15. Portugal: Shaping Factors*

INTRODUCTION

Very dependent on exchanges (economic, technological, cultural, etc.) with the Community, Portugal will necessarily be affected by the effects of most of the key factors acting on a global level. But although apparently very open (external trade, emigration, media, etc.), Portuguese society and economy remain still quite closed in terms of behaviour and active relations with the exterior: the one paradigm of some Portuguese firms is that, as far as their export markets are concerned, they know only the purchasers’ agents, who visit them regularly. It is in this sense that one can say that the real stake for Portugal in the period considered will be the passage from a closed society to a society which is more open to the outside.

In the following pages, three types of factors are examined: socio-economic, cultural and historical, political.

SECTION 1: SOCIO-ECONOMIC ISSUES

Macroeconomic Framework: Process of Convergence

Portuguese economic development in the next few years will depend on the process of convergence arising from the goals agreed at Maastricht. In this sphere, the fundamental question raised relates to the reduction in the rate of inflation.

Where inflation is concerned, the goal of Maastricht implies rapid deceleration, given that the growth rate of prices in Portugal is about six points higher than that of the best-placed countries in the Community.

There are not many tools which can be used to obtain a significant reduction in the rate of inflation. Where monetary policy is concerned,

the fight against inflation has begun with the maintenance of a very high interest rate (a real interest rate of around 10% on current deals) as a result of a restrictive monetary policy and controls of capital inflows. Although it is clear that a policy of this kind will no longer be possible after total liberalization of capital movements (which will happen within a few years), the fact is that the results obtained have not yet been sufficiently clear-cut to justify the costs of this policy.

Another tool used has been exchange rate policy, which has in practice maintained the parity of the escudo with that of other European currencies. The recent entry into the discipline of the European Monetary System will strengthen this maintenance of parity in the future. It is clear that this has meant (and will continue to mean) a real revaluation of the escudo, which, although having undeniable beneficial effects on internal inflation, constitutes on the other hand a negative factor for Portuguese exports.

Finally, a third tool has been incomes policy, by means of social dialogue agreements, the aim of which is to moderate income growth. The success of these agreements has been limited, since for many categories of incomes real increases have been greater than nominal awards due to the relatively favourable situation on the labour market.

In the future, the difficulties which will arise for the economy from the pursuit of an anti-inflation policy will increase. In fact, the restrictive monetary policy has been the cause of a significant reduction in private investment, and its continuation (so long as it is possible to have an independent monetary policy) will cause serious harm to the modernization of the structure of Portuguese production.

The policy of stabilizing the escudo will still cause a loss of competitiveness for Portuguese exports although it may promote structural change in the export sector, by directing it towards activities in more advanced technology.

But the most difficult obstacle will be the one resulting from the great difference in wages between Portugal and the average in the European States (a ratio of about 1 to 4). There will certainly at some time be a movement in the direction of approximation of wage levels (helped by the free movement of workers), which will obviously make convergence of inflation rates very problematic.

The process of convergence will therefore create problems for Portuguese firms once, for different reasons (restrictive monetary policy and wage convergence), the two factors of production, capital and labour, become more expensive.
These special problems which the Portuguese economy will meet throughout the process of convergence may be attenuated after the achievement of the third phase of the Single European Market (or even some little time before that).

The achievement of the SEM will give Portugal the opportunity to change its growth pattern quickly, moving from a structure of production very much centred on undifferentiated labour sectors and not very costly in European terms to an economy with qualified manpower of a higher level. This change will require a high level of investment however, and also a rapid process of manpower training. As for investment, one has already seen that the process of convergence will create in the next few years conditions which are not very favourable due to the high interest rates. It should be noted, however, that, even at this stage, these conditions will improve if the cost of capital is reduced through an increase in aid to private investment, which will probably be the case if Community financial support increases as provided for in Delors package II.

After the freeing of capital movements (which should come into force towards the end of 1995), there will be an accentuated fall in interest rates, and this will create more favourable conditions for investment. As it is probable that wages will increase, approximating to European levels, there will be a fall in the relative cost of capital as compared with that of labour, and this will be a decisive factor for the move towards a more advanced growth pattern, more capital-intensive and more intensive in skilled manpower.

It is possible however that the timing of these changes may produce dangerous imbalances, particularly in foreign trade, since the conjunction of exchange rate stability, wage increases and liberalization of trade for certain traditional products (within the framework of the Uruguay Round) will mean that traditional Portuguese industry will lose competitiveness which can only be very gradually replaced by more advanced sectors.

These difficulties reveal the non-existence of a policy of redistribution at Community level, unlike what happens in most federal States. If this policy of redistribution is implemented in the future, it will make it possible to establish minimum standards for the whole Community in certain spheres such as education, research or social security. It is only under these circumstances that the least developed regions can achieve these standards, having recourse to the means made available by global redistribution policy. This scenario would have very important effects on the competitiveness of Portuguese firms, especially if one takes account of
the fact that Portugal will be one of the EC regions where achievement of the SEM will lead most clearly to rapid modernization of the growth pattern, in the direction of more highly qualified human capital and technological progress.

