Luso-American Economic Relations and Portuguese Membership of the European Community

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A preliminary observation must be made at the beginning of this study: economic relations between Portugal and the United States have never before been studied in any depth, either from a scientific or academic point of view, or as the object of current economic analyses (unlike the EC and even EFTA, for example). It would appear that our relations with the greatest world power in the eminently important economic sphere – in which it is also the world leader, and to which we cannot but consider ourselves to be in close geographic proximity, viewed on the world scale – did not merit very detailed attention, in-depth analysis and meticulous study, nor the reflection that should attend them. This is glaringly out of line with the situation in other areas (such as political and defence relations) and reveals a marked difference from most of our European partners who concentrate much more closely on their economic relations with the US "colossus". There are, of course, official or private reports dealing with particular aspects of such relations in response to specific needs and situations, as well as a certain number of references, though generally minor and almost incidental, in specialized literature. But there is a dearth of solidly founded, comprehensive overviews, following up on the long term implications for the Portuguese development process. Ignoring such a major area of our foreign economic relations not only hinders the expansion and diversification of the existing links but also hampers the actions of economic agents and those responsible for economic policy who thus fail to take essential elements into due account in the understanding of changes on the international economic scene and consequently in the formulation of economic policies.

Obviously it is not in our power to fill this gap, and our aim, subsequent to Portugal's accession to the European Community and the reorganization of foreign relations it entailed, is to present a more systematic view of economic relations between Portugal and the United States through a fairly wide-ranging study of the phenomenon. However, many aspects will not be dealt with in any great depth and others will not be covered at all, since this is a study that should be on-going: in fact, a regular analysis of these relations, to establish where progress has been made and where ground has been lost, would be fully justified for a number of reasons, not least of which is the enormous inherent economic potential.

I. TRADE RELATIONS

We could describe Portuguese-US trade relations over the past fifty years in a series of clearly negative terms: insignificant in volume; almost always imbalanced to Portugal's detriment; irregular in rate; evolution in response to passing situations and the needs of economic policy; weak in composition; etc. As a rule, the evidently limited and fragile nature of such trade applies not only to exports but also to imports, and in both directions. Although trade between these two shores of the northern Atlantic is long-standing, with Portugal even constituting an important US market during the early days of its independence, during the closing years of the eighteenth century, nonetheless it remained in what can only be called an embryonic state during the period here under study. These and other aspects will be discussed in this first section, with particular attention being given to the situation arising subsequent to Portugal's accession to the EC on January 1, 1986, which coincides with a decline in trade between Portugal and the United States to the lowest levels in the last fifty years (See Appendix 1).

US Market, Trade and Development

In the interests of providing a more comprehensive view of the evolution of trade between the two countries, it is of interest to go back in time so that our analysis covers the period from the 1930s to the present day, particularly from the end of World War II. Hence, we will begin by examining the question from the point of view of trade strategy implemented by Portugal in regard to the major blocks it was economically most involved with and then go on to analyse the potential of the US market from the point of view of the increasing dynamism of a certain number of countries exporting significant volumes to the United States. It should be noted that Appendix 1 and Tables 1 and 2 constitute then main statistical base of our analysis.

From the 1930s onwards, excepting the hiatus of the 1939-1945 war, Portuguese foreign trade experienced three successive, clearly defined cycles in exports and, less obviously, imports.

First cycle. Following the establishment of the Salazar regime, trade in Portugal was directed towards intensification of relations with the colonies, in the interests of achieving economic integration of the Empire. The Crash of 1929-33 and later World War II objectively bolstered this trend. Meanwhile, the relatively clearly defined policy of import substitution was also to contribute to reducing the attention given to foreign trade as a factor of development. Concentration on the colonial market reached a peak during the 1950s, when the former colonies absorbed a greater proportion of our exports (their share increasing from 12.1% in 1938 to 27.4% in 1958) than "the Six" original EC members together in 1957, or the countries that Portugal was to join in EFTA in 1960. In other words, the government channelled our products towards the market which had lowest purchasing power, was least demanding as regards quality and was administratively most protected. In this way, Portugal cut itself off from the most dynamic and influential flows of international trade. While this behaviour was not unsimilar to the trade practices of various nations in the 1930s, it became increasingly out-dated and obsolete after World War II. The force of change was to drive it into decline after prevailing for many years in the specifically economic sphere. Hence, from 1963 onwards, EFTA would systematically replace the former colonies as market for our exports, and the difference between these two blocks would become increasingly accentuated during the years to follow.[1] From 1968 onwards, the former Escudo Zone, today the Portuguese-speaking countries of Africa, would rapidly diminish in commercial importance (both as supplier and as client). This trend has become particularly marked since 1974 and has not yet been possible to reverse, or even bridle to any degree.

Second cycle. The series of countries over which the United Kingdom held sway and which was with Portugal (member until 1985) to form the European Free Trade Association began, in the 1950s, to play an increasingly

Table 1

Portuguese exports into EC, EFTA and former Escudo Zone

(as percentage of total)

	1960	1972	1973	1985	1986	1988
EC	21.64	20.54	48.63	58.33	67.98	71.59
EFTA	20.91	40.82	13.81	10.77	11.71	10.54
EC + EFTA	42.55	61.36	62.44	69.10	79.69	82.13
Former Escudo Zone	25.57	14.67	14.77	3.90	2.14	2.74

Source: Instituto Nacional de Estatística (INE), *Estatísticas do Comércio Externo.*

important part in our trade. This trend became fully apparent between 1960 and 1972, during which period, as shown in Table 1, our exports to this block doubled. An increase in imports, though less striking, also occurred. This strengthening of the trading position of our EFTA partners came about at the expense, principally, of the colonial Escudo Zone and the developing countries,[2] while the share of the EC "Six" remained basically stable (exports in particular held at around 20% in 1960-72, with few oscillations). This turn towards EFTA, which was effectively a turn towards Europe would, in theory at least, appear to indicate a decision to win a place in a broader, better-supplied market. However, exclusive concentration on the trade aspect would prevent maximum benefit being derived from this integration process. With the entry of Great Britain and Denmark into the EC in 1973, the composition of EFTA was changed, while alterations in the structure of international trade during the succeeding years, particularly after the so-called "oil shocks" of 1973 and 1979, also affected this trade flow. In all events, as may be seen in Appendix 1 and Table 1, no major change occurred between 1973 and 1988 in this same geographical area, with the share of Portuguese exports corresponding to those countries remaining in EFTA dropping only slightly. Although the relative drop in imports was greater, they have recovered substantially in recent years. Portugal left EFTA in 1986 as a prerequisite for joining the EC although a series of agreements were maintained in order to ensure that the flow of trade between the two was not significantly changed.

Third cycle. During the last sixteen years there has been a sharp increase in trade between Portugal and the EC. Between 1973 and 1985, during the period of the "Europe of the Nine" which became "Ten" with the entry of Greece in 1981 and with which Portugal's trading relationship is very limited (0.23% exports, 0.33% imports in 1987), over half of Portuguese exports came to be absorbed by the EC market: 48.6 per cent in 1973, rising to 58.3 per cent in 1985. This trend was further boosted by Portugal and Spain's entry in 1986, this figure reaching 70.9 per cent in 1987 and 71.6 per cent in 1988. Imports, meanwhile, had declined with the effects of the above-mentioned trade modifications of the 1970s and early 1980s but are now following with equal vigour in the wake of the export trend. Hence, the EEC share in our imports, excepting Spain, rose gradually from 35.9 per cent in 1984 to 52.7 per cent in 1988. The inclusion of Spain throws this trend into sharper relief, since it was very nearly our largest supplier in 1988, as compared to the 1960s when it had been a very minor trading partner: our eleven EC partners between them guaranteed 63.4 per cent of total imports in 1987 and 67.1 per cent in 1988. It has been noted that the gap is closing between relative levels of imports coming from and going to the EC which has, over recent years, moved ahead of almost all other blocks, regions and countries in both directions.

The causes underlying this process, which is still ongoing, will later be analysed in greater depth. It is obvious that, by reason of its powerful influence, the EC market cannot be compared to that of EFTA, and much less with the colonial market. It should be recognized, however, that our trade situation is moving towards excessive concentration within the EC, with no other South European country and particularly the most developed among them, namely Italy and Spain, revealing such high levels of trade concentration. This is a question to which we will return later. Moreover, we should not forget that the EC market constitutes an area of relative protectionism, and internal specialization may not necessarily constitute the most advisable course for Portugal. We do not mean that the current trend is a cause for concern but that, in principle, it is desirable, for only too familiar economic reasons, to achieve greater diversification of trade and particularly so because, at the world level, there are other major centres of growth which cannot be ignored. The very philosophy of the Europe that is being built is that it be outward-looking, as opposed to inward-looking. These are points which should be borne in mind when considering the course that trade should take in the future.

Before drawing further conclusions on the successive cycles of foreign trade over the past fifty years, let us return to our central question: Portuguese-US trade relations. It is of interest to begin by pointing out that an in-depth description of Portuguese trade can quite well be presented without even mentioning such relations, not so much because, in comparison to the other blocks, trade with the United States is quantitatively less (as Appendix 1 shows, the contrary is frequently the case) but rather that such trade does not follow distinct trends. We are not implying that each of the above-described cycles responded to a clear and deliberate underlying decision but only that, in the case of trade between Portugal and the United States, this is conspicuously absent. A prime example is the totally erratic and unpredictable development of both imports and exports, to and from the United States, perhaps even more so in the former case than in the latter, as a proportion of Portuguese trade as a whole. As may be readily deduced from the statistics, successive abrupt increases and decreases occurred, interspersed with inconclusive periods, contrary to developments meanwhile in the Portuguese-speaking countries of Africa, EFTA or the EC in regard to which clearly defined trends were apparent over relatively long periods of time. Analyses appearing further on confirm the inconsistent nature of this trade.

Portugal placed itself at a disadvantage in failing to place its trade relations with the United States on a stronger footing, particularly as regards promotion of exports, as we will argue later. Taking first its dimensions, the US market cannot be viewed as just another national market and, over and above its sheer size, it has unparalleled purchasing power, is highly competitive and is open to innovation and experimentation. This combination of features make it, on the one hand, difficult to penetrate but, on the other, particularly attractive to countries which have attempted during the post-war period to step up their rate of growth, improve their specialization model and rise in the economic ranks of nations. It is interesting in this respect to compare Portugal's trade strategy with that of other countries in a similar situation. Table 2 shows the development of the share of US imports deriving from Portugal and a further seven countries, five of them in Asia: Japan and the "Group of Four" (South Korea, Taiwan, Hong Kong and Singapore), and two European countries: Italy and Spain. The average per capita income of Japan, Italy and Spain, which are today the most advanced, were equal to or lower than the Portuguese average in 1950, as compared to five times higher, three and a half times higher and twice as high respectively in 1986.[3] The other four countries are renowned for their high levels of growth and general economic performance[4] and are among the most interesting examples of post-war economic development, notwithstanding valid reservations as to the social and political costs that have been incurred. Moreover, the seven countries here listed alongside Portugal do not share only common features; while we do not intend to study these processes here, it suffices to look at the rôle played by foreign investment in each case: major in Singapore and Spain, less so in Japan.

The comparative analysis in Table 2 was undertaken on the basis of the degree of penetration of these countries in the US market during significant post-war periods, enabling us to study the progress of the chosen indicator both in the long term and at specific moments in time. The periods selected, in chronological order, were as follows:

1. 1949-1959 (A), these are the years during which the Marshall Plan and its subsequent extensions were being implemented, leading to an initial indication of trade patterns and of post-war development; has a backdrop of reconstruction of the world economy, and particularly the European economy; corresponds with the high point of Portuguese trade with its colonies;

2. 1967-1975 (B), which is, basically, the final phase of the "Glorious Thirty Years", a hallmark of which was the highest-ever rates of growth at world level; Portugal turns unequivocally towards Europe on the economic and trade fronts; in the United States, even before 1973, there are clear signs of a slow-down and of increasing economic and financial problems; on the political front, meanwhile, this is the end of the authoritarian regime in Portugal and of the Vietnam War and the Nixon administration in the United States;

3. 1980-1987 (C and D), the beginning of this period was a time of international recession, and was later characterized by the US recovery when many countries sought to climb aboard the US bandwagon (demand in the United States increased by some 22% between 1982 and 1986[5]) and take advantage of the high dollar; during the last two years of the period, growth rates in the United States were more modest and closer to those of EC countries; the dollar meanwhile began to fall.

Table 2

Share in US imports in significant post-war economic periods

(as percentage of total)

A

	1949/50	**1951**	**1952**	**1953**	**1954**	**1955**	**1956**	**1957**	**1958/59**
Japan	1.65	1.87	2.14	2.40	2.73	3.79	4.43	4.63	5.97
Hong Kong	0.06	0.08	0.12	0.12	0.12	0.13	0.16	0.26	0.53
Taiwan	0.04	0.05	0.05	0.06	0.05	0.06	0.06	0.07	0.09
Portugal	0.27	0.29	0.35	0.36	0.28	0.28	0.24	0.20	0.20
Spain	0.47	0.55	0.59	0.58	0.64	0.51	0.54	0.45	0.48
Italy	1.15	1.28	1.47	1.46	1.36	1.58	1.71	1.89	2.34

B

	1967/68	**1969**	**1970**	**1971**	**1972**	**1973**	**1974**	**1975**
Japan	11.70	13.56	14.71	15.93	16.31	13.93	12.33	11.79
Hong Kong	1.89	2.23	2.36	2.18	2.25	2.09	1.62	1.62
Taiwan	0.72	1.08	1.37	1.79	2.33	2.57	2.09	2.01
South Korea	0.52	0.81	0.93	1.01	1.27	1.40	1.45	1.49
Singapore	0.08	0.15	0.20	0.30	0.48	0.67	0.55	0.55
Portugal	0,26	0.24	0.23	0.25	0.27	0.28	0.24	0.16
Spain	0.87	0.84	0.88	1.01	1.08	1.10	0.85	0.86
Italy	3.26	3.34	3.29	3.09	3.16	2.88	2.57	2.54

C

	1980	**1983**	**1984**	**1985**	**1986**
Japan	12.54	15.96	17.54	19.92	22.14
Hong Kong	1.93	2.48	2.54	2.43	2.40
Taiwan	2.79	4.67	4.53	4.75	5.35
South Korea	1.69	2.77	2.87	2.90	3.44
Singapore	0.78	1.11	1.22	1.23	1.28
Portugal	0.11	0.11	0.15	0.16	0.15
Spain	0.50	0.59	0.73	0.73	0.73
Italy	1.77	2.11	2.44	2.80	2.87

D

	1980	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**
Japan	12.83	14.60	15.67	16.14	17.69	20.02	22,08	20.77
Hong Kong	1.96	2.11	2.31	2.53	2.61	2.49	2.45	2.47
South Korea	1.73	2.00	2.34	2.84	2.94	2.96	3.48	4.24
Singapore	0.77	0.80	0.89	1.10	1.21	1.22	1.26	1.51
Portugal	0.12	0.10	0.12	0.11	0.15	0.17	0.16	0.17
Spain	0.52	0.61	0.64	0.63	0.77	0.77	0.76	0.73
Italy	1.82	2.03	2.22	2.16	2.49	2.87	2.92	2.76

Sources: A, B and C – US Department of Commerce, *Statistical Abstract of the United States*.
D – IMF, *Direction of Trade Statistics Yearbook 1987*.

Table 2, composed of several temporal series (A, B, C, and D), summarizes the numerical results obtained which make it possible to compare the performances of these countries in the US market, throughout this period, with emphasis on certain phases and with only a few minor gaps[6].

Let us now look at some of the most salient conclusions that may be drawn from Table 2, particularly with regard to Portugal. Our first observation might be that, of the eight countries studied, Portugal is alone in having a share which was considerably lower in the 1980s than in the 1950s, with all the other countries increasing their relative degree of penetration in the US market, in some cases substantially, for instance the Asian countries whose share moved from a volume far lower than that corresponding to Portugal to a volume many times higher. As is readily apparent in Table 3, our relative position with regard to Spain and Italy declined steadily between 1949 and 1986. Moreover, a closer scrutiny of these periods, particularly the final two, shows that Portuguese exports to the United States[7] usually responded later and less vigourously to the favourable phases as occurred between 1967-1973 and 1982-1986 and were most markedly affected when the situation deteriorated as in 1973-1975 or the early 1980s. This clearly reveals its inability to respond to stimuli and resist adverse situations which is but another aspect of the formerly-mentioned fragility of Portuguese-US trade relations (we will later see that the pattern of US exports to Portugal is not very much different).

