

The Economic Developments In Portugal (1850–1914)

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Abstract

The study explores Portugal's economic developments between 1850 and 1914, a period marked by slow but steady change. During these years, Portugal experienced only modest progress, shaped by a mix of internal challenges and external pressures. Economic growth was frequently interrupted by global crises that left clear marks on the country's economy. Agriculture, in particular, suffered greatly as natural disasters and plant diseases, most devastatingly those affecting vineyards, undermined one of Portugal's most vital sectors.

Industry showed glimpses of progress, yet its advancement was limited. A lack of raw materials and the country's delayed adoption of modern machinery, especially when compared to other European nations, slowed industrial growth. To compensate for these shortcomings, Portugal turned toward colonial expansion, focusing especially on Africa. There, it sought to secure resources for industry, while also encouraging farmers and merchants to migrate in search of broader opportunities.

Foreign investment, particularly from Britain, played an equally important role in reshaping Portugal's economy. British capital fueled the construction of railways, the founding of banks, and the establishment of key economic institutions. These investments not only strengthened infrastructure but also provided a much-needed push toward industrial and economic modernization, leaving a lasting imprint on the nation's development.

Keywords: *economic developments, internal aspects, external pressures, economic institutions.*

INTRODUCTION:

The prosperity and progress of nations are often measured by the advancement of their economies, which in turn depend on a country's natural resources, workforce, economic policies, and the strategies and laws it adopts. From this perspective arises the significance of this study, which sheds light on the economic developments in Portugal between 1850 and 1914. This period witnessed important political and economic transformations that directly affected Portugal's economy, especially in light of the progress achieved by other nations and the increasing pace of inventions. Moreover, one cannot overlook the flourishing of empires during this time, their expansion, and the establishment of colonies in Asia and Africa, which provided them with markets to sell their products and sources of raw materials essential for industrial growth.

In addition, this period was marked by notable economic investments and the flow of capital across countries, from which Portugal also benefited.

For this reason, I chose to divide the study into three main sections, preceded by an introduction and concluded with a conclusion. The first section examines the growth of the Portuguese economy through a comparison and tracing of its economic and commercial sectors. The second section discusses foreign investments in Portugal and the extent of their influence on the economy and its development during this period. The third section addresses the Portuguese colonies in Africa, highlighting Portugal's motivations for establishing them, as well as the financial returns and economic impact of these colonies.

In writing this study, I relied on a variety of Arabic and foreign sources dealing with Portugal's economic developments. Among the Arabic references were Abdul Wahhab Al-Kayyali's Political Encyclopedia, Ihsan Haqqi's Free Africa: Land of Hope and Prosperity, and Faisal Muhammad Musa's A Brief History of Modern and Contemporary Africa, which were particularly helpful in

preparing the second section on foreign investments in Portugal. Alongside these, I drew extensively on foreign sources that played a central role in the study, such as Pedro Lains' *Portugal's Growth Paradox and Agriculture and Economic Development*, in addition to several other valuable foreign references.

Chapter One

The Growth and Development of the Portuguese Economy

(1850–1914)

By the mid-nineteenth century, Portugal's economy was the most underdeveloped in Western Europe. Per capita income was lower than that of Spain, Italy, and the Scandinavian countries. Backwardness was evident in many areas, as vast tracts of land remained unexploited, with large portions left uncultivated (Nunes, 1989, p. 12). The society itself was marked by political instability, a lack of financial resources, and widespread poverty, which severely affected the Portuguese population (Bourca, 2020, p. 72).

The decade from 1850 to 1860 represented a real turning point in Portugal's economic life. During this period, several important reforms were carried out, including the adoption of the gold standard in 1854, the *metric system in 1857 (<https://m.marefa.org>)(<https://m.marefa.org>, n.d.), and the abolition of certain obligations in 1863. At the same time, a network of commercial banking institutions spread throughout the country, while communication facilities and transportation links between Portugal and foreign nations were developed (Nunes, 1989, p. 12).