Structural Problems

Three problems are central for Portugal: agriculture, industrial specialization, services, education and science.

The agricultural sector in Portugal has contributed to the lack of adjustment of the Portuguese economy in the last few decades.

The agricultural policy pursued has enabled the development of a bipolar strategy in the sector, favouring the creation of dual structures, from the technological, land, institutional and market points of view.

The North of the country has mainly small or very small farms, usually with poor economic efficiency, while the Algarve (in the South) and, more particularly, the Ribatejo-Oeste region (in the Centre) has a medium-sized land-holding structure, well-equipped from the technological point of view, which shows a certain capacity for internal and external competitiveness.

The development pattern pursued in Portugal has protected inefficient agriculture, the 1980s being marked by two major facts:

(i) Greater opening up to the outside has made it possible to accelerate the assimilation of the American and North European patterns of consumption/production.

(ii) The entry of Portugal into the EC, which enabled an important change in the conditions of production of the agricultural sector.

However, as the CAP is above all intended for the countries of Northern Europe, based on cereal production, expansion towards the countries of the South has not made it possible to develop economies of scale competitive with the producer countries of Northern Europe.

Underlying the CAP was the attempt by the EC to adopt a pattern of production characterized mainly by large farms, by low use of manpower and by intensive use of mechanization: these aims can be achieved for specific products (such as cereals) and under particular physical conditions.

The application of the CAP to Portuguese agriculture has strengthened two negative components:
Productive specialization in cereals with large investments (resulting in a considerable increase in output, in particular of maize), followed by the best-sized farms, whose cost structure is reasonable only because of the price policy adopted. In parallel and as a consequence, there has also been the development of a pattern of intensive animal production.

A lack of encouragement for vegetable and fruit production where Portuguese agriculture has some comparative advantages.

Portuguese agriculture has not experienced significant changes since the 1970s, but there have also been sociological reasons for resistance to the adoption of a production-oriented pattern:

- Diversification of family incomes, with a high rate of multiple activity.
- Great rigidity in the land ownership system, without significant changes except in the South of the country.
- A high proportion of self-sufficiency production, in particular of small farms.

In the Community and with the exception of Ireland, the group of countries in the EC most suited to Mediterranean production (including Portugal) is the one with the lowest outputs and where the importance of agricultural added value is greatest. These characteristics of Mediterranean output (more intensive labour) coincide with indicators of weaker economic development.

In foreign trade, Europe remains in deficit in products (fruit and horticultural products) from the countries of the Mediterranean basin which have negotiated preferential contracts with the EC.

The reform of CAP would therefore be an opportunity to reorientate the agricultural and agro-food sector, if it enabled further specialization of production in a process of integration within the European area, as a consequence of structural adjustments.

The small size of Portuguese agriculture, its low productivity (of both labour and land), and the ageing of a large part of the agricultural population may be factors which will be beneficial for the agricultural sector in the short term; either by means of supportive measures or by inducement to conservationist agriculture, with an increase in the area of afforestation. The challenge is in the medium/long term and, in particular
for agricultural firms with a technological structure closer to European standards.

For these producers, only a new CAP which would favour a strategy of natural integration, exploiting comparative advantage in an expanded economic area, could lead to profitable agriculture:

- Through extensification of agricultural output and stock-rearing, favouring the development of quality breeds.
- By intensification of fruit and vegetable crops which have comparative seasonal advantages: it is possible to produce earlier or even later.
- Through the development of a brand image for specific products where external competitiveness is already guaranteed: wine, olive oil and regional cheese.

In general, Mediterranean products have greater price and income elasticity, with possibilities of a certain growth of the market. However, the market for food products of this type tends to be segmented, putting a premium on differentiation.

We can summarize the factors which determine the future development of Portuguese agriculture at three levels:

(i) The new CAP may affect the North and South of Europe differently. In the North, it will probably be less interventionist; in the South it will tend to take account of specific features of production and the advantages of integrated development. In the countries of Southern Europe, the new CAP could strengthen rural tourism at the expense of investment.

(ii) One may expect the extension of current trends of consumers with higher incomes in favour of quality and differentiation, with a strong boost to market segments.

(iii) The development and application of new technologies (e.g. biotechnologies) and easier access to a larger market will probably be factors promoting an increase in trade but also a new social division of labour (through increasing mobility of the workforce). Finally, we will note that the development of agro-food production in Southern Europe will very probably be linked to the development of the agriculture of North African countries, particularly Morocco. Their large-scale production could help the take-off of agro-industries in the South of Europe (particularly in
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Portugal) because of technological advantages, services, and transport.

The current international specialization of Portuguese industry makes it particularly vulnerable to liberalizing trends in the world economy. Because of the extent to which the Portuguese economy is open is already quite large, the problem will not be so much the rate of penetration for new foreign products on the internal market, but rather the characteristics of the exporting sectors. Among the latter, particularly noticeable are those which developed during the 1960s, with competitiveness based on low incomes and work mainly as subcontractors, thus without any control over (or even knowledge of) trading channels.

