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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.

\* A previous version of this paper was presented at the second Workshop on *Portugal and the Challenge of Globalization*, held at the Ministry of Economy and Innovation, Lisbon, November 3, 2008. The authors acknowledge Paulo Inácio, Walter Marques and Luis Florindo for helpful assistance with the data and João Amador and David Haugh for helpful comments.

## 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 Ricardo<sup>1</sup>. 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 firms<sup>2</sup>. 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).



Empirically, however, the evidence on FDI-related externalities is not free of controversy (see Keller, 2004 for a survey)<sup>3</sup>.

This paper abstracts from spillovers and other external effects of foreign-owned firms. Simply, we examine whether there has been a tendency for foreign-owned firms to operate in fast growing non-traditional and high income content export sectors, thus having a direct impact in the process of structural transformation in Portugal. Our paper adds to the literature in that it examines the relationship between foreign-owned firms and the structure of Portuguese exports by income content, crossing information on export values at the product (SITC-4 rev 2) level and on the proportion of capital with foreign affiliation at the firm level. We assess whether foreign-owned firms have contributed to improve the specialization pattern of the Portuguese economy using the PRODY index as a measure of income content.

The paper proceeds as follows. In Section 2, we provide some comparative analysis, using PRODY indexes and indexes of Revealed Comparative Advantage (RCA)<sup>4</sup> at the product level from 1995 to 2005. In Section 3 we decompose the changes in the average income content of each country's exports into a "PRODY effect" and a "structural transformation effect". In Section 4 we investigate how the composition of the Portuguese export basket has evolved in terms of classes of PRODY. In Section 5 we evaluate the extent to which the sectors that most contributed to the Portuguese export growth have a large presence of foreign-owned firms and whether the presence of foreign-owned firms is more significant in products with higher income content. Section 6 concludes.

## 2. Income content and comparative advantages

In this paper, we use the Hausmann et al. (2007) PRODY index to assess the sophistication level of products. Formally, the index is defined, for each product, as the weighted average of per capita incomes of countries exporting that product, where the weights are proportional to the country's index of Revealed Comparative Advantage in that product (details in Appendix 1). Products with high PRODY values are, by construction, those typically exported by high income countries. The implied assumption is that the presence of higher wages is stronger where comparative advantages are determined by factors other than labour cost, such as know how, technology, public infrastructures, research centres and so on.

Our calculations use international trade data at the product level (SITC-4 rev 2), from the UN-COMTRADE database, as extracted in September 2007 and per capita GDP levels (in PPP) by the International Monetary Fund, World Economic Outlook Database, April 2008. Both variables refer to 1995 and 2005. Countries for which there was no consistent data for those two years were excluded. This leaves us with 81 countries and data for 1235 products. Table 1 displays the estimated PRODY values for some products, the corresponding PRODY rank and the share in World exports, in 2005. As expected, agricultural commodities and raw materials appear at the bottom of the table.

3 In the specific case of Portugal, there is anecdotic evidence of training spillovers and quality improvement effects on domestic suppliers (OECD, 2008, pp. 86-87). However, Flores et al. (2007) found no robust evidence of intra-sectoral spillover effects, as measured by the effect of FDI on domestic firms' labour productivity. Guimarães et al. (2000), analysing the role of agglomeration effects in location decisions of establishments participated by foreign capital between 1982 and 1992, found a positive influence of industry-specific localization economies but no significant influence of foreign-specific agglomeration effects. This is suggestive of spillovers, but not necessarily related to the affiliation of capital.

4 Also known as Balassa index (Balassa, 1958). The index of revealed comparative advantage (RCA) for a given product in a given country is computed as the share of that product in the country' exports, divided by the share of the same product in world exports (see Appendix 1 for details).

**Table 1 – PRODY values for a sample of products**

Code	Commodity	PRODY 05	Rank	Share of World exports (per cent)
2933	Heterocyclic compounds with nitrogen hetero-atom(s) only	33.408	4	0.47
8411	Turbo-jets, turbo-propellers and other gas turbines	27.010	82	0.71
3004	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06)	26.024	108	2.13
8525	Transmission apparatus for radio-telephony, radio-broadcasting	24.156	196	1.89
8542	Electronic integrated circuits and microassemblies	24.047	201	2.81
9018	Instruments and appliances used in medical, surgical, dental or veterinary ...	23.486	229	0.61
8473	Parts and accessories for use with machines of heading 84.69 to 84.72	23.244	240	1.89
8703	Motor cars and other motor vehicles principally designed for the transport ...	22.951	255	5.15
8471	Automatic data processing machines and units thereof	22.355	292	2.78
8802	Other aircraft (for example, helicopters, aeroplanes); spacecraft	21.886	330	0.88
8414	Air or vacuum pumps, air or other gas compressors and fans	21.457	344	0.43
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	20.802	382	2.34
8536	Electrical apparatus for switching or protecting electrical circuits, or for ...	20.455	401	0.59
8541	Diodes, transistors and similar semiconductor devices	18.685	512	0.47
8901	Cruise ships, excursion boats, ferry-boats, cargo ships, barges and similar ...	17.586	584	0.48
2701	Coal; briquettes, ovoids and similar solid fuels manufactured from coal	17.237	610	0.44
8704	Motor vehicles for the transport of goods	16.900	624	0.87
8528	Reception apparatus for television	16.114	664	0.58
7102	Diamonds, whether or not worked, but not mounted or set	15.347	702	0.85
2709	Petroleum oils, crude	11.549	914	5.05
6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts	7.977	1069	0.46
2401	Unmanufactured tobacco; tobacco refuse	2.407	1235	0.07
801	Coconuts, Brazil nuts and cashew nuts, fresh or dried	2.230	1236	0.02
1801	Cocoa beans, whole or broken, raw or roasted	2.097	1238	0.03
5203	Cotton, carded or combed	1.414	1242	0.00
2612	Uranium or thorium ores and concentrates	1.211	1243	0.01
5304	Sisal and other textile fibres of the genus Agave, raw or processed but not ...	1.146	1244	0.00
905	Vanilla	1.075	1245	0.00

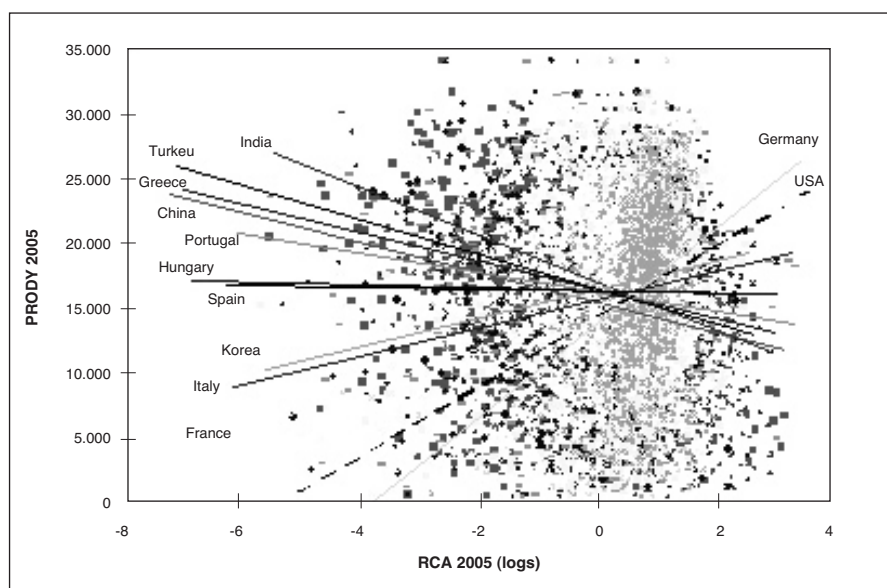
Sources: Own estimates, based on COMTRADE and IMF data.





