

## Globalisation process, urban and regional dynamics in Portugal

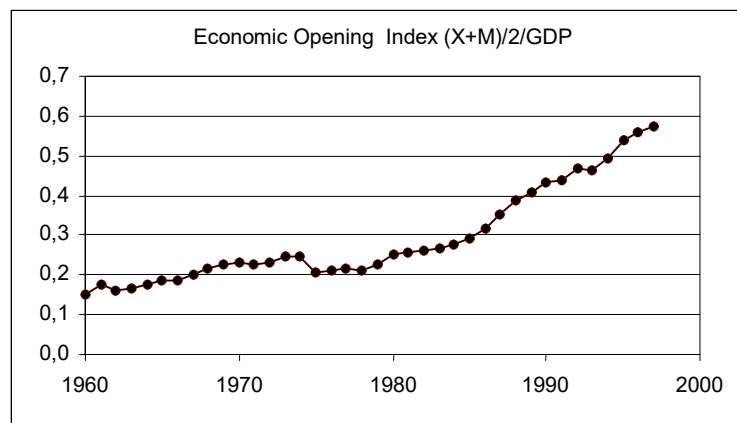
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The globalisation process has been changing the Portuguese productive structure but also the urban and regional economic geography, phenomenon particularly important after Portuguese integration in the European Community in 1986. The increase of foreign direct investment (FDI), the growth of the service sector, the industrial restructuring and the change of exports constitute the main economic effects of globalisation in Portugal. In the present paper we will present a brief empirical analysis of these recent trends and their urban and regional dynamics.

### 1. General evolution of Portuguese global economic integration

The impacts of globalisation on the Portuguese economy can be seen by the recent evolution of three major issues: degree of economic opening<sup>2</sup>, structure of foreign trade and foreign direct investment.

Figure 1 - Economic Opening Index (1960-1998)



Source Data: MATEUS, 1998;Economia Pura 1999; INE

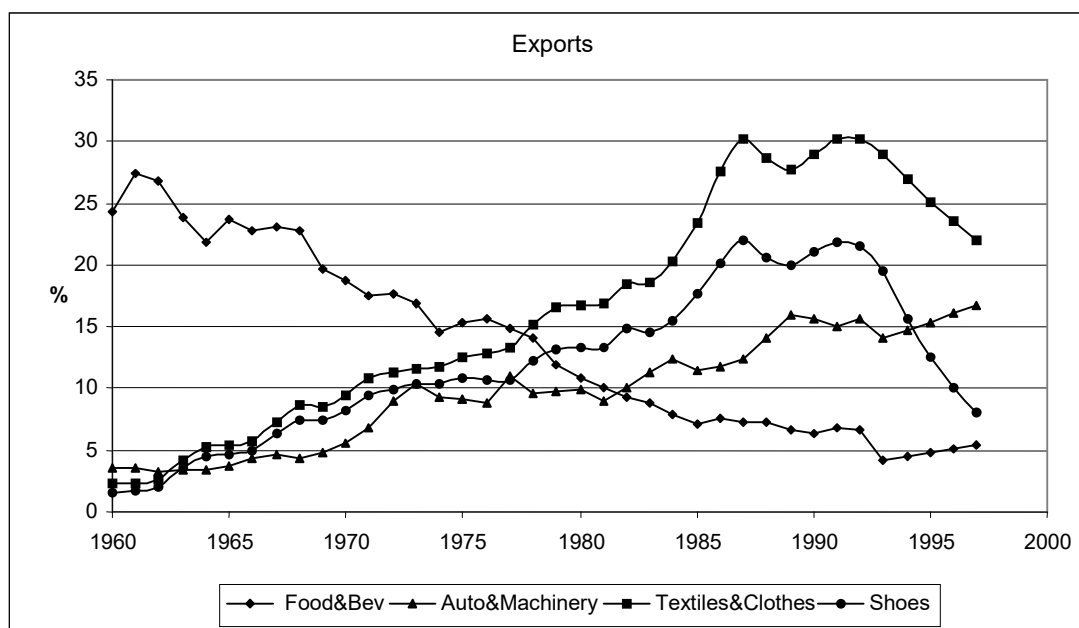
<sup>1</sup> Paper presented in Regional Studies Association Conference – “Regional Potentials in an Integration Europe“, in the Session 1. Regional Dynamics and Globalisation, University of the Basque Country, Bilbao, Spain, 18<sup>th</sup>-21<sup>st</sup> September 1999. This paper integrates the Research Project “Praxis XXI - Repensar Portugal na Europa. Perspectivas de um País Periférico”, coordination by Prof. Carminda Cavaco, Centro de Estudos Geográficos, University of Lisbon.

