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## **Influence of European integration process on social and economic performance in Iberian Peninsula**

### **Introduction**

**T**he full accession of Spain and Portugal to European Community in the middle of 80's has opened up new opportunities for both Iberian countries. However this first twenty years since the integration can be viewed as a success story in Spain, meanwhile there are numerous problems with taking advantage of accession in Portugal. Spain has achieved high level of economic development and now is an important part of European Union. From the perspective of new Member States, adjustments which took place in Portugal and Spain are important, because necessity of structural changes lies ahead of them.

The paper provides general ideas of social and economic progress, which has taken place in Portuguese and Spanish regions since accession. The objective of the research is to present the impact of Portuguese and Spanish integration with European Community structures upon their regions.

This article focuses on territorial units, regarded in the European statistical nomenclature as NUTS 2 level. Research is based on the analysis of reports prepared by the European Commission, as well as national studies. Data collected or estimated by the Spanish Institute National de Estadística and National Statistics Institutes of Portugal. EUROSTAT and OECD data has also been used.

The first part of the paper demonstrates economic changes in Spain and Portugal, second is focused on adjustments taking place on regional level in Iberian Peninsula and the last one stresses the role of structural funds in both

countries development. The chronological range covers period from 1986 - the year of both countries integration with the European Community - till the end of last programming period, ending in 2006.

## **1. Two decades after accession - Iberian Peninsula current situation**

Spain covers just about 80% of the Iberian Peninsula area. The population resident in January 2006 was higher than 43.7 million inhabitants.<sup>1</sup> Spain is divided into 17 regions called Autonomous Communities (Comunidades Autonomas) and two autonomous cities located in Africa - Melilla and Ceuta.<sup>2</sup>

Since the year 1986, Spain's economy has managed significant achievements in terms of growth and employment. The accession has started a process of adjustments. Entry to the European Union has also brought many economic advantages, especially those resulting from EU structural funds. Other aspects of integration are also important, such as expansion of Spanish trade with the Community and inflow of FDI into Iberian Peninsula. Real GDP growth has reached average value of approximately 3.4% a year since 1986 and has been appreciably above the euro-area results (Table 1). Spain also experienced stronger private consumption and investment growth.<sup>3</sup> Employment rates and gross national income per capita have increased considerably since integration with the European Union. These positive changes, however, are limited by weaknesses in certain areas: inflation rate is still high, unemployment exceed 8% of labour force and labour productivity is lower than average level in euro area.

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<sup>1</sup> *OECD Factbook 2008. Economic, Environmental and Social Statistics*, OECD Publications, Paris.

<sup>2</sup> Autonomic Communities - the Spanish regions - were established after the death of Francisco Franco and the restoration of democracy. This administrative system was created on the strength of democratic Constitution in 1978, as a result of general public demand. After four decades of dictatorship, the process of democratization had to be combined with the process of central government power devolution, driven by the fact that Spanish regions and their communities are varied in many aspects including history, culture and language. These dissimilarities have had a great influence on differences in economic and social conditions between regions.

<sup>3</sup> European Commission, *The 2006 EU Economy Review: adjustment dynamics in the euro area experiences and challenges*, Directorate-General for Economic and Financial Affairs, Brussels, s. 204-210.