Table 3

Portuguese share of the US market, rated against Spain and Italy's shares

	1949/50	1958/59	1967/68	1973	1980	1986
Spain	0.57	0.42	0.30	0.25	0.22	0.21
Italy	0.23	0.09	0.08	0.10	0.06	0.05

Source: Table 2 (A, B, C).

In the long term view, the negative elasticity of Portuguese supply in the presence of US demand abroad contrasts to some extent with the past performance of Portuguese exports which underwent three major changes in main destination during the past fifty years, within the framework of what we have previously referred to as trade cycles. If our exports were able to penetrate in other regions (even with the familiar limitations) there is no reason why they should fail to do so in the United States. This is particularly true since there were absolutely no barriers to the entry of our products; on the contrary, Portugal was in fact the only European country, with the exception of semi-European Turkey, to have benefitted from preferential tariffs through the generalized preferences system. Whatever the reasons, it is true in historical terms that the courage was lacking to tackle such a venture, thus disregarding one of the most important lessons of post-war economic development. Japan, on the other hand, developed its trade links with the United States to the full and proved a past master in taking advantage of situations here analysed, particularly during the 1980s (see Table 4), demonstrating how to implement this policy.

Markets are of course not won simply by wishful thinking and nor is it enough merely to have a trade strategy down on paper. It is a matter of drawing up a complete programme and then making it reality. For this, it is necessary to implement a coherent and inter-linked series of policies, in the spheres of exchange and intelligent marketing and, above all, to invest simultaneously in product quality and competitiveness and go out and meet demand in rapid, broad and innovative expansion. It is obvious that this cannot be achieved from one day to the next and gradual strategies adapted to the specific situation in individual countries will have to be adopted. What is quite clear, however, is that no policy of this type was remotely conceived with regard to Portuguese-US relations.

It is of interest to pursue the parallel with Japan. Exchange policy is a good example of the different strategies in this area, in that it is not absolutely decisive. In this respect, throughout the 1950s and 60s, Japan kept the yen undervalued in order to sell its products cheaply, conquer markets and continuously adjust its products in order to ever more closely satisfy evolving

Table 4
Bilateral US-Japanese trade

	1980	1987
United States: Japanese share (%)		
• in total exports	9.4	11.2
• in total imports	12.7	20.8
Japan: US share (%)		
• in total exports	24.2	36.5
• in total imports	17.4	21.1

Source: Problèmes Economiques, n.º 2095, 19.10.1988, p. 25.

tastes and exigent needs.[8] Thus, the dynamism of the foreign sector, although representing a very minor element of GDP, made it possible to raise the overall standard of the production process, thereby facilitating and speeding up the introduction of technological innovations in a context of, among other factors, originally very low wages and long working hours. In Portugal, in contrast, where these two factors also existed for most of the time, the escudo was generally kept over-valued, and the country sold products of indifferent quality at high prices, frequently under obsolete management processes and in a climate which was somewhat static with, on the whole, little receptivity towards innovation. Even in 1968-73, which broadly corresponds to the period that we have previously called B (Table 2), when an effort was made to step up the rate of growth and open up to the outside, the value of the escudo rose considerably with regard to the dollar in the absence of pressing economic reasons (although during the 1960s and the early 1970s inflation was rising in the United States, it was rising more rapidly in Portugal);[9] this trend became more marked in 1971 and 1973 when, following the famous devaluations of the dollar, the escudo basically maintained its escudo-gold parity. All would indicate that this policy had a share of responsibility for the relative stagnation of exports to the United States, since all the other countries appearing in Table 2, with the exception of Italy, experienced a notable increase between 1967-68 and 1972-73.[10] In fact, it is only very recently that exchange rate policy has been used to boost exports, and even then only in the specific context of stabilization policies – which certainly do not encourage a calm assessment of its possibilities in the longer term (in the following point we will make a critical analysis of the effects of the devaluation of the escudo in 1983-85). However, to return to Portugal and Japan, the results of the different strategies employed are now abundantly apparent, to a degree that makes it worth dwelling on them; and, though there are enormous differences between the two countries' history and civilization, the initial similarities are neither few nor insignificant (labour intensive, predominance of textiles, even geographical situation).

Our basic lack of interest in penetrating the US market also revealed our disregard of the Autonomous Regions of Madeira and the Azores, particularly the latter, which would evidently be priority regions within a strategy aiming to attain prominence in the US market. A strategic conception of the Azores based exclusively on the military aspect and ignoring economic development has increased the fragility of the islands in all regards. Thus, instead of exploring the other alternative of producing and selling products, for the United States in particular, we elected to export labour, thereby throwing away our trump card. It is interesting in this regard to draw attention to the example of Macao which followed a strategy similar to that adopted by the other Asian territories mentioned here. If the same rate of development is maintained, Macao's share of the US market will soon exceed the Portuguese share (while the Macao/Portugal ratio stood at only 40% in 1980, it had already risen to 77% by 1987).

Break-down of Trade and Outlook for its Future Course

Until now we have spoken in abstract terms about trade penetration and conquest of markets but, if foreign trade is to boost development, it is not enough merely to increase market shares; it is essential also to know what is being traded in order to establish whether the trade actually taking place is conducive to achieving this aim or whether its further development is at least taking us in the right direction. Obviously this approach is worth-while for Portugal, but it really is not relevant for the United States, particularly in that while statistically such trade may be of importance to Portugal, the same cannot be said of the United States for whom imports from Portugal in 1986 accounted for 1/600 of the total and exports for 1/350. These figures speak for themselves (even the more favourable ratio of previous years would still be irrelevant). Hence, to this end, let us look at what these two countries buy from and sell to each other, as well as certain specific aspects relating to the economic nature of this trade, both during certain periods and as regards its future development. As is logical, matters as important as this in the sphere of EC membership will be analysed in detail in the following point (e.g. grain imports from the United States).

The analysis of Appendix 2 allows us to establish the nature of Portuguese exports during the 1983-87 period and it immediately becomes obvious that these were not usual years in that, as may be seen in Table 2B, a considerable recovery was apparent between 1983 and 1985 in the Portuguese share of the US market, a matter to which we will return in more detail at a later stage. Let us therefore look at the main conclusions we can draw from Appendix 2, emphasizing first and foremost that the fourteen products there listed increased their relative weight between 1983 and 1986 from 55.6 to 66.1 per cent, some two thirds of the total, and this trend was further slightly reinforced during the first quarter of 1987; to itemize this trend, the principal movements were as follows:

- clothing, footwear and textiles (that is, in Appendix 2, product numbers 1, 2, 5 and 11) increased to an exceptional extent during this period, increasing from 12.3 per cent of the total in 1983 to 31.5 per cent in 1986, which percentage would be higher still if we were to take into account a whole series of other small categories that fall within this branch of exports; this situation will obviously deserve closer analysis;
- at the same time, the products eligible for inclusion in the group cork, wines and processed fruit and horticultural products (tomato, etc.), experienced a drop in their share from 23.2 per cent in 1983 to 12.6 per cent in 1986; the drop in cork and wines was particularly marked in 1984; in 1983 they were still the two major export products;
- the truly outstanding case here is that of moulds, the new and different product which has attained a major, solidly-founded place in the ranks of Portuguese exports (some 6% during these years) as well as in the US market corresponding to this sector (11% in 1986).

These are clearly the three main trends apparent in Appendix 2, to which may be added others of lesser significance:

- other products rising in position during this period: marbles... and ceramics, and transportation material (the latter dropping off in 1985 and the first quarter of 1987);
- the evolution of the remaining products (of the main fourteen in 1986), may be considered basically stable or ill-defined, these being: tools... non-precious metals, office and data processing equipment and their parts (the most important branch within this subgroup), organic chemical products and sundry industrial machinery and their parts.

Before going on to undertake an economic interpretation of these trends, we will attempt to identify the factors underlying the overall evolution that occurred, particularly regarding those sectors which are most representative of Portuguese exports. As stated previously, between 1983 - 1987, and notably in 1984, these exports considerably outpaced US demand abroad, which was reflected in a clear improvement in the Portuguese share of the US market (See Table 2D); moreover, during this period the US dollar experienced an upward swing, taking it to record levels while the escudo followed an opposite trend, thereby almost doubling the value of Portuguese exports in dollar terms, from 279 million US dollars in 1983 to 552 million US dollars in 1986 (and, in particular, during the same time period, the category of clothing and accessories of fabric, item no. 1 of Appendix 2, which we are taking as the basis for our analysis, increased from 9.3 million US dollars to 94 million US dollars, that is, a tenfold increase in three years). Looking at these figures, it is obvious that the overall increase in US demand alone cannot account for these advances in Portuguese exports since there was a change in their relative proportions. Moreover, no significant change was apparent in the administrative framework governing trade between the two countries such as, for instance, the creation of greater facilities for penetration of Portuguese products in the United States. This being the case, the main cause of this evolution should be sought in the price of exports, especially since the sectors in which particularly high growth occurred (clothing and footwear) are those characterized by intense and multifaceted international competition.

It obviously does not fall into the scope of this work to look in depth into this latter aspect but, nonetheless, it is worthwhile to gain some understanding of this evolution. Let us look at the basic facts and figures. Between 1982 and 1985, the escudo lost over half its face value against the dollar (its exchange rate in average annual terms moved from 79 escudos to 170), which amply compensated for the inflation differential between these two countries during these years. The effective exchange rate for the escudo against a series of currencies (weighted in accordance with relative importance in imports and exports) likewise depreciated although less than against the dollar (with an index of 100 in 1976, it dropped to 45.5 in 1982 and 26.6 in 1985). At the same time, real wages in industry suffered a sharp decline. For obvious reasons of relevance, we will take the hourly wage rates in the clothing and footwear sectors as our reference. The accumulated drop in the purchasing power (deflated by CPI without housing) of these rates between 1982 and 1985 stood at 13.2 per cent and 14.8 per cent respectively, although this drop was slightly less than the 17 per cent suffered by the manufacturing industry as a whole. Let us not forget that wages in clothing and footwear were among the lowest paid in that whole branch of industry and that, despite the considerable increase in the sector's revenue in national currency (the dollar converted into escudos), its position improved only slightly in comparison to the average industrial wage.[11] It is obvious that these mechanisms created the conditions for a considerable drop in the international price of Portuguese products, particularly in these categories and in dollars. Moreover, the drop in the price of raw materials occurring during this period, particularly those required for the manufacture of these products (e.g. cotton in 1984-85) also played a part in this process. Thus, US demand around 1983-84 encountered Portuguese supply with a price/quality ratio that was very favourable in comparison to alternative supply (only an exhaustive analysis of the world markets of these products would tell us whether this was not an "excessively" low price). But what we wish to emphasize is that this type of commercial penetration resides on a very precarious foundation which tends to disappear with the removal of the factors which produced it (the example of footwear is illustrative in this regard since as early as 1987, with a very different evolution of exchange rates, a 15% drop occurred in the number of pairs of shoes exported to the United States). We do not say this by any means (as is moreover clear from the preceding point) as an argument against exchange rate policy and, more specifically, devaluation as a means of gaining greater market shares through the previously-described mechanism; our view is that this should certainly be seen as a dynamic means of improvement, particularly in sectors which are structurally as weak as the one in question (and, last but not least, as vulnerable to any type of protectionist measure, as will be shown).

To return to our analysis of the nature of Portuguese exports to the United States, it is readily apparent that the products holding pride of place in exports to the United States are those from labour-intensive and low-wage sectors (such as clothing and footwear) while products from capital-intensive sectors, not to mention the R&D component and high wages, are conspicuous by their almost total absence, although this conclusion is subject to degree, as we will see at a later stage. Besides clothing, footwear and other textile-related products which we have already mentioned, we should now also consider the case of wines and cork, the volume of which, as we have seen, dropped between 1983 and 1987. Nonetheless, a full analysis would lead us to the conclusion that their respective position did not change significantly since they are subject to very precise limits: these are products which are virtually impossible to substitute in terms of nationality (this is particularly true of cork but also to a large extent of certain brands of wine) [12] and both demand and supply are highly inelastic in the short term (for example, the mechanism of lowering prices through devaluation should also work here but we witnessed no relative expansion of exports of these goods in 1983-87, with the contrary in fact occurring). Another product which is similar to these in terms of economic origin is further illustrative of what we are saying, namely tinned fish (alongside which tomato paste might be listed) which in 1976 still accounted for a sizeable proportion of such exports to the United States (9.9% of total), to virtually disappear from the list of principal products and not even appearing in Appendix 2 (1.6% in 1986); the fact is that, as far as tinned fish is concerned, there is no shortage of alternatives from other countries. Moreover, looking at the major groups of products, the greatest change in the structure of Portuguese exports to the United States over the past slightly over ten years was the replacement of tinned foods, wine and cork (together constituting 34.8% of the total in 1976) by textiles and clothing.[13] Other aspects specifically linked to the break-down of exports may also be mentioned here, such as the implications of the prominence won by moulds, but since such matters are usually connected with a particular policy for improving Portuguese-US trade patterns, we will reserve them for the closing remarks in this section.

Let us now look at the content of Portuguese imports (US exports). Here too the situation is far from satisfactory and, as we will see more clearly in the next point of discussion, its effects have been apparent since 1986. Table 5 gives us a clear insight into the difficulties currently being experienced in the sphere of US exports to Portugal. While 1973-76 is now somewhat distant, it was one of the periods when US imports increased substantially, this fact being particularly worthy of note because it coincided with an increase in the market share of the oil-exporting countries. Moreover, a similar phenomenon occurred during the first half of the 1980s, demonstrating that the 1973-76 period was neither unique nor uncharacteristic. In the long-term view, these were times when the balance of trade with the United States was highly unfavourable to Portugal (by way of example, it dropped from virtual equilibrium at 93.9% in 1968-71 to 46.6% in 1973-76 and to 22.1% in 1980-83 though it rose again to 83.3% in 1986-88, these figures consituting but another indication of the great instability of such trade). The 1973-76 period is, however, of interest in that it allows us to gain a clear insight into the main problems of this relationship.

Table 5

Portuguese imports from the United States by products

(Percentage of total imported for each category)

	1973	1976
Agricultural products and by-products	45.8	51.1
Total	12.6	15.2
Furs, leather, timber and papers	5.5	8.2
Textiles and finished textile products	4.2	7.3
Products of chemical, plastic and related industries	6.1	6.3
Machinery and appliances, electrical appliances	6.7	5.9
Mineral products	16.4	4.8
Non-precious metals and their products	1.7	1.9
Transportation equipment	1.0	0.8
Total (million US dollars)	*348.1*	*593.9*

Source: Relatório do Banco de Portugal 1976 and OECD.

The central question is the overwhelming predominance of agricultural products, including foodstuffs, in imports as a whole coming from the United States (over half in 1976, which proportion did not change significantly until 1985, when cereals and cereal-based products alone, in combination with seeds and oleaginous fruits, made up 55 % of the total). This constitutes a considerable distortion, to Portugal's detriment, in that the share of this type of product in total US exports[14] rarely exceeded 20 per cent during the 1970s and 1980s and has, in fact, followed a downward trend (about 15 % in 1986-87). One might well wonder how this situation came about and indeed the only explanation lies in the way in which modernization of agriculture in this country is continually postponed, to a degree that is beyond all historical reason but, while the process may occur belatedly, it certainly cannot be avoided (for instance, Community funds in recent years have contributed to a significant increase in investment in agriculture). We no doubt have a lot to learn in this regard from the United States itself which successfully transformed its agriculture into a highly productive and technically advanced sector. It is not to be inferred, however, that the modernization of agriculture in Portugal will eliminate the importation of such products, if for no other reason than that many products may complement each other (it should not be forgotten, for example, that in 1986-87 the United States absorbed some 10 % of our exports of foodstuffs and beverages).

