


# Interview with José da Silva Lopes: the granting of Community aid to Portugal (Lisbon, 23 October 2007)

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[Miriam Mateus] When we talk about the development of small countries and often compare Portugal with Ireland, to go back a little, we know that both countries have benefited from Community aid, mainly through the Cohesion Fund. In your opinion, why has Ireland grown more rapidly than Portugal? Do you think, as I also said, that Portugal may not have made the best use of the aid that it has received?

[José da Silva Lopes] Well, that can't be explained simply in terms of aid. Ireland actually received a great deal of Community aid and, perhaps, in proportional terms, even more than Portugal, but it can't be explained in terms of aid. I think that Ireland used the aid better than we did, but it's debatable. I mean, as you know, we've now got a network of motorways of which the Irish ... are incredibly envious. The Irish didn't build motorways, they've only just started to build them. But they've built human capital, they've educated the population. They have a more educated population than we have, and they always have had. They have more human capital, more specialists in all kinds of fields. They made a better choice than we did.

We spent a lot of money on training, too, but it seems that we spent it poorly. As we are aware, out of the 27 countries, Portugal is probably the one with the lowest human capital per head. It's sad, but it's true. So, straight away, the Irish gained an advantage over us, but that's not the only explanation. From a certain time, the Irish had governments with the courage to impose economic policy measures that were better than ours. We've had governments ... except for now, I think that for the first time in the last 30 years the present government is taking some measures. Yet even so everybody criticises it all the time, and in my opinion, if I could criticise it, I would do, too, but it would be because it isn't doing enough, not because it's doing too much. But I also know that it's not doing more because it can't, because it's difficult, you can't govern against the whole population. And, despite everything, it has been quite successful and popular.

But we've maintained a policy of easy options, so we're heavily dependent on external credit in particular. And that great policy continues to get us into debt, who knows where it will lead? So, our economic policy leaves a lot to be desired. It hasn't been strict enough, partly because people want it that way, but people don't understand that, if more sacrifices and more discipline aren't imposed, the future will be worse than it would be otherwise. People didn't understand that here in Portugal, and the Government hasn't got the courage to do it.

In Ireland, they did have the courage to do it. They had some Finance Ministers whose names I ought to know, but I don't, who carried out really tough reforms that did the trick. So Ireland has some advantages over us: it had better economic policies, including the initial policies for taking advantage of Community resources; it's a great advantage that their language is English — a lot of American companies are attracted to Ireland because of the English language and also because Ireland has a high profile in the United States because of its emigrants. In the past, Irish immigrants to the United States were considered to be an underclass, but, now, they have a reputation, they didn't before, but they have now. So all that helped to ... And what's more — I shouldn't be saying this, but it's got to be said — the Irish cheated a bit in my opinion — perhaps I shouldn't say that — but they engaged in tax competition that attracted a lot of companies to Ireland. So, the Irish offer tax incentives that the other countries don't offer, and that distorts competition. In that area, I'm very critical of the European Union for allowing these things to happen, but there are several schools of economics in that respect.

So, all that played a part in the Irish boom, but, in Portugal, it didn't happen. There are chance factors as well, as you know, there are 'fads': a country becomes fashionable, and, suddenly, everybody goes there, then it goes out of fashion, and no one goes there any more. Portugal was also a little fashionable in the late 1980s, but it was short-lived. Well, we didn't help much either, because it's not enough to be fashionable, you have to have high-quality products.

[Miriam Mateus] With the enlargement of the European Union to include the countries of Central and Eastern Europe in 2004, Community aid to Portugal also fell. How did Portugal prepare for enlargement?

Do you think that the Community funds are managed differently now?

[José da Silva Lopes] Well, once again, I wouldn't necessarily put the stress on the Community funds. Studies carried out before enlargement showed that Portugal would be the EU country that was going to suffer most. And the studies were right, that's very clear. Portugal had been successful in the EU because it had cheaper labour than elsewhere, but, for certain very sophisticated industries, cheap labour is a waste of time, while, for others, it isn't. If you want to establish a very sophisticated pharmaceuticals company, it's probably worth going to Ireland, because they've got experts in that field, it's not worth going to Portugal, no matter how cheap our labour is. Not least because we don't have the skilled chemists that they have, and, if we did, they'd probably be just as expensive as theirs.

Now, Eastern Europe has the advantage of offering labour that's even cheaper and often better than ours, first of all. Secondly, Eastern Europe has a more favourable geographical situation than we do. Let's not forget that Poland and the Czech Republic are adjacent to Germany, Poznań is closer to Berlin than Lisbon is to Madrid, and maybe even closer than Lisbon is to Badajoz. Now, first, we have to get to Germany, and look at the distance. So they have a fabulous geographical advantage compared with us. They have much cheaper labour, and they have a labour force which, on average, is significantly better qualified than ours, although they have some disadvantages compared with us in certain commercial techniques, but they've made progress in the last 15 years.

They've stolen a lot of our market share, so enlargement was extremely negative for us, just like globalisation. This is because, previously, Europe was closed to China, India and Taiwan, and now it's open to them all, so, at the moment, we're no longer competing with the Poles or even with the Romanians — the Romanians, they're doing us even more harm — we're not competing with the Romanians any longer, we're competing with the Chinese and the Pakistanis, and that's a problem. We didn't have the capacity, and it's very difficult for us to upgrade our production to emulate the Swedes. The Swedes even want to buy more from Pakistan, because, for many years, the Swedes haven't wanted to manufacture what Pakistan manufactures. The Swedes manufacture things that the Pakistanis don't know how to make and which they buy there. Unfortunately, we don't have any of that in Portugal yet. The day when we have products to offer the Pakistanis, which they want to buy from us while selling us their textiles in return, will be great. We're making some progress there, I don't want to seem totally negative.

Portugal is making some progress: we're losing market share in low-quality textiles, but we're gaining something at the high-quality end. In cheap footwear, we're in a good position, we're winning positions in high-quality footwear, and we're mainly getting better positions in technologically sophisticated products. It's not much yet, but that's where our difficulties arise. So globalisation and enlargement have caused us major problems. Obviously, resources, the essence of your question, Community funds, were shared out among more recipients without being increased, so the number of countries interested in receiving aid increased, while the amount of aid has remained more or less the same or hasn't increased much, so we're bound to receive less. I think that we've improved their distribution a little, and I'll say again that Community funds are important, but they aren't the essential factor.