

## New Impulses from Europe's South

Spain and Portugal regasp the Initiative in the Process of European Integration

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At the end of February 2005, nearly twenty years after their accession to the then European Community, Spain and Portugal have once again given a clear signal of their identification with the European Union (EU): In Spain the first national referendum on the ratification of the Treaty establishing a Constitution for Europe (TCE) ended in a positive result, with 76.7% in favour; albeit that the low turnout clearly indicates the limits of this enthusiasm. In Portugal, a new government with a stable majority was elected. Prime Minister José Sócrates is keen to take on a central role in the process of European integration. A decisive factor in the future success of their efforts will be the question of whether Spain and Portugal are ready—beyond their shared interest in maintaining the inflow of money from the Structural and Cohesion Funds—to take on the political costs arising from their newly sworn European identity.

The interests of the Iberian peninsula carry increasing weight in Europe: The change of government in March 2004 and Minister-President Zapatero's pro-European tendencies marked a first step for Madrid on the way towards a foreign policy with a clear European profile. Now Portugal, with the clear mandate for the Socialist José Sócrates, is undergoing a change of course whereby its Transatlantic ties are being loosened in Europe's favour. These developments present Germany with new opportunities to bolster its position in the EU, not just in terms of its desire to ensure the more flexible operation of the EU Stability Pact, but also as regards the compatibility of the respective European socio-political models. This Iberian common ground will

also find expression in a desire for more comprehensive concessions in the negotiation of the financial perspective 2007–2013. This aim is at the forefront of their minds as both countries loudly present their new European credentials. Ensuring continued access to the Structural and Cohesion Funds remains the prime aim of both governments. The new Portuguese head of government has made this transparently clear by laying particular emphasis on the social cohesion of Europe.

### **Portugal under José Sócrates: Signals for Germany and Europe**

José Sócrates is buoyed by his Socialist Party's absolute majority [see table]. His aim

**Table: Results of the Portuguese parliamentary elections**

<i>Party</i>	<i>Result 2005</i>	<i>Seats</i>	<i>Result 2002</i>	<i>Seats</i>
Partido Socialista (PS)	45.05%	120	37.9%	96
Partido Social Democrata (PSD)	28.7%	72	40.1%	105
Partido Comunista Português (PCP)	7.56%	12	7.0%	10
Partido Ecologista Os Verdes (PEV)		2		2
Partido Popular (PP)	7.26%	12	8.8%	14
Bloco de Esquerda (BE)	6.38%	8	2.8%	3
Other	4.15%	–	3.4%	–
<b>Total</b>	–	<b>230</b>	–	<b>230</b>
Turnout	65.03%		62,3%	

Source: Comissão Nacional de Eleições, CNE (<http://eleicoes.cne.pt>)

is to use a more forthright European integration policy to win back the popular trust in the political system that was squandered during a Conservative term of government under his predecessor Pedro Santana Lopes, which lasted just six months.

The nomination of a new cabinet, which is only half made up of members of the Socialist Party (PS), and the resulting openness to independent expertise is a signal to Portuguese society that a new chapter in the governance of the country should now begin. The absence from the cabinet table of the former EU parliamentarian and commissioner Antonio Vitorino infers that he will be freed up to stand for the presidential elections in early 2006.

Sócrates' management of his personnel thus only partly follows the Spanish example of making a clean break with the previous government. Unlike the previous government though, the emphasis laid on the European dimension will form a key characteristic of the new government, which will be forced to take unpopular measures in many fields if it wishes to reassert Portugal's role in Europe.

With a reform of the national constitution, the way should be prepared for a referendum on the European constitutional Treaty. The Portuguese Constitutional Court had declared the holding of a referendum incompatible with the relevant articles, in December 2004. Yet, it should

be borne in mind that a constitutional amendment requires a two-thirds majority (154 votes) and necessitates co-operation between the government and opposition. If it were held, it is probable that the referendum would reflect the broad popular support for the TCE. Currently, only the Communist Party (7.6% in the election) have explicitly come out against the TCE. On the right of the political spectrum, it is to be expected that the traditionally euro-sceptic Partido Popular (7.3%) will declare its opposition to the TCE now that its collaboration in the governing coalition has come to an end.