<sup>2</sup>  $\left( \frac{\text{Exports} + \text{Im ports}}{2} \right) / \text{GDP}$

One of the most relevant aspects of the recent evolution of Portuguese economy is the increase of its opening. From an average import and export weight on GDP of 15% in the 60's, this value has risen over 50% in the 90's, one of the highest figures of European countries.

The economic policy, until the 60's, was based on self-production and self-consumption, supported by trade with the former colonies. This situation was modified in the beginning of the 60's when Portugal became a member of EFTA and especially after EEC adhesion in 1986.

Figure 2 - Exports structure (1960-1998)



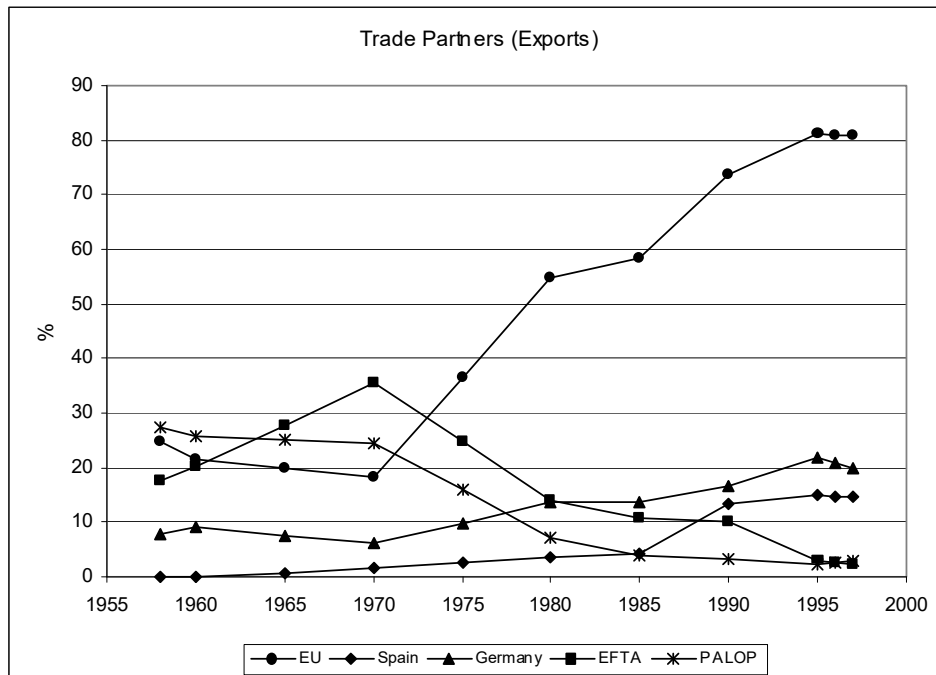
Source Data: MATEUS, 1998;Economia Pura 1999; INE

The transformation on Portuguese export structure also shows economic transformations. In the 60's, food and beverage products represented more than a quarter of the total value of Portuguese exports. After that they lost importance, mainly after 1976. Textile, garment and footwear production became more and more important and with the period of economic recession, during the second half of the 80's, they rose to over 40% of total national exports. During the 90's that branch began to decline, whereas the machinery and automobile industries grew in importance.

The trade partners also became different. In the 60's the African Portuguese Speaking Countries (PALOP) represented the main destinations of Portuguese exports. The first change occurred after EFTA integration, but the main

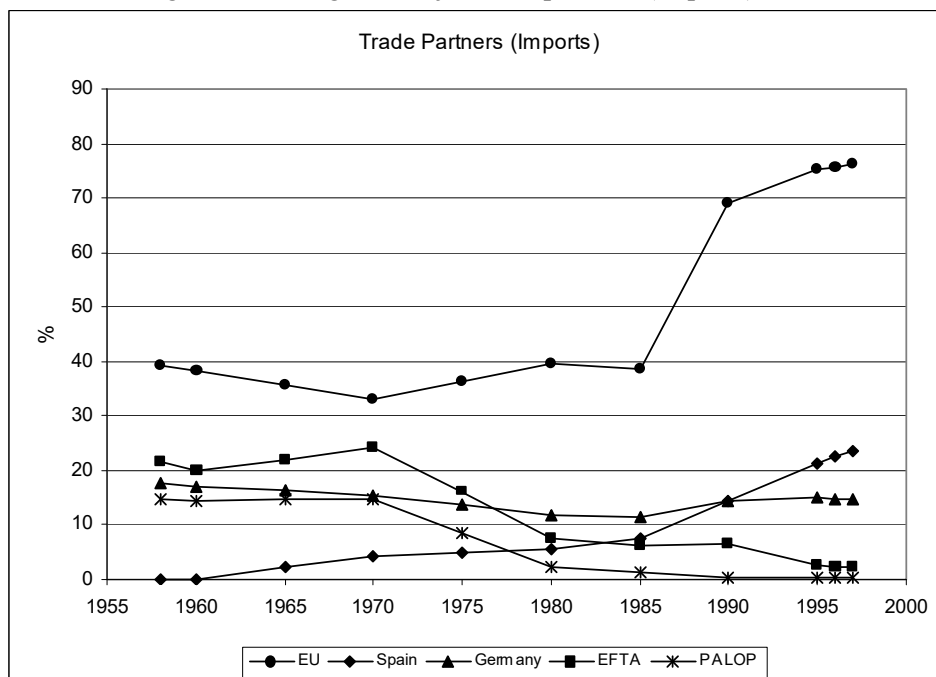
transformation happened after the independence of the former colonies in 1975 and during the EEC pre-adhesion period. The former colonies lost importance at the same time that the European Union became the major destination of Portuguese exports, which reached 80% in the 90's. Germany and Spain have a strong position as main partners, position that became more visible after the 80's.

