Donges, Juergen Bernhard; Krieger-Boden, Christiane; Langhammer, Rolf J.; Schatz, Klaus-Werner; Thoroe, Carsten S.

Book

The second enlargement of the European Community : adjustment requirements and challenges for policy reform

Kieler Studien, No. 171

Provided in cooperation with:
Institut für Weltwirtschaft (IfW)

Kieler Studien

Institut für Weltwirtschaft an der Universität Kiel

Herausgegeben von Herbert Giersch

171

Juergen B. Donges et al.

The Second Enlargement of the European Community

Adjustment Requirements and Challenges for Policy Reform

Authors:
Juergen B. Donges, Christiane Krieger, Rolf J. Langhammer,
Klaus-Werner Schatz, Carsten S. Thoroe

J.C.B. MOHR (PAUL SIEBECK) TÜBINGEN

ISSN 0340-6989

CIP-Kurztitelaufnahme der Deutschen Bibliothek

The second enlargement of the European Community : adjustment requirements and challenges for policy reform / Juergen B. Donges et al. — Tübingen: Mohr, 1982.
(Kieler Studien; 171)
ISBN 3-16-344571-3 kart.
ISBN 3-16-344572-1 Gewebe
NE: Donges, Juergen B. [Mitverf.]; GT

Schriftleitung: Hubertus Müller-Groeling

Printed in Germany
ISSN 0340-6989

Contents

Page

List of Tables

Page

Page

Page

List of Figures

Abbreviations

ACP	-	African, Caribbean and Pacific countries (in the Lomé Convention)
CAP	-	Common Agricultural Policy (of the EC)
CCCN	-	Customs Cooperation Council Nomenclature (of the EC)
CCT	-	Common Customs Tariff (of the EC)
CET	-	Common External Tariff (of the EC)
c.i.f.	-	import prices including cost, insurance and freight
EAGGF	-	European Agricultural Guidance and Guarantee Fund (of the EC)
EC	-	European Community
ECU	-	European Currency Unit (of the EMS)
EFTA	-	European Free-Trade Association
EMS	-	European Monetary System
EUA	-	European unit of account (in EC-budget, since 1978)
EUROSTAT	-	Statistical Office of the European Communities
FAO	-	Food and Agricultural Organization (of the United Nations)
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Gross Domestic Product
GMP	-	Global Mediterranean Policy (of the EC)
GNP	-	Gross National Product
GSP	-	Generalized System of Preferences (granted to developing countries)

IMF	-	International Monetary Fund
INI	-	(Spanish) Institute of National Industry
ISIC	-	International Standard Industrial Classification (UN Statistical Office)
MFA	-	Multi-fibre Arrangement
MFN	-	most-favoured nation tariff (GATT)
n.e.c.	-	not elsewhere classified
NICs	-	Newly industrializing countries
NIMEXE	-	Foreign Trade Statistics Nomenclature of the EC
OECD	-	Organisation of Economic Co-operation and Development
SITC	-	Standard International Trade Classification (UN Statistical Office)
UA	-	Unit of account (in EC budget, until 1977)
UN	-	United Nations
VAT	-	value-added tax

Preface

The European Community (EC), enlarged in 1973 by the accession of Denmark, Ireland and the United Kingdom, is now facing its second enlargement to include Greece (which has already become the tenth member), Portugal and Spain. Much of the public debate on the second enlargement is conducted in political terms: The spirit of the Treaties of Paris and Rome is supposed to require the Community of the Nine to integrate its southern periphery. From the new entrants' point of view, full membership has long been considered a means of strengthening their political democracy (restored only recently), although these feelings are beginning to evaporate somewhat: The present Greek Government, which came into power after the parliamentary elections of October 1981, reportedly was considering to hold a referendum on Greece's continued membership in the EC; in Spain one cannot overlook the growing grievances about the continuous French and other member governments' reservations against a rapid accession of this country. Whatever the political merits of the enlargement may be, the economic implications for the Nine as well as for the Three should not be ignored - indeed, they must be openly discussed. Some of these implications will be far-reaching, particularly as the present Community has entered the 1980s in a state of crisis and it is debatable whether the enlargement will actually be beneficial to it and thus reinforce the process of economic integration in Europe.

The purpose of this study is to analyze the major adjustment challenges posed by the EC's southern enlargement to both the present Community and the new entrants under present conditions, as well as to discuss its policy implications. Emphasis is given to the basic economic questions raised in the general discussion of the subject. After we have outlined the unfavourable background against which this second enlargement is taking place, the development trends in Greece, Portugal and Spain are analyzed and the economic problems, constraints and inefficiencies in agriculture and industry are worked out. Furthermore, the changes in the division of labour in manufactured trade between the new entrants and the old Nine are examined with regard to the past and explored with regard to the future. The implications for the new entrants of adopting the prevailing preferential trade agreements between the Community and developing countries are then discussed. Next, the weakness of the Common Agricultural Policy and the prospective effects of the enlargement

are examined. There follows an evaluation of the impact of the enlargement on the so-called Global Mediterranean Policy of the Community, which mainly affects the trade in agriculture. The intrinsic difficulties of shaping an effective Community regional policy are another issue considered. Finally, common budgeting problems are discussed because they ultimately reflect inherent shortcomings of Community policies.

We deliberately refrained from discussing all economic aspects of the second enlargement. There are simply too many for us to be able to deal with all of them adequately, given our time constraint. Thus we did not embark on industry and commodity studies; nor did factor movements within the enlarged Community receive treatment; likewise not all important issues relating to monetary and fiscal integration were broached and social policies were not covered either. It should also be stressed that the study is basically an exercise in applied economics. It might supplement other recent comparative studies in which the EC enlargement is discussed mainly in terms of international political economy [Tsoukalis, 1981] or the "dependencia" approach [Seers, Vaitsos, 1982]. All this said, it is hoped that the study is sufficiently stimulating and that it may encourage both research on questions which were left open and a deeper examination of the problems treated here.

In writing this study we benefited from discussions with our colleagues at the Kiel Institute, to whom we are much indebted for helping us in the task of presenting our thoughts more clearly. We also wish to thank the following persons who have helped us with their country expertise and knowledge on specific subjects: Jorge Braga de Macedo, Hugh Corbet, João Cravinho, Timothy E. Josling, Nicos Kiriazidis, Luis Angel Lerena, Allan F. Matthews, Achilles G.J. Mitsos, Herman Muegge, Manuel Jacinto Nunes, Wolfgang Renner, Pere Puig Bastard, Pedro Schwartz, Alfred Tovias and Alberto Ullastres. Thanks are due to the Commission and the Statistical Office of the Community which provided unpublished materials and trade data. Manfred Salden efficiently organized the statistical work, most of which was carried out by Julia Feldmeier. Ingrid Hohmann was responsible for the careful typing of the final manuscript. Leila Fuchs, Patricia Jassmann and Bernhard Klein edited the text for publication.

Kiel, October 1981 The Authors

I. The European Community at the Crossroads

1. Introduction

The second enlargement of the European Community (EC) to include Greece (which already became the tenth member state on January 1, 1981) as well as Portugal and Spain[1] (with whom the official negotiations on the terms of accession are under way) is taking place at a time in which the process of economic integration has reached a serious impasse. A quarter of a century after the (former) European Economic Community (EEC) was founded, it is obvious that many of the goals which originally were set have not been achieved - most prominently an equal level of development of the various Community regions and a stepwise political integration. The Common Market which was established as one instrument of achieving chosen economic objectives, has been eroded increasingly since the end of the 1960s. Instead of harmonizing the national economic policies, which was thought to be the other instrument, the Community has been experiencing widening policy divergencies between its member countries on important issues[2]. Every member-state government is prone to assert genuine "national interests" (whatever this means) and to pursue them vigorously. The Community institutions which once were created to play a leading role in the integration process and to push it ahead, have developed to little more than supra-national bureaucracies which find their comparative advantage, as do other bureaucracies, in administering themselves, in working out complicated and costly regulations interfering with the market mechanism, and in ultimately maintaining the status quo. As coherent policy conceptions have not been formulated, the EC has also proved almost completely unable to exert an active influence on international affairs. On the contrary, both the European Commission and the European Council of Ministers (or of Heads of State or Government) are increasingly preoccupied with finding ad hoc solutions to emerging problems that are frequently not even correct responses but merely

---

[1] The countries will be called hereafter applicant countries, new entrants or the Three.

[2] "Establishing the common market" and "progressively approximating the economic policies of the Member States" are expressly mentioned in the Treaty of Rome as the two instruments of achieving the objectives assigned to the Community [EC, 1973].

agreements at the level of the lowest common denominator[1].

Under these circumstances one need not wonder that the Community's enlargement has become a major issue of concern both to the entrants and to the nine old member countries [Tsoukalis, 1981][2]. The Three will have to give up substantial parts of their national sovereignty to an organization which has lost much of its former reputation over the last decade. They will have to agree to their trade with third countries being governed largely by rules set in Brussels; they will have to open up their markets to products and producers from the Nine; and to a large extent they will have to abolish selective protection hitherto granted to specific domestic producers. Irrespective of other concessions which they will have to make following their entry into the EC, the acceptance alone of the common external trade policy and of the free intra-Community movement of goods and services is essential to the Three: In these countries, much more than in any of the nine old member countries, government intervention into foreign trade and into domestic production structures has traditionally played a decisive role, not only on the grounds of infant-industry considerations aiming at fostering the economic development process, but also as a means of achieving higher-ranking national goals such as political prestige or economic autarky (Chapter II). What the entry to the Community offers in turn for the loss of sovereignty is merely a promise of new development impulses, but certainly not a guarantee that this will really happen.

In the Nine, the enlargement is broadly perceived as a source of additional disagreements on important policy issues and as an obstacle to the further development of the Community at large. Moreover, as in the applicant countries, much more attention is paid to the consequences of an increase in competition for domestic producers, above all in agriculture, than to the opportunities which the enlargement opens up for improving living standards and employment levels in the future. Part of the growing scepticism about positive effects of the

---

[1] For a critical evaluation of the Community's policies, highlighting the gap between good intentions and embarassing practices, see Cairncross et al. [1974]; Coffey [1979]; Donges [1981c].

[2] The concerns were clearly expressed by representatives of the EC Commission and the Southern European countries before the Committee on Foreign Affairs of the German Federal Parliament which held hearings on the enlargement in Bonn in 1978. All statements made, including those by Klaus-Werner Schatz on behalf of the Kiel Institute of World Economics, are recorded in Deutscher Bundestag [1978].

entry of Greece, Portugal and Spain to the EC may be due to the rather uncertain outlook at present for the old member countries in terms of overcoming unemployment and resuming economic growth. It is equally important, however, to note that the resistance against the enlargement seems to reflect a massive loss of faith in the EC itself and in its future; the EC seems to have become too fragile an institution to cope with the challenges which the enlargement by the three Southern European, and less developed, countries might imply.

The purpose of this chapter is to explore the main causes of the present state of crisis in the Community with the aim of better understanding the rather slow progress in the negotiations about the enlargement, particularly in those between the EC and Spain. Much emphasis is laid on the present member countries' changing perceptions of the original "Community spirit". Most of the issues raised here are discussed in greater detail in the following chapters.

2. Changing Views of the Community Objectives

The concern about the cohesion of the EC can be related directly to the Treaties of Rome (1957) and to the way in which the Treaties have become manifest in actual policies. The alternative to the EC agreements could have consisted of a system in which each country opens up its economy to other countries to the extent that it feels may be advantageous and therefore agreeable to the constituency at home. In this case the integration process would have developed along with the deepening of the international division of labour between countries, thereby emulating the classical model of international trade which prevailed until the end of the 1920s. In the early 1950s, however, such a system was regarded as insufficient to bring about the European integration process after World War II, which many people propagated at that time as necessary to secure lasting peace in Europe. There were two major reasons for choosing the EC model. Firstly, the experience of the Great Depression in the pre-war period had apparently proved that the voluntary opening up of countries provided no stable and lasting basis for the fusing of economies. Once the countries faced unemployment and production losses, governments did not refrain from reintroducing barriers to imports which had previously been abolished. In order to hinder such beggar-my-neighbour policies, it, therefore, seemed appropriate to withdraw control over foreign-trade policies from national governments and to allocate it to a supra-national body, which was to be the EC and its institu-

tions. Secondly, as one result of World War II, the European countries had become relatively unimportant economic and political powers. If Europe was to regain influence on world affairs, it had to be unified in some sense.

As an immediate political unification was far beyond any realistic consideration for the time being, its adherents conceived the economic integration - based on the creation of a trading block with own supranational institutions - as the means to pave the way for achieving the political objective. In the course of time, the newly created Economic Community was to be transformed into a political one. For this reason, the Treaties of Rome (and for this matter also the Treaty of Paris by which the European Coal and Steel Community was founded in 1951) postulated more than the creation of a free-trade area, which leaves the gains and losses of trade where they accrue. Besides the establishment of the Common Market and the shaping of a common external trade policy, the Community was to seek the balanced economic growth of its various member states. This meant that some type of internal policy had to be pursued in order to promote the development of both the inherently backward regions and the regions adversely affected by the integration process. For reasons going beyond the creation of a mere free-trade area, the Community institutions were also assigned own political responsibilities, which were to be extended at the expense of member-state governments with the maturation of the EC. It was believed that the economic integration would increasingly create realities which through their own power would prevent their being neglected and force the national governments to a co-ordination of their policies, thereby facilitating the political unification. By the same token, there existed the conviction that, with the obligations that were accepted by signing the founding Treaties and which would increasingly flow from the Community policies, national outsidership would automatically become impossible.

Out of the three principles which are basic to the EC (the Common Market including the common trade policy; financial solidarity; policy harmonization), the establishment of the Common Market was the most acceptable one to the contracting parties. It implied the creation of an international public good from which each country could benefit without diminishing the wealth of others and from the use of which no country could be precluded. The advantages of implementing the Common Market consisted, of course, in the static and dynamic welfare gains which the abolishment of internal barriers to trade and the reduction of external trade barriers entailed [Balassa, 1962]. Much more important than this removal of obsta-

cles to trade was presumably the fact that the EC creation led to a stabilization of producer and consumer expectations. As free trade and free factor movement between the Community members was no more a question of the willingness and ability of national governments but a principle guaranteed by the Treaties, politically rooted trade and production risks for producers and for consumers were significantly reduced. The security of the rules supplied by the EC establishment lengthened the time horizon in intra-European trade and strengthened the basis for the division of labour among member countries and regions. Economies of scale and of (horizontal and vertical) specialization could be exploited to a larger extent than before in the existing firms, and the introduction of large-scale technologies in newly established plants was encouraged.

The hopes of those days seemed to be soundly based. The period of transition which was to last twelve years beginning with the enforcement of the Treaties on 1st January, 1958, could even be substantially shortened with respect to most provisions. While not disregarding the achievements in this first phase of the EC, one has to be aware that the transitional provisions concerned above all the introduction of the free market and the establishment of the common external trade policy which reduced, on average, the Community trade barriers vis-à-vis third countries. Except for the shaping of a common agricultural policy, however, hardly any measure was taken beyond the creation of the customs union, which in any case emanated as a direct obligation from the Treaties and was not subject to inter-governmental agreements.

With the liberalization in the transitional period the EC confirmed the signs of the time which were generally set for reducing obstacles to the international division of labour. Through the General Agreement on Tariffs and Trade (GATT), which came into force in 1948, the industrial nations were already striving for a competitive international trading system based on the principle of non-discrimination. Moreover, the European Free-Trade Association (EFTA) was about to be created by a number of other European countries also aiming at a common market, but not envisaging the longer-ranging distributional and political unification aims of the EC. As much hope is set by today's new entrants in trade-induced growth effects following the removal of barriers to trade with the EC 9, it seems worthwhile to summarize past experiences within the EC.

In fact, all member countries experienced a rapid economic growth at the time when the integration process was put into motion. Pres-

sures stemming from the trade-induced adjustments of production and employment structures thus could be easily absorbed. The stabilization of expectations by the establishment of the Community substantially supported the growth process; whether it was also its driving force is open to debate. The economic integration meant the removal of obstacles which could have hindered further economic growth. National economic policies, however, which aimed at improving the overall conditions for economic growth, remained decisive.

For instance, both Italy and Germany had already experienced a fast development of their economies before they joined the newly created European Economic Community, thereby having partly exceeded later achievements substantially. Both countries had gradually opened up to the world markets since the end of the 1940s and had almost completely liberalized their foreign trade in manufactures by the early 1950s. France, on the other hand, was a country subject to many government interventions, in this respect resembling best today's applicant countries. In view of the EC formation, the French Government took several measures of both internal and external liberalization. Thus, in 1957, the general freezing of prices, introduced five years before, was abolished, so that the functioning of relative prices allowed for a more efficient allocation of resources and provided incentives to raise investment. Foreign trade was liberalized to some extent even earlier, mainly through the abolition of import quotas, which together with a substantial devaluation of the French franc in 1957 and 1958 (by 20 and 17.5 percent, respectively) contributed to making import-substituting as well as exporting industries more competitive vis-à-vis foreign suppliers. Incidentally, the lack of international competitiveness of the French manufacturing industry in the early post-war period, above all compared to German producers, was a major reason for envisaging the Common Agricultural Policy (CAP), for which the French government pressed on the grounds of compensation. Likewise, in the first enlargement round the British government insisted on regional aid for compensation. During the present second enlargement round requests for compensatory policies favouring the new entrant countries are yet again under discussion.

As for growth, that of trade included, it may be doubted that the EC formation was the cause of the rapid expansion which took place between the member countries, though it gave significant impulses. Even before the EC had been created, most spectacular increases in exports and imports had been achieved by a number of countries which had opened up to world markets. Moreover, empirical studies sug-

gest that the intra-EC trade expansion which followed the Community formation had little to do with trade diversion at the expense of third countries and was mostly effected by trade creation[1]. The reason for the small size of trade diversion is presumably that the protection of the intra-Community trade vis-à-vis third-country trade was relatively low, once the internal trade liberalization had been accomplished. Before the Community was founded, the average tariff protection rate of the individual member countries was about 12 percent (in nominal terms); in 1968, after the internal trade liberalization had been completed, the average protection rate of the Community was 10 percent [Resnick, Truman, 1975]. This means that the advantage of the member countries over third countries accumulated to a level of 10 percent over a ten-year period, which is relatively little compared, for instance, to wage-cost differences which have increased much more within the Community and between the Community and third countries during the same period[2].

The rapid expansion of trade between the Community members reflected to a large extent the fact that these countries were growing fastest in the world economy, together with only a few other countries. At the beginning of the 1950s they accounted for only a quarter of the per capita income of the United States, for instance, whilst for about two thirds at the end of the 1960s. Additional export markets could be found easiest in countries which themselves were growing fast, and which relied on improving production structures by substituting imports for uncompetitive domestic supplies. With the decrease of the risks of policy interventions, the division of labour could become particularly intensive within the EC. The creation of the Common Market was all the more significant as scale economies became increasingly important with the sophistication of modern industrial goods and as the competitive production of many of these

[1] See, for instance, Balassa [1975] and Williamson, Bottrill [1973]. For an assessment of the static effects of the first enlargement of the EC, see Kreinin [1981].

[2] These arguments might also hold when the changes of the rates of effective tariff protection are considered. For example, calculations made for Germany show that the effective rates in the industrial sector were on average 10.4 percent for imports from EC member states and 11.8 percent for imports from third countries in 1958 (as compared to nominal rates of 8.5 and 9 percent, respectively), while in 1970 the rate of effective tariff protection against third-country supplies was 11.9 percent (the nominal rate was 8.8 percent). For details see Donges et al. [1973, pp. 16-38].

goods was possible within the larger Common Market only. One important aspect of the fast development of the EC was that it diminished the scope for trade with third countries because of the structural changes associated with growth. On the one hand, catching up with the then more advanced economies led to a supply of high-technology-intensive goods which could substitute for former complementary third-country products; an increasing intra-industry trade within the EC was the result. This process was favoured by the fact that the EC had a relatively low wage-cost level during the catching-up period, enabling it to successfully compete and making it attractive for direct foreign investment as well. These experiences should all be of particular interest to Greece, Portugal and Spain. On the other hand, third countries, which had been by far the most important suppliers of raw materials and raw-material-intensive products, suffered decreasing shares in the EC trade as these goods lost relatively in importance the more the EC developed and its trade expanded. Not only were many developing countries adversely affected in this way, but also the United States. Therefore, the high degree of trade creation, which emerged in the course of the European integration process, was also due to the member countries' specialization in goods with a high income elasticity of demand, which most third countries apparently did not produce in sufficient quantities. Notable exceptions were Japan, Austria and Switzerland, which could expand the volume of their exports to the Community at rates comparable to those of the intra-Community trade.

The lesson to be learned from the transitional period of the EC is, above all, that it was not the creation of the Common Market in itself which provided for growth and trade expansion, but rather the national economic policies which - in advance of the EC establishment, though perhaps in view of it - had aimed at fostering economic growth by reducing barriers to structural change both internally and externally, hence increasing the competitiveness of domestic producers. In this way, the member countries were able to seize the opportunities which the creation of the Common Market offered. The first enlargement of the EC (in 1973) obviously confirms the lesson from the EC creation phase. For instance, in the case of the United Kingdom, the entry to the Common Market hardly provided for a speeding up of economic growth, as the domestic obstacles to development continued to exist. By the same token, the three Southern European countries which are to enter the EC now, cannot rely on any automatic provisions for growth; rather, they have to shape their national policies in a way that will enable them to exhaust and to newly create comparative advantages over the nine old member countries of the Community

(Chapters II and III). Moreover, the reduction in future of risks in the division of labour with the EC 9, from which the new entrants suffered significantly in the past, will contribute little to their development, if the home-made risks persist which destabilize expectations of investors and of customers.

Although the former Six managed to establish the Common Market, they did not achieve a completely free and undisturbed exchange of manufactured goods among themselves. Some non-tariff barriers prevailed, especially in the form of technical-standards requirements for imported goods and of government procurement policies which discriminated against partner-country suppliers even when they were cheaper. Moreover, the member-country governments did not renounce their "right" to subsidize domestic industries when considered necessary (which in future was to become a significant instrument in distorting trade flows within the EC). Finally, there was even an occasional reimposition of tariffs or quotas by one member state against the exports of another member state on "market-disruption" or balance-of-payments grounds, which could not help but produce uncertainty among producers and retailers engaged in intra-Community trade. All this shows that in spite of the political enthusiasm which preceded the foundation of the Community, the national governments, acting through the Council, ensured that the EC remained a group of independent nation states rather than a group moving towards unity. Matters have become even worse after the transition period.

3. Political Turbulences and Institutional Setbacks

Strain was laid on the Community as it was still in the phase of fast economic growth, when the CAP was seriously questioned for the first time. In 1965, Belgium, Luxemburg and the Netherlands complained about the size of the financial contribution to the EC which the CAP was likely to blow up out of proportion because of production guarantees to EC farmers at prices above market equilibrium (Chapter V). These three countries demanded that the Council should take decisions in order to reshape the CAP. Moreover, they insisted that the Council should apply the majority rule to its decisions after the transitional period of the EC was over, as envisaged by the founding treaties. The French government rejected substantive changes of the prevailing system and refused completely to accept majority decisions, arguing that this would mean an intolerable loss of sovereignty; in order to stress its point of view France decided to with-

draw from the Council ("empty chair" policy). The controversies between France and the other five members ended up with the famous "agreement to disagree" at the Luxemburg Summit in 1966. On the one hand, it was stated that France and the other five insisted further on their differing positions with regard to the application of the unanimity and the majority principle. On the other hand, it was stated that no concrete case for the application of the majority principle was at hand, that France could therefore return to the Council, and that it would be decided in due course whether or not majority decisions were to be taken. Under such an "agreement" the CAP could not be reformed[1].

The events of 1965 and the development in the following years are illustrative at least in two aspects of the discrepancy between the aims or intentions of the Treaties and the factual scope for integration in the EC. On the one hand, the application of the unanimity principle to practically all important issues demonstrates that most provisions of the Treaties that aim at going beyond the creation of the Common Market are still subject to much disagreement among the Community members. In the present EC it is by no means only France which insists on unanimity. On the other hand, the use of sectoral policies (inter alia) as a means of income redistribution and of aiding backward regions, or regions adversely affected by structural change, shows that the Community has not achieved meaningful concepts for obtaining financial solidarity. Sectoral policies are not restricted to agriculture, where they have attained the most important role (and the greatest publicity). They are applied to many other economic branches, too, often based on claims for regional aid. Thus the foreign-trade policy of the Community strictly protects the textile and clothing industries (mainly via the Multi-fibre Arrangement (MFA), which is effective since 1974) and the iron and steel industries (through cartel-like arrangements put into force in 1977 and made stricter in 1980). These policies do not only distort the division of

[1] The Luxemburg compromise was somewhat modified at the Paris Summit at the end of 1974. There it was agreed that, in order to improve the functioning of the Council, the practice was to be given up to insist on unanimity in any future decisions. It was stated, however, that this modification did not mean that the member states had changed their minds with respect to their positions as fixed in the "agreement to disagree". In the aftermath of the Paris Summit, the majority principle has been applied in a growing number of cases. The code of conduct which has emerged, applies, however, only to questions which are of minor political importance.

labour with third countries, but in general they also hamper a more efficient supply structure within the Community. This is so because the support of industries in distress at their traditional locations prevents activities of the same sort from emerging at new places within the Community - in countries, for instance, in which wage costs are lower and productivity is higher. In any case, to pursue financial solidarity by means of sectoral protection as does the Community, imposes considerable costs on consumers; they have to pay higher prices or higher taxes to finance the income transfers and suffer further losses in real income on account of the inefficient use of resources.

It is above all the waste of resources connected with the present system of redistribution, which causes resistance to financial assistance to low-income regions, and to financial solidarity in the Community. Financial solidarity may contribute towards making free trade acceptable to countries which suffer from inabilities to adjust their production structures at the required speed to the foreign-trade competition by other Community members or third countries. Or, it may help backward regions to catch up with the more advanced ones. In this way financial contributions of richer to poorer regions could be an acceptable price which has to be paid in order to reach the closer co-operation, for which the citizens in the EC may be striving (Chapter VII). However, there is no reason why financial solidarity or regional aid within the Community should require the pursuance of policies which, for instance, lead to the creation of milk lakes or butter mountains which impose unnecessary burdens on consumers and harm third countries, above all developing countries, by entailing import barriers and by export dumping.

The danger that the political immobility of the EC might increase further along with the increase in heterogeneity which the enlargement implies, and might create further obstacles to the internal integration process and to finding the role which the EC could or should play in the world economy, may serve as one explanation, in addition to others, for the many reservations against the enlargement. For instance, in the context of the second enlargement round, the Commission put forward the view that in the enlarged Community the policy-making process and the development process of the EC will run the risk of being obstructed even more than in the past if the unanimity-voting principle is not replaced by the majority rule to a larger extent. The Commission itself has listed those cases in which decisions taken by majority are presumably unacceptable because they either affect the principles and foundations of the Com-

munity or because they raise politically particularly delicate and difficult questions from the point of view of individual member-state governments. Cases in point are:

- additions to, or adjustments of, the Treaties;
- the structure and responsibilities of the Community institutions;
- the enlargement of the Community.

These items disguise such crucial issues as the European Monetary System (EMS), which is not covered by the Treaties of Rome, but may be regarded as necessary in order to ensure that the objectives of the Treaties can be attained (Article 235). Moreover, the financing system of the Community, in particular the replacement of financial contributions of member states by own resources, is left to decisions taken unanimously by the Council (Article 201). Furthermore, association agreement with third countries (Article 238) and measures on transport claimed on the grounds of support by certain regions which would otherwise face adverse effects on their standard of living and on employment (Article 75), are to continue to require unanimous approval.

As opposed to the cases mentioned above, in which national governments have in fact demonstrated on various occasions that they have quite different views and that they therefore insist on the unanimity principle in the Council, the Commission has listed a number of cases where it sees scope for the introduction of the majority principle. The list includes

- the harmonization or approximation of provisions laid down by law, regulation or administrative action (Article 99 and 100);
- measures to be taken in the field of business-cycle policies (conjunctural policies), which are regarded as a matter of common concern (Article 103);
- foreign-exchange policies (Article 70);
- the establishment and implementation of the budget of the Community (Article 209).

Again, a number of crucial issues is at hand, for instance, the harmonization of member-state legislation on direct and indirect taxes, of customs-valuation practices, of import-licensing procedures or of regulations concerning technical trade barriers.

It would be difficult to show that there has been significantly less disagreement among the member states in the one set of cases than in the other which the Commission mentions. Differences of opinion on the aims of the EC and on the means to achieve them have persisted or newly emerged in either field. Therefore, while not disregarding that more consensus would, of course, be a stimulus to the EC, it must be noted that the Commission's suggestions are based more on wishful thinking than on political reality. The difficulties of the EC are not caused by an insufficient application of majority principles; rather, the difficulties arise from the obvious gap between the aims and ideals and the willingness and ability of the various member states to agree on the aims and ideals. As evidence suggests, even if more use was made of majority decisions, national governments would hardly refrain from refusing to accept them and from following their own perceptions whenever they feel it is necessary. Agriculture is only one example, though the most striking one in this respect. Thus, whatever the voting rule may be, the tendency to agree on the smallest common denominator only, that is to say, in general on the most inefficient solution, will hardly be reduced as long as the differences of opinion on the aims continue to exist.

Apart from the unanimity principle, the reluctance of the national governments to surrender rights to the supra-national institutions also manifests itself in the relative decline of the Commission's role. Many of those who set their hopes on a rejuvenation of the EC, claim that the role of the Commission must be strengthened. The Commission, the members of which are appointed by common accord of the national governments, was created for the following purposes, inter alia:

- to ensure the application of the Treaties and the measures taken by the institutions;
- to formulate recommendations, if expressly provided by the Treaties or considered necessary by the Commission;
- to take own decisions and to participate in the shaping of measures by the Council and the European Parliament, as provided in the Treaties;
- to exercise the powers conferred to it by the Council for the implementation of the rules laid down by the latter.

Instead of receiving more responsibility, as was the initial idea, the Commission has been increasingly confined to support the decision-

making process of the Council by working out technical and administrative details. Moreover, the Commission has not acquired the general power to administer and to carry out the decisions which the Council has taken. With respect to these tasks, the Council relies largely on its bureaucratic apparatus instead, which has been expanded rapidly over time (Table 1)[1] and is bound to become even considerably larger in the course of the enlargement.

Table 1 - Growth in Staff of the Community Institutions[a], 1968-1981

	Number		Percentage change
	1968	1981	1968-1981
Council			
Total	563	1,700	+ 202
Linguists	95	340	+ 258
Commission (Administration)			
Total	4,953	9,170	+ 85
Linguists	467	1,265	+ 171
All Community Institutions			
Total	9,026	18,007	+ 100
Linguists	697	2,333	+ 235

[a]Staff payed out of funds for personnel.

Source: Budget Plans of the European Communities.

[1] This table includes staff payed out of funds for personnel only; additional personnel is employed under various other budget items. The total number of persons employed by the EC accounts for about 21,000 in 1981.

The Commission has complained about the concentration of responsibilities in the Council. It is argued that, under the given institutional arrangements, the Council is increasingly being overloaded with work which could be done by the Commission itself, and that the present division of labour between the two institutions is hindering the Council in its virtual task, policy making. In view of the increase in the number of member states, the Commission fears that the excessive administrative burden, from which the Community is suffering already, will be aggravated substantially. There is little reason for not sharing the Commission's view. In addition to administrative considerations, there are a number of other arguments which suggest that an increase in the competences and responsibilities of the Commission at the expense of the Council would be beneficial to the Community development. Presumably, following the strengthening of the Commission, this body could also regain its attractiveness for imaginative persons who are able to push forward the process of integration.

The degeneration of the Commission to a producer of technicalities has to be seen within the context of a growing disagreement among the member countries about the aims and the future role of the EC. As long as there was a longer-term perspective for the Community it was relatively easy for the national governments and, consequently, for the Council to adopt common decisions. Each of these decisions may have been imbalanced in the sense that some countries benefited more from it than others, which perhaps even suffered losses. But the decisions taken as a whole provided for a balance of interests. Moreover, because agreement existed on the direction in which the EC should move, it was even possible to take care of complex issues from the very beginning without debating much about the national pros and cons in detail. Once the stock of common causes as laid down in the provisions of the Treaties was exhausted, a new, mutually acceptable longer-term perspective did not emerge. Therefore, instead of moving forward with respect to concrete matters, the EC is confined to finding out where movement is possible at all and in which direction. Given the present lack of consensus, agreements can be achieved more easily on technicalities than on substantive policy issues; moreover, each decision has to be balanced in itself, which, of course, requires a large amount of detail information and of administrative fine tuning of which the Commission has to take care so as not to hurt the interests of any of the member countries.

4. Strains from Wrong Assignments

In this way, the EC has attained not only the image of an immobile bureaucracy, the value of which is increasingly doubted by the member countries' citizens, but in fact it has almost paralyzed itself. This is not to say that the Commission has not been creative in defining new fields of activity and policies. Rather the opposite is true. In 1967, for instance, the General Directorate for Regional Policy was established, as it was felt necessary to co-ordinate the EC measures with regional implications, and to lay stronger emphasis on regional economic policies. Industrial policies becoming a major issue for the EC (within the General Directorate for Internal Market and Industrial Affairs) provide another example. However, there is much debate about the ultimate objective of such policies. In the case of regional policies, the member governments could not agree on the policies to be pursued by the Commission. They only established, in 1975, the Regional Development Fund, which was strongly advocated by the United Kingdom and through which money can be made available for EC regions; a coherent concept on how to spend the money has not been elaborated. As to industrial policies, the main problem is that no consensus whatsoever exists as to what the term industrial policies implies and, hence, what the Community could concretely do in this field - not to mention, of course, national disagreements on what the Community should do. Instead of shaping a common policy, the EC has only been able to grant subsidies to a number of industries and projects without taking into account the risks of distorting effects and the likelihood of friction and tension among member-state governments[1]. Regional and industrial policies of the EC are only two of a large number of examples which reveal that the implementation

[1] It has become common practice at the Community level (as is at the national government level) to justify selective measures by referring to market failures (which often result from preceding administrative interferences with the price mechanism). This is said to be particularly important with regard to the specialization patterns which evolve in the Community. If the market forces were allowed to guide the division of labour according to a member country's comparative advantages, the Community would be bound to become a group of increasingly unequal partners, especially after its second enlargement. The deep mistrust of the market mechanism contrasts with the almost unlimited faith in the omnicompetence of bureaucracies and governments, in spite of mounting evidence to the contrary. All that is needed are "good" EC policies! Reasoning of this type is provided, for instance, by Musto [1981]. See also Seers, Vaitsos [1982].

of new Community policies often reflects political expediency and the desire to play for time rather than the conduction of actions directed at solving concrete problems[1].

Moreover, the more the Community institutions are in charge of policies on which the member countries obviously disagree, the more the EC as a whole will be weakened; the enlargement would have few positive effects, if any at all, on the continuance of the integration process. To put it differently: a good policy for Europe is not a policy which aims at dismantling national sovereignties and at increasing the competences of the Community institutions as indispensable symbols of European unity, but rather a policy that seeks to assign tasks to the Community which it can fulfil better than national governments, or which national governments cannot fulfil at all, and on which the member countries could agree.

With such an approach based on an appropriate division of labour between the Community and the member states, a number of current EC policies would presumably have to be abandoned or reshaped, either because there is no need for them or because they are at present counterproductive. The latter is certainly true of the CAP. The case for the CAP, apart from trade liberalization (which could have been attained by bilateral or multilateral agreements without the creation of the EC), was that it could provide for a stabilization of expectations and, hence, for a more efficient division of labour in agriculture. As a matter of fact, however, the CAP has come to serve income redistribution objectives within the Community by means of price policies. Without a fundamental change of the CAP, the future of the EC is gloomy, and this is all the more so in view of the EC enlargement (Chapter V). It has become increasingly difficult to reach agreements on prices and related issues, which is not surprising at all since the views on "just" incomes for agricultural producers differ among the countries and so do the perceptions on the "just" financial burden for each country resulting from the CAP. Moreover, the cohesion of the Community is facing serious strains as a result of the de facto renationalization of agricultural markets by the introduction of often unpredictable obstacles to intra-EC agricultural trade. And one should not forget that the waste of funds spent on the disposal of agricultural production surpluses hinders the Community from (usefully) spending its money on other policies.

---

[1] For details about the emergence and significance of Community policies see Wallace et al. [1977].

Many of these "other" policies certainly would not necessarily have to be conducted at the EC level. It can be done, however, insofar as national governments agree on them, and provided that these policies generate positive external effects and do not prevent the pursuit of alternative policies which are more effective in regard to economic integration. For instance, the case for a European Regional Policy is not that regional policies are necessarily required in order to improve the allocation of resources - frequently regional policies in fact disturb the division of labour -, nor that regional policies in the Community can be pursued best at the Community level. Rather, the argument is that if income redistribution between Community regions is a high-ranking aim which cannot be escaped anyhow (Chapter VII), regional policies are a less harmful means than the CAP, as they do not necessarily disturb relative output prices and are less detrimental to competition.

5. Integration Through a Monetary Union?

Another example of the tendency to design Community policies which lack internal consistency and are not really backed by all member-state governments is the attempt to strive for monetary integration, which incidentally is not provided for by the Treaties of Rome. The EMS, which was put into operation in March 1979 after protracted negotiations (and delays caused by disputes between the French and German governments over the CAP!) is often thought to be a crucial step in this respect. The EMS at large represents a return to the rules of the Bretton-Woods System (which broke down between 1971 and 1973). By establishing fixed, though adjustable exchange rates between the member-state currencies, the governments are to be induced to co-ordinate their national economic policies. In order to defend the peg, the central banks of the EMS members intervene into foreign-exchange markets. The interventions can be financed through credits at subsidized interest rates which the central banks grant to each other directly (not yet through the European Market Fund, the implementation of which, originally scheduled for March 1981, has been postponed indefinitely). Thus the EMS has all the long-term disadvantages which the Bretton-Woods System had, and some others in addition[1].

[1] For a critical assessment of the EMS, see Vaubel [1979]. There is an extensive literature on the EMS, which also includes optimistic views. Useful summaries are provided by de Vries [1980] and Cohen [1981].

As the EMS knows no sanctions, governments cannot be forced to a co-ordination of their policies, and in particular not to a co-ordination of their monetary policies which would be a precondition for keeping exchange rates irrevocably fixed. Therefore, national preference functions, in particular as between price stability and full employment, can prevail. As long as the national economic policies are not effectively co-ordinated and as long as inflation rates differ, a system of fixed but adjustable parities will be based on illusions of economic agents. Experience suggests, however, that markets are aware of inflation differentials. Balance-of-payments disequilibria will emerge, sooner or later calling for exchange-rate adjustment despite all official announcements that parities will not be changed. In the meantime, credit facilities for weak member economies, given to avoid a currency depreciation, will make things even worse, as they will strengthen the typical reluctance of national authorities to adjust parities at the right time and to an adequate extent, and as they will prolong the pursuit of a policy which is the cause of the currency weakness, at the expense of the creditor countries, which have to bear the interest subsidies. One-way speculative capital movements will be additionally induced, in their turn provoking foreign-exchange restrictions. The different rates of inflation in member countries will make the real exchange rates fluctuate considerably, thereby inducing temporary shifts in the international competitiveness of foreign-trade-intensive industries and in employment.

Thus the EMS is detrimental to smooth economic development and contributes to the destabilization rather than to the stabilization of expectations. Additional uncertainty is created by the loss of monetary discipline - for which the EMS paves the way - in the Community as a whole. Under fixed exchange rates which are not adjusted at the right time, member countries with relatively low price-level increases will import inflation from inflation-prone member states. The mechanism works either through balance-of-payments surpluses, which cause the growth rates of money supply to exceed the growth rates of (real) money demand, or through exploiting the scope for price increases of internationally traded goods, which is provided by losses in competitiveness of foreign suppliers on domestic and on international markets. The more price-stabilizing countries import inflation, the less the pressure on inflation-exporting countries will be to pursue price-curbing monetary policies. The Community as a whole may end up with accelerating inflation rates.

It is true that the debtor countries are granted credits under conditions which aim at reshaping their policies in such a way that the un-

derlying causes of their balance-of-payments deficits and depreciation pressures will be eliminated. However, there is little reason to believe that countries will accept conditions leading to fundamental policy changes which they do not like. Above all, each country can leave the EMS if it feels that its own interests are not served. For the sake of its own existence, therefore, the EMS has to provide beneficial conditions for the weak-currency countries. Even if the EMS member countries were all willing to co-ordinate their economic and monetary policies in order to enable the persistence of the fixed exchange rates, the currency union which would emerge would imply interferences of one country in the affairs of other countries. The reason is that a one-inflation standard has been adopted. Leaving aside technical problems of co-ordination, the one-inflation standard requires that in an inflation-prone country the monetary policy is tight, in defense of its own parity. The standard enables other countries to go along with lower interest rates. In this way, investment will be higher in low-interest-rate countries than in those countries which have to pursue high-interest-rate policies, thereby limiting the number of investment projects which yield enough returns to pay for high interest rates. In consequence, some countries within the EMS would enjoy high growth rates and full employment, while others would suffer from the efforts aiming at establishing the currency union through fixed-parity regimes, which exceed their abilities to adjust.

For these reasons the EMS will presumably turn out, in the final analysis, to be an unacceptable way towards currency unification, as was the case with the old "snakes" in operation from April 1972 on. Interestingly enough, the United Kingdom has not joined the EMS, nor has the new entrant Greece, whereas the participation of Ireland and Italy had to be bought with generous financial concessions masked as regional policy aid. An eventual entry of Portugal and Spain into the EMS might give rise to additional strains, since both countries traditionally experience high rates of inflation. If the EMS breaks down, the idea of European integration will be discredited again.

