists supported by important multinational firms of the sector, who later took over full control of the firms: Carlsberg in the case of Unicer[9]; first Bavaria, then Scotish & Newcastle in the case of Centralcer[10]. Both firms proceeded an aggressive expansion policy to the mineral water and coffee branches.

Tobacco

The evolution of the Portuguese tobacco sector was similar to the evolution of the beer sector. The main Portuguese tobacco producer, Tabaqueira, was indirectily nationalized in the mid-1970s and became for a while a public enterprise. Privatization was also successful and the firm ended up in the hands of a Portuguese group, Mello (on which more below in this section and section 4), supported by Philip Morris, who later acquired full control of the firm.

7 António Champalimaud was willing to dilute his group into the Santander Group. It is generally believed that his strategy resulted from the idea that there was no successor capable of carrying on the leading of the group, after the assassination of his eldest son.

8 This has been interpreted as an outburst of anti-Spanish rage, but most of the story might boil down to an episode of local politics. The possible interpretation of the facts is as follows. The 1993 deal between the center-right government in power at the time and António Champalimaud had to be carried out by the socialist government that came to power in 1995, and its Minister of Finance, Sousa Franco. Although responsible for the deal, the political force now in the oposition did not refrain from reproaching to the Minister the fulfilment of the favourable conditions given to Champalimaud, as a theme of political guerrilla. Sousa Franco kept the deal faithfully and understandably became the more enraged when Champalimaud broke the gentlemen's agreement mentioned in a previous note. So, he took the easiest pretext available (dubious control of the majority of capital in a significant banking institution) to blockade the Santander-Champalimaud business. In spite of his success in reducing Portuguese public deficit to fulfil the Maastricht criteria, he was sacked (and subreptitiously made responsible for later deterioration of the financial situation of the country) so that a more pliable Minister might hammer out a new agreement with Santander and Champalimaud. In a post-script of black irony, Sousa Franco came back to active politics in 2004 to carry out a successful campaign as candidate to the European Parliament and to die of a heart attack a few days before the electoral triumph. Meanwhile, António Champalimaud had also deceased.

9 Carlsberg holds 44 % of the outstanding capital of Unicer.

10 Scotish & Newcastle holds 100 % of the outstanding capital of Centralcer.

Mining

Mining is another similar case. Most Portuguese mining activity was indirectly nationalized in the mid-1970s[11], although the government did not use the possibility open by the 1977 law mentioned above to ban private initiative from the sector. All of it was privatized, except for the exploitation of the uranium mines of Urgeiriça in the region of Beira Alta. The most important mines, the copper, tin and zinc mines of the region of Alentejo ended up being exploited by Eurozinc Mining Corporation.

Chemical industry

The chemical sector was directly nationalized in 1975 and reorganized while its main firms were public enterprises. Privatization was quite successful, the main Portuguese chemical firm – Companhia Nacional de Petroquímica – being sold to the Danish group Borealis, who later resold it to the Spanish group Repsol.

Iron and steel

The Portuguese iron and steel producer, Siderurgia Nacional, was directly nationalized in the mid-1970s. It became uncompetitive in the following decade and the privatization process included its division into three parts. The part dealing with services remained in the hands of the Portuguese government and was gradually allowed to fade out. The part dealing with billets was sold to the Spanish firm, Ferrolana Megasa. It was not successful and had to be closed down. The part dealing with slabs was sold to the Dutch enterprise Hoogovens. It ended up as a joint-venture of the British-Dutch Corus and the Brazilian Companhia Siderúrgica Nacional, and is the only part of the old Siderurgia Nacional that remains active.

Shipbuilding and repairing

The evolution of the Portuguese shipbuilding and repairing sector had many similarities with the evolution of the iron and steel sector. The Portuguese shipyards were directly nationalized in the mid-1970s, and became uncompetitive during the following decade. In this context, attempts to interest foreign firms in the partial or total acquisition completely failed. The Lisnave shipyards (in Greater Lisbon on the Tagus River) were sold back to their pre-nationalization owners, the Mello group (on which more above and below in section 4), who gave up the attempt to keep the yards active after a while[12]. They were resold (for a symbolic price) to high rank employees and closed

11 Notice that Portuguese law (according to traditional Roman law) includes mines in the public domain. It is only the right to exploitation that can be given to private entities.

