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**Reconsidering Economic Relations
and Political Citizenship in the New Iberia of the New Europe:
Some Lessons from the Fifteenth Anniversary
of the Accession of Portugal and Spain to the European Union**
by

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Abstract

The purpose of this paper is to use the fifteenth anniversary of the accession of Portugal and Spain to the European Union as an opportunity to reflect on what has happened to both countries since 1986. It examines the integration process and how it has affected political, economic and social developments in Portugal and in Spain over the last fifteen years. In our view, and on balance, Spain and Portugal have benefited from accession. Since the last century, the obsession of Spanish and Portuguese reformists has been to make up the lost ground with modernized Europe. EU membership has been a critical step in this direction. The record of the past fifteen years is that this dream is becoming an economic reality. Despite impressive achievements, however, namely, since 1986, Portugal's average per capita income has grown from 56 percent of the EU average to about 74 percent, whereas Spain's has grown to 83 percent—both Iberian countries still have a long way to go to reach the EU average wealth. In addition, the question of Iberian and/or European citizenship, and its impact on the Portuguese and Spanish, remains open.

INTRODUCTION

In the not-too-distant past, an apocryphal adage claimed that Europe ended at the Pyrenees, the mountain range at the southwest corner of France. This saying suggested that the nations of the Iberian peninsular existed somewhere outside of European consciousness. As is the case with such adages, it was based on certain truths: for many years Portugal and Spain were undeniably more focused on the politics of their respective colonial empires than they were on relations with their European neighbours. Further, Portuguese dictator Antonio de Salazar and Spanish dictator Francisco Franco were not interested in developing relationships with democratic Europe in the postwar period. As a consequence of this pattern of historical development, these two Iberian nations were indeed isolated from Europe for a long period of time. This political reality started to change with the democratic transitions in both countries in the 1970s. These new Iberian democratic governments were anxious to emulate the political stability and economic prosperity of their European neighbours. After years of difficult negotiations, Portugal and Spain both joined the European Union on 1 January 1986, starting a new phase of Iberian, and European, history.

The purpose of this paper is to use the fifteenth anniversary of the accession of Portugal and Spain to the European Union as an opportunity to reflect on what has happened to both countries since 1986. Have these changes been particular or global in nature? Have these changes led us to reconceptualize economic relations and political citizenship in the new Iberian peninsular of the new Europe? If so, how? What are some of the lessons from the fifteenth anniversary of the accession of Portugal and Spain to the European Union? We have assembled a group of leading scholars, policymakers, and researchers to write about these phenomena. The essays in this volume examine how the integration process has affected political, economic, and social developments in Portugal and in Spain over the last fifteen years. We have divided the volume into two parts. The first part examines political and sociological aspects of the integration process, whereas the second section looks at economic and social aspects. The essays compare and examine the integration experiences of both countries, analyze the domestic impact of European Union membership, and examine the role that both countries have played in the European Union.

This introductory chapter will examine the integration process of Spain and Portugal in detail. Among other concerns, it asks how fifteen years of membership in the European Union has had an impact on economic relations and political citizenship in Spain and Portugal. What is the relationship between economic growth and political citizenship? Are these separate entities, or are they connected in fundamental ways? Is loyalty to a political unit driven by economic success, or by a sense of cultural identity? Does 'Iberian citizenship' exist? Does 'European citizenship exist'? If so, how would either of these differ from Portuguese or Spanish citizenship?

The issue of Iberian membership in Europe raises at least four important issues. First, it is important to keep in mind that the postwar construction of the European Union was first an economic reality (in the 1950s and 1960s) then a political one (in the 1970s and 1980s), and only now perhaps is becoming a cultural one (since the 1990s). Second, Portuguese and Spaniards are only slowly identifying themselves as ‘European.’ It is far more common for them to identify with their nation-state of origin. Third, although the Maastricht Treaty does contain certain statutes related to the rights of European citizens, no treaty spells out European citizenship and economic rights and guarantees. Finally, the construction of European Citizenship, arguably, faces some of the very same challenges inherent in Spanish citizenship relating to linguistic and ethnic cleavages.

THE OVERALL PATTERN OF HISTORICAL DEVELOPMENT IN SPAIN AND PORTUGAL

Portugal and Spain are two of the oldest nation-states in Europe, and each has a strong sense of national unity and mission that dates back to their battle of *reconquista* against the North African Moors. It should also be noted at the outset that there have been significant tensions between Spain and Portugal over the centuries. The ‘Spanish question’ has always been a pressing issue in Portuguese foreign policy. These nations have shared a historic relationship based on fear and mistrust. This hostile relationship has been characterized by Spanish disdain for the Portuguese, and Portuguese defiance of perceived Spanish arrogance. And yet, in recent years, there have been signs that some changes might be underway—both in the relations between Spain and Portugal, as well as their respective relationship with Europe.

The overall pattern of Spanish and Portuguese histories has been described, crudely, as a graph shaped like an upside-down version of the letter ‘V.’ That is, the graph rises—bumpily at times, through 600 years under the Romans, 700 years under or partly under the Moors, and a century of empire-building—to the peak of Spanish and Portuguese power in the sixteenth century. After that the history of each nation goes downhill until the 1970s. A vast empire was gradually lost, leaving Portugal and Spain poor and powerless. And there was much political instability: Spain suffered forty-three *coup d’états* between 1814 and 1923, a horrendous civil war between 1936 and 1939, followed by thirty-six years of dictatorship under *Generalísimo* Franco.¹ For its part, Portugal suffered great governmental instability during the First Republic (1910–26) and then forty-eight years of authoritarian rule under Salazar and Caetano.

After the 1974 ‘Revolution of the Carnations’ in Portugal and Franco’s death in 1975, the graph turned upward again. In Spain King Juan Carlos, Franco’s heir, oversaw the return of

democracy to the country. A negotiated transition period, which has been labelled as a model for other countries, paved the way for the elaboration of a new Constitution, followed by the first free elections in almost forty years. In Portugal the democratic transition was more turbulent and included a revolutionary period (1974–76), but it culminated, as in Spain, in the establishment of a parliamentary democracy. These developments were followed by the progressive return of both Iberian countries to the international arena—where they had been relatively isolated during the dictatorship. The following decade also witnessed the Socialist party being elected to actual power in both countries (1976 in Portugal and 1982 in Spain), bringing a new aura of modernity to the country. The 1980s also witnessed Spain’s integration into NATO (1982).

AN OVERVIEW: IBERIAN DEMOCRATIC REGIMES AND EEC INTEGRATION

From the strict bilateralism that characterized the relations among the European powers in the years after World War II, until the adoption in 1962 of a common agricultural policy, the six countries that were members of the European Economic Community (EEC) went through a long process of integration. For most of this period, Spain and Portugal were separated from this process. Spain only joined the Organization of European Economic Commission (OEEC) in 1959. When the dilemma about the European Community–European Free Trade Association (EFTA) was resolved, Spain decided to open negotiations to seek an economic arrangement in 1962. Portugal followed a different path. A traditional ally of Britain, it decided to join Britain when this country went ahead with the formation of a European Free Trade Association in 1959.

Spain and Portugal were marginalized from the European integration process for political reasons. Neither Spain nor Portugal officially participated in World War II, but leaned toward the Axis side. The Axis powers had helped Franco win the civil war in Spain and had supported Salazar’s regime in Portugal in the 1930s. This association between the Iberian dictators and the Axis regimes contributed to the French and British suspicions about the character of the Iberian authoritarian regimes that Franco.²

As such, a condition imposed by the European Economic Community was that only democratic states could be members. Although each nation was interested in enjoying the economic benefits of EC membership, that requirement had the effect of banning Spain and Portugal from the EU until the 1980s. After the democratic transitions in the 1970s, both Portuguese and Spanish democratic governments pursued feverishly integration. Several deadlines were missed, but after years of long and strained negotiations, Portugal and Spain were each accepted to the Euro-

¹ ‘After the Fiesta’, *The Economist*, 25 April–1 May 1992, p. 60.