Our increasing dependence in the field of foodstuffs dates back to the beginning of the 1960s when our balance in foodstuffs went into deficit although, as is well known, the EC (like many other countries and regions in different parts of the world) has meanwhile experienced an overall recovery of its agricultural positions. Although paradoxical, it is significant that between 1973-76, when the official climate was not favourable to strengthening relations with the United States, Portugal's dependence in the crucial food sector should nonetheless have increased considerably. This occurred because of the changes taking place at that time in distribution of income and the sudden population increase, creating a genuine boom in consumption which could not be even partially satisfied by existing supply. The generous policy of subsidizing agriculture, in particular livestock rearing[15] without, until recently, any attendant restructuring of the sector, contributed to continuing high levels of imports of agricultural products (particularly maize for animal feed when in many countries other lower quality grains were used), with a large proportion originating from the United States. Continuing low productivity in agriculture during the early 1980s and a series of very bad years for agriculture, particularly the drought of 1981, further emphasized the phenomenon. Notwithstanding the truly exceptional nature of this succession of situations in Portugal and the extreme sensitivity, in social and even political terms, of foreign trade in foodstuffs and agricultural products, far in excess of its importance in real economic terms, it is evidently not acceptable for a solid trade relationship between two countries to revolve around such a relatively voluminous stream of imports of this type (over the most recent decades it has generally accounted for the largest proportion). As has already been mentioned, we will return to this matter with further information and new perspectives, particularly within the framework of EC-Portugal-US relations.

The other side of the coin of this excessive proportion of imports of agricultural products is the insignificant import of capital goods of US origin. This is apparent in Table 5, but also in 1987 the United States stood in only 7th place as supplier of plant and other capital goods (5.6% of the total) when such goods constituted 30 per cent of total US exports in 1986. Given the limited scope of capital goods imports from the United States and although it must be recognized that a not insignificant part of imports from other origins, particularly in Europe, originates in fact from US subsidiaries abroad, it is true to say, using the expression in vogue 20 years ago, that Portugal has not yet taken up the American challenge in the technological field. Besides these two types of product (agricultural and capital goods) which are readily defined from the economic point of view, there basically remain a few other raw materials at varying stages of manufacture and which supply Portuguese industry: for example those in Table 5 in 1976, namely furs, leather, timber and papers, textile products and finished products and minerals feature fairly largely in imports from the United States. If to these categories we add agricultural products in unprocessed or processed form we could almost say that Portuguese imports from the United States are composed basically of raw materials, though the degree to which they have been processed may be fairly advanced. By extension, the cyclical evolution of the price of raw materials obviously contributes largely to the characteristic instability of Portuguese-US trade.

We now have an overall view of trade relations. From an angle of which it is of interest here to draw the conclusions, we are led to associate two factors: as we have just seen, the United States have come basically to supply raw materials while, as clients, they are our second largest buyer of capital goods, absorbing 14.2 per cent of total exports in 1986-87; nonetheless, as suppliers they stand only in 7th place with 6.1 per cent of total Portuguese imports of such goods during the same two-year period (since the rate of coverage of imports by exports in this sector stands at only 26%, the trade in capital goods between the two countries nonetheless produces a deficit for Portugal).[16] Taking care to ensure that correct proportions are maintained, these outlines appear to confirm the well-known Leontief's paradox (substitution of raw materials by labour-intensive products) whereby US foreign trade develops in a manner contrary to what might be expected bearing in mind the high capital in-put arising from the degree of its economic development. In keeping with this paradox, the supposedly typical feature of a highly developed country: imports predominantly incorporating the labour factor and exports predominantly incorporating the capital factor, does not apply in the case of the United States, for which reason trade between the United States and less developed countries could theoretically take place under more favourable terms for the latter. However, rather than draw together questions that are actually different or promote endless discussion, we feel it would be of interest to apply this formula to the framework of Portuguese-US trade which has the advantage of having some statistical back-up available, although this is very relative and certain changes that cannot always be justified have to be accepted. On this basis it may be concluded that merely strengthening these relations, in preference to others of a bilateral nature, would produce effects to the benefit of Portuguese development.

Let us therefore look at two aspects on the basis of which a policy for improving the pattern of exports to the United States might be based. Firstly, a policy might be drawn up for introducing new qualitatively improved products and, along the same lines, improving those already exported. The case of moulds is paradigmatic to a certain extent in this sense, in that it demonstrates that it is possible to break away from the traditional composition of Portuguese exports to the United States (wine, cork and tinned goods and/or textiles, bottom-of-the-range clothing and footwear). A feature of moulds is that this product combines high technology with manual skill and it would appear to us that, under the present circumstances, this aspect deserves more serious attention since it provides an example that could be followed, although to varying degrees, in other areas of the Portuguese production sector for foreign markets, particularly capital and consumer goods (and in certain cases even construction). Included in these categories might be listed, besides moulds, different types of machine (see for example, nos. 8, 9 and 14 of Appendix 2), ceramics, tiles, marble and glass,

Table 6

Portuguese mining industry in the European context

	Production (tons)			**Imports** (tons)
	EC (except Portugal)	**Portugal**		**EC**
	1986	**1987**	**1992 (forecast)**	**1986**
Lead	178,200	—	4,400	371,000
Copper	55,500	200	121,300	234,500
Brass	4,600	70	4,000	18,000
Gold	7.4	0.3	0.5	380
Silver	356	0.7	14	5,354
Uranium	3,477	142	310	10,343
Tungsten	1,337	1,196	1,554	2,800
Zinc	612,000	—	27,500	1,254,000
Kaolin	4,454,000	77,000	90,000	2,847,000
Ornamental rocks	19,500,000	610,000	800,000	—

Note: Figures refer to metal content, except for EC imports (ingots).
Source: Direcção Geral de Geologia e Minas, *Relatório de Actividades 1987.*

along with a large proportion of textiles and footwear which, in obedience to a natural evolutionary process (Italian style, that is no longer on the basis of styles dictated by the buyer as was the rule during the rapid expansion of these sectors in 1984-86 or sale at internationally very low prices for relatively low quality products) should conquer new markets on the basis of up-graded design and higher quality which would, in certain cases, call for other very different conditions, specifically of investment and training of labour, which aspects will be partially analysed in Section II. At another level, this process could be complemented with the desired development (also for "export purposes") of the so-called "service industries", particularly in the cultural and artistic fields, and not forgetting either the supply of financial services.

Secondly, trade could be developed that would contribute to strengthening local industries for processing national raw materials. In fact, the next few years will probably witness the emergence of Portugal as a major producer of certain minerals (see Table 6) and forestry raw materials; and while this possibility as regards agricultural and fishing products should not be completely ruled out, the immediate outlook, as we have seen, is not encouraging, certainly in general terms. Hence, our exports will undergo a degree of diversification, obviously a healthy phenomenon, and by making the best possible use of national raw materials situated as far as possible along in the production process, new products will appear and certain existing products will be strengthened. The latter may apply, for instance, to organic chemical products (See Appendix 2, no. 10) which traditionally held a certain prominence in the Portuguese industrial structure but played a limited rôle in foreign trade. As Table 6 shows, the EC could theoretically absorb all surplus production, but Portugal should take steps to choose the most advantageous trading partners leading to the greatest possible progress as regards the *filieres* of these products. In the three main areas in which Portuguese production could be significant, namely copper, tin and tungsten, the largest importer, at the world level, is always the United States despite the fact that it is also a major producer,[17] meaning that there is an enormous area open for joint undertakings in this field. In all events, particular attention should be paid to ensuring that these new spheres of Portuguese production are not developed at the expense of a deterioration of environmental and other conditions, of which there is a sometimes serious risk, given the nature of these products. In short, the idea of making commercial use of national raw materials, which was little pursued in any active manner in the past, could today be re-considered as a means of broadening and deepening the respective production cycles in Portugal, or at least reaping the greatest possible economic benefits from these resources.

The question of EC membership and its effects on Portuguese-US trade

The course of trade between Portugal and the United States after 1986, even in comparison to the above-described major oscillations in the past, was seriously affected. Before examining the possible causes of this evolution, let us look at some overall facts in this regard. Figures available in 1988 indicate that Portuguese trade with the United States hit the lowest level in decades in 1988, as Appendix 1 illustrates. This appendix also contains figures for many of the years between 1938 and 1988 and demonstrates that the relative value of imports had never been as low as in the latter year, and that as far as exports are concerned, we would have to go back to the distant year of 1938 to encounter values comparable to those existing today. Between 1960-73, the United States had occupied a fairly regular second place as client and third place as supplier to Portugal. However, by 1988 it had dropped to fifth and seventh place respectively (down from 4th and 6th in 1986), having been astonishingly overtaken by the "little" Netherlands to which in 1988 we exported significantly more and from which we imported virtually the same; even Sweden in this latter year respresented, *grosso modo*, about half the Portuguese presence on the US market (67.5 % of exports from Sweden, 43.2 % of imports).[18] Moreover, as Table 7 illustrates, the evolution of trade over the past five years has been less positive with the United States than with any of the non-EC developed countries with which Portugal has maintained trading relations of any significance, following a consistently downward trend since 1985. An itemized analysis of major groups of goods imported and exported, particularly those where the United States has a certain weight (foodstuffs and beverages, industrial supplies, machinery and capital goods) reveals an overall regression in 1987 in the US position, with the previously-mentioned exception of Portuguese exports of machinery and capital goods which experienced a slight increase in total exports in that year.

Table 7

Portugal: trade with non-EC developed countries

(percentage of total)

Exports

	1984	1985	1986	1987	1988
Sweden	3.55	3.68	4.27	4.55	4.01
Canada	0.86	0.98	0.77	0.76	0.79
Japan	0.92	0.85	0.83	0.73	0.75
United States	8.84	9.22	6.98	6.43	5.93

Imports

	1984	1985	1986	1987	1988
Sweden	1.11	1.34	1.67	1.87	1.89
Canada	0.69	1.11	1.12	1.10	0.95
Japan	2.52	3.00	3.57	4.08	3.64
United States	13.45	9.72	6.97	4.82	4.31

Source: INE, *Estatísticas do Comércio Externo.*

The considerable drop in the volume of trade between Portugal and the United States is not only relative, real and in physical volume,[19] but is apparent also in purely monetary terms. In escudos, both imports and exports in 1986-87 were lower than in 1985 and, according to available data, increased in 1988 over the previous year but, particularly as regards imports, nominal values have not been as low since 1982, while prices during this brief period of time have risen to almost two and a half times their original level. In terms of current US dollars (which have been inclined to drop in value against the escudo since 1985, a point we will return to later), between 1984-87 the value of imports decreased, as did exports up to 1986, to then increase in 1987. These trends are illustrated in Table 8 which also shows an interesting comparison with Spain which entered the EC at the same time as Portugal but managed to hold its trade with the United States much steadier during this transitionary period and, although it did experience a slight regression, it was far more limited in extent while in value, in dollar terms at least, it increased successively between 1984-87.

Table 8

Portugal and Spain: Trade with the United States

(million US dollars)

	Exports				**Imports**			
	1984	**1985**	**1986**	**1987**	**1984**	**1985**	**1986**	**1987**
Portugal	456	525	506	596	1 088	742	671	659
% of total	*8.8*	*9.2*	*7.0*	*6.5*	*13.7*	*9.7*	*7.0*	*4.9*
Spain	2 252	2 434	2 517	2 780	3 250	3 265	3 445	4 067
% of total	*9.6*	*10.0*	*9.3*	*8.1*	*11.3*	*10.9*	*9.8*	*8.2*

Source: IMF, *Direction of Trade Statistics Yearbook*, 1988.

While it is true that the volume of trade in 1984-85 was somewhat higher than the post-1974 trend, which has already been mentioned in passing and will be confirmed hereafter, it is more significant to note that its increasingly low level has no parallel in recent decades. Consequently, it is worth enquiring into the possible causes underlying this new situation. Is it a case merely of short-term changes arising from the immediate impact of Portuguese accession to the EC with all returning more or less to normal after a few years or could there be more deep-rooted reasons and more lasting effects calling for a structural reorganization of foreign trade relations? Whatever the answer to this question, the following discussion may perhaps throw some light on certain related questions, though we do not here intend to carry out the systematic and exhaustive study that a full understanding of the phenomenon demands and deserves. Such an in-depth study would call for other means and factors which clearly exceed the scope of this preliminary and no less important overview of the economic relations between Portugal and the United States. Thus, we will now go on to analyse certain aspects which have influenced Portuguese-US trade during the post-accession period, with particular emphasis on the possible trade shifts resulting directly from the membership process; the nature of action taken in response to specific situations, particularly in the monetary sphere; and the general attitude of the partners to each other.

The problem of trade diversion has most often been quoted as the cause of the recent fall-off in Portuguese-US trade. Theory has it that trade diversion can occur following a process of integration when certain goods produced at a higher cost in a member country (in comparison to the lower cost of the same goods produced in a non-member country) are finally sold at a lower price because they are not subject to customs duties.[20] The concomitant effect for a country directly benefitting from such substitution is known as trade creation. Most studies made on the subject of EC enlargement in 1986 recognise the possible occurrence of trade diversion to the benefit of particular members and to the detriment of the United States, particularly in regard to Portuguese imports of US agricultural products,[21] the importance of which has already been mentioned. However, trade diversion alone cannot account for the recent evolution. Numerous disputes arose and major negotiations on the issue of US agricultural exports to both Portugal and Spain were held between the United States and the European Community, particularly in 1986. As a result, it was agreed that the principle of EC preference over a minimum of 15 per cent of Portuguese grain imports would not apply until stage one of the transition period for Portuguese agriculture was completed in 1 January 1991. Trade diversion effects will therefore be curtailed, at least of the kind that would more seriously affect the US position. The report of the Bank of Portugal for the year 1986 acknowledges this situation: "As to cereals there were no significant trade diversions in 1986."[22]

At first sight, however, the facts would appear to bear out the hypothesis that trade diversion was largely responsible for the drop in imports from this source, apparent particularly in the category of grains and grain-based products (See Table 9). A drop did effectively occur here between 1985-87 of 40 thousand million escudos, with such US products coming to account for 0.5 per cent in place of 3.8 per cent of Portuguese imports which in itself accounts also for the approximately two thirds drop in imports as a whole from the United States in that period. Let us look more closely at this matter. Firstly, we must draw attention to the abolition, however gradual, of the grain importation monopoly exercised by EPAC (State Grain Supply Company). As is generally known, this measure was the result of Community legislation in defence of competition – and as an economist we can only applaud it though without in any way casting aspersions on the manner in which EPAC carried out its functions.[23] Be that as it may, the structural conditions under which trade in grain was carried out, being completely free by 1989, were altered. This process of course led to the appearance of other grain-importing companies, particularly of US origin. However, the principal question in our view is the change in the economic rationale being applied in this sector. EPAC could go out into the world market and, at the lowest price (or under the most favourable conditions), buy for instance US grain, bringing its position as large and single national buyer to bear. Nowadays, decisions can be taken by a multitude of agents, often in opposition to the above rationale without necessarily implying that resources are less well allocated and far from entailing

Table 9

Portuguese imports of foodstuffs from the United States; comparison with other origins

(million escudos and percentage of imports per category)

		1985	1986	1987	1988
United States					
1. Cereals and cereal-based products		49 020.5	26 322.3	10 100.7	13 307.1
% Share in imports	US	85.8	63.9	38.0	36.1
	EC[a]	5.4	11.2	31.4	31.4
	Other	8.8	24.9	30.6	32.5
2. Animal feed (excluding non-ground grains)		1 053.1	7 302.8	11 462.0	17 891.6
% Share in imports	US	19.7	49.6	55.1	58.0
	EC[a]	65.1	30.4	24.9	20.5
	Other	15.2	20.0	20.0	21.5
3. Seeds and oleaginous fruits		20 601.3	17 331.6	19 103.3	15 101.7
% Share in imports	US	44.7	55.3	40.7	27.0
	EC[a]	0.6	4.4	36.6	31.7
	Other	54.7	40.3	22.7	41.3
4. Total 1 + 2 + 3		70 674.9	50 956.7	40 666.0	46 300.1
5. Total imported from the US		128 961.7	100 591.7	92 957.7	105 776.7
6. % 4/5		54.8	50.7	43.7	43.8

[a] Figures for 1985 include Spain.
Source: INE, *Boletim Mensal das Estatísticas do Comércio Externo.*

disadvantages for the final consumer. Thus, for example, Italian, French or Spanish companies in this sector setting up in Portugal might opt to use their own grain transportation or processing networks rather than, as previously, having recourse at some stage to the supply monopoly exercised by EPAC. As is obvious, national companies may also benefit by using other circuits. And let us not forget that all this occurs in the absence of any legislation favouring the creation of trade shifts and relies more heavily on links with companies situated earlier in the process and with the agro-industrial sector which could be strengthened, through investment in particular, which aspect we will analyse in Section II.

