



*The Experience of Spain and  
Portugal in the European Union:  
Lessons for Latin America*

-Sebastián Royo



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## **The European Union at the University of Miami**

European Union studies were initiated at the University of Miami's Graduate School of International Studies as a scholarly response to the end of the Cold War in the late 1980s, and since then have developed into a strong discipline supported by the professors and students who dedicate much time and effort to develop research topics, publish articles and books, and participate in European Union related activities both at home and abroad. As a result of these efforts, external actors have also contributed to the growth and development of European Union studies at the University of Miami. First, in the Spring of 2001, the European Commission awarded Professor Joaquín Roy a Jean Monnet Chair, one of the first four granted to professors in the United States. The award was given for his efforts in developing courses on the European Union and his scholarly publications in the field. Second, the European Commission awarded a European Union Center (one of the 15 in the United States) to a consortium formed by the University of Miami and Florida International University. The Center's mission is to teach, research, and sponsor activities to promote awareness of the European Union.

The Jean Monnet Chair also founded (thanks to private donations, a subsidy from the Government of Spain, and the endorsement of the Salvador de Madariaga Foundation) the "Salvador de Madariaga" Iberian Studies Institute (as an expansion of the former Iberian Studies Institute) for the study of Spain in the European Union and its relations with Latin America, as well as the "Robert Schuman" European Union Research Institute (thanks to the endorsement of the Jean Monnet Foundation and the Robert Schuman Foundation, in Paris) for the study of European Union institutions and policies, and the role of France in the European Union.

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## The Experience of Spain and Portugal in the European Union: Lessons for Latin America

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# THE EXPERIENCE OF SPAIN AND PORTUGAL IN THE EUROPEAN UNION: LESSONS FOR LATIN AMERICA

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## Introduction

The pattern of Spanish and Portuguese histories has been described, crudely, as a graph shaped like an upside-down V: “The graph rises—bumpily at times, through 600 years under the Romans, 700 years or partly under the moors, and a century of empire-building—to the peak of Spanish and Portuguese power in the 16th Century. After that it is downhill almost all the way. The riches of the American and African colonies were squandered in wars. A vast empire was gradually lost, leaving Portugal and Spain poor and powerless. Spain suffered 43 *coup d'état* between 1814 and 1923, an horrendous civil war between 1936 and 1939, followed by 36 years of dictatorship under *Generalísimo* Franco.”<sup>1</sup> In Portugal the years following the assassination of the king in 1908 and the subsequent overturn of the monarchy was a period of political chaos, which led to 40 years of authoritarian rule under Salazar and Caetano.

After Franco’s death in 1975 and the Carnation Revolution in Portugal, the graph has turned upward again. In Spain, King Juan Carlos, Franco’s heir, supported the return of democracy to the country. A transition period, which has been labeled 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, with the establishment of a parliamentary democracy. These developments were followed by the progressive return of both Iberian countries to the international arena—from which they had been relatively isolated during the dictatorship. The following decade also brought the electoral victory of the Socialist Party in both countries (in 1975 in Portugal and 1982 in Spain), bringing a new aura of modernity to these countries. The 1980s also witnessed Spain’s integration in NATO (1982).

At the same time, these long-standing authoritarian regimes prevented Spain and Portugal from joining European institutions and kept both countries on the fringe of the integration process that began in Europe after World War II. In the not-too-distant past an adage claimed that Europe ended in the Pyrenees at the Southwest corner of France. This was based on certain truths. Portugal and Spain were not participants in the second major military confrontation of the twentieth century. This historical isolation provided the authoritarian and traditional sectors of both nations with the necessary shield against perturbing foreign influences, including the consolidation of liberal democracy.

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<sup>1</sup> “After the Fiesta.” The Economist, April 25th-May 1st, 1992, p. 60.

Rephrasing a tourism motto that became very popular in Spain in the 1960s, Iberia was “different,” both in the eyes of the other Europeans and in the mentality of the Portuguese and Spanish establishments.

Long-standing authoritarian regimes prevented Spain and Portugal from joining European institutions and kept both countries on the fringe of the integration process that began in Europe after World War II. The archaic political systems that ruled both nations for almost four decades prevented Spain and Portugal from joining the Community. Democracy was an unwritten requirement for applicant countries and that *litmus test* was not met until the collapse of the long-standing authoritarian regimes. Since then, all Portuguese and Spanish democratic governments feverishly pursued integration. Several deadlines were missed, but on 1986, the eager dream became a reality.

Indeed, 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 by the European Community. After long and often protracted negotiations, both countries became full members of the European Community in January 1986. This was a momentous decision. Membership in the Community had been a long-standing objective of both countries since the 1960s. The year 2001 marked the fifteenth anniversary of the accession of Spain and Portugal to the European Community (now European Union). After decades of relative isolation under authoritarian regimes, the successful democratic transitions in both countries paved the way for full membership in the European Community. For Spain, Portugal, and their EC partners this momentous and long awaited development had profound consequences and set in motion complex processes of adjustment.

In the second half of this 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 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 with 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. People in both countries saw membership in the EEC as a form of political maturation. It would also help to align the politics of both countries with their European counterparts, and to accelerate the Europeanization and democratization of their antediluvian political structures. The urgent need for this development was highlighted by the stark environment in which it took place: one of the worst economic recessions experienced in Spain and Portugal since the 1950s, 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.

Entry in the EC has so far brought many advantages to both countries. Portugal and Spain have benefited extensively from EU "structural funds," which have been used to improve 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 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. 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 84 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 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. 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.

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. 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 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.

European integration has also brought Spain and Portugal together. This has been a significant outcome of the EU integration process. For centuries both countries have shared a peninsula—but little else. Spain often tried (and once managed) to absorb its neighbor. 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 away from each other. This hostile climate 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. Finally, direct Spanish investment in Portugal and Portuguese investment in Spain has soared. These developments demonstrate the increasing economic integration between 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. Both Portugal and Spain are strong supporters of the integration process and have intervened actively in this endeavor.

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 and draw some lessons from the Iberian experience that may be applicable to Latin American 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. It will also assess the impact that these changes have had on public opinion over the European integration process.

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 will shed new light on the challenges (and opportunities) that less developed countries face when trying to integrate regionally or into the global economy.

This paper proceeds in five steps. I analyze first the integration processes from a historical standpoint. Then I examine the motivations that led Spain and Portugal to join the EC. I examine next some of the consequences of the convergence process between the Spanish and Portuguese economies and the rest of the European Union. I also analyze the transformation of Iberian public opinion towards the integration process. The paper closes with some tentative lessons for Latin American countries.

