PORTUGAL AND SPAIN ENTERING THE COMMON MARKET (*)

THEIR INDUSTRIAL COMPETITIVENESS REVISITED

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Introduction

After more than eight years of complex and often contentious negotiations, the European Community (EC) reached, in March 1985, an agreement with Portugal and Spain about their adhesion to the Common Market. Membership is to become effective on January 1, 1986 (provided the accession treaties are ratified by the national parliaments by next December), from which time onwards the existing mutual tariff and non-tariff barriers will be gradually removed. Thus, the Iberian manufacturing industries hold the prospect of getting new outlets for their exports, but also face a rise of import competition which may call for considerable structrural adjustment.

The purpose of this paper is to assess the overall position as well as the relative strenght and weakness of the Iberian manufacturing industries within an enlarged Community. Earlier studies of the authors (Donges, Schatz, 1980; Donges et al., 1982) are up-dated and extended to cover the bilateral trade relations between Portugal and Spain. Following a recapitulation of the major trade patterns of the Iberian countries, we examine the nature of their specialization, both with regard to the EC and among themselves. Subsequently, we discuss opportunities for the future division of labour. The paper concludes with some policy considerations.

Trade patterns and determinants

Although Portugal and Spain are yet to become full members of the EC, the Common Market has been of prime importance to them for a long time, yet their weight in the Community's foreign trade is minor (table 1). Both countries got most of their imports (of manufactures and generally) from the EC in 1970, and they continued doing so in the early eighties, although imports from the EC grew more slowly than average (table A-1 and A-2). On the export

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side, the shares are somewhat lower, but also here the EC has been the single most important market. Total and manufactured exports to the EC increased faster than the respective imports from there (1).

TABLE 1

Trade matrix between the Iberian countries and the EC-9 (*a*)

(per cent)

Country	Year	Exports (*a*)		Imports (*b*)	
		Total	Manufactures	Total	Manufactures
Share of EC-9 in trade of Iberian countries:					
Portugal	1970	41.9	36.6	48.3	63.6
	1982	57.3	60.1	40.6	64.3
Spain	1970	46.3	34.7	40.3	60.4
	1982	45.8	42.5	31.4	62.4
Share of Iberian countries in trade of EC-9:					
Portugal	1970	0.9	0.7	1.4	1.6
	1982	0.7	0.7	1.6	1.5
Spain	1970	2.1	1.5	4.1	3.9
	1982	3.5	3.4	5.2	3.7

(*a*) Excluding intra-EC trade.
(*b*) Based on US dollar values.

Source: As table A-1.

Note should also be taken of the fact that both countries increased sharply the share of manufactured exports destined for the EC in the period under consideration. The EC orientation is most pronounced in the case of Portugal, whose export industry (including foreign entreprises) presumably benefitted substantially from the removal by the EC of most of its trade restrictions against imports from EFTA countries by mid-1977 (Silva Ferreira, 1979). By compari-

(1) The end year for the statistical calculations is 1982, as more recent data from the same source were not available at the time of this writing. In any case, the 1983 and 1984 trade patterns might not be typical due to the incidence of the soaring US dollar. Note that the analysis is based on the product categories SITC 5 to 8 and thus does not consider processed food, beveragers, manufactured tobacco, processed animal and vegetable oils, and petroleum products.

son, the 1970 Preferencial Trade Agreement between the EC and Spain provided less favourable market access conditions for Spanish manufacturers (Donges, 1976). Nevertheless, Spain made considerable headway in diversifying its export structure to include an ever-lengthening list of new, more skill intensive products for wich the income elasticity of world demand is above unity (Casado et al., 1982). Thus one could expect this country to have the suplly potential for exploiting whatever market opportunities may arise after accession, if it had not been for the persistent slowing down of productive investment which has taken place since 1975 (more on this later).

As to the bilateral trade relations between Portugal and Spain the links are weak (table 2), although mutual trade (exports and imports, in current US dollar prices) increased at an annual rate of roughly 20 per cent (all comodities) and 25 per cent (manufactured goods) in the period 1970-1982 (2).

— For Portugal, Spain plays a major role as source of supplies rather than as a market for export outlets; the opposite holds for Spain.
— Moreover, Portuguese manufactured exports to Spain show a relatively high level of concentration and tend to be quite complementary to production in Spain, whereas spanish manufactured exports to Portugal are relatively diversified and, to some degree, substitutive of production in Portugal.
— It should also be noted that Portugal has invariably run a bilateral trade deficit with its neighbouring country (both in total trade and in manufactured trade); and this deficit has been growing over time

TABLE 2

Bilateral trade between Portugal and Spain (a)

(Percentage shares)

Commodities	Year	Portugal		Spain	
		Exports to	Imports from	Exports to	Imports from
		Spain		Portugal	
All commodities	1970	1.62	4.34	2.92	0.40
	1980	3.65	5.52	2.73	0.48
	1981	2.92	6.58	2.96	0.42
	1982	3.63	6.02	2.78	0.48
Manufactured goods	1970	1.00	3.83	3.15	0.31
	1980	2.06	8.41	3.04	0.51
	1981	2.01	10.04	3.24	0.54
	1982	2.89	9.31	2.90	0.72

(a) Based on US dollar values.

Source: As table A-1.

(2) For further details see the studies by Rato (1984) and by Romão et al. (1985, chapter 6 + 7).

— in manufactures from $35 million in 1970 to $354 million in 1980 and $379 million in 1982, when it accounted for 19.3 per cent of Portugal's total deficit in manufactured trade (as compared to 7.4 per cent in 1970).

