THE INDUSTRIAL DEVELOPMENT PROMOTION STUDY OF AVEIRO-VISEU REGION IN THE PORTUGUESE REPUBLIC

JULY 1992

JAPAN INTERNATIONAL COOPERATION AGENCY

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Preface

In response to a request from the Government of the Portuguese Republic, the Government of Japan decided to conduct the Industrial Development Promotion Study of the Aveiro-Viseu Region in the Portuguese Republic and entrusted the study to Japan International Cooperation Agency (JICA).

JICA sent to Portugal the study team headed by Mr. Nobuo Aihara, Unico International Corporation, four times between June 1991 and June 1992.

The team held discussions with the officials concerned of the Government of Portugal, and conducted field surveys at the study area. After the team returned to Japan, further studies were made and the present report was prepared.

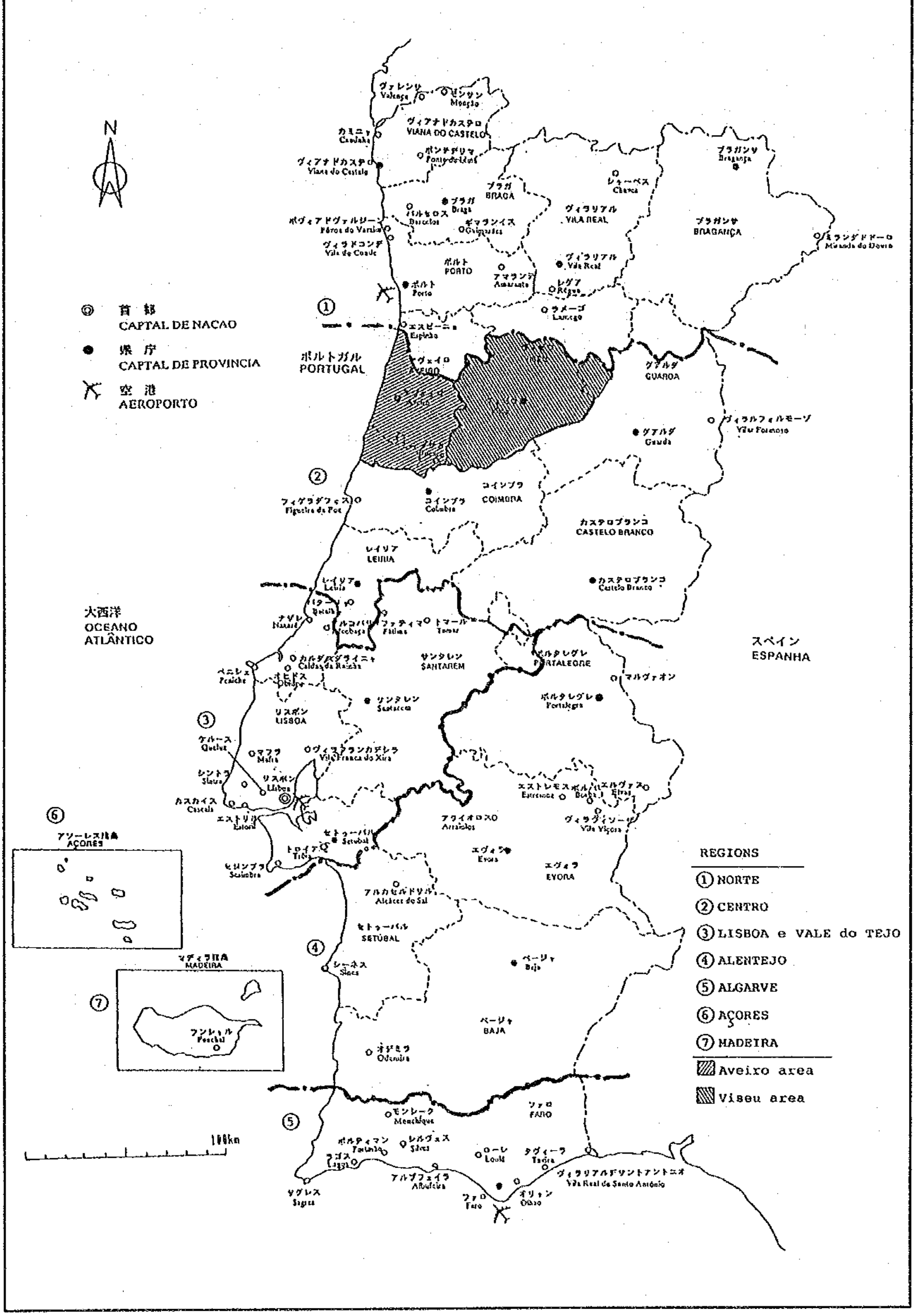
I hope that this report will contribute to the promotion of the project and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation to the officials concerned of the Government of the Portuguese Republic for their close cooperation extended to the team.

July 1992

Kensuke Yanagiya

Kensuke Yanagiya
President
Japan International Cooperation Agency



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CAPTAL DE NACAO
県庁
CAPTAL DE PROVINCIA
空港
AEROPORTO
ポルトガル
PORTUGAL
大西洋
OCEANO
ATLÂNTICO
スペイン
ESPANHA
VIANA DO CASTELO
BRAGA
VILA REAL
BRAGANÇA
PORTO
GUARDA
COIMBRA
CASTELO BRANCO
LEIRIA
SANTAREM
PORTALEGRE
LISBOA
EVORA
SETÚBAL
BAJA
FARO
アソーレス諸島
AÇORES
マディラ諸島
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③ LISBOA e VALE do TEJO
④ ALENTEJO
⑤ ALGARVE
⑥ AÇORES
⑦ MADEIRA
Aveiro area
Viseu area

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ANNEXES

ABBREVIATIONS (1)

	PORTUGUES / 日本語 (English)
AIDA	ASSOCIACAO INDUSTRIAL DO DISTRITO DE AVEIRO アベイロ工業連盟 (Industrial Association of Aveiro District)
AIP-LISBOA	ASSOCIACAO INDUSTRIAL PORTUGUESA リスボン工業連盟 (Industrial Association of Portugal - Lisbon)
AIP-PORTO	ASSOCIACAO INDUSTRIAL PORTUENSE ポルト工業連盟 (Industrial Association of Portugal - Porto)
BP	BANCO DE PORTUGAL ポルトガル中央銀行
CAP	(COMMON AGRICULTURAL POLICY) EC共通農業政策
CCRC	COMISSAO DE COORDENACAO DA REGIAO CENTRO 中部経済委員会 (Comission of Cordination of Central Region)
CIP	CONFEDERACAO DA INDUSTRIA PORTUGUESA ポルトガル工業連合会 (Industrial Confederation of Portugal)
EAGGF	(EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND) 欧州農業指導補償基金
EC	(EUROPEAN COMMUNITY) 欧州共同体
EFTA	(EUROPEAN FREE TRADE ASSOCIATION) 欧州自由貿易連合
EIB	BANCO EUROPEU DE INVESTMENTO 欧州開発銀行 (European Investment Bank)
EMS	(EUROPEAN MONETARY SYSTEM) 欧州通貨制度
ERDF	FUNDO EUROPEU DE DESENVOLVIMENTO REGIONAL 欧州地域開発基金 (European Regional Development Fund)
ESF	(EUROPEAN SOCIAL FUND) 欧州社会基金
FGRK	FUNDO DE GARANTIA DE RISCOS CAMBIAIS 為替保険基金 (Foreign Exchange Risk Guarantee Fund)

ABBREVIATIONS (2)

	PORTUGUES / 日本語 (English)
GDP	GROSS DOMESTIC PRODUCT 国内総生産
IAPMEI	INSTITUTO DE APOIO AS PEGUENAS E MEDIAS EMPRESAS E AO INVESTIMENTO 中小企業振興院 (Insitute for Support to Small and Medium Sized Enterprises and Investment)
ICEP	INSTITUTO DO COMERCIO EXTERNO DE PORTUGAL ポルトガル貿易振興庁 (Portuguese Foreign Trade Institute)
IEFP	INSTITUTO DO EMPREGO E FORMACAO PROFISSIONAL 職業訓練雇用院 (Institute for Employment and Professional Training)
INE	INSTITUTO NACIONAL DE ESTATISCAS 国家統計院 (National Institute of Statistics)
INESC	INSTITUTO DE ENGENHARIA DE SISTEMAS E COMPUTADORES 情報技術研究センター (Institute for Systems and Computer Engineering)
IPE	INVESTMENTOS E PARTICIPACOES EMPRESARIAIS S.A. 投資育成株式会社 (Investment and Participation Company)
ITEC	INSTITUTO TECNOLOGICO PARA A EUROPA COMUNITARIA ＥＣ技術連盟 (Technological Institute for the European Community)
LNETI	LABORATORIO NACIONAL DE ENGENHARIA E TECNOLOGIA INDUSTRIAL 国立産業技術研究所 (National Laboratory of Technological and Industrial Engineering)
MCT	MINITSERIO DO COMERCIO E TURISMO 商業観光省 (Ministry of Trade and Turism)
MIE	MINISTERIO DA INDUSTRIA E ENERGIA 工業エネルギー省 (Ministry of Indtustry and Energy)
MOPTC	MINISTERIO DAS OBRAS PUBLICAS, TRANSPORTES E COMUNICACOES) 公共事業、運輸・通信省 (Minitstry of Publlic Works, Transport and Communication)
MPAT	MINISTERIO DO PLANEAMENTO E DA ADMINISTRACAO DO TERRITORIO 国土計画行政省または国土計画省 (Ministry of Planning and Territorial Administration)

ABBREVIATIONS (3)

	PORTUGUES / 日本語 (English)
PALOP	PAISES AFRICANOS DE LINGUA OFICIAL PORTUGUESA ポルトガル語圏アフリカ諸国 (Portuguese-Speaking African Countries)
PCEDED	PORGRAMA DE CORRECCAO ESTRUTURAL DO DEFICE EXTERNO E DO DESEMPREGO 対外債務と失業是正プログラム (Programme for the Structural Correction of External Deficit and Unemployment)
PDIBE	PROGRAMA DE DESENVOLVIMENTO DAS INDUSTRIAS DE BENS DE EQUIPMENT 生産開発プログラム (Programme of Development of the Equipment Goods Industries)
PEDIP	PROGRAMA ESPECIFICO DE DESENVOLVIMENTO DA INDUSTRIA PORTUEGUESA ポルトガル工業開発特別プログラム (Specific Development Programme for Portuguese Industry)
PITIE	PROGRAMA DE DESNVOLVIMENTO DAS INDUSTRIAS DE BENS DE EQUIPMENTO 情報電子技術総合計画 (Integrated Programme for the Information and Electric Technologies)
SIBR	SISTEMA DE INCENTIVOS DE BASE REGIONAL 地域振興インセンティブ制度 (System of Incentives on Regional Basis)
SINPEDIP	SISTEMA DE INCENTIVOS FINANCEIROS DE PEDIP ポルトガル工業開発のための金融インセンティブ制度 (System of Financial Incentives of PEDIP)

CURRENCY EQUIVALENTS

Currency Unit: Escudo (ESC), December, 1990 (End-of period rates)

1US$ = ESC 133.60
1ECU = ESC 183.20
1Yen = ESC 0.989

Definition of "Industry" and "Manufacturing industry"

In terminological exactitude, word "industry" indicates generally all sectors of industries in wider sense, or a specific industrial sector or the manufacturing sectors in narrower sense.

In this Report, "industry" indicates, in principle, the "manufacturing industry" which composes of subsectors classified in CAE 3.

However, according to the proceeding or following word(s) to industry, "industry" is to be meant as all sectors or a specific sector or a specific subsector of industries as case may be.

To give instances, primary industries (sectors), agricultural industry (a sector), chemical industry (subsector), industrial structure (all sectors), industrial products (manufacturing products), etc.

Chapter 1
INTRODUCTION

Chapter 1 Introduction

1.1 Background of the Study

Portugal has enjoyed a rapid increase in infrastructural investment through the EC Fund since it joined the EC in 1986 and the Portuguese economy has come to attain the highest growth rate among the member countries of the European Community. Further, as of January 1st, 1993 the EEC will become an integrated market, that is national barriers relating to the movement of the four essential economic elements of commodities, people, capital and services will be removed to result in the creation of a unified single market. While this process holds the promise of great benefits on the one hand, it also confronts the nation with the urgent task of strengthening the foundations of domestic industry including those of the manufacturing sectors.

Portuguese industry has developed along the coast of the Atlantic Ocean and Aveiro located in this area is the third largest industrial center after Lisbon and Porto (in that order). It is necessary to encourage and promote the spread of development from this coastal area inwards to the inland regions. This process will therefore consist of regional development towards the inland eastern lying regions, and it is expected that the driving force behind the envisaged development is to come from manufacturing industries. In 1991 the High Speed Road (IP-5) running across the inland area to the east of Aveiro was completed thus providing access to Madrid and Paris. Viseu is located on this road about 84 km. to the east of Aveiro. Viseu is an inland region of agricultural land and forests.

The Aveiro-Viseu region now enjoys the shortest possible overland access route to the heart of the European continent and so is well placed to act as a model test case for the above mentioned program of "Eastward Regional development".

In view of the above, the Portuguese Foreign Trade and Investment Institute (ICEP: Instituto de Commercio Externo de Portugal) made a request to the Japanese Government to carry out "The Industrial Development Promotion Study of the Aveiro-Viseu Region". In response, JICA being the body responsible for the implementation of international technical and economic cooperation programmes, recruited a Study Mission Team which was then dispatched to Portugal to carry out field surveys and to prepare the requested Study. The Mission has drawn up the present Final Report on the basis of the on field surveys and meetings.

1.2 Objective of the Study

The objective of the Study is to formulate a comprehensive plan for the industrial development of the Aveiro-Viseu region with a view to vitalizing and modernizing the national economy.

The plan will consist of overall industrial development strategies, and policy and project recommendations for the Aveiro-Viseu region to achieve the above objective.

1.3 Scope of the Study

The Study is designed to cover a range of activities, from collection of data and information through three field surveys, to analysis thereof in Japan, and preparation and submission of series of reports including the present report, as well as the following promotional materials:

(1) Pamphlet to introduce the Aveiro-Viseu region to foreign investors (A4-sized, 4 pages): 2,000 copies in English and 2,000 copies in Japanese

(2) Video program for the same purpose (20 minutes, VHS)
English version: PAL system (for Europe)
English version: NTSC system (for the U.S.)
Japanese version: NTSC system (for Japan)

1.4 Methodology of the Study

The Study Team conducted the following visits to Portugal:

1) 1st field visit: to conduct 1st field survey, with a duration of 30 days, mainly in July 1991
2) 2nd field visit: to conduct 2nd field survey, with a duration of 40 days, mainly in October 1991
3) 3rd field visit: to present the Interim Report and conduct a supplemental field survey, with a duration of 21 days in January/February 1992
4) 4th field visit: to present the Draft Final Report and open presentation seminars in Lisbon and Aveiro, with a duration of 21 days in May/June 1992.

The Study Team analyzed in data and information obtained through the above field surveys and prepared the present report. It took around 13 months for the study with nine team members including an interpreters as shown in ANNEX I.

1.5 Naming and Definition of the Region covered by the Study

The name for the entire area to be covered in the present Study is the Aveiro-Viseu region. This is in turn divided into two sub-regions in the present Report to be called the Aveiro area and Viseu area. The area indicated under the heading of the Aveiro area corresponds to the area designated as Baixo Vouga according to the regional divisions used by the Ministry of

Planning and Territorial Administration (MPAT - Ministerio da Planeamento e da Administracao do Territorio), while the Viseu area corresponds to the Dao Lafoes division. The former divisional area consists of 14 municipalities while the latter is made up of 15 municipalities. The breakdown of these areas shall be shown in the Chapter 5.1.

1.6 Country Profiles

Before going into economic conditions and industrial structure of Portugal, which are discussed in Chapter 2, this section describes general profiles of the country, namely "natural environment", "political background", and "general characteristics of population," on the basis of Table 1-5-1, with emphasis on comparison to other EC countries.