12 It is interesting to notice that Lisnave was one of the first Portuguese firms to be involved in active transnationalization. This happened during the early 1970, when the firm still belonged to the Mello group, with the opening of a shipyard in

down. Any residual activity was transferred to the Setenave shipyards (in Setúbal on the Sado River), which were also on the verge of closing. However, they ended up being sold to Thyssen[13], who managed to keep the ship repairing business working. A small shipyard located in the North of the country – Viana do Castelo – remains active in public hands.

Energy

The main firms of the energy sector were directly nationalized in 1975. Reorganization of the energy sector of the Portuguese economy during the nationalization period left in place two main public enterprises – Electricidade de Portugal (EDP), a producer and distributor of electricity formed in 1976 by the merger of the previous Portuguese electricity producers and distributors, and Petrogal, a refiner and distributor of oil derivatives formed also in 1976 by the merger of the previous Portuguese oil enterprises –, together with a few branches of important foreign oil companies.

The strategy of the Portuguese government was to privatize EDP and Petrogal choosing as the core of the new owner groups Portuguese capitalists linked with important international firms of the energy sector. Meanwhile, the Portuguese government was to hold golden shares to ensure an adequate consideration of the Portuguese public interests. None of the processes went smoothly. The sluggish situation of capital markets and formal problems with European Union competition rules prevented a definitive solution until the present (2005).

The French firm Total was the first strategical partner chosen for Petrogal in the early 1990s, but it quited after heavy losses during the crisis of the mid-1990s. New strategical partners were searched in oil producing countries, but both Saudi Amrco and Angolan Sonangol failed to fulfil the hopes that existed for a while. As a consequence, a new scheme, involving the transformation of Petrogal into a new firm – GALP – potentially interested in all energy sector, especially in the gas branch, and an alliance with the Italian firm ENI, was devised. This scheme is now (late 2005) at a critical point, with ENI trying to acquire the strategical control of GALP, and the Portuguese government trying first to keep the *status quo ante*, and later to interest a Portuguese capitalist group – Amorim – to compete with ENI for control[14].

Attempts to privatize EDP came much later, around the turn of the century. As a preliminary for the privatization process, EDP was broken down into three firms: CPPE, an electricity producer, fully controlled by EDP[15]; REN, the controller of the high voltage distribution network[16]; and EDP

Bahrein. In an attempt of viabilization of Lisnave and Setenave, further mouvements of active transnationalization to ex-Portuguese colonies in Africa and the Arabian countries were planned. To no avail.

13 Thyssen holds 20 % of the outstanding capital of Lisnave.

14 As a result, when this paper was finnished, ENI and Amorim were almost at a draw, holding, respectively, 33,34 % and 32,25 % of outstanding shares, while the third shareholder, the Spanish firm Iberdrola, owned only 4 %. However, few, if any, believe this is a stable situation.

15 CPPE supplies around 75 % of the electricity produced in Portugal. The second largest producer is Tejo Energia (fomerly controlled by the French EDF, now controlled by the British National Power) with a share of 10 %.

proper, an electricity distributor. The capital of EDP became widely spread, with the Spanish firms Iberdrola (5,70 %) and CajAstur (5,53 %) leading, together with the two main Portuguese financial groups, CGD (4,80 %) and BCP (5,98 %)[17].

Meanwhile, both EDP and Petrogal engaged in some movements of active transnationalization.

In the case of EDP, the main target was Brazil. EDP came to control the Empresa Bandeirantes de Energia, one of the main producers and distributors of electricity of the state of São Paulo, and Escelsa, one of the main producers and distributors of electricity of the state of Espírito Santo. It also became partner of Petrobrás in building and exploiting the hydroelectric plant of Lajeado in the state of Bahia, one of the biggest projects in the country. A second target of EDP was Spain, where it acquired Hidrocantábrico, a firm that ranks fourth in the Spanish energy market. Cape Verde, Guatemala and the Chinese Special Administrative Region of Macao played minor roles as targets.

Petrogal directed its attention mainly to African Portuguese-speaking countries, namely Cape Verde – Enacol –, Guinea-Bissau – Petromar and Petrogás –, Angola – Petrogal Angola and Agran – and Mozambique – Petrogal Moçambique and Moçacor –, and to Spain, always in the sector of oil refining and distribution. It is also trying to improve its position in crude search and extracting in Brazil[18].

