Analysis of Japanese Foreign Direct Investment in Portugal and its Overseas Territories

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Introduction

Through an economical and political perspective, this paper examines the trend pattern, the sector and the geographical distribution of the Japanese Foreign Direct Investment (FDI) in Portugal’s overseas territories (or Provinces) from 1958 until 1974, and in its mainland from 1960 until 1999.

Studies of the Japanese FDI in Portugal are practically non-existent. As far as it is known, only one (the industrial development of the Aveiro–Viseu region in 1992) has been carried out. However, this study was aimed to formulate a comprehensive plan with a view to vitalize and modernize the Portuguese national economy having in mind the attraction of Japanese investment mainly after Portugal’s access to the EEC in 1986. This paper studies the investment trends such as the level of interest and the desire of the Japanese companies to invest in Portugal after the second World War until 1999. Having this in mind, this paper provides a historical and a statistical support with up dated data regarding to the present situation of the Japanese FDI inflows in Portugal.

The analysis of the Japanese FDI in the Portuguese former colonies and in its mainland is based on original documents available at the Ministry of Foreign Affairs in Portugal. Regarding to the Japanese investment from 1975 until 1999, the most important resources for this paper were as follows: Portuguese Foreign Trade and Investment Institute (ICEP–Investimento, Comércio e Turismo de Portugal), Japan External Trade Organization (JETRO), OECD records as well as a study made by the Japan International Cooperation Agency as a request of the Portuguese government in which the investments trends of Japanese companies with regard to Portugal were examined.

The paper outline is the following one: section 1 discusses the motives for Japanese investment in Portuguese overseas territories from 1958 until 1974, as a trade and FDI destiny. Section 2 analyses the importance of the EEC as a factor to attract Japanese FDI, the Japanese FDI behaviour in Portugal from 1960 until 1999, and Japan’s investment strategy in Portugal within the context of globalization. Section 3 focuses on the Japanese MNC in Portugal and on the majority or minority ownership of Japanese affiliate companies in Portugal for their trade performance and its interaction with FDI within a list of the 100 biggest export and import companies established in Portugal in 1998 and 1999. Finally, section 4 provides the conclusion remarks.
1. Japanese FDI in Portugal’s overseas territories

From 1945 until 1957, Portuguese overseas territories did not receive any Japanese investments, as Japan’s main objective was not to invest but to make trade. As a result, the Japanese investment started in 1958 and was extended until 1974. Furthermore, Japan’s aims were not oriented towards the Portuguese mainland market but to the overseas territories in Africa and Asia (East Timor and India) due to their rich natural resources, especially the iron ore from Goa (Portuguese India), and the important markets for trade, in Angola, the Portuguese Guinea and Mozambique. However, the Portuguese restrictions, such as the caution in celebrating a trade agreement with Japan (signed in 1966), forced Japan to assume another strategy to try to circumvent the tariffs and non-tariff barriers to trade. On the other hand, Portugal realized that it did not possess enough economic power to develop the colonies. Japan soon understood Portugal’s need of capital, and asked for a share in the board’s firms provided that it would be allowed to have trade relations with the Portuguese overseas territories where the investments were to be made. This was Japan’s condition to invest in the colonies.

Fundamentally, the total FDI inflows to Portuguese overseas territories, between 1962 and 1968 were the double (288 US$ million dollars to the overseas territories) if compared to its mainland (119 US$ million dollars), which was mainly due to the vast natural resources of Portugal’s overseas territories (United Nations Yearbook, 1968, p.528 ; 1969, p. 511 ; 1970, p. 552 respectively).

Yet, if in some cases Japan’s investments in the overseas territories were accomplished, it did not happen the way the Japanese government wanted to. In other words, the FDI regime was not free from obstacles because of two reasons: First, at that time, the Portuguese protectionist policy based on the Colonial Act (July 1930) made foreign investments highly unlikely. This distrust towards FDI is an example on how the capital nationalization law controlled, and in some cases banned investment from certain key industries. It should be noted that this Law was never applied in the colonies. Additionally, the participation of foreign capital in national companies of overseas territories was free. Nonetheless, at that time the ideal policy for the Portuguese government was the absence of any foreign capital (MNE—Ministério dos Negócios Estrangeiros—in English—MNE—Ministry of Foreign Affairs, 1964, p. 1).  

The Japanese investment in the overseas territories came to a halt because of the territories independence after the Revolution in 1974. Consequently, Japan’s awareness in Portugal decreased, almost vanishing, as its main

1 The Act brought the colonies under tighter control from Lisbon and encouraged trade between the metropolis and the colonies by providing increased protection for Portuguese goods and by placing restrictions on the export of raw materials from the colonies, including cotton, minerals, sugar and oil. In contrast to the situation prevailing under the First Republic, colonial autonomy came to an end with Salazar. In 1951, the colonies were reclassified as overseas provinces. Imperial economic policy was based in the premise that the colonies should furnish the raw materials while in return the metropolis supplied the material goods. See Corkill (1993, p.6) ; and Corkill (1999, p. 12, 13).

2 Concerning to the FDI regime, for the Portuguese overseas territories, the requirement of national capital is only valid in the case of the Article 7 (Decree 28.228 of November 24, 1937) which states that only in the base of land concession, the clause of 51.0% of national capital is applicable. In special cases, the Ministry of Ultramar (Overseas Territories) has competence, heard the Ultramar Council to exempt the observance of those conditions. In Diário Carioca, MNE, Lisboa, 1964.
interest was in the colonies natural resources and markets. At the same time, it can be stated that the Japanese investments were highly beneficial to the overseas territories economies as the investments contributed to the development of their local infrastructures. Consequently, these investments would contribute to shift the production from labour intensive goods to more complex capital-intensive manufactures. Ultimately, the Japanese objective was to export a large part of their output back to Japan or to third countries, thus enlarging the trade between them. According to the Kojima trade oriented Japanese model, the choice was not so much between exporting and investing abroad, but between investment through joint-ventures or economic cooperation (in the case of the Portuguese colonies due to legal impediments) to expand the market share (Kojima, 1993, p. 220–224). Then, the FDI was pro-trade oriented, i.e. trade-creating (Suzuki, 1989, p. 152). This explains the imbalance between Japan’s outward and inward FDI that remained until the 1980s. Afterwards, the Japanese outward FDI increased due to the appreciation of the yen. The trade friction with the EEC motivated the switch of investment from a regional to a global scale, as the Japanese investments were principally concentrated in the main three core regions (Europe, ASEAN, and USA) of the global economy comprising from commercial activities to production investment (Hook, 1998, p. 29, 35). Still, regarding to Japanese investment in Portugal, the appreciation of the yen did not seem to be the main motif to FDI, but lower labour costs in comparison to other European countries.