*The metric system is a set of units used to carry out various measurements such as length, temperature, time, or weight. It is a simple system, unmatched by any other system of measurement used so far. Scientists in particular rely on metric units in their work, just as most people do in the majority of countries. This system was first introduced by a group of French scientists in the last decade of the eighteenth century and has been revised several times since. In its current form, it is known as the International System of Units (SI).

Then, the global economic crisis of 1891–1892 came, which forced Portugal to abandon the gold standard and suspend payments on part of its external public debt (Costa, 2016, p. 35).

It is worth noting that the first railways built in Portugal included the Lisbon–Madrid line, the Lisbon–Gaia line, and the Lisbon–Elnejo line, constructed between 1856 and 1864. Nevertheless, the Portuguese economy in the nineteenth century faced many difficulties, particularly due to poor harvest seasons, a natural consequence in a country where agriculture remained the dominant sector (Nunes, 1989, p. 15).

Consequently, the Portuguese economy was strongly affected by international economic conditions and the fluctuations of other economies, especially those of Britain and Brazil. Among these influences, the crisis of the late 1880s and early 1890s was one of the most difficult that Portugal faced. The crisis was largely caused by a decline in remittances from Brazilian emigrants to Portugal, compounded by domestic unrest associated with political changes that took place between 1888 and 1891 (Bourca, 2020, p. 50). It should be noted that the strain in diplomatic relations between Portugal and Britain in 1890 worsened the economic situation, as certain trade exchanges between the two countries came to a halt.

In response, the government introduced a number of measures aimed at revitalizing the economy. These included the establishment of banks and credit companies, such as the Portuguese Credit Company for Construction, which provided mortgage loans backed by the sale of bonds. Furthermore, new legislation in 1867 allowed joint-stock companies to be founded without prior government approval (Cabral, 1998, p. 39). Between 1870 and mid-1876, the Portuguese banking system experienced a period of prosperity, marked by the creation of several banks, including the

Caixa Geral de Depósitos, established in 1876 with the purpose of collecting deposits from the public administration (Lains, 2004, p. 45).

When the state budget was presented to parliament in 1887, it contained economic reforms such as replacing tobacco customs duties with the reimposition of a state monopoly, as well as granting the government control over the issuance of banknotes in Lisbon. It was also proposed that the National Council of Public Credit, which had issued government bonds and handled citizen payments, be stripped of its supervisory functions and made independent of the government. At the same time, it was affirmed that the supervision of public debt was the responsibility of the Ministry of Finance (Costa, 2016, p. 60).

From this, it becomes clear that in the decades leading up to 1914, Portugal's economy was advancing, but only at a pace that lagged behind other European nations. Standards of living in Portugal remained low, largely due to reduced levels of capital investment (Azevedo, 1973, p. 31). On the other hand, the period also saw positive developments: literacy rates rose significantly, mortality rates declined, urbanization increased, and the financial system became more advanced and widespread. Considerable efforts were invested in building railways and roads, financed either domestically or through international capital markets to cover budget deficits. Yet, despite these improvements, Portugal failed to keep up with the levels of per capita income achieved in other European countries (Batista et al., 1997, p. 52).

First: Agriculture

By the mid-nineteenth century, Portugal was a highly isolated country, with per capita income very low compared to most other Western European nations. Backwardness and decline were evident in many areas, including the agricultural sector. Large portions of land were left uncultivated despite the availability of a sizable labor force (Lains, Portugal's Growth Paradox, 1980–1950, *Investigação – Trabalhos em Curso*, 2003, p. 71). Agricultural workers endured low living standards and lacked education, while farming methods remained old and traditional, including irrigation techniques. As a result, both land and labor productivity was among the lowest in Western Europe (Azevedo, 1973, p. 40).

It is worth noting that there were clear differences between northern and southern Portugal in terms of grain cultivation and livestock raising. The north was more urbanized than the south, and in terms of agriculture, it was well known for cultivating vineyards used for wine production. Moreover, the northern region stood out for its dense labor force compared to other areas (Stolz, Baten, & Reis, 2013, p. 59). In contrast, land ownership in the south followed a different pattern, characterized largely by vast estates concentrated in the hands of a small number of landowners, many of whom were absentee landlords. Their main concern was to maximize income through the cultivation of cash crops, rather than improving the quality of the land or diversifying crops (Batista et al., 1997, p. 57).

