Lessons from the Iberian Integration into the EU after Sixteen Years

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Abstract:

The purpose of this paper is to use the integration of Spain and Portugal into the European Union as an opportunity to reflect on what has happened to both countries since 1986 and to draw some lessons that may be applicable to East European countries as their pursue their own processes of integration into the European Union. It examines the integration process and how it has affected political, economic and social developments in Portugal and in Spain over the last sixteen years. The examination of these two cases will shed further light into the challenges and opportunities that new member states will face when trying to integrate in the EU.

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INTRODUCTION

After decades of relative isolation under authoritarian regimes, the success of processes of democratic transition in Portugal and Spain in the second half of the 1970s paved the way for full membership in the European Community. For Spain, Portugal, and their European Community (EC) partners this momentous and long awaited development had profound consequences and set in motion complex processes of adjustment.[1]

There was no dispute that the Iberian countries belonged to Europe. This was not just a geographical fact. Spain and Portugal shared their traditions, their culture, their religion, and their intellectual values with the rest of Europe. Moreover, both countries had historically contributed to the Christian occidental conceptions of mankind and society dominant in Europe. Without Portugal and Spain the European identity would only be a reflection of an incomplete body. Iberian countries belonged to Europe. Their entry into the European Community was a reaffirmation of that fact, and it would enable both countries to recover their own cultural identity, lost since the Treaty of Utrecht, if not before.

The Iberian enlargement strengthened Europe's strategic position in the Mediterranean and Latin America, and led to the further development of a European system of cohesion and solidarity. Spain and Portugal offered a new geo-political dimension to the Union, strengthening it southwards, and ensuring closer ties with other regions that have been peripheral to the EC This process was fostered with the Spanish accession to NATO on June 1982, after a long controversy within the country.[2]

The purpose of this paper is to use the experience of Portugal and Spain in the European Union (EU) as an opportunity to reflect on what has happened to both countries since 1986 and draw some lessons from the Iberian experiences that may be applicable to Eastern European countries. This paper will identify the basic changes in the economies and societies of Portugal and Spain that occurred as a result of European integration.

Entry to the EC has brought many benefits to both countries. In sixteen years Portugal and Spain have successfully turned around the unfavorable conditions of the accession treaties (particularly for Spain). EU membership has improved the access of both countries to the European common policies and the EU budget. At the same time Portugal and Spain's trade with the Community has expanded dramatically over the past fifteen years, and foreign investment has flooded in. One of the main consequences of these developments has been a reduction in the economic differentials that separated each country from the European average. Since 1986, Portugal's average per capita income has grown from 56 percent of the EU average to about 74 percent, while Spain's has grown to 81 percent. The culmination of this process was the participation of both countries as original founders of European Monetary Union in 1999.

From the standpoint of European policy, EC membership mattered to Spain and Portugal because the EC's decisions affected directly the Iberian countries. Indeed, some of the decisions adopted by the EC had an even greater impact over these economies than some decisions of their national administrations. In this regard, entry into the EC has allowed both countries to have influence on decisions taken at the European level, which affected both countries, and over which before accession they had little influence, and in any case, no voting power. Since their accession, Portugal and Spain have played an important role in the process of European integration and have become again key actors in the European arena. At the same time, they have contributed decisively to the development of an institutional design of the European Union that has been largely beneficial to their interests. Finally, Portugal and Spain have participated successfully in the development and implementation of the Single Market and the European Monetary Union (EMU).

The process of integration into Europe has also influenced cultural developments. As part of their democratic transitions and European integration, both countries attempted to come to terms with their own identities, while addressing issues such as culture, nationality, citizenship, ethnicity, and politics. At the dawn of the new millennium it would not be an exaggeration to say that the Spaniards and the Portuguese have become "mainstream Europeans," and that many of the cultural differences that separated these two countries from their European counterparts have dwindled as a consequence of the integration process.

EU integration, however, has also brought significant costs in terms of economic adjustment, loss of sovereignty, and cultural homogenization. In addition, accession has also brought more integration but also fears (exacerbated by issues such as size, culture, and nationalism).

At a time when European countries are on the threshold of major changes, with an ambitious plan to integrate the economies of central and eastern Europe, the lessons derived from analysis of the Spanish and Portuguese experiences should be instructive to scholars, students, and policymakers working on expansion and integration issues. Moreover, the examination of these two cases will shed new light on the challenges (and opportunities) that less developed countries face when trying to integrate regionally or into the global economy.

The paper proceeds in three steps. I analyze first the consequences of the EU integration for the Iberian countries. In the following section, I examine the challenges presented by the ongoing enlargement of the EU for Portugal and Spain. The paper closes with some lessons for Eastern

European countries. A central argument will be that political considerations were key in the decision by Spain and Portugal to join the EC.

CONSEQUENCES OF EU INTEGRATION

Political and Sociological Consequences

A central argument of this paper is that EU membership was decided on the basis of political rather than economic considerations. Nearly forty years of authoritarianism, which kept both Iberian countries in the margins of the process of European integration, increased further their desire to become part of the EC. Indeed, in the second half of the past century, the European Community epitomized in the eyes of the Portuguese and Spanish citizens the values of liberty, democracy, and progress absent in both countries. In the words of a famous Spanish philosopher, Ortega y Gasset, 'Spain is the problem and Europe the solution.' In addition, Iberian entrepreneurs knew that their only future lay in Europe. Belonging to the European club was a mission not to be questioned. After years of relative isolationism, both countries finally joined the European integration process in the expectation that it would help consolidate their newly established democratic institutions, modernize their outdated economic structures and finally, normalize relations with their European neighbors.

Over the last sixteen years Portugal and Spain have undergone profound transformations. The democratic regimes installed in the 1970s have lasted far longer and attained a greater degree of stability than earlier democratic episodes in both countries. EC membership finally ended the political isolation of both Iberian countries. As one illustrious Spanish intellectual stated:

> "For the last two centuries Spain has practically been neutralized in the international field. Having our country ceased to be an active element in the process of world history, we Spaniards have lost, not just the necessary mental habits, but also the very notion of sharing our destiny in the march of the Universal History."[3]

Indeed, EC membership paved the way for the complete incorporation of both countries into the major international structures of Europe and the West, as well as the normalization of Portugal and Spain's relations with their European partners. Portugal and Spain have become, again, important players in Europe. At the domestic level, Portugal and Spain undertook deep processes of institutional, social, and cultural reforms. Hence, from a political standpoint EU integration has been an unmitigated success, as both countries have consolidated their democratic regimes and institutions. The two processes—European integration and democratization—are thoroughly intertwined.

The EC (and international pressures in general) were unquestionably important in this development.[4] When the European Community was founded, it pledged to protect the principles of peace and liberty. Whatever other difficulties or problems may arise, this was the fundamental objective of the Community. Given this commitment, the still young democracies of Spain and Portugal needed to be given a positive answer regarding their integration. Otherwise, there would be the risk of weakening these new democracies that Europe had committed to defend. This objective was clearly stated by European leaders, "the accession of Spain to the Community emanates from a political purpose, aiming at the stability, the consolidation and the defense of the democratic system in Europe."[5] The European Commission itself recognized the fact that the integration to the EC was essentially a political choice. The opening of the negotiations was an explicit recognition that major changes had taken place in Spain and Portugal, which needed to be protected and consolidated within the European context. In other words, the political, economic and social stability of Portugal and Spain were perceived as stability factors for the Community itself.[6]

In Portugal and Spain, integration was viewed by the political and economic elites as the best way to consolidate the fragile structures of Iberian democracies, and therefore, Europeanization and democratization were considered complementary processes. Formal accession negotiations to enlarge the EC began with Portugal in October 1978 and with Spain in February 1979. Accession was viewed as a mean to consolidate political and economic reforms in both countries. After almost forty years of authoritarianism and very little democratic experience, democracy was still uncertain in Iberia. In Spain, the failed *coup d'état* led from Colonel Tejero on February of 1981 was a rude awakening to the reality of the fragility of the new democratic regime. In Portugal the instability and uncertainties surrounding the failed revolutionary attempt of the 1970s highlighted the precariousness of the democratization process. The lessons from both experiences were very important for both countries. Portugal and Spain still had to go a long way to strengthen their democratic reforms and institutions. On the other hand, the Spanish king's firm stance in favor of democracy, as well as the rejection by the overwhelming majority of the population of Tejero's attempt, offered good perspectives for the newborn democracy. In Portugal the excesses and instability of the revolutionary period, offered strong signals about the potential pitfalls of a transition gone adrift. In this context Portugal and Spain's application to the EC sought to strengthen their young democratic processes. Indeed, it is generally acknowledged that the underlying reasons for the integration of Portugal and Spain in the EC were mostly political. Political forces were particularly dominant in shaping the direction of events in the enlargement as well as in determining the terms of accession. In many cases not only the general public but also many political parties had not fully grasped the full economic consequences of the integration.[7]

Some scholars have theorized on the influences that European integration has had on the Iberian democratization processes focusing on its symbolic impact (i.e. "the identification of EU with liberal democracy and political freedom"), the pressures induced by the democratization pre-requisite for membership; the effect of membership prospects on domestic policies and policy direction; and finally, the involvement of political and economic elites in European institutions during negotiations as well as their participation in European transnational networks.[8]

In the Iberian cases the EC played a significant role in the success of this process. In addition to the EC's demonstrative and symbolic influence due to the EC association with democracy and freedoms, the EC had important indirect levers, particularly during the negotiations for accession, to influence the direction of events and the decisions of policymakers and economic actors (i.e., economic incentives). During the early phases of the democratization processes, the most important lever was, obviously, the democratic precondition for EC entry. Brussels defined explicitly the institutional conditions that would satisfy this requirement and European leaders made them very explicit to the Iberian leaders. According to Pridham these conditions included: "the inauguration of free elections; the predominance of parties supportive of liberal democracy; the existence of a constitution; and evidence of a reasonably stable government led, if possible, by a political figure known and approved in European circles."[9] European leaders stated that accession negotiations would not proceed and the application from these countries would not be considered as long as these countries did not demonstrate significant progress in these areas.

