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## Iberian Market Integration: A Case Study of a Regional Integration Process

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*Enlargement, Southern Europe & the Mediterranean*

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### **Iberian Market Integration: a case study of a regional integration process**

#### Abstract

*In spite of being neighbours the economic relations between Portugal and Spain were irrelevant until recently. Each one of the countries chose different options after the Second World War (Spain's internal market permitted import-substitution model, while Portugal's smaller scale and 'special relationship' with the UK encouraged greater openness) and some aspects of the common history (Spain invaded and stayed in Portugal during for more than half a century) created some distrust reinforced by the unequal dimension of the neighbouring country.*

*The Portuguese and Spanish's joint EU adhesion, in 1986, contributed to regional integration through the reduction of regional trade barriers and investment restrictions. A common legal framework and the support of structural and cohesion funds unchained the process of economic growth and the creation of an Iberian market. FDI and trade flows intensified during the nineties assuming a key role in the integration process.*

*This paper considers the ongoing process of economic integration of Iberian economies and its impact on the competitiveness of both firms and territories. The focus is upon changing relations between Portuguese and Spanish firms and the way they reorganise themselves to take advantage of the integration process. The aim is to assess the impact of Spanish investment in Portugal and Portuguese firms' adaptation to new Iberian market opportunities and challenges.*

Key words (5): market integration, trade, FDI, Portugal, Spain

## **1. Introduction**

The deepening of the process of globalization is creating highly competitive environments where only few will be winners. Competition is increasingly global as a result of international trade liberalization and increased deregulation of transportation, communication, and financial markets while a “shrinking space” due to the rise of new technologies is lowering mobility cost, enlarging the “operational space” of companies, even of SME’s. Altogether they are contributing to increase global economic integration and to intensify regional competition. In a borderless world, territories and companies compete with each other (Cheshire and Gordon, 1998; Porter, 1998; Camagni, 2002) and the characteristics of the regions or city-regions stand as crucial. Among them the “institutional thickness” (Amin and Thrift, 1994) and the availability of intangible or “soft” factors of competition, like knowledge, innovation, R&D activities, creativity, cooperation or culture activities remain essential (Funck, 2000; Florida, 2002 *Journal of RSA*, vol38(9), 2004, special issue on regional competitiveness).

Following the deepening of the globalization process the drivers of regional competition have shifted from “hard” to “soft” factors, turning more difficult to lagging regions to catch up with the winners as they lack those intangible factors, which increases the risk of exclusion.

EU regions are competing in a global economy but at the same time between themselves inside a European increasingly integrated single market and some are doing better than others. The process of EU economic integration, although corresponding to one of the most advanced of the World, it is not yet concluded. If in East enlargement the limitations are still evident, in the case of the South enlargement, to Iberian Peninsula, problems still persist at the level of a real convergence, although both countries integrate the Euro. Portugal and Spain continue to maintain an outlying situation, not just geographic.

The main objective of this paper is to evaluate the integration process among the two economies after the joint EU adhesion, in 1986. To what extent would be expected a faster consolidation of an Iberian market, as a way for a more effective integration in EU? Could they develop a process of Iberian integration that would strengthen its position in the European market?

Although in course the process reveals that so far Spain has been more successful to take advantage of the proximity with Portugal while Portugal shows less capacity to explore the potential associated to the Iberian market. Could it be related with the unequal economic dimension of the two countries - will small countries have smaller opportunities in the regional integration process than the big ones? - to the economic base and respective specializations or to another factors.

While there is a very substantial literature on the consequences of regional economic integration case studies are still poorly explored. Starting from a diversified empiric base on trade, FDI flows and case studies the present paper tries to identify processes and positive and negative impacts of the Iberian market integration, exploring possible pathways for companies and for public policies.

## **2. EU market and Economic Integration**

Although previewed in the Treaty of Rome, the accomplishment of a Single European market (SEM) was a long process partially completed in 2003. The diversity of the country members, technical regulations and standards legislation, and the oil crisis have driven the market to a new protectionist phase where some of the obstacles are hindering it. When Spain and Portugal joined EU the process was in course and accelerated after the Single European Act (1986) in the sequence of the 1985 White Paper that, based on the “cost of the non-Europe,” set up the necessary steps to proceed forward.

Ten years after the Internal Market has tied the economies of the Member states more closely together, trade between them has expanded strongly and created employment. The euro reinforced economic integration, prices of goods for private consumption have converged significantly and companies built up a European production base through direct investment, joint-ventures and other cooperation strategies. Together, they have contributed to opening up the member states' economies to more competition and brought immense benefits in terms of increased efficiency and competitiveness (EC 1996; EC 2003).