### **The Iberian Countries and the European Community: Historical Background**

From the strict bilateralism that characterized the relations among the European powers in the years after World War II, until the adoption on 1962 of a common agricultural policy, the six member countries of the European Community (EC), went through a long process of integration. For most of this period of time Spain and Portugal were separated from this process. Spain did not join the Organization for European Economic Cooperation (OEEC) until 1959, and in 1962 when the EC-EFTA dilemma was resolved, Spain did not decide to open negotiation with the EC to seek an economic arrangement. Portugal, for its part, 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.

The main reason why Spain and Portugal were marginalized from the European integration process was mainly political. Spain and Portugal did not participate in World War II. Their isolation during the War—which brought the defeat of the Axis powers that

helped Francisco Franco to win the Civil War in Spain and supported the António Oliveira Salazar regime in Portugal—contributed to the suspicions that the winners of the war already had about the character of the regime that Franco had created.<sup>2</sup> Allies' suspicions were confirmed when these regimes, as we will see in the next section, established institutions that resembled the ideological movements of Germany and Italy in the period before the war.

Due to this distrust Spain and Portugal were not included in the Marshall Plan. During the 1940s and 1950s Spain was mostly left aside and only developed only some bilateral arrangements with other countries. When the Schuman plan was issued in 1950 and the European countries were invited to start the integration process, Portugal and Spain were left out. The plan was only directed to the democratic regimes in Europe. Later, when the European Community and EFTA were created, none of them showed any particular interest in Spain's accession.

Portugal, a traditional ally of Britain, joined the European Free Trade Association (EFTA) along with Austria, Denmark, Norway, Sweden, and Switzerland. EFTA had 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 of these negotiations by France 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. Unlike the European Community, it did not include a common external tariff.

## **SPAIN**

The Spanish government followed very closely the creation and development of these areas. In Spain a commission was created in the Foreign Ministry specially devoted to follow these developments. In these early years of integration it seemed clear to the government that the country could not be left outside 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 costs and benefits of joining the Europe of the Six (EC) or the Seven (EFTA). This meant that Spain had to make a decision about which of these two alternatives to pursue 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 agricultural exports were critical for the country's economy, the fact that the European Community had set the creation of a common agricultural policy as one of its main objectives, while EFTA left agriculture aside, convinced Spanish authorities of the benefits of the European Community. Furthermore, the commercial volume of Spain with the six was fifty percent higher than with the EFTA countries. Finally, at the beginning of the 1960s Spanish external trade was characterized by a chronic imbalance

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<sup>2</sup> Tamames 1986, p. 167.



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 which were very important for Spanish's exports, while at the same time contributing towards the acceleration of a series of structural reforms needed at that time.<sup>3</sup>

On February 14, 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.<sup>4</sup> The Spanish request, however, received a very 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. In addition, several European newspapers joined in the campaign against Spain's request: "The EC has to say no to Spain—stated the Netherlands newspaper *Nieuwe Rotterdamsche Courant*—until the spirit of democracy and liberty are not 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 European Community. The Socialist Group of the European Parliament also said no to the Spanish request. Finally, the Congress of the European Movement, meeting in Munich in June 1962, with the participation of a Spanish delegation, approved another resolution which stated that only democratic countries could join the European Community—the Spanish representatives in this Congress were later punished for their participation with jail.<sup>5</sup>

During the following two years there was no communication between Spain and the European Community—this was the same period during which the United Kingdom received the De Gaulle veto. After these two years the Spanish government decided to try again and sent a new letter. On June 6, 1964, the Council authorized the Commission to open conversations to "examine the economic problems that the European Community 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 on 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, commercial agreement and a preferential agreement. After several evaluations, the Council picked the third option. After eight years of negotiations, on June 29, 1970, the Spanish government reached an agreement with the European Community. This agreement established a preferential system with the objective of eliminating the barriers to the commercial exchanges between Spain and the Community. The agreement lasted for only six years. After Franco's death in 1977 the new democratic Government formally asked for admission to the Community.<sup>6</sup>

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<sup>3</sup> Fernández Guerrero, González, and Suarez Burguet 1989, p. 145.

<sup>4</sup> Tamames, 1989, p. 170.

<sup>5</sup> Pou Serradell 1973, pp. 112-115.

<sup>6</sup> Tamames 1989, p. 168.

## **Rationale Behind the EC Accession Process: Political and Economic Motivations**

Formal accession negotiations to enlarge the European Community began with Portugal in October 1978 and with Spain in February 1979. Accession was viewed as a means to consolidate reforms in these countries. After almost forty years of authoritarianism and very little democratic experience, democracy was still shaky in both countries. In Spain, the failed *coup d'état* led by Colonel Tejero in February 1981 was a rude awakening to the reality of the fragility of the new democratic regime. The lessons from the coup were very important: Spain still had to go a long way to strengthen its democratic reforms. On the other hand, the King's firm stance in favor of democracy, as well as the rejection of Tejero's attempt by the overwhelming majority of the population, offered good prospects 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 applications to the European Community sought to strengthen their young democratic processes.

Within this context, it is generally acknowledged that the underlying reasons for the integration of Portugal and Spain in the European Community were political. Political forces were particularly dominant in shaping the direction of events of 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 this integration.<sup>7</sup>

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, 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. As one illustrious Spanish thinker has stated:

For the last two centuries Spain has practically been neutralized in the international field. Having our country cease 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.<sup>8</sup>

Hence, the strengthening of the new democratic system, as well as the normalization of Portugal and Spain's relations with their European partners were critical factors that motivated the leaders of both countries to seek integration in the European Community.

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<sup>7</sup> Vaitsos 1982, p. 243.

<sup>8</sup> Sánchez Albornoz 1973, p. 281.

In addition, from a political point of view the Common Market was also important to Spain and Portugal. The EC decisions directly affected the Iberian countries' economies. Indeed, some of the decisions adopted by the European Community had an even greater impact on these economies than those of their own national administrations. In this regard, entry into the European Community would allow Spain and Portugal to have greater influence on decisions taken at the European level, as these countries would gain the right to vote in all European institutions.<sup>9</sup>

The defense and consolidation of the democratic systems in Spain and Portugal were also objectives shared by the leaders of the EC countries. After the experiences of WWII the desire to create a unified Europe has been a work of peace. Indeed, the war succeeded in convincing the Europeans that national interests should be solved peacefully and not by means of war. In the preamble to the Treaty of Rome the founding members declared themselves:

Resolved to pooling their resources to preserve and strengthen peace and liberty," and called upon "the other peoples of Europe who share their ideals to join in their efforts."<sup>10</sup>

Thus, when the European Community was founded it pledged to protect these principles. Whatever other difficulties or problems might be, that was the fundamental value and objective of the Community. Because of this, 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 some European leaders, "the accession of Spain to the Community emanates from a political purpose, aiming at the stability, at the consolidation and at the defense of the democratic system in Europe."<sup>11</sup> The opening of the negotiations was an explicit recognition that major changes had taken place in Spain and Portugal that needed to be protected and consolidated within the European context. In other words, "the political, economic and social stability of Spain was also a stability factor of the Community itself."<sup>12</sup>

In addition, the European Commission itself recognized the fact that the Iberian integration into the EC was essentially a political choice by confirming it on the occasion of the second extension:

When the integration to the European Community was required just after the establishment of democracy, after a long period of dictatorship; Greece, Portugal and Spain *undertook, before anything else, a political decision.*<sup>13</sup>

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<sup>9</sup> Garcia-Lomas Mata 1980, p. 135.