## Spanish economy main indicators (1986-2006)

Table 1

	1986	1988	1990	1992	1994	1996	1998	2000	2002	2004	2006
Total population (1000)	38,537	38,717	38,851	39,069	39,296	39,479	39,722	40,264	41,314	42,692	43,696
Population growth rates	0.31	0.22	0.15	0.33	0.27	0.23	0.35	0.84	1.46	1.64	1.13
Employment rates <sup>a</sup>	46.5	49.6	51.8	50.5	47.4	49.3	52.4	57.4	59.5	62.0	65.7
Unemployment rates	17.5	15.8	13.0	14.7	19.5	17.8	15.0	11.1	11.1	10.6	8.5
Gross domestic expenditure on R&D <sup>b</sup>	0.58	0.68	0.80	0.86	0.79	0.81	0.87	0.91	0.99	1.07	-
Inflows of foreign direct investment	-	-	-	13,351	9,276	6,821	11,798	39,582	39,249	24,775	20,027
GDP deflator <sup>d,5</sup>	10.9	5.9	7.3	6.7	3.9	3.5	2.5	3.5	4.3	4.0	4.0
Government deficit <sup>6</sup>	-	-	-3.9	-3.7	-6.5	-4.7	-3.0	-0.9	-0.3	-0.2	1.8
Gross national income per capita <sup>f</sup>	9,594	11,243	13,178	14,371	15,012	16,536	18,338	20,909	23,403	25,672	28,882
Real GDP growth (%)	3.3	5.1	3.8	0.9	2.4	2.4	4.5	5.1	2.7	3.2	3.9
GDP per hour worked <sup>7</sup>	-	-	0.1	2.8	-2.9	1.0	-0.2	0.1	0.6	0.7	1.3

<sup>a</sup> Share of persons of working age (15 to 64 years) in employment <sup>b</sup> As a percentage of GDP <sup>c</sup> Millions of US dollars <sup>d</sup> Annual growth in percentage <sup>e</sup> As a percentage of GDP <sup>f</sup> US dollars, current prices and PPPs <sup>g</sup> Annual growth in percentage

Source: *OECD Factbook 2008. Economic, Environmental and Social Statistics*, OECD Publications, Paris.

Second analyzing country - Portugal - is located in the Western part of the Iberian Peninsula and covers approximately 20 percent of its area. In the year 2006 Portugal had a population of about 10.6 million inhabitants. The economic situation of Portugal is much more complicated than in Spain. Nowadays this country is the least developed economy among all former fifteen Members States. Over the last two decades, Portuguese's economy hasn't achieved considerable success in terms of growth and employment (Table 2). During the second half of the 1990s, GDP growth clearly exceeded the EU average and thus allowed for a catching-up towards income and welfare levels of more advanced EU economies, however from the beginning of the XXI century growth declined noticeably. Portugal, for the period of last five years, was in terms of GDP growth, one of the slowest countries in the euro area and the whole European Community.<sup>4</sup> Location outside European main economic centers and lack of structural

<sup>4</sup> European Commission, *European Economy. The 2006 EU Economy. Review*, Directorate-General for Economic and Financial Affairs, No 6/2006, p. 273.

## Portuguese economy main indicators (1986-2006)

Table 2

	1986	1988	1990	1992	1994	1996	1998	2000	2002	2004	2006
Total population (1000)	10,007	9,955	9,873	9,833	9,840	9,866	10,129	10,229	10,380	10,509	10,578
Population growth rates	-0.07	-0.26	-0.47	-0.27	-	0.19	-	0.58	0.73	0.57	0.28
Employment rates <sup>8</sup>	63	65.9	67.4	66.5	64.0	63.6	66.8	68.3	68.1	67.8	67.9
Unemployment rates	8.8	5.8	4.8	4.3	6.9	7.3	5.1	4.0	5.0	6.7	7.7
Gross domestic expenditure on R&D <sup>b</sup>	0.38	0.41	0.51	0.61	0.59	0.60	0.69	0.80	0.80	-	-
Inflows of foreign direct investment <sup>0</sup>	-	-		1 904	1 255	1 344	3 005	6 637	1 801	2 368	7 375
GDP deflator <sup>1</sup>	20.5	11.2	13.1	11.4	7.3	2.6	3.7	3.0	3.9	3.1	2.9
Government deficit <sup>6</sup>	-	-	-6.3	-4.5	-7.4	-4.5	-3.0	-3.0	-2.9	-3.2	-3.9
Gross national income per capita <sup>f</sup>	7,417	9,221	11,208	12,648	12,976	14,299	15,986	17,906	19,500	19,029	20,170
Real GDP growth (%)	4.1	7.5	4	1.1	1.0	3.6	4.8	3.9	0.8	1.2	1.2
GDP per hour worked <sup>8</sup>	-	-	-1.7	4.4	1.8	4.6	2.2	4.2	0.1	-0.7	0.2