Secondly, there were matters of a different nature interfering with the traditional trade in grain between the two countries during this period, these being specifically the appearance of new products, as substitutes (or, in other words, GSP, grain substitution products, which have caused serious problems over the past few years to the main traditional grain producers) particularly as regards animal feed. Table 9 shows, on the one hand, that US exports to Portugal of animal feed (excluding non-ground grains, but essentially including corn gluten feed) rose substantially over recent years, to some extent compensating for the drop in the grain and grain-based products category. In addition, the practise of using maize for animal feed was abandoned, as had already occurred in many countries since it no longer made economic sense, being substituted by non-grain mixtures. A case in point is cassava root, which is being imported in ever-larger quantities from Thailand to the extent that it is now Portugal's second-largest non-oil-producing Asian supplier after Japan (imports from Thailand stood at 14,365 million escudos in 1988, consisting almost exclusively of cassava). Of course, in thus drastically reducing grain imports, the traditional US position as our largest grain supplier was seriously affected.[24] But even this situation is by no means one of trade diversion, merely constituting a step closer to the more efficient functioning of economic mechanisms.

It is of interest to look more closely at this point at Table 9 which illustrates the evolution of main foodstuffs imports between 1985-88 of consequence in Portuguese-US trade. Such products make up almost half of imports of US origin, but since this share is declining, we may conclude that its rate of decline exceeds that of the overall decline analysed previously. As we have already stated, this drop almost exclusively affects the grains and grain-based products category. However, the interpretation of these statistics is not always linear or entirely obvious (among other reasons because of the substitution and appearance of new products phenomena), this moreover being one of the points that we consider should be given priority treatment in the future, to which might be added categories 1 and 2 of Table 9 which incorporate the essential elements of grain imports. Thus, we may conclude that between 1985 and 1988, within the general context of this contraction of imports, the regression in the US position (from 80.1% to 46.1%) was almost entirely made good by the EC (from 10.5% to 26.4%) and other countries and regions (from 9.4% to 27.5%) in almost equal proportions.[25] The weight of the latter is indirectly strengthened by certain grain substitution products, as in the previously discussed case of Thai cassava. In all events, we are witnessing a greater diversification of sources of supply of such goods. Moreover, the evolution of seeds and oleaginous fruits was erratic from various points of view and its analysis is more complex (its main component, soya, could in part be incorporated in the new question of animal feed, along with maize, cassava and corn gluten feed). In addition, its behaviour was less characteristic between 1985-87 and in 1988 supplies were seriously undermined (droughts in the United States) with the usual repercussions on price. It might meanwhile be pointed out that the preponderance gained by the EC in 1987-88 derived almost entirely from imports from France of fruit and oleaginous fruits, it being well known that this country and the EC as a whole are not self-sufficient in this area and re-exports are almost certainly taking place, the origin being unknown but almost certainly not the EC.[26] The above considerations point to the fact that all that has occurred in Portuguese-US foodstuffs trade, particularly as regards grain imports, is divorced from the United States – European Community dichotomy in this sphere of trade.

There is yet another final aspect that must be borne in mind for a full elucidation of the evolution of grain imports of US origin during recent years. As has already been pointed out, the early 1980s coincided in part with an increase in outside demand for foodstuffs brought about by extremely bad harvests arising as much from structural causes as from unforeseen occurrences such as droughts. In addition, Portugal suffered a serious foreign payments crisis in 1982-84, with the result that it suffered major import restrictions: however, under the famous US PL 480 trade law, Portugal was able to benefit from lines of credit that became increasingly favourable in proportion to the volume imported which no doubt unduly increased Portugal's interest in US grains. When the Portuguese balance of payments situation improved from 1985 onwards, the conditions had already been created for a fall-off in the attraction of such ways of doing trade. We will return to this question in Section III.

Currency developments and exchange policy also exerted a degree of influence on the course followed by Portuguese-US trade. However, since this aspect has been fairly thoroughly dealt with already, we will here restrict ourselves to a brief concrete application to the period under analysis. Since 1985, the escudo has appreciated in comparison to the US dollar because, despite the crawling peg depreciation to which it has been subject (the effective escudo exchange rate fell by 7% in 1987), the rate of depreciation of the dollar has been more rapid, for which reason, between early 1985 and the beginning of 1988, the escudo in general terms appreciated one third relative to the dollar.[27] However, somewhat contrary to the logic of theoretical devaluation mechanisms, the fact that imports thus became cheaper for Portugal did not lead to their increase, but actually had a contrary effect. Again, this matter has already been discussed in sufficient detail.[28] Bearing in mind what we have previously said on the matter of Portuguese exports, it may be accepted that the appreciation of the escudo in comparison to the dollar had some dampening effect (our competitors exporting clothing, footwear, etc. to the US market needing only to place their currencies on a par with the dollar, for instance).[29] In all events, it is apparent that to offer currency evolution and the effects of exchange policy as the explanation for the decline in Portuguese-US trade is only very partially satisfactory.

Let us therefore adopt another approach to recent problems concerning trade between Portugal and the United States. In our view, in conjunction with the limited dimensions of trade, recent years have revealed a lack of economic information and of dissemination of such between the two countries, particularly as regards mutually-profitable business opportunities. In other words, we have here two economies which really do not know each other. We are not hereby implying that ICEP (Portuguese Foreign Trade Institute) and other specialized bodies which could contribute to the intensification of trade contacts between the United States and Portugal have not carried out ever more extensive and laudable work, but merely that this is only a small part of a process which one would like to see carried out on a broader, deeper and more comprehensive scale to make it truly effective.

The alienation of the United States is readily apparent in the fact that, while Portugal has undergone fairly positive economic evolution over recent years[30] with imports in certain categories (consumer durables and capital goods) increasing very substantially, the United States not only took no part in this process but its relative volume of trade dropped. If, on the other hand, we think back to the inverse developments of 1973-76 and 1981-84, it can be said that since the early 1970s, Portuguese-US trade has increased during periods of crisis and decreased during eras of prosperity,[31] which we feel to be extremely revealing once again of the intrinsic weakness of its economic nature. Portugal has also been guilty of a certain short-sightedness in recent years, though this may be imputed in part to trade diversion and trade creation arising out of EC membership. Trade relationships wich were already highly concentrated within the EC came to focus almost exclusively on this market. This effectively rules out areas such as the Pacific, which includes the United States and, in particular, a certain number of countries experiencing rapid growth. Taking certain South European countries as model, as Table 10 shows, none practise such a high degree of concentration on the EC market, as regards either imports or exports and, looking at EFTA, there is a notable worsening of geographic concentration of Portuguese foreign trade in Europe (for 1988 figures, see Table 1).[32] Companies can obviously not be prevented from doing good business on their own doorsteps but, taking the long-term view, it could be a costly mistake to shy away from attempting to penetrate more distant and, at first sight, more difficult markets which however have enormous potential, such as the United States. It may readily be seen that, taken on the planetary scale, it is no longer today what it was thirty of forty years ago (see first point of the present Section), but it is equally true that it retains much of its original dynamism. Moreover, as far as the next few years are concerned, while the United States may have to cut back the growth rate in order to tackle its budget and foreign deficits, it will certainly remain clearly positive since the time has not yet come to invert the objectives of economic policy to bring about stagnation, and the IMF and OECD forecast reasonable growth for the United States over the coming years though at an undoubtedly more moderate rate than during the 1982-86 period.

Table 10

Southern Europe: foreign trade with the EC and EFTA; average 1986-87

(percentage of total)

		Imports	Exports
Portugal:	EC	61.2	69.7
	EC + EFTA	68.5	81.4
Greece:	EC	59.6	65.2
	EC + EFTA	65.2	69.7
Italy:	EC	56.0	54.9
	EC + EFTA	65.0	64.5
Spain:	EC	52.6	62.1
	EC + EFTA	57.8	66.7
Turkey:	EC	40.4	45.8
	EC + EFTA	46.2	51.7

Source: OECD, *Statistiques mensuelles du commerce extérieur.*

The allegation of US-EC trade disputes does not appear to us to be a sufficiently valid reason to refrain from attempting to strengthen Portuguese-US trade relations. For one thing, there are at present large areas in which trade between the two countries is complementary, for which reason it would not be logical, and indeed against its own interests, for the United States to take retaliatory action against a country which at least in the medium term in most cases stands outside the main causes of dispute.[33] For another thing, Brussels must understand that with no valid reasons (specifically of a geographic nature) the US market is less important for Portugal than for the rest of the Community,[34] for which reason it should not place obstacles in the way of Portuguese-US trade. In addition, Portugal over the next decades aims to make good its economic backwardness, for which purpose it must maintain and develop certain relations with the United States that could be effective in achieving this end such as, for example, exporting capital goods, while Europe must cease to see Portugal as the "famous" manufacturing annexe of the products of former industrial revolutions now bolstered by forestry and mineral raw materials. While forcefully restating its deep European and Community commitment, Portugal should also do everything in its power to maintain and strengthen links with the United States (and other regions) to the greatest possible extent which is, in all events, the course followed by most other Community members.

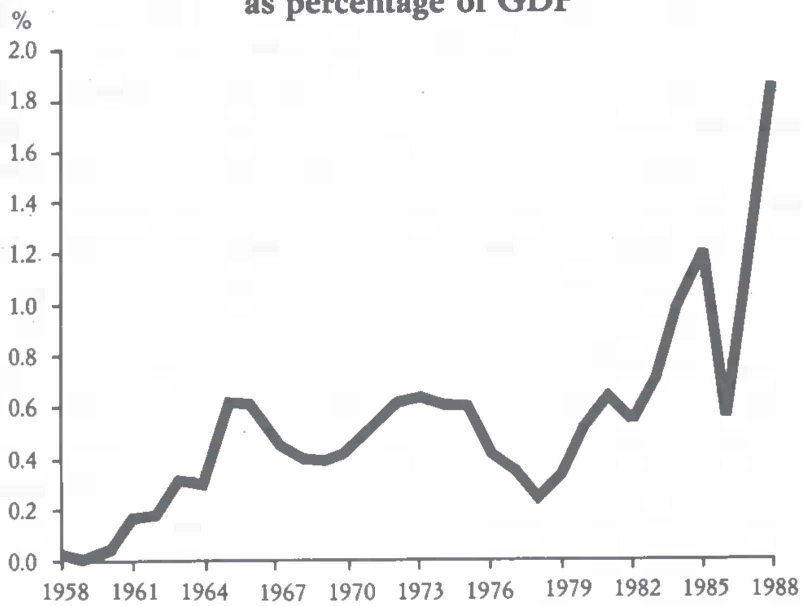
We would be failing in our duty if we were to neglect to mention that the immediate future and the prospect of the single European market in 1992 do not bode well for the development of trade between Portugal and the United States. Without mentioning US responsibilities which it is difficult exactly to specify, and going by trends established during the economic integration processes in which Portugal has been involved over the last few decades, the latter's trade always increased substantially and preferentially with member countries and we see no reason to suppose such will not be the case in 1992. This does not mean that a qualitative and quantitative improvement should not be sought in Portuguese-US trade but, if this is to be achieved, short-term views and the easy option and simply being borne along by the situation should be set aside because these approaches do not always serve the strategic objectives of Portuguese development. The development of Portuguese-US trade over the coming years will be increasingly linked to two elements. Firstly, in the context of EC-US relations (little can be done here bilaterally and any voluntarism is out of place) efforts must be made to increase free trade and reduce protectionism. The recent trading association between the United States and Canada (and with the Caribbean countries) on the one hand, and, on the other, the future enlargement of the EC, visible already on the horizon and to include in particular the present members of EFTA, indicate to us that this objective will increasingly tend to be placed in a broader context, specifically the Atlantic and the OECD, undergoing all the intermediate stages that will have to be passed through. Secondly, on the specifically bilateral level, steps must be taken to remove all obstacles which, to whatever degree, stand in the way of the development of trade, and particularly Portuguese-US trade, substantially increasing the mutual familiarity between the two economies and promoting the activity of the economic agents and bodies involved, in order to create the necessary conditions for strengthening relations in this vitally important sphere.

II. DIRECT INVESTMENT

It is common knowledge that since the 1920s, foreign direct investment (FDI) has played a peripheral rôle in the dynamics of the Portuguese economy.[35] This attitude, which was even reflected in law,[36] brought about a situation in which FDI between 1930 and 1960 was extremely low and between 1943 and 1960 amounted to barely two thousand million escudos. It is significant indeed that V. Xavier Pintado, in his study *Structure and Growth of the Portuguese Economy,* which constituted an important landmark in studies on the Portuguese economy at the time of its publication in 1964, concedes no place worthy of note to FDI, despite the fact that he looks in detail at the rôle of investment in Portuguese growth during the period corresponding approximately to the first two post-war decades. Between 1960-1973, undoubtedly in the wake of EFTA membership, foreign investment certainly increased but, even in 1973, when it reached its high point of the period, it did not exceed the sum of 2,500 million escudos which is a modest figure, particularly in comparison to what was happening in Spain at the time.[37] It is most revealing that the wave of nationalizations of 1975, designed to completely overhaul the functioning of the Portuguese economy, did not interfere with foreign investments, and that this should not have seemed odd at the time: in fact, there was very little in foreign hands to nationalize anyway. Finally, between 1974 and 1978, FDI stagnated at around 3,000 million escudos annually, its already low relative economic level dropping further still during the period immediately following the revolution of 25 April 1974.

It was not until the 1980s, following over half a century of virtual ostracism, that a radical turn around occurred in this sphere, with FDI at last increasing and attaining economically significant levels. In fact, between 1978 and 1988, the total volume of FDI increased at an annual average rate of 21.27 per cent which, even considering the low original threshold, cannot but be considered very high.[38] Between 1978 and 1988, it accounted for an annual average sum in constant prices which increased more than tenfold. Moreover, this is a fundamentally regular trend in that since 1978, a marked annual increase has occurred in FDI, with the exception of 1982 and 1986. Data available for the first two months of 1989, showing some 34,000 million escudos in accumulated value, point to the continuation of the same rate of sustained growth for that year.[39] In addition, over the past three years a substantial increase has also been apparent in average unitary investment which increased, at current values, from 38.3 million escudos 1986 to 55.4 million in 1987 and to 74.5 million in 1988. Further revealing figures could be quoted here but let it suffice for the present to draw attention to the fact that these developments are clearly reflected in Graph 1 and that the change of rate and direction occurring since 1978 is particularly well illustrated, as far as quantities are concerned, in Appendix 3 (annual evolution and by countries in 1978-88) which we recommend the reader study closely and to which we will return later.

Graph 1
Portugal: Foreign Direct Investment as percentage of GDP



Source: Banco de Portugal, Banco Português do Atlântico and IIE (estimates for 1988)

Bearing in mind the limited extent of foreign capital penetration recorded in the past we should not, of course, exaggerate the significance of figures for the past few years: total FDI which, as defined previously, is broader than investment *per se,* accounted for an annual average of only 4.2 per cent of GFCF between 1985-87 and, as Graph 2 shows, holds a relatively insignificant place in the total volume of foreign currency entering the country. In all events, if this strong growth trend persists for a few more years (or even if it remains steady at current levels) the image of Portugal developing with its back turned to FDI will no longer reflect the parameters of the present-day Portuguese reality, and will apply only to the past. All in all, this change, with its enormous historical significance and its increasing dimensions, has occurred largely unnoticed, without being studied and analysed as it deserves. Even the media, considering perhaps that the matter is not relevant to the day-to-day life of most people, has merely, on the whole, published stray figures or publicized various superficial occurrences (for instance, the visits to Portugal by Robert Maxwell, Carlo de Benedetti and Giovanni Agnelli or other large potential investors).

Although we do not intend to go into the matter in depth at this point since we would thus be overstepping the framework of our central concern, we do however feel that it would be of interest to go into the reasons underlying this still recent phenomenon which has no parallel, at least in the course of recent decades. It is illustrative, on this head, that this phenomenon should already have been apparent during the first half of the 1980s (for example, in terms of volume, more was invested in 1984-85 than in 1986-87, see Appendix 3) despite the fact that the Portuguese situation at the time could only be termed one of grave economic crisis, manifest in a huge current accounts deficit (the solution of which resided on raising interest rates and imposing strict selectivity in granting of credit, with the result that GFCF fell noticeably in 1983-85) and, equally important, the all-too-familiar question of political instability, both factors which are generally held to deter FDI. It is obvious that the underlying reasons here are structural rather than situational in nature. Hence, Portugal's accession to the EC in 1986 which opened up new and much broader business opportunities contributed significantly, both during the years prior and those following membership, to bringing about a major in-flow of FDI. We will return to this question at a later stage and here limit ourselves to mentioning that a very similar process occurred in Spain.[40] Due credit must also be given to the creation in 1977 of the Instituto de Investimento Estrangeiro (Foreign Investment Institute), a public body with the specific task of promoting and facilitating entry of FDI or, in all events, it cannot be denied that the establishment of the IIE coincided with the increase in FDI (despite excessive red tape in its mode of operation).

