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Divestment cycles in the Portuguese electrical and electronics industry – an historical, multilevel analysis (1975–2015)

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ABSTRACT

This article deals with the topic of divestment. In the early 1990s, the Portuguese electrical and electronics industry (EEI) attracted high levels of foreign direct investment. This increase in capital flows played an important role in Portugal's economic development. However, after a period of growth and expansion, divestments became more common and the Portuguese government had to work hard to retain the existing investments. This study adopts a qualitative and historical approach to examine how economic and social changes impacted divestments in the EEI between 1975 and 2015, contributing to develop extant theories on divestment. The article helps to understand what happened to the Portuguese manufacturing industry and to the EEI in particular, providing valuable lessons on international divestments and production relocations.

KEYWORDS

Foreign direct investment; divestment; manufacturing industry; technology sector; OLI; relocation

Introduction

The business landscape has changed since the new era of capitalism and its cycles of expansion and recession began. McDermott (2010) notes that international businesses have been radically transformed since the mid-1980s as the nature, sources and recipients of foreign direct investment (FDI) have evolved. This has had implications for divestment activities and employment flows, which can be observed everywhere.

The OECD report on globalization indicates how economies typically characterized by low unemployment rates witnessed a major downturn. Between 2007 and 2010, unemployment rates rose from 4.5% to over 8% in the United Kingdom and from 4.5% to 10% in the United States (US) (Huwart and Verdier 2013). The latest news points to further divestment actions worldwide during 2019 (Bloomberg 2018).

In the Portuguese setting, the unemployment rate rose from 4% to 16.2% between 2001 and 2013 (Pordata 2019a, 2019b). This increase was mostly driven by the secondary sector – manufacturing – that lost over half a million workplaces (Pordata 2019a). The electrical and electronics industry (EEI) is of great importance for the Portuguese economy, accounting for 3.5% of manufacturing employment (ANIMEE 2015). After a period of growth and prosperity, this industry witnessed several examples of plant closures and

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relocations of well-known companies such as Blaupunkt, Ford Electronics, Hewlett-Packard, Infineon Technologies, Philips, Pioneer and Texas-Instruments-Samsung.

Although FDI implies a long-term commitment to foreign operations, divestments appear to be quite common, particularly at the end of global chains of technology-based industries where cheap hand labor locations offer more favorable conditions. Regardless the increasing number of divestments, research interest is still limited (Kotabe and Ketkar 2009), particularly when compared with expansionist fields such as mergers and acquisitions (Brauer 2006), which are viewed by managers with euphoria (Duhaime and Schwenk 1985).

Divestments can be understood as complex and multidimensional events influenced by an array of factors both external (e.g. economic growth, unemployment, environmental uncertainty) and internal to the firm (e.g. strategy, performance, diversification, size, managerial changes) (Silva and Moreira 2019).

Because of divestments confidentiality and sensitivity (normally associated with managerial failure and job losses), data on the topic is scarce (Benito 1997; Berry 2010; Silva and Moreira 2019). Belderbos (2001) notes that plant closures are recorded with a considerable time lag, if recorded at all. While the literature has certainly produced a vast array of divestment antecedents, most research has relied on the firm or the subsidiary as the unit of analysis (Griffin 2003; Lampón, González-Benito, and García-Vázquez 2015). This can be attributed to the availability of microdata (e.g. Compustat or Bureau van Dijk) and the consequent studies employing quantitative approaches testing for firm level antecedents. As a result, internal factors have gained more relevance than external ones. This has led to a predominance in the field of more firm-level bound theories such as the agency, life cycle, portfolio, resource-based view or transaction cost economics (Silva and Moreira 2019).

However, an analysis of divestment without considering its social and economic context does not convey the full set of practices and representations of the topic, nor does it reflect the importance of a firm's strategical choices motivated by exogenous factors. Even though some studies have been conducted using Portuguese microdata, particularly by Mata and colleagues, these studies focus on testing firm-level divestment antecedents rather than offering a historical view of divestment in Portugal (Mata and Portugal 1994, 2000, 2002, 2004; Mata, Portugal, and Guimarães 1995). The divestment field is also lacking research providing a thorough overview on divestment size and magnitude, since the main existing studies are still the early works of Boddewyn and colleagues conducted in the US (see e.g. Boddewyn and Torneden 1973; Chopra, Boddewyn, and Torneden 1978).

Using Dunning's (1980, 1988) eclectic theory of international production, Boddewyn's (1983) foreign divestment (FD) theory and Hayter's (1997) location theory, the present study sought to identify the various stages and patterns of divestments in the EEI in Portugal. In particular, this paper employs a qualitative and historical approach based on secondary sources of information such as ANIMEE reports to examine how contextual changes at an international, national and industrial level have shaped the industry's investment and divestment patterns over time and discusses whether divestments occurred in the form of one-off isolated events or as an irreversible process with an impact on the country's industrial capacity. On one hand, we contribute to the literature on divestment by presenting further evidence on a less explored theory such as the FD theory and by discussing the role that external factors have had on divestments. On the

other hand, we present data on the magnitude of divestments and follow a holistic approach to depict the causes of the decline of the Portuguese EEI over the past 25 years.

The Portuguese EEI constitutes an interesting research ground for analysis as it was one of the most important drivers for the country's economic development (accounting for high levels of production and employment), it belongs to the manufacturing sector which experienced several divestments, and it can serve as a representative of other similar industries in Portugal.

The article is structured as follows. After this introduction, the next section reviews the main theoretical approaches to investment, divestment and relocations. Then, a brief characterization of the EEI in Portugal is presented, followed by an analysis of the most important contextual changes and the ways they have contributed to investments and divestments. The paper concludes with a discussion of the insights gained into the EEI's sustainability and future trends.

Theoretical background

In this section, we review the literature on FDI, FD and relocation. This discussion lays a theoretical foundation for a fuller understanding of the investment-divestment cycle in the Portuguese EEI.

Literature on FDI

FDI is an important driver of international business activities around the world (Nielsen, Asmussen, and Weatherall 2017). FDI can be related to mergers and acquisitions or the establishment of new plants through greenfield investments. FDI helps firms to exploit new markets, marketing channels and cheaper production factors, while boosting host countries' economies by increasing employment, capital sources and competitiveness (Nielsen, Asmussen, and Weatherall 2017).

Researchers focusing on economics or international business have put forward several theories to explain why firms use FDI rather than other modes such as exporting or licensing. The international business theories explain FDI based on managerial issues that create barriers to firms' internationalization (Nielsen, Asmussen, and Weatherall 2017). As a result, firms operating in foreign countries must deal with the costs of doing business abroad, which are higher for them than for host country competitors (Zaheer 1995). This suggests that FDI will only be attractive when firms gain competitive advantages over their rivals that compensate for these costs (Nielsen, Asmussen, and Weatherall 2017).

Dunning (1980, 1988) argues that companies need ownership, location and internalization (OLI) advantages to be present for FDI to take place. Ownership advantages refer to resources (e.g. equipment, skilled labor, technology and reputation) that firms can exploit internationally. Location advantages are related to natural and created conditions (e.g. production costs, transportation costs, raw material availability and political environment) that make a place attractive to firms seeking to exploit their ownership advantages. Internalization advantages explain why firms should conduct activities internally through FDI rather than use arm's length transactions, such as licensing, because FDI allows firms to decrease transaction costs and retain control.

The exact configuration of OLI advantages depends on the context and reflects the economic and political characteristics of the investing firm's home country and the host country in which the firm seeks to invest (Dunning 2000). These advantages also reflect the industry and nature of the company's value-added activity and individual characteristics, as well as the reasons behind the FDI. Overall, Dunning's framework is considered empirically robust, and it is well-accepted in the literature on reasons for FDI (Stoian and Filippaios 2008).

