Voices of Convergence: An Iberian Analog for the New Member States

Lúcio Vinhas de Souza

Head of the Economics Team at the European Policy Strategy Center (EPSC)
European Commission

Thinking about the effects of EU Membership can turn out be a quite private event, as memories of the past include both your own experiences, that of your family and your country.

For almost half a century, between 1926 and 1974 –the year of the “Carnation Revolution”, the Portuguese Republic was under a right-wing dictatorship (this writer was born in 1966, so I did live through this), with a society that was largely closed, deeply conservative, and poor and underdeveloped by Western European standards. Not only that, but between 1961 and 1974 Portuguese daily life was intimately linked to the Portuguese Government long and costly war to keep the remnants of its colonial empire, until the “Carnation Revolution” led to a swift and traumatic dismantling of it.

The country faced then a sudden influx of between 500,000 and 1 million –or over 10% of a total population that in the early 1970s was below 9 million– “settlers” from the former African colonies (in many cases, those came from families that had settled in Africa several generations before), the dismantling of the dictatorship and the myriad of political and economic structures associated with it, plus a short-lived period of Marxist policies which included the full-scale nationalization of all large Portuguese companies. The resulting inflationary spike, currency devaluation, large internal and external imbalances that reached double digits of GDP led to programmes with the IMF, one already in 1977, with a follow up one in 1982.

Parallel to all that turmoil, the country had begun its long negations for membership to the then European Economic Community (EEC): Portuguese negotiators in those days were busily flying in between Washington, D.C., and Brussels (as they were again until quite recently…).

Portugal applied first not for membership, but for a trade agreement with the then EEC as early as 1962, and again in 1967. These applications followed the first UK and other European Free Trade Association countries –Portugal was an EFTA member- attempt to join the EC in 1961. The first UK application, and the second one in 1967, were both blocked by France. The failures of both British attempts to join the EEC affected also the negotiations with Portugal, and only after the first EEC enlargement in 1971 (to the UK, Denmark and Ireland) was a trade agreement possible (Portugal, in fact, signed two trade agreements, with the EC and the ECSC – European Community of Steel and Coal).

The revision of these treaties in 1976 extended the agreements to cover non-commercial issues, with Portugal’s formal application for EEC membership made in the following year, in March 28, 1977. The official negotiations lasted from October 1978 to March 1985, with Portugal finally

---

1 The views expressed in this document are solely those of the author and do not necessarily represent the official views of the European Commission.
becoming a member of the (current) European Union in January 1, 1986 (however, even after Accession, Portugal received sectoral temporary derogations of up to 7 years).

This “trip down memory lane” is here not because of self-indulgence, but because it has important points for the Enlargements of 2004, 2007 and 2013: the (long) Portuguese road to EU Membership (and the comparable experiences of Spain) with the similarities in integrating into a group of highly developed, internationally open and closely linked Western democracies formerly closed economies with a recent authoritarian past provided the EU with references on how the Enlargements to the Baltic, Central and South-eastern European could proceed (even the population displacements caused by end of the Portuguese Empire held some lessons for countries like the Baltics, with their large remnants of Soviet populations). The processes for those countries were also equally long and preceded by trade and association agreements.

However, on a truly personal level, the Iberian experience did give the opportunity to a young man to provide some support to future Member States, as I found myself while still as a university student working on providing pre-Accession technical assistance funded by the EU in Central Europe in the early 1990s.

Ok, how about (real) convergence?

Now, how about convergence and EU Membership? Portugal’s reasons to join what became the European Union were multi-fold, from economic security in a post-colonial world, to much needed institutional modernization to an “anchoring” of its young democracy: similarly, countries that joined the EU later also had multiple rationales for their decisions. While EU membership has delivered for Portugal (as has for later entrants) in virtually all those areas, here I will concentrate only in the convergence from an income per capita point of view (I am, after all, an economist).

Importantly, Portugal, the first modern unified European nation and the precursor of the great European overseas expansion of the 15th century, is traditionally an open, sea-faring nation, and was already a member of other international economic organizations (for instance, the country was a founding member of both the European Free Trade Association in 1960 and of the Organisation for Economic Cooperation and Development in 1961) that helped support a process of economic convergence before joining the EU. This process of economic catch-up was particularly powerful during the 1960s and early 1970s, before the disruptions linked to the end of the Salazarist Dictatorship. That is to say, the link to the EU supported and reinforced economic convergence processes that were already under way, which is also true for later EU entrants.

This is apparent in the figure below, which shows that real GDP per capita in Portugal grew constantly between 1986 and 2009 –i.e., until the EU sovereign crisis, almost doubling as a share of that of the EU 15, from around 31% to 58%. As a comparison, the average GDP for the Member States that joined the EU in 2004, 2007 and 2013 increased from around 24% to around 43%. The average increase in GDP per capita 15 years after accession is uncannily similar for Portugal and the Member States that joined in 2004, at, respectively, 65% and 70%. However, the pre-EU accession economic convergence of the later EU entrants was also impressive (which reflects the “dead-cat bounce” from the initial and deep “transition recession” associated with the collapse of the command economy, the fact that the process of integration into
the EU generated benefits years before actual accession, and, yes that integration into global markets and frameworks ex-EU also yielded significant benefits).

So, how much of this improvement can be single-handedly attributed to the EU? This question can be answered only partially, but a fair conclusion (based for instance in studies that compare convergence in the EU with those of “synthetic analogues” of similar countries outside of the EU) is that the EU membership role was a very significant one. Importantly, not only the EU supported this process of convergence in good times, but as the shock of the sovereign crisis demonstrated, EU membership made the crisis shorter and shallower that what it could have been.

The bonds of EU Membership are lasting ones, in good and bad times. And this holds true for both Iberia and for Eastern Europe.

Portugal and the NMS (Gross domestic product at current prices per head of population (HVGDPR), EU15=100)

Source: AMECO, European Commission