Figure 3 – Portuguese major trade partners (Exports)



Source Data: MATEUS, 1998;Economia Pura 1999; INE

Figure 4 - Portuguese major trade partners (Imports)

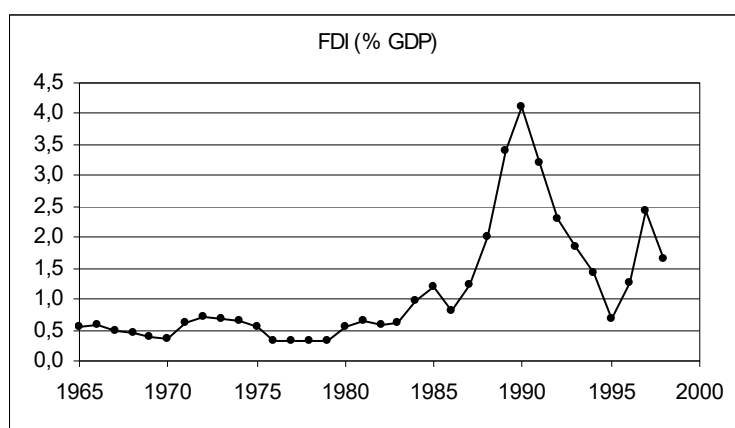


Source Data: MATEUS, 1998;Economia Pura 1999; INE

Similar to the export movements, imports have their origin mainly in the European Union. The evolution is quite similar to the exports where Spain, after EEC integration became one of the biggest suppliers of the Portuguese market.

As trade relations the Foreign Direct Investment (FDI) had an evolution that shows a reinforcement of economic integration. The FDI evolution was stronger after EEC adhesion. Until then the value of FDI did not exceed 1% of GDP. After 1986 the FDI climbed from 0,6% to 4.2% and 3,2% in 1990 and 1991. If we consider the value of the investment in AutoEuropa, by Ford and Volkswagen, the importance of FDI in 1991 rose to 8,1% of GDP. Together with the recession in the EU, the value of FDI has been decreasing since 1992 (MATEUS, 1998; pag156). However, during the last years an increase of FDI has been changed.

Figure 5 – Foreign Direct Investment 1965-1998



Source Data: MATEUS, 1998;Economia Pura 1999; INE; ICEP

The importance of FDI is not only restricted to investments and job creation. Investment in industry has given its contribution to a change in production specialization in several regions, and has also allowed the modernization of some industrial branches and technological transfers in some of them. On the other hand, the investment made in trading and services made possible the introduction of new products and new management techniques, giving also its contribution to the recovery of some national economic groups with competitive capacity at the global level.

Besides the mentioned effects, the increase in competitiveness and in opening of Portuguese economy is also shown through the internationalization process of some Portuguese economic groups, with examples among retail, service or industry sectors, such as ceramics and glass.

Moreover, the relations between FDI and foreign trade are quite interesting because an interactive and cumulative relation between FDI and foreign trade does exist. It is interactive because the location options for production units made by global firms, according to absolute and relative advantages, is made in an international framework, leading to inter-enterprise flows reflected on increases of foreign trade flows. It is also cumulative because when foreign trade and FDI increase, the economy increases its integration creating new opportunities for investment. However, this is a selective process, considering the receiving countries' point of view, but also considering the kind of relations established among firms.

In spite of its peripheral position, Portugal has been able to take advantage of its relations with some European economies, at the same time that it increases its influence in the Portuguese speaking countries in Africa and also in Brazil.