Literature on divestment and relocation

Broadly speaking, divestments are the opposite of investments. Early on, Chopra, Boddewyn, and Torneden (1978, 14) defined divestments as a '*reduction of ownership percentage in an active foreign operation, on either a voluntary or involuntary basis through complete or partial sale, liquidation, expropriation and/or nationalization*'. While involuntary actions correspond to nationalizations, expropriations and confiscations, voluntary divestments are based on firms' strategic considerations (Benito 1997).

The international business field focused on pinpointing why multinational companies (MNCs) divest and relocate their manufacturing activities. This stream is fundamentally based on OLI reversals (Boddewyn 1983; McDermott 2010) but also on Hayter's (1997) location theory.

Boddewyn (1983) proposed the FD theory, claiming that foreign units will be closed whenever firms: (1) lose an ownership advantage, (2) no longer find it profitable to internalize their advantages or (3) no longer find it profitable to internalize their competitive advantage in a host country. Hayter's (1997) location theory is based on the economic geography theory and explains the forces that push a firm from its current location to an optimal one. The neoclassical, institutional and behavioral models have been developed based on the location theory (Brouwer, Mariotti, and van Ommeren 2004). The neoclassical approach is based on location factors and on specific characteristics of the physical place or the site where the plant is located as the main motivation for relocations. The institutional framework focuses on external factors, and the behavioral approach considers internal factors to be the main predictor of a relocation.

Traditionally, firms divesting or relocating have a high level of location flexibility and the ability to redistribute their resources between various countries, thereby exploiting advantages, markets and economic policies (Benito and Welch 1997; Fisch and Zschoche 2012). A vast list of reasons to divest or relocate – internal and external – has been generated in the literature.

At an internal level, firms relocate whenever projected increases in profits of relocating exceed their fixed costs (Belderbos 2003), whenever the original incentives to invest disappear (Griffin 2003), due to expansionist strategies (Hayter 1997), or growth (Brouwer, Mariotti, and van Ommeren 2004), size, diversification and performance issues (Brauer 2006; Kolev 2016; Silva and Moreira 2019).

External reasons have been less researched than internal ones. The literature found evidence that firms relocate or divest to take advantage of favorable conditions in other locations (i.e. wage differentials, low energy prices, economies of scale, access to raw materials or subsidies) (Pennings and Sleuwaegen 2000; Benito 2005), due to the size of the potential markets (Sleuwaegen and Pennings 2006), because of the host country's

economic growth (Benito 1997), and because of unfavorable conditions such as uncertainty (e.g. deregulation, changes in tax and antitrust policy) (Brauer 2006; Kolev 2016).

The present studies rely on the OLI paradigm, and on the FD and location theories as the theoretical foundations to disentangle how the multiple external factors and changes throughout the period under analysis contributed first to an increase in investments, and then to divestments in the Portuguese EEI.

Portuguese setting

Portugal is a small country located in Southwest Europe. Over the last 60 years, the country has faced several economic crises and resorted to the International Monetary Fund (IMF) three times (Gonçalves et al. 2015). The period under analysis – 1975 to 2015 – was one of profound changes. Formerly a country at war held under a dictatorship for several decades, following the implementation of a democratic regime in 1974, the country joined the European Economic Community (EEC) in 1986.

After overcoming political, social and cultural barriers, the first years following its adhesion to the EEC were characterized by growth and progress. However, the following years gave the perception that Portugal was slowly moving away from European standards, struggling with economic and employment issues. Over the next 25 years, the composition of FDI and employment changed significantly. While in 1986 near 66% of foreign firms belonged to the manufacturing industry, by 2009 that percentage had decreased to 30% (Mateus, Mateus, and Madruga 2013). In this context, the next section discusses the path taken by the Portuguese EEI with particular focus on the changes that contributed to divestments.

Portuguese EEI

The EEI is of great importance to the Portuguese economy as this industry represents 0.7% of the gross domestic product (GDP) (ANIMEE 2013) and accounts for 3.5% of manufacturing industry employment and 9.5% of Portugal's exports (ANIMEE 2017). The EEI increased its production levels up to 2007, when the global financial crisis negatively impacted production volume. While production levels have experienced a slight improvement since then, they have not reached their previous outputs. The industry's net exports have therefore remained unfavorable. However, since the European Union (EU) and IMF assistance programme started to resolve public and debt issues in 2011, the EEI has moved toward a less unfavorable net exports ratio. Figure 1 provides an overview of production volume, imports and exports in the EEI.

The EEI has sustained its rate of growth in foreign trade, exporting 79% of all production to the automobile, information technology and general electronics markets (ANIMEE 2015). Germany is the main trading partner for the Portuguese EEI (i.e. 24% of exports). National production is mostly destined for the housing and construction industries. The kind of products exported has evolved during the past 25 years, but the ones related with the automobile industry such as automobile multimedia devices and wiring harnesses remain among the most important (ANIMEE 2017). Others such as renewable energy systems have gained greater importance due to government policies of investing in renewable energies, whereas old colored

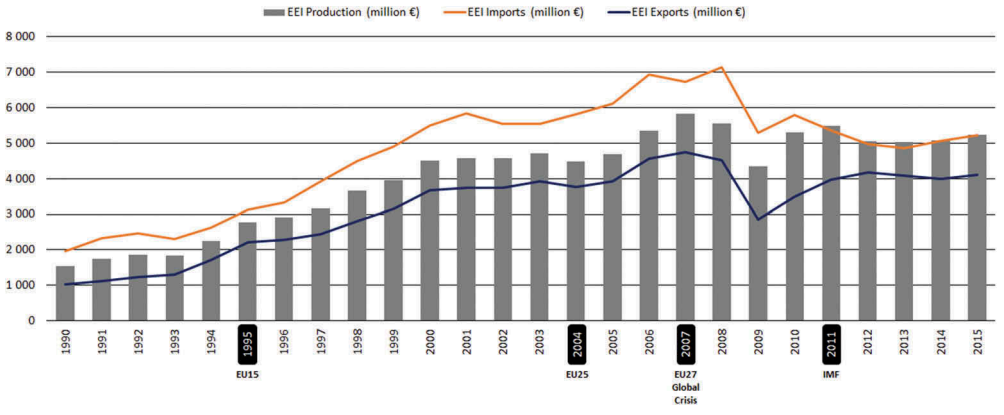

Figure 1. EEI production volume, imports and exports (in millions of euros).
ANIMEE

Table 1. Portuguese EEI main exported products in %.

Main Exported Products in 1989	%	Main Exported Products in 2015	%
Wiring Harnesses	25	Car Radios	20
Numerical Integrated Circuits	22	Wiring Harnesses	13
Parts for Informatic Equipment	11	Renewable Energy Systems	11
Car Radios with Cassette Player	9	Other Electric Boards	10
Color Television Receivers	6	Radio Navigation Receivers	9
Others	27	Others	36

Source: ANIMEE

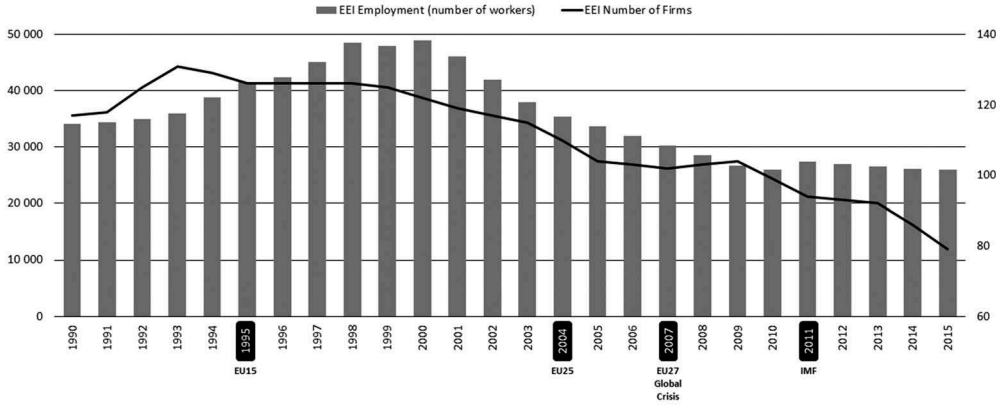

Figure 2. EEI's number of employees and firms.
ANIMEE

television receivers have been discontinued. Table 1 show the Portuguese EEI's main exported products in 1989 and 2015.