#### **Dynamising the Portuguese Economy**

Sócrates has made no big promises to his fellow citizens: His country has the lowest per capita income in the Euro-zone. The impact on Portugal of the EU's Eastern enlargement was particularly tangible; competition from Hungary, the Czech Republic and Poland for trade and investment has clearly dented Portugal's growth. The country can no longer flaunt its profile as a platform for cheap labour—something from which it profited in the EU of 15 — since the labour costs in the new member states are less than half of those in Portugal. There is therefore a pressing need for Portugal to redefine its role in the enlarged EU. Above all, it must raise its productivity,

improve its competitiveness, reduce the degree to which the production structure relies upon traditional, labour-intensive methods, and dynamise growth in technology-intensive, competitive sectors. Portugal wants to lead its production structure down a path currently trod by its competitors in the enlarged EU. But herein lies the nub of the problem, since the flow of foreign investment that is so important for the modernisation of the Portuguese economy is tailing off. It was in this light that the new head of government Sócrates spoke in a campaign speech of a “technological shock-treatment” for his country. He plans to boost the productivity of the economy and the level of training via massive state investments amounting to 20bn Euro. Whether this plan actually works, will surely depend on the Barroso-Commission’s zeal in policing and condemning state investments, under the mantle of European competition policy. As the implicit “loser” in the elections, Barroso is hardly likely to spurn a chance to scrutinise Sócrates’ intervention policy. Another prerequisite for a successful alteration of the production structure will be Portugal’s success in keeping growth rates at a positive level and on a lasting basis: Between 1987 and 2000, annual economic growth rates lay on average at 3.5%, while per capita income rose from 55% to 71% of the EU average. With growth falling since 2001 to an average of 1% and plummeting to -1.3% in 2003, the chances of raising the hourly productivity rates—which are 40% below the EU average—have visibly shrunk.

### **Linking the Lisbon Strategy with the EU Stability Pact**

According to the economic programme elaborated by Antonio Vitorino for his party, the new Portuguese government will press for a reform of the EU Stability Pact, so that it is treated as part of the Lisbon Strategy. The testing of the Stability criteria would thus become more programme-oriented and would be freed from the prin-

ciple of rotation on a financial yearly basis. Moreover, the improvement of competitiveness—a Lisbon target of such importance to Portugal—would be tied to the consolidation of the budget. In Vitorino’s opinion, this would boost the flexibility of a Stability Pact, whose budgetary deficit limit of 3% Portugal only managed to keep to last year by including in its calculations one-off sources of income, largely derived from the sale of state assets. Without these one-off sources, Portugal’s deficit would have lain at 5%, meaning that structural reforms are now inevitable. Among those areas destined for reform are the control of state expenditure and Portugal’s public finances, which need to win back international trust. This means a significant reduction in the 730 000 state-employees who sap 15% of GDP and devour 80% of tax income. For these reasons, the new Sócrates government plans to dismantle 75 000 public sector jobs within four years, and to reinforce discipline over expenditure.

### **Substantial Collaboration in the Shaping of the European Construction**

Since Europe is the destination for 85% of Portugal’s exports, it has become the epitome of emancipation in terms of integration and foreign policy for the country. Apart from the three main focuses of European policy (reorientation of the Lisbon Strategy in a direction compatible with the European social model, revision of the Stability Pact, and negotiation of the financial perspective 2007–2013) Berlin and Brussels are faced with a partner who also has a considerable degree of self-confidence in its foreign policy. The new Portuguese government wants to take on a formative role in European co-operation and Transatlantic relations. In this, the government plans to follow a path that is characteristic of a country with, simultaneously, a European calling and an Atlanticist orientation. In contrast to the first measures taken by his Spanish colleague Zapatero, Sócrates’ government has announced no immediate

alteration to Lisbon's Iraq policy. Yet, the new Foreign Minister Diogo Freitas Do Amaral vehemently condemned the invasion of Iraq before being called to office, which does indicate a shift in the weighting of Portugal's foreign policy. The government has just made it clear that it will contribute to peace keeping efforts under the UN mandate. It is looking to deepen the CFSP's conflict prevention role and reinforce collective security on the basis of the Atlantic alliance. The new government would like to see relations with the USA, which are so important for Portugal even in a domestic context, cultivated, not just bilaterally, but also—and above all—within the Atlantic community as a whole.