Though bilateral trade balances are not a criterion for trade equity, there seems to be a bias in favour of Spain due to the differing import protection schemes applied in both countries:

— Traditionally, tariff protection of the domestic manufacturing industry has been higher in Spain than in Portugal; the unweighted (weighted) averages amounted to 19.4 (16.2) per cent and 15.2 (13.4) per cent, respectively, in the mid-seventies (Donges et al., 1982, p. 93). As most Portuguese tariffs towards Spain are still specific rather than ad valorem duties (as they are, since 1980, in trade with other countries), their protective impact was reduced over time by the rapid internal inflation, for which ad hoc application of import surcharges led to a partial correction only.
— Spain has also been more prone to the use of non-tariff barriers. In the context of its system of indirect taxation, based on a multistage turnover tax and a number of special taxes, the country imposes on imports a compensatory levy and grants a tax refund to exporters which in some cases exceed the taxes borne by domestic producers. The hidden import protection and export subsidization will only disappear when Spain introduces the value-added tax in 1986, following accession to the EC. Furthermore, Spain not only applies import quotas to a wide range of products but also changes them frequently, whether for balance-of-payments reasons or to suit protectionist demands from troubled domestic industries. These changes in the level and incidence of non-tariff protection have presumably inflicted considerable uncertainty upon Portuguese exporters, upsetting their plans and discouraging rapid expansion. One consequence is much volatility of various Portuguese exports to Spain. But even more characteristic is the fact that Portugal's major manufactured exports to the EC and other countries (textiles, clothing, footwear, leather products, ceramics) play almost no role in trade with Spain (illegal flows aside).
— The 1979 Preferential Trade Agreement between Spain and EFTA (of which Portugal still is a full member), which came into effect in 1980, has not yet reduced bilateral protectionism substantially. Particularly Spain seems to be reluctant to ease its quantitative import restrictions towards those Portuguese exports which are highly competitive; these are labour-intensive and Spanish firms would have difficulties withstanding Portuguese competition due to the low wages prevailing in Portugal (less than half of those paid

in Spain). At the same time, the liberalization measures introduced by Portugal have allowed Spanish manufacturers to better exploit cost advantages, technological superiority and marketing expertise in order to penetrate the Portuguese market; chemicals, machinery and transport equipment are cases in point.

Improved competitiveness is naturally not the only factor to which an increase in exports can be attributed. Changes in demand for exports — worldwide, commodity-specific and market-specific — may also play a role. In order to account as far as (statistically) possible for different sources of export growth in Portugal's and Spain's total external trade, a Tyszynski-type constant-market-share analysis was carried out. The basic assumption is that a country's share in the world market remains unchanged over time; this means that its export demand — globally, by commodities and by regions — as well as its supply capacity develop at the same pace as in all other countries combined. Four effects were estimated using the following formula:

$$\sum_{ij}\sum X_{ij}^{1} - \sum_{ij}\sum X_{ij}^{\circ} = \sum_{ij}\sum r_t X_{ij}^{\circ} \rightarrow \text{average demand change effect}$$

$$+ \sum_{ij}\sum (r_i - r_t) X_{ij}^{\circ} \rightarrow \text{commodity composition effect}$$

$$+ \sum_{ij}\sum (r_{ij} - r_i) X_{ij}^{\circ} \rightarrow \text{market structure effect}$$

$$+ \sum_{ij}\sum (X_{ij}^{1} - X_{ij}^{\circ} - r_{ij} X_{ij}^{\circ}) \rightarrow \text{competitiveness effect}$$

where X^1 and X^0 stand for Portugal's/Spain's export value in 1982 and 1970, respectively; r represents the percentage increase in world exports, the subscript t referring to total manufacturing exports, the subscript i denoting one of the SITC commodity groups 5, 7 and 6 + 8 (the only level at which data are available for measurement), and the subscript j marking one of the following 14 importing areas: EC-9, EFTA, other Western Europe, Eastern Europe, USA, Canada, Japan, Australia and New Zealand, South Africa, African developing countries, Latin America, Middle East, other Asian developing countries, Mainland China and other Asian centrally planned economies.

The results are given in table 3. In spite of the high level of aggregation and certain conceptual drawbacks, a clear picture emerges:

- Improved competitiveness was pervasive in the increase of Spain's exports. If Spain had shared only proportionately in the expansion of world trade (on average and in the individual commodity groups and markets), total manufactured exports would have increased by $ 5.3 billion from 1970 to 1982, and not by $ 13.1 billion as they actually rose.
- By way of comparision, Portugal appears much more as a «trend economy». But this notwithstanding it was important that competitiveness also improved here (though less than in Spain), because

overall commodity composition and market structure were unfavourable to Portugal. Without the observed increase of competitiveness this country would have earned $ 408 million less from manufactured exports at the end of the period under consideration.

— Looking at the three product categories it can be seen that in both countries the major proportion of the increase in the exports of «chemicals» and «other manufactures» is attributable to the three factors on the demand side combined. This holds for Portugal also with regard to «machinery and transport equipment», whereas in the case of Spain the predominant influence of the competitiveness effect is remarkable indeed. Note that neither in Portugal nor in Spain were the commodity composition and market structure effects favourable to an expansion of exports in the broad product category which includes almost all investment goods.

