

## Map for a rebirth

In order to find an efficient model for economic growth or a clear business strategy for the country, we need to pull back to the House of Avis times. The few points of contact that we might still find today with that period are the investment put on knowledge.

Portugal has been able to improve the quality of its Higher Education and to increase the offer of a highly qualified workforce. Comparing to 30 years ago, Portugal manages to produce 10 times more PhDs per year<sup>1</sup>, and the annual investment in R&D almost tripled (from 0.5% to 1.4% of the GDP).

If we agree that to invest in R&D is to turn expense into knowledge and that innovation is to turn knowledge into profit, we will be able to find examples of successful companies that knew how to invest money in knowledge and to transform that knowledge into more money:

- In the last decade, BIAL was able to obtain the FDA approval for two in-house developed drugs -Zebenix and Opicapone.
- Since 2015, among the 261 new drugs that have been approved by the FDA, there are 20 such drugs whose manufacturing process has been in part developed in Hovione's labs. In the last six years, the production of 8% of the new drugs that have been released in the USA have taken place at Hovione's sites.
- FarFetch, OutSystem and Talkdesk capitalisation amount to half of the average value of the Lisbon Stock Exchange (€60 bn). These tech companies' success is a direct result of our universities effort and of the 'Luso'/Portuguese entrepreneurial spirit<sup>2</sup>.

In the aftermath of the financial crisis our country managed to reinvent itself. In order to face the loss of domestic sales, many companies turned successfully towards exportation. Between 2009 and 2019 exports rose from 27% of the GDP to 44%<sup>3</sup>.

How to explain then that further to these excellent performance cases our GDP grew by a meagre 1.6% CAGR between 2008 and 2019, and a mere 2.5% between 1999 and 2019?

In spite of showing signs of being able to reinvent itself, of being able to be at the forefront of some of the most intense R&D sectors and in the world's most competitive and demanding markets, the country's GDP is still very low.

---

<sup>1</sup>

<https://www.pordata.pt/Portugal/Diplomados+no+ensino+superior+total+e+por+n%C3%ADvel+de+forma%C3%A7%C3%A3o-219>

<sup>2</sup> In March 2021

<sup>3</sup> <https://www.pordata.pt/Portugal/Balan%C3%A7a+comercial+em+percentagem+do+PIB-2595>  
www.hovione.com

The discourse of the political class addressing the Portuguese people tries to conceal the fact that the country's wealth is produced by the companies. It is a discourse focused on distributing the 'cake' but never on how to make a bigger 'cake'.

What the Portuguese people want – better wages, fewer taxes, less indebtedness (both of the families and of the public sector), more and better public services – is dependent on economic growth. Unfortunately, I can't think of a politician that might have once explained clearly that economic growth only happens when companies create wealth, and for that matter they need to invest and to create jobs. No one is ever reminding the electorate that the bigger the public sector is, the lower is a country's productivity and the lower is the country's return on invested capital.

Many people still regard companies with a negative view. Private enterprise is not acknowledged what more appreciated. The term entrepreneur itself has negative connotations, and the entrepreneur's work is not acknowledged but rather a matter for envy for the fortune it has produced. It is by no means a surprise that it is extremely difficult for companies in this country to be able to grow.

In 1990 Ireland's GDP per capita was very similar to ours, however, 30 years down the line, their GDP is twice our GDP. We are both small peripheral economies and in both countries the industrial revolution arrived late and weakly. The reason for the different economic growth lies in the country's governance and in the strategies that the country drafted and implemented – or did not.

For centuries the Portuguese people have become used to looking to the State and to the Public Sector for work and protection. Economic growth is therefore weak, the tax burden is heavy, and the average wage is low.

If we want to recover from our lag, we will need a 180° change from what we have been applying for generations. We need a small and efficient public sector. There has to be a change in the Portuguese people's behavior so that words such as support, financial support, subsidies are replaced by words such as work, competitiveness, return.

Teaching at schools also needs to evolve. We need a stronger ambition and a clearer view for the future. We need better and larger companies. The will to build up has to replace the tendency to be short sighted, to be dependent and the tendency to lean on someone. The tax system cannot continue to neuter or push people abroad.

Portugal owns many assets which provide the country with several competitive advantages that we urgently need to put to good use. Among all of Europe's countries we hold the best combination as regards security, weather, and culture to welcome foreign people. Our maritime domain is unsurpassable. Our economic fabric is capable of developing new added value products.

In 2019, Vas Narasimhan, CEO at Novartis, was amazed when finding out about Portugal's capacity in what regarded research and development – both in academia and in the business world – in the knowledge about diseases, in clinical evaluation and in pharmaceutical research.

But he added that it is no use being good if we are not the best. The world is very competitive, only number one counts – in order to achieve that, we either manage to be number one and work to keep the leadership, or we have to become number one in a new research area.

To be innovative we need audacity within a calculated risk and keeping a finger strongly on the pulse of the market. We need to find parallel opportunities, without distancing too much from what we are already good at. But we have to keep on learning and to be able to reinvent our companies.