We consider this recent large-scale expansion of foreign investment to be a basically positive economic phenomenon, bearing witness, in its sphere, to a necessary process of internationalization of the Portuguese economy which, if dynamically handled, could in the longer term bring with it a significant increase in Portugal's competitiveness on the international front. It would, of course, be desirable to channel it, though by *indirect* means, in a particular direction, depending on what is considered best for the long-term development of the country and the solution of major structural shortcomings to which it is still subject, encouraging a view which looks beyond immediate profit. But this is not the matter with which we are dealing here.[41] FDI cannot, of course, be given pride of place at the expense of national capital, particularly since there are numerous possible forms of association, complementary and, also, autonomous operation. Portuguese capital will without a doubt have in turn eventually to be exported on a significant scale. Even if there were no other reasons, the very need for greater trade penetration which we mentioned in the previous section will be ever more closely linked to the investments of national companies abroad, as effectively occurred in other countries which succeeded in raising their international economic status and which we will discuss elsewhere. But it should be noted that some steps, however small, are being taken in that direction, with Portuguese investment abroad tripling between 1986 and 1988, during which year it reached 15,000 million escudos (10,000 million during the previous year – figures taken from the *Semanário Económico*, 24.02.89), particularly when we bear in mind that, with the exception of the former African colonies prior to 1974, Portugal has practically no recent tradition in this field.

To return to the main thread of our analysis, we must of course also note that not only has FDI in Portugal been limited, particularly going back in time, but investment originating in the United States, which is by far the largest international investor[42] and the foreign investment leader in many countries, has been considerably lower here than in other parts of the world. There was no echo in Portugal of what occurred in Spain, for instance, where direct investment from the United States accounted for 40 per cent of the total between 1960 and 1975 and played an important part in the industrialization of the country[43] or in Greece where US investment accounted for 44 per cent of total FDI between 1953-76.[44] Luís Salgado de Matos, author of one of the few studies on the subject, published in 1973, emphasizes that while the United States was the largest foreign investor in Portugal between 1969-71, accounting for 23.8 per cent of the total, "its position among foreign investors was not as dominant as in Europe and Japan."[45] Other authors have likewise drawn attention to the smaller volume in relative terms of US investment, standing in 1970 at 15 dollars per capita in Portugal, 22 in Spain, 38 in Italy and 144 in Great Britain.[46]

The situation did not alter noticeably after the revolution of 25 April 1974 nor during the last eleven years for, as Table 11 demonstrates (for analytical purposes, on account of its well-known instability, FDI is here examined over relatively long periods), the United States appear in 1978-88 as the second largest investor without being markedly dominant and with the largest annual average share and holder of the largest volume of stock at the end of 1984. Only in 1988 did British investment exceed that of the United States; during this period and until 1985, the former's annual participation never exceeded

Table 11

Portugal: Foreign Direct Investment

Main countries of origin

	Total accumulated flow (million US dollars)			**Annual average share**	**Stock 31 December 1984**
	1988 (1)	**1978-88 (2)**	**1978-88 (3) %**	**1978-88 (4) %**	**(5) %**
United Kingdom	164	418	20.4	14.3	7.5
United States	77	341	15.9	16.0	18.6
France	67	283	11.9	15.5	16.7
Switzerland	45	245	10.1	13.2	10.4
Germany	48	169	6.9	6.5	8.8
Total 5 main countries	401	1,456	65.2	65.5	62.0
Total	656	2,194	100.0	100.0	70,754*

* million escudos

Source: Relatório do Banco de Portugal (1) and (2); *IIE* and (3), (4) and (5); different data-gathering procedures explain why values do not always fully match.

10 per cent of the total (which is also borne out by the small volume of stock held in 1984) and it is only since then that a real boom has occurred in British investment; another source consulted confirms the UK's lack of drive in southern Europe until a few years ago.[47] This case also shows how quickly changes are occurring in this sphere. We might also point out, in purely quantitative terms, that while the US share of FDI in Portugal was lower than the world average, it was nonetheless higher for that same period than the relative volume of trade previously analysed. Moreover, a strict attempt to measure US investment in Portugal in absolute terms must of necessity take account of investment by US subsidiaries in other countries, particularly in the United Kingdom (the inverse holding less true). We were, however, unable to give a satisfactory numerical quantification to this phenomenon. Finally, from the US point of view, the direct investment placed in Portugal is an infinitesimal part of the total invested abroad.[48]

A number of publications give us an insight into the main aspects of US investment in Portugal, though none are fully comprehensive nor very up to date, for which reason due reservations should be observed in regard to the following figures. At the end of 1983, US investments were distributed as follows: industry 40 per cent, trade 40 per cent, banks and services 15 per cent, and 5 per cent in other sectors. During that same year, the number of companies (or, more accurately, their Portuguese subsidiaries) totalled 141, with particular attention being due to the group of the main industrial companies[49] appearing below. Placed in order of volume of sales in Portugal, during 1987, five of these companies (in descending order, Ford, PROVIMI,

Company	Sector	Number of employees
General Motors	Automobile	
GM de Portugal		834
CABLESA		1661
INLAN		690
Ford	Automobile	713
Firestone	Tires and rubber	654
Dartluso	Chemicals	84
Colgate-Palmolive	Cosmetics	220
Johnson & Johnson	Cosmetics	400
General Electric	Electric and electronic appliances	342
TIMEX	Electric and electronic appliances	560
Texas Instruments	Electric and electronic appliances	700
Magnetic Peripherals	Electric and electronic appliances	891
PROVIMI (Central Soya)	Foodstuffs	354
Knorr	Foodstuffs	324
Produtos Corticeiros Portugueses (Crown Cork & Seal Company)	Machinery and manufacturing	157
Joint-ventures:		
JM da Fonseca (Heublein, 49 %)	Beverages	228
ISOPOR (Quimigal-Upjohn)	Chemicals	181
Metal Portuguesa (Ferro Corporation, 51 %)	Chemicals	330

GM de Portugal, CABLESA and ISOPOR) figure among the 100 leaders in all sectors. In an initial analysis of this sample, and without underestimating the importance that some of these companies may possess in certain spheres (for example, in the export performance of the electronics sector where US companies, outstanding among them Magnetic Peripherals, Texas Instruments and TIMEX, accounted for 51 % of the total exported in 1983), it is apparent that these companies are little more than trade depots and immediate extensions of production and/or support points for the international strategy of the groups to which they belong, taking advantage of certain special local conditions and, as a rule, producing little value added within the framework of the Portuguese economy. It is interesting to recall here the cases of the oldest industrial ITT companies, Standard Electric and Oliva, particularly the former, which was perhaps the US company to have created most jobs (over 2,000 during the early 1980s) and which, partly in response to the ITT crisis in Europe, partly for reasons of its own (Standard Electric, for example, was basically dependent on a single domestic client, the

CTT/TLP telephone company), changed hands and belong today, at least directly, to non-US capital and recently went through difficult and far-reaching conversion processes. Hence, a group with the international standing of ITT today barely figures on the Portuguese industrial scene (with the exception of Imprimarte). In short, it may be said that US investment in Portugal is weak in both qualitative and quantitative terms. This is particularly so when we bear in mind the sheer size and technological capacity of the US industrial apparatus, particularly abroad, and the new horizons opened up by Portugal's accession to the EC.

It is now a question, following membership of the EC in 1986 and on the threshold of the single market in 1992, of deciding how we can move on from the above-described state of affairs and strengthen Portuguese-US relations in the field of investment (basically, of course, US investment in Portugal since, while the inverse is both desirable and necessary, it is most unlikely to increase to any great extent in the near future) to the mutual advantage of both Portugal and the United States. By all appearances, this will be no easy process since the momentum of EC membership has naturally unleashed centripetal forces. Nonetheless, paradoxical though it may seem, this is precisely the most favourable context in which to set about tackling the matter. It is true that Portuguese GDP does not account for more than 1 per cent of the EC total and that this country is in a clearly less favourable position than the remainder of its EC partners as far as the vast majority of structural economic and social indicators are concerned.[50] However, strong pressure is being brought to bear from a number of different sources, and which is apparent at different levels, to eliminate these discrepancies and correct some of the inequalities within the European Community. As a result, Portugal's rate of growth is higher than the EC average: 2.4 per cent per annum as compared to 1.7 per cent during the 1975-1985 period, and this state of affairs has become more marked over the past three years with Portugal's GDP continuing to rise at a rate exceeding the EC rate (about 4.3% and 2.8% respectively in 1986-88). According to recent OECD estimates, this trend of more rapid growth in Portugal will hold over the next years. Although sudden or more gradual changes may occur along the way, necessitating a reduction to this rate, this is certainly an important point to bear in mind. Nonetheless, higher growth does not necessarily mean an effective improvement in the models of the Portuguese economy. The modernization of productive structures which are so urgently needed in practically all sectors, whether in agriculture, industry or services, is complex and appears at times to be progressing with exasperating slowness. In the present context of transition, however, it would be excessive to think that this fundamental process might be irremediably hampered. For these reasons, and even if the international situation, which has certainly been highly favourable for Portugal since 1985, were to change for the worse, the present momentum of the Portuguese economy is unlikely to be seriously obstructed during the years to come, since the impetus of EC membership will continue apace on several fronts (trade, finance, etc.). This does not mean that it is simply a question of time before the Portuguese economy recovers and attains the level of EC indicators and that this depends merely on simple processes which are already functioning; it is obvious, as the almost three decades of life of the European Community show, that major inequalities will persist (and possibly become more marked), particularly if these resources are not channelled (and well managed) in the most desirable manner. But what it is most important now to emphasize is that there will be no shortage of opportunities for lucrative investments (particularly for foreign capital) and, if this fact is duly acted upon, it could contribute to eliminating both absolute and relative disadvantages.

It is not surprising therefore that Portugal should have arisen as a centre of attraction for FDI with the above-discussed aspects being but the most visible and concrete evidence of this. In particular, traditional investors such as the north European countries, or new ones such as Spain, Brazil and certain Asian countries (see Appendix 3), have considerably increased their presence. US investment in absolute terms, playing a part which was, as we have seen, comparatively limited by international standards during the most recent decades, also followed this general movement. Meanwhile, its share in the total of FDI flows has stagnated or even slightly declined: in fact, from 16.76 per cent between 1978-82, it dropped to 15.98 per cent in the following 1983-87 period. In 1988 despite the fact that, according to our calculations, the volume of US investment was larger than ever before, it did not exceed 13.7 per cent of total FDI (See Appendix 3).

It would indeed be an economic absurdity if this trend of the relative decline in US investment were to take firm hold particularly in that, as the above-mentioned IIE document states: "If one compares US investment profitability in European countries, it is immediately clear that Portugal stands out among them." It is true, however, that FDI does not live from profitability alone. The landing of large-scale projects, particularly if the level of investment is high and is expected to bring about a series of effects, particularly of a technological nature, has frequently become a veritable operation of political-economic seduction. A case in point is the large Ford factory, the location of which for a while seems to have hung in the balance between Portugal and Spain and finally went to the latter in response to wide-ranging facilities and incentives granted by the Spanish authorities. Such an example may or may not show us how we should proceed, this being a matter upon which we might dwell at length, but we may be sure that greater volumes of FDI will not come our way if we merely base our approach on well-intentioned attentiveness or on thoughts of pure and immediate profit. We must call a halt to improvisation and present foreign investors with clear strategic objectives and act in an opportune and informed manner, particularly in the sphere of what might be called *economic diplomacy*.

To continue with our analysis, we shall now move on to an aspect which we consider to be of utmost importance, concerning the ways leading to indirect FDI selection (any other is neither desirable nor possible and would constitute a step backwards or at least promote the in-flow of potentially more creative investment. One of the main considerations influencing decisions to set up foreign companies in Portugal is, without doubt, the low wage level here. This situation is one of the past[51] but also of the present as is shown in Table 12 which demonstrates that the average hourly wage (including social insurance contributions) in Portugal in 1986 stood at only 48 per cent of its Greek counterpart, 30 per cent of the Spanish and 26 per cent of the Irish, to mention only those EC countries which are economically most similar to Portugal.[52] The major expansion of FDI since the end of the 1970s has created favourable conditions for a greater number of modern and

Table 12
Labour costs: Average hourly wage, including social insurance
(US dollars)

	1985	1986	1987*
Europe			
Switzerland	9.39	14.01	16.63
Germany	9.57	13.85	16.74
Norway	10.72	13.10	16.17
Netherlands	8.81	12.32	14.65
Belgium	8.85	12.73	15.64
Sweden	9.45	12.53	14.72
Denmark	8.17	11.12	14.04
France	7.67	10.49	12.40
Italy	7.55	10.82	15.52
Finland	8.07	10.46	12.96
Austria	6.66	10.23	12.88
United Kingdom	6.15	7.67	8.96
Ireland	5.68	7.39	9.09
Spain	4.78	6.47	7.79
Greece	3.62	4.04	4.86
Portugal	1.43	1.94	2.45
Countries outside Europe			
United States	13.20	13.29	13.52
Japan	7.09	7.76	11.48
South Korea	1.30	1.53	1.80

* Estimates.
Source: US Bureau of Labour Statistics 1985/87, in IIE, *Investir em Portugal.*

innovating companies to come and set up in Portugal, as opposed to the residue of industrial manufacturing, but this will not be achieved on the basis of low wage levels which offer no incentive to workers, their training or technical progress. The increase in relative wage levels could be one of the means of achieving this desirable transformation, particularly in the field of vocational training (we also have other alternatives such as, for instance, the combat of child labour which is an indirect means of producing the same effect). Indeed, a positive correlation exists between increased income and the greater sophistication of production models and this is particularly true at the stage of development which Portugal is undergoing at the present time, involving strong pressure to raise consumption levels (of consumer durables for instance rather than foodstuffs). It is apparent that, with the degree of openness and the dimensions of Portuguese economy, FDI could play an important rôle in this regard. Finally, the qualitative improvement in exports discussed in detail in the previous section is inconceivable without concomitant changes at the general domestic level.[53]

A wage policy of this type, implemented in a responsible manner, would entail minimal negative effects in the present context of transition, particularly since the level of unemployment in Portugal has been relatively low over recent years in comparison to levels within the EC as a whole and even the balance of payments has not been subject to as great a desequilibrium as in the not so distant past (for which reason, indiscriminate promotion of FDI could not be justified). In addition, this would be a gentle way of priming Portugal for the single market in that, if current relative wage levels are maintained, the free circulation of labour coming into force in 1992 would seriously threaten to strip the Portuguese economy of skilled labour. Moreover, although the basis is not the same, this mechanism is already effectively operating as is illustrated to some extent by the widening gap between the Portuguese and Korean wage levels detailed in Table 12. Thus, a large proportion of FDI would no longer merely seek to take advantage of the structural weaknesses of the Portuguese economy in the international context (which, if we are to be realistic, will continue to occur for some time yet), thus to an extent perpetuating them, but will become a goad to modernization and adoption of more advanced technological patterns.

On the same subject, it is of interest to give details at this point of the results of a study carried out by SELGEC, to which we were granted access, and which sought to make a comparative survey of the remunerative systems of five groups of companies operating within the fabric of the Portuguese economy: state national, private national, European, US, Japanese. Given the all-too-well-known limitations of such surveys, subject as they are to the characteristics of the sample (15 companies in each category, with the exception of Japanese companies which included details of only four companies) and of the positions considered (three: directors, management secretaries and clerks, that is, management and administrative personnel whose wages might be of great importance in so far as valuation of human resources is concerned but are certainly not representative of the whole), the survey's result cannot be considered universally applicable, giving us instead a partial indication. Bearing this in mind, the conclusions state that: "as regards these three types of position on which our comparative analysis is based, it was found that the highest wage levels were paid by companies of

US and European origin, with the former lying considerably ahead."[54] It further added that the greatest pay range, and more particularly the difference between the maximum salary of a top director and the minimum wage of a clerk is not typical of US companies but is true of European companies which lie half way between the US companies and the remaining more egalitarian groups. It is of course not our intention hereby to idealize anybody or anything but merely to draw attention to facts which are of any relevance to what we have been discussing.