While it's consensual that positive impacts will arrive from European market integration (Checchini, et all, 1988) benefits haven't spread across all EU regions and eastern enlargement will tend to aggravate regional

inequalities (Dohrn, et al, 2001). Regional sensitivity or the degree to which regions are affected (positively or negatively) by the SEM and the regions' capacity to adapt and take advantage of the new situation vary across EU (Steinle, 1992). This helps explain why some did take more benefits than others, aggravating the centre-periphery model which characterizes EU. In spite of all the efforts of the regional policies and the endeavour that has been placed in the reinforcement of the social, economic, and territorial cohesion, this territorial pattern remains and is now much more complex as regional inequalities in the more developed countries also remain. The concentration of economic activities in core regions is reinforcing: "*The emerging picture is one of a very high concentration of activities in central regions which account for only 14% of the land area but a third of the population and almost half (47%) of the GDP. Population density in these regions is 3.7 times higher than in peripheral regions*" (European Commission, 2001:30) and "*A clear development divide characterizes, then, the economic geography of an increasingly integrated and enlarged Europe*" (Dunford and Smith, 2000:180) adding a "*large low productivity periphery to the economic landscape of Europe*" (Gardiner, et al, 2004).

The competitive performance of regions is largely determined by a pool of factors including basic infrastructures and intangible factors (Batey and Friedrich, ed, 2000; Martin, 2003) in the way they are able to mobilise them to quickly adapt to rapid changing environments and increasing economic integration (Hamilton and Rodrigues-Pose, 2001). The differences among European regions regarding these factors are highly accentuated and those departing with disadvantages difficultly will get to converge in useful time (Bradley, 2001; Cuadrado-Roura, 2001).

### **3. Iberian Market Integration**

In spite of being neighbours, the economic relations between Portugal and Spain were irrelevant until recently. Not even the fact that dictatorships ruled in both countries during almost the same period approached them. Political relations were friendly and during the 50s and the 60's several Treaties were signed, namely the Iberian Pact, in 1939, and a Trade Agreement in 1943, but they didn't have any impact on the deepening of trade and

economic relations. Both choose to look outside the Iberian Peninsula for economic partners.

In both countries the process of economic liberalization began before the political liberalization. That happened when the respective governments realized that they could take advantage of the economic prosperity observed in the western European countries as a result of the reconstruction of its economies after the Second World War. They aspired to participate in those growing markets, avoiding however, any political involvement. In the case of Portugal, the search for external markets was much more important than to Spain due to the reduced dimension of the domestic market. In the beginning of the 60's, EFTA was the choice (Portugal was a charter member in 1959), since it allowed taking advantage of a wide market, without implying the deepening of the political relationship, not desirable to the dictatorship in power in 1928-1974 (Silva Lopes, 1996) besides it included UK, a traditional partner. Spain adopted an import-substitution model to develop its manufacturing at the same time making efforts to approach EEC. A Preferential Trade Agreement with EEC (1970) approached, definitely Spain to Europe, a more demanding market and modern socio-economic referential, "a shared objective" of the Spanish society (Pereira Castañares, 2005; Tovias, 2005).

Starting with very similar situations they begin simultaneously two important processes for the future of both: the integration process in EEC and the deepening of political and economic relationships in the context of the Iberian Peninsula.

Both countries had inadequate models of economic growth compared with those of the future partners and the EEC integration would imply an accentuated transformation as a way to adapt its economies to the new context of more modern market economies. Spain had to open its market to the exterior and dismantle the system of protection of its productive system through trade tariffs. Portugal could not continue to compete based on the low production costs and low wages as international negotiations conducted in the Uruguay Rounds forced the Community to progressively open its markets to third countries, including those with low wage costs. So they had to face a

similar challenge of a fast adaptation to the new European and international context<sup>1</sup>.

The Portuguese and Spanish joint adhesion with the EEC, in 1986, creating a totally new context that would come to facilitate and even stimulate the development of the relationships inside the Iberian Peninsula. These two, until recently, quite independent territories have been reshaped by intensive economic (and to a less extent social) interdependencies. Another aspect relates with the dynamism of the integration process if we look at the booming of trade and FDI flows between the two economies, especially when compared to the recent past where they were almost inexistent. Among the main driving forces of the Iberian market (IM) integration we identify EU itself deepening its process of integration (the accomplishment of the single market, common economic, social and environment policies, abolition of borders, single currency); national governments (namely developing transportation and communication infrastructures that facilitate regional mobility) and the economic agents that fast adapt to the new enlarged market exploring opportunities in each of the neighbouring markets.

Empirical data on EU process of integration and accomplishment of internal market shows that countries that belong to EU tend to rely more and more on other EU members as a partner to develop trade and FDI flows. After EU adhesion, Spain and Portugal quickly become relevant economic partners. Although due to a more active reaction of Spanish capitals the process has not been consensual in Portugal; complaints on the so called “invasion” from Spanish investments were common in the media. More pro-active arguments support that although pursuing a friendly neighbouring relation with Spain Portugal should, at the same time, implement a diversification strategy of internationalization “beyond” Spain.

Furthermore, new territorial patterns might also arrive from this process of market integration, like dynamic spaces along the border as a consequence of new institutional and economic attitudes and spontaneous entrepreneurial and cultural relationships (“Border Cooperation”) between Minho-Galiza, Andaluzia-Algarve or Alentejo-Extremadura, that are already

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<sup>1</sup> See a collective work on the European integration of Spain and Portugal, Royo, S; Manuel, P (ed.) (2004) Spain and Portugal in the European Union. The First Fifteen Years. London: Frank Cass.

happening. The most dynamic are the relations between the Euregion North Portugal/Galicia. Border cooperation is based on common problems of isolation, aging population, and fragile economic tissue shared by the municipalities along this border known as “the underdevelopment border” (Pintado and Barrenechea, 1972) the longest and poorest between EU15 members.