The number of EEI firms has gradually decreased since 1993, but the most alarming trend is a drop in the industry's employment figures after 2000 (see

Figure 2). For the last 25 years, the EEI has clearly undergone profound changes that have had direct and indirect impacts on investment and divestment behaviors.

Investment-divestment cycle in Portuguese EEI

This section adopts a qualitative and historical informed approach. Historical research seeks the location, evaluation and synthesis of data to determine the facts and draw conclusions on the past (Borg 1963; Cohen, Manion, and Morrison 2002). According to Gaddis (2001, 308), '*there is no such thing as a definitive account of any historical episode*'. Thies (2002) mentions that one can only speak in retrospect of latent events such as the industrial revolution or demographic changes, because it is difficult for contemporary researchers to see the big picture when in the middle of the history. For the analysis, the history of the EEI for the period under analysis (1975 to 2015) was split into five main stages. These five stages were identified by combining the trends on divestment in the EEI with key changes in the macroeconomic (national and international, political, economic, social and business) environment (Lopes and Simões 2017). The following subsections provide background information for each stage, as well as a discussion of how various external drivers contributed to investment projects and divestments in this industry.

Stage one: EEC and FDI period (1975 to 1993)

During the twentieth century, 1975 was of major importance for Portugal because a period of political turmoil culminated in the end of a dictatorship and the implementation of democracy. The next years were characterized by political upheaval, high unemployment rates and low economic growth. Lopes and Simões (2017) indicate that while FDI was not affected by nationalizations, large Portuguese groups with partnerships with foreign firms were nationalized. The extensive nationalization of firms throughout several industries and the effects of the loss of Portugal's colonial territories, including traditional markets, led to divestments and contributed to the economic stagnation (Castro and Buckley 2001). These hostile actions forced by governments upon firms are in line with existing evidence on the importance of involuntary divestments when analyzing divestment magnitude, particularly in the early 1970s (see Boddewyn and Torneden 1973; Chopra, Boddewyn, and Torneden 1978 findings in the US setting).

Given this adverse context, Portugal had to resort to the IMF in 1977. That year, Portugal requested membership of the ECC, which would only be granted almost a decade later. In 1983, because of Portugal's high unemployment rate and public debt, the IMF implemented a second assistance programme based on wage and public investment cuts. To a certain degree, the period following this second IMF intervention helped the country to recover, restored its image as an attractive investment location and paved the way for its entrance into the EEC in 1986.

Joining the EEC was a major turning point and contributed to increased economic growth and development through more foreign trade. The establishment of a single market decreased barriers and trading costs between EEC members. The EEC allocated funds which allowed Portugal to offer incentives to stimulate endogenous growth, entrepreneurship and improve infrastructures. Joining the EEC had a profound impact in other European economies as well. For example, Greece joining the EEC in 1981 is

considered one of its most important landmarks for its development as it meant shifting from protectionism to integration with an impact on GDP increase and FDI inflow (Georgopoulos, Sogiakas, and Salavrakos 2018).

One of the main programmes implemented in Portugal as part of the First Community Support Framework (i.e. 1989–1993) was the Specific Development Program for the Portuguese Industry (PEDIP I) (Gonçalves et al. 2015). This sought to improve seven main areas: infrastructure and technology; professional qualifications; investment incentives; financial engineering; productivity; quality and industrial design; and promotion, implementation and control. Five years after PEDIP I's implementation, productivity increased 5% in the supported firms, FDI rose and unemployment decreased from 10.9% to 4.8% (Commission of the European Communities 1994).

Portugal became a major recipient of FDI (Simões 1997; Castro and Buckley 2001; Leitão and Faustino 2010). The high levels of FDI were crucial to the development of the Portuguese economy owing to their direct and indirect spill overs such as the sharing of technology and knowledge, the stimulus to innovation, the development of the human capital, and the integration into global supply chains (Mateus, Mateus, and Madruga 2013).

Figure 3 shows how, after 1986, the country's GDP per capita and FDI rose sharply up to 1992 and 1990, respectively, which made this an important period in regard to the revitalization of Portuguese industry.

From the perspective of OLI advantages and location theory, Portugal offered foreign MNCs important location advantages such as a good level of infrastructures, strong investment incentives (subsidization), easy access to the European market (large market), low political risk (favorable political environment) and small cultural distance to FDI sources. The country also had favorable labor costs (a positive wage differential) because, when it joined the EEC in 1986, Portugal had the lowest labor costs of the 12 members (Nunes 1998). The country was a recipient of relocations from other economies such as Japan and the USA, with companies seeking to take advantage of Portugal's location advantages. Relocating firms found in Portugal levels of efficiency similar to those of the countries they were relocating from and a compatible cultural environment. This happened in other countries as well. Georgopoulos, Sogiakas, and Salavrakos (2018) note that

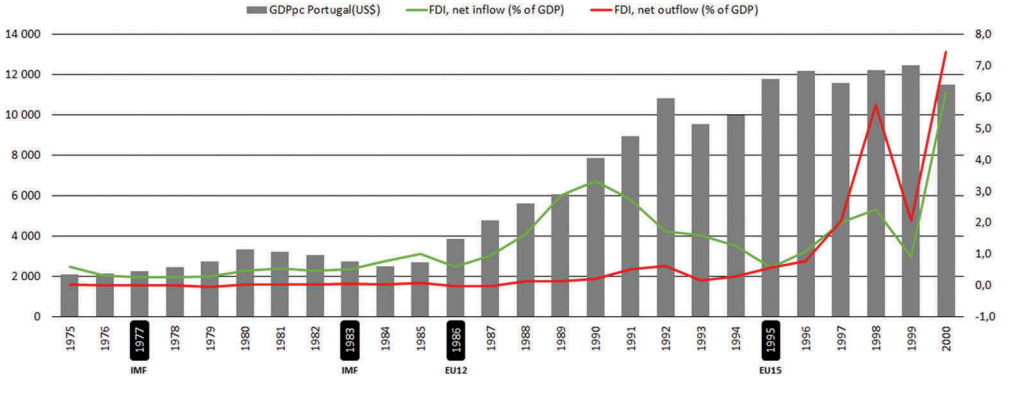

Figure 3. Portuguese GDP per capita and FDI net inflow and outflow.
The World Bank

after Greece joined the EEC, many foreign MNCs sought to enter the Greek economy to exploit the protected Greek market and its unskilled labor. Dunning (1993) argues that the 1980s were characterized by a significant increase in investment in labor-intensive work with production organized to exploit the various countries' advantages.

In the EEI, MNCs such as Blaupunkt, Delphi, Grundig, Visteon and Yazaki Saltano invested in Portugal between 1980 and 1990 (ANIMEE 2013). Perhaps the most important FDI project was AutoEuropa, a joint venture between Ford and Volkswagen created in 1991, which began production in 1995. Several FDI ventures were directly or indirectly related to the automobile industry, which in turn impacted the EEI as one of its main suppliers.

