

# How has portugal been affected by globalization



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Economic globalization is not a recent phenomenon, it is the continuous evolution of developments that have been in train for a considerable amount of time. One may define economic globalization as “ the process by which markets and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital and technology” European Commission (1997) cited in Sloman (2006). In other words, it involves the use of the factors of production on a world scale. The aim this essay is to discuss the impact of globalization in the economy of Portugal. Firstly, this paper will examine the relation between the globalization concept and the Portuguese integration in the European Union, explain in what forms its has been beneficial and describe the job creation in the service sector brought about the development of new information, production technologies and the expansion of tourism. Secondly, it is going to discuss the different negative repercussions of globalization in the various sectors of economic activity, analyse the socio-economic consequences of the relocation of multinationals, consider certain foreign investments in Portugal and expose certain possible disadvantages of having a single currency.

The European Union as Cardoso and Ferreira (2000) asserts is currently the most successful example of regional economic integration which reflects the present Era of globalization. Portugal as a member of it since 1986 and as consequence of the European integration process has been experiencing considerable political, social and mainly economic changes. According to the above mentioned author, the various Portuguese areas of economic activity have been profoundly influenced by the European regulations and policies.

With the creation of a common European market and a single currency, several constraints that limited in some extent the efficiency of business organizations and the full employment of their resources have been suppressed, the Portuguese companies gained the opportunity to explore economies of scale and to specialize in certain goods and services through comparative advantage, improved their position to negotiate internationally, eliminated the exchange rate uncertainty, reduced inflation rates and enhanced competition which stimulates greater economic efficiency. Moreover, Cardoso and Ferreira (2000) further affirms that the gains of greater economic integration and interdependence between countries due to the globalization of the economy through the European Union also involve savings in foreign exchanges and transport costs. Furthermore, according to Lima et al. (2006), the above mentioned regional economic integration with its respective technological development of telecommunications and transport also permitted for example the organizational and technological restructure of the banking sector and stimulated employment in the service sector, mainly in the tourism sector. Considering the case of tourism, as Cardoso and Ferreira (2000) explains, this sector that in Portugal assumes significant social, cultural and particularly economic importance in creating jobs, increasing income per inhabitant, in the development of skilled labour, economic diversification and infrastructures has been profoundly positively affected along with different various areas of economic activity by the globalization and the European regulations and policies. Currently the total contribution of Travel and Tourism to the Portuguese Gross Domestic Product, including its wider economic impacts, is " forecast to rise by 2. 4% from €25. 7bn (14. 7% of GDP) in 2011 to €32. 6bn (16. 2%) by 2021" (World <https://assignbuster.com/how-has-portugal-been-affected-by-globalization/>

Travel and Tourism Council, 2011) and one may deduce that the above mentioned economic facts are due to the present globalization that made the tourism industry grow mainly with the fusion of cultures, transports revolution and deregulation policies as Wahab and Cooper (2001) assert. In addition, Lima et al. (2006) corroborates the above mentioned arguments by pointing out the fact that jobs in the hotel and restaurant sector increased by 9.4% between 1998 and 2004 and it also asserts that there has been noteworthy investments in transport and telecommunications, 30,000 jobs were created between 1998 and 2004 in this sector and it represented in 2006 7.4% of the service jobs. Furthermore, as a positive impact of the globalization in the country's economy, Portugal since its integration in the European Union has always benefited from various structural funds and programs to encourage economic growth, higher competitiveness and to help reduce disparities among regions. As an example, one may consider the Portuguese archipelago island of Madeira which according to Beirman (2003) has been apportioned since 1986 structural funds to develop and modernize the region that made possible the construction of numerous infrastructures as roads, bridges, schools, airports, ports and health clinics.