<sup>8</sup> Share of persons of working age (15 to 64 years) in employment <sup>b</sup> As a percentage of GDP <sup>c</sup> Millions of US dollars <sup>d</sup> Annual growth in percentage <sup>e</sup> As a percentage of GDP <sup>f</sup> US dollars, current prices and PPPs <sup>8</sup> Annual growth in percentage

Source: *OECD Factbook 2008. Economic, Environmental and Social Statistics*, OECD Publications, Paris.

reforms cause considerable problems with reducing development gap between Portugal and group of former European Community members. Real GDP growth has reached average value of approximately 3% a year since 1986. Even though employment rates was high before accession and reached 63% of all persons of working age, increased to 67.9% in the year 2005 (Table 2).

## 2. Social and economic evolution of Spanish regions

Spanish accession to the EU was an accurate step on the road to well developed and competitive economy. Spain, formerly economically lagging behind, with high level of unemployment, turned into a modern state. Integration with the European Union structures forced this country to restructure and liberalize its economy. This success is noticeable not only on the state but also on the regional level. The bases of today's Spanish regions' success are strongly connected with creating the administrative system on the strength of democratic Constitution in

1978, which speeded up the acquisition of governing skills and helped to improve methods of spending European structural funds.<sup>6 7 8</sup>

Other important aspect of Spanish regions economic expansion was connected with the existence of certain well developed industrial areas, which, in fact, had been highly developed even before the integration with the EU. Moreover, Spain shares a border with a highly developed economy - France - and those better developed areas, namely the Basque Country, Navarra, Catalonia, and Aragon, were located close to that border (Table 3). It is highly possible that these well-developed Spanish Autonomous Communities were the main source of structural changes, and of speeding up the process of economic development.

Evolution of GDP per capita rate in Spanish regions (1986-2004)

Table 3

Regions	Years					
	1986	1990	1994	1997	2000	2004
Spain	69.8	74.1	76.1	79.3	83.9	89.0
Andalusia	52.8	57.0	56.7	58.8	61.8	68.6
Aragon	75.9	83.0	84.8	85.8	87.7	94.9
Asturias	70.4	70.0	71.7	67.9	70.1	76.9
Balearic Islands	90.4	97.0	97.5	97.5	103.4	101.0
Basque Country	89.5	90.0	90.9	95.3	102.8	110.8
Canary Islands	69.3	76.0	75.3	75.5	79.6	82.0
Cantabria	67.0	74.0	74.6	73.3	78.4	86.7
Castile and Leon	65.0	67.0	70.8	74.3	76.0	83.8
Castile-La Mancha	54.5	63.0	64.1	64.7	65.9	69.9
Catalonia	82.3	92.0	93.1	96.8	102.2	106.4
Extremadura	44.2	49.0	53.6	50.7	53.4	59.3
Galicia	55.0	58.0	59.3	64.5	65.2	71.6
La Rioja	83.3	83.0	87.2	91.0	95.5	96.6
Madrid	85.9	96.0	95.2	104.2	114.0	116.7
Murcia	67.3	74.0	67.6	65.8	70.4	74.6
Navarra	84.8	98.0	91.2	100.6	106.8	111.9
Valencia	70.9	74.0	73.5	76.3	81.0	83.0

EU 15= 100

Source: EUROSTAT, European Commission, *Sixth periodic report on the social and economic situation and development regions in the European Union*, Brussels—Luxembourg 1998.

<sup>6</sup> J. Piecuch, *Regional decentralization in Spain. A way to increase dynamics of economic growth*, International Scientific Conference: Modern Organizational Interaction Forms in Public Sector, Mykolo Romerio Universitetas, Vilna, 2006, pp. 24-30.