The vertical disintegration of automobile value chains sought to standardize many products and processes for which the technological requirements were not particularly demanding. This standardization together with low levels of technological complexity made it easy to replicate and transfer production processes (Lampón, González-Benito, and García-Vázquez 2015). The search for lower costs for manufacturers led to strategies that promoted efficiency, and the Portuguese EEI was mostly a recipient of vertical FDI. Producer-driven industries such as the automobile and the EEI rely heavily on technology. This is why their production systems need to be centralized, vertically integrated, and why they engage in greenfield investments to retain control (Gereffi 1994).

Using greenfield investments (rather than licensing or exports) supports the OLI's ownership and internalization advantages: investor MNCs fundamentally seek to achieve economies of scale, high production volumes and retain control using high levels of vertical integration (Dunning 1980, 1988). Overall, Portugal's entry into the EEC (jointly with Spain) was an important turning point for investment in Portugal as the use of the European funds contributed to create the conditions for foreign MNCs to invest, benefiting from integrating Portuguese operations in Iberian and European supply chains (Fernández-de-Sevilla 2016). As a result, this stage involved mainly investment in the EEI. The initial divestments due to nationalizations and the loss of colonial markets were offset by a strong investment period after joining the EEC, when the EEI attracted large foreign MNCs. Table 2 displays the key data on the Portuguese EEI in 1993.

Table 2. EEI turnover, exports and employment broken down by branches of activity (1993).

	1993 in Million €				
	Turnover	Exports	Employment	Imports	Dom. Market
Electric Equipment	162	94	3018	340	409
Wires and Cables	143	33	1384	99	209
Wiring Harnesses	423	420	12,269	15	18
Automation, Control and Measure Equipment	44	9	1282	26	61
Telecommunications, Informat. Prof. Electronics	260	72	2728	634	822
Electronic Components	247	197	5513	183	233
Accumulators and Cells	54	24	1083	33	63
Lamps and Lighting Fittings	25	13	510	68	79
Electric Installation Apparatus	49	29	1630	141	161
Consumer Electronics	330	321	4458	518	527
Household Appliances	102	90	2021	246	258
Industry TOTAL	**1838**	**1301**	**35,896**	**2303**	**2841**

Source: ANIMEE (1995)

Stage two: consolidation of the Portuguese EEI (1994 to 1999)

Following the investment boom after Portugal's entry into the EEC, the economy slowed down in the first years of the 1990s due to a global recession and real appreciation of the national currency. However, Portuguese economic growth accelerated during the second half of the decade. This was partly because of a focus on public investment and infrastructure in projects such as Expo 1998, and partly because of the implementation of the Second Community Support Framework between 1994 and 1999. Changes in government led to the adoption of a new strategic approach which placed an emphasis on expanding existing projects rather than on developing new ones (ANIMEE 1999).

At this stage, the industrialist orientation of FDI and favorable trends in employment creation cannot be dissociated from AutoEuropa's impact on automobile production and the growth of its network of suppliers (Moreira and Carvalho 2015; Reis et al. 2016)– which had significant positive effects for the EEI. Lopes and Simões (2017) underline how AutoEuropa corresponded to a major leap in the technological content and sophistication of the Portuguese automotive industry, enabling the establishment of multiple foreign-owned suppliers close to the plant.

Negative impacts of price drops in the information technology markets stemming from oversupply in semiconductor memories were compensated for by the establishment of three new wiring harnesses plants that began production in 1998. These were anchored in the EU automobile market, which kept growing (ANIMEE 1999). Figure 4 shows the number of automobile units produced in Portugal and worldwide between 1990 and 2015.

However, during this period, two major factors that would later result in Portuguese EEI divestments began to become more visible: the spread of the globalization process, and the decrease of the Portuguese industry productivity.

First, the development of the globalization process led to a new competitive geography of the world's economy. New business strategies were based on territorial decomposition value chains that concentrated high added value activities in developed countries and relied on emerging economies to optimize costs, response times

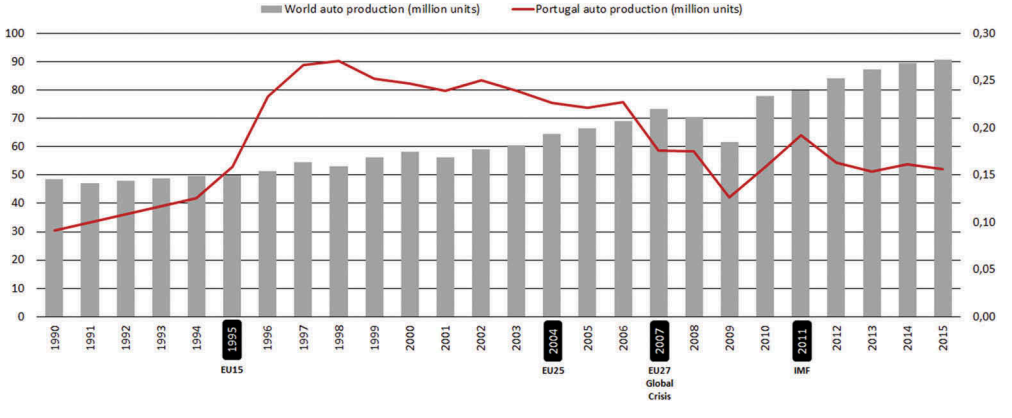

Figure 4. Automobile units per year.
OICA; ACAP

and facilitate access to markets (Mateus, Mateus, and Madruga 2013). Southeast Asian countries began to emerge as both sources and recipients of FDI due to low labor costs and the large Chinese market. Concurrently, in Europe, new economic policies and the development of Eastern Europe helped break down protectionist barriers and accelerated the globalization process (Moreira and Dias 2008). The increasing liberalization of goods and production factors based on new telecommunications and information technologies demolished existing barriers and created new business opportunities (Dunning 1997).

Second, the EEI began to struggle with productivity issues. Moreira and Dias (2008) observe that Portugal had some of the lowest outputs in the EU in terms of labor-intensive activities. Lourenço (2006) argue that the weak international competitiveness of the country regarding trade and FDI jointly with the low levels of education and skills of the Portuguese labor force hindered the country's economic growth and development. Mateus, Mateus, and Madruga (2013) note that the Portuguese economic model relies on a high level of employment, a high number of worked hours but a low hourly and worker productivity. Portugal started to lose out to countries that competed for price and there were no significant increases in added value either. Labor costs began to show an unfavorable trend when compared to other locations due to this lack of productivity. Figure 5 shows a shift in Portugal's total factor productivity (TFP) growth rate compared to EU-15 after 1993.

Considering that the EEI relies on high market dynamics, FDI flows and export activities, globalization represented an opportunity due to the role of new technologies such as internet diffusion, mobile communications and digital television (ANIMEE 1999). Conversely, from an investment retention perspective, globalization posed a threat as the development of new information and communication technologies contributed to the increase in relocations with the aim of lowering the costs of coordinating worldwide production networks. Cantwell and Sanna-Randaccio (1992) claim that the profile of FDI in Portugal (in the late 1980s) was shaped by external forces including the increasing importance of technology considerations in the

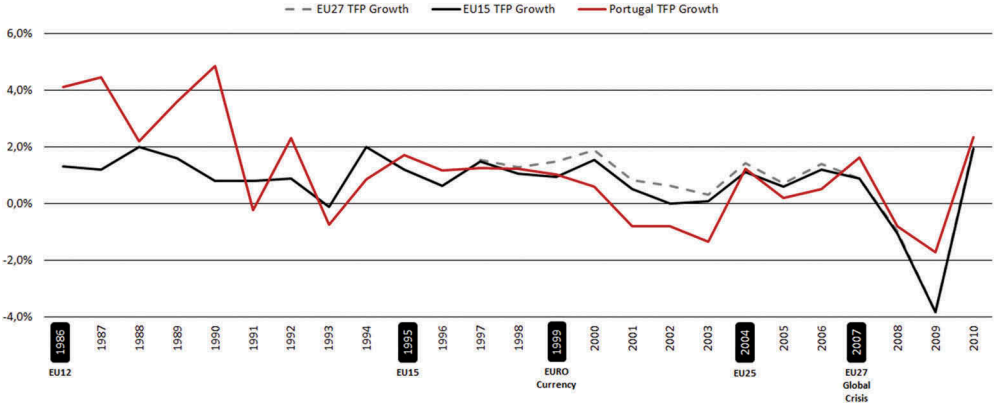

Figure 5. Comparison of Portugal and EU TFP growth rate.
AMECO

Table 3. EEI turnover, exports and employment breakdown by branches of activity (1999).

