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Economic Growth and Development Strategies in the CPLP

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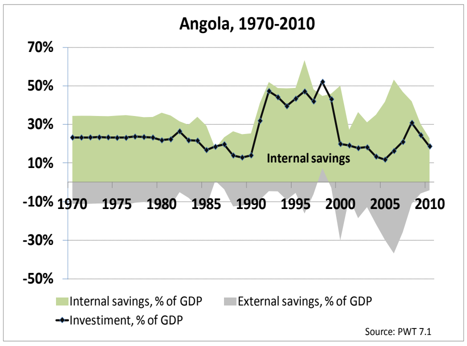
The Community of Portuguese Speaking Countries (CPLP) is an international organisation with legal personality and endowed with financial autonomy, formed in 1996 by countries which use Portuguese as their official language, with the purpose of political and diplomatic harmonisation between the member states. Currently the CPLP has nine members: Angola, Brazil, Cape Verde, Guinea-Bissau, Equatorial Guinea, Mozambique, Portugal, São Tomé and Príncipe and East Timor (www.cplp.org/id-2763.aspx).

This text shares part of the recent reflection of its author, following an intervention he made at one of the Technical Panels of the XIII Meeting of CPLP Ministers of Labour and Social Matters, held in Dili, on 28-29 April 2015 (www.iese.ac.mz/lib/noticias/2015/CPLP_Dili-AF-Documento-base-29.04.15.pdf). In analysing the economic and financial foundations of social protection, this reflection identified the type of economic development strategies prevalent in each country of the CPLP, the growth strategies which determine the shape of social protection systems, options and opportunities.

So as to make clear the rationale behind the growth strategies identified, some criteria should be made explicit beforehand. First, the concept of "strategy" is understood as an incessant search for advantages and success, in a conflictual or competitive context, instead of the common and mere notion of intent, finality and objective oriented towards a certain action. Second, the questioning of the growth strategy is based on the way in which countries seek to gain advantages and to affirm themselves, regionally or internationally, by putting together their main sources of investment finance, namely internal savings, corresponding to that part of revenue (income) which is not used for consumption, in a certain period; and external savings, corresponding to that part of revenue not consumed by other countries and made available to the country that imports it. Third, economic development is understood as the process of increasing productivity and improving the average living standards of the population, resulting from capital accumulation and technical progress in a given society. Fourth, what makes economies move is not savings but expenditure, particularly expenditure on capital goods that can expand production in the future. But that does not mean that savings are irrelevant, Savings are a form of deferred consumption, converted into a necessary condition for productive investment, while consumption is what guarantees the welfare of the population. Fifth, the identification of the development strategies, described below, takes as the main criterion the rates of savings (internal and external) and of investment as percentages of the gross domestic product (GDP). Sixth, to illustrate the strategies empirically resort was had to version 7.1 of the data base *Penn World Table* (https://pwt.sas.upenn.edu/); this is a data base of the national accounts of a total of 189 countries. There follows a summary presentation of the essential of the development strategy of each of the nine countries of the CPLP, in alphabetical order (Portuguese version).

ANGOLA

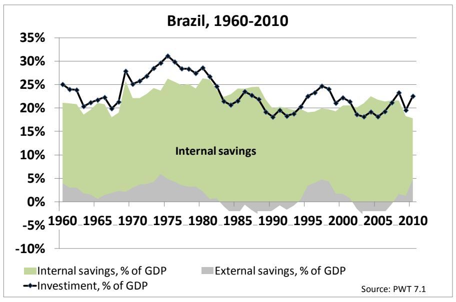
Consumption (% of GDP, 2000-10)	62
Internal savings (% of GDP, 2000-10)	37,9
External savings (% of GDP, 2000-10)	-18,6
Investment (% of GDP, 2000-10)	19,2
GDP per capita ($Int., 2010)	5.108
Population (millions, 2010)	13,068



According to the data used, Angola began the second decade of the new millennium with a real GDP per capita estimated at $Int. 5,108 which grew in 2000-2010 at an average annual rate of 6.8%; a figure that will certainly be corrected when more up-to-date information from the 2014 population census, the first census in four decades, are taken into consideration in the international series. However, regardless of the statistical details and despite its troubled social and politico-military path, Angola presents a growth strategy mainly anchored in internal savings, but at risk of coming to depend more on foreign savings . In comparing the high rate of long term internal savings (37% of GDP in 1970-2010) with the rate of investment (25% of GDP) and the rate of external savings (-11% of GDP), a doubt arises: Is Angola investing more inside or outside the country?