These sectors are today subject to dual pressures. On the one hand there is competition from developed countries which have introduced flexible automation technologies, and adapted to markets which are increasingly segmented. On the other hand, there is the increased competition from other low-wage economies, with increasingly easier access to European markets, as a (predictable) result of the GATT agreements, the end of the Multifibre agreement and the gradual and inevitable opening up to exports from the new economies of Central and Eastern Europe.

Many years of escudo devaluation policies have made it possible to maintain many firms' competitiveness artificially. But changes in the macroeconomic framework have put an end to this situation which, moreover, had the effect of sparing firms the effort of technological modernization to which they would otherwise have had to agree.

Both the inflows of Community funds and the influx of foreign capital (direct investment) have withdrawn from the centre of concerns of economic policy the problems of the balance of payments, and at the same time have reduced the power of the export sectors to exert pressure. Finally, the steps needed to prepare the economy for monetary Europe led to the abandonment of the policies of devaluation, to the benefit of the struggle against inflation. In particular a policy of very high real interest rates, with Stock Exchange controls, makes investment in modernization or in diversification towards new products particularly unattractive.

The supports of PEDIP have not only been inadequate to promote modernization of the traditional sectors, but have failed as inducers of investment in diversification. In fact, it appears to be indubitable that to a large extent they have operated as partial compensation for high interest rates for bank credit (which favoured high profitability of the banking sector and made privatization operations more attractive). Foreign
investment is seen more and more as an irreplaceable factor for diversification of Portuguese industry towards less vulnerable activities. Its strong growth in the past few years is not however free from some grounds for concern:

- The emergence of new alternative destinations, which increases the costs of the policies for attracting capital (that may become quite serious with the long-term stabilization of the countries of Central and Eastern Europe).
- The small proportion of investment from non-EC countries: this may have the dual consequence of devaluation of Portugal as an extreme frontier of the Community and the structuring of the Portuguese economy by Community investments within the framework of a regional sub-area, which would underline the already strong trend towards integration in an Iberian economy.
- The concentration of foreign investment within the services sector (banking, property, distribution, tourism) to the detriment of industry.
- The (political) favour which large external investments enjoy may create new situations of vulnerability.

The dynamism of the service sector in the past few years might suggest confirmation of certain theses on the Portuguese vocation for provision of services rather than for manufacturing activities. A more careful analysis may however identify some constraints and weak points which may call the sustained development of the sector into question in the near future.

The modernization of retail trade with the rapid penetration of hypermarket networks had not caused significant reactions until recently because losses of market shares by traditional traders were compensated for by the growth in private consumption. At the same time, the retail trade was modernizing through the creation of cooperative purchasing centres. But signs of reaction from traditional commerce (which has significant social importance in Portugal) can already be detected. In effect, considering the existing hypermarkets and those which are in the course of construction, they will supply approximately 7% of final consumption, according to a recent study. This rate of penetration, achieved within a few years, already corresponds to nearly half the rate in France, a country which has one of the strongest presences of large shops in Europe.
The dynamism of the financial sector conceals some artificial factors. The maintenance of highly abnormal bank intermediation margins has enabled rapid recovery of some banks which were in a difficult position, and thus made attractive the privatization of the nationalized banks, generating considerable income for the State.

The liberalization of capital movements, once the privatization process is over, will very probably lead to a re-organization of the sector with mergers, strong investment in computerization and staff reductions, postponed to date by the very favourable situation of the sector in the past few years.

The property sector has gone through a period of overheating due to the entry of operators from European countries ready to pay much higher prices who have seen an opportunity for property diversification of great potential in the Portuguese market. The increase in supply which followed the increase in prices is not however being followed by demand, as a clear downward trend in prices can be seen, both for housing and for offices.

The initial boom in demand for premises for tertiary activities appears not to correspond today to initial expectations. Two types of reason are probable:

- Strong initial growth founded on new phenomena, which will find it difficult to maintain similar rates of growth in the future: training, engineering, research, advisory, evaluation services, etc., created directly by the application of structural funds. It is not at all sure that this demand can be maintained at the same level when current subsidies will fall or disappear.

- Financial services inflated by the speculative boom on the Stock Exchange, by the new legal framework for these activities and by the privatization process.

- A clear trend towards relocation of the most highly developed tertiary sectors to large Spanish cities. Given the disappearance of intra-peninsular frontiers, the multinationals are reorganizing their logistical arrangements in the Peninsula, generally choosing sites for central management services and trading infrastructures in Spain, particularly in Madrid. This phenomenon may still have induced effects on the location of the tertiary sector of services to businesses (advertising, marketing, auditing, etc.).
Portugal's vocation as a developer of international services seems to be confirmed only in the development of tourism, which has benefited in the past few years from a very favourable conjuncture.