We know that it is companies that create wealth and that productivity leverages only on a few aspects: innovation, management, and international expansion. However, these do not work within small companies. Alongside an excessively big and inefficient public sector and a very unwelcome environment for business development, most of the Portuguese companies are too small.

In 2018, 77% of the jobs in our country were in SMEs. “Each one of the 2,6 million Portuguese employees working at SMEs were producing goods or delivering services amounting to 22.900 euros per year, which is below the per capita GDP, which amounts to 23.400 euros – an indicator that helps to explain the low wages and Portugal’s job insecurity.”<sup>4</sup>

“The Irish SMEs generate 50% of the GAV and employ 69% of the active population”<sup>5</sup>, in Portugal [2018] “SMEs generate 68% of the wealth, they are responsible for 77% of the job offer, and have on average three employees.”<sup>6</sup>

The gross added value from Tourism has grown by 6% CAGR between 2008 and 2017, increasing from €16bn to €28bn.<sup>7</sup>

However, although Tourism is a very important and promising sector, it is by no means the most efficient to allow us to move away from the spiral of small, little added value companies with low wages.

One of the key solutions to climb up to a more ambitious growth level – especially since 2011/2012 – is in a successful tradable goods export sector.

We have therefore to conclude that although the Higher Education system in Portugal has improved considerably during the last 30 years, this only impacts on less than a quarter of employees because most of the companies are too small to be able to make good use of these leveraging assets. Until medium sized companies

---

<sup>4</sup> <https://www.publico.pt/2019/11/27/economia/noticia/portugal-so-ha-875-empresas-1895260>

<sup>5</sup> <https://www.cso.ie/en/releasesandpublications/ep/p-bii/bii2014/sme/>

<sup>6</sup> <https://hrportugal.sapo.pt/sabe-quantos-postos-de-trabalho-e-que-riqueza-as-pme-geram-em-portugal/>

<sup>7</sup> [https://www.ine.pt/scripts/ws\\_tur\\_docs/20191218\\_Workshop\\_Turismo\\_INE.pdf](https://www.ine.pt/scripts/ws_tur_docs/20191218_Workshop_Turismo_INE.pdf)

are not able to grow, it will be very difficult to increase wealth production, productivity, or wages.

The country needs to continue to reinvent itself, but it will not be thanks to a cluster's choice or the support of a certain group. It has to be up to the market and to free competition to be the referee over who wins and who loses.

What we need to aim for is for a very different view on the role of the State. A view that does not envisage the State as a ubiquitous entity, or as a supposed motor – when, in fact, it ends up becoming a rather dispensable break, choking the entrepreneurs' and basically all of the Portuguese initiative. And yet, it can still be a strong State, but one that is a guarantor for efficient public services and that is also aware of the crucial role that private enterprise plays in the creation of wealth, of jobs and in the country's development.

The role of the State should be to assure the necessary conditions in order there to be a healthy and effective development which will benefit all. The State should hold a crucial role in assuring that there are optimal conditions in order to allow companies to compete and thrive to its best.

- Primary, secondary, and higher education as well as polytechnic education need to be constantly adjusting their 'product' to the market demand. The country needs people with the right qualifications, and the Government needs to find the money for this – this is the major priority. In cutting edge sectors, the Government should deliberately choose one or two specific ones in which the country should aim to be number one by leveraging on the competitive advantages it already holds. The knowledge on the sea should be one of them.

The State should implement the necessary reforms to allow the country to be more competitive. These in fact have already been identified by the Commission in Brussels. For example, to dismantle all the corporations that strangle the country and protect those that cannot stand to win on one's own merit, namely, to disallow the associations that protect certain professions, to improve the efficiency of our justice system, to assure that those areas that demand a long term view in order to function properly (such as health, education...) are not dependent on the electoral cycle.

- Regulators hold a key role. They should not be merely policing the companies but should rather be catalysts towards strengthening the companies that are under their supervision.
- A strong regulator is the best that can happen to national industry as long as it is competent, has an international vision and its main task is to support the industry's development. Obviously, it should be able to count with the appropriate resources and with the right leadership.

What the country needs:

- Simple, clear, steady policies with a long-term view. We need a consensus as regards the model for economic growth (that means a non-partisan model), that leverages on our competitive advantages and strengths.
- That the State stops constraining but rather starts contributing towards creating competitive advantages and fostering the business sector as the only wealth producer.
- To choose a national goal, an all-encompassing common thread, a mobilizing focusing idea – there is no doubt about it, it should be the sea. And placing the sea at the heart of education, research, public investment, industry, the arts, and sports.

Whenever the choice for new leaders or leading teams comes up – whether to lead the country, an agency, a service, a council, etc.... it should be noted that crisis such as the one we have been through with Covid-19 will be more and more prevalent. We will have to learn how to navigate across uncertainty and to be able to take good decisions fast.

In order to govern and to set the right course, the captain will have to make good use of the growing scientific knowledge and to apply it deliberately, boldly, without hesitation.

In this sense, whenever the choice of new leaders comes up, whether by nomination or elections, this choice should be made considering the lessons from our recent past and very much aware of what might be the cost of a bad choice on an inefficient team that is not able to make things happen, that does not demand accountability or that is not accountable itself.

Guy Villax

8 April 2021