	1999 in Million €				
	Turnover	Exports	Employment	Imports	Dom. Market
Electric Equipment	250	154	3605	438	535
Wires and Cables	181	60	1352	141	262
Wiring Harnesses	846	809	17,784	180	217
Automation, Control and Measure Equipment	55	30	1138	48	73
Telecommunications, Informat. Prof. Electronics	253	114	2636	1194	1333
Electronic Components	571	426	7365	534	679
Accumulators and Cells	58	38	931	64	84
Lamps and Lighting Fittings	34	22	492	100	113
Electric Installation Apparatus	72	54	1595	287	304
Consumer Electronics	644	610	5980	530	565
Household Appliances	197	137	2200	320	379
Industry TOTAL	**3162**	**2454**	**45,078**	**3836**	**4545**

Source: ANIMEE (2001)

design of MNCs strategies. Time has shown that the level of threat was greater than the overall opportunity for the Portuguese EEI.

Despite a few divestments that were diversified and unrelated to labor costs (Vale 2002), this period was one of consolidation for the Portuguese EEI. As shown in the literature, firms rarely divest from growing industries (Li 1995; Ilmakunnas and Topi 1999). The EEI's trade activities increased, as did its employment levels, which were indissociably from increased productivity in the wiring harnesses division supported by the automobile sector. Table 3 presents EEI key data for 1999.

Stage three: EU-25 enlargement (2000 to 2004)

The new millennium began with decreased economic growth due to overproduction and overinvestment in the late 1990s, with the most affected sectors being those that had previously grown the fastest, namely, the information technology, telecommunications, electronics and automobile industries (ANIMEE 2013). This was aggravated by the 9/11 attacks, which created a negative wave of externalities for various economic actors and a lack of trust among consumers. While mature Western economies – driven by Chinese activities and growth – were able to improve their performance, the global economy clearly began shifting toward Asia, with China and India as the main drivers (ANIMEE 2005).

For Portugal, this was a period of challenge for manufacturing and the EEI. Internally, most FDI was directed toward the construction, services, transport, communications and commerce sectors rather than the manufacturing industry (Leite, Machado, and Cúrdia 2001). The effects of the globalization, oversupply in some electrical products, the low productivity of the Portuguese industry, the EU enlargement and the country's recessive environment had their impact on the EEI, leading to divestments. This increase in international competition affected other European countries as well. Georgopoulos, Sogiakas, and Salavrakos (2018) note that in the following two decades after Greece joining the ECC in 1981, foreign MNCs faced strong international competition due to the single market, and the effects were worsened as Greece had characteristics of developing economies like low labor costs and tariffs, which in turn contributed to the development of industries with product diversity and the superiority of outward FDI relative to inward FDI.

With the growth of the globalization process, Portuguese exports faced increasing competition not only from the EU enlargement to Eastern European countries, but also because of the entry of China into the World Trade Organization (ANIMEE 2005; Mateus, Mateus, and Madruga 2013). In addition, the industry faced higher competition in the information technology industry, which experienced oversupply and decreased prices (ANIMEE 2005). Increasing competition often increases firm mortality (Hannan and Carroll 1992) and globalization exerts a strong competitive effect leading to divestment (Coucke and Sleuwaegen 2008). Regarding industry productivity, Porter's (2002) report on Portuguese competitiveness alerted officials to the: (1) slow productivity growth; (2) lack of skilled workforce and management; (3) low innovation rates; (4) lack of strongly related and supported industries; (5) decreased EU structural funds; (6) impact of Eastern European countries entering the EU market; and (7) loss of the ability to use devaluation to increase competitiveness. A similar issue was felt by other European countries besides Portugal as in the new EEC setting, Greek labor costs were also rising, compromising its competitive position; and Greek trade barriers were decreasing, leading to intensified import competition and to a decrease in GDP alongside with de-industrialization and significant foreign divestment activities (Georgopoulos, Sogiakas, and Salavrakos 2018).

Overall, the EU-25 enlargement of 2004 had several implications for Europe and Portugal. The first was an increase in the areas and populations with a tendency toward impoverishment since the new members had a lower GDP than the EU average. The second implication was greater economic heterogeneity, which created a need to balance the interests of more countries and to adjust community policies. Breuss (2001) predicted that for Portugal, the costs of the EU-25 enlargement would exceed the benefits.

The EU-25 enlargement increased the perception of Portugal as a peripheral nation, and EU structural funds went to the new members. Compared with Portugal, the new entrants had lower labor costs, higher education levels and a closer proximity to leading automobile manufacturing nations (e.g. Poland or the Czech Republic's proximity to Germany) (OECD 2010). Figure 6 shows a comparison between the minimum wages of Portugal and the new EU members.

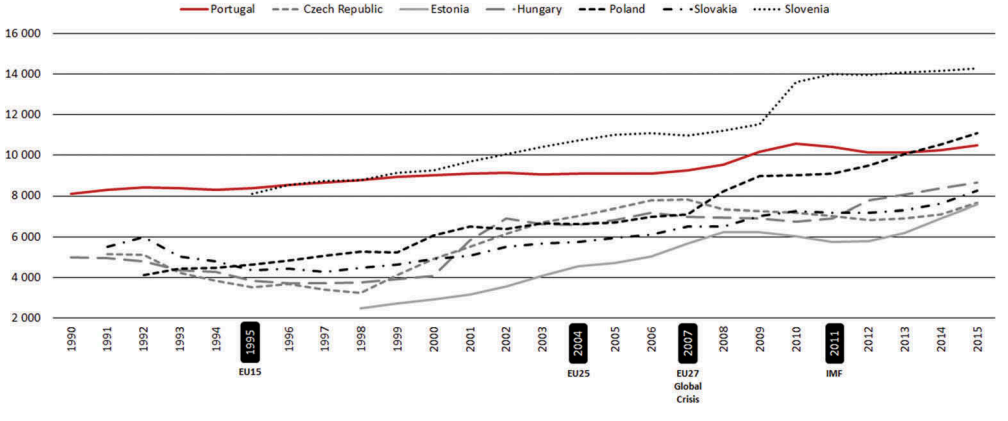

Figure 6. Portugal and new EU members' real minimum annual wage (in US dollars).
OECD

The new macroeconomic regime of the EU implied a deep change of the central mechanism of the cost-competitiveness level of the Portuguese economy: instead of the devaluation of the exchange rate, it came to depend on higher productivity and lower inflation (Mateus, Mateus, and Madruga 2013). As a result, Portugal's appeal as a FDI recipient was now lower than that of new Eastern European or Southeast Asian countries. When compared to Portugal, new EU members offered more competitive conditions including lower labor costs and access to large EU funds to stimulate investment (ANIMEE 2005).