As long as inter-country differences in economic policies and performance prevail, exchange-rate flexibility is clearly a more adequate device to cope with them than the adjustable peg of the EMS. The achievement of a true monetary union would still be advisable, since it promises advantages similar to those provided by the creation of the Common Market. It reduces risks, above all the risk of exchange control, makes exchange rates predictable, and reduces the costs of information about developments on foreign-exchange mar-

kets. Currency unification, therefore, affects competition, the international division of labour and the international factor movements in a positive way. It represents an international public good, which can serve the interests of the citizens of all union member countries, and would be the most logical step towards achieving political union. As the EMS does not lead to a monetary union under present-day conditions, one might think of an approach which leaves little room for discretionary policies by state governments and rests, instead, on automaticity. This is the case when the national currencies are substituted by a Community currency, preferably in a gradual competitive process [Vaubel, 1978]. During the transitional period, control over national monetary and other policies is left with the national authorities.

At the beginning of this period, a European parallel currency would be issued (by an independent European central bank) and allowed to circulate side by side with the ten (or twelve) member-state currencies. Circulation means competition. The parallel currency could be defined in terms of a basket of weighted amounts of national currencies. Whenever the basket lost purchasing power because of inflation in the member countries, the parallel currency would be revalued at exactly the rate of that loss, and thus become more attractive to holders of national currencies. The supply of the parallel currency would be increased commensurately with the expansion of demand, i.e. at the rate at which national currencies are offered to the European bank in exchange for the parallel currency at the prevailing exchange rates. The currency union would be accomplished when the parallel currency, thanks to its guaranteed purchasing power, had replaced - as a common standard of value, a store of value and a means of payment - the national currencies, which are subject to inflation. Unlike the EMS, the parallel-currency approach avoids unnecessary burdens and political conflicts arising from monetary integration; and due to the gradualism with which the currency union is arrived at, it allows for a smooth adjustment in the various member countries to the requirements of one common currency. It would make it much easier for countries to participate in the unification process from the very beginning. And it would stimulate further economic integration, particularly in view of the forthcoming second enlargement. However, after the member-state governments have invested much prestige in the EMS, its inherent weakness and long-term inviability have still to become manifest before the time is ripe for more promising approaches of monetary integration.

6. On the Political Economy of the Enlargement

Customs-union theory shows that an economic integration between differently developed countries can be particularly fruitful. If development levels and, hence, relative factor endowments as well as relative factor prices differ among countries, the integration process offers the opportunity to widen bottlenecks, which result from domestic supply shortages of productive factors, and thus to further economic growth. This can be brought about in a direct way through the migration of labour, capital, entrepreneurs or of technology, or in an indirect way through the import of goods and services in which these factors are incorporated. Integration, however, demands structural adjustment. Like every free-trade area, the Community protects domestic production against third-country competition by external trade protection (and additional measures). And each of the new entrants has built up a system of protective measures, too. In fact, the protective levels of the three countries are much higher than that of the EC. This is true for trade with the Community (Chapter III); it is of particular importance, however, vis-à-vis third countries against which Greece, Portugal and Spain have introduced much more restrictive import barriers than the Community. Joining the Community would mean that the barriers to intra-Community trade would have to be abolished, that the lower Community level of external trade protection would have to be adopted, and that the preferential trading arrangements with developing countries would have to be joined (Chapter IV and VI).

Nowadays, there exists the wide-spread view in the present Community, most openly expressed by the Commission and the French government, that the negative structural shocks in the new entrant countries, which may result from harmonizing trade policies, will overcompensate the positive economic effects which are associated with the enlargement. This presumption implies a lack of mobility of productive factors, so that growth opportunities will not be fully exploited. But the insufficiencies in the present EC system as to exercising solidarity is another major reason why the enlargement of the Community is resisted by some member states. Greece, Portugal and Spain, which range at the bottom of the European income hierarchy, are setting much hope in arrangements with the Community, which will help them to cope better with the many economic problems by which they are plagued (Chapter II). However, if the EC agricultural policies or the foreign-trade policies are extended to the new entrants and, moreover, if they are shaped in a way that takes into

account the specific requests for protection of these countries to the same degree as in the case of the Nine, the burdens from the policies will increase significantly, both in terms of visible financial contributions to the budget (as enforced mainly by agricultural policies) and in terms of less visible welfare losses to the consumers (by trade policies, and again, by agricultural, and by other sector-specific policies). Demands by the new entrants for selective aid together with claims by the present member states for some form of compensation for the market losses they may suffer as a result of the increase in competition (notably with respect to agriculture), can easily lead the Community to end up with a higher level of protection and, hence, with more inefficiencies.

It is true that the EC has long been accused of harmful effects of its policies and that resistance against these has increased recently. This is all the more so as, due to the poor growth performance during the 1970s and the gloomy prospects which many people have for the future, the willingness of the net payers to the Community budget to make up for the financial burdens has decreased heavily (Chapter VIII). For this reason, the beneficiaries of the present policies fear that with the Community enlargement and with a limited willingness to pay, they will come out worse than at present. This fear, however, is not supported by past experiences, which proved that there are no effective limits to the waste of resources and to financial payments even though the many deficiencies of the EC policies have been realized by the public and even by the governments. In the end, there has always been agreement that muddling through would be the best way to handle the problems - and to postpone solutions to the future, regardless of the distortions in resource allocation which, expectedly, will then call for new government support again and again.

Moreover, following their entry to the EC, Greece, Portugal and Spain will be able to exert a strong influence on the Community policies - a stronger influence than they could exert, for instance, if they stayed outside and achieved free trade and other arrangements (e.g. financial assistance for the promotion of their development process) by association: The application of the unanimity principle in the Council gives them the opportunity to determine the course of the EC policies directly by vetoing (if necessary), and to try to enforce their own interests. As the interests of the new entrants evidently differ in many respects from those of the Nine - which is partly a consequence of their lower development level and of differences in the production structures - there is no reason to expect that they will not make use in the Council of their vetoing power since it is in fact exercised by

each of the Nine, too. It may turn out that claims for protection will in future be resisted more than in the past, if they imply direct payments and the Community budget is restrained. However, without a fundamental turn to more liberal principles, as discussed in Chapter III, this would only mean that external trade protection will become stronger. It is in this sense that the second enlargement of the EC provides a good (and perhaps the last) opportunity to consider and carry out fundamental reforms, both with regard to the institutional set-up and to the common policies.

II. Patterns of Economic Development in Greece, Portugal and Spain

Greece, Portugal and Spain have several economic and non-economic characteristics in common which clearly differentiate them from the EC 9. The most important of these similarities is the lower level of economic development and the lack of maturity of prevailing industrial structures. The purpose of this chapter is to examine the patterns of economic development in the Three which may influence the prospects of the enlargement. To begin with, the major structural characteristics are stated. The second section reports on long-term economic development trends in Greece, Portugal and Spain. The structural changes of these economies, and particularly those of the manufacturing industry, are analyzed in the third section. The last section deals with adjustment perspectives in the three countries within an enlarged Community.

1. Structural Indicators

Once the second enlargement is concluded, the European Community will be much more heterogeneous in economic terms than it is at present. Though economic growth was rapid in Greece, Portugal and Spain since the late 1950s, notable development gaps between these countries and the EC 9 (on average) persist (Table 2). In terms of per capita income, the relations were 1 : 4.3 for Portugal, 1 : 2.3 for Greece and 1 : 1.8 for Spain in 1980. The three Southern economies, particularly Greece, are less industrialized and more agricultural than the EC 9. The degree of "openness" to international trade is relatively low on the export side, especially in the case of Greece and Spain. All three countries seem to be more inflation-prone than the EC 9, and only Greece has succeeded in keeping unemployment levels below the Community's average rate.

Within the manufacturing sector, traditional industries which are characteristic of early development phases, still play a major role in spite of achievements with regard to horizontal and vertical diversification of industrial output, most notably in Spain. Many firms are very small and family-managed, using outmoded machinery and technology and frequently operating with a negative value added at world market prices. They coexist with a few larger enterprises, which exploit economies of scale, apply advanced organizational techniques

Table 2 - Some Indicators for the Economic Structure of Greece, Portugal, Spain and the EC 9, 1980

Indicator	Greece	Portugal	Spain	EC 9
Territory (1 000 km^2)	132	92	505	1,526
Population (1 000 persons)	9,500[a]	9,966	37,381	260,900[a]
Labour force (1 000 persons)	3,200[a]	4,200[a]	13,344	105,000[a]
Composition of labour force (percent)				
Agriculture	27.3[b]	29.0	18.9	8.0[b]
Industry	30.7[b]	35.5	36.1	39.4[b]
Manufacture	19.1[b]	25.1	26.1[a]	29.3[b]
Services	42.0[b]	35.5	45.1	52.7[b]
GDP per capita (US-$)	4,442[a]	2,408	5,695	10,303[a]
GDP (US-$ million)	42,200	24,000	212,900	2,787,000
Composition of GDP (percent)				
Agriculture	16.1[c]	12.8[c]	7.5	4.1[c]
Industry	32.2[c]	46.7[c]	35.8	43.8[c]
Manufacture	19.2[c]	36.9[c]	25.1[a]	32.5[c]
Services	51.7[c]	40.5[c]	56.6	52.0[c]
Share in GDP of (percent)				
Gross fixed capital formation	25.6[c]	19.1[c]	17.4	20.9[c]
Exports (fob)	16.4[c]	25.9[c]	15.4	29.1[c]
Manufactured exports	49.4[c]	76.1[c]	74.9[c]	79.5[c]
Imports (cif)	25.2[c]	36.0[c]	17.5	29.0[c]
Manufactured imports	63.6[c]	54.8[c]	43.4[c]	60.6[c]
Rate of inflation[d] (percent)	15.8	19.4	18.3	12.2
Rate of unemployment (percent)	4.0[a]	9.0[a]	11.8	6.1

[a]Estimated. - [b]1978. - [c]1979. - [d]Annual average rate of change of consumer's prices, 1974-1980.

Source: OECD [a; b; c]. - IMF [var. iss.]. - Bank of Greece [var. iss.]. - Banco de Bilbao [a]. - EIU [a; b; c].

and, in some cases, even engage in applied research. This sectoral dualism is attached to a marked regional dualism; all economic activities and in particular the sophisticated industries are highly concentrated in a few industrial centres. The situation is similar in agriculture. In addition to excessive fragmentation and outdated methods

of cultivation, the poor soil conditions and protracted dry seasons as well as institutional constraints keep productivity levels much below the Community average, particularly in Greece and Portugal.

Comparing the Three with each other, one finds that Spain's economic structure is closest to that of the EC 9; its per capita income is the highest (more than twice that of Portugal), and its agricultural sector has already declined more and its services sector widened more than those of the other two countries. Greece's per capita income does not differ so much from that of Spain; its industrial sector, however, proves to be quite small, whereas this sector shows astonishingly high shares in the case of Portugal.

2. Long-Term Development Trends

a. Factors Retarding Economic Development

The relatively low development level of the three countries in the European context reflects their status as latecomers in the Western industrialization process, the reasons of which can be traced back various centuries in their history. Situated at the southern periphery of Europe, they all were isolated from the European development for a long time and underwent a period of stagnation (in the case of Greece) or even decline (in the case of the former world powers Portugal and Spain) at a time when scientific and social revolutions took place in Central Europe and cleared the path for an economic upswing unknown before. It was not until the second half of the last century that the industrialization process started in Greece, Portugal and Spain[1]. But even then growth rates remained low and the gap to Central Europe continued to widen (Table 3). In the period 1840-1938, real per capita income rose annually by 1.1 percent in Greece, 0.3 percent in Portugal and 0.2 percent in Spain, as compared to 1.2 percent in Central Europe taken as a whole.

Reasons for the belated take-off are manifold. To start with, natural conditions in the three countries were less favourable to industrial development than in Central Europe: the mountainous and eroded landscape did not only provide rather poor soils for agricultural use, but

[1] For details on economic history see for instance Coutsoumaris [1963]; Vicens Vives [1969]; Kartakis [1970]; Payne [1973]; Harrison[[1978]; Mouzelis [1978].

Table 3 - Total and Per Capita Gross National Product[a] of Greece, Portugal, Spain and other European Countries, 1840[b]-1950

Country[c]	Volumes					Compound growth rates[d]			
	1840[b]	1925	1929	1938	1950	1840[b]-1925	1925-1929	1929-1938	1938-1950
Greece									
GNP	200	2,340	2,450	4,200	3,371	2.94	1.16	6.17	-1.82
GNP per capita	200	393	390	590	445	0.80	-0.19	4.71	-2.32
Portugal									
GNP	945	2,046	2,150	2,634	3,320	0.91	1.25	2.28	1.95
GNP per capita	255	320	320	351	383	0.27	0.00	1.03	0.73
Spain									
GNP	4,150	9,498	10,567	8,511	10,219	0.98	2.70	-2.38	1.54
GNP per capita	288	426	455	337	367	0.46	1.66	-3.28	0.71
Highly industrialized Europe/EC 9 [e]									
GNP	31,809	144,420	160,230	187,350	218,070	1.89	2.63	1.75	1.27
GNP per capita	318	791	858	954	1,014	1.16	2.05	1.19	0.50

[a]At 1960 market prices; total GNP in US-$ million, GNP per capita in US-$. - [b]Average 1839-1841. - [c]Territories of each period. - [d]Annual percentage rates of change. - [e]Figures refer to highly industrialized countries for 1840 (including Belgium, France, Germany, Sweden, Switzerland and the United Kingdom) and to EC 9 countries thereafter.

Source: Bairoch [1976]. - Own estimates.

also hindered communication and thus division of labour within the country[1]. Greece, Portugal and Spain possessed only limited natural resources. In particular the former two almost totally lacked such raw materials as coal, iron ore and non-ferrous metals, which proved especially important for an industrial upswing in the last century, though Portugal was able to procure at least some of its requirements from its colonies.

The social and political environment of these countries was not conducive to early industrialization either. When in Central Europe both the Enlightenment and liberal thought rendered possible the rise of new technological knowledge as well as the destruction of the old feudalistic structures with their specific class privileges, the three countries scarcely took part in this development. In Greece, the isolation from Europe was mainly due to its occupation by the Turks, which lasted until the war of independence (1821-1828) and which kept the Greeks more oriented towards the East. In Portugal and Spain, the strong dominance of the Roman Catholic orthodoxy and their status as colonial powers prevented the new ideas from gaining a firm foothold in their societies. Thus the traditional feudalistic system could survive for a considerably longer time.

As a result, in the last century and during the first quarter of our century the three countries still showed many of the characteristics typical of a pre-industrial society. Productivity in the agricultural sector, which was the largest economic activity in terms of output and employment, was extremely low. Neither the small- nor the large-farm sector was run as efficiently as it could have been. The "minifundia" which - for historical reasons[2] - were and are prevalent in

[1] To give an example, around 1880 the steamship reduced transport costs across the Atlantic drastically, thus making it cheaper for the Spanish periphery regions to buy North American instead of Castilian wheat. The consequence was a severe agricultural crisis in Spain.

[2] The extreme fragmentation of land in the northern regions of Portugal and Spain was due to recurrent subdivision by inheritance. By contrast, the South, which had been occupied by the Moors, was distributed after the Reconquest around 1500 into large units and awarded to the nobles and military leaders for victories attained in the war against the Moors, and to the Church as well. In Greece, the large estates, generally owned by Turkish nobles who once got them as a fief by the Sultan, predominated until the expulsion of the Turks. Immediately after the war of independence, most parts of this land came under the control of the State which sold it in small plots to propertyless peasants. These different

the northern regions of Portugal and Spain and in most parts of Greece, were extremely small and often fragmented into several small plots, and, especially in Portugal and Spain, scattered over large areas. Techniques in use were extremely backward: they did not go any further than the Roman plough; fallowness in alternate years was widespread. The owners of the "latifundia" in the southern parts of Portugal and Spain, where they still prevail (Chapter V), entailed their land on tenants who in return owed them so much of the yearly harvest that the remnant left to the tenants became too meagre to provide an incentive for improving the productivity. Nor were the landowners themselves by any means entrepreneurs. In general, they were neither interested in obtaining more than sufficient rents out of their land, nor compelled by competition to do so. If necessary, they increased their income by taking formerly unused land under cultivation, disregarding marginal productivities, and by ensuring it against competition from abroad, where cereals for example could be grown much cheaper, by pressing successfully for tariff protection. The situation was similar in Greece after it annexed Thessalia and Epirus (in 1881) and Macedonia (1912-1913). Under such circumstances the agricultural sector could not become the motor of economic development in any of the three countries.

A number of agrarian reforms that were undertaken[1] changed the land tenure system only in Greece (in the period 1922-1940). But in none of the three countries were these measures sufficient to raise productivity on a sustained basis. Technological and management backwardness was not overcome; acreage and financial services to agriculture remained insufficient. Though agricultural production increased, this was almost exclusively due to the increased amount of land taken under cultivation rather than to higher acreage yields. In fact, in some cases average returns on agricultural production diminished, since the additional land was marginal land. It was only the massive protection granted by the State which kept the agricultural sector growing in spite of its inefficiency and high costs. At the same time, this protection biased the internal terms of trade against other potentially more productive sectors, in particular manufacturing industry, the development of which was retarded as a result.

---

antecedents explain why the land tenure is more homogeneous nowadays and the average farm size is lower in Greece than in Portugal and Spain.

[1] Agrarian reform legislation responded more to political pressures of the moment than to long-term agricultural development plans.

Thus the manufacturing sector remained small for a long time (Table 4). It consisted almost exclusively of handicraft enterprises with only a few employees, particularly in Greece and Portugal. The main industries were food processing and textiles; besides, some iron manufacturing and shipbuilding emerged in Spain. The difficulties which had to be surmounted in the transition from handicraftsmanship to industrial production were enormous. The owners - indulged in a colonial mentality - in general lacked entrepreneurial skills; there was not enough qualified labour available; and risk capital was in extremely short supply. Many investors looked for secure and sufficient rents on their capital - like the landowners, with whom they were in fact often identical. Thus they preferred investments in real estate and especially in the Greek case, capital transfers abroad to the financing of risky innovations in the manufacturing industry at home.

It was not until the middle of the last century, that the governments became aware of the importance of building an infrastructure, especially roads, railways and a telecommunication network, if economic development was to take place. For this purpose, the governments attracted foreign private capital in considerable amounts. Great Britain and France were the major capital suppliers to Portugal and Spain, whereas Greece could draw on the Greek diaspora all over the world. Though only little of the inflowing capital was invested directly in industry, it nevertheless contributed to industrial progress: In Greece it sponsored the growth of glass, textiles, paper and other light industries and financed almost exclusively the rise of heavy industries such as non-ferrous metal mining. Spain became, at the turn of the century, a leading producer of lead, copper, mercury and iron ore, partially with the help of foreign capital. Sizeable earnings derived from the export of these metal ores gave rise to the accumulation of capital, which made possible the creation of the Spanish metallurgy.

Towards the end of the last century, industrialization became a deliberate goal of economic policy in the three countries. And import substitution was considered the most adequate instrument towards this goal. Hence, trade policies were shaped in an increasingly protectionist way, an approach which was to prevail until the 1950s. In Greece, for example, the average nominal tariff rate rose from 19.5 percent in 1887 up to 27.4 percent in 1910 [Kartakis, 1970, p. 9]. Spain, which had pursued a rather liberal trade policy until it lost its last major colonies (Philippines, Puerto Rico, Cuba) in 1898, became one of the most protectionist countries in the world, the import tariffs averaging 41 percent in 1925 [Viñas et al., 1979, pp. 19 ff.]. This protection made import substitution quite profitable in a wide range

Table 4 - Sectoral Structure of the Active Labour Force in Greece, Portugal, Spain and the EC 9, 1890-1950 (percent)

	1890	1920	1930	1940	1950
Greece					
Agriculture	.	57.1	61.0[a]	.	51.4[b]
Industry	.	18.7	18.1[a]	.	20.7[b]
Manufacture	.	.	.	.	17.3[b]
Services	.	24.2	20.9[a]	.	28.0[b]
Portugal					
Agriculture	65.0	57.4[c]	50.5	51.6	49.6
Industry	24.9	21.9[c]	18.5	21.8	25.7
Manufacture	.	.	.	16.2	19.7
Services	10.1	20.7[c]	30.8	26.5	24.7
Spain					
Agriculture	69.4[d]	59.0	45.5	52.0	49.6
Industry	16.0[d]	22.0	25.5	24.0	25.5
Manufacture	.	.	.	18.9	18.5
Services	14.7[d]	19.0	28.0	24.0	24.9
EC 9					
Agriculture	40.4	32.9	28.4	28.3	23.4
Industry	35.0	36.9	38.2	37.6	40.6
Manufacture	26.5	30.7	30.4	29.1	30.0
Services	24.6	30.2	33.4	34.1	36.0

[a]1928. - [b]1951. - [c]1911. - [d]1887.

Source: Bairoch et al. [1968]. - Own calculations and estimates.

of industrial products for which demand was increasing rapidly due to backward and forward linkages. Tax allowances, subsidies and government procurement in favour of domestic suppliers strengthened the private profitability of new investments.

Under import protection it is inevitably more profitable for private enterprises to produce for the domestic market than to export. Given the narrowness of the domestic markets, industrial enterprises in general remained small and could not take advantage of economies of scale. The technology in use was backward and production was inefficient compared to other European nations. In the shelter of the trade barriers, it was not necessary for firms to be innovative risk-takers in order to flourish. Industrial growth accelerated until the Great Depression, but industrial exports were rather insignificant and real gross domestic product went up rather slowly, mainly due to the continuing poor performance of the agricultural sector [Coutsoumaris, 1963, pp. 21 ff.; Donges, 1976b, pp. 28 ff.]. The Portuguese economy even stagnated in that period, because the proclamation of a republic in 1910 was followed by two decades of extreme political instability and economic mismanagement, so that the investment climate deteriorated sharply [Baklanoff, 1978, pp. 102 ff.].

b. Experimenting with Autarky

The inward-looking strategies of economic development were greatly reinforced in Portugal and Spain when Salazar and Franco came into power in 1932 and 1939, respectively [Baklanoff, 1978, Chs. II and VII]. This period of autarky was to last until the late 1950s in Spain and the early 1960s in Portugal. Autarky was considered as the most appropriate way to create a strong economy and, in Spain, as necessary for the economic reconstruction of the country after the devastating Civil War. But economic nationalism was also imposed by the international ostracism of the two authoritarian regimes, particularly after Wordl War II.

In pursuit of agricultural and industrial autarky, the State intervened in almost every field of the economy, either directly or indirectly; and being suspicious of market forces, it did not rely on domestic competition as a means of resource allocation within the autarkic framework. The plethora of policy instruments included the regulation of wages, prices and interest rates, import and export licensing, bilateral trade arrangements, foreign-exchange controls, multiple exchange rates (in Spain), and the licensing of industrial investment. Technology from abroad was procured mainly through licence arrangements with foreign firms, while the legislation on foreign direct investment became rather restrictive. Public enterprises proliferated rapidly throughout the economy, especially in the Spanish industry, with the aim of promoting new activities for which the in-

vestment requirements appeared too large for private firms; coal mining, basic metals, chemicals, petroleum refining, motor cars and ships are cases in point. No attention was paid to comparative advantage in agricultural and industrial production, the high domestic resource costs involved in across-the-board import substitution were ignored, and exports deliberately discriminated against. All this was done in order to make employment independent of foreign demand, to make resources available for the production of import substitutes, and to ensure the availability of foodstuffs for the population. It did not only lead to a significant misallocation of resources, but also caused the economic development process to be hindered time and again by balance-of-payments constraints (at the given exchange rate). Severe supply bottlenecks, particularly in fertilizers, energy, steel, non-ferrous metals, building materials and machinery, became a fact of life, handicapping both the agricultural and the industrial sector and compelling numerous firms to operate far below their productive capacities [Pintado, 1964; Donges, 1976b].

Agricultural production, for instance, experienced a drastic decline in Spain during the 1940s, almost causing a famine. The lack of fertilizers and tractors was, however, not the only reason for this development. An equally important depressive factor was the government policy of fixing selling prices below equilibrium levels, especially in the case of cereals, which induced the peasants to reduce their production or to diversify by growing alternative crops. Quite contrary to the government's targets, Spain thereby became heavily dependent on food imports (including food aid) during this period. Only with the increase of the prices at the beginning of the 1950s, did yields start to rise again. Portugal made similar experiences. When compared with the officially stated targets, the results of agricultural policies in the Iberian Peninsula were poor: Neither did production increase at the rate of internal demand, nor was rural labour emigration stopped, capital formation in the agricultural sector significantly strengthened, or the traditionally dualistic system of land tenure improved. Many problems which the Portuguese and Spanish agricultures are facing nowadays and which complicate the negotiations on adhesion (especially in the case of Spain), are rooted in distortions created by the governments during the period of autarkic development.

Lasting misallocations and weaknesses also appeared in industry. An atomistic industrial structure emerged, in which most firms were too small to make use of economies of scale. Oligopolistic and monopolistic positions were strengthened and led to a rather defensive

investment behaviour. X-inefficiency at the firm level was in general high, as one would expect it to be in economies which have been sheltered from foreign competition. In these circumstances, industrial development was slow and erratic in Portugal and Spain for many years (until the early 1950s) and the industrial structure that emerged did not attain international competitiveness even in those areas in which these countries could be supposed to have a comparative advantage (e.g. labour-intensive products).

Greece did not share the experience of autarkic development with Portugal and Spain. But the considerable damages which were caused by World War II and the following Civil War, substantially dampered the momentum of the earlier economic development. As in the other two countries, the Greek government, assuming the responsibility for reconstructing the economy, intervened largely in factor and product markets as well as in foreign trade. It continued to rely on import substitution, but provided less protection and more incentives to exports, particularly manufactures, than Portugal and Spain did [Ellis et al., 1964, pp. 180 f.; Tsekouras, 1971; Katsos, 1975, Ch. 2]. Industrialization proceeded along less distorted lines and as a result faced less severe foreign-exchange shortages.

Overall economic growth accelerated somewhat in all three countries during the 1950s. Yet the structural deficiencies in agriculture and industry, all reflected in a serious lack of international competitiveness, prevailed. The governments in the three countries had to recognize that an acceleration of economic development on a sustained basis and with a real chance of catching up with the more advanced Central European countries could only be expected from an integration of the economies into the world market. The need for a fundamental policy reform was especially urgent in Portugal and Spain where economic nationalism had been pushed to extremes for so many years. Ultimately, the imminent danger of a complete economic collapse tempered ideological postures.

c. The Gradual Reintegration into the World Economy

Around 1960, the three countries reshaped their development policies, making them more outward-looking and more flexible domestically. In Spain, the policy reform was initiated in 1959 with the severe Stabilization Plan. Its immediate aim was to stop runaway inflation and to correct the huge balance-of-payments deficit, but the gov-

ernment was aware of the fact that the devaluation of the peseta together with a restrictive fiscal and monetary policy would not be enough to revitalize the economy. Hence, quantitative restrictions on foreign trade were removed to a large extent, the dispersion of import tariffs was reduced, export-promotion measures were implemented, foreign tourism was stimulated, rules on foreign direct investment became very liberal and the industrial sector was gradually de-regulated [Donges, 1971; 1976b]. In Portugal, the turning point for the opening-up of the economy was the accession to the EFTA in 1960. Afterwards, legislation was changed to attract foreign capital for the venturing of a number of infrastructure projects, to liberalize somewhat the then prevailing industrial licensing system and to stimulate the development of the tourism sector [Baklanoff, 1978, pp. 105 ff.]. As to Greece, its detachment from (relative) isolation was marked by the signing of the 1961 Athens Agreement which contained the association of Greece with the European Economic Community of the Six and which became effective in 1962. It allowed Greek exports to the Community under equal conditions of access as those of EC members. Greek imports from the EC were to be liberalized gradually over a period of twelve years in general, the period being twenty-two years for a number of "sensitive" products only. Moreover, the agreement envisaged the harmonization of agricultural policies, an adjustment of Greek tariffs on imports from third countries to the Common External Tariff (GET), the free movement ob labour and capital in principle, and financial assistance to Greece by the Community [Kalamotousakis, 1976; Tsoukalis, 1981, pp. 28 ff.] [1].

The policy reforms on which Greece, Portugal and Spain embarked during the 1960s, though more rational in economic terms than the preceding ones, remained suboptimal. Tariff protection still was high compared to that of the EC, and the structure of nominal tariffs led to escalating rates of effective protection in favour of consumer rather than intermediate or capital goods. Non-tariff protection like quantitative restrictions or indirect taxes was not completely abolished. The anti-export bias of the protective measures was not neutralized. The governments did not totally disengage themselves from the control of the economy. Moreover, they turned towards indicative development planning, emulating France's "planification", and involving substantial public investment. Private investors in selected industries and regions enjoyed numerous fiscal and credit in-

[1] As a reaction to the military coup of the colonels in April 1967 the Community froze the full implementation of the agreement, especially with regard to its agricultural and aid provisions.

centives. Agriculture remained a field for far-reaching government intervention and regulation. And direct state participation in industry continued to be rather active, particularly so in Spain, where the Instituto Nacional de Industria (INI), originally created as an instrument of autarkic development, adhered to its tradition of extending its activities across the board and taking over unprofitable companies rather than divesting itself of its ownership of the numerous enterprises which did not require public support to expand [Schwartz, González, 1978]. Consequently, the new strategies did not only retain considerable differences in the domestic resource cost of saving or earning foreign exchange but also distorted cost structures and diseconomies of small-scale production.

Table 5 - Compound Rates of Growth[a] of Gross Domestic Product and Its Components[b], 1950-1979

	1950-1960	1960-1965	1965-1970	1970-1975	1975-1979
Greece					
GDP per capita	5.1	7.5	6.6	4.5	3.8
GDP	6.1	8.0	7.2	5.1	4.9
Agriculture	3.0	7.8	1.6	6.1	-0.5
Industry	9.0	8.9	9.7	4.7	6.6
Manufacture	6.8	8.8	11.9	6.4	6.5
Services	5.5	7.0	7.0	5.8	5.2
Portugal					
GDP per capita	5.0	5.8	6.5	3.5	3.7
GDP	5.6	6.4	6.3	4.4	4.9
Agriculture	1.6	2.2	0.3	4.7	-7.6
Industry	5.3	9.1	7.8	2.9	8.0
Manufacture	5.7	9.1	8.0	2.4	8.8
Services	6.9	5.6	6.9	5.9	6.5
Spain					
GDP per capita	2.4[c]	7.6	5.3	4.3	1.3
GDP	3.2[c]	8.7	6.4	5.5	2.5
Agriculture	2.3[c]	2.6	0.4	1.8	0.9
Industry	5.3[c]	12.0	9.6	6.1	2.2
Manufacture	6.0[c]	12.1	7.3	6.5	3.1
Services	2.2[c]	9.1	11.9	6.5	3.1

[a]Annual percentage rates of change. - [b]At 1975 market prices. - [c]1954-1960.

Source: OECD [c]. - Own calculations and estimates.

Nevertheless, the impact of the new policies was remarkable in terms of economic growth, structural transformation and trade expansion. During the 1960s, real GDP increased at an average annual rate of 7 percent in Greece and about 6 percent in Portugal and Spain (Table 5); annual growth rates in the EC accounted for only some 4.5 percent in that period. This outstanding growth performance was in-

Table 6 - Compound Rates of Growth[a] of Gross Fixed Capital Formation and Its Components[b] and Average GDP-Ratios of Investment, 1950-1979

	1950-1960	1960-1965	1965-1970	1970-1975	1975-1979
Greece					
Gross Fixed Capital Formation	6.2	11.0	7.6	1.1	6.0
Agriculture	10.8	3.5	4.5	1.2	-3.4[c]
Industry[d]	-4.3	21.4	8.1	6.7	-6.4[c]
Manufacture	-4.6	23.7	7.7	7.0	-7.5[c]
Services[d]	8.1	10.8	8.0	-0.3	11.1[c]
GDP Ratio	14.9	19.9	22.5	24.6	22.5
Portugal					
Gross Fixed Capital Formation	7.5	7.2	6.5	2.4	3.6
Agriculture	5.2	4.2	3.4	0.9	.
Industry	7.7[e]	5.5	7.8	3.3	.
Manufacture	.	5.5	7.0	3.6	.
Services	.[e]	9.1	5.8	1.8	.
GDP Ratio	14.9	17.5	18.0	19.5	19.7[c]
Spain					
Gross Fixed Capital Formation	.	14.3	6.3	6.1	-1.8
Agriculture	.	12.9	.	.	.
Industry	.	18.3	.	.	.
Manufacture	.	18.8	.	.	.
Services	.	12.0	.	.	.
GDP Ratio	20.0[f]	23.1	23.7	23.3	21.5

[a]Annual percentage rates of change. - [b]At 1975 market prices. - [c]1975-1978. - [d]Construction included in Services. - [e]Services included in Industry. - [f]1953-1960.

Source: OECD [c].

dustry-determined. Manufacturing value added rose faster than GDP, so that its contribution to GDP increased considerably, while it stagnated or even declined in the Community. There was a significant decline in the share of the agricultural sector while the tertiary sector followed a mixed pattern (see also Tables 9 and 10). Market penetration by foreign suppliers was rapid since accelerated industrialization and the rising standard of living called for larger quantities of foreign intermediate investment and consumption goods. At the same time, manufactured export expanded fast. In that period, Greece, Portugal, and Spain made a leap forward in their economic development, became prominent members in the group of "newly industrializing countries" (NICs) [OECD, 1979] and considerably increased their attractiveness for private foreign investors[1].

Underlying the rapid economic growth during the 1960s was a strong expansion of investment, particularly in the production capacities of the manufacturing sector (Table 6). Though the GDP ratios of investment did not significantly exceed those observable in the EC 9, the three Southern European countries were able to achieve higher growth rates out of their investment, since the lowering of the average age of the capital stock, resulting in a smaller depreciation rate, led to considerably high capacity effects, an experience which these countries shared with other NICs. The strong expansion of productive capacities, however, did not increase employment opportunities as rapidly as required, thereby forcing a large portion of the labour force to emigrate (mainly to the Community). At the same time, the higher capital endowment per worker gave rise to labour productivity, which allowed wages to increase remarkably (Table 7).

d. Economic Crises During the 1970s

The end of the period of fast economic growth and trade expansion was marked by two almost coinciding events in all three countries: the 1973-1974 quadrupling of oil prices and the world recession of 1974-1975 on the one hand, and the internal political transition from dictatorships to representative democracies (set in motion in April 1974 in Portugal, in July 1974 in Greece, and in December 1975 in Spain). The external shocks almost immediately affected the external

[1] There is an extensive literature with empirical analyses on the effects of the changed development policies. See, for instance, Katsos [1975], Donges [1976b], Baklanoff [1978] and Tsoukalis [1981], and the references contained therein.

Table 7 - Average Hourly Wages for Workers in Greece, Portugal, Spain and Germany[a], 1960-1979 (US-$)

	1960	1965	1970	1975	1979
Greece					
Manufacture	0.25[b]	0.34	0.53	1.08	2.51
Portugal					
Agriculture[c]	0.10	0.14	0.24	0.74	0.77
Industry	.	.	0.38[d]	1.26	1.30
Manufacture	0.14	0.19	0.37[d]	1.30	1.36
Spain					
Agriculture[c]	.	.	0.34	0.93	1.94
Non-agriculture	0.22	0.36	0.56	1.87	4.95
Manufacture	0.22	0.36	0.57	1.82	4.82
Germany					
Agriculture[e]	0.32	0.58	0.85	2.10	3.80
Non-agriculture	0.64	1.07	1.67	4.00	6.85
Manufacture	0.63	1.03	1.63	3.94	6.74

[a]At current prices and exchange rates. - [b]1961. - [c]Estimates under the assumption of a six-days-week and an equal number of hours worked as in non-agriculture. Since the number of hours worked most certainly is higher in agriculture than in non-agriculture, hourly wages are likely to be considerably below the estimated figures. - [d]1971. - [e]Minimum rates.

Source: ILO [var.iss.]. - Own estimates.

sectors of the three countries adversely, which by then had become quite important compared to the early 1960s. The terms of trade deteriorated, foreign demand for these countries' exports slowed down, tourist revenues, foreign direct investment and emigrant workers' remittances all declined. Hence, the catching-up process was bound to face renewed balance-of-payments constraints[1].

[1] Mateus [1981] has estimated for Portugal that the combined adverse balance-of-payments impact of external shocks amounted to 3.8 percent of GDP in 1974 and increased up to 10 percent in 1977. There are no comparable estimates available for Greece and Spain, but the orders of magnitude might be similar, resembling the experience of other NICs [Balassa, 1981].

The political transition compounded the problem: On the one hand, it was accompanied by fierce distributional struggles in the labour market, since the trade unions, after a long period of repression, were keen on correcting what they regarded as the major injustices of the previous regimes, and they considered aggressive behaviour as an adequate way of increasing the number of their respective affiliates; on the other hand, the governments, particularly in Portugal and Spain, also attached priority to income redistribution, thereby trying to consolidate the political democratization (which turned out to be a difficult task as the succession of government crises in both Iberian countries, including the failed military coup in Spain in February 1981, revealed). Wages in manufacturing increased sharply, while productivity growth slowed down markedly in a climate of spreading strikes, lock-outs and workers' absenteeism. As a result, unit labour costs, which had been relatively stable during the 1960s, rose rapidly in the three countries and exceeded the rate of increase observed for the Community during the same period (Table 8 and Figure 1).

Under these circumstances, the international competitiveness of Greek, Portuguese and Spanish producers on both the domestic and the world market could not help but suffer. However, some relief came from the higher valuation of West European currencies vis-à-vis the US-$, especially those of the Community which is the most important export market of the new entrants. At the same time, Greece and Portugal allowed the drachma and the escudo to devaluate gradually, though not sufficiently enough to eliminate the differences between domestic and international cost increases; Spain, by contrast, even let the peseta appreciate in nominal terms (from 1977 to 1979) in order to bring down the oil bill. On the whole, investment was discouraged (Table 6); outflows of capital, entrepreneurial talents and skilled labour began to appear to a significant extent; and marginal, inherently inefficient firms, which had been able to survive during the preceding boom, now went bankrupt. Expansionary monetary and fiscal policies pursued by the governments only succeeded in maintaining inflationary pressures at a high level.