To conclude this section, we would like to look at another point which relates to US investment placed (or to be placed) in Portugal. Comparing the export performances of companies with foreign capital in the electronics sector in the 1965-73 and 1973-77 periods, the authors of a study on the subject consider that, although the activities of companies with US capital producing primarily for mother companies in the United States or for European subsidiaries had been eliminated or diminished during the latter period, US companies which had alternatively set up in Portugal with a European market penetration strategy had survived or expanded.[55] While this conclusion does indicate the potential of such a strategy, one must of course bear in mind that it is influenced by the periods chosen and by phases of expansion, stagnation and recession, which do not necessarily coincide in Europe and the United States. For instance, an analysis of the 1982-86 period might produce a very different conclusion. What we wish to emphasize here is that these companies that we are taking as a model could from now on take full advantage of their position in both the major markets (United States and Europe) which lends them greater flexibility as regards future activity.

III. OTHER ECONOMIC AND FINANCIAL FLOWS

After this detailed examination of the two principal flows, we will now go on to analyse the most significant of the remainder, opening up new aspects, perhaps less well-known, of Portuguese-US economic relations (as regards, for instance, public transfers to Portugal). Unfortunately, it has not been possible to attain the same degree of exactitude in the study of the following main cases as regarding trade and direct investment despite the previously mentioned limitations, particularly concerning the latter. As we will see, the main difficulty relates to the fact that, while it is perfectly possible and straight forward to give a statistical determination of positions against the US dollar, the same is not true of the position of economic agents which are effectively of US origin or are headquartered in that country, the latter being but a subgroup of the former. In effect, many economic and financial operations (in the area of services and international transfers) with third parties are also undertaken in dollars, the world currency *par excellence* and statistical information currently available is not equal to clearly establishing the relative importance of these parts (not even in the form of estimates or through inquiry). Therefore, it would be extremely risky to draw any conclusions purporting to give a faithful reflection of the nature of Portuguese-US relations in this field, at least in the sense in which we have been using the expression.

Emigrants' Remittances and Tourism Receipts

These items in the balance of payments have a greater importance in Portugal than is usual in most developed countries (or even in many developing countries). The fact that the balance of trade (merchandise) is here traditionally in deficit, to the extent that 1941-43 is the only period in the last fifty years when there has been a surplus, means that emigrants' remittances and tourism receipts are essential in maintaining external equilibrium. It may be added that during the 1980s and particularly after 1983, the degree to which exports compensated for imports improved significantly over the 1970s and even the 1960s, despite poor results for 1980-82 and ignoring for now the major changes occurring in the economic situation throughout the 1980s.[56] If the trend of recent years proves lasting, a major change will be brought about in the context of the Portuguese economy (of the type which is already a reality as regards FDI, as we saw in Section II) provided that such an improvement does not imply that imports are sacrificed, as is obvious. It may however be too early yet to talk of a new path in this important aspect of foreign trade although this may well be within the country's reach if due efforts are exerted to this end. Be that as it may, and pursuing our search for better models for the Portuguese economy, the volume of emigrants' remittances and tourism receipts is not likely to fall, although the part they play in the balance of payments may be substantially modified. Moreover, the parallel increase in currency leaving Portugal through these channels will in the long term be a good indicator of the conversion or otherwise of the Portuguese economy into an authentically European economy. Even accepting that this could occur, it does not mean that major surpluses will cease to occur in the future in these sectors of the balance of payments (as regards tourism, for example, potential conditions exist, for obvious natural and historical reasons, for the occurrence of a structural situation of this type).

Bearing the above in mind, let us look at how these two in-flows fit into relations between Portugal and the United States. Table 13 will help us in this regard and, for 1984-87, also gives information on some of the main economic partners, which will allow comparisons to be made. Given the characteristically seasonal nature of these movements, figures for the first quarter of 1988 should be taken as merely informative in nature (coinciding moreover with the trend for the 1984-87 period). Over and above questions already raised concerning their true national origin, it should be borne in mind that the changes sometimes apparent in escudo values in Table 13 also reflect the evolution of the various currencies, particularly on the exchange front, to an even greater extent than oscillations in the relative number of persons involved (emigrants and tourists), which is more or less stable in the short term.

Table 13

Portugal: Emigrants' remittances

(million escudos)

	1984	1985	1986	1987	1988*
France	138,064	155,536	177,451	194,172	83,048
United States	48,560	56,858	63,014	70,887	34,034
Germany	38,609	32,555	27,590	37,420	19,943
United Kingdom	8,412	12,130	12,805	19,067	9,182
Canada	14,589	16,096	14,588	15,843	8,545
Spain	2,296	3,211	5,917	10,807	2,816
Total (balance)	316,692	353,665	385,122	457,768	—

Portugal: Tourism receipts (credits)

(million escudos)

	1984	1985	1986	1987	1988*
United States	45,801	58,978	59,746	69,737	32,435
United Kingdom	27,862	42,366	52,586	63,564	29,429
Germany	14,290	21,305	27,248	38,668	16,774
France	18,634	22,859	31,492	36,356	13,776
Spain	4,874	7,990	11,480	21,095	9,778
Canada	4,687	5,976	6,848	8,265	3,597
Total	140,481	191,765	228,395	298,685	—

* Accumulated as of June 1988.
Source: Banco de Portugal.

Let us begin with emigrants' remittances, where the United States hold a clear second place (15 % of the total) although well behind France which takes the lead. As has already been said, it is not possible yet to establish the origin of all these transfers as being the United States, since there is a notorious departure from surface appearances in this case. It suffices to see that at the end of 1985, according to estimates published by the Department for Portuguese Communities,[57] there were some 260 thousand emigrants in the United States, equal to the number in Canada though, as Table 13 shows, the latter group remitted sums with an equivalent value in escudos several times lower, with the lower quotation of the Canadian dollar in no way explaining this difference in its entirety. There is however some empirical evidence which indicates a greater dynamism in this area of Portuguese emigration to the United States since, according to the same source, this country has been its main destination since 1975 (exceeded only by Venezuela in 1982); it is a fact however that relatively young emigration

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As regards tourism receipts, the discrepancy is still more apparent between the proportion in US dollars, the clear leader during the period under discussion, and the proportion actually corresponding to US tourism which stands 5th in the number of visiting tourists (after Spain, United Kingdom, Germany and France). The numbers in Table 13 (lower section) do indeed appear to reflect the more general evolution of US tourism in Europe, and a stagnation of receipts in escudos (drop in real terms) is apparent in 1986 which coincides with its overall drop throughout Europe as a whole,[59] particularly in the Mediterranean basin, brought about by familiar political motives relating to a campaign of threats and aggressions aimed primarily against US citizens which would not, in principle, affect US dollar bearers of other nationalities (although 1986 was a year in which the quotation of the dollar dropped significantly after an enormous rise during the early 1980s). Reflecting on a favourable hypothesis we would conclude that US tourists on average spent a far greater volume of foreign currency than most other tourists (more overall than, for example, the British tourists who visited Portugal in numbers three or four times higher than US tourists). If this hypothesis is indeed accurate, although of course in more modest terms than those appearing in Table 13, it is clear that since it is financially more productive, US tourism must be given priority consideration in any policy for Portuguese tourism designed to do away with the "cheap" and low quality label and replace it with a less destructive type of tourism, requiring trained personnel, etc. This may indeed be the case, though such can only be proved in a study going further into the question than we have here.

Although disguised behind the dollar economy which artificially increases its impact, the US contribution to emigrants' remittances and tourism receipts is likely to be quite considerable, despite the fact that its exact dimensions could only be established in a more detailed study.

Transfers and Government Aid

Let us now look at what is happening as regards other types of flows coming to us from the United States. For this purpose, we will make use of US statistical sources itemized under US Government Grants and Credits, including economic assistance and military aid. These flows clearly reflect the political and strategic attitude of the US government towards Portugal, as well as US public opinion. In addition, we have the same information available for Spain which we can use as a term of reference (Tables 14 and 15).

Over the last four decades, US transfers to Portugal have, in general, undergone a cyclical development corresponding, in dollars, to a sharp drop in 1956-75 and a recovery in 1976-85. It is clear that the downward trend

Table 14

US Transfers and public loans

(accumulated totals, million US dollars)

	1945-55	1956-65	1966-75	1976-85	1986
Portugal	248	241	34	1,003	178
Spain	258	1,203	607	965	67

Source: US Department of Commerce, *Statistical Abstract of the United States 1988.*

arose basically on the Portuguese side with the Salazarist "proudly alone" policy and on the US side with the pressure of public, mainly black, opinion which was not happy to see aid given, however indirectly, to a State which had for most of that time engaged in colonial wars in Africa.[60] As was to be expected, the situation changed after the revolution of 25 April 1974. Spain, on the other hand, which between 1945-1955 received a total amount equivalent to that received by Portugal, then went on to follow a basically opposite trend (see Table 14). It is of interest here to note that Spain received the benefit of US transfers during a period of high overall growth and could take advantage of such transfers as an additional means of bolstering the improvement in economic structures (particularly infrastructures). We mention this not so much in relation to the sums in themselves which are relatively small but rather on account of all that accompanies or underlies the question (let us not forget the comparison we made in Section I between the growth in the two countries during this period). Portugal, in turn, received more money during a period of acute short-term problems with the result that these transfers were used to alleviate certain temporary economic difficulties (and particularly in external accounts) rather than to consolidate a long-term growth policy.

Table 15 provides us with information to analyse the behaviour of transfers received in the form of economic assistance and military aid between 1982-87. Economic aid, representing smaller sums, increased overall until 1985 and began to drop in 1986. Military aid followed a similar pattern. The considerable difference in the amounts involved for Portugal and Spain may arise in part from the less favourable conditions applying to the financial implementation of the 1983 defence agreement between Portugal and the United States.[61]

Table 15

Portugal and Spain: US Economic assistance and military aid

(million US dollars)

	1982	1983	1984	1985	1986	1987
US Foreign Aid – Commitments for Economic Assistance						
Portugal	20	20	40	80	77	65
Spain	22	12	12	12	12	5
US Foreign Military Aid						
Portugal	67	111	108	128	112	83
Spain	127	403	403	403	385	108

Source: US Department of Commerce, *Statistical Abstract of the United States 1988.*

Transfers and US government aid to Portugal as a whole became significant only after the establishment of democracy and more particularly in recent years (contrary to what occurred in Spain). The peak appears to have been reached in 1985 when these flows together amounted to 208 million dollars (approximately 1.5 % of the total credit of the basic Portuguese balance for that year); in 1986 (a duplication of amounts involved obviously occurs in Tables 14 and 15, for which reason they should be analysed separately) a drop occurred of some 9 per cent over the previous year and, according to the information available, this trend continued in 1988. As far as the future is concerned, we must recognise that possible difficulties between the US administration and the Portuguese statute in the EC will not readily lead to a significant increase and would rather augur a progressive reduction, with the possible exception of the cultural and military areas, although its contribution may continue to be considerable, as occurred in Spain, for instance, during a period in which we seek more rapidly to make good our economic backwardness (particularly in the Autonomous Regions) in comparison to the developed countries of Western Europe and North America. Although a concrete base exists on which to found negotiations between the two countries in this area, taken as a whole, there is no doubt however that the changes that are sought in the Portuguese economy would certainly benefit from closer relations between Portugal and the United States on other fronts; transfers and government aid, though important, can only be complementary.

Participation in the Foreign Debt

The rapidly expanding foreign debt was one of the most serious problems faced by the Portuguese government during the first half of the 1980s. In response to current accounts deficits, standing at 11.7 and 13.5 per cent (as percentage of GDP) in 1981 and 1982 respectively, higher than ever before in recent decades, Portugal was obliged from 1982 onwards to contract large-scale loans abroad under difficult and complex conditions including the acceptance of a strict stabilization programme laid down by the IMF. We will not of course here examine this question in depth but it is of interest to look, however briefly, at the part played by the United States in this process which occurred in a climate of crisis and uncertainty. Table 16 was drawn up to this end, showing entry of capital relating to the foreign debt in the medium and long term (particularly those flows that it is usually most difficult to obtain in such a context, although we do not have information on their payment terms), accumulated between 1982-85. If we compare the US position with that of other countries, we see that the United States contributed 2,652 million dollars for such purposes, exceeded only by the United Kingdom.

Table 16

Portugal: foreign debt, medium and long-term, 1982-85

(Credits)

A. Average percentage of annual share* of main lenders	%
United Kingdom	25.7
United States	21.1
Japan	11.4
France	7.9
Germany	3.4
Spain	0.6
B. Accumulated flows	(million US dollars)
Total credits	12 652
• Import credits	3 291
• US credits	2 652
• US import credits	2 069

* Calculations based on amounts in escudos.

Source: Banco de Portugal.

With an average annual participation during this period of some 21 per cent, we see here, to a certain extent, the model of the relationship between Portugal and the United States on the non-trade front where the US presence is, on the whole, more clearly felt. It is interesting also that 78 per cent of these loans were in the form of "import credits". The US provision of about 1/5 of total credits in 1982-85 contrasts with its participation of over 3/5 of the total under the "import credits" bracket. This situation is a concrete occurrence of the problem already discussed in Section I when we looked at the evolution of grain imports and is linked specifically with Law PL 480 which sets down more favourable payment terms for grain purchases from the United States, particularly for countries experiencing economically difficult periods and crises in external payments. While it is true that the United States helped Portugal at that time, it is equally true that Portugal offered an outlet for chronic US agricultural surpluses which is a matter of some weight in US trade policy. But it is clear that this situation is now approaching a critical threshold and calls for reform, this being one of the greatest challenges currently relating to the improvement of economic relations between Portugal and the United States. In 1986-87, in another exchange context, the foreign debt to the United States was largely amortized and in 1987, for example, credit of US origin amounted to only 94 million dollars (3.3 % of the total for that year), with "import credits" standing at a mere 33 million dollars, a figure that it was difficult to imagine but a few years ago.

IV. CONCLUSIONS

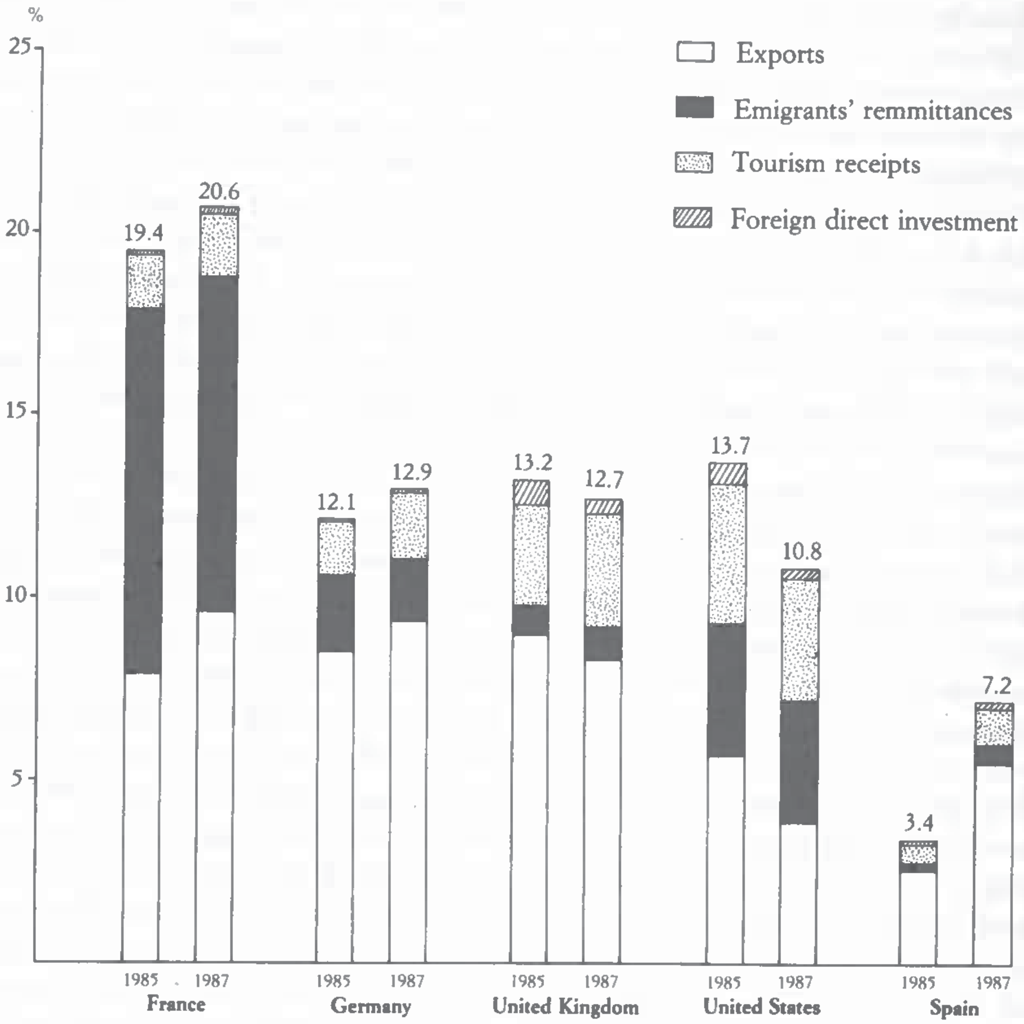
With this *tour d'horizon* of economic relations between Portugal and the United States, revolving around the period of Portuguese accession to the European Community, while attempting to maintain a degree of historical perspective which is essential for our purposes, we have identified some of their basic problems. At the same time, we sought to place this analysis in the context of a critical reflection leading to its reformulation with a view to producing an effective improvement in the economic relationship model between Portugal and the United States which is manifestly inadequate in a whole range of important areas. However, it was not our chief intention to define policy measures aiming to rectify this situation but rather to become more familiar with such a little-studied subject, which is why we presented certain information in considerable depth.