IM integration (a process known as “*iberianization*”, i.e. the creation of a single Iberian market) is a very recent process and companies are still developing (and testing) adaptation strategies. Fierce competition inside IM is pushing companies to develop adjustment capacity and to implement more pro-active strategies. After a transition phase Spanish companies were the first ones to seek expansion opportunities in the Portuguese market. However, Portuguese companies, especially the larger ones, began to develop internationalisation strategies that included the Spanish market. Recently, the Portuguese and Spanish initiated cooperation strategies through crossed participations and M&A operations (frequent in financial services) reinforcing their position in the Iberian market and even aiming to explore wider markets (like the joint-venture between Portuguese PT and Spanish Telefonica, in Brazil).

Multinationals with assets in both countries immediately started a reorganization process choosing one of the capitals (mainly Madrid but in some cases Lisbon) as headquarter of this regional market. Some companies decided to maintain their previous situation, others that had closed one headquarter are creating again two local structures and finally others feel that they have adopted the best solution by creating a single structure to approach the Iberian market<sup>2</sup>. Reasons for maintaining two headquarters are due to clients’ complaints of lack of proximity, they feel like they have been abandoned and the quality of services declined. When multinationals realised they were losing (or about to lose) relevant clients due to the closing of Lisbon offices they decided to reopen, like Tetra Pack did. Besides, in spite of geographic proximity, the taste and behaviour of Portuguese and Spanish consumers are somehow different and that puts limits on complete market

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<sup>2</sup> Based in interviews to several multinational located in Iberian Peninsula published by Exame, a specialized economic review.



integration. Multinationals are aware of those market specificities and Nestlé for example offers different products and labels in each market (Exame, 1999).

There is also an emerging process of production reorganization. With the suppression of trade barriers there is no need to maintain production facilities in both countries and companies will explore the best local conditions to reduce costs and increase efficiency through economies of scale and creation or improvement of distribution networks. A tendency of geographical concentration and growth in production specialization and the closing of the less efficient firms might be the result of the reorganization of IM. Again, impacts are not very different from those arriving from increasing EU market integration (Amiti, 1997). In a previous study Pires and Teixeira (2002) realised that Spanish firms located in Portugal are frequently small, considering both employment and the volume of social capital, with the exception of manufacturing and financial services and for a large majority the aim is to create distribution networks for Spanish products.

With the normalization of the political and economic relations between Portugal and Spain, the capital and trade flows have been important factors contributing to the materialization of an Iberian market. In just few years Spain become our main economic partner; since the end of the nineties became the main export destiny and the main origin of imports.

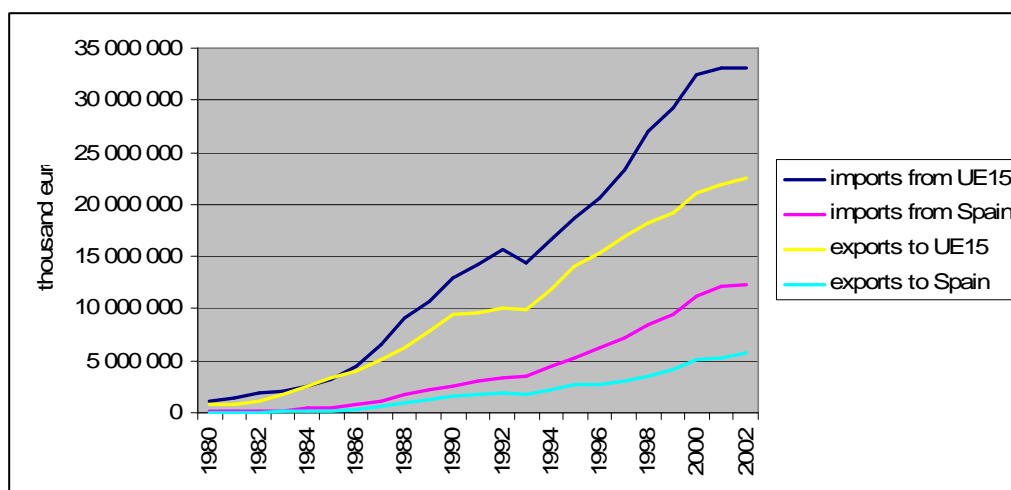
We will analyse the major changes occurring in trade and FDI flows between the two countries and the reaction of Portuguese companies. Whether FDI is or is not a substitute to trade and that trade and production specialization patterns of each economy will change are going to need a deeper analysis and more detailed data, they will remain for further analysis. Presently both trade and FDI are growing at very fast rates, trade flows have responded more quickly to the new context of economic relations followed by FDI, showing a more irregular pattern after a boom period in the beginning of the present decade.

