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Portugal and the Geopolitical Repercussions of the European Financial Crisis

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Despite previous refusals for EU financial support, on June 25 Cyprus gave up the fight and requested assistance from its euro zone partners. As a result, for the first time since the financial crisis started in Europe in early 2010, a country getting bailout funds will be – between July and December 2012 – at the helm of the rotating presidency of the European Union (EU).[1] In the weeks before the formal bailout request, the Cypriot government desperately tried to avoid the fiscal adjustment and structural reforms attached to the bailout funds by securing a loan from Russia or China. The fact that Cyprus had secured a €2.5 billion loan agreement in December 2011 from Russia fed speculation that Moscow might once again provide a much-needed injection of cash. In other words, would Moscow seize the apparent opportunity to extend its geopolitical influence in the Eastern Mediterranean?

Some analysts saw in Russia's unwillingness to offer a new loan to Cyprus a sort of confirmation that the *quid pro quo* between financial support and geopolitical influence was greatly exaggerated.[2] Apparently, Russia failed to act *immediately* as if we were confronted with a zero-sum game. Yet this assessment fails to recognize that Cyprus owes Russia €2.5 billion as a consequence of the loan agreement reached in December 2011. In other words, Russia's influence might have already been guaranteed. Indeed, it will be interesting to follow the second round of auctions on Cyprus's offshore oil and gas hydrocarbon reserves.[3]

Some may not want to recognize that the financial crisis in Europe has geopolitical implications. However, the results are real, and Portugal is a good example. In the months leading up to the bailout, the Portuguese government tried desperately to diversify its ties to markets outside Europe and interest other countries in Portugal's sovereign bonds. Having in mind that China has the world's largest foreign exchange reserves, the Portuguese former Finance Minister, Fernando Teixeira dos Santos, went to Beijing in December 2010. In fact, China has been a significant buyer of Portuguese sovereign debt bonds. Unsurprisingly, current Foreign Minister, Vítor Gaspar, will visit Beijing in July, in order to "resume contacts with investors of Portuguese

1 "A fifth bitter lemon" (*The Economist*, 30 June 2012).

2 See Alan Beattie, "The Cyprus bailout: where was Russia?" (*Financial Times [The World blog]*, 27 June 2012).

3 Together with French Total, Russia's Gazprombank is involved in one of the bidding consortiums. Gazprombank is the third largest bank in Russia and one of the main shareholders of Gazprom, the largest extractor of natural gas in the world and the largest Russian company.

sovereign debt bonds and inform them about recent developments in Portugal".[4]

Moreover, the three-year €78 billion EU-IMF-ECB joint bailout program forced Portugal to accelerate a privatization program that covers transports (Aeroportos de Portugal, TAP, and freight branch of CP), energy (GALP, EDP, REN), communications (Correios de Portugal), and insurance (Caixa Seguros), as well as a number of smaller firms.[5]

In the end, we will see how many and which of these companies will be acquired by European companies. So far, the privatizations REN (the Portuguese Transmission System Operator) and EDP (Portugal's biggest power generation and distribution company) are complete. The Portuguese government received €2.7 billion from China Three Gorges, winner of the tender for a 21.35% stake in EDP. Regarding REN's share capital, the Portuguese government also received €592 million from China's main electricity distributor State Grid Corporation (25%) and Oman Oil (15%). The next big prize is TAP, and the list of interested companies in the privatization is once again crowded with non-European companies.

At the same time, Portuguese banks are experiencing dramatic changes in their ownership structures. Angolan state-owned oil company Sonangol is already the single largest Millennium BCP shareholder with an 11% stake. Although a shareholder rearrangement at Millennium BCP is likely in the second half of 2012, perhaps involving the entry of new shareholders from China and Brazil, one should not rule out that Sonangol could up its stake. Sonangol is also interested in GALP's privatization. At this point, Sonangol and Isabel dos Santos – the daughter of the Angolan President José Eduardo dos Santos – own 45% of Amorim Energia. Amorim Energia in turn controls 33.3% of GALP.[6] However, Sonangol wants a direct stake and is likely to buy half of ENI's 33.3% stake in GALP.