TABLE 3

Sources of increase of manufactured exports, 1970-1982 (a)

(Per cent of total increase)

Factors	Chemicals (SITC 5)	Machinery & transport equipment (SITC 7)	Other manufactures (SITC 6+8)	Total (SITC 5 — 8)
		Portugal		
1 — Average demand change ...	107.9	115.0	67.8	104.5
2 — Commodity composition	21.0	— 14.3	5.1	— 6.4
3 — Market structure	29.1	— 26.7	0.3	— 14.9
4 — Competitiveness	— 58.0	26.0	26.8	16.8
		Spain		
1 — Average demand change ...	39.4	42.5	38.2	40.6
2 — Commodity composition	7.8	— 5.4	3.0	— 1.0
3 — Market structure	5.2	— 3.7	26.1	8.1
4 — Competitiveness	47.6	66.6	32.7	52.3

(a) For method of calculation see text.

Source: United Nations, *Commodity Trade Statistics* and *Monthly Bulletin of Statistics*, various years.

Comparative advantages and specialization

After quantifying the competitiveness effect at an aggregated level, more light can be shed on this issue calculating the Balassa-index of revealed comparative advantage (RCA) for individual commodity groups. The following formula was used:

$$RCA = 1n \left(\frac{X_i}{M_i} : \frac{\sum_i X_i}{\sum_i M_i} \right) \cdot 100$$

where X and M denote exports and imports, respectively, and the subscript i refers to each of 35 commodity groups at the two-digit SITC level 5-8.

According to this formula, a positive sectoral trade balance as a proportion of the total balance of trade in manufactures is taken as reflecting international competitiveness, while a negative relative trade balance pinpoints the opposite. The higher (lower) the RCA index is, the more (less) successful is the trade performance of the industry in question. Moreover, the structure of RCA indexes is influenced by the nature of division of labour which predominates in trade relations; it narrows with increasing importance of intra-industry trade and widens when there is much inter-industry trade. It goes without saying that factors such as protective measures, transport costs, taste and traditional ties also have an incidence on the revealed comparative advantage, but their consideration is beyond the scope of this paper (and accurate quantification is difficult anyhow) (3).

RCA indexes have been computed for 1970 and 1982, distinguishing between Portugal's and Spain's trade with the EC, with other OECD countries and with the rest of the world (mainly developing countries and centrally-planned economies). The results are given in the appendix tables A-3 and A-4. Their ranking conveys three features (table 4):

TABLE 4

Spearman rank correlation coefficients for RCA indexes

Trading partners/Years	Portugal	Spain
1970 vs. 1982:		
EC-9	0.664 (*)	0.794 (*)
Other OECD countries	0.625 (*)	0.727 (*)
Rest of world	0.606 (*)	0.584 (*)
1970:		
EC-9 vs. Other OECD countries	0.866 (*)	0.732 (*)
EC-9 vs. Rest of world	0.185	0.311
1982:		
EC-9 vs. Other OECD countries	0.681 (*)	0.755 (*)
EC-9 vs. Rest of world	0.136	— 0.084

(*) Statistically significant at the 0.1 per cent level of confidence (two-tail probability).

Source: Calculated from tables A-3 and A-4.

(3) Empirical analyses show, however, that factor endowments theory contributes heavily to explaining trade patterns in Portugal (Moura Roque, 1983) and Spain (De la Puente, 1980).

— First, Portugal underwent a more pronounced change in revealed comparative advantages vis-à-vis the Community than Spain did in the period 1970-1982. The same holds for Portugal's trade with the other OECD countries, but not for its trade with the rest of the world.

— Second, the structure of comparative advantage as revealed in trade with the EC-9 and the other OECD-countries was more similar for Portugal than for Spain in 1970 and more similar for Spain than for Portugal in 1982.

— Third, in trade with the rest of world both Portugal and Spain exhibit a pattern of competitiveness which is distinctly different from the other structures.

As far as trade with the Community is concerned, Spain showes a wider range of products with a revealed comparative advantage than Portugal does (table 5). However, competitive strength declined in most cases, including those manufactures in which Portugal increased its own competitive strength (i. e. footwear, cork and wood manufactures, clothing). These products are labour-intensive to a large extent, so that Spain was bound to loose ground in the process of its industrial advancement, and this the more so because wage cost increased sharply during the late seventies.

No clear pattern of revealed comparative advantage is discernible in trade between the two Iberian countries (table A-5). Due to the protective measures mentioned earlier the RCA indexes are not susceptible to an accurate economic interpretation. This notwithstanding, Portugal's industry seems to display a solid degree of competitiveness in cork and wood manufactures, clothing and furniture (in this order), whereas its competitive disadvantage is most persistent in road vehicles, metalworking machinery, iron and steel as well as dyeing and tanning materials. Thus, differences in the factor endowment between Portugal and Spain manifest themselves at least at the upper and lower ties of RCA indexes.

In this context it is worth remarking the drastic change in the structure of bilateral RCA indexes which occurred between 1970 and 1982: Spearman's rank correlation coefficient is 0.265. In the course of this change Portugal's RCA indexes related to trade with Spain got closer to its RCA indexes resulting from trade with both the Community and the other OECD area (table 6). This implies that there is already a tendency for competitive strength and weaknesses of Portuguese industries to become apparent irrespective of the market orientation of trade. Iberian trade relations are now more similar to trade relations with the highly industrialized countries than they were in 1970.

The argumentation so far has not accounted for eventual shifts in the nature of specialization in the Iberian countries, in particular movements from inter- towards intra-industry trade or vice versa. The relevance of this issue

resides in the presumption that import-related adjustment pressures can be handled at lower social costs if there is a comparable scope for export expansion in the same industry at the same time.

