

TESTIMONY OF THE INTERVENTION



PANEL I – INTERNATIONALIZATION, TRENDS AND CHALLENGES



New Challenges for Internationalization

António Silva

“With regard to trends and forecasts, world trade growth is expected to continue, with a 4% increase expected in 2017. A key aspect to be retained is the importance of digital platforms as essential tools of world trade. To get an idea, 5 years ago, among the 5 largest companies in the world, there was only 1 in the technology area: Apple. Today, the 5 largest companies in the world are technological. The idea of the big factory disappeared and today everything is based on knowledge and the intangible. “

“Leaders of the Industrial Association of the District of Aveiro, Entrepreneurs, Guests, Ladies and Gentlemen,

First of all, allowed me a personal note that has to do with the fact that I have been working at AICEP for 40 years. From the activities I have developed, I have been away for several years working in places like Cape Verde, London, Brussels or Paris, where I have always had an excellent relationship with AIDA. We worked and developed many actions together and for this I wanted to express the fondness that I have in being in here, today as administrator of AICEP, being this a house with which AICEP has always worked, in a spirit of cooperation that must be emphasized.

They asked me to talk about the challenges of internationalization and if we think about the evolution of the world economy in recent years, we realize that the last ten years have been complicated for the world economy.

We all know what happened: the crisis of 2007. When we thought that we were going to start recovering from this crisis, there was another crisis that began between 2010 and 2011, and what was thought of as a rapid recovery in about four years, took 10 years to recover.

Now in 2017, the first clear signals of some recovery start to appear and point to a growth rate of the global economy of around 2.7%, which means after ten years of growth recession we are now in a growth phase, which is expected to last until at least 2019.

These are only predictions, because one of the things I would like to emphasize in this intervention is that predicting the future has always been complicated, but even more so today. Everything around us influences things, and change is permanent.

This is one of the ideas that I would like to leave you here: the capacity for change must



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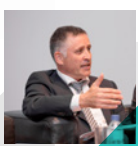
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accompany our life at the corporate, economic and political level. Adapt ourselves to change and ensure adaptability are pressing issues in the internationalization of companies and we will understand the reasons next.

One of the important things to keep in this global economic growth of 2017, which is expected to continue until 2019, is the “imbalance” between the growth of the developed economies - the European Union, the United States of America and Japan - that have contributed much less to the economic growth than the economies of emerging countries, that is, today the growth of the world economy is more based on the economies of emerging countries - the new countries that until then we called underdeveloped and that today have the role of engines of the world economy.

China and India, which in the last ten years have made a positive contribution to world GDP, are worthy of mention, while others [E.U., U.S., and Japan] have contributed negatively, given the recession.

The issues that have hit the world economy in recent years have to do with the slowdown in world investment and the price of commodities, which have contributed to low inflation and low prices, although it is expected that at the new start of the world economy the prices of large commodities will rise again, with a reversal in terms of innovation investment and a slowdown in transfers between companies and countries.

Today we are at a stage where optimism is allowed. A moderate and cautious optimism, but with risks. The world economy is growing, but with risks related to protectionist measures. There is a protectionist environment, especially on the part of the U.S., which, given the importance of the American economy, will have effects that will have an impact on the economy of all countries. This is the first threat.

There is also the possibility of devaluation of the dollar to make the US economy more competitive. It's another threat. The BREXIT process, China's economic performance and possible military conflicts, which even on a regional scale could lead to serious setbacks in the world economy, are other threats. A war in Korea is very long, from Portugal, but it will certainly have repercussions on our economy. Today the world is even smaller than it was.

Exports and imports were the main growth factor of the world economy. The growth rate of world trade has always been higher than GDP, with the exception of 2001 and 2009, with world trade in goods registering a real increase of seven times in this last quarter of the year compared to 1981, that is, between 1981 and 2016, world trade increased seven times. Trade growth has been boosted by transactions in intermediate goods and goods with greater technological incorporation. Emerging countries have been strengthening their role in these flows. These are some of the characteristics of the last years.

Trends and forecasts are expected to continue to grow world trade, with a 4% increase in 2017.

A key aspect to be noted is the importance of digital platforms as essential tools of world trade. To get an idea, five years ago, among the top 5 companies in the world, only one was in the area of technology: Apple. Today, the 5 largest companies in the world are technological. The idea of the big factory disappeared and today everything is based on knowledge and intangible.

When I speak in internationalization and I have been working at AICEP for some years, there are several people who ask me how they can succeed in exporting. In fact, there is no recipe for success in internationalization, but there are some rules to keep in mind.



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Internationalization always brings some rules for companies, but then there are factors inherent in the company itself. There are rules that must be passed but let us not forget that there are strictly individual factors for the company in the process of internationalization.

We can say that companies internationalize mainly because the domestic market is low.

In France I had a notion of the effects of the crisis on the Portuguese economy. When I went to Paris in 2010, there were 2,500 Portuguese companies to export to France. In 2016, before I left, there were already 5500. I spoke with the companies that came to us and I realized that they were companies that initially were well in the domestic markets and in the Spanish market, but with the Portuguese crisis and then with the Spanish crisis, they got into a complicated situation and thought of France as a nearby market.

I am really amazed at the adaptability of our companies, as we have been able to have a position in France that has increased consecutively in the last 7 years.