Isabel dos Santos is also seizing opportunities as they arise. Since May 2012, the Financial Holding Santoro – founded by Isabel do Santos in 2008 and based in Lisbon – owns 19.3% of BPI (as well as 25% of BIC Portugal). Moreover, since June 2012 she has gained control of 28.8% of ZON, a Portuguese multimedia company.

The financial crisis also provided a golden opportunity for Camargo Corrêa – one of the biggest Brazilian private conglomerates – to control Portugal's biggest cement maker, Cimpor.

Thus, if we look at the changes occurring in the Portuguese economy since 2010, two interrelated trends emerge: the withdrawal of European players and the increasing relevance of investment from Angola, China and to a lesser degree Brazil. Even though this shift did not begin with the financial crisis, it is nevertheless clear that events since 2010 accelerated it.

Granted, the changes taking place are discrete. Yet Portugal's strategic geography is constrained as a result.[7] Inevitably, the effects will also rebound in the foreign policy realm. In fact reverberations are already being felt. In November 2011, Portugal decided to close seven embassies and five vice-consulates, all but one of them in Europe.[8] Furthermore, Portugal's new diplomatic posts will be all outside Europe, and most will be in Latin America and Asia.

Moreover, a look at the list of official bilateral visits of Prime Minister Pedro Passos Coelho and Minister for Foreign Affairs Paulo Portas in the past year reveals

In the forthcoming years, transatlantic relations, the EU integration, and the relations with the Lusophone countries will continue to be relevant within Portugal's overall foreign policy. The financial crisis, however, is reinforcing a new balance among these three pillars of Portuguese diplomacy. More importantly, it is creating space for the emergence and consolidation of other relationships and interests.

4 "Paulo Portas e Vítor Gaspar vão à China em Julho" (*Lusa*, 22 June 2012).

5 *The Economic Adjustment Programme for Portugal* (European Commission, Directorate-General for Economic and Financial Affairs, European Economy, Occasional Papers No. 79, June 2011), pp. 44-45.

6 See Pedro Seabra and Paulo Gorjão, "Intertwined Paths: Portugal and Rising Angola" (SAIIA, Occasional Paper No. 89, August 2011).

7 See Paulo Gorjão, "Portugal and China: The rise of a new strategic geography?" (*IPRIS Viewpoints*, No. 81, January 2012).

8 The embassies closed were Andorra, Bosnia-Herzegovina, Estonia, Latvia, Lithuania, Malta and Kenya, and the vice-consulates were Frankfurt and Osnabrueck in Germany, Clermont-Ferrand, Nantes and Lille in France. In June 2012, Slovenia has decided to close its embassy in Portugal. As a consequence, Portugal probably will do the same in the following months.

mainly non-European destinations: Brazil, Colombia, Peru, and Venezuela in Latin America; the United States; Algeria, Morocco and Libya in the Maghreb; Azerbaijan and Kazakhstan in the Caucasus and Central Asia; Angola and Mozambique in Sub-Saharan Africa; Qatar and United Arab Emirates in the Middle East; and, last but not the least, China and Turkey. Among the EU member states, Finland, Germany, Sweden, and the United Kingdom were the happy few visited by Passos Coelho and Portas.[9]

The program of the current Portuguese government, in fact, leaves no room for doubt: given the circumstances in Europe and in Portugal in particular, economic diplomacy will be the central priority in the forthcoming years.[10] The consequences are already visible, as shown above.

Of course, in the forthcoming years, transatlantic relations, the EU integration, and the relations with the Lusophone countries will continue to be relevant within Portugal's overall foreign policy. The financial crisis, however, is reinforcing a new balance among these three pillars of Portuguese diplomacy. More importantly, it is creating space for the emergence and consolidation of other relationships and interests. Thus, once Europe's financial crisis subsides, it is likely that Portuguese foreign policy will correspond to a more diversified geographic network of diplomatic, political, and economic interests.

9 Paulo Portas, accompanying the President, Aníbal Cavaco Silva, also visited Australia, Indonesia, Singapore and Timor Leste.

10 *Programa do XIX Governo Constitucional* (Presidência do Conselho de Ministros, 2011), pp. 104-105.

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