Conversion of Spanish economy is closely connected with the situation in the labor market. This factor leads to large disparities in unemployment rates between Spanish regions (Table 4). For example well developed regions, located close to the French border, have nowadays only minor problems with unemployment.<sup>9</sup>

Evolution of labor market indicators in Spanish regions (1985-2005)

Table 4

Regions	Unemployment rate			Unemployment rate Young (15-24)		Long term unemployment		Employment rate	
	1985	1997	2005	1997	2005	1997	2005	1997	2005
Spain	21.0	21.1	9.2	39.8	19.7	51.5	24.5	48.3	63.3
Andalusia	30.1	32.0	13.8	50.8	24.5	47.3	25.3	39.5	55.4
Aragon	16.0	14.4	5.8	30.0	12.8	44.5	16.9	54.0	68.2
Asturias	18.6	21.2	10.2	50.3	24.4	65.6	39.8	43.2	55.8
Balearic Islands	14.2	12.2	7.2	26.5	17.7	39.4	13.2	58.5	67.9
Basque Country	23.2	18.8	7.3	39.4	19.1	61.2	24.8	49.7	65.5
Canary Islands	25.7	20.9	11.7	39.0	24.3	48.9	26.1	47.6	59.7
Cantabria	17.7	21.1	8.5	45.1	18.0	64.3	28.3	45.9	62.0
Castile and Leon	18.0	19.9	8.7	43.8	19.4	52.5	24.9	47.7	62.7
Castile-La Mancha	15.2	19.1	9.2	37.8	18.4	40.9	25.4	47.8	61.4
Catalonia	21.2	17.4	7.0	33.3	15.9	57.7	21.4	55.3	69.3
Extremadura	27.4	29.5	15.8	43.9	28.3	41.9	28.0	41.8	54.4
Galicia	13.5	19.2	9.8	37.1	21.0	58.7	32.0	49.9	61.1
La Rioja	15.9	11.8	6.2	26.5	14.2	52.0	22.6	54.0	69.1
Madrid	19.4	18.4	6.8	36.8	16.5	57.5	21.8	49.4	68.5
Murcia	19.6	18.3	8.0	28.6	15.6	46.2	25.3	48.6	62.8
Navarra	18.1	10.0	6.2	29.9	14.8	42.0	17.7	56.1	69.1
Valencia	19.5	21.4	8.8	40.4	19.4	44.1	22.4	49.4	64.5

Source: EUROSTAT, European Commission, *Fourth report on economic and social cohesion. Growing regions, growing Europe*, Luxembourg 2007.

Despite the improvements in competition level of the Spanish economy in many Spanish regions unemployment rate remains very high. Moreover, long term unemployment concerns 1/3 of total number of the unemployed persons. On the other hand, with the economic expansion in the Basque Country, Catalonia, Madrid, Balearic Islands and Navarra, the number of jobs is on the boost up.

<sup>9</sup> J. Piecuch, *Influence of Spanish integration with European Union upon regional labor markets*, Economic Growth and the Development of Regions, University of Hradec Kralove, Hradec Kralove 2006.

Differences in unemployment rate between Autonomous Communities since the year of integration with the European Union have remained considerable. In northern regions - namely Navarra, La Rioja, Madrid Catalonia and Aragon - unemployment rate doesn't exceed 7% of all labour force, while in southern Spain - in Extremadura - it reaches as much as 16%.

Significant level of unemployment rate in two Autonomous Communities, Andalusia and Extremadura, is connected with the necessity of regional economy restructuring, especially in the agriculture sector. In mid-1990s unemployment rate in those two regions reached the highest level 32% and 29.5% of all labour force respectively, but currently is two times lower.

### 3. Economic and social changes in Portuguese regions

Portuguese regions make up an individual area in the European Community. Majority of them can be described as less developed economies with strong dependence on agricultural production. In most cases these regions are considered to be areas, in which traditional economy is not adapted to market conditions.

There is a significant gap in GDP per capita terms between regions of this country and regions in others Member States.