Other initiatives to use Portugal as a platform for provision of international services have not succeeded to date, at least at sufficient levels of continuity and content. Two examples are: the production of cinema/video, profiting from the climate and competitiveness of specific services; support services for intercontinental trade, profiting from the advantages of Portugal's geographical position and the natural conditions of some of its ports. The persistent inability to make the sea ports internationally competitive has made unviable the development of this type of service which would put into practice a strategy of specialization known as Portugal, the gateway to Europe.

Science and Education

Portuguese scientific development is among the lowest in Europe. With Greece and Ireland, Portugal is very far below Community averages in terms of scientific and technological development.

Some indicators can illustrate this point.

Total Portuguese expenditure on R&D is 0.5% as a percentage of GNP, against 2.5% in France or 1.5% in Denmark, but 1% in Ireland and 0.4% in Greece. The number of research workers (in full-time equivalent) in Portugal is 1.1 per thousand working persons, against a Community average four times as high. The number of scientific authors from Portuguese institutions reported by Current Contents was 131 per million inhabitants in 1990, against 327 in Greece, 595 in Ireland and 1,133 in France. This deficit in research workers is expressed in scientific output measured by the number of scientific publications with Portuguese participation, as 800 in 1990, according to the Science Citation Index.

The impact of Portuguese scientific output considered globally is also clearly lower than the Community average: 3.05 citations per article in 1980-89, against 6.22 in Denmark or 5.05 in France.

Although these overall figures show the dimension of the scientific difference between Portugal and the EC as a whole, they nonetheless conceal the activity of several recognized centres of excellence. In general these Portuguese centres of excellence are strongly linked to international networks. Expenditure on R&D, for example, rose from 0.28% of GNP in 1964 to 0.32% in 1978 and 0.50% in 1988. The
number of research workers rose from 2,000 in 1978 to 5,000 in 1988. Scientific output in 1990 was twice that in 1985.

The main source of progress has been the reduction in the country's cultural, scientific and technological isolation. Entry into the EC strongly contributed to the acceleration of these processes, the scale of which remains limited however (of the large international scientific organizations, Portugal is a member only of CERN, since 1985/86, and of JET, as a result of becoming a member of the EC in 1986).

The increasing inflow of students into higher education has also contributed to the revival of the universities and the expansion of teaching posts (about two-thirds of current research workers are in fact university teachers).

This expansion will probably continue over the next decade, in the light of the current education indices which show 14.3% illiterates over the age of 18 years, 50% school attendance corresponding to nine years at school, 38% of the age group in secondary education (tenth to twelfth years of schooling) and 22% of young people between 18 and 24 years of age in higher education in 1990.

The profile of specialization in Portuguese industry, strongly marked by the importance of labour-intensive or low-technology sectors, explains the enormous deficit in the technological balance of payments: Portugal remains a country which imports patents and technology and exports products with a low incorporation of technology (the conversion rate of the technological balance of payments was, according to the last statistics available, those of 1985, 0.11).

The proportion of firms in the whole national R&D capacity is therefore low: 25% of national expenditure and 9.5% of the number of research workers. The growth of public investment in R&D and in education, particularly perceptible after joining the Common Market, has not changed this state of affairs, the number of research workers in firms and their level of expenditure on R&D having changed little.

Moreover, the State laboratory sector (public works, agriculture, industry, etc.) has considerable weight in public expenditure on R&D as a whole (about 40% in 1991), while its role is being increasingly questioned.

Our questioning on the foreseeable evolution of Portuguese scientific and technological development - the current outlines of which we have just sketched - is strongly linked to the hazards of European policy in the direction of the less well-developed regions.
In principle, the increasing application of structural funds to the development of the educational and scientific base of these regions should make possible greater participation in the common scientific effort of the human resources potentially available in Europe.

However, and in our opinion, the experience of the last few years shows that this objective of convergence does not result automatically from the structural funds. In particular, increased participation by the European scientific communities in the definition of Community scientific policies appears to us to be essential, scientific backwardness going hand in hand with isolation and peripheralism.

The deliberate intervention of the EC in the development of the educational and scientific base of the least developed regions is therefore, in our view, desirable, since the Nation States have only exceptionally the appropriate motivation, ability or instruments in these spheres.

Community policy should therefore assert itself as soon as possible as a federal policy in scientific and educational spheres, particularly on the basis of the positive definition of objectives of genuine convergence.

The definition of a broad band of convergence in science and access to education, established around European averages of certain indicators (public expenditure on R&D/GNP), number of research workers in relation to the active population, percentage access to different levels of education, etc.) might constitute a powerful political weapon.

Finally we consider that it is natural to conceive, on the Community scale of an integrated Europe, partial delocalization of regional scientific resources in respect of the siting of the most exacting industries where technological innovation is concerned. The predictable extension of this phenomenon will, of course, require new redistribution mechanisms.