1.1 The Japanese Investment in the Portuguese India (Goa)

After the Second World War, Japan’s balance of trade fell into deficit. Consequently, in 1950, the Japanese government issued the first economic plan aiming to the modernization of industrial plants, the promotion of foreign trade and the reduction of dependence on foreign imports. The fact is that Japan’s economic growth was subject to recurrent balance of payments constraints (El–Agraa, 1988, p. 69). For that reason, Japan’s foreign exchange position had been fragile until the late 1960’s and direct investments overseas were officially discouraged in almost all areas except that of raw material extraction to ensure the success of its exports (Pempel, 1977, p. 745, 751). In fact, this condition was present in the case of Goa (Portuguese India). So, Japanese investment began by the end of the 1950’s, and like in the other Portuguese colonies, it was much more a precondition to create trade flows rather than the true desire of making investments.

In fact, the interest of Japan towards the iron ore of Goa (Portuguese India, occupied by India in 1961) was enormous, and it is within this context that the Japanese investments in Goa and other Portuguese overseas territories were assessed. According to some documents, the interest of Japan towards Goa might have had started at the beginning of the 1950’s when a Japanese financier had agreements with Goan industrialists for exploitation of manganese and iron mines in the Portuguese colonies. A considerable amount of Japanese capital was also sunk into the development and mechanization of some of the mines (Ministério dos Negócios Estrangeiros–MNE–in English–Ministry of Foreign Affairs, 1958a, p. 1).

On the other hand, the importance of iron sales was as high to the economy of Goa as to Japan’s economy. In 1957, the total amount of iron ore exported from Goa accounted 610,000 escudos (PTE–Portuguese escudos),
from which 250,000 escudos were directed to the Japanese market. The importance assumed by Japanese investment in the economic development of the Portuguese India resulted from the fact that the extraction and exportation of the iron ore from *Goa* was the outcome of the Japanese financial support and technical expertise: their geological and mining prospect, the mechanic supply to the most important mines and even the construction of a new quay in the port of *Mormugão*, having the same financial and technical support. It is worth to mention that Japan’s position as an importer of iron ore was the highest among Germany, Italy, Austria, France, Czechoslovakia, Holland and the UK, thus considered of vital economical importance for the State of India (Portugal). Therefore, the Ministry of Ultramar was very interested in keeping it (MNE, 1958, p.22, 23; and, MNE, 1958b).

This was acknowledged by the ministry of overseas (in Portuguese—*Ministério do Ultramar*), that for the well being and defense of the State of India’s economy, the relations between Portugal and Japan would be reinforced, since Japan was the first purchaser of iron ore in *Goa* and was interested in strengthening this relation in order to recover the investments already done (MNE, 1958a, cit. p. 26).

### 1.2 Concerning to the investments in the Portuguese Guinea

Portugal was particularly interested in seeking Japanese cooperation for the development of agriculture, fishery and mineral resources in the colony. Portugal reportedly wanted Japan to put about 30 million yens in funds (In: *Asahi Evening News*, cited by MNE, 1957a). Indeed, the SCOFAI Development Company (in Portuguese—*Sociedade Comercial de Fomento Agrícola e Industrial SCOFAI, S. A. R. L*) after the diligences through the delegation of Japan in Lisbon asked the Taiyo Gyogyo Kabushiki Gaisha and Taiyo Fishery firms whether they would be interested or not in having a 40.0% share participation in the capital in SCOFAI Portugal, while by that time, it had also the exclusive representation of Toyota Motor Sales Co. The main activities of SCOFAI were focused on the development of Guinea especially regarding to the exploitation of oleaginouses, ore, cellulose, sugar cane, bananas and cattle breed.

Beyond the main reason of SCOFAI, which was to expand its operations to the Japanese market, thus interested in having Japanese capital in their capital, there were other reasons such as: Japan’s presence in the Portuguese market could function as an attraction to pull into Portugal other industrial representations whose centres in the Iberian Peninsula tended to be established in Spain. Also the Japanese know-how and collaboration was fundamental to assemble several industry plants in Guinea such as mine extraction plant of cassiterite, pulp plant and a canned tunny plant in the *Bijagós* Island (MNE, 1957b, p. 1–2). At that time, (first reason) Portugal was already in risk to be absorbed by the bigger market of Spain due to the Spanish better geographic location, for example as a base for their international expansion because some foreign firms were already establishing their subsidiaries in Spain and were used as platforms for trade with Portugal.

At that time, Japan’s interest lay in the fact that it did not have co-participation in any other Portuguese firms, while England, France, United States and Belgium already did. By distributing many Portuguese and colonial products to other countries, Japan could have enough foreign currencies for import purpose. By doing this, it
allowed the firms to receive the largest possible quantity of materials from Japan to be distributed through the whole Portuguese empire.

On the other hand, Japan was aware of the development of the mentioned industries in the Portuguese Guinea that would contribute powerfully for the expansion of the Japanese products since a law under study would establish Customs liberty and equality for all Portuguese overseas territories. In fact, in 1962, the law that was approved by Salazar, established an integration policy of the various regions (Espaço económico nacional), in order to create a market as large as possible for national producers. As a consequence, many of the products imported from Guinea could be re-exported to any part of the Japanese territory without paying any further custom duties (MNE, 1957c, p. 1–2).

In sum, the Japanese investment helped the firm by facilitating the improvement of the exports of the home country through the provision of capital goods, and then, intermediate inputs to the foreign subsidiaries of the parent companies established in the colony.

From 1960 onwards, Portugal’s FDI regime became more liberal. In part, this was a consequence of the membership of European Free Trade Agreement (EFTA) and also due to the guarantees given to foreign investment under Decree Law No. 46412 of April 28th, 1965. However, the EFTA treaty did not apply to the overseas provinces. Still, the special treatment within EFTA gave the Portuguese industrial goods duty free access to a market of over 100 million consumers, that with the lower labour costs allowed Portugal to have costs of 30.0 to 40.0% lower than in Central and Northern European industrial countries (Banco Português do Atlântico, 1965, p. 2, 5).

In this climate of improved openness, in 1962, Portugal created the Foundation of Technical Cooperation to Overseas (in Portuguese : Fundação de Cooperação Técnica no Ultramar) to match the Japanese wishes for strengthening the economic and technical cooperation with Portugal. The Portuguese Foundation was to execute itself, or through the Technical and Construction International Foundation of Japan (created in 1957), researches or other projects to improve the national economy with Japanese capital. Specifically, the Technical and Construction International Foundation of Japan was created with the objective to promote the technical and economical cooperation in the less developed countries as Metropolitan Portugal or overseas territories with the expenses of the Japanese authorities. It is worth to remark that this assistance did not preclude any kind of political pressure or foreign control. However, it was Japan’s desire that those projects, either in infrastructures for public works or social providence, would be of such nature that they would contribute to the economic enrichment between Japan and Portugal (MNE, 1962, p. 1–2).