Since 1985 trade between Portugal and the United States has been subject to undisguisable crisis even within the unambitious levels and limited horizons applied over recent decades. To recapitulate, with regard to currency coming into Portugal, Graph 2 shows how the relative weight of the United States in the "basic reduced balance"[62] between 1985 and 1987 was considerably diminished in the main flows we studied, dropping from second to fourth place as source of foreign currency by countries of origin. This reduction had a marked concomitant effect – demonstrating how these variables are interdependent – on exports, direct investment, tourism receipts and emigrants' remittances (as we then saw, in the latter two cases in particular, information gives a distorted view in that the real weight of the United States is certainly lower still than appears in the graph).[63] Data already available for 1988-89, for foreign trade in particular, shows a strengthening rather than any change of direction in this process. As Graph 2 shows, of Portugal's main

Graph 2

Portugal: Major currency earnings by flows and countries of origin

(as percentage of "basic reduced balance"* credits)



* Total Exports + Tourism recepits + Private transfers + Foreign direct investment
1985 – 1 565 922 million escudos
1987 – 2 138 621 million escudos
Source: Banco de Portugal, report for the year 1987 (see also note 62).

client countries, France, Germany and more especially Spain strengthened their respective positions, with Spain clearly overtaking the United States as a destination for our exports, while the UK share also dropped slightly, more noticeably in exports.

A clear understanding of the evolution of the US position during this period within the overall context of Portuguese external economic relations requires that short-term factors be taken into account, since their effects may subside or even be reversed in accordance with the evolution experienced by the underlying driving forces. In the first place, Portuguese accession to the EC on 1 January 1986, led to a strengthening of links with other member countries (the fact that exports to the United Kingdom were not subject to like expansion is quite natural if we remember that this market had essentially been opened up in 1960-72 when the two countries were members of EFTA). Moreover, as we saw in detail in regard to grain imports, this closer relationship with EC partners did not reside on the binding nature of trade regulations of a protectionist kind but responded essentially to an objective momentum which at times coincided with others (as occurred in this same sphere with the appearance of an increasing number of developing countries as suppliers of grain substitute products) which benefitted these trends and diminished the power of attraction of the US alternative. Secondly, the course of the dollar, in a downward direction since 1985, particularly apparent in providing less escudos, exacerbated the downward US trend. The first movement had a greater effect on imports (goods and services) and the second on exports (goods and services) and transfers, as is clearly illustrated in Graph 2. All this together had a negative impact on the volume of trade between the two countries.

However, the basic problems of Portuguese-US economic relations are certainly not restricted to considerations of a short-term nature: the recent crisis is intrinsically linked to deep-rooted reasons that have been in existence for a long time. The fact is that the Portuguese and the Americans have not engaged in trade with a future and so failed to lend a sound economic foundation to their contacts. This does not mean that in certain specific areas, such as moulds, the US electronics industry in Portugal, and eventually in tourism, the situation might not be better, but the remainder is meagre and traditional, routine and situational. Portugal never had a strategy and never ventured to seriously penetrate the US market (this being apparent in the lack of practical awareness of its interests and the scant Portuguese *lobbying* in the United States). In the eyes of the United States, Portugal has merely been a country removed from the main trade routes, seen only as an absorber of grain. It would appear however from the volume of credits and transfers granted since 1974 that the US administration has been more closely following developments in Portugal (despite a degree of dissatisfaction regarding the implementation of certain agreements, notably in the military sphere) although private economic and financial agents remain basically aloof even when, as over recent years, the economic outlook has been unquestionably favourable. This may perhaps be accounted for by the fact that, in mutual relations, the political has always predominated over the economic which, though understandable to a certain extent, is not however enough for the development of solid ties in the economic sphere. And thus a somewhat peculiar situation has emerged on the West European and North Atlantic stage: deep-rooted economic alienation to the disadvantage of both countries and more particularly Portugal.

To leave Portuguese-US economic relations to follow their natural course, in the presence of the momentum built up by accession to the EC and further bolstered in the short/medium term by the establishment of the Single European Market, does not augur well, particularly since the United States no longer constitutes the economic power at the world level it was forty years ago. Although superficially accurate, this reasoning should not allow us to forget that the strengthening of relations between Portugal and the United States will always remain an essential test of the passage of the Portuguese economy to a more advanced level similar to that already attained today by most Community economies. Thus, whether we like it or not, this is a challenge that we have to meet (if, that is, the desire exists to raise Portugal's economic and political status, of course!) and this for two series of reasons. Firstly, the United States in all events continues to play a very important rôle in the context of the growing internationalization of economies (the United States continues in strictly national terms to be the world's largest importer, for instance); thus, Portugal's position within the EC would become stronger (as would the EC itself, generally speaking) through the consequent diversification of its ties, with the United States specifically or, in the absence of such action, it would become weaker; moreover, it is essential for Portugal to take intelligent advantage of the most dynamic and effective economic contacts which, through the resources thus generated, would make it possible to allocate increased means in absolute terms to weaker and more uncertain areas which may nonetheless be of strategic importance to us, as is the case of Africa and Latin America. To summarize this point, we would say that at this time of internationalization of economies, the main direction is that of systematic and rationalized multilateralism. Secondly, there are reasons of a more strictly bilateral nature which have been mentioned in passing and which relate for instance to the extensively complementary nature of both economies or to relative geographic proximity. Moreover, from this point of view, as shown in the works of Ambassador Calvet Magalhães, particularly in Part I of the present volume, the absence on the political front of any serious historical dispute and even the appearance of unsuspected bridges between the two nations should stimulate and provide the framework for the strengthening of economic links. In short, there are no good reasons not to develop broader and more advanced economic relations between Portugal and the United States. This era of Portugal's accession to the EC, entailing as it does a reorganization (and reactivation) of its image in the world, is the ideal time to state problems of this nature and endeavour to find a fitting solution.

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The bulk of this work was written in late 1988, particularly during the months of September and October, using data available at the time. Subsequent rewriting sought only to draw the various subject-areas together and incorporate new details arising from the various discussions held on the topic of Portuguese-US relations. At the time of going to print, in June 1990, we should ask whether in the course of almost two years significant change has occurred in Luso-American relations, particularly since the project under which the research was carried out was also designed to recommend ways of improving those relations. The main aspects of the situation described in this article, however, remain valid, as a brief glance at the most recent data available would appear to confirm.

According to the preliminary figures released by the INE for the year 1989, for the first time in the last five years no relative contraction has occurred in Portuguese/US trade, in either imports or exports, although it still remains at very low levels as compared with the post-war average. As regards Portugal's share of US imports, figures for the second half of the eighties unequivocally point to better results than in the first half. In 1989, while US investment in Portugal (authorized investment only, corresponding to the series of the former IIE used above), dropped slightly in comparative terms (18,900 million escudos in 1988 out of a total of 138,000 million of authorized foreign investment, against 37,400 out of a total of 384,800 million escudos in 1989), it should be noted that large projects have in the meantime been launched, notably by Ford and General Motors. Although these projects did not substantially alter the principal relative trend of US investment in Portugal, they do nonetheless represent an improvement in its quality and are bound to have a significant impact on the Portuguese economy. On the other hand, US military aid and economic assistance to Portugal have consistently decreased, as we had anticipated. To illustrate how sharp that decrease was in real terms, the totals for 1985, 1987 and 1990 compare as follows: 208, 148 and 127 million dollars.

Finally, it should also be stressed that Portuguese/US economic relations appear to be arousing greater attention today, in their various aspects, than in the previous couple of years. Obviously, only evolution over the years to come will tell if these relations are indeed set on a new, lasting upward trend, or whether the period covered by the present analysis, subsequent to Portugal's accession to the European Community, will again be followed by a longer low-profile phase. This will be largely up to economic and trade agents. Whatever the case, the major options underlying the present work, especially the idea of making the most, economically, of Portugal's Atlantic dimension, have acquired renewed relevance as a consequence of the change in the international political landscape in the course of 1989.

NOTES

[1] We adhere to the annual geographic distribution of Portuguese exports for 1960-72 appearing in a publication of the banks Borges & Irmão and Crédito Comercial e Industrial, *O Comércio Externo Metropolitano, sua Evolução Recente* (Metropolitan Foreign Trade, Recent Developments), Lisbon 1974, p. 11. This compares EEC, EFTA, Ex-Overseas, North America (United States and Canada), Central and South America and Other countries.

[2] *Idem.* The position of North America is also of importance, absorbing 12.27% of our exports in 1960 and 12.35% in 1972, with figures for the intervening years standing at approximately the same level; the remainder (Central and South America and Other countries) dropped, from 19.6% in 1960 to 11.6% in 1972. At the same time, while the US share of Portuguese exports remained more or less constant over this period, it was exceeded from 1968 onwards by that of the current EFTA countries (Austria, Switzerland, Sweden, Finland, Norway and Iceland), at least in the years detailed in Appendix 1.

[3] According to details supplied by C.P. Kindleberger, *Op. cit.*, p. 15, Portugal in 1949 had an average per capita income of 250 US dollars while the equivalent figure for Italy, in that same year, stood at 235 US dollars. In 1953, this same indicator for Spain stood at 242 US dollars, 197 for Japan, 174 for Greece and 70 for South Korea. These figures were obtained through conversion at the current US dollar exchange rate. Obviously, the fact that the escudo was relatively over-valued has an influence on these figures. The figures we use for 1986 are taken from the 1987 OECD Report on Portugal.

[4] The economic performance of these (and other) countries, are highlighted in a recent article by D. Greenaway and Chong Hyun Nam (see bibliography) which compares several groups of countries in their degree of openness (or otherwise) to other countries, on the basis of an extensive series of indicators.

[5] Real GNP during the same period experienced accumulated growth of 16.7%, information given by R. Dornbusch, *Op. cit.*, p. 609, which compares data for demand and real GNP for Europe, Japan and the United States in 1980-87.

[6] In A we did not take South Korea or Singapore into account, the first because it had been involved in military conflict (1950-53) and the figures were meaningless and the latter because there were no individualized statistics available for the territory; in C, which falls within the final period studied, we lacked figures for 1981-82 from the main source used, for which reason we constructed D on the basis of IMF statistics on foreign trade and so, as is to be expected since these are "processed" figures, C and D are not fully compatible for the same years (besides which, this last source does not include information on Taiwan), for which reason we will use D in the following analysis only when strictly necessary.

[7] We calculated the relationship between the relative variations of each country's share and of the total of shares of the eight countries as a whole for the periods 1967/68 to 1972/73 (Table 2B) and 1980/81 to 1983/84 (Table 2D) which revealed that the lowest position was always held by Portugal, with the exception of the first period when this position was held by Italy. Moreover, between 1973 and 1975 the drop in Portugal's relative share was of 42% which was more marked than in any other case while South Korea, even as a non-oil exporting country, experienced a continuing increase in its share of the US market.
An OECD analysis for the period running between 1966 and 1985, based on the assumption that the market shares of the main countries to which Portugal exports held firm, reached the same conclusion. We will quote certain passages (OECD Economic Surveys, 1987/88. Technical Note B, pp. 107-9): "...it is apparent that the structure of exports did not draw maximum benefit from the course of demand in areas where it rose most rapidly", "from 1968 to 1977, the negative contribution of the destination structure effect for re-channelling of growth was basically caused by the dropping off of expansion of markets in the escudo zone... which was compensated in part by developments occurring in the OECD – with the exception of the United States – which made a positive contribution in 1970-73 which is clearly apparent in the course of the destination structure effect over these three years", "From 1977 to 1981, the destination structure had a positive result (all export markets made a positive contribution, with the exception of the United States whose contribution became negative in mid-1978)". As regards the United States, this trend changed only in 1982-85, but this phenomenon was short-lived, a point which will be dealt with at greater length in the following points. The above-mentioned survey concludes: "Overall, since 1970, the influence exercised by the United States on the destination structure effect was always the opposite to that apparent for the OECD as a whole" (statement to be compared to the first).

[8] We based ourselves here on a study carried out by Christian Sautter, "Croissance et stratégie internationale du Japon".

[9] See J. Braga de Macedo, "Portuguese Currency Experience: an Historical Perspective", pp. 334-342.

[10] During these years, Portugal's share of world exports of manufactured products underwent a decline, while that of the "newly industrialized countries" with which Portugal is frequently confused in analyses of this period, experienced a considerable increase. See M. G. da Costa and F. Freire de Sousa, *Op. cit.*, p. 72; for a comparative view of growth over this period see J. Braga de Macedo and P. Krugman, *Op. cit.*, pp. 456-8.

[11] The ratio between average wages in the clothing and footwear industries and the average industrial wage (in escudo per hour) moved respectively from 73.2% to 77.0% and from 70.0% to 72.2% between 1982 and 1985. By way of example, the hourly wage in the clothing industry stood at 1.08 US dollars in 1982 and at 85 cents in 1985. Data on wages and CIP (which we used as the basis for certain calculations) were taken from the ILO's *Statistical Yearbook* for 1987. The remainder, including those appearing a little earlier in the text were published by the Banco de Portugal, *Indicadores Económicos.*

[12] According to an ICEP publication, *O Mercado Americano de Vinhos* (The US wine market), January 1988, Portugal was fourth supplier of table wine to the United States in 1987-87, ahead of countries like Spain and following France, Italy and FRG, with its market-share standing at 5.6% between 1 September 1986 and 31 August 1987 and it was the only one of the five exporting countries to increase its share, in physical terms (+6%), over the same period the previous year, in a context of a general drop in the amounts of wine imported (−28%). It is a fact moreover that the average unit price for Port wine exported to the United States is generally higher than that exported to other countries. These figures offer some idea of the nature of demand for Portuguese wines in the United States.

[13] Figures taken from the OECD Report on Portugal, 1977, p. 20.

[14] On the general structure of US exports during the period in question and later, see *Statistical Abstract of the United States 1988,* pp. 774-5; in particular on the rôle of the agro-food industry, see A. de Saint-Vaulry, *Op. cit.*, p. 117.

[15] For certain of the elements contained in this policy, see Luís Albuquerque, *Op. cit.*, pp. 201-2.

[16] In our analysis of annual figures for 1986 and 1987 we referred mainly to the ICEP statistical publication, *Comércio Externo Português*/87, and here specifically the information appearing on pp. 78-81.

[17] Our main source of reference on international markets of raw materials was the work carried out under Ph. Chalmin and J. L. Gombeaud, *Les marchés mondiaux.*

[18] These figures were taken from *Estatísticas do Comércio Externo* (INE) and for 1986-87 in particular from the previously-mentioned ICEP publication (including the figures per category of products mentioned hereafter).