1.6.1 Natural Environment

(1) Geography

Portugal has a land area of approximately 92,131km^2, including Madeira and Azores islands, which represents 3.9% of the EC. Of this total, the area on the continent is approximately 89,000km^2. The country is located on the west end of Iberian Peninsula and borders with Spain on its northern and eastern sides, 1,215km long in total. It extends in a rectangular shape, longer in a north-south direction; the widest part is 561km north-south and 218km east-west. It has a 832km-long beautiful coastal line facing the Atlantic, containing a number of scenic sports and resort areas.

Topographically, the northern and northeastern portions of the country are dominated by mountains, with the highest elevation at 1,991m in Serra da Estrela mountains, while the central and southern parts have mainly flat land.

Portugal still maintains Macao as its last overseas territory, which will be returned to China in 1999.

The country is known as one of a few countries which did not change its international boarders on the continent after the 13th century. During the days of the Great Voyage which started in the 15th century, the country grew to an empire holding vast colonies worldwide, which were mostly kept until the revolution in 1974. Then, most of colonies became independent and Portugal has not only lost its vast territory but rich natural resources as well as prospective markets for trade.

(2) Climate

Lisbon and its surrounding area are under warm climate throughout the year, with the mean annual temperature of around 17°C, one of most comfortable climate zones in Europe. In the summer, temperature sometimes rises to 40°C, but relatively low humidity - a favorable condition under the Mediterranean climate pattern - provides comfort so far as direct sunlight is avoided. As a result, the area attracts a large number of vacationers from Northern and Central Europe in the summer, comparable to Algarve in the south. On the other hand, the mountain area is dominated by the Atlantic climate pattern, with more precipitation in the winter, mainly snow.

Generally, the country's climate pattern is divided into the dry season in the summer between June through September, and the rainy season in the winter between November through February, with intermediate seasons in between.

1.6.2 Political Background

(1) Political history

Portugal's history dates back to 1140 when Afonso Henriques became the first king "Afonso I", who seized Lisbon from the then ruler, the Moores, and expanded the territory southward. In 1249, Afonso III established the current boarder with Spain. In 1580, the country became under the rule of Spain's Philip II, but it regained its independence after 60 years of struggle. The Braganza family won royal authority and was in the throne until 1910 when the country became a republic.

After political upheavals and turmoils, Antonio Salazar became a prime minister and created an autocratic, totalitarian government, which was succeeded by Marcello Caetano in 1968 and lasted for 42 years in total. Starting in the 1960s, the country faced a wave of independence movements including armed struggles in its African colonies, wasting human resources and wealth. This led to a revolution instigated by a military coup in April 25, 1974, marking the collapse of the empire.

In April 25, 1976, a new constitution was promulgated and a general election for the republic assembly was held. The Socialist Party (SP) led by Mário Soares won the largest seats, and President Antonio Eanes appointed Soares as the prime minister to establish the first civilian government. However, the minority government was unable to maintain stable political and economic management, creating political turmoils. A coalition government with the Socialist Democratic Party (PSD) did not bring stability, accompanied by unstable economic conditions.

In November 1985, the PSD government led by Anibal Cavaco da Silva was established and the country joined the EC at the beginning of 1986. In August 1987, the second Silva's cabinet - the first majority government - was formed, and the country experienced political stability, for the first time after revolution, which was supported by popularity of President Soares of the PS, elected in February 1986, and balance of power between the PS and PSD.

Then, in October 1991, the PSD won a sweeping victory and gave birth to the third Silva administration under the majority rule. As a result, the government will undertake an important duty related to the unification of the EC at the end of 1992, while taking the chair in the EC Committee for the first half of 1992.

(2) Foreign Policy

Since the coup in April 1974, Portugal changed its colonial policy drastically in an attempt to depart from isolation in the international community, while diversifying its diplomatic relations to the former Soviet Union and Eastern European countries. In particular, Prime Minister Goncalves, appointed immediately after the revolution (July 1974 - September 1975), followed a pro-communist line, and the country's foreign policy emphasized closer ties with the Eastern bloc, reflecting the growing power of the communist party in the country to give a momentum for leftist movements, seemingly in a direction to separate from the West.

However, subsequent moderation of political attitudes and democratization have caused revision in its foreign policy, which reaffirmed the need for collaboration with the free-market economies. The new policy was manifested as participation in the EC, continued collaboration with the NATO, and the strengthening of military and economic ties with the U.S., clearly indicating its firm commitment to the neoliberalism line.

Foreign policy of the Cavaco Silva administration does not significantly deviate from that of the socialist government, but has been successfully using its diplomacy to buy time during the transition period before it gains membership in the EC as well as the unification of the EC. Other major foreign policies include the strengthening of its ties with Brazil and other Portuguese-speaking countries in Africa, and the improvement of relations with Asia, the Middle East, and Maghreb, including the Eastern Timor issue; the returning of Macao to China; and issues relating to immigration of Portuguese to foreign countries.

Finally, the country is actively approaching Japan for increased cultural and economic exchanges including direct investment from Japan, on the occasion of the 450th anniversary to commemorate the landing of the first Portuguese mission in Tanegashima Island.

1.6.3 Social Background

(1) Population

According to the statistics of the Portuguese Central Bank, the country's population in 1990 was approximately 9,808,000 for the mainland, and 10,470,000 when Madeira and Azores islands were included. This represents slightly over 3% of EC population of 340 million, while ranking the country seventh in population among 12 EC countries, next to the Netherlands; and the similar size to Greece, one-fourth that of Spain, and 3 times that of Ireland. Population density is 110.8 persons/km^2 for the mainland, and 106 persons/km^2 for the mainland plus Madeira and Azores islands. Around one third (32%) of population reside in urban areas having population of more than 10,000, where population has been increasing at an annual average 2.5% in recent years - faster than that in other European countries. This indicates that the country is undergoing the urbanization process, which has already reached a maturing stage in other EC countries, as seen in the percentage of urban population which ranges from 58% in Ireland to 97% in Belgium.

The rate of natural increase in population is 0.6% annually, which is the highest among 12 EC countries, and the percentage of 15-year-old or younger population is 23%, ranked third next to Ireland (31%) and Spain (25%).

(2) Working population and unemployment rate

Portugal's working population, on the mainland, increased by 5.6% over a five-year period between 1986 and 1990, from 4,466,000 to 4,717,000. On the other hand, employment recorded a 10.1% increase during the same period, from 4,084,000 to 4,496,000, resulting in a significant decline in unemployment rate from 8.4% in 1986 to 4.7% in 1990 - toward the full employment level. This is a remarkable achievement compared to other EC countries, including Spain and Ireland which suffer high employment rates at around 15%, and making it the second lowest unemployment rate next to Luxembourg. The low unemployment rate naturally serves as a pressure on the labor market, leading to the rise in labor costs that have been relatively at a low level compared to other EC countries.

Robust growth of the Portuguese economy attract increasing migration and visiting from Portuguese-speaking countries, including Brazil, Angola, and Mozambique, becoming sources of low-cost labor supply. Note that the combined total population of Portuguese-speaking countries - Brazil, Angola, Mozanbique, Sã o Tomé and Principe, Cape Verde, Guinea Bissau, and Macao - is estimated to be around 160 million (of which Brazil has 100 million), 16 times that of Portugal as a whole.

(3) National traits

Most of Portuguese population is Catholic and is known to be gentle and earnest in attitude. Notably, a large number of Portuguese people have immigrated to France, South Africa, Brazil and other countries, totaling around 3 million worldwide. However, after the start of the decolonialization policy in the mid-1970s, as many as 700,000 immigrants have returned to Portugal. These re-immigrants, together with many foreign people migrating from other countries, are relatively well mingled with the existing social and economic system. Recently, the country receives an increasing number of immigrants from Brazil due to sluggish economy and social unrest, and they are attracting direct investment for ample labor, while bringing elements of Brazilian culture into Portugal.

Portuguese people are generally known to be adoptive to foreign languages, and in particular most of the educated class speak English, which is not widely understood in France and Spain, as the country has been keeping close ties with the U.K. Notably, the government's extensive efforts to improve educational standards have resulted in rapid increase in the number of young people who can speak foreign languages.

(4) Living standard

Standard of living in Portugal is at relatively a low level compared to other EC countries. Despite the rapid economic growth spurred by its participation in the EC, the country lags far behind other EC countries, excepting Greece, in terms of GDP per capita ($6,062 in 1990, according to the central bank's data), and public expenditures related to health, hygiene, and education. Furthermore, there is a marked difference between the rich coastal region and the poor inland region as well as that bordering Spain.

The standard of living is summarized in terms of the composition of household living expenses according to the I.O.F. survey (a questionnaire survey in Germany, Spain, France, Ireland, Italy, and Portugal) conducted by INE (INSTITUTO NACIONAL DE ESTATISCS) between 1989 and 1990. Expenses showing relatively high percentage.

Portuguese disburse 44% of their living expenses for food, beverage, cloth and shoes, that recorded the highest percentage. On the other side, the expenses for education and culture shows the lowest (3.6%) among 6 countries, around one half that in France, Spain and Italy.

On the other hand, automobile ownership - 221 units per 1,000 population in 1989 - is the third lowest in the EC, only exceeding Greece (130 units) and Ireland (201 units). Nevertheless, this represents significant growth from 135 units per 1,000 population in 1982, clearly evidenced in growing traffic congestion in major cities including Lisbon and Porto, which is becoming public concern.

Ownership of TV sets is the lowest among EC countries, 157 sets per 1,000 population as of 1985, far below France (394, ranked first), Germany, Denmark, the Netherlands, and Great Britain, all exceeding 300. However, it is expected to have increased rapidly due to strong economic growth and a significant rise in personal income after joining the EC in 1986.

Table 1-5-1 COMPARISON DATA FOR INVESTMENT ENVIRONMENT AMONG EC MEMBER STATES

	EC	Germany	Belgium	Denmark	Spain	France	Greece	Holland	Ireland	Italy	Luxemburg	Portugal	England
1 Territory (km2)	2,868,890	356,910	30,500	43,100	504,800	549,100	132,000	41,785	70,300	301,300	2,600	92,389	244,100
2 Total Population (1 thousand, 1990)	343,088	78,628	9,870	5,135	39,316	56,323	10,088	14,934	3,525	57,676	378	9,844	57,326
3 Employment (1 thousand, 1990)	132,623	27,729	3,713	2,710	12,597	21,997	3,842	6,155	1,090	21,390	182	4,395	26,759
4 Rate of Increase of Workers (%, 1991 forecast)	0.5	1.5	0.25	-	1.5	0.75	-0.5	0.75	0.75	0.25	1.75	0.25	-0.5
5 Rate of Unemployment (% of Active Population, 1991)	8.75	6.25	7.75	8.75	15.50	8.75	9.25	7.25	16.50	10.25	1.50	5.00	7.25
6 GDP (billion ECU, 1990)	4,705.0	1,149.9	144.9	99.3	379.7	911.0	54.7	214.2	32.5	878.6	6.4	46.2	787.6
7 Rate of GDP Growth (%, 1991 forecast)	2.25	3.25	2.25	1.00	2.50	2.50	1.00	2.00	2.25	2.25	3.00	3.25	0.75
8 Capital Formation (% of GDP-1990)	19.9	20.2	17.3	17.6	21.4	20.2	19.2	20.0	21.0	21.0	22.1	27.3	17.3
9 Rate of Increase of Total Investment (%, 1991 forecast)	3.0	4.5	3.5	0.0	5.3	3.3	3.0	0.8	6.5	3.3	5.8	6.3	-1.5
10 Domestic Expenditure (%, 1991 forecast)	2.3	3.3	2.8	-0.3	3.0	2.8	1.0	1.8	0.8	2.8	4.5	3.5	0.5
11 National Budget (Total Expenditure, % of GDP-1990)	47.7	47.2	50.2	59.5	39.8	50.7	46.9	59.6	50.6	49.6	53.2	43.4	41.9
12 Public Defecit (% of GDP-1991 forecast)	-4.0	-4.8	-6.0	-1.0	-1.8	-1.0	-17.0	-4.8	-3.5	-8.5	1.3	-5.5	-0.8
13 R&D Expenditure (% of GDP-1987)	2.0	2.9	1.7	1.4	0.6	2.3	0.4	2.3	1.0	1.2	-	0.5	2.2
14 Consumer Price Index (%, 1991 forecast)	5.3	4.0	4.5	3.3	6.8	3.5	18.5	2.8	3.5	6.3	4.0	12.5	6.3
15 Savings (% of GDP-1990)(Goods and Service)	20.3	24.5	19.1	16.7	23.0	20.5	16.8	23.6	20.4	20.9	43.4	25.9	16.4
16 Exports (% of GDP-1990)	29.4	32.7	76.7	36.1	19.1	24.1	22.8	60.1	72.1	20.3	111.4	36.3	26.1
(billion US$, 1990)		534.1	118.2	34.5	70.0(89)	207.9(89)	3.0	129.7	10.4	165.2		18.1	52.1
Growth Rate to the Previous Year (%)		(2.5)	(6.8)	(4.8)	(4.4)	(14.6)	(1.7)	(5.4)	(3.8)	(6.5)		(9.4)	(14.9)
17 Rate of Increase of Exports in Volume (%, 1991 forecast)	4.9	8.8	5.2	3.5	5.6	5.7	4.7	4.6	8.4	5.2	4.0	8.0	5.0
18 Imports (billion US$, 1990)		472.4	117.4	32.6	81.3(89)	185.0(89)	8.8	125.4	9.0	164.0		22.6	65.5(89)
Growth Rate to the Previous Year (%)		(8.0)	(7.7)	(1.8)	(17.5)	(15.2)	(20.4)	(5.4)	(4.2)	(4.3)		(9.0)	(14.5)
19 Current Account (% of GDP, 1991 forecast)	-0.75	0.75	-0.25	0.25	-4.00	-0.50	-5.00	3.50	0.50	-1.75	24.00	-1.75	-2.00
20 Foreign Reserve (billion US$, December 1990)		57.0 (December 1989)	12.0 (October 1989)	10.5 (December 1989)	51.2 (December 1989)	36.2 (November 1989)	3.6 (November 1989)	17.4	5.2	62.9	4.5 (December 1989)	14.9 (November 1990)	35.8
21 External Debt													
22 Foreign Direct Investment (1989) (Upper: Local Currency, billion		17.00 Mark	29.02 Belgium Franc	13.58 Krone	1.20 (trillion) Peseta	84.53 Franc		12.80 Guilder	0.66 Irish Pound	14.80 (trillion) Lira		317.90 Escudo	23.60 Pound
Lower: US$, million)		1,080	815	2,170	10,500	1,560	19	6,970	4,160	11,990		2,160	13,260
23 GDP per capita (Euro12=100 Purchasing Power-1991)	100.0	112.5	103.3	104.2	77.1	108.9	52.8	103.6	69.2	104.4	125.4	56.9	104.0
24 Consumption per capita (Euro12=100, Purchasing Power-1990)	100.0	111.2	105.6	93.2	77.9	106.2	57.5	99.8	63.0	105.1	118.9	58.9	108.1
25 Poverty (% of Total Population-1985)	15.4	9.9	5.9	8.0	18.9	15.7	18.4	11.4	19.5	15.5	-	32.7	18.2
26 Infant Mortarity (per 1,000 infants-1989)	8.2	7.5	8.6	7.5	8.3	7.4	9.9	6.8	7.6	8.8	9.9	12.2	8.4
27 Purchasing Power of Worker's Wage per (four April, 1989)	8.9	10.9	9.2	11.0	7.6	7.5	5.9	10.1	8.6	8.1	10.6	3.5	9.6
28 Gas Emission per 1 inhabitant (ton, 1980s)	-	5.3	5.3	5.8	3.4	4.0	4.2	6.4	5.9	3.8	-	2.8	5.4

	EC	Germany	Belgium	Denmark	Spain	France	Greece	Holland	Ireland	Italy	Luxemburg	Portugal	England
29 Number of Students (full-time) (% of population among 5-24 age)	72	67	82	73	79	82	70	75	73	69	-	62	62
30 Number of Cars (Automobiles) (per 1,000 inhabitants, 1980s)	-	457	349	321	263	394	130	348	201	408	443	221	318
31 Number of Television Sets (per 1,000 inhabitants, 1985)	333	373	298	362	270	394	174	320	208	253	252	157	333

Source:
1. Economic Europeene, no.42.
2. Economic Europeene, no.42.
3. EC Commission
4. EC Commission, December, 1990.
5. EC Commission, December, 1990.
6. Economic Europene, no.42.
7. EC Commission, December, 1990.
8. Economic Europeene, no.42.
9. EC Commission, December, 1990.
10. EC Commission, December, 1990.
11. Economic Europeene, no.42.
12. EC Commission.
13. EC Commission.
14. EC Commission.
15. Perspectivas Economiques de I'OCDE, no.48.
16. Economic Europeene, no.42. WEIS: THE WORLD 1991
17. OECD, December, 1990.
18. WEIS: THE WORLD 1991.
19. EC Commission, December, 1990.
20. WEIS: THE WORLD 1991.
21.
22. WEIS: THE WORLD 1991.
23. EC Commission.
24. Economic Europeene, no.42.
25. Eurostat.
26. Eurostat.
27. Eurostat.
28. OECD.
29. Eurostat.
30. Etudes Economiques de I'OCDE (Portugal 1990-91)
31. Eurostat.