In addition, the repetitive refusals to consider the Spanish application for membership during the Franco and Salazar/Caetano years, strengthened the positions of opposition groups and economic actors supporting democracy. They used EC membership as an additional inducement to support democratization and convince the Portuguese and Spanish people of the potential benefits of membership. In addition, democratization processes received explicit support from the EC. Following the failed *coup d'etat* of 1981 the European Parliament (and many European leaders) passed a resolution condemning it and expressing support for Spanish democracy. The message was loud and clear: the success of the coup would have resulted in the immediate cancellation of the accession negotiations. The decision to proceed with negotiations, was therefore the ultimate lever in the hands of the EC to push for democratization in both countries. In Portugal, following the revolution of April 1974, European governments exerted considerable bilateral pressures to follow through the democratization process.[10] These developments obviously had an impact on Portuguese and Spanish economic and political actors during the transition and contributed to the consolidation of the new democratic regimes. Finally, the Iberian leaders used the fragile and unstable situation of their countries as leverage to push forward the accession process and to obtain financial and institutional support from the European governments, which they used to strengthen their domestic position, as well legitimize the system and the new democratic institutions.

EC membership has also contributed to the consolidation of the Iberian democratic regimes.[11] Pridham argues that membership has had the following impact: First, it helped link "enhanced national self-image with possible feelings for democracy." In addition, financial contributions from the EC budget as well as the economic benefits of membership (i.e. FDI), contributed to improve economic conditions and mitigated some of the negative effects of liberalization and modernization of the outdated economic structures of both countries. In turn, improved economic conditions and better prospects for social and political stability influenced public opinion and helped to legitimize the new system and to strengthen support for democracy. Membership also forced the Iberian countries to align their institutions to the *acquis communautaire*, which reinforced democratic practices and induced democratic governments to push for administrative reforms and decentralization. (for instance, Portugal reformed its Constitution in 1989 to allow for reprivatization of companies that had been nationalized during the revolution). Finally, membership also promoted elite socialization and the development of transnational networks, which, for instance proved vital for the strengthening of interest groups and political parties (such as the Spanish and Portuguese Socialist parties, which received substantive support from their European counterparts). The development of economic interests and networks at the European level also strengthened the support of economic actors for democracy.

The EC, however, lacked the direct intervention instruments (such as armed intervention) that could have had a systemic effect on the Iberian democratization processes. Hence, it is essential to look at interactions between the international environment and domestic politics. The actors involved in the transition had the powers to influence events and, hence, they were the ones that ultimately determined the final outcomes. Domestic dynamics, are thus, critical. The process of European integration interacted with a wide variety of domestic social, political, and economic factors that shaped the new democracies. In Spain a radical and unparalleled process of devolution to the autonomous regions has led to a decentralized state that has culminated with the development of the State of Autonomies.[12] In Portugal, following the collapse of the revolutionary attempt, the state also undertook a systemic process of modernization. However, the two transitions were substantially different. In Portugal, the road to democracy started with a clear break, the coup of April 25, 1974. In Spain, on the contrary, the transition was more consensus-oriented. These two paths to democracy (among other factors) have resulted in enduring differences in the two Iberian democracies in terms of institutional developments (i.e., in Portugal, a decentralization attempt was defeated in a referendum), economic performance (i.e., Spain has experienced higher levels of unemployment), and collective life (i.e., support for unions and political parties is higher in Portugal than Spain, or differences in labour participation rates). Indeed, European integration has not eliminated major differences between the Iberian countries In addition, integration cannot explain the broader patterns of political transformation with its clearly identifiable underpinnings in the two countries. These enduring differences illustrate the limitations of research attempts that have sought to causally link the Iberian democratic transitions to internationally rooted and domestically supported pressures for European integration. In the end, as it has been correctly stated by Fishman (2001:8) "the political motivations guiding their assessment of Europe during the crucial years leading up to EC membership were strongly shaped by the Iberian's held attitudes toward democracy and regime transition, attitudes formed within the context of the distinctive political experience of each case."

From a sociological standpoint EU membership has also resulted in attitudinal changes that have influenced the political culture of both countries. From the beginning there was strong support from public opinion and elites for the integration of both countries into Europe as a means to consolidate the new democratic regimes. They viewed democratization and European integration as part of the same process. Hence, successive governments in both Portugal and Spain associated European integration with the modernization of their countries and this helped shift public opinion's attitudes to wards their governments and democracy. In addition, other scholars have noted that by allowing for the active involvements of both countries in European institutions, European integration contributed to change the 'isolationist-fatalist attitude' of the political classes.[13] Public opinion surveys from *Eurobarometer* and Madrid's *Centro de Investigaciones Sociológicas* have showed a sustained increase in positive ratings effects for the functioning of democracy. Support for the relationship between the Iberian countries and the EU has been widespread in both countries since 1986 despite fluctuations. This almost unanimous consensus in favor of integration into Europe seems to be the consequence of Portugal and Spain's need to overcome their historical isolation from the rest of Europe since the nineteenth century until the end of the authoritarian regimes in 1970s. This development contributed to the legitimating of the new democratic system (and thus the consolidation of democracy).

However, the greatest consensus elicited toward the EU is instrumental (particularly in Spain), with levels of diffuse affective support for the EU being low, although high in comparative perspective. The polling data collected by the Madrid's *Center of Sociological Investigations* (CIS) and *Eurobarometer* show that Portuguese and Spaniards feel linked by geographical and affective feelings to Europe and the Europeans. However, they do not identify closely with a so-called "common European culture." The reason for this is that despite a shared history and traditions, there is an absence of a pre-modern common past and a European heritage that would have allowed for the emergence of a unified European identity. Therefore, the image of a "European community" among Iberian people is very week. Indeed, they perceive the EU as an economic community, not so much as a community of Europeans. The *Eurobarometer* and CIS polling data show that the perceptions from Iberian citizens about the personal and collective benefits derived from EU membership are one of the key factors that help explain for their attitudes towards the process of European integration. Consequently, it is not surprising that polling data show that Portuguese and Spaniards have a utilitarian and instrumentalist concept of the EU—i.e. they evaluate the consequences of membership over issues such as living costs, infrastructures, job opportunities, wages, etc. Iberian citizens develop an implicit cost/benefit analysis and based on this evaluation adopt a position in favor or against European integration. Hence, approval of Europe seems to coincide with the economic cycles: low during economic recessions, and high during periods of economic growth. Finally, when comparing the attitudes of Spanish and Portuguese citizens' vis-à-vis other European citizens the former support the EU more, but also stress further the need to build a social Europe.[14]

Table : Support for EU, EMU, CFSP, and Enlargement

	EU Membership is Good	Trust the European Commission	Support EMU	Support CFP	Support CSP	Support New Members
Spain	63	62	68	68	76	58
Portugal	61	52	57	57	71	52

Source: *Eurobarometer*, October-November 2000.

Finally, it is important to stress that in terms of political behavior, EU membership has not transformed activism and political participation In Portugal or Spain. Levels of support for democracy as a legitimate political regime, preferably to any other alternative, have usually remained high (around 80 percent of the responses in surveys), and Portuguese and Spaniards declare themselves satisfied with the functioning of democracy. Yet, political cynicism continues to be a major component of political attitudes and the political behavior of Portuguese and Spanish citizens. These countries still have the lowest levels of participation of Western Europe and membership in political and civic associations remains very low. At the same time, citizens do not have a feeling of political influence and express strong sense of ambivalence towards political parties and the political class, which is translated into a rather low interest in politics.[15]

Economic and Social Consequences

Economic conditions in Spain and Portugal in the second half of the 1970s and first half of the 1980s were not buoyant. The world crisis caused by the second oil shock in the late 1970s and the lack of adequate response from the collapsing authoritarian regimes in both countries intensified the structural problems of these economies. Portugal had been a founding member of EFTA and had lowered its trade barriers earlier, and was theoretically in a better position than Spain. However, Salazar did even less than Franco to encourage entrepreunership and competition. This factor combined with the costs of the colonial wars, and the disruptions caused by the revolution and near a decade of political upheaval dramatically worsened the economic situation. For instance, in the 1960s Portugal's income per head was about three quarters that of Spain, and in the late 1980s it was only one-half. By the time of accession Spain was the EC's fifth-largest economy, and Portugal its tenth.[16]

The economic crisis of the late 1970s and the first half of the 1980s had devastating consequences in both countries and made any additional adjustments caused by the accession to the EC a daunting prospect. In Spain the high unemployment levels, which reached 22 percent on 1986, suggested that any additional adjustment cost would have painful consequences.[17] In addition, the country was unprepared for accession-i.e., Spanish custom duties remained on the average five times higher than the EC's and EC products faced a major disadvantage in the Spanish market because the country had a compensatory tax system and restrictive administrative practices that penalized harder imported products.[18] Slow license delivery was common, and constructors that sold vehicles in the county did not have import quotas to introduce cars into Spain from abroad. Finally, when Spain and Portugal called to the door of the EC for accession in 1977, protectionist institutions-which were incompatible with EC rules-were still fully operative in both countries. For instance, the Spanish government controlled through the I.N.I (National Institute of Industry) a considerable size of the economy, and subsidized public enterprises such as the auto making companies (SEAT, ENASA), as well as the metallurgic, chemical, ship construction and electronic sectors. This situation provided a considerable advantage for Spanish manufacturers, which were highly protected from foreign competition.

In this context, EU integration was a catalyst for the final conversion of the Iberian countries into modern Western-type economies. Indeed, one of the key consequences of their entry into

Europe has been that membership has facilitated the modernization of the Iberian economies[19]. This is not to say, however, that membership was the only reason for this development. The economic liberalization, trade integration, and modernization of these economies started in the 1950s and 1960s and both countries became increasingly prosperous over the two decades prior to EU accession.

The economic impact of the EC started long before accession. The Preferential Trade Agreements (PTAs) between the EC and Spain (1970) and the EC and Portugal (1972), resulted in the further opening of European markets to the latter countries, which paved the way for a model of development and industrialization that could also be based on exports. The perspective of EU membership acted as an essential motivational factor that influenced the actions of policymakers and businesses in both countries. Henceforth, both countries took unilateral measures in preparation for accession including increasing economic flexibility, industrial restructuring, the adoption of the VAT, and intensifying trade liberalization. Through the European Investment Bank they also received European aid (Spain since 1981) to mitigate some of the expected adjustment costs (for instance on fisheries).

In addition, the actual accession of both countries after 1986 forced the political and economic actors to adopt economic policies and business strategies consistent with membership and the *acquis communautaire* (which included the custom union, the VAT, the Common Agriculture and Fisheries Polices, and the external trade agreements; and later the Single Market, the ERM, and the European Monetary Union).