² Tamames (1986), p. 167

pean Economic Community on 1 January 1986. After decades of relative isolation under authoritarian regimes, the success of processes of democratic transition in both countries finally permitted full membership in the European Community.

For Spain, Portugal, and their EEC partners, this momentous and long-awaited development had profound consequences. Spanish and Portuguese policymakers expected that accession would help consolidate the newly established democratic institutions, modernize their outdated economic structures, and, finally, normalize relations with their European neighbours. They also understood membership in the EEC as a form of political maturation. It would also help align the politics of both countries with their European counterparts, and accelerate the Europeanization and democratization of their antediluvian political structures. The urgent need for these reforms was highlighted by the stark environment in which it took place—the 1980s. Spain and Portugal experienced one of the worst economic recessions in their histories, in a political context deeply marked (particularly in the case of Portugal) by the instability of the institutions that had been established during the democratic transition.

Costs and Benefits of Integration

Clearly, accession set in motion a complex and multifaceted process of adjustment. Entry to the EC—renamed the European Union (EU) in the 1990s—has also brought many economic advantages to both countries. Portugal and Spain have benefited extensively from EU's 'structural funds,' which have been used to improve the physical infrastructure and capital stock of both countries. At the same time, Portuguese and Spanish trade with the Community has expanded dramatically over the past fifteen years, and foreign investment has flooded into both countries.

One of the beneficial consequences of these developments has been a reduction in the economic differentials that separated each country from the European average. For instance, since 1986 Portugal's average per capita income has grown from 56 percent of the EU average to about 74 percent, and Spain's has grown to 83 percent. The culmination of this process was the (largely unexpected) participation of both countries as original founders of the European Monetary Union in 1999.

The process of integration, however, has also brought significant costs in terms of economic adjustment, loss of sovereignty, and cultural homogenization. European integration has had, and will continue to have for the foreseeable future, a profound effect on Spanish and Portuguese society. It has had an impact on issues such as national identity, the sustainability of welfare institutions, and the adjustment of political and economic structures. 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 policies to that of the European Com-

munity. These accession agreements also established significant transition periods to cushion the negative effects of integration. This process 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. It also involved, in a second phase, the removal of technical barriers to trade. These requirements brought significant adjustment costs to both economies.

Overcoming Historical Tensions between Spain and Portugal?

In some ways European integration has also helped bring Spain and Portugal closer together. Improved relations between these two countries—reminiscent of improved Franco-German ties in the 1950s—have been a significant outcome of the EU integration process. For centuries both countries have shared a peninsula, but little else. The roots of the Portuguese–Spanish animosity date to 1385, when Portuguese forces successfully resisted Castellan hegemony through their defeat of the Spanish-led invading forces at the battle of Aljubarrota. Over the past six hundred years, Portugal has steadfastly defended its independence. The one period of exception occurred between 1580 and 1640 when the Portuguese and Spanish crowns were joined in Madrid under the Hapsburg monarchy. Portuguese nationalists eventually rejected Spanish rule and restored national independence in 1640. Furthermore, at the height of their colonial power, both countries stepped heavily on each other’s toes in Latin America. These historical antagonisms drove the people from both countries apart. Consequently, the two peoples have lived with their backs turned to each other. The one notable exception took place in 1939, when Spain and Portugal, under the rule of Franco and Salazar, signed a friendship agreement known as the ‘Iberian Pact.’ More important, since the transition to democracy in the two countries, relations between them have steadily improved within the framework of the EEC (EU). Both Spain and Portugal joined the EEC on 1 January 1986, and both are now members of NATO.

This hostile climate between Spain and Portugal changed for the better in the mid-1980s. For instance, one of the biggest immediate effects of membership in the EEC in 1986 was vastly increased trade between Spain and Portugal. In only two years, Spain emerged as one of Portugal’s biggest suppliers, second only to West Germany. At the same time, Spain’s imports from Portugal are rising faster than those from any other country. In addition, direct Spanish investment in Portugal and Portuguese investment in Spain have soared. These developments demonstrate the increasing economic integration of both countries. It is therefore worth exploring the impact of European integration on both countries simultaneously. Finally, both countries have played a significant role in the European integration process. They participated actively in the establishment of the Single European Market, and in the enactment of the Maastricht and Amsterdam treaties. Portugal and Spain are strong supporters of the integration process and have intervened

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

From a cultural standpoint, the effects of integration are also significant. As part of their democratic transitions, both countries embarked on new processes of self-discovery. They have attempted to come to terms with their own identities, while addressing issues such as culture, nationality, citizenship, ethnicity, and politics. The process of integration into Europe has greatly influenced these developments. And what of the new European citizenship? In this regard, Juan M. Delgado-Moreira recently observed that

During the past five years, the European Union has been trying to sponsor a coming of age of European Identity awareness across national borders. In doing so, EU administration intends to square the circle of European Union as the super nation-state of the nation states of Europe. However prompted or justified by the political or economic context, it is noteworthy to what extent the texts of European statutes and policies lack theoretical alternatives to the territorial and relatively homogeneous state. In order for it not to become a threat perceived by the population in identity terms, the apparently forthcoming idea of European citizenship needs to address the concerns of both traditional and new ethno-national minorities at the state level and underneath. In the light of a global context, the tide of Europeanization is but a particular case of the worldwide extended tension between the two increasing and opposing processes of globalization and particularization.³

Delgado-Moreira's apt observation regarding the opposing processes of globalization and particularization centres our considerations. At the dawn of the new millennium, it would not be an exaggeration to say that the Spaniards and the Portuguese are in the process of becoming '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.

³J. Delgado-Moreira, 'European Politics of Citizenship', *The Qualitative Report*, Volume 3, Number 3, September 1997 (<http://www.nova.edu/ssss/QR/QR3-3/delgado.html>).

Spain, Portugal, and the European Community: The Integration Process

Due to American distrust of Franco, Spain was not included in the Marshall Plan. During the 1940s and 1950s, Spain was mostly left aside and it only developed some bilateral arrangements with other countries. For its part, Portugal enjoyed better relations with the United States. During World War II, Salazar permitted the United States to build the Lajes Base in the Azores (Terceira Island). The United States provided military assistance to Portugal in exchange for the use of this base, and also included Portugal in the Marshall Plan. And yet, when the Schuman Plan was issued in 1950, both Portugal and Spain were left out. The plan was restricted to the democratic regimes in Europe. Later on, the UK and Portugal formed the European Free Trade Association (EFTA) along with Austria, Denmark, Norway, Sweden, and Switzerland. EFTA has emerged as a result of the abortive free trade negotiations, part of the so-called 'Grand-Design' initiated by Britain to create a broad free trade area. The termination by France of these negotiations in December of 1958 led Britain to go ahead with the formation of a European Free Trade Association. Plans were approved in July of 1959, leading to the signing of the Stockholm Convention by the seven countries. The main aim of the Convention was to eliminate trade tariffs among its seven members, and to develop an industrial free trade area by 1970. It did not include a common external tariff. Portugal, a traditional ally of Britain, became a member of EFTA in 1960.