### 3. Recent trends in trade and FDI between Portugal and Spain

#### 3.1. Trade

An Iberian market of 50 million potential consumers in construction benefits both economies but the Spanish companies reacted in a faster and efficient way, creating the best conditions to integrate the Portuguese market in its regional market.

It is not entirely true that before EEC integration the two countries lived “as Siamese twins joined at the back”<sup>3</sup>, trade volume was not very significant although illegal flows of people and goods had always existed, with more or less intensity depending on the economic and political conjuncture, approaching above all border communities.



Source: INE

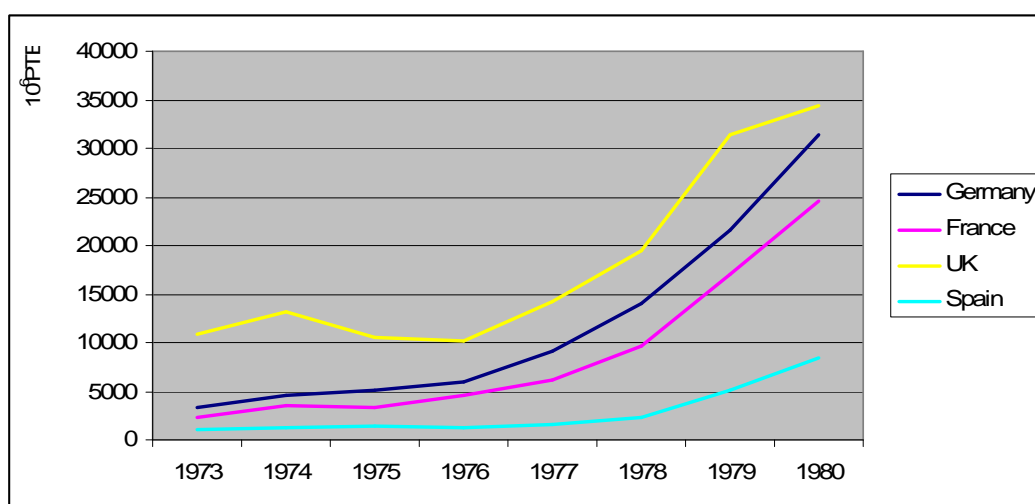
Fig 1- Portuguese Trade with EU15 and Spain

After EU adhesion Portuguese trade was distorted towards other member states while, at the same time, the domestic market opened up for intra-EU imports. Dependency on the EU market is the highest between EU15; more than 80% of our trade was, in 2004, intra-EU trade, while American and African markets became irrelevant. This first period was also characterized by increasing employment and industrial production. This was due to foreign

<sup>3</sup> “Portugal-Espana: siameses unidos por la espalda”, *El País*, January 6, 2002

investments in some manufacturing branches emphasising Portuguese specialization in mature industries in a European division of labour.

During the seventies, Portuguese external trade was dominated by trade relations with the UK and at the end of the decade with Germany and France, whom remain relevant partners until present. Besides them, foreign trade with Belgium, Netherlands and Italy and even with Denmark was more important than with Spain in spite of geographic proximity.



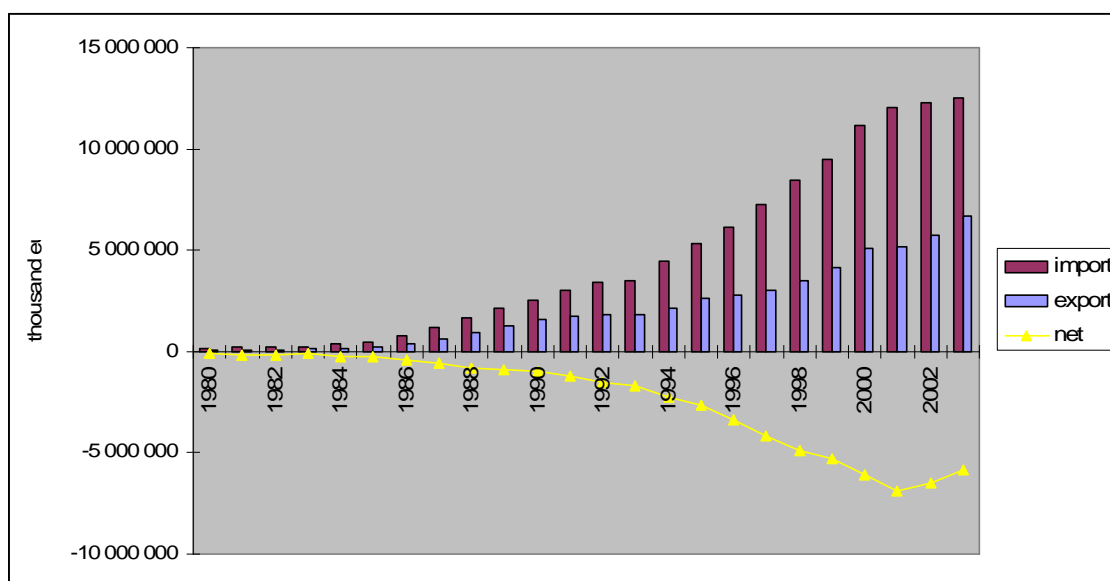
Source: INE

Fig 2 - Portuguese Exports by country

Even existing trade was inexpressive because, as we have seen, Spain turned to its big domestic market to promote an industrialization process based on an import-substitution model and Portugal to EFTA.