Iberian and African Factors

Perhaps the most important visible effect of simultaneous incorporation of the two Iberian countries into the Community was the explosive growth of intra-Iberian trade. Whereas this trade (export + import) accounted for 6% of Portugal's foreign trade in 1984, it accounted for 14% in 1990, Spain having become our second trading partner (first supplier, third customer). The most recent figures show that Spain may become our first customer.

Although Portuguese exports have increased much more rapidly than the converse flow, the trade deficit is still substantial: the rate of coverage of imports by exports is still of the order of 60%.
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Does that show an awareness on the part of Portuguese firms that modernization involves accelerated internationalization? Unfortunately, an analysis of the structure of Portuguese exports to Spain does not leave us optimistic. According to our estimates, about 70-75% of exports are from the textile sector (17-18%) or from foreign firms settled in Portugal (Renault, GM, St Gobain, Bertraind, Faure, Grundig, Merloni, etc.) or induced by them (sub-contractors of the latter) achieving 35-37%, or of large national firms (iron and steel, pulp for paper, paper, electrical equipment, etc.) with 18-20%. That means that the great bulk of Portuguese small- and medium-sized firms will not have exceeded 25-30% of exports to Spain, which is disappointing if one considers that, among this group, there will certainly be many firms with experience in exporting.

Quite a few experts think that this step, still a timid one, of conquest of market shares in Spain (including, after that, the creation of distribution networks, even perhaps local means of production) will be decisive for change in Portuguese industry. Some even talk of Spain as a real training camp (before approaching more exacting and difficult Northern European markets). Others call on the industrials to push the frontier of the national market as far as the Pyrenees. This is the hypothesis of Iberian economic integration as a condition for European integration.

Another important aspect of this process is obviously the change in the investment of each country in the other. From this point of view, Portuguese investment in Spain is still insignificant. Spanish investment in Portugal, on the other hand, which was practically nil in 1985, was multiplied by 17 (in US dollars) between 1986 and 1990. Spain is now the third foreign investor in Portugal, and in 1989, for the first time, Portugal was the first destination country for its foreign investment.

As far as economics are concerned, some people feel that the long-term will reserve for Portugal the role of another region of the great Iberian market. Even today, some international groups are delegating to their Spanish subsidiaries commercial or investment decisions on the Portuguese market (e.g. Saint Gobain).

On a cultural level, exchanges between the two countries have never been so numerous, especially in the spheres of literature, plastic arts or the theatre, and everything suggests that they will continue to develop further in the future. On a political level, despite some disagreements on specific questions (fishing, nuclear waste), relationships between the States appear to be stable, with Iberian summits taking place each year. Although the two countries' views on Europe went through a less
convergent period due to Portugal's alignment with British positions, there is indeed a natural southern solidarity which is gaining ground when it is a matter of the structural support framework or social cohesion. It seems clear, moreover, that Portuguese positions have become closer to those of the Mediterranean countries. Today there is nothing to suggest that, in the medium or even in the long term, serious problems might arise which could lead to a resurgence of the old reservations or even any hostility between the two Iberian neighbours. But it is undeniable, given the inevitable sub-regional economic integration, that true European integration for Portugal will require a margin of political autonomy in the face of the main Community questions.

In any case, although Spain may represent a centripetal force for a Portugal which is more modern and more integrated into Europe, the effect of a strengthening of the links between Portugal and its ex-colonies in Africa (which have become African countries with Portuguese as the official language) is not so clear.

During the last years of colonization (1973) these markets absorbed nearly 15% of Portuguese exports, against 3.4% today. But if one takes account of the enormous growth in total exports, this 3.4% in 1990 is equivalent in volume and value to three-quarters of the exports sent to these countries 20 years ago.

Without political stability, it is very unlikely that this threshold could be exceeded. But if, within a more or less short space of time, stability returns to Angola and to Mozambique, then this could create new conditions in their relationships with Portugal.

The reconstruction effect will have obvious implications with regard to imports of capital goods and intermediate products, and on that of contracts for international constructors. The movement of quite a large number of technicians is to be expected and this will increase demand for consumer goods.

But there will be a more lasting immigration effect of a different kind: this also (in this scenario) will be the arrival (or return) of those who will want to settle in these countries to develop their own businesses (agriculture, industry, trade and services).

These processes will result in considerable growth in Portuguese exports, particularly if Portuguese firms engaged in reconstruction are numerous and if Portuguese emigrants who have decided to settle in these countries are numerous. We estimate that, depending on circumstances, current exports could be multiplied by two or even three in the next five
or ten years (in any case, their level would certainly be less than 10% of exports to Europe).

Where investment is concerned, a recent survey showed that, among 800 Portuguese entrepreneurs who decided to invest abroad, 400 hoped to do so in Angola, against 40 in Spain.

Given the needs of these markets and the possibilities for Portuguese supply, the sectors most involved in this movement will probably be those of the traditional consumer goods industries and the least well developed segments of the metallurgy, engineering and chemical industries.

The African factor might therefore breathe new life into industries which, subjected to European competition only (and increasingly to Asian competition) would have had to modernize or disappear. This process may spread over time (therefore attenuate) the costs, particularly the social ones, of Portuguese modernization, but not really contribute to modernization itself.