For illustrative purposes, Figure 1 assesses the linear relationship between our estimated PRODY and RCA indexes for 12 countries, as of 2005 (China, France, Germany, Greece, Hungary, India, Italy, Korea, Portugal, Spain, Turkey and USA)<sup>5</sup>. Despite the high dispersion of the data, plotting a linear regression line helps assessing the sign of the correlation between the two indexes. When significant, a negative correlation indicates a general tendency for a country to be specialized in goods with low income content. A positive correlation, in turn, indicates a general tendency for a country to be increasingly specialized in goods with higher income content.

**Figure 1 – PRODY and Revealed Comparative Advantage in 2005 (China, France, Germany, Greece, Hungary, India, Italy, Korea, Portugal, Spain, Turkey, USA)**



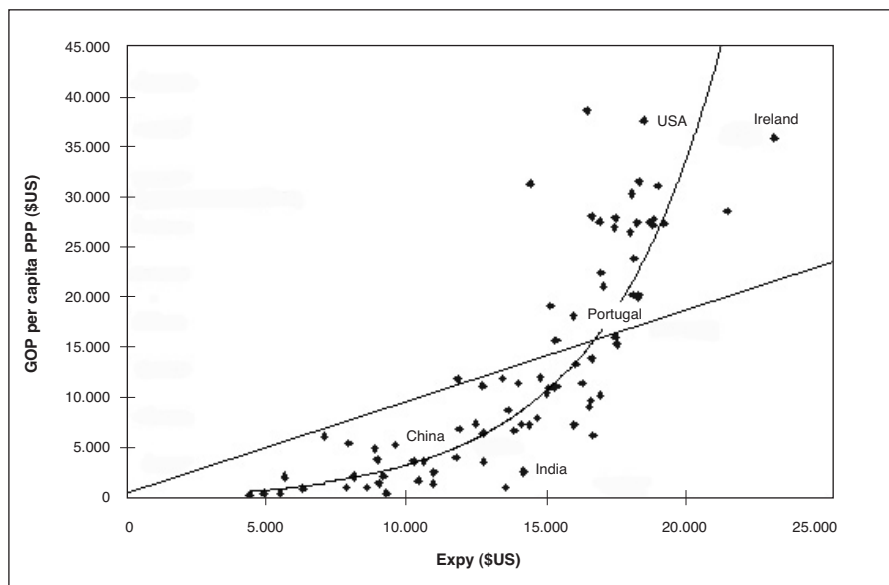
Sources: Own estimates, based on COMTRADE and IMF data.

According to the figure, by 2005 India was the country in this sub-sample with a more negative correlation between RCAs and PRODY values, followed by Turkey, Greece, and China. The Portuguese specialization pattern was more favourable than in these countries, but less than those of Hungary and Spain. On the other hand, Korea, Italy, France, USA and Germany exhibited positive correlations between RCA and PRODY values, suggesting a tendency to be more specialized in “rich country goods”.

Moving from a negative correlation towards a positive correlation involves the country becoming increasingly specialized in products with higher income content. This is what is meant by *structural transformation*.

5 The Balassa RCA index is in Logs. Null coefficients of RCA became missing values.

Figure 2 – EXPY and GDP per capita at PPP (2005, \$US)



Sources: Own estimates, based on COMTRADE and IMF data.

The data in Figure 1 is silent in respect to absolute sizes (the RCA index actually measures sizes, but relative to the world average). To account for a country total export mass, Hausmann et al. (2007) proposed the EXPY index. This is the average PRODY in a country export basket, where the weights are the share of each product in a country exports (details in Appendix 1). Figure 2 mimics Figure 3 in Hausmann et al. (2007), relating EXPY values with GDP per capita for the countries in our sample. The figure confirms the positive relation between the two variables, with GDP per capita growing exponentially with EXPY. This supports the idea that rich countries export products that tend to be exported by rich countries, while poor countries export products that tend to be exported by other poor countries. Hausmann et al. (2007) also found that EXPY is a strong and robust predictor of subsequent economic growth, controlling for standard covariates<sup>6</sup>. These findings suggest that the type of goods in which a country specializes has important implications for subsequent economic performance.

### 3. PRODY effect versus structural adjustment effect

PRODY indexes change over time, reflecting the changes in the world structure of trade and the changes in per capita GDP levels. Hence, EXPY indexes in two different points in time can either

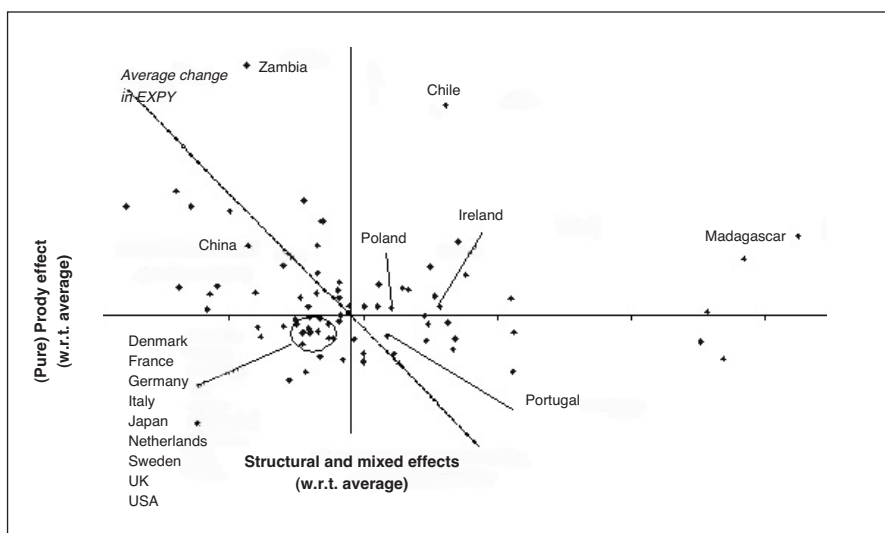
<sup>6</sup> In their central case, the estimation results imply that a 10 percent increase in EXPY boosts growth by half a percentage point (p. 15 and Table 8, in the original). Because these results are not significantly affected by the presence of other variables, such as physical capital, human capital and institutional quality, the authors concluded that EXPY exerts an *independent* force on economic growth.



be computed at current PRODY or at base-year PRODY levels. Changes in EXPY at *current* PRODYs will, therefore, reflect changes in the country's structure of exports and changes in the implied value of exports.

Figure 3 describes how the changes in EXPY at current PRODYs break down into a “pure PRODY effect” (i.e., the change in EXPY that would have been observed if the PRODY values of the different products had changed the way they did, while the export structure remained unchanged) and other effects (this includes a “pure structural transformation effect” – i.e., the value of EXPY which would have been observed had the PRODY values remained unchanged while the structure of exports evolve the way it did – and a mixed effect). The technical details and the figures for 81 countries are in Appendix 2.

**Figure 3 – Decomposing the changes in EXPY at current PRODYs between 1995 and 2005**



Sources: Own estimates, based on COMTRADE and IMF data.