In relation to the shaping of the new world order, Portugal now seeks to drop its formerly passive role and participate more actively in international organisations (UN and Bretton-Woods organisations). As for its regional policy, Portugal is most concerned to shore up its significant investments abroad (Spain and Brazil), in the EU, North Africa, Angola, Mozambique and Cape Verde. It is therefore to be expected that Portugal will be part of that group of states, which in the run up to the tenth anniversary of the Barcelona Initiative, demand a greater concentration on North Africa.

Portuguese development co-operation should gain a new dynamic, since it is traditionally deployed to secure strategic national interests, in particular the promotion of language and culture (especially within the community of Portuguese-speaking countries, the CPLP).

### **Spain after the Referendum on the constitutional Treaty**

Coinciding with the elections in Portugal, the Spanish referendum on the constitutional Treaty was the first in the round of popular votes in France, Denmark, Britain and six other states, which is seen as critical to its ratification.

A yes-vote was never in doubt in traditionally pro-European Spain. The opponents of

the Constitution were mostly to be found amongst the regionalist nationalists and their parties, as well as amongst those sections of civil society that are critical of globalisation or are radically left-wing. In the Catalan network "No a la Constitució Europea" more than a hundred communist, pacifist and youth organisations banded together in a campaign against the TCE. To their minds, the Constitution is too neo-liberal, imperialistic and militaristic. The Treaty was apparently drawn up undemocratically and is incapable of ensuring social, political and civil rights, and the rights of minorities.

Nevertheless, many civil society groupings voted for the TCE. The large citizens' organisation "Basta Ya", which presses for the struggle against terrorism, the defence of the rule of law and the autonomous status of the Basque lands, advocated the TCE. It greeted the constitutional Treaty as an instrument with which to combat the infringement of human and fundamental rights in the Basque country as well as Basque nationalism.

The Spanish referendum should send a positive signal to the whole EU: Of the 42.3% of the population who turned out, 76.7% voted for the Treaty. The results remained within the realm of expectations, but did not on the other hand document Spain's fascination with Europe, as had been hoped. The greatest support for the TCE came from the Canary Islands (86%), followed by Extremadura (85.2%). In the Basque country, by contrast, opposition was at its highest with 33.7% of voters there registering their disapproval. In Navarra and Catalonia, the no-vote was sizeable at 29.2% and 28% respectively.

In some of the bastions of support for the opposition popular party (PP), large sections of the electorate clearly could not bring themselves to vote for the Constitution, despite the party's urging them to. Too often, domestic conflicts (like that surrounding the question of autonomy for the Basque lands) determined the behaviour of those voting against the Treaty, so that the some-

what infectious togetherness of the two big parties brought a 'regular' but hardly a convincing result. In this sense, the meaningfulness of the Spanish referendum is rather limited, and a positive ripple-effect throughout the other countries cannot be detected.

### **The Costs to Spain of Enlargement**

In Spain too, the Eastern enlargement of the EU has had a considerable impact upon the country's financial position. At present, eleven of the seventeen autonomous regions are Objective I areas, as their average per capita income is less than 75% of the per capita GDP of the EU. About 28% of the Objective I funds flow to Spain; moreover, the country receives 62% of the EU's Cohesion Funds. All this makes it the number one net beneficiary of the European Structural and Cohesion Funds. According to Spanish financial experts, by the end of 2006 Spanish GDP will be about 7% higher than it would have been without the Structural and Cohesion Funds. Yet, with the accession of the ten Eastern and South-East European countries—including Bulgaria and Romania, whose accession is tabled for 2007—Spain could go in a short space of time from largest net receiver to net contributor. According to estimates by the EU Commission, the average per capita GDP in the enlarged EU will sink by 12.5%. Based on the present entitlement criteria and extrapolations from the current data for an EU of 27, it is probable that from 2007 only four Spanish regions will meet the Objective I requirements (Andalusia and Extremadura, as well as the Canaries, Melilla and Ceuta). It is no accident that the phrase "statistical effect" was coined by Zapatero's predecessor Aznar to describe the drop in income from the Structural and Cohesion Funds resulting from the re-leveling of an enlarged EU's GDP.