If one observes the positive effects of Portuguese economic integration, the regional impacts are quite different from one region to another.

## **2. Regional inequality effects of globalisation**

The effects of the opening of the Portuguese economy, of FDI and of exports are extremely different in regional terms, as we intend to show.

### **2.1 FDI unbalanced distribution**

The recent spatial and sectorial patterns of foreign investment in Portugal do not show any particularity when compared to what has been taking place in Europe. The metropolitan regions, on the one hand, and trade and service sectors on the other hand have been the ones where investment has been preferably made.

In the last decade, tertiary sector has won positions in the total of invested amount, specially real state and financial sectors and, more recently, the trade sector. European countries have been reinforcing their positions as investors. The Union countries represented, in the period from 1993 to 1998, 73,5% of FDI. Germany, United Kingdom and France, traditional investors, represented 34% of FDI, and Spain had a share of 30%.

Table 1 - Distribution of Foreign Direct Investment by branch, 1993-1998

Branch	%
Agriculture	0,6
Mining	0,2
Manufacturing Industry	12,2
Building Construction	1,3
Retail & Tourism	21,9
Electricity, Water & Gas	8,3
Transport and Communications	11,1
Bank, Insurance, Finance Services	40,2
Other services	4,2
Total	100,0

Data Source: Economia Pura, 1998

The Lisbon and Tagus Valley Region has a high concentration of investment and employment associated with FDI. In the period of 1992-94, 80,4% of the amount invested was made in this area, particularly in Lisbon Metropolitan Area (LMA). As far as employment in foreign enterprises is concerned, in the same year Lisbon Metropolitan Area concentrated almost 60% while North Region and especially Oporto Metropolitan Area only reached 12,6%. The structure of investments by branch shows that Lisbon city concentrates a large share of investments in tertiary sector namely finance, insurance, real estate, but also in trade and productive services (marketing, advertising, consulting, ...).

Table 2 - Regional Distribution of Foreign Direct Investment by Country, 1992-1994

Countries	North	Center	Lisbon and Tagus Valley	Alentejo	Algarve	Total
France	4.1	4.7	91.0	0.2	0.0	100.0
UK	3.7	6.4	61.8	0.2	28.0	100.0
Germany	4.0	0.7	94.1	0.1	1.0	100.0
EC(12)	7.8	4.6	85.4	0.4	1.9	100.0
EFTA	28.2	6.4	63.8	0.6	1.1	100.0
USA	11.1	2.3	83.6	1.7	1.3	100.0
Total	12.6	4.8	80.4	0.5	1.6	100.0

Source: ICEP

Despite tertiary sector having a high share of FDI, the industrial sector is also important, especially due to employment creation. In 1992, LMA represented 40% of industrial employment in foreign enterprises, quite well represented by chemicals, non-electric, electric and electronic equipment and also printing, food and beverage processing.

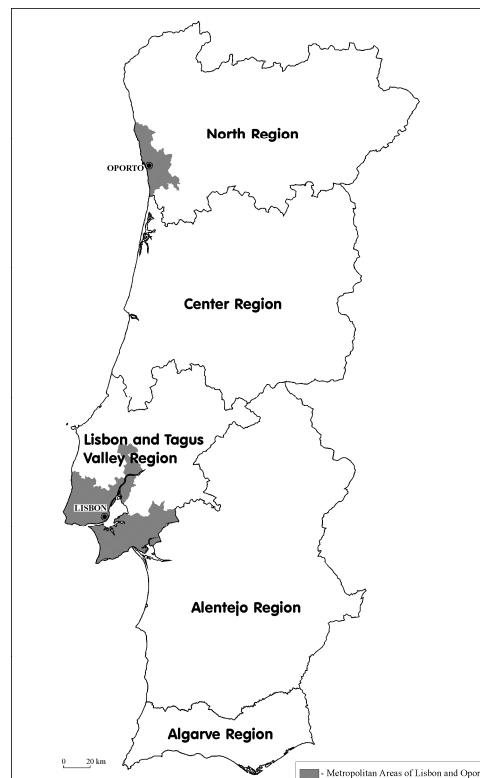
Table 3 - Regional Distribution of Foreign Direct Investment by Branch, 1992-1994

Branch	North	Centro	Lisbon and Tagus Valley	Alentejo	Algarve	Total
Agriculture	0.5	1.6	0.6	36.2	19.3	1.1
Mining	0.2	3.2	0.1	18.5	0.0	0.3
Manufacturing Industry	29.5	79.1	21.7	36.4	4.0	25.3
Building Construction	1.0	1.3	4.9	1.0	3.5	4.2
Retail	13.8	9.7	12.8	5.0	1.9	12.5
Tourism	1.3	1.0	2.3	0.7	24.8	2.5
Transport and Communications	0.2	0.3	1.4	0.0	0.9	1.2
Bank, Insurance, Finance Services	53.4	3.7	55.6	2.2	44.4	52.4
Other services	0.1	0.0	0.5	0.0	1.3	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: ICEP

The impact of FDI was particularly important in the Peninsula of Setúbal (Southern Metropolitan Area) where it improved industrial recovery of the traditional structure and contributed to change the productive base. More recently, related to the deconcentration process, FDI has been growing in the northern part of LMA.