3 Concerning to the taxation aspects of the Policy of National Integration, the various regions, home and overseas, constituting Portuguese territory involves the abolition of customs duties previously levied to protect local production. Accordingly, after 1962 Metropolitan Portugal had to abolish all import and export duties levied on its trade with its overseas provinces: the abolition was enforced at a single stroke for each commodity, but the fact that it was not enforced at the same time for all commodities ensured that the reduction was gradual. Regarding to the overseas provinces, the period wherein abolition of customs duties was longer than for Metropolitan Portugal, namely 10 years. Nevertheless, for certain less important commodities, the abolition was implemented from the outset. See Banco Português do Atlântico, (1965, p. 50).
1. 3 Concerning to the territories of Angola, Mozambique and East Timor

For several years, Portugal’s dictatorial regime was not completely in favour to allow national or foreign capital to be invested in these territories, thus delaying the numerous possibilities of foreign investment in railroads, road building, construction, port development, as well as agricultural, fishing and mining projects, urgent needs for local population (MNE, 1956, p. 13).

Unfortunately, despite the moderate and favorable tax regime which permitted investments either to Mozambique or to Angola, the foreign investment was almost inexistent. As far as it is known some investments such as the following ones were made. On October 27th, 1958 the Nichimen Jitsugyo Kabushiki Gaisha formerly Japan Cotton & General Trading Co., Ltd informed the Ministry of Overseas in Lisbon, the wish to supply 8,332 pieces of steel rails and relating accessories for the Mozamedes Railway Company to serve the mining region of Cassinga in the Angolan Province. The deal was accepted (MNE, 1958c, p. 1). In addition, the Japanese capital was used to build a new railway, nearly 100 miles in length connecting the mines of Namapa with the port of Nacala (Banco de Fomento Nacional, 1968, p. 19).

Some years later, in 1967, a Japanese firm, Nittetsu Mining Company, requested the Portuguese government a geological survey concerning to the extraction of mineral resources with a double objective: first, to make a contribution to the development of the Mozambique Province, and second, to profit through the development of mineral resources. Regarding to the shape of business, the Japanese company was open to joint ventures, to offers of equipment or technical services to any Portuguese firm (MNE, 1967b, p. 1–2). Another Japanese firm, Sumitomo Co. invested US$50 million dollars in the exploitation of mineral resources (iron ore) in Mirrote, Mozambique Province (MNE, 1967c, p. 1).

Taking into account the given examples, it is evident that Japanese firms were highly interested in the Portuguese colonies due to the vast possibilities of investment. In fact, Portugal was becoming aware of the importance of Japanese private investment in the development of the overseas territories as it was evident that the economic power of Portugal alone would never be enough to develop the territories. This was the main objective of the Commercial Mission to Japan (Tokyo and Osaka) made by Portuguese exporters and importers in 1973. The fact that Portugal had already a free–trade agreement with the EEC (signed in 1972) was offering a favourable timing for Japanese entrepreneurs that in a near future were able to establish themselves in Portugal and produce goods as long as they respected the rules demanded by the European Community (MNE, Portuguese–Japanese Chamber, 1973, p. 2–3).

The Portuguese desire to receive Japanese investments was officially expressed through the promotion campaigns in the Portuguese Trade Office of the Portuguese embassy in Tokyo concerning to the trade promotion of wines and other products of Portugal. Investment was not forgot, as the Portuguese ambassador, Mr. Coutinho said: “We shall also not spare ourselves to induce potential enterprises of Japan to invest in Portugal in every possible industrial field” (MNE, 1974a, p. 2).

The main obstacle for the Portuguese overseas territories for expanding their exports to Japan lay in the insufficiency of their productive structures, due to the scarcity of technological know–how, engineering
expertise, technical expertise and entrepreneurial management. Therefore, at that time as well as nowadays, the importance of the contribution of FDI for the development of the host economy through partnership in joint ventures involving private and foreign capital with the positive effects on the local economy was acknowledged.

Nevertheless, contacts made between representatives of powerful Japanese companies signalled some impediments to the investment in the territories. In particular, it was mentioned that the Japanese companies were not benefiting from the special conditions of credit authorized by the Japanese government in relation to the foreign direct investments in developing countries if those were to be directed to Portuguese overseas territories. The Ministry of Ultramar did not confirm if this measure was applied or not, if this was the case, it would go against the spirit and aim of the Luso–Japanese economic cooperation. Moreover, Japan granted the Portuguese overseas territories the Generalized System of Preferences (GSP) for countries in development (MNE, 1974b, and p. 1–4). Nonetheless, the Portuguese embassy came to know in relation to the territory of East Timor that Japan did not have any plans to make investments. Besides, the Government of Tokyo was denying the authorization to Japanese investments in the Portuguese Overseas or Ultramar. In addition, the credits to Japanese exports from the EXIMP Bank were also suspended. These facts could be related to the political and economic instability due to the civil wars in several territories that could threat all investments. Thus, it was wiser to take a preventive approach and deny the investment than authorizing it and then in turn making it difficult or impossible to be recovered (MNE, 1974c, p. 1).

It cannot be assured whether this double Japanese policy was true or not, however, the sudden collapse of the empire as a consequence of the end of the regime in April 1974 can justify it partially. One thing is right, as a consequence of the revolution in Portugal, Japanese investment in the Portuguese former–colonies decreased if not stopped due to the civil war eruption from the former ex. colonies, and not due to the fact that they became independent, even if Portugal was ready to be a mediator between the new–independent states and Japan, facilitating diplomatic contacts between them.

2. Japanese FDI in Portugal

In 1960, the Japanese investment started in relation to the mainland of Portugal. The strategy chosen by Japanese investors was to make joint–ventures with Portuguese partners. Some companies became cases of success such the chemical plant Cires (in Portuguese–Companhia Industrial de Resinas Sintéticas), a joint Portuguese–Japanese concern at Estarreja near Oporto, which started to produce in 1960, the Mitsui & Co (import / export) in 1968, the Salvador Caetano (Toyota automobile assembly) in 1972, or FSIPE (synthetic fiber group Mitsubishi) in 1973. These were the cases with more success of the Japanese investment in Portugal. However, after this auspicious start, Japanese investment decreased in part due to internal and external causes, such as the revolution in April 25, 1974, with all its social, economic and political consequences, whereas the worst of them was perhaps the nationalization of the Portuguese private sector and the two–oil crisis. Then, with the faster liberalization of FDI legislation in other countries such as the United Kingdom, Germany and France,
Portugal was left outside of the forefront of host countries to FDI at least until the mid 1980’s.

In 1986, the Japanese companies became aware of Portugal as a good location to FDI because of the country’s access to the European Community. In fact, as a result of EEC access, Portugal had to comply its internal legislation with the Community legislation that gave freedom of feasible establishment, pushing the liberalization and deregulation of the economy with all the inherent market consequences (Martins, 2000, p. 95). As a result, FDI inflows in Portugal experienced a marked growth after 1986. On the other hand, just before the access to the EEC, Portugal took more determined steps towards Japan, considering it a priority target of the Portuguese economy as well as political diplomacy. The reason lay behind the need of Portugal to be able to insert itself within the new flows of capital, advanced technology and trade (Gama, 1985, p. 159).