The horizontal and vertical axes in Figure 3 represent the sample average “pure PRODY effect” and the sample average “pure structural and mixed effects” (respectively) underlying the changes in EXPY values between 1995 and 2005. The dashed diagonal in the figure represents the average growth in EXPY across countries (weighted by GDP per capita in PPP in 2005). Dots to the right of this line represent countries whose EXPY value has increased above the average; dots to the left of the diagonal correspond to countries whose exports have experienced a decrease in income content in relative terms.

The figure reveals that the Portuguese EXPY level has increased slightly above the average, while the reverse happen to most OECD countries (other exceptions include Australia, Canada, Ireland and Poland). Portugal is located in the lower-right quarter of the graph, meaning that the change in the income content of its exports is accounted for by an above-average structural



transformation (plus mixed) effect, which was big enough to offset a below-average PRODY effect. A below average PRODY effect means that, had the Portuguese export basket remained stuck, its average income content would have grown less than the average. The reason is that a significant fraction of the Portuguese exports basket corresponds to traditional products, where competition by emerging economies has been increasing. The above-average structural transformation effect more than offset this effect, allowing the EXPY level in Portugal to grow slightly above the average<sup>7</sup>.

The Portuguese pattern contrasts with what was observed in other OECD countries: most developed countries have registered below average PRODY and structural and mixed effects<sup>8</sup>. In contrast, Chile and Madagascar, for example, have improved significantly their EXPY values, due to both positive structural adjustment and income effects.

#### 4. Income content, export shares and export growth in Portugal

Having established the relative importance of the structural transformation effect in the case of Portugal, we now focus on this component, abstracting from changes in EXPY caused by changes in PRODY values. Hence, the analysis proceeds at constant PRODYs<sup>9</sup>. In this section and in the following, we use a database from the Portuguese National Institute of Statistics (INE) not hiding confidential positions. It is, therefore more accurate than the COMTRADE database<sup>10</sup>. The corresponding estimates of EXPY and export shares by classes of PRODY are displayed in Table 2. The table reveals that the average sophistication level of the Portuguese export basket (EXPY) has increased over time, from 15.063 USD in 1995 to 16.603 USD in 2005.

To get a sense on how this change came about, export volumes at constant PRODY values are split into 5 classes of PRODY. The 5 classes considered range from the 20% products with higher PRODY values to the 20% products with lower PRODY values (figures for 81 countries based on COMTRADE data are displayed in Appendix 3).

7 This evidence contrasts with Amador et al. (2007), who report a high persistent specialization pattern in Portugal, as compared to Spain and Ireland. However, their analysis does not take into account income contents. Weighting the exports shares with PRODY indexes, our analysis suggests that the structural adjustment effect was more significant in Portugal than in the cases of Ireland and Spain (see Appendix 2). Lebre de Freitas and Salvado (2008) discuss, on a comparative basis, how valuable the current productive experience is in preparing the country for upscale moves.

8 The analysis for Italy confirms Di Maio and Tamagni (2007). The authors found that the low performance of that country in the last two decades was mainly explained by the fact that Italy remained stuck in a number of products which PRODY values have declined, due to the entry of emerging economies in these markets. In the figure, Italy is on the lower-left corner, meaning lack of structural adjustment and specialization in products of declining value.

9 Restricting attention to 2005 PRODY values, we are no longer constrained with the need to have a consistent sample of countries for the years 1995 and 2005. Therefore, from this point forward the PRODY values are computed using a larger sample of countries (93 instead of 81). This allows the PRODY index to reflect more accurately the world structure of international trade.

10 A major drawback of COMTRADE is the presence of a sizeable category of miscellaneous products, "9999-Commodities not specified according to kind", which accounted for 2,9% of the world trade in 2005. This category cannot be ignored while computing RCA indexes, but there is no point in computing its PRODY value. Because this category differs significantly over time and across countries, its presence complicates international and inter-temporal comparisons. In the case of Portugal, a major change in the statistical treatment of confidentiality has occurred in 2005, causing a large number of products previously classified elsewhere to be moved to the class 9999. As a result, the share of exports in this category jumped from nearly zero to 8.7%.



**Table 2 – The structure of Portuguese Exports by classe of PRODY<sup>11</sup>**

PRODY Class	1995			2005			Growth of exports 1995-2005	
	Exports (10 <sup>6</sup> euro)	Share of exports	EXPY	Exports (10 <sup>6</sup> euro)	Share of exports	EXPY	% change	contribution (p.p.)
<b>very high (20% highest)</b>	1479	8	2117	3668	12	3081	148	18
<b>high</b>	4429	25	5320	9292	32	6688	110	40
<b>median</b>	2551	15	2435	4879	17	2748	91	19
<b>low</b>	5422	31	3674	7534	26	3049	39	18
<b>very low (lowest 20%)</b>	3566	20	1517	4083	14	1037	14	4
<b>Total</b>	17448	100	15063	29456	100	16603	69	100

Sources: Own calculations, based on INE and COMTRADE data.

The table shows that there has been a steady increase in the share of products with “High” and “Very High” income content (from a total weight of 33% in 1995 to 44% in 2005), at the cost of the classes “Low” and “Very Low” (from 51% to 40%). This suggests that the increase in the average sophistication of the Portuguese export basket was achieved through a re-allocation of resources from products with low and very low implied productivity to products with higher implied productivity.

Table 2 also displays the contributions of the different classes of PRODY to the growth rate of Portuguese exports between 1995 and 2005. According to these data, the growth rate of exports (at current prices) between 1995 and 2005 was of 69%. The classes growing above the average were those with “Very High” (148%), “High” (110%) and “Average” (91%) income content. In terms of contributions, the first two classes, which represented about 1/3 of the exports in the beginning of the period, accounted for 58% of total export growth. This confirms a trend towards a specialization pattern more based on “rich country goods”.

## 5. Foreign-owned firms, export growth and structural transformation in Portugal

In this section, we assess the extent to which foreign-owned firms had a role in the process of structural transformation of the Portuguese Economy, in the period from 1995 to 2005. For this purpose, we estimate the share of foreign-owned firms in the Portuguese exports, by product category, using data collected by the Portuguese Ministry of Labour and Social Solidarity on the composition of firms’ capital by nationality of owners. By “foreign-owned firms”, we mean those firms in which the proportion of capital owned by non-nationals is equal or greater than 50% (details in Appendix 4)<sup>12</sup>.

We first assess the extent to which foreign-owned firms have contributed to the growth of Portuguese exports. In Table 3, product categories are split into 5 groups of similar dimensions, according to their contribution to the growth of Portuguese exports in the period from 1995 to

11 In this and in the following tables, EXPY is calculated with 2005 PRODY values, and export shares are calculated at current prices.

12 Due to data limitations, in this section we restrict the analysis to 1.094 product categories (representing 96% of the Portuguese exports in 2005).

2005. Here, we see that the top 20% products in terms of contribution to export growth concentrate 83% of the estimated exports by foreign-owned firms in 2005. Table 3 also reveals that 12% of the estimated foreign-owned firms exports are related to products which exports have declined between 1995 and 2005. Coincidentally, this is the only group of products in which the share of foreign-owned firms in total exports has diminished (from 32% in 1995 to 25% in 2005). This is suggestive of a strong impact of foreign firms on the variation of Portuguese exports, both positively and negatively<sup>13 14</sup>.