Chapter 2
OUTLINE OF NATIONAL ECONOMY

Chapter 2 Outline of National Economy

2.1 National Economic Trends and Industrial Structure

The Development of the Portuguese Economy over the period from 1960 has been characterised by efforts to achieve the changeover from an economic structure founded on the historic colonial system to that of a modern industrial state. In particular, considerable structural changes in the economy resulted from the April revolution of 1974 and the official entry into the EC in January, 1986, and these two dates were literally of epoch making importance for the nation. The present chapter presents a brief historic summary of economic trends and industrial structure in Portugal during the above period.

2.1.1 Portuguese Economic Trends (1960-1990)

(1) 1960-73

Table 2-1-1 presents the situation of the major economic indicators in Portugal since 1960. In the 1960s the national economy was under the control of a dictatorial form of government which sought to organize the major industries (petrochemicals, steel and shipbuilding) on an oligopoly system run by a section of the country's plutocracy, while at the same time developing the economy through expanding the outlets to Europe especially in textiles and apparel industries which had been made possible with the entry into EFTA (European Free Trade Association) in 1960 and through trade with Portugal's African colonies. However the policy of high trade tariffs adopted at this period resulted in a weakening of the competing power of domestic industries. The Gross Domestic Product in nominal terms was 71.4 billion (in American billions) in 1960 which reached a figure of 177.8 billion ESC ten years later in 1970. In dollar terms this was less than the level achieved by Greece but higher than the amounts recorded for Ireland and Luxembourg at the same time. Taking the average per capita GDP of the present 12 EC countries in 1960 to be 100, the level achieved by Portugal was 39 in 1960 and 49 in 1970. (cf. Table 2-1-2 and Figure 2-1-1).

It is also worth noting in relation to the economic indicators for Portugal between the period 1960 to 1973 (before the 1974 revolution) that the average rate of inflation was kept at a low level of 3.9% while the rate of increase in investment (gross fixed capital formation) evolved at the relatively high level of 7.9% (representing a ratio of 24.1% against GDP, although this is not indicated in the relevant table of indicators). Moreover the increase in National Economic Productivity*) was 6.7%, although this is also omitted

*): Dividing the GDP value by the number of employees.

from the table of economic indicators. The above shows that the economy was developing satisfactorily over this period. However, the concentration of wealth led to a greater gap between the rich and the poor, while the public expenditure required for the control of the colonies, military expenditure and provision of social infrastructures resulted in net drain on long-term official reserve which began to weigh down the economy. Also, with the exception of the textile industries, increased exports were not realized and the capital outflow worked to gradually increase the trade deficit.

(2) 1974-1982

The structure of the Portuguese economy was affected by the following changes in policy and society resulting from the April Revolution of 1974.

1) Expansion of the Public Sector through a Policy of Nationalisation

Government control of production sectors was considerably increased through a policy of nationalisation. The nationalisation policy created uneasiness among foreign investors and from 1975 there was a large decrease in the inflow of foreign capital as a result. Domestic investment also lagged for the same reason.

2) Price Control Policies and Increase in Production Costs

A price control policy covering almost all industries was introduced between 1974 and 1976, and a large number of subsidies were granted as a result. However, these measures obstructed the working of the mechanisms of a free market system and resulted in large increases in production costs as a result of the upward impetus in wages which was favoured by the government. As a result the Portuguese economy suffered from a very high rate of inflation.

3) Effect of the Independence of Colonies

As of 1974 a number of Portugal's overseas territories achieved independence one after another. The Portuguese economy was burdened with the increased government expenditure to cover the intake and assistance of large numbers of refugees and by the rapid increase in unemployment which resulted. Also the reduction in the level of trade with former colonies (reduced exports) increased the trade deficit.

As a result of the above policies and social factors together with the world economic recession accompanying the oil crisis at the end of 1973, the Portuguese economy suffered a minus growth for three years after the 1974 Revolution. In particular, Portugal experienced the highest upward turn in inflation of the OECD countries recording inflation over a 20% level, while the worsening of the international balance of payments situation forced the nation to dip into its gold and foreign currency reserves. The reserves sank drastically from 5.6 billion US $ in 1973 to 3 billion US $ in 1976.

Following the above period, investment (gross fixed capital formation) began to pick up once again as of 1976 and the GDP took an upward turn increasing 4.5% over the level of the previous year. However, inflation continued to remain uncontrolled. Despite the amelioration in the services balance achieved by tourism revenue and remittances to Portugal from emigrant Portuguese the annual deficit in the balance of trade for 1976 reached a record high and the deficit in the international balance of payments continued to grow.

The policies of nationalisation, price control and of income redistribution which were introduced after the April Revolution of 1974, though later, they were discontinued -nationalized companies being privatized and price control lifted- resulted in a temporary increase in individual incomes and so of consumer expenditure. On the other hand the levels of inflation which were tolerated produced a lowering of industrial productivity in Portugal so that the general economic trend was towards poor performance. In particular the current account balance of payments for 1982 registered a deficit of 249.3 billion ESC (3.24 billion US $) which is the largest single annual deficit recorded to date. This deficit accounted for 13.5% of the GDP in nominal terms for the same year. Further, although the GDP is recorded to be increasing in nominal terms for this period this is judged to be largely the effect of inflation. Moreover, taking the average per capita GDP of the 12 EC countries to be 100 the index for Portugal reaches its peak of 56.4 in 1973 after which it continues to fall slightly annually. For ten years from 1974 the world economic situation was one of economic slowdown and against this background of the worsening world economic situation the internal political situation in Portugal entered a period of turmoil and the economic situation of the country, in particular the international balance of payments, can be said to have its worst period.

(3) 1983-1985

During this period policies to restrain real wages were implemented in an effort to control the inflation which had continued to trouble the economy since the late 1970s. However, the upward surge in oil prices due to the Second Oil shock hit the country just at this moment and due to the economic recession worldwide and the rapid increase in domestic money supply the Portuguese economy suffered from ever greater inflation. The average rate of increase in the consumer price index for the period 1983 to 1985 was 24.4% while the record breaking level of 29.3% was registered for 1984.

Further, domestic and foreign investment for 1984 was extremely dull and investment (gross fixed capital formation) showed a sharp downward turn, and was 20% under the level of the previous year. In 1985 the external debt ratio increased to 37%. The GDP in money terms for 1983 was two trillion 301.7 billion ESC which increased to two trillion 815.7 billion ESC in 1984 but the real growth rate registered a minus rate of growth.(here as elsewhere in this report the terms trillion, billion refer to the American units).

In 1978 and 1983 the Portuguese government accepted improvement programs indicated by the IMF (International Monetary Fund) and implemented austerity measures. These measures were above all directed to improve the international balance of payments, and the second program was implemented for a period of 18 months. A gradual improvement in the economic structure became gradually apparent but the nation was not able to extricate itself from the low key of economic activity which it had suffered from since the latter 1970s. A genuine improvement only became apparent in the latter half of 1985.

(4) 1986-1990

Portugal became an official member of the EC as of January 1986 and has proceeded since to strengthen further the political and economic ties with other member countries. The major tasks for the Portuguese economy during the above period remained the restraint of inflation and the improvement of the international balance of payments. To achieve these ends while adopting flexible policies with regard to wages and interest rates, trade was expanded with special emphasis on trade with EC partners. All of Portugal's economic indicators showed an improvement between 1985 and 1989. Also the government's fiscal deficit was reduced from 12% of the GDP to 5.6% over the same period. The reason for this amelioration was not only the favourable turn enjoyed by the economy at home and abroad but was also the result of the increased fiscal income achieved by tax reforms, restraint exercised on fiscal expenditure, etc. Further, a 4.3% increase in real GDP was achieved which exceeded the average of 2.5% of the EC. Reasons for the increase in GDP include the increase in investment from domestic and foreign sources which judged the domestic political stability to be secure and economic stability and growth assured by EC membership. Moreover there was an increase in infrastructural investment through EC funding. The rate of increase in investment over the period 1986-88 reached a double digit level.

The rate of inflation showed a trend to moderation with the fall in the price of imported oil, the overhauling of government price controls and the reduction of interest rates. By 1987 inflation had been brought down to 9.7%. The GDP in nominal terms for 1989 was 7116.1 billion ESC which when compared to other EC member countries was lower than the level of Greece. The per capita GDP which had been the lowest of the twelve EC member countries surpassed that of Greece in 1989 and the gap separating Portugal from Ireland was further narrowed (cf. Figure 2-1-1). Since 1989 the country has enjoyed an active investment situation, seen improvements in the unemployment figures, registered an upward turn in real wages and achieved a reduction in the burden of its external debt.

As can be seen from the above review of the macroeconomic indicators for the Portuguese economy since 1960, Portugal enjoyed a satisfactory economic growth up to 1974 after which it entered a ten year period during which difficulties were experienced in achieving economic growth. Since the arrival to power of the government of Anibal Cavaco da Silva in November, 1985 and the entry into the EC in January, 1986 the country has enjoyed a second period of economic growth which continues to the present date.

2.1.2 Characteristics of National Industrial Structure

(1) Share of Gross Domestic Product by Sector

Table 2-1-3 shows the breakdown of the GDP share of individual industrial sectors for Portugal as well as for other EC countries, the USA and Japan. The table indicates average values for a thirty year period from 1960 to 1989. A comparison of the sectorwise share of GDP in Portugal with that of the other EC countries shows that the percentage accounted for by the primary industries is larger in the case of Portugal while the share of the service industries is low. However, looking at this pattern of breakdown annually (Table 2-1-4) reveals that statistically Portugal has gradually moved closer to the typical EC model over the last ten years. Though traditionally an agricultural country, the share of the GDP accounted for by the sectors of agriculture, forestry and fishing in Portugal decreased considerably form 26% to 10% in the 20 years between 1960 and 1980, and fell to 6% in 1990.

Also the secondary industries (the mining and manufacturing) showed a marked expansion of production based on import substitution and trade with former colonies between 1960 and 1970 so that this sector accounted for 46% of GDP in 1970. However, production of mining and manufacturing sector fell and the share of GDP gradually fell so that it had reached an average level around 38% in the 1980s. This was because of abandoning of the colonial economic structure in 1974 Revolution and the subsequent nationalisation and high tariff policies which resulted in the loss of competing power and loss of managerial efficiency, and the worldwide economic turndown caused by the oil crisis.

In contrast to the relative loss of importance of the primary industries and sluggish rise of the secondary industries from the 1970s, the share of GDP accounted for by the service sectors increased greatly, eventually becoming the largest economic sector. This change is explained by the nationalisation policy adopted after the 1974 Revolution. The principal cause for the expansion is seen to be the increase in the governmental transportation, communications, finance and other service sectors. At this time, Portugal is believed to have taken the highest degree of direct public sector (in terms of the government holds more than 50% shares in a company) intervention in national economic activities of any of the western European nations.

(2) Industrial Employment Structure by Sector

To date in 1990 the population of Portugal is approximately 10.47 million, 94% of which is composed of residents on the mainland of Portugal. The rate of population increase registered over the last ten years is 0.3%. The total working population is estimated to be approximately 4.5 million. From Table 2-1-5, which shows the evolution of the employment structure by industry, it can be seen that there the predominant trends reflect those already indicated in our discussion of the share of GDP accounted for by the importance of the primary industries and an increase in the tertiary industries is also marked in the changing pattern of employment. Agricultural, Forestry and Fishing industry (primary sector) accounted for 44% of employment in 1960, but this fell to 33% in 1970 so that in the latter year this sector as well as the mining & manufacturing and service sectors each accounted for about one third of the total employment. Subsequently, the mining & manufacturing sector has maintained a similar level. However the agricultural sector has consistently decreased in importance since 1960, while the service sector has consistently continued to increase in importance. According to data for January to September of 1990 the former accounted for 18% and the latter for 48% of employment.

From the above outline, one can see that the trend is for a move from the agricultural, forest and fishing industries to the service industries. At the same time, since the former industries form the main source of migrant workers this is another factor causing a reduction in the number employed in this sector. In particular, emigration overseas was marked from 1965 to 1974 so that in 1974 about 1.8 million Portuguese representing one in five of the population had had some experience of living abroad. The large majority were in fact migrant workers originating from rural zones.

(3) National Economic Productivity by Sector

As can be seen from the data for sectorwise shares of GDP and for employment patterns indicated above, while there have been no great changes arising in the secondary industries it can be remarked that there has been a progressive shift from the primary sectors (agriculture, forestry and fishing) to the tertiary (service industries) sectors. Further, the fact that the secondary industries account for more than 35% of the national GDP indicates that Portugal has reached a level conforming to the standard pattern of an advanced industrial economy.

In a comparison of productivity by sector among the 12 EC countries based on Statistical Yearbook of United Nations, the GDP per employee in the agricultural sector (=productivity of the agricultural sector) in Portugal in 1987 was estimated to be the lowest and only one fourteenth of the productivity of Holland which has the highest productivity for this sector among the EC countries.

A particularity of Portuguese agriculture is the small area of cultivated land per holding and the large number of very small size farms. This has retarded the introduction of large scale machinery and the rationalization of productive capital goods, and there is a large gap in terms of agricultural technology compared to the other EC countries. An agrarian reform was implemented with the 1974 Revolution but this has not resulted in any considerable actual improvement of the situation. Further, there is a large migrant worker population in the agricultural sector in Portugal which is not indicated on any statistical data, so that the actual per capita productivity of employees is considered to be even lower than indicated.

An intensification of competition in the agricultural sector is anticipated to result with the unification of EC and the resulting liberalization of the EC market. In anticipation of this Portugal faces the need to undertake the mechanization and rationalization of its agriculture, together with the improvement of its technology for the processing of agricultural products in order to ensure that its goods have price competitiveness.. It is also necessary to ensure that the excess labor which will be released by these changes in the agricultural sector will find employment in the secondary and tertiary industries.

With regard to the productivity of Portugal's manufacturing sector, a comparison of statistics shows that this was on a level equaling that of Greece in 1987, and was approximately one fifth of the productivity registered for Germany which has the highest level among the EC nations. While it can be said that the manufacturing sector in Portugal has a high level of productivity compared to the figures for the agricultural sector, it is also true that the figures by industry reveal that there are certain structural problems since the number of small size industries employing less than 5 represents only 10% of the total output of the manufacturing industries. (A detailed analysis of the sub-sectors will be found in Chapter 6.)

The definition for Small and Medium Size Enterprises (SMEs) in the Portuguese manufacturing sector is given by the Institute for Support to Small and Medium sized Enterprises and Investment (Instituto De Apoio As Peguenas E Medias-IAPMEI). SMEs shall be meet the following all conditions.

1) less than 500 employees
2) annual sales are under 2 billion ESC (the actual figure is regularly readjusted).
3) not more than 50% of the stock is held by another company or the company is not owned by another company.
4) the total figures for the holding companies taken together do not surpass the limits set in 1) and 2) above for employee numbers and annual sales.