<sup>10</sup> Brunner 1980, pp.183-184.

<sup>11</sup> Rippon 1980, p. 107.

<sup>12</sup> González 1980, p. 47.

<sup>13</sup> González 1980z, p. 139.

Furthermore, Spain and Portugal also offered a new geo-political dimension to the Community, strengthening it southwards, and ensuring closer ties with other regions that had been peripheral to the EC (e.g. Latin America). In this regard, the historical, economic, and cultural links of Spain and Portugal with Latin American, African, and Asian countries offered the Community an immeasurable potential for expansion of foreign trade, as well as a new dimension in the EC's international relations. In addition, partly as a result of this enlargement, the European Community would become more strongly tied to the Mediterranean. This would affect the Community relationships with African and Arab countries. In the early 1980s, these Mediterranean countries already bought ten percent of Community exports and EC countries bought large amounts of raw materials and oil from its Mediterranean neighbors.<sup>14</sup> With Spain and Portugal's membership the Community would be more strongly represented in these regions.

Finally, after the first oil crisis in 1973, Europe and the United States closely scrutinized all Mediterranean events. In this context, again, the geo-strategic position of Portugal and Spain acquired a new specific weight. Indeed, Spain and Portugal could play a very important political and economic role in these areas, where stability was critical. This process was formalized with the Spanish accession to the North Atlantic Treaty Organization (NATO) on June 1982, only after a long controversy within Spain over whether or not the country should participate in this alliance.<sup>15</sup>

In sum, the main impetus behind the integration process was political. This does not mean, however, that economic factors did not play a role in the decision by these countries to join the European Community. Indeed, economic factors were also very significant. The Spanish and Portuguese markets with 48 million consumers, were very attractive to the Community. At the same time, in the case of Spain, the Community wanted to correct the imbalances generated by the implementation of the Preferential Trade Agreement that Spain signed with the European Community in 1970.<sup>16</sup>

### Economic Motivations

Economic conditions in Spain and Portugal in the second half of the 1970s and first half of the 1980s were not buoyant. On top of the world crisis caused by the second oil shock

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<sup>14</sup> Katzer 1980, p. 124.

<sup>15</sup> The Spanish Socialist Party, PSOE, under its leader Felipe González led the opposition to Spain's inclusion in NATO. When he won the general election the following October, Mr. González threatened to leave the Alliance as a tool to speed the negotiations with the European Community. The Socialist government linked the permanence in NATO with the country's accession to the Community and "threatened" the U.S. and EC members with a referendum on the country's permanence in NATO that he had promised during the electoral campaign. At the end Mr. González himself supported Spain's permanence in the Alliance during a 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.

<sup>16</sup> The 1970 agreement was the framework for Spanish-EC trade relations until December 1985. This pact eased trade barriers between both partners. It provided Spain with unilateral advantages on custom matters. On the other hand, the agreement provided EC products with preferential access into the Spanish market. However, tariffs and other non-tariff barriers remained--especially in Spain. This agreement allowed Spain to sustain a positive trade balance with the Ten of 305,000 millions of pesetas in 1984. At this time, Spanish exports to the European Community were 43.3% of the total exports, while imports from the European Community represented 32.3% of total imports. These favorable results for Spain were negative for the European Community, which tried during the accession negotiations to correct this situation. See Fernández Guerrero et al 1989, pp. 145-59.

in the late 1970s, many other problems were anticipated for both countries. Portugal, since it was a founding member of EFTA and had lowered its trade barriers was in a far better position than Spain. Indeed, the high unemployment level in Spain, which reached 22 percent in 1986, suggested that any adjustment cost caused by the accession to the European Community would have strong consequences.<sup>17</sup> Furthermore, Spanish custom duties remained on average five times higher than the Communitarians. In addition, EC products faced a major disadvantage because Spain had a compensatory tax system and restrictive administrative practices that penalized imported products.<sup>18</sup> For instance, slow license delivery was common, and companies that sold vehicles in the country did not have import quotas to introduce cars into Spain from abroad. Finally, the Spanish government controlled a considerable size of the economy through the INI (National Institute of Industry), and subsidized public enterprises such as the auto making companies (SEAT, ENASA), as well as the metallurgic, chemical, ship construction and electronic sectors. All of these examples show that when Spain called at the EC door for accession in 1977, protectionist institutions—which were incompatible with EC rules—were still fully operative. This situation provided a considerable advantage for Spanish manufacturers, which were highly protected from foreign competition. 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 customs union like the European Community, would mean that all those barriers would have to be dismantled for the other members of the union. This liberalization would expose to foreign competition these highly protected and non-competitive sectors of the Spanish economy.<sup>19</sup> Therefore, if Spain was to move towards the EC average, this would imply a substantial increase in the level of trade.

In terms of *static effects*, the Iberian entry in the European Community was expected to result in *trade creation* in the manufacturing sector. Trade creation was reasonably expected given the high level of protection in Spain before her accession to the European Community. It would also be the result of the similarity of the structure of industry in Portugal, Spain, and the European Community. Empirical studies have shown that trade creation gains from custom unions stand to be greatest “the more competitive or similar are the lists of the member countries.”<sup>20</sup> Many reports suggested that the pattern of specialization in Iberia and the Ten was similar.<sup>21</sup> For instance, Spain had been moving away from low-technology/low capital/unskilled labor industries like textiles, leather, shipbuilding and food, towards more capital intensive industries that required more labor skills—like chemicals, or vehicles.

The effects on non-EC suppliers of Iberian integration would not have negative consequences for two main reasons. First, Spanish and Portuguese tariffs on non-EC

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<sup>17</sup> Hine 1989, p. 7.

<sup>18</sup> For example, EC vehicles imported to Spain paid a customs duty of 27% to 30.4% plus a compensatory tax of 13%. See Couste 1980, p. 129.

<sup>19</sup> Imports of manufactured goods in 1986 were equivalent to 11.0% 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% of GDP. In the European Community the averages were 14.4% and 27.7% of GDP respectively. Hine 1989, p. 7.

<sup>20</sup> H.G. Grubel and P.J. Lloyd, *Intra-Industry Trade*, Brighton: Wheatsheaf, 1975. Quoted in Hine 1989, p. 9.