Air transport

The sector of air transport also deserves a mention in this section. It is another example of privatization failure, not only because the firm directly nationalized in the mid-1970s – TAP - Transportes Aéreos Portugueses, later Air Portugal – became unprofitable, as most air companies did after the oil shocks, but also because of an unfortunate choice of strategical partners for its first international alliance. As a matter of fact, Swissair and the Qualiflyer Group, to which TAP was linked, proved even less successful than TAP itself, as the collapse of its two main companies – Swissair and Sabena – proved. TAP is now a member of the Star Alliance led by Lufthansa and engaged in an interesting effort of active transnationalization, trying to participate in a rescue operation of the Brazilian air company Varig.

16 Which in owned by the State (70 %) and EDP (30 %).
17 Which will be dealt with in section 4 below
18 On the transnationalization of Petrogal, see Cruz, Rodrigues, Hofschulz, Valadas (1999).

4. Portuguese investments abroad

As a rule, capital exports flow mainly from highly developed economies to other highly developed economies and to emerging economies. Portugal became a highly developed country only in the last quarter of the 20th century. Thus, until then, it was not a significant origin of investment abroad. The only exception that is worth mentioning are Portuguese investments in the Portuguese colonial empire between the late 19th century and the early 1970s, which were greatly harmed in the decolonization process of the mid-1970s.

The situation changed in the late 20th century. As Portugal became a highly developed country, it started to be a significant capital exporter, and often a net capital exporter since 1995. The privatization process favoured such movements in two ways: it allowed the formation of Portuguese groups, more or less linked to the government, capable of investing abroad; and it allowed Portuguese private groups to rebuild or consolidate and, thus, to become more able to perform active transnationalization movements. We shall now examine the main cases of active transnationalization, which occurred in the banking and insurance, telecommunications, highway management, cement, and pulp and paper sectors.

Banking and insurance

The financial sector provides a full range of situations concerning privatization and transnationalization. Besides foreign penetration in the Portuguese financial sector, already considered in the previous section, the following situations deserve mention:

1) The main Portuguese banking institution – Caixa Geral de Depósitos (CGD) – remained State-owned[19], and was enlarged with the acquisition of other important banking – Banco Nacional Ultramarino (the former issuing bank for the Portuguese colonial empire) – and insurance – Fidelidade, Mundial-Confiança, part of Império-Bonança – firms during the privatization process[20].

CGD engaged in a transnationalization process (partly based on previous positions held by the Banco Nacional Ultramarino), which included:

a) The development of a retail network in Spain by acquisition of several banks – Banco de Extremadura and Chase Manhattan España, later transformed into Banco Luso-Español, in 1991, and Banco Simeón in 1995. These were later merged under the name of Banco Simeón.

19 It was founded as State-owned savings bank in 1876, and remained State-owned throughout all its existence, although it underwent several transformations concerning its main characteristics. In the period under consideration, it clearly aimed at being the head of a universal financial group.

20 It should be noticed that these acquisitions were often unwarranted, being imposed by the government to solve problems which arose in different circumstances. The case of Mundial-Confiança, for instance, was already mentioned above in connection to the Santander-Champalimaud affair. Part of Império-Bonança (to be precise the life insurance part of that company) was acquired from the BCP group (on which more below) in exchange for Banco Pinto & Sotto Mayor, another unwarranted acquisition of the Santander-Champalimaud affair already mentioned.

b) The development of retail networks in ex-Portuguese colonies: Cape Verde – Banco Comercial do Atlântico and Banco Interatlântico –, São Tomé and Príncipe – Banco Internacional de São Tomé e Príncipe – and Mozambique – Banco Comercial e de Investimentos.

c) The development of small retail networks in countries of high concentration of Portuguese emigrants, mainly France – CGD France –, Luxembourg – CGD Luxemburgo – and South Africa – Mercantile Lisbon Bank.

d) The presence in the Chinese Special Administrative Region of Macao as Banco Nacional Ultramarino (which was the issuing bank for the territory until the 1980s).

e) Participation in an important Brazilian bank – Unibanco – after an unsuccessful attempt to acquire its own retail network by means of control of Banco Bandeirantes.

2) One of the main Portuguese financial groups of the pre-nationalization epoch – Espírito Santo – was restored during the privatization process in the same banking – Espírito Santo – and insurance – Tranquilidade – firms it had held before the nationalizations process of the mid-1970s.

Espírito Santo also engaged in a transnationalization process, which included:

a) The formation of a Spanish branch – Banco Espírito Santo España.

b) Participation in one important Brazilian bank – Banco Internacional de Investimento (Bradesco) – after an unsuccessful attempt to acquire its own retail network by means of control of Banco Boavista Inter Atlântico.