Demography and Employment

In addition to the problems of ageing of the population (at the peak and at the base) other demographic factors will act in a complex way.

An increase in the unemployed population is possible as a consequence of three phenomena: European integration of Portuguese agriculture; the foreseeable crisis in the traditional industrial sectors; the possible arrival of refugees from South Africa (about 600,000 Portuguese live there) or emigrants from North Africa - in parallel with a net creation of new jobs foreseeable only in the service sectors of the economy.

It is certain that a proportion of agricultural workers will be absorbed by the rural environment or will be retired (between 1985 and 1989 the number of retired agricultural workers rose by 100,000 without any radical transformations in this sector).

However, such a set of circumstances could, on the most unfavourable hypothesis, create an additional obstacle to modernization of the economy (in addition to other social and political effects) if contrary demographic movements do not occur: possibly a new wave of Portuguese emigration to the rest of Europe (Spain, France, Switzerland, etc.) and a significant emigration movement towards Angola and Mozambique.

We accept that the size and timing of these demographic movements - the scale of which will depend more particularly on factors outside Portugal - may become key factors for the Portuguese economy.
Finally, the interplay of all these factors will have a positive result only in so far as a change in Portuguese economic agents occurs from a perspective of cost competitiveness to one of global competitiveness based on quality, in a rather unfavourable context of structural adjustment and technological dependence.

SECTION 2: CULTURAL AND HISTORICAL ISSUES

Values, Attitudes, Behaviour

In addition to territorial redistribution in the form of increased dispersal to the coastal region, the Portuguese population is also undergoing a profound social change, which has become increasingly clear since the 1960s.

Two sectors which are part of the urban middle classes have grown quite appreciably. These are, on the one hand, the technical and managerial classes, which include scientific and intellectual management, technicians and intermediate management; on the other hand, the executive class, which includes executives and administrative staff from trade, services and public administration.

In 1981, these two sections already represented 57% of the urban working population and 34% of the total Portuguese working population on the Continent. A plausible hypothesis is that the urban middle classes, and in particular the two sections mentioned above are an essential sample for the analysis of social values, understood in the sense of the structured preferences of individuals.

In effect they continue to grow in numbers and in social status. Concentrated in them - especially the managerial class - are important educational and cultural resources. Finally, they are highly visible, which tends to confer on them the status of a reference point for other sectors of society. One may then expect that the change in values linked with these partially new protagonists is partly due to their ability to symbolize the reception, production, adaptation and diffusion of these values.

An international study in the 1970s gave the Portuguese a high score for uncertainty avoidance, that is to say of the risk of competition, conflicting opinions, and also a high score for an ethic of sociability as opposed to that of personal assertion.

More recent empirical evidence suggests that there are several trends in values.
On the one hand, there is clear placing of emphasis on personal assertion and achievement. From several examples of this explicit priority, one can cite the very strong preference given to the symmetrical model of family organization, the one which considers occupational activity for the woman desirable, and also a very strong placing of value on the intrinsic content of the work which one is doing or which one wants to do. It must be said, in any case, that this emphasizing of personal achievement is not necessarily incompatible with forms of social participation and with relational ethics, that is to say that it does not necessarily combine with the more narcissistic connotations of individualism.

One also finds in Portugal increasing scepticism in relation to systemic objectives, final and closed models of social organization. There is a move towards more visible, closer, and more consensual objectives. Collective action and participation appear, in any case, to be looking for new formulae, while moving away from the traditional modes of political commitment.

It seems also that there is a readier exchange of different models and values and that a certain tolerance and easing of rules are gradually appearing. Even the traditionally more rigid and intransigent values - ethical, political and religious - are showing some flexibility. They are also spread more widely across groups whose positions were formerly very different.

A final trend concerns the new claim to and practice of combining freely elements drawn from great ideologies which were formerly coherent and separate blocks. Individuals and groups mix and manage these elements in specific combinations, whilst avoiding old rigidities and predictability. The religious or political catalogues tend to lose their capacity to identify values and behaviour, because off-the-shelf thoughts are being increasingly abandoned in favour of the crafting of ideas.

One should not, in any case, lose sight of the very varied set of factors able to influence trends in values, able to hinder or reverse them. For example, one should remember the very powerful effects of contagion which come to us from neighbouring cultural areas including the areas of Europe, in a context in which ideas travel further and faster than ever before.

Among these counter-trends may be the effects of nationalism, parochialism, particularism, virtually the opposite of the dynamics of globalization being pursued in Europe. Or again, the manifestations of xenophobia and racism, linked generally to mass immigration and the threat of unemployment and economic crisis.
Even if neither parochialism nor racism is important in Portugal at the moment, the situation cannot be assumed to be immutable. A possible scenario of fragmentation of the European framework might have considerable consequences internally. It might be impossible to maintain satisfactory levels for employment, to vanquish the heritage of very marked regional inequalities, to get rid gradually of the factors of social exclusion within a dualist, tight society, with an internal third world of old and new poverty, without hope of mobility or reintegration. The prevalence of counter-trends would then be inevitable.