There are also other reasons for companies to internationalize, in addition to internal market woes, which may involve economies of scale, access to innovation, access to goods and services at lower costs, or even the consultancy to big customers; which happens mainly in the automotive and aeronautics sector, ensuring proximity to customers.

In addition to identifying the answers to the “What?”, “Where?” And “How?” Questions in the internationalization process, companies should also consider the consistency of other internal dimensions. As for example, the financial resources, because if there are no resources allocated to internationalization and investments in this sense, it will not be possible for the company to internationalize itself; or the ability and organizational structure to work abroad, such as knowledge of languages or local legislation.

When we talk about the internationalization of Portuguese companies and analyse the national economy, we see that in the last 10 years exports have supported the economy. The contribution of exports in 2016 to GDP growth was 1.9%, while domestic consumption contributed 1.6%. From 2007 to 2016, we exported little, with few exporting companies. In fact, in the last few years and as a result of the circumstances, between 2007 and 2016 exports grew 40%, an odd growth. Today we export 40% more than in 2007.

In 2016, in relation to the previous year, there was an increase of about 11%. Our economy is performing remarkably, as far as export growth is concerned. And here the merit is of the companies.

The Portuguese trade balance, which was traditionally negative, since we bought more than we sold, has undergone great changes and since 2012 the trend is a positive balance of goods and services. Tourism has played a significant role, accounting for between 14% and 15% of national exports. The machinery sector represents 11%. It is not only the services that drive our exports, the sectors of goods and products, with thousands of companies in activity, have made a remarkable contribution to this result.

Concentration is great, 75% of exports go to the E.U.. We must be alert to opportunities in other areas to diversify and try to break concentration, but we should not be terrified at the idea of concentration in some markets, as it is normal for the main customers and markets of the countries to be their neighbours.

Our main market, where we export about 23%, is Spain. Spain has increased

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imports in Portugal in the last three to four years, from EUR 700 to 1000 million per year, but a delicate situation in Spain can have an effect on Portugal. The idea of integration and globalization is also there.

Spain is our first market, followed by France, which also has a rising performance, from 3rd to 2nd place, Germany, and then the UK. These 4 countries buy 55.7% of Portuguese companies' exports. This great concentration leaves us in a weak position in the event of a new crisis in Europe.

That is why we have to work together, with associations, companies and public agents to diversify our efforts.

In 2016, 65% of our exports were goods and products and 35% services, with a significant weight in the tourism sector. In relation to the exports of the last years, we have gained quota in the international markets. The concentration in the European Union is evident, but if we analyse the 25 markets of Portugal, we see that we are growing in all of them; noting that the economies of twenty-two of these markets are growing.

We are exporting more to all our customers and we are exporting more of everything. In terms of products, companies export from machinery to food products, and growth is happening in all areas.

We can therefore conclude that we must invest in diversification: diversification of markets, products, diversification to increase the network of exporting companies.

In the year 2016, more than 20 thousand domestic companies exported, with more than 50% of total exports, guaranteed by 1.5% of these companies, corresponding to about 300 companies. Here too, we find concentration on large companies and their role in exports. Nevertheless, the role of SMEs must be taken into account, because when I referred to the Portuguese companies that started exporting to France, they were all SMEs.

The product groups with the largest exporting companies were machinery and apparatus, common metals, plastics and rubber.

At the level of investment attraction, Portugal has been winning a greater number of foreign investment projects. The entire process of attracting investment is difficult and time-consuming as we are competing with the world. The whole world is attracting investment. Still, it is encouraging to realize that last year we raised about 2.5 billion euros in foreign investment, which leaves us almost at the level of the best year we have ever had in this area, which was in 2010.

What about the district of Aveiro?

Aveiro is the 4th district in Portugal in terms of the size of the goods exporting community, representing about 11% of the national total - about 2300 companies exporting goods.

Of these companies 70% export, which corresponds to about 1600 companies - exports less than 1 million euros per year, representing 4.7% of the total exported by the district. 526 companies - 23.4% - represent 25% of the total exported and only 23 companies in the district of Aveiro account for 40% of the total exported. This is the same phenomenon I have already mentioned, about the concentration of exports, which is a normal phenomenon.

The trade balance of the district in terms of exports / imports is positive. Exports have grown over the last 5 years, averaging 3.5%. In 2016, exports of goods in the

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district of Aveiro accounted for about 13% of the country's total, highlighting the fundamental role that Aveiro's companies play in the development of the national economy.

AICEP has a team of 300 people in Portugal and 44 delegations worldwide, supporting companies in everything related to internationalization processes, such as market information or legal support. The businessmen who work with us have rated the experience positively and we have had more and more work. In 2010 we had 730 Portuguese companies requesting our support from the Paris delegation. In 2016 it increased to 1600. Requests ranging from information on a sector to requests for interviews or scheduling of contact programs. The performance varies because circumstances are different. For example, in Paris the work was facilitated because it is a country and a dynamic economy with access to information and databases. But in Cape Verde and Cuba there are not even lists of information of anything.

I would like to point out that the will and the project of this new administration is to bring AICEP closer to the companies, in the works with and for the companies.

We intend to work even more closely, so we have to strengthen the network in Portugal. We have 7 regional antennas, but we have to increase the number and strengthen its role, because proximity is the key.

The digital environment will also be a strong commitment of the association, because AICEP is a recipient of a lot of information, which must work and transfer it into knowledge for companies.”