EU membership also facilitated the micro and macro economic reforms that successive Iberian governments undertook throughout the 1980s and 1990s. In a context of strong support among Iberian citizens for integration, membership became a facilitating mechanism that allowed the Iberian governments to prioritize economic rather than social modernization and hence, to pursue difficult economic and social policies (i.e., to reform their labor and financial markets), with short-term painful effects. Moreover, the decision to comply with the EMU Maastricht Treaty criteria led to the implementation of macro and microeconomic policies that resulted in fiscal consolidation, central bank independence, and wage moderation.

Nevertheless, the process of EC integration, also brought significant costs in terms of economic adjustment, and loss of sovereignty. Under the terms of the accession agreement signed in 1985 both countries had to undertake significant steps to align their legislation on industrial, agriculture, economic, and financial polices to that of the European Community. These accession agreements also established significant transition periods to cushion the negative effects of integration. This meant that both countries had to phase in tariffs and prices, and approve tax changes (including the establishment of a VAT) that the rest of the Community had already put in place. This process also involved, in a second phase, the removal of technical barriers to trade. These requirements brought significant adjustment costs to both economies.

Since 1986 the Portuguese and Spanish economies have undergone profound economic changes. EU membership has led to policy and institutional reforms in the following economic areas: monetary and exchange rate policies (first independent coordination, followed by accession to the ERM, and finally EMU membership); reform of the tax system (i.e. the introduction of the VAT, and reduction of import duties); and a fiscal consolidation process. These changes have led to deep processes of structural reforms aimed at macroeconomic stability and the strengthening of competitiveness of the productive sector. On the supply side, these reforms sought the development of well-functioning capital markets, the promotion of efficiency in public services, and the enhancement of flexibility in the labor market. As a result markets and prices for a number of goods and services have been deregulated and liberalized; the labor market has been the subject of limited deregulatory reforms; a privatization program was started in the early 1980s to roll back the presence of the government in the economies of both countries and to increase the overall efficiency of the system; and competition policy was adapted to EU regulations. In sum, from an economic standpoint the combined impetuses of European integration and economic modernization have resulted in the following outcomes:

Figure 1: The Iberian Economic Transformation

- **The end of economic isolation**
- **Institutional reforms**
- **Tax harmonization**
- **Openness of the Iberian economies**
- **Nominal convergence**
- **Capital infrastructure effort**
- **Financial liberalization**
- **Central Bank independence**
- **Privatization**
- **FDI in Iberia**
- **Labour market reform**
- **Reduction in Government Subsidies**
- **Increasing competition**
- **Industrial restructuring**
- **Capital Flow Liberalization**
- **Deregulation**
- **Lower inflation**
- **Fiscal Consolidation**
- **Cohesion Policies**
- **Lower nominal interest rates**
- **Internationalization**
- **Higher efficiency**
- **Deregulation**
- **Economic growth**

In terms of *static effects*, EC accession has resulted on trade creation in the manufacturing sector. Indeed, it has had dramatic effects in trade patterns.[20] As a matter of fact, in the early 1980s the Spanish economy was the least open to industrial trade of any of the EC members. Hence, the participation in a custom union like the EC, has resulted in the dismantling of trade barriers for the other members of the union. Trade liberalization also exposed the highly protected and non-competitive sectors of the economy to foreign competition.[21]

Some EC products already had preferential access to the Portuguese and Spanish market as a result of the 1972 and 1970 Preferential Trade Agreements (PTAs). Trade creation was reasonably expected given the high level of protection (particularly in Spain) before accession to the EC as well as the similarity of the structure of industry in Portugal, Spain, and the EC.[22] Accession did not have negative consequences on non-EC suppliers because Spain and Portugal's tariffs on non-EC imports were aligned to the common external tariff, which in general was much lower than Iberian tariffs on non-EC imports prior to accession. Furthermore, as a result of the 1970 and 1972 PTAs Spain and Portugal had already benefited from a substantial cut in the external Common Customs Tariff, therefore Iberian exports to the EC did not have discriminatory effects on other non-EC suppliers. Finally, the opening of the Portuguese and Spanish markets has led to an increase of intra-industry trade, and hence less acute labor adjustments problems.

At the same time, however, for the Iberian manufacturers accession to the Community has also resulted in more competition. Since Portuguese and Spanish nominal tariffs averaged 10-20 percent before EC entry, and generally speaking manufacturing EC products were cheaper and more competitive, membership has resulted in an increase of imports from the EC and therefore, on a worsening in the balance of current account (and the closure of many industrial enterprises in Iberia). The intensity of the adjustment, however, has been mitigated by the behavior of exchange rates and by the dramatic increase in the levels of investment in these two countries. Spain and Portugal have been attractive production bases since they both offered access to a large market of 48 million people, and a well-educated and cheap–compared with the EC standards–labor base. In the end, the transitional periods adopted in the treaty to alleviate these adjustment problems and the financial support received from the EC played a very important role minimizing the costs for the sectors involved.

Portugal and Spain had benefited from their Preferential Trade Agreements with the EC on manufacturing products. However, these agreements left both countries outside of the Common Agricultural Policy (CAP). While the composition of GDP had changed significantly in both countries throughout the 1960s, in the 1970s agriculture was still a critical sector for the

Portuguese and Spanish economies with more that 10 million people–17 percent of the population–living from it in Spain. Spanish agriculture accounted for 9 percent of GDP and its agricultural output was 16.5 percent of the Community total. In Portugal the share of agriculture represented 16 percent in 1973 (down from 23 percent in 1961).

The Iberian governments (particularly the Spanish one), however, were much more effective in achieving reasonable compromises in the manufacturing sector during the accession negotiations, than they were in the agricultural sector. Arguably, this might have happened because in the industrial sector the governments had to satisfy their workers (an important electoral constituency), as well as the union, which were well organized and had influence in the ruling parties. On the contrary, Iberian farmers (particularly in Spain) were not so well organized and hence were not as effective pressuring for a better agreement. It is also true that on agriculture some EC members, particularly France, held more intransigent positions during the negotiations.

The integration of Spain and Portugal in the EC offered opportunities for both trade creation and trade diversion in agriculture. Since Spain and Portugal had been kept out of the CAP before accession, EC membership gave better access conditions to Iberian agricultural exports to the Community. This was particularly true given the good quality of these products and their lower prices–compared with those of the EC. At the same time, the increase of Portuguese and Spanish agricultural exports to the Community displaced imports from other countries. The main source of adjustment problems was trade creation because greater import penetration led to a contraction in domestic production. For Spain one of the main challenges of accession was the result of the regional diversity of its agriculture because it has not been easy for farmers affected by the CAP to switch to other products given the differences in the environment, weather, and fertility conditions.[23] From an agricultural standpoint the fears of trade diversion materialized to some extent after accession (in favor of other EU members such as Italy, or France), which contributed to increasing migration from rural areas to the cities.

At the time of accession, it was considered that a critical factor to determine the final outcome of integration would depend upon the pattern of investment, which would bring about important *dynamics effects*. Spain and Portugal had a number of attractions as a production base including; good infrastructure, and educated and cheap labor force, and access to markets with a growing potential. In addition, EC entry would add the incentive of further access to the EC countries for non-EC Iberian investors–i.e. Japan or the U.S. As expected, one of the key outcomes of integration has been a dramatic increase in foreign direct investment, from less than 2% to more than 6% of GDP over the last decade. This development has been the result of the following processes: economic integration, larger potential growth, lower exchange rate risk, lower economic uncertainty, and institutional reforms. EU membership has also resulted in more tourism (which has become one of the main sources of income for Spain).

Another significant dynamic effect has been the strengthening of Iberian firms' competitive position. As a result of enlargement Iberian producers gained access the European market, which provided additional incentives for investment and allowed for the development of economies of scale, resulting in increasing competitiveness. By the 1980s Spain and Portugal were already facing increasing competition for their main exports–clothing, textiles, leather-from countries in the Far East and Latin America, which produced all these goods at a cheaper costs exploiting their low wages. As a result of this development, the latter countries were attracting foreign investment in sectors were traditionally Portugal Spain had been favored. This situation convinced the Iberian leaders that their countries had to shift toward more capital-intensive industries requiring greater skills in the labor force but relying on standard technology–e.g. chemicals, vehicles, steel and metal manufacturers. In this regard, Portugal and Spain's entry to the EC facilitated this shift. Both countries gained access to the EC market, thus attracting investment that would help build these new industries. Finally, Portugal and Spain also benefited from the EU financial assistance programs–i.e., the European Regional Development Fund, the Social Fund, the Agriculture Guidance and Guarantee Fund, and the new created Integrated Mediterranean Program for agriculture, and later on from the Cohesion Funds.

EU integration has also allowed both economies to become integrated internationally and to modernize, thus securing convergence in nominal terms with Europe. One of the major gains of financial liberalization, the significant decline in real interest rates, has permitted Portugal and Spain to meet the Maastricht convergence criteria. Indeed, over three years ago, on January 1st, 1999 Spain and Portugal became founding members of the European Monetary Union. At the end, both countries, which as late as 1997 were considered outside candidates for joining the euro-zone, fulfilled the inflation, interest rates, debt, exchange rate, and public deficit requirements established by the Maastricht Treaty. This development confirmed the nominal convergence of both countries with the rest of the EU.

Table 1: Compliance of the EMU Convergence Criteria for Portugal, 1986-1997

		1986	**1990**	**1996**	**1997**
Inflation*	%	13.1	13.6	2.9	1.9
General Government Deficit	% GDP	6.4	5.6	3.2	2.5
General Government Gross Debt	% GDP	68.0	66.9	65.0	61.4
Long-term Interest rates	%	19.5	16.8	8.6	6.4

*1986 and 1990: CPI; 1996 and 1997: HCPI (Harmonized Consumer Price Index). *Sources*: European Commission and Portuguese Government.

Table 2: Compliance of the EMU Convergence Criteria for Spain, 1993-1997

Year	Inflation (% growth)	Long-Term Interest rate	Public Sector Deficit (as % of GDP)	Government Debt (as % of GDP)
1993	4.6	10.2	6.9	60.0
1994	4.7	10.0	6.3	62.6
1995	4.7	11.3	7.3	65.5
1996	3.6	8.7	4.6	70.1
1997	1.9	6.4	2.6	68.8

Source: *Commission and EMU Reports*, March 1998.

