

The Lusophone Triangle



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In these last few months international investors are getting acquainted with a reality that only few of them were aware of: the Lusophone triangle.

One of the most important legacies of the Portuguese maritime expansion of the 15th century is the dawn of a community of more than 220 million Portuguese speakers.

This community includes countries in four continents: Europe – Portugal; Africa – Angola, Cape Verde, Guinea-Bissau, Mozambique and São Tomé e Príncipe; South America – Brazil, and Asia – East Timor. To these we could also add the Chinese Special Administrative Region of Macau that also has historical bonds with the Portuguese speaking countries.

Nowadays it is common to think about Angola, Brazil, Cape Verde, Mozambique and Portugal as countries not only with strong cultural bonds between them, but also as a market as a whole deserving a common strategic approach.

Think for example about the recent 'dispute' between Portugal Telecom (PT) and Telefonica concerning the Brazilian telecom VIVO. The main strategic interest PT was defending was its presence in a multi-continental market, almost twenty times bigger than its home market, speaking the same language, a fantastic advantage when you are thinking about telecoms, media and contents.

Consider for example the leading role these countries can have in the energy sector. Angola, Brazil and East Timor are oil and gas producers; Brazil or Mozambique having some of the biggest embankments in their respective continents and the investment some of these countries are making in the renewable energy sector: for example over 60% of the energy produced in Portugal during the first semester of 2010 was from renewable sources. Just think about the synergies between these different realities if these countries are object of an integrated strategic approach from companies investing in the energy sector at a global scale.

Think for example about the geopolitical influence of these countries that control immense territorial waters in the Atlantic Ocean; Portugal in the North Atlantic with the Azores Islands just between Europe and North America, Cape Verde standing between the North and South Atlantic and between Africa and South America and finally Angola, Brazil and Mozambique - countries with a vast coastal line and extremely rich maritime resources.

Take a minute to think about the enormous economic potential of the exploitation of the maritime resources of the above mentioned countries, when important R&D efforts are made in fields such as energy, biomedicine, pharmaceutical or the food industry.

These are just a few examples from a reality where much more could be found.

Another advantage for global investors to consider these countries as a whole is that although having many important aspects in common they are different economic realities, thus reducing the investment risks.

For these last few years Portugal has been strongly affected by the international economic and financial crisis and experienced

negative growth of its GDP and a big increase of unemployment and of fiscal debt. Portugal is a member of the European Union and of the Euro zone. For the last decades its economy shifted from being an agricultural and industry-based economy to a services-based economy.

The deep changes its productive system and its economy suffered led to difficult times, when instead of converging upon the standards of living of other eurozone countries, Portugal didn't grow as much as its 'partners'.

However, its government have a deep confidence in a new development model based on a very strong investment in education and R&D, in exploring the possibilities that its geographical situation and its continental waters provide, in taking the lead in the renewable energy sector and exploring the benefits from strong historical and cultural bonds with countries from other continents.

As far as foreign investment is concerned Portugal has a friendly environment and has made in recent years a remarkable effort to reduce the burden of bureaucracy that had been a big handicap to the competitiveness of the country. Some of the most important changes have occurred

in corporate law, reducing the formalities needed to incorporate a new company, a process that in some cases can be made in a single day and where in most cases public deeds are no longer necessary.

Portugal has also recently reformed its labour law in an effort to increase the flexibility of the labour market, although the dismissal regime isn't as flexible as the ones of some of its peers.

Despite all these efforts, which are encouraged by investors from all over the world, there are still some important reforms to be made that would be highly prized. Probably the most relevant one would be the judicial system reform, allowing justice to be delivered more quickly. In fact one of the biggest problems economic agents can be confronted with is the slowness of justice and the excessive amount of time in obtaining a decision in a judicial claim. Governments have been trying to tackle this issue in many different ways but none of them has been able to find the correct solution.

These realities combined with the fact that Portugal is a member of the EU can make it a privileged platform for investment in Africa and South America.

Having acknowledged this reality the Portuguese legislator has established a tax exemption for profits distributed to Portuguese companies by companies resident in African Portuguese speaking countries and East Timor. This tax exemption can occur when the following conditions, amongst others related to the nature of the economic activities involved, are met:

- a) The company beneficiary of the profits' distribution is subject to corporate tax;
- b) The beneficiary holds, at least, in a direct way, 25% share capital at the subsidiary for a period not inferior to 2 years;
- c) The distributed profits must have been subject to taxation at a rate not inferior to 10%.