Several problems contributed to the deterioration of Portugal's economic life, particularly in the agricultural sector during the period 1840–1860. Chief among these were disasters that struck the harvests, such as the outbreak of the powdery mildew plague (*Oidium*), which lasted for around twenty years. This disease reduced wine production by two-thirds. In addition, catastrophic floods and coastal storms worsened the situation. By 1870, Portugal experienced a significant decline in the agricultural labor force, as many workers emigrated to Brazil (Lains, *Growth in a Protected Environment: Portugal, 1870–1950*, Instituto de Ciências Sociais, 2004, p. 16).

The last decades of the nineteenth century also witnessed the increasing advancement of the industrial sector at the expense of agriculture. Industrial growth reached 2.5 percent, while agricultural growth lagged behind at only 1.5 percent (Nunes, 1989, p. 57).

It should be emphasized that rural Portugal remained poor and disconnected from the progress taking place in the industrial and urban regions. This was largely due to insufficient capital investment in agriculture compared to other economic sectors (Cardoso, 2001, p. 25). Consequently, agricultural production declined significantly. Grain cultivation dropped during

the period 1852–1862, and the deficit in wheat production reached 25 percent between 1856 and 1858.

In addition to olive oil and vineyards, production also suffered from the drought that struck viticulture, and the decline in grain and olive production continued between 1885 and 1903 (Costa, 2016, p. 43).

Nevertheless, the agricultural sector achieved significant progress during the period 1870–1900. This improvement was largely due to the recovery of agriculture from the great depression it had experienced in the 1850s as a result of vine disease, along with the expansion of capital investment. The government also played a growing role in the economy, particularly in investment, infrastructure, and education. Roads, railways, and schools were developed, and the railways in particular facilitated the transportation of wheat, encouraging farmers to expand the areas planted with this crop (Smith, 1985, p. 72).

Furthermore, the protectionist tariff policy on wheat imposed by the state between 1889 and 1899 stimulated an increase in its production. Agricultural production methods also saw some improvements, such as the wider use of chemical fertilizers and draft animals, which contributed to the growth of agricultural exports. Wine, live animals, canned fish, and cork were the most prominent export items. Wine alone accounted for as much as 45.3 percent of total exports during 1870–1879, and rose further to 54.4 percent between 1905 and 1914 (Azevedo, 1973, p. 88).

However, challenges persisted. The Oidium plague, which lasted for around twenty years, reduced wine production by two-thirds. Added to this were catastrophic floods and coastal storms. By 1870, Portugal witnessed a notable decline in the agricultural workforce, as many laborers emigrated to Brazil (Lains, *Agriculture and Economic Development on the European Frontier: Portugal, 1000–2000*, 2016, p. 16).

It should be emphasized that rural Portugal remained poor and disconnected from the progress witnessed in industrial and urban regions. The main reason was the insufficient allocation of capital to agriculture compared with other economic sectors (Azevedo, 1973, p. 88).

On this basis, it is clear that these factors had a profoundly negative impact on agricultural production. Grain cultivation decreased significantly between 1852 and 1862, and rice production showed a deficit of up to 25 percent during this period. Farmers nevertheless benefited from the construction of markets and municipal slaughterhouses, as well as the establishment of cooperatives. Education and technical assistance for farmers also improved considerably. Still, these developments were not enough to alter the deeply entrenched backwardness of the agricultural sector in Portugal (Crouzat, 2000, p. 203).

Second: Livestock

The second half of the nineteenth century witnessed an increase in the total number of livestock by between 50 and 65 percent. Despite this growth, the average per capita consumption of meat in Portugal remained low compared to that of grains. This was mainly due to tariff barriers, which made grain production more profitable as the cost of raising livestock increased (Divittorio & ed, 2006, p. 75).