Notwithstanding the important progress in liberalizing the FDI regime, Portugal’s reform programme was cautious and gradual, as non−EEC firms were treated differently from their EC counterparts under the safeguard clause of Portugal’s 1986 Foreign Investment Law (Regulatory Decree Number 26 / 86 of 18 July 1986). Certainly, this safeguard clause had some negative consequences in the inflows of investment from Japan into Portugal at least until 1993, when the FDI regime was changed into a more liberal one (Regulatory−Decree No.17 / 93), as the projects were now evaluated on the same basis for EEC and non−EEC investors (OECD, 1994, p. 8, 36).

So, Portugal’s attractive internal factors such as the low labour costs, the attitude of local authorities towards Japanese investment, as well as incentives and promotional campaigns from public bodies were vital to attract FDI inflows. Concerning to the external factors, the interest towards Portugal was not accidental, as almost at the same time, the European Single Market became one of the main decisive factors for Japanese investors selecting a location within the European Union (EU) as the investors realized the enormous potential growth for their companies.

In part, Portugal’s relatively autárchical economy and non−competitive production structure can explain why Japanese investment remained so low until 1985. Yet, other reasons such as the following ones can be pointed out (DGCE, 1993, p. 35–36):

- Long periods of political instability and a precarious situation of the Portuguese economy, with high levels of inflation.
- Small internal market and geographically distant from the main production plants, as well as distribution and consumption centers in Europe.
- Insufficient and deficient communications infrastructures, in the case of roads, and other factors vital to industry.
- Difficulties to obtain in the national market components with the quality demanded to incorporate in the

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4 This Foreign Investment Law provided that investment by non−EEC firms could be subject to assessment and negotiation depending on the investment’s effect on Portugal’s economy. Investment by EEC firms was not subject to this safeguard clause.
products.

- A lack of orientation in the Portuguese industrial policy in the immediate post EEC accession.
- Bureaucratic difficulties emerged during the implementation of previous Japanese investments, thus creating an image necessary to overcome.
- Language barrier (difficulties to hire Japanese technicians with knowledge of the Portuguese language).
- Legal restrictions, which hindered the influx of foreign capital into sectors considered strategic, thus not managing to offer the enough returns and investment risks, with some exceptions, required by Japanese investors.
- Difficulties in promoting an effective policy to attract FDI. These and other factors, such as the fear of being controlled from outside contributed to discourage FDI outflows by non-EU countries like Japan.

2.1 Japanese FDI behaviour in Portugal (1960–1999)

As it is seen in Figure 1, total Japanese FDI flows in Portugal can be clearly classified into two distinct periods.

The first one is from 1960 until 1984, just before the Portugal’s access to the EEC. This period was characterized by a very rigid legislation and irregularity in investments that had their peak in 1968 and 1984 with 17 US$ and 11 US$ million dollars respectively, although falling to 1 US$ million dollars in 1986.

The second one goes from 1985 until the present days. Since Portugal’s access (in 1986) to the EEC, the volume of investment increased drastically, reaching a new peak in 1990 with 69US$ million, whereas the most important investment came from Mitsubishi Trucks Europe, in Tramagal (production of vehicles Mitsubishi Canter). Between 1991 and 1993, the total Japanese investment in Portugal began to wane, a fall that can be linked to the weakness in the international economic situation, as well as to the burst of the financial bubble in Japan in 1991; however it recovered after 1994, thus keeping a constant level until 1999.

![Graph 1 Japan FDI inflows in Portugal, 1960–1999 (Unit : US$ million dollars)](chart)

In sum, since 1960 until 1999, Japanese FDI inflows represented only 1.2% of the total inflows invested in Portugal. In fact, in the 1960s there were only two Japanese firms (chemical sector, and export / import respectively) established in Portugal. In the 1970s (until 1973), this number rose to 4 firms, and until 1986, the number of Japanese firms established in Portugal increased only to 5 firms. However, in 1990, there were already 11 manufacturing companies, and by the year 2000, Portugal had 20 factories with Japanese capital, which ranked Portugal in the 11\textsuperscript{th} place within the 24 European countries that host Japanese FDI.

Between 1960 and 1999, Japanese FDI totaled 269US$ million dollars. Despite its small level, Japanese investment had been increasing throughout the period. It should be noted that an agreement of double tax contribution between the two nations has not been yet concluded despite the efforts of both governments. As a result, some investments of Japanese companies with origin in Japan were made through their companies–affiliates located in countries with which Portugal as well as Japan had reached agreements as Pioneer and Siemens / Matsushita (ICEP, 2001)

According to Mr. Natsuki Nakazawa, JETRO’s Lisbon Director, the main reason that justifies the absence of Japanese investment is the fact that most of the Japanese companies do not know the country due to the lack of information (Luso–Japanese Chamber of Commerce and Industry, 1999, p.8). This conclusion is the same as one achieved in a survey (1992), on how Japanese industries regard investment in Portugal, by a Japanese team at the request of the Portuguese government. At the time, and looking at Table 1, the study confirmed the overall feeling of Japanese companies on the attractiveness of investment in Portugal, yet 70.0% of the 200 companies surveyed declared, more information needed for evaluation.

<table>
<thead>
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<th>Table–1</th>
<th>Attractiveness of Portugal for investment</th>
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<tr>
<td></td>
<td>No. of companies</td>
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<tr>
<td>1. More information needed for evaluation</td>
<td>140</td>
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<tr>
<td>2. Not attractive as–investment opportunity</td>
<td>45</td>
</tr>
<tr>
<td>3. Attractive(deserving–further consideration)</td>
<td>15</td>
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<td>Total</td>
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From 1960 until the present time, the Portuguese foreign investment in Japan has not been relevant. As far as it is known, in 1990 it totaled 7 million escudos (sector of retail and gross commerce, restaurants and hotels), in 1996, 6 million escudos (industry sector), and in 1998 it hardly reached the 23 million escudos. Before the 1990’s, only one firm, Hovione Japan Ltd. (pharmaceutical products) established itself in Japan. Recently, another firm Portugal Trade Corporation, has also been established itself in Japan (D. G. R. E. I, 1997, p. 37 ; and D. G. C. E., 1993, p. 37–38).

5 In the year 2002, “there was at least two Japanese investments in Portugal. The first investment was from the Tayo Engineering in Setúbal through the Singapore’s affiliate. The second investment was from Olympus in Coimbra through the European Olympus affiliate”. See Batista, (2002).
2. 2 Japanese investment strategy in Portugal within the regional and global process

Despite the higher investment inflows in the 1990s in comparison with the previous decade, Japanese investment has played a minor role in Portugal if compared to the total Portugal inflows of FDI (see Graph 2).

To explain this tendency, the two types of Japanese investment strategy should be evaluated. The A-type is characterized by a strategy of factor seeking FDI, looking for low cost qualified labour and market seeking investment to increase the market share. The B-type of Japanese investment is characterized by technological links as a result of the two way foreign investments, within a rationalized (and efficiency seeking) and strategic asset seeking investment towards the more developed and technological endowed countries (Dunning, 1992, p.350–353).