TABLE 5

Commodity groups revealing competitiveness in trade with EC-9, 1982

Portugal		Spain	
Commodities	Trend 1970-1982	Commodities	Trend 1970-1982
Footwear	+	Footwear	—
Cork and wood manufactures	+	Leather manufactures	+
Clothing	+	Cork and wood manufactures	—
Manufactured fertilizers	+ (a)	Rubber manufactures	—
Textile yarn and fabrics	—	Furniture	—
Non-metallic mineral manufactures	—	Clothing	—
Furniture	+ (a)	Travel goods	+
Miscellaneous chemical materials	—	Road vehicles	+
Telecommunications equipment	+	Non-ferrous metals	+
Paper and paper products	+	Manufactured fertilizers	+
Leather manufactures	+ (a)	Textile yarn and fabrics	—
Office machines	+ (a)	Paper and paper products	+ (a)
		Miscellaneous manufactures	—
		Fabricated metal products	—
		Non-metallic mineral manufactures	—
		Iron and steel	+ (a)

(a) Revealing a comparative disadvantage in 1970.

Source: Tables A-3 and A-4.

TABLE 6

Portugal's RCA indexes in trade with Spain compared to those with other trading partners

(Spearman rank correlation coefficients)

Region of comparison	1970	1982
EC-9	0.225	0.695 (*)
Other OECD countries	0.311	0.773 (*)
Rest of world	0.069	0.232

(*) Statistically significant at the 0.1 per cent level of confidence (two-tail probability).

Source: Calculated from tables A-3 and A-5.

One way to approach this issue consists of measuring Finger-DeRosa-coefficients of trade overlap (TO). The following formula can be used:

$$TO = \frac{2 \sum_i min (X_i, M_i)}{\sum_i (X_i + M_i)}$$

where X_i and M_i refer to exports and imports, respectively, of each of the 35 commodity groups i at the two-digit SITC level 5-8 and *min* defines the magnitude of the total trade in manufactures which overlaps in (dollar) value terms. The TO coefficients can vary between 0 and 1. The closer they come to unity, the more are exports of a particularly industry matched by imports belonging to the same product category, thereby indicating intra-industry specialization.

The results, broken down according to major trading regions, are reported in table 7. On the whole, the TO coefficients of Portugal and Spain are still rather low, so that inter-industry specialization predominates. By comparison, the TO coefficients pertaining to the EC-9 were, in 1982, 0.983 for trade among the member countries and 0.794 for trade with the other OECD countries. In their trade relations with the Community, Portugal made only little progress towards an increase of the proportion of intratrade, whereas Spain did. The same holds in relation to the other OECD countries. Bilaterally, the Iberian countries reveal an inter-industry specialization pattern, with a tendency to intensify in the case of Spain but not in that of Portugal. Therefore, there is a strong presumption that both Portugal and Spain face a considerable potencial for increasing intra-industry trade relative to inter-industry trade, in mutual trade as well as in trade with the EC-9, once tariff and non-tariff barriers are dismantled. Rising per-capita incomes, leading to a larger size of the domestic market, might support the emergence and consolidation of a new type of specialization.

TABLE 7

Trade overlap coefficients for Portugal and Spain (a)

Trading partners	Year	Portugal	Spain
EC-9	1970	0,226	0,368
	1982	0,389	0,638
Other OECD countries	1970	0,340	0,306
	1982	0,329	0,486
Rest of world	1970	0,185	0,266
	1982	0,493	0,222
Portugal	1970	–	0,290
	1982	–	0,262
Spain	1970	0,207	–
	1982	0,246	–

(a) Based on SITC rev. 2, two-digit groups 5-8. For method of calculation see text.

Source: As table A-1.

Perspectives for the future

As discussed earlier, it is likely that both countries could derive gains from increased specialization within the enlarged Community. As the future invariably is uncertain, there is no specific method for being precise about promising activities, however persistently the enthusiasts of industrial policy advocate the merits of selective government involvement to pick potential «winners». It is a genuinely entrepreneurial task to search in the market place for profitable opportunities to invest and specialize. Just for illustration, the following remarks may be in order (4):

— Portugal's best chances for specialization should lie in its internationally most dynamic sectors (textiles, footwear and electronics) to the extent that they up-grade their products and thereby consolidate their competitive strength against suppliers from LDCs (and some NICs). The same holds for some traditional products, such as cork manufactures, wood pulp and paperboard, and industrial ceramics. Good possibilities might also exist for the manufacturing of components and accessories for a wide range of final goods, and for assembling activities as well. Moreover, it is conceivable that the country develops a distinct comparative advantage in the repair of ships.

— Spain's best chances should lie in the intermediate goods sector and in investment goods industries, whose factor requirements seem to fit with the actual and foreseeable factor endowments in this country. Machines of various kinds, electronic products, railway vehicles as well as accessories and parts for the aircraft and the motor car industries have even a more promising potential because of a relatively favourable international environment. The automative industry itself also faces good prospects as it already is integrated into the European production network of various multinational companies, exporting about 60 per cent of its annual production to other European countries (including Portugal).

— As far as bilateral trade relations are concerned, Portugal should be able to take advantage from the fact that wages are substantially lower than in Spain (about half, on average). Textiles and clothing, footwear, furniture, printed matter and other traditional consumer goods are therefore good candidates for a drive into the Spanish market. For Spain, the greatest specialization gains might accrue to the investment goods sector. Even industries such as

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(4) The reader should remind at this stage that this analysis does not include processed agricultural and fish products, in which both Iberian countries have a considerable comparative strength. See Donges et al. (1982, ch. 5) for details.

steelmaking and shipbuilding, now under strain, could benefit from a closer trade relationship with Portugal, provided they undertake an effective restructuring.