Figure 6 – Portuguese NUT II and Metropolitan Areas



In Oporto Metropolitan Area the structure of investments shows that the tertiary sector also absorbs a large share of FDI, despite traditionally investments being made in the industrial sector namely non-electric machinery, transport equipment and also

textile, clothing, footwear and metallurgic products. The production is mainly for export, situation that is quite different from LMA, of which a large share of production is for the internal market.

In southern Portugal, Algarve region, FDI had contributed to increase regional specialisation in real estate, agriculture and tourism.

In the other regions, FDI is oriented mainly to manufacturing industry, particularly in labour intensive branches like clothing, footwear, electric equipment and autoparts. Nevertheless, we can find different situations:

- some investments are made in rural areas in order to take advantage of local resources such as low labour costs (clothing) and natural resources (thermal water in Idanha-a-Nova, in Center region, or mining in Castro Verde; in Alentejo region);
- other investments are made in areas with a high level of specialisation (wool in Beira Interior region, clothing in Ave region, glass in Pinhal region) and take advantage of the presence of productive agglomeration;
- others are made in small and medium-sized cities, in order to benefit from the effects of economic agglomeration.

## 2.2 Regional export profile

The study of the main export firms reveals a regional profile also unbalanced. The concentration in metropolitan areas and in the coastal corridor is clear. However, the factors behind this regional dynamic are different.

Table 4 – Regional Distribution of 2000 Major Export Enterprises, 1997

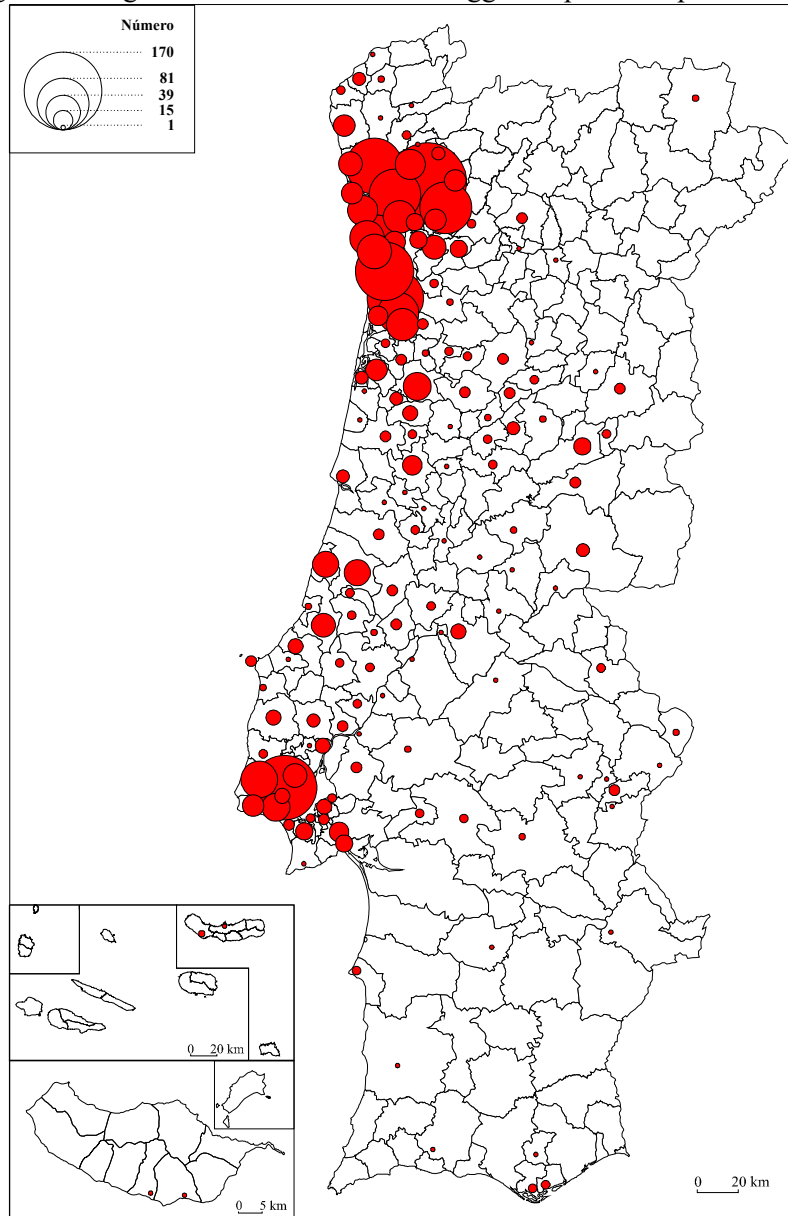
Region	%
Coastal North (Oporto Metropolitan Area Excluded)	41.1
Interior North	1.1
Coastal Center	10.9
Interior Center	4.0
Lisbon and Tagus Valley (Lisbon Metropolitan Area Excluded)	5.4
Alentejo	1.5
Algarve	0.5
Madeira	0.2
Azores	0.1
Lisbon Metropolitan Area	17.1
Oporto Metropolitan Area	18.1
Total	100.0