Regarding to the A-type, two reasons can be mentioned. First, the Japanese industry expanded its role in East Asia and Central Europe, thus promoting a new form of regionalism intended to rationalize and reorganize manufacturing bases in the context of their global strategies, motivated by cheaper labour costs as well as lower production costs, and a deeper development of their ties with local markets (Basu and Miroshnik, 2000, p.61). As a consequence, after the mid-1990s the delocalization of important Japanese investments towards the Central and European Eastern Countries (CEEC) represent to Portugal a special challenge as its combined policy-induced integration, highly skilled workers and additional FDI incentives are already giving them advantages over Portugal.

Concerning to the B-type, there is a sign of direct mutual learning as the investment is engaged much more towards the core countries of Europe, with high per capita income and / or large populations than to the periphery of Europe. This investment is also heavily engaged with R&D centers. As an example, the United Kingdom has 128 R & D centers against 70 in Germany, 61 in France, 30 in Spain and 5 in Portugal (see Table 2). As a consequence, Japan’s lack of interest in the Portuguese economy is explained by the reduced dimension of the national market as well as the technological gap that Portugal maintains in relation to Japan, for example in the electronic domain which is one of the main sectors of Japanese investment in Europe, but that has been absent in Portugal. Second, the preference of the bigger Spanish domestic market with better infrastructure and human technological support, and also closer to the center of Europe, attracts relatively large volumes of Japanese FDI than Portugal.

In sum, it can be said that Portugal embraces two types of investment (factor and market-seeking until the 1990s but recently changing towards a rationalized and efficiency seeking) less orientated to the domestic market and more export-orientated than before. In other words, the same reasons, (i. e. the market unification due to the fear of actual / or potential trade barriers, and lower production costs) that took Japan between 1983 and 1990 to rely on local producing in the EC and Portugal, are now in the wake of the EU enlargement, the

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6 The process of the policy-induced integration, i. e., the integration supported by the special EA (Europe Association Agreements) signed between the EU and the CEECs recognize that the ultimate goal of CEEC signatories of the EA is the full membership in the European Union. The process is similar to that of enlargement of regional agreements through the access of Greece, Portugal and Spain. See : Kaminsky (2000, p. 1–3).
same reasons that boosted the Japanese investment towards the Eastern European Countries, thus presenting the main challenge concerning to the attraction of Japanese direct investment to Portugal.

2. 3 Sector, typological and geographic characteristics of Japanese Investment in Portugal

At the present time, there are 20 factories in Portugal with Japanese capital. The distribution of Japanese FDI has been centered on the industrial sector, which has earlier enjoyed a more liberal foreign investment legislation for non-EU investors outside the service sector. As part of the integration process of Portugal to the European Community a gradual liberalisation of the FDI regime took place. To non-EEC investors like Japan the safeguard clause restrictions to investments (until 1993) could generally get around by investing from an EEC base.

Japanese investment in Portugal follows the same pattern as investments in the industrial sector in the United Kingdom, France and Germany, which are characterised by high concentration in a small number of industries, such as chemical industry, metal products, electrical industry, electronics industry, transport machinery and transport machinery components. Within the tertiary sector, there is a limited presence of financial institutions.

Table 2 shows several characteristics of the Japanese investment in Portugal since 1960 until 1999.

The sector analysis reveals that Japanese FDI in Portugal is larger in the trade & services (distribution, import / export, marketing), which accounted 58.0% of the total invested. Moreover, presence in the industrial sector is headed by investments in four important sectors: the car industry with 14.5%, the textile industry with 7.8%, the chemical industry with 6.5%, and last with less weight, the electric / electronics industry with 3.3% (all together represent 32.1%) of the total investment in Portugal during the period 1960–1999.

Concerning to the total share of the Japanese capital in the finance and intermediation as well as restaurant and hotel activities, it accounted 100.0% of the total invested, followed by the food industry with 99.9%. Then, the electronic industry obtains 79.5%, which is followed by the trade & services with 78.7%, and the car industry with 71.4% shared in the total capital investment.
Regarding to the remaining activities of the service sectorsuch as public services (water, gas, electricity), real estate or financial service companies, the number of Japanese companies is almost zero. In the case of the public administration, leisure, education and health sector mentioned in Table 2, it is non-existent, except for the Fundação Moa de Portugal (education and training) established in 1988. Then, the real estate activities and financial bodies constitute the sectors where Japanese interest has been weaker, partly due to the delay (only in March 1988) to reform the previous Portuguese legislation for banking establishments nationalized after 1974.

In addition, until recently (1995), the Portuguese bank system did not have enough critical mass or size to be competitive in Europe. The small domestic market means that even if there was a single market–monopoly, it would not be amongst the largest in Europe, therefore not attractive for Japanese investors (Corkill, 1999, p.145). Another reason may be the limited possibilities offered by the Japanese market due to the low import or export business financing operations or the small number of big Portuguese companies not enough to cover the financial risks to the Japanese banks.

According to the data gathered, it is also possible to analyze the characteristics, structure and size of the 65 companies with investment in Portugal. Of the nearly 13,962 employees, 129 are Japanese. The majority of these Japanese employees is working in the car industry (47 employees), followed by trade & services (26 employees), and the electronic industry with 22 employees (see Table 2).

When analyzing the companies sector composition, it is important to know their location as most of the times FDI searches for highly qualified labour force as well as productive structure, and a strong industrial base. In total, there are actually 65 companies established in Portugal. However, the location is available only for 47

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### Table 2: Japanese Investment and R & D centers in Portugal, 1960–1999

<table>
<thead>
<tr>
<th>INDUSTRY / ACTIVITY</th>
<th>* Capital invested</th>
<th>Total capital invested (%)</th>
<th>Japanese capital (%)</th>
<th>Total of employees</th>
<th>Japanese employed</th>
<th>Number of companies</th>
<th>R &amp; D Centers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car industry</td>
<td>18,362,000</td>
<td>14.5</td>
<td>71.4</td>
<td>9712</td>
<td>47</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>chemical industry</td>
<td>8,276,000</td>
<td>6.5</td>
<td>42.7</td>
<td>843</td>
<td>3</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Food industry (fishery)</td>
<td>5,000</td>
<td>0.0</td>
<td>99.9</td>
<td>27</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Electrical &amp; Electronics industry</td>
<td>4,223,000</td>
<td>3.3</td>
<td>79.5</td>
<td>947</td>
<td>22</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Forestry / Paper</td>
<td>8,820,000</td>
<td>6.9</td>
<td>23.0</td>
<td>184</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Textile industry</td>
<td>9,869,000</td>
<td>7.8</td>
<td>69.1</td>
<td>794</td>
<td>5</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Industry / Construction</td>
<td>4,000</td>
<td>0.0</td>
<td>20.0</td>
<td>16</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Trade &amp; Services</td>
<td>73,571,000</td>
<td>58.0</td>
<td>78.7</td>
<td>1031</td>
<td>26</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Real Estate activities</td>
<td>160,000</td>
<td>0.1</td>
<td>57.5</td>
<td>17</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Finance intermediation</td>
<td>3,500</td>
<td>0.0</td>
<td>100</td>
<td>17</td>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Restaurants and Hotels</td>
<td>3,650,000</td>
<td>2.9</td>
<td>100</td>
<td>374</td>
<td>8</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Public administration, leisure,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>education, and health</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>126,943,500</td>
<td>100</td>
<td>67.4</td>
<td>13,962</td>
<td>129</td>
<td>65</td>
<td>5</td>
</tr>
</tbody>
</table>