<sup>21</sup> Hine 1989, pp. 9-12.

imports would have to be aligned with the common external tariff, which was much lower than the Iberian tariffs on non-EC imports. This would make the Iberian market more accessible to non-EC suppliers. Second, the EC products already had preferential access to the Spanish market as a result of the 1970 agreement.<sup>22</sup> For its part, Iberian exports to the European Community would not have discriminatory effects on other non-EC suppliers since as the result of the 1970 Preferential Agreement, Spain had already benefited from a sixty percent cut in the external common tariff.

Furthermore, given the similarity of the economies between Spain, Portugal and the EC, as well as the existing levels of trade, it was logical to think that the opening of the Spanish market would lead to an increase in intra-industry trade—i.e. an expansion of trade in a particular product as the national industries concentrate on a narrower but more complementary product range. This offered good prospects for the adjustment process since intra-industry trade creation would result in less acute labor adjustment problems.<sup>23</sup>

At the same time, however, for the Iberian manufacturers, accession to the Community would mean more competition. As I have indicated before, in Spain nominal tariffs averaged 10-20 percent before EC entry. This would result in a worsening of the current accounts balance since it would likely bring an increase of imports from the European Community—which were cheaper and more competitive. In addition, this surge of imports would produce the closure of many industrial enterprises in Iberia and, thus, further unemployment. However, at the time it was considered, correctly, that the intensity of the adjustment would also depend on the behavior of the exchange rate and on the level of investment in these two countries. Spain and Portugal were at the time an attractive production base since they both offered access to a large market and a well-educated and cheap—compared to EC standards—labor base. On the contrary, for the European Community problems were anticipated in labor-intensive industries given the relatively low level of wages in Spain. The Accession Treaties reflected some of these concerns. They stipulated a transition period on tariffs of seven years for ‘sensitive industries’—e.g. textiles, clothing, iron and steel—coupled with a slow phase-out of Spain’s quota restrictions. Spain and Portugal also received financial assistance from the EC structural funds.

Portugal and Spain had feverishly pursued their integration in the Community. However, the prospective effects of integration on the Community were not always very favorable to both countries. As we have seen, both in manufacturing and in agriculture, there was the possibility of trade diversion and trade creation. Given the asymmetry of barriers existing before the integration, the possibility of trade creation was even greater. Trade creation, however, implied more adjustment problems, since greater import penetration would lead to a contraction in domestic production. This was particularly true in the case of the Iberian manufacturing sector. Other economic factors—like the behavior of the exchange rate—also played a critical role in the final outcome of the integration.

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<sup>22</sup> Hine 1989, pp. 8-9.

<sup>23</sup> Hine 1989, pp. 13-14.

The transitional measures adopted in the treaty to alleviate these adjustment problems played a very important role in minimizing the costs for the sectors involved. These transitional measures were sought by the Portuguese and Spanish governments in order to placate those sectors that were negatively affected by the integration. The Iberian governments, however, were much more effective in achieving a reasonable compromise in the manufacturing sector, than they were in the agricultural sector. Arguably, this might have happened because in the industrial sector the governments wanted to satisfy the unions. Iberian farmers were not organized enough to pressure for a better agreement. There were also more intransigent positions from other EC members, particularly France, in the agricultural negotiations.

In terms of the function of social welfare, Spain and Portugal both had very centralized states during the dictatorship years. Relatively protectionist policies and an inflexible labor market were some of the incentives that Franco and Salazar offered in exchange for citizens' support. Portugal and Spain were characterized by having what Corden (1974) has defined a 'conservative social welfare function,' where 'any significant absolute reduction in real net income of any section of the community should be avoided.' This meant for the Iberian governments that they had to negotiate long transitional periods in order to minimize the welfare costs. For example, the Spanish government asked for a transitional period of ten years for manufacturing goods. The compromise agreed upon was seven years. On the other hand, for agricultural products—some of them very competitive in the EC markets—the Spanish government wanted shorter transitional periods, but the agreement provided for a four year standstill, followed by another six years of transition.

This analysis proves that expected static effects—not always very favorable to Spain and Portugal as we have seen—were not the main economic reasons behind Portugal and Spain's entry into the European Community. Dynamic effects, on the contrary, provided an important rationale to support integration. Over the long run, they would affect the rate of economic growth of each country—which would be influenced by investment decisions and by the efficiency with which these resources were used, as well as by the distributional effects among its regions.

At the time it was considered that a critical factor in determining the final outcome of the integration would depend upon the pattern of investment, which would bring about important dynamics effects. Spain, for instance, was already a big market—38 million people. It is true that before entry into the European Community most foreign companies had already set up operations in Spain mainly to circumvent the existing high tariff barriers. Hence the risk existed that when Spain joined the European Community, these companies could decide to move somewhere else in Europe to concentrate their resources because the high barriers would no longer be in place and they would still have access to the Spanish market once it became an EC member state. However, as we have seen, Spain and Portugal had a number of attractions as a production base including; good infrastructure, an educated and cheap labor force, and access to a market with a growing potential. In addition, EC entry would add the incentive of further access to the EC countries for non-EC members—i.e. Japan or the United States. Another significant

expected dynamic effect was the strengthening of Iberian firms' competitive position. Since Iberian producers would have access not only to the Spanish market but also to the European one, EC membership offered incentives for investment and for the development of economies of scale, which in turn would result in increasing competitiveness. At the same time since Spain was a highly protected country for European standards, this had resulted in the development of a non-competitive industrial sector. The Oil Crisis hit Spain strongly. Unemployment levels were 22 percent in 1986. Spain and Portugal were also facing increasing competence for their main exports—clothing, textiles, leather (i.e. countries from the Far East were starting to produce all these goods at cheaper costs exploiting their low wages). As a result of this development, these countries were attracting foreign investment in sectors in which 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 into the European Community would facilitate this shift. Both countries would have access to the EC market, thus attracting investment that would create these new industries. Finally, Portugal and Spain would also benefit from the EC financial assistance programs—i.e., the European Regional Development Fund, the Social Fund, the Agriculture Guidance and Guarantee Fund, and the newly created Integrated Mediterranean Program for agriculture, and later, from the Cohesion Funds.

#### Expected Effects of the Integration on Agricultural Products

Spain had benefited from the 1970 Preferential Agreement with the European Community on manufacturing products. However, this agreement, as we saw before, left Spain entirely out of the Common Agricultural Policy (CAP). Agriculture was at that time a critical sector for the Spanish economy with more than 10 million people—17 percent of the population—living from it. Spanish agriculture accounted for 9 percent of GNP and its agricultural output was 16.5 percent of the Community total. These figures suggest that European farmers would have to face serious adjustment problems, particularly given that membership in the Community implied full membership in the CAP, and that agricultural prices in Spain were in general lower than those in the Ten.<sup>24</sup>

The integration of Spain and Portugal in the European Community offered opportunities for both trade creation and trade diversion in agriculture. The fact that Spain and Portugal had been kept out of the CAP before accession, suggested that Iberian agricultural exports to the Community would face better conditions for access to the European markets. This was particularly true given the good quality of these products and their lower prices—compared with those of the European Community. On the other hand, the expected increase of Portuguese and Spanish agricultural exports to the Community would also displace imports from other countries. The main source of adjustment problems was expected to be trade creation because greater import penetration would lead to a contraction in domestic production.