The future pattern of specialization might be influenced also by additional inflows of foreign direct investment, provided the pertinent legislation remains favourable in both countries.

- Portugal could become, even more than in the past, a natural location for the redeployment of labour-intensive activities from the advanced EC countries, given its advantages of an elastic supply of low-priced, diligent and trainable workers. Also Spanish manufacturers of traditional consumer goods (clothing, leather- and footwear, for example) may consider to invest in Portugal and thereby strengthen their export competitiveness; moreover, Portugal's lower wage costs may induce Spanish producers of intermediate and investment goods (such as chemicals, paper, fabricated metal products, transport equipment), which have been expanding their investments in Portugal rapidly in recent years (Molero and Buesa, 1983, pp. 71-93), to continue doing so in the future.
- Spain itself could increase its weight in the process of internationalization of production within the Community, as its rating by foreign investors based on past experience seems to be satisfactory and its potential for a rapidly growing market appears to be reasonably large. Apart from the automotive industry, prime candidates for a further foreign-capital involvement include industrial equipment, electrical machinery, chemical industry, and non-metallic mineral manufacturing.
- Besides these potential intra-Community private capital flows, it is likely that companies from non-EC countries (such as the USA and Japan as well as a number of East Asian and Latin American NICs, which are already generating their own multinational corporations) establish subsidiaries in Portugal or Spain in order to overcome the tariff and non-tariff barriers which surround the Common Market and to protect themselves against the discretionary and thus unpredictable nature of the EC's trade policy.

Policy conclusions

This said, neither Portugal nor Spain can expect that the entry into the EC will automatically yield substantial net benefits to them in terms of trade expansion, acceleration of economic growth and creation of new employment opportunities. For this to happen a necessary condition is that the manufacturing industry makes sufficient progress on its way to indispensable adjustments.

Concrete steps by the governments to assist this process have already been taken in the last few years. Whereas in Portugal the emphasis is laid on diversifying industrial production, on proceeding cautiously with the implementation of excessively capital-intensive projects and on encouraging the settlement of foreign companies, the major concern of the Spanish government is the restructuring of ailing industries. The sectors covered include those which have been the engines of industrial growth for decades, like shipbuilding and the steel industry (table A-6) (5). But it still remains to be seen whether the restructuring will just consist of employment cuts and a restoration of the financial position of the companies affected, or whether it will, as it should, go beyond that and pave the way for true product innovations which would make the industry more competitive within the Community and worldwide as well. Given the regional concentration of the adjustment burden and the strong opposition by the trade unions against the envisaged reduction of employment, confidence in a completion of the restructuring plans as scheduled may be at this stage premature.

To be fully effective, a strategy which is to enhance the competitiveness of domestic firms following the accession to the EC must be embedded into a framework in which inflation pressures are brought under control and market forces are allowed to steer the allocation of resources. Key elements in the shaping of such a framework are, as is now widely recognized, the reduction of budget deficits, a liberalization of prices on product markets, the removal of existing labour market rigidities, the deregulation of financial markets, a reorganization and even reprivatization of public enterprises, and a strengthening of competition policies in combination with a promotion of mergers to the extent necessary to rationalize production an to reduce real costs. With such a framework, both Iberian countries would also improve their attractiveness for foreign direct investment in the manufacturing sector, in competition with other countries of the EC periphery (in particular Ireland and Greece). They thereby would not only widen the source of financing the urgently needed new investments but also have a greater share in the diffusion of technological know-how, including the new information technologies; foreign direct investment also can bring improved management and contribute to an up-grading of labour skills (through on-the-job training), thereby strengthening the competitive position of the Portuguese and Spanish economy within the enlarged EC.

Some measures going in the direction indicated have already been adopted, others are planned or promised. But considerable efforts will continue to be needed. In any case, it is important that the governments show firmness and do not give way to actions dictated by short-term political expediency. Otherwise, the prospects for a substantial increase of the marginal efficiency of cap-

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(5) The present EC countries have also embarked upon a process of reconversion of the steel industry. This programme, and in particular the subsidization which it implies, is to be completed by the end of 1986, whereas Spain has been given two years more to subsidize and restructure the industry.

ital, which is a prerequisite for new productive investments, would remain bleak. The positive expectations derived from the forthcoming membership in the European Community could then easily vanish. And the chances for resuming self-sustaining economic growth and for increasing employment opportunities would be small.

TABLE A-1

Foreign trade indicators for Portugal

(Per cent)

Commodities [a]	Exports [b]			Imports [b]		
	Annual rate of growth	Structure of exports		Annual rate of growth	Structure of imports	
		Within regions and worldwide	By commodities		Within regions and worldwide	By commodities
	1970-1982	1982	1982	1970-1982	1982	1982
Trade with EC-9						
All commodities	16.1	100.0	57.3	14.5	100.0	40.6
Manufactured goods	19.4	76.9	60.1	13.9	83.1	64.3
Trade with other OECD countries						
All commodities	12.8	100.0	24.5	17.5	100.0	28.6
Manufactured goods	13.5	76.6	25.6	15.4	57.4	31.2
Trade with rest of world						
All commodities	7.7	100.0	18.2	17.4	100.0	30.8
Manufactured goods	6.4	57.4	14.3	6.4	7.6	4.5
Trade with world						
All commodities	13.1	100.0	100.0	16.1	100.0	100.0
Manufactured goods	14.6	73.3	100.0	13.8	52.6	100.0

[a] On the basis of SITC rev. 2. Manufactured goods are those included in SITC 5-8.
[b] Based on US dollar values.