*Unit : PTE = Portuguese Escudos
1. Present state of the Japanese investment in Portugal.
2. Regarding to “Capital invested” as well as for the “Japanese capital percentage”, data are not available for all the companies.
companies, from which 24 are concentrated in the city of Lisbon, 8 in the Lisbon area, followed by 1 company in Porto’s city and 11 more in the Porto area. In the Center of Portugal, only 2 Japanese companies are established, and only one company in the South. It should be noticed that Japanese and Portugal FDI is mostly concentrated in these two regions, Lisbon in the center-south, and Porto in the north of Portugal. It is also a fact that these regions have higher levels of per capita and per worker income with a productive structure based on industrial activities and the service sector. In general, most of the Japanese companies established in the northern region considered the following factors as the reasons for their choice: First, labour costs were lower when compared to the southern regions; second, the region was designated for investment incentives; and third, the active policies undertaken by the local government (Japan International Cooperation Agency–JICA, 1992, p. 23).

3. Japanese MNC in Portugal

The interest of countries such as Japan in Portugal goes back to the 1960s when CIRES (chemical industry) made a joint Portuguese-Japanese concern at Estarreja near Porto. This joint venture was established after the new Portuguese Import Tariff in November 1959, based on the common Brussels nomenclature that came into effect. Special reference should be made to such measures as drawbacks, and various exemptions and reductions of import duties, aiming to develop the Portuguese industry and the promotion of exports, from which Japanese investment could take advantage (Banco Português do Atlântico, 1965, p.49). The Mitsui & Co (trade firm) was established in Portugal in 1968.

The 1970’s were not particularly strong years in relation to the Japanese investment counting only 4 firms. The Itocho Co. in 1971 (trade firm), and Brother International (electric equipment distribution) in 1971 with 26.3% Japanese share; Toyota in 1972 with 27.0% share in the Group Salvador Caetano (car industry), and in 1973 the FISIPE (manufacturing of acrylic fibres) owned in 21.0% by Mitsubishi. Then the Revolution, in 1974, brought serious costs to the attraction of FDI, including Japanese investment in Portugal (ICEP; Data Bank 2000–JETRO and JETRO 1996 and 1999). Although Japanese investment was never at risk in Portugal before or after the revolution, the fact is that the inflows decreased to a considerable extent. As a consequence, only after the 1980’s, especially from 1985 onwards, the bulk of Japanese investment was visible. This is easily explained by the Portuguese accession to the EEC, giving the necessary confidence and conditions to foreign investors. In the 1980’s, companies such as Yoshida Kogyo Co. (textiles) and Yasaki Corporation (manufacture of wire harness for cars), Dainippon Ink (chemical), Settsu (paper), Honda (distribution), Aoki (restaurant / hotel), NEC (electronics) were considered the most successful ones.

The 1990’s experienced a continuous expansion of Japanese investment within the primarily targeting sectors: electrical, electronic car and audio components, chemical and to a lesser extent the financial activities. The enterprises such as Mitsubishi (manufacture of commercial cars), Nemoto Co., and Teisan industries (both chemical), Sanyo (electrical equipment) were among the Japanese investors. In 1992, a survey on the view of
Japanese companies in Portugal taken individually as an investment environment and in terms of investment potential was carried out by the Japan International Cooperation Agency as requested by Portugal (see Table 3).

In this survey, the factors in which most emphasis was given by Japanese companies were the “Market size” with 24.3% with regard to investment in Portugal, the “technological base and level”, with 22.9% followed by the “preparation of infrastructures”, with 10.8% and within the intangible factors, the “language barrier” with 10.5%. A large percentage of Japanese companies expressed apprehension about having to use Portuguese employees to manage factories and supervise personnel in case of investment. The statements above complete a brief overview of the perception of Japanese companies regarding to Portugal in general about the investment environment. The distance factor (“far away from Japan, and no direct flight”) was not given any particular emphasis especially in the case of companies already possessing bases in the EC (JICA, 1992, p.12, 13, 22).

Concerning to the form of investment by the Japanese Multinationals in Portugal, the trend is the increasing Japanese equity ratio in Portuguese companies throughout the time. This can be explained due to the raise of Japanese FDI in Europe in the 1980’s and 1990’s, caused by the trade friction between Japan and EC (negative side), and the cost competitiveness of local production in Western Europe (positive side). In Portugal’s case, the main motives pointed by the Japanese companies in 1992 were to undertake investment (see Table 4) were as follows:

The better cost–benefit relation, i. e., lower labour and land costs in comparison with the average of the European Union, collected 40.9% and 21.8% of the total answers. Concerning to the investment subsidies and incentives, there are cases in which the investment incentives were given but they were not a direct motivation for the investor. Yet, those incentives still constituted an important factor in the final decision to invest, collecting 12.3% of the total answers. About the Portuguese local workforce employed in Japanese companies, the general view is that, “the workforce is extremely responsible and it fits well with the general ethos of Japanese companies ; though sometimes workers tend to be slack about time” (JICA, 1992, p. 24).

Other positive investment determinants include the political stability and within the intangible factors, the
favorable feelings to Japan and to a Japanese presence as well as the complementary national character of the Portuguese and Japanese people.

Japanese investment in Portugal after the EEC’s access aimed other destinies than the internal market itself. In the 1960’s and 1970’s, the average of Japanese equity in Portuguese companies was between 20.0% and 30.0%. Although, after the 1980’s Japanese investment showed a greater interest in the detention of bigger share of companies assets, thus changing from capital participation to newly established companies. This is the case of YKK Portugal in 1981 with a 90.0% share in the textiles sector, the Hoya Corporation (Optic sector) in 1983 with a 99.9% share, the Aoki Caesar Hotel with a 100.0% share (Hotel industry), Yasaki–Saltano of Portugal in 1986 with a 90.0% share (electric components for cars), the Nemoto & Co. (chemical) in 1990 with a 85.0% share, the Uchiyama Portugal in 1996 (manufacturing of rubber and zinc plated bearing seals), and the Fujitsu in 1997 (manufacture of telecommunication equipment), both with a share of 100.0% just to mention some cases.

In fact, the Japanese favourite form of investment is changing not only in Portugal but also in Europe. According to a JETRO survey (1999, p. 14–16), by form of investment, 68.2% of in Europe were newly established (302 firms out of 443 which gave valid responses), with regard to Portugal share, 75.0% of companies were newely established. The corporate acquisition of Japanese affiliated companies in Europe accounted 18.3% (81 firms), capital participation for 13.3% (59 firms), and others for 0.2% (one firm). This change of the form of investment by Japanese companies in Europe could mean that they have more power in the management processes inside of the companies. However, the number of personnel dispatched from Japan is small in Portugal. In relation to the employment scale by country, Portugal was found to be at the top in the average number of non-Japanese administrators and employees at 681.6 people, followed by Central and Eastern Europe with 637 people, and the UK with 405.9 people. With reference to the average number on Japanese employees per firm, the UK is at the top with 6.0%, followed by Belgium with 4.3%. Portugal has an average number of Japanese employees per firm of 3.0%, against the EU average of 4.3% (see Table 5).