Integration and the case of Spain. The Spanish government followed these developments very closely, and a commission was created in the Foreign Ministry especially devoted to them. In these years it seemed clear to the government that the country could not be left out of these integrationist movements, but due to the precarious economic situation of the country, the rapprochement was very slow. During the late 1950s, there was a controversy in Spain surrounding the convenience for the country of joining the Europe of the Six (EC) or the Seven (EFTA). This meant that Spain had to make a decision about which of those two alternatives to follow as the most appropriate framework for the country.

It soon became clear that the Treaty of Rome was better suited for Spain's interests. Since Spanish's agricultural exports were critical for the country's economy, the fact that the EC had set the creation of a common agricultural policy as one of its main objectives, whereas EFTA left agriculture aside, convinced Spanish authorities about the benefits of the EC. Furthermore, the commercial volume of Spain with the EC was 50 percent higher than the one with EFTA countries. Finally, at the beginning of the 1960s, Spanish external trade was characterized by a chronic imbalance between a rigid export supply and an increasing import demand. A preferential trade agreement with the EC would offer the country the incentive of enlarging some markets that were

very important for Spanish's exports, while at the same time contributing toward the acceleration of a series of structural reforms needed at that time.⁴

On 14 February 1962 the Spanish Foreign minister sent a letter to Walter Hallstein, President of the Commission of the European Community, asking for the opening of negotiations with the objective of examining the possible accession of Spain to the Community.⁵ The request, however, received a cool reception from the Commission, which only acknowledged the reception of the letter. From the outside, several organizations pressured the Community to reject the Spanish request. In 1962 the Confederation of European Unions sent a letter to Mr. Hallstein pressuring for a rebuff. Several European newspapers joined in the campaign against Spain's request. 'The EC has to say no to Spain,' stated the Netherlands's newspaper *Nieuwe Rotterdamsche Courant*, 'until the spirit of democracy and liberty are present in the country.' The Congress of the European Federalist Movement meeting in Lyon at that time approved a resolution in which it rejected the possibility of any agreement between Spain and the EC. The Socialist Group on the European Parliament also said no to the Spanish request. Finally, the Congress of the European movement, meeting in Munich on June 1962, with the participation of a Spanish delegation, approved another resolution in which it was stated that only democratic countries could join the European Community—the Spanish representatives in this Congress were later punished with jail for their participation.⁶

During the following two years, there was no communication between Spain and the EC. This was the same period during which the UK received the De Gaulle veto. After these two years the Spanish government decided to try again and sent a new letter. On 6 June 1964 the Council authorized the Commission to open conversations to 'examine the economic problems that the EC causes to Spain, and to look for the appropriate solutions.' Three exploratory meetings took place between 1964 and 1966. As a result of these meetings, the EC Commission developed a report about the content of the meetings and about the possible formulas that could define the future relations between Spain and the Community. The Commission developed three proposals—association, a commercial agreement, and a preferential agreement. After several evaluations the Council picked the third option.

After eight years of negotiations, on 29 June 1970 the Spanish government reached an agreement with the EC. This agreement established a preferential system with the objective of eliminating the barriers to the commercial exchanges between Spain and the Community. The

⁴F. Guerrero, González, and S. Burguet (1989), p. 145

⁵Pou Serradell (1973), pp. 112–15.

⁶Tamames (1989), p. 168.

agreement lasted only for six years.⁷ Following Franco's death, on 22 July 1977 the first democratic Parliament was born after the June 15 general election. A few days later, on July 28, Spain presented a formal membership request to the European Economic Community.

Integration and the case of Portugal. In Portugal, from 1933 to 1974, the government maintained an isolationist foreign policy, refusing close ties with other nations, and limiting its relations to its colonies. The Portuguese dictator, António Salazar, approached international relations with a unique worldview called 'lusotropicalism.' In his view a higher power had assigned Portugal the special duty of civilizing non-European populations around the world. As such, Portuguese colonialism was supposedly different from the other European powers. Whereas France and England had used their colonial empires to exploit native peoples, Salazar contended that Portugal had improved life in its colonies by forming new, multiracial nations around the world, and cited the case of Brazil as evidence for this theory. Lusotropicalism reflected Salazar's ideas about Portugal's history, culture, experience, and duty, and was a key element in his foreign policy choices. Consequently, Salazar linked Portugal's national interest to the maintenance of the colonial empire, and, for the same reasons, justified his isolationist foreign policy.

The international environment was against continued Portuguese colonialism in the 1960s. The Kennedy administration tried to prohibit the use of NATO supplies in the colonial wars, and NATO always refused to intervene directly in those wars. The regime even had difficulties buying weapons and spare parts on the world market, because any company that sold to Portugal risked serious penalties. Further, continued Portuguese colonialism in the early 1970s resulted in organized economic boycotts by several international organizations, and prevented any chance of Portugal's membership in the European Economic Community (EEC). As the regime's ideas of lusotropicalism came into contact with international norms, it was clear to Salazar and his successor, Marcello Caetano, that Portugal would remain a pariah nation as long as it kept its colonies. In response to this realization, the regime rejected the international community and pursued an isolationist foreign policy.

The regime's ideas and interests were very much bound together in Salazar's pursuit of an isolationist foreign policy. He had predicated the economic viability of his *Estado Novo* political regime upon the African colonies. Keeping Portugal agricultural and traditional, Salazar balanced his country's national budget with the profits from lucrative minerals and other raw materials from the African colonies on the world market, and stockpiled gold reserves at the national bank

⁷See P.C. Manuel (1995), *Uncertain Outcome: The Politics of the Portuguese Transition to Democracy*, Lanover: University Press of America.

in Lisbon. As such, for much of his rule, Salazar's domestic political system rested upon the colonial empire. Since departure from Africa would have signalled the end of this arrangement, Salazar demanded a military victory at all costs.

Even after Salazar's death in 1970, the regime was irretrievably locked into his ideas and interests, and continued to insist upon a military victory. Junior officers, who were bearing the brunt of the war, demanded a negotiated settlement to the conflict, and, by extension, a redefinition of Portuguese ideas and interests. Salazar's successor, Marcelo Caetano, failed to redefine Portuguese foreign policy as well, although by that time the colonies were no longer an important economic source for the regime.

Exasperated by the regime's failure to respond to its requests to end the colonial wars, a group of rebel officers, calling itself the Armed Forces Movement (MFA), overthrew the forty-eight-year-old Salazar/Caetano dictatorship on 25 April 1974, plunging Portuguese politics and foreign policy into a period of uncertainty. This military coup began a process of change in elite attitudes regarding foreign policy choices in Portugal. As Walter Opello has correctly observed, 'During the Estado Novo (New State), Portuguese foreign policy had one fundamental objective: the maintenance of Portugal's colonial empire. . . . All of this suddenly changed on 25 April 1974.'

In Portugal three main groups adopted different ideas and held competing interests after the coup, which conflict impacted the development of national foreign policy. Although the MFA rejected the lusotropical ideas of the previous regime, key members of the new military elite did not find agreement on any one idea regarding Portugal's place in the world. Some officers, such as Vasco Gonçalves, favoured close relations with the Warsaw Pact countries. Others, including Otelo de Saraiva Carvalho, advocated ties with Third World Socialist regimes, and emphasized ties with Cuba. A third MFA group, led by Melo Antunes, sought to fashion an independent-minded French-style foreign policy. These men hoped to maintain traditional alliances while improving ties with other countries. In addition, the reformist General Spínola, whom the MFA had invited to lead the government after the 25 April 1974 coup, argued in favour of the status quo. He did not want any dramatic changes, and thought that a federalist solution to the colonials would be sufficient. MFA leftists quickly defeated Spínola, however, leaving the other three views in contention. The pro-NATO and pro-Warsaw Pact divergence was one element of an ideological battle between Socialist party head Mário Soares and Communist party head Álvaro Cunhal. Soares argued NATO membership was important to national security given the threat from the Warsaw Pact countries. Cunhal disagreed, contending that it was time for Portugal to distance itself from Washington and the Vietnam War, and instead adopt a progressive pro-Warsaw Pact strategy.