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<sup>24</sup> Gómez Fuentes, pp. 44-45.



European farmers faced three main adjustment problems. First, when barriers to Iberian agricultural products would be dropped, market prices in the Ten would drop given lower prices and Portugal and Spain's potential for production expansion. Second, the price of dairy products in Spain and Portugal was above those in the Community. An application of EC prices would reduce the value of final production. Finally, in the case of olive oil and wine EC membership would provide an incentive to increase production in Spain, but at the same time it would open the Spanish market to substitutes, thus resulting in surplus disposal that would have to be supported by the European budget.<sup>25</sup> For Portugal and Spain one of the main anticipated challenges of accession would be the regional distribution of agriculture because it would not be easy for farmers affected by the CAP to switch to other products given the differences in the environment, weather, and fertility conditions.

These concerns were reflected in the final agreement. The European Community agreed to minimize adjustment costs by making changes to the CAP. A long transitional period of 7-10 years, depending on the type of product, was also established. Another step was the development of 'indicative import ceilings.' This was a measure that allowed the suspension of imports if the ceilings were exceeded. Finally, the European Community provided some financial assistance through the Integrated Mediterranean Program to individual farmers who would most greatly suffer the costs of adjustment. The final agreement was very controversial in Spain. It was viewed as very detrimental to Spanish interests since the most competitive products faced a long transition period. This outcome reflected Spain's weak bargaining position in the negotiation process.

### **The Accession Process** <sup>26</sup>

Portugal applied for EC membership in March 1977, Spain a year later. Formal negotiations to enlarge the European Community began with Portugal in October 1978 and with 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 European Community negotiated separately with each country. In reality, however, both applications were interrelated.

Enlargement negotiations proved to be slow and protracted. For Portugal the most controversial bargaining issues were 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 European Community signed a pre-accession agreement that revised preexisting agreements and provided for assistance to Portugal. This agreement came into force on January 1, 1981, and sought to modernize

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<sup>25</sup> Hine 1989, pp. 16-18.

<sup>26</sup> This section borrows from Dinan, Desmond 1999: Ever Closer Union. New York: Lynne Rienner, 104-109.

the Portuguese economy to facilitate the country's eventual integration into the European Community. 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.

European Community, particularly French, misgivings about southern enlargement focused on Spain more than on Portugal. Agriculture, textiles, fisheries, and the free movement of labor proved to be the most contentious issues throughout the negotiations. Agricultural policy within the European Community has been the subject of historic disputes and clashes of interests. The proposed Spanish membership in the European Community was framed within the debate of its presumed impact on the EC agricultural policy as well as the ongoing budgetary crisis and attempted reform of the Common Agriculture 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, French misgivings. While the French and Italian governments wanted to protect domestic growers, the German, British and Dutch governments supported the Spanish accession.

Fisheries were also a very controversial issue. Since Spain's fishing fleet was larger than the entire EC fleet, 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 to the European Community they 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 as to declare in 1981 that Portugal and Spain did not need to join simultaneously and that Portugal could join by January 1984.<sup>27</sup> 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 European Community 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 European Community. 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 by the applicant countries to introduce the necessary reforms and prepare their countries for accession.

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<sup>27</sup> Dinan 1999, 105.

The Iberian applications were strengthened in the early 1980s by the formation of relative 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 European Community. 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 that the Community should 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 the 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 issued in 1983 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 its decision to act as 'paymaster' for the enlargement paved the way for the resolution of standing conflicts.<sup>28</sup> During the 1984 winter summit of the Council of Ministers at Dublin the EC Ten reached an agreement on Mediterranean agricultural production.

The Fountainebleau Summit six months later (July 1984) resolved the standing EC budgetary issues, set January 1, 1986 as the agreed date for Spain and Portugal's entry into the European Community, and called for an end to negotiations by September 30, 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

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<sup>28</sup> Marks, Michael, P. 1997: The Formation of European Policy in Post-Franco Spain. Vermont: Avebury, 86-89.

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 over the last roadblock, i.e. 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 labor in the European Community. 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 European Community.<sup>29</sup> These agreements resolved the final obstacles to Southern enlargement. Spain and Portugal joined the European Community on January 1, 1986.

## Consequences of the Integration

### Economic Convergence

Over two years ago, on January 1, 1999, Spain and Portugal became founding members of the European Monetary Union. 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 by the Maastricht Treaty. This development confirmed the nominal convergence of both countries with the rest of the European Union.

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

		<b>1986</b>	<b>1990</b>	<b>1996</b>	<b>1997</b>
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.

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<sup>29</sup> Dinan 1999, 108.

**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 European Union 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 budgetary item. These funds have had a significant impact in relation 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 financial 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**

	<b>Average Annual Growth Rate (89-93)</b>	<b>Estimated Impact</b>
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.

This achievement confirmed that in terms of economic stability Spain and Portugal are part of Europe's rich club. Their income levels, however, remain below the EU average:

**Table 5: Divergence of GDP per Capita 1980-2000**

	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>2000</b>
EU Totals	100.0%	100.0%	100.0%	100.0%
Spain	74.2	72.5	77.8	84.0
Portugal	55.0	52.0	55.7	74.0

Source: Tsoukalis, *The New European Economy*, Table 8.1, p.233.

This data shows that nominal convergence has advanced at a faster pace than real convergence. 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 admission of Spain to the European Union in 1986, per capita income has increased "only" 11.5 percent and in Portugal 14.2 percent. In Ireland, in contrast, it 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 an average of 2.1 percent between 1990 and 1998, Portugal has grown 2.5 percent, and Ireland 7.3 percent 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 European Union); 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.<sup>30</sup>

For the Iberian countries to increase their living standards to the EU average, it is necessary that their economies grow faster than the other countries. This will require further liberalization of their labor (internal as well as external) 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 state have caused imbalances 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 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.

### **Public Opinion towards the Process of European Integration**

A remarkable phenomena since accession has been the consistent support of Spanish and Portuguese citizens towards the European integration process.