None of the three countries undertook the structural adjustments required to resume rapid economic development under changed world economic conditions. On the contrary, the economic-policy movement towards greater internal liberalization and outward orientation, as initiated in the 1960s, reached a deadlock. State ownership of enterprises increased (in Greece only with regard to public utilities) and so did public consumption. Price controls, minimum wages, im-

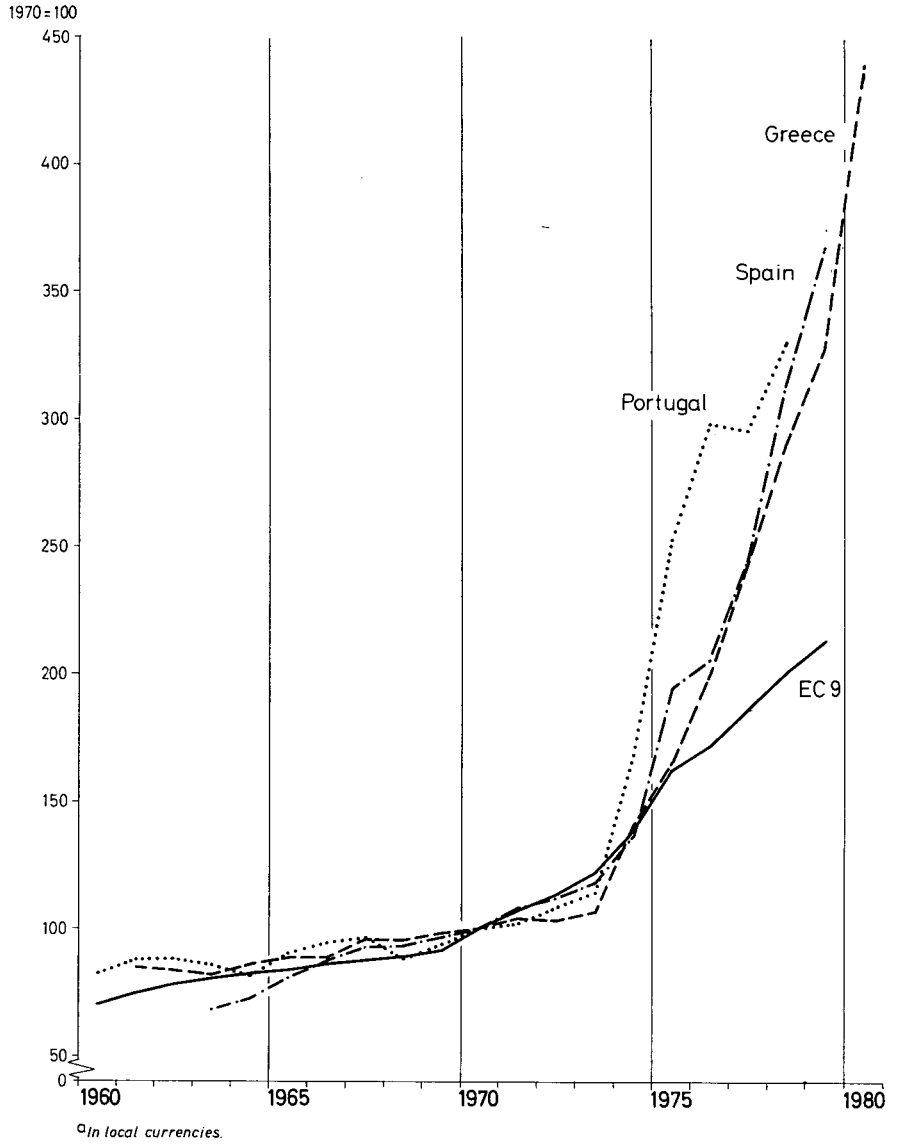
Table 8 - Indexes of Hourly Wages and Unit Labour Costs in Manufacturing for Greece, Portugal, Spain and the EC 9[a], 1960-1980 (1970 = 100)

Year	Greece			Portugal			Spain			EC 9[b]		
	wages	unit labour costs		wages	unit labour costs		wages	unit labour costs		wages	unit labour costs	
	local currency		US-$	local currency		US-$	local currency		US-$	local currency		US-$
1960	.	.	.	44.7	82.7	83.1	.	.	.	41.9	71.0	72.1
1961	47.8	85.5	85.4	50.8	87.7	87.9	.	.	.	45.7	75.0	77.0
1962	50.0	84.7	84.6	51.7	88.2	88.6	.	.	.	50.3	78.4	80.6
1963	52.8	82.1	82.0	53.8	85.6	86.2	41.2	68.7	80.2	54.5	80.8	83.2
1964	58.5	85.7	82.9	54.9	81.3	81.1	47.1	72.8	84.7	59.2	82.0	84.5
1965	63.5	88.4	88.5	62.5	90.2	89.9	54.6	81.4	94.5	64.6	84.4	86.7
1966	71.5	89.1	89.0	69.2	94.4	94.1	63.7	87.6	102.0	70.0	87.0	89.3
1967	79.9	95.9	95.9	72.4	96.0	95.8	73.0	92.4	105.7	74.1	87.6	89.6
1968	85.7	95.6	95.5	77.7	88.1	87.7	78.9	93.6	93.7	80.4	88.4	87.6
1969	94.4	98.3	98.2	90.2	93.7	93.9	87.9	96.5	92.4	87.4	91.3	90.0
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	108.8	104.1	103.9	114.1	102.2	103.9	113.5	108.4	109.1	113.4	108.0	111.4
1972	118.7	103.5	103.4	132.6	108.7	115.0	132.3	112.2	121.8	127.7	113.7	126.4
1973	138.2	107.1	108.1	155.4	114.6	132.9	158.3	118.4	141.8	146.1	122.2	154.6
1974	174.7	141.0	140.8	245.7	169.1	190.6	199.7	136.5	165.0	172.6	139.0	171.7
1975	217.8	165.3	139.0	354.3	252.6	283.1	265.3	194.8	236.8	205.1	162.8	207.1
1976	280.0	200.1	161.9	442.4	298.9	283.5	344.5	206.2	215.1	231.4	172.0	199.9
1977	338.5	244.0	205.9	518.5	295.9	221.3	448.9	246.0	225.9	258.2	186.6	221.5
1978	418.4	290.8	241.9	602.2	330.3	215.1	566.5	314.5	286.2	287.3	200.5	263.6
1979	504.7	329.3	265.5	.	.	.	698.8	367.3	381.8	322.5	213.9	298.4
1980	633.2	438.9	282.6	.	.	.	.	.	.	.	.	.

[a] *At current prices and exchange rates.* - [b] *Figures are taken from essays in Monthly Labour Review; they include Sweden and exclude Ireland and* Luxemburg. Though the methods used in these essays differ somewhat from those of the authors, the results are comparable.

Source: OECD [b]. - UN [b]. - IMF [var. iss.]. - ILO [var. iss.]. - Neef [1972]. - Neef, Capdevielle [1980]. - Moura [1977]. - Own calculations and estimates.

Figure 1 - Development of Unit Labour Costs in Greece, Portugal, Spain and the EC 9, 1960-1980



Source: Table 8.

port restrictions and subsidies to structurally ailing industries were reintroduced, inefficient import substitution was increased and exports were most severely discriminated against.

This policy reversal was particularly evident in the case of Portugal, where the Left seized power in the aftermath of the April 1974 Revolution and held it until November 1975[1]. About two hundred enterprises were nationalized, affecting transportation, the energy sector, the banking and insurance system as well as major enterprises in steel, basic chemicals, mining, cement and beer. Many firms were illegally taken over by their workers. There was also wide-spread nationalization of large farms and revolutionary land occupation in the south of the country. In all these cases, dispossessed owners (nationals or foreigners) were not compensated. The rules concerning foreign direct investment became rather restrictive, ambiguous and unstable over time [Balassa, 1977, pp. 241 f.; Donges, 1980a, pp. 272 ff.]. Thus, the successive governments created substantial uncertainty, even with regard to their own policies, thus hardly creating a climate in which productive investment, be it domestic or foreign, can flourish[2]. It was not until the late 1970s that more moderate forces came into power, but the profound distortions caused by the revolutionary policies and turbulences have not been fully removed yet.

The decolonization of Portugal's African territories (in 1975) may have put another severe restraint on the Portuguese economic development. Portugal lost important markets for its manufactured exports and significant sources of primary-commodity supplies. Moreover, it suddenly found itself destitute of a considerable amount of capital that Portuguese had invested in Angola and Mozambique during the preceding ten to fifteen years. More important, however, about 800,000 repatriates from the colonies (roughly one-tenth of Portugal's population in 1973) had to be integrated into the economy. On the other hand, Portugal was also released from the heavy financial burden, which both the colonial warfares and the execution of infrastructure projects had entailed for the small "mother country".

---

[1] See Balassa [1977, pp. 229 ff.]; Esser et al. [1977, pp. 150 ff.]; Baklanoff [1978, pp. 156 ff.].

[2] Greece may follow a similar pattern under the newly-elected socialist government. Prime Minister Andreas Papandreou promised during the 1981 election campaign that a number of basic industries would be nationalized in addition to banks, insurance companies and foreign-trade firms.

3. Changes of Economic Structure

a. Sources of Distortion

As we have seen, the three countries had a late start into modern economic development, proceeding at only a slow pace for a long time, which seems to have been due to a large extent to severe obstacles to structural adjustment, rooted in excessive government interventionism. Excessive interventionism means that competition was not allowed to act as a "creative destructor" of antiquated structures (in the Schumpeterian sense). Foreign price and quality competition was more or less ruled out over long periods. Domestic competition was also weak for at least two reasons. One is that poor transportation and communication systems had led to a fragmentation of the internal markets. The second reason is that the industrial licensing systems, so widely used during the 1930s, 1940s and 1950s, restricted the entry of new producers into the markets. Licenses were normally granted either on the first-come, first-served principle or on the grounds of the bargaining power of the would-be investor and the closeness of his connections to the administration.

Lack of a competitive environment has allowed a great number of extremely small enterprises, run in quite an outmoded manner, to survive. Greece is the most outstanding case in point among the Three [Kartakis, 1970]. Most of Greece's small manufacturing enterprises are family-owned, and their leaders are artisans rather than entrepreneurs. They rest content with "sufficient" profits rather than aspiring to earn as much as would be possible if production were run efficiently. Selection of the most efficient supplier scarcely occurs. These firms produce standardized products for narrow local markets with backward technologies and high labour intensities. A number of larger private enterprises, which also developed in the sheltered markets, are family-owned, too, and show similar characteristics. Their organization is paternalistic with an insufficient delegation of responsibilities and a low degree of specialization. They do not attach any importance to economies of scale and the mentality of their managers is not much different from that of the owners of the small firms. For a long time, moreover, managers of large firms were preoccupied more with negotiations with the public authorities on the approval of production and investment plans than with the efficient execution of these plans and the search for new profitable investment opportunities. Such inefficiencies, which can also be easily found in Portugal and Spain, hinder economic growth, of course. The rate of equity capital within the enterprises remains

small, because profits are quite often not reinvested in the enterprises but spent on real estates, government bonds and so forth.

In addition, the financial markets were subject to a number of restrictions imposed by the governments. Maximum interest rates on private deposits and loans were typically fixed far below the annual inflation rate. Interest ceilings naturally subsidize borrowers, discourage potential depositors to place savings in banks and other financial institutions and sooner or later require credit rationing[1]. In fact, the three countries are good examples of the distortive effects caused by financial repression: In these countries there has been excessive investment in buildings and luxurious installations until recently; established large firms were favoured over medium-sized and small firms as well as over newcomers; promising opportunities for innovative investment were foregone for lack of financial support; production became unduly capital-intensive and the capital-output ratio in the economy was biased in an upward direction. Under such conditions, which have been improved only partially in recent years, economic development and structural change could not make all the progress that would have been possible if financial markets had been allowed to operate efficiently.

Public enterprises, most notably in Spain as has been argued above, are another source of structural distortions and inflexibility. Based on dubious market-failure arguments as well as ambiguous social and political objectives, the State retains its control over the investment patterns in manufacturing industry through public ownership of a great number of enterprises. After the INI was reorganized in 1974, its main objective was to play a leading role in the development of industries which produce sophisticated technologies, such as electronics and aeronautics. In practice, however, numerous INI-controlled enterprises have continued to be inefficient and to sacrifice economic risk-taking to political expediency. They have exerted strong pressure on the government to get protection and subsidies. And by reducing effective competition they have attenuated, throughout the economy, the efforts for cost reductions, structural change and technological progress [Schwartz, forthcoming].

Interventions of the sort we have discussed affect sectoral and industrial structures, either because this is the intention of the policies pursued or because there is an unintentional adjustment to poli-

[1] For an analysis of the important role of the financial system in economic development, see McKinnon [1973] and Shaw [1973].

cy-induced parameter changes. It can be attempted to evaluate such structural distortions by comparing the actual production and employment structures of the three countries with what might have been expected if these countries had followed a "typical" pattern of economic development, i.e. one that reflects "normal" circumstances, opportunities and obstacles. Deviations from this pattern, which are not induced by natural resource endowments, comparative advantages and other peculiarities of the countries under consideration, may then be traced to the economic policy framework.

b. Sectoral and Industrial Structures

In order to obtain patterns of a "typical" economic development, hypothetical structures have been computed. As is well known from the Chenery-Syrquin models [1975], these hypothetical structures are to show the "normal" sectoral breakdown of GDP and employment at a given level of development (measured as per capita income), according to international cross-section patterns of growth[1]. The estimate is based on data from the OECD countries for 1975 and covers the three major economic sectors (agriculture, industry and services) on the one hand, and 28 manufacturing branches at the three-digit ISIC-level on the other, for which various types of OLS regression functions have been tested[2].

The findings of the inter-country regression estimates for the major economic sectors are shown in Table 9 and Figure 2[3]. They lend sup-

[1] The reader should keep in mind that the cross-section framework represents only a benchmark for the analysis. It does not tell us what structural changes should take place.

[2] As a criterion for the selection of the best estimates from several different types of regression functions, the error of the regression standardized by the mean of the dependent variable, has been preferred to the usual coefficient of determination R^2, for the latter is influenced not only by the deviations of the actual data from the estimated regression function, but also by the elasticity of the dependent variable with respect to the independent - which is of no importance for the descriptive power of the regression function with respect to the underlying observations. See also Hiemenz, Schatz [1975, pp. 6 ff.].

[3] One could also have included population to reflect the influence of the size of the domestic market on the production and employment structures, working through constraints on the exploitation of economies of scale. We have found this variable to be statistically insignificant in de-

Table 9 - Cross-Section Regression Analysis of Value Added and Employment Shares of Major Economic Sectors, 1975

	Dependent variable	Independent variable					
		constant	y	ln y	$(\ln(y))^2$	R^2	standardized error[a]
Value added							
Agriculture	ln x	-1.3833		-0.8632 [-0.7820] (29.913)*		0.61	14.86
Industry	ln x	-1.2105		0.4123 [1.6027] (4.664)+	-0.1344 [-1.506] (2.840)	0.27	14.12
Manufacture	ln x	-1.5382		0.4438 [1.3418] (2.763)	-0.1655 [-1.1922] (2.203)	0.14	14.23
Services	x	0.4381	0.0159 [0.6060] (11.025)*			0.37	8.87
Employment							
Agriculture	ln x	-0.5614		-1.0732 [-0.8094] (41.800)*		0.66	20.51
Industry	ln x	-1.6906		0.9408 [2.3759] (23.507)*	-0.3013 [-1.8215] (13.816)*	0.63	13.72
Manufacture	ln x	-2.0729		0.8841 [1.9336] (11.451)*	-0.2560 [-1.3404] (5.502)+	0.55	13.26
Services	x	0.2995	0.0371 [0.7730] (32.666)*			0.60	13.56

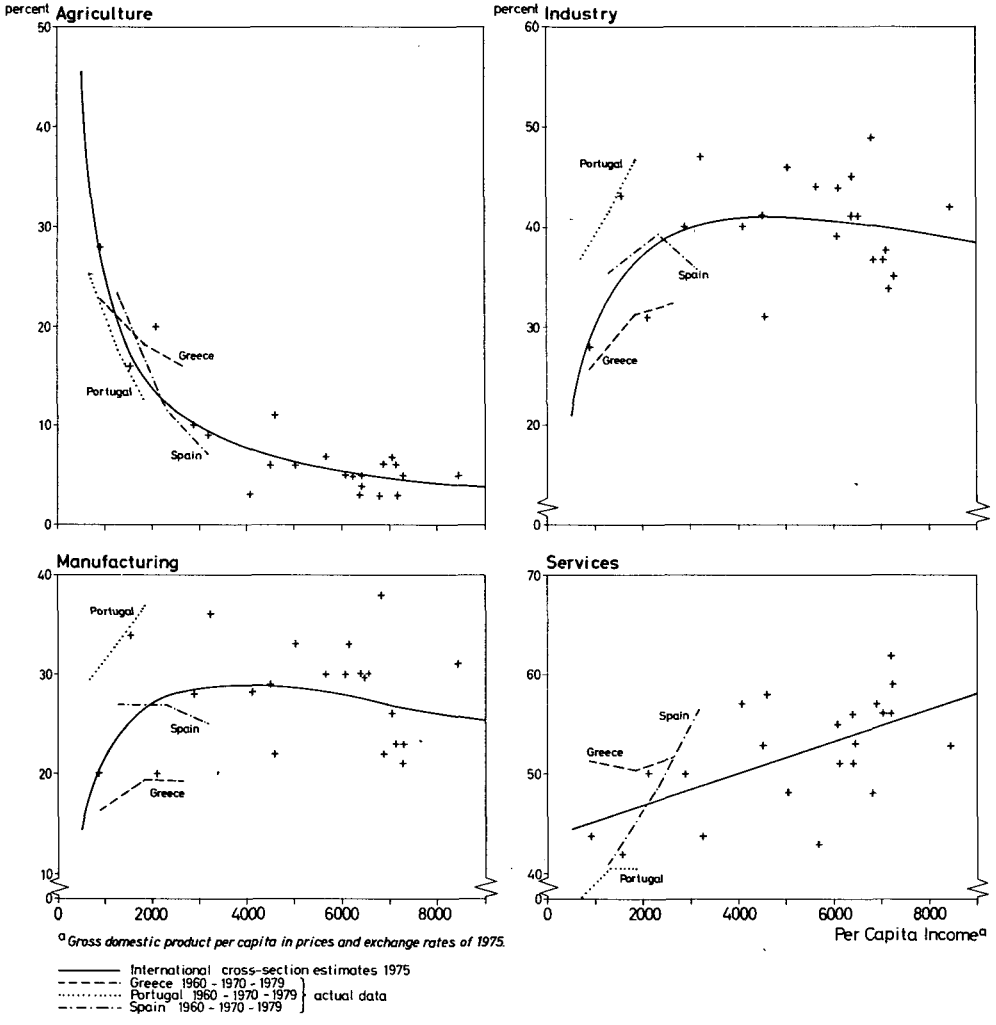
[a] For method see text.

y = Gross domestic product per capita in 1,000 US-$.
x = Share of sectoral value added or employment in gross domestic product.
[ ] = ß-weights.
( ) = F-values.
\+ = significant at the 5 percent level.
* = significant at the 1 percent level.

Source: OECD [a; c]. - Own calculations.

termining economy-wide structural patterns. The explanation may lie in the fact that scale disadvantages resulting from narrow domestic markets can be overcome by integrating the production into the world economy, as did happen in reality.

Figure 2 - Sectoral Contribution to Gross Domestic Product According to Per Capita Income in OECD Countries, 1960-1979



Source: Tables 9 and 10.

port to the well known Fischer-Clark-Fourastié three-sector hypothesis. This hypothesis predicts that, as a result of both demand and supply factors (different income elasticities of demand and changes in relative factor prices and comparative advantages), the primary sector will decline relative to rising per capita income levels. The secondary sector gains weight up to a certain income level (around 4,700 US-$ per capita for our sample) and then again loses significance, whereas the tertiary sector usually exhibits an upward trend for a wide range of income levels. These sectoral shifts over time concern both the shares of value added and of employment.

The estimated regression coefficients have been used to compute hypothetical structures of the new entrants for the years 1960, 1970 and 1979 (Tables 10 and 11)[1]. Comparing the actual structures with these hypothetical ones, we obtain some considerable differences. As to value added, Spain seems to come close to the "typical" patterns of development (Table 10 and Figure 2). However, the service sector, which was below the hypothetical level in 1960, has grown more rapidly than "normal", thereby exceeding the hypothetical level in 1979. Only recently has the economy become less agricultural and less industrialized in terms of value added than might have been expected.

By contrast, the Greek economic structure differs quite markedly from the hypothetical one. The industrial and the manufacturing sector present an increasingly poor performance measured by international standards, whereas the agricultural sector has become substantially over-sized. If one additionally takes into account that the services sector is much larger than is "normal", Greece seems to be an economy that displays reluctance with regard to structural change.

Significant structural divergences from the international pattern are observable in the case of Portugal, too. The shares of the industrial and the manufacturing sector have been consistently above the hypothetical levels. Yet the divergence decreased during the 1960s. The

[1] Since the functions have been estimated separately, it cannot be expected that the percentage value added and employment shares which can be calculated for the individual sectors from the regression results add up to exactly 100 percent. As a matter of fact, however, there are only slight divergences from the 100 percent value. In order to reach formal correctness, we have adjusted the calculated shares for each sector by distributing the divergences according to the relative sectoral weights to yield a sum of 100 percent.

Table 10 - Hypothetical and Actual Composition of Gross Domestic Product in Greece, Portugal and Spain, 1950-1990 (percent)

	Actual	Hypothetical[a]	Actual	Hypothetical[a]	Actual	Hypothetical[a]	Actual	Hypothetical[a,b]
	1950	1960		1970		1979		1990
Greece								
Agriculture	31.0	26.3	22.8	15.0	18.2	10.9	17.2[c]	8.2
Industry	21.2	28.8	25.7	37.3	31.4	40.0	31.0[c]	43.3
Manufacture	15.4	20.7	16.3	27.0	19.1	28.9	18.9[c]	29.4
Services	47.8	44.9	51.4	47.7	50.4	49.0	51.9[c]	50.5
Portugal								
Agriculture	33.4	31.9	25.3	20.0	17.7	15.3	12.8	11.6
Industry	35.2	24.8	37.0	33.4	41.8	37.0	46.7	37.7
Manufacture	27.2	17.6	29.5	24.3	33.4	26.9	36.9	28.7
Services	31.4	43.3	37.6	46.5	40.5	47.6	40.5	48.8
Spain								
Agriculture	19.6	20.9	23.7	12.3	11.8	9.6	8.1	7.2
Industry	29.8	32.8	35.3	39.2	39.4	40.8	36.6	41.4
Manufacture	21.3	23.8	27.0	28.4	27.0	29.3	27.5	29.3
Services	46.7	48.0	41.0	48.5	48.8	49.7	55.3	51.4

[a]Calculated from regression functions based on a cross-section analysis of OECD countries in 1975. - [b]Assuming an annual average growth rate of GDP per capita of 3 percent. - [c]1978.

Source: OECD [c]. - Donges [1976b]. - Own calculations.

shares of the agricultural sector and the services sector, which were well below expectation in the 1960s, have come closer to the hypothetical values, too. In the 1970s, however, the differences between actual and hypothetical values have tended to increase again (Figure 2).

A more or less similar picture emerges for the composition of employment by economic sectors, for which hypothetical structures have also been computed (Table 11). It should be mentioned, however, that in Greece the services sector shows slightly lower (rather than higher) shares than one would expect of a "typical" country with a similar per capita income. This seems to indicate a particularly high productivity of this sector in Greece. In Spain, the shares of the industrial and the manufacturing sector in 1960 were considerably above the hypothetical levels, whereas the value added shares did not exceed them so much. This might be taken as an indication of less favourable productivity developments within these sectors.

Table 11 - Hypothetical and Actual Participation of Economic Activities in Civilian Employment in Greece, Portugal and Spain, 1950-1990 (percent)

	Actual	Hypothetical[a]	Actual	Hypothetical[a]	Actual	Hypothetical[a]	Actual	Hypothetical[a,b]
	1950	1960		1970		1979		1990
Greece								
Agriculture	48.2	54.7	56.6	30.8	38.7	21.0	27.3[c]	14.7
Industry	19.4	15.5	18.0	30.7	23.8	36.8	30.7[c]	39.5
Manufacture	16.2	10.6	12.3	20.6	15.4	24.8	19.1[c]	27.1
Services	32.5	29.9	25.7	38.5	37.5	42.2	42.0[c]	45.8
Portugal								
Agriculture	42.2	63.8	42.8	42.3	31.8	31.5	31.3[c]	22.6
Industry	29.3	10.4	29.5	23.2	35.6	30.2	34.9[c]	35.9
Manufacture	21.3	7.3	21.4	15.6	26.1	20.3	25.4[c]	24.2
Services	28.6	25.8	27.7	34.6	32.6	38.3	33.9[c]	41.5
Spain								
Agriculture	48.8	44.1	42.3	24.3	29.5	17.8	20.2[c]	12.4
Industry	25.1	22.0	32.0	34.9	37.3	38.4	37.3[c]	39.9
Manufacture	18.2	14.9	22.7	23.4	27.2	26.1	27.0[c]	27.6
Services	26.1	34.0	25.7	40.8	33.2	43.8	42.5[c]	47.8

[a]Calculated from regression functions based on a cross-section analysis of OECD countries in 1975. - [b]Assuming an annual average growth rate of GDP per capita of 3 percent. - [c]1978.

Source: OECD [a]. - Own calculations.

Turning to the manufacturing industry, we have also estimated "typical" patterns of value added and employment, based on a cross-section analysis of 28 industrial branches (three-digit ISIC). The estimated regression functions are shown in Table 12. Apart from per capita income, two additional explanatory variables proved to be significant for some branches: One is population, which seems to affect the demand for a number of industrial products and thereby also the degree of labour absorption of various branches; the other variable is the relative degree of industrialization, which indicates the effects of complementarities and economies of scale, which for some industries seem to be important.

The cross-section analysis enables a grouping of the manufacturing industries in four categories. The first category contains various industries (such as tobacco manufactures, textiles, pottery, glass and other non-metallic mineral products) that decline with respect to their

Table 12 - Cross-Section Regression Analysis[a] of Value Added and Employment Shares of 28 Manufacturing Industries, 1975

ISIC	Industry	Value added: independent variables							Employment: independent variables						
		constant	y	ln y	p	i	R^2	standardized error[b]	constant	y	ln y	p	i	R^2	standardized error[b]
	Consumer Goods Industries														
311/2	Food products	-3.5635	-0.0953 [-0.7036] (0.711)	0.3674 [0.7188] (0.742)	-0.0023 [-0.3810] (2.651)		0.18	8.11	-3.7199	-0.2910 [-1.9996] (9.063)*	1.0799 [1.9663] (8.760)	-0.0028 [-0.4219] (5.128)+		0.48	6.74
313	Beverages	-4.7777	-0.1481 [-0.8284] (0.992)	0.4551 [0.6748] (0.658)	-0.0028 [-0.3455] (2.169)		0.19	7.71	-5.8399	-0.3385 [-1.7770] (5.910)+	1.4011 [1.9496] (7.109)+	-0.0024 [-0.2761] (1.814)		0.37	6.45
314	Tobacco	-4.7509		-0.6757 [-0.4715] (4.573)+			0.22	12.86	-5.8639		-0.5035 [-0.4396] (4.072)			0.19	9.12
321	Textiles	-4.002		-0.8953 [-0.8950] (78.899)*		3.9374 [0.3531] (12.281)*	0.83	5.79	-4.3419		-0.8937 [-1.0543] (53.792)*		6.5494 [0.7701] (28.705)*	0.77	6.11
322	Wearing apparel	-5.4846	-0.5413 [-2.2866] (13.247)*	2.1837 [2.4448] (15.144)*			0.47	7.88	-5.3713	-0.6054 [-2.2633] (17.107)*	2.6417 [2.6175] (22.881)*			0.60	8.95
323	Leather and products	-6.1874	-0.5511 [-2.1442] (12.377)*	1.561 [1.6096] (6.975)+			0.56	5.84	-6.4227	-0.4963 [-2.2837] (11.264)*	1.6234 [1.9800] (8.468)+			0.45	5.63
324	Footwear	-7.3989	-0.7397 [-2.0053] (10.084)*	2.2479 [1.6152] (6.423)+		5.1656 [0.3330] (3.461)	0.60	8.67	-7.1116	-0.5131 [-1.6095] (5.291)+	1.4054 [1.1683] (2.474)		6.4461 [0.5342] (4.942)+	0.49	8.97
331	Wood products	-5.2639		0.1894 [0.1395] (0.318)	-0.0043 [-0.2597] (1.102)		0.08	15.52	-5.1968		0.2292 [0.1572] (0.387)	-0.0027 [-0.1514] (0.360)		0.05	17.62
332	Furniture and fixtures	-7.9472	-0.4802 [-1.4388] (6.325)+	2.2575 [1.7928] (9.641)*		6.0581 [0.4316] (7.085)+	0.82	8.58	-7.0756	-0.5566 [-1.6928] (8.585)*	2.2688 [1.8288] (8.889)*		5.5527 [0.4462] (5.057)+	0.65	9.00
341	Paper and products	-5.0450		0.3240 [0.3299] (2.199)			0.11	11.99	-5.799		0.6190 0.6190] (11.182)*			0.38	9.54

Table 12 continued

ISIC	Industry	Value added: independent variables							Employment: independent variables						
		constant	y	ln y	p	i	R^2	standardized error[b]	constant	y	ln y	p	i	R^2	standardized error[b]
342	Printing, publishing	-5.3108		0.5328 [0.6641] (14.201)*			0.44	7.86	-5.7521		0.8150 [0.8008] (32.172)*			0.64	7.98
356	Plastic products, n.e.c.	-6.1613	-0.2762 [-1.6266] (5.222)+	0.9200 [1.4359] (3.995)		2.9736 [0.4163] (4.259)	0.49	5.38	-6.6317	-0.2274 [-1.2703] (4.794)+	0.8811 [1.3044] (4.484)		4.1324 [0.6098] (9.367)*	0.65	4.64
361	Pottery, china and earthenware	-8.0394	-0.2407 [-0.6067] (12.990)*			9.2689 [0.5556] (10.897)*	0.63	8.26	-7.7749	-0.2874 [-0.7596] (13.586)*			11.0232 [0.7696] (13.946)*	0.59	8.70
362	Glass and products	-6.8842		-0.0869 [-0.4194] (4.757)+		4.7868 [0.5491] (8.152)+	0.45	5.89	-7.3709		-0.1001 [-0.4186] (4.009)		7.1965 0.7951] (14.462)*	0.48	6.54
	Intermediate Goods Industries														
351	Industrial chemicals	-5.6197	-0.0557 [-0.3089] (2.490)			5.0003 [0.6594] (11.344)*	0.50	6.51	-6.9899	-0.0364 [-0.1735] (1.658)			7.7847 [0.9812] (53.043)*	0.82	3.93
352	Other chemical products	-5.3082	-0.0455 [-0.3058] (1.831)			3.2265 [0.5156] (5.206)+	0.34	6.03	-5.9537	-0.0281 [-0.2027] (0.786)			4.0787 [0.7786] (11.593)*	0.49	4.53
353	Petroleum refineries	-4.6713		-0.6081 [-0.3878] (2.916)	0.0056 [0.2957] (1.696)		0.23	15.44	-7.7213	0.2894 [0.2101] (0.793)		0.0041 [0.2492] (1.116)		0.11	11.04
354	Petroleum, coal products	-7.9960	0.3481 [1.4108] (2.489)	-1.4992 [-1.6103] (3.184)		4.9536 [0.4773] (3.547)	0.31	6.99	-7.6710	-0.1270 [-0.4893] (0.198)	0.4705 [0.4803] (0.170)		-0.7188 [-0.0731] (0.038)	0.02	8.03
355	Rubber products	-6.7182	-0.2450 [-1.2279] (2.950)	0.7292 [0.9688] (1.803)		4.2372 [0.5050] (6.212)+	0.48	5.97	-6.7882	-0.2125 [-1.0900] (2.032)	0.7481 [1.0169] (1.569)		3.7396 [0.5067] (3.724)	0.39	6.21
369	Non-metallic mineral products, n.e.c.	-5.6522	-0.0520 [-0.3150] (2.688)			4.6625 [0.6710] (12.194)*	0.52	5.72	-5.2848	-0.1001 [-0.6841] (9.177)*			3.7542 [0.6775] (9.001)*	0.46	5.09

Table 12 continued

ISIC	Industry	Value added: independent variables							Employment: independent variables						
		constant	y	ln y	p	i	R^2	standardized error[b]	constant	y	ln y	p	i	R^2	standardized error[b]
371	Iron and steel	-5.9025	0.0104 [0.0389] (0.032)			5.5699 [0.4938] (5.166)+	0.25	12.38	-6.3253	0.0267 [0.0802] (0.106)			6.0433 [0.4794] (3.806)	0.27	13.98
372	Non-ferrous metlas	-5.6595	0.0403 [0.1789] (0.562)				0.03	9.05	-6.3540	0.1328 [0.5375] (0.907)				0.29	8.19
	Capital Goods Industries														
381	Fabricated metal products	-5.4475	-0.1350 [-0.8637] (3.392)	0.7589 [1.2864] (7.388)+		3.7387 [0.5685] (18.297)*	0.75	4.69	-5.4154	-0.1965 [-1.0483] (7.319)+	0.9134 [1.2915] (9.856)*		4.3730 [0.6164] (21.457)*	0.82	4.73
382	Non-electrical machinery	-6.5418	0.1582 [0.5569] (14.003)*			6.5205 [0.5456] (13.441)*	0.65	9.93	-6.1233	0.1626 [0.5179] (9.033)*			5.0262 [0.4228] (6.022)+	0.67	10.50
383	Electrical machinery	-6.3654		0.3057 [0.3827] (17.392)*		7.0298 [0.7895] (74.031)*	0.86	4.58	-6.3597		0.3087 [0.3009] (6.783)+		7.4021 [0.7191] (38.740)*	0.86	5.87
384	Transport equipment	-4.2697		0.3078 [0.4484] (4.529)+			0.20	9.51	-4.6196		0.4416 [0.5137] (6.451)+				11.02
385	Professional goods	-10.8079		1.0009 [0.5182] (10.012)*		10.9636 [0.5092] (9.668)*	0.61	11.86	-10.5127		0.8387 [0.3775] (4.705)+		12.4373 [0.5580] (10.280)*	0.70	12.30
390	Other industries	-6.9512	-0.3992 [-1.6904] (8.564)*	1.9775 [2.2196] (14.766)*			0.58	5.83	-6.8093	-0.3650 [-1.6274] (9.333)*	1.8804 [2.2221] (17.400)*			0.64	5.23

[a] Dependent variable: ln x. - [b] For method see text. -

x = Share of industries value added or employment in gross domestic product.
y = Gross domestic product per capita in 1,000 US-$.
p = Population in millions of persons.
i = Share of manufacturing value added or employment in gross domestic product or total employment, respectively.
[ ] = ß-weights.
( ) = F-values.
\+ = Significant at the 5 percent level.
* = Significant at the 1 percent level.

Source: OECD [a; c]. - UN [c]. - Own calculations.

contribution to GDP and to their absorption of labour force[1] both in relatively highly developed and in less developed countries, and which usually lead the process of growth in manufacturing in the early phases of industrialization only. No doubt, at a low development level these activities show an income elasticity of domestic demand clearly above unity; and in the course of the international division of labour they may in fact - because of their high labour intensities - experience an extensive growth in developing countries. However, as the development level increases to levels of the OECD countries referred to here, their significance is likely to decrease, at first proportionately, then even absolutely, and other industries will take over the leading role in the industrial development.

The second category includes activities whose shares in GDP and total employment within the per capita income range of OECD countries reach a maximum (such as food and beverages, wearing apparel, leather products and footwear, furniture, plastics, rubber and fabricated metal products as well as "other industries", including jewellery, musical instruments, sporting goods and toys). These products are often related to higher levels of consumption. However, some of the industries producing these goods typically are relatively labour-intensive. Therefore, countries with a high income level will be subject to increasing competition from less developed countries, especially the NICs, which will lead to a relative decline of these activities.

Industries belonging to the third group are those which may increase their proportion of value added and employment throughout the development process, particularly in highly developed countries, at the expense of all other manufacturing activities. Examples are paper products, printed matter, non-ferrous metals and all capital goods except fabricated metal products. One may regard them as modern growth industries. Income elasticities of demand for their products are high and they are relatively research-, skill- and capital-intensive. Due to their factor endowments, highly industrialized countries, and therefore most EC member states, have a comparative advantage in these industries.

---

[1] Contrary to an earlier analysis [Krieger, 1980, pp. 151 ff.], the contribution to value added and the share in employment have been related in this study to the total economy and not to the manufacturing sector. For the hypothetical structure, however, the results calculated from the regression functions have afterwards been expressed as percentages of the manufacturing total.

The shaping of the fourth group is more ambiguous. Of the two independent variables, which have been taken into consideration in addition to the development level, the degree of industrialization has a positive (and statistically significant) impact on the production of textiles, footwear, furniture, plastics, pottery, chemicals, rubber, glass products, non-metal products, iron and steel, fabricated metal products, machinery, electrical machinery and professional goods; evidently intra-industrial interdependences support the demand for these goods. This is particularly true for those industries whose regression functions show higher β-weights for the variable "degree of industrialization" than for the income variable, like iron and steel producing, also the production of chemicals, glass products and electrical machinery[1]. By an increased demand from other industries, such industries may be enabled to draw upon economies of scale, to take advantage of specialization, and to strengthen their international competitiveness. The second additional independent variable, population size, is correlated negatively to food processing and beverages, and to the wood industry, and positively to refineries. With respect to these industries, the size of the domestic market obviously plays a role. In the cases of the wood industry, the refineries and iron and steel we find an extremely high standard deviation, indicating that the size of these industries is shaped to a large extent by other than the tested variables. Finally, there seems to be no unequivocal correlation between the development level and the manufacturing of petroleum and coal products: the independent variables show different signs in the regression equations, according to whether one considers value added or employment. Given the heterogeneity of relationships, we have included those industries in the fourth category that have proved dependent to a particularly small degree on the development level: iron and steel, chemicals, wood manufactures, petroleum refineries, petroleum and coal products.

---

[1] The β-weight can be taken as a measure for the relative contribution of the various independent variables in the regression to the changes of the dependent variable. It is defined by:

$$\frac{Sx_i}{Sy} \cdot \hat{\beta}_i$$

Sx_i = standard deviation of the independent variable x_i. -

Sy = standard deviation of the dependent variable. -

$\hat{\beta}_i$ = estimated regression coefficient of x_i.

Tables 13 and 14 provide the hypothetical and the actual structures of the manufacturing industries in the three countries. Analyzing the discrepancies between hypothetical and actual structures one again finds marked differences between the Three. The traditional industries, which are of specific importance in the early phases of industrialization, have a share more or less in line with hypothetical structures in Portugal, whereas their share is larger in Greece and smaller in Spain (Table 14). Within this group the textile industry is of outstanding significance. In Portugal it accounted for 14.9 percent of manufacturing value added (as compared to a hypothetical share of 14.7 percent) in 1977, in Greece for 11.1 percent (9.4 percent) in 1975, and in Spain for only 6.7 percent (8.4 percent) in 1976. Apparently the relatively high (Greece) or low (Spain) importance of the old, traditional industries can be explained at least in part by these differences in the textile industry's significance.

The second group of industries, characterized by fast growth in less developed, and by a relative shrinkage in highly developed countries, shows, as expected, an actual share of value added that exceeds the hypothetical one in the case of Portugal and Spain. In Greece the actual share was lower than the hypothetical one in 1975, but much higher five years earlier. This seems to point out again that the Greek industrial structure was still relatively little developed. The differential between actual and hypothetical shares is considerably high in Portugal, mainly due to Portuguese food processing which yields a particularly high contribution to value added, whereas Spanish food processing already shows quite low shares.

The modern growth industries, that are of specific interest for highly developed countries, are roughly in line with expectations in Spain. In Greece, however, and more significantly in Portugal, they contribute less to total value added than may be expected from the hypothetical patterns. Yet in all three countries some, though not the same, capital goods industries yield higher actual shares than would correspond to the hypothetical structure. This seems to indicate that the three countries do not follow quite the same pattern in their process of industrial diversification. Apart from differences in comparative cost advantages, government interventions have presumably also contributed to these development peculiarities.

For the fourth category, industries with a low correlation to the development level, one may notice at first that they are partly characterized by natural-resource intensity which may give a country a comparative advantage, independent of its per capita income. A

Table 13 - Hypothetical[a] and Actual Composition of Industrial Value Added in Greece, Portugal and Spain[b] - Industries, various years (percent)

ISIC	Industry	Greece				Portugal				Spain					
		Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual
		1970		1975		1970		1977		1963		1970		1976	
	Consumer Goods Industries														
311/2	Food products	14.9	13.9	14.9	13.3	9.2	12.5	9.7	13.0	10.8	7.6	11.9	8.1	11.6	8.7
313	Beverages	4.2	3.8	4.2	3.5	2.6	3.4	2.7	2.7	3.0	3.5	3.3	3.1	3.2	2.5
314	Tobacco	2.9	2.6	2.4	2.1	2.4	2.2	2.0	2.0	3.2	1.9	2.0	1.9	1.7	1.2
321	Textiles	11.4	12.9	9.4	11.1	18.1	17.5	14.7	14.9	18.4	13.7	10.3	8.6	8.4	6.7
322	Wearing apparel	3.0	4.1	3.6	2.8	3.0	1.9	1.8	3.3	1.5	2.5	3.1	3.2	3.5	3.8
323	Leather and products	1.0	1.4	1.0	1.0	0.5	0.8	0.6	0.7	0.6	1.0	0.9	1.6	0.9	1.5
324	Footwear	0.9	1.9	1.0	1.2	0.8	1.1	1.1	1.4	0.7	1.9	1.2	2.4	1.3	2.3
331	Wood products	2.9	3.2	2.9	2.7	1.8	4.3	1.9	4.5	2.0	1.6	2.2	1.8	2.2	1.3
332	Furniture and fixtures	1.0	2.5	1.3	1.6	0.9	0.9	1.4	1.6	0.7	4.4	1.7	3.7	2.1	3.6
341	Paper and products	4.0	2.0	4.2	3.3	2.4	5.6	2.6	5.1	2.9	2.5	3.5	3.9	3.6	3.6
342	Printing, publishing	3.5	3.3	3.8	3.2	1.9	2.5	2.2	3.3	2.4	2.7	3.2	3.5	3.5	2.9
356	Plastic products, n.e.c.	2.0	2.1	2.1	2.4	1.7	1.8	2.0	3.0	1.7	1.0	2.2	3.1	2.3	2.6
361	Pottery, china and earthenware	0.6	1.0	0.6	1.0	1.8	1.7	1.7	1.7	1.2	1.6	0.9	1.9	0.8	1.8
362	Glass and products	1.2	1.0	1.2	1.3	1.7	2.3	1.7	1.7	1.6	1.4	1.4	1.6	1.4	1.5
	Intermediate Goods Industries														
351	Industrial chemicals	4.3	3.2	4.3	4.7	6.1	5.7	6.1	3.3	5.5	6.9	5.1	6.0	4.9	7.1
352	Other chemical products	4.3	3.9	4.2	4.4	4.6	5.8	4.6	4.4	4.7	5.5	4.4	4.8	4.2	4.7
353	Petroleum refineries	3.5	2.0	2.9	2.8	2.8	1.5	2.4	-0.6	4.1	0.3	2.8	1.0	2.4	1.8
354	Petroleum, coal products	0.3	0.5	0.3	0.3	0.6	0.0	0.5	-	0.6	0.2	0.3	0.5	0.3	0.4
355	Rubber products	1.4	1.1	1.5	1.7	1.5	2.2	1.7	1.5	1.4	1.8	1.6	2.5	1.7	1.8
369	Non-metallic mineral products, n.e.c.	4.0	6.0	3.9	5.1	5.3	5.0	5.3	6.3	4.9	3.8	4.5	4.5	4.4	4.2
371	Iron and steel	4.1	2.8	4.2	4.5	6.0	2.3	6.2	2.2	5.3	5.2	5.2	3.4	5.3	5.2
372	Non-ferrous metals	1.9	5.2	1.9	1.5	1.3	0.4	1.3	0.6	1.6	3.7	1.6	2.4	1.6	1.8
	Capital Goods Industries														
381	Fabricated metal products	5.6	6.7	6.2	6.4	5.2	4.0	6.2	5.9	5.0	4.2	6.8	8.3	7.4	9.2
382	Non-electrical machinery	3.4	2.7	3.7	4.1	5.3	1.5	5.8	3.1	4.3	3.4	5.0	3.1	5.6	3.6
383	Electrical machinery	4.1	4.9	4.4	5.6	6.6	3.8	7.4	5.3	5.2	4.2	6.1	5.4	6.7	6.4
384	Transport equipment	8.6	4.1	8.9	7.3	5.2	8.6	5.6	8.4	6.3	8.1	7.5	8.5	7.7	8.4
385	Professional goods	0.2	0.3	0.2	0.3	0.3	0.1	0.5	0.3	0.2	0.8	0.4	0.7	0.5	0.6
390	Other Industries	0.8	0.9	1.0	0.8	0.4	0.6	0.5	0.4	0.4	4.6	0.8	0.5	1.0	0.8

[a] For method see text. - [b] Manufacturing = 100.