All of these groups encountered significant problems from their respective international circles. Those in favour of a pro-NATO foreign policy faced difficulties from the American Secretary of State, Henry Kissinger, who informed President Costa Gomes and Foreign Secretary Mário Soares during a 1975 official trip to Washington that he did not think they could defeat the pro-Warsaw Pact forces. After Soares informed Kissinger that Portugal would remain in NATO, Kissinger referred to Soares as a Portuguese ‘Kerenski,’ bound to lose to the Communists. Those in favour of a pro-Warsaw Pact foreign policy also faced difficulties. They asked the Soviet Union for grain and meat given the possibility of winter food shortages. Soviet President Nikolai Podgorny announced the Soviet willingness to help, but qualified the offer, and very few supplies ever arrived. Those in favour of a Third World Socialist model sought to improve relations with Cuba and distance the country from the Warsaw Pact. This was a near impossible task, as Cuba could offer no independent help without the support of the Soviet Union in the mid 1970s.

These divisive issues within the MFA military elite resulted in an extended period of ideological and political conflict. From 1974-76 there were six provisional governments, a failed right-wing coup attempt in March 1975, and a failed left-wing coup attempt in November of that year. After this complex political and military domestic game, Melo Antunes and other political players, including Socialist party head Mário Soares, also committed to a democratic system, and a balanced foreign policy managed to prevail.⁸ This military and ideological modality of the democratic transition simplified the question of foreign policy after 1976 in that it had swept both the pro-Salazar right-wing and pro-Warsaw Pact left-wing elements away from the political equation.

Domestic politics in Portugal in the period since the adoption of the democratic Constitution of 1976 have been characterized by ideological and policy disagreements among the political parties. The main area of broad-based elite agreement has been in the domain of foreign policy, which reflects shared ideas or worldviews, knowledge of international norms, and interests. The basis of the agreement among the key political elite, which includes the centre-left Socialist party (PS), the centre right Social Democratic party (PSD), and the right-wing Party of the Democratic Center (CDS), is founded upon their understanding of Portugal as both an Atlantic and a European nation. Dating from Portugal’s anti-Spain defence Treaty of Windsor with England in 1386, to the 1949 NATO pact with the United States, Portugal has viewed itself as an Atlantic nation with a worldwide role. Indeed, this Atlantic and naval role resulted in the creation of a distinct Portuguese history in Africa, Latin America, and Asia, as well as the expansion of the Portuguese language. The key elites are also open to the notion of Portugal as a European nation, and that as-

⁸See P.C. Manuel (1995), *Uncertain Outcome: The Politics of the Portuguese Transition to Democracy*, Lanover: University Press of America.

pect of its identity has emerged much more clearly since 1976. Both NATO and the EEC are committed to democratic forms of government, and have encouraged democratic development in Portugal since 1976. Opposed to the Salazar/Caetano period, during which a violation of international norms led to various boycotts, the current administration is fully engaged in the world. The new Portuguese administration supports the long-standing American foreign policy favouring the development of democracy in the world.

At least since 1986 Portuguese foreign policy has functioned within a European framework. Indeed, the idea of Europe has played a central role in the development and consolidation of Portuguese democracy. In the ideological battles of the 1974–76 period, the PS slogan of ‘a Europa conosco’ (Europe is with us) significantly improved the party’s appeal to the people.⁹ Or, as António Barreto has astutely noted, ‘the democratic ideal . . . was symbolized in the greater part by Europe. This gave a concrete, visible, rooted, palpable sense to the aspirations for freedom that, by themselves, demand risk. It gave territorial and geographical significance to the uncertain horizons of democracy. It was the real substitute for past glories. It was a home, where there was room for one more. Besides proximity, sympathy and affinity, Europe was security.’¹⁰

Portugal has been a strong supporter of the 1986 Single Act and the 1992 Maastricht Treaty. These revisions to the original Treaty of Rome have expanded the EU’s authority in economic and monetary matters, establishing an extensive internal European market. Lisbon decision-makers perceive these moves to better enable Europe to assist them with their plans for development. By the same token, Portuguese decision-makers have not been inclined to support an expansion of the EU. They fear that economic resources Portugal still needs will be diverted eastward.¹¹

The Enlargement Process for Portugal and Spain

After a long and winding negotiation process that lasted for almost eight years, on 1 January 1986 Spain and Portugal joined the EU.

The accession process. Portugal applied for EEC membership in March 1977, Spain in July of the same year. Formal negotiations to enlarge the EC began with Portugal in October 1978 and

⁹A. Barreto (1994), ‘Portugal, Europe and Democracy,’ paper delivered at the conference “Portugal and the European Community: Adaptation and Evolution,” Department of Portuguese and Brazilian Studies, Brown University, Providence, Rhode Island, 3 November.

¹⁰Ibid, p. 24

¹¹See discussion by J. Medeiros Ferreira (1994), ‘Contemporary Portuguese Foreign Policy,’ paper delivered at the conference Portugal and the European Community: Adaptation and Evolution, Department of Portuguese and Brazilian Studies, Brown University, Providence, Rhode Island, 3 November 1994, pp. 1–4.

Spain in February 1979. Spain and Portugal were poor countries and, as in the case of the Central and Eastern European countries a decade later, these negotiations drove a wedge between rhetoric and reality. The prospect of Iberian membership filled many EC members with dread. Portugal, fully aware that EC countries feared the economic and social consequences of Spanish membership, sought to have its application considered separately. Consequently, the EC negotiated separately with each country. In reality, however, the applications were interrelated.

Enlargement negotiations proved to be slow and protracted. For Portugal the most controversial bargaining issues affected textiles (which represented over 40 percent of the country's industrial output and 33 percent of its exports), agriculture, and migrant workers. During the negotiations Portugal and the EC signed a pre-accession agreement that revised pre-existing agreements and provided for assistance to Portugal. This agreement that came into force on 1 January 1981 sought to modernize the Portuguese economy to facilitate the country's eventual integration into the EC. By that time, however, the enlargement process was the subject of political controversy all over Europe, with opposition led by the French government, which was immersed in a close presidential campaign, and thus viewed with dread the prospect of enlargement to the South.

The EC, particularly the French, had misgivings about southern enlargement that were focused more on Spain than on Portugal. Agriculture, textiles, fisheries, and the free movement of labour proved to be the most contentious issues throughout the negotiations. Agricultural policy within the EC has been the subject of historic disputes and clashes on interests. The proposed Spanish membership in the EC was framed within the debate of its presumed impact on EC agricultural policy as well as the ongoing budgetary crisis and attempted reform of the Common Agricultural Policy. In this regard, it was estimated that Spain's accession would increase the EC agricultural area by 30 percent. At the same time, France and Spain would compete directly in the production of fruits, olive oil, and vegetables—hence, the French misgivings. While the French and Italian governments wanted to protect domestic growers, the German, British, and Dutch governments supported Spanish accession.