After EEC adhesion the two economies began to discover each other and companies began to explore opportunities in the neighbouring market. The upsurge of trade flows was not evident until the beginning of the nineties. Why Portugal and Spain ignored each other during the first years of joint adhesion might be explained by the similar situation of weak development that led Portuguese companies (as Spanish ones) to look for opportunities in the richer markets, ignoring their neighbour. But since the beginning of the nineties flows of products, capitals and tourists started to cross regularly the border and the progress in trade and FDI between the two countries has been impressive, reflecting the “normalization” of economic relations between

neighbouring countries and contributing to the growing integration of the two economies.



Source: INE

Fig 3- External Trade with Spain, 1980-85

Trade balance with Spain began to deteriorate in the beginning of the 90's, especially after 1993, when Portuguese exports showed difficulties to accompanying the rhythm of the imports. However, the most recent data show a (not yet very clear) tendency of inversion more as a result of the softening of the imports than of the growth of the exports. This situation is generally explained by the different production specialization of each economy in a way that Spanish export specialization fits more with the needs of the Portuguese economy than with the reversal (Caetano, 1998; Alves, 2000) opening up opportunities for trade creation.

The expansion in trade is accompanied by a significant change in trade patterns. Recent changes reveal an increasing in intra-industry trade but also the exploration of comparative advantages of each economy. In the case of Portugal a shift from raw materials to consumption goods (notably textile and clothing) and medium technological intensity goods (transport equipment, machinery and electric equipment). Spain export structure reflects a more modern and developed agriculture that takes advantage of a regional market where Portuguese products are no competitive. In both cases export structure diversifies after the process of economic integration started.

Main products (%)	Portuguese exports to Spain		Main products	Spanish exports to Portugal	
	1980	2003		1980	2003
minerals	26	2	Live animals and food products	4	13
Wood and cork	12	5	Chemical prod.	14	7
Wood products and fibbers	14	5	Wood products and fibbers	2	5
Textile&clothing	4	15	Textile&clothing	4	7
metals	10	8	Metals	18	9
Mach and elec. equipment	8	14	Mach and elec. Equipment	24	17
Transport equipment	4	14	Transport equipment	10	12
Total 7 sectors	78	63	Total 7 sectors	76	70

Source: Estadística del Comercio Exterior de España and Estatísticas do Comércio Exterior

Table 1- Composition of Exports by main products, 1980 and 2003

Textile and clothing is an example of significant changes that occurred after market openness: Portugal specialised in production and Spanish firms specialised in design and logistics. The Spanish Inditex group, a retail chain from Galicia, outsources a significant slice of its production in the North of Portugal (the most specialised in garment production). For several local firms Inditex became one of their main clients, and that explains the increasing clothing exports to Spain. There is also an increase in Spanish garment exports to supply their stores in Portugal as the main Spanish labels are present in our market. Spanish labels were very successful in penetrating Portuguese markets, for example in food items and garments. Besides, they pursued a rapid diffusion process with either their own stores or through franchising.

On the reverse, wood products declined in Portuguese exports to Spain but that could be related with the move of a large Portuguese group, Sonae, to the Spanish market where they bought Spanish Tafisa and started local production.

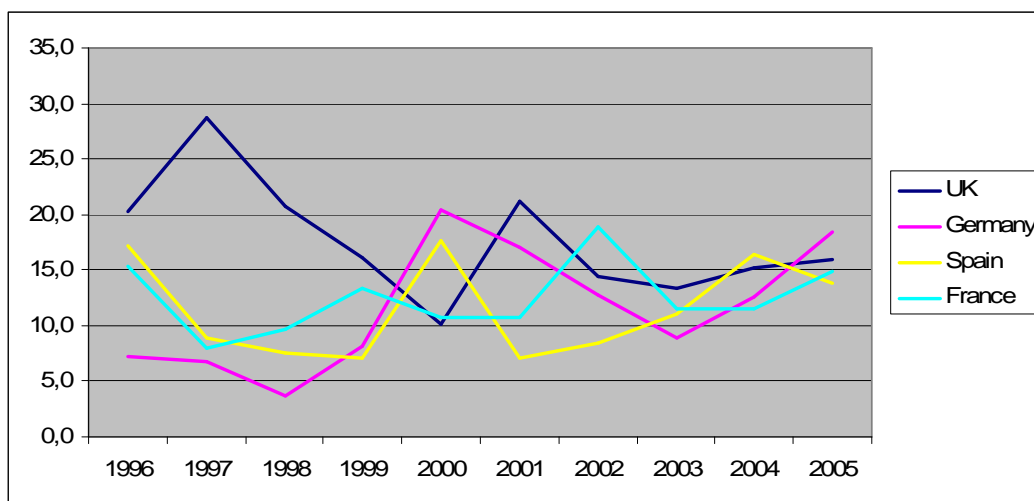
Another significant change is related with intra-industry trade in vehicles and transportation equipment. However, trade between them is dependent on the reorganization of this filière on a European (and global) scale and not at a regional scale. This reorganization also explains the Portuguese trade deficit

with some of the new member states as we import from them compounds to a WW facility in Palmela (in Lisbon Metropolitan Area) and trade surplus with countries to which vehicles are exported.