As for animal husbandry, a clear distinction emerged between the north and the south, particularly in terms of farm size and the number of animals raised. Farmers with small plots of land in northwestern Portugal faced significant challenges in acquiring and raising livestock, largely because their limited land could not provide sufficient grazing resources for sustenance (Costa, 2016, p. 87).

Third: Industry

Despite some progress in the mid-nineteenth century, when most economies of Northwestern Europe achieved significant industrial development, Portugal remained fundamentally agricultural and economically underdeveloped. In fact, industry had advanced little since the beginning of the century, and the progress made was insufficient to bring about a tangible change in the structure of the national economy (Justino, 1989, p. 33).

One of the most notable characteristics of industrial development in Portugal was its slow pace, both in terms of expansion and labor productivity. The industry was barely able to meet domestic consumption, and Portuguese industrial exports remained limited compared to other European countries (Lains, 1990, p. 65). This lag was largely due to the lack of large markets, limited capital, and insufficient technical and scientific expertise (Azevedo, 1973, p. 113). Consequently, industrialization remained slow and delayed.

According to industrial statistics, in 1863 there were 9,402 industrial establishments in Portugal, including 28 textile factories, 6 tobacco factories, and 4 metal product factories (Lains, *A Industria in Historia Economica de Portugal, 1700–2000*, 2005, p. 50). In the manufacturing sector, over 40 percent of workers were employed during 1852–1910, and the workforce grew by 21.5 percent between 1890 and 1910. Major industrial centers included Lisbon, Porto, Braga, Aveiro, and Tomar. Textile manufacturing accounted for 61 percent of all industries in 1852 but declined to 37 percent by 1911. This decline was due to shortages of raw materials, as in 1860, and the lack of markets to sell products, as occurred in 1908 (Confraria, 1999, p. 35).

It is worth noting that industrial output increased by 2.5 percent in the second half of the nineteenth century and in the years preceding World War I. However, this growth was not sufficient to transform the Portuguese economy, which remained one of the least industrialized in Europe (Cabral, 1998, p. 47). A major challenge facing Portuguese industry was its inability to compete internationally against European nations with more advanced industrial development and expertise. Additionally, European countries benefited from favorable production factors that promoted industrial prosperity and superiority, even though labor costs in Portugal were lower in comparison (Batista et al., 1997, p. 80).

Overall, all of the aforementioned factors led to the decline of the agricultural sector and the slow growth of the industrial sector, which was unable to keep pace with European industries. This, in turn, had a negative impact on trade and Portugal's balance of payments, particularly after the country abandoned the gold standard in 1891. The difficult economic conditions also caused a reduction in capital, and exports fell by 19 percent during the last two decades of the nineteenth century (Cardoso, 2001, p. 51).

It is worth noting that the Portuguese government attempted to implement reforms aimed at revitalizing the industrial sector. These reforms included the creation of industrial associations to support manufacturing, as well as the organization of industrial exhibitions to attract investors from both within Portugal and abroad, serving as a form of marketing for industrial products. The government also focused on improving roads and railways and on training industrial human resources, including instructors, technicians, and workers (Kins, 1988, p. 98).

In line with these efforts, the government established industrial schools to train workers and teach them technical skills. Notable examples include the Polytechnic School in Lisbon and the Polytechnic Academy in Porto (Confraria, 1999, p. 55).

Fourth: Trade

Foreign trade across Europe experienced rapid growth over the half-century leading up to 1913, and Portugal was no exception. From the mid-nineteenth century until the outbreak of World War I, the value of Portuguese exports and imports increased approximately fourfold, with an annual growth rate of around 2.5 percent (Nunes, 1989, p. 29). Portuguese foreign trade expanded faster than the country's GDP. Nevertheless, the growth of Portuguese exports lagged behind that of other nations such as Italy, Spain, Hungary, and the Scandinavian countries, and exports remained very limited in scope (Costa, 2016, p. 48).