Data Source: ICEP, 1997



In northern Portugal we have a high number of small and medium enterprises located around Oporto with extension to the south towards Aveiro, while in Lisbon area the average enterprise size is higher and a large share of production is directed to the internal market. The increase in tertiary sector, especially the production support services that are also related with internal consumption, explains the number of export enterprises in the Lisbon area.

Figure 7 - Regional distribution of 2000 biggest export enterprises in 1997

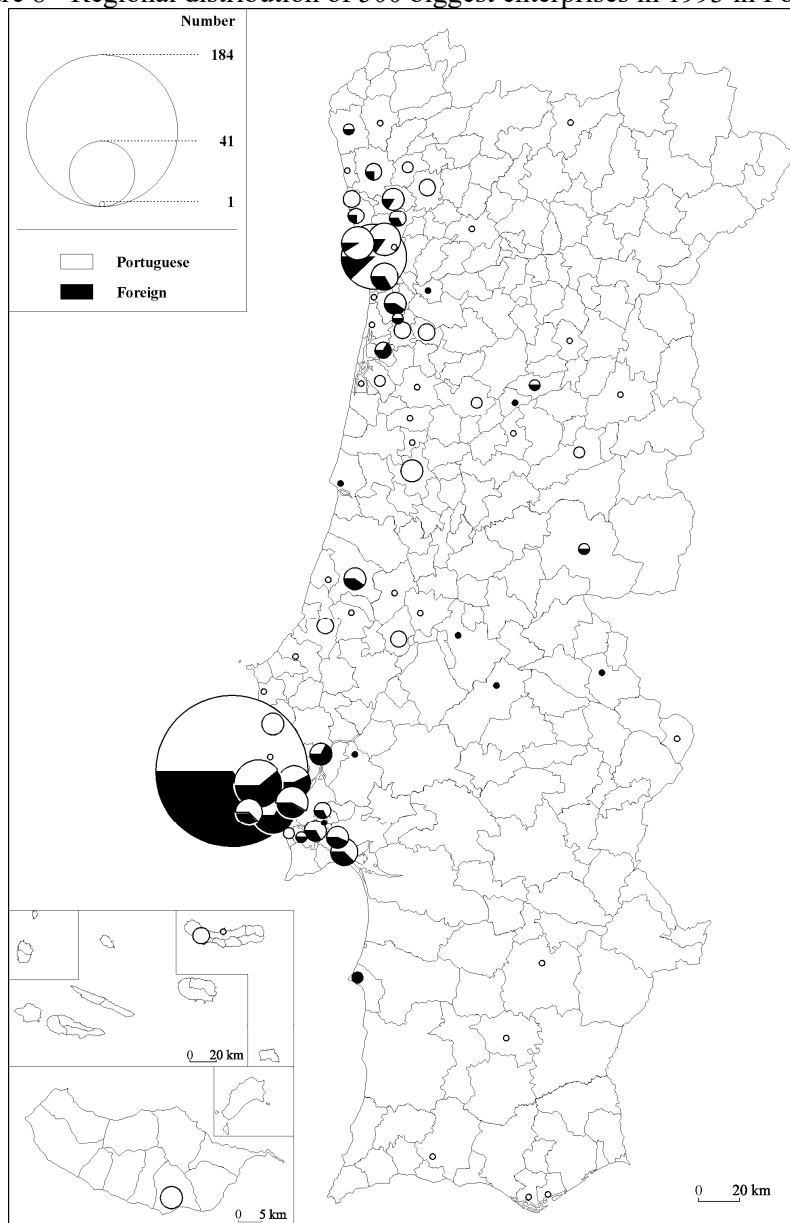


in E. COSTA (1988a)  
Data Source: ICEP, 1997

Low wages and local networks explain the presence of textile, garment, footwear and mechanic enterprises in the north. Labour cost, industrial tradition and an

entrepreneurial local dynamism explain the presence of export enterprises in the interior of Center Region. The accessibility conditions and the proximity to the Lisbon Metropolitan Area, explain the deconcentration processes alongside the coast from the northern limit of LMA to the north and the reinforcement of industrial traditional production in metallic, glass and porcelain products. The diffuse location is related to natural resources, such as mining, forestry but also with some agricultural industries.