Source: OECD, *Foreign Trade by Commodities*, various issues.

TABLE A-2

Foreign trade indicators for Spain

(Per cent)

Commodities [a]	Exports [b]			Imports [b]		
	Annual rate of growth	Structure of exports		Annual rate of growth	Structure of imports	
		Within regions and worldwide	By commodities		Within regions and worldwide	By commodities
	1970-1982	1982	1982	1970-1982	1982	1982
Trade with EC-9						
All commodities	19.4	100.0	45.8	14.7	100.0	31.4
Manufactured goods	24.4	68.1	42.5	13.9	79.4	62.4
Trade with other OECD countries						
All commodities	14.9	100.0	15.6	14.1	100.0	22.7
Manufactured goods	16.3	70.5	15.0	12.8	54.2	30.7

TABLE A-2 (cont.)

Commodities [a]	Exports [b]			Imports [b]		
	Annual rate of growth	Structure of exports		Annual rate of growth	Structure of imports	
		Within regions and worldwide	By commodities		Within regions and worldwide	By commodities
	1970-1982	1982	1982	1970-1982	1982	1982
Trade with rest of world						
All commodities	22.6	100.0	38.6	21.7	100.0	45.9
Manufactured goods	23.6	81.0	42.5	15.1	6.0	6.9
Trade with world						
All commodities	19.5	100.0	100.0	17.1	100.0	100.0
Manufactured goods	22.4	73.5	100.0	13.6	40.0	100.0

[a] On the basis of SITC rev. 2. Manufactured goods are those included in SITC 5-8.
[b] Based on US dollar values.

Source: As table A-1.

TABLE A-3

Revealed comparative advantages (+) and disadvantages (–) in Portugal's foreign trade [a]

(Per cent)

SITC	Commodities	EC-9		Other OECD		Rest of world	
		1970	1982	1970	1982	1970	1982
	Intermediate goods:						
51	Organic chemicals	— 272.9	— 54.6	— 261.0	1.6	— 27.8	— 126.2
52	Inorganic chemicals	— 88.3	— 177.7	— 156.4	— 44.5	— 224.1	2.3
53	Dyeing and tanning materials	— 431.4	— 398.3	— 284.6	— 401.4	— 103.3	20.4
56	Manufactured fertilizers	— 35.7	— 213.7	13.2	— 395.0	603.0	106.1
57	Explosives and pyrotechnical products	— 65.5	— 244.5	122.2	— 609.1	456.5	375.3
58	Artificial resins, plastic materials, etc.	— 240.7	— 166.5	— 315.0	— 167.5	106.1	14.1
59	Other chemical materials	171.8	67.3	76.0	— 79.1	180.5	184.2
62	Rubber manufactures	— 6.2	— 201.9	49.7	— 77.9	293.9	— 12.2
65	Textile yarn, fabrics, etc.	157.1	128.9	138.5	140.8	224.4	94.8
66	Non-metallic mineral manufactures	283.7	87.0	136.9	106.8	— 272.8	— 119.3
67	Iron and steel	— 179.1	— 191.6	— 224.4	— 137.5	93.5	— 101.8
68	Non-ferrous metals	— 224.1	— 187.9	— 199.4	— 212.7	— 229.3	— 293.2
	Investment goods:						
69	Fabricated metal products	— 41.4	— 45.9	3.1	99.1	211.6	178.1
71	Power generating machinery	— 296.7	— 114.0	— 313.6	— 233.3	223.1	8.5
72	Machinery for particular industries	— 449.2	— 318.1	— 308.4	— 233.5	151.3	— 29.2
73	Metalworking machinery	— 182.0	— 322.2	— 143.9	— 213.1	— 241.2	— 159.1
74	General industrial machinery	— 233.4	— 211.8	— 126.0	— 87.7	278.6	15.1

TABLE A-3 (cont.)

SITC	Commodities	EC-9		Other OECD		Rest of world	
		1970	1982	1970	1982	1970	1982
75	Office machines and automatic data processing equipment	— 70.2	33.0	— 27.5	9.0	138.2	— 127.7
76	Telecommunications equipment	29.8	53.0	5.7	— 45.7	132.6	— 70.7
77	Electrical machinery	— 105.1	— 21.9	— 40.0	— 139.9	249.0	— 54.8
78	Road vehicles	— 288.8	— 97.0	— 272.9	— 321.2	183.2	— 20.8
79	Other transport equipment	— 246.8	— 140.6	— 274.3	— 475.2	44.8	156.4
87	Professional, scientific and controlling instruments	— 165.8	— 141.0	— 189.1	— 192.2	101.7	— 121.9
	Consumer goods:						
54	Pharmaceutical products	— 104.2	— 124.6	— 133.3	— 117.7	285.6	163.5
55	Essential oils, perfume materials, etc.	— 104.5	— 119.1	— 104.3	— 152.3	402.4	469.4
61	Leather and leather manufactures	— 95.4	40.1	— 90.3	— 12.2	46.0	— 220.5
63	Cork and wood manufactures (excluding furniture)	469.1	474.0	455.2	469.8	207.7	300.3
64	Paper and paper products	24.6	49.7	— 235.2	— 1.9	553.9	188.5
81	Sanitary, plumbing, heating and lighting fixtures and fittings	— 149.0	— 105.0	65.7	15.8	200.7	119.0
82	Furniture	— 140.9	82.7	51.3	168.6	180.9	80.3
83	Travel goods	82.5	— 84.3	166.2	— 54.8	— 113.7	— 271.0
84	Clothing	279.8	383.1	367.6	483.3	130.0	— 58.6
85	Footwear	346.0	486.1	433.5	483.1	123.4	268.9
88	Photographic apparatus, optical goods and watches	— 370.5	— 22.7	— 304.6	— 103.8	59.1	— 209.6
89	Miscellaneous manufactures	— 139.2	— 51.9	— 39.2	8.0	72.0	— 51.1

(a) For method of calculation see text.