The EU contributed significantly to this development. Art. 2 of the Treaty of Rome established that the common market would "promote throughout the Community a harmonious development of economic activities" and therefore lower disparities among regions. While regional disparities of the original EC members were not striking (with the exception of Southern Italy), successive enlargements increased regional disparities with regard to per capita income, employment, education, productivity, and infrastructure. Regional differences led to a north-south divide, which motivated the development of EC structural policies. The election of Jacques Delors in 1985 as president of the Commission led to renewed efforts to address these imbalances. They culminated in the establishment of new cohesion policies that were enshrined in the 1986 Single European Act, which introduced new provisions making economic and social cohesion a new EU common policy. In this regard, the regional development policy emerged as an instrument of solidarity between some Europeans and others. Since the late 1980s the structural funds became the second largest EU's budgetary item. These funds have had a significant impact in relationship to the investment needs of poorer EU countries (see Table 3) and have made an impressive contribution to growth in aggregate demand in these countries (see table 4):

Table 3: Gross Fixed Capital Formation versus Community Support Frameworks

	Percent GFCF Due to EU Support		**Percent of GFCF vs. CSFs***	
	1989	1993	1989	1993
Portugal	7.7	9.9	20.6	27.7
Spain	2.9	4.1	5.8	8.0

*CSFs include the private sector expenditures entered into the financing plan of the CSF
Source: Kesselman et al., *European Politics in Transition*. Data: EC Commission, *Fourth Annual Report on the Implementation of the Reform of the Structural Funds, 1992*, Com (93) 530, Brussels, 29 October 1993, 84.

Table 4: Estimated Annual impact of Structural Funds, 1989-1993

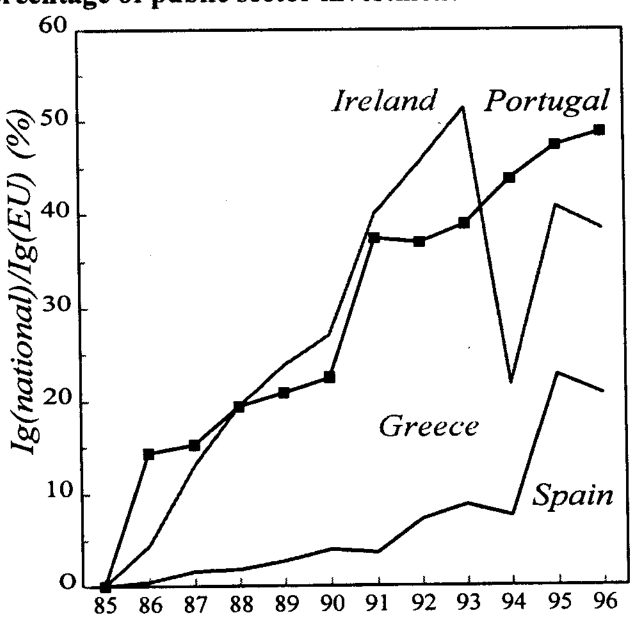
	Average Annual Growth Rate (89-93)	**Estimated Impact**
Spain	1.5	0.2
Portugal	2.6	0.7

Source: Kesselman et al., *European Politics in Transition*. Data: EC Commission, *Fourth Annual Report on the Implementation of the Reform of the Structural Funds, 1992*, Com (93) 530, Brussels, 29 October 1993, 84.

Indeed, the structural and cohesion funds have been the instruments designed by the EU to develop social and cohesion policy within the European Union, in order to compensate for the efforts that countries with the lowest per capita income relative to the EU (Ireland, Greece, Portugal and Spain) would need to make to comply with the nominal convergence criteria. These funds, which amount to just over one-third of the EU budget, have contributed significantly to reduce regional disparities and foster convergence within the EU. As a result major infrastructural shortcomings have been addressed and road and telecommunication networks have improved dramatically both in quantity and quality. In addition, increasing spending on education and training have contributed to the upgrading of the labour force. In sum, these funds have played a prominent role in developing the factors that improve the competitiveness and determine the potential growth of the least developed regions of both countries.[24]

During the 1994-1999 period, EU aid accounted for 1.5% of GDP in Spain and 3.3% in Portugal. EU funding has allowed rates of public investment to remain relatively stable since the mid-1980s The percentage of public investment financed by EU funds has been rising since 1985, to reach average values of 42% for Portugal, and 15% for Spain. Moreover, the European Commission has estimated that the impact of EU structural funds on GDP growth and employment has been significant: GDP rose in 1999 by 9.9% in Portugal and 3.1% in Spain. In the absence of these funds public investment will be greatly affected.

Figure 2 : Percentage of public sector investment financed with EU funds



Source: Sebastián 2001, p.28

The combined impetuses of lowering trade barriers, the introduction of the VAT, the suppression of import tariffs, the adoption of economic policy rules (such as quality standards, or the harmonization of indirect taxes), and the increasing mobility of goods and factors of production that comes with greater economic integration, have boosted trade and enhanced the openness of the Portuguese and Spanish economies. After 1999, this development has been fostered by the lower cost of transactions and greater exchange rate stability associated with the single currency. For instance, imports of goods and services in real terms as a proportion of GDP rose sharply in Spain (to 13.6% in 1987 from 9.6% in 1984), while the share of exports shrank slightly (to 15.8% of GDP from 16.6% in 1984, and from 17.1% of real GDP in 1992 to 27% in 1997). As a result, the degree of openness of the Portuguese and Spanish economies has increased sharply over the last sixteen years. Henceforth, changes to the production structure and in the structure of exports, indicators of the degree of competitiveness of the Portuguese and Spanish economies (i.e., in terms of human capital skills, stock of capital, technological capital) show important improvements, although significant differences remain in comparison to the leading developed economies (which confirms the need to press ahead with the structural reforms). These achievements verify that in terms of economic stability Spain and Portugal are part of Europe's rich club. Their income levels, however, remain behind the EU average:

Table 5: Divergence of GDP per Capita 1980-2000

	1980	1985	1990	2000
EU Totals	100.0%	100.0%	100.0%	100.0%
Spain	74.2	72.5	77.8	81.0
Portugal	55.0	52.0	55.7	74.0

Source: European Union.

This data shows that nominal convergence has advanced at a faster pace than real convergence. Indeed, 'fifteen years have not been long enough.' Portugal and Spain's European integration has revealed both convergence and divergence, nominal and real. Since 1997 inflation in Spain has exceeded the EU average every year. In Portugal real convergence has been slowing down each year since 1998, actually turning negative in 2000 and with both real and nominal divergence expected to increase until 2003. While there is significant controversy over the definition of real convergence, most scholars agree that a per capita GDP is a valid reference to measure the living standards of a country. This variable, however, has experienced a cyclical evolution in the Iberian countries with significant increases during periods of economic expansion and sharp decreases during economic recessions. Since the adhesion of Spain to the EU in 1986 per capita income has increased "only" 11.5 percent and Portugal's 14.2 percent. Ireland's, in contrast, has increased 38 percent. Only Greece with an increase of 6.8 percent has had a lower real convergence than Spain and Portugal. A possible explanation for this development has been the fact that while Spain has grown between 1990 and 1998 an average of 2.1%, Portugal has grown 2.5%, and Ireland 7.3% over the same period. This growth differential explains the divergences in real convergence. Other explanations include: the higher level of unemployment (15.4 percent in Spain); the low rate of labor participation (i.e., active population over total population, which stands at 50 percent, which means that expanding the Spanish labor participation rate to the EU average would increase per capita income to 98.2 percent of the EU average); the inadequate education of the labor force (i.e. only 28 percent of the Spanish potential labor force has at least a high school diploma, in contrast with the EU average of 56 percent); low investment in R&D and information technology (the lowest in the EU, with Spain ranked 61-spending even less proportionally than many developing countries including Vietnam- in the World Economic Forum's *Global Report of Information Technologies 20002-2003*); and inadequate infrastructures (i.e. road mile per 1000 inhabitants in Spain is 47 percent of the EU average and railroads' 73 percent). The inadequate structure of the labor market with high dismissal costs, a relatively centralized collective bargaining system, and a system of unemployment benefits that guarantees income instead of fostering job search, have also hindered the convergence process.[25]

From a social standpoint, this was a decade and a half of political stability, associated with an overall strengthening of the State's financial and budgetary capacity, and with a significant increase in social expenditures. The overall architecture of the system has been maintained but there was a substantive growth of the amount of benefits, with a consequent upgrade of social standards, as well as a movement toward the institutionalization of social dialogue, with the signature of social pacts. For instance, in 1980 expenditure on social protection was 18.1 percent of GDP in Spain and 12.8 percent of GDP in Portugal, much lower levels than the EU average at that time (24.3%) and only higher than that of Greece (9.7%). Since EU accession, despite an increase of 3.4 percent of the resources dedicated to social protection in Spain (the Spanish welfare state grew significantly in size during this period and expenditures on social protection over GDP increased by 50 percent), the differential with the EU average has not been reduced but has rather increased from 6.2 points in 1980 to 6.8 points in 1997. Portugal, starting from lower levels of social protection, has been more successful reducing the differential with the EU average by 50 percent. Spain, however, continues to show a higher intensity of protection (per capita expenditure on social protection) than that of Portugal In the end, the Portuguese and Spanish welfare states have undergone a deep process of change in qualitative terms, entailing both the introduction of several universal polices and a broader extension of tax-funded noncontributory benefits and services. At the same time, the need to transpose EEC's regulatory framework, the *acquis communautaire* (i.e. in the fields of labour and working conditions, equality of treatment for women and men, free movement of workers and health, and safety at work), and the role played by the structural funds has contributed widely to this development.

The 2004 Enlargement: Challenges for Portugal and Spain

During the European Council that took place on Copenhagen on December 13th of 2002, the European Union threw open its doors to the east and concluded years of difficult negotiations with 10 candidate countries: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Malta, and Cyprus. This historical summit marked the last act in the reunification of eastern and western Europe following the end of the Cold War. As a result of this round of enlargement the EU will extend from Portugal to the borders of Russia (growing from 15 to 25 countries in 2004, provided referendums in the candidate countries ratify the accession treaties), and it will have a population of 451m, a GDP of $8,800bn, and a GDP per head of $21,410.[26] Not only is this enlargement process historical, but also unique. This is the largest single enlargement of the EU since it was established, and as opposed to the Greek and Iberian enlargements, this one entails former communist and totalitarian states where a civil society, independent institutions, a free press, and entrepreneurial class have been largely absent since the end of WWII. Since the collapse of the Soviet Union in 1991, these countries have built, virtually from scratch new social, political, and economic institutions. This process and the sacrifices involved, as in Iberia, have been supported by the prospect of joining Europe. Enlargement will have a large impact in the Iberian countries and it raises a number of policy and research issues.