Therefore, Portuguese executives and managers are employed, and the actual factory administration is under their responsibility. Consequently, the Japanese style of management is not rigidly enforced but relations with
business partners are considered to be good.

Other factors that could explain the relatively low share of Japanese investments in the past in Portugal can be due to the slow decision making process within Japanese companies in comparison to their American counterparts, or in the past the scarce information available to Japanese companies that certainly played a role. Also other factors that induce the MNC to enter a new market through Greenfield investment are the structure of the host market and the nature of the demand (Blomstrom, Kokko and Zejan, 2000, p.43). In addition, Japanese companies have also come to generate more of their overseas sales through foreign investment rather than through international trade (Encarnation, 1995, p.213). This is the case of Portugal, the companies with higher share were also the ones with bigger quota in the exports and imports. These are big firms, and some of them were among the list of the 100 Biggest Export and Import Companies in Portugal in 1997 (Economia Pura, 1999, p.96-103).

Concerning to the exportations, in 1997, Yasaki–Saltano (transport equipment) ranked in the 6th place within the 100 biggest export companies in Portugal with 89.0% of exports / sales, towards Germany, France and Spain, followed in the 26th place by FISIPE (chemical) with 81.4% of exports / sales towards the markets of Morocco, Italy and Spain. Then, Salvador Caetano ranked in the 48th place with 11.5% of export / sales headed by Germany, UK, and Spain, and CIRES in the 57th place with 38.5% of exports / sales directed towards the markets of Spain, Italy, UK, and Brazil.

In relation to the imports, Salvador Caetano comes in the 9th place with 82.0% of imports / purchases from Japan, Thailand, and Germany, followed in the 10th place by Mitsubishi Motors with 94.8% of the imports /

| Country   | Non-Japanese | | | Japanese | | |
|-----------|--------------|--------|--------|----------|--------|
|           | Number of answers (firm) | Total No. of employees (person) | Average No. of employees per firm (person) | Number of answers (firm) | Total No. of employees (person) | Average No. of employees per firm (person) |
| The UK    | 125          | 50,739 | 405.9  | 123      | 732    | 6.0               |
| Spain     | 42           | 16,118 | 383.8  | 39        | 151    | 3.9               |
| Portugal  | 16           | 10,906 | 681.6  | 13        | 39     | 3.0               |
| Netherlands | 36         | 10,195 | 283.2  | 36        | 145    | 4.0               |
| Germany   | 45           | 9,822  | 218.2  | 42        | 121    | 2.9               |
| France    | 51           | 8,925  | 175.0  | 47        | 179    | 3.8               |
| Italy     | 20           | 6,587  | 329.4  | 17        | 51     | 3.0               |
| Ireland   | 24           | 3,111  | 129.6  | 21        | 40     | 1.9               |
| Belgium   | 18           | 2,548  | 141.6  | 15        | 64     | 4.3               |
| Others    | 16           | 2,638  | 164.9  | 13        | 38     | 2.9               |
| Total of Western Europe | 393          | 121,589 | 309.4 | 366      | 1,560  | 4.3               |
| CEECs     | 23           | 14,650 | 637    | 23        | 73     | 3.2               |
| Turkey    | 7            | 3,015  | 430.7  | 7         | 23     | 3.3               |
| Grand total | 423          | 139,254 | 329.2 | 396      | 1,656  | 4.2               |

Source: JETRO Survey, 1999
purchases from Netherlands, Japan and Thailand. *Yasaki−Saltano*, the biggest Japanese company in Portugal with 6,535 workers, imports of 71.3% of its purchases from Japan, Germany and Sweden, and it occupies the 23rd place in the 100 biggest import companies in Portuguese trade and industry in 1997. Then, *Honda* comes in the 34th place (trade passenger cars) with 99.7% of its imports / purchases from UK, Japan and Belgium, followed by *Sony* in 39th place with 46.0% of imports / purchases from Japan, Spain and Belgium. The *CIRES* Company is in the 41st place with 91.0% of its imports / purchases from Netherlands, Norway and Germany, followed by *FISIPE* in the 67th place and with 80.0% of its imports from Germany and France. Lastly, the *Yamaha Motor*, and the *Honda Motor S.A*, occupies respectively the 69th and 76th place, with 99.3% and 100.0% of their imports / purchases from Japan, France, and Netherlands (Yamaha), and Japan, Italy and Spain for *Honda*. In particular, the evidence indicates that Japanese FDI stimulated the growth of exports. Thus, with respect to trade regionalism also exerted a positive impact on trade and on the Japanese FDI in Portugal that can be considered of horizontal FDI type (that tends to be market−seeking) and export−oriented as most of the exportations go to European countries (OECD, 1999, p. 5, 16).

In the inverse case, the companies better represented in the 100 biggest import companies in Portugal, also import their purchases from Japan, thus helping to improve the exports of the home country possibly with intermediate inputs of the parent companies. A factor that contributed to this change was the EEC membership, as the limited size of national territory and small population were obstacles for large / big companies. So, Japanese companies aimed what has just been mentioned in the practice below (see Table 6).

<table>
<thead>
<tr>
<th>Table 6</th>
<th>Markets for Portuguese products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Japanese Companies Aim</strong></td>
<td><strong>No. of answers</strong></td>
</tr>
<tr>
<td>1. EEC market as a whole</td>
<td>175</td>
</tr>
<tr>
<td>2. Portuguese domestic market</td>
<td>68</td>
</tr>
<tr>
<td>3. Develop re−exports to Japan</td>
<td>29</td>
</tr>
<tr>
<td>4. In Portuguese speaking countries</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>296</strong></td>
</tr>
</tbody>
</table>

Source : Japan International Cooperation Agency, 1992

According to the 1992 survey, it was asked to Japanese companies where they would sell their products if they possessed bases in Portugal. Primarily, the response was the EEC. market as a whole (59.1%), followed by the domestic Portuguese market. In second instance (23.0%), the re−exportation to Japan (9.8%) and lastly, the sales would go to the Portuguese speaking countries (8.1%).

In 1999, the top list for destinations for the main products of Japanese affiliated companies in Portugal was : first, others (including EU and EFTA markets) with 28.6%, second, Japan, Asia and North America with 21.4% each. Hence, the Japanese market has grown in importance among the Japanese companies established in Portugal. Therefore, Japanese FDI in Portugal became more mobile (export−oriented) than in 1992 when the investment was more directed towards the domestic market regarding Japanese companies. This is increasingly linked to related parts of the global company networks but not tied for market reasons to a particular country

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In the list of FDI in the Portuguese industry according to the *500 Best & Biggest companies established in Portugal, for 1999* (EXAME, 2000, p. 136–153), most of the companies were in key industries with a large number of American and European multinationals. This can show that Japanese companies are among the ones with better sales in the Portuguese market. This shows that Portugal is a good location for investment.