#### Spain

Over the last 15 years the majority of Spanish citizens have expressed a positive evaluation of Spain's integration in the European Community. In 1988, a year and a half after the accession, most Spaniards already had a positive opinion about it. This attitude was sustained throughout the early 1990s:

**Table 6 : Opinion about the Integration of Spain in the EC. 1988-93 (%)**

	<u>1988</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Is a Good thing	49	40	40	41.3
Is a Bad thing	13	21	21	26.5
It is neither good nor bad + Non defined	38	17	17	14.7

*Source: CIS: Los Españoles Ante el Segundo Aniversario de la Firma del Tratado de Adhesión de España a la Comunidad Europea. Madrid: 1988, Cuadro 8, p. 31; and CIS: Opiniones y Actitudes de los Españoles Ante el Proceso de Integración Europea. Madrid: 1999, Serie 3, p. 74*

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<sup>30</sup> See "La convergencia real, a paso lento," in *El País*. Monday February 14, 2000.

One of the main reasons for continued EC support has been the positive perception of the benefits derived from membership:

**Table 7: Opinion about the Benefits for Spain of EC Access. 1988 (%)**

<b>It has benefited</b>	52
More than other countries	5
The same	17
Less	20
No Opinion/No answer	10
<b>It has not benefited</b>	34
<b>No Opinion/No Answer</b>	14

*Source: CIS: Los Españoles Ante el Segundo Aniversario de la Firma del Tratado de Adhesion de España a la Comunidad Europea. Madrid: 1988. Cuadro 9, p. 31.*

In this regard, the analysis of the opinions about the specific effects of EC integration shows well defined attitudes based on the evaluation of political, social and economic benefits. The data compiled by the Center of Sociological Investigations (CIS) shows that as early as 1988 a year and a half after joining the EC, Spaniards held a positive attitude towards the benefits of the integration process. Indeed, EC membership has been consistently viewed as a positive contributing factor for the better working of the Spanish democratic system, for the role of Spain in the world, for the social and economic modernization of Spain, for tourism, as well as a positive element to foster Spanish exports to the European Community and European imports into Spain. This positive opinion and attitude did not extend to areas such as unemployment, agriculture, fisheries, and industry.

**Table 8: Opinions about the Effects of the EC Integration in the Following Areas. 1988 (%)**

	<b>Good</b>	<b>Bad</b>	<b>NO/NA</b>	<b>Total</b>
The Functioning of our Democracy	65	17	18	100
The Role of Spain in the World	72	13	15	100
The Social Modernization of Spain	70	15	15	100
Our Economic Development	46	40	14	100
To Confront and Economic Crisis	40	35	25	100
The Modernization of our Companies	63	18	18	100
Our Exports to the EC	44	39	17	100
Spanish Competitiveness in the EC	10	74	16	100
Sales of Spanish Products in the EC	46	32	22	100
The Local Prices of our Goods	22	61	17	100
The Acquisition of Cheaper EC Products	56	27	17	100
Employment in General	13	78	9	100
Employment in the EC	25	54	21	100
Industry	36	49	15	100



Commerce	38	45	17	100
Agriculture	25	65	10	100
Cattle raising	20	64	16	100
Fisheries	21	53	26	100
Tourism	72	16	12	100

*Source:* CIS: *Los Españoles Ante el Segundo Aniversario de la Firma del Tratado de Adhesion de España a la Comunidad Europea*. Madrid: 1988. Cuadro 14-18, pp. 38-43.

At the individual and family levels EC integration was considered a development that would benefit future generations, in other words, membership was viewed as having long-term effects for Spain.

**Table 9: Opinions About the Effects of the EC Integration in Individual and Family Aspects. 1988 (%)**

	Positive	Negative	NO/NA
Your Job Opportunities	31	32	37
Your family's Budget	28	40	32
The Future of your Kids	47	21	32

*Source:* CIS: *Los Españoles Ante el Segundo Aniversario de la Firma del Tratado de Adhesion de España a la Comunidad Europea*. Madrid: 1988. Cuadro 20, p. 44.

Finally, from the very beginning Spaniards have consistently espoused positive attitudes towards the process of European integration:

**Table 10: Attitudes Toward the Process of European Integration. 1988 (%)**

<b>Very Favorable</b>	36
<b>Somewhat Favorable</b>	40
<b>Somewhat Against</b>	5
<b>Against</b>	2
<b>NO/NA</b>	17

*Source:* CIS: *Los Españoles Ante el Segundo Aniversario de la Firma del Tratado de Adhesion de España a la Comunidad Europea*. Madrid: 1988. Cuadro 22, p. 51.

A decade after the accession the attitudes of Spaniards towards the European Union were still positive, and most Spaniards felt that it had benefited the country.

**Table 11: Attitudes Toward the European Union. 1994-97 (%)**

	<b>1994</b>	<b>1996</b>	<b>1997</b>
Very Favorable	5.9	7.5	7.0
Quite Favorable	30.6	29.5	30.7
Somewhat Favorable	22.4	21.0	26.0
<b>Very + Quite + Somewhat Favorable:</b>	<b>58.9</b>	<b>58</b>	<b>63.7</b>
Neither Favorable nor Unfavorable	22.4	21.3	18.5
Somewhat Against	7.2	4.0	7.7
Quite Against	3.0	2.0	3.4
Very Against	1.9	1.2	1.4
No Opinion	6.1	12.6	5.0
No Answer	0.5	0.8	0.2

*Source:* CIS: *La Opinión Pública Española y la Integración Europea*. 1994. Madrid: 1994. Cuadro 2, p. 34; and CIS: *Opiniones y Actitudes de los Españoles Antel el Proceso de Integración Europea*. Madrid: 1999, Serie 2, p. 60.

As this table shows the attitude of Spaniards towards the European Union has been consistently favorable for at least half of Spanish citizens. It is interesting to note in this regard that 1997 registered the highest rates of support for the European Union—6 points higher than in 1996 (58% vs. 63.7%). In addition, the opinions about the beneficial effects of membership have not changed much. Throughout the 1990s Spaniards have consistently viewed the European Union as beneficial for Spain

**Table 12: Benefits for Spain and for you of EC Membership. 1994 (%)**

A Lot	5.1
Quite	39.5
Little	31.6
None	8.0
NO	15.4
NA	0.5

*Source:* CIS: *La Opinión Pública Española y la Integración Europea*. 1994. Madrid: 1994. Cuadro 2, p. 34.

**Table 13: Opinions about the Effects of the EC Integration in the Following Areas. 1994 (%)**

	<b>Positive</b>	<b>Negative</b>	<b>No Effect</b>	<b>NO/NA</b>
The Functioning of our Democracy	54.3	6.9	20.8	18.1
The Role of Spain in the World	64.6	5.1	13.9	16.4
The Social Modernization of Spain	63.3	6.4	15.1	15.3

Salaries	12.2	44.8	16.6	26.4
Prices	14.1	54.0	100.4	21.4
Economic Development	30.9	33.0	10.6	25.5
Job Opportunities	13.2	47.2	17,1	22.5

Source: CIS: *La Opinión Pública Española y la Integración Europea*. 1994. Madrid: 1994. Cuadro 2, p. 34.