As we have seen, in sixteen years Portugal and Spain have been able to change the terms of accession and to negotiate compensatory mechanisms to mitigate the negative consequences of unfavorable accession treaties (particularly for Spain). In the end, integration has had a very positive outcome, and both countries have benefited greatly from European funds and policies. For instance, in 2001 Spain was allocated nearly 63% of the EU's structural funds budget ($27.8bn). Since the Iberian countries are major beneficiaries of the EU redistributive funds, the entrance of central and eastern European countries (some, like Poland, with large agricultural sectors) will like result in a reduction of the resources that Iberian countries currently receive from European funds. Structural and agricultural funds will be available, at least through 2006,. After that year, however, a new scenario will open characterized by increasing competition for European funds, foreign direct investment, trade, and migration patterns. These developments will force the Spanish and Portuguese governments (as well as the economic actors) to reevaluate current strategies and policies. In addition, enlargement will bring new demands from the new eastern European members in a context in which the richer countries are committed to keep (or even reduce if possible) the existing budgetary ceilings, which currently stand at 1.27% of the EU GDP. This will likely result a shift of resources to the East, which means that both Portugal and Spain will receive less funds from the EU budget and that, hence, they will contribute more financially to the EU.

It has been argued that "the main challenge confronting the Spanish economy in the short run will be competition from the central and eastern European countries after the enlargement of the European Union." [27] The major source of concern is due to the fact that these countries especialize in labor-intensive and low-to-medium technology products (such as machinery, electrical equipment, textile goods and automobiles), sectors that make up a large proportion of Portuguese and Spanish trade (i.e., 7.4%, 7.3%, 4.5% and 20%, respectively, of total Spanish exports to the EU-15), and in which competitiveness via prices is of particular importance. At the same time, in the central and eastern European countries labor costs are between 20% and 60% lower than those of the EU. Therefore, there is the possibility that enlargement could lead to a loss of market share for Iberian products in the countries of the EU (which is the market for 70% of Spanish exports). However, according to Sebastián (2001) a detailed analysis suggests that a negative outcome is not warranted. First, the EU has signed bilateral agreements with each of these countries since the beginning of the 1990s to liberalize trade (except for agricultural goods). This development has resulted in a significant increase of exports to the EU from these countries (an average of 12%, between 1989-99). Despite this increase of imports from central and Eastern Europe, Sebastián points out that "Spanish exports to Europe expanded at a robust 13.4% average annual rate over this period." Second, the composition of EU imports from the new candidate countries and from Southern European countries is similar to the import structure from other developing countries. Third, these countries compete in market segments of different quality as reflected by differences in unit values (export prices). Therefore, the direct impact on Portuguese and Spanish exports to third markets resulting from EU enlargement is likely to be modest. Finally, Sebastián points out that "the competitiveness of Spanish products could be bolstered in the short run as a result of real exchange rate appreciation of the currencies of aspirant countries, caused by higher rates of inflation while nominal convergence consolidates, and in the medium term, because of the reduction of wage differentials as real convergence progresses."[28]

At the same time, an additional concern is the impact that enlargement will have on the funds that the Iberian countries receive from the EU. Since the new member states are significantly poorer, enlargement will reduce the EU's average gross domestic product per capita by between 10-20%, and hence the per capita income of Spain and to a lesser extend Portugal will be closer to the EU average (this is the so-called 'statistical effect'). This means that many Iberian regions will no longer be eligible for aid, as funds are switched to the new member states. Under existing rules, only the regions with an average per capita income of less that 75% of the EU average (which includes practically all the regions of the new member states) qualify to receive structural funds as regions *Objective 1*. In addition, only the countries with an average income of less than 90% of the European average have access to the Cohesion Fund (which would include the all the new member countries-i.e., the average income in Poland is 40%, 36% in Lithuania, and 78% in Cyprus). Regional funds currently represent 34.5% of the EU budget and CAP funds 45%. Hence, as a result of enlargement there will be three groups of countries: first a group of poorer countries integrated by 8 of the 10 new members (all except for Cyprus and Slovenia) with an average per capita incomes of 42% of the EU's and 21% of the population. A second group will be integrated by 5 countries (Cyprus, Greece, Portugal, Slovenia, and Spain) with an average per capita income close to 90% of the Union and 13% of the population. The last group will be integrated by the richer countries of the Union, with 66% of the population and an average income of 115% of the EU's.

Hence, many Iberian regions will not qualify for structural and cohesion funds. For instance, at present 11 of Spain's 17 regions (Extremadura, Andalusia, Galicia, Asturias, Castile-León, Castile-La Mancha, Murcia, Valencia, Ceuta, Melilla, and under special conditions Cantabria) receive EU structural funds because their per capita incomes are below the 75% threshold and, hence, are included as *Objective 1* territories. After the 2004 enlargement, however, only 4 Spanish regions (Andalusia-67.4%, Extremadura-58.4%, Castile-La Mancha-73.6%, and Galicia-71.3%) will remain below 75% of the EU average income, which will allow them to qualify for European funds in the same conditions. In addition, the expected entrance of Bulgaria and Romania in 2007 (the two poorest countries of the Union with per capita incomes of 27% and 26% of the EU's respectively) will increase further the average of the current members and only two regions (Andalusia and Extremadura) will qualify.[29]

The EU countries and the Commission are discussing mechanisms to allow for a progressive phasing out of these funds to prevent the sudden cancellation of these funds as a result of the 'statistical effect'. The affected countries (including Spain and Portugal) are suggesting proposals to increase the ceilings above 75% to have access to the funds, or to establish different access criteria for current members and new ones. In the end, it is very likely that in the near future both Iberian countries (particularly Spain) will become net contributors to the EU budget. Hence, the political, electoral and budgetary implications of these developments are taunting and unprecedented. As we have seen, the European Commission has estimated that the impact of EU structural funds on GDP growth and employment has been significant: GDP rose in 1999 by 9.9% in Portugal and 3.1% in Spain. In the absence of these funds public investment will be greatly affected.

Moreover, Spain and Portugal will have to further speed up the reform of their productive and economic structures to increase the productivity of their labor force-which is still significantly lower that the EU average. As we have seen, a result of the enlargement process Portugal and Spain will face increasing competence for their main nonagricultural exports—such as clothing, textiles, and leather. Problems should be anticipated in labor-intensive industries given the relatively low level of wages in central and eastern European states. Central and eastern European countries with lower wages produce all these goods at cheaper costs. Therefore, these countries will attract foreign investment in sectors were traditionally Portugal and Spain have been favored. Moreover, since the new ten members have lower labor-costs it is likely that manufacturing plants currently producing in Iberia will be tempted to move production to Eastern Europe (this is already happening, the car manufacturer Seat moved a plant from Pamplona, Spain, to Slovakia in 2001). In this context it will be important for the leaders of both Iberian countries to continue pushing for a shift toward more capital-intensive industries that will require greater skills in the labor force but relying on standard technology (e.g. chemicals, vehicles, steel and metal manufacturers).

Enlargement, paradoxically, may help in this process because it will also bring significant opportunities to the Iberian countries (and the other EU members). Indeed, Portuguese and Spanish products will now have access to new markets, which will provide access to cheaper labor, and may help improve competitiveness. This may also allow for the development of more diversified investment patterns to reduce risks. Spanish (and to a lesser extend Portuguese) firms have invested very heavily in Latin America over the last decade. Current political and economic uncertainties in Latin America countries, however, suggest that diversification to eastern and central Europe may be an appropriate strategy for Iberian firms, which are still underrepresented vis-à-vis companies from the larger EU countries (i.e., Spanish investment in these countries currently stands at merely 200m euros).

In terms of the agricultural impact of enlargement, Iberian farmers should also expect to face serious adjustments problems, particularly given the fact that membership in the EU will imply full membership into the CAP for the new ten members, and that agricultural prices in the central and eastern European states (particularly in Poland) are in general lower than those in Iberia. First, when barriers for eastern European states' agricultural products are dropped, market prices in Iberian may decline given the new entrants' lower prices and their potential for expansion of production. In addition, in the case of some agricultural products, EU membership is expected to provide incentives to increase production in the new states. Finally, membership is expected to open the new member states' markets to substitutes, thus resulting in surplus disposal that would have to be supported by the European budget. These concerns have been reflected in the final agreements.

In addition, in the next decade CAP funds will be redesigned and most likely reduced. The EU leaders agreed in October of 2002 to effectively freeze CAP spending until 2013 (it is supposed to increase merely 1% after 2006, well below inflation levels). Furthermore, in order to facilitate enlargement (and the WTO Doha world trade round) the European Commission just proposed a plan in January of 2003 to reform EU farming including: the elimination subsidies linked to production; the channeling of subsidies into rural development funds, the of reduction of payments to big and medium-sized farms to achieve fairer distribution; the cutting of payments to farmers if they fail to follow new criteria on food safety, environment and animal welfare; and finally the lowering of prices at which the EU guarantees to buy up grain and dairy products. Spain and Portugal (among other countries, particularly France, Ireland, Italy, Greece, and Austria) remain bitterly opposed to these plans. The reduction of the CAP's funds for many Iberian farmers will most likely result in the cofinancing of agricultural policies (something that the Portuguese and Spanish governments have not been willing to consider so far).