Fisheries were also a very controversial issue. Since Spain's fishing fleet was larger than the entire EC fleet combined, there was also strong interest in limiting the access of the Spanish fleet to the Common Fisheries Policy. The French government, with presidential elections less than a year away, pandered to French farmers, a powerful constituency. For instance, in a 1980 speech to French farmer leaders in Paris, the French president, Valéry Giscard d'Estaing, declared that in view of the ongoing disputes over the British budgetary contribution, the EC should resolve that issue before undertaking another enlargement. This declaration provoked an outrage in both

Spain and Portugal. France's opposition, however, failed to receive strong support from the other EC members. Britain, a historical ally of Portugal, supported Portuguese accession and the British Prime Minister, Margaret Thatcher, went as far to declare in 1981 that Portugal and Spain did not need to join simultaneously and that Portugal could join by January 1984. Despite repeated attempts on the part of Portugal to decouple the accession negotiations, the fate of Spanish and Portuguese negotiations became increasingly linked. Negotiations between the Iberian countries and the EC progressed throughout 1981 and 1982 over a wide range of less controversial issues including capital movement, regional policy, transport, and services.

François Mitterrand's victory in the 1981 French presidential election did not change France's opposition to enlargement pending an acceptable arrangement for Mediterranean agriculture. Despite French opposition and Iberian rhetoric, however, the fault for the lack of progress in the enlargement negotiations did not lie entirely with the EC. For instance, the Spanish government was reluctant to introduce a value-added tax, as well as to curtail subsidies and end protectionism. This recalcitrance prompted the European Council in 1981 to stress the need of the applicant countries to introduce the necessary reforms and prepare their countries for accession.

The applicants' applications were strengthened in the early 1980s by the formation of relatively stable administrations in both countries. The overwhelming victory of the Spanish Socialist party, led by its young and charismatic leader Felipe González, in the 1982 general election, and the subsequent election in June 1983 of Mario Soares, leader of the Portuguese Socialist party, as Prime Minister, gave new impetus to the enlargement process. Both leaders were passionate Europhiles, and one of their primary political objectives was to bring their countries into the EC. They embarked on a series of visits to EC capitals to make the case for Iberian accession. In the domestic front both new leaders implemented ambitious economic agendas to modernize the outdated economic and social structures of their countries. In Portugal the new government soon reached an agreement with the International Monetary Fund to restructure its economy and reduce the country's foreign debt. In Spain the new Socialist government left aside demand-oriented policies and embarked on a supply-oriented restructuring stride that sought to address the imbalances of the Spanish economic structure. These reformist agendas illustrated both countries' determination to become model member states. The new leaders also used their personal contacts and ideological affinity with their European counterparts to make the case for their countries' accession.

Despite progress in the negotiations, the European Council and the EC Commission concurred on the need for the Community to get its house in order before any Iberian expansion could occur. At the 1983 Council of Ministers' summit in Stuttgart, the heads of state of the ten member countries outlined the general conditions for southern enlargement. This summit stressed the need

to solve EC budgetary problems and reform the CAP before Spain and Portugal could join the Community. In addition, it linked French demands over Community policy on fruits and vegetables to the expansion. The budgetary crisis of the Community dated back to the 1970s and became a serious obstacle when Margaret Thatcher became British Prime Minister and began exasperating her EC colleagues by aggressively pursuing Britain's budgetary claims. In order to mollify British concerns, the European Commission in 1983 issued a Green paper on EC finances that proposed mechanisms to raise additional funds. The subsequent European Council summit that took place in Athens in December of 1983 failed to resolve the financial issues. This summit, however, brought into the open the issues that required resolution. This debate led to the development of a normative framework that became a new agenda of cohesion. German leadership in budgetary matters, and the country's decision to act as the 'paymaster' for enlargement, paved the way for the resolution of standing conflicts. During the 1984 winter summit of the Council of Ministers at Dublin, the EC Ten reached an agreement on Mediterranean agricultural production.

The Fontainebleau summit six months later (July 1984) resolved the standing EC budgetary issues, set 1 January 1986, as the agreed date for Spain and Portugal entry into the EC, and called for an end to negotiations by 30 September 1984. This date proved too ambitious. In December 1984 the European Council reached an agreement on fruits, fish, wine, and vegetables that was accepted by the Spanish government. The formation of a new European Commission in Brussels led by the energetic and influential Jacques Delors in January 1985 gave a final impetus to the negotiations. Delors threw himself into the negotiations and assumed personal responsibility for overcoming the last roadblock, namely, the Integrated Mediterranean Program (IMPs), a Greek demand that sought to provide EC financial assistance to Greece to compensate for enlargement. In the first half of 1985, the EC foreign ministers agreed on a five-year enlargement-linked program of structural aid to farmers, and resolved the remaining problems over fisheries, the applicants' budgetary contributions, and the free movement of labour in the EC. Finally, based on a new Commission proposal, the European Council of Brussels approved a seven-year program of 6.6 billion ECUs for grants and loans to assist the existing Mediterranean regions to adjust to the new situation created by enlargement of the EC. These agreements resolved the final obstacles for Southern enlargement. Spain and Portugal joined the EC on 1 January 1986.

LESSONS

Let us suggest some lessons based on information from the preceding sections.

Lesson One: The Accession of Portugal and Spain to the European Union Contains Both Global and Particular Elements

The process for Portugal and Spain to join the European Union was influenced by traditional European nation-state rivalries, typical of international relations since the 1648 Peace of Westphalia. The eventual decision to allow Portugal and Spain to join the European Union was replete with the opposing processes of particularization and globalization. It was *particular* in that the focus was on the nation-state, and *global* in that EU decision-makers were concerned with harmonizing the economies of all of the member states to the worldwide process of capital development. Within the framework of the European Community, Spain and Portugal are now better prepared to compete in the global market against colossi such as Japan and the United States. Furthermore, European integration allows them to cooperate on their research and technological programs. This process may represent a watershed in Iberian and European relations, and may provide us with a unique opportunity to reconceptualize economic relations and political citizenship in Europe and Iberia in new ways.

Lesson Two: Political Considerations Were the Main Motivation behind Portugal and Spain's Applications to Join the European Community

On the one hand, Portugal and Spain both wanted to strengthen their new democratic regimes, and they both held the desire to end the relative isolation they had experienced during the authoritarian years. These were critical political factors behind their decision to join the European Community. On the other hand, the economic implications of European integration were also very profound and played an important role in their applications for membership. The expected static effects of the integration were mixed. Spain, for instance, was expected to gain in some sectors, namely, agriculture. The asymmetry of trade barriers before integration, however—with Spanish barriers five times higher than those of the European Community—indicated a strong possibility of trade creation. This was translated into a risk of difficult adjustment problems for many Spanish manufacturing and agricultural sectors that were not ready for competition. Integration would allow them to confront the international economic recession from a stronger position. Without EC integration both countries would have never attracted as much investment as they did after 1986, and there was the real possibility, given the intensity of the economic crisis, that they would have fallen into third world economic levels.

Lesson Three: Economic Success Can Improve Political Ties. EU Integration Has Brought Portugal and Spain Together

European integration has also brought Spain and Portugal together as a region. The Spanish and Portuguese have finally realized that joining together will make their integration into the in-

ternational system more beneficial, and they will be more likely to have their regional interests addressed, as they really do have many common characteristics, needs, and goals. This has been an important outcome of the European integration process. Indeed, there have been significant tensions between Spain and Portugal over the centuries.