This positive attitude was strengthened throughout the second half of the 1990s. As a matter of fact, the number of respondents who state that their attitude was more positive toward the European Union in terms of benefits and costs of membership increased significantly in the second half of the 1990s:

**Table 14 : Opinion about Benefits/Costs of the Integration of Spain in the European Union. 1994-99 (%)**

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1999</u>
Is a Good thing	47.1	40.6	48.5	50.3	72.5
Is a Bad thing	30.4	30.2	24.4	18.1	13.7
It is neither good nor bad + Indefinites	11.6	16.6	13.3	12.6	13.9

Source: CIS: *Opiniones y Actitudes de los Españoles Antel el Proceso de Integración Europea*. Madrid: 1999, Serie 3, p. 74.

In this regard, Spain and Portugal are two of the EU countries that most strongly support EU membership and the ongoing process of monetary integration:

**Table 15: Support for EU Membership and EMU**

	It is a Good Thing (A)		It is a Bad Thing (B)		Index (A-B)/(A+B)	
	Member	EMU	Member	EMU	Member	EMU
Austria	31	44	24	43	0.13	0.01
Belgium	42	57	18	32	0.40	0.28
Denmark	53	32	22	62	0.41	-0.32
Finland	39	33	25	62	0.22	-0.30
France	48	58	14	36	0.54	0.23
Germany	38	40	15	15	0.43	-0.06
Greece	60	59	8	27	0.76	0.37
Ireland	83	67	3	18	0.93	0.58
Italy	69	78	6	11	0.84	0.75
Luxembourg	71	62	10	28	0.75	0.38

Netherlands	76	57	9	37	0.78	0.21
Portugal	56	45	6	29	0.80	0.22
Spain	53	61	9	23	0.71	0.45
Sweden	31	34	46	56	-0.19	-0.24
United Kingdom	36	29	23	59	0.22	-0.31
<b>UE</b>	<b>49</b>	<b>51</b>	<b>14</b>	<b>37</b>	<b>0.55</b>	<b>0.16</b>

*Source: Eurobarometer, no. 48, October-November 1998.*

While support for the European Union has been sustained over the last decade a large proportion of Spaniards and Portuguese oppose enlargement to the East.

**Table 16: 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.*

In sum, the above data shows that the opinions and attitudes of Spanish citizens towards the process of European integration are in general favorable. It is important to stress, however, that there is a large portion of Spanish citizens that do not have an opinion about this issue. The data collected by the Center of Sociological Investigations (CIS) also shows that although Spaniards feel linked by geographical and affective feelings to Europe and the Europeans, they do not identify closely with a so called “common European culture.” The reason for this is that despite shared traditions there is an absence of a pre-modern common past and heritage that would have allowed the emergence of a unified European identity. Therefore, the image of a “European community” among Spanish people is very weak. Indeed, they perceive the European Union as an economic community, not so much as a community of Europeans. In addition, the CIS data shows that one of the key factors to account for the attitude of Spaniards toward European integration, has been the perception about the personal and collective benefits derived from membership. In this regard, the CIS data shows that Spaniards have a utilitarian concept of the European Union—i.e. they evaluate the consequences of membership over issues such as living costs, infrastructures, job opportunities, wages, etc. and in function of this cost/benefit analysis they adopt a position in favor or against European integration. Finally, when comparing the attitudes of Spanish citizens vis-à-vis other European citizens, Spaniards 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.<sup>31</sup>

## Lessons <sup>32</sup>

Let me suggest some lessons that may apply to Latin American countries 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 the 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. *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 world-wide 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. Further, 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 re-conceptualize 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 application to join the European Community.***

Portugal and Spain both wanted to strengthen their new democratic regimes, and they both held the desire to end the relative isolation that 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-i.e. agriculture. On the other hand, 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 was translated into a risk of difficult adjustment problems for many Spanish manufacturing and agricultural sectors that were not ready for competition. It 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.

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<sup>31</sup> See CIS: *Opiniones y actitudes de los españoles ante el proceso de integración europea*. Madrid: 1999, pp, 131-32.

<sup>32</sup> Royo and Manuel, 2001, pp. 22-29.

***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 international 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.

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 neighbor. Portugal defeated Castile 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. While Spain historically developed what José Saramago, the Portuguese Nobel laureate, has defined as an "amputation complex," in Portugal people thought throughout history that all the bad things that arrived to the country came from Spain, including the French, and there is a popular adage that enshrines these feelings: "*De Espanha ni bom vento ni bom casamento*" (meaning "from Spain neither good wind, nor good marriage"). In Spain Salvador de Madariaga, a Spanish liberal historian, defined the Portuguese as "a Spaniard with his back turned to Castile 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.

Indeed, this hostile climate changed for the better in the mid-1980s. While theirs is still a challenging relationship, and not always an easy one, it is unquestionable that European integration is drawing Spain and Portugal together. Portuguese and Spaniards appreciate each other more. There is increasing awareness about a shared history including: the legacy of exploration and empire, the manipulation of the great powers during the 18<sup>th</sup> century, the incompetence of kings and military strongmen of the 19<sup>th</sup> century, and finally, the frustration with fascist authoritarian rulers in the 20<sup>th</sup> 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 Spain's 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 over 3,000 Spanish firms in Portugal, compared with fewer than 400 in 1989, and the Portuguese own over 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 15 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 print 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 both 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 all political parties—for the first time in EC history. Furthermore, according to a recent Eurobarometer study, 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.

**Table 17 : Support for EU Membership and EMU**

	<b>It is a Good Thing</b>	<b>It is a Bad Thing</b>
<b>Portugal</b>	56	45
<b>Spain</b>	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 towards the process of European integration are in general favorable. It is important to stress, however, that there is a large portion of Iberian citizens

that do not have an opinion about this issue. In addition, the CIS data shows 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 shows that Iberian citizens have a very utilitarian concept of the European Union—i.e. they evaluate the consequences of membership over issues such as living costs, infrastructures, job opportunities, wages, etc. and in function of this cost/benefit analysis they adopt a position in favor 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.<sup>33</sup>

***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 place throughout history has been at the center of Europe. After years of isolationism it was time to reclaim their place there. The alternative was between the past and the future, between hope and fear, and both countries chose the right path. Time has proven that this was the right decision for both countries.

***Lesson Six: EU Membership has given Spain and Portugal a better competitive position.***

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 over 1,000,000 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. The Spanish and Portuguese fishers, 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 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 to increase the productivity of their labor 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 on 1986. Spain was also facing

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<sup>33</sup> See CIS: *Opiniones y actitudes de los españoles ante el proceso de integración europea*. Madrid: 1999, pp, 131-32.



increasing competence for its main exports--clothing, textiles, leather. Countries from the Far East were starting to produce all these goods at cheaper costs exploiting their low wages. These countries were attracting foreign investment in sectors in which traditionally Spain and Portugal had been favored. This situation convinced the Spanish and Portuguese leaders that the country 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). 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 would offer incentives for investment and for the development of economies of scale, which in turn would result 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 in reaching the EC average in wealth.