In addition, the EU enlargement will likely result in a shift toward the north, and the so-called Mediterranean block (including Italy and Greece), which shares substantive similarities and interests, will carry less weight. Indeed, enlargement will shift the center of gravity of the EU to the east and the north, which will have economic and political implications of the Iberian countries because it will reduce the voting power of Portugal and Spain (and the Mediterranean bloc in general), while changing the cultural character of the EU. In a Europe of 25 members the institutional powers and influence of Spain and Portugal will be further diluted. First, Iberian votes will be less decisive in European institutions such as the European Commission, the Council or the Parliament. Second (and this is currently under consideration by the ongoing European Convention), enlargement is also likely to result in the extension of qualified majorities to additional policy areas that until this time had to be decided by unanimity. Finally, the shift in budgetary priorities and the limited resources will also mean that some of the policy priorities that Portugal and Spain have defended within the European Union, such as support for Latin America or Northern Africa-the Magreb, are likely to receive less attention and resources (and there is even the possibility that they may no longer be European policies).[30]

Finally, from an economic convergence standpoint, given the existing income and productivity differentials with the richer countries, regardless of enlargement the Iberian states will have to continue increasing their living standards to bring them closer to the current EU average. For this to happen, it is necessary that their economies grow faster that the other rich European countries. This will require further liberalization of their labor structures (both internal and external), as well as increasing competition within their service markets, and developing a better utilization of their productive resources. In addition, convergence will also demand institutional reforms in R&D policies, in education, improvement of civil infrastructures, as well as further innovation, an increase in business capabilities, more investment in information technology, and better and more efficient training systems. Finally, a successful convergence policy will also demand a debate about the role of public investment and welfare programs in both countries. In the Iberian countries increases in public expenditures to develop their welfare state have caused unbalances in their national accounts. Yet, both countries still spend significantly less in this area than their European neighbors (i.e. Spain spends 6.3 points less in welfare policies than the EMU average). Effective real convergence would demand not only effective strategies and policies, but also a strong commitment on the part of Spanish and Portuguese citizens to this objective.[31]

Challenges for the New Member States

Political factors lied at the heart of the Portuguese and Spanish decision to join the EU. Both countries wanted to strengthen their new democratic regimes and finish with the relative isolation that they had faced during the authoritarian years. Portugal, Spain (and Greece) demonstrate how important the democratic pre-requirement for membership has been to bring and consolidate democracy in all three countries. Yet, the differences between 1986 and 2002 are remarkable. Portugal and Spain now have advanced capitalist economies, strong and modern states, social institutions supportive of markets, well-developed civil societies, trade unions and interest groups, and a high degree of integration between the two Iberian economies that has resulted in a cluster of interests.

When we contrast this situation with the status of eastern European countries and compare the challenges that the Iberian countries faced in the 1980s with the ones that the new states from central and Europe will face, the latter look far more daunting. In central and eastern Europe we face barely functional market economies and unstable democracies. In addition, none of the new members has a previous tradition of democracy (except the Czech Republic). Furthermore, in the EU we now have the Single Market and EMU. Finally, the current economic and political climate (particularly after 9/11) will make enlargement even more difficult. Therefore, the current enlargement process is very different and more problematic.

As in Iberia, the new member states are transforming their political and economic systems, and have adapted their regulations to the *acquis communautaire*. However, the costs of this transformation for the new ten have been so far even higher than in Iberia. Unemployment has increased up to 40 percent in some regions, and taxes have been increased by up to 10% as a result of the introduction of the VAT. Economic and institutional transformations have exposed the weaknesses of these governments and, in may cases they have led to the return of former communists to the governments of these countries, which has hindered the reform process.

Joining the EC was much simpler in 1986 than it is today. Since the 1986 Iberian enlargement the number of EU members has increased to 15, the Single Market and EMU have been introduced, and the Amsterdam and Nice treaties (with the incorporation of new policy areas such as justice and home affairs) have been ratified. Therefore, the complexity of the *acquis communautaire* has increased dramatically and hence the difficulties that new members are likely to experience meeting it are much higher. Moreover, as other author have noted, the differing cultural and historical experiences of the new entrants will complicate the convergence process towards a common European identity.[32]

In addition, the economic and political environments are substantially different and even more complex. Indeed, the timing of accession was an important contributing factor to the success of Iberian integration. Not only were the Iberian economies market economies with fully institutionalized market mechanisms in place (with the parenthesis of the failed revolutionary attempt in Portugal in the mid 1970s), but also the Iberian enlargement coincided with the end of the economic recession, the lowering of oil prices, the beginning of a period of economic expansion within the European economies, and a new period of *détente* between the Soviet Union and the United States. Current economic (the worldwide recession) and political uncertainties (the so-called war on terrorism, the conflict in the Middle-east, the potential wars in Iraq and North Korea), combined with the economic difficulties that Germany and other EU member estates (as well as the US and Japan) are currently experiencing will make integration far more difficult for new members.

Furthermore, there are also significant differences in economic performance in Eastern Europe. Given the scope of the new enlargement process and the disparities and geographical distance among the new entrants, harmonization is likely to be even more difficult. Some of these differences can be explained in terms of geographical proximity to the EU countries, but this factor does not explain everything.

Domestically, the integration prospects in Eastern Europe are far more complicated. In the new members economic modernization will be the result of a systemic challenge, not merely a consequence of an adjustment process like in the Iberian countries. Hence, the economic benefits will be lower and will take longer to materialize. Moreover, increasing nationalism in these countries will also hinder the cultural effects of integration. The new member states will face problems similar to those of previous entrants. Cameron (2002) has argued that the new member states will face four major domestic challenges: first, the ability to reform their administrative and institutional settings to develop the capacity to implement the *acquis*; second the willingness to deepen the necessary reforms to transform their economies into functional market systems; thirdly the ability to reduce unemployment levels while addressing the structural imbalances of their economies; and finally, the political challenges to finalize the transition to membership in face of increasing opposition within (and outside) their countries about enlargement.

The 10 new entrants will have to undergo reform of nationalized industries, tackle corruption, strengthen their judiciary system (a key problem in these countries is the lack of strong courts) and their administrative capacities to implement the EU rules (i.e. on food safety), eliminate conflicting tax rules, finish with political cronyism and politically driven appointments to the civil service and public companies (there is widespread politization of public-sector jobs), reform their public finances, strengthen their weak economic management, reduce industry's subsidies, reform and in many cases privatize their large and outmoded public companies (i.e. in Poland 2,000 state owned companies generate a fourth of employment and GDP), introduce competition in many economic sectors, improve the overall business climate (by promoting privatization, fair taxation, deregulation, limit abuses to market power, and investment), strengthen financial regulation, develop transparent procurements procedures, and uphold EU rules. One of the consequences of concerns over the ability of these countries to move ahead in these areas (and also an outcome of Greece's integration experience) has been the inclusion of so-called safeguard clauses into the accession treaties to allow the EU to suspend privileges (such as structural funds and farm aid) in certain areas if the new member states breach the single market rules. Moreover, EU enlargement will increase competition and force the liberalization of economic sectors in these states, and the CAP will bring not just subsidies but also more regulation and competition. Finally, the ability of the new member states to prepare viable projects to qualify to be partially financed with EU funds and to raise matching funds, will also determine their success in capitalizing from EU accession.

Furthermore, the levels of financial support from European policies (cohesion and structural funds, or the CAP) will also be far more limited for the new member states compared with previous enlargement processes. The new accession treaty provides 40.8bn euros in EU's aid for the 10 states for 2004-06 (and an additional 1bn for Poland from regional aid). This represents just 0.15% of the EU GDP. However, this figure is gross and the net transfer of funds will be even smaller after taking account of the contributions of the new member states to EU funds (with some analysts estimating that it could be as little as 12bn euros-or just 4% of the EU budget, or 0.05 of the EU GDP). Since the average per capita income of the new member states is 44% of the EU average and their GDP is just 5% of the EU's GDP, these funds will be hardly enough to help them close this gap. With this level of support it has been estimated that it will take over 20 years to narrow this gap. To put these figures in perspective: Greece has received more than 35bn euros from the EU since accession and during the 1994-1999 period, and EU aid accounted for 1.5% of GDP in Spain and 3.3% in Portugal.

These difficulties will be further aggravated by the fact that he new members' farmers will have to wait until 2013 to receive the same level of support that farmers from current members receive (they will start at 25% of current EU levels in 2004). This is critical for countries in which agriculture still represents a large proportion of their economies (58.9% percent of the Polish territory is devoted to agricultural operations. and two out of ten Polish are farmers contributing only 3.4% to the country's GDP). And all this is a hard economic context in which two out of 10 Polish are unemployed, and in Slovenia unemployment is 19.4%, and 16.5% in Lithuania. In addition, public deficits are also high (5.6% of GDP in Slovakia, or 5.5% in the Czech Republic)

A key additional concern is the increasing growth of disenchantment within the new members states over EU integration. While a few years ago support was widespread and the assumption within the EU was that the biggest obstacles would come inside the existing union (according to *Eurobarometer* in 2001 only 44% of Europeans supported enlargement and expressed concerns over the cost s of admitting the new states, as well as fears about labor migration), disillusionment over the accession conditions and the costs of structural reforms necessary for EU membership as well as fears of being swamped by foreign capital and influence have led to increasing discontent among the citizens of the new members states, growing Euroskepticism and the rise of anti-EU voices. Sensitive issues such as domestic issues (i.e., high levels of unemployment, or the unpopularity of local governments), farm subsidies, Cyprus, immigration, the Benes decrees, the Sudetenland dispute, or possible demands from former owners of property expropriated by Nazis and Communists in some countries, have been further soured by the global economic slowdown and the accession conditions (particularly the decision to limit migration during the first 7 years). According to *Eurobarometer* support for enlargement is running at about 65% (with support ranging from 80% in Hungary and 60% in Poland, to barely 50% in the Czech Republic), but given increasing political resentment, there is a serious risk that one (or more) of the new members may vote "no" in the forthcoming accession referendums, particularly if voters decide to stay away from the polls. Approval is no longer a certainty.[33]

Theses challenges are compounded by the uncertainties over the course of the institutional reforms of the EU. The risk of institutional decision-making gridlock is a real possibility. The logistical issues of ruling an institution with 25 members will be daunting, from logistical issues, to languages, to decision-making processes. One of the key questions is what kind of institutional reforms will result from the ongoing European Convention. Some of the outcomes from the convention may include: more qualified majority voting (i.e. over issues such as taxation, or justice and home affairs), EP codecision, a new system of EU presidency that will eliminate the current system based on a rotation among member states of the EU presidency every six months, and an increasing role for national parliaments. While some of the larger countries (France and Britain) are pushing for a stronger EU presidency, the smallest states are arguing in favor of a strong European Commission that will act as its biggest ally and protector (but it will also require reform because 25 commissioners may be too may). It will be in the best interest of the new members to uphold the current decision making system based on consensus as opposed to majority vote with a strong European Commission. In the end, the key will be to build a Constitution of Europe that reflects the vision of the peoples of Europe. Unfortunately, for decades most governments across Europe have been treating public opinion as an obstacle to be circumvented or simply ignored. Consequently, voters' skepticism has grown and European citizens are getting tired of being told what to do by political elites in matters concerning the European Union. Politicians can ignore this at the own peril.

Iberian Lessons for Post-Communist Europe[34]

The Iberian enlargement process provides useful feedback for the ongoing process, not only for negotiation strategies, but also in terms of the consequences of membership.[35] *What are the Iberian lessons for post-Communist Europe?*

First, any negotiations (even with the EU) should not be based on an "us versus them" approach, but instead on a "them versus them" that will allow the new member states to take advantage of divisions among current member countries. Poland has played this strategy quite skillfully so far. In addition, although the new members (like Portugal and Spain before) will find themselves on the same side on many issues (i.e., on social questions, on the EU structural funds, and on the concept of cohesion), each new member should develop its own *ad hoc* coalitions with other members based on common interests. The Iberian experience shows that despite similar interests and objectives, after sixteen years there has not been a consistent approach to EU negotiations between Portugal and Spain. They have often cooperated, but they have also worked separately and with other EU members. The Portuguese and Spaniards choose alliances depending on the issue at stake.