Figure 8 - Regional distribution of 500 biggest enterprises in 1993 in Portugal



in E. COSTA (1988b)  
Data Source: EXAME, 1994

The picture or regional distribution of 2000 largest enterprises export enterprises is quite similar to the picture of regional distribution of 500 largest enterprises. Its distribution is also unbalanced, strongly concentrated in LMA and along the coast.

### **3. Some reflections**

The productive structure and the Portuguese position in the global process have been changing and the FDI has contributed to this change. In the agricultural sector, CAVACO (1989) recognised the positive effect of foreign investments that, namely in Algarve contributed to its modernisation.

In the industrial sector, we have been observing some changes in the traditional pattern of FDI. In fact, the structure of investments in manufacturing industry is quite different from the national industrial one. Some figures regarding foreign investments in the industrial sector between 1986 and 1994 show that alimentary/food sector and metallic, electric, electronic, machinery and transport equipment grew their share (MESS). On the contrary chemical and textile, clothing and footwear industries decreased their share in FDI. These recent trends of FDI are not confirmed by industrial evolution in the eighties. In 1986 the three main employment sectors were textile, garments and food processing (38,5% of manufacturing employment) and the concentration of employment in these three branches increased until 1992 (40%). These figures also explain that in 1993 the share of textile, clothing and footwear exportation reached 39% (31% in 1980).

In that case, we must consider the possibility that FDI will contribute to change productive structure and exports profile. Although branches in general were labour intensive, in the last decade they improved diversification of the Portuguese base (e.g. automobile industry) and besides that, they contributed to change the composition of our exports. In fact, in 1980 transportation, electric and electronic equipment represented respectively 8.7% and 4.5% of exports, figures that in 1997 reached 15,8% and 12,1% (GEPE).

In the tertiary sector we can also highlight some impacts: contribution to the restructuring of finance and real estate sector (namely horizontal integration); diversification supply; modernisation and restructuring of trade sector by the introduction of new products (as international clothing) and new management forms;

and the internationalisation of the service sector. In the near past we observed the growth of FDI on finance branch, it represents more than 40% of FDI on the last 5 years, on trade and hotels, 22%, and the decrease on manufacturing, that represented only 12,2%(BP).

Simultaneously and adding to the changes made by FDI, there were changes in the structure of Portuguese exports which had important regional consequences. The development of automobile filière centred in Setúbal Peninsula, has contributed to this change and led to recenter Portuguese export activity in the south, loosing textiles and footwear, traditionally in the north region, their weight. However, due to the increase of national incorporation in the final goods of automobile sector, a very important industrial activity of components has been developing. It shows a more scattered pattern at national level, despite these industries are taking profit of low labour cost in less developed areas.

Besides this situation, other branches have already been showing higher competitiveness at international level. In the industrial sector, besides the automobile filière, the mould sector has already an important quota of world trade, and the ceramics assume a growing role. These sectors have allowed the internationalization of coastal area in the Centre Region.

One can not say that our industrial structure has diversified, because we ceased to have a productive structure specialized on textiles. The truth is, this change led to an increase in the average level of technology used in the industrial sector. Moreover, there was also a general change in the quality of production levels, allowing it to be an example to the development of other projects.

In the trade and service sector, there has been a growing internationalization of some Portuguese firms, namely in the distribution, telecommunications and banking sectors. This benefits in particular, the metropolitan areas, mainly Lisbon, where the decision and control centers of these firms are located.

Nevertheless, whereas Lisbon and its Metropolitan Area become closer to other “core cities” (expansion of finance, insurance and real estate), some regions still depend on industrial activity based on low wages and low added value sectors and basic and public services. Outside metropolitan areas, the productive deconcentration process has two distinct territorial impacts: near the metropolitan areas, the economic change was linked to a diffuse process of urbanization supported by improvements on road network; in the other regions, is mainly associated to urban polarization process

in medium-sized cities. In the last two decades, traditional rural exodus to metropolitan areas has been replaced by migration to regional urban centers, that explains the settlement change and the new position of medium and small urban centers in national and regional urban networks.