Source: UN [c]. - Own calculations and estimates.

Table 14 - Hypothetical and Actual Composition of Industrial Value Added in Greece, Portugal and Spain - Industrial Categories[a], various years (percent)

Value added	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual
	1963		1970		Most recent year[b]	
Greece						
1st Category	.	.	20.2	23.5	17.5	20.6
2nd Category	.	.	34.7	38.4	36.8	34.7
3rd Category	.	.	25.7	22.5	27.1	25.3
4th Category	.	.	19.4	15.6	18.8	19.4
Portugal						
1st Category	.	.	29.3	28.7	25.4	26.6
2nd Category	.	.	25.8	29.2	27.7	33.5
3rd Category	.	.	23.7	19.8	26.3	22.0
4th Category	.	.	21.2	22.3	20.8	17.9
Spain						
1st Category	29.2	22.4	19.2	18.5	16.7	15.4
2nd Category	25.7	32.5	33.5	36.5	35.0	36.8
3rd Category	22.9	25.4	27.3	27.5	29.2	27.3
4th Category	22.2	19.7	20.0	17.5	19.3	20.5

[a]For definition see text. - [b]For Greece 1975, for Portugal 1977, for Spain 1976.

Source: Table 13.

case in point, for instance, is the Portuguese wood industry, which can rely on a high domestic supply of cork for processing (cork itself is also an important export article). Secondly, a number of activities, in particular iron and steel, are subject to various types of government interventions aimed at fostering their growth. Again, one need not wonder that the development level hardly explains the performance.

Turning to the employment structure, the hypothetical shares of industries in employment differ significantly in many cases from their shares in value added (Tables 15 and 16). This points to divergences in labour productivity between individual industries, which are of course not unexpected as they reflect differences in production techniques and thus unequal labour absorption. With regard to the four industry categories mentioned above, labour productivity is lowest in the traditional industries (first category), and roughly as low in

Table 15 - Hypothetical[a] and Actual Composition of Industrial Employment in Greece, Portugal and Spain[b] - Industries, various years (percent)

ISIC	Industry	Greece						Portugal				Spain					
		Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual	Hypothetical	Actual
		1958		1970		1975		1970		1977		1963		1970		1976	
	Consumer Goods Industries																
311/2	Food products	13.9	17.4	17.5	15.1	17.0	13.3	10.2	14.3	12.6	12.8	10.8	13.2	11.8	11.6	12.7	10.1
313	Beverages	1.6	1.7	2.4	3.2	2.4	2.0	1.3	1.4	1.7	1.5	1.3	2.4	1.7	2.4	1.9	2.0
314	Tobacco	2.4	6.5	1.4	2.9	1.1	1.0	1.2	0.4	1.0	0.3	1.4	0.5	0.8	0.6	0.7	0.5
321	Textiles	25.6	12.9	13.4	14.4	11.5	13.8	26.6	24.6	19.6	20.3	26.0	13.5	15.4	10.7	12.0	8.6
322	Wearing apparel	1.8	9.9	5.0	3.6	6.0	5.5	2.0	3.5	3.3	5.1	2.2	3.0	4.5	3.8	5.7	4.7
323	Leather and products	0.8	1.4	1.2	1.6	1.1	1.0	0.6	1.0	0.8	0.7	0.7	1.3	0.9	1.2	0.9	1.2
324	Footwear	0.8	6.3	1.3	2.3	1.5	1.8	1.6	2.4	1.7	2.3	1.4	2.1	2.0	2.6	1.9	2.7
331	Wood products	4.4	5.7	4.1	2.9	3.7	3.1	2.7	8.1	3.0	7.2	3.0	2.8	2.6	1.9	2.7	1.8
332	Furniture and fixtures	0.7	5.2	1.9	1.7	2.4	2.8	1.5	1.9	2.1	2.8	1.4	6.7	3.0	6.5	3.5	7.1
341	Paper and products	2.4	1.2	2.9	2.3	2.9	2.6	1.7	2.6	2.1	2.6	1.9	2.3	2.2	2.5	2.5	2.5
342	Printing, publishing	2.5	2.3	3.4	4.0	3.6	3.3	1.9	3.2	2.4	3.6	2.1	3.4	2.7	3.4	3.2	3.2
356	Plastic products, n.e.c.	1.4	0.1	1.8	2.2	2.0	2.1	1.7	1.9	1.9	2.2	1.7	0.5	2.1	2.0	2.2	2.3
361	Pottery, china and earthenware	1.0	0.6	0.9	0.9	0.9	1.2	2.4	2.1	1.9	1.8	2.0	2.9	1.8	2.7	1.4	2.7
362	Glass and products	1.3	0.6	1.2	1.0	1.2	1.2	1.9	2.2	1.7	1.7	1.7	1.6	1.7	1.5	1.6	1.4
	Intermediate Goods Industries																
351	Industrial chemicals	1.9	1.5	1.9	3.6	2.0	2.4	3.2	2.3	2.8	2.1	2.8	3.3	3.0	2.9	2.7	2.8
352	Other chemical products	3.5	1.4	3.0	3.3	2.9	3.2	3.4	3.0	3.3	3.1	3.5	3.5	3.1	3.2	3.0	3.4
353	Petroleum refineries	0.5	0.0	0.5	0.8	0.5	0.2	0.3	0.3	0.3	0.3	0.4	0.1	0.4	0.4	0.4	0.4
354	Petroleum, coal products	0.3	0.0	0.3	0.5	0.3	0.2	0.2	-	0.3	-	0.2	0.0	0.2	0.2	0.3	0.1
355	Rubber products	1.2	1.3	1.4	1.1	1.4	1.5	1.3	1.5	1.4	1.2	1.3	1.5	1.5	1.8	1.5	1.8
369	Non-metallic mineral products, n.e.c.	6.1	4.2	4.9	6.6	4.5	5.0	5.6	5.5	5.3	5.3	5.8	4.6	4.7	4.2	4.3	3.8
371	Iron and steel	3.2	0.3	3.1	2.1	3.2	3.7	4.2	1.0	4.0	2.2	4.0	5.2	4.2	4.1	4.0	4.1
372	Non-ferrous metals	1.6	0.2	1.5	1.9	1.4	1.2	1.0	0.2	1.1	0.6	1.1	1.3	1.0	1.1	1.1	1.1
	Capital Goods Industries																
381	Fabricated metal products	5.0	8.1	6.9	7.0	7.6	7.6	6.5	4.8	7.4	5.4	6.3	5.4	8.5	10.4	8.9	11.4
382	Non-electrical machinery	3.9	2.3	4.2	3.4	4.5	5.2	4.8	1.6	4.8	2.8	4.6	4.4	5.3	4.3	5.6	4.6
383	Electrical machinery	3.5	2.2	4.3	4.9	4.8	6.2	6.1	3.7	6.1	4.3	5.5	3.7	7.1	6.0	7.1	6.5
384	Transport equipment	8.0	5.5	8.4	5.6	8.1	7.7	5.2	5.8	6.1	6.9	6.0	5.8	6.1	6.8	6.7	7.9
385	Professional goods	0.1	0.4	0.2	0.4	0.3	0.2	0.4	0.1	0.4	0.4	0.3	0.8	0.7	0.7	0.1	0.7
390	Other Industries	0.6	0.8	1.2	0.8	1.3	1.2	0.5	0.8	0.8	0.5	0.6	4.2	1.0	0.7	1.2	0.7

[a] For method see text. - [b] Manufacturing = 100.

Source: UN [c]. - Own calculations and estimates.

Table 16 - Hypothetical and Actual Composition of Industrial Employment in Greece, Portugal and Spain - Industrial Categories[a], various years (percent)

Persons engaged	Hypothetical	Actual[b]	Hypothetical	Actual	Hypothetical	Actual
	1960		1970		Most recent year[c]	
Greece						
1st Category	36.4	24.8	21.7	25.7	19.2	22.2
2nd Category	27.8	52.2	40.6	38.5	42.7	38.8
3rd Category	22.0	14.1	24.8	22.6	25.6	26.4
4th Category	13.8	8.9	12.8	13.2	12.6	12.8
Portugal						
1st Category	.	.	37.6	34.8	29.5	29.4
2nd Category	.	.	27.3	33.3	33.7	34.5
3rd Category	.	.	21.1	17.2	23.0	21.1
4th Category	.	.	14.0	14.7	13.7	14.9
Spain						
1st Category	36.8	23.1	24.5	19.7	20.0	17.0
2nd Category	27.7	40.3	37.0	43.0	40.4	44.0
3rd Category	21.6	21.7	25.1	24.7	26.5	26.5
4th Category	13.9	14.9	13.5	12.7	13.1	12.6

[a]For definition see text. - [b]For Greece 1958, for Spain 1963. - [c]For Greece 1975, for Portugal 1977 and for Spain 1976.

Source: Table 15.

the industries of the second category. Labour productivity is by no means highest in the modern growth industries, which form the third category, but in the raw-material-intensive industries belonging to the fourth category. The ratio between the share in value added and the share in employment ranges from around 0.80 (in the traditional sector) up to 1.50 (in the raw-material-intensive category); it tends to be relatively stable across the development levels under consideration.

If one compares the hypothetical patterns of productivity to the actual ones, some interesting features emerge. Spain's productivity structure was relatively close to normal values in 1970 as well as more recently. Greece has been lagging behind usual productivity achievements substantially with regard to the fourth category of industries; on the whole, however, differences diminished during the

1970s. Portugal, which showed a productivity structure close to the hypothetical pattern in the early 1970s, has experienced a significant deterioration with regard to the category of raw-material-intensive industries. Of course, individual industries within the four categories diverge from these global developments in some cases. Examples are the Spanish textile industry, which proved to be more productive, and Spain's food processing industry, which proved to be less productive than was assumed. Another example is food processing in Greece, which yielded higher rather than lower productivities compared to the hypothetical ones.

To summarize: The analysis of industrial structures yields a picture similar to that of sectoral structures. Both Greece's industrial and its sectoral structures would be more typical of a country with a lower level of development, and Portugal's of a country with a higher level of development. By contrast, Spain on the whole fits relatively well into "typical" patterns of development.

A major reason for the different situation of the three countries with regard to hypothetical structures seems to be the size of their domestic markets which offered quite different growth opportunities to certain industries while the integration into foreign markets was largely inhibited. Diversification and specialization thus had to evolve isolated from the international division of labour. The larger a domestic market is in such cases, the less severe are the consequences of such isolation. Thus in the case of Greece its small size was particularly influential on the shaping of its economic structures. Portugal's domestic market is also quite small. The large industrial and manufacturing sector, unusual according to development patterns, may be traced to the fact that Portugal was able to enter a process of division of labour with its colonies, since with them trade was partially liberalized, as Table 17 reveals. The high shares of exports and imports in relation to GDP which Portugal showed as early as 1960, compared to those shown by Greece and Spain, were almost exclusively due to trade with its colonies. Spain has the largest domestic market among the Three. The fact that its industrialization appeared exaggerated until recently may be traced to the import-substituting policies pursued during the period of autarky, which led to a number of new, though little efficient, industries.

Discrepancies between actual structures of production and employment and typical structures with respect to the development level, however, need not necessarily indicate allocative distortions only. In particular, endowment with natural resources - existence or non-exis-

Table 17 - The Structure of Foreign Trade in Greece, Portugal and Spain 1960-1979 (percent)

Foreign trade	Regional share	Economic activity		Regional share	Economic activity		Regional share	Economic activity	
		manufac-turing	other goods		manufac-turing	other goods		manufac-turing	other goods
	1960			1970			1979		
Greece									
Exports									
World	100.0	10.5	89.5	100.0	40.9	39.1	100.0	49.4	50.6
OECD	48.8	7.4	92.6	67.6	42.8	57.2	60.5	51.8	48.2
Developing countries	23.2	19.7	80.3	14.4	56.2	43.8	25.8	56.0	44.0
Imports									
World	100.0	72.5	27.5	100.0	74.3	25.7	100.0	63.6	36.4
OECD	51.2	85.2	14.8	80.1	80.2	13.8	67.6	84.2	15.8
Developing countries	25.8	52.8	47.2	12.7	17.3	82.7	24.4	9.7	90.2
Portugal									
Exports									
World	100.0	55.2	44.8	100.0	64.2	35.8	100.0	76.1	23.9
OECD	44.0	44.3	55.7	67.2	61.3	38.7	82.3	76.5	23.5
Developing countries	51.3	66.1	33.9	30.1	72.4	27.6	14.3	76.7	23.5
Former escudo area	25.9	74.5	25.5	24.5	77.2	22.8	5.3	86.8	13.2
Imports									
World	100.0	59.7	40.3	100.0	67.1	32.9	100.0	54.8	45.2
OECD	59.9	87.3	12.7	73.2	82.6	17.4	71.9	73.5	26.5
Developing countries	35.6	15.0	85.0	25.0	25.7	74.3	24.7	5.5	94.5
Former escudo area	15.6	2.0	98.0	14.7	38.9	61.1	1.1	13.5	86.5
Spain									
Exports									
World	.	.	.	100.0	55.5	44.5	100.0	74.9	25.1
OECD	.	.	.	71.5	48.4	51.6	65.7	70.5	29.5
Developing countries	.	.	.	23.8	78.1	21.9	29.4	85.6	14.4
Imports									
World	.	.	.	100.0	57.2	42.8	100.0	43.4	56.6
OECD	.	.	.	71.1	75.6	24.4	57.4	69.0	31.0
Developing countries	.	.	.	25.9	7.9	92.7	40.2	7.4	92.6
Note: Foreign trade shares in GDP									
Greece									
Exports		9.1			10.0			16.5	
Imports		16.7			18.4			25.5	
Portugal									
Exports		16.9			23.5			25.8	
Imports		23.2			30.4			35.0	
Spain									
Exports		11.1			13.5			14.5	
Imports		8.2			14.4			14.6	

Source: OECD [c; d]. - UN [a]. - Own calculations.

tence of raw materials, quality of soils, climate - or special skills acquired through having a tradition in the production of certain goods or services, may yield comparative advantages or disadvantages for some economic sectors, and explain deviations from hypothetical structures. This might also be the case with some branches in the three countries. However, considering all the characteristics of the new entrants as described above, and taking into account an often slow pace of the restructuring process, one may guess that the discrepancies between actual and hypothetical structures also indicate, at least partially, the consequences of suboptimal policies[1]. With the entry into the Community a number of those government interventions and restrictions that still (or: again) exist, in spite of the period of liberalization during the 1960s, will have to be abandoned. This will represent a new challenge to the three economies, and the hypothetical structures suggest that Greece and Portugal, too, are perhaps less fit to cope with it than Spain.

4. Outlook

The hypothetical structures do not only reveal distortions of resource allocation, but may also help to shed some light on future developments, in particular those induced by the accession of the three countries to the Community. On the one hand, the accession itself will require these countries to undergo profound structural adjustments. On the other hand, the process of economic growth within the EC 12 will naturally imply further changes of the structure of production and employment. Greece, Portugal and Spain are still expanding with respect to industry and manufacturing, in contrast to most EC 9 countries, in which these sectors are already relatively declining. Spain's industrial share, however, may soon stagnate and within the next ten years may perhaps even gradually enter the phase of decline [see also Donges, 1981a]. The services sector, of course, will expand, too, in the three countries. By contrast, agriculture should experience a remarkable decline, provided that new national or EC market regulations concerning Mediterranean goods do not exert an influence to the contrary.

According to the "typical" patterns of development, the agricultural sector in Greece should lose about one half of all persons presently

[1] For more detailed analyses of the process of structural change, particularly in industry, see Hummen [1977], Esser et al. [1977] and Donges [1976b].

engaged in it until 1990. In Portugal, the respective figure should amount to about a quarter of today's employment in agriculture, and in Spain to more than one third (Table 11; see also Krieger [1980, pp. 157 ff.]). This surplus of rural labour should be absorbed in Greece in the first place by the industrial sector, and in Portugal and Spain mainly by the services sector. Some pressure for emigration will remain, however.

As we have said before, the growth patterns reflect an average development, as it may result from the international division of labour. By this process, each country specializes in activities for which it holds comparative advantages - provided it is not prevented by administrative interventions from doing so. At a very low level of development, comparative advantages lie in the abundance of cheap labour, and thus labour-intensive techniques should prevail (apart from cases in which a country is well endowed with natural resources). When development preceeds and labour becomes relatively scarcer and more expansive, production processes tend to become more and more capital-intensive, i.e. the amount of physical capital per employee increases. In highly developed countries another factor becomes critical, namely skills of different kinds or human capital[1]. Greece, Portugal and Spain are at a medium level of development. Labour-intensive techniques are still quite adequate in several activities, but as wages rise - and the accession to the EC could easily give wages another push - labour productivities and thus capital intensities will also have to rise, in order to maintain the competitiveness of the economies (in particular vis-à-vis the developing countries). As far as this has already happened in a sector or industry which should decline according to international patterns, the development prospects based on inter-country patterns must be qualified. By the same token, if a sector with "typically" high growth prospects proves to be traditionally little productive in a given country, we may assume that it will grow only slowly in this country, unless productivity increases as much as is necessary to attain international competitiveness[2].

---

[1] A comprehensive empirical analysis of the changing pattern of comparative advantages in the process of economic development is given by Balassa [1979].

[2] Of course, there is a third possibility: productivity differentials within an economy can be maintained if there is a corresponding differentiation of wages (this was observable so far in the case of agriculture in all three countries, cf. Table 6). In the course of the development process, however, such remainders of a dualistic economy tend to disappear and wages of workers whose productivity increases little or not at all tend to rise at the same pace as wages related to rapid productivity growth.

Table 18 - Relative Labour Productivities in Greece, Portugal and Spain[a], 1950-1979

	1950	1960	1970	1979
Greece				
Agriculture	0.64	0.40	0.47	0.63
Industry	1.09	1.43	1.32	1.01
Manufacture	0.95	1.33	1.24	0.99
Services	1.47	2.00	1.34	1.24
Portugal				
Agriculture	0.79	0.59	0.56	0.41
Industry	1.20	1.25	1.17	1.34
Manufacture	1.28	1.38	1.28	1.45
Services	1.10	1.36	1.24	1.19
Spain				
Agriculture	0.49	0.56	0.40	0.40
Industry	1.19	1.10	1.06	0.98
Manufacture	0.82	1.19	0.99	1.02
Services	1.79	1.60	1.47	1.30

[a]Labour productivity of the total economy in each country equals unity.

Source: Tables 10 and 11.

Table 18 shows that the agricultural sector yields the relatively lowest labour productivity/highest labour intensity in Greece, Portugal and Spain, a performance that fits with the predictions based on the hypothetical patterns. The industrial and the services sector, which have an average and an above-average labour productivity, respectively, in Greece and Spain, are also "typical" in this regard. This is different in the case of Portugal, however, where the industrial and - even more pronounced - the manufacturing sector exhibit a particularly high labour productivity, which may result from a high capital intensity. This may be at variance with the still high underemployment and high unemployment rates prevailing in Portugal.

Within the manufacturing sector, the traditional industries, which would be expected to decline according to the inter-country patterns, show astonishingly high capital intensities in some cases, as for example tobacco manufactures in Portugal and Spain and, to a lesser extent, glass producing in Greece and non-metallic mineral products in both Iberian countries (Table 19). One might expect these industries to be run at X-efficiency levels that are high enough to withstand competition even from countries in which wage levels are significantly lower. By contrast, the quite important textile industry is likely to decline, not only because of the "typical-pattern" effect, but also in view of the high labour intensity which, at prevailing wages, will put many firms under increasing competitive pressure from abroad.

The second category of industries (those that are still growing at the development level of the Three, but are declining in higher developed countries) in many cases display below-average capital intensities. Wearing apparel, footwear, furniture and fixtures and the "other industries" are cases in point. We might assume that these industries are not very likely to stimulate the development process in the three economies - contrary to what one would expect in "representative" countries where these industries would be more labour-intensive. However, plastic and rubber products and, in the case of Portugal, metal products as well may succeed in becoming expanding industries even under free-trade conditions.

Several of the so-called modern industries still show below-average capital intensities, particularly in Greece and Spain, measured by a national yardstick. This suggests that these industries are still far from EC 9 standards, all the more so, since the average capital intensity in the industry of each of the new entrants might lie considerably below the EC 9 average. Thus the growth prospects of these industries are quite uncertain, especially in the case in Greece. Their situation is more favourable in Portugal and Spain, where at least human capital intensities exceed the national average, in some cases even considerably.

Needless to say, that the future path of development of individual sectors will be influenced to a significant extent by the economic policies which both the new-member governments and the EC pursue. If economic growth, and for this matter structural change, is to take place at a reasonable rate, the authorities will have to refrain from intervening selectively in the market with the aim of rescuing declining and inherently inefficient industries (as has happened so

Table 19 - Capital Intensities in the Manufacturing Industries[a] of Greece, Portugal and Spain, various years

ISIC	Industry	Greece[b]			Portugal[c]			Spain[d]		
		total[e]	human[f]	physical[g]	total[e]	human[h]	physical[i]	total[e]	human[h]	physical[i]
	Consumer Goods Industries									
311/2	Food products	84.29	85.33	85.75	96.15	90.54	126.61	82.32	52.23	126.91
313	Beverages	134.20	114.38	141.22	200.88	117.82	436.29	115.28	110.79	128.45
314	Tobacco	100.23	84.58	97.90	585.38	147.12	1768.72	269.96	112.50	489.06
321	Textiles	101.76	92.61	100.99	74.11	81.36	49.42	78.01	72.10	82.89
322	Wearing apparel	50.92	66.93	49.41	62.99	70.97	36.66	70.69	69.77	73.70
323	Leather and products	61.84	78.90	60.48	98.77	94.16	116.38	112.26	95.89	142.65
324	Footwear	57.91	82.93	47.06	65.62	67.09	63.04	79.50	107.91	40.86
331	Wood products	66.01	79.44	66.78	65.16	73.38	52.60	76.94	68.78	93.79
332	Furniture and fixtures	52.56	69.89	52.71	66.91	72.98	57.51	50.64	67.08	39.69
341	Paper and products	131.21	108.18	132.06	182.10	125.13	329.05	149.22	105.94	205.71
342	Printing, publishing	90.14	124.42	72.26	93.40	107.38	55.62	84.00	91.60	77.81
356	Plastic products, n.e.c.	126.98	102.41	131.99	120.88	102.87	161.86	117.92	98.60	143.64
361	Pottery, china and earthenware	104.85	97.45	102.36	86.50	97.01	50.78	67.33	77.40	49.98
362	Glass and products	143.11	123.95	143.10	93.40	116.56	23.65	101.98	105.37	92.01
	Intermediate Goods Industries									
351	Industrial chemicals	266.99	166.67	296.97	165.32	141.03	224.45	247.84	141.23	391.88
352	Other chemical products	154.92	117.47	162.69	156.50[k]	132.04[k]	228.79[k]	140.63	119.70	167.95
353	Petroleum refineries	533.47	178.64	683.83	243.18[k]	260.84[k]	204.51[k]	451.08	182.53	844.40
354	Petroleum, coal products	141.88	146.47	124.75	-	-	-	254.40	155.92	390.68
355	Rubber products	123.70	113.04	129.19	114.45	112.77	112.09	115.17	110.71	104.67
369	Non-metallic mineral products n.e.c.	102.39	106.42	99.88	110.51[l]	99.71[l]	136.66[l]	107.31	92.28	131.03
371	Iron and steel	280.08	160.45	317.23	138.77[l]	147.00[l]	125.20[l]	168.01	159.62	156.63
372	Non-ferrous metals	414.10	201.35	493.85	91.87	104.33	55.56	183.00	146.24	221.37
	Capital Goods Industries									
381	Fabricated metal products	79.96	91.65	78.57	111.41	107.24	118.94	76.71	104.11	38.11
382	Non-electrical machinery	78.05	95.49	70.14	119.04	114.71	125.90	77.10	108.19	33.16
383	Electrical machinery	106.27	105.27	98.51	124.89	126.56	110.85	94.52	129.94	40.21
384	Transport equipment	100.81	137.37	70.99	119.15	143.66	42.48	113.69	141.29	66.81
385	Professional goods	86.09	103.23	73.74	86.72	105.52	36.33	81.12	112.48	34.12
390	Other Industries	58.62	68.91	59.46	85.20	83.90	88.50	101.21	116.14	101.37

[a]Manufacturing = 100. - [b]1973-1975. - [c]1975-1977. - [d]1974-1976. - [e]Value added per person engaged. - [f]Wages and salaries per employee. - [g]Value added minus wages and salaries per person engaged. - [h]Wages and salaries plus supplements to wages per employee. - [i]Value added minus wages and salaries and supplements to wages per person engaged. - [k]1973-1975. - [l]1972-1974.

Source: UN [c]. - Own calculations.

often in the past). Only if structural adjustment is permitted and encouraged, will the dynamic industries increasingly generate employment opportunities at rising real wages in the future. The economic policies will also have an impact on the pattern of specialization within the enlarged Community, a subject to which we are now turning.

III. Patterns of Specialization in an Enlarged Community

In the manufacturing sector the EC 9 has come closest to the concept of a common market as envisaged by the Treaty of Rome. The southern enlargement will evidently increase the size of the market. This chapter tries to assess changes in the division of labour in manufactured goods within the Community of the Twelve[1]. The first section briefly reviews major trends in manufactured trade of the applicant countries and the EC 9. Next, the structure of specialization and international competitiveness is analyzed. This is followed by an evaluation of potential trade and growth effects for the new entrants. The final sections assess future adjustment needs and opportunities and discuss policies which support changes in the division of labour within the enlarged Community.

1. Trade in Manufactures: The Overall Picture

Both in the applicant countries and the EC 9 foreign trade is dominated by manufactured goods. Reflecting the differences in the levels of per capita income and industrialization, manufactures account for a larger share in total exports and imports of the EC 9 than in those of the applicant countries (Table 20). In the combined manufactured exports of the new entrants the most important product category consists of consumer goods (39 percent of the total in 1979) which are largely raw-material-intensive or which require much unskilled and semi-unskilled labour, whereas there is a preponderance of chemicals as well as sophisticated machinery and transport equipment (55 percent), products which generally embody physical and human capital, in the manufactured exports of the EC 9. As to manufactured imports, a major proportion falls within investment goods (again 39 percent) in the new entrants as a whole; the EC 9 concentrates its imports on chemicals (11.5 percent) and also on investment goods (36 percent). One may already infer from these broad shares that trade in manufactures tends to be more of an inter-industry nature in the new entrants, while it assumes a typical intra-industry dimension in the case of the EC 9 (more about this later).

---

[1] Manufacturing trade according to the UN International Standard Industrial Classification (ISIC); figures have been obtained by converting trade data reported in the UN Standard International Trade Classification (SITC) into three-digit ISIC.

Table 20 - Share of Manufactured Goods in Total Merchandise Trade of Greece, Portugal, Spain and the EC 9, 1970-1979 (percent)

Country/Region	Imports			Exports		
	1970	1974	1979	1970	1974	1979
Greece	78.3	68.4	72.4	54.8	64.9	72.8
Portugal	71.8	68.8	67.9	67.3	71.1	69.5
Spain	67.0	63.7	64.2	72.0	76.9	70.1
Applicant countries combined	70.6	65.5	66.7	68.1	73.6	70.5
EC 9	69.8	79.3	73.0	80.4	80.0	77.8

Source: Calculated from data in UN [a].

Between 1970 and 1979, the Three shifted their export structure from traditional primary commodities (mainly food) to manufactures, thereby confirming a tendency which appeared during the prior decade and which parallels the familiar long-term pattern in the commodity composition of world trade. This shift was also policy-determined. After long periods of import substitution in manufacturing within the shelter of severe protective barriers, most notably in Spain, there was a gradual opening to the world economy during the 1960s[1]. Since then, domestic and foreign-controlled firms have found it profitable to produce for the world market, too. After the first oil-price explosion in 1973 and 1974, when demand conditions in most industrialized countries became less buoyant than they used to be, the relative position of manufactured exports deteriorated slightly in Portugal and more sharply in Spain, whereas it continued to improve in Greece. As the share of manufactured products in the Community's total exports declined during the period under consideration, the overall picture shows the industrial content of the export assortment to have been more similar between the Three and the Nine at the end of the past decade than it had been at the beginning.

On the import side, the effect of the two oil-price explosions (in 1973 and 1974 and in 1979) is also discernible. The shares of manufactures were lower in 1974 than in 1970 in the three applicant countries, which are net importers of oil. For the EC 9, such a move-

[1] For details see Chapter II and the references given there.

ment does not appear in the statistics because the sharp spurt in oil prices also inflated the dollar value of imported refined petroleum (ISIC 353) and other manufactures of petroleum and coal (ISIC 354), which accounted for 16.1 percent of total manufactured imports in 1974 as compared to 8.4 percent in 1970 (and 14.6 percent in 1979). In 1979, the relative importance of manufactured imports was lower than in 1970 everywhere, though in Greece and Spain still above the levels of 1974. The recent rapid growth of real GDP in Greece (annually 5.2 percent in the years 1974 to 1979) also induced a rapid expansion of the demand for largely complementary foreign manufactures. By contrast, the observed trend in Spain, whose economy experienced a relatively slow growth during the same period (2 percent per year), partly reflects a deterioration of the competitive position of numerous Spanish import-substituting industries as the result of accelerated inflation and sharp increases in labour costs in the post-Franco period.

As Table 21 illustrates, the combined manufactured exports of the new entrants expanded at faster rates than those of the EC 9 and than world exports. The Three as a whole reported $ 17.91 billion in manufactured exports in 1979, compared to $ 2.71 billion in 1970. After adjusting for world inflation (11.7 percent per year if measured by the rise in the dollar-unit value index of total manufactured exports of developed countries), the pace of (real) export expansion remains notable for the Three combined (averaging 10.4 percent between 1970 and 1979) as well as for Greece and Spain (averaging 12.8 and 11.8 percent, respectively). Portugal's record is much poorer (both in value and volume terms), which is largely due to the absolute decline of manufactured exports in 1975 and 1976 that accompanied the disruptions in production in the aftermath of the Revolution of April 1974[1]. More important, however, than the rates of export growth, is presumably the ever-lengthening list of new industrial exports, particularly in the case of Spain. Many of the new export items still account for negligible amounts only (earning not more than $ 1 million each), but most of them belong to commodity groups in which world trade has been expanding relatively fast. Taken together, they can all be regarded as indications of the potential of the applicant countries to further diversify their export structure after becoming members of the Community.

As to the trade relations between the applicant countries and the EC 9, Table 22 shows that the present Community is not only one of the

[1] For an analysis of that period, see Balassa [1980, pp. 640 ff.]; Krugman, Braga de Macedo [1981].

Table 21 - Rates of Expansion of Manufactured Exports to the World[a], 1970-1979 (percent)

Country/Region	1970-1974	1974-1979	1970-1979
Greece	39.1	16.5	26.0
Portugal	26.5	7.3	15.5
Spain	33.3	18.6	24.9
EC 9	24.9	15.2	19.4
World	20.5	16.4	18.2

[a]Annual percentage rates of change in value terms.

Source: Calculated from data in OECD [d] and UN [a].

most important markets for the Three's manufactured exports (absorbing around 49 percent of their total in 1979), but also one of the main sources of supply of imported industrial goods (with a continued share of nearly 48 percent). On the other hand, the applicant countries, taken individually or as a whole, play a minor role both in the export and import of manufactures of the EC 9 (3 and 2 percent, respectively, in 1979), with Spain being the least unimportant trading partner among the Three. These discrepancies suggest that the enlargement of the present Community might affect (adversely and favourably) the import-substituting and export-oriented industries in the applicant countries more than those of the EC 9. An additional indication of the expected differences in the force of the impact resulting from mutual trade flows is given by the fact that each of the new entrants has consistently experienced a deficit in manufacturing trade with the EC 9. However, these trade deficits are not necessarily bad, as is frequently stressed. Provided that the new entrants do not pay higher prices for industrial goods imported from the Common Market than for those available elsewhere, the trade deficits reflect the extent to which the EC 9 transfers resources to the South, thereby also improving the division of labour between the Nine and the Three.

Table 22 - Manufacturing Trade Relations between Greece, Portugal, Spain and the EC 9, 1970-1979 (percent)

	1970	1974	1979
Share of Trade with EC 9			
Greece			
Imports	54.0	54.2	51.0
Exports	55.7	55.1	48.3
Portugal			
Imports	57.7	52.3	52.2
Exports	40.6	46.8	56.0
Spain			
Imports	50.0	46.3	45.5
Exports	40.1	45.9	48.1
Share in Total EC 9 Trade			
Greece			
Imports from	0.24	0.36	0.31
Exports to	0.91	0.74	0.79
Portugal			
Imports from	0.32	0.38	0.30
Exports to	0.72	0.76	0.52
Spain			
Imports from	0.85	1.23	1.41
Exports to	1.74	2.05	1.66

Source: See Table 20.

Table 22 also illustrates some other interesting relationships. To begin with, manufactured goods from the EC 9 lost relative weight in the Three's import basket throughout the period under consideration, the average share declining from 52.5 percent in 1970 to 47.9 percent in 1979. For the combined exports of the Three, however, the Common Market has become relatively more important, as the average share rose from 42.2 to 49.2 percent during the same period. As overall manufactured imports of the Three have expanded at a rate similar to that of world imports, the first trend reveals that suppliers from third countries have become more competitive on the Southern European markets than manufacturers from the EC 9, particularly in the case of labour-intensive products. By the same token, industrial exports of the Three have gained shares in the Common Market at the expense of third countries. Thus, looked at from the viewpoint of the exporters of the EC 9, manufacturing trade with the Three appears to have undergone a process of disintegration; as seen by the exporters of the Three, however, trade with the Community has followed a path of increased integration.

Moreover, the trade matrix between the EC 9 and each of the new entrants shows different features. The most striking one is the declining share of the Common Market in the manufactured exports of Greece. Given the 1961 Association Agreement between the EC and Greece provided for an abolition of the Community's CET on and non-tariff barriers against Greek manufactured supplies, one would have expected this country's exports to the EC 9 to expand at least at the same rate as those to other (more protected) economies. This did indeed happen during the 1960s [Kalamotousakis, 1976, pp. 153 ff.]. But the positive impact of the abolition of the Community's trade barriers on Greece's manufactured exports seems to have largely evaporated during the 1970s.

By contrast, Portuguese and Spanish manufacturers were able to expand exports into the Common Market more rapidly than exports to the rest of the world. A reasonable explanation for this is that both countries took advantage of preferential trade agreements concluded with the Community more recently: Portugal, a former member state of the EFTA, was granted free access to the Common Market in the industrial field after the Community, in connection with its first enlargement, had set up a far-reaching free-trade area with the remaining EFTA bloc in 1972 [Silva Ferreira, 1979]. As far as Spain is concerned, many industrial exporters obtained improved terms for penetrating the Common Market, though less generous ones than the

Greek and the Portuguese have, as a result of a bilateral preferential trade agreement which became effective in 1970[1].

2. Structure of Specialization and International Competitiveness

In order to better assess similarities and peculiarities in the manufactured trade ot the Three and the EC 9, it is necessary to take a less aggregated, and thereby a more "technical" view of the recent trade performance. For this purpose, the manufacturing trade sector has been broken down into 28 three-digit commodity categories of the ISIC. Three questions are then raised:

- Where do the new entrants, and where does the EC 9, exhibit comparative advantages and disadvantages in trade with specific products?
- To what extent do manufactured exports and imports overlap at the industry level?
- How does the foreign-trade structure of each of the applicant countries compare with that of the EC 9?

a. Revealed Comparative Advantages

It is usually recognized that the disaggregated exports of a country indicate where the domestic industries display international competitiveness, while a country's imports pinpoint where it lacks such competitiveness. Taking exports and imports together, a positive (negative) trade balance may reflect a comparative advantage (disadvantage) in international trade. Hence, the empirical calculation of the export-import balances is properly defined as "revealed comparative advantages" (RCA) in distinction to actual comparative advan-

[1] See Donges [1976a, pp. 222 ff.] for an evaluation of the concessions made to Spain by the Community. The gradual reductions in the CET on Spain's manufactured exports, phased over six years, were interrupted when the first enlargement of the EC did not lead to an amendment of the agreement.

tages and disadvantages as predicted by theory[1].

In fact, RCAs describe the trade patterns that have taken place, but they cannot tell whether these patterns are optimum ones. It is possible to infer from them what the countries under consideration have been able to do in the field of international specialization, not what they should do on theoretical grounds. For instance, actual trade flows may differ from those predicted by the theory of comparative advantage due to distortions originating in import protection or in export incentives. If one of the applicant countries restricts imports of certain goods, the RCA of the industry in question might be biased in an upward direction; by the same token, it might look worse than it deserves if the EC 9 or other countries impose barriers to Greek, Portuguese or Spanish manufactured exports. It should also be noted that the lack of reliable data does not allow an interpretation of RCAs on the basis of differences in export prices, protective measures, transport costs, taste structures, traditional ties and the like.

The calculations have been made according to the following formula:

$$RCA = \ln\left(\frac{X_i}{M_i} : \frac{\sum_{i=1}^{28} X_i}{\sum_{i=1}^{28} M_i}\right) \cdot 100$$

where X and M denote exports and imports, respectively, and the subscript i refers to an industry at the three-digit ISIC level. The higher (lower) the RCA index is, the more (less) successful is the trade performance of the industry in question.

RCA indexes have been computed for 1970 and 1979, thereby obtaining the longer-term tendencies; for the new entrants, RCAs in trade with the world have been distinguished from RCAs in trade with the

[1] The methodology was originally developed by Balassa [1965] and refined thereafter. The criticism made by Hillman [1980] from a theoretical point of view is somehow misplaced because those who have been calculating and analyzing RCAs have never claimed that they were identifying with certainty actual comparative advantages (which in any case might be impossible to do in a conceptually and statistically sound way).

EC 9. The findings, which are shown in Tables 23 and 24, exhibit in broad terms several notable features:

- the new entrants appear with a strong competitive position in consumer goods industries (particularly beverages, textiles, clothing, footwear, wood products), and with a comparative disadvantage in most intermediate and investment goods industries;
- this pattern applies to both trade with the world and trade with the EC 9, and although there are some differences in ranking according to RCA values these have become smaller in the case of Portugal and Spain (where Spearman's rank correlation coefficients were 0.84 and 0.71, respectively, in 1970, and 0.96 and 0.87 in 1979), whereas the differences widened in the case of Greece (reducing the rank correlation coefficients from 0.94 to 0.87);
- the structure of the new entrants' industries according to RCAs in world trade has not changed greatly between 1970 and 1979, the Spearman's rank correlation coefficients being 0.92 for Greece, 0.89 for Portugal and 0.84 for Spain; however, in trade with the EC 9, more pronounced changes in the ranking have occurred during the same period, reducing the rank correlation coefficients to 0.83, 0.70 and 0.69, respectively;
- the EC 9 seems to be particularly competitive with regard to fabricated metal products, machinery, iron and steel and processed chemicals, whereas the picture is mixed within the consumer goods industries; the sectoral ranking has experienced some shifts during the 1970s ($r = 0.74$)[1].

A closer look at the RCAs of the new entrants shows, however, that apart from the similarities just stated, important differences among these countries exist. To begin with, the initial international competitiveness of Greece in world trade has increased in seven industries (food products, textiles, clothing, wood products, diverse non-metallic mineral products, iron and steel, other industries) and declined in five (beverages, tobacco manufactures, leather products, footwear, non-ferrous metals). Not surprisingly, many of these products fall into the labour- and/or raw-material-intensive category. The first group of commodities mentioned above accounted for 50.6 percent of the Greek manufactured exports in 1979 (43.1 percent in 1970), the second group for 16.0 (34.8) percent. In trade with the EC 9, however, the changes in international competitiveness have

[1] All rank correlation coefficients mentioned are statistically significant at the 0.1 percent level of confidence.