As most of the Portuguese EEI was labor intensive, Eastern European countries quickly became preferred destinations for new projects or relocations. Michailova and Wilson (2008) underline that at the end of 1990s, the Czech Republic received extraordinary flows of FDI and that in the beginning of the new millennium the dominant manufacturing sectors included (among others) motor vehicles and electric machines. The loss of the location advantage (Boddewyn 1983; Hayter 1997), the disappearance of the original investment drivers (Griffin 2003) and the better alternative locations (Berry 2010), such as new EU countries with lower labor costs, high levels of subsidization and a closer proximity to main EEI markets, contributed to the divestment and relocations from the EEI. Regarding AutoEuropa's suppliers, Portuguese firms were restricted by the size of the orders, the limited autonomy of AutoEuropa and the lack of trust of the parent MNC on Portuguese suppliers. However, that lack of trust was more related with being close to the MNC's headquarters and speaking German than with the development capabilities of the suppliers (Lopes and Simões 2017) – highlighting the role of geographical proximity.

The advantages that had once enhanced Portugal's development now prompted divestments and relocations to other countries. Vale (2002) notes that, since AutoEuropa in 1991 and Siemens in 1995, no other large FDI projects have taken place in Portugal. Lopes and Simões (2017) attribute the decrease in FDI in Portugal since AutoEuropa to increasing labor costs and to external changes such as German firms becoming more East-bounded regarding market exploitation and supply chain locations, with subsequent divestments from labor and wage sensitive activities like cables and wirings.

The EEI's position was aggravated by Portugal's low GDP growth during this stage, which contributed to further divestments. After exceeding the planned deficit in 2002, Portugal committed itself to bringing the deficit below the agreed 3%. The need to control public expenditure and an unfavorable external environment led to a national recession in 2003. This had consequences for investment-driven areas of the economy such as the electrical infrastructure, electronics, telecommunications equipment and housing and construction sectors (ANIMEE 2003). While favorable economic conditions are attractive to retain FDI (Benito 1997), negative host countries' growth is associated with failure, exit and divestment (Li 1995; Benito 1997; Fisch and Zschoche 2012; Berry 2013). The increasing international competition, reconfigurations of global value chains and economic stagnation led to the closure of various EEI foreign units in Portugal. These impacts were notorious in the wiring harnesses, electronic components and consumer electronics divisions which had previously accounted for the highest levels of production and employment. Table 4 shows EEI figures for 2003.

Table 4. EEI's turnover, exports and employment broken down by branches of activity (2003).

	2003 in Million €				
	Turnover	Exports	Employment	Imports	Dom. Market
Electric Equipment	374	267	2631	410	517
Wires and Cables	208	101	1139	107	214
Wiring Harnesses	871	693	14,640	251	429
Automation, Control and Measure Equipment	62	33	808	63	92
Telecommunications, Informat. Prof. Electronics	679	549	4002	1736	1865
Electronic Components	1102	877	4966	1243	1468
Accumulators and Cells	57	46	759	68	79
Lamps and Lighting Fittings	39	26	491	143	157
Electric Installation Apparatus	141	137	1900	279	283
Consumer Electronics	832	828	5088	816	820
Household Appliances	268	214	2172	424	478
Industry TOTAL	**4632**	**3771**	**38,596**	**5542**	**6402**

Source: ANIMEE (2005)

Stage four: Portuguese financial crisis (2005 to 2010)

International competition continued to increase during this period. The most developed countries strengthened their investment in technological innovations to improve their energy efficiency and remain competitive, and fierce market competition prevented price increases (ANIMEE 2007). Asia continued to lead world economic growth based on investments in China's industries and India's services. Chinese corporations began globalizing their activities by developing commercial networks in the US and acquiring European companies in the automobile and information technology sectors (ANIMEE 2007).

In contrast, the US and Europe's economies experienced a severe slowdown due to the 2007–2008 global financial crisis[1]. With the financial sectors dealing with an increasing number of defaults and bankruptcies, which restricted access to credit, the most strongly affected industries were those that relied most heavily on credit to sell their products, namely, the automobile and housing and construction sectors (ANIMEE 2009). In the EU, several countries exceeded their deficit limits, and weaker economies such as Portugal, Spain, Greece and Ireland had to resort to the European Central Bank (ECB) to raise capital (ANIMEE 2009). Besides these countries, the impact of the financial crisis was also felt in Eastern European economies. Pavlínek (2015) argue that the global 2008–2009 economic crisis had a negative effect in the Czech and the Slovak automotive industries, with most firms experiencing declines in production, revenues and workers.

The years following the global financial crisis were fraught with great difficulties. Portuguese industries were heavily dependent on foreign trade and international markets to increase production. Thus, issues in accessing credit and the severe drop in demand in the European automobile market had negative consequences for Portugal's manufacturing and car component exports, a trend that influenced the EEI (ANIMEE 2009). Pavlínek (2015) in the Czech and Slovak context indicate that small and midsized firms were particularly negatively influenced by the crisis because of their less diversified production and vulnerable position in the automotive supply chains – as these are traditionally small firms operating as second or third tier suppliers focusing on the manufacturing of simpler and lower value-added components.

The public policies implemented to promote competitiveness and the Portuguese National Strategic Reference Frameworks (2007–2013) – based on Porter's proposals – were not enough to prevent the recession from affecting economic activities and private consumption. The Portuguese economy continued to struggle to reverse its loss of competitiveness after the EU-25 enlargement.

This was a period of heavy divestments in the EEI. The few positive signs for the EEI came from an early increase in exports due to the growth of market diversification for exported products and domestic investment in renewable energies, which had an impact on electrical equipment production. However, after the global financial crisis, exports fell sharply, with the automobile and information technology markets being the most affected ones (ANIMEE 2009). The Portuguese EEI's employment levels kept decreasing, and divestments increased as this industry lost firms to China, Eastern Europe and North Africa (e.g. Morocco, Tunisia and Egypt). The wiring harnesses division accounted for most of the losses, a scenario seen in the Czech Republic and Slovakia as well. Pavlínek (2015) note that the crisis did not lead to waves of bankruptcies nor large scale relocations from automotive suppliers from the Czech Republic and Slovakia to cheaper locations, with the exception of labor-intensive activities such as the assembly of wiring harnesses.

This is clearly related to the aforementioned causes (increasing market competition and a decrease in the industry competitiveness), together with a decline in the automobile market. In addition, during this period, the largest exporting unit – Qimonda – shut down. This subsidiary produced semiconductor memories, which is an activity characterized by alternating phases of expansion and contraction, and the company was heavily dependent on its parent MNC. Qimonda was thus unable to survive the global financial crisis and the crisis in its own sector (ANIMEE 2011). Portugal was no longer competitive in a sector in which attractiveness relied on low production costs. Pavlínek (2015) underlines that European countries were no longer competitive in the export-oriented low-cost and labor-intensive assembly of standardized components, attributing the survival of foreign automotive firms to a deep embeddedness in the Czech and Slovak economies.

The global financial crisis stressed the difficulties in the EEI, increasing the number of divestments. Overall, the global financial crisis decreased the GDP of industrial countries by 4.5%, the world trade by 40% (Chen and Alfaro 2010) and increased the likelihood of exit of a manufacturing firm 40% (Godart, Görg, and Hanley 2012).

Similarly, we have seen that the effects of the global crisis such as difficulties to access credit and a decrease in industry sales led to divestments in the Portuguese EEI. Table 5 shows the main figures for the EEI in 2009, which highlight the massive loss of jobs in this industry, especially the wiring harnesses area.