[19] In thousands of tons, Portuguese exports to the United States moved from 426.3 in 1985 to 268.1 in 1987 and imports from 3,731.1 to 3,226.2 during this same period. These figures also confirm what has been stated previously on the composition of Portuguese-US foreign trade in that the average price per unit exported is much higher than the average price per unit imported (mainly raw materials) while, significantly, the contrary is true for the FRG, our main trading partner during that period.

[20] See P. Robson, *Op. cit.*, pp. 29-30.

[21] In this regard, refer to the article by A. Tovias quoted in the bibliography. G. Longueville, *Op. cit.*, p. 45, expresses a similar point of view.

[22] Report for the year 1986, p. 112.

[23] We certainly do not mean by this that a greater rationalization of trading activities abroad (particularly imports) should not be sought, as in the case for instance of the famous Japanese sogo shoshas, only that this should not be undertaken through administrative means or through a monopoly and that it can take a private, public (particularly as to guidance and not concrete management) or mixed form.

[24] We offer here figures regarding wheat and maize which make up the greater part of Portuguese grain imports.

Portuguese imports of maize and wheat

(million escudos)

	1985	1986	1987
Maize: Total	33,679	19,989	8,993
Tons	*1,450,531*	*1,138,617*	*638,370*
US	32,873*	16,163	7,896
Wheat: Total	15,000	14,419	9,374
Tons	*563,723*	*713,100*	*561,414*
US	12,896*	9,429	1,757

* Excluding minor items.

Source: INE, *Estatísticas do Comércio Externo.*

[25] These percentages do not appear directly in Table 9, but they may readily be obtained on the basis of data given in this table.

[26] Moreover, it is interesting to note that in 1987 the United States dropped back to become only our third supplier of wheat, behind Canada and *Saudi Arabia* (which together supplied 72.7% of the total), not the EC. Contrary to what one might conclude from first appearances as regards Saudi Arabia, this is not a case of re-export but of surplus national production, achieved at very high internal costs but which, on account of subsidies, may stand at a medium or low price on the world market. Let us not forget either that the US market share in world grain imports dropped suddenly after 1984 and that, therefore, *the case of Portugal is no exception* (in this regard, A. Saint-Vaulry, *Op. cit.*, p. 117).

[27] Banco de Portugal, Report for the year 1987, pp. 102-3.

[28] Regarding grain (and possibly other raw materials), particularly wheat and maize, it is important to give due consideration here also not only to actual exchange rate movements but also to the course of its international price which is subject to major swings. In the 1985-88 period there were grosso modo two different trends: in 1985 and 1986 the movement was downwards, followed by a recovery in 1987 which was further bolstered in 1988. This implies, above all, that Portuguese-US trade declined in both contexts.

[29] The course of exchange naturally had an influence on the performances of the period. It may be noted for instance that in 1985, when the escudo was devaluing against the dollar, exports to the United States rose (see Table 7 and 8).

[30] Taking Portugal and Spain together, some spoke in the European context of "southern bandwagons".

[31] To take this analysis further, it might be added that 1978, which was the official beginning of the first stabilization plan, was a year of increase in US shares of Portuguese imports and exports, while an inverse movement occurred in 1979 and 1980, which were growth years though we will not now look into the reasons for this, see Banco de Portugal, Report for the year 1981, p. 122.

[32] We must recognise that this situation is not of recent origin and that the same concentration already existed in previous periods, see C. Courlet and J. Laganier, *Op. cit.*, pp. 50-51. Moreover, as A. Lourenço dos Santos demonstrates as regards agro-food trade, it is also a question of concentration of certain products, *Op. cit.*, pp. 166-7.

[33] According to A. Tovias, the United States spared Portugal and Spain when the choice was made of the products against which retaliatory measures would be taken in the US-EC disputes of 1986: "ils ont choisi des produits (tels que les fromages, la viande de porc, le brandy, les bières, le gin, le chocolat, etc.) qui n'affectent pratiquement pas les exportations de la Péninsule Ibérique vers les Etats Unis", *Op. cit.*, p. 164. It is possible however that this may not have been true of certain drinks (white wines, for example) and we should not forget that cheeses are a major product exported to the United States through the Azores. Thus, credence may be given to the thesis that the 1986 retaliation programme did not have any major impact in Portugal, but there is no guarantee that this will remain so in the future.
From another point of view, when some two years ago the United States sought to place general restrictions on imports of textiles and footwear, holding increases down to 1% over the 1986 level, it can be said that it was only the Community's attitude (in announcing that it might well apply retaliatory measures of similar impact) that allowed the commercial status quo in the sector to be maintained, in the form of a gentlemen's agreement establishing the non-existence of quantitative restrictions between the two parties (see Ministério dos Negócios Estrangeiros, *Portugal nas Comunidades Europeias – Segundo Ano,* Lisbon 1988, pp. 44-5). Since Portugal could have done very little alone, it was thus rescued from a heavy blow. It is clear that not only was this solution more in keeping with the rules of free trade, but it also brought immediate benefits for the Portuguese companies in the sector. But, to follow on from what were saying previously, the unavoidable question here is on another front, namely: was this additional waiting time utilized constructively to organize the eminently necessary restructuring of the textile and footwear sector rather than risk having to do so under the pressure of events, that is, in an improvised manner since the EC itself cannot indefinitely refuse access to its markets to developing countries and Portugal should not use its energy in waging rearguard actions attempting to prevent it? We fear that the answer may well be negative! And it is also apparent that this transformation is not exclusively up to the entrepreneurs in this sector, but also up to the State, the financial system, technical and professional training instances, foreign trade bodies, etc., in a vast national-level project.
Moreover, it is perhaps useful to add at this point that the clear defence made here and in other passages of free trade does not mean that we are not aware that the age of innocence in this field is long past, which is a factor that has to be particularly emphasized in trade with the United States, in which regard see the recent article by J. Bhagwati quoted in the bibliography.

[34] To quote but one example, exports in 1986 from the EC as a whole to the United States accounted for 9.3% of the total (7.1% for imports) which are higher than the figures for Portugal during that same year (Eurostat, Comércio Exterior 1987, See table 7). It may also be added that such trade is more stable than that undertaken at the bilateral level.

[35] In this section we base ourselves on figures for direct investment, despite the fact that other capital movements in the medium and long term and, in particular, financial loans (dealt with in the next section) reached higher levels than FDI itself during the periods analysed here. The latter, however, is more revealing of fundamental economic trends in the relationship between the two countries. We take FDI to include not only investment in new enterprises but also in existing companies and in acquisitions. Although it would be possible to do so, we will not here work with itemized figures in view of the globalizing nature of this study. The statistical sources used were the IIE (Appendix 3) and the Banco de Portugal in particular for the years prior to 1978 and, as mentioned, the system employed in each case was not exactly the same.

[36] See A. Marques, *Op. cit.*, pp. 37-39.

[37] It was not until 1971 that the thousand million escudo mark was passed for the first time, with FDI following this course: 1,247 million escudos in 1971, 1,618 million in 1972 and 2,460 million in 1973 (Source: Reports of the Banco de Portugal). Despite the exceptionally high

level of FDI in 1973, it is worth looking at what happened in Spain which in 1973 received an inflow of 31.4 billion pesetas (which at the average exchange rate of the peseta in 1973 gives 13,345 million escudos, this constituting a per capita FDI as much as 40% higher than in Portugal). More important still, the average annual in-flow of FDI since 1967 in Spain exceeded 10 billion pesetas (for further details see P. J. Buckley and P. Artisien, *Op. cit.*, p. 57).

[38] This rate was calculated through the model regression of an exponential function to FDI figures for 1978-88, previously deflated on the basis of the implicit price index of FCGF at 1977 prices; for 1988, we worked with estimates of the latter (the figures obtained appear in the bottom line of the table in Appendix 3).
The deflation of FDI on the basis of the price index implicit in GDP gave very similar results, with the average annual rate of growth for the same period standing at 21.29%. On the other hand, looking at the widely differing figures for the two extreme years of 1978 and 1988, the application of the formula of compound interest gives us a perceptibly higher average annual rate of 28.39%. Whatever the case, the aim here is not so much to obtain exact measurements as to gain a notion of the dimensions of the phenomenon.

[39] The government decision, at the end of 1988, to give an altogether new institutional framework to the Instituto de Investimento Estrangeiro, the body dealing with FDI in Portugal, with the apparent intention of incorporating it in ICEP, and the several months of uncertainty until this finally happened, have had no bearing whatsoever on FDI flows.

[40] Figures we managed to obtain for FDI in Spain for 1980-86 reveal the following developments:

Spain: Foreign direct investment

(million pesetas and %)

1980	85,415	+ 5.7
1981	78,604	− 8.0
1982	182,842	+ 132.6
1983	158,180	− 13.5
1984	267,007	+ 69.0
1985	280,084	+ 4.9
1986	400,903	+ 43.1

Source: Balanza de Pagos de España 1986, July 1987, p.106.

[41] For a definition of the sectors in which it would be most beneficial to attract FDI see the article by V. Corado Simões, specifically p. 49.

[42] According to C. – A. Michalet, in 1967 and 1971 the United States was responsible respectively for 55% and 52% of the total of capital invested abroad throughout the world, *Op. cit.*, p. 30. For more recent figures see, by way of example, that US FDI in FRG accounted for 40.9% of the total at end 1976 and 38.6% end 1985 *(Problèmes économiques,* 31.05.89, p. 12).

[43] See the article by J. Muñoz, S. Roldan and A. Serrano, "The Growing Dependence of Spanish Industrialization on Foreign Investment", in *Underdeveloped Europe* by Dudley Seers et al. (figures p. 170).

[44] See P. J. Buckley and P. Artisien, *Op. cit.*, p. 40.

[45] *Op. cit.*, pp. 205-213. It may also be noted that US investments in Portugal in 1970 did not even account for 0.1% of the total invested by that country abroad.

[46] Author quoted by J. Braga de Macedo, *Op. cit.*, 1982, p. 173.

[47] "British firms have relatively neglected the three host countries (Portugal, Spain and Greece) as investment targets", P. J. Buckley and P. Artisien, *Op. cit.*, p. 61.

[48] In 1984, for example, which was a good year for US investment in Portugal, totalling the sum of 66 million dollars, resulting for a large part from the installation in Portugal of US banking institutions (Manufacturers Hanover Trust and Chase Manhattan Bank) when this sector was opened to private capital, total direct US investment abroad calculated at the end of that year stood at 211.5 billion dollars (figures taken respectively from IIE, *US Investment in Portugal* and from *Statistical Abstract of the United States 1988,* p. 758).

[49] This list was drawn up from sources mentioned hereafter:

- we used the industrial enterprises selected by the IIE publication, *US Investment in Portugal: a Successful Experience,* although this does not clearly account for the reasons underlying this choice; for reasons explained hereafter the two companies which in 1984 still belonged to ITT (Standard Electric and Oliva) were excluded; in all we here looked at eighteen companies; the above-mentioned figures were also obtained from this same source;
- we maintained the sector attribution made in another IIE publication, *Investir em Portugal,* pp. 57-8.
- the number of workers was taken, for the most part, from the special supplement of *Expresso,* "As 1000 Maiores – Dados de 1987", 10.12.88; in the absence of more recent information, the figures for Dartluso and Texas Instruments are taken from those appearing in the above-quoted IIE publication; finally, the number corresponding to Colgate-Palmolive, missing from the previous sources, was taken from the SELGEC issue mentioned elsewhere.

None of these sources are considered exhaustive or even up to date in themselves, which comment has been clearly made in the main body of the text. These figures therefore are merely designed to provide an indication and serve only as an attempt to become more familiar with US investment in Portugal, particularly in industry.

[50] This series of figures was taken from G. Longueville, *Op. cit.* pp. 7 and 9; the average rate of EC GDP growth in 1986-88, presented hereafter, was estimated on the basis of the OECD publication *Main Economic Indicators,* May 1989, p. 11.

[51] On the importance of low wage policy within the framework of Portuguese industrialization, see for example, M. G. da Costa and F. Freire de Sousa, *Op. cit.,* especially pp. 80-81.

[52] In the same year of 1986, per capita GDP in US dollars stood at 6914 for Ireland, 5945 for Spain, 3987 for Greece and 2984 for Portugal, which figures in relation to those appearing in the main text show an income distribution that is patently less favourable for the labour factor in the Portuguese case.

[53] These questions are developed in the article by K. Haitani, to which we refer the reader.

[54] SELGEC, *Op. cit.,* pp. 48-54, quotation p. 54.

[55] See E. F. Rodrigues, J. M. Félix Ribeiro and L. Fernandes, *Op. cit.,* p. 435.

[56] The rate of coverage in the balance of merchandise in 1980-87 was, on an annual average, of 63.5 % (73.0 % in 1983-87), while in 1970-79 it stood at 56.3 %. During the 1960s, the rate of coverage for mainland Portugal (in other words, excluding the trade of the then Colonies) was of 60.5 % on average. These calculations were made on the basis of FOB values for both exports and imports, the source being the Reports of the Banco de Portugal. Although no deep-rooted change was apparent, the situation has however clearly improved (and drawn closer to what is normal for most countries).

[57] Figures taken from the annual publication (1986) of the Secretaria de Estado das Comunidades Portuguesas. This is the main official source of information on emigration, although the results have several times been contested, particularly by the Emigrants' Associations. Obviously, no claim is made to cover all emigration since one has only to remember illegal emigration which is considerable. The numbers in the text are an estimate made by Portuguese Consulates in December 1985 whereby France (900 thousand), Brazil (600 thousand), South Africa (578 thousand) and Venezuela (300 thousand) all stand ahead of the United States (and Canada); the overall total was calculated at 3,360 thousand, pp. 92-93.

[58] *Idem.* In global figures for the 1975-86 period, 61,404 emigrated to the United States and 25,837 to Canada of a total of 170,677 (pp. 87-88), less than the total of those emigrating just in the single year of 1970: 173,267.

[59] In 1986, the number of US tourists in Portugal also dropped considerably from 230 thousand in 1985 to 150 thousand in 1986, although figures rose once again in 1987 to the recent usual level of some two hundred thousand. In all events, as far as relative numbers are concerned, US tourists were far more numerous in 1960-73 when they were comparable to the British and clearly ahead of the French and West Germans and exceeding an annual 300 thousand US visitors in 1969-73. Of Portugal's main tourist markets, the United States was the only one which never truly recovered from the general drop occurring in 1974-75. For further details, see OECD Reports, Statistical Appendix, which generally presents physical indicators of tourism in Portugal.

[60] J. Calvet de Magalhães, *Op. cit.*, pp. 19-20.

[61] *Idem*, pp. 50-51.

[62] To us this expression means that we retained the credits of the main flows (from the point of view of this survey) of the balance of trade and of the balance of capital operations in the medium and long term, namely: exports, tourism receipts, private transfers and foreign direct investment (excluding other minor categories, among them transport, insurance, income from capital and public transfers) on the sum of which we calculated the percentages for 1985 and 1987 for each country, as appears in Graph 2. As far as the total of credits in the basic balance are concerned (and excluding foreign credits received from this category, being excessively uncertain) the "basic reduced balance" – credits accounted for 86.5% and 83.7% of the preceding respectively for 1985 and 1987, the difference being due for the most part to the increase in public transfers (EC) which rose from 0.9% to 3.5% of the total considered (although a rise in the debit of this category was also recorded). For further details, see Report of the Banco de Portugal for the year 1987, Statistical appendix, Table 3.1.
In the interests of making statistical sources uniform, we used Banco de Portugal figures for foreign investment rather than those appearing in Appendix 3 (which are lower, as already mentioned). Since we had no separate figures for Spain, we incorporated its share of the years 1985 and 1987 in Appendix 3 to the total of foreign investment established by the Banco de Portugal.
It goes without saying after all these notes (along with others figuring in the text, particularly on tourism receipts and emigrants' remittances) that the histogrammes of Graph 2 do not claim to faithfully reproduce reality, but merely to produce an approximation to the comparative study of the contribution of the main sources of foreign currency by country of origin.

[63] As far as the total basic balance is concerned, excessive emphasis should perhaps not be given to this fact, since the level of public transfers and of credits and financial loans (not considered in the "basis reduced balance") of US origin, although clearly diminishing since 1986, as we have seen, indicate a higher degree of participation on the part of the United States in the categories left outside the "basic reduced balance" which, in a more general point of view, go some way to compensating for the over-evaluation of emigrants' remittances and tourism receipts.