**Atlanticism Versus Europe**

Throughout history, in particular since the fifteenth century, the periods where the Portuguese ruling classes have preferred to resort to external resources have been much more frequent and prolonged than those in which ways were sought to develop European Portugal's own resources. These two options - the first of which a political thinker has called the *politics of migration* and the second the *politics of staying put* - could have been complementary, as was the case in many other countries. In Portugal, in fact, they constituted the basis for two opposing visions of the *national destiny*.

On a basis of almost constant hostility with Spain, the *politics of migration* was synonymous with a country turned exclusively towards the sea: trade with the East, colonization of Brazil, mass emigration in periodic waves (until today). Men went away and sent back spices, rare woods, gold, and more recently simply money. Even ten years ago more than 90% of Portuguese overseas trade was by sea.

These are the roots of the *Atlanticism* which informs the ideology of those who see in the maritime tradition a prominent factor of the national identity itself. In practice, Atlanticism has represented the dominance of trade over industry (or over the *wish to industrialize*), of *unequal trade* over development and modernization. The Atlanticist positions cover more or less those which are characterized by the *preservation of the traditional values of a closed society*.

The British alliance (six centuries old, but *economically active* only since the beginning of the eighteenth century, with successive trade agreements very favourable to the British, which inspired Ricardo in his theory of international trade), uniting Portugal with the dominant industrial and maritime power, contributed to the strengthening of the Portuguese trade sector, and to the failures of the timid efforts at industrialization. Finally
as a politically, militarily and financially protected country, this led to a political attitude of dependence which was very marked during the period of nineteenth century up to the Second World War.

Somewhat paradoxically, it was at a time when Britain was already in decline as a world power that this privileged link led Portugal, with little industry, towards the opening provided by membership of EFTA in 1959, in the same way as, a dozen years later, Ireland joined the EC.

The particular circumstances of the 1960s created conditions for practical confrontation between Atlanticists and modernizers the latter very clearly identified this time with pro-European positions. The traditionalists, represented by the dictatorial government of the day, undertook an intransigent defence of multicontinental and multiracial Portugal, waging war for thirteen years in the African colonies, supported by most of the big economic groups, whose interests in Africa were vast and diversified; the modernizers at the same time, asserted themselves economically, with unprecedented growth in industry and in trade with Europe.

Democratization and decolonization, after 1974, appeared to withdraw any basis for the Atlanticist positions for good. The road to Europe was presented as being without a serious alternative. One of the new political leaders could say in an interview in 1978: If Europe closes the door on us, what can I offer the Portuguese?

There are reasons, however, for feeling that this debate is not yet quite closed:

- The emphasis placed by political leaders and by the media on flows of money from Brussels sometimes suggests an attitude not too different from an Atlanticist variant; this time, the wealth does not come by sea, but the country's salvation is due once again not to the efforts and creativity of the Portuguese, but to external financial resources.

- Some political analysts and specialists in geo-strategy have shifted the debate towards questions of defence, pronouncing in favour of more marked identification with American positions and for enhancing the role of NATO (and particularly on that of the US in the defence of Europe) while, at the Community level, they looked for alignment with British ideas.

- If present conditions are maintained, none of these factors appears sufficient to reinforce the Atlanticist positions significantly.
It is not however impossible to imagine some medium-term scenarios which could help refloat them. The conjunction of a *return to Africa* (trade, investment, people) helped by political stabilization in the ex-colonies, a recession in Europe and internal problems on a social level (e.g. growing unemployment) due to the efforts of *nominal convergence* in an unfavourable external economic climate - this conjuncture would give arguments to those who consider that it is not in the *national interest* to stake everything on the European card. It is not at all probable that this would lead to a powerful *separatist* current, but Portugal's European policy could eventually become more *reticent* where Political Union is concerned.

**SECTION 3: POLICY ISSUES**

From the point of view of political institutions, democratic evolution in Portugal has led to a bipartite structure: on some large questions (particularly European integration or macroeconomic management) the two main parties which tussle for power only differ in detail. At the same time there is a growing lack of interest in politics. This would not be disturbing if a strong, creative and participative civil society existed, as happens in most modern democracies.

A major political crisis, as a result of the *social costs of modernization*, able to shake investors' confidence or the more or less cooperative attitude of the trade unions, is not likely. But that is linked to the availability of resources to mitigate, in a planned manner, the more serious and localized consequences, as well as any destabilizing effects of the demographic factor or of an unfavourable situation in Europe.

The social dialogue, through the multiplicity of the participants, the nature of the social forces which dominate it, and the interplay of concurrent factors, is a point of convergence of complex economic, social and political dynamic forces. We do not have a sufficient basis from which to try to trace a prospective scenario in this sphere.