3) An important Portuguese financial group formed during the 1980s – Banco Comercial Português (BCP), now known as Millennium BCP – was consolidated by the acquisition of banking – Banco Português do Atlântico, Banco Mello[21] – and insurance – Império, Bonança – institutions during the privatization process. Later, Millennium BCP gave up the insurance business. Império and Bonança were merged together, their life insurance part was ceded to CGD, in exchange of control of another privatized bank – Banco Pinto & Sotto Mayor – and the rest of the company was sold to the Belgian firm Fortis in another example of passive transnationalization.

Millennium BCP was very active in transnacionalization, acquiring banking institutions in Poland – Millennium –, Greece – Nova Bank – and Turkey – Bank Europa and Site Bank –, and co-operating with Spanish banking institutions – first Banco Central Hispano, later Banco Sabadell.

4) Another important Portuguese financial group formed during the 1980s – Banco Português de Investimento (BPI) – was also consolidated by the acquisition of several banking institutions – Banco de Fomento e Exterior, Banco Borges & Irmão and Banco Fonsecas & Burnay – during the privatization process. It is now simultaneously a case of active transnationalization, mainly in Angola – Banco de Fomento Angola –, and passive transnationalization, by means of participations of the

21 Banco Mello was a second hand acquisition from the Mello group (see below).

Brazilian group Itaú (16,1 %), the Spanish groups La Caixa (16,0 %) and Santander (5,6 %) and the German group Allianz (8,8 %) in its capital.[22]

Telecommunications

Privatization of the telecommunications sector was also the basis for the formation of a significant Portuguese group – Portugal Telecom (PT) – which became engaged in active transnationalization.[23]

In Brazil, PT came to control the main mobile operator of the country in the state of São Paulo – Telesp Celular – and the main pager operator of the country – Mobile. It also acquired control of the mobile operator Global Telecom in the states of Paraná and Santa Catarina, and significant participations in other telecommunication firms, such as Companhia Riograndense de Telecomunicações (in Rio Grande do Sul). In spite of the support of three important banking institutions already mentioned – CGD, Espírito Santo and BPI – there were some financial difficulties in developing all these endeavours. This pushed PT to accept an alliance with the Spanish firm of the same sector Telefonica to handle its Brazilian investments. They are now joint (fifty/fifty) owners of Vivo, the main South American mobile operator, which operates in nineteen Brazilian states (including Acre, Amapá, Amazônia, Bahia, Espírito Santo, Goiás, Maranhão, Mato Grosso, Mato Grosso do Sul, Pará, Rio de Janeiro, Rondônia and Sergipe) and the Federal District of Brasília.[24]

In Africa, PT established operators in all Portuguese-speaking countries – Angola, Cape Verde, Guiné-Bissau, Mozambique and São Tomé and Príncipe – and also in Morocco and Kenya. In the Far East it established operators in China and Timor.

Highway management

One of the main Portuguese economic groups of the pre-nationalization epoch – Mello – attempted to come back during the privatization process to the same insurance firm it held before the nationalizations process of the mid-1970s – Império –, and to acquire another banking institution – União de Bancos Portugueses[25]. After operating for a while under the name of Banco Mello, this

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22 On the internationalization of the Portuguese banking system in general, see Machado (1999) and Cunha (2002).

23 The telecommunication sector was also a field for passive transnationalization, although unrelated to privatization. The main examples were the acquisition of the mobile phone network Telecel by Vodafone and the participation of France Telecom in another mobile network, Optimus.

24 Because of the existence of crossed participations beytween PT and (much bigger) Telefonica, PT may be considered also a case of passive transnationalization. Telefonica holds 9,58 % of the outstanding capital of PT, almost the maximum allowed by the statutes for a single owner (10 %).

25 It should be noticed that, before the nationalization process of the mid-1970s, the Mello group was mainly an industrial group, owner of the most important (chemical) Portuguese firm – Companhia União Fabril. Its financial arm was Banco Totta & Açores, which went another way during the privatization process, as already explained. The União de Bancos

(rather small) financial group was sold to BCP (see above). Together with the unfavourable evolution of the shipbuilding and repairing business (see above section 3), this pushed the Mello group into relying on some branches of the services sector (such as highways and health care), besides a handsome bundle of minority participations in other prosperous firms[26].