Furthermore, one of the most important lessons from the Iberian enlargement is that the terms of accession are not always final. Renegotiations after accession are possible and compensatory mechanisms can be developed. Therefore whatever the accession terms for 2004-06, the focus of the new member states should be on 2006, when the EU will start its next seven-year budget period.[36] The focal point should be on accession economics instead of development economics. The EU will pursue stability and homogenization, but the new member countries will want to growth. In this regard, the Iberian experience shows that the center of attention of the new countries should be on finding the best ways to maximize the benefits of membership once they are in. A naked selfish strategy that would look only at their particular needs is also bound to fail. The new members also need to look at their potential contributions to the EU and the model of European integration that they want to build. Paraphrasing president Kennedy, they should ponder, not only what the EU can do for them but also what they can do for the EU. This should not be a zero-sum-game but instead a positive-sum-game.

Thirdly, the experience of Portugal and Spain demonstrates the limits of peer pressure and the ability of the *acquis communautaire* to force change. The commission has pointed out in successive enlargement overviews of the new 10 at the need to combat corruption, economic crime, strengthen independent judiciaries, and develop the capacity to implement the *acquis*. However, both Spain, Portugal (or Greece) have had (and still face) problems in all of these areas.

The Iberian enlargement also illustrates that patterns of migration can be reversed. Both Spain and Portugal were made to wait for accession in the 1980s, partly over immigration fears that did never materialize. Like in 1986, the new treaty of accession has established a period of 7 years for the new member states of central and Eastern Europe. Fears of uncontrolled migration were not substantiated after 1986, (or even after the 7 years transition period). On the contrary, as a consequence of improved economic conditions in Iberia, one of the key results of EU access was that by 1995 there were 100,000 fewer Spaniards and 110,000 Portuguese living in other EU member states than before enlargement. Furthermore, the reverse process took place when thousands of Europeans (particularly from Germany and Britain) migrated to Spain. Such concerns are likely to be unfounded again with the new members states

The European Commission estimates that 70,000 to 150,000 workers (out of a population of 350 million people) could migrate from Eastern Europe to the current EU states. This is hardly a large number. The continuing existence of language, cultural, and structural barriers will most likely continue hindering labor mobility in an enlarged Europe. In addition, the rapid economic growth of eastern European countries (particularly compared to some of the sclerotic EU members, like Germany) is likely to have the same effect than it had on migration patterns in Spain and Portugal after 1986. Finally, although it is likely that migration will cause difficulties in particular regions (particularly on the eastern borders zones of Austria and Germany) and industries, the problem my not be too much migration from the east but instead too little. Given the ageing of EU population and the low levels of fertility rates it will be important to facilitate the migration of more young people from eastern European countries. In the end, instead of displacing local people from the labor market or lowering wages, immigrants from the new members states will contribute to the host economy by adding value, creating jobs, and pushing up wages because these workers will now be able to work legally (several hundred thousands work currently illegally in the EU).[37]

It is also necessary to note that the success of the Iberian countries was largely influenced by the support that they received from the EU funds. During the 1994-1999 period, EU aid accounted for 1.5% of GDP in Spain and 3.3% in Portugal. EU funding has allowed rates of public investment to remain relatively stable since the mid-1980s. The percentage of public investment financed by EU funds has been rising since 1985, to reach average values of 42% for Portugal, and 15% for Spain. Moreover, the European Commission has estimated that the impact of EU structural funds on GDP growth and employment has been significant: GDP rose in 1999 by 9.9% in Portugal and 3.1% in Spain. These funds, which amount to just over one-third of the EU budget, have contributed significantly to reduce regional disparities and foster convergence within the EU. As a result major infrastructural shortcomings have been addressed and road and telecommunication networks have improved dramatically both in quantity and quality. In addition, increasing spending on education and training have contributed to the upgrading of the labour force. In sum, these funds have played a prominent role in developing the factors that improve the competitiveness and determine the potential growth of the least developed regions of both countries.[38] We have seen, however that new member states should not expect the same level of aid. Therefore, adjustments costs will higher and it will take them longer to catch up.

Yet, while acknowledging the critical role played by EU funds in the success of Iberian integration, it is also important to stress that successful integration is not only a budgetary issue. On the contrary, the Iberian experience demonstrates that the main benefits of integration derive from the opportunities that it generates in terms of trade and foreign direct investment. Portugal and Spain show that a critical factor to determine the final outcome of integration will depend upon the pattern of investment, which would bring about important *dynamics effects*. Dynamic effects should be more important than static ones. Indeed, the process of opening to international trade improves potential for growth, lowers production costs, and reduces the risk premium in response to a brighter macroeconomic outlook, which results from economic reforms. These developments help account for the increases in FDI in Portugal and Spain (where it reached a peak of 2.7% of GDP in 1990). FDI, in turn, has had very positive implications for the Iberian economies because it has facilitated the transmission of technology, has paved the way for advances in productivity and, therefore, it has fostered an increase in the potential GDP growth of both economies.

The difficulties that the Iberian economies experienced in the early 1990s provide an additional lesson for new members, namely that "automatic pilots" do not work. The credibility of monetary and economic authorities cannot be build by attaching it to semi-rigid institutional mechanisms (like Spain and to a lesser extend Portugal tried to do in the late 1980s and early 1990s with EMS membership). On the contrary it has to be earned through the adequate management of existing discretionary powers. In addition, the Iberian EMU integration shows that the consolidation of integration processes is contingent of an adequate coordination of macroeconomic policies among members prior to the (possible) adoption of a monetary currency. In Portugal and Spain EU integration has required a set of measures including increasing competition, privatization of public enterprises, industrial restructuring, and deregulation. These measures have translated into efficiency gains, which have been reinforced by a more stable macroeconomic framework. At the same time, lower inflation and fiscal consolidation have led to lower real (and nominal) interest rates, which, in turn, have resulted in a higher sustainable growth. However, there have also been short-term costs associated with monetary integration. Indeed, the losses of the exchange rate and of monetary sovereignty require a process of nominal convergence and fiscal consolidation, as well as higher cyclical correlation, for Euro membership to be successful. This should be taken into account for future Eastern European economies.

The Iberian enlargement also shows that prior to monetary integration, candidates must carry out a process of modernization and nominal convergence without fixing their exchange rate. An additional lesson is that financial institutional reform does not necessarily force institutional changes in other areas (i.e. the labour market, or fiscal policies). The virtual collapse of the European Monetary System in 1992 caused in part by successive devaluations of the Iberian currencies showed the limits of financial and monetary instruments to impose institutional reforms in other areas and to balance domestic and external economic objectives. Institutional reforms require active actions and policies on the part of the governments that are willing to pay the short-term political price for unpopular policies. The jury is still out regarding the domestic institutional impact of EMU.

One of the important lessons from the Iberian enlargement should be that economic success drives public opinion. In Iberia the greatest consensus elicited toward the EU is largely instrumental. The image of a "European community" among Iberian people is very week. Indeed, they perceive the EU as an economic community, not so much as a community of Europeans. The *Eurobarometer* and CIS polling data show that the perceptions from Iberian citizens about the personal and collective benefits derived from EU membership are one of the key factors that help explain for their attitudes towards the process of European integration. Hence, approval of Europe seems to coincide with the economic cycles: low during economic recessions, and high during periods of economic growth.

Finally, while Portugal and Spain had pursued feverishly their integration in the Community, the effects of EU integration have not always been favorable to both countries. As we have seen, both in manufacturing and in agriculture, there has been both trade diversion and trade creation, which implied more adjustment problems, since greater import penetration led to a contraction in domestic production. This was particularly true in the case of the Iberian manufacturing sector. Factors such as the behavior of the exchange rate, or the strategies of multinational companies with subsidiaries in both countries also played a critical role in the final outcome of integration. This analysis proves that the expected static effects, which were not always favorable to Spain and Portugal, should not be the main economic expectation behind the ten's entry to the EU. Based on the Iberian experience dynamic effects, on the contrary, provide an important rationale to support integration. Over the long run, they will affect the rate of economic growth of the new member states, which will be largely influenced by investment patterns, by the efficiency with which these resources are used, and finally, by their distributional effects among regions.

Conclusions

While the short-term outlook can be difficult, the economies of the candidate countries have already been transformed by the prospects of EU entry. From an economic standpoint, although central and eastern European countries have low GDP per capita, they are growing very fast (and certainly faster than most of the EU economies). For the new members a key benefit will be additional FDI (currently 78% of the investment in the 10 member states comes from the EU). Market oriented reforms have also taken place over the last decade in all 10 countries and they have been compounded by private investment, including FDI. As a result the private sector in many of the 10 countries is flourishing and showing resourcefulness in competitive markets. The EU Commission has estimated that membership could help raise the annual economic growth rate of these 10 countries by an extra 1.3 to 23.1%. In addition, these countries already compare well in surveys of global competitiveness vis-à-vis EU members (i.e., the World Economic Forum ranks Hungary and Estonia above Portugal, and Slovenia, the Czech Republic and Poland above Greece). Long-term prospects for growth are also good because of the region's low-cost labor, its skilled workers, and its proximity to western European export markets. These countries have become quite flexible because the drive to dismantle the communist apparatus has led to the development of a more open administrative environment than in may EU members and more labor flexibility.[39] Moreover, producers from the new member states will now have access not only to their respective national markets but also to the European one. This will offer incentives for investment and will allow for the development of economies of scale, which in turn will result in more competitive products in the European markets. Furthermore, the entry of these new states to the EU will make their citizens European citizens, thus ending some of the discriminations that those emigrants are currently suffering. Finally, access to the EU cohesion and structural funds will facilitate the accession of new members. Indeed, the structural and cohesions funds, and the CAP (limited as they will be) are powerful support instruments to mitigate the negative impact of accession.

