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Joining the European Community in 1986 transformed Portugal almost as much as the 1974 revolution. However, much needs to be done, and as **Patrick Blum** reports, it may take another 10 or 15 years to bridge the gap with the country's more affluent neighbours

Pressures of integration

AFTER FIVE years of rapid economic advances and development, Portugal is facing a more uncertain future. The euphoria that followed the country's accession to the European Community in January 1986 has given way to a more cautious and wary appraisal of the tasks ahead as integration pressures mount.

Joining the EC has transformed Portugal almost as radically as the revolution of 1974 that ended 50 years of dictatorship and isolation. Membership has brought evident material benefits and helped the country to modernise at a fast pace. Much still needs to be done, however, and it may well take another 10 or 15 years for Portugal to bridge the gap with its more affluent neighbours. But for almost five years, the Portuguese economy has been growing faster than most of its European partners, with annual growth rates above 4 per cent and topping 5.4 per cent last year.

EC membership has encouraged foreign investment which has poured into the country at an unprecedented rate, doubling every year and forecast to reach close to $5bn this year. It has brought also a massive injection of funds from social, structural and regional aid programmes to help modernise infrastructures and communications, industry and agriculture, education and training.

New industries and services have created new jobs, contributing to bringing down the official unemployment rate to around 4.5 per cent. The scarcity of labour in some sectors is pushing wages up, though they would have edged upwards anyway as the population strives for standards of living closer to European averages. A consumption boom has taken hold and is proving resistant to government attempts to dampen it.

The role of the state is gradually being reduced through privatisations, the financial sector has been liberalised (though critics say too timidly), markets are opening up, the tax system has been reformed and rigidities in the housing sector are being gently eased.

Social disparities are less obvious, thanks to the growth of a new middle class, though not everyone has benefited equally from Portugal's new-found prosperity. Pockets of poverty still blight parts of the major cities, and life in some rural areas is more typical of that in a developing country than of western Europe. The education system is in a state of permanent crisis, unable to cope with rising demand for places in schools, colleges and universities. The health system is split between a fast growing and expensive private sector, and an overworked, understaffed and underpaid state sector.

Ashley Ashwood

Lisbon old and new: the modern skyline overlooks traditional style rooftops

With some exceptions, public services are poor and inefficient, and safety standards are low by west European standards. The low unemployment figure hides underemployment and an increase in precarious part-time work.

It will take time and political commitment to overcome these enduring social problems, but the balance of almost five years of Community membership has been a positive one for Portugal, in so far as it has provided some of the resources that are required and an incentive to tackle these problems.

The marriage has worked, but the circumstances were propitious. The EC bride came with a large dowry and a fountain of goodwill. Portugal was given extra time before having to live up to all the responsibilities of union. Its chronically inefficient agriculture, which employs about 18 per cent of the workforce yet contributes only 7 per cent of GDP, and its old traditional industries could hide a little longer behind a curtain of protected markets and subsidies.

But all this is about to change. EC moves to create a Europe-wide open internal market and towards economic and monetary union are speeding up the need for adjustment. Agriculture and traditional industries such as shoes and textiles – Portugal's largest industry, responsible for about 30 per cent of export earnings – are having to brace themselves for much fiercer competition. Some farmers and small companies will be forced out of business – some already are. In the textile industry alone, up to 30 per cent of the workforce may have to go. The forthcoming restructuring will be painful.

Mr Anibal Cavaco Silva, the social democratic Prime Minister, admits that it will not be easy, not least because the habit of protection has not been fully shaken off. He says bureaucracy and vested interests hamper the government's efforts at reform. Many industrialists, while claiming support for free competition and private enterprise, still hanker for state intervention to safeguard their domestic markets, though they are happy to benefit from whatever subsidies Brussels makes available.

"There are additional shocks for Portugal. Accession [to the EC] was the first shock, but others soon followed with the reform of agricultural policy and the internal market. Now eastern Europe is competing for trade and investment. The balance [of EC membership] has been very positive, but there are real difficulties ahead of us", Mr Cavaco Silva says.

The threat from eastern Europe tends to be overplayed. Portugal still has much to offer to foreign investors: from one of Europe's most pleasant locations to free access to the whole of the EC market – a key consideration for major industrial investments from non-EC countries. Communications have improved; managers say workers are adaptable and can be trained quickly, and that productivity in new factories is high by European standards. Strikes that regularly paralyse parts of the public sector are practically non-existent in the private sector, and manufacturing costs, including wages, are still among the lowest in the Community. All these things favour Portugal.

The problem is not with the new sectors, but with the old. Critics say that outside the financial system, the government has failed to undertake the necessary restructuring.

Inflation, at around 13 per cent, is causing the Government some headaches, but it is almost inevitable in view of the high level of economic activity and investment. Better off workers in steady jobs and good companies are saving less and spending more. Factories are installing new machinery and equipment.

Local production cannot meet the twin demand for consumer and capital goods, so imports have soared causing a deterioration in the current account balance.

Mr Cavaco Silva does not like the present level of inflation, but if the choice has to be made between maintaining high growth or slashing inflation, he will opt for the former: "We have to grow, there is no choice. We cannot afford to bring down growth to 2 per cent for the sake [of fighting] inflation."

However, many suspect that with a general election looming, there will be a growing temptation to impose temporary price controls. In the meantime, greater efforts will be made to contain the budget deficit, though expenditure to co-finance EC programmes will be kept at a high level.

Mr Cavaco Silva hopes and believes the Community will understand Portugal's predicament: "We are doing all we can, but we expect the necessary solidarity from the other member states."

It is all a matter of timing and of time, but that is something that Mr Cavaco Silva may not have. General elections are likely in the first half of next year, and they could rob Mr Cavaco Silva of his absolute majority. The socialist opposition's programme would not substantially change the fundamental elements of economic policy, though more money would be spent on "care" – health, housing, and education. All the same, the prospect of elections adds an element of political uncertainty at a time of mounting economic pressures, both domestically and internationally.

The next phase of Portugal's transition towards greater European integration is likely to be more difficult than the first.