As we have seen, the so-called ‘Spanish question’ has always been a pressing issue in Portuguese foreign policy. The two countries separated when Alfonso VI of León and Castile (the Cid’s king) gave the country of Portugal to his son-in-law Henry of Burgundy in 1093. These nations have shared a historic relationship based on fear and mistrust. This hostile relationship has been characterized by Spanish disdain for the Portuguese, and Portuguese defiance of perceived Spanish arrogance. Spain often tried (and once managed) to absorb its neighbour. Portugal defeated Castille at Aljubarrota in 1385 and expelled the Spanish garrisons for good in 1640. Furthermore, at the height of their colonial power, both countries stepped heavily on each other’s toes in Latin America. These historical antagonisms drove the people from both countries apart from each other.

While Spain historically developed what José Saramago, the Portuguese Nobel laureate, has defined as an ‘amputation complex,’ the Portuguese people tend to blame Spain for all the bad things that have happened to their country. In fact, there is a popular Portuguese adage that enshrines these feelings: ‘*De Espanha, nem bom vento, nem bom casamento*’ (‘neither good winds nor good marriages come from Spain’).¹² In Spain Salvador de Madariaga, a Spanish liberal historian, defined a Portuguese as ‘a Spaniard with his back turned to Castille and his eyes on the Atlantic.’ Consequently, these two cultures for centuries have shared a peninsula but little else, and the two peoples have lived with their backs turned away from each other. And yet, in recent years, there have been signs that some changes might be underway—both in the relations between Spain and Portugal, as well as their respective relationship with Europe.

This hostile climate changed for the better in the mid-1980s. While theirs is still a challenging relationship, it is unquestionable that Spain and Portugal are drawing closer together through European integration. Portuguese and Spaniards appreciate each other more. There is increasing awareness of a shared history including: the legacy of exploration and empire, the manipulation of the great powers during the eighteenth century, the incompetence of kings and mili-

¹² ‘Neither good winds’ refers to the sandy winds that blow from Spain onto the wine country in the north of Portugal, hurting the crops; ‘nor good marriages’ refers to the union between the Spanish and Portuguese Crowns by marriage. The last King of the Aviz dynasty in Portugal, Henry I, who was also a Cardinal of the Roman Catholic Church, succeeded his nephew, the young King Sebastian (who had been killed in the battle of Alcazar). When Cardinal King Henry died in 1580, the throne was taken by force by Philip II of Spain, who claimed royal legitimacy because his Portuguese mother was the elder sister of Cardinal King Henry. From 1580 to 1640 the Spanish greatly profited from the wealth generated by

tary strongmen of the nineteenth century, and finally, the frustration with fascist authoritarian rulers in the twentieth century.

Several developments demonstrate the increasing economic integration between both countries. For instance, one of the biggest immediate effects of membership in the European Community in 1986 was vastly increased trade between Spain and Portugal. By 1990 Spain traded more with Portugal than with all of its Latin American trading partners, and Spanish imports from Portugal are rising faster than those from any other country. Direct Spanish investment in Portugal and Portuguese investment in Spain has soared, and Spain has emerged as the largest investor in Portugal. By 2000 there were more than 3,000 Spanish firms in Portugal, compared with fewer than 400 in 1989, and the Portuguese own more than 400 firms in Spain. It is also true, however, that these economic asymmetries lie at the root of some of the tensions that have arisen as the two countries have drawn closer. These developments demonstrate the increasing integration of the Iberian economies.

Following the example of the French and Germans, relations between Portugal and Spain have also dramatically improved over the last fifteen years. The increased economic cooperation fostered by membership in the European Union has also resulted in greater cultural exchanges and political harmony. Large numbers of Spaniards visited the 1998 World Expo in Lisbon, and Portuguese dailies have taken to printing some part of their editions during Easter Week in Spanish for the convenience of the many Spanish who visit the country during this time. In addition, the success of the year 2000 initiative to promote a new and more modern image of Portugal in Spain, with the joint organization of a program of cultural, political, and economic activities (including the installation of a Portuguese pavilion to host most of these events in the heart of Madrid) under the title: *‘Portugal: A Bet for the Future’* illustrates the dramatic transformation in the relationship between the countries. These developments demonstrate their increasing integration. It is therefore worth exploring the impact of European integration on both countries simultaneously.

Lesson Four: Economic Success Drives Public Opinion

The decision to join the European Union in both Portugal and Spain was supported by most of the political parties in each country. Furthermore, according to a recent Eurobarometer study (see Table 1), the overwhelming majority of the population understood the importance and significance of this step and supported the decision. EC membership would increase economic growth, thus increasing the standards of living of the Iberian people.

Portugal's colonies. This chapter of Iberian unity was a disaster for Portugal. It lasted until 1640 when

TABLE 1
SUPPORT FOR EU MEMBERSHIP AND EMU

	<i>It Is a Good Thing</i>	<i>It Is a Bad Thing</i>
Portugal	56	45
Spain	53	61

Source: Eurobarometer, no. 48, October–November 1998.

The polls conducted by European and Iberian institutions show that the opinions and attitudes of Iberian citizens toward the process of European integration are in general favourable. It is important to stress, however, that there is a large portion of Iberian citizens that does not have an opinion about this issue. In addition, CIS and *Eurobarometer* data show that one of the key factors to account for the attitude of Portuguese and Spaniards toward European integration has been the perception about the personal and collective benefits derived from membership. In this regard the CIS data show that Iberian citizens have a very utilitarian concept of the European Union—that is, they evaluate the consequences of membership over issues such as living costs, infrastructures, job opportunities, wages, and so on, and in function of this cost/benefit analysis, they adopt a position in favour of or against European integration. Finally, when comparing the attitudes of Spanish and Portuguese citizens vis-à-vis other European citizens, the former support the European Union more, and express more positive opinions about the benefits derived from membership. They also stress further the need to build a social Europe that should emerge from below with the support from the people, and not only an economic Europe advanced by the bureaucracy and the elites.¹³

Lesson Five: EU Membership Has Altered the Iberian Role in the World

EC membership put an end to the relative isolationism of both countries, which had been a key cause of the economic, cultural, and social backwardness of both Portugal and Spain. After years of backwardness and isolation, Spain and Portugal have become players in Europe again. Iberia's place throughout history has been at the centre of Europe. After years of isolationism it was time to reclaim its place there. The alternative was between the past and the future, between hope and fear, and both countries chose the right path, as time has proven.

Lesson Six: EU Membership Has Given Spain and Portugal a Better Competitive Position

Portugal reclaimed her independence.

¹³See CIS: *Opiniones y actitudes de los españoles ante el proceso de integración europea*. Madrid: 1999, pp. 131–32.

Portugal and Spain took part in the process of European integration, a development that would have significant economic consequences for both countries. Spain and Portugal had traditionally been countries of emigrants. In 1986 there were more than one million Portuguese and Spanish emigrants throughout Europe, and the entry of Portugal and Spain into the European Community made Spanish and Portuguese citizens European citizens, thus ending some of the discrimination that those emigrants had suffered in the past. Spanish and Portuguese fishermen, who could not fish from the Community waters, would now have access to them. It would be a way to avoid surpluses of Spanish agricultural goods—which reached one-third of total output during some years. Some of these products would be sold more easily on the European markets. Spain and Portugal had to speed up the reform of their productive and economic structures in order to increase the productivity of their labour force, which at the time was half of the average of the European Community. Integration would facilitate this process and improve the competitive position of the country. In fact, Spain was a highly protected country by European standards. This was translated into a non-competitive industrial sector.