On the other hand, globalization also affected negatively the economy of Portugal in various aspects. According to Lima et al. (2006), the liberalization of the global economic markets encouraged the relocation of national and foreign industries from Portugal to other countries with more profitable production costs, which ultimately resulted in increasing unemployment in certain economic sectors, particularly in the automobile, footwear and textile sectors. As Lima et al. (2006) explains, the effects of the above mentioned

aspects are considerably different in the various economic activities. In the case of industry, according to Lima et al. (2006), the number of jobs has been cut significantly by 105, 000 jobs between the year 2000 and 2006. In contrast, over the same period, approximately 417, 000 new jobs were created in the service sector. However, the above mentioned author further notes that precarious work situations are more common in the service sector. On one hand, from the analysis of the above mentioned arguments one may notice that globalization in Portugal creates in some situations new jobs and opportunities to expand companies, but on the other, provokes significant qualified and unqualified unemployment. According to the European Commission cited in Lima et al. (2006), the sluggish European economic growth combined with the acceleration of the liberalization of World Trade resulted in a loss of 860, 000 textiles and clothing jobs in EU between 1998 and 2010; sectors that are considerably important for the Portuguese economy. The footwear and textile industries are the source of a considerable amount of jobs in Portugal and they have been severely affected by the relocation of enterprises to countries that offer fewer bureaucracies, less strict labour criteria, financial benefits and cheaper factors of production. According to the Portuguese national statistics institute cited in Lima et al. (2006), Portugal lost 90. 000 jobs between 1998 and 2004, reducing its industrial employment from 23. 5% in 1998 to 19. 4% in 2004. In addition, at the above mentioned period, as Lima et al. (2006) asserts, Chinese entrepreneurs have been investing in the textile and clothing sector, a phenomenon that has previously occurred in Italy where the Chinese business management method, based on production at considerable low margin of profit and high volumes of sales has raised

several issues regarding unfair competition. Although one may initially suppose that the above mentioned foreign investment is beneficial to the economy of the country, in reality it may be perhaps considerably prejudicial in several aspects since local small and medium size industries possess difficulty in competing with the Chinese production costs. Regarding other industries, particularly the automobile industry, according to Lima et al. (2006), has also been affected since 1990 by industrial relocation for mainly the above mentioned reasons; “ There was a 9% drop in jobs in this sector between 1998 and 2004” (ibid). As the above mentioned author further notes, the closing of the Opel factory in Azambuja in 2006 left 1. 200 people without a job and Renault closed its Setubal factory and invested in various new factories in Brazil and Slovenia. Consequently, unemployment as Lipsey and Chrystal (2007) point out, involves numerous micro and macroeconomic issues that damage the economy of Portugal, including the loss of the individual’s income, a decline in their living standards, social deprivation, negative multiplier effects, a loss of potential national output, a waste of resources (labour) and fiscal costs since the government loses tax revenues and possesses the necessity of spending more on welfare payments for unemployed family members. Moreover, as Sloman (2006) make clear, due to the current global and regional interdependence Portugal is affected by the economic health of other countries and by their governments’ policies, issues in any area of the world can significantly affect Portugal through trade and financial markets, despite the eventual geographical distance. The present Portuguese economic situation reflects the vulnerability of the country to financial crisis. Finally, the European Monetary Union that is one of the examples of today’s globalization, may be prejudicial to the

Portuguese economy if Portugal possesses for example higher rates of inflation and if consequently its national enterprises possess difficulty in competing with the rest of the European Union. With a separate currency Portugal could allow its currency to depreciate and prevent being a depressed region of Europe with rising unemployment.

In conclusion it seems apparent that the economy of Portugal has been profoundly affected by globalization. This essay has shown that it is possible to identify in Portugal numerous positive aspects and a significant amount of negative consequences of the global and regional increasing interdependence. One may deduce that the current concerning economic Portuguese situation is in part a reflection of the international financial crisis and the country's vulnerability to the exterior. Nevertheless, from the analysis of the above mentioned arguments and despite the referred serious prejudicial implications of globalization, it seems undoubtable that globalization in recent years has contributed to the economic prosperity of Portugal. Hence, this essay suggests to minimize the negative effects of globalization in the Portuguese economy, the investment in education to qualify the work force and gain competitiveness, creation of more jobs in viable sectors as tourism, possible greater monitoring of financial institutions to prevent unexpected issues and increased international co-operation to solve the current and future economic problems.