Source: As table A-1.

TABLE A-4

Revealed comparative advantages (+) and disadvantages (–) in Spain's foreign trade (a)

(Per cent)

SITC	Commodities	EC-9		Other OECD		Rest of world	
		1970	1982	1970	1982	1970	1982
	Intermediate goods:						
51	Organic chemicals	— 82.0	— 84.9	— 107.9	— 41.7	— 74.4	— 141.2
52	Inorganic chemicals	45.4	— 78.5	92.5	— 9.4	— 179.8	— 173.1

TABLE A-4 (cont.)

SITC	Commodities	EC-9		Other OECD		Rest of world	
		1970	1982	1970	1982	1970	1982
53	Dyeing and tanning materials	— 143.6	— 102.2	— 4.3	86.3	— 127.0	— 65.7
56	Manufactured fertilizers	14.2	55.4	29.3	108.8	— 71.8	— 40.5
57	Explosives and pyrotechnical products	22.3	— 90.7	— 22.0	— 284.1	80.5	67.3
58	Artificial resins, plastic materials, etc.	— 168.0	— 128.3	— 36.0	45.5	41.1	192.3
59	Other chemical materials	— 56.1	— 121.7	— 204.4	— 87.3	— 82.8	12.8
62	Rubber manufactures	211.4	133.8	214.4	167.0	271.7	140.8
65	Textile yarn, fabrics, etc.	100.4	52.3	104.4	39.9	95.2	— 28.6
66	Non-metallic mineral manufactures	20.6	11.0	49.3	138.6	95.9	132.6
67	Iron and steel	— 68.2	0.7	— 156.3	146.0	— 216.6	59.8
68	Non-ferrous metals	56.6	67.1	— 117.1	— 106.9	— 249.1	— 119.6
	Investment goods:						
69	Fabricated metal products	64.6	28.3	135.0	78.9	238.4	147.2
71	Power generating machinery	— 129.7	— 29.1	— 252.3	— 175.0	205.6	179.4
72	Machinery for particular industries	— 129.0	— 125.4	— 30.1	— 78.3	143.6	112.5
73	Metalworking machinery	0.2	— 99.7	6.4	12.8	15.1	192.6
74	General industrial machinery	— 138.1	— 97.8	— 155.3	— 63.2	74.6	140.0
75	Office machines and automatic data processing equipment	— 58.7	— 87.0	— 59.5	— 64.1	— 49.9	— 128.8
76	Telecommunications equipment	— 54.5	— 130.8	— 151.1	— 218.8	55.8	— 193.9
77	Electrical machinery	— 32.1	— 33.5	— 18.3	— 92.7	168.0	— 14.4
78	Road vehicles	44.9	78.6	107.3	65.3	354.3	242.6
79	Other transport equipment	197.6	— 51.4	— 376.5	— 94.0	471.5	140.6
87	Professional, scientific and controlling instruments	— 148.3	— 213.3	— 132.9	— 275.3	15.0	29.5
	Consumer goods:						
54	Pharmaceutical products	— 103.1	— 62.9	— 173.7	— 63.1	16.1	15.0
55	Essential oils, perfume materials, etc.	23.4	— 17.2	115.9	35.2	— 9.7	50.9
61	Leather and leather manufactures	198.9	245.6	203.0	236.4	— 86.1	— 284.5
63	Cork and wood manufactures (excluding furniture)	318.4	226.0	254.7	159.4	81.1	6.3
64	Paper and paper products	— 72.9	39.3	— 152.5	— 181.0	214.1	139.7
81	Sanitary, plumbing, heating and lighting fixtures and fittings	113.5	— 9.9	277.8	66.7	88.0	111.7
82	Furniture	185.4	118.8	311.6	134.3	129.4	46.2
83	Travel goods	79.4	95.3	412.2	299.4	— 12.4	— 185.9

TABLE A-4 (cont.)

SITC	Commodities	EC-9		Other OECD		Rest of world	
		1970	1982	1970	1982	1970	1982
84	Clothing	149.3	99.8	341.9	137.4	28.3	— 164.8
85	Footwear	355.1	310.1	588.1	474.8	242.9	— 63.9
88	Photographic apparatus, optical goods and watches	— 201.7	— 118.8	— 245.5	— 188.8	— 62.8	— 300.0
89	Miscellaneous manufactures	79.1	38.6	114.6	45.0	121.3	— 55.1

(a) For method of calculation see text.

Source: As table A-1.