It is worth retaining for the Agenda 2007 negotiations that, from the point of view of the current net-receivers, the expected partial reduction of European funds is also

a result of Spain's real convergence. The Spanish economy has grown since the mid-nineties at an average rate 1% above that of the EU as a whole. In 2004, Spanish growth was 2.6% above the Euro-zone mean. Spanish per capita GDP is already 87% of the European average, whilst its level of convergence with the rest of Europe in 1986—the year of Spain's accession—was just 74%. The regions Valencia, Canaria, Cantabria and, after many calculations, Castile-Leon have for some time been above the 75% mark and will automatically drop out of the highest development category. The Cohesion Funds present a similar picture: The real convergence of the national economy, when coupled with the "statistical effect", could mean that in future Spain will lose up to 70% of its income from the European Funds.

The Spanish government is fearful that the enlargement has unleashed considerable economic costs, which will not be recouped through the expected gains arising from the creation of a larger common market. Although unemployment rates have fallen continually from their mid-nineties figure of 22%, Spain still has the EU's second highest rate, with around 11%. The labour market is as segmented as ever: Short contract work—as opposed to long-term, secure employment—constitutes more than 30% of total employment. In recent years Spain's economic growth has been driven mainly by growth in labour-intensive areas like construction. In a comparison of the EU-15, only Portugal and Greece have a lower level of productivity. Expenditure for research and development, which lies at around 1% of GDP, is well below the European average (1.93% of GDP).

Although the costs of EU enlargement are still hard to quantify, it is to be expected that Spain will be particularly affected due to a transfer of jobs—particularly in the industrial sector—, but also to the greater competition it faces in key industries like textiles, and to Spain's declining attractiveness as a source of cheap labour. Possible gains from enlargement will be

relativised thanks to the geographical distance between Spain and the accession states, which is greater than for other member states.

### **A New Iberian Togetherness?**

Despite the increasing dissolution of the cross-party consensus on European policy, structural factors do demand a far-reaching continuity. This continuity rests, for the most part, on three axioms of European policy: firstly, a conception of the EU which stresses its redistributive character; secondly, the defence of the countries' institutional status in the organs of the EU; thirdly, the rejection of mechanisms of differential integration that might see the two countries marginalised.

The Eastern enlargement reinforces these axioms. In particular, Spain's position in the enlarged Union is increasingly determined by an immanent contradiction: It is becoming more and more difficult for Spain to reconcile its growing leadership role, based on its hard won institutional status as a "large country", with the equally unyielding defence of its status as the largest net-beneficiary.

In terms of foreign policy, Portugal's and Spain's positions have been "normalised" through their membership of the WEU and NATO. As regards European policy, both countries have successfully established their place in the vanguard of countries which participate in all the large integration projects. The accession of the considerably poorer Central and Mid-European states has reminded Spain and Portugal even more of their duty to play in the EU the leadership role, which they have so striven for.

Relations between Spain and Portugal, which have traditionally been plagued by petty jealousies and a mutual antipathy or indifference, could be about to make a step-change: For the first time in a long while, two Iberian governments with similar ideological orientations and goals in Europe can develop common perspectives with the

prospect of long-term co-operation. Further, the Portuguese appear to have allayed their fears about the potential for Spanish economic domination. Both countries perceive themselves as markets with a rosy future, and which are worth mutually supporting. In this light, the Iberian Peninsula's electricity market (MIBEL) is to be developed and a high-speed train link (AVE) built between the two capitals. More meaningful is the dynamising of trade: Portugal currently sends 25% of its exports to, and receives 30% of its imports from its neighbour. Since labour costs in Portugal are half as high as those in Spain, Portugal expects to gain the upper hand in direct competition with Spain through the resettlement of businesses, which value having cheap supplies in their home country. Spain, as the biggest investor in Portugal (1992–2002 6.4bn Euro) could take on an important function in driving up the productivity-rates of its smaller partner—something which the Portuguese economy badly needs. Spain seems to represent the door for Portugal, through which it can leave its peripheral position in Europe behind.