Brisa, a firm with mixed public and private participation formed in 1972 to build and manage Portuguese highways and later nationalized, became the main endeavour of the Mello group[27]. Its most successful initiative was linked to the electronic payment system devised for Portuguese highways, which proved a very competitive patent in international terms, allowing Brisa to become a partner of other highway managers in several countries: Italy – Autostrade (1999), Brazil – CCR (2001), and Spain – Acesa (2002).

Cement

The cement sector was directly nationalized in the mid-1970s and fully and successfully privatized between 1994 and 2001. Teixeira Duarte, a Portuguese building and public works firm became the main shareholder of the main firm, Cimpor, with the support of Lafarge (one of the largest world's cement producers) and BCP (a Portuguese financial group already treated above)[28]. The other existing firm, Secil, was bought by Semapa, a Portuguese capitalist group, which had its roots in the same firm before the nationalization process[29]. Thus, the cement sector was the basis for the formation of two Portuguese economic groups.

Cimpor engaged in active transnationalization in several countries: Spain – Corporación Noroeste – (1992), Mozambique – Cimentos de Moçambique – (1994), Morocco – Asment Temara – (1996), Brazil – Cimepar e Companhia de Cimentos do Brasil – (1997), Tunisia – Société des Ciments de Jbel Oust – (1998), Egypt – Ameriyah Cement Company – (2000) and South Africa – Natal Portland Cement – (2002). Thus, it was able to enter the top-ten of world's largest cement producers[30].

Portugueses had been formed by the merger of several small nationalized banks – Banco de Angola (the former issuing bank for Angola), Banco da Agricultura and Banco Pinto de Magalhães.

26 An interesting case of these participations was the alliance with Philip Morris for the acquisition of Tabaqueira, already mentioned above in section 3. This participation was later swaped for a participation in a food processing firm, Nutrinveste.

27 Melo holds 30,92 % of outstanding capital, followed by the Spanish highway manager Acesa (10,08 %) and the Portuguese financial group BCP (9,59 %).

28 Teixeira Duarte now holds 32,2 % of outstanding capital, while Lafarge holds 12,8 % and BCP 10 %.

29 Semapa owns 51 % of Secil.

30 On the transnationalization of Cimpor, see Santos, Nunes, Leitão (1999).

Pulp and paper

The Portuguese government acquired a dominant position in the main firms of the pulp and paper sector through direct nationalization and reestructured them to give birth to Portucel. Then, it attempted to privatize Portucel. The attempt was without success for a long time, because potential buyers mutually blockaded one another invoking juridical problems in the selling process. The firm ended up very recently in the hands of Semapa, a Portuguese capitalist group already mentioned in the context of the cement sector[31]. As a consequence, pulp and paper became more important than cement in Semapa's business mix[32].

Another important firm of the sector is Inapa, which is engaged in the distribution of paper with its main markets in the most developed countries of the European Union. It is now under joint control of the State (30 %) and BCP (21 %).

5. Conclusion: is Portugal a typical case in the privatization and transnationalization processes ?

Privatization and transnationalization were certainly very important processes in shaping the main characteristics of the Portuguese economy during the last two decades of the 20th century and the early 21st century. The following tables show that several of the largest Portuguese firms resulted from the privatization process, and most of them were envolved in active or passive transnationalization schemes.

Five largest financial firms, 2005

name	privatization	active transnationalization	passive transnationalization
CGD	State owned	Y	N
Millennium	N	Y	N
Totta	Y	N	Y
Espírito Santo	Y	Y	N
BPI	Y	Y	Y

Source: *DN Empresas*, 2005 issue and authors' elaboration

31 Semapa owns 67,1 % of Portucel.

32 The other main activity of Semapa lies in the energy sector, where it owns 89,9 % of Enersis, a firm engaged in electricity production (hydroelectricity and eoloelectricity).

Twelve largest non-financial firms, 2005

name	sector	privatization	active transnation.	passive transnation.
Petrogal	energy	Y	Y	Y
EDP	energy	Y	Y	Y
REN	energy	N	N	N
Modelo/ Continente	retail trade	N	Y	N
PT	telecommunications	Y	Y	N
BP Portugal	energy	N	N	Y
TMN	telecommunications	N	N	N
Autoeuropa	automotive	N	N	Y
Vodafone	telecommunications	N	N	Y
CPPE	energy	N	N	Y
TAP	air transport	Y	Y	Y
Gestiretalho	retail trade	N	Y	N

Source: *Público*, issue of 7 November 2005 and authors' elaboration

The privatization process in Portugal developed in line with European trends, both in its timing and in its characteristics[33]. It changed the Portuguese economic system from a strong State capitalism to weakly regulated capitalism[34]. Judged by the standards of the usual goals presented in privatization processes – increasaing economic efficiency, by means of increased competition, both among privatized firms and between private firms and those possibly remaining in public hands; fostering the activity of capital markets; raising public revenue, while reducing the government weight in the economy; and contributing to a wider share ownership – it can be assessed as rather successful, although at quite different rates concerning different goals.[35]

33 Even concerning unfavourable conditions brought about by the rigidities of the labour market and the scarcity of liquidity of the capital market in some periods.