According to the above criteria the share of Portugal's manufacturing sector which employs more than 500 employees and can therefore be termed large only represents 0.7% of the total number of firms. The rest are firms employing less than 500 personnel and 32.9% of these are small companies employing less than five employees. Middle size companies employing between 6 and 499 employees account for 66.4% of the total, and these middle size companies realize 60% of the total production value of the manufacturing sector, having a 50% export ratio and employing 64% of the employees.

Relatively bigger size SME enterprises are machinery, food processing, paper manufacturing, and textiles while smaller companies are cork and woodworking industries, footwear and ceramics. In any case these industries are in traditional areas and have developed thanks to the advantage of low wage costs.

The financial, insurance, real estate and tourist industries form the mainstay of the service industries. The importance of the financial sector has grown first through the nationalization policy under taken in 1970 and then with the re-privatisation carried out in 1984. Tourism also plays a very central role in Portugal's service sector as a source of foreign currency acquisition. While tourism has developed to certain extent thanks to the low wage costs the per capita productivity in this sector is on a par with the level in the manufacturing sectors.

2.1.3 International Balance of Payments

Table 2-1-6 indicates the Portuguese international balance of payments for the last ten years. The international balance of payments recorded a positive balance in 1985 for the first time in eleven years since 1974. Between these dates the trade figures had registered a consistent minus which had been set off by the income from the service sector (in particular the tourist industry), the remittances sent back by emigrant Portuguese workers, medium and long term capital income together with foreign loans so that the basic balance almost registered a positive figure. However, the trade deficit began to widen as of 1988 despite the fact that tourist revenue and remittances from abroad were also growing. During this period there was a considerable increase in medium and long term capital largely of direct foreign investment and this resulted in a rapid expansion of imports of capital goods and raw materials which was reflected in the balance of trade.

As can be seen from Table 2-1-7 which shows the recent economic relations with main trading partners the importance of the EC countries has taken on greater relative importance. The rapid increase of imports from the EC countries after Portugal's entry into the EC in 1986 was one factor in the widening trade deficit. On the other hand, the relative share of American relations in trade, investment and tourism has fallen.

A central task now facing the country is how to improve the current balance of payments and in particular how to ameliorate the balance of trade. At present, the revenue from tourism and remittances from abroad are growing satisfactorily but neither of these is sufficient to effect any significant improvement in the overall balance of trade.

(1) Trade Patterns

As indicated above Portugal registers an unfavourable balance of trade every year and this deficit continues to grow. Table 2-1-8 and Table 2-1-9 indicates the main export destinations and import sources by region respectively. In 1990 73.7% of exports and 69% of imports were with the EC nations illustrating the high level of interdependence which has grown up. If the percentages for the EFTA countries are added to the above shares then these represent 83.8% of exports and 75.2% of imports in 1990. Economic relations with Europe are extremely strong, and in particular trade with Germany, France, Spain and Great Britain is particularly important. Trade with Portugal's neighbour Spain has shown a marked yearly increase since 1986. Further, the export-import covering ratio in 1990 was 66.4% across the board and there has not been any considerable changes registered in this over the last five years.

While the overall value of trade is increasing the dependence of Portuguese trade on

America has shown a comparative decline and trade relations with Japan have been largely unchanged.

Up to 1960 the general trade pattern of Portugal, as with France and Great Britain, was typified by a colonial economy. In particular the export ratio to former colonies was at the very high level of 40%, and relations were strong not only in terms of human and cultural exchange but also in the economic sphere. However, after 1960 trade with the former colonies tended to decline and by 1990 the export ratio to Brazil and the PALOP countries (Paises Africanos de Lingua Official Portuguesa; Portuguese - Speaking African Countries) had fallen to 3.7%. 1/

Table 2-1-10(for exports) and 2-1-11(for imports) indicate the major traded products of Portugal. Both tables indicate the evolution since 1980. The biggest items are textiles and apparel accounting for about 30% of the total. These are followed by electrical machinery, vehicle products, agricultural processed goods, cork and paper as main export items. The percent distribution of these export items in the 1970s shows the same trends. That is processed foodstuffs and agricultural products such as canned fish, tomato products, wine, etc. and cork (including cork products) which are the traditional exports still account for more than 50% of total exports while the remainder of the percent distribution is accounted for by manufactured goods and mineral resources.

1/ However, economic relations with the PALOP countries are being reappraised in recent years; the same language base attracts not only Portuguese companies, but other European and U.S. companies which seek business opportunities in the PALOP countries via Portugal. In response, the ICEP and various trade associations are actively providing support, including the sponsoring of seminars on the PALOP countries, the sending of investment missions to them, and introduction of the PALOP countries on their magazines and other publications.

However in 1990 the traditional export items mentioned above accounted for 43% of the total exports so that it is possible to point to a gradual decrease in the relative share of these items. On the other hand, exports of electrical machinery, transport machinery (vehicles) and footwear have continued to grow since the 1980s, and in particular the first sector has realised about a fifteenfold increase in money terms over the last ten years. From the latter half of the 1970s there was a temporary increase in the exports of machinery but this growth did not continue after 1974 into the early 1980s, and in 1980 the share in overall exports accounted for by electrical machinery and vehicles fell to around 10%. After this, with the economic recovery and intensified foreign investment the share increased again to reach 15% of the total.

Footwear was the export item showing the biggest growth in the 1980s. On a money basis this accounted for 187.9 billion ESC which made this the second most important export item after apparel. This was not only due to the cheap cost but is also seen to be related to the effective nurturing of designer functions and the successful opening of new markets. Further, the role played by foreign capital in addition to domestic capital in bringing about a growth in exports of footwear, electrical machinery and transport machinery has been pointed to.

Conversely, clear trends in the changes affecting import items over the last ten years can be identified from statistics. Instead of the traditional import structure according emphasis to crude oil, foodstuffs and industrial raw materials there has been a shift in emphasis towards manufactured goods such as machinery, transport machinery, and apparel.

The major import item to date has been crude oil. In the early 1980s this evolved around a 25% level of the total import value. Together with imports of manufacturing raw materials such as iron, steel and chemical raw materials these accounted for 45% of all imports. This was equally so in the 1970s. A change in this import structure can be seen to arise from around 1987.

On the one hand, an increase has been observed recently with such items as machineries, transport machinery, and electrical equipment. The import of transport vehicles and of cars in particular has continued to show growing imports since the 1980s. By 1990 the ratio in money terms accounted for by machinery and transport machinery were about equal (14% and 14.2% respectively) thus constituting the top items. Crude oil and mineral resources had fallen to 11.3% of the total in the same year.

Looking at the composition of import-export items in Portugal reveals that the pattern has been for the import of crude oil and manufacturing raw materials, with manufactured goods produced being aimed at the domestic market. This has resulted in traditional goods such as agricultural products, cork and textiles acting as the mainstay for exports, and explains why there are so few exports of products based on processing of the imported raw materials. The changes seen in the composition of import structure are seen to result from the intensification of manufacturing investment and the growth in personal income.

(2) Trends in Foreign Investment

There has been a very rapid increase in the number and size of cases of direct foreign investment into Portugal since 1987. Table 2-1-12 indicates the direct investment trends by investing country over a ten year period from 1981. This table not only shows new investment undertaken in Portugal but also includes investment made by foreign affiliate companies already located in Portugal for industrial expansion, capital expansion and joint venture absorbtion of other companies. As can be readily seen from this table, the overall investment sum has continued to register an annual increase which doubles the sum for the previous year so that each year witnesses a new maximum record. The investment sum for 1990 was 508.9 billion ESC (approximately 7.2 billion US $) which is about 55 times the level registered 10 years earlier, and is about 21 times the level registered in 1986, the year when Portugal became a member of the EC. There has been a similar marked increase in the number of cases of investment which increased from 640 in 1986 to 2,873 in 1990 (data concerning the actual number of investment cases is only available for the period from 1985).

Change of direct foreign investment

Year	1985	1986	1987	1988	1989	1990
No.of DFI	471	640	1,113	1,853	2,328	2,873

Looking at the breakdown by country and region reveals that much of the investment comes from the EC countries as is also the case in trade. The EC accounted for 69% of the investment achievement for 1990. In particular, Great Britain has been at the top of the investing parties annually since 1985 followed by France and Spain in order of importance as investors.

Although investment from the EFTA nations has continued to increase in terms of the investment sum involved even after the entry of Portugal into the EC, the relative percentage of this has decreased. In 1990 EFTA investment was 8.8% of the total. Among the EFTA nations, the share of investment from Switzerland continues to remain high as heretofore and has accounted for 10% of the EFTA total investment since 1987. Investments from the EC and EFTA taken together accounted for 77.8% of the total investment and this share has been maintained for several years.

Portugal's entry into the EC the relative share of America, which has traditionally been a major investor, began to decrease. By 1990 this had fallen to 2.6% of the total. Investment from Japan is also at a low level and it would be difficult to pretend that it has been increasing in relative importance. We shall deal with Japanese investment to Portugal in a separate chapter. In any case the combined investment from the USA and Japan represented 4.7% of the total in 1990 and is therefore only on a par with the investment from Switzerland taken alone.

Table 2-1-13 indicates areas of investment by industrial sector for the last ten years. 1986 was a watershed since before this date the main sectors had been manufacturing and services whereas after 1986 the focus of investment clearly moved over to the real estate and financial sectors. Investment in the manufacturing sector has continued to increase but while investment over the five year period from 1986 registered a thirty five fold increase in the financial and real estate sectors, manufacturing only realized a nine fold increase for the same period. Moreover an intensification of investment in the construction industry has been marked over the last three years so that it is possible to interpret these investments in the financial, real estate and construction sectors in the light of the unification of the EC anticipated for January 1993, given Portugal's EC member status.

The main focus of investment in the manufacturing industries continues to be the machinery and transport vehicle industries. Further, there has been signs of increased diversification with recent investment in petrochemical, plastic products, food processing industries, etc. The Ford Volkswagen Project estimated to represent a total investment of 3 billion US $ was finalized in 1991, although this does not appear in Table 2-1-13. Since there are rumours that further investments in the automobile parts industries are in the offing it is expected that the share represented by machinery and transport vehicles in total investment will increase further.

Large scale investment in Portugal is classified according to what is called the "contractual regime" (for details please refer to the section treating investment promotion policies). Projects which are judged to meet the conditions of this system are classified in a special category as projects making an important contribution to the national economy. There is no single guideline with regard to the actual amount of investment which must be involved but normally the investment sum must be within a range considered to constitute a large scale of investment.

22 investment projects have been classified as meeting the conditions of this system from 1978 to the present date of October, 1991. Beginning with the Ford Volkswagen Project three of the stipulated projects have been related to the automobile production and seven were projects involving the production of automobile related parts. Besides the above, projects include one for chemical products by Dow Chemicals of the USA, for semi-conductors by Texas Instruments of the USA and for copper development by Somincor of Great Britain. In any case all the above projects have originated from either the USA or Europe and the only case of Japanese investment was the Yazaki Corp. project for production of wire harness.

Traditionally, direct foreign investment has largely taken the form of investment focused on expansion undertakings and carried out by foreign affiliates already located in Portugal but since 1988 the relative share of such investment has decreased. Instead investment involving takeover, joint ventures or the establishment of new companies has increased. Such investment undertakings have followed the overall trends in foreign investment so that recently there has been an increase in investments from new foreign affiliates as well.

Table 2-1-1 PORTUGAL : PRINCIPAL ECONOMIC INDICATORS, 1960 - 1990

	UNIT	1960-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990
Gross domestic product, GDP	%rrc	6.8	2.8	-0.3	-1.7	3.0	4.1	5.1	4.0	5.4	4.4
Total domestic demand	%rrc	7.1	2.8	-0.7	-6.8	0.7	7.3	9.8	8.4	4.1	5.2
Private consumption	%rrc	6.5	3.1	-1.0	-3.0	0.8	5.5	5.0	7.0	3.2	4.7
Public consumption	%rrc	8.4	4.5	2.7	2.5	6.4	7.3	4.8	5.4	2.0	3.7
Investment [*1]	%rrc	7.9	1.7	-7.5	-20.0	-3.4	10.9	15.1	15.2	8.0	6.6
Exports of goods and service	%rrc	9.6	11.3	16.7	14.8	10.1	7.6	10.7	7.2	18.1	12.0
Imports of goods and service	%rrc	10.6	4.5	-8.7	-2.7	1.8	17.8	23.7	18.1	10.6	12.4
Rate of inflation (CPI)	%	3.9	21.5	25.5	29.3	19.3	11.7	9.4	9.6	12.6	13.4
Unemployment rate, restricted sense	%	4.2	5.1	7.9	8.6	8.5	8.4	7.0	5.7	5.0	4.7
Total employment	%rrc	0.2	0.1	-2.0	-3.8	-0.5	0.2	2.6	2.6	2.2	1.4
Nominal salaries [*2]	%rrc	6.4	11.8	-5.0	-9.0	21.6	17.2	12.1	9.1	10.4	13.6
Current account balance	%GDP	0.4	-6.8	-8.0	-2.7	1.9	3.9	1.2	-2.4	-1.2	-0.1
in USD	USD billion			-1.6	-0.6	0.4	1.2	0.4	-1.1	-0.6	-0.1
Trade balance (CIF/FOB)	%GDP	n.a	n.a	-14.1	-11.0	-10.0	-8.2	-12.7	-16.6	-14.8	-10.9
in USD	USD billion			-1.1	-2.1	-2.1	-2.4	-4.7	-6.9	-6.7	-6.6
Change in Terms of trade (merchandise trade)	%rc	n.a	n.a	-1.7	-1.1	4.0	12.1	2.1	2.4	-1.6	0.2
External debt	%GDP			70.4	78.1	80.4	53.9	50.3	41.6	39.0	28.9
in USD	USD billion	n.a	n.a	14.5	15.0	16.7	16.3	18.5	17.4	17.7	18.4
Debt servisce	%CAR [*3]	n.a	n.a	27.6	35.6	37.0	28.8	30.0	29.0	17.9	16.6
Implicit interest rate	%			8.6	9.1	8.8	7.4	7.3	6.9	7.8	8.4
Total GG deficit	%GDP	n.a	n.a	11.4	13.4	7.6	8.8	9.1	7.1	4.8	6.7
GG borrowing requirements	%GDP	n.a	n.a	10.9	13.4	11.9	10.3	10.1	9.3	5.6	6.7
Direct public debt	%GDP	n.a	n.a	55.8	61.1	68.9	68.2	71.5	74.2	71.1	68.2

[*1] Gross fixed capital formation
[*2] Average of collective wage agreement schedules, total exclusing civil servants.
[*3] CAR, Current Accounts Credits =
Exports of goods and servises + Other items recorded as credits in the CA, including unilateral public transfers.