It is significant that Portugal was more open to the outside world in 1914 than it had been in 1850. This openness was driven by the inflow of capital into the country and significant emigration, particularly to the New World. Portugal became more integrated into the international economy, and its production increasingly specialized in goods capable of competing in global markets. Consequently, exports of primary products such as wine and minerals rose, alongside imports of manufactured goods, foodstuffs, and raw materials (Azevedo, 1973, p. 62). The growth of the external sector was also linked to the rise of liberalism in the country. However,

this did not prevent governments from imposing trade restrictions for fiscal purposes, to protect certain economic sectors, or, in extreme cases, to address external deficits. In the nineteenth century, Portuguese political and economic liberalism coexisted with trade protectionism, as was the case elsewhere in Europe (Stolz, Baten, & Reis, 2013, p. 73).

At the same time, trade faced challenges. Exports declined in 1886 due to reduced demand for the types of products in which Portugal specialized. Changes in global demand shifted toward higher-quality goods, while Portuguese exports such as olive oil, wine, fruits, vegetables, and wool were generally of lower quality, leading to their decline in the world market (Costa, 2016, p. 59). There was, however, high demand for cork, particularly after major consuming countries imposed high tariffs to protect their own industries. Portugal did not fully capitalize on this opportunity, despite having abundant cork resources (Justino, 1989, p. 81).

Portugal adjusted customs duties with new regulations in 1852 and again in 1892, but these reforms had limited impact, as global prices were unstable due to contemporary economic crises (Cardoso, 2001, p. 84). After abandoning the gold standard in 1891 and with worsening international conditions, import prices in Portugal rose significantly. In response, Portugal adopted protective tariff policies, which it maintained until the eve of World War I (Lains, *A Industria in Historia Economica de Portugal, 1700-2000*, 2005, p. 77).

Chapter Two

Portuguese Colonies in Africa

First: Motivations for Portuguese Colonization in Africa

There were multiple motivations that drove Portugal to colonize Africa, including the following

1-Religious Motivation: The conflict between Muslims and Christians on the Iberian Peninsula ended in 1492. After the Christian victories, Portuguese and Spanish forces turned their attention to the African coast. Portugal, in particular, took it upon itself to restore Christianity in Africa, aiming to contain Islamic states and establish contact with the Kingdom of Ethiopia. This effort sought to curb the power of Islamic nations, which was based on trade in the East and control over its sources (Al-Qouri, 2006, p. 13). The Papacy endorsed these activities undertaken by Portugal. Moreover, the religious conflicts in Europe led to the emergence of new sects and groups focused on spreading Christianity in Africa and Asia (Jamal, n.d., p. 6).

2.Economic Motivation: When European countries failed to achieve their religious objectives, they turned toward trade exploitation and the search for colonies, a shift accelerated by the Industrial Revolution. Britain and Germany, for example, faced industrial challenges (Mousa, 1989, p. 159), including the need for raw materials and the concentration of industries in cities, which caused rural depopulation and shortages of food. The use of modern machinery produced more goods than domestic demand could absorb, necessitating monopolistic companies and foreign trade agents to sell surplus products. Europe found a solution to these challenges in Africa, which offered abundant raw materials and markets for surplus goods (Jamal & Ibrahim, 2002).

Additionally, the increase in wealth resulting from changes in production methods forced European nations to seek markets in Africa and Asia. As a result, European countries increasingly looked beyond their own continent, attempting to expand their colonies as much as possible, until they eventually collided in the colonial ventures of the late nineteenth century (Alexandri & Hassan, 1922, Vol. 2, p. 356).

Portuguese Colonization in Africa

The Portuguese colonies in Africa are among the oldest in the world and include Guinea, Angola (It is located in the Atlantic Ocean, approximately 455 km from Dakar, the capital of Senegal, and consists of an archipelago made up of two groups of islands: one group of 10 large islands and another of 5 small uninhabited islands), Mozambique, as well as their coastal territories and the Cape Verde Islands (Al-Kiyali, n.d., p. 167). Along the Gabonese coast, the most important

of these colonies is Guinea, which covers an area of approximately 21,800 km². This colony held significant strategic importance for the Portuguese, serving as a link between Portugal and its other colonies. Angola, with an area of 1,247,700 km², was discovered by the Portuguese in 1470 (Haqi, 1962, pp. 186-187).