Table 23 - Revealed Comparative Advantages[a] of Greece, Portugal, Spain and the EC 9 in Manufacturing Trade with the World

ISIC	Industry	Greece		Portugal		Spain		EC 9	
		1970	1979	1970	1979	1970	1979	1970	1979
	Consumer Goods Industries								
311/2	Food products	93.5	95.8	50.8	- 7.8	86.5	22.9	- 54.8	- 21.7
313	Beverages	304.9	173.8	362.8	220.1	234.0	179.8	29.8	43.8
314	Tobacco	626.5	324.2	-174.6	-137.3	-201.8	-224.1	- 61.1	- 9.0
321	Textiles	83.5	143.8	67.4	91.0	9.7	45.8	- 1.4	- 13.6
322	Wearing apparel	187.0	276.9	260.4	394.9	160.1	117.8	- 3.4	- 27.8
323	Leather and products	140.6	121.7	- 23.4	- 52.7	118.2	92.4	- 4.7	- 23.1
324	Footwear	349.1	269.2	246.8	393.7	365.9	291.9	42.4	7.3
331	Wood products	72.1	107.9	40.7	154.7	146.2	159.9	22.2	11.2
332	Furniture and fixtures	-170.4	-126.9	- 75.3	- 21.1	52.4	75.0	30.7	26.6
341	Paper and products	-107.7	- 69.4	143.4	157.3	-117.7	- 11.8	-104.3	- 70.5
342	Printing, publishing	- 28.9	-139.9	0.6	32.9	139.8	31.1	20.2	23.7
356	Plastic products, n.e.c.	- 39.1	- 29.9	- 44.6	- 8.1	58.2	88.9	32.5	24.6
361	Pottery, china and earthenware	- 84.2	- 32.9	95.5	169.8	97.4	57.4	31.1	30.3
362	Glass and products	-172.2	-130.1	99.7	87.3	4.6	33.7	32.7	27.6
	Intermediate Goods Industries								
351	Industrial chemicals	38.2	- 48.2	- 65.4	- 93.5	- 77.3	- 56.6	- 0.1	15.6
352	Other chemical products	- 42.9	- 54.1	7.5	- 43.2	- 56.3	- 11.3	36.4	37.0
353	Petroleum refineries	- 84.6	26.5	- 45.9	-431.1	- 18.3	-189.5	- 71.7	- 67.7
354	Petroleum, coal products	-134.8	- 68.4	-112.1	-316.0	-122.6	-244.7	-126.1	-114.5
355	Rubber products	-176.5	- 63.9	106.3	171.6	107.7	93.9	12.9	2.7
369	Non-metallic mineral products, n.e.c.	128.5	199.9	100.8	56.2	23.4	131.3	- 1.1	24.1
371	Iron and steel	62.1	80.1	- 28.9	- 55.8	- 6.8	63.6	37.9	36.5
372	Non-ferrous metals	172.8	139.1	-193.3	-148.7	- 46.3	29.5	- 76.2	- 31.2
	Capital Goods Industries								
381	Fabricated metal products	- 58.8	- 12.6	- 27.5	- 5.1	- 4.1	68.4	19.2	37.4
382	Non-electrical machinery	-361.6	-279.2	-152.2	-100.5	- 71.8	- 8.1	32.0	40.3
383	Electrical machinery	-154.9	- 70.1	- 29.4	6.4	- 38.1	- 23.9	24.1	24.8
384	Transport equipment	-342.8	-354.5	-213.9	- 82.8	17.9	87.1	46.5	- 10.2
385	Professional goods	-177.1	-197.8	- 76.5	- 27.9	-122.5	-100.0	15.3	10.9
390	Other Industries	15.3	90.1	16.5	107.7	58.7	12.9	5.3	0.99

[a]For method of calculation see text.

Source: See Table 20.

Table 24 - Revealed Comparative Advantages[a] of Greece, Portugal and Spain in Manufacturing Trade with the EC 9

ISIC	Industry	Greece		Portugal		Spain	
		1970	1979	1970	1979	1970	1979
	Consumer Goods Industries						
311/2	Food products	155.5	102.7	172.4	54.7	204.8	53.8
313	Beverages	297.3	119.5	337.0	252.6	231.9	129.5
314	Tobacco	670.9	218.0	[b]	[b]	-293.4	-274.9
321	Textiles	105.2	191.2	62.9	105.1	9.6	55.8
322	Wearing apparel	177.9	300.4	237.2	399.8	89.4	133.2
323	Leather and products	124.4	130.4	- 87.3	- 6.4	137.3	210.2
324	Footwear	318.5	270.6	271.6	447.7	259.7	290.4
331	Wood products	- 12.5	74.2	- 8.4	114.1	60.7	122.9
332	Furniture and fixtures	-220.8	-190.5	-145.3	- 42.2	12.6	51.5
341	Paper and products	- 48.2	-161.6	282.6	246.7	- 84.9	19.2
342	Printing, publishing	-170.1	-266.8	- 24.3	- 32.2	1.2	0.97
356	Plastic products, n.e.c.	-119.1	- 82.2	-119.3	- 32.4	- 45.8	43.2
361	Pottery, china and earthenware	-199.5	-157.5	16.3	121.9	29.9	- 8.4
362	Glass and products	-513.4	-409.6	8.9	57.8	- 75.9	- 18.5
	Intermediate Goods Industries						
351	Industrial chemicals	- 8.0	- 69.6	- 47.9	-122.3	- 80.5	-107.3
352	Other chemical products	- 49.8	-139.9	- 34.9	-106.9	- 87.8	- 62.9
353	Petroleum refineries	-117.4	141.9	64.5	-463.3	152.9	- 49.9
354	Petroleum, coal products	-148.1	132.7	21.0	-140.6	105.4	- 32.8
355	Rubber products	-132.9	16.0	66.6	161.1	73.5	79.3
369	Non-metallic mineral products, n.e.c.	63.6	32.3	92.0	56.7	20.1	32.3
371	Iron and steel	- 65.2	- 87.7	-120.8	-117.5	- 63.9	34.3
372	Non-ferrous metals	230.9	158.7	-251.1	-176.6	11.9	3.4
	Capital Goods Industries						
381	Fabricated metal products	- 98.0	- 85.1	-123.7	- 90.4	- 46.3	13.0
382	Non-electrical machinery	-478.6	-386.5	-251.7	-167.5	-122.6	- 65.4
383	Electrical machinery	-154.7	-121.2	- 73.9	6.4	- 76.7	- 50.6
384	Transport equipment	-430.7	-596.9	-306.4	- 89.0	5.3	76.6
385	Professional goods	-211.1	-237.8	-125.2	- 21.3	-142.7	-103.3
390	Other Industries	- 16.3	103.2	162.0	87.3	11.9	- 15.2

[a]For method of calculation see text. - [b]Undeterminated.

Source: See Table 20.

run in the opposite direction in the case of food products, diverse non-metallic mineral products and leather products; for iron and steel Greece even reveals a distinct comparative disadvantage. On the whole, Greece resembles quite well the typical pattern of a still less industrialized, labour-abundant economy. Accordingly, investment goods accounted for only 9.3 percent of this country's overall manufactured exports in 1979 (two percentage points above the share in 1970).

By contrast, neither Portugal nor Spain provide the clear-cut picture of a developing country whose export structure in the field of manufactures is dominated by traditional labour- and raw-material-intensive branches. This is particularly noteworthy as far as Portugal is concerned, since its per capita income is lower than that of Greece. Portugal also exhibits international competitiveness in world trade mainly in the consumer goods industries, though not always in the same branches as Greece does (food products, tobacco manufactures) but partly even in different branches (paper products, glass products). It seems, however, that Portugal has advanced more in the up-grading of consumer goods. For instance, in contrast to Greece, the competitive advantages are distinctly greater in clothing than in textiles, and while in leather and leather products even a disadvantage exists, the shoe industry appears to be extraordinarily competitive. The latter industry has achieved an almost uninterrupted increase in competitiveness, as well as paper products and rubber manufactures. Clothing, footwear, paper and rubber accounted for 27.1 percent of total manufactured exports in 1979 as compared to 20.2 percent in 1970. It is also interesting to note the change from negative to positive RCAs which the Portuguese electrical machinery has undergone in world trade as well as in trade with the EC 9, adding another 7.2 percent to total manufactured exports in 1979 (6 percent in 1970). The inflow of private export-oriented direct investment from abroad (mainly from the United Kingdom, Germany and the United States) made an important contribution to this development [Donges, 1980a] and may explain, at least partly, why Portugal, in spite of its lower per capita income, seems to be industrially more advanced than Greece, which did not attract much investment of this type.

The fact that Spain is the industrially most advanced country among the Three (Chapter II) should be reflected in its structure of RCAs. While it is true that Spain, like Greece and Portugal, reveals international competitiveness in most consumer goods industries, these account for a much smaller proportion of total manufactured exports.

The "early" industries (such as textiles, clothing, footwear, and leather products) have a much lower share in Spain's total (9.3 percent in 1970 and 1979) than they have in Portugal (19.0 and 24.9 percent in the respective years) and in Greece (14.6 and 22.0 percent). Moreover, clothing, footwear and leather products have lost competitiveness in world trade, which in part can be traced to the rapidly rising labour costs in Spain since 1975, which caused Spanish suppliers to be driven out of third markets (mainly the United States) by exporters from developing countries (particularly East Asian and Latin American ones). On the other hand, Spain has been able to reduce an initial uncompetitiveness or to achieve competitiveness in world trade with a number of intermediate goods (such as chemicals, iron and steel, nonferrous metals) and investment goods (most notably transport equipment). The share of investment goods in total manufactured exports alone increased from 30.2 to 42.3 percent during the period under observation; in trade with the EC 9, the Spanish investment goods industries performed even better, rising their share in total manufactured exports to the Common Market from 25.7 to 45.6 percent. All this is a good illustration of how a comparative advantage changes as a result of labour becoming more expensive and human and physical capital becoming less scarce.

As the RCA indices are based on actual export and import flows, trade policy interventions, especially in the form of tariff and non-tariff barriers on imports, could distort the results, whereas export promotion measures are usually less significant. Following a common practice in this type of analyses, we have therefore also estimated the structure of international competitiveness based on relative export shares only. The measure used for calculating "comparative export performance" (CEP) coefficients is

$$CEP = \frac{X_{ij}}{X_{iw}} : \frac{\sum_{i=1}^{28} X_{ij}}{\sum_{i=1}^{28} X_{iw}}$$

where the new subscripts j and w refer to the country in question and the world, respectively. An index value above unity means that the particular commodity group has a greater share in total manufactured exports of the individual country than it has in world trade as a whole; thus, the country in question possesses a relative advan-

tage in manufacturing and exporting this product. The opposite holds for index values below unity.

The results are reported in Table 25. In the case of the new entrants, the patterns of RCAs based on export-import ratios are generally confirmed by the CEP indices: the rank correlation coefficients between these two sets of indicators are 0.89 (1970) and 0.85 (1979) for Greece, 0.87 and 0.84 for Portugal, and 0.77 in both years for Spain. Thus the new entrants appear again to be in a favourable position with regard to raw-material- and labour-intensive products and at a comparative disadvantage in the production and exporting of goods embodying considerable physical capital, skills and research efforts. Whatever the impact of import-restricting devices at the level of individual industries may be, it does not appear to have counteracted comparative advantages.

We observe reasonably clear sectoral rankings at both ends of the list of industries: Greece appears to lead in the export of tobacco manufactures, leather products, non-metallic mineral products as well as, in 1979, refined petroleum and textiles; glass products, professional goods, non-electrical machinery, transport equipment and, in 1979, printed matter are at the bottom of the list. The Portuguese possess a relative advantage in beverages, clothing, textiles and recently also in footwear and rubber products; non-ferrous metals, petroleum products, transport equipment, tobacco manufactures and refined petroleum rank at the end. In the case of Spain, we find more pronounced changes during the time period under consideration at both the top and the bottom end of the list; only footwear, beverages and leather manufactures are at the top, and only tobacco manufactures and professional goods rank at the bottom end in 1970 as well as in 1979, while printed matter fell from the fourth down to the twenty-seventh position during this period.

By contrast, no sharp picture emerges for the EC 9. The correspondence between the CEP and the RCA indices is rather weak, the rank correlation coefficients being 0.33 and 0.28 in 1970 and 1979, respectively. A possible explanation for this is that the creation of the Common Market has led to a process of industrial diversification which embodies much intra-industry (rather than inter-industry) specialization. It is obvious that a large market combined with a comprehensive factor endowment and high technological standards permits manufacturing and exporting almost in every field within the industrial spectrum. The export structure then becomes quite uniform. Accordingly, the standard deviation of the comparative-ex-

Table 25 - Comparative Export Performance Coefficients[a] of Greece, Portugal, Spain and the EC 9 in Trade with the World, 1970, 1979

ISIC	Industry	Greece		Portugal		Spain		EC 9	
		1970	1979	1970	1979	1970	1979	1970	1979
	Consumer Goods Industries								
311/2	Food products	3.79	2.92	1.92	1.04	3.10	1.52	1.05	1.07
313	Beverages	4.17	1.45	8.02	6.32	3.25	2.64	1.23	1.25
314	Tobacco	24.21	6.09	0.13	0.10	0.33	0.20	0.55	0.75
321	Textiles	2.21	3.61	3.00	3.16	1.01	1.06	1.21	0.98
322	Wearing apparel	0.97	3.25	4.36	6.58	0.96	0.73	1.06	1.02
323	Leather and products	8.48	5.66	0.45	0.70	2.64	3.74	1.21	1.15
324	Footwear	1.79	2.49	1.81	4.44	5.57	4.80	1.08	1.08
331	Wood products	0.69	0.82	0.89	2.25	2.51	1.94	1.03	1.03
332	Furniture and fixtures	0.14	0.17	0.49	0.60	1.12	1.08	1.14	1.28
341	Paper and products	0.21	0.30	1.83	2.00	0.22	0.55	0.34	0.43
342	Printing, publishing	0.38	0.06	0.60	0.76	2.96	0.24	1.01	0.93
356	Plastic products, n.e.c.	0.41	0.49	0.57	0.81	0.97	1.08	1.05	1.11
361	Pottery, china and earthenware	0.31	0.60	1.32	2.01	1.24	1.24	1.03	1.02
362	Glass and products	0.10	0.23	1.68	1.27	0.69	0.90	1.16	1.00
	Intermediate Goods Industries								
351	Industrial chemicals	1.17	0.49	0.74	0.56	0.77	0.80	1.10	1.19
352	Other chemical products	0.97	0.36	1.77	0.51	0.71	0.48	1.35	0.66
353	Petroleum refineries	0.66	3.93	1.26	0.04	2.09	0.71	1.18	1.59
354	Petroleum, coal products	0.45	2.26	0.83	0.19	1.21	0.62	0.87	1.17
355	Rubber products	0.48	1.28	1.87	3.04	2.16	1.75	1.00	0.95
369	Non-metallic mineral products, n.e.c.	3.45	5.42	1.64	1.15	1.23	3.17	1.07	1.14
371	Iron and steel	0.55	0.90	0.57	0.50	0.76	1.28	1.13	1.14
372	Non-ferrous metals	2.48	1.99	0.13	0.27	0.64	0.85	0.74	0.83
	Capital Goods Industries								
381	Fabricated metal products	0.41	0.53	0.64	0.69	0.88	1.25	1.09	1.14
382	Non-electrical machinery	0.03	0.08	0.23	0.52	0.60	1.06	1.10	1.40
383	Electrical machinery	0.17	0.51	0.77	1.45	0.53	1.01	1.02	1.64
384	Transport equipment	0.03	0.04	0.08	0.24	0.59	0.86	0.88	0.53
385	Professional goods	0.07	0.08	0.36	0.57	0.32	0.36	0.92	0.83
390	Other Industries	0.45	0.44	2.15	1.52	0.85	0.40	1.03	1.10

[a]For method of calculation see text.

Source: Calculated from data in OECD [d] and UN [a].

port-performance coefficients of the EC 9 is rather low (0.269 in 1979), while it is much higher in Greece (1.840), Portugal (1.731) and Spain (1.083).

b. Trade Overlap

We now turn to the second question and consider the overall importance for the new entrants as well as for the EC 9 of intra-industry in comparison with inter-industry specialization in international trade with manufactures. For this purpose, country-specific "trade overlap" (TO) coefficients have been calculated using the following formular[1]:

$$TO = \frac{2 \sum_{i=1}^{28} \min (X_i, M_i)}{\sum_{i=1}^{28} (X_i + M_i)}$$

where X_i and M_i refer to exports and imports, respectively, of each of the 28 three-digit ISIC industry categories i, and "min" defines the magnitude of the total manufactured trade which overlaps in dollar value terms. The coefficient can vary between 0 and +1. The closer it comes to unity, the more intra-industry specialization predominates, i.e. the more are exports of a particular industry matched by imports belonging to the same product category. The lower the coefficient is, the more does trade in manufactured goods take the form of inter-industry specialization.

The findings are presented in Table 26. As one should expect, the TO coefficient are markedly higher for the EC 9 than for any of the applicant countries. Of the Community's global trade in manufactured goods, four-fifths overlap. This underlines how important specialization within industrial branches has become as a result of the removal of intra-EC trade barriers and the widening of national markets.

Among the new entrants, Spain comes closest to the TO coefficients found for the EC 9. More than half of the value of manufactured ex-

[1] For details on the methodology and its analytical applications see Finger and DeRosa [1979].

Table 26 - Trade Overlap Coefficients[a] for Greece, Portugal, Spain and the EC 9, 1970-1979

Country/ Region	Trade with					
	World			EC 9		
	1970	1974	1979	1970	1974	1979
Greece	0.294	0.447	0.438	0.270	0.374	0.361
Portugal	0.526	0.511	0.453	0.331	0.413	0.427
Spain	0.585	0.624	0.661	0.417	0.553	0.680
EC 9	0.800	0.790	0.846	.	.	.

[a]For method see text.

Turkey 0,147 0.234 0,365 0:434 0,421 0.44 1 1 1 | 0,071 0.112 0.129 0.199 0.188 0,193

Source: See Table 20.

ports to both the world and the Common Market is matched by imports. By contrast, Greece's trade still reflects mainly inter-industry specialization, as one would expect of a country in which industrial development has not led to much product differentiation yet. Portugal's trade already includes a higher proportion of differentiated products than Greece's trade, but markedly less than Spain's trade. Thus, the TO coefficients identify Portugal as a country which occupies an intermediate position among the Three in terms of relative industrial maturity.

It should also be noted that manufactured trade of the applicant countries with the EC 9 generally overlaps less than their world trade. One may interpret this finding as the reflection of more distinct differences in relative costs with regard to the Community than to the world as a whole, where the exchange of manufactured goods also takes place with a number of semi-industrial countries which are quite similar to the applicant countries in many respects. The evolution of TO coefficients over time shows, however, that the new entrants increased their proportion of intra-trade in exports to and imports from the EC 9. This is particularly evident in the case of Spain.

c. Conformity of Trade Structures

Another approach to the specialization issue is to compare the degree of correspondence between foreign-trade structures in manufacturing (rather than between foreign-trade values). The following

well known trigonometric formula can be used for calculating coefficients of trade conformity:

$$\cos (X_j, M_j) = \frac{\sum_{i=1}^{28} X_{ij} \cdot M_{ij}}{\sqrt{\left(\sum_{i=1}^{28} X_{ij}^2\right) \cdot \left(\sum_{i=1}^{28} M_{ij}^2\right)}}$$

where X_{ij} represents the vector of the shares of the exports of the three-digit ISIC industry i to the region j in total manufactured exports to the region j, and M_{ij} stands for the vector of the corresponding import shares. The possible values of this coefficient of conformity range from 0 to +1 , as is the case with the TO indices. When it tends towards unity, the export and import structures become more similar and specialization is increasingly of an intra-industry nature. In turn, low coefficients of trade conformity point to dissimilarities between the export and import structures and thus to inter-industry specialization.

The findings, which are reported in Table 27, support our earlier results regarding the magnitude of trade overlap. Four features are particularly noteworthy: to begin with, the EC 9 and the applicant countries have rather similar import structures in their world trade with manufactures. The coefficients of trade conformity range from 0.855 (Greece in 1970) to 0.965 (Portugal in 1979). By contrast, the export structures reveal a considerable degree of dissimilarity, though a decreasing one, in the case of Greece and Portugal where the coefficients, in 1979, were 0.546 and 0.680, respectively. All this leads to the hypothesis that the EC 9, and even Spain, has a greater capacity than Greece and Portugal to manufacture goods for which both import demand and world demand is especially strong.

Secondly, there is much more similarity between the structure of Spain's total exports and the structure of the Community's imports from the world (the coefficients of trade conformity are approximately 0.9 in 1979) than between the baskets of the EC 9 and Greece on the one hand (0.688) and Portugal on the other (0.679). Apart from this, the goods which the Greek and the Portuguese industries sell in the world market are to a large extent complementary to the exports of the EC 9, i.e. they belong to those product categories in

Table 27 - Coefficients of Conformity[a] of the Manufactured Trade Structures of Greece, Portugal, Spain and the EC 9, 1970-1979

EC 9		Greece	Portugal	Spain
		total exports		
Total exports	1970	0.437	0.597	0.785
	1974	0.534	0.681	0.901
	1979	0.546	0.680	0.920
		exports to the EC 9		
Export to Greece, Portugal and Spain, resp.	1970	0.280	0.354	0.496
	1974	0.372	0.502	0.694
	1979	0.325	0.491	0.780
		total imports		
	1970	0.949	0.957	0.943
	1974	0.921	0.923	0.872
	1979	0.933	0.926	0.839
		total exports		
Total imports	1970	0.666	0.729	0.898
	1974	0.731	0.733	0.911
	1979	0.688	0.679	0.900
		exports to the EC 9		
	1970	0.659	0.667	0.833
	1974	0.691	0.644	0.906
	1979	0.618	0.606	0.865
		total imports		
	1970	0.855	0.944	0.944
	1974	0.950	0.956	0.955
	1979	0.909	0.965	0.938

[a]For method see text.

Source: See Table 20.

which the Community has comparative disadvantages (mainly consumer goods). By comparison herewith, exporters of the EC 9 and Spain compete much more with each other on the world market. Given the structure of the Community's total imports, the enlargement could generate trade diversion to the benefit of Greece and Portugal, whose exports to the Nine would increase at the expense of third countries; the scope for diverting the Community's import demand to Spain would be relatively smaller.

Thirdly, the structure of the applicant countries' exports to the Common Market and the structure of the Community imports from the world are more dissimilar (in 1979, the coefficients were 0.618 for Greece, 0.606 for Portugal and 0.865 for Spain) than the structure of total exports of the Three and total imports of the EC 9 referred to above. One may infer from these differences that, given the Community's import structure, the applicant countries, in particular Greece and Portugal, could have exported more to the Common Market than they actually did. The opposite seems to hold with respect to the Community's exports to the Three; that export structure is quite similar to the structure of the total imports of Greece (0.933 in 1979), Portugal (0.926) and Spain (0.839). It is interesting to see, however, that the coefficients of conformity declined during the period under observation, most notably in the case of Portugal and Spain. Presumably, these two countries have been intensifying specialization in trade with less industrialized countries and have thereby increased imports from those areas at the expense of purchases in the Common Market.

Finally, the structure of exports of the EC 9 to Greece, Portugal and Spain and the structure of exports of these countries to the Community are more dissimilar than the respective total export baskets. In 1979, the coefficients of trade conformity were 0.325 for Greece, 0.491 for Portugal and 0.780 for Spain, as compared to 0.546, 0.680 and 0.920, respectively. These differences, which were more or less as pronounced in 1970, could be indicative of the existence of a considerable, though still unexploited, potential for intra-industry trade between the new entrants and the EC 9.

3. Potential Trade Expansion by the New Entrants

In all likelihood, the mutual removal of tariffs and other trade barriers, once the agreements of accession become effective, holds the

prospect of some trade expansion for the Three and the Nine. However, it is impossible to predict with certainty the amount of trade expansion. Comparative advantages continually shift in the context of a growing world economy and so do demand patterns at home and abroad; there is technological progress, and the number of industrializing countries increases. Moreover, trade flows within the enlarged Community will be influenced by the way in which the enlargement is carried through, especially by the time-table for mutual reductions of tariff and non-tariff barriers and for the harmonization of the Common External Tariff; this is a matter for negotiation, the results of which are often subjected to revision. Equally important is the way in which the present member states of the Community, the applicant countries and third countries shape their economic policies, particularly with respect to sectoral development and trade orientation. Rather than attempting to forecast intra-Community trade flows which the enlargement may imply, we therefore restrict the scope of the analysis to the static effects of mutual trade liberalization as perceived by the applicant countries, whose dominant buyer and supplier is the EC 9.

The probable trade-expanding effects may operate mainly on the import side, since the applicant countries are more protectionist than the EC 9. Following the Viner-Meade approach to customs-union theory, the import expansion effects can be disentangled into "trade creation" (in which case imports from low-cost producers in the EC 9 increase at the expense of high-cost producers in the applicant country) and "trade diversion" (implying the substitution of imports from higher-cost suppliers in the Community for imports from lower-cost producers in non-EC countries). The quantification of trade creation (TC) and trade diversion (TD) has been made using the following formulae[1]:

$$TC_i = M_i^e \mu_i \, [\Delta t_i : (1 + t_i)] \qquad \text{and}$$

$$TD_i = TC_i \, (M_i^n : 0_i)$$

[1] See Baldwin, Murray [1977, pp. 32-33]. It is assumed that the applicant country's production, its imports from the EC 9 as well as those from third countries are equally substitutable; disaggregated estimates on substitution elasticities are not available. Moreover, we compare the full integration situation with the pre-accession one, thereby ignor-

where M^e and M^n are the pre-accession imports of the applicant country from the EC 9 and non-EC countries, respectively; μ represents the price elasticity of import demand, t the initial import tariff rate on imports from the Common Market and 0 domestic production in the applicant country, while the subscript i refers to the industry group.

Obviously, the potential increase of imports as a proportion of the initial size of import trade depends on two major factors. One is the level of tariffs prior to the enlargement, the other is the price elasticity of import demand (which is assumed not to be influenced by the accession). These two factors determine the size of price changes following the abolition of tariffs in the process of the applicant country's full integration into the Community.

Table 28 shows the rates of nominal tariff protection for major industry groups as prevailing in the applicant countries in representative years. Reflecting the tariff reductions provided by the preferential trade arrangements referred to above, customs duties on imports from the EC 9 are lower than those on imports from third ocuntries. If unweighted averages of the 28 three-digit ISIC branches are taken, Spanish manufacturers seem to enjoy the highest protection against imports. The weighted averages show Greece to be the most protectionist country, which may be ascribed to effective lobbying of the import-substituting consumer goods industries in this country. Portugal's levels of tariff protection may be biased in an upward direction, since customs duties are specific rather than ad valorem in this country and there has been rapid inflation in recent years. The inflation might have considerably reduced the tariffs' incidence, although import surcharges, which were introduced in May 1975 and have repeatedly been adjusted since then, have limited the erosion of the tariff protection.

While the tariff levels do not appear to be excessively high on average in any of the applicant countries, the scope for tariff liberalization should not be underrated. The averages conceal the fact that import tariffs still vary considerably from one product group to the next; the standard deviation of tariffs is highest in Portugal and

---

ing the transitional period. Neither multiplier effects nor changes in either factor endowments or the allocation of resources in the applicant country, which may result from the integration, are taken into account. Adjustments in the exchange rates that would be required to compensate for changes in the balance of trade brought about by import liberalization have also been omitted.

Table 28 - Rates of Nominal Tariff Protection in Greece, Portugal and Spain by Major Import Categories, various years

	Greece[a]		Portugal[b]		Spain[c]	
	Imports from					
	EC 9	non-EC	EC 9	non-EC	EC 9	non-EC
Unweighted averages						
Consumer goods	15.3	22.0	14.3	21.5	16.7	23.0
Intermediate goods	8.6	12.6	6.5	9.9	9.4	12.7
Capital goods	5.6	12.6	6.7	11.0	15.4	20.1
Total manufactures	11.3	17.3	10.4	15.2	14.4	19.4
Weighted averages[d]						
Consumer goods	23.4	32.8	12.3	17.2	14.0	17.8
Intermediate goods	7.5	11.4	5.6	7.2	9.1	11.7
Capital goods	7.0	13.2	6.6	10.7	16.4	20.8
Total manufactures	15.0	22.0	9.5	13.4	12.6	16.2
Standard deviation of tariff rates[e]	7.87	7.07	20.85	15.02	10.32	7.84

[a]1976. - [b]1974. - [c]1976. - [d]Using as weights the industry's shares (at three-digit ISIC) in total manufacturing output of the country in question. - [e]Relating to 28 three-digit ISIC industries.

Source: Calculated from the information provided by the tariff legislation in Greece, Portugal and Spain.

lowest in Greece. Moreover, nominal tariffs tend to rise with the stage of industrial processing, thereby leading to markedly higher effective rates of tariff protection, particularly in Spain.

As to the import-price elasticities, we have assumed that each applicant country faces an infinitely price-elastic import supply from the Community ("small country" assumption). The price elasticities of import demand have been estimated by lagged double-log OLS regressions on the basis of annual data for the period 1960-1977; they have been found to range between -0.06 (rubber products) and -1.68 (beverages) for Greece, between -0.02 (other manufactures) and -2.19 (refined petroleum) for Portugal, and between -0.03 (footwear) and -1.79 (pottery, china and earthenware) for Spain.

The estimated amount of import expansion, compared to the pattern of imports in 1979, is shown in Table 29 for major commodity groups[1]. Several conclusions emerge from these estimates. Firstly, Spain has to expect the greatest increase of manufactured imports in both absolute and relative terms. The increase would amount to 5.1 percent per annum above total imports in the base year and 11.3 percent above actual imports from the EC 9. The corresponding percentages are expected to be markedly lower in Portugal (3.4 and 6.4) and Greece (2.7 and 5.3). In absolute terms, Portugal ranks behind Greece. These differences in size and rate of the expected import expansion reflect the disparities in the scope for tariff reductions, in the responsiveness of imports to the implied price changes, and in the import values observed in 1979.

Secondly, the distribution of the expected import expansion among consumer goods, intermediate products and investment goods appears to be most balanced relatively in the case of Greece, where the shares are 24.5, 35.2 and 40.3 percent respectively. Portugal's import expansion shows a greater concentration on intermediate products (41.9 percent) and investment goods (50.2 percent). For Spain, the lion's share of the expected rise in imports seems to correspond to investment goods (64.7 percent), while consumer goods and intermediate products have a rather similar weight in the incremental imports (16.6 and 18.7 percent, respectively). These estimates support our earlier findings regarding the relative importance of inter- and intra-industry specialization of the new entrants in their trade with the EC 9.

Thirdly, the three most important branches in the incremental imports are fabricated metal products (16.8 percent), industrial chemicals (11.5 percent) and non-electrical machinery (9.9 percent) in the case of Greece; petroleum products (21.6 percent), non-electrical machinery (19.3 percent) and professional goods (11.5 percent) in the case of Portugal; and non-electrical machinery (27.2 percent), professional goods (11.7 percent) and electrical machinery (10.6 percent) in the case of Spain. These are branches in which the new entrants revealed a lack of international competitiveness (though a trend towards improved competitiveness could be identified in some instances); they are physical- and/or human-capital-intensive, and the competitive position of various EC countries is known to be strong.

[1] For a commodity breakdown at the three-digit ISIC level see the estimates in Donges, Schatz [1980, pp. 178-179] and, for Spain, Donges [1980b].

Table 29 - Estimated Import Expansion in Greece, Portugal and Spain Resulting from Tariff Elimination (US-$ million)

Commodity groups[a] by country	Imports in 1979 from		Trade creation	Trade diversion	Overall import expansion
	EC 9	non-EC			
Greece					
Consumer goods	686.0	655.6	42.9	3.4	46.3
Intermediate products	882.4	1,364.1	45.9	20.7	66.6
Capital goods	1,973.9	1,379.6	54.6	21.7	76.3
All manufactures	3,542.3	3,399.3	143.4	45.8	189.2
Portugal					
Consumer goods	328.0	561.6	11.2	0.6	11.8
Intermediate products	737.1	940.3	28.3	33.8	62.1
Capital goods	1,243.5	608.9	47.6	26.9	74.5
All manufactures	2,308.6	2,110.8	87.1	61.3	148.4
Spain					
Consumer goods	1,242.6	1,986.3	132.6	6.1	138.7
Intermediate products	2,375.5	4,926.1	144.4	12.3	156.7
Capital goods	3,791.2	1,971.1	447.1	94.2	541.3
All manufactures	7,409.3	8,883.5	724.1	112.6	836.7

[a] Classified as in Table 23. The aggregated estimates have been derived from calculations relating to three-digit ISIC branches. For method see text.

Source: Basic trade data from UN [a, 1979]. - Output data from national industrial statistics. - Tariffs as in Table 28.

Fourthly, the bulk of the expected import expansion represents "trade creation". It accounts for 75.8 percent of Greek's total import increase, for 58.7 percent of Portugal's incremental imports and for 86.5 percent of Spain's rise in imports. The inter-country differences in tariff protection, which were reported earlier, might influence the ranking of the applicant countries with regard to the relative weight of overall "trade creation". There are two branches in each applicant country (petroleum products in all three, transport equipment in Greece, professional goods in Portugal and Spain) where "trade diversion" exceeds "trade creation", affecting mainly suppliers from the United States and East European countries as well

as from Japan. According to these estimates, resource allocation would improve in the applicant countries as a result of trade liberalization, thereby resembling the experience made by the EC in its original composition and after its first enlargement in 1973[1].

The trade-expanding effects may also operate on the export side, particularly in the case of Spain. While Greek and Portuguese manufactured exports are to a large extent already entering the Common Market free of customs duties (exceptions refer to a few "sensitive" products), the EC 9 still applies preferential tariffs on Spanish manufactured exports (4.5 percent on average, the standard deviation of industry-specific tariff rates being 6.99). If the demand of the EC 9 for manufactures from any of the applicant countries is regarded as infinitely price-elastic ("small country" assumption), the potential export expansion can be estimated using the following formula[2]:

$$\Delta X_i = CET_i X_i [1 + \varepsilon_i (1 + CET_i)]$$

where X_i represents the initial exports to the EC 9, while CET_i is the initial Common External Tariff rate on imports from the applicant countries and ε the price elasticity of these countries' export supply.

It turns out that the extent of the expected increase in exports crucially depends on, apart from the size of exports and the level of CETs prevailing prior to the adhesion, the price elasticities of export supply. We have estimated these elasticities by OLS regressions at the three-digit ISIC level only for Spain; they lie approximately between + 0.02 (leather products) and + 1.75 (wood products), the average being 0.46. Hence, export supply seems to be less responsive to price changes than import demand. Presumably this also holds for Greece and Portugal.

---

[1] See the ex post estimates of trade effects in Balassa [1975] and Kreinin [1981], respectively.

[2] For elaboration see Pomfret, Toren [1980, pp. 48 ff.]. The "small country" assumption might be less justified if exports of the new entrants into the EC 9 are disaggregated at commodity levels. For instance, Spanish canned fruit and vegetables as well as beverages and shoes account for 7 to 9 percent of the corresponding total imports of the EC 9.

The estimated increase in exports amounts to US-$ 353 million per year (Table 30), that is 5.8 percent above the 1979 size of Spain's manufactured exports to the EC 9 (2.8 percent if all destinations are included). It is interesting to note that consumer goods are expected to experience the largest increase both in absolute and relative terms[1]. As processed food and beverages account for 58 percent of these incremental exports, the estimate reflects only the consequence of what may happen once Spanish suppliers are allowed to exploit whatever price and/or quality advantages over French and Italian producers they have. Free access to the Common Market will enhance the strong competitive position which Spain is already displaying in this sector. Another remarkable finding is that transport equipment ranks next in importance, contributing 17 percent to the estimated export expansion. This finding is consistent with the ongoing tendency to integrate Spain's automobile industry into the vertical internationalization of car production, which will entail additional exports of parts and components as well as finished passenger cars anyway.

Table 30 - Estimated Expansion of Spanish Manufactured Exports into the EC 9[a] (US-$ million)

Commodity groups	Exports to EC 9 in 1979	Export expansion
Consumer goods	2,055.6	169.4
Intermediate products	1,206.9	57.8
Capital goods	2,878.6	125.7
All manufactures	6,141.1	352.9 //

[a] For method see text.

Source: See Table 29.

As to Portugal and Greece, their entry into the EC 9 is, for the reasons already stated, not likely to generate substantial sales into the

[1] See again Donges, Schatz [1980, p. 180] for a sectoral breakdown of these estimates. Estimates relating to Spain's export flows into any of the original six EC member states are provided by Puig Bastard et al. [1979, pp. 325 ff.].

present Common Market in addition to the normal export expansion. If we assume that the price-supply elasticity of Greek and Portuguese manufactured exports is, on average, 0.5 (the EC's import-demand price elasticity being infinite) and that the remaining CET protection against imports from Greece and Portugal is 1.5 percent (one-third of the average level applied to imports from Spain), the integration effect would increase Greece's manufactured exports by some US-$ 3 million additionally and the Portuguese ones by US-$ 4 million. These incremental exports would in both cases represent only 1.5 percent of the manufactured exports to the EC 9 (all figures referring to 1979).

It thus turns out that imports of the Three from the EC 9 will increase faster than their exports to the Common Market. The additional imports might even exceed the amounts suggested by our estimates, once prevailing quantitative import restrictions have been phased out. The entrants' trade positions vis-à-vis the Community would then worsen, increasing the need for structural readjustment within the new entrants' manufacturing industry. How heavy this burden will actually be, depends on the time-table for the mutual tariff removal. As it can be expected that the EC's trade barriers will be abolished more rapidly than those of the Three, the Southern manufacturers will initially be able to benefit from a better access to the Common Market than the EC producers will with regard to the new markets. The net trade impact will therefore be eased during the transitional period. In any case, the impact of increased imports on domestic output and employment can be kept the more within manageable dimensions the more internal demand for the industry's products increases (more about this later).

The analysis has so far focussed on trade relations between the new entrants on the one side and the EC 9 on the other. The emerging trade patterns, however, will also be influenced by increases in the trade between Portugal and Spain, once both countries become full members of the Community (possibly at the same time). At present, Portugal is still maintaining relatively high levels of nominal tariff protection against manufactured imports from its neighbouring country (averaging about 35 percent, including surcharges). Spain is itself also rather protective vis-à-vis Portugal, whose manufactured exports face an average tariff rate of approximately 17 percent. To this figure one has to add a variety of mutual quantitative import restructions.

Until now, no clear pattern of revealed comparative advantages in trade between the two countries is discernible. The Portuguese in-

dustry seems to display a solid degree of competitiveness in beverages, wearing apparel, paper and paper products, as well as rubber and asbestos products. Its competitive disadvantage is most persisent in plastic products, non-ferrous metals, non-electrical machinery, and transport equipment [Donges, 1981a]. On the whole, Portugal's manufactured exports to Spain accounted for 2.9 percent of the total in 1979, whereas the share of imports from Spain was 7.3 percent in that year. Conversely, the corresponding shares for Spain were 2.7 and 0.5 percent, respectively. The aggregate bilateral trade balance in manufacturing has been improving for Spain over time (and hence deteriorating for Portugal). Spain had a surplus of $ 39 million in 1970, of $ 128 million in 1974 and of $ 269 million in 1979. It is quite conceivable that once trade barriers between both Iberian countries have been abolished, proximity, cost advantages, some technological superiority and marketing expertise may favour a substantial penetration of the Portuguese market by Spanish manufacturers more than inroads of Portuguese producers into the Spanish market.

4. Industrial Growth Implications

Turning now to dynamic aspects, both customs-union theory and practical experience within the Community lend support to the hypothesis that full integration of the Three might stimulate economic growth in these countries through an impetus to factor productivity and investment. Although a quantification of these gains would require the conduct of detailed industry studies, the scattered information available so far[1], lends support to the view that the dynamic gains which Greece, Portugal and Spain may reap from their integration into the EC 9 could be significant.

Most analysts would agree that wider markets facilitate the exploitation of economies of scale in given firms, that they open opportunities for introducing large-scale production in newly established plants (particularly those where automation is making great headways), and that they permit increased specialization, both vertically and horizontally, on an optimum scale. All this would enhance the positive trade effects for the Three.

[1] See Hummen [1977] and Nikolaou [1980] on Greece; Esser et al. [1977] and Balassa [1980] on Portugal; Donges [1976b] and Puig Bastard et al. [1979] on Spain.

The relevance of the economies-of-scale hypothesis for Greece, Portugal and Spain rests upon the observation that the industrial structure in these countries is dominated by a large number of very small firms: 70 to 80 percent employ less than five people, and about 90 percent employ less than fifty people. Only a few of them have entered into product specialization and/or complement larger producers. The largest firms (in terms of output and employment) lag far behind the largest firms in the EC 9 due to their limited internal market, though there are a few exceptions, as for instance in Spanish shipbuilding. Even in branches (such as the chemical industry and machinery) where empirical studies have shown economies of scale to be very high, the leading companies (including the foreign-controlled ones) in general do not have the capacity size which is required to take full advantage of scale economies. To the extent that sub-optimal plant sizes are due to the narrow domestic market, the Common Market will provide sufficient outlet. Exports, then, would contribute via linkages to more efficient production for the national market on a large scale, too. Those firms, in which the minimum long-run average costs exceed the world price by more than the CET, will decline or even be driven out of existence by import competition, thereby creating an adjustment problem to the applicant countries. The other enterprises, which operate on downward-sloped scale curves, will expand by replacing imports and increasing exports[1].

The efficiency aspect receives, by comparison, much less attention, although it may turn out to be more important in practice[2]. We know that in Spain as well as in Portugal and Greece the prevailing levels of protection and subsidies have created much "X-inefficiency" at the firm level. Among the many high-cost producers there are not only such who would not be able to compete with imports, but also such who could actually compete - if it were a matter of survival - by

[1] The most detailed estimates of production functions which are available refer to the Spanish manufacturing industry [Méndez Reyes, 1975, pp. 245 ff.]. These estimates reveal that there is a considerable economies-of-scale potential in many industries. Unit costs have been found to decrease substantially with the size of establishment in the case of furniture, paper manufactures, printed matter, rubber tires, paints and varnishes, perfumes and soaps, plastic materials, glass products and machinery. For estimates regarding the Portuguese industry see Sousa [1977].