The Oil Crisis hit Spain strongly. The unemployment level was 22 percent in 1986. Spain was also facing increasing competition for its main exports—clothing, textiles, and leather. Countries from the Far East were starting to produce all of these goods at a cheaper cost by exploiting their low wages. These countries were attracting foreign investment in sectors in which Spain and Portugal had been favoured traditionally. This situation convinced the Spanish and Portuguese leaders that their countries had to shift toward more capital-intensive industries requiring greater skills in the labour force but relying on standard technology (e.g. chemicals, vehicles, steel and metal manufacturers). Spain's entry into the European Community would facilitate this shift. Spain would have access to the EC market, thus attracting investment that would create these new industries. Furthermore, Spain and Portugal would also receive financial assistance from the EC: structural funds, the European Regional Development Fund, the Social Fund, the Agriculture Guidance and Guarantee Fund, and the newly created Integrated Mediterranean Program for agriculture. The interdependence of the markets and economies offered no other alternative if Portugal and Spain wanted to become competitive in the world market. This led to the development of economies of scale. That is, Spanish and Portuguese producers would have access not only to their respective national markets but also to the European one. This fact offered incentives for investment and for the development of economies of scale, which in turn has resulted in more competitive products in the European market. Finally, no matter how impressive the economic results might seem, Spain and Portugal still have a long way to go in reaching the EC average in wealth.

Lesson Seven: Real Economic Convergence Is a Slow Process

More than three years ago, on 1 January 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 rate, debt, exchange rate, and public deficit requirements established in the Maastricht Treaty. This development confirmed the nominal convergence of both countries with the rest of the European Union. Nominal economic convergence vis-à-vis the European average, however, has advanced at a faster pace than real convergence.

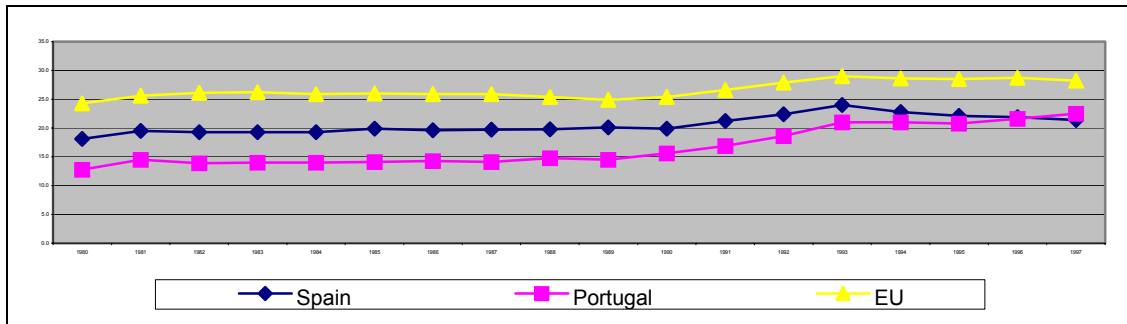
For the Iberian countries to increase their living standards to the EU average, it is necessary that their economies grow faster than those of the other countries. This will require further liberalization of their labour and service markets and better utilization of their productive resources. In addition, convergence will also demand institutional reforms in R&D policies, in education, and in 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 states have caused imbalances in their national accounts. Both countries still spend significantly less in this area than their European neighbours, however (e.g., Spain spends 6.3 points less on 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.

Iberian integration in the European Union has allowed these economies to become integrated internationally and to modernize, thus securing convergence in nominal terms with Europe. In spite of this progress, however, Iberian economies still have to achieve convergence in real terms, reconciling convergence in productivity with the creation of employment. In terms of convergence and growth in the long run, while contributing to important progress, fifteen years have not been long enough.

Lesson Eight: European Integration Has Not Led to Convergence in Social Expenditures

While social expenditures have increased in both countries over the last two decades, the gap in social expenditures between the Iberian countries (particularly Spain) and the European Union has not narrowed (see Figure 1).

FIGURE 1
EVOLUTION OF SOCIAL PROTECTION EXPENDITURE, % GDP, 1980–97



Source: Guillén et al. 2001: 4. Data from: Eurostat 1997 and Eurostat 2000.

At the same time, it is worth noting that European Funds have helped develop social policies and the construction of infrastructures related to them. They have also enhanced new undertakings in social policy. Without these funds the increase in social expenditures would not have been sustainable. The absence of such funds for Latin American countries will significantly hinder efforts to develop and expand their welfare states.

Lesson Nine: EU Membership Has Both Benefits and Costs

As we indicated in the introduction, entry into the European Union has so far brought many advantages to both countries. Portugal and Spain have benefited extensively from the European Union’s cohesion policies, which have contributed to improving the physical infrastructure and capital stock of both countries. At the same time Portugal and Spain’s trade with the Community has expanded dramatically over the past fifteen years, and foreign investment has greatly increased. One of the main consequences of these developments has been a reduction in the economic differentials that separated both countries from the European average. For instance, 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 83 percent. The culmination of this process was the (largely unexpected) participation of both countries as original founders of the European Monetary Union in 1999.

From a social and cultural standpoint, the effects of integration are also significant. As part of their democratic transitions, both countries embarked on new processes of self-discovery. They have begun to come to terms with their own identities, while addressing issues such as culture, nationality, citizenship, ethnicity, and politics. The process of integration into Europe has greatly influenced these developments. 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 faded as a consequence of the integration process.

The process of integration, however, has also brought significant costs in terms of economic adjustment, loss of sovereignty, and cultural homogenization. European integration has had, and will continue to have for the foreseeable future, a profound effect on both countries' societies. It has had an impact on issues such as national identity, the sustainability of welfare institutions, and the adjustment of political and economic structures. As discussed earlier, under the terms of the accession agreements signed in 1985, both countries had to undertake significant steps to align their legislation on industrial, agriculture, economic, and financial policies 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.

The Iberian enlargement illustrates that EU integration required a set of measures including: increased 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. There have also been short-term costs, however, 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 Latin American economies. Argentina proves to be another example of this. The Iberian enlargement shows that prior to monetary integration, candidates must carry out a process of modernization and nominal convergence without fixing their exchange rates. Finally, as we previously indicated, the role of Structural Funds has also been crucial. These allow for the construction of public infrastructure vital for private sector productivity and real convergence.

Lesson Ten: Structural and Cohesion Funds Play a Key Role

The structural funds and cohesion funds are the instruments designed by the European Union to develop social and cohesion policies within the European Union (see Table 2). The cohesion funds were established in the Maastricht Treaty in order to compensate for the efforts countries with the lowest per capita income (Ireland, Greece, Portugal, and Spain) relative to the European Union 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 reducing re-

gional disparities and fostering convergence within the European Union. At the same time, they have played a prominent role in developing the factors that improve the competitiveness and determine the potential growth of the least developed regions.¹⁴

During 1994–99, EU aid accounted for 1.5 percent of GDP in Spain and 3.3 percent in Portugal.¹⁵ 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 percent for Portugal and 15 percent for Spain. It has been estimated that the impact of these funds on the ratio of public investment in the Spanish economy in the past few years has been 0.5 percent higher as a consequence of EU funding, which in turn had a positive effect on private investment and per capita income in the long run.¹⁶ [1] 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 percent in Portugal and 3.1 percent in Spain. In the absence of these funds, economic integration in the Americas is bound to be far slower and unbalanced.

TABLE 2
STRUCTURAL AND COHESION FUNDS

	Greece	Ireland	Spain	Portugal
GDP %				
1989-93	2,6	2,5	0,7	3,0
1994-99	3,0	1,9	1,5	3,3
2000-06	2,8	0,6	1,3	2,9
% on Gross Fixed Capital Formation				
1989-93	11,8	15,0	2,9	12,4
1994-99	14,6	9,6	6,7	14,2
2000-06	12,3	2,6	5,5	11,4

Source: Sebastian 2001: 25. Data from: European Commission. Estimates based on *Eurostat* data and forecast for 2000–2006.