34 This is mainly a consequence of the fact that the existence of an effective competition authority and independent regulatory bodies in sectors with natural monopolies was not designed from the beginning of the process, and had to be added as it unfolded, with the inevitable result that these institutions are still building their credibility.

35 A systematic assessment of the impact of privatization in public accounts is presented in Valério, 2004. It is widely believed that most of the shares acquired by emigrants, small subscribers and workers of the companies in special conditions were sold for cash as soon as possible and convenient, thus frustrating any program of popular capitalism.

The main characteristics of transnationalization movements related to the Portuguese economy corresponded to what might be expected according to the general characteristics of the Portuguese economy. Being an emergent economy with a not very fast growth for nearly one century (mid-19th till mid-20th century), it was not a significant origin of direct investment abroad and it attracted a significant, although not very much important amount of foreign direct investment. The definitive take-off of modern economic growth and participation in the process of European integration accelerated the inflow on foreign capital during the third quarter of the 20th century, and the nationalization process put a brake to it between the mid-1970s and the mid-1980s. Then, as Portuguese modern economic growth matured and the Portuguese economy liberalized, both capital inflows and outflows increased. As could be expected, capital inflows came mainly from big multinational companies and more or less neighbour European, and especially Spanish, firms. As also could be expected, capital outflows came mainly from the largest Portuguese economic groups and went mainly to neighbour European, and especially Spanish, endeavours.

There are, however, some specificities that deserve mention.

Concerning the privatization and passive transnationalization aspects, it is worth noticing that the Portuguese public enterprise sector was rather large and diversified when the privatization process started, mainly because of the recent date and strong ideological basis of the nationalization process of the mid-1970s. This implied that a significant number of profitable firms, especially in the industrial sector, were brought to the market, and afforded good revenue for the government and good business to the buyers.

Concerning the active transnationalization aspects, three items must be underscored:

a) There are very important capital outflows to Portuguese-speaking countries, first of all towards Brazil, but also towards ex-Portuguese colonies in Africa. This is easily explained by the reduced communication costs in establishing in these countries, which, of course, rank in attractiveness by size and degree of development[36]

b) Investment in the sector of services is roughly of the same importance as investment in the industrial sector. This can be explained not only by the terciarization of both the Portuguese economy and the World economy in the last decades of the 20th century, but especially by the fact that the main Portuguese economic groups have more often than not their core business in the service sector and stick to it in the transnationalization process[37].

c) Strategical alliances with Spanish enterprises are quite common.[38]

36 Some analyses explain the relatively low level of investment in highly developed economies as a consequence of the lack of financial leverage provided by the rather weak and fragmented Portuguese banking system and the unmature stage of Portuguese economic development.

37 In other words, horizontal integration prevailed over vertical integration.

38 On these specific characteristics of Portuguese investment abroad, see Simões (1997), Mendonça et alii (2001) and Silva et alii (2002).

The following table summarizes the active transnationalization performance of the top-ten Portuguese multinational firms.

Ten largest Portuguese multinational firms

name	sector	% of cash-flow abroad	% of work force abroad	privatized	Spanish partners	no. of countries
PT	telecommunications	29	38	Y	Y	12
EDP	energy	25	32	Y	Y	5
GALP	energy	n.a.	n.a.	Y	Y	5
SONAE	manufacturing	89	81	N	N	11
Jerónimo Martins	retail trade	30	41	N	N	1
INAPA	paper	n.a.	n.a.	N	N	9
Modelo Continente	retail trade	38	54	N	N	2
Cimpor	cemment	63	71	Y	N	9
Mota Engil	building	17	23	N	N	17
Teixeira Duarte	building	n.a.	n.a.	N	N	5

Source: *Público*, issue of 7 November 2005 and authors' elaboration

Note – Firms ranked by cash-flow abroad

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