**Table 3 – Share of foreign-owned firms in Portuguese exports by contribution to export growth**

Contribution to export growth between 1995 and 2005	number of product classes	share of exports (%)		contribution to export growth (%)	share of foreign firms in total exports (%)		share of exports by foreign firms (%)	
		1995	2005		1995	2005	1995	2005
<b>very high (20% highest)</b>	218	49	72	106	35	40	53	83
<b>high</b>	219	5	5	6	23	27	4	4
<b>median</b>	219	1	1	1	22	28	1	1
<b>low</b>	219	0	0	0	18	34	0	0
<b>very low (lowest 20%)</b>	219	42	17	-20	32	25	43	12
<b>All products</b>	1094	97	96	93	33	36	100	100

Sources: Own calculations, based on INE and GEP/MTSS, Quadros de Pessoal.

Notes: The table does not include data on 140 product classes, for which there is not data available on the presence of foreign-owned firms; the share of foreign-owned firms in each group is calculated as the weighted average of the foreign-owned firms shares in the exports in each product, with the weights given by the share of each product in the exports of the group.

We next cross information on foreign-ownership and on the change of Portuguese specialization pattern, the later evaluated by organizing the export products according to their revealed comparative advantage (RCA) in 1995 and in 2005. In Table 4 we consider four types of products: the “classics” (i.e., products in which Portugal had a revealed comparative advantage both 1995 and in 2005); the “rarities” (products in which Portugal did not have a RCA in none of the years); the “emerging” (products in which Portugal gained a RCA between 1995 and 2005); and finally the “decaying” (products in which Portugal had a RCA in 1995 but not in 2005)<sup>15</sup>.

13 Actually, the direction of causality cannot be disentangled on the basis of the available data: multinational companies also tend to be attracted by fast exporting sectors. In a formal investigation, Magalhães and Africano (2007) find a significant correlation between the stock of (inward) FDI inflows and exports, suggesting at least a causality running from FDI to export growth.

14 It should be noted that these results are influenced by the bigger scale of foreign controlled firms with respect to the nationally controlled ones. To have an idea of the disproportion, in 2005 the average turnover of foreign-controlled firms in Portugal was about 24 times bigger than the average turnover of the remaining firms (source: Quadros de Pessoal database, GEP/MTSS). This figure considers all firms, independently of their involvement in international trade. If we were to consider only exporting firms, the contrast in the scales of foreign-dominated and other firms would surely be lower. Still, if we only consider firms with 50 employees or more, the average turnover of foreign-controlled firms in Portugal in 2005 was about 3.4 times higher than the average turnover of the remaining firms.

15 We partially borrow these expressions from Boccoardo et al. (2007).

**Table 4 – Share of foreign-owned firms in Portuguese exports by RCA change**

Types of products	number of product classes	share of exports (%)		contribution to export growth (%)	share of foreign firms in total exports (%)		share of exports by foreign firms (%)	
		1995	2005		1995	2005	1995	2005
<i>classics</i>	175	67	54	35	26	26	54	41
<i>rarities</i>	682	12	15	19	33	46	12	20
<i>emerging</i>	110	10	24	45	64	52	21	36
<i>decaying</i>	51	8	2	-5	52	46	13	3
<b>All products</b>	1094	97	96	93	33	36	100	100

Sources: Own calculations, based on INE and GEP/MTSS, Quadros de Pessoal.

Notes: The table does not include data on 140 product classes, for which there is not data available on the presence of foreign-owned firms; the share of foreign-owned firms in each group is calculated as the weighted average of the foreign-owned firms shares in the exports in each product, with the weights given by the share of each product in the exports of the group; firms are considered "foreign" if the percentage of capital held by non-nationals is greater or equal to 50%.

According to Table 4, the "emerging" was the group that contributed the most to the increase in exports (45%), reflecting the role of non-traditional products to the expansion of Portuguese exports. As far as the role of foreign-owned firms is concerned, we observe that the "emerging" group is also the one in which the share of foreign-owned firms in total exports was larger, both in 1995 (64%) and in 2005 (52%). The last column in the right hand side of Table 4 examines the distribution of

**Table 5 – The role of foreign-owned firms in Portuguese exports by classes of PRODY<sup>16</sup>**

Prody Class in 2005	number of product classes	share of exports (%)		contribution to export growth (%)	share of foreign firms in total exports (%)		share of exports by foreign firms (%)	
		1995	2005		1995	2005	1995	2005
<b>very high (20% highest)</b>	217	8	10	13	34	43	9	13
<b>high</b>	235	25	31	40	50	56	40	50
<b>median</b>	216	14	16	19	33	33	14	16
<b>low</b>	215	30	25	17	25	17	23	12
<b>very low (lowest 20%)</b>	211	20	13	4	23	24	14	9
<b>All products</b>	1094	97	96	93	33	36	100	100

Sources: Own calculations, based on INE, COMTRADE and GEP/MTSS, Quadros de Pessoal.

Notes: The table does not include data on 140 product classes, for which there is not data available on the presence of foreign-owned firms; the share of foreign-owned firms in each group is calculated as the weighted average of the foreign-owned firms shares in the exports in each product, with the weights given by the share of each product in the exports of the group; firms are considered "foreign" if the percentage of capital held by non-nationals is greater or equal to 50%.

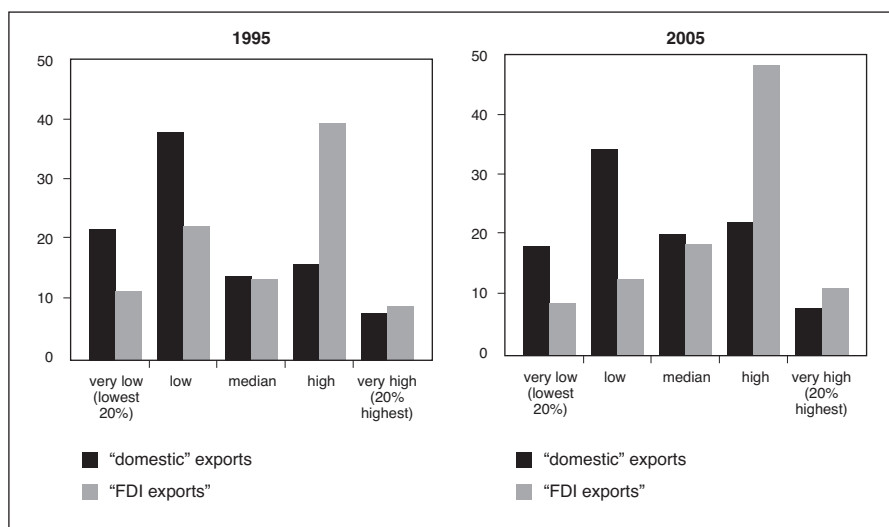
16 In this and in the following tables, the share of foreign-owned firms in each group is calculated as the weighted average of the foreign-owned firms shares in the exports in each product, with the weights given by the share of each product in the exports of the group (for further details see appendix 4).



foreign-owned firms' exports. The table reveals that the group of "classics" is dominant in foreign-owned firms' exports, but with a loosing weight (41% in 2005, as compared to 54% in 1995). The non-traditional products ("emerging" plus "rarities"), in turn, are of increasing importance and, taken together, already accounted for 56% of the foreign-commanded exports in 2005 (33% in 1995).

We now investigate the role of foreign-owned firms in the upscale move of the Portuguese specialization pattern. Table 5 analyses the presence of foreign-owned firms in exports per class of income content. According to these estimates, the share of those firms in total exports increased from 33% in 1995 to 36% in 2005. In 2005, the classes of PRODY with higher presence of foreign-owned firms were, respectively, the "High" and "Very High" (weights equal to 56% and 43%, respectively). Moreover, in that year, 63% of exports by foreign firms were accounted for by these two classes.

**Figure 4 – Share of exports of different PRODY classes**



Sources: Own calculations based on INE, COMTRADE and GEP/MTSS.