For the Iberian countries and the new central and eastern European member states the EU symbolizes modernization and democracy. In Iberia, the European integration process has facilitated the reincorporation of both countries to the international arena, has contributed to the legitimacy of the new democratic regimes, has acted as a buffer in controversial issues (such as the process of decentralization in Spain, or the implementation of economic reforms), and has facilitated and accelerated the process of convergence and modernization of financial, commercial, and manufacturing structures. The idea of Europe became a driving force that moved reforms forward and it was a fundamental factor for bringing together political stabilization, economic recovery, and democratic consolidation. As we look to future research agendas, it is important to stress that while the majority of the research in this project has focused on the policy effects and the influence of EU policies on the Iberian countries, it is also imperative to study the impact of EU membership on domestic institutions.[40]

Despite all the significant progress accomplished over the last and half decades, the Iberian countries still have considerable ground to cover. At a time in which the European Commission is reporting that the EU is 'losing the battle on competitiveness,' in a list of 44 indicators, including economic performance, reform, employment, and research, Portugal and Spain (together with Greece) are among the worst countries in the majority of the areas.[41] Lack of political willingness to reform and sluggish growth will hinder further the convergence process. At the same time, differences in economic performance will be exacerbated within the EU by the accession of the central and eastern European states. Indeed, with the new 10 member states joining in, there is an increasing risk of a "two-tier" Europe where same countries will do better than others. The EU has limited direct powers to force outcomes. The experiences of Portugal and Spain show that the influence of indirect EU recommendations on policy and demonstration effects has been greater than direct action. Hence, it is not surprising that European states, and particularly the Iberian countries, are failing to live up to the ambitious targets established in the European Council of Lisbon in March of 2000, which aimed at making the EU more competitive.[42] While EU membership will facilitate (and in many cases ameliorate) adjustment costs and will provide impetus for reforms, the experience of the Iberian countries shows that this is no substitute for the domestic implementation of reforms, which should proceed further in areas such as labor, product, and capital markets. The success of enlargement and institutional reforms will hinge to a considerable degree in the ability of European leaders to implement reforms in the face of domestic resistance and increasing skepticism about enlargement. The enlargement process and the new convention will largely determine the future of Europe. Lack of progress will bring institutional paralysis and losses of competitiveness. The survival of the European model is at stake.

NOTES

[1] References to the European Economic Community (EEC) or the European Union (EU) can be misleading if the historical period covered extends past the last two decades. This chapter addresses themes in the European Economic Community prior to the introduction of the European Union label in the Maastricht Treaty of 1991. The terms 'the European Community' (EC) or 'the European Union' (EU) are used indistinctly to refer to the European integration process and institutions throughout the article. Similarly, 'Europe' is here always used to refer to the countries that are

members of the European Union, either before or after the Maastricht Treaty. In section three when I focus on the ongoing enlargement process, I refer to the EU.

[2] The Spanish Socialist Party, PSOE, under its leader Felipe González has led the opposition to integration in NATO. When they won the general election the following October, Mr. González used the threat of exiting the Alliance as a tool to speed the negotiations with the EC. The Socialist government linked the permanence in NATO with the country's accession to the Community and "threatened" the U.S. and the EC members with a referendum about the country permanence in NATO that he had promised during the electoral campaign. In the end Mr. González himself supported Spain's permanence in the Alliance during this referendum, and Spain achieved its objective of joining the Community. Nevertheless, this shows that political considerations, again, were critical during the negotiation process. See Gómez Fuentes 1986, pp. 41-42.

[3] Sánchez Albornoz 1973, p. 281.

[4] The democratization literature has theorized about how external influences may affect democratization processes and has generated a range of concepts. Pridham (2002, 183) outlines the following ones: "difussion, contagion, consent, penetration, demonstration effect, emulation, reaction, control (or, externally monitored installation of democracies), incorporation, obviously interdependence, and finally conditionality."

[5] Rippon 1980, p. 107.

[6] González 1980, p. 47.

[7] Vaitsos 1982, p. 243.

[8] Pridham, 2002, pp. 185-86.

[9] Pridham, 1991, pp. 234-35.

[10] Pridham 2002, pp 188-89 and Pridham 1991, p. 234-35.

[11] Pridham 2002, 194-205.

[12] Supporters of decentralization and the regionalist parties viewed the process of European integration as a model of decentralization, and saw EC integration as an instrument to ensure the decentralization of the Spanish political system. See Alvarez-Miranda, 1996 and Magone 2002, p.229.

[13] Magone 2002, 225.

[14] From, CIS: *Opiniones y Actitudes de los Españoles Antel el Proceso de Integración Europea*. Madrid: 1999, pp, 131-32 ; and Magone 2002, pp. 223-33.

[15] Pérez-Díaz, 2002, pp. 280-84 and Magone 2002, p. 232.

[16] From "Not quite kissing cousins," in *The Economist*, May 5, 1990, v. 315, n. 7653, p. 21.

[17] Hine 1989, p. 7.

[18] For example, EC vehicles imported to Spain paid a custom duty of 27% to 30,4% plus a compensatory tax of 13%. See Couste 1980, p. 129.

[19] See Tovias 2002

[20] The framework for section on trade draws from Robert C. Hine, "Customs Union Enlargement and Adjustment: Spain's Accession to the European Community," in *Journal of Common Market Studies*, Volume XXVIII, No. 1. September 1989.

[21] Imports of manufactured goods in 1986 were equivalent to 11.0 percent of Spain's GDP. On the other hand, the relatively closed nature of the Spanish industry was also reflected in the amount of industrial exports which was only 10.9 percent of GDP. In the EC the averages were 14.4 percent and 27.7 percent of GDP respectively. Hine 1989, p. 7.

[22] For instance, since the late 1950s Spain had been moving away from industries based on low-technology, low capital requirement, and unskilled labor like textiles, leather, shipbuilding and food, towards more capital intensive industries that required more labor skills–like chemicals, or vehicles. See Hine 1989, pp. 9-12.

[23] Hine 1989, pp. 16-18.

[24] See Sebastian, Miguel, 2001: "Spain in the EU: Fifteen Years May not be Enough" p. 25-26. Paper presented at the conference *From Isolation to Europe: 15 Years of Spanish and Portuguese Membership in the European Union.* Minda de Gunzburg Center for European Studies, Harvard University. November 2-3.

[25] From "La Convergencia Real a Paso Lento," in *El País*. Monday February 14th, 2000.

[26] Today the EU is rich and homogeneous with a population of 376m, a GDP of $8.660bn and a GDP per head of $23,550. The richest EU country is Luxembourg with a per capita GDP of $27,470 and its poorest Greece with $16,860. In contrast the new member states have a combined population of almost 75m (Poland accounts for 39m) and their GDP per head is only an average of $10,550. See Martin Wolf, "Europe risks destruction to widen peace and prosperity," in *Financial Times*, December 11, 2002, p. 15.

[27] From Sebastián 2001, p. 22.

[28] From Sebastián 2001, p. 22.

[29] "Sólo dos comunidades de las 11 actuales podrán recibir fondos europeos en 2007" [Only two of the current 11 communities will be able to receive European funds in 2007] in *El País*, January 24th, 2003.

[30] For a discussion on the effects of enlargement in Spain see José Ignacio Torreblanca, "Por fin, la ampliación: la Unión Europea tras el Consejo de Copenhague," [Finally enlargement: the EU after the Copenhagen Summit], mimeo, *Real Instituto Elcano de Estudios Internacionales y Estratégicos*, 21/19/2002.

[31] From "La Convergencia Real a Paso Lento," in *El País*. Monday February 14th, 2000.

[32] Magone 2002.

[33] See Stefan Wagstyl "EU accession states woo the voters," in *Financial Times*, January 9, 2003, p.4.

[34] I would like to thank Jeffrey Kopstein, Ramón de Miguel, Kalypso Nicolaidis, George Ross, and Francisco Seixas da Costa for their valuable comments during the last roundtable of the conference *From Isolation to Europe: 15 Years of Spanish and Portuguese Membership in the European Union.* Minda de Gunzburg Center for European Studies, Harvard University. November 2-3, 2001. Their comments inform this issue

[35] Some observers have noted that these new members may learn even more from Greece than from Portugal and Spain. In Greece for instance, the government was reluctant to cede control of vital economic sectors, it was behind in consumer protection, environmental and competition policies, and corruption was a systemic problem. In addition Greece had weak civil institutions, which slowed the convergence process. For years Greece squandered the opportunities of EU membership through poor fiscal management, corruption, political cronyism, justice mismanagement, and misadministration and mismanagement of domestic and European funds. While fiscal discipline has been achieved, the change of attitudes and values is still a pending issue. See "Is Poland the new Greece? Why Warsaw's entry into the European Union may be rough," in *Financial Times*. Monday December 9, 2002, p.11.

[36] This agreement allowed Spain to sustain a positive trade balance with the Ten of 305,000 millions of pesetas on 1984. At this time, Spanish exports to the EC were 43, 3% of the total exports, while imports from the EC represented 32,3% of total imports. These favourable results for Spain were negative for the EC, which tried on the accession negotiations to correct this situation. See Fernández Guerrero et al 1989, pp. 145-59.

[37] See "UK leads way on opening borders to new workers," in *Financial Times*, Friday December 13th, 2002, p.2; and "Fears of big move west may be unfounded," in *Financial Times*, Tuesday December 2, 2002, p. 4.

[38] See Sebastian, Miguel, 2001: "Spain in the EU: Fifteen Years May not be Enough" p. 25-26.

[39] For instance, according to the WEF starting a company in Poland takes 3 permits against an average of 5 in France and 10 in Italy. See "Into the west," in *The Financial Times*. Monday July 22, 2002. Spain in contrast, is listed by the European Commission as the country in which the cost to create a business are the highest (1,572 euros when the EU average is 250), and the second in which the process if the slowest (24 days, twice as much than the EU average, only Italy is behind with 35 days). According to the Commission some of the key difficulties include: administrative barriers, difficult access to financing, bankruptcy provisions, employment protection, discrimination against women, and inadequate education and training.

[40] See Morlino 2002.

[41] See "The EU 'is losing battle on competitiveness'," in *Financial Times*, Monday January 13, 2003, p.3. Spain has lost 3 positions (is listed at number 20) in the last Globalization Index published by *Foreign Policy* (January/February 2003, no. 134, p. 60) and Portugal is listed at 14. In addition the *World Economic Forum* has placed Spain and Portugal among the least competitive countries in the European Union (only Greece is behind) in its *Report on Global Competitiveness*. This report examines economic conditions in 80 countries focusing on two main indexes: MICI (Microeconomic Competitiveness Index), which measures the quality of business development, and the GCI (Growth Competitiveness Index), which examines growth perspectives in 5-8 years based on macroeconomic stability.

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