Accordingly, the company *Salvador Caetano*, with 27.0% in *Toyota*, ranked the 24th place in 1998 and 1999, with sales of 86,216 thousand escudos and growth sales of 6.2%, followed by *Mitsubishi Motors* (trade passenger cars) that from 1998 to 1999 recuperated from the 37th to 32nd place with sales of 70,417 thousand, escudos and growth sales of 19.5% in one year. Whereas, *Yasaki Saltano* declined from the 47th to 59th place in 1999 with sales as of 42,767 thousand escudos, thus with negative growth sales −7.85%. The same happened to *Sony Portugal* that lost eight places from 1998 to 1999, to the 77th position with sales of 33,203 thousand escudos and negative growth sales of −0.97%. *Mitsubishi T. Europe* (transport equipment) raised one position to the 79th place between 1998 and 1999, with sales of 32,304 thousand escudos and growth sales of 16.01%. In the chemical sector, the *CIRES* also raised one position from the 161st place to the 160th place in 1999, with sales totaling 17,119 thousand escudos and growth sales of 10.24%. The same cannot be stated about *FISIPE* that fell 50 places to the 350th place in the ranking of the *500 Biggest & Best companies in Portugal, in 1999*. *FISIPE* presented sales in the value of 9,359 thousand escudos and negative growth sales of −2.91%. In the trade sector of motorcycles and passenger cars, *Yamaha Motor Portugal* occupied the 350th place in 1999 with sales of 8,764 thousand escudos, followed by *Mazda* in the 390th place with sales of 8,011 thousand escudos and growth sales of 40.52% respectively. Next, the 394th place was occupied by *Bridgestone / Firestone* (trade) in 1999, with sales totaling 7,971 thousand escudos and growth sales of 2.77%. The last Japanese company within the list of the *500 Biggest & Best in Portugal* is *Honda Motor* (trade passenger cars) that occupied the 409th place in 1999, which represented a fall from the 389th place in the previous year with sales totaling 7,633 thousand escudos and 9.65% of growth sales.

Moreover, if comparing the numbers above with the list of the 500 Biggest & Best in the 1992 Survey, presently, only 4 Japanese companies were listed: *Toyota Motors* (Salvador Caetano) in the 12th place, *Mitsubishi Portugal S. A.* in the 69th place, *Shinetsu chemicals* with a 50.0% equity in *CIRES* in the 81st place, and *Yasaki Corporation* in the 380th place in the list (J. I. C. A., 1992, p. 21). Yet, in the year 2000 list of the *500 Biggest & Best Companies in Portugal*, it can be pointed out that the number of companies rose to 11 despite some of them have lost positions in comparison to 1998.

In addition, the companies already represented in the 500 Biggest & Best show that their investments in the market are returning to a profit level and are securing a return on their investment. It is true that this is not a very large number of companies compared to the Japanese presence in Europe. As a result, as some companies see their volume of sales increasing, this can have the effect of a pull factor for them to decide for a second plant on a strategy to set up bases inside European countries.
4. Conclusion:

During the 1950s and 1960s, when FDI was still in its infancy, and even after, during the 1970s, Portugal should have given more attention to its economic, cultural and political relations with Japan. If this had happened, today the pattern of Japanese FDI would have been completely different. Of course, Portugal dictatorial regime until 1974, the socialist regime, the political and economic instability until the mid-1980s, as well as, the better correlation between technology / industrialization in other European countries in comparison to Portugal, explain the low volume of Japanese FDI in Portugal. Then, it must be acknowledged that Portugal international relationships turned to be mainly focused to Africa, and then to Europe rather than Japan. 

The attraction of Japanese investment must be faced within but simultaneously beyond the pure economic sense due to different ways of living. The significance of infrastructures facilities as a determinant of FDI needs no elaboration. Generally speaking, Portugal still lacks the sufficient infrastructures to have long-term Japanese residents of de facto emigrants in Portugal. The ultimate determinant of who would stay and who would go resides in the educational system that determines the existence or non-existence of skilled workers and technological resources, thus contributing to the growth of productivity of labour. It is a fact that most of the Japanese FDI has been always concentrated in the core countries of EU with better technological and educational endowments than Portugal, and recently with the EU enlargement, Japanese investments have been led towards the Central and Eastern European Countries (CEEC). Just to mention an example, Poland and Hungary, in 18 years (1981–1999) received 240 and 514 US$ million dollars respectively of Japanese investment (OECD, 2000), whereas Portugal, in the period of 39 years (1960–1999) received 269 US$ million dollars.

Nowadays, it is widely acknowledged that FDI can act as an engine of growth. Therefore, it is not astonishing that most countries, whether developed ones, in development, or in transition, seek to attract FDI to promote their economic development. Moreover, with the globalization of competition and the spread of information technology, the comparative advantages are less immutable than before either in developing or in advanced countries. Portugal must adapt rapidly to the globalization of competition. The enlargement of the EU towards Eastern Europe emphasizes this particular case, and Japan being aware of this has not forgotten that region. Nowadays, the decision to relocate different activities is based on a set of parameters, which define competitiveness in the broadest sense: production and distribution costs, access to markets and to various kinds of resources such as flexibility and quick response to changes in demand, organizational quality and human resources. With the differential of real labour costs narrowing in EU countries, the labour costs become less significant in determining the site of plants. As a result, there is a shift from geography of costs to geography of skills (OECD, 1995, p. 54, 55). The integration into the EU of the new members (CEEC) will maintain and even reinforce this level of competitiveness, expecting the increase of the existing levels of FDI.

In sum, Portugal besides the challenge imposed by the Asian NICs and the CEEC, is also penalized for its insertion in the Iberian Peninsula. This disadvantage derives from the fact that for Japan’s MNC, it is better to
establish the strategic decision making center in Spain, closer to the center of Europe than to Portugal. For that reason, Portugal’s smaller market and lower technological capacity becomes a disadvantage in relation to its neighbors. Consequently, Portugal is considered by Japan as a second option when considering a good location for a second production plant inside of the EU. To raise its location advantages and reduce the gap with the more advanced EU countries, Portugal must induce technology–related investment to improve the quality and access of complementary assets, notably, technological capabilities of firms and the infrastructure conducive for knowledge based economy.

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Analysis of Japanese Foreign Direct Investment in Portugal and its Overseas Territories

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This paper investigates the Japanese direct investment in Portugal overseas territories (or Provinces) and in its mainland. It shows the impact of Portugal’s integration into the European Economic Community that after the 1980s has contributed to the boost of the Japanese direct investment in Portugal. In addition, this paper explains the effects of Japanese FDI in Portugal through the affiliates regional sitting and typology in Portugal. Finally, it takes into account the relationship between trade and foreign direct investments of the main Japanese trade affiliate companies amongst the 100 biggest export and import companies established in Portugal in 1998 and 1999.