BRAZIL

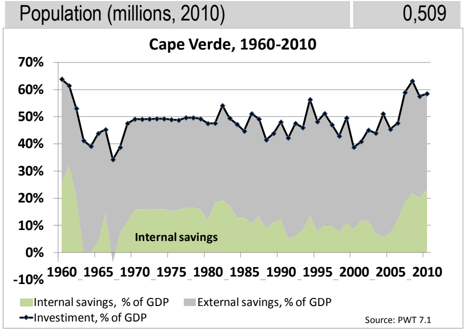
Consumption (% of GDP, 2000-10)	79
Internal savings (% of GDP, 2000-10)	20,7
External savings (% of GDP, 2000-10)	-0,4
Investment (% of GDP, 2000-10)	20,3
GDP per capita ($Int., 2010)	8.324
Population (millions, 2010)	201,103



Brazil emerged in the 21st century as one of the ten largest economies in the world: on its own, it accounts for about 80% of the population of the CPLP. Following Portugal, Brazil is the most advanced country in the CPLP in the two transformations currently under way: the demographic and economic transitions. But although it has an average per capita GDP ($Int. 8,324 in 2010) it remains an underdeveloped country in several aspects. Guided by a development strategy anchored in internal savings, it depends significantly on external savings, imported through deficits on the current accounts, in order to maintain levels of investment capable of expanding productive capacity and Brazilian economic growth .

CAPE VERDE

Consumption (% of GDP, 2000-10)	87
Internal savings (% of GDP), 2000-10)	13,4
External savings (% of GDP, 2000-10)	36,7
Investment (% of GDP, 2000-10)	50,1
GDP per capita ($Int., 2010)	3.917
Population (millions, 2010)	0,509



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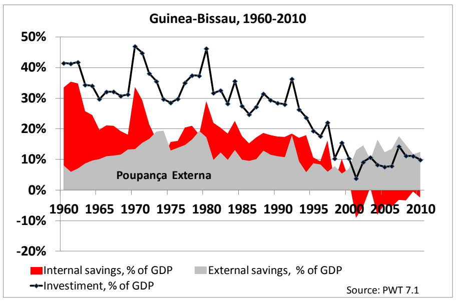
Cape Verde has managed to improve the standard of living of its population ($Int. 3.917 in 2010). GDP per capita grew at an annual average of 4.8% in 2000-2010. Thanks to a development strategy which seeks to bring together relatively modest internal savings (13% of GDP) with pro-active mobilisation of external savings (36% of GDP), it is succeeding in recording the highest investment rate (50% of GDP) in the CPLP. Will it manage to expand its total domestic savings and reduce dependence on external savings? Time will tell!

GUINEA-BISSAU

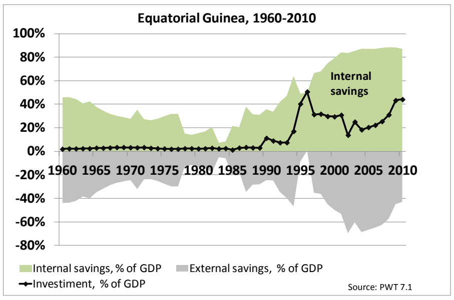
Consumption (% of GDP, 2000-10)	104
Internal savings (% of GDP, 2000-10)	-3,5
External savings (% of GDP, 2000-10)	13
Investment (% of GDP, 2000-10)	9,5
GDP per capita ($Int., 2010)	798
Population (millions, 2010)	1,565



Guinea-Bissau has the second lowest standard of living in the CPLP (per capita GDP of $Int. 798 in 2010). In the decade 2000-2010 it recorded a negative annual rate of growth in per capita GDP (-0.5%). In this first decade of the new millennium, it embarked on a strategy of substituting internal savings (-3,5% of GDP) by external savings (13% of GDP); that is, a strategy of underdevelopment, because the external funding is mainly used for consumption instead of for investment.

EQUATORIAL GUINEA

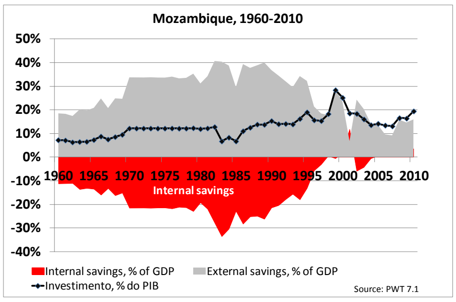
Consumption (% of GDP, 2000-10)	14
Internal savings (% of GDP, 2000-10)	86
External savings (% of GDP, 2000-10)	-58,4
Investment (% of GDP, 2000-10)	27,6
GDP per capita ($Int., 2010)	13.958
Population (millions, 2010)	0,651



Equatorial Guinea, a country recently admitted to the CPLP, in 2010 had the third largest real GDP per capita ($Int. 13.958), resulting from an average annual growth of almost 10%. But its development strategy is one of the most sui generis, not to mention intriguing. In 2000-2010 it displayed extremely low consumption (14% of GDP), when compared to the other members of the CPLP and above all high internal savings (86% of GDP) – the highest in the CPLP!