[2] The omission of this aspect may even lead to rather pessimistic conclusions about the integration effects for the applicant countries, as shown by Viaene [1980].

reducing costs. The latter firms have simply not reached the ceiling of their production possibilities yet, because their managers prefer a "quiet life" to profit maximization, which is an attitude they can afford under protection and in view of the fact that domestic competition does not function sufficiently well in applicant countries (Chapter II). Examples can be found in all branches; and state-owned companies, which have been extending their activities across the board, also tend to perform poorly in this regard. Increased import competition from the EC 9 (and the EFTA countries) might present a challenge to the ability of such firms' management to improve the organizational and technological efficiency, to intensify the control of quality of products and even to develop and market new goods. No doubt this will be the case in the private sector and, hopefully, in the public sector, too. The overcoming of "X-inefficiencies" might also make the trade effects of the accession more favourable for the Three, since the firms will appear more competitive in their production of both export and import substitutes.

Improved efficiency levels and economies of scale might have a parallel effect on the volume of investment. New equipment will be needed in order to withstand foreign competition, to achieve specialization and to increase the scale of production. Furthermore, complete new plants may be constructed in activities where the Three's comparative advantage is particularly strong, reflecting also an inter-industry reallocation of resources, i.e. from lower- to higher-productivity and skill-intensive sectors. It is unlikely that disinvestment in the less efficient firms would cause the overall investment volume to fall, provided appropriate government policies are pursued.

The potential of the Three for attracting foreign direct investment (FDI) is of particular interest in this context. The inflow of private capital from abroad already made a significant contribution to industrial growth, especially in Spain. As the three countries have a promising development potential and at least Greece and Portugal keep unit labour costs below the levels prevailing in the EC 9, they should be able to attract FDI in the years to come as well. Indeed, firms from the advanced EC countries could regard Greece and Portugal, and to a lesser extent Spain, too, as a natural location for re-deploying labour-intensive production. Locational changes could be a substitute for the immigration of labour from the southern to the northern part of the enlarged Community, thereby increasing the rates of overall productivity growth in both areas [Hiemenz, Schatz, 1979]. Greece and Portugal would benefit by FDI in terms of a greater avail-

ability of equipment, know-how and entrepreneurship which these countries need very badly. Apart from these locational changes, the Three could attract additional FDI from non-EC countries which may want to invest in still relatively low-wage countries and then to sell in the enlarged Common Market free of tariff and non-tariff barriers. Such investments need not only originate in the United States (as they usually did in the past) but may also stem from newly industrializing countries such as South Korea, Taiwan, Hong Kong, Argentina, Brazil or Mexico, which already are generating their own multinational corporations. The experience of Ireland shows how fast foreign investors may be attracted by a country after it has become a member of the Community.

If foreign private capital is to engage itself in the industry of the Three, one necessary condition is that these countries are well-disposed to FDI, which mainly means that there is a good general investment climate in the host country and that property rights are respected. The prevailing legislation is rather liberal in all three countries, mainly in Spain. The attitude of domestic businessmen and trade unions is somewhat less open-minded, particularly in Greece. There could be a tendency in future to exclude FDI from certain "key" industries on political grounds. But in general it can be expected that the governments will encourage the inflow of private capital from abroad. The greatest efforts are currently being made by the Portuguese authorities. They want to recover the reputation the country had for generations of being an attractive host for foreign investors, a reputation which Portugal lost during the post-revolutionary years (1974-1975) in the wake of socializing urges and extensive expropriations without compensation, suffering a strong drop in FDI as a result [Donges, 1980a]. That the confidence of foreign investors is gradually returning is reflected by the fact that the recent trend of new FDI is showing in the upward direction.

5. Prospective Adjustment Needs and Opportunities

The preceding discussion allows us to describe the general tendencies regarding the future division of labour within the enlarged Community. From the point of view of the EC 9 the greatest export possibilities will continue to prevail mainly in the investment goods sector. On the other hand, competitive pressure will increase in those "sensitive" areas which are already experiencing a rapid penetration by low-priced supplies from third countries. Textiles, clothing,

shoes and leather products, in addition to steel and ships, are cases in point. The increased adjustment pressures resulting from the enlargement will gradually cease as specialization patterns lead to significantly more intra-trade within the enlarged Community. In the meantime, the member governments could find themselves under pressure from the trade-impacted interest groups to take more frequent recourse to safeguard provisions (eventually in a selective way), to "organize" extra-EC import growth (following the well known French suggestion) or to provide (hidden) subsidies to domestic industries. If this were to happen, the accommodation of additional supplies from Southern Europe would be carried out at the expense of third countries, particularly developing countries[1].

Turning now to the new entrants, Greece should experience both more inter- and more intra-industry trade. The country's advantages in competitiveness and specialization reside in those industrial branches in which the EC 9, and increasingly also Spain, tend to show disadvantages. These industries are predominantly consumer goods industries. Moreover, the division of labour with the EC 9 in the various industrial branches is not as intensive as it could be in view of the prevailing export and import structures of the EC 9 and Greece. Hence, there is a potential for further specialization, mainly in the production of parts and components for investment goods and for the foreign-controlled assembly of commercial vehicles, in the production of simple machines as well as in the building, maintenance and repair of ships.

On the other extreme, Spain could derive gains from increased specialization in the investment goods sector. Accessories for transport equipment, electronic products and machinery for special purposes may gain in importance in the manufactured export assortment. It is less likely that the consumer goods industries will be significantly favoured by the country's entry into the Community. At the level of industrial development that Spain has already achieved, consumer goods industries are generally no longer a motor of growth. Moreover, the expansion of the investment goods industries will adversely affect the competitive position of the consumer goods industries on the domestic factor markets.

Portugal's chances are likely to lie rather in the field of a stronger intra-industry division of labour in the investment goods sector (for instance agricultural and textile machinery, machine tools) than in an inter-industry division of labour through which the country would

[1] Tsoukalis [1981, pp. 178 ff.] argues along similar lines.

increasingly become the supplier of consumer goods in the present EC 9, thereby reducing the scope of the former suppliers in the Community. However, the entry of Portugal might also stimulate the consumer goods industries, particularly by upgrading textile and clothing products as well as shoes. After all, for this relatively small country the total opening of the Common Market means a significant increase in the potential demand for products for which this country possesses distinct comparative advantages vis-à-vis the EC 9. In any case, there are good possibilities for specializing in assembling and for manufacturing components and accessories for a wide range of final goods.

Third countries frequently argue that they will suffer from "trade diversion" following the enlargement (Chapter VI). Especially developing countries fear an erosion of the value of the EC's Generalized System of Preferences (GSP) (in operation since 1971); of the tariff-free access to EC markets granted under the Lomé Convention (signed in 1975 and extended in 1979) to 60 African, Caribbean and Pacific countries (as of October 1981); and, finally, of the concessions made by the EC to countries of the Mediterranean basin. However, it should not be overlooked that the new member countries will have to reduce their import tariffs, at present applied to third countries, to CET levels; they will have to suppress their still highly restrictive import quotas; they will have to adopt the GSP, and join the Lomé Convention. All this, as the discussion in Chapter IV shows, may lead to "trade creation" in favour of developing countries, particularly the industrially more advanced ones. As far as non-EC industrialized countries are concerned, their entry into the Three's markets will also be facilitated. Particularly the EFTA countries will benefit from the Three's accession to the EC, since the new members will have to enter the free-trade agreements which have been established between the present EC 9 and the EFTA (Portugal will only change sides).

6. Issues for Economic Policy

To recapitulate, full membership in the EC will give Greece, Portugal and Spain the opportunity to expand their industrial trade and accelerate their economic growth. Whether or not these opportunities materialize, lies in the hands of the national governments, that is, depends on the conduct of appropriate policies. Appropriate policies comprise quite similar tasks for the Three and the Nine.

Turning first to the new entrants, it should be recognized that they all need to be disentangled from the many bureaucratic interferences to which they have been subjected for decades. As we emphasized in Chapter II, these interferences are far from being coherent, they are costly to enterprises and to the economy as a whole, they frequently lead to the creation of monopolistic quasi-rents and they usually give wrong price signals to the individual manufacturing firms. Only if some de-regulation of the economy is undertaken, will it be possible for the governments to effectively pursue appropriate policies aiming at securing the potential net gains from integration.

Industrial development and trade policies should be responsive to factor endowments (in a dynamic sense). This means that promotion should be neutral between industries; its rationale would rest upon the (presumed) externalities generated by manufacturing production. Promotion should also be neutral between domestic and foreign markets, so that export production would have the same chance as import substitution to develop further. This will require a streamlining of the prevailing protectionist trade policies, that is, a reduction of the levels and product-wise dispersion of tariff and non-tariff barriers. As the new entrants will have to adapt existing levels of import protection to the CET structure anyway, their trade policies will become more efficient. But even in this case industries producing exportable goods will not yet receive an incentive treatment which is equivalent in terms of value added to the one enjoyed by import-substituting activities. Under EC regulations it is not possible to reduce or neutralize the discrimination against exports resulting from the remaining protection by outright subsidies or tariff drawbacks to exporters. What is possible, however, and what would be advisable in any case, is to provide export credits and effective export insurances as well as financial assistance for participating in trade fairs, to an extent comparable to actual arrangements in the EC 9.

The trade-liberalization policies should be complemented by adjustment assistance in favour of trade-impacted workers, capital owners and regional budgets. They should not provide (growth-inhibiting) maintenance aids, however, though the governments will presumably face powerful vested interests (created during the long period of bureaucratic interventionism) pressing for such aids. Experience in the EC 9 and elsewhere has clearly shown that maintenance aids are an important obstacle to industrial growth. Contrary to what government officials, trade unionists and entrepreneurs usually say, such aids cannot by themselves transform inherent cost disadvantages into advantages. It is difficult to see how protected, high-cost pro-

ducers are to be encouraged to improve their methods of production and the quality of their products. The postponement of the structural adjustment caused by the entry into the Community will only make the domestic industries even more vulnerable to future foreign competition.

In shaping appropriate industrial development policies which are to enhance the competitiveness of domestic firms following the accession, the role of government enterprises should be reconsidered. Two issues are involved here. One relates to whether or not the governments should plan industrial development according to particular economic or social criteria. Apart from the fact that experience with planning - whether centralized or indicative of the French type, and wherever it has been pursued - is not encouraging at all, investment and production planning in an open economy is bound to fail anyhow. With the applicant countries' integration into the EC 9 it is hardly possible to predict accurately the extent to which domestic productive capacities will be subject to import competition or will generate additional exports; and there is little chance of making a correct assessment of future technological changes in a "Europeanized" industry and of how domestic consumers will react to the integration process. Private investors may make mistakes under such uncertainty, for which they will be penalized in the form of losses. There is no reason at all why bureaucrats, who do not run the risk of losing the invested capital, should make better decisions. In addition, bureaucrats are typically risk-averters, since they cannot earn a profit by taking risks. Private entrepreneurs can, and this chance may encourage them to undertake investments and to imitate products and technologies which have been successful elsewhere, thereby improving the international competitiveness of their firms. Given the existence of uncertainty, the government authorities would probably make quite an effective contribution to industrial development in their countries if they were to adhere to the conventional approach of carefully formulating an industrialization strategy, of providing the private sector with information about their policies and investment programs, and of implementing these efficiently.

The second issue refers to the direct control of industrial firms by the authorities, which is a particularly important issue in the case of Spain (Chapter II). It is well known that the efficient centralized manageability of a wide range of enterprises is limited in practice. The more direct government ownership proliferates across the board, the more likely it is that the government firms display

a poor economic performance with low profits or persistent losses. Hence, if the governments want to assume entrepreneurial functions, they should allow the (totally or partially) state-owned companies to operate autonomously. Good and bad performers can then be more easily detected, thereby stimulating the managements to reduce "X-inefficiency" and to undertake process and product innovations as required under the more competitive climate within the enlarged Community. Furthermore, the governments should divest themselves of their ownership in such enterprises which do not require public support in order to be commercially viable (which in Portugal may also include the return of nationalized firms to the dispossessed owners). However the mixed-enterprise system may evolve, state-controlled firms should not receive a more favourable treatment than private manufacturers. Otherwise, investment by the latter would be discouraged, although there is no reason to expect that the public investment, which would take place instead, would involve higher social returns.

Further appropriate policy measures in view of securing the gains from the accession include

- the strengthening of competition policies in order to allow the market mechanism to direct resources to their most efficient uses, but encouraging at the same time the merging of firms where it seems necessary to achieve efficient sizes of plants;
- the easing of prevailing job-tenure regulations which tend to increase the real-wage cost of labour, thereby impairing the international competitiveness of manufacturing production (whereas only the pool of labour actually employed is benefited), and the structuring of real wages such that they reflect labour skills, in order to avoid that qualified labour, which is usually mobile, immigrates to the more advanced countries;
- the lasting containment of inflation in order to dispel the excessive uncertainty which inflation normally generates, thereby improving the environment for productive long-term investments which are required in response to the expected changes in the patterns of production and trade within the enlarged Community;
- the adherence to clear and steadfast rules on direct foreign investment, if foreign firms are to be attracted on a sustained basis and the net benefits per unit of the desired foreign capital are to be maximized.

Some reforms in these directions have already been initiated, or are being designed by the new entrants' governments (though it is possible that the newly elected socialist government in Greece will adhere to a more interventionist approach). Given the risk of high economic and political costs, especially in Portugal and Spain, policy reversals cannot be brought about quickly. But this is not an argument for not embarking upon appropriate policies. It is rather an argument for following a gradual approach. This means a credible commitment by the governments to a program that envisages a sequence of policy reforms for several years ahead, that is sensible and realistic and that may therefore influence the expectations of the economic agents positively.

As to the Nine, their economic policies should also encompass firm measures restraining inflation as well as arrangements which effectively stimulate competition both on product and factor markets. De-regulation will become a major challenge to the governments. Another important task consists in resisting pressures from trade-impacted industries and labour unions for selective protection, in stopping and reversing the tendency of international cartelization to spread among industries, in reducing selective subsidies to domestic firms and in refraining from policy competition when providing public aids to particular industries and regions.

The need of the hour is that following the enlargement the Nine take the lead in promoting structural adjustments, so that the greater heterogeneity within the enlarged Community does not expose prosperity and cohesion among the Twelve to serious strains. The main task is to encourage companies to intensify their research and development efforts and to become more innovative with regard to products and production processes. At the same time, the professional and regional mobility of the labour force has to be fostered, whereas there should be no obstacles to the export of capital and technological know-how to the applicant countries. Admittedly, this is easier said than done, because of the pervasiveness of equity considerations, protectionist sentiments and leisure in the present Community. But there is really no possibility of evading policy actions along these lines, if a fresh acceleration of private investment and economic growth is to be achieved. The enlargement of the Community does not require the present member countries to do things which they would not have to undertake anyway.

In conclusion, it should be emphasized that even with optimum growth policies in the EC 9, the Greek, Portuguese and Spanish industries

will not find an automatic, or easy, solution to their various structural deficiencies simply by joining the Community. As has been discussed in Chapter II, most of the problems which these industries are suffering from are intrinsic to the new entrants and hence have to be tackled internally. By the same token, it may appear sensible to many people to provide the newcomers with long transitional periods (say, ten years and more) in order to keep adjustment pressures within manageable orders of magnitude. But what may be considered as an advantage at first glance could turn out to be an illusion once the manufacturing industry postpones its adjustment efforts because the full integration will become effective only in the distant future. A transitional period of five years, as has been agreed with Greece, might make the need for structural adjustment more apparent. In any case, neither Greece nor Portugal nor Spain will have to make structural changes which would be unnecessary if these countries would not join the Community. And in no case will the necessary structural adjustments be painless.

IV. The Entrants' and the EC's Preferential Trade Policies Towards Developing Countries

Greece, Portugal and Spain, after having become full members of the Community, will not only have to reduce their import tariffs (at present applied vis-à-vis third countries) to CET levels and to harmonize their import quotas which are still highly restrictive in a number of cases. The three entrants will also have to adhere to the preferential trade arrangements by which the Community has shaped its economic relations with developing countries [Henig, 1971; Kreinin, 1975]. Of potentially great importance in this regard are the GSP on manufactured exports of developing countries, the Lomé Convention with (as of October 1981) 60 African, Caribbean and Pacific (ACP) countries, as well as the bilateral trade agreements with the Mediterranean countries. The preferential treatment generally implies the duty-free access of semi-manufactures and manufactures to the Common Market within tariff quotas, whereas the Lomé Convention in addition offers both an - in principle - open-ended scheme without ceilings and a considerably wider product coverage to include agricultural goods[1].

The purpose of this chapter is to analyze the implications for the entrants of adopting the prevailing preferential trade arrangements between the EC and developing countries, which are beginning to worry the entrants' governments [Langhammer, 1980b; Fernandes, 1980]. The analysis lays emphasis on the trade effects of the GSP, which actually represents the most significant commitment of the Community vis-à-vis developing countries. There is also a discussion related to the ACP and the bilateral agreements with Mediterranean countries. In addition to the trade effects, the implications of the enlargement for the future shaping of the EC's trade policy towards developing countries are considered.

---

[1] Though the GSP has gradually improved its product coverage in favour of processed agricultures, the core of preferential tariff items still covers semi-manufactured and manufactured goods. Furthermore, the GSP options for processed agricultural products concentrate on tariff reductions rather than on tariff exemption. For details see Murray [1977] and Yeats [1979].

1. Export Patterns and GSP Provisions

Before discussing the consequences for the new entrants of adopting the EC 9 commitments it seems to be appropriate to highlight the volume and structure of GSP exports to the Nine. Table 31 shows that, in 1979, only 26 percent of the total EC 9 manufactured imports in GSP items from developing countries received preferential treatment, either as duty-free imports (about 75 percent) or, with regard to processed food, in the form of tariff reductions (about 25 percent). During the 1970s, the sectoral pattern of GSP imports shifted from textiles, metal industries and electrical equipment to processed agricultural and mineral oil products, reflecting the introduction of more restrictive ceilings in the former sectors and an improvement of product coverage in the latter ones.

This sectoral pattern broadly coincides with the patterns of Spanish and Greek exports to the Common Market and to a lesser extent with that of Portugal. In 1976, for example, about 72 percent of Spain's industrial exports and 69 percent of Greece's industrial exports to the EC were "matched" (in Finger's sense) by preferential exports of the GSP beneficiaries to the Community, as compared with only 55 percent of Portugal's exports. This relatively high overlap could be the cause of further trade-policy conflicts with third countries, especially from the developing world, because of the predominance of "sensitive" products in the export supply of Greek and Portugal. In 1979, nearly 50 percent of Greek manufactured exports to the Community and more than 40 percent of the respective Portuguese exports consisted of those two sensitive categories of textiles and other industrial products (Table 32)[1] where the rigid GSP ceilings prevent any trade expansion incentive from being effective at the margin and where developing countries' exports of textiles face the restrictions imposed by the MFA[2]. The data reveal that duty-free imports from the GSP beneficiaries amounted only about 7 and 14 percent, respectively, of total EC imports from the developing countries in these two categories.

---

[1] To be precise, the data only refer to trade in preferential tariff items. In the semi-manufactured and manufactured sector, however, these items almost completely overlap with the total of tariff items in manufactures.

[2] The GSP tariff preference margin for sensitive textiles is the highest of all categories considered (about 14 percentage points as compared with MFN rates in 1976).

Table 31 - Imports of the EC 9 Countries in GSP Preferential Tariff Items from GSP Beneficiaries, 1979

GSP-Category	GSP-receiving imports	Germany	France	Italy	Benelux	United Kingdom	Ireland	Denmark	EC 9
Sensitive industrial products (except textiles)	in Mill. EUA	73.9	23.0	12.8	23.5	104.2	1.9	12.0	251.3
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	11.5	8.5	6.8	9.3	17.2	12.4	24.6	12.4
Semi-sensitive industrial products (except textiles)	in Mill. EUA	497.9	87.4	456.4	78.0	216.2	6.0	77.0	1,418.9
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	46.1	15.8	76.7	12.5	44.8	13.2	48.9	40.1
Non-sensitive industrial products (except textiles)	in Mill. EUA	793.2	187.7	192.5	200.0	313.3	11.1	30.7	1,728.5
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	57.0	22.4	24.2	18.3	33.4	37.8	58.6	33.7
Sensitive textiles	in Mill. EUA	54.3	36.5	36.8	2.6	101.9	1.3	11.2	244.6
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	4.2	10.2	17.9	0.7	20.7	9.4	16.6	8.8
Semi-sensitive textiles	in Mill. EUA	155.6	19.7	7.1	0	42.2	0	5.6	230.2
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	71.8	64.5	31.9	-	82.1	9.0	71.7	63.2
Non-sensitive textiles	in Mill. EUA	29.8	8.7	5.7	28.8	24.4	0.7	2.6	100.7
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	57.7	38.3	42.8	68.8	90.3	100.0	78.7	62.9
Sensitive agricultures (tobacco type Virginia, cocoa butter, canned ananas)	in Mill. EUA	49.4	1.5	13.7	25.6	230.7	5.7	5.2	331.8
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	37.9	2.7	42.4	23.1	53.6	40.1	61.1	42.5
Semi-sensitive agricultures (raw tobacco)	in Mill. EUA	7.3	-	-	-	5.8	0	6.4	19.5
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	74.4	-	-	-	56.2	0	65.8	35.2
Non-sensitive agricultures	in Mill. EUA	310.7	158.6	129.6	189.5	221.5	2.3	25.8	1,038.0
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	17.5	14.3	14.4	20.2	30.0	23.2	14.5	18.4
Total agricultures, semi-manufactures and manufactures	in Mill. EUA	1,972.1	523.1	854.6	548.0	1,260.2	29.0	176.5	5,363.5
	in percent of total EC imports from GSP beneficiaries in GSP tariff items	29.9	16.2	31.2	15.7	33.3	22.1	33.1	26.2

Source: Microfiche data provided by the Statistical Office of the European Communities (Eurostat).

Table 32 - EC 9 Imports in GSP Preferential Tariff Items from Greece, Portugal, Spain and the GSP Beneficiaries, 1979 (US-$ million)[a]

GSP-Category	Greece	Portugal	Spain	Developing countries (GSP beneficiaries)	
				GSP-receiving imports	Total imports in preferential tariff items
Sensitive industrial products (except textiles)	164.8	182.5	739.9	344.2	2,768.5
Semi-sensitive industrial products (except textiles)	210.8	402.5	1,177.5	1,943.7	4,845.9
Non-sensitive industrial products (except textiles)	527.9	524.1	4,043.4	2,367.9	7,020.6
Sensitive textiles	756.6	585.9	256.7	335.2	3,808.3
Semi-sensitive textiles	91.1	55.1	145.2	365.9	711.5
Non-sensitive textiles	9.3	11.7	58.8	138.2	219.6
Sensitive agricultures (tobacco type Virginia, cocoa butter, canned ananas)	5.9	-	54.2	454.6	1,069.0
Semi-sensitive agricultures (raw tobacco)	11.8	0	-	26.8	76.1
Non-sensitive agricultures	177.7	28.8	241.9	1,421.9	7,718.2
Total agricultures, semi-manufactures and manufactures	1,955.9	1,790.3	6,717.6	7,398.4	28,237.7

[a]The data have been converted from European Units of Account (EUA) into US-$ by the rate 1 US-$ = 0.730 EUA.

Source: Microfiche data provided by Eurostat.

Any trade liberalization in favour of developing countries - whether by eliminating or at least easing tariff quotas or by relaxing the export restraints provisions - would presumably change the relative competitive position on the Common Market of suppliers from Greece and Portugal vis-à-vis suppliers from developing countries to the detriment of the former. The competitive pressure on Spain's export supply would probably be lower, since this country concentrates its exports to the Community on a wider range of "non-sensitive" manufactures with both low GSP preference margins and open-ended ceilings. Any improvement of the preference system in the non-sensitive categories (for example, cumulative origin rules, a less complicated application procedure and a better dissemination of the scheme among the exporters from developing countries) would probably raise the ratio between preferential imports and total imports, but would hardly lead to a trade diversion to the detriment of Spanish exporters. The fact that Spain, as opposed to Greece and Portugal, is not a marginal supplier of non-sensitive manufactures - it accounted for more than 50 percent of all developing countries' exports to the EC in this category in 1978 - lends support to this notion.

However, prospects for a liberalization of the GSP are bleak. Since the start of a revised GSP coincided with the accession of Greece to the EC in 1981, it is more realistic to expect that the export interests of this country, which obviously overlap with the highly price-elastic sensitive products from developing countries (mainly Asian ones), were duly taken into account when new GSP concessions were considered by the EC 9.

At the end of 1980, the EC-Commission launched some new guidelines for the next GSP decade [EC, 1980a; 1980b], for instance:

- to concentrate future concessions on the least developed countries rather than on NICs;
- to keep the number of preferential items in the agricultural sector at present levels;
- to eliminate the categories of "semi-sensitive" items;
- to keep the number of "sensitive" items constant for at least five years;
- to establish a selective control for "sensitive" industrial goods supplied by individual successful beneficiaries.

These principles evidently fit in with the new entrants' wish to main-

tain as much protection against the NICs as possible[1]. Since the basic principles of the GSP have not been changed, the applicant countries will have to provide a preferential treatment of imports from most of the developing countries for the first time, whereas in the past they themselves benefited from various GSP schemes[2]. Since preferential treatment is in most cases equivalent to duty-free market access and since none of the Three has fully adjusted its national tariff to the lower level of the CET, the preference margin at the moment would considerably exceed those 14 percentage points which were mentioned above as the maximum in the EC-GSP. As was shown in Table 28, the level of nominal protection against imports from third countries is particularly high with regard to consumer goods. The crux of the matter, however, is not tariffs but quantitative import restrictions. Tariff barriers fail to be a precise indicator of protection because of both frequent exchange-rate changes and the variability of inflation rates. Moreover, even high tariffs may eventually be outweighed by production-cost advantages of LDC suppliers. The governments of the entrants know that import quotas are the most effective way of protecting marginal local producers. This argument also holds when import quotas are introduced as a remedy for short-term balance-of-payments problems. A continuous prolongation - as has been done by Portugal during the last four years - leads to a persistent protectionist effect.

2. The Entrants' Import Quotas and the GSP Beneficiaries' Export Supply

In view of the protectionist policies of the entrant countries, based on non-tariff barriers, it seems worthwhile to inquire into the question of whether the system of import quotas affects those manufactures (GSP tariff items) in which developing countries have expanded their exports overproportionately and in which the entrants' domestic producers seem to be particularly vulnerable.

---

[1] See for a similar judgement Weston et al. [1980, p. 34].

[2] Spain was a beneficiary of the Austrian, the Norwegian and the Swiss GSP; Portugal benefited from the Australian, Austrian, Czechoslovakian, the Japanese, the New Zealand and the US scheme; Greece was a beneficiary of the same schemes as Portugal, except for the US scheme, and of the Swiss scheme in addition.

a. The Greek Case

During the association period (1962-1980) Greece applied specific import quotas against the EC as well as against third countries. The Treaty of Adhesion allows this quota regime to be maintained during the transition period (January 1, 1981 - December 31, 1985) when Greece will gradually adopt the GSP.

The Greek import-quota regime, as applied against third countries (except socialist countries), can be characterized by a high degree of selectivity and a low degree of repercussion on the overall manufacturing sector: the import quotas refer mainly to tariff sub-items and are related to branches which contribute to the employment and value added of the Greek manufacturing sector only to small degree (Table 33). Electrical and transport equipment components are cases in point. Greece's quantitative protectionism does not discriminate between exporting countries, however; during the transition period, imports from the EC 9 will be subjected to similar quotas as imports from developing and socialist countries. This arrangement is to prevent extra-EC imports, which are in free circulation in the Common Market, from entering the Greek market in an unrestricted manner. The quotas against EC 9 countries can therefore be regarded as a substitute for the so-called non-application rule in article 115 of the Treaty of Rome (non-application of community treatment for indirect imports).

The economic consequences depend on whether the non-tariff barriers will really be transitory (as envisaged by the Treaty of Accession) or not. Since the import quotas affect branches in which Greece has not yet exhausted its potential for intra-industrial specialization with the EC (motor-vehicle assembly, production of spare parts and components for capital goods etc.), maintenance of the quantitative restrictions beyond the transition period may not only impede third-country exports to Greece but may also consolidate the prevailing high degree of inter-industrial specialization between the EC and Greece (Chapter III). A spezialization based on the predominance of textiles (and the like) in the Greek manufactured export assortment might constrain the scope of Greek overall export expansion because the markets for such products are growing relatively slowly. Moreover, due to this predominance, textile protectionism within the enlarged Community is not likely to be abolished rapidly and this will obviously harm developing countries, including those of the Mediterranean basin.

Table 33 - Import Quota[a] of Greece and Related EC 9 Imports from GSP Beneficiaries, various years

Common Customs Tariff	Denomination of products (abbreviated)	Import quota for affected countries	Imports[b] from affected countries	Share of related branches[c] in total manufacturing		EC 9 - GSP imports in related tariff items[d]	
				employment	value added	average annual growth rate	ratio to total EC 9 preferential import growth rate
		EUA 1,000 (unless otherwise stated)		percent			
		1981	1978	1974		1973-1978	1978
3102 A; B 3103 3105 AI. II. IV	Mineral or chemical fertilisers	10,000 t	46 t	0.7	2.4	+ 151.7	3.6
7318 ex C	Tubes and pipes of iron	200	732*	0.5	1.1	+ 36.8[e]	0.9
ex 7337	Boilers and radiators for heating	353.6	207	1.6	1.2	+ 25.1[e]	0.6
ex 8401	Steam boilers	265.8	27			-	-
8406 C ex II.	Internal combustion piston engines	121.6	110	0.2	0.1	+ 56.1	1.3
8410 ex A; B; C	Pumps for liquids	404	2,464	0.1	0.2	- 16.7	- 0.4
8414 ex B	Industrial and laboratory furnaces and ovens	24	959*	0.1	0.1	+ 254.5	6.0
8415 ex B	Refrigerators	235.2	780*	0.3	0.6	+ 8.5	0.2
ex 8420	Weighing machinery	40.4	217*	0.01	0.02	- 22.7	0.5
ex 8446	Machine tools for working marbles	621	94	0.3	0.2	+ 47.6	1.1
ex 8447	Band saws	41.4	65	0.04	0.04	+ 70.1[e]	1.6
8501 A ex II; ex C	Electrical goods: Motors and parts thereof	137.6	302*	0.3	0.5	+ 9.0	0.2
8501 B; ex C	Electrical goods: Transformers, converters and parts thereof	92	209				
8515 A ex III; C ex III	Television receivers and parts thereof	1,530	2,352*	0.8	0.9	+ 28.7[f]	0.7
ex 8523	Insulated electric wire, cables, bers	13.34	8.3	0.5	0.8	- 16.4[e]	- 0.4
8702 AI ex a) ex b) 8705 ex A	Motor ceaches and buses Bodies for motor vehicles	1,600 6.720	-	0.5	0.6	+ 70.7	+ 1.7
9303 ex B; C ex I, ex II	Ball point pens, felt tipped pens	26.4	51	0.2	0.1	+ 47.6	+ 1.1

[a]Against non-EC members. Socialist Countries, for which specific quota have been fixed, are excluded. - [b]Though Greek imports have been compiled on the highest disaggregation level, that is the 8-digit CCCN-level, it may be possible that in some case imports comprise those goods which can be imported without quantitative restrictions. Tariff items for which the incompatibility of import quota schedules and the import statistics was evident, are marked with an asterix. Import data have been converted from the national currency into EUA by the rate 1 EUA = 43.05 drachme. - [c]3-digit ISIC, old version. - [d]Total Trade Flows in the 4-digit CCCN-number. - [e]Quasi-sensitive products. - [f]Sensitive products.

Source: Calculated from: EG, Rat [1979, Appendices V and VI]; Office National de Statistique de Grèce [Oct. - Dec. 1978]; National Statistical Service of Greece [a]. - Microfiche data provided by Eurostat.

As far as the latter aspect is concerned, it is amazing that Greece does not impose quantitative restrictions on the import of textiles from developing countries or socialist countries, although competition by low-quality textiles, originating mainly in the neighbouring socialist countries, is increasingly being felt by Greek manufacturers. However, an equivalent of direct import quotas, which under specific circumstances may be even more restrictive, is the provision in article 123 in the Treaty of Accession according to which Greece joins the MFA as well as the "voluntary" export-restraint agreements which the Community has concluded with major textile suppliers[1]. Adherence to the MFA will not only affect the level of non-tariff barriers in Greece against textile imports from third countries. It will also allow Greece, after having adopted the GSP, to grant preferential treatment only to those textile-exporting countries which will "voluntarily" restrain shipments to the enlarged Community (unless the prevailing GSP rules for textiles are relaxed). As already happened in the Greek case, the EC countries' tariff quotas for sensitive products will be realigned in order to accomodate the entrants, thereby continuing with the practice of splitting the Common Market into small portions, which is bound to erode the value of the preferences for the GSP beneficiaries.

There is the danger of further restrictions within the GSP as far as sensitive goods, including textiles, are concerned. For example, Greece may urge the Community to not include Bulgaria in the actual list of beneficiaries, or to not improve the GSP product coverage for Yugoslavia. Both countries compete with local suppliers on regional sub-markets near the Greek border and would therefore benefit directly from an improved access to this market.

b. The Portuguese Case

Since 1974/75 Portugal is trying to cope with persistent balance-of-payments problems by frequent exchange-rate adjustments as well as by the introduction of temporary additional tariff and non-tariff barriers. Whereas tariff barriers were augmented by overall import surcharges, new import quotas were introduced in 1976, the whole approach thus becoming increasingly selective and affecting mainly durable consumer goods. With a few exceptions, the list of tariff items concerned has been renewed annually and has thus changed the tool from a short-term balance-of-payments remedy to a medium-

[1] For a general discussion see Murray et al. [1978].

term protectionist asset for domestic suppliers[1]. To some extent the sectoral pattern of the Portuguese import-quota regime resembles that of Greece: electrical components, telecommunication equipment and domestic household appliances are cases in point (Table 34). In addition, we find plastic goods, bicycles, professional goods, furniture and toys. These are products with which developing countries have penetrated into the Common Market in spite of the low ceilings to which tariff preferences are subjected. In a number of products, especially electrical components, Portugal already displays international competitiveness to some degree (Chapter III). But the government does not seem to be keen on abolishing the quotas against suppliers from developing countries. This protectionist attitude is reinforced by the fact that the changes introduced in the GSP for the period 1981-1985 have upheld, and made even more selective, the ceilings for most of the products listed in Table 34.

Compared with Greece, the competitive pressure of developing countries on Portuguese textile producers after the country's accession to the Community will presumably be less perceivable for two reasons. Firstly, Portugal's Asian dependency, Macao, is one of the major Asian clothing exporters[2], so that Portugal has already had to adjust to some extent to the changing international division of labour in textiles. Secondly, Portugal (representing Macao, too) joined the MFA-Extension Agreement for the 1978-1981 period. Thus, in the case of textiles, there does not seem to be a considerable difference between the pre- and the post-EC-accession period for Portugal, provided that the third renegotiation of the MFA with its voluntary export restraints in textiles is made by the same countries as in the past and does not improve market access conditions for developing countries' suppliers (which is most likely).

c. The Spanish Case

Among the three entrants, Spain has been particularly active in annually applying import quotas to a wide range of products. While some of the quotas were frequently liberalized later on (when originally in-

[1] Since selective import quotas on a few consumer goods are hardly worth mentioning as far as a reduction of the Portuguese import bill is concerned, a protective purpose may have ruled the introduction of quotas from the very beginning.

[2] In 1978, about 4 percent of total EC clothing imports under CCCN chapters 60 and 61 from LDCs originated in Macao.

Table 34 - Import Quota of Portugal and Related EC 9 Imports from GSP Beneficiaries, various years

Portuguese Tariff Code	Products	Import quota for affected countries	Imports from affected countries[a]		Share of related branches[b] in total manufacturing		EC 9 - GSP imports in related tariff items	
					employment	gross production	average annual growth rate	ratio to total EC 9 preferential import
		ESC. 1,000			percent			growth rate
		1978[c]	1976	1978	1978		1973-1978	1978
3907.03-3907.07	Plastic products	100	277	221	2.9	2.8	+ 43.8	1.0
7336	Stoves, ranges, cookers, wash boilers etc.	45	944*	1,559*	0.8	0.1	+ 13.4	0.3
8415.02	Refrigerators and refrigerators equipment	350	717	443			+ 8.5	0.2
8417.01	Water circulators for domestic use	50	858*	1,968*	0.3	0.2	+ 4.5	0.1
ex 8419.01	Domestic dish washing machines	100	248*	587			+204.3	4.8
ex 8440.03	Clothes-washing machines	290	723*	1,066*			+ 47.7	1.1
ex 8441.01	Sewing machines	60	202*	328*			+ 46.8[d]	1.1
ex 8503.01	Primary cells and	50			0.4	0.03	+ 27.5[d]	0.6
ex 8503.03	Primary batteries							
ex 8505	Vacuum cleaners	45						
ex 8506	Other electric-mechanical appliances	185					+ 30.1	0.7
8512.01-02	Electric water heaters	40						
8512.06	Others, not specified	50			see above under 8415.02 seq.		+ 31.2	0.7
8515.01	Radio-broadcast receivers	120	254	112			+ 28.7[e]	0.7
8515.02	Television receivers	120	288	246				
8709.01 and 8710	Cycles and	20			0.8	0.2	+ 6.0[e]	0.1
8709.03, 04, 05	motorcycles	55						
9211.02,03	Gramophones etc.	50					+ 49.6[e]	1.2
9212.01	Gramophone records, etc.	40					+ 90.9[d]	2.1
9401	Furnitures	60			0.9	0.4	+ 26.8[e]	0.6
9403							+ 28.9	0.7
9701.02	Wheeled toys	20					+ 24.2	0.6
9703	Other toys	115	223	120			+ 47.1[d]	1.1

[a]The Portuguese external trade statistics sometimes aggregate different 6-digit tariff items. It may therefore be possible that in some cases imports comprise also those goods which can be imported without quantitative restrictions. Tariff items where the incompatibility of import quota schedules and trade statistics was evident, are marked with an asterix. - [b]At the 6-digit ISIC-level. - [c]The quota are issued for the period April 1978 to March 1979. - [d]Quasi-sensitive products. - [e]Sensitive products.

Source: Calculated from: Diário da Republica (1978); Instituto Nacional de Estatística (b, Vol. II, No. 12, 1976; b, Vol. IV, No. 12, 1978; c, Vol. V, No. 4, 1980). - Microfiche data provided by Eurostat.

troduced for balance-of-payments reasons), others remained unchanged in the medium run (and thereby clearly served protective objectives). This stop-and-go trade policy has evidently inflicted considerable uncertainty upon trade and might have hampered imports even more than the quantitative restrictions did themselves.

The presumption that the direct protective impact of the quotas has been moderate so far, rests upon the observation that the quota ceilings were allowed to be exceeded considerably in practice. In 1978, for instance, the quota amounted to only 9 percent of the actual imports in those related tariff items which accounted for one quarter of total Spanish imports. The latter figure indicates that irrespective of whether or not the quotas are allowed to be exceeded, they are an important tool for the Spanish government to use in interfering with import flows - when considered appropriate - by rejecting new import licenses or by realigning them quarterly. Since the quotas are selective, the sectoral pattern of the tariff items affected denotes a potential import discrimination in so far as these import items can easily be declared non-essential when domestic import substitutes are available.

As Table 35 shows, the 1978 list of quota items included to a large extent such goods whose export to the Community was overproportionately expanded by GSP beneficiaries. After becoming a member of the EC, the Spanish authorities would therefore have to give up the option of quotas not only against the present EC member states but also against GSP beneficiaries where quotas would then take the form of tariff quotas instead of absolute import ceilings.

Sectoral competitive pressures by LDC suppliers can be expected after the removal of quotas since the quota regime mainly focusses on relatively labour-intensive branches. If the 71 product groups of Table 35 are aggregated up to the 3-digit ISIC-level and related to Spanish domestic production (Table 36), there is some evidence that quantitative restrictions which overlap with the sectoral growth pattern of LDC exports within the GSP centred on five industries: textiles, wearing apparel, plastic goods, transport equipment and other industries. In each of these five industries the contribution of the protected branches to employment exceeded that of other Spanish branches. This relatively high absorption of local labour force by import-competing domestic branches lends support to the hypothesis that, once Spain has to adopt the EC trade commitments with regard to developing countries, especially the labour-intensive branches would face an intensified adjustment pressure, given the rapid increase in wages in recent years.