**Lesson Seven: Real Economic Convergence is a Slow Process.**

Over two years ago, on January 1, 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.

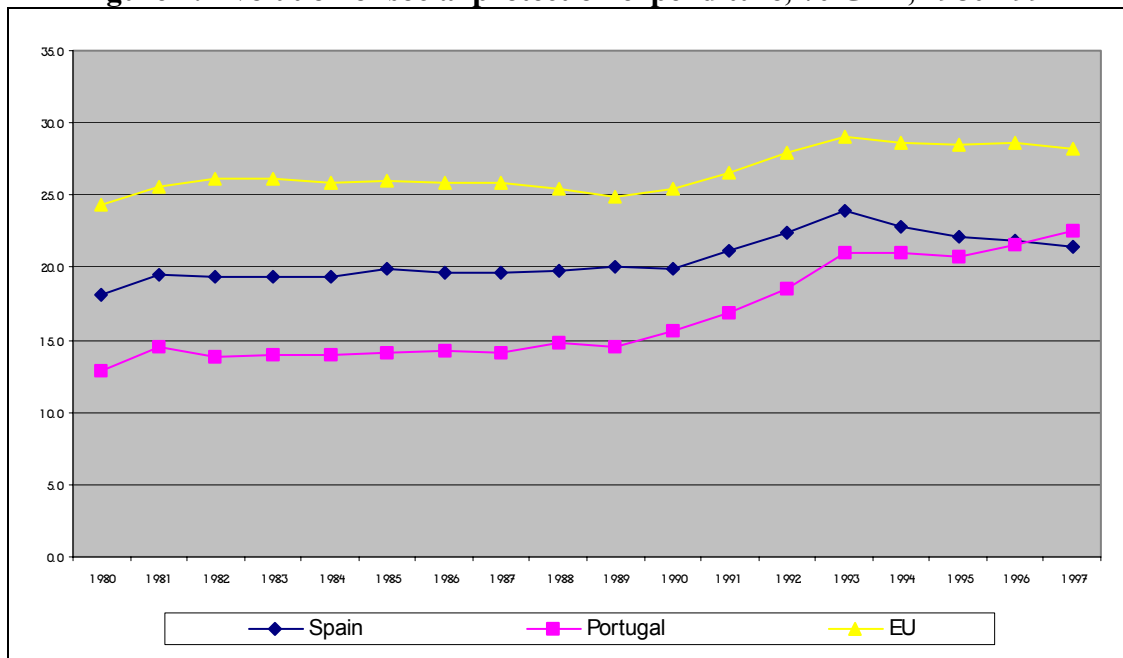
As we have seen, for the Iberian countries to increase their living standards to the EU average, it is necessary that their economies grow faster than the other countries. This will require further liberalization of their labor and service markets and better utilization of their productive resources. 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 state have caused imbalances 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 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.

The 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. However, in spite of this progress 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 between the Iberian countries (particularly Spain) and the European Union in social expenditures has not narrowed:

**Figure 1: Evolution of social protection expenditure, % GDP, 1980-1997**



Source: Guillén et al., p. 4. Data from: Eudor-Stat 1997 and Eurostat 2000.

At the same time, it is worth noting that European Funds have helped to 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 had both benefits and costs.**

As I 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 improve 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. 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: 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 Latin American economies. Argentina proves 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 I 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: The key role of structural and cohesion funds.***

The structural funds and cohesion funds are the instruments designed by the European Union to develop social and cohesion policies within the European Union. The cohesion funds were established in the Maastricht Treaty in order to compensate for the efforts that countries with the lowest per capita income relative to the European Union (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 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.<sup>34</sup>

**Structural and Cohesion Funds**

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

*Source:* Sebastian 2001, p. 25. Date from: European Commission. Estimates based on Eurostat data and forecast for 2000-06.

<sup>34</sup> 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.

During the 1994-1999 period, EU aid accounted for 1.5% of GDP in Spain and 3.3% in Portugal.<sup>35</sup> 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. 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% 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.<sup>36</sup> 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, economic integration in the Americas is bound to be far slower and unbalanced.

***Lesson Eleven: Financial institutional reform per se will not produce the necessary institutional reforms in other areas.***

Financial institutional reform has not forced institutional changes in other areas (i.e. the labor 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. Argentina is also a clear example of a currency board that did not force institutional change in other areas. 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 was 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 by 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). While other agreements (i.e. the North American Free Trade Agreement - NAFTA) have left aside such a precondition, this would provide a powerful incentive for Latin American countries to consolidate their democratic processes and avoid authoritarian temptations.

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<sup>35</sup> As Sebastian indicates (2001, pp. 25-26), "this is set to fall slightly in the period 2000-2006, to 1.3% 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% of EU GDP in 2006, compared with 0.45% 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."

<sup>36</sup> Sebastian, p 26.

## Conclusions

When Portugal and Spain applied to the European Community this decision was supported by all political parties—for the first time in EC history. The overwhelming majority of the population understood the importance and significance of this step and supported it. 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 center 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. Time has proven that this was the right decision. 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 paper I have analyzed the main political and economic factors that motivated the accession to the European Community. I 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.

On the other hand, the economic implications of European integration were also very profound and played an important role in their 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 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:<sup>37</sup>

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-1990s 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

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<sup>37</sup> See Gómez Fuentes, pp. 47-48.

- 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 over 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 labor force.
  8. EU accession helped consolidate new democratic institutions.
  9. Finally, EU membership has increased economic growth, thus improving the standards 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 1986-1991.<sup>38</sup> Between 1970 and 1998 foreign investment in Spain grew from 1% of GDP to more than 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 I 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 labor 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 under one percent of GDP-low compared with the richer EU countries. Spending on training and education of workers is insufficient too. Moreover, low wages-which was one of the most attractive factors for investors-have risen over the last decade. Hence unit labor costs have been increasing faster than those of its main EU competitors. Indeed, wages are still lower than in Germany, but they are roughly equivalent to those in Britain. Finally, labor flexibility is still hampered by rigid labor laws.

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<sup>38</sup> "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 unbalances. However, Portugal and Spain’s entry into the EC/EU attracted billions of dollars in foreign investment that helped to alleviate adjustment problems.

The path towards ‘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—i.e., 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 these measures led to social problems because the unions did not accept these reforms easily. Some of these processes remain unfinished.

Since the last century, Spanish and Portuguese reformists have been obsessed with making up the lost ground with modernized Europe. EU membership has been a critical step in this direction.



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