GG - General Government
rc - rate of change
rrc - real rate of change
n.a - not available
Source: Banco de Portugal, Report of Board of Directors

Table 2-1-2 GROSS DOMESTIC PRODUCT AT CURRENT MARKET PRICES PER CAPITA

Unit:PPS EUR 12, EC12=100

	1960	1970	1980	1985	1986	1987	1988	1989	1990
Portugal	38.8	48.9	55.1	52.1	52.7	53.8	54.0	55.2	56.2
Belgium	95.4	99.0	104.2	101.7	101.0	100.2	101.0	101.6	102.8
Denmark	118.4	115.3	108.0	116.0	116.7	112.8	108.6	106.6	105.1
Spain	59.6	73.9	73.4	71.8	72.2	73.9	74.7	75.9	76.7
France	105.9	110.5	111.8	110.8	110.1	108.8	108.3	108.7	108.5
Greece	38.7	51.6	58.2	56.8	55.8	54.2	54.3	54.1	53.4
Netherland	118.7	115.9	111.0	107.2	106.3	104.0	102.7	103.2	103.8
Italy	86.6	95.5	102.6	103.2	103.2	103.5	103.8	103.9	104.0
Luxembourg	158.4	141.5	119.3	122.6	124.2	120.6	121.0	124.1	124.2
U.K.	128.7	108.5	101.1	104.1	105.1	106.9	107.4	106.4	105.4
W.Germany	118.0	113.3	113.8	114.4	114.3	113.5	113.2	112.5	112.4
Ireland	60.8	59.6	64.1	65.2	63.5	64.9	65.2	67.2	68.8
EUR 12	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
U.S.A.	190.0	164.9	151.8	156.6	155.8	156.0	156.3	154.2	150.9
Japan	55.9	91.8	101.1	111.5	111.0	112.2	114.2	116.0	119.6

Note: PPS indices in purchasing power standard

Source: European Economy, Annual Economic Report 1990-91

Table 2-1-3 SECTORAL CONTRIBUTION TO GDP
AS AN AVERAGE PERCENTAGE DURING 1960-89

Unit: %

	Agriculture[1]	Industry	Manufacturing in Industry	Services	Total GDP
Portugal	13.9	38.2	(30.1)	47.9	100.0
Belgium	3.6	37.6	(27.4)	58.8	100.0
Denmark	6.8	29.0	(19.8)	64.2	100.0
Spain	10.8	36.6	(27.2)	52.5	100.0
France	6.0	35.8	(26.2)	58.3	100.0
Greece	17.1	25.6	(15.9)	57.2	100.0
Netherland	5.3	36.8	(24.4)	57.9	100.0
Italy	7.5	39.1	(26.8)	53.4	100.0
Luxembourg	4.0	44.2	(33.8)	51.8	100.0
U.K.	2.3	37.0	(25.6)	60.7	100.0
W.Germany	3.1	46.1	(35.6)	50.8	100.0
Ireland	14.5	31.1	(-)	54.4	100.0
EUR 12	5.4	38.9	(28.1)	55.7	100.0
U.S.A.	2.9	34.1	(24.0)	63.0	100.0
Japan	6.2	43.2	(32.1)	50.6	100.0

Note: [1] including forestry, fishery
Source: OECD Economic Outlook Historical Statistics

Table 2-1-4 PORTUGUESE SECTORAL CONTRIBUTION TO GDP 1960-1990
(ANNUAL AVERAGE)

Unit: %

Sector	1960	1970	1980	1985	1986	1987	1988	1989	1990
Agriculture [1]	26	16	10	8	8	7	6	6	6
Industry	36	46	38	37	38	38	38	38	37
Services	38	39	52	55	55	55	56	56	57
Total [2]	100	100	100	100	100	100	100	100	100

Notes:
[1] including forestry, fishery
[2] Total may not exactly equal the sum of its elements due to rounding
Source: National Statistic Institute - INE

Table 2-1-5 PORTUGUESE EMPLOYMENT BY MAIN SECTORS 1960-1990
(ANNUAL AVERAGE)

Unit: %

Sector	1960	1970	1980	1985	1986	1987	1988	1989[2]	1990
Agriculture [1]	44	33	28	24	22	22	21	19	18
Industry	29	36	36	34	34	35	35	35	34
Services	27	31	36	43	44	43	44	46	48
Total [2]	100	100	100	100	100	100	100	100	100

Notes:
[1] including forestry, fishery
[2] Total may not add exactly due to rounding
Source: National Statistic Institute - INE

Table 2-1-6 BALANCE OF PAYMENTS

Unit: Million ESC

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount
1 Current Account	-171,897	-352,323	-284,868	-85,568	59,934	171,677	63,508	-175,492	25,885	-10,020
1) Merchandise (FOB) [1]	-317,168	-377,574	-328,386	-308,074	-256,164	-250,807	-504,003	-793,535	-767,489	-933,985
2) Sevices	27,639	-86,725	-78,879	79,498	132,856	139,075	166,415	120,187	190,527	199,166
3) Investment Income	-60,995	-103,024	-119,590	-177,293	-196,444	-151,574	-130,813	-125,849	-113,138	-54,175
4) Unrequited Transfers	178,627	215,000	241,987	320,301	379,686	434,983	531,909	623,705	715,985	778,974
2 Midum and Long-Term Capital	117,053	203,598	158,399	195,822	198,788	-42,460	32,761	118,781	441,826	390,653
3 Basic Balance (1+2)	54,844	-45,701	-6,879	110,254	258,722	129,221	96,269	-26,711	467,711	380,633
4 Short-Term Capital, Errors and Omissions	50,561	53,155	-65,482	-40,748	-87,407	-166,190	182,625	270,654	145,460	176,979
5 Balance on Non-Monetary Operations (3+4)	-4,283	13,580	-79,424	69,506	171,315	-36,969	278,894	243,943	613,171	57,612

Note:
[1] Based on estimates by BP
Source: BANCO DE PORTUGAL

Table 2-1-7 BILATERAL BALANCE OF PAYMENTS

Unit: Million ESC

	1984		1985		1986		1987		1988	
	Merchandise (FOB)	Basic Balance	Merchandise (FOB)	Basic Balance	Merchandise (FOB)	Basic Balance	Merchandise (FOB)	Basic Balance	Merchandise (FOB)	Basic Balance
EEC	58,685	207,420	102,263	370,762	-38,512	182,801	-222,815	215,429	-450,646	70,749
West Germany	-2,989	39,117	-4,895	60,347	-27,692	16,095	-65,912	21,108	-108,826	-58,009
Spain	-44,650	-48,985	-58,585	-58,745	-72,211	-71,156	-94,925	-80,962	-133,478	-138,573
France	11,231	126,673	26,717	175,353	29,456	195,427	2,888	205,961	-31,548	185,617
Italy	-16,787	-19,039	-23,916	-29,599	-60,907	-68,292	-103,878	-111,562	-149,450	-165,475
U.K.	46,204	35,766	50,648	83,374	55,776	16,372	36,719	22,572	21,504	67,318
Other EC	21,026	24,903	53,709	81,287	37,066	94,355	2,293	158,321	-48,846	179,654
U.S.A.	-76,220	-28,889	-28,705	20,633	-24,412	47,946	-7,231	99,013	-10,817	106,851
JAPAN	-19,556	127,564	-27,778	69,663	-37,716	-18,660	-63,168	-104,173	-71,327	-129,634
OTHER OECD	16,812	91,198	21,393	102,416	23,549	97,914	7,953	109,566	-17,452	115,582
PALOP	25,353	21,836	22,141	22,638	11,200	9,758	19,173	14,447	37,736	40,867
OTHERS	-268,498	-259,888	-288,892	-268,653	-184,913	-190,534	-237,916	-238,028	-279,229	-231,069

Source : BANCO DE PORTUGAL

Table 2-1-8 PORTUGUESE EXTERNAL TRADE - EXPORT (FOB) BY DESTINATION

Unit: Million ESC

	(1983)	(1984)	1985		1986		1987		1988		1989		1990	
	%	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
EEC	62.5	61.8	607,090	62.4	735,703	68.0	928,168	70.7	1,132,456	71.8	1,441,196	71.6	1,732,255	73.6
Belgium-LUX	3.6	3.3	34,740	3.6	37,037	3.4	39,106	3.0	50,383	3.2	62,986	3.1	73,610	3.1
Denmark	1.6	1.6	19,875	2.0	26,376	2.4	32,521	2.5	35,713	2.3	39,468	2.0	50,798	2.2
Spain	4.0	4.4	40,250	4.1	71,681	6.6	118,438	9.0	176,927	11.2	251,409	12.5	312,549	13.3
France	13.5	12.4	123,743	12.7	164,234	15.2	207,268	15.8	240,400	15.2	303,052	15.0	364,758	15.5
Greece	0.9	0.3	2,745	0.3	2,974	0.3	3,023	0.2	4,272	0.3	8,452	0.4	11,944	0.5
Netherland	6.3	5.9	67,086	6.9	72,232	6.7	84,983	6.5	92,845	5.9	117,496	5.8	134,050	5.7
Italy	4.0	4.3	38,318	3.9	42,914	4.0	51,727	3.9	65,836	4.2	85,950	4.3	95,011	4.0
U.K.	14.8	15.4	141,454	14.6	154,009	14.2	184,450	14.1	226,377	14.3	246,981	12.3	285,503	12.1
W.Germany	13.3	13.7	133,339	13.7	158,627	14.7	200,948	15.3	231,951	14.7	316,058	15.7	392,744	16.7
Ireland	0.5	0.5	5,540	0.6	5,619	0.5	5,704	0.4	7,752	0.5	9,344	0.5	11,288	0.5
EFTA	11.0	10.5	104,705	10.8	126,839	11.8	151,002	11.6	166,756	10.5	207,255	10.3	239,290	10.2
Austria	1.1	1.0	10,461	1.1	12,680	1.2	13,840	1.1	17,280	1.1	22,163	1.1	26,491	1.1
Finland	1.5	1.4	14,170	1.5	18,360	1.7	21,032	1.6	22,804	1.4	27,864	1.4	38,032	1.6
Norway	1.7	1.7	18,643	1.9	21,156	2.0	25,649	2.0	27,431	1.7	35,162	1.7	32,454	1.4
Sweden	3.4	3.6	35,731	3.7	46,229	4.3	59,587	4.5	63,490	4.0	81,242	4.0	95,717	4.1
Switzerland	2.9	2.4	22,476	2.3	27,521	2.5	29,775	2.3	34,583	2.2	39,607	2.0	45,389	1.9
Iceland	0.4	0.4	3,224	0.3	893	0.1	1,119	0.1	1,168	0.1	1,217	0.1	1,207	0.1
U.S.A.	6.1	8.8	89,635	9.2	75,556	7.0	84,325	6.4	93,792	5.9	119,837	5.9	113,355	4.8
JAPAN	1.2	0.9	8,260	0.9	8,988	0.8	9,615	0.7	11,815	0.7	22,366	1.1	24,223	1.0
BRAZIL	0.3	0.2	7,906	0.8	9,546	0.9	3,554	0.3	3,638	0.2	5,971	0.3	6,585	0.3
PALOP	4.5	4.4	37,910	3.9	23,305	2.2	27,067	2.1	43,283	2.7	67,454	3.3	79,019	3.4
OTHERS	14.4	13.4	116,241	12.0	102,324	9.5	107,268	8.2	130,217	8.2	151,632	7.5	156,442	6.7
TOTAL	100.0	100.0	971,747	100.0	1,082,261	100.2	1,310,999	100.0	1,581,957	100.0	2,015,711	100.0	2,351,169	100.0

Note: 1983, 84 are only shown in % of Total.
Source: BANCO DE PORTUGAL, Report of the Board of the Directors.

Table 2-1-9 PORTUGUESE EXTERNAL TRADE - IMPORT (CIF) BY ORIGINATION

Unit: Million ESC

	(1983)	(1984)	1985		1986		1987		1988		1989		1990	
	%	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
EEC	44.9	43.1	609,663	46.3	848,420	58.9	1,250,690	63.6	1,723,800	67.0	2,042,152	68.1	2,444,812	69.2
Belgium-LUX	2.4	2.1	28,439	2.2	41,682	2.9	63,268	3.2	105,239	4.1	118,588	3.9	147,134	4.2
Denmark	0.6	0.5	7,839	0.6	12,738	0.9	19,412	1.0	22,568	0.9	27,986	0.9	31,805	0.9
Spain	5.1	7.1	97,971	7.4	157,059	10.9	230,600	11.7	336,582	13.1	434,113	14.5	510,031	14.4
France	8.2	7.9	106,751	8.1	145,157	10.1	220,721	11.2	295,604	11.5	349,947	11.7	406,297	11.5
Greece	0.1	0.1	946	0.1	1,277	0.1	6,363	0.3	5,430	0.2	5,219	0.2	4,558	0.1
Netherland	3.9	3.5	42,059	3.2	57,052	4.0	79,636	4.1	123,645	4.8	163,783	5.5	203,730	5.8
Italy	5.2	4.7	68,628	5.2	114,487	7.9	171,590	8.7	237,373	9.2	273,111	9.1	352,581	10.0
U.K.	7.6	6.7	100,078	7.6	108,281	7.5	158,468	8.1	214,232	8.3	224,717	7.5	267,285	7.6
W.Germany	11.4	10.2	152,421	11.6	205,420	14.2	294,269	15.0	375,753	14.6	434,736	14.5	506,402	14.3
Ireland	0.4	0.3	4,531	0.3	5,267	0.4	6,363	0.3	7,374	0.3	9,952	0.3	14,989	0.4
EFTA	5.8	5.1	74,535	5.7	104,115	7.3	143,447	7.3	187,652	7.4	190,010	6.4	220,039	6.2
Austria	0.5	0.5	892	0.1	13,007	0.9	15,632	0.8	19,387	0.8	23,070	0.8	26,744	0.8
Finland	0.4	0.4	7,646	0.6	6,862	0.5	10,220	0.5	15,241	0.6	18,494	0.6	23,219	0.7
Norway	0.6	0.9	13,391	1.0	10,852	0.8	17,249	0.9	25,310	1.0	26,610	0.9	37,054	1.0
Sweden	1.5	1.1	17,810	1.3	24,120	1.7	36,846	1.9	48,647	1.9	46,928	1.6	50,829	1.4
Switzerland	2.2	1.8	25,826	2.0	38,518	2.7	45,846	2.3	61,066	2.4	63,559	2.1	74,129	2.1
Iceland	0.6	0.4	8,970	0.7	10,756	0.7	17,654	0.9	18,001	0.7	11,349	0.4	8,064	0.2
U.S.A.	14.1	13.5	128,961	9.8	100,591	7.0	94,777	4.8	110,899	4.3	133,178	4.4	138,887	3.9
JAPAN	2.8	2.5	39,736	3.0	51,501	3.6	80,261	4.1	93,668	3.6	92,288	3.1	93,564	2.6
BRAZIL	1.3	2.1	25,934	2.0	16,095	1.1	27,846	1.4	40,237	1.6	52,727	1.8	56,051	1.6
PALOP	0.5	0.7	15,769	1.2	12,105	0.8	7,894	0.4	6,117	0.2	10,683	0.4	15,495	0.4
OTHERS	30.6	33.0	424,730	32.2	309,681	21.5	359,585	18.3	407,892	15.9	482,158	16.1	570,953	16.1
TOTAL	100.0	100.0	1,319,328	100.2	1,442,508	100.2	1,964,500	99.9	2,570,265	100.0	3,003,196	100.3	3,539,801	100.0

Note: 1983, 84 are only shown in % of Total.
Unit: BANCO DE PORTUGAL, Report of the Board of the Directors.

Table 2-1-10 PORTUGUESE EXTERNAL TRADE - EXPORT (FOB) BY MAIN COMMODITY

Unit: Billion ESC

	1980 Amount	%	1985 Amount	%	1986 Amount	%	1987 Amount	%	1988 Amount	%	1989 Amount	%	1990 Amount	%
Textile, clothing, footwear, etc.	71.4	30.8	342.6	35.3	419.4	38.8	531.6	40.5	610.9	38.6	738.2	36.6	872.4	37.5
Textiles & Clothing	61.7	26.6	285.9	29.4	336.5	31.1	423.5	32.3	482.7	30.5	580.9	28.8	684.5	29.4
Footwear	8.5	3.7	55.4	5.7	81.5	7.5	106.6	8.1	126.4	8.0	155.5	7.7	187.9	8.1
Machinary and Transport Equipment	30.9	13.3	151.1	15.6	170.1	15.7	213.8	16.3	263.9	16.7	385.9	19.1	456.7	19.6
Electric Machinery, etc.	13.5	5.8	63.0	6.5	66.4	6.1	82.9	6.3	97.2	6.1	137.3	6.8	182.1	7.8
Non-Electric Machinery, etc.	6.6	2.8	50.9	5.2	50.5	4.7	63.1	4.8	75.1	4.7	103.1	5.1	116.6	5.0
Transport Equipment	10.8	4.7	37.2	3.8	53.1	4.9	67.8	5.2	91.2	5.8	145.5	7.2	158.0	6.8
Wood Processing Products	38.9	16.8	132.4	13.6	147.2	13.6	192.2	14.7	233.3	14.7	282.6	14.0	284.5	12.2
Pulp & Paper	13.6	5.9	67.9	7.0	71.5	6.6	98.4	7.5	122.3	7.7	147.3	7.3	135.5	5.8
Cork & Products	14.2	6.1	64.5	6.6	75.7	7.0	93.8	7.2	110.6	7.0	135.3	6.7	149.0	6.4
Food Processing Products	28.7	12.4	94.5	9.7	99.6	9.2	107.8	8.2	131.4	8.3	154.2	7.6	169.6	7.3
Drink & Alcoholic liquid	12.4	5.4	32.3	3.3	38.8	3.6	46.0	3.5	54.3	3.4	60.5	3.0	31.1	1.3
Chemical Processing Products	13.7	5.9	75.4	7.8	73.1	6.8	83.2	6.3	110.7	7.0	133.8	6.6	147.6	6.3
Base Metal	11.4	4.9	52.1	5.4	47.4	4.4	46.7	3.6	58.0	3.7	67.1	3.3	81.7	3.5
Mineral Fuel	12.8	5.5	49.3	5.1	41.2	3.8	33.6	2.6	57.7	3.6	111.3	5.5	136.7	5.9
Others	23.8	10.3	74.3	7.6	84.3	7.8	102.1	7.8	116.1	7.3	142.6	7.1	175.9	7.6
Total	231.6	100.0	971.7	100.0	1,082.3	100.0	1,311.0	100.0	1,582.0	100.0	2,015.7	100.0	2,325.1	100.0

Source: BANCO DE PORTUGAL, Report of the Board of the Directors.