In Figure 4, we compare the distributions of exports by classes of PRODY, for domestic firms and foreign firms, in 1995 and in 2005. We observe that the distribution of foreign-owned firms – led exports is more biased towards products with higher income content than the corresponding distribution of domestic firms (a simple Chi-square test rejects the hypothesis of equal distributions, at a 1% significance level). Furthermore, while in the case of "domestic" exports the shape of the distribution is approximately the same in 1995 and in 2005 (though with an increase in the weight of products with higher income content), in the case of foreign-owned firms there is a visible change in the shape of the distribution (also confirmed by the Chi-square test). In particular, the distribution of foreign-commanded exports by class of PRODY has changed from a bi-modal to a one-modal one, with half of exports concentrated in the class of "High" PRODY value.

Finally, we assess whether the increasing role of foreign-owned firms in exports with high income content refers to traditional or to non-traditional sectors. In Table 6, we cross the information on



exports by foreign affiliates per historical status (Table 4) with the information on exports by foreign affiliates per classes of PRODY (Table 5), for the year 2005. We observe that 31% of the foreign-owned firms exports correspond to “emerging” products with “High” income content and other 11% correspond to “rarities” with “Very High” income content.

**Table 6 – Foreign-owned firms exports by evolution of RCA and PRODY class**

Type of products	Prody Class in 2005					Total
	Very low (lowest 20%)	Low	Median	High	Very high (20% highest)	
<i>classics</i>	6	11	9	14	1	41
<i>rarities</i>	0	0	2	6	11	20
<i>emerging</i>	2	1	3	31	0	36
<i>decaying</i>	0	0	2	0	0	3
<b>All products</b>	9	12	16	50	13	100

Sources: Own calculations based on INE and GEP/MTSS, Quadros de Pessoal.

Notes: The table does not include data on 140 product classes, for which there is not data available on the presence of foreign-owned firms; the share of foreign-owned firms in each group is calculated as the weighted average of the foreign-owned firms shares in the exports in each product, with the weights given by the share of each product in the exports of the group; firms are considered “foreign” if the percentage of capital held by non-nationals is greater or equal to 50%.

Table 7 illustrates the results discussed in this section by providing information on the 20 product categories that have contributed the most for the growth in Portuguese exports between 1995 and 2005 (these were responsible for 60% of the total increase in exports during this period). In the table we see that foreign-owned firms accounted for at least 2/3 of the exports in 2005 in 8 out of those 20 product categories. With two exceptions, the share of foreign-owned firms in these foreign-owned firms – dominated products was already significant in 1995. Only 3 of these 8 cases consist in “classic” exports, the others being non-traditional products. And in all but two of these products (namely, cigarrets and rubber tyres), the income content is either “High” or “Very High”. This table also illustrates the relevance of the automotive and related industries in the processes discussed above: Motor cars and Parts and accessories of motor vehicles, both classified as products with high PRODY values, are responsible for 19% of the growth observed in Portuguese exports.

**Table 7 – Top 20 products in terms of contribution to export growth**

Code	Commodity	share of exports in 2005 (%)	contribution to export growth (%)	share of foreign firms in exports in 1995 (%)	share of foreign firms in exports in 2005 (%)	Prody value in 2005	RCA class
8 703	Motor cars and other motor vehicles principally designed for the transport...	7	11	99	84	High	emerging
8 708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05.	4	8	56	66	High	emerging
8 473	Parts and accessories for use with machines of heading 84.69 to 84.72	2	5	28	n.a.	Very High	emerging
2 710	Petroleum oils, other than crude	4	5	0	0	Low	classics
9 401	Seats (other than those of heading 94.02), whether or not convertible into...	2	3	5	0	Median	classics
4 802	Uncoated paper and paperboard, of a kind used for writing	2	3	1	0	Very High	classics
8 527	Reception apparatus for radio-telephony, radio-telegraphy or radio-broadcasts...	3	3	93	98	High	classics
8 542	Electronic integrated circuits and microassemblies	2	3	80	95	Very High	rarities
6 109	T-shirts, singlets and other vests, knitted or crocheted	2	3	31	33	Very low	classics
4 011	New pneumatic tyres, of rubber	1	3	75	93	Median	classics
7 601	Unwrought aluminium	1	2	0	12	Median	emerging
2 402	Cigars, cheroots, cigarillos and cigarettes	1	2	4	85	Very low	emerging
3 004	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06)	1	2	38	36	Very High	rarities
8 481	Taps, cocks, valves and similar appliances for pipes, boiler shells	1	1	14	78	High	emerging
7 214	Other bars and rods of iron or non-alloy steel, not further worked than for...	1	1	0	0	Low	emerging
2 204	Wine of fresh grapes, including fortified wines	2	1	31	18	Low	classics
2 901	Acyclic hydrocarbons	1	1	5	73	High	classics
4 504	Agglomerated cork (with or without a binding substance)	1	1	8	8	High	classics
8 480	Molding boxes for metal foundry; mould bases; molding patterns	1	1	4	6	High	classics
4 503	Articles of natural cork	1	1	8	8	High	classics
<b>Total of 20 products contributing most to export growth</b>		<b>39</b>	<b>60</b>	<b>46</b>	<b>50</b>	<b>-</b>	<b>-</b>

Sources: Own calculations based on INE and GEP/MTSS.





## 6. Conclusions

In this paper, we document that the average income content of the Portuguese exports has grown above the world average between 1995 and 2005. This evolution is related to an above average “structural transformation effect” (that is, a shift in the specialization pattern towards products with higher income content). Given the increasing competition from emerging economies in the traditional segments, had the Portuguese export basket remained stuck, its average income content would have grown less than the world average.

Analysing in greater detail the evolution in the Portuguese export structure, we find an increasing role of the classes of products with “High” and “Very High” income content, both in terms of growth and in terms of contribution to growth. Between 1995 and 2005, these two classes accounted for 55% of the total export growth. 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 structure of Portuguese exports following the OECD classification of R&D intensities.

As far as the role of foreign-owned firms is concerned, we draw three main conclusions. First, foreign-owned firms have played a key role in the growth rate of Portuguese exports. In particular, we observe that the top 20% of products that most accounted for the growth in Portuguese exports concentrate 83% of the estimated exports by foreign firms in 2005. Second, we document that foreign-owned firms have contributed significantly to the change in the Portuguese specialization pattern. In particular, we find that the share of those firms in total exports is higher in the category of products in which Portugal recently achieved comparative advantage. Taken together, the non-traditional exports (e.g. those products in which Portugal had no revealed comparative advantage in 1995) accounted for 56% of the exports by foreign firms. Third, foreign affiliated firms have contributed to the upscale move of the Portuguese specialization pattern. For instance, we find that almost 2/3 of exports by foreign firms in Portugal in 2005 correspond to products with “High” and “Very High” income content. We also observe that the distribution of foreign-owned firms’ exports is more biased towards products with higher income content than the corresponding distribution for domestic firms and that this bias has increased over time. Taken together, this evidence suggests that foreign-owned firms have played a relevant role in the Portuguese export performance, both in terms of growth, diversification and upscale movement.

The evidence found in this paper complements those of Cabral (1996) and Magalhães and Africano (2007), who found that foreign investment has contributed to the expansion of Portuguese exports. The evidence in this paper does not, support, however, the IMF (2008, pp 97-103) claim that foreign investment did not contribute to boosting export performance or to upgrade Portuguese exports. The IMF conclusion is formulated observing that: (i) the sectors which experienced an increase in the shares of FDI since the mid-1990s were typically those with a lower growth of international demand, and (ii) rising FDI flows to “high-tech” sectors were offset by increasing “low-tech FDI”. A drawback in the IMF analysis is that the authors used a high level of aggregation and examined FDI financial flows, rather than exports by foreign affiliated firms, as we do in this paper.