It is worth noting that during the nineteenth century, the Portuguese seized control of the Congo and Angola, as well as Matamba, under the pretext of defending these territories against British colonization, but they felt enough with Angola.

While Britain and Germany had planned to divide the Portuguese colonies among themselves, the outbreak of World War I prevented this division, leaving these colonies under Portuguese control. Portugal annexed parts of the former German colony of Tanganyika, which had been taken by the British, into its Mozambique colony (Divittorio & Manter, n.d., p. 105).

It is worth noting that the Portuguese reached the east African coasts, extending their authority to Cape Delgado, which became their northern boundary. In the south, Mozambique became the main center of Portuguese power and trade, serving as a hub for maritime commerce and a source of gold. To consolidate their presence, the Portuguese built Fort Jesus on the East African coast and established trading agencies in Quiloa, Pemba, and Zanzibar, as well as a customs office in Mombasa to control East African trade (Yaghi & Shaker, 1993, Vol. 2, p. 176).

Additionally, the Portuguese constructed forts along the coast and launched expeditions inland to explore gold-rich areas. They successfully established inland trading posts such as Keni, which became a center for gold trade, and commercial agencies in Kilimanjaro. Portuguese holdings in Africa were concentrated in Mozambique, Angola, Guinea, São Tomé, Príncipe, and the Cape Verde Islands (Jalal, 1981, pp. 142-143). The governor-general, appointed by the Ministry of Colonies, managed these territories and exercised administrative authority on behalf of the Portuguese government.

Portugal granted concessions to several companies to exploit colonial resources, including the Mozambique Company, the Nassa Company, and Zambezia, with the largest shares of capital held by the British. Portugal considered all lands in its African colonies as integral parts of the country, promoting integration policies and granting Portuguese citizenship to those who learned the Portuguese language (Najmuddin, n.d., p. 73).

Furthermore, literacy rates among colonial populations were low. Due to poor education and declining agricultural yields in Portugal, the government encouraged Portuguese citizens to emigrate to the colonies, especially those along the West African coast (Valerio, 2006, p. 85).

The Portuguese colonies also served as markets for manufactured goods from the private sector and as sources of raw materials such as vegetable oils, cotton, cocoa, and rubber. Consequently, industrial development reached advanced stages, and the number of European settlers increased. The Portuguese government encouraged farmers to migrate to Angola between 1845 and 1900, and by 1911 the number of Portuguese settlers there had reached approximately 1,100 (Smith, 1985, pp. 29-35).

It is notable that the Portuguese authorities forced Africans to cultivate specific crops without regard for their own agricultural needs and compelled them to perform certain tasks. Those who resisted faced severe punishment and beatings. Prisoners were subjected to hard labor in remote work camps, and white priests collected money from children under the pretext of agricultural lessons and school fees (Vigorido, n.d., p. 40). Africans were also forced to work on small farms run by missionary stations under a system of compulsory labor.

In the later years, the Portuguese government applied two main methods:

1-Forcing Africans to grow specific crops demanded by trade or sold in nearby or seasonal markets.

2-Implementing a contract or forced labor system.

Since most Africans were living in conditions of ignorance and underdevelopment, they did not fully understand the meaning of this system, which applied to all unemployed men between the ages of 14 and 60. Most of these farmers were compelled to leave their own land to work for the Portuguese authorities (Vigorido, n.d., pp. 41-42).

Chapter Three

Foreign Investments and Their Impact on the Portuguese Economy

In the nineteenth century, the Portuguese economy experienced dominance and growth of foreign investments, particularly in the industrial sector. Foreign merchants controlled the production and export of wine, with England leading in this field (Kins, 1988, pp. 259-282).