¹⁴See Sebastian (2001): ‘Spain in the EU: Fifteen Years May not be Enough,’ pp. 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, 2–3 November.

¹⁵As Sebastian (2001, pp. 25–26) indicates, ‘this is set to fall slightly in the period 2000-2006, to 1.3 percent of GDP. The decline reflects, on the one hand, a reduction in structural funds over the new programming horizon (structural funds will represent around 0.3 percent of EU GDP in 2006, compared with 0.45 percent in 1999) and, on the other hand, the impact of enlargement (accession aid). This fall-off in funding will clearly affect the long-term growth of the Iberian economies’.

¹⁶Sebastian, p 26.

Lesson Eleven: Financial Institutional Reform Will Not Produce the Necessary Institutional Reforms in Other Areas

Financial institutional reform has not forced institutional changes in other areas (i.e., the labour market or fiscal policies). The virtual collapse of the European Monetary System in 1982, 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. This is a potential danger. Institutional reforms require action on the part of the governments that are willing to pay the short-term political price for unpopular policies.

Lesson Twelve: The Democratic Pre-Requirement for Membership Is a Powerful Incentive for Democratization

As we have seen, long-standing authoritarian regimes prevented Spain and Portugal from joining European organizations and kept both countries on the fringe of the integration process that began in Europe after World War II. The emergence of democratic regimes in both Spain and Portugal in the second half of the 1970s paved the way for the successful consideration of these countries' applications for membership in the European Community. This was a prerequisite. As long as the political setting of these countries remained authoritarian, membership was not feasible. This was a powerful incentive for democratization and also for the consolidation of democratic institutions (i.e., the failure of the 1981 *coup d'état* in Spain and the revolutionary attempt in Portugal). Whereas other agreements (i.e., the North American Free Trade Agreement — NAFTA) have left aside such a precondition, including it would provide a powerful incentive for Eastern European and Latin American countries to consolidate their democratic processes and avoid authoritarian temptations.

CONCLUSIONS

When Portugal and Spain applied to the European Community, most of the political parties in each country supported this decision. The overwhelming majority of the population understood the importance and significance of this step. After years of backwardness and isolation, Spain and Portugal wanted to become players in Europe again. Iberia's place throughout history has been at the centre of Europe. After years of isolationism, it was time to reclaim its place there. The alternative was between the past and the future, between hope and fear, and both countries chose the right path, as time has proven. The interdependence of the markets and the economies offered no other alternative if Portugal and Spain wanted to become competitive in the world market.

Throughout this introductory chapter, we have analyzed the main political and economic factors that motivated the accession to the European Community. We have showed that political considerations were the main motivation behind Portugal and Spain's application to join the European Community. Their wish to strengthen the new democratic regimes, coupled with their desire to put an end to the relative isolation that both countries had suffered during the authoritarian years, were critical factors behind their desire to join the European Community.

The economic implications of European integration were also very profound, however, and played an important role in Spain and Portugal's application for membership. The expected static effects of the integration were mixed. In addition, the asymmetry of trade barriers before integration—with Spanish barriers five times higher than those of the European Community—indicated a strong possibility of trade creation. This asymmetry was translated into a risk of difficult adjustment problems for many Iberian manufacturing and agricultural sectors that were not ready for competition.

The advantages and benefits that the Iberian countries expected from their integration into the European Community clearly offset the disadvantages:¹⁷

1. EC membership contributed to the termination of secular isolationism of both countries, which had been one of the roots of both countries' economic, cultural, and social backwardness.
2. Membership has allowed them to confront the international economic recessions of the 1980s–90s from a stronger position. Without EC/EU integration both countries would have never attracted as much investment as they did after 1986, and there was the real possibility, given the intensity of the economic crises, that they would have fallen into third-world economic levels.
3. Portugal and Spain have taken part in the process of European integration. They have become significant players and have been able to influence important decisions (such as the establishment of the cohesion funds) that have had significant consequences for both countries.
4. The EU framework has better prepared Spain and Portugal to compete in the global market against colossi such as Japan and the United States. European integration has allowed both countries to cooperate and benefit from European education, research, and technological programs.
5. Spain and Portugal had traditionally been countries of emigrants. In 1986 there were more than 600,000 Spanish emigrants throughout Europe. EU membership has contributed to better economic performance, which has provided better opportunities for

- Iberian citizens, and this helped to reverse this historical pattern. In addition, EC/EU membership has made Spanish and Portuguese citizens European citizens, thus ending some of the discrimination that those emigrants had suffered in the past.
6. Membership has given the Spanish and Portuguese fish, agricultural, industrial products, and services access to European markets.
 7. EU membership has forced Spain and Portugal to speed up the reform of their productive and economic structures in order to increase the productivity of their labour force.
 8. EU accession helped consolidate new democratic institutions.
 9. Finally, EU membership has increased economic growth, thus improving the standard of living of the Iberian people. As we have seen, after Portugal and Spain joined the Community, GDP rose faster, investment soared, unemployment decreased, inflation was kept under control, and the deficit in the current accounts' balance was sharply reduced. The Iberian governments' actions to liberalize these economies and open their countries to the European Community contributed to this remarkable turnaround. As expected, much of the expansion was financed from abroad. The flow of foreign direct investment into Spain doubled over the first two years of membership and reached \$80 billion in the period 1986–91.¹⁸² Between 1970 and 1998 foreign investment in Spain grew from 1 percent of GDP to more than 6 percent.

No matter how impressive these results might seem, Spain and Portugal still have a long way to go to reach the EC average wealth. For instance, as we have mentioned before, 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 83 percent. In Spain, unemployment currently stands at 12.5 percent of the labour force, and is the highest in the Union. Imports have been growing faster than exports and the trade deficit has tripled. The competitive position of both countries is also worrisome. Spending on R&D is still below 1 percent of GDP—low compared with the richer EU countries. Spending on training and education of workers is insufficient, too. Moreover, low wages—which were one of the most attractive factors for investors—have risen over the last decade. Unit labour costs have therefore been increasing faster than those of these countries' main EU competitors. Indeed, wages are still lower than in Germany, but they are roughly equivalent to those in Britain. Finally, labour flexibility is still hampered by rigid labour laws.

¹⁷See G. Fuentes, pp. 47–48.

¹⁸'After the Fiesta', p. 3, and Hine (1989), p. 23.

This is not to say, however, that Spain and Portugal are worse off after the integration—as some claim. Economic adjustment was unavoidable and should have taken place anyway—within the European Union or out of it—if both countries wanted to become competitive. EC entry accelerated some tough economic measures, and has aggravated some of the already existing imbalances. Portugal and Spain’s entry into the EC/EU, however, attracted billions of dollars in foreign investment that helped to alleviate adjustment problems.

The path toward ‘convergence’ has been (and will be in the foreseeable future) long and winding. Over the last two decades, Iberian governments have been forced to reform their pension and welfare systems, namely, by freezing health spending, cutting subsidies, and setting restrictions on the entitlement to unemployment pay. They also have had to privatize most public companies to more efficiently enforce the laws to stop unemployment fraud—which is still rampant—and to cut excessive bureaucracy. All of these measures led to social problems because the unions did not accept these reforms easily. Some of these processes remain unfinished.

In our view, and on balance, Spain and Portugal have benefited from accession. Since the last century the obsession of Spanish and Portuguese reformists has been to make up the lost ground with modernized Europe. EU membership has been a critical step in this direction. The record of the past fifteen years is that this dream is becoming an economic reality. The question of Iberian and/or European citizenship, and its impact on the Portuguese and Spanish, remains open.

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