Table 2-1-11 PORTUGUESE EXTERNAL TRADE - IMPORT (CIF) BY MAIN COMMODITY

Unit: Billion ESC

	1980		1985		1986		1987		1988		1989		1990	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
TEXTILE, CLOTHING, FOOTWEAR, ETC.	35.5	7.5	118.8	9.0	138.4	9.6	203.6	10.4	260.3	10.1	302.5	10.1	381.2	10.8
Textile & Clothing	35.5	7.5	116.7	8.8	133.9	9.3	193.6	9.9	246.5	9.6	286.3	9.5	358.0	10.1
MACHINERY & TRANSPORT EQUIPMENT	117.4	24.7	285.2	21.5	410.6	28.5	643.5	32.7	981.2	38.2	1,103.2	36.7	1,290.6	36.5
Electric Machinery, etc.	22.9	4.8	66.2	5.0	91.3	6.3	123.6	6.3	195.5	7.6	229.4	7.6	291.6	8.2
Non-Electric Machinery, etc.	55.0	11.6	119.6	9.0	171.6	11.9	273.9	13.9	386.3	15.0	441.0	14.7	495.4	14.0
Transport Equipment	39.5	8.3	99.4	7.5	147.7	10.2	246.0	12.5	399.4	15.5	432.8	14.4	503.6	14.2
FOOD PROCESSING PRODUCTS	66.3	13.9	201.8	15.2	201.0	13.9	267.0	13.6	333.1	13.0	372.1	12.4	419.7	11.9
Cereals & Preparatives	28.0	5.9	57.1	4.3	41.9	2.9	25.3	1.3	33.9	1.3	38.1	1.3	43.0	1.2
CHEMICAL INDUSTRY & PLASTIC	59.4	12.5	158.9	12.0	192.5	13.3	250.0	12.7	307.8	12.0	337.4	11.2	399.5	11.3
BASE METAL	38.9	8.2	91.8	6.9	102.9	7.1	138.0	7.0	182.9	7.1	230.5	7.7	242.2	6.8
MINERAL FUEL	114.1	24.0	355.4	26.8	225.6	15.6	230.4	11.7	221.2	8.6	331.1	11.0	399.5	11.3
OTHERS	43.9	9.2	114.6	8.6	171.5	11.9	232.8	11.8	283.9	11.0	326.4	10.9	407.1	11.5
Total	475.5	100.0	1,326.5	100.0	1,442.5	100.0	1,965.3	100.0	2,570.4	100.0	3,003.2	100.0	3,539.8	100.0

Source: BANCO DE PORTUGAL, Report of the Board of the Directors.

Table 2-1-12 FOREIGN DIRECT INVESTMENT BY COUNTRY

Unit: Million ESC

	1981		1982		1983		1984		1985		1986		1987		1988		1989		1990	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
EEC	4,682	50.6%	2,491	25.5%	8,206	52.2%	9,826	35.5%	27,672	65.3%	16,774	68.5%	44,713	72.6%	87,832	63.6%	235,890	67.5%	351,384	69.0%
Belgium	126	1.4%	119	1.2%	824	5.2%	199	0.7%	1,911	4.5%	418	1.7%	1,960	3.2%	4,685	3.4%	23,532	6.7%	37,425	7.4%
Denmark	115	1.2%	6	0.1%	49	0.3%	379	1.4%	139	0.3%	89	0.4%	827	1.3%	1,649	1.2%	6,322	1.8%	2,092	0.4%
Spain	b)		b)		b)		b)		b)		2,718	11.1%	12,417	20.1%	10,502	7.6%	44,003	12.6%	62,050	12.2%
France	2,844	30.7%	962	9.9%	3,135	19.9%	3,292	11.9%	3,506	8.3%	2,319	9.5%	4,874	7.9%	11,795	8.5%	44,383	12.7%	72,858	14.3%
Greece	a)		a)		a)		a)		a)		0	0.0%	2	0.0%	0	0.0%	1	0.0%	51	0.0%
Netherland	381	4.1%	91	0.9%	365	2.3%	1,167	4.2%	2,104	5.0%	400	1.6%	1,885	3.1%	10,151	7.4%	23,829	6.8%	15,387	3.0%
Italy	22	0.2%	65	0.7%	68	0.4%	173	0.6%	305	0.7%	570	2.3%	375	0.6%	1,219	0.9%	2,851	0.8%	6,861	1.3%
Luxembourg	71	0.8%	112	1.1%	499	3.2%	280	1.0%	527	1.2%	1,112	4.5%	4,286	7.0%	2,309	1.7%	-	0.0%	-	0.0%
U.K.	346	3.7%	613	6.3%	1,535	9.8%	2,679	9.7%	17,662	41.7%	5,499	22.4%	14,679	23.8%	36,864	26.7%	79,374	22.7%	93,560	18.4%
W.Germany	777	8.4%	519	5.3%	1,009	6.4%	1,145	4.1%	1,505	3.6%	3,633	14.8%	3,408	5.5%	8,245	6.0%	11,349	3.2%	60,422	11.9%
Ireland	n.a.	n.a.	4	0.0%	722	4.6%	512	1.9%	13	0.0%	16	0.1%	0	0.0%	413	0.3%	246	0.1%	678	0.1%
EFTA	1,154	12.5%	969	9.9%	1,899	12.1%	3,686	13.3%	3,070	7.2%	4,499	18.4%	4,342	7.0%	13,038	9.4%	34,248	9.8%	44,735	8.8%
	3	0.0%	3	0.0%	0	0.0%	21	0.1%	0	0.0%	90	0.4%	7	0.0%	28	0.0%	805	0.2%	621	0.1%
Finland	5	0.1%	-	0.0%	1	0.0%	6	0.0%	92	0.2%	13	0.1%	1,013	1.6%	1,527	1.1%	1,661	0.5%	2,433	0.5%
Norway	66	0.7%	16	0.2%	-	0.0%	40	0.1%	210	0.5%	40	0.2%	513	0.8%	824	0.6%	1,026	0.3%	1,355	0.3%
Sweden	169	1.8%	80	0.8%	59	0.4%	823	3.0%	420	1.0%	490	2.0%	284	0.5%	3,023	2.2%	12,680	3.6%	16,160	3.2%
Switzerland	911	9.8%	870	8.9%	1,839	11.7%	2,796	10.1%	2,348	5.5%	3,866	15.8%	2,525	4.1%	7,636	5.5%	18,076	5.2%	24,166	4.7%
USA	2,228	24.1%	2,130	21.8%	951	6.0%	9,671	35.0%	6,208	14.7%	1,897	7.7%	6,904	11.2%	18,978	13.7%	37,448	10.7%	13,347	2.6%
JAPAN	35	0.4%	235	2.4%	171	1.1%	1,058	3.8%	-	0.0%	256	1.0%	1,518	2.5%	1,721	1.2%	2,428	0.7%	10,694	2.1%
SPAIN	163	1.8%	1,696	17.4%	1,542	9.8%	640	2.3%	1,512	3.6%	c)		c)		c)					
PALOP d)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22,891	6.5%	29,450	5.8%
OTHERS	990	10.7%	2,229	22.9%	2,954	18.8%	2,761	10.0%	3,892	9.2%	1,073	4.4%	4,148	6.7%	16,483	11.9%	16,627	4.8%	59,299	11.7%
TOTAL	9,252	100.0%	9,750	100.0%	15,723	100.0%	27,642	100.0%	42,354	100.0%	24,499	100.0%	61,625	100.0%	138,052	100.0%	349,532	100.0%	508,909	100.0%

Note a: Greece was not a member country of EEC until 1985
b: Spain was not a member country of EEC until 1985
c: Spain is a member country of EEC since 1986
d: Portuguese-speaking African countries

Source : ICEP

Table 2-1-13 FOREIGN DIRECT INVESTMENT BY SUB-SECTOR

Unit: Million ESC

	1981		1982		1983		1984		1985		1986		1987		1988		1989		1990	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1 Agriculture, Fishery & Forestry	521	5.6%	128	1.3%	495	3.1%	368	1.3%	742	1.8%	687	2.8%	1,946	3.2%	2,892	2.1%	6,599	1.9%	10,225	2.0%
2 Oil & Natural Gas	19	0.2%	901	9.2%					366	0.9%					56	0.0%	388	0.1%	0	0.0%
Metal Production	418	4.5%	20	0.2%			1,184	4.3%	3,724	8.8%	888	3.6%	406	0.7%	498	0.4%	431	0.1%	110	0.0%
Mining & Quarrying	42	0.5%	38	0.4%	674	4.3%	19	0.1%	180	0.4%	202	0.8%	227	0.4%	1,652	1.2%	1,473	0.4%	1,367	0.3%
Sub Total	479	5.2%	959	9.8%	674	4.3%	1,203	4.4%	4,270	10.1%	1,090	4.4%	633	1.0%	2,206	1.6%	2,292	0.7%	1,477	0.3%
3 Food, Beverage, Tobacco	90	1.0%	206	2.1%	964	6.1%	1,327	4.8%	1,518	3.6%	727	3.0%	821	1.3%	6,438	4.7%	13,795	3.9%	6,642	1.3%
Textile, Clothing, Leather	244	2.6%	266	2.7%	291	1.9%	858	3.1%	1,047	2.5%	1,286	5.2%	2,038	3.3%	3,542	2.6%	7,342	2.1%	8,679	1.7%
Wood & Cork	133	1.4%	87	0.9%	123	0.8%	42	0.2%	591	1.4%	303	1.2%	2,939	4.8%	411	0.3%	1,326	0.4%	366	0.1%
Paper, Graphics, Publication	1	0.0%	174	1.8%	698	4.4%	172	0.6%	8,620	20.3%	150	0.6%	1,662	2.7%	2,453	1.8%	10,077	2.9%	7,488	1.5%
Petro Chemical, Rubber, Plastics	411	4.4%	440	4.5%	856	5.4%	1,395	5.0%	4,366	10.3%	2,244	9.2%	2,341	3.8%	10,046	7.3%	7,958	2.3%	45,838	9.0%
Non-Ferrous Metal	17	0.2%	67	0.7%	19	0.1%	251	0.9%	979	2.3%	285	1.2%	4,944	8.0%	6,539	4.7%	5,957	1.7%	7,959	1.6%
Basic Metal	1,368	14.8%	113	1.2%	955	6.1%	280	1.0%	575	1.4%	933	3.8%	68	0.1%	97	0.1%	637	0.2%	1,492	0.3%
Machinary, Transportation	2,215	23.9%	2,617	26.8%	2,010	12.8%	5,221	18.9%	2,834	6.7%	1,522	6.2%	4,061	6.6%	11,416	8.3%	46,959	13.4%	39,890	7.8%
Misc. (Manufacturing)	6	0.1%	67	0.7%	116	0.7%	25	0.1%	35	0.1%	271	1.1%	30	0.0%	664	0.5%	84	0.0%	806	0.2%
Sub Total	4,485	48.4%	4,037	41.4%	6,032	38.4%	9,571	34.6%	20,565	48.5%	7,721	31.5%	18,904	30.7%	41,606	30.1%	94,135	26.9%	119,160	23.4%
4 Electricity, Gas, Water															48	0.0%	113	0.0%	79	0.0%
5 Construction & Public Works	76	0.8%	136	1.4%	185	1.2%	193	0.7%	166	0.4%	321	1.3%	1,302	2.1%	7,625	5.5%	32,359	9.3%	28,825	5.7%
6 Wholesale	1,055	11.4%	1,586	16.3%	2,966	18.9%	6,371	23.0%	2,639	6.2%	3,200	13.1%	4,328	7.0%	13,992	10.1%	16,401	4.7%	27,679	5.4%
Retail Trade	63	0.7%	147	1.5%	229	1.5%	89	0.3%	224	0.5%	669	2.7%	2,316	3.8%	2,080	1.5%	14,222	4.1%	7,517	1.5%
Restaurants & Hotels	834	9.0%	1,203	12.3%	832	5.3%	1,815	6.6%	1,130	2.7%	1,895	7.7%	2,993	4.9%	10,242	7.4%	17,794	5.1%	15,546	3.1%
Sub Total	1,952	21.1%	2,936	30.1%	4,027	25.6%	8,275	29.9%	3,993	9.4%	5,764	23.5%	9,637	15.7%	26,314	19.1%	48.417	13.9%	50,742	10.0%
7 Transportation, Communication	23	0.2%	234	2.4%	181	1.2%	643	2.3%	409	1.0%	418	1.7%	1,885	3.1%	507	0.4%	4,960	1.4%	2,131	0.4%
8 Bank, Financal Institutes,	982	10.6%	726	7.4%	2,797	17.8%	4,235	15.3%	8,908	21.0%	1,604	6.5%	15,060	24.5%	23,271	16.8%	55,440	15.9%	141,673	27.8%
Insurance	6	0.1%	13	0.1%	1	0.0%	98	0.4%	155	0.4%	1,643	6.7%	682	1.1%	1,498	1.1%	13,404	3.8%	11,741	2.3%
Real Estate	693	7.5%	484	5.0%	1,046	6.7%	2,148	7.8%	2,472	5.8%	5,145	21.0%	11,125	18.1%	30,486	22.1%	86,153	24.6%	140,559	27.6%
Sub Total	1,681	18.2%	1,223	12.5%	3,844	24.4%	6,481	23.4%	11,535	27.2%	8,392	34.3%	26,867	43.6%	55,255	40.0%	154,997	44.3%	293,973	57.8%
9 Social & Personal Service	43	0.5%	102	1.0%	288	1.8%	911	3.3%	697	1.6%	108	0.4%	399	0.6%	1,671	1.2%	5,661	1.6%	2.297	0.5%
Total	9,260	100.0%	9.755	100.0%	15,726	100.0%	27,645	100.0%	42,377	100.0%	24,501	100.0%	61,573	100.0%	138,124	100.0%	349.533	100.0%	508.909	100.0%