Table 5  
Evolution of GDP *per capita* rate in Portuguese regions (1988-2003)

Region	1988	1990	1992	1994	1996	1998	2000	2002	2004
Alentejo	39.0	54.0	50.0	56.0	61.4	63.1	63.1	65.0	62.1
Algarve	56.0	63.0	69.0	70.0	69.2	71.4	75.1	77.7	68.1
Centro	45.0	48.0	52.0	55.0	57.4	59.2	61.6	61.2	56.8
Norte	54.0	52.0	56.0	62.0	57.5	58.3	58.8	58.0	51.9
A9ores	43.0	43.0	46.0	50.0	52.7	53.6	58.1	60.7	58.2
Madera	43.0	41.0	47.0	52.0	67.0	75.7	85.0	87.0	80.2
Lisbon	84.0	78.0	81.0	89.0	95.9	102.2	105.6	103.7	93.5
Portugal	61.0	60.0	63.0	69.5	68.2	71.0	73.1	72.7	66.1

EU15 = 100

Source: European Commission, *Sixth periodic report on the social and economic situation and development regions in the European Union*, Brussels-Luxembourg 1998; European Communities, *Regions: Statistical yearbook 2006*. Data 2000-2004, Luxembourg 2006; European Commission, *Third report on economic and social cohesion. A new partnership for cohesion. Convergence, competitiveness, cooperation*, Luxembourg 2004.



However European structural funds helped to accelerate economic performances all over Portuguese territory, only in capital region, Lisboa e Vale do Tejo and Madera rate of GDP per capita exceeded 75% of Community average. Available data illustrated how well developed capital region is (Table 5). In all remaining regions GDP per capita rate is less than 75% of Community average.

Table 6  
Evolution of labor market indicators in Portuguese regions (1987-2005)

Regions	Unemployment rate			Unemployment rate Young (15-24)		Long term unemployment		Employment rate	
	1987	1997	2005	1997	2005	1997	2005	1997	2005
Portugal	7.0	6.7	7.6	14.5	16.1	52.5	48.2	67.4	67.5
Alentejo	11.9	10.4	9.1	22.5	20.4	38.6	40.8	62.5	67.0
Algarve	-	8.2	6.2	17.1	-	53.5	32.7	64.7	68.0
Centro	5.5	3.4	5.2	12.2	14.6	46.6	45.2	81.4	71.4
Norte	4.9	6.9	8.8	11.7	15.9	54.9	52.1	66.7	65.9
Açores	3.7	5.4	-	16.5	-	61.4	39.7	58.5	63.0
Madera	4.5	5.4	4.5	14.3	-	54.3	51.2	63.3	67.6
Lisbon	9.7	7.9	8.6	17.6	18.3	53.7	48.2	63.5	66.8

Source: EUROSTAT, *European Commission, Fourth report on economic and social cohesion. Growing regions, growing Europe*, Luxembourg 2007.

A growing inequity between the Portuguese regions can be observed despite European structural aid<sup>10</sup>. On the other hand, the situation on Portuguese labor market is still better than in other European countries. The unemployment rate remains below 7% for the whole country, and only in the capital region exceeds this level. It means that unemployment rate in Portugal is below the EU average (Table 6). However, from the beginning of this century the rate of unemployment almost doubled (from 4.0% in 2001 to 7.6% of workforce in the year 2005). The cause of the unemployment rate increase is a slow pace of economic development and lack of structural changes. Another unfavorable factor is long-term unemployment, which has started to increase over the last few years.

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<sup>10</sup> European Commission, *Second report on economic and social cohesion. Unity, solidarity, diversity for Europe, its people and its territory*, Luxembourg 2001, pp. 4-6.

#### 4. The role of structural funds in Iberian Peninsula development

Many of positive changes in Spain and Portugal were possible particularly due to European Structural Funds. European financial aid for less developed regions has a significant effect in reducing disparities in economic performance across the Union and in narrowing the gap in GDP per capita between them and the rest of the Union.