The Portuguese railway sector was one of the most important sectors that attracted foreign investment, especially from Britain. As a result, the Portuguese Railway Company was established in 1853, and the railway connecting Lisbon to Madrid was put into operation. In the same year, British investor Morton Pibbo signed a new contract with Portugal to build a line connecting Lisbon and Porto. In 1854, the National Railway Movement was established in southern Tejo to construct a railway in southeastern Portugal (Platt, 1986, p. 87). Similarly, Spanish businessman José de Salamanca succeeded in founding the Royal Portuguese Railway Company in 1860. He purchased the construction line and extended it east to the Spanish border. The railway line reached 438 km and was opened to traffic by 1864.

It is worth noting that the 1890s and early twentieth century witnessed slow railway construction, with only regional lines added to the main lines. The capital invested in railways between 1850 and 1880 amounted to approximately 23.5 million pounds sterling, of which 10.6 million came from public funds and 12.9 million from private investments (Kins, 1988, p. 290).

The law passed by the Portuguese Parliament on June 22, 1867, required foreign investment companies in Portugal to comply with Portuguese laws, disclose their regulations in their home countries, obtain approval from Portuguese courts in all legal matters, and secure work licenses from the Portuguese Ministry of Public Works. This law came into effect in 1867 (Platt, 1986, p. 88). Foreign investment companies in Portugal were mostly joint-stock companies dedicated to mining, a high-risk sector. For example, the Iron and Coal Company Limited, based in London, operated ten iron and coal mines in Portugal. The Oporto Mining Company Limited, also based in London, was authorized in 1865 to operate a lead mine (Reis, n.d., p. 132).

During this period, foreign banks opened branches in Portugal, such as the Bank of London and the Brazilian Limited Bank, both headquartered in London, with local branches in Lisbon and Porto established in 1863 (Berkeley, 1993, p. 129). The shipping sector was another key area for foreign investors between 1850 and 1860. Foreign capital began to play an increasingly important role in the Portuguese market, with investments expanding into water and electricity supply, cork products, and insurance companies across Portugal (Berkeley, 1993, p. 130).

Several factors encouraged foreign companies to invest in Portugal. These included the desire of investing countries to find larger international markets for their manufactured goods and Portugal's strategic geographic location, linking the new world with Europe, as well as Africa and Asia, and its position on northern routes to Mediterranean countries (Kins, 1988, p. 296).

As a result, many foreign companies achieved commercial success in Portugal, particularly in the stock market. In 1870, there were 115 foreign joint-stock companies, increasing to 135 by 1877, mostly British, Spanish, and Swiss, with smaller contributions from France, Sweden, and Brazil (Reis, n.d., p. 133). During the 1880s, foreign companies diversified into various sectors, including communications, telegraphy, telephones, gas, and water supply. Edison-Garo-Bell Limited received a license in Europe in 1884 to install and operate telephone networks, and British companies obtained immediate licenses to lay communication cables from Lisbon to the Azores Islands (Its official name is the Azores Autonomous Region. It is one of the two autonomous regions in Portugal and consists of an archipelago of nine volcanic islands).

There, in São Miguel, the American Gas Company Limited provided lighting to the city of Ponta Delgada on the Portuguese island of São Miguel. In the same context, in 1886, the Anglo-Portuguese Gas Company and the Water Company Limited in London were established. These

companies obtained licenses to conduct business in Portugal, providing gas and water to Portuguese cities, especially Figueira da Foz. Additionally, the number of companies operating in other sectors, such as insurance and mining, increased. In mining, the British Barancannes Copper Mining Company Limited in London received a license to operate a mine in Portugal near Almodôvar in 1883.

In the insurance sector, the Union Commercial Insurance Limited, operating in London since 1862, received permission to conduct business in Portugal, including life, fire, and transport insurance. A Lisbon office for life insurance was opened in 1883, covering the 1885 fire prevention campaign. Similarly, the Swiss Federal Transport Insurance Company, founded in 1889, was granted a 50-year license to operate in Portugal.

From the above, it is evident that three key sectors dominated foreign investment in Portugal: insurance, railways, and mining. Many other advanced companies also invested in telegraphy, telephony, water, gas, electricity, and transportation. Britain dominated these investments, being globally advanced in inventions and patents, which made British companies the largest and strongest compared to Spanish, French, Belgian, and Swiss companies.