Besides what was mentioned, we must also point out public and Community investments that have contributed to the integration of Portuguese economy. The investments are visible according to three main directions:

- the reinforcement of transport and communication infrastructures;
- the support to restructure productive activity;
- the reinforcement of Lisbon region as a capital, as a form to project Portugal internationally (for example AutoEuropa and EXPO98).

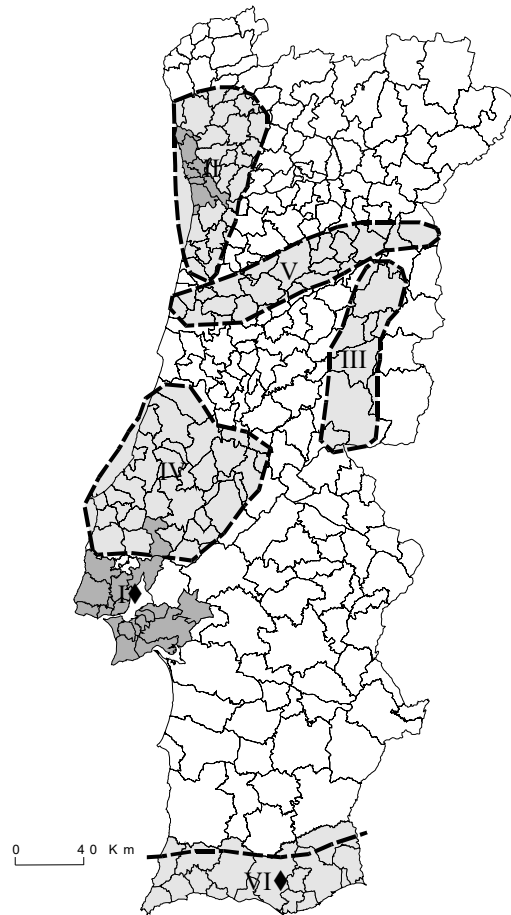
Whereas the two first factors were essential to the internal regional convergence, the third one was a European convergence strategy. Indeed, the effort of public and Community investment, together with the presence of agglomeration advantages due to population concentration (1/3 of the Portuguese population lives in the Lisbon and Tagus Valley Region), employment concentration (1/3 of the total), production concentration (42,5% of Portuguese GDP), innovation, research and development capacity, established opportunities to a faster convergence of Lisbon region when compared to the European averages. This situation is similar to the pattern that has been developing among large urban settlements as commanding and economic and finance decision centres.

However, in spite of all the changes that have taken place in Lisbon Region, the region has to compete with the two most powerful Iberian City/Region of Madrid and Barcelona. As we have already seen, the dynamics of FDI and also the penetration of the Spanish groups in Portugal, shows the need to develop new strategies, namely in its assertion as Atlantic door, establishing bridges with Africa and Latin America. This situation will bring a new dimension to its economic globalisation.

Undoubtedly, the Portuguese economy is more integrated in international terms. The evolution of trade, of FDI and the change of foreign trade structure allow us to point out this situation. However, what are the consequences of this process at the regional level? For some authors, the globalisation process increased regional economic disparities. However, despite the effects being more visible in Metropolitan Areas of Lisbon and Oporto, regional and local dynamics are quite numerous and also

play an important role in the process of economic integration of the Portuguese economy.

Figure 9 – Economic integrated areas



Area	Advantages	Core production	Competitive market
I LMA	Core city Labour Qualification National & International Accessibility	Services (Finance) Industry	National and Export
II OMA+Extentions	Labour cost Local Networks	Industry (Textile; Footwear; Mechanics)	Export
III Interior Axe	Labour cost Local Networks Internal accessibility Industrial tradition	Industry (Textile; Autoparts; Food Processing)	Export
IV LMA Extension	Accessibility Proximity to Lisbon Productive deconcentration	Industry (Metallic Mechanics, Ceramics, Glass, Food processing)	National and Export
V Central Axe	Accessibility	Industry (Automobile Metallic, Mechanics, Food Processing)	National (local) Export
VI Algarve	Natural resource	Personal Services Tourism	Export

In the future, Portuguese economy should go along with the European tendencies and specially with the trends and internationalization strategies of the Spanish economy. This could affect the productive structure and employment levels of the less competitive Portuguese regions and each ones that support their economic structure based on low wages.

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- GEPE – Economic Prospective Study Group. Economy Ministry
- ICEP – Instituto Comércio Externo Português (External Trade Portuguese Institute)
- INE – Instituto Nacional de Estatística (National Statistical Institute)
- MESS – Ministério do Emprego e da Segurança Social (Ministry of Employment and Social Affairs)