MOZAMBIQUE

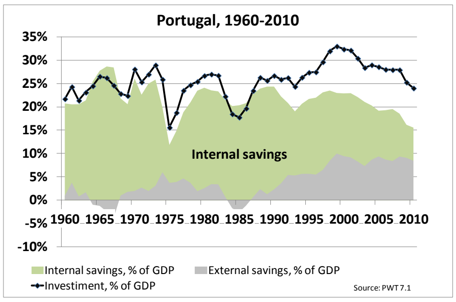
Consumption (% of GDP, 2000-10)	98
Internal savings (% of GDP, 2000-10)	1,5
External savings (% of GDP, 2000-10)	15,3
Investment (% of GDP, 2000-10)	16,8
GDP per capita ($Int., 2010)	781
Population (millions, 2010)	22,417



Mozambique is the country with the lowest standard of living in the CPLP, measured by real GDP per capita ($Int. 781), but in 2000-2010 it recorded the largest average annual growth rates (5.3%). This growth results from a long term growth strategy (1960-2010) resting on replacing internal savings (-14% of GDP) by external savings (27% of GDP), oriented more towards consumption (52%) than to investment (48%). Mozambique has attempted to compensate for the negative effects of its troubled politico-military trajectory with a growth strategy anchored mainly on the savings of other countries and at the cost of internal savings. In the end, it becomes a strategy more of underdevelopment than of development. However, the first decade of the new millennium shows a break with the preceding trend; but for now, nothing indicates that this corresponds to a substantial change in the development strategy, seeking to free the country from dependence on external savings.

PORTUGAL

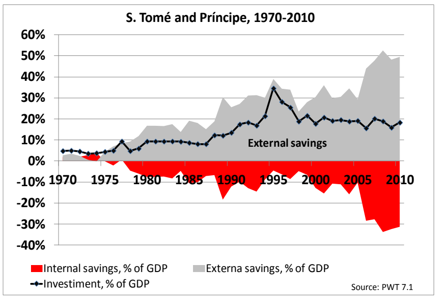
Consumption (% of GDP, 2000-10)	80
Internal savings (% of GDP, 2000-10)	20
External savings (% of GDP, 2000-10)	8,7
Investment (% of GDP, 2000-10)	28,5
GDP per capita ($Int., 2010)	19.782
Population (millions, 2010)	10,736



Portugal is the country of the CPLP with the highest standard of living (GDP per capita of $Int. 19,782) and is the most advanced in the dual transition under way: the demographic transition, and the building of a developed capitalist economy. Its advanced and sustained level of development derives from a long term growth strategy (1960-2010) anchored in internal savings (22%), but which needs to be complemented by external savings, imported through deficits on the current accounts. It was at this level that the economic and financial crisis broke out recently. In the decade 2000-2010 the growth in Portuguese living standards practically stagnated (0.25%), but the rates of external savings doubled (8.7% of GDP) compared with the long term rates (4% of GDP, in 1960-2010). The limits of sustainability of the deficits on current accounts place unequalled challenges on Portugal; challenges typical of the only country with advanced development in the CPLP .

S. TOMÉ AND PRÍNCIPE

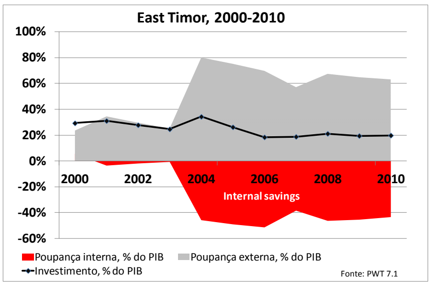
Consumption (% of GDP, 2000-10)	121
Internal savings (% of GDP, 2000-10)	-21
External savings (% of GDP, 2000-10)	39,4
Investment (% of GDP, 2000-10)	18,5
GDP per capita ($Int., 2010)	1.616
Population (millions, 2010)	0,176



São Tomé and Príncipe is the country of the CPLP with the smallest population and a low standard of living ($Int. 1.616), which grew in 2000-2010 at an average annual rate of 2.2%. Like Guinea-Bissau and Mozambique, São Tomé and Príncipe has followed a long term (under) development strategy (1960-2010) anchored on replacing internal savings (-10% of GDP) by external savings (24% of GDP) .

EAST TIMOR

Consumption (% of GDP, 2000-05)	129
Internal savings (% of GDP, 2000-05)	-46
External savings (% of GDP, 2000-05)	66
Investment (% of GDP, 2000-05)	21
GDP per capita ($Int., 2010)	1.119
Population (millions, 2010)	1,155



East Timor is one of the youngest countries in the world. It achieved its independence in May 2002, after a difficult politico-military and social trajectory. Its living standards, with a per capita GDP estimated at $Int. 1,119, in 2010, inverted its regressive growth trend, in the period 2005-10 (4% a year). It has the largest consumption (129% of GDP) in the CPLP, resulting above all from high public consumption (52% of GDP). The main challenge of its long term development strategy is to guarantee that the high internal savings deriving from petroleum dividends and the high mobilisation of external savings are effectively oriented towards investment.