Stage five: IMF interventions (2011 to 2015)

Countries such as the US and China began to recover after the global crisis by intensively stimulating FDI and heavily investing in the internal construction sector, respectively. In Europe, most EU members had to implement measures to control their deficits. Portugal, Greece and Ireland endured severe adjustment programmes with negative impacts on their economies (ANIMEE 2013).

Table 5. EEI turnover, exports and employment broken down by branches of activity (2009).

	2009 in Million €				
	Turnover	Exports	Employment	Imports	Dom. Market
Electric Equipment	924	416	4422	529	1037
Wires and Cables	411	242	1231	139	308
Wiring Harnesses	256	238	3652	116	134
Automation, Control and Measure Equipment	78	52	561	67	93
Telecommunications, Informat. Prof. Electronics	983	320	4626	1909	2573
Electronic Components	346	292	3839	534	589
Accumulators and Cells	64	60	625	64	68
Lamps and Lighting Fittings	62	48	437	208	222
Electric Installation Apparatus	158	153	1560	252	257
Consumer Electronics	910	878	4154	1084	1115
Household Appliances	158	150	1530	372	380
Industry TOTAL	**4351**	**2850**	**26,637**	**5274**	**6776**

Source: ANIMEE (2011)

A continuing failure to balance its budget led Portugal to adopt three Stability and Growth Pact (SGP) programmes. Under increasing pressure because of its treasury deficit and hikes in public debt loan rates in financial markets, the Portuguese government was forced to resort to the external help of the Troika (the European Commission, ECB and IMF) to address its excessive debt problem. This brought on a deeper economic recession and an increase in unemployment. Companies struggled to raise enough credit, which adversely affected larger projects, especially in the energy sector. Regardless of the SGP's negative externalities, net exports began to exhibit a positive trend in 2012, allowing Portugal to improve its situation by relying on foreign trade with both EU and non-EU countries (ANIMEE 2013). As a result, the Troika's financial adjustment programme ended in 2014. The unfavorable economic conditions contributed to further divestments in the EEI, although at a slower rate than in the previous stages. This industry experienced a slight recovery in 2011 driven by the dynamics of energy markets (i.e. conventional and renewable) and the automobile industry, but this was followed by negative trends resulting from an industry-wide and general economic recession in Portugal (ANIMEE 2013). Lopes and Simões (2017) indicate that the 2010s are characterized by an increase in FDI because of the privatizations undertaken by the Portuguese government but, as a one-off event, the attractiveness of the country for greenfield FDI remained unchanged. EEI companies were crippled by difficulty accessing credit, which compromised larger projects specifically in the energy sector, while other firms basically fought to survive and overcome cash-flow issues. Divestment is often the outcome of a firm's financial issues (Berry 2010), credit constraint issues (Chen and Guo 2005), or the need to improve liquidity and decrease debt (Pashley and Philippatos 1990; Hamilton and Chow 1993). While some firms were closed due to being unable to overcome credit constraint issues, others may have been divested to allow their parent MNCs to raise cash. Overall, Portugal's attractiveness in the first fifteen years of the new millennium cannot be dissociated from the European context: the EU exhibited low economic growth, was unable to keep its share in the World's FDI flow and FDI turned more into services and less toward manufacturing activities (UNCTAD 2015).

Table 6 details the overall difficulties the EEI faced during this period, with employment decreasing in all sectors except for electrical equipment. Nevertheless, divestment intensity

Table 6. EEI turnover, exports and employment breakdown by branches of activity (2015).

	2015 in Million €				
	Turnover	Exports	Employment	Imports	Dom. Market
Electric Equipment	1196	881	5757	621	936
Wires and Cables	533	436	1300	193	289
Wiring Harnesses	331	248	3200	185	268
Automation, Control and Measure Equipment	54	33	347	44	66
Telecommunications, Informat. Prof. Electronics	1088	659	4336	1927	2356
Electronic Components	500	362	3473	585	723
Accumulators and Cells	96	89	465	87	93
Lamps and Lighting Fittings	134	102	382	154	186
Electric Installation Apparatus	261	318	1673	281	224
Consumer Electronics	599	620	3897	747	710
Household Appliances	286	248	1320	432	470
Industry TOTAL	**5078**	**3996**	**26,150**	**5253**	**6320**

Source: ANIMEE (2015)

was lower than previously. Table 7 then presents a summary of the main drivers that influenced EEI investment and divestment in each of the five stages.

Conclusion

In an era of capitalism with its cycles of expansion and recession, divestments have become as common as investments, however, less studied. This article describes how contextual changes have influenced FDI and divestment in the Portuguese EEI, splitting these into five main historical stages based on macroeconomic key changes.

The reasons for FDI and divestment in the Portuguese EEI are diverse and complex. After the early involuntary divestments, the EEI witnessed a strong period of investment. Firms engage in FDI whenever they have OLI advantages, which are dependent on host countries' characteristics. Firms investing in Portugal's EEI in the late 1990s took advantage of economies of scale and high production volumes, exploiting the country's subsidization levels, low labor costs and proximity to the EU market. However, most of these investments were highly verticalized and directed toward the end products of supply chains, with a low emphasis on innovation and research and development activities. Contextual growth led to the expansion of the investment in the EEI based on labor cost advantages, disregarding productivity disadvantages and the lack of firms' competitiveness.

As explained by Boddewyn's FD theory, the loss of even one OLI advantage can lead to divestment and Hayter's location theory sustain that firms relocate to pursue favorable location conditions elsewhere. The data indicate that, after the EU-25 enlargement, FDI in Portugal decreased and, more importantly, FD increased. Joining the EU helped Portugal offer attractive conditions, nonetheless, the same contextual factors that led to the expansion of FDI created conditions for FD as new EU member States had favorable labor cost advantages. Georgopoulos, Sogiakas, and Salavrakos (2018) claim that while membership in a regional agreement might be a significant asset, it also triggers considerable divestment. The divestment process was further intensified by important changes in international business environments. The development of transport networks, innovative technologies and communications systems and the opening of new markets accelerated the globalization process, while decreasing organizational and transaction

Table 7. Main drivers of FDI and FDD between 1975 and 2015.

		World/Business Setting	Portuguese Context	Industry Setting
Stage I: 1975 to 1993	**FDI**	- Decreased trading costs in single EU market - Investment in labor-intensive activities	- IMF Assistance programmes - EEC membership - EU structural funds (e.g. PEDIP I) - Access to large EEC market - Improved infrastructures - Incentives for FDI - Favorable labor costs - Low political risk - Small cultural distance to FDI sources	- Large FDI investments mostly in automobile industry with spill overs for the EEI as supplier - AutoEuropa project - Industry attractiveness
	FDD		- Industry nationalization - Loss of colonial markets	
Stage II: 1994 to 1999	**FDI**	- New business opportunities due to technology expansion	- Public investment in infrastructure - PEDIP II (selected projects from PEDIP I)	- AutoEuropa's impact on development of supply network - EU car market growth
	FDD	- Emergence of Asian countries (due to lower labor costs and access to large Chinese market) - Removal of protectionist barriers of Eastern Europe - Globalization - New technologies	- Low productivity	- Oversupply in computer market leading to price drops
Stage III: 2000 to 2004	**FDI**		- FDI in construction, services, transport, communications and commerce sectors (but not in manufacturing)	
	FDD	- 9/11 terrorist attack and lack of trust among consumers - Global economic shift toward China and India - China joining the WTO - EU-25 enlargement	- Recession due to excessive deficit levels - Increased perception of Portugal as a peripheral country - High labor costs and low education levels - Lack of skilled and knowledgeable workforce - High geographic distance to leading countries in automobile industry - Poor scientific and technological infrastructure - Low levels of private R&D expenditure - Loss of the ability to use currency devaluation to increase competitiveness	- Late 1990s over-production - Unfavorable EU automobile market - Information technology prices decrease after reaching a peak - Fierce competition from China in electronics and information technologies - Lack of related and supported industries

(*Continued*)

Table 7. (Continued).