Source: ICEP

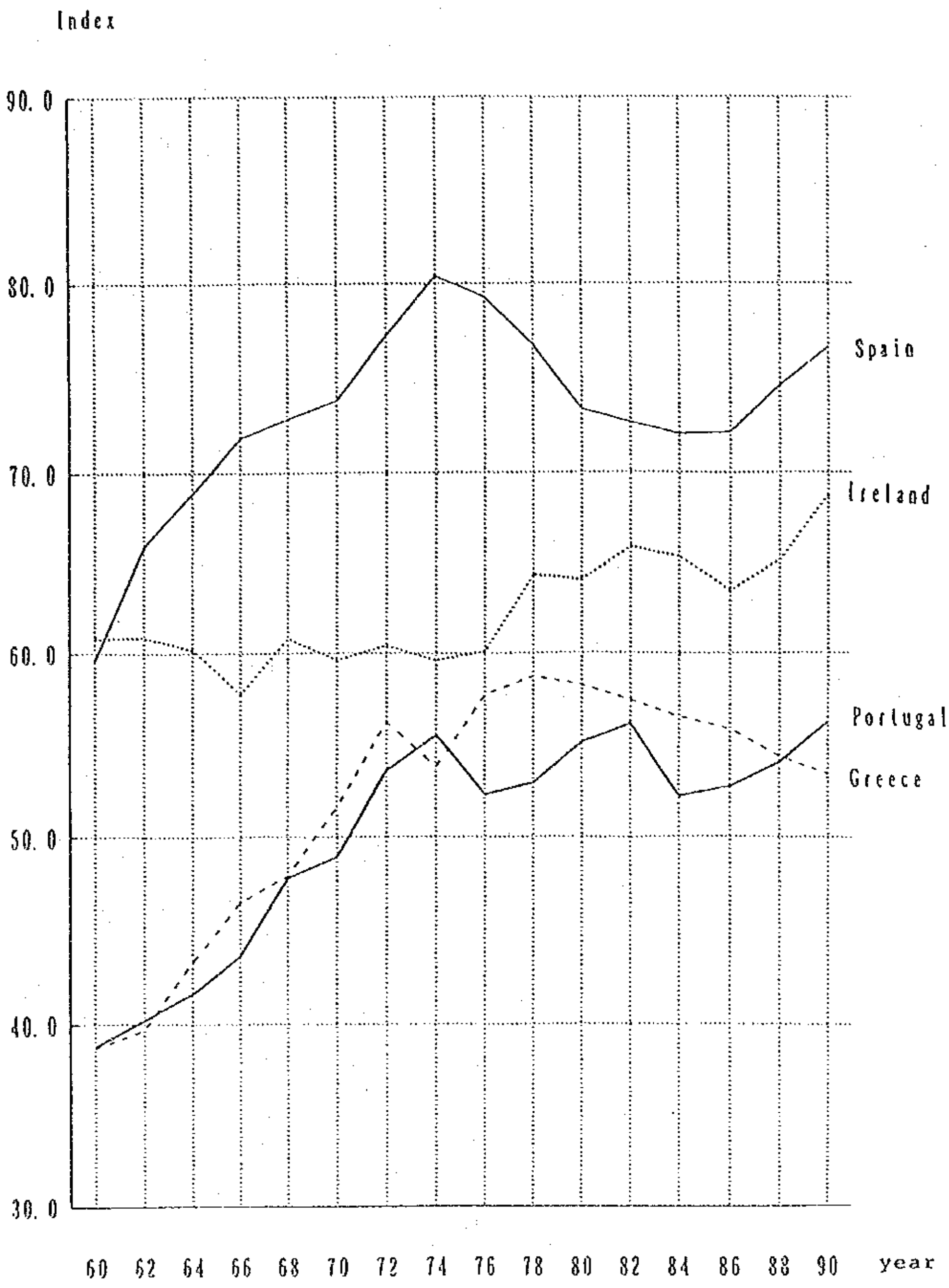
Table 2-1-14 FOREIGN DIRECT INVESTMENT BY OPERATION

Unit: Million ESC

	1981		1982		1983		1984		1985	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Investment in New Company	1,866	20.2%	1,814	18.6%	3,668	23.3%	5,711	20.7%	10,550	24.9%
Formation in New Company	1,759	19.0%	1,712	17.6%	3,408	21.7%	2,623	9.5%	4,381	10.3%
Formation in Branches of Existing Company	107	1.2%	102	1.0%	260	1.7%	3,088	11.2%	6,169	14.6%
Investment in Established Company	5,534	59.8%	6,237	64.0%	10,955	69.7%	16,926	61.2%	25,331	59.8%
Capital Expansion	4,114	44.5%	4,886	50.1%	7,127	45.3%	7,978	28.9%	17,035	40.2%
Capital Expansion to Consolidated Company	1,174	12.7%	1,115	11.4%	2,345	14.9%	4,472	16.2%	4,307	10.2%
Reintegration of Capital	-	0.0%	-	0.0%	14	0.1%	2,916	10.5%	18	0.0%
Supplementary Capital	246	2.7%	236	2.4%	1,469	9.3%	1,560	5.6%	3,971	9.4%
Acquisition	1,108	12.0%	1,373	14.1%	892	5.7%	3,017	10.9%	5,048	11.9%
Others	744	8.0%	327	3.4%	209	1.3%	1,990	7.2%	1,427	3.4%
Total	9,252	100.0%	9,751	100.0%	15,724	100.0%	27,644	100.0%	42,356	100.0%

	1986		1987		1988		1989		1990	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Investment in New Company	4,436	18.1%	13,548	22.0%	28,158	20.4%	86,486	24.7%	94,309	18.5%
Formation in New Company	3,136	12.8%	10,363	16.8%	24,231	17.6%	75,868	21.7%	86,175	16.9%
Formation in Branches of Existing Company	1,300	5.3%	3,185	5.2%	3,927	2.8%	10,618	3.0%	8,134	1.6%
Investment in Established Company	16,246	66.3%	41,361	67.1%	66,473	48.2%	184,069	52.7%	285,779	56.2%
Capital Expansion	11,077	45.2%	29,038	47.1%	33,893	24.6%	90,066	25.8%	142,333	28.0%
Capital Expansion to Consolidated Company	2,762	11.3%	8,131	13.2%	18,137	13.1%	27,551	7.9%	45,551	9.0%
Reintegration of Capital	-	0.0%	-	0.0%	300	0.2%	0	0.0%	12	0.0%
Supplementary Capital	2,407	9.8%	4,192	6.8%	14,143	10.2%	66,452	19.0%	97,883	19.2%
Acquisition	3,681	15.0%	6,201	10.1%	43,331	31.4%	71,440	20.4%	111,025	21.8%
Others	136	0.6%	518	0.8%	91	0.1%	7,537	2.2%	17,795	3.5%
Total	24,499	100.0%	61,628	100.0%	138,053	100.0%	349,532	100.0%	508,908	100.0%

Source: ICEP



Source; European Economy, Annual Economic Report 1990-91

Figure 2-1-1 PER CAPITA GDP RELATIVE TO EUR 12 IN PORTUGAL, GREECE SPAIN AND IRELAND, 1960 (in PPS, index EUR 12=100)

2.2 The Portuguese Economy in the EC Context

As mentioned in the previous section, the EC in 1990 accounted for a 73.6% share of Portugal's exports and 69.0% of Portugal's imports came from the EC (cf. Tables 2-1-8 and 2-1-9). Further, the EC accounted for 69% of the direct foreign investment into Portugal. Moreover, the amount of investment continues to increase annually. If the unification of the EC planned for 1993 takes place to schedule then a free flow of commodities, people and capital will result and the close economic relations between Portugal and other EC nations is expected to be further strengthened.

The present section will look at the relation of the EC considered as an economy with other economies (Japan, the USA, EFTA, etc.). Then we shall examine the economic relations existing between Portugal and the EC countries giving special attention to trade and direct foreign investment. Finally, we shall treat the general market trends involved in EC unification and look at the influence these will have on the Portuguese economy.

2.2.1 Outline of the EC Economy

(1) Position of the EC in the World Economy

The combined territory of the twelve member EC countries is 2.37 million square km. representing about 1.6% of the world's total land surface, with a total population of 342.9 million inhabitants representing 6.7% of world population. However, the current GDP (for 1989) stands at 4,970 US $ billion which is 24.6% of the world total. Including internal trade the amount of EC trading is 1,134.5 US $ billion for exports and 1,166.5 US $ billion for imports so that the total export-import statistics represent 35.4% of world trade, making the EC together with the USA and Japan one of the largest and most advanced economic regions in the world.

Incidentally, although the GDP of the USA, which is 5,233 US $ billion, accounts for 25.9% of the world total, slightly surpasses the figure achieved by the EC the amount of trading is only 11.8% for exports and 13.6% for imports of the USA giving a combined import export figure of 13.6% of world trading, which is considerably below the share of the EC indicated above. Japan's GDP is 14% of the world total and the volume of trading is 7.7% of world total.(refer to Table 2-2-1).

A particularity of trade in the EC is the predominant place of internal trading with 60% of exports and 58.1% of imports being traded on an inner regional basis. The main external trading partners are geographically close or have deep historical ties, and the EFTA countries take first place. The EFTA countries accounted for 9.6% of EC exports and 10.3% of EC imports in 1989 with a total import export volume of about 10%. The principal EC trading partner among the EFTA countries is Switzerland, which has a 3% share of imports and exports, for the above mentioned reasons. The USA is the second trading partner after EFTA with exports of 7.8% of total and imports of 7.5%. A considerable way behind Japan has a 4.3% share of exports and a 2% share of imports, followed by former Soviet Union and Canada in that order (cf. table 2-2-2).

(2) Trade of EC Member Nations Inside and Outside the EC

The total share of trading of EC member nations accounted for by trade inside the EC territory has steadily increased in conjunction with the process of trade liberalisation. In 1958 just after founding of the EC the share of total import export value represented by trading inside the EC territory was of the order of 36.2% which rose to 52.3% in 1980 and to 59% in 1989 (cf. table 2-2-3).

The volume of trade by member country in 1989 shows that Germany had the highest share with 22.8% of exports and 29.6% of imports. This was followed by France with 17% of exports, and 16.1% of imports, then Great Britain with 16.6% of exports and 13.2% of imports, Italy with 12.9% and 12.2% for exports and imports respectively, Holland with 9.5% and 10.1% for exports and imports respectively. This means that the three countries Germany, France and Great Britain taken together accounted for 56.4% of the total export trading volume of the twelve EC countries and for 58.9% of the total imports.

Next, looking at the trading by member country inside the EC zone, trading carried out by the EC members taken together accounts for 60% of total exports and 58.1% of total imports. Individual member countries with the highest shares of such inner zone trade are the Republic of Ireland, Belgium, and Luxembourg with 69% for exports, and Holland with 79% of imports involved in such trade. Great Britain has the lowest shares of export and import accounted for by such trading within the EC zone, with 51.1% and 50% respectively. Even at its lowest then all of the member nations depend for more than half of their import-export trade on inner EC zone trade. Moreover even though the level of inner zone trade carried out by Great Britain and Germany falls below the average percentages of the member countries, the trade of these two countries together accounts for more than one third of the actual trading in the zone and the absolute trade volume of these two nations is relatively large within the community.

Next, looking at the largest inner zone trading partners of the individual member countries, Germany has the largest volume in exports to five countries while in imports from eight countries. Germany plays the major trading role in the EC zone. This is followed by France which is the larger exporter to three countries and the largest importer from one country, Great Britain and Italy both take up third place, while Spain is the largest exporter to Portugal.

Looking at the main trading partners from outside the EC, the US market is the most important for British exports, the second most important for Italian exports, the second most important source of imports into Great Britain and Ireland is the USA, while the second most important source of Danish imports is Sweden. However, with the exception of the few cases listed above the main trading partners of the EC member nations are found to be other member nations. (cf Table 2-2-4).

2.2.2 Economic Relation between Portugal and the European Community

(1) Evolution of the EC and Portuguese Membership

In 1957 when the EEC was founded there were only six original member countries, that is West Germany, France, Italy, Holland, Belgium and Luxembourg. Portugal which did not participate in the EC became a founding member of EFTA which was organized around Great Britain and the countries of North Europe to offset the EC. However, while the EC from its inception aimed at a high level of economic unity through the creation of a common market zone, EFTA sought to realize a trading federation of loosely affiliated nations with an emphasis on neutrality. This underlying rationale of the EFTA concept is seen to reflect the colonial economies of Great Britain and Portugal on the one hand and the special relations of the North European countries with the Soviet Union on the other.

The EC has gradually realised an increasing level of economic unity despite certain delays to its initial program and occasional detours taken in response to the changing world situation, whereas the number of EFTA members has actually fallen. In 1973 Great Britain and Denmark, both important members of EFTA, withdrew from this association to join the EC, thus increasing the disparity between the relative importance of the two organizations greatly to the favour of the EC. As a result EFTA sought to strengthen its cooperative relations with the EC, so that a free trade agreement was signed between the EC and EFTA in 1973. In addition to establishing the gradual abolition of customs tariffs and volume quotas for manufactured goods, this agreement set the aim of creating a European Economic Space in 1984 aiming at uniformity of industrial standards, the reduction of trade barriers of all kinds and cooperation between the EC and EFTA in research and development programmes. Later in 1991, European Economic Space developed to "European Economic Area" for furtherance of intimate economic relationship between EC and EFTA. It was against the above background that Portugal submitted to be accepted as a member of the EC in 1977. By 1986 when Portugal entered the EC, tariff barriers with the EC had already been significantly reduced and the economic relations of Portugal with the community were already very close.

(2) Portugal's Position in the EC

With the advent of the early phase of modern history Portugal established itself as a major maritime power and undertook an active policy of overseas expansion and acquired numerous overseas colonies becoming a major European power. The historical and cultural ties with the other member nations of the EC are consequently long standing and deep. However, in the post World War II period economic isolation resulted from the policies adopted over the long term of the Salazarist dictatorship and from the April revolution of 1974. Consequently, the economic gap separating Portugal from the other EC countries continued to widen.

When Portugal joined the EC in 1986 its economy had finally begun to show signs of recovery but the disparity with the economic level of the EC countries remained. To date in 1989, Portugal with a territory of 924,000 sq. km represents about 3.9% of the EC territory and with a population of 10.5 million accounts for 3% of the EC total but its GDP of 41 billion US $ only accounts for 0.8% of the total EC GDP. The trade value which is 1.4% for exports and 1.6% for exports with a combined import-export value of 1.4% of EC totals is considerably below the Portuguese percentage of total EC population given above. In contrast to the average EC per capita GDP of 14,500 US $ the corresponding figure for Portugal is 4,386 US $ (5,682 US$ in 1990) and so less than a third of the average. An analysis of the shares in GDP accounted for by different industries shows that the levels of the agricultural-fishery sector with 6.4% (EC 3.1%) and the mining industry with 37.1% (EC 34.3%) surpass EC averages while the service industries account for 56.5% of GDP in Portugal against an average 62.6% in the EC so that while this falls below the corresponding EC figure it indicates that the industrial structure in Portugal is very close to the predominant pattern of the EC (cf. Table 2-2-5).

(3) Current Situation of EC-Portugal Trade

In addition to a rapid turn upwards in the Portuguese economy after entry into the EC the level of external trade also increased rapidly. Comparing the trade value registered for Portugal just before entry into the EC in 1985 with figures for 1990 shows that whereas the total EC value of export-import increased only 1.2 times over these five years the corresponding figures for Portugal increased 2.4 times for exports and 2.7 times for imports over the same period. This favourable increase in trade value was based entirely on increased trading in the EC zone.

Looking at the value of exports within the EC zone, exports increased 2.9 times from 607 ESC Billion in 1985 to 1,732.3 in 1990 (all following figures use these two years as the base dates for comparison) so that the increase realised surpassed the 2.4 times increase registered for the total value of export trade. 81.5% of the total increase in export value realized over these five years is accounted for by the increase in exports to the EC, and the ratio of trade within the EC zone rose from 62.5% to 73.7%. By individual country, the largest increase was with Spain which grew by 272.2 ESC billion followed by Germany with 259.4 ESC Billion, and France with 241.1 Billion. The share of exports to Great Britain which had been Portugal's main export market in 1985 fell from 14.6% to 12.1%.

Looking at trade by individual items, exports of footwear,centering on the traditional industries of leather shoes, increased 3.4 times, thus surpassing the average increase in exports of 2.4 times. Otherwise, a healthy increase of 4.2 times was registered in the export of vehicles but exports of processed foodstuffs declined and the percent distribution in overall exports fell from 9.7% to 7.3% (refer to Tables 2-2-6 and 2-2-7).

While the total value of imports increased 2.7 times over the five year period being considered imports from within the EC zone increased 4 times in value, so that the increased volume of imports from within the EC region accounted for 82.8% of the total increase in value. Therefore the percent distribution of inner EC zone trade in the total import value increased from 46% to 69.1% over the five year period.