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## Appendix 1: Definitions of PRODY and EXPY



The PRODY index measures the “income content” of each product, as a weighted average of per capita incomes of the countries that export it. For each product  $i$ , the PRODY index is computed as:

$$PRODY_i = \sum_{c \in C} \sigma_{ic} Y_c, \text{ where } \sigma_{ic} = \frac{RCA_{ic}}{\sum_{d \in C} RCA_{id}}, RCA_{ic} = \frac{X_{ic} / X_c}{X_i / X}, C = \{1, 2, \dots, M\},$$

where  $Y_c$  is real GDP per capita in the  $c$ -th country,  $M$  is the number of countries and the weights  $\sigma_{ic}$  normalize the Balassa (1958) index of Revealed Comparative Advantage (RCA) of the  $c$ -country with respect to all the countries exporting in the same sector.

The average income content of a country export basket, EXPY, is computed, for each country, according to:

$$EXPY_c = \sum_i S_i PRODY_i, \text{ where } S_i = \frac{X_{ic}}{X_c}, \text{ is the share of product } i \text{ in the exports of country } c.$$



## Appendix 2: Decomposing the growth of EXPY at current PRODY

Let  $E_i^t$  be the value of EXPY of country  $i$  in year  $t$ ,  $s_{ij}^t$  the share of product  $j$  in the total exports of country  $i$  in year  $t$ , and  $P_j^t$  the PRODY value of product  $j$  in year  $t$ . The change in EXPY from  $t$  to  $t+n$  can be decomposed as follows:

$$\begin{aligned}
 E_i^{t+n} - E_i^t &= \sum_j s_{ij}^{t+n} \cdot P_j^{t+n} - \sum_j s_{ij}^t \cdot P_j^t \\
 &= \sum_j (s_{ij}^{t+n} \cdot P_j^{t+n} - s_{ij}^t \cdot P_j^t) \\
 &= \sum_j [(s_{ij}^{t+n} - s_{ij}^t) \cdot P_j^{t+n} + s_{ij}^t \cdot (P_j^{t+n} - P_j^t)] \\
 &= \sum_j (s_{ij}^{t+n} - s_{ij}^t) \cdot P_j^{t+n} + \sum_j s_{ij}^t \cdot (P_j^{t+n} - P_j^t) \\
 &= \sum_j (s_{ij}^{t+n} - s_{ij}^t) \cdot P_j^t + \sum_j (s_{ij}^{t+n} \cdot P_j^{t+n} + s_{ij}^t \cdot P_j^t - s_{ij}^{t+n} \cdot P_j^t - s_{ij}^t \cdot P_j^{t+n}) + \sum_j s_{ij}^t \cdot (P_j^{t+n} - P_j^t)
 \end{aligned}$$

The first component of this expression is the pure “structural transformation effect” (it tells how the EXPY would have changed if the PRODY values of the different products did not change between 1995 and 2005), the last component gives the pure “PRODY effect” (it shows how the EXPY of a country would have changed if there had been no transformation in its export structure), and the component in the middle is the “mixed effect” (which takes into account the fact that the impact of changes in PRODY values on the country’s EXPY are amplified when they refer to products which have gained weight in the country’s export basket and vice-versa).

Dividing both sides of the equation by the initial EXPY value, the decomposition appears in growth rates. The following table displays the results in the later form for 81 countries.

	EXPY 1995	EXPY 2005	EXPY growth		Pure Prody effect	Mixed effect	Pure structural effect
			rate	rank			
Argentina	9.909	12.964	31	73	29	2	-1
Australia	11.328	16.762	48	33	42	4	2
Austria	13.656	18.599	36	67	35	2	-1
Belize	5.731	7.150	25	81	42	-7	-10
Bolivia	6.825	11.038	62	13	29	-1	34
Brazil	10.231	15.063	47	35	39	1	6
Cameroon	6.681	11.054	65	12	45	-7	27
Canada	9.200	14.537	58	19	42	6	9
Chile	9.012	17.340	92	6	70	-20	42
China	6.875	9.736	42	47	49	-3	-4
Colombia	8.835	17.240	95	4	31	12	52
Costa Rica	10.981	13.794	26	80	39	-3	-10
Cote d'Ivoire	6.963	13.918	100	3	39	5	56
Croatia	10.800	15.478	43	44	37	-1	7
Cyprus	10.540	17.699	68	11	35	7	25
Czech Rep.	12.360	18.053	46	38	38	0	7
Denmark	13.468	18.578	38	61	36	2	0
Dominica	5.680	8.071	42	46	32	-13	23
Ecuador	7.418	12.810	73	8	41	7	25
Estonia	10.810	16.380	52	29	39	-2	14
Finland	14.324	19.569	37	66	35	-1	2
France	13.077	18.493	41	48	37	3	2
Germany	14.054	19.363	38	62	36	1	1
Greece	9.828	15.363	56	23	37	9	11
Guatemala	6.419	10.376	62	14	41	-5	26
Honduras	4.365	9.321	114	2	47	-2	69
Hong Kong SAR	11.293	17.337	54	26	34	3	16
Hungary	11.332	18.071	59	16	37	0	22
Iceland	13.440	18.952	41	52	31	6	4
India	9.322	14.455	55	25	43	4	8
Ireland	14.585	23.438	61	15	39	16	6
Israel	12.411	18.550	49	31	43	6	0
Italy	12.880	17.886	39	59	36	2	1
Japan	14.547	19.575	35	70	34	1	0
Jordan	8.314	11.962	44	43	46	-12	10
Kazakhstan	9.216	14.460	57	21	56	-9	11
Kiribati	4.527	5.854	29	77	55	-60	35
Kyrgyzstan	6.968	9.237	33	72	80	-62	14
Latvia	10.023	15.236	52	28	49	-5	8
Lithuania	10.177	15.041	49	34	45	-2	5
Madagascar	4.205	9.458	125	1	50	-5	80





	EXPY 1995	EXPY 2005	EXPY growth		Pure Prody effect	Mixed effect	Pure structural effect
			rate	rank			
Malawi	2.921	4.589	57	20	38	-5	24
Malaysia	12.387	17.095	38	60	31	0	7
Maldives	7.396	12.827	73	7	49	-13	37
Malta	13.293	18.710	41	53	31	5	5
Mauritius	7.582	11.988	58	18	34	1	23
Mexico	12.152	16.998	40	54	35	0	5
Morocco	6.791	10.775	59	17	42	-6	22
Mozambique	4.692	6.528	39	58	55	-86	70
Netherlands	13.044	17.928	37	63	35	1	1
New Zealand	11.848	17.120	44	40	41	0	3
Nicaragua	5.901	8.213	39	57	57	-31	13
Niger	3.985	5.159	29	76	35	-22	17
Norway	12.673	16.532	30	75	36	-3	-3
Oman	11.195	15.379	37	64	37	-4	4
Panama	6.111	10.357	69	9	44	-14	39
Paraguay	6.713	9.031	35	71	36	-10	8
Peru	6.233	8.984	44	42	54	-12	2
Poland	10.916	16.730	53	27	39	1	13
Portugal	11.058	16.394	48	32	35	5	9
Rep. of Korea	12.787	18.280	43	45	34	0	9
Rep. of Moldova	8.213	10.547	28	78	41	-15	2
Romania	10.241	14.465	41	50	39	-2	4
Saudi Arabia	10.863	15.360	41	49	41	-1	2
Singapore	13.903	18.792	35	69	32	3	1
Slovakia	11.472	17.148	49	30	39	2	8
Slovenia	12.629	18.561	47	36	41	3	4
Spain	12.507	17.475	40	55	38	1	1
Sweden	14.143	19.332	37	65	37	1	-1
Switzerland	15.117	21.842	44	41	38	6	0
TFYR of Macedonia	8.939	12.107	35	68	42	-8	2
Thailand	11.246	16.484	47	37	32	3	11
Togo	6.153	8.039	31	74	42	-40	28
Trinidad and Tobago	8.994	14.064	56	22	52	-9	13
Tunisia	8.683	12.668	46	39	31	4	12
Turkey	9.124	14.247	56	24	33	6	17
Uganda	4.493	8.732	94	5	34	-8	68
United Kingdom	13.689	19.312	41	51	38	2	2
Uruguay	10.645	13.523	27	79	28	2	-3
USA	13.700	19.078	39	56	35	2	2
Zambia	3.376	5.701	69	10	76	-87	80