Table 35 - Ratio of Actual Imports to Import Quota in Spain and Related EC 9 Imports from GSP Beneficiaries, various years

Tariff Items (CCCN-heading)	Products	Ratio of actual imports/ import quota	Degree of liberalization	EC 9 - GSP imports in related tariff items	
				average annual growth rate (percent)	ratio of total EC 9 preferential import growth rate
		1978	1979	1973-1976	1976
12.06	Hops	0.81	fully	-	-
ex 14.05	Vegetable products	1.02	fully	-	-
16.01-02	Canned meat	15.26	not	-[a]	-[a]
ex 20.03-07	Canned fruits	7.30	not	+ 150.9	2.14
ex 19.04,21.07	Various food products	2.76	not	+ 162.3	2.29
21.05	Soups	3.01	not	+ 4.7	0.07
22.03	Beer	9.72	not	-[a]	-[a]
ex 23.01	Fish meal	0.42	not	-[a]	-[a]
ex 15.10	Fatty alcohols	3.37	not	+ 109.3	1.54
ex 17.02	Glucose and lactose	1.08	not	-	-
25.02-03	Pyrites and sulphur	1.78	not	-	-
ex 26.01,26.03	Lead ores	3.62	fully	-	-
ex 27.01	Pit-coal	30.37	not	-	-
ex 27.01	Anthracite coal	0.64	not	-	-
ex 28.02,2814-15 etc.	Inorganic chemicals	0.85	partly	-	-
ex 32.09	Varnishes and lacquers	3.24	partly	+ 103.4	1.46
ex 33.06,34.01	Perfumeries, cosmetics	10.27	not	+ 118.8	1.67
35.05	Dextrins	2.37	not	-	-
ex 36.04-06	Explosives, pyrotechnic goods	7.50	not	+ 18.1	0.26
ex 34.02,38.08 ex 38.19	Lubricating preparations and related chemicals	2.17	partly	0	0
ex 39.01	Condensation products	1.49	not	+ 5.9	8.3
ex 39.01	Aminoplasts	1.53	not	+ 5.9	8.3
ex 39.01	Other condensation and polycondensation products	0.31	fully		
ex 39.02	Polymerisation products	26.76	fully		
ex 39.02	Polyvinyl chloride	9.72	fully	+ 131.7	1.86
ex 39.02	Other polymerisation products	11.65	partly		
ex 19.07	Plastic articles, etc.	12.75	fully	+ 66.2	0.93
ex 44.11-18	Wood products	1.74	not	- 16.5	- 0.23
50.09	Woven fabrics of silk	4.40	fully	+ 62.2	0.88
55.05-06 ex 57.07	Various textile fibre yeans	1.89	not	+ 25.5	0.36
55.07-09,57.10	Various fibre fabrics	8.47	partly	+ 62.1	0.88
58.01-02	Carpets, mats	18.31	not	+ 42.1	0.59
ex 58.04-09	Tulle and other fabrics	9.56	partly	+ 302.2	4.26
ex 59.02-12	Special fabrics	7.40	fully	+ 42.1	0.59
ex 60.04	Garments, crocheted	5.91	not	+ 1.9	0.03
ex 61.01-02	Outer garments	8.20	partly	- 11.5	0.16
ex 61.03-04	Under garments	90.25	not	+ 21.0	0.30
ex 61.05-10	Textile accessories	13.08	fully	+ 80.5	1.15

Table 35 continued

Tariff items (CCCN-heading)	Products	Ratio of actual imports/ import quota	Degree of liberalization	EC 9 - GSP imports in related tariff items	
				average annual growth rate (percent)	ratio ot total EC 9 preferential import growth rate
		1978	1979	1973-1976	1976
ex 62.01-05	Other clothings	142.40	partly	+ 118.5	1.67
ex 69.11-14	Ceramic products	21.98	fully	+ 84.4	1.19
ex 70.13-21	Glas products	24.22	partly	+ 24.8	0.35
ex 71.01-04	Jewelleries	8.90	fully	+ 30.4	0.43
71.08	Rolled gold, manufactured	3.15	not	-	-
ex 71.05-11	Precious metal goods	2.59	fully	+ 37.8	0.53
71.12-16	Other articles of jewellery	14.74	fully	+ 77.3	1.09
ex 73.23	Iron or steel containers	8.09	not	+ 0.1	-
ex 73.40	Other iron or steel goods, forged	12.71	not	+ 25.3	0.36
ex 74.19	Other copper products	5.60	not	+ 17.0	0.24
ex 76.15	Other aluminium products	7.75	fully	+ 131.9	1.86
ex 78	Gross lead and lead manufactures	4.21	fully	- 0.3	- 0.1
ex 82.03	Manual tools	3.03	partly	+ 90.7	1.28
ex 82.02,06	Saws and knives	3.89	partly	+ 33.5	0.47
ex 82.09-14	Knives, razors, spoons	5.06	fully	+ 101.1	1.43
ex 84.06	Combustion engines	1.37	partly	+ 75.2	1.06
ex 84.10	Pumps	12.37	not	+ 47.4	0.67
ex 84.41	Sewing machines	12.96	not	+ 70.1	0.99
ex 85.15	Radio and television reveivers	85.20	fully	+ 45.7	0.64
ex 85.15	Other radio apparatus	12.18	not	45.7	0.64
84-89	Equipment goods for new investments	13.40	not	+ 37.3	0.53
ex 87.02	Motor vehicles	3.41	fully	+ 20.6	0.29
ex 87.02	Special motor vehicles	1.72	not	- 12.5	- 0.18
ex 87.04-05	Chassis	5.48	not	- [a]	- [a]
ex 87.01	Tractors	4.01	not	+ 15.1	0.22
ex 87.01-05	Industry motor vehicles	2.06	not	+ 51.4	0.72
ex 87.14	Other vehicles	3.78	partly	+ 106.7	1.50
ex 92.11	Professional goods	24.98	partly	+ 21.8	0.30
93.01-06	Arms	10.38	not	- 3.8	- 0.05
93.07	Ammunition	13.76	fully	+ 64.4	0.91
97.01-03	Toys	14.38	partly	+ 84.7	1.19
ex 97.04-08	Equipment for games	11.01	fully	+ 55.8	0.79
ex 98.01 etc.	Other manufactures	3.75	not		
	Total	11.24			

[a] Excluded from preferential treatment in 1973.

Source: Ministerio de Hacienda [a, No. 35, 1978, pp. 3366-3368; a, No. 106, 1979, pp. 9984 f.; b, Part I, Jan.-Dec. 1978], - Banco Exterior de España [var. iss.]. - Own calculations.

Table 36 - Estimated Share of Spanish Import-Competing Manufacturing Branches Protected by Import Quota in Gross Production and Employment of Manufacturing Industries, 1976 (percent)

ISIC	Industries	Share in	
		Gross production	employment
311/12	Food products	7	18
313	Beverages	27	31
314	Tobacco	-	-
321	Textiles	30	38
322	Wearing apparel	46	49
323	Leather and products	-	-
324	Footwear	-	-
331	Wood products	20	7
332	Furniture and fixtures	-	-
341	Paper and products	-	-
342	Printing, publishing	-	-
351	Industrial chemicals	27	24
352	Other chemical products	7	27
353	Petroleum refineries	-	-
354	Petroleum, coal products	-	-
355	Rubber products	-	-
356	Plastic products, n.e.c.	60	60
361	Pottery, china and earthenware	10	14
362	Glass and products	31	31
369	Non-metallic mineral products, n.e.c.	-	-
371	Iron and steel	-	-
372	Non-ferrous metals	2	4
381	Fabricated metal products	-	-
382	Non-electrical machinery	5	5
383	Electrical machinery	-	-
384	Transport equipment	55	89
385	Professional goods	16	17
390	Other industries	86	65
	Total	5	20

Source: See Table 35. - Instituto Nacional de Estadística [a, 1978; b].

It is difficult to assess the extent to which demand for imports from developing countries has been suppressed so far in Spain. But some indication can be derived from looking at the actual LDC shares in the imports of Italy, whose development level, as measured by the per capita income, and economic structure, as measured by the industrial share in GDP, are reasonably comparable with those of Spain.

Table 37 records the share of the ten leading suppliers of manufactures from developing countries in total Spanish and Italian imports in those product groups (2-digit CCCN) on which Spanish quota restrictions concentrate. In 1978, the major LDC suppliers had higher shares in Italian imports than in Spanish imports for most product groups, though the difference between the average shares of 8.0 and 4.1 percent, respectively, did not prove to be statistically significant (t-difference test). Between 1973 and 1978, when the GSP began to operate fully, the LDC suppliers could on average double their share in Italian imports. That this did not happen in Spain may be ascribed to the protective impact of the Spanish quota regime.

This is not to say that the Italian reference system displays anything like a normal pattern of import-market penetration of countries at a similar overall development level. Specific components like Italian export-oriented investments in LDCs, an intensive neighbourhood trade with Yugoslavia, one of the major GSP beneficiaries, specialization in transforming raw materials and intermediate products imported from LDCs into finished goods, or "indirect" imports from LDCs via other EC members may shift the LDCs' share in Italian imports upwards irrespective of the per capita income level[1]. However, it seems likely that both the elimination of quotas and the adoption of the GSP by Spain would contribute to reducing the level of discrimination against third countries and hence foster trade creation and remove the tariff margins between the suppliers from the present EC and those from LDCs. The latter could enhance trade diversion in favour of LDC exports unless the enlarged Community were to counteract the erosion of tariff margins by means of concluding agreements on voluntary export restraints like the MFA. According to past experiences the Community may find Spain on the side of those countries advocating a restricted market access for LDCs, as it was

[1] Grilli [1980] states that Italy, while following the general course of EC 9 protectionism, took a rather modest position towards additional restrictive measures against developing countries.

Table 37 - Share of the Ten Leading LDC-Suppliers[a] within the EC-GSP in Total Spanish and Italian Imports, 1973, 1978 (percent)

CCCN-Chapter	Product groups	Import share		
		Spain	Italy	
		1978	1973	1978
32	Tanning extracts, colours, paints, varnishes etc.	3.9	1.7	2.7
39	Artificial resins, plastic materials etc.	0.4	0.4	1.1
55	Cotton and cotton products	5.3	14.8	8.2
58	Carpets, mats, narrow fabrics	3.8	4.2	6.0
59	Twine, cordage, ropes, special fabrics	1.0	1.0	0.5
60	Knitted and crocheted goods	4.9	7.6	9.7
61	Wearing apparel, clothing accessories	16.0	10.3	30.4
62	Other made up textile fabrics	5.3	6.6	31.1
69	Ceramic products	0.5	0.5	2.4
70	Glass and glassware	0.5	2.8	3.1
82	Tools, cutlery, spoons etc.	1.3	0.9	2.1
84	Boilers, machinery and mechanical appliances	0.4	0.5	2.5
85	Electrical machinery and equipment	2.7	4.0	5.8
87	Vehicles and transport equipment	0.6	0.3	3.3
92	Professional goods	5.4	2.2	2.9
97	Toys, games and sports requisites	14.8	11.9	21.9
98	Miscellaneous manufactures	2.2	1.4	1.7
	Mean	4.1	4.2	8.0

[a]Brazil, Yugoslavia, Hongkong, Romania, South Korea, India, Malaysia, Pakistan, Singapore, Argentina.

Source: See Table 33. - Eurostat a .

between 1973 and 1978 as a member of the MFA agreement[1].

3. Obstacles to an Improvement of the GSP

All the above-mentioned findings lead us to presume that there is a trade-off between the enlargement and an improved preferential market access for developing countries within the GSP. Firstly, irrespective of the entrants' demands for protection, the enlargement contributes to a further splitting of the Common Market in the field of sensitive products, due to the EC countries' tariff quotas rule which incidentally is the most visible violation of the common market principle as far as manufacturing is concerned. The Greek membership, for example, has resulted in a reduction of the national tariff quota of the United Kingdom by one percentage point (21 instead of 22 percent) and of those of Italy and Ireland by 0.5 percentage points each (14.5 instead of 15 percent and 0.5 instead of 1 percent, respectively) in order to assign Greece a national tariff quota of 2 percent of the overall Community ceiling for a single product. Though some flexibility has been introduced to adjust the rigid allocation of tariff quotas to a country's imports, LDC exports to member states with a traditionally high absorptive capacity for sensitive products (mainly Germany) will face a reimposition of most-favoured nation (MFN) tariffs once the tariff quota is filled. The enlargement will thus not only make the GSP even more complicated than it has already been in the past, but will also further reduce the real value of the preferences because some national tariff quotas will remain unused whereas others will fall short of actual imports. These limitations are aggravated by the fact that the revised GSP of 1981 includes selective quotas on the supply-side for the most competitive LDC exporters.

Secondly, the more the export supply of the new entrants and of the GSP beneficiaries overlap, the less the enlarged Community will agree to eliminate the GSP restrictions. New and old member states may realize that they are in the same boat. Greece and Portugal could take the lead in the forming of an enlarged protection cartel, due to the high share of sensitive goods in their export assortment.

[1] Spain, however, did not join the 1978 MFA extension protocol, probably because of the inherent obligation to restrict its own textile exports to the EC - where a bilateral agreement provided better conditions -, and because of the availability of national non-tariff barriers to pursue a safeguard policy against suppliers from LDCs.

Thirdly, apart from tariff barriers, the new entrants apply quantitative restrictions on a number of import goods in which GSP beneficiaries have proved to be competitive. It is therefore reasonable to expect that they will ask for a period of grace during which they could gradually adjust their still high tariff and non-tariff barriers downwards to GSP levels. However, persistent balance-of-payments problems and the overall pressure for structural adjustment to increasing competition from the EC 9 might lead the new entrants to refuse the adoption of the GSP obligations after a period of grace of, say, five years (as has been arranged in the Greek case).

The length of the adjustment period which Portugal and Spain might be striving for, depends to some extent on whether the opening of the domestic markets to GSP beneficiaries will lead to intra- or inter-firm shifts in resource allocation. The high degree of selectivity in the import-quota regime lends support to the assumption that the adjustment requirements which the new entrants will face will not be uniformly distributed among manufacturing firms or even branches, but will affect the producers of specific goods [Fernandes, 1980, p. 1000]. It is difficult to prove this assumption empirically due to the well known incompatibilities between trade and production statistics and to the lack of data on market prices rather than on unit values. Yet Table 38 provides a highly disaggregated comparison between Portuguese domestic-production unit values and EC-import unit values for selected products of which developing countries are important suppliers. It turns out that the differences are quite substantial in a number of sub-sectors within the same manufacturing branch.

4. The Impact of the Lomé Convention

Besides the GSP, the new entrants will face a second multilateral non-reciprocal system of concessions for developing countries, as implemented by the Lomé Convention between the Community and the ACP countries. Measured by its scope, the Lomé Convention goes far beyond the GSP. It includes both the option of an open-ended duty-free access to the Common Market for almost all products originating in the ACP countries and a conglomerate of resource transfer arrangements, such as compensatory finance credits at preferential terms to stabilize export earnings (Stabex), official development aid and assistance in support of investments in mining and manufacturing in ACP countries. These countries also have the option of claiming preferential treatment either under the GSP or under the Lomé

Table 38 - Ratio between the Domestic Production Unit Value and the EC-Import Unit Value of Selected Portuguese Industrial Products[a], 1977

Portuguese industrial classification	Equivalent CCCN - heading	Products	Ratio	Share in total domestic manufacturing output of Portugal[b]
3111.20	1601.98	Sausage	0.694	1.6
3113	2002.30	Canned vegetable	0.861	1.4
3114.10	1604.71	Canned fish	0.674	0.7
3114.20	1605.50	Frozen crustacae and molluscs	0.302	0.2
3115.23	1507.85 - 98	Vegetable edible oils	0.879	1.4
3115.40	1513.10	Margarine	1.042	0.5
3115.40	1101.20	Cereal flours	0.515	1.6
3116.30	1006.27	Husked rice	0.831	0.6
3117.30	1908.91	Cakes and biscuits	0.564	0.4
3117.40	1903.90	Macaroni, spaghetti, noodles	0.301	0.4
3119.10	1806.61 + 62	Chocolate products	1.108	0.2
3121.40	2106.39	Yeasts and baking powders	0.661	0.1
3122.00	2304	Animal fodder	0.694	5.4
3131.30	2209.52	Distilled alcoholic beverages	0.746	0.1
3131.40	2209.89	Liquors	0.320	0.1
3132.30	2205.21 + 25	Champagnes, vermouths	2.529	0.2
3133.00	2203.10 + 90	Beer	0.651	0.8
3134.00	2201.10 + 2202.05	Non-alcoholic beverages	0.481	0.7
3140.00	2402.20	Cigars, cigarettes	0.514	1.3
3211.30	5509; 5607	Textile fabrics from natural and artifical fibres	1.326	6.6
3212.40	3907.53 - 63	Sack products	0.829	0.2
3213.00	6001	Knitted fabrics	1.101	2.4
3215.10	5904	Twine, cordage, ropes	1.247	0.3
3215.20	5905	Nets and netting	1.446	0.1
3219.10	6204	Tarpaulins, sails, tents	0.460	0.2
322	6101.41 - 48 6005.61 - 69 6104.91; 6103.11 - 19	Clothing	1.847	2.2
331	4102.21 - 50	Tanned leather	7.449	0.7
3311.30	4415.80	Veneer	2.297	0.1
3311.30	4415.20	Plywood	1.985	0.2
3311.40	4418.19 + 90	Wood panels, wood chips	0.697	0.5
3411.10	4701	Pulp	0.574	1.9
3411.23	4801.15 + 16	Kraft paper and kraft board	0.644	0.8
3412.90	4814 - 16	Paper products (writing blocks envelopes, wall-paper)	0.317	0.8
3512.20	3811.50 - 70	Insecticides	0.309	0.5
3513.12	3901	Artificial resins	0.365	0.7
3513.30	3902	Polymerization products	1.118	0.8
3521	3209.40 + 50	Varnishes, lacquers, tanning extracts	0.510	1.1
3523.13	34	Soaps, washing preparations	0.384	1.0
3524	1507.19 - 58	Non-edible vegetable oils	0.385	0.5
3529.20	36	Explosives	0.225	0.1
355	4011.55 + 57	Rubber tyres for cars	1.014	0.7
355	4011.52 + 53	Rubber tyres for bicycles	2.129	0
355	4011.23	Rubber tyres for motorcycles	2.673	0.1
3560.00	3907	Plastic products	0.528	2.1
3610	6913	Pottery, china, earthenware	0.279	0.5
3620	7013 - 14	Glass products	0.522	0.3
3691	6904	Structural clay products	0.215	1.4
3692	2523.30	Cement	0.947	1.6
3811.20	8201 + 8203.10	Cutlery, hard tools	0.501	0.1
3819	7332	Nails, bolts, nuts	0.893	0.5
3819.40	7310.11 + 7314	Iron and steel alloys, steel bars and rods	1.805	0.4
3839.10	8523	Electric wires and cables	0.466	0.6
3839.20	8504.11	Electric accumulators	2.776	0.3
3844	8710	Bicycles	0.819	0.1
3844	8709.10	Motorcycles	1.223	0.3

[a]Measured by the ratio between the production unit value of domestically produced Portuguese products and the EC unit value of import substitutes from either less developed countries or - where the EC did not import from LDCs - from other extra-EC sources. The Portuguese data have been converted into European units of account (EUA) by the rate 45.502 Esc/EUA. - [b]Excluding the Azores and Madeira.

Source: Instituto Nacional de Estatistica [c, Vol. IV, No. 4, 1979]. - Eurostat [a, 1977]. - Own calculations.

provisions whenever there is an overlap, though this option is in fact only a formality, since the Lomé conditions are at least equivalent to (in the manufacturing sector for non-sensitive goods), or more favourable for the countries concerned than (in all other cases) those of the GSP.

In view of the considerable extent of concessions in favour of the ACP countries the new entrants are likely to claim an adjustment period before fully adopting the obligations concerning trade and resource transfer. In the Greek case the adjustment period has been negotiated in analogy to the GSP and to the bilateral preferential trade agreements, so that Greece has to open its market to ACP products in 1986 at the latest, irrespective of the fact that the second Lomé Convention expires in 1985 and will then have to be renegotiated (provided that all parties want a renewal).

However, concerns about the competitive pressure of ACP suppliers on domestic producers in the applicant countries may be misplaced to a large extent. The experience with the Lomé preferences up to now show that they are redundant in most cases since the ACP countries chiefly export mineral commodities to the Community (and elsewhere), which are non-dutiable under MFN conditions anyway [Langhammer, 1980a, p. 249 f.]. The share of these commodities in total ACP exports to the EC fluctuates between 60 and 75 percent and depends on the world-market price ratio between non-dutiable mineral commodities and dutiable agricultural commodities (coffee, cocoa, raw wood etc.). With the exception of sugar, beef (partly) and tobacco, the ACP countries do not supply agricultural products which are subjected to the CAP regulations. In manufacturing, the ACP countries either cannot yet compete with other LDC suppliers, or simply lack export potential (had they been more competitive the EC may have been less generous in granting preferences !).

The pattern of ACP countries' exports to the new entrants fits into this picture. In the period 1975-1977, eight commodities (wood, mineral oils, coffee, cocoa, copper, iron ore, cotton, and hides and skins) accounted for more than 80 percent of Spain's imports from the ACP countries. Portugal's and Greece's import patterns were quite similar[1]. This is not to say that the structures of both domestic production in the Three and the export supply of the ACP countries are totally complementary. Some degree of overlap does exist, though not so much with regard to domestic import substitutes; rather, it

[1] For a painstaking analysis of trade relations between the applicants and the ACP countries see Eurostat [1979].

mainly affects various agricultural exports of the Three to EC 9 countries where they compete with ACP products (for instance, bananas, canned fruit and fish, vegetable oils). The preference margin for these goods which ACP suppliers are at present enjoying vis-à-vis suppliers from the applicant countries, may shrink once the latter are granted the same duty-free access to the Common Market as has been conceded to the ACP countries. The competitive position of ACP countries could become even worse if the new entrants claim a privileged treatment of their products on EC 9 markets vis-à-vis suppliers from the Community's associates, which is the status of the ACP countries.

Two other aspects are worth mentioning. One is that most traditional export products of the ACP countries may be regarded as "non-essentials" by the new entrants and hence become an "obvious" target for (even selective) import restrictions on balance-of-payments grounds. Portugal is already applying import quotas against two major ACP export commodities, namely bananas and coffee. And experience shows how difficult it is to repeal such restrictions, even when they were implemented as a temporary device. Although the Lomé Convention includes a general safeguard clause (article 12), a selective application of this clause to the sole detriment of the ACP countries is bound to provoke trade-policy conflicts between these countries and the Community.

Secondly, it is a well known fact that in some agricultural products (for example vegetable oils and sugar) ACP countries compete with Latin American suppliers which traditionally export these goods to Spain and Portugal under tariff rates which are lower than the CET. Once the Iberian entrants adopt the ACP provisions, substitution to some degree of imports from ACP countries for imports from Latin America may occur, particularly so if binding EC import guarantees make ineffective Latin American cost advantages (which otherwise could have outweighed the preference margin enjoyed by ACP suppliers)[1]. The sugar protocol in the Lomé agreement clearly illustrates this aspect. As in the case of Greece's accession, Spain and Portugal, which are net importers of sugar, would have to share in the sugar import guarantees which the Community has extended to various ACP countries. Purchases of sugar in Latin America would decrease (or increase less) as a result.

[1] Trade in CAP products may also be diverted from Latin American to EC sources if variable levies raise the Latin American export prices up to the Community's "threshold" price level.

5. The New Entrants and the Mediterranean Countries

Apart from the GSP and the Lomé Convention the Community has established various other preferential trade arrangements with Mediterranean countries during the last two decades [Pomfret, Tovias, 1980]. They envisage either the ultimate formation of a customs union between the partners and hence provide that tariff barriers are mutually and gradually eliminated in the course of an "association period" (Cyprus, Malta and Turkey, following the Greek example) or a less close integration into the Community by so-called co-operation agreements on trade, industrial, technical, social, and financial affairs, which also imply mutual preferential tariff concessions, though of a more discretionary nature than in the "association cases". Such agreements exist for the Maghreb countries (Algeria, Morocco and Tunisia) as well as for the Mashreq region (Egypt, Lebanon, Syria and Jordan). The 1975 preferential trade agreement with Israel, which also envisages industrial, technical and financial co-operation, has ultimately resulted in a de-facto free-trade area with the Community [Pomfret, Toren, 1980], but has not established for Israel the option of becoming an associate member.

As far as the exports of the majority of Mediterranean countries (Maghreb, Mashreq, Cyprus) into the EC are concerned, some overlap in the scope of preferential treatment is provided by the agreements with the Community and the GSP (depth of tariff cut, product coverage), especially for semi-manufactures and manufactures where the preferences are on the whole equivalent. Qualitative differences exist with regard to the agricultural sector where the bilateral arrangements generally offer a higher preference margin and a broader coverage than the GSP, except in the case of the tariff quotas and other restrictions in the latter.

The question whether the bilateral preferences which the Mediterranean countries enjoy will be seriously eroded as a result of the enlargement of the Community is discussed in Chapter VI. Here we ask how the new entrants may be affected if they remove their trade barriers against Mediterranean products. The institutional procedure will - an analogy to the Greek case - probably provide a transition period, during which national tariffs for preferential items will be cut down stepwise to the level of the CET. In the manufacturing sector this will generally result in a duty-free market access.

The actual structure of the eleven Mediterranean countries' exports to the new entrants shows a predominance of foodstuffs and raw materials, whereas the share of manufactures is rather low[1]. This also holds if - in the Spanish and Greek cases - oil imports from Maghreb and Mashreq countries are excluded. To some extent, this structure might reflect the fact that the trade policies pursued by the new entrants heavily discriminate against the import of manufactures. In a number of cases the prevailing tariff rates are even prohibitive. Hence, manufactured imports from Mediterranean countries are likely to expand overproportionately once the new entrants adopt the Community's trade-policy arrangements leading to a cut in tariffs, provided the Mediterranean countries have built up an adequate export potential in the industries concerned.

How reluctant the new entrants are to liberalize manufactured imports from the Mediterranean countries is illustrated by the extremely selective and low tariff cuts which Greece and Spain have hitherto undertaken within the multilateral trade negotiations among developing countries. Since this is chiefly a "Mediterranean" tariff round[2], the concessions have up to now focussed on complementary trade which would have taken place without concessions anyway. Though Greek concessions, for example, favoured some manufactured imports from Israel, the volume of preferential imports in one single commodity (namely unwrought lead from Tunisia and Yugoslavia) exceeded the total of preferential imports in manufactures from Mediterranean countries by far. Moreover, the generally granted preference margin of only 20 percent of MFN tariffs underlines that Greek tariff cuts were far from being substantial, except for the restriction of product coverage. Spain's concession schedule reveals similar shortcomings, especially as far as the very limited product coverage is concerned.

It is not unreasonable to expect that, in the case of tariff cuts by the new entrants, imports from neighbouring (Mediterranean) countries will respond rapidly. There are no other major trade barriers which could neutralize tariff-cut effects (transportation costs, lacking institutional and cultural links and the like). Hence yet another situa-

[1] In 1977, the share of manufactures (SITC 5 to 8 minus 67 and 68) in total imports from the Mediterranean countries amounted to 5.1 percent in Greece, 3.1 percent in Portugal and 1.9 percent in Spain. The lion's share (60 to 70 percent) was by Israel.

[2] In 1975, preferential trade between Greece, Spain, Yugoslavia, Turkey, Tunisia and Israel amounted to about 60 percent of total preferential trade [Langhammer, 1980c].

tion arises in which the new entrants' authorities will try to maintain protection against Mediterranean suppliers as long as possible. Protectionist pressures will probably be concentrated in the manufacturing sector. In the agricultural sector, minimum import prices have already been established in the various bilateral agreements for various products, such as wine, olive oil, canned sardines and certain fruits and vegetables, and thus provide a protectionist tool for the new entrants who might claim its maintenance in order to avoid competitive pressures from other Mediterranean suppliers [Fernandes, 1980, pp. 1007 ff.].

6. Policy Outlook

It can be taken for granted that - in analogy to the Greek case - Portugal and Spain will have to adopt the EC trade-policy commitments with regard to third countries in general, and developing countries in particular, only after a transition period of tariff adjustment. Whether the entrants will afterwards continue to claim protection, namely, the non-application of the common external trade policy, critically depends on the Community's future shaping of trade preferences for developing countries, i.e. on whether they will become more generous or more limited.

Recent experiences with the renegotiation of multilateral concessions and bilateral agreements have not been encouraging. High levels of unemployment and gloomy expectations as to the future economic growth in the Community have led to concerted actions of producers and trade unions against sensitive imports, whereas the CAP continues to discriminate against suppliers from the Third World[1]. Preferential treatment of developing countries may suffer considerable erosion in connection with the enlargement. The new entrants will presumably not refrain from their practice of shifting preferences away from successful suppliers to least developed countries which, due to supply bottlenecks, cannot effectively utilize the preferences (the so-called differentiation principle). This shift will be effected by establishing selective ceilings for successful suppliers of sensi-

[1] Examples for the continuation of EC discrimination are the voluntary export-restraints agreement with Thailand concerning tapioca (November 1980) and the Argentine refusal to renegotiate the 1970 bilateral trade agreement with the Community because the market access conditions for certain Argentinian meat products were to be deteriorated (November 1980).

tive products and by freezing them. Moreover, the so-called graduation principle, which envisages reciprocal concessions for EC exports by successful suppliers in due time, might be invoked by the enlarged Community to curtail preferences in the future whenever today's beneficiaries face severe balance-of-payments problems and therefore switch to a new import-substitution policy, thereby resisting reciprocal concessions. A number of Latin American countries, above all Brazil, may be treated this way.

Furthermore, trade restrictions shifted from tariff to non-tariff barriers of all kinds during the last decade. If average tariff barriers continue to decrease over the long run and/or become increasingly ineffective because of real exchange-rate appreciation, national authorities will resort to non-tariff barriers which provide the "advantage" of being more sophisticated, less transparent and more closely related to national peculiarities. The maintenance of the existent import restrictions in the Community's multilateral and bilateral agreements taken for granted, the new entrants need not worry about the effects of tariff preferences after the transition period is over. The escape and emergency clauses in the Founding Treaties of the Community, combined with an already well developed set of national non-tariff barriers, will help to retard the adjustment in the Southern European economies once the adoption of tariff preferences for developing countries really leads to "disruptions" on the domestic markets of the new member states.

V. The Common Agricultural Policy Impasse

In Greece, Portugal and Spain, where agriculture is of much greater importance than on average in the EC 9, high hopes are being created as to participation in the CAP. Obviously the continued orientation of the CAP towards the interests of the producers of agricultural goods gives rise to expectations of sizeable benefits accruing from an integration of the Three, especially since the levels of self-sufficiency for many Mediterranean products are still relatively low in the EC 9 and the rate of protection (mainly of French and Italian producers) is much higher than in the applicant countries. Such benefits are not only presumed to come from the comparative advantages in producing these products but also from the fact that after their entry the new entrants themselves cnn influence the CAP by vetoing and thus raise the rate of protection for Mediterranean products further. Such expectations seem to indicate that the new entrants are not fully aware of the crisis the CAP is already involved in. Even a continuation of the present EC without an enlargement would require a reform of the CAP. Expectations based on the continuance of the hitherto existing CAP, therefore, will surely lead to disillusionment. In this chapter, we shall first summarize the shortcomings of the CAP before moving on to an analysis and discussion of the effects of an enlargement on agriculture and agricultural policy. The chapter concludes with some reflections about ways of reforming the CAP within the framework of the EC 12.

1. Deficiencies of the Present CAP

For a long time the CAP had been regarded by many as the most promising instrument to pave the way for a (politically) United Europe. Nowadays, however, it must be regarded as having contributed decisively to weakening the European unity, i.e. today the CAP proves to be an obstacle to the process of integration. As a matter of fact, the idea of a United Europe is running the risk of being drowned in seas of milk and wine and being crushed by mountains of butter and sugar and other surpluses of agricultural products. And the EC's common budget is threatened with rupture because of the growing expenditures needed for taking surpluses "out of the market", storing or denaturing them, or dumping them on the world markets (Chapter VIII), thereby preventing the Community from devoting scarce financial resources to other common objectives.

The Treaty of Rome laid much emphasis on agriculture itself and on trade with agricultural products in the Common Market. The aims laid down for a CAP are

- to raise agricultural productivity;
- to secure a reasonable standard of living for the agricultural population;
- to stabilize the markets;
- to ensure regular food supplies to consumers;
- to maintain fair consumer prices.

In order to achieve these aims, the CAP has been developed on three fundamental principles: First, to establish one single market, so that free trade with agricultural products inside the Community on the basis of common prices becomes possible; secondly, to provide terms of preference for Community production over supplies from third countries; and thirdly, to constitute the solidarity among the member states necessary for financing all expenditures entailed by the CAP. Beginning in 1962, an ever-increasing number of common market organizations came into operation, which ensured that EC farmers were protected from imports and world market fluctuations by means of a system of minimum ("threshold") import prices, variable import levies, and export subsidies ("restitutions") and which used, in pursuit of the objective of raising incomes in agriculture, price-support measures as well as an unlimited sales guarantee to farmers (under the responsibility of the European Agricultural Guidance and Guarantee Fund (EAGGF)). In 1980, the common-market-regulating organizations covered about 90 percent of the EC 9 agricultural production (as compared to 50 percent of the EC 6 production in the early 1960s).

The external protectionism and the internal suppression of market forces, both salient features of the CAP, have received extensive criticism from inside and outside the Community[1]. There are major concerns about striking misallocations of resources and the retarding effects on the overall economic growth of the Community. Nonmember countries complain about being seriously harmed by trade-diversion in CAP-related (mostly temperate-zone) products, by depressed world-market prices (resulting from the Community's re-

[1] See, for example, Thorbecke, Pagoulatos [1975]; Koester [1977a]; Rodemer [1980]; Sachverständigenrat [1980, ch. 4].

strictions of imports and increases in exports) and by larger short-term price fluctuations on the world markets (due to the systematic "export" of internal shifts in production or consumption). These harmful effects are particularly worrisome with regard to developing countries in which the agricultural sector has a large economic weight in terms of value added, employment and trade. Thus the CAP discourages the expansion of agricultural production in these countries, even where they possess a comparative advantage. It is true that the EC has granted preferences to developing countries and groups of countries in numerous trade agreements (Chapter IV and VI), but these concessions have hardly cushioned the adverse effects of the CAP. On the other hand, such quasi-compensatory measures have given rise to bilateralism in world trade and carry a considerable potential for trade-policy conflicts between the Community and developing countries, especially so in connection with the enlargement.

The high protection of agricultural production within the EC, supplemented by the administrative support of high internal-producer prices, has caused more productive factors to remain in agriculture than would have been the case under a more market-oriented policy, which would have led to a lower common price level for agricultural products. Although the shares of agriculture in employment and in GDP have declined strongly in all EC countries during the last twenty years (Table 39), there are still more people employed and more capital invested in this sector than is required to provide the given population efficiently with foodstuffs. The consumers of food are thus subsidizing, via higher prices, the farmers within the Community, and they suffer an additional loss in real income dut to the higher taxation required to finance the excessively bureaucratic system of the CAP. In the general discussion of the issues these aspects dominate, especially surplus and budget problems, but the costs for the economy as a whole are substantial as well.

Persistent over-production of a number of agricultural products is a consequence of using price policy as an instrument to improve the farmers' income. When producers are guaranteed prices considerably above free-market levels and are not subjected to production quotas (as in the case of sugar), they will increase production as much as they can, and certainly faster than consumption increases. Initially, the EC Commission could caution these adverse developments by blocking imports from third countries. But soon excess supplies in the member countries became a major problem for the Community. The degree of self-sufficiency increased substantially already during the 1960s in the EC 6. Then the first enlargement of the Community

Table 39 - Basic Data on the Importance of Agriculture[a] in the EC 9, 1960, 1978

Country/Region	Agricultural employment				Share[b] of agricultural gross value added in total gross value added[c]	
	in 1,000	share in total employment[b]	in 1,000	share in total employment[b]		
	1960		1978		1960	1978
Germany	3,623	14.0	1,608	6.5	6.6	2.7
Belgium	299	8.7	118	3.2	7.2	2.7
Denmark	366	18.2	216	8.8	16.1	6.2
France	4,189	22.4	1,907	9.1	10.7	4.8
United Kingdom	1,005	4.1	654	2.7	3.5	2.7
Ireland	390	37.3	229	22.2	.	17.6
Italy	6,567	32.8	3,090	15.5	14.8	8.1
Netherlands	465[d]	11.5	284	6.2	10.5	4.6
EC 9	16,926	17.0	8,114	8.0	8.2	4.2

[a]Agriculture, forestry and fishing. - [b]In percent. - [c]Gross value added at factor costs in current prices. - [d]Man-years.

Source: Eurostat [c]. - Bundesministerium für Ernährung, Landwirtschaft und Forsten [var. iss.].

brought temporary relief because of high demand for imports in agricultural products from the United Kingdom. But the further expansion of agricultural production at a higher rate than that of Community consumption soon caused aggravating surplus problems in the EC 9 as well (Table 40). Without the various measures to promote marketing within the Community, EC consumption would presumably have been substantially lower and the degree of self-sufficiency higher than the figures in Table 40 reveal.

The embarassing surpluses are taken out of the market by various instruments[1]. One corner-stone is minimum intervention prices, at which public agencies have to undertake support-buying of agricultural products; these prices are to be found in the market orga-

[1] The EC has implemented more than a hundred different measures for intervention and for promoting marketing within the scope of the Common Market organization. For details, see EC [1981].

Table 40 - Degree of Self-Sufficiency[a] in the EC 6 and in the EC 9 by Product, various years

Product	EC 6					EC 9					
	1956-60[b]	1970/71	1971/72	1972/73	1973/74	1971/72	1974/75	1975/76	1976/77	1977/78	1978/79
Cereals (total without rice)	85	86	97	97	97	91	95	87	82	92	100
Soft wheat	90	98	111	110	114	99	116	101	105	102	118
Hard wheat							82	99	86	57	.
Barley	84	91	110	115	110	102	107	103	94	112	113
Sugar	104	106	122	116	111	100	87	105	104	125	124
Vegatables	104	99	100	97	96	.	94	95	92	92	.
Fresh fruits	90	88	87	82	86	.	79	79	78	73	77
Wine	89	104	95	91	117	93	95	98	102	94	102
Vegetable fats and oils	19	24	31	23	27	.	23	26	17	29	.
Skimmed milk-powder[c]	.	.	.	.	.	.	171	109	114	107	109
Butter[c]	101	108	124	118	116	106	97	107	107	118	119
Cheese[c]	100	101	102	101	106	102	104	101	104	103	105
Eggs[c]	90	99	99	100	100	99	100	100	100	101	100
Meat (total)[c]	95	94	91	91	96	92	97	96	96	96	.
Beef and veal	92	89	81	82	96	84	101	99	96	95	100
Pork	100	101	99	99	99	100	99	99	100	100	101
Poultry meat	93	101	100	102	101	102	101	104	105	103	105
Sheep and goat meat	.	76	71	67	74	55	64	64	64	65	.

[a]Domestic production in percent of domestic use. - [b]Annual average of the period. - [c]Crop year = calendar year (i.e. 1973/74 = 1974).

Source: Eurostat [c]. - Deutscher Bundestag [1981].

nization of milk, cereals, beef and veal, olive oil and sugar. For sugar this minimum price is limited to a previously fixed quota; with regard to the Common Market organization of pork, intervention is optional. Support-buying is carried out by producer organization in the case of fruits and vegetables as well as of fish, with financial assistance from the CAP authorities. The producer organizations have to make use of the quantities taken out of the market in a way that does not disrupt normal sales. This means in reality that surpluses of fruits and vegetables are destroyed to a large extent and fish is processed into fish-meal. The market organization of wine also provides for denaturation in that surpluses of production are used for destillation, though care has to be taken that the market of ethylalcohol is not disturbed and the production of wine of low quality is not stimulated.

The disposal of surplus production is pursued in various ways by the CAP authorities. A sizeable share is exported to third countries, the most publicized actions being the deliveries to centrally planned economies of Eastern Europe, especially to the Soviet Union and, since early 1981, to Poland (in this case under preferential conditions). As the EC-internal prices are normally above world market prices, the farmers receive export subsidies from the EC's common budget, enabling them to bring the price of their commodities down to competitive world-market levels. In the Community itself, efforts are also being made to encourage the use of production surpluses (e.g. premiums and assistance for feeding purposes, and marketing assistance). Butter sales, for instance, are promoted by offering a cheaper quality ("dairy" butter), by reducing purchase prices at certain times ("Christmas" butter), or by selling to certain consumer groups (army, recipients of social assistance) or for specific uses (butter as an input for producing bakery goods, ice cream, pure butter fat). In some member countries the governments, instead of cutting prices at certain times, provide continual assistance for butter consumption. Furthermore, there are programs for supplying pupils and students with subsidized milk out of production surpluses. The EC also subsidizes the procurement of skimmed milk and skimmed milk-powder to be used in the feeding of calves, pigs and poultry with liquid skimmed milk, in the production of casein and as additives for livestock fodder. At the same time, there are attempts to reduce surplus production by giving premiums to the farmers who give up milk production.

This hypertechnicalized system of Common Market organizations has placed ever-increasing financial demands on the common bud-

get, solely for removing the surpluses. From 1973 to 1979, expenditures on the Common Market organization of agricultural products increased at an average annual rate of 19 percent as compared to 12.6 percent for the combined GDP in current market prices. This rapid growth of the financial requirements for the CAP has not only nearly emptied the EC coffers (Chapter VIII). It has also sorely strained the financial solidarity and relationships between the member countries, because in practice it has resulted in uncontrollable financial net transfers within the Community which are unrelated to the relative strength or the weakness of particular economies [Koester, 1977b; Thoroe, 1981b]. Member countries which succeed in specializing in highly protected goods and in producing surpluses pay less in terms of import levies into the EAGGF than they receive in terms of export refunds (France, Denmark, Ireland), while the opposite holds for member states with low levels of self-sufficiency in food and therefore a high dependence on imports (Italy, United Kingdom).

The enforcement of agricultural objectives has not only involved conflicts with other policies, it has even violated fundamental elements of the Treaty of Rome by giving in to diverging national interests. A common market for agricultural products in the sense of unrestricted trade within the Community, based on the principle of price unity, actually existed for a short time only. Ever since 1969 a system of so-called "monetary compensatory amounts" has allowed the member states, in the event of exchange-rate adjustments, to unlink domestic prices for agricultural products from the common price level. Countries with a depreciating currency grant subsidies on imports and charge the same amount for exports, whereas in the case of countries with an appreciating currency the system works through export susidies and import levies. Thus the adjustment of the "green" exchange rates, as applied in agricultural trade, to the currencies' market value can be postponed by member-state governments according to what they regard as their "national interest", be it the defence of domestic consumers against inflation (in the case of currency devaluation) or the protection of domestic farmers against import competition (in the case of currency revaluation). The system of "monetary compensatory amounts" has not only increased the differences in agricultural price levels between the member countries considerably - temporarily even beyond the differences existing before the inception of the CAP -, it has also exposed the cohesion of the Community to serious strains, as is vividly demonstrated by recurrent disputes among the member governments, and between these and the EC Commission, over the amounts of border payments and charges to be ap-

plied in concrete situations and over the intra-Community distribution of these amounts.