Table 7

Structural Funds and Cohesion Fund in Spain and Portugal during 2007-2013 programming period (million EUR, in 2004 prices)

Member Countries	Convergence Objective			Regional Competitiveness and Employment Objective		European Territorial Cooperation Objective	Total	
	Cohesion Fund	Convergence	“Phasing-out”	Competitiveness	“Phasing-in”		Min euro	%
Spain	3,543	21,054	1,583	3,522	4,955	559	35,217	10.1
Portugal	3,060	17,133	280	490	448	99	21,511	6.2
UE27	69,578	199,322	13,955	43,556	11,409	8,723	347,410	100.0

Source: Factsheet October 2006, Directorate-General for Regional Policy, Luxembourg 2006; European Commission, *Cohesion policy 2007-2013*. Commentaries and official texts, Luxembourg 2007.

For the duration of next period 2007-2013, the Structural Funds (ERDF, ESF) and the Cohesion Fund will contribute to three objectives: Convergence, Regional Competitiveness and Employment and European Territorial Cooperation.<sup>11</sup> As before, regions with a regional GDP below 75% of the EU average are eligible for the Convergence objective. The main aim of the Convergence objective is to improve growth conditions and factors, which impact real convergence in less developed regions and all Member States. The regions eligible for funding from the Structural Funds under the Convergence objective in Portugal are Norte, Centro, Alentejo, and Afores. Algarve is another Portuguese region eligible for funding under the Convergence objective, but only on a transitional basis.<sup>12</sup>

<sup>11</sup> European Commission, *Cohesion policy 2007-2013*. Commentaries and official texts, Luxembourg 2007, pp. 13-25.

<sup>12</sup> According to Article 8 Council Regulation (EC) No 1083/2006 the regions which lose eligibility for Convergence objective because of statistical effect (their nominal GDP per capita rate exceed 75% of the average GDP of the EU-25) are eligible, on a transitional basis, for financing by the Structural Funds under the Convergence objective.

Also four Spanish Autonomous Communities - Galicia, Castilla-La Mancha, Extremadura and Andalusia - will receive structural aid under the Convergence objective, while Asturias and Murcia are eligible for funds on a transitional basis. Portugal - with GNP per capita less than 90% of EU average - is also eligible for means from the Cohesion Fund, whereas Spain will received funds on a transitional basis.

The financial resources for the three objectives in Portugal and Spain are shown in table 7. For the first time Spain will not be the main recipient of structural means, as a result of the latest enlargement processes of 2004 and 2007. In the 2007-2013 programming period, a new Member Country - Poland - became the major beneficiary of European Cohesion Policy.

## **Conclusions**

Unquestionably Spanish and Portuguese accession to the European Communities was an appropriate step on the road to highly developed and competitive economy. Spain, the first analyzing country, being in past years peripheral and economically undeveloped, became a modern state. Integration with EU structures forced this country to restructure and liberalize its economy. Meanwhile situation in second Iberian country - Portugal - seems to be completely different. Slow speed of structural changes causes growth rates to be much lower than in the Spanish case. Another disadvantageous aspect, caused by ineffective economy in last few years, has been not the increase of workplaces but a reverse effect - growth of unemployment rate. These problems are connected with traditional structure of Portuguese economy, which narrowed possibilities of speeding up economic growth and creating new jobs. Therefore Portugal is the first of the "old" European Union countries overtaken - in terms of GDP per capita - by new Member States - Czech Republic, Slovenia and Cyprus.

Central and East European countries are facing the same choices as Spain and Portugal had to confront twenty years ago. Similarly to the two Iberian Countries, New Member States integrated with the European Union in 2004 and 2007 have huge amount of unresolved economic and social problems. From the perspective of new Member States, economic changes which took place in the Iberian Peninsula are of great significance; its situation back then is comparable to Central and East Countries' situation today. Just like Spain and Portugal in the

first years after accession, New Member States participate in a significant part of community structural funds. The years to follow will show whether structural evolution follows a path similar to that undertaken in Spain, allowing this country to be prosperous, or a path similar to the Portuguese one, with stagnation and lack of structural changes.

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