As with exports, imports from Spain showed a marked increase growing 5.3 times over the five year period, which represents the largest increase by country within the EC zone. The investment value of imports in 1990 was 514.5 Billion ESC which made Spain the major source of imports, surpassing Germany which had previously occupied this position. The percent distribution of Spain increased from 7.4% to 14.4% over the five year period. A bilateral agreement with Spain which abolished or improved the tariffs and quotas on traded items between the two countries was signed at the same time as Portugal made its entry into the EC. Moreover, just as the two countries realised this mutual opening of economic frontiers the economic situation in Spain took a favourable turn.

The most important partners for Portugal's imports are Germany with 510.9 ESC billion, France with 409.9 ESC billion and Italy with 355.6 ESC billion. The corresponding rates of increase for these countries were 3.4 times, 3.8 times and 5.2 times respectively. These rates show that the increases accruing to the individual countries in the EC zone were all superior to the overall rate of increase in imports to Portugal for the same period.

By individual item, machinery largely in the vehicle sector showed a rapid increase of 4.5 times increase so that the ratio of total imports rose from 21.5% to 36.5%. Textile products increased 3.1 times so that the ratio of total imports rose from 8.8% to 10.1% (refer to Tables 2-2-8 and 2-2-9).

(4) Direct Foreign Investment from the EC to Portugal

Direct foreign investment into Portugal increased rapidly with the entry of Portugal into the EC in 1986. A comparison of ICEP statistics for the level of foreign investment into Portugal in 1985 before entry into the EC with those for 1990 shows that investment increased about 12 times from 42,354 ESC million to 508,909 ESC million. In view of the fact that a very large scale of investment from Great Britain took place in 1985 which swelled the foreign investment sum it would seem that the actual increase over the five years was actually even greater. The major part of foreign investment was from the EC countries, and this accounted for 69.1% of direct foreign investment representing a twelvefold increase over the five year period being considered. By EC country, the largest investor remained Great Britain with 93,560 ESC million representing 18.4% of the total, followed by France with 72,858 ESC million representing a percent distribution of 14.3%, then Spain with 62,050 ESC million and 12.2%, Germany with 60,422 ESC million and 11.9% so that these four top countries accounted for 56.8% of the total investment. The countries showing the most marked increases are Spain, Germany and France reaching levels 41, 40 and 20.8 times greater by the end of the five year period. Italy also achieved a 22.5 fold increased whereas Great Britain only achieved a 5.3 fold increase over the level of its investment in 1985, when a large scale investment was realized as mentioned above.

By individual sector the largest investment came from the financial and real estate industries accounting for 57.8% of the total investment with 293,973 ESC million. Despite the fact that foreign investment in the manufacturing sector increased 5.8 times over this period the relative importance of this in the overall investment sum diminished (although it had been the manor investment sector with a percentage distribution of 48.6% in 1985) as a result of the increase in overseas investments in the financial and real estate sectors of the economy. 10% of the remaining investments representing 50,742 ESC million went into commercial businesses , restaurants and hotels, and 5.7% or 28,825 ESC million went into construction, and 2.0% or 10,225 ESC million went into forestry, agriculture and fishing industry (refer to Tables 2-2-10 and 2-2-11).

A comparison of Portugal-EC relations just before Portuguese entry into the EC in 1985 with those today (1990), giving emphasis to the aspects of import-export trading and direct foreign investment reveals the following conclusions.

1) Although Portugal only accounts for around 1% of the overall economic activity of the EC it has been able to achieve the highest economic growth of all the EC member nations and continues to gradually increase its relative importance.

2) Economic relations between Portugal and the EC nations has developed rapidly as of Portugal's entry into the EC and the ratio of total Portuguese import-export trading and direct foreign investment accounted for by the EC has increased rapidly over the last five years to reach its current level of about 70% of the totals.

3) The key factor in further economic development in Portugal remains the country's

relations with the other member nations of the EC and it is expected that increasing interdependence will be seen.

(5) Promotion of Portuguese Industry and EC Structural Funds

In the Eight Year Plan, Program for Structual Adjustment of External Deficit and Unemployment (PCEDED 1987-1994) which was initiated in 1986 as Portugal's entry into the EC, as part of national policy and in recognition of the need to nurture Portuguese industry on the basis of the EC assistance programme was taken up and the active application of EC funding noted as a central pillar to a policy of promoting Portuguese industry. In fact on a cumulative basis Portugal received 862.9 billion ESC from the EC in the form of structural funding between 1986 and 1990. Of this, the sum representing the actual allowance was 545.7 billion ESC, and this is assumed to have had the effect of raising the actual rate of growth about 1%. In 1988 a reform of the EC structural funding system was undertaken and the principle of using the fund for helping development of the less developed regions of the EC such as Portugal was clearly formulated. As against the actual 1987 budget of 7,233 million ECU it was decided to double this to 14,466 million ECU in 1993, the final year of the EC Five Year Planning Period, and the EC structural fund took on a vital role in the economic development of Portugal. The following is an outline of the reformed EC Structural Funding System and the role this plays in the industrial development of Portugal.

1) EC Structural Fund System

One of the major themes taken up in the Single European Act adopted in 1987 was the establishment of the new guidelines to reform the existing EC structural policies. It was recognized that the elimination of regional disparities was a major task involved in realizing a stronger unity among member nations in view of EC Unification scheduled for 1992. A reform of structural policies was demanded in order to support development of less developed regions. In 1988 an EC Commission proposed a reform of the Structural Funding System which was approved by Ministerial Council together with an increase of the fund budget. This increase in budget was made possible by the long proposed reform of the the Common Agriculture Policy (CAP) which established a ceiling limit on agricultural related expenditure which had accounted for more than half of the EC budget to that date. The Purchasing Fund for Agricultural Goods first passed 58.8% breaking the line of 60% of the total budget for the first time since the founding of the EC in the 1989 budget. The allocations for the Structural Fund grants in the annual budgets of the Five Year period 1989-1993 are as follows:

The Appropriations Available for the Structural Fund
(1988 Prices)

Unit: Million ECU

1987	7,233
1988	7,684
1989	8,980
1990	10,280
1991	11,580
1992	12,900
1993	14,466 (twice as big as 1987)

Source: EEC Anuual Report on the implementation of the Reform of the Structural Funds

Assistance carried out within the EC Structural Fund is divided into subsidies and loans. The release of funding is implemented via the following grants.

a) The European Regional Development Fund (ERDF), designed to assist the reduction of regional disparities within the EC

b) The European Social Fund (ESF), designed to promote employment opportunities.

c) Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF), as part of the CAP reform, this aims at improvement in Agricultural structure and promotion of regional development.

d) In addition to the above there are grants provided for Fishing, Environmental, Transport, Infrastructural and Energy sectors.

Loans are implemented via the following EC related organizations.

-EIB : The European Investment Bank
-NCI : The New Community Instrument
-ECSC: The European Coal and Steel Community
-EURATOM: The European Atomic Energy Community

The following five priorities were established as part of the general reform as guidelines to management of the structural fund. The regions concerned by each of these priorities were also stipulated and the budget allocations decided on for the period 1989-1993 are as shown in Table 2-2-12. Objective 1 accounts for 63.5% of the total budget and is given top priority with 80% of the ERDF being allocated by ruling to implementing this objective 1.

Applicable fields of EC Funds is defined by its objective as below:

Objective 1: To promote the development and structural adjustment of the regions whose development lags behind. (Areas concerned are those where per capita GDP falls below 75% of the EC average. The regions concerned are to be evaluated every five years, for the time being the entire territories of Portugal, Greece and Ireland together with specific regions of other member nations have been stipulated for assistance.)

Objective 2: To convert the regions, frontier regions or parts of regions seriously affected by industrial decline. (Areas suffering from unemployment rates higher than the EC average form the object of this and evaluations are made every three years.)

Objective 3 and 4 : To combat long term unemployment and promote occupational untegration of young people. (Those concerned are under 25 and those unemployed for more than twelve months.)

Objective 5 (a): To adjust the production, processing and marketing structures in agriculture, forestry and fisheries.

Objective 5 (b) : Promotion of rural development.

Besides the above the following represent the main points of the 1988 reform.

a) The partnership of Member countries benefiting from funding with the local government in the regions affected and with regional public organizations is given great emphasis by the EC in its allocation and managing of the Structural Funds. Close contact and consultation with these is carried out through all stages of planning, implementation and supervision.

b) Emphasis is given to complementing the economic policies of the government of the member country concerned.

c) Emphasis is given to a programme based approach rather than to an individual project approach in the regions concerned.

d) To realise the above, the following measures are to be implemented; diversification of assistance methods, liaison of the various funds, and combined management of grants and loans (assistance by loans up to 50%, by a combination of loans and grants up to 70% and up to 90% in exceptional cases is permitted).

2) Portugal and EC Fund

At the origin of the 1988 reform of the EC Structural Fund was the entry of Portugal and Spain to the Community which had further widened the social disparity between regions in the EC. It was recognized that a necessary pre-condition to the realisation of a unified free market within the EC was the maximum reduction of these regional disparities. The three countries which showed the greatest disparity with other EC members were Portugal, Greece and Ireland and in accordance with Objective 1 of the Structural Fund these were chosen as the regions to be allocated the major part of funding, and the entirety of these three countries was specified as the object of allocations.

Table 2-2-13 indicates the ERDF, ESF and EAGGF(Guidance Section) allocations to each of the member EC countries over the five year period from 1989-1993. This shows that Portugal was accorded a total sum of 6,958 million ECU (representing 19% of the total funds budget) making the total of 7,368 Million ECU including PEDIP assistance.

The Portuguese government agreed on consultation with the EC on the following priorities for application of the above funding.

a) To contribute directly to a balanced growth of the economy through the provision of industrial infrastructures. Since Portugal is geographically situated at the edge of the EC zone particular attention is to be given to improving transport networks both internal and with other EC members, on improving communications systems, on improving energy distribution networks, on promoting R and D which are viable within the EC zone, and on ameliorating tourist services.

b) Assistance for improving productivity and for infrastructure related investment.

c) Human resource development. This involves assistance to improve the standard of education, the quality of national workforce through occupational training, to promote employment and to increase productivity.

d) Reinforcement of competitiveness through agricultural and regional development.

e) Promote a shift in industrial structure.

f) Regional development of the mainland and Autonomous Regions.

Looking at the EC fund and the subsequent contribution by the Portuguese Government over the five year period 1989-93, allocation programme classified according to the above priorities (refer to Table 2-2-14) shows that the largest share went to human resources development accounting for 29.8% of the total followed by the Programme for Promotion of Industrial taking 20.1% , then on infrastructures with 19%, agriculture with 15.9% and regional programmes with 15.8%. In other words, emphasis was given to human resources development to improve the quality of the workforce, then on promotion of industry, infrastructural improvement and reinforcement of competing power in that order. The EC funding allocations by particular allocation programme are as follows.

ERDF	3,757	Million ECU
ESF	2,028	Million ECU
EAGGF, Guidance Section	1,173	Million ECU
PEDIP	410	Million ECU
TOTAL	7,368	Million ECU

The ERDF which has the most important and central role in the EC's structural funding operations has the aim of assisting the improvement of regional infrastructures. ERDF occupies 51% of the overall funds to Portugal and represent about 10% of the fixed capital formation in the country at present.

The PEDIP is a programme of industrial promotion specially approved for Portugal besides which 100 ECU Million comes from the ESF, 500 Million ECU from the special assistance funds of the EC, to which is added another 350 Million ECU representing the contribution of the Portuguese government to give a total assistance of 1,350 Million ECU on top of which an EIB loan of 1,000 Million ECU is added to give a net total of 2,350 Million ECU to be administered over the five year period from 1988 to 1992. The most important objective of the programme for the promotion of Portuguese industry is to strengthen competing power through modernisation of Portugal's industrial structure.

Table 2-2-15 indicates the rate of assistance of EC fund by priority objective and by individual funds. The funding assistance rate of which ranges between a 30% minimum figure up to a maximum of 75% represents a extremely preferential and effective incentive system.

The total EC funding is 7,368 million ECU allocated over the five year period in cumulatively increasing portions. The annual average of these is 14,736 million ECU which is estimated to represent about 3.3% of Portugal's GDP. If the Portuguese contribution is added to this the sum represents more than 6% of GDP and the contribution to the economic development of Portugal can be expected to be very large. Funding for industrial promotion is focused on the PEDIP but the programmes for human resources development and regional infrastructure provision are also essential preconditions to industrial promotion, so that the role of the EC Structural funding in the promotion of Portuguese industrial development is extremely significant.

The addition of complementary financing from the EIB and ECSC to the EC allocations mentioned above further reinforces the structural funding undertaken by the EC. Eligibility for EIB financing is based in principle on the applicability of Objectives 1, 2 and 5(b) of the structural fund system as outlined above. It is estimated that around 5 billion ECU representing about 60% of the capital supply of the EIB will be allocated to these purposes, and of this two thirds is concerned with realising Objective 1. The funding is implemented through co-financing arrangements of multiannual operational programmes or specific projects and the EIB conducts an examination of individual projects. In 1988 the financing achievement to Portugal (on a signed contract basis) was to the order of 560.4 million ECU, in 1989 it was 755.7 million ECU representing 5.9% and 6.5% respectively of the EC total. By industry the object of this finance in 1989 was industry, services, and agriculture with 37.9% followed by energy programmes with 33.2% and infrastructure works with 28.9% (EIB Annual Report 1989).

Besides the Structural funding system, the assistance systems of C.I. (Community Initiatives) and C.P. (Community Programmes) exist to assist regional development within the EC. C.I.projects currently in progress include:

STAR (Telecommunications)
VOLOREN (Renewable Energy)
RESIDER (Conversion of Iron and Steel Areas)
RENAVAL (Conversion of Shipbuilding Areas)

In addition to the 1.7 billion ECU allocated for the above a total of 3.8 billion ECU was approved for the following new C.I. in November, 1989.

Approved Community Initiatives

	Million ECU
RECHAR (CI for economic conversion of Coalmining Areas)	300
ENVIREG (CI in environmental fields)	500
STRIDE (CI Science and Technology for Regional Innovation and Development in Europe)	400
INTERREG (CI for border area)	700
REGIS (CI for remoter regions)	200
Integrating Basic Infrastructures	
REGEN (CI concerning energy supply networks)	300
- TELMATIQUE, an extension of STAR (CI for special telecommunication action for regional development)	200
- PRISMA, International market and SME	100
- INTERREG, Increase of financial envelope	100
- EUROFORM, NOW, HORIZON, to improve human resources	600
- LEADER, Integration of rural areas	400
Total	3,800

Also the following R and D programmes will be furthered on a dunified EC basis.

ESPRIT (I and II) (European Strategic Programme for Research and Development in International Technology)	3.2 billion ECU
RACE (Research and Development in Advanced Communication Technology for Europe)	1.5 billion ECU
BAP (Biotechnology Action Program)	5.5 billion ECU

Putting emphasis on a coordinated harmonious development within the Community and on a reduction of economic disparities between regions as set down in the Treaty of Rome, the EC structural fund is to be further strengthened with the unification of the EC to take place in 1992. The present five year budgeting programme is expected to be continued unless the economic disparities to which the programme is addressed have been satisfactorily solved. The next five year budget for 1993-1997 is expected to see a 50 to 100% increase in budgeting allocations.

Table 2-2-1 ECONOMIC POSITION OF EC IN THE WORLD ECONOMY

	World	EC		U.S.A.		Japan	
	(A)	(B)	(B)/(A)x100	(C)	(C)/(A)x100	(D)	(D)/(A)x100
Area (1000km2)	148,890.0	2,370	1.6%	9372.6	6.3%	378.8	0.3%
Population (1988, million)	5,112.0	342.9	6.7%	246.3	4.8%	122.6	2.4%
GDP (1989, US$ billion)	20,200.0	4,970	24.6%	5,423.2	26.8%	2,938.0	14.5%
GDP per Capita (1989, US$)		14,500.0		21,696.0		23,781.0	
Trade (1989, US$ billion)	6,315.0	2,301.0	36.4%	856.9	13.6%	483.6	7.7%
Export	3,095.0	1,134.5	36.7%	364.0	11.8%	273.9	8.8%
Import	3,220.0	1,166.5	36.2%	492.9	15.3%	209.7	6.5%

Source: JETRO - Handy Facts on EC-Japan Economic Relations