It is also worth noting that the strong relations between Britain and Portugal significantly contributed to the increase of British investment companies in Portugal. These close ties date back to the Middle Ages and involved continuous diplomatic alliances over the centuries. In the 1850s, the two royal families were connected through marriage: Queen Maria of Portugal married Ferdinand of Saxe-Coburg, a close friend of Queen Victoria (It is one of the Azores islands and is politically part of Portugal. It is named after Saint Michael and is also known as the Green Island).

It is remarkable that relations between Britain and Portugal became tense in 1890 due to political competition over the determination of African borders. This tension sparked public opinion in Portugal against Britain, particularly in Lisbon, leading protesters to storm the British consulate there. Despite the strained relations, this did not negatively affect British investment companies, which continued to operate in Portugal under the law previously enacted by the Portuguese Parliament in 1867, covering all foreign companies.

In the early twentieth century, just before World War I, the flow of foreign capital into Portugal continued. Two Brazilian companies based in Rio de Janeiro received licenses to operate in the Portuguese insurance sector: América do Sul and Fair Corio for Marine and Land Insurance, covering shipping and transport. Additionally, foreign investment companies operated in two Portuguese industries, cork and canned fish, due to their abundant availability in Portugal.

Impact of Foreign Capital on the Portuguese Economy:

Foreign capital played a significant role in the Portuguese economy, particularly amid the persistent trade deficit from 1850 to 1890, which reached 44 million pounds sterling. During this period, foreign capital totaled approximately 200 million pounds sterling, of which 136.8 million came from Britain and 59 million from France and Germany.

Foreign investment in Portuguese government bonds amounted to approximately 769.40 million pounds sterling, investment in railways to 9.12 million pounds, and British investments in companies, mines, and various properties reached 6.5 million pounds. Given the limited availability of capital in a small and underdeveloped country like Portugal, the estimated total flow of foreign capital was both crucial and highly constrained, helping to offset the persistent trade deficit.

It is worth noting that the benefit of foreign capital to Portugal extended beyond compensating for the trade deficit; it also played a significant role in stimulating economic growth, including technological transfer and improvements in infrastructure, such as railways and telephone technology. In addition, foreign capital provided benefits in terms of knowledge and exposure to

business and management culture. It facilitated low-cost transatlantic transport for goods and mail, access to export markets, and financial institutions. Portugal also welcomed various companies from European countries. Brazil played a significant role in exchanging economic expertise and providing training and education for the Portuguese. This exchange helped the Portuguese emulate the development achieved by these countries, and the inflow of foreign capital strengthened commercial ties between Portugal and other European nations.

CONCLUSION

This study demonstrates that the Portuguese economy during the period 1850–1914 experienced notable deterioration in certain years; while overall growth remained slow in the final decades of the nineteenth century. It appears that Portugal's natural resources were underutilized due to a shortage of labor and the implementation of economic policies that hindered resource investment, in addition to natural disasters and agricultural diseases that affected crops and reduced agricultural output.

Portugal attempted to compensate for deficiencies in the agricultural sector by focusing on industrial development. However, despite these efforts, industries remained primitive and were not comparable to the prosperity achieved by other European countries. On the other hand, due to the state of the agricultural and industrial sectors, Portugal allowed foreign capital to enter the country. Consequently, in 1867, the Portuguese Parliament enacted a law granting licenses to foreign companies to invest in Portugal under specific regulatory conditions.

It is of note that these foreign investments contributed to the development of the Portuguese economy, improving infrastructure and economic conditions through projects such as railway construction, mining, and insurance. Therefore, foreign investment had a positive impact on Portugal's economy.

As such, the period 1850–1914 can be considered an economic crisis in which Portugal lagged significantly behind other European countries, where per capita income, resources, and economic cycles were much higher. Nevertheless, slight improvements appeared before World War I, which would likely bring further changes to Portugal's economic reality.

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