Appendix 3: Exports shares by class of PRODY

	1995						2000						2005											
	Very Low	Low	Median	High	Very High	Total	Very Low	Low	Median	High	Very High	Total	Very Low	Low	Median	High	Very High	Total						
Argentina	39	25	20	12	4	100	35	27	20	13	4	100	36.8	26.1	22.7	10.7	3.8	100						
Australia	26	20	33	14	7	100	24	18	33	15	11	20	22	33	13	13	100	17.5	18.6	42.4	11.7	9.8	100	
Austria	6	16	20	34	24	100	5	14	18	37	24	100	4.3	17.1	18.6	35.3	24.7	100						
Belize	69	27	2	3	0	100	62	36	1	1	0	100	67.8	29.4	1.3	0.7	0.7	100						
Bolivia	64	23	11	2	0	100	61	11	14	12	1	100	42.3	18.1	37.9	1.1	0.5	100						
Brazil	28	25	24	17	6	100	30	20	24	19	6	100	24	26	24.2	21.5	8.8	100						
Cameroon	38	51	10	1	0	100	24	68	8	0	0	100	28.5	64.1	6.7	0.5	0.2	100						
Canada	9	18	24	33	17	100	8	17	22	35	18	100	6.1	21.1	27.5	30.4	15.0	100						
Chile	64	22	7	6	1	100	59	20	9	11	2	100	65.6	17.9	8.9	5.3	2.3	100						
China	27	24	18	20	12	100	20	21	18	25	15	100	13.0	16.7	18.2	30.1	22.0	100						
China HongKong SAR	15	17	18	25	24	100	13	15	17	27	29	100	9.7	11.0	13.4	25.0	40.9	100						
Colombia	49	28	14	6	3	100	29	43	16	9	3	100	30.8	36.0	21.6	8.3	3.3	100						
Costa Rica	64	19	9	5	3	100	32	13	10	5	40	100	30.5	14.0	13.7	7.5	34.2	100						
Cote d'Ivoire													54.8	37.8	3.2	3.4	0.8	100						
Croatia	20	29	27	16	8	100	17	29	32	14	9	100	12.5	31.3	29.7	17.3	9.2	100						
Cyprus	32	32	21	10	6	100	42	21	21	6	10	100	40	23	16	12	9	100	7.7	27.2	13.6	13.6	37.9	100
Czech Rep.	9	21	27	30	12	100	6	16	26	40	12	100	4.5	14.5	24.1	44.3	12.7	100						
Denmark	10	17	27	20	26	100	9	19	21	21	30	100	7.7	19.6	19.7	22.5	30.6	100						
Dominica	81	10	6	2	1	100	59	25	14	2	1	100	53.3	28.6	16.2	1.0	1.0	100						
Ecuador	54	41	2	2	1	100	38	56	3	2	1	100	30.8	64.4	2.3	1.7	0.9	100						
Estonia	21	29	21	15	14	100	13	26	20	11	30	100	8.9	28.6	20.1	17.1	25.2	100						
Finland	6	15	14	24	41	100	4	14	15	25	42	100	3	13	12	21	51	100	3.7	13.5	11.5	22.1	49.2	100
France	7	17	22	35	19	100	6	15	20	35	25	100	5.4	15.9	19.2	36.0	23.6	100						
Germany*	5	11	20	41	23	100	5	10	19	41	24	100	4	9	18	43	26	100	3.8	9.4	17.3	42.7	26.8	100
Greece	35	39	17	7	3	100	32	37	18	9	4	100	25	37	18	11	10	100	19.8	32.7	20.8	13.6	13.1	100
Guatemala	66	17	10	3	0	100	56	24	13	3	4	100	59.7	20.6	11.5	3.8	4.3	100						
Honduras	86	9	3	1	0	100	72	18	7	3	0	100	61.4	23.4	8.2	4.8	2.2	100						
Hungary	16	23	29	21	11	100	7	13	19	43	18	100	4.6	12.4	19.0	42.3	21.7	100						
Iceland	46	37	12	4	1	100	49	32	12	4	2	100	43	29	21	3	3	100	38.7	27.2	20.8	6.7	6.6	100
India	48	13	27	7	5	100	44	15	26	9	6	100	37	20	25	10	8	100	27.2	26.7	26.2	12.1	7.8	100
Ireland	4	11	17	25	43	100	2	6	8	21	63	100	1.8	6.1	6.7	17.8	67.6	100						
Israel	8	11	41	14	26	100	5	7	37	15	35	100	4.1	7.0	61.6	12.6	24.7	100						
Italy	2	5	18	46	29	100	1	5	16	42	33	100	1.5	6.1	16.9	42.1	33.3	100						
Japan	42	24	11	11	11	100	29	22	25	15	10	100	43.1	24.1	16.6	7.2	9.0	100						
Jordan	27	38	23	7	4	100	18	67	12	2	1	100	14.9	74.5	8.9	1.4	0.3	100						
Kazakhstan	79	21	0	0	0	100							81.2	11.5	6.6	0.2	0.5	100						
Kyrgyzian	41	31	10	15	3	100	62	25	6	6	2	100	64.3	22.6	7.3	4.8	1.0	100						
Latvia	19	44	17	11	9	100	18	48	19	7	7	100	12.5	46.0	19.9	12.9	8.7	100						
Lithuania	15	40	26	12	7	100	18	43	22	12	5	100	10.9	44.9	23.6	15.2	5.4	100						
Madagascar	86	9	3	1	1	100	85	10	4	2	0	100	64	29	3	3	1	100	70.7	20.8	3.9	2.4	2.1	100