It will be useful, however, to recall briefly the recent history, *speeded up* and full of tribulations, of the Portuguese trade union movement.

In the 1960s and at the beginning of the 1970s, Portuguese trade unionism was closely supervised and controlled. During the phase of the revolution (1974), the trade union movement was dominated by politics; this was the time of the first confrontations between two politico-trade-union lines.
In the post-revolutionary period, defensive positions predominated and relations between the two main unions (CGTP and UGT) began to be normal.

At the moment, trade union activity has stabilized as has its visibility and its public acceptability.\textsuperscript{1}

Submissions still have a defensive character but they no longer concern exclusively wage levels or job protection. They express concerns about quality, training and modernization. The trade unions' role in the social partnership seems to be growing. We can see more flexible positions in regard to problems such as wage levels or regional diversity, in parallel with attempts at more effective intervention in the definition of economic policies themselves. Finally, they are more open to links and coordinating strategies within Europe.

If we were to risk a differential prognosis on the subject of availability for social dialogue in the next few years, we would perhaps say that this availability is potentially greater on the part of the unions than of the business leaders and representatives. The latter appear to be more fragmented, divided by contradictory stances and they reveal clear difficulties of representation.

CONCLUSION: ARTICULATION OF GLOBAL AND SPECIFIC FACTORS IN THE CASE OF PORTUGAL

The analysis and evaluation of the global and specific determining factors between now and the year 2010 require, for the case of Portugal, that one considers its strict articulation, to the extent that the global factors here exert a powerful effect of rationalization and strategic orientation for decisions respecting specific national factors.

Portugal in the European Political Framework

In all the Member States of the European Community there will be particular features which are typical of its path to membership, its ways of understanding the possibilities for change and its strategic interests as a function of different possible future paths.

\textsuperscript{1} We wish to thank most particularly the leaders of the two Portuguese trade union confederations who agreed to take part in working meetings with the team responsible for this study.
In the case of Portugal, this particular feature has its own form which results from the existence of a marked political split between positions with reference to outside forces (modernizers, liberals, hoping to integrate Portuguese society into the European evolution) and positions oriented towards the preservation of the traditional values of a closed society (protectionists, nationalists, conservatives and authoritarians).

This political split, essential in distinguishing between groups and divisions in the managerial and social elites had, historically, not inconsiderable repercussions on the other social strata. The ascending middle class were divided (distinguishing between groups dependent on internal allocations and groups with skills which enable them to join in international competitiveness) and the lower classes (distinguishing between emigrant groups - which emigrate to Brazil, to Africa, and to Europe - and groups which have no mobility and which depend on the distributive relations ordered by internal political forces).

The importance of this long-lasting political split is independent of the national question, and, especially, of the historical mode in which national independence has been guaranteed within the Iberian context. The traditional mode of response to this question resides in the establishment of protective alliances (with the Vatican, with Britain, with France, and with the United States) which the modernizing elite groups, with the support of other social strata with greater occupational and social mobility, seek to use as a factor for the acceleration of development.

This historical line of Portugal's evolution assumes considerable strategic importance in the context of Portugal's membership of the European Community. Within the general framework of the consolidation of the democracies of Southern Europe (Greece, Spain and Portugal), membership has, for Portugal, the essential characteristic of settling the previous political and economic instability which followed the change of political regime in 1974. It also brought compensation for the loss of a colonial empire (which, in addition to being a time of important migratory flows - constituting, at the time of the return in 1975, about 8% of the total population) was also a factor of complementarity between the metropolitan economy and the colonial economies.

The Community project was a break with the dominant political tradition in Portugal. The Community idea offered Portuguese society, within a short space of time, levels of opportunities for development and levels of strategic complexity to which it did not directly have access, with its own resources and with its own natural speed of modernization.
The European Community cannot be thought of today as a way of resolving the historical accidents of the States which joined it, since these accidents are part of their own singular features. However, it will not be possible to work out coherent and meaningful Community strategies if specific circumstances of this kind are forgotten.

In the case of Portugal, this specific character is reflected in the close connection between the global factors which determine the European Community's possibilities for development and the specific factors which mark out the conditions for Portugal's inclusion in these possibilities. This close connection of global factors and specific factors which determine the future is the result of the effect of strategic rationalization which the European Community produces in the internal decision-making system, whether on the national question, or on the question of economic modernization, or on that of security or that of cultural assertion.

For Portugal and, primarily, for all its strategic decision-makers, this role of a rationalizing factor played by the European Community is vital for a proper interpretation of the framework of possibilities for the evolution of the Community. Portugal's lack of importance in the Community institutions does not enable it to aspire to influence this evolution decisively; on the other hand, an error in evaluation of the trajectory of this evolution means that internal decisions, programmes and projects may not be viable because of a lack of financial and human resources.

In this sense, it will be understood that it is on a basis of evaluation of the global determining factors that the evaluation of the positive and negative effects of the specific national factors will be made so that, on the basis of this articulation, attempts can be made to establish which strategic decisions will determine the main trends in the period under consideration.