		World/Business Setting	Portuguese Context	Industry Setting
Stage IV: 2005 to 2010	**FDI**	- Favorable market diversification	- Favorable investment in renewable energies	
	FDD	- Increased international market competitiveness - China's globalization and acquisition of US commercial networks and European companies - Global financial crisis	- Low labor market flexibility - Financial issues and credit access restrictions	- Decreased demand for the EU-automobile market due to global financial crisis and credit access constraints - Decreased demand for housing and construction due to credit access restrictions - Manufacturing industry's dependence on international trade
Stage V: 2011 to 2015	**FDI**			- Energy market - Automobile market
	FDD		- Recessionary environment in domestic market - Cash flow issues due to credit access constraints - Large projects compromised	

costs. MNCs began operating in multiple markets, switching from multi-domestic to global strategies, which in turn had an impact on FD.

The negative impact of these changes on EEI divestments was enhanced by Portugal's low level of productivity in labor intensive activities. Mateus, Mateus, and Madruga (2013) highlight that between 1994 and 2010, Portugal's unit labor costs increased 21% when compared to the EU average, whereas productivity increased less than 1% since 1999. Portugal's unresolved structural problems led to less FDI and the offshoring activities of MNCs operating in Europe reinforced FD in the EEI.

Additional factors increased the pressure on the Portuguese EEI and played a role in further divestments. This industry's heavy dependence on other industries, such as the housing and construction, consumer electronics and especially the automobile sector, implied that those industries' performance strongly influenced the EEI. In the same way that FDI projects in the automobile industry triggered EEI investments, sales decreases and relocations in the automobile sector had a negative impact on the EEI's supply chain.

A dependence on foreign trade meant that an unfavorable external environment conditioned the Portuguese EEI. Events such as the global economic crisis of 2007–2008 led to a recession in Europe and the imposition of tough measures on poorer countries such as Portugal. Consumer credit constraints restricted consumption patterns, with major impacts on products requiring credit such as automobiles or houses. Simultaneously, this created cash-flow issues at the firm level and negatively impacted the EEI. Clearly, the external context led to a strong economic slowdown that lowered demand and production, which made the productivity problem deeper. On the other hand, the low attractiveness of the Portuguese market and the difficulties in obtaining credit led to more recession and governmental programmes shifted to support exports. Under those circumstances, MNCs resorted to divestment activities due to debt problems and as a way of gaining liquidity.

Three main conclusions can be drawn. First, after analyzing the traditional approaches of the FD and location theory, external factors such as labor costs, country and industry growth, productivity, governmental policies and internal and external crises have a relevant role in explaining divestments and production relocations. The findings lend support to the rationale behind the FD theory as MNCs operating in the Portuguese EEI divested because they no longer found it profitable to internalize their competitive advantage in a host country such as Portugal. However, the analysis suggests that a single external change per se might not been enough to trigger divestments but instead, the various exogenous changes contributed to an environmental setting that ultimately led to divestment. As a result, no single reason can be used solely to explain why firms divest, as they are closely intertwined as shown. In other words, increasing labor costs in a host country may not (necessarily) lead to divestments if the MNCs do not have an environmental setting that favors relocation such as the availability of feasible cheaper locations. For example, MNCs may choose to hold up their relocations in the case of high barriers to relocation such as geographical distance (Lampón, Cabanelas, and Carballo-Cruz 2017). Similarly, divestments are also contingent on the characteristics of the industries as is the case of the Portuguese EEI, which relies heavily on international trade and has close links with the construction and automobile industries. This means that the Portuguese EEI is strongly affected by changes in international trade and by

difficulties in the industries it supplies – which is aggravated by the vertical nature of the investment and of being at the low end of these industries supply chain.

Second, it is important that the literature considers the nature of FDI and its drivers when examining divestments and relocations, as those two activities seem interrelated. This is demonstrated by the Portuguese EEI inability to retain extant FDI as the same contextual factors that were initially responsible for attracting FDI, led later to FD. This is an important aspect as one can argue that the competitiveness of the EEI was not as strong as originally thought, based on the high levels of FDI that were subsequently lost to FD.

Third, it is important for countries not only to attract FDI, but also, to create the conditions to retain it. Despite attracting many foreign MNCs, the Portuguese EEI suffered the consequences of the changes in the contextual environment (that led to divestments) and of the local factor endowments that were not able to adapt to those changes. Through the period under analysis, Portugal could not change its competitive position (based on cheaper labor and the use of currency devaluation to artificially increase its competitiveness). The investment programs such as PEDIP I and PEDIP II were important in attracting FDI but had a short-term impact and were unable to change the nature of the investment. While these programs contributed to develop national companies, they neglected the support for foreign MNCs, the creation of endogenous technology and the relationship between foreign units and their local suppliers. Thus, the typology for MNCs investing in the Portuguese EEI remained of the offshore type (seeking access to low-cost production) (see Ferdows 1997). The competitiveness policies could not create the conditions for the generation of technology and knowledge that would allow Portugal to capture outpost factories (seeking access to skills and knowledge). That would allow foreign subsidiaries to take advantage of that knowledge and generate added value for their parent MNCs, eventually evolving to lead factories (which generate skills and knowledge) (Ferdows 1997). This inability to manage the intrinsic drivers of competitiveness prevented Portugal from breaking the cycle of divestment.

The Portuguese economy and the EEI challenge is to increase its competitiveness and productivity, which can be achieved through innovation not only at a technological level, but also at a business and firm-level. At a macro-level, policy measures should target the investment in education and the development of existing and of new industrial clusters (Gonçalves, Sarmento, and Rodrigues 2019). The investment in education will enhance the capabilities of human resources whereas the investment in industrial clusters will create the opportunities for those resources. From a geographical distance standpoint, Portugal should aim to shift the perspective of a peripherical EU country to one that is situated between the United States and Europe.

Lopes and Simões (2017) argue for the need of an emphasis on technological development, higher cooperation between universities and high-tech businesses, the need to create linkages and to increase the embeddedness with the local context, as well as the need for a better support system (e.g. better business environment, infrastructures and legislation). Pavlínek (2015) has also emphasized the importance of a firm's embeddedness in local economies (as it contributed to prevent relocations of automotive suppliers). However and as Porter, Ketels, and Delgado (2007, 51) note, '*many discussions of competitiveness remain focused on the macroeconomic, political, legal, and social circumstances that underpin a successful economy (. . .) Productivity ultimately depends on the microeconomic*

capability of the economy, rooted in the sophistication of companies (both local and subsidiaries of multinationals), the quality of the national business environment, and the externalities arising from the presence of clusters of related and supporting industries'. Such microeconomic sophistication can be achieved following Porter's eight recommendations: focus on sophisticated and demanding customers; develop competitive strategies; increase productivity; cooperate with suppliers, distributors and customers; create representative associations; build a domestic base; develop civil society; and invest in human capital (Amaral 2019).

Overall, divestments should be analyzed from a broader perspective (economic, corporate and local) that supports the creation of conditions for the development of expansion activities, complemented by proper industrial policies that not only seek to attract FDI, but also to generate exogenous conditions that improve competitiveness throughout the supply chain.

The development of this study carries two limitations. The first is related with the very nature of the historical approach. While the data used to support the narrative is generally well-accepted, the explanations on its interpretation are more subject to debate. The second pertains to the data used, as ANIMEE's reports are released biannually and data were not available for the full 25-year period.

Note

1. The bursting of the housing bubble in the US and the high degree of internationalization of financial systems caused the US crisis to spread quickly around the world, particularly in Europe.

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