	1990										1995										2000										2005									
	Very Low		Low	Median	High	Very High	Total	Very Low	Low	Median	High	Very High	Total	Very Low	Low	Median	High	Very High	Total	Very Low	Low	Median	High	Very High	Total	Very Low	Low	Median	High	Very High	Total									
Malawi	95	3	1	1	0	100	93	3	2	1	0	100	93	2	3	1	0	100	92.6	3.1	2.2	1.6	0.5	100																
Malaysia	23	30	14	12	21	100	17	14	17	22	30	100	9	12	17	23	39	100	11.0	14.4	18.1	25.2	31.3	100																
Maldives							61	39	0	0	0	100	65	35	0	0	0	100	19.3	75.2	2.5	2.3	0.8	100																
Malta							13	6	42	9	31	100	7	8	7	10	68	100	5.4	4.2	56.4	20.3	13.7	100																
Mauritius							72	17	5	2	4	100	74	15	4	3	3	100	60.0	13.1	5.9	4.2	16.9	100																
Mexico	12	48	10	24	5	100	11	25	17	36	11	100	8	22	17	38	15	100	6.4	27.0	18.7	34.2	13.7	100																
Morocco							64	26	6	4	1	100							51.6	32.5	11.0	3.5	1.3	100																
Mozambique							79	12	4	4	1	100	52	27	19	1	1	100	75.8	13.5	8.3	2.1	0.3	100																
Netherlands							11	18	22	26	23	100	9	17	16	28	30	100	8.7	18.5	18.1	25.0	29.7	100																
New Zealand							11	26	27	26	10	100	10	25	28	26	12	100	8.5	24.4	29.8	24.9	12.4	100																
Nicaragua							62	20	4	7	7	100	75	17	6	1	1	100	64.8	26.3	6.4	1.5	1.0	100																
Nicaragua							90	3	2	5	0	100	78	6	5	11	1	100	88.3	2.9	2.6	5.7	0.5	100																
Niger							6	54	23	8	10	100	3	64	20	5	7	100	2.8	58.7	26.4	4.8	7.3	100																
Norway							2	93	1	3	0	100	6	82	3	8	1	100	4	85	3	7	1	100	1.9	73.2	23.2	1.3	0.4	100										
Oman							73	14	9	1	4	100	57	29	10	1	2	100	56.3	35.3	7.4	0.6	0.5	100																
Panama							78	19	3	0	0	100	81	14	3	1	1	100	69.0	21.5	7.5	1.0	1.0	100																
Paraguay							73	21	4	1	1	100	70	23	4	2	1	100	71.8	21.3	4.2	2.1	0.6	100																
Paraguay							20	24	37	14	7	100	13	20	35	24	7	100	8.6	19.9	34.1	29.3	8.0	100																
Poland							26	32	15	21	6	100	20	31	15	25	8	100	16	27	15	32	9	100	14.4	26.5	16.9	31.5	10.7	100										
Portugal							17	25	20	21	17	100	9	17	21	27	24	100	7	16	19	28	30	100	3.1	13.5	18.4	33.3	31.6	100										
Rep. of Korea							27	51	11	7	4	100	34	48	7	8	3	100	34.5	48.3	9.9	5.4	1.9	100																
Rep. of Moldova							8	43	25	21	4	100	27	35	19	11	7	100	20.2	36.7	20.6	16.8	3.7	100																
Romania							1	89	7	3	0	100	1	93	4	3	0	100	0.6	88.0	8.0	2.9	0.4	100																
Saudi Arabia							10	24	13	31	22	100	6	12	12	12	36	34	100	4	12	10	29	44	100	2.7	15.2	10.2	23.0	48.9	100									
Singapore							11	30	28	23	8	100	8	25	23	37	7	100	5.3	26.9	23.1	36.4	8.3	100																
Slovakia							9	13	31	32	15	100	6	11	32	36	16	100	4.6	11.5	28.7	38.2	17.0	100																
Slovenia							8	26	20	37	9	100	8	20	20	40	12	100	7.4	20.1	20.8	37.4	14.3	100																
Spain							3	13	14	33	37	100	2	12	14	28	43	100	2.9	14.9	14.8	29.4	38.1	100																
Sweden							4	8	18	25	44	100	3	8	17	26	46	100	2.7	8.8	12.3	19.4	56.8	100																
Switzerland							39	33	14	11	3	100	38	47	7	6	2	100	42.7	43.2	6.1	5.3	2.7	100																
TFYR of Macedonia							45	16	14	11	14	100	31	15	17	21	15	100	17.2	14.9	22.1	30.1	15.7	100																
Thailand							68	25	3	3	1	100	82	10	4	3	0	100	65.4	26.9	6.7	0.6	0.5	100																
Togo							6	67	24	2	1	100	3	62	33	1	0	100	1.6	52.1	44.6	0.9	0.8	100																
Trinidad and Tobago							53	32	6	6	2	100	48	36	6	9	2	100	38.6	38.7	7.5	12.7	2.5	100																
Tunisia							48	33	11	6	2	100	41	35	14	8	2	100	34	30	18	14	3	100	24.4	29.8	24.9	17.8	3.1	100										
Turkey							94	3	2	1	0	100	75	10	12	1	2	100	80.0	12.6	2.2	2.5	2.7	100																
Uganda							5	17	17	33	29	100	3	16	16	30	34	100	3.3	17.7	15.9	27.8	35.2	100																
United Kingdom							38	27	22	11	2	100	33	32	20	11	4	100	22.3	42.4	24.3	7.2	3.7	100																
Uruguay							10	10	16	35	30	100	7	9	15	36	34	100	6.5	9.3	16.3	35.8	32.1	100																
USA							91	5	3	1	0	100	85	9	2	2	1	100	90.2	5.7	3.4	0.4	0.3	100																
Zambia																																								

\* Former Fed. Rep. of Germany in 1990.



#### Appendix 4: Estimating the role of foreign-owned firms in exports



Although we have data on exports at the product level (including confidential positions), we do not know how much of these exports are conducted by foreign-controlled firms. In order to estimate the share of foreign-owned firms in the total exports of each product category, we used the “Quadros de Pessoal” database, which is compiled by the Portuguese Ministry of Labour and Social Solidarity. This database includes information on every firm with employed labour in Portugal, and contains a variable measuring the proportion of each firm’s capital held by non-nationals.

We start with the concordance tables between the Combined Nomenclature of goods (at the 4 digit level of desegregation) and NACE (the Classification of Economic Activities in the European Community, at the 4 digit level of desegregation) for 1995 and 2005. There is a bi-univocal relation for 84% of the CN codes, but some of the product categories have more than one corresponding NACE code, as shown in the following table:

Number of NACE codes for each CN code	CN codes	
	N.º	%
1	924	84
2	139	13
3 or more	24	3
<b>Total</b>	<b>1094</b>	<b>100</b>

Using the information in “Quadros de Pessoal”, we computed the share of foreign-controlled firms (defined as those firms in which the proportion of capital owned by non-nationals is equal or greater than 50%) in the total sales turnover of each industry. Then, the share of foreign-owned firms in the exports of each CN category was computed as the weighted average of foreign-owned firms’ shares each industry turnover, with weights given by the turnover of that industry. In those cases in which there is a bi-univocal relation between NC and NACE codes, we assume that the share of foreign-owned firms in the exports of a given product is simply the share of foreign-controlled firms in the corresponding industry (computed as above). In the other cases, the share of foreign-owned firms in the exports of each CN category was computed as the weighted average of the shares of foreign-owned firms in the turnover of each industry exporting that product, with weights given by the turnover of that industry. Formally,

$$FX_i = \sum_j a_{ij} FT_j,$$

where  $FX_i$  is the share of foreign-owned firms in the exports of product  $i$ ;  $FT_j$  is the proportion of foreign-affiliated firms’ turnover in the total turnover of industry  $j$ ; and  $a_{ij}$  is the weight of industry  $j$  in the total turnover of industries associated with the product  $i$  (according the concordance tables), i.e.,

$$a_{ij} = T_{ij} / \sum_j T_{ij},$$

$$\text{where } T_{ij} = \begin{cases} \text{turnover of industry } j & \text{if } j \text{ is associated with product } i \\ 0 & \text{otherwise.} \end{cases}$$