One may argue, in retrospect, that failures of the CAP were neither embodied in the Treaty of Rome nor are they necessarily to be derived from decisions on the main principles of the CAP. Nonetheless it cannot be overlooked that the agreements made by the original Six at the Stresa Conference (1958) in fact contained a considerable potential for neglecting fundamental economic rules on the efficient use of scarce resources in market-oriented economies. The ill-conceived provision for a "Community preference" was an invitation for abuses of different kinds; the principle of unlimited "financial solidarity" gave every member government the possibility to commit the partner states to the co-financing of national agricultural policies [Koester, 1977a]. For instance, while national measures to improve agricultural structures usually involve strong production-increasing effects, the costs of getting rid of excess production do not have to be borne alone by the country which carries out these measures, but by all member countries according to their shares in financing the common budget.

The operation of a system of market organization as envisaged by the Treaty of Rome would have required that all groups affected by the CAP were adequately represented in the decision-making process. Moreover, the policy of market organization would have had to be co-ordinated more closely with policies in other areas, especially with national policies of structural reform in agriculture [Schmitt, 1978]. However, the common market organizations were shaped in a way which gave more weight to farmers' interests than to consumers' interests; and the interests of third countries, which the Treaty of Rome acknowledges, were not taken properly into account either. It was foreseeable that by giving the Council of Ministers of Agriculture the responsibility for deciding on"common" agricultural prices, the producer bias of the political system in representative democracies would invariably be reinforced, even more so as farmers enjoyed from the outset of European integration a political influence on legislators and governments which was disproportionate to their number. The prevailing rules of the GATT were not forceful enough to prevent the Council from implementing a protectionist market organization that only benefited the farmers. Nor did the consumers effectively organize an anti-protection lobby, for which the incentive is always small when the losses caused by the CAP protection are spread over large numbers of individuals. The consumers in the EC countries being unable or unwilling to counteract CAP pro-

tectionism, third countries have been deprived of the possibility of bringing their interests to bear.

The institutional shortcomings at the Community level, which favoured the development of a distorting CAP, are even greater. The General Council of Ministers of Foreign Affairs, which originally was conceived as an instrument for guidance and co-ordination in line with the decisions of the Heads of State or government, makes only little use of its powers. In the European Commission, too, there is a lack of representation of diverging interest groups in decisions on agricultural policy. The General Directorate for Agriculture can dispose freely of large financial funds (through the EAGGF) and has a specialized staff not only to run the Common Market organizations but also to deal with competition, foreign trade, customs and legal matters. Thus the decisions in agricultural policy mainly reflect the attempt to settle only differences in national agricultural interests and this is achieved far too often by finding the lowest common denominator: When proposals of the Commission are deliberated on by the Council of Ministers, as a rule an individual member country will criticize the proposal and announce that he would be able to agree only if certain national demands were admitted to the package for decision. This will be the starting signal for the other countries to present their demands as well. All countries' claims are then integrated into the Commission's recommendation and the proposal thus modified is finally passed unanimously[1]. In this manner, each member country pushes through its national claims, and presumably acquiesces that in due course it will have to accept the national interests of the partner states as well. Such logrolling could have been prevented from emerging if the member countries had been prepared to take Council decisions by (qualified) majority, as the Treaty of Rome indeed permits on many questions. But the French government has always resisted this idea (most ferociously during the period in the de Gaulle era, known as the "empty chair" crisis, when it even boycotted Council meetings, so that the unanimity requirement has become the rule (Chapter I).

2. Problems Posed by the New Entrants

The entry of three further countries into the Community will in itself represent a substantial burden, given the present institutional frame-

[1] The process of decision making in the Council of Ministers of Agriculture is vividly described by Eisenkrämer [1980]. See also Koester [1981].

work. There will be a greater dispersion of national agricultural interests and possible difficulties of conciliation may contribute to paralyzing Community policies. It must be feared that the ensuing further fragmentation of the decision-making process will continue to promote economically inefficient decisions. These apprehensions result from the fact that Greece, Portugal and Spain will want to find their agricultural interests reflected in the CAP decisions in which they, of course, will be participating as fully fledged members. The agricultural sector in these countries is much more important than on average in the EC 9. And the effects of the CAP in these countries will not be of an only marginal importance to the agricultural markets in the enlarged Community. In the EC 12 there will be almost 50 percent more agriculturally used land than in the EC 9 (Table 41).

Land use in the applicant countries is substantially different from that in the EC 9 on average, primarily due to geographical and climatic factors. In the EC 9, "northern" temperate-zone products dominate (wheat, barley, sugar-beet, beef and pork). By contrast, the entrants mainly produce Mediterranean commodities; their agricultural structures are quite similar to those in Italy and Southern France. The share of permanent crops (citrus, olives, fruit, wine) is far above the average of the EC 9. For intensive land use, irrigation is needed in wide areas of these countries. A considerable part of land is left fallow: about 15 percent of arable land in Greece and one third in Portugal and in Spain. In 1978, only 13 percent of the arable land (including permanent crops) in Spain, 25 percent in Greece and 17 percent in Portugal were intensively irrigated [Balz et al., 1981, p. 501]. In each of the new entrants the share of livestock production in agricultural GDP is far below the EC 9 average. Marked differences between the new entrants exist with regard to permanent pastures, which are used in a largely extensive manner and are dispersed over the country. Their share in the total agriculturally used area amounted to 58 percent in Greece in 1976, the corresponding figures for Spain and Portugal being 35 and 13 percent, respectively.

The share of small holdings in the applicant countries is disproportionately high compared with the EC 9, while at the same time in Portugal and especially in Spain there are astonishingly large-scale holdings as well (Chapter II). In Portugal, for instance, 45 percent of the total agriculturally used land was cultivated in 1976 on holdings with more than 100 ha (about 0.5 percent of the total number of farms), 85 percent of these holdings being located in the south of the country. In Spain, holdings with more than 100 ha (about 2.5 percent of the total number of farms) made up nearly 60 percent of the total agricul-

Table 41 - Agricultural Structure in Greece, Portugal, Spain and the EC 9, various years

	Greece	Portugal	Spain	New entrants combined	EC 9	For comparison: Italy
	1976					
Total area (1,000 ha)	13,200	9,160	50,480	72,840	152,560	30,130
Agriculturally used area (AA; 1,000 ha)	9,140	4,130	31,516	44,786	93,606[a]	17,524
Share (percent) of						
Arable land including permanent crops	42.5	87.2	65.5	62.8	55.3	70.5
Permanent grassland	57.5	12.8	34.5	37.2	44.7	29.5
Structure of agricultural holdings	1977[b]	1968	1972		1977	
Number of holdings with						
Less than 1 ha AA (1,000 ha)	242	ca.300	632	.		
1 ha and over (1,000 ha)	707	516	1,939	.	4,947	2,053
Shares by size groups (percent)						
1 - 5 ha	72.5	64[c]	50.5	.	41.9	68.3
5 - 10 ha	19.8	31[d]	20.0	.	17.3	17.5
10 - 20 ha	6.0		14.0	.	17.1	8.4
> 20 ha	1.7	5	15.5	.	23.7	5.9
Share of holdings over 20 ha in total AA (percent)	12.1	58.9	80	.	72.8	47.7
Structure of agricultural final production	1976	1975	1977		1977	
Share (percent) of						
Total crop production	69	65.1	58.9	.	40.2	57.2
Wine	2.3	10.5	3.6	.	4.6	7.7
Olive	7.6	5.6	2.9	.	1.0	5.0
Fruit	12.3	9.7	16.7	.	3.8	10.0
Vegetables	4.5	12.3	9.0	.	7.1	13.3
Livestock production	31	34.9	41.1	.	58.9	42.5

[a]Ireland 1975. - [b]Only arable land including permanent crops. - [c]Portugal 1-4 ha. - [d]Portugal 4-20 ha.

Source: Balz et al. [1981, pp. 502 ff.]. - Eurostat [c, 1978].

turally used area. By contrast, Greece's agriculture is clearly dominated by small holdings, particularly so with regard to privately owned arable land including permanent crops. If pastures are included, which are mainly municipally owned and cultivated in an extensive manner, the picture changes slightly and the average size of holdings increases from 3.4 ha to 8.5 ha [Burberg, 1977].

Even if the technological backwardness, the inefficient land-tenure patterns and the low land-use intensity in the new entrant countries, as compared to the EC 9, are taken into account, it is not unreasonable to expect that Greek, Portuguese and Spanish producers will be responsive to price and income incentives eventually provided by an extended CAP which will give more support to typical Mediterranean

commodities. From this it follows that in future the financial and social costs which the CAP imposes on all member countries could mount even faster than they have in the past. In order to avoid such developments it is necessary to take notice of possible changes in the levels of self-sufficiency for agricultural commodities in an enlarged Community, an issue, to which we turn our attention next.

3. Production and Self-Sufficiency

Looking at the production and consumption of agricultural products in the EC 9 and the applicant countries, one sees that the supply situation differs from commodity to commodity.

In crop production the degree of self-sufficiency in an enlarged Community would presumably be substantially higher than in the EC 9 (Table 42). This is not so much the case for cereals; here the new entrants partly have a considerable demand for imports, especially for feed grain, so that they may be considered an outlet for EC 9 surpluses. The same is true of sugar, where the degree of self-sufficiency could even decline somewhat (still remaining excessively high, however). The Three are already producing surpluses of the typical Mediterranean crops. With the exception of apples and pears, the levels of self-sufficiency are likely to rise, particularly so in olive oil, wine, peaches and citrus fruit. As a corollary of the increasing self-sufficiency, and due to the principle of preference of Community production, considerable trade diversion may occur, particularly to the detriment of non-candidate Mediterranean countries (Chapter VI).

In livestock the new entrants are net importers, particularly of beef and veal as well as of milk products (Table 43). On these markets the common budget would be relieved from the need to finance the uses of production surpluses, provided that the current supply situation in the applicant countries prevails in the future. However, consumption as well as production of animal products is relatively low in the applicant countries compared with the EC 9. The degree of self-sufficiency in the EC 12 would therefore be only slightly lower than in the EC 9 under conditions of the status quo.

Such balance sheets give only a first overview of the supply side of

Table 42 - Supply Balance Sheets for Crop Products in Greece, Portugal, Spain and in the EC 9 (annual average 1977-1979)

Product	EC 9			Greece[a]			Portugal[a]			Spain[a]			Applicant countries combined[a]			EC 12		
	production	domestic use	degree of self-sufficiency	production	domestic use	degree of self-sufficiency	production	domestic use	degree of self-sufficiency	production	domestic use	degree of self-sufficiency	production	domestic use	degree of self-sufficiency	production	domestic use	degree of self-sufficiency
	1,000 t		percent	1,000 t		percent	1,000 t		percent	1,000 t		percent	1,000 t		percent	1,000 t		percent
Total cereals (without rice)	102,646	112,348	91.4	3,715	4,433	83.8	1,087	3,679	29.6	15,145	20,181	75.1	19,947	28,293	70.5	122,593	140,641	87.2
Wheat	41,423	39,285	105.4	2,250	2,155	104.4	242	803	30.1	4,435	4,643	95.5	6,927	7,601	91.1	48,350	46,886	103.1
Rice	706	1,061	66.5	94	68	138.2	124	191	64.9	390	324	120.4	608	583	104.3	1,314	1,644	79.9
Sugar	11,110	9,468	117.3	324	274	118.3	10	264	3.8	1,173	1,305	89.9	1,507	1,843	81.8	12,617	11,311	111.6
Potatoes	34,239	34,498	99.3	939	877	107.1	1,259	1,294	97.3	5,623	5,486	102.5	7,821	7,657	102.1	42,060	42,155	99.8
Wine	13,835	13,963	99.1	418	332	125.9	675	522	129.3	2,564	2,103	121.9	3,657	2,957	123.7	17,492	16,920	103.4
Olive oil	564	649	86.9	286	256	111.7	33	34	97.1	467	373	125.2	786	663	118.6	1,350	1,312	102.9
Apples	5,093	5,417	94.0	211	200	105.5	106	104	101.9	901	888	101.5	1,218	1,192	102.2	6,311	6,609	95.5
Pears	1,906	1,976	96.5	108	105	102.9	45	45	100.0	346	343	100.9	499	493	101.2	2,405	2,469	97.4
Peaches	1,594	1,611	98.9	391	191	204.7	35	36	97.2	321	308	104.2	747	535	139.6	2,341	2,146	109.1
Vegetables	26,838	28,935	92.8	3,208	3,023	106.1	1,717	1,642	104.6	8,476	7,611	111.4	13,401	12,276	109.2	40,239	41,211	97.6
Citrus fruit	2,764	6,611	41.8	794	444	178.8	152	152	100.0	2,835	1,168	242.7	3,781	1,764	214.3	6,545	8,375	78.1

[a]Annual average 1977-1978.

Source: Eurostat [a; 1980b]. - FAO [b, 1978 and 1979]. - National Statistical Service of Greece [b, 1978]. - Office National de Statistique de Grèce [Oct.-Dec. 1977 and 1978]. - Instituto Nacional de Estadística [a, 1977 and 1978]. - Ministerio de Hacienda [b, 1977 and 1978]. - Instituto Nacional de Estatística [d, 1977 and 1978].

Table 43 - Supply Balance Sheets for Livestock Products in Greece, Portugal, Spain and in the EC 9 (annual average 1977-1979)

Product	EC 9			Greece[a]			Portugal[a]			Spain[a]			Applicant countries combined[a]			EC 12		
	production	domestic use[b]	degree of self-sufficiency	production	domestic use[b]	degree of self-sufficiency-	production	domestic use[b]	degree of self-sufficiency	production	domestic use[b]	degree of self-sufficiency	production	domestic use[b]	degree of self-sufficiency	production	domestic use[b]	degree of self-sufficiency
	1,000 t		percent	1,000 t		percent	1,000 t		percent	1,000 t		percent	1,000 t		percent	1,000 t		percent
Beaf and veal	6,503	6,639	98.0	111	231	48.1	90	127	70,9	411	473	86.9	612	831	73.6	7,115	7,470	95.3
Pork	9,289	9,242	100.5	122	135	90.3	148	153	96.7	769	791	97.2	1,039	1,079	96.3	10,328	10,321	100.1
Poultry	3,587	3,431	104.6	105	104	101.0	129	129	100.0	745	751	99.2	979	984	99.5	4,566	4,415	103.4
Sheep and goats	505	781	64.9	120	120	100.0	27	27	100.0	144	144	100.0	291	291	100.0	796	1,072	74.3
Butter	1,904	1,642	116.0	7	10	70.0	5	7	71.4	17	19	89.5	29	36	80.6	1,933	1,678	115.2
Milk-powder	2,108	1,930	109.2	0	0	0	10	15	66.7	24	111	21.6	34	126	27.0	2,142	2,056	104.2
Eggs	3,749	3,725	100.6	124	123	100.8	54	54	100.0	605	578	104.7	783	755	103.7	4,532	4,480	101.2

[a]Annual average 1977-1978. - [b]Production + imports ./. exports.

Source: See Table 42. - Eurostat [1980a]. - FAO [b, 1978 and 1979]. - National Statistical Service of Greece [b, 1978].

the markets in an enlarged Community[1]. It should not be forgotten that the new entrants have to adhere fully to the CAP after a transitional period following their accession [Pasca, 1978]. The modus operandi agreed upon for Greece's entry into the EC shows that it is attempted to solve the transitional problems in a way similar to the one practiced in the first enlargement: On the one hand, the new member countries assume the CAP, including the system of Common Market organizations and the instruments contained therein, the very day they enter; on the other hand, problems of adaptation are mitigated by transitional regulations. Thus Greece did not adopt Community price levels at once, but is doing so stepwise. Gaps between the prices of agricultural products in Greece and EC prices are bridged by so-called "accession compensatory amounts". Numerous, still existing national subsidies have to be abolished or to be adjusted to EC regulations during the transitional period, which in the case of Greece is five years in principle, and seven years for some "sensitive" products like tomatoes and peaches as well as manufactures thereof. As to Portugal and Spain, transitional periods of five to ten years are being discussed.

Once the Common Market organizations come into force in the new entrant countries, considerable distributional effects will arise. These countries will then no longer be allowed to import agricultural commodities at world market prices but will have to pay (higher) EC prices. At the same time they will receive EC prices for their production surpluses, too, irrespective of whether the surpluses are exported to EC members or to third countries. Under present supply conditions the new entrants would face substantial positive distributional effects in the market for Mediterranean commodities, whereas these effects would be negative with regard to milk products, and partly also to cereals. Calculations of these distributional effects, based on supply conditions and differences between Community and world market prices from 1976 to 1978 on average, show positive effects for Greece and Spain amounting to 50 and 150 million ECU, respectively, and negative effects for Portugal amounting to 25 million ECU [Kirschke, 1981].

[1] See also the analyses by Roque Amaro [1978], Solbes Mira [1979] and Josling [1979, pp. 345 ff.].

4. Possible Supply and Demand Shifts

Of greater relevance for the CAP are the reactions of production and demand in the applicant countries following the accession. These effects can hardly be estimated in detail, but an indication of the intensity of the adjustment process can be gained from the differences between domestic agricultural prices and Community prices. Obviously even such a comparison of prices is beset with difficulties, as the price structures differ very much between the new entrants and the EC 9 as well as among the applicant countries themselves. Furthermore, the statistically reported prices in the applicant countries are difficult to interpret because the producer prices are often not identical with the market prices due to consumption or production subsidies or to the impact of other instruments [Grosskopf, Tangermann, 1981]. Finally, there are considerable variations in prices from year to year, so that price differences observed in single years may not correctly indicate those gaps that are relevant for allocative decisions, especially not when the price fluctuations are due to exchange-rate variations.

If we only compare producer prices, we can classify agricultural commodities in different categories, as shown in Table 44. In general, the price level for Mediterranean products is much lower in the applicant countries than in the EC 9. The difference amounts to between 25 and 33 percent [Goeman, 1981, p. 372] and is consistent with the trade position of the new entrants, notably Spain, as net exporters. With regard to "northern" products, the new entrants reach the Community price level in most cases and even exceed it in a few instances.

As far as domestic agricultural prices are adjusted in an upward direction (to meet Community levels) one would expect the demand for farm products to decrease in the entrant countries. But due to the typical low price elasticities of demand for food this decline will not be strong. On the other hand, population growth and rising incomes will presumably lead to an expansion of demand for food. Comparing demand projections for selected commodities which the Food and Agricultural Organization (FAO) made for 1990 and assuming that the new entrants will keep up their national agricultural policy and adopt, at the same time, the CAP price devices, one finds that the enlargement would have a distinct depressing impact on demand in the cases of feed grain and rice in all three countries, of beef and veal in Greece and Portugal, of mutton and lamb in Portugal and Spain, of oranges in Greece and Spain, and of pork, poultry and man-

Table 44 - Summary Overview of Price Differences[a] between Greece, Portugal, Spain[b] and the EC 9 for Selected Agricultural Products, late 1970s

Domestic prices	Trade position of new entrants	
	Net importers	Net exporters
> EC 9	Beef (P) Maize (S) Butter (S) Skimmed milk-powder (S)	Rice (G) Grapes (S)
≈ EC 9	Barley (G) Sugar (G, S) Pork (G, S) Milk (G, S) Soft wheat (S) Beef (S) Tobacco (S)	Soft wheat (G) Oranges (G) Peaches (S) Cauliflower (S) Tobacco (G)
< EC 9	Soft wheat (P) Sugar (P) Barley (P) Maize (P, G) Milk (P) Rice (P) Beef (G)	Olive oil (G, P, S) Barley (S) Wine (G, P, S) Peaches (G) Rye (S) Oats (S) Rice (S) Corn (P) Fruits (S)[c] Vegetables (S)[d]

[a]Mainly guaranteed producer prices. - [b]Greece (G); Portugal (P); Spain (S). - [c]Except peaches and grapes. - [d]Except cauliflower.

Source: Josling [1979]. - Grosskopf, Tangermann [1981].

darines in Spain (Table 45). When compared with total demand in an enlarged Community these demand-decreasing effects would be only of minor importance. The same holds for the demand-increasing effects, as observable for wheat, milk or lemons.

Table 45 - Enlargement-Effects on Demand of Selected Agricultural Products[a] in Greece, Portugal and Spain

Product	Greece	Portugal	Spain	Applicant Countries combined		
	in 1,000 t				in percent of total demand	
					of applicant countries[b]	of EC 12[b]
Wheat	.	.	.	+ 1,000	+ 14.3	+ 2.2
Coarse grains	.	.	.	- 2,000	- 11.8	- 2.2
Total grains	.	.	.	- 1,000	- 4.2	- 0.7
Rice	- 1	- 17	- 11	- 29	- 7.0	- 2.1
Milk	+ 95	+ 50	+600	+ 745	+ 8.0	+ 0.7
Beef and veal	- 30	- 20	+ 35	- 15	- 1.8	- 0.2
Mutton and lamb	+ 10	- 5	- 20	- 15	- 5.0	- 1.4
Pork	+ 15	+ 10	- 85	- 60	- 6.3	- 0.6
Poultry	0	+ 40	- 20	+ 20	+ 2.2	+ 0.5
Wine	-	-	-	-	-	-
Tobacco	-	-	-	-	-	-
Oranges	- 35	+ 67	- 90	- 58	- 5.0	- 0.9
Mandarines, tangerines, and clementines	0	+ 3	- 20	- 17	- 10.6	- 1.5
Lemons	0	+ 10	0	+ 10	+ 5.1	+ 0.9

[a]Difference between projections to 1990 without and with enlargement. - [b]In the base period, annual average 1975-1977.

Source: FAO [a]. - Own calculations.

With regard to the effects on the supply side, there is wide-spread agreement among agriculturalists, including the experts of the EC Commission, that the new entrants possess a considerable potential for increasing their agricultural production. Nothing in their soil and climate conditions, as unfavourable as they may appear in some regions, suggest that production per unit of land and labour should rank lowest among the West European countries. Of course, agriculture in the new entrant countries suffers from several institutional, structural and technological constraints, which can only be redressed over

the medium and long run, provided that appropriate government policies are pursued. But it could be possible in the short term already to increase output considerably by intensifying land use, as would result from a reduction of fallow areas, a fuller utilization of the installed irrigation capacities and a more wide-spread use of fertilizers. In the case of Mediterranean products, to be sure, rapid yield increases are quite likely after the accession, especially since price differences between the new entrants and the EC 9 are especially large for these products.

For Mediterranean products the new entrants exhibit comparative advantages in trade with the present EC members. To what extent and at what point of time displacement of production within the EC (notably in France and Italy) will take place and how much the levels of self-sufficiency will change, ultimately depends on the shaping of the transitional arrangements and upon how the common market organization will be run. To quantify the enlargement-induced changes in production for these markets seems hardly possible due to the lack of sufficiently disaggregated statistical data. Moreover, there is a wide range of policy devices according to product-specific peculiarities, seasonal factors and market situations. However, it can be safely said that the adoption by the new entrants of the present EC regulations for Mediterranean products will generate serious troubles, such as the following ones.

Competition on the Common Market for vegetables and processed vegetables (above all for winter vegetables) will become more severe due to the enlargement. This will be felt most by farmers in Italy and Southern France; but even the production of vegetables in greenhouses in the northern member countries may come under increasing adjustment pressure. Excess production resulting from administrative support-buying is to be expected to a considerable extent for tomatoes and cauliflower. Likewise, serious surplus problems have to be reckoned with for processed tomatoes, thereby causing sizeable financial burdens to the common budget, if production aids, which were introduced in 1978, are continued.

Surplus problems have to be expected for the fruit and processed fruit markets, too. Large increases in production are likely above all for apples, pears and peaches[1]. Substantial burdens for the EAGGF can

[1] The extent to which intervention will occur can hardly be estimated because this would require detailed information about the qualities produced as well as about harvest times, information which is not available.

be anticipated in the light of the aids for processed fruit introduced in recent years (e.g. for pears and peaches). The CAP authorities would also have to increase their interventions on the market for citrus fruits once the new entrants adopt the present EC regulations. The FAO estimates that the price-induced growth of production in the applicant countries would be 3 percent for oranges and 10 percent for mandarines [FAO, a, p. 155]. Substantial financial burdens would also arise for the Community, if the present system of market aids for citrus fruits at present applied in Italy would be extended to the new entrants.

Incentives for increasing wine production can be anticipated, too. In particular for Spain the FAO shows a substantial expansion of production following the adjustment of the domestic price level to the higher EC one. The already existing wine surpluses in the Community would be raised considerably. According to these projections production of table wine would exceed demand in 1990 by nearly 25 percent [FAO, a, p. 146]. Other experts project the future wine surpluses to be even higher. Thus it seems quite reasonable to assume that by the 1990s nearly one fourth of the wine production in the EC 12 would be brought to subsidized destillation.

Substantial financial burdens for the EAGGF would also result from applying the Common Market organization for olive oil to the new entrants, which together produce nearly 50 percent more olive oil than the EC 9 does. In the EC 9 olive oil is protected by aiding production and consumption; in the applicant countries it is protected by discriminating against competing oil seeds. Although the EC's production assistance is limited to the harvest from trees which were planted before October 1978, the mere extension of this scheme to what output nowadays would be in an EC 12 would require financial resources of 630 million EUA [Wissenschaftlicher Beirat, 1980, p. 36]. An increase in production has to be expected even if the planted area is not expanded because the Community limits assistance to plants in existence before 1978. Price differences between the EC 9 and the applicant countries are substantial, and adjusting to the EC level would give strong incentives to the producers to use all their means to increase yields. At the same time domestic demand for olive oil in the applicant countries would presumably decrease substantially because the liberalization of oil seeds, which is due after the accession, might cause considerable substitution of oil seeds for olive oil. If this is to be avoided, the Community's aid to the consumption of olive oil would have to be raised.

As to the "northern" agricultural commodities, the outlook is more mixed (Table 46). The new entrants might face raising prices for most feed grains, which would involve a considerable deterioration in the profitability of livestock production. This could be partly compensated by adjusting the feedstuff mixture to the price structure of the EC, but at present the feedstuff industry in these countries is not yet ready for such restructuring. There is a lack of productive mills and feedstuff plants near deep-water harbours, to which low-priced cereal substitutes could be shipped. Under these circumstances the production of pork and poultry could decrease in the applicant countries. Domestic beef and veal production may also decrease, whereas mutton and lamb production can be expected to increase considerably because only little concentrated feed is used here. Finally, available projections indicate that the new entrants may increase the production of cereals and tobacco following the accession.

In total it can be expected that the implementation of the present CAP in the entrant countries would seriously aggravate the problems of production surpluses, of third-country exports displacement as well as of budgetary burdens. And indeed, an unmodified application of present CAP regulations does not seem to be sensible. For some Mediterranean products, for instance, specific instruments are aimed at strengthening the competitive position of farmers in Italy and Southern France mainly vis-à-vis competitors from the applicant countries [Goeman, 1981]. An extension of these measures to Spain, Greece and Portugal would erode the competitive advantages of Italian and French farmers who would then claim compensation, thereby causing high financial burdens to the EC. Therefore, the transitional agreements should provide rather for a gradual reduction of assistance measures in the EC 9 than for their stepwise extension to the new entrants. A reduction of premiums for processing fruit and vegetables and a relaxation of regulations for fresh products would seem to be particularly urgent. Furthermore, a close scrutiny should be made of the various instruments for limiting production which may impair an efficient allocation of resources in an enlarged Community [Goeman, 1981, pp. 385 ff.; Wissenschaftlicher Beirat, 1980, pp. 45 ff.].

But chances for carrying out such changes of the CAP in the course of entry negotiations are not favourable. The new entrants expect gains for their agriculture from entering the EC and they will strongly resist efforts to lower the protection of exactly those products which they can produce most advantageously. Thus it has to be feared that demands for lowering CAP protection will not come through, while

Table 46 - Enlargement-Effects on Production for Selected Agricultural Products[a] in Greece, Portugal and Spain

Product	Greece	Portugal	Spain	Applicant countries combined		
	in 1,000 t				in percent of total production	
					of applicant countries[b]	of EC 12[b]
Wheat	-	-	-	+ 1,000	+ 14.3	+ 2.2
Coarse grain	-	-	-	+ 1,000	+ 9.1	+ 1.4
Total grains	-	-	-	+ 2,000	+ 11.1	+ 1.7
Rice	+ 5	+ 13	+ 11	+ 29	+ 7.0	+ 2.6
Milk	+ 85	- 10	+295	+ 370	+ 4.4	+ 3.0
Beef and veal	+ 5	+ 5	- 15	- 15	- 2.3	- 0.2
Mutton and lamb	- 10	+ 5	+ 20	+ 15	+ 5.2	+ 1.9
Pork	- 35	- 40	- 30	- 105	- 11.6	- 1.1
Poultry	- 30	- 55	-110	- 195	- 21.2	- 4.6
Tobacco	0	+ 1	+ 9	+ 10	+ 7.3	+ 3.4

[a]Difference between projections to 1990 without and with enlargement. - [b]In the base period, annual average 1975-1977.

Source: See Table 45 - Own calculations.

claims to strengthen the protection of Mediterranean products will be successful. Italy has already complained of protection being higher for "northern" products than for Mediterranean ones in the EC. Demands to adjust the degree of protection of Mediterranean products to that of the northern ones have not been successful so far, but they will gain more leverage through the accession of three Mediterranean countries. If the CAP is continued along the lines of the present model, the increased power of the producers of Mediterranean commodities will no doubt prevent the level of protection from being reduced to the relatively lower one of Mediterranean products or even to a level at which production surpluses would be eliminated and conflicts with traditional partners in external trade relations avoided. More likely, however, such an agreement will be reached which will be the least painful to the farmers in all EC countries in the short run. This amounts to saying that the level of protection for "northern" products, which is already too high in the EC 9, will guide the Community's price policy for Mediterranean products.

Due to increasing differences in national interests it has to be feared that maintenance of the present institutional framework in the EC 12 would lead to an even more inefficient CAP. For a transitional period there still is the opportunity to consider elementary national interests via transitional regulations. But once the transitional period comes to an end it will become necessary to take into account those diverging interests in CAP decision making. The present system allows for a certain degree of national autonomy in agricultural price policy only by using the instrument of "monetary compensatory amounts". But even if this instrument were to be used intensively, which is likely to be the case in view of the prevailing inter-country differences in inflation rates and thus of the recurrent need for exchange-rate adjustments, the principle of unanimity for Council decisions might make the temptation to agree on the lowest common denominator in an enlarged Community even greater than it was in the EC 9.

An effective limitation of the increase in CAP expenditures, both in an enlarged Community as well as in the EC 9, can presumably only be expected when the Community has totally exhausted the revenues available. In the EC 9 the resource constraint has almost been reached and has already caused intensified reflections on a reform of the CAP [Sachverständigenrat, 1980, pp. 1976 ff.]. If such an effort is not directed mainly at satisfying agricultural producer interests, it seems quite obvious that agricultural politicians cannot expect financial restrictions to be eased. This would mean that all financial obligations emerging from decisions taken by EC institutions would have to fit into the given framework of the Community, which is delineated by its own limited revenues. That the availability of own resources would remain limited has been confirmed by the Council on several occasions[1]. In any case, plans to raise own resources through a greater share of value-added tax (VAT) have to be accepted by all member countries (Article 201 of the Treaty of Rome) in compliance with their national constitutional provisions, which normally means that a ratification by national parliaments is required. Striving for raising the EC's VAT share would therefore be a very time-consuming procedure, let alone the fact that it seems very doubtful whether such a procedure could be completed successfully at all[2]. If the over-

[1] For instance by the Council of Ministers of Finance (February 1980), the Council of Ministers for Foreign Affairs (May 1980) and the European Council (June 1980).

[2] The German Federal Parliament made it clear unanimously that it would not agree with a possible increase of the existing VAT revenues [Genske, 1981].

due reform of the CAP is to be enforced it is imperative that the Community's own revenues should remain restricted and that this restriction should not be relaxed in connection with the enlargement. Thus the aggravation of the agricultural problems by an enlargement of the EC would make a reform of the CAP inevitable.

5. Reshaping the CAP

A common agricultural policy is an integral part of the Treaty of Rome. A fundamental reform of the CAP does not, however, necessarily mean that the Treaty itself is being questioned, but rather that priorities have to be considered and reoriented and that the underlying objectives have to be pursued in a different institutional manner [Sachverständigenrat, 1980, pp. 187 ff.]. A reshaping of the CAP, if done appropriately, would represent a contribution to reducing conflicts between the basic aims formulated in the Treaty and the actual policies with their implications.

The Rome Treaty calls for a common market for agricultural products. This principle - as already pointed out - has not dominated the conduct of the CAP. Only for a short time between 1967 and 1969 did a common agricultural market in the sense of free intra-Community trade with agricultural products exist. Until the beginning of this period the highly different (national) agricultural price levels had been brought to a common level step by step. Following 1969, free intra-Community agricultural trade has again been restricted by the "monetary compensatory amounts". This compensatory system has in essence worked like a system of tariffs and subsidies and thus has led to distortions in intra-Community agricultural trade, thereby aggravating price differences between the member countries. On top of this, intra-Community trade in agricultural products is hindered by a host of national regulations (above all health and hygiene prescriptions and veterinary restrictions), i.e. impediments which can hardly be reduced in the course of reforming the CAP. They are elements of different national legal systems, so that they probably can be dealt with in the course of a general harmonization of legal regulations only.

Preference for Community production is the second main principle formulated in the Treaty of Rome for CAP; Community preference, however, does not mean self-sufficiency. To attempt autarky contradicts another principle aimed at contributing to a harmonious de-

velopment of world trade and to a stepwise abolishment of international trade restrictions. These principles of the Rome Treaty have to be weighed against each other, and according to the differences in individual country preferences the resulting package of objectives may differ. However, given continuous over-production of numerous agricultural products, the principle of Community preference can hardly be upheld. The same is true for the principle of solidarity in financing the CAP which still belongs to the golden rules of the Rome Treaty. Financial solidarity can hardly be invoked to finance excess production, for a CAP which leads to lasting surpluses was not agreed upon.

A reform of the CAP based on the Treaty of Rome would have to be directed above all at liberalizing intra-Community trade in agricultural products, thereby restoring a degree of integration that would be appropriate to a customs union. It would also have to guarantee that the Community will behave in a less protectionist manner in agricultural trade with third countries and that it will no longer dump production surpluses on the world markets. Being the world's largest trade block the EC would thus live up to its responsibilities for a functioning world trade order.

Such a policy would above all require a consequent, market-oriented price policy. Agricultural prices would have to better reflect the development of supply and demand in the EC and on the world markets. A precondition for achieving this would be to relieve Community price policies from the task of securing EC farmers a suitable development of their incomes, a task actually not assigned to price policies by the Rome Treaty. According to that document reasonable living standards for the agricultural population were to be guaranteed by increased productivity in agriculture. Moreover, evidence abounds that a common price policy is not at all able to generate the expected income effects. Common price decisions lead neither with certainty to equal incomes nor to equal increases in income nor to increases in income equal to those in the average national income. Due to pronounced national differences in facilities for and techniques of production, in the size of holdings and in the product mix, common price increases lead to very different effects on agricultural income in individual member countries. Furthermore, since income targets of agricultural policies are embedded in divergent national social preferences, agreements on income-oriented price decisions can be very difficult to reach, as experience with the present CAP has demonstrated time and again. To relieve common price policies of the duty to pursue income-supporting goals would mean to allow price policies

to be oriented towards market conditions of supply and demand.

Such a price policy would in principle be compatible with the existing system of market organizations. It would, however, have to be institutionally anchored if the agricultural policy decision-making process is not to run counter to the proclaimed aims. Such an institutional arrangement could be reached by prohibiting, after a transitional period, the destruction or denaturization of production surpluses with the aid of subsidies, both in EC markets and in world markets. In order to prevent storage capacities from being exceeded due to the obligation to intervene, all such obligations would have to be cancelled simultaneously. Administrative intervention should be confined to cases in which excessive price fluctuations in the internal market appear, provided that intervention agencies operate in a way which covers the costs of stabilizing prices.

For the new entrants such market-oriented price policies may seem less attractive than the present CAP, especially in the light of compulsory intervention being abrogated. They would no doubt prefer a more carefully directed expansion of agricultural production with minimum prices guaranteed by the CAP. The removal of compulsory intervention and the prohibition of subsidized destruction of excess production would mean that price guarantees would be eliminated even for such products which can be produced efficiently in the applicant countries (mainly Mediterranean products), because they cannot be stored for a long time. Such a proposal inherently means, therefore, that the Community would, in order to prevent potential misuse, be forced to renounce measures for stabilizing internal markets. The risks accompanying price fluctuations would no longer be socialized but would have to be borne by the producers. Although expectations of the new entrants would be disappointed in this respect, strictly market-oriented price policies can bring advantages for the applicant countries. For instance, the EC 9 has permanently been generating production surpluses in those commodities which the new entrants import. Therefore the applicant countries would gain from strictly market-oriented price policies because the procurement of "northern" products would be cheaper and the contributions to the EC budget, which are necessary to finance the CAP, would be lower.

The institutional reform of the CAP should also provide for less protection against supplies of non-member countries. This would mean that within the Common Market organization the Community would have to reduce the threshold prices at which agricultural imports may enter the Common Market. In the short run it may be politically dif-

ficult to reform the CAP on both lines simultaneously, i.e. to reduce excess production and to improve the market access for third countries at the same time. If this were the case it would be advisable to postpone the liberalization issue until the pressing surplus problems have been considerably mitigated. In the meantime the third countries could take advantage of the improvement of sales prospects on world markets which would result already from a suspension of EC subsidized exports. However, the Community should at least promise in a credible way that market entrance of trade partners will not be blocked arbitrarily and unforeseeably, as is currently done by safeguard clauses. As concerns the enlargement, a more specific problem of external trade relations and external trade policy will arise, namely concerning the specific arrangements of the European Community with the Mediterranean countries. As is shown in Chapter VI, these contracts would be substantially eroded by the enlargement of the EC 9, especially due to the entry of Spain. The possibility of preventing these contracts from becoming meaningless and of defending the Community against far-reaching claims for compensation are discussed in the follwing chapter.

A fundamental reform of the CAP presumably is feasible only if carried out gradually rather than abruptly. In order to prevent a permanent continuance of the present CAP under the label of a "transitional regulation" institutional precautions have to be taken. One purposeful way would consist of fixing a ceiling for CAP expenditures, combined with the commitment by all member-state governments not to overuse the financial solidarity clause [Sachverständigenrat, 1980, p. 188]. The establishment of a ceiling for the CAP expenditures would involve ensuring that the Council of Ministers of Agriculture could no longer burden the Community with liabilities to pay without itself assuming the responsibility for financing the expenditures.

Obviously a substantial obstacle to such a reform would be the risk, very real in the short run, that farmers within the Community would be exposed to sizeable income losses. In the long run it is to be expected that the farmers will share in the overall development of incomes, once the structural adjustments, which the lower levels of protection will induce, have been carried out. Without a temporary income setback the process of structural adjustment would hardly be possible. This does not necessarily mean, however, that one should dispense with income policy for agriculture altogether; rather, that experience has shown how inefficient an income policy via price policies with uniform measures all over the EC works.

The market divergences resulting from uniform EC policies for a sector within an otherwise incomplete economic union already sought and found an escape value under the present CAP with the implementation of the "monetary compensatory amounts". Therefore, the responsibility for income policies should be left to national authorities [Thoroe, 1980], as has been the case with regard to income policies for other groups. The EC should merely limit itself to constituting a framework for such national activities, not forgetting thereby that the Treaty of Rome indeed does allow such assistance provided it is neutral vis-à-vis production. A reform of the CAP need not fail due to the distributional interests of those member states who profited the most from transfers from the common budget or from the intra-Community trade in agricultural products under the present CAP. Such transfers can be structured much more efficiently than those linked to agricultural surpluses, as will be discussed in Chapters VII and VIII. Since in an enlarged Community the problems expounded above will even worsen, and so will the chances for finding a solution, the reform of the CAP should be initiated immediately.

VI. Challenges to the Global Mediterranean Policy

As pointed out in Chapter IV, the EC has established a highly differentiated net of bilateral trade relations with most Mediterranean countries [Henig, 1971; Tovias, 1977; Pomfret, Tovias, 1980]. Greece, Portugal (including Macao) and Spain were included in the Community's so-called Global Mediterranean Policy (GMP), though each with differing arrangements with regard to both coverage and ultimate aims. The entry of the Three into the EC will evidently provide them with a competitive advantage over the exports of the other eleven GMP countries which will not become member states, namely Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, and Turkey. It is unlikely that, after the completion of the southern enlargement, the non-candidate Mediterranean countries will be granted the same conditions of access to the Common Market for their agricultural products that the new entrants will enjoy. These countries are therefore much concerned about the eventual erosion of GMP preferences in trade with the Community. The purpose of this chapter is to evaluate the potential impact of the enlargement on such preferences. The first section deals with trade in agriculture, the second one with trade in manufactures. Questions relating to the future of the GMP are discussed in the concluding section.

1. Trade in Agricultures

a. Export Similarities

One way of assessing whether or not the Mediterranean countries will face relative access disadvantages in agricultural products after the enlargement is to consider the degree of similarity of their agricultural export supply to that of the new entrants