This tax exemption is especially important when you consider the fact that Angola has not signed any Double Taxation Convention.

After having experienced the first negative growth in recent years in its GDP (-0.2%) Brazil has surprised the world economic community by announcing an expansion of 9% for the first quarter of 2010 and a yearly forecast of 7%; this after having experienced an average growth of 4.8% between 2004 and 2008. These are results that most of the governments of the world don't even dare to dream about. These results combine with relative moderate inflation growth, around 4%, for such an active economy and a fiscal surplus that moves around 2.4% of the GDP.

Brazil is one of the emerging stars of the world economy, a group that also includes China, India and Russia, and is also a stepping stone to the MERCOSUR (the South American Community established between Brazil, Argentina, Paraguay and Uruguay with the objective of promoting the free transit of production goods, services and factors between the member states and of fixing a common external tariff and adopting a common trade policy with regard to non-member states and regional communities). Between the MERCOSUR objectives we can also find the one of establishing a coordinate policy in economic sectors related with foreign trade such as, for example, agriculture, industry, taxes, monetary system and exchange policy, amongst others.

Apart from the full member states, MERCOSUR has associate members, a category that includes Bolivia, Chile, Colombia, Ecuador and Peru. Mexico is an observer of this International Community.

Although being generally considered as a country presenting good conditions and opportunities for foreign investment, Brazil has some aspects still needing to be reformed, namely the indirect tax system. The VAT correspondent tax in Brazil is the ICMS, which is not a federal tax but a state level tax thus leading some states to use it as policy instrument for attracting investment to that state. The central government has already taken the first steps towards a reform of the tax system that will make the ICMS more homogeneous throughout the entire territory.

As we all know Brazil benefits from the existence of important natural resources that make it one of the most dynamic raw materials markets globally. The richness and beauty of the country also make it one of the top touristic destinations of the world, still with many unspoiled destinations.

Brazil has developed a high quality university-level teaching system, also due to a close academic link with the United States and Europe. The high teaching standards Brazil has achieved allows the country to form high quality professionals in every field. For that reason, and also due to the high investment in R&D, the country can be considered a leading country in many industries and services.

The dynamics, quality and economic capacity of Brazilian companies make the country not only a FDI (foreign direct investment) receiver, but also an important investor in other markets.

For the purpose of this article we would like it known that in recent years Brazilian companies have increased their investments volumes in the Portuguese market and in the Portuguese-speaking African countries.

This could be considered as a new important characteristic of the so called 'Lusophone triangle'; the investment flows between these countries don't have a single direction. We can instinctively see Brazilian companies investing in Angola (or other African country) or Portugal, Portuguese companies investing in Brazil and Angola, or Angolan companies investing in Portugal and Brazil.

As far as Angola is concerned after the spectacular years of 2007 (estimated 20%+ GDP growth) and 2008 (estimated over 12% GDP growth), the year of 2009 was a bit deceptive with an almost flat evolution of the GDP (estimate -0.20%). These figures combine with less attractive ones that rank the country at the bottom of some of the socio-economic indicators.

When speaking about Angola and the African Portuguese-speaking countries, one must not forget that they are still recovering from a long period of instability (independence wars, sometimes followed by civil ones). The economic perspectives of Angola benefit from the existence of immensely rich natural resources and also from the need to build basic infrastructures and to create a solid national industry. Angola has been an economy heavily dependent of the oil industry and its economic results, but struggling to create a new economic paradigm.

In this effort Angola, and likewise the other African Portuguese-speaking countries, mainly Mozambique and Cape Verde, are making serious efforts to develop their economies, thus creating the conditions for nationals and foreigners to invest and create new businesses, and can count on the help and experience of the other two vertices of this triangle, Brazil and Portugal.

As previously stated, the main sectors that could benefit from foreign investment would be infrastructure, energy (namely renewable energy), tourism and industrial production of consumption goods.

At a political level all these countries have recognized the importance of the bonds existing between them by creating the CPLP (Community of Portuguese Language Countries). Having close links and being present at these jurisdictions Raposo Bernardo has had the direct experience of assisting some projects of investment developed between these countries, thus attesting and recognizing the importance and the dynamics of the investment flows between them.

The 'Lusophone triangle' is in our opinion a reality that deserves your attention. ■