TABLE A-5

Revealed comparative advantages (+) and disadvantages (—) of Portugal in trade with Spain (a)

(Per cent)

SITC	Commodities	1970	1982
	Intermediate goods:		
51	Organic chemicals	0.2	139.5
52	Inorganic chemicals	(b)	— 265.0
53	Dyeing and tanning materials	— 152.5	— 262.6
56	Manufactured fertilizers	146.1	— 221.3
57	Explosives and pyrotechnical products	— 83.1	(b)
58	Artificial resins, plastic materials, etc.	— 216.9	— 81.7
59	Other chemical materials	— 19.5	— 62.5
62	Rubber manufactures	— 273.9	— 111.3
65	Textile yarn, fabrics, etc.	77.4	154.5
66	Non-metallic mineral manufactures	— 16.8	— 60.3
67	Iron and steel	— 5.0	— 208.5
68	Non-ferrous metals	— 361.6	— 295.9
	Investment goods:		
69	Fabricated metal products	32.1	132.5
71	Power generating machinery	25.5	— 138.3
72	Machinery for particular industries	— 207.2	— 183.1
73	Metalworking machinery	— 1.7	— 208.5
74	General industrial machinery	— 94.9	— 92.3
75	Office machines and automatic data processing equipment	55.5	— 41.1
76	Telecommunications equipment	— 44.8	57.2
77	Electrical machinery	— 129.5	— 41.6
78	Road vehicles	— 229.8	— 121.5
79	Other transport equipment	189.0	(b)
87	Professional, scientific and controlling instruments	— 6.0	— 67.3
	Consumer goods:		
54	Pharmaceutical products	101.6	— 200.4
55	Essential oils, perfume materials, etc.	— 73.5	— 84.3

TABLE A-5 (cont.)

SITC	Commodities	1970	1982
61	Leather and leather manufactures	— 109.8	— 125.5
63	Cork and wood manufactures (excluding furniture)	403.9	403.1
64	Paper and paper products	— 273.0	291.2
81	Sanitary, plumbing, heating and lighting fixtures and fittings	27.6	110.0
82	Furniture	23.4	315.6
83	Travel goods	(*b*)	(*b*)
84	Clothing	25.5	375.6
85	Footwear	— 115.0	207.7
88	Photographic apparatus, optical goods and watches	— 37.9	276.5
89	Miscellaneous manufactures	— 75.7	27.5

(*a*) For method of calculation see text.
(*b*) Indetermined.

Source: As table A-1.

TABLE A-6

Government-guided industrial restructuring in Spain: employment implications

Sector	1981 restructuring scheme			1983 restructuring scheme		
	Employment (*a*)			Employment (*a*)		
	Total Dec. 1981	Planned reduction 1981-1985		Total Dec. 1983	Planned reduction 1984-1986	
		Total	% change		Total	% change
Footwear	55,000	3,100	— 5.6	50,000	3,100	— 6.2
Textiles and clothing	420,000	68,000	— 16.7	400,000	11,900	— 3.0
Home appliances	19,400	4,527	— 23.3	19,400	5,314	— 27.4
Iron and steel	71,100	17,494	— 24.6	70,100	12,545	— 17.9
Shipbuilding	39,000 (*b*)	9,838	— 25.2	41,400	17,368	— 42.0
Copper manufacturing	4,300	979	— 22.8	–	–	–
Paper	–	–	–	20,400	1,500	— 7.4
Fertilizers	–	–	–	10,000	1,180	— 11.8
Electrical parts for cars	8,000	1,713	— 21.4	5,000	460	— 9.2
Electrical equipment	3,400 (*a*)	134	— 3.9	15,000	3,100	— 20.0
Telecommunications	–	–	–	17,000	3,200	— 18.8
Machine tools	–	–	–	8,300	2,000	— 24.1
Individual companies	47,700	13,369	— 28.0	9,688	1,836	— 19.0
TOTAL	**667,900**	**119,154**	**— 17.8**	**666,288**	**63,503**	**— 9.5**
In per cent of manufacturing Employment (*c*)	29.2	–	–	31.5	–	–

(*a*) Differences in total employment between December 1983 and December 1981 are mainly due to an extension of companies included in the scheme, apart from delays in the implementation of the first plans.
(*b*) End of 1982.
(*c*) Own estimates.

Source: Ministerio de Industria y Energía, *El Libro Blanco de la Reindustrialización*, Madrid 1983, p. 55; OECD, *Economic Surveys 1983-1984: Spain*, Paris, May 1984, p. 47.

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DONGES, Juergen B., SCHATZ, Klaus-Werner — **Entrada de Portugal e Espanha no Mercado Comum.**

Depois de mais de oito anos de negociações complexas e muitas vezes contenciosas, Portugal e Espanha tornar-se-ão membros da Comunidade Europeia em 1 de Janeiro de 1986. Neste artigo faz-se uma avaliação da situação geral, bem como das vantagens e desvantagens relativas das indústrias manufactureiras Ibéricas dentro da Comunidade alargada. Os autores defendem que o crescimento das exportações de Portugal e de Espanha conduziu, de forma significativa, a uma melhor competitividade internacional. Argumentam que há muitas oportunidades para ambos os países de tirarem ganhos da especialização intensiva dentro da Comunidade. Especialmente, os seus resultados sugerem que os países enfrentam um potencial considerável para aumentar o comércio intra-industrial relativamente ao comércio inter-industrial. Para explorar as oportunidades oferecidas pela adesão à Comunidade Europeia é condição necessária que a indústria manufactureira faça progressos suficientes no caminho dos seus ajustamentos indispensáveis.

DONGES, Juergen B., SCHATZ, Klaus-Werner — **Portugal and Spain entering the Common Market.**

After more than eight years of complex and often contentious negotiations, Portugal and Spain will become members of the European Community on 1 January 1986. The paper assesses the overall position as well as the relative strength and weakness of the Iberian manufacturing industries within the enlarged Community. The authors reveal that to a significant part, Portugal's and Spain's export growth has been driven by improved international competitiveness. They argue that there is much scope for both countries to derive gains from intensified specialisation within the Community. In particular, their results suggest that the countries face a considerable potential for increasing intra-industry trade relative to inter-industry trade. For exploiting the opportunities offered by the adhesion to the EC, a necessary condition is that the manufacturing industry makes sufficient progress on its way to indispensable adjustments.