Politically, the two countries are united by their interest in the continued inflow of monies from the European Structural and Cohesion Funds, which will amount to 22.8m Euro for Portugal and 56.3m Euro for Spain in the period 2000–2006. Both countries plan to step up "arm in arm" to the negotiations for the European financial perspective 2007–2013.

### **Openings for German European Policy**

Since the change of government in Madrid, Spain's relationship with the Franco-German tandem has considerably improved, likewise its bilateral relations with Germany. All the signs are that the elections in Portugal will have a similar effect. In the medium term then, the chances of a renewed co-operation with both states in the CFSP and Justice and Home Affairs areas seem promising. At the same time though,

the conflict over the distribution of finances in Agenda 2007 threatens to flare up again.

### **European Foreign and Security Policy**

In foreign policy terms, those regions in the Mediterranean and Latin America, where Spain and Portugal traditionally enjoy most influence, could return to the heart of European co-operation policy. Out of economic interest alone, Lisbon and Madrid should be motivated to improve their trade relations with Latin America, and to embed these durably within the concert of the EU both institutionally and legally.

The close link between Hispano-Portuguese and European interests in the Mediterranean region is particularly conspicuous. Since the burden of dealing with foreign and security concerns in the region cannot be shouldered by Spain and Portugal alone—indeed can only be solved at the European level—the reorientation of Hispano-Portuguese foreign policy will bring new momentum to European foreign policy and the relevant German initiatives.

Since it emerged that Moroccan nationals helped plan and carry out the terrorist attacks of 11 March 2004, relations with the Mediterranean region have gained a new meaning. The management of the challenges there which are currently so pressing—namely the struggle against terrorism and stemming the flow of illegal immigrants—is also in Germany's interests. Moreover, the economic and energy interests of the two southerly member states do not clash with Germany's own priorities. A solution to these complex problems cannot be achieved bilaterally, but rather within the framework of a formative European policy for the Mediterranean region. German foreign and security policy actors will also be galvanised by a desire to counter-balance individual French, Spanish and Portuguese interests in the region. Germany could then take on the role of a mediator, enjoying the trust of all three parties.

### **Area of Freedom, Security and Justice**

With the Hague Programme, the EU's interior and justice ministers agreed to a new long-term political agenda. Its particular focuses are the struggle against terrorism, immigration policy and the integration of immigrants into the societies of the Union.

Spain will play a lead role in the realisation of the Hague Programme. Around 20% of all asylum-seekers reach the EU via Spain. A common European immigration policy—including control over the EU's external borders—belongs to the 'national' priorities of a Spanish and Portuguese European policy.

In a young and fast-developing policy field like the area of freedom, security and justice, bilateral co-operation plays an important role. Intensive co-operation inside the group of the largest member states (Germany, France, Spain, Britain and Italy—the so-called G-5) could prepare the way for compromise solutions at the European level. However, the G-5's potential to play a leading role will be considerably reduced by the divergent interests of its members. Recently, Germany's proposition of asylum camps in North Africa—itsself based on an original British proposal—foundered on the veto of France and Spain. In the run-up to further G-5 meetings, Germany should in future use informal bi- and trilateral initiatives to gauge the feasibility of its ventures. One candidate for this treatment would be the co-operation between Berlin, Madrid and Paris on the creation of an electronic register of criminal records.

The new Spanish and Portuguese government offer Germany the chance to win back two traditionally important European partners, and thereby to alleviate the leadership crisis in the Franco-German tandem. Not only Germany, but the whole EU have much to gain from a reinforced Spanish and Portuguese role, in terms of foreign policy credibility and autonomy. This is particularly true of Europe's Latin American policy and the forgotten Southern dimension of European foreign policy. The tenth anniversary of the Barcelona Process

in mid-2005 could be the trigger for a resuscitation of the Euro-Mediterranean dialogue. This is all the more important since the sustainable realisation of an area of freedom, security and justice is scarcely conceivable without a functioning Euro-Mediterranean dialogue. Coupling Spain and Portugal to the Franco-German tandem could not only compensate for its loss of formative power in the enlarged EU, but also build the enlarged EU's capacity to be steered.

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