Although still in course and albeit a recent process it seems that exchanges related on one hand with regional specialization and on the other hand with intra-industry trade are shaping Iberian market.

### 3.2 Foreign Direct Investment Flows

In spite of public opinion identifying Spain as a target competitor, Spain isn't and never was during this period, except in 2004, the main investor in Portugal although it was integrated in the group of the four main investors. That group dominates the structure of FDI in Portugal, meaning 60% of the total, in 1996 and 63% in 2005, so reinforcing their position. An initial phase, until the end of the nineties, the UK investments dominated followed by three years of a clear domination of Germany and UK and less expressive Spain, in 2004. Presently all four have a similar weight, meaning a more equilibrated structure of origin of investments.

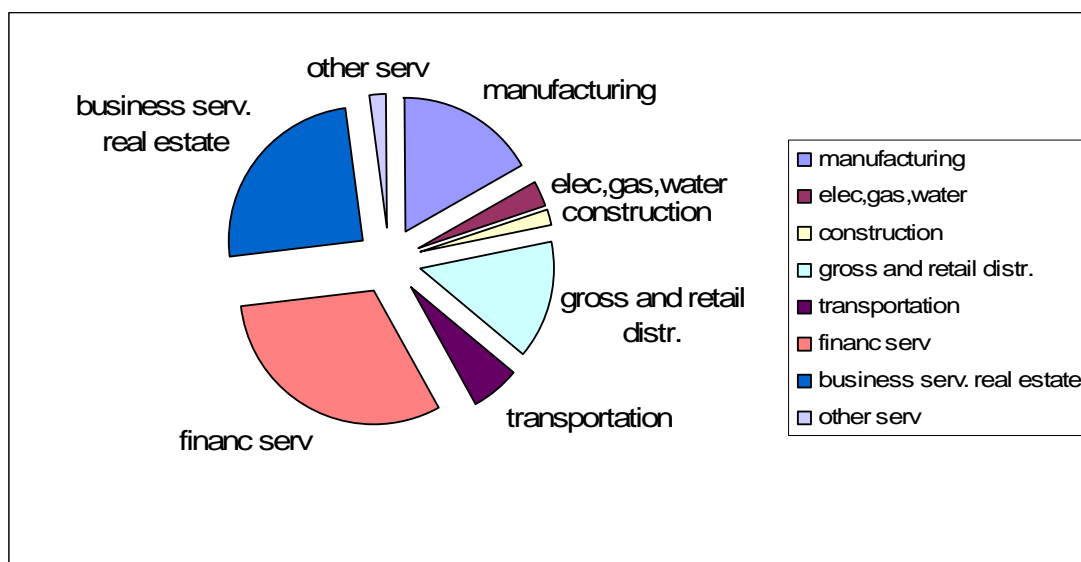


Source: Portuguese National Bank

Fig 4 - Main Investors in Portugal (as % of total FDI)

Nevertheless, the idea of a “Spanish invasion” is widely diffused among Portuguese public opinion and that Spanish FDI stands out in the recent

evolution of inward FDI in Portugal. This interest might result from the recent strategies of the Spanish companies that conceive the Portuguese economic space as a natural expansion of its market with a twofold objective, to win dimension in the Iberian market and to rehearse internationalization strategies<sup>4</sup>.



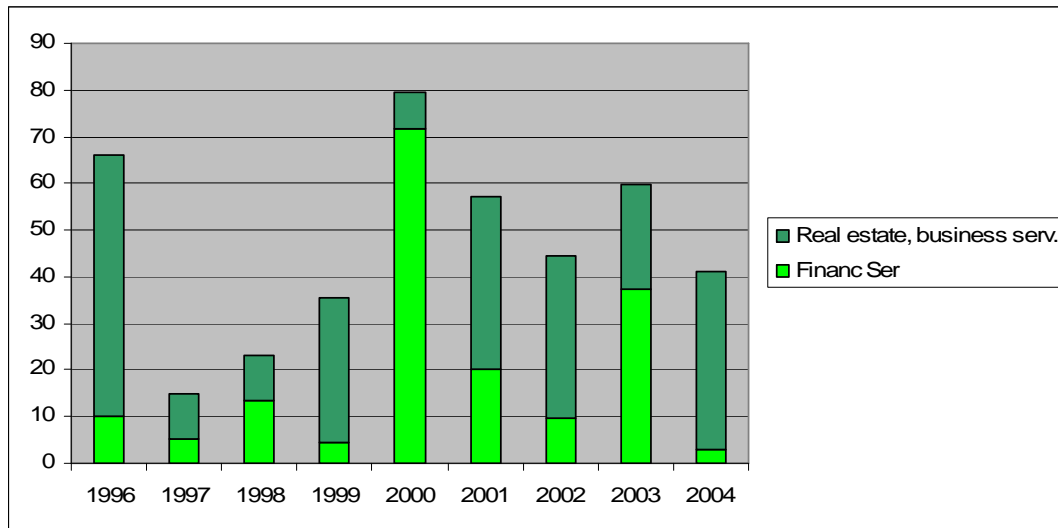
Source: Portuguese National Bank

Fig 5- Structure of Spanish FDI in Portugal by sector (%), 1996-2004

The concentration in time, the orientation towards services reversing the traditional investors' tendency, as French, English or German for manufacturing and the visibility of the Spanish labels in the more central urban axes, helped to create a widespread image that our market has been "invaded" by Spanish companies, thwarting the desirable reciprocity in the opening of both markets. In some strategic economic areas like banking, energy, real estate, and civil construction there is a perceived threat that they could be controlled by Spanish groups though despite the complaints, Portuguese entrepreneurs are selling their groups to Spanish ones. For example, in spite of the Spanish position in civil construction already being

<sup>4</sup> It has to be noted that a slice of Spanish FDI in Portugal is foreign investment that is channeled to our country through the branches of EU and north-American multinationals already located in Spain that are reorganizing their strategies inside IM. Unfortunately it's not possible to separate them as the origin of the flow will be always Spain.

strong, the Portuguese Vaz Guedes family sold, in 2004, its civil construction firm Somague to Spanish Sacyr.



Source: Portuguese National Bank

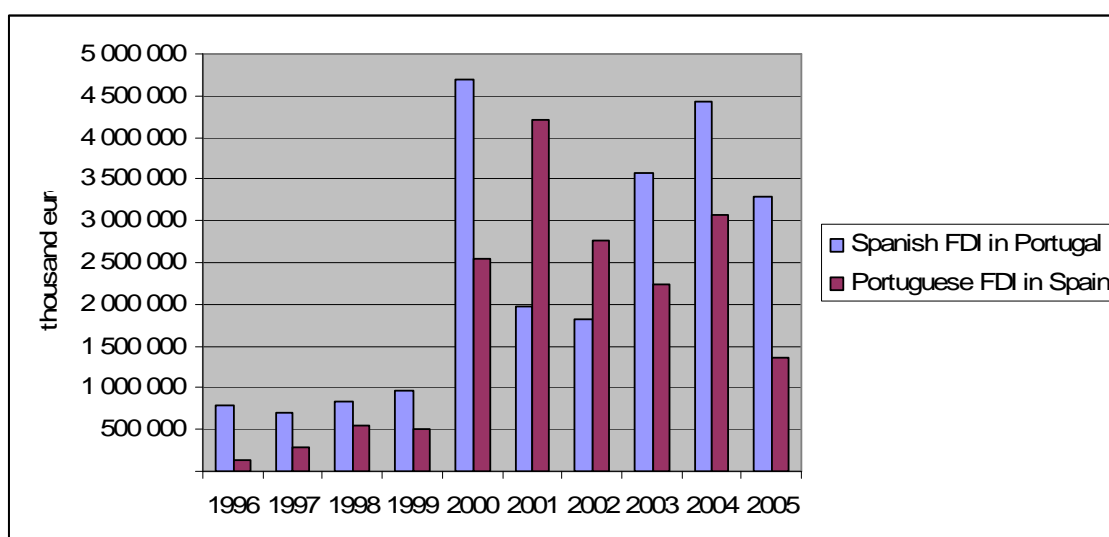
Fig 6- Spanish FDI in Portugal in Financial and business services as % of total Spanish FDI, 1996-2004

Financial services, business services, and real state make the bulk of Spanish FDI, with the exception of 1997 and 1998, representing during this period more than 30% and even 80% in 2000. In that year BSCH bought the financial group (a bank and an insurance company) property of the Portuguese family Champalimaud, which involved huge amounts of capital while other Spanish banks like Sabadell, La Caixa, CaixaVigo, and CajaMadrid were also involved in acquisition operations in Portugal. Banking is perhaps the service branch most pressed due to the entrance of Spanish companies; they are larger and they have the capacity to buy the national banks. Presently, Spanish banks are very visible in Portugal. The process is recent and the adopted strategy has been the buying of already established banks and their distribution networks. It started when Spanish Bilbao Vizcaya Argentaria (BVA) brought Lloyds Bank (an English bank long ago settled in Portugal) and more recently Crédit Lyonnais (French). Also Banco Popular entered buying BNC, a Portuguese one. Less expressive, also Portuguese



banks (like CGD, the biggest one) have moved towards the Spanish market. Besides having created their own distribution channels in each market, cross participations in the social capital between Spanish and Portuguese banks are frequent, increasing the interdependency of the Iberian financial market.

In reaction to the increasing competition, national banking made an enormous effort to reorganize and improve competitiveness. Profit rates increased due to more efficiency and cost reductions and severe losses of employment. It is also pushing national banking to M&A processes to gain dimension (like the recent public offer from BCP to BPI, the second and the third in the ranking of Portuguese banks, not yet accomplished because it was considered hostile by BPI).



Source: Portuguese National Bank

Fig 7 - Cross border FDI

For both countries cross border investments started later than trade, only in the beginning of present decade but their increases are impressive also. In spite of the different economic dimension, there is a surprising proportionality in the cross border investment flows between Portugal and Spain. A more attentive analysis of the investment flow shows that, in spite of Spain having moved first, in the last years Portugal recovered. This was due to significant investments accomplished by the bigger economic Portuguese groups in distribution, energy, transportation, banking, and manufacturing

(Sonae, Petrogal, EDP, Cimpor...). During 2001 and 2002 Portuguese investments in Spain surpassed Spanish investments in our country.

Some of the Portuguese investments in Spain are: Sonae group (responsible for the administration of more than a dozen mall centers in Spain and holds facilities in wood agglomerates manufacturing); Petrogal (that controls 250 fuels stations in Spain and has the concession of the Valência oil terminal); EDP (that controls the Hidro-Cantabrico, the fourth largest Spanish energy distributor with 4 million customers); Cimpor (that possesses Corporacion Noroeste, third largest Spanish cement group, and factories in Andaluzia); or of CTT (that recently acquired the Spanish company Tourline Express, beginning its internationalization process in the area of express mail); Luis Simões, anticipating the market integration, successfully developed an Iberian logistic transportation structure.

Notwithstanding the unequal dimension of each economy Portuguese companies are also developing strategies that include the neighbour market. The main problem seems to be the lack of participation of Portuguese SME's in the Spanish market (on the reverse Spanish SME's are well present in our country) contributing to consolidate the position of the Portuguese larger companies in the Iberian market.

#### **4. Iberian market integration: challenges and opportunities for Portuguese economy**

A perceived growing importance of Spanish investments, especially in areas considered as strategic, like finance and energy, recently caused Portuguese entrepreneurs to voice strong warnings that national "strategic centres" could be taken by Spanish companies. They demanded a more active role of Portuguese Government in controlling Spanish FDI. They were also concerned about the unequal market dimension that would favour Spanish firms already used to operating in a wide market and thus having more aptitude to integrate the small Portuguese market into their regional market.

It's a reality that the integration of the Iberian market is putting huge challenges on Portuguese companies but one can argue that they are not different from those arriving from fierce global competition; it might however increase competitive pressure obliging them to quickly adapt to open markets.

On the other hand, the creation of an IM might offer good opportunities that are still poorly explored by Portuguese firms meaning that the potential for future actions is high. It's also positive that our neighbour's economy is a dynamic and growing one.

Challenges are huge for Portuguese firms, but the more dynamic ones will become more efficient and ultimately more prepared to compete in global markets. They will also benefit from access to a larger and contiguous market that can work as a rehearsal market of internationalisation processes. Spanish companies used that strategy; Inditex group (Zara, Pull&Bear, Massimo Dutti, Bershka and Stradivarius) one of the biggest fashion chains in Europe, after H&M, began its internationalisation process in Portugal, testing products and the logistics before moving forward for other European markets; El Corte Inglés opened its first store outside Spain in Lisbon and is about to open another one in Porto.

There are also opportunities to be explored together like the MIBEL (single Iberian market for energy). Even though the process has been slower than expected due to the persistence of barriers that have been hindering its implementation it's expected that MIBEL could be an important step for the creation of a competitive market of energy benefiting the two countries, (equally strongly dependent on imports) its economies, and private consumers.

Increased competition from Spain can also force Portugal to look more attentively at its own problems. One of the largest ones has been our inability to increase productivity *“which may be seen through the persistence of a pattern of specialization in which products and processes of low technological intensity, deficient organizational capacities and not very high levels of skill among human resources predominate”* (EC, 2002, pp.87-88:), the qualification of human resources, public deficit, and the inefficiency of Public Administration reorganization.

In the future, the process of Iberian market integration will tend to deepen with the intensification of trade and cross border investments and the reorganization of production while strategic alliances and joint ventures among Portuguese and Spanish firms might be relevant (and advantageous for both economies) to explore opportunities in emergent markets (following the example of Portuguese PT and Spanish Telefonica that allied to explore the Brazilian mobile telecom market). Apart from being relevant investors in each

other, both Portugal and Spain invested, at least until recently, mainly outside (Latin and South America) than inside of the common market. So besides the Iberian Market they also have common strategic interests when it comes to participating in the global economy.

It is unquestionable that the EEC joint admission gave an important contribution to approach the two economies. On one side, larger economic dimension and more aggressive companies seems to play an important role favouring Spanish economy. On the other side, increase competition has been pushing Portuguese companies for modernization and M&A processes to win dimension and to develop creative strategies of internationalization in wider markets, which is a positive impact.

Increasing competition, either from other EU members, with special emphasis on Spain, or globally will imply a similar response, i.e. the ability of Portuguese regions to offer and mobilise intangible factors of competition and companies to use more cooperative and creative strategies. More problematic will be the anticipated negative consequences for Portuguese exports due to the industrial integration of the CEEC that will put our exports, especially in garments and car compounds, under additional pressure once they overcome obstacles like insufficient quality, lack of design, inadequate communication, and transport infrastructures. Furthermore we have to deal with powerful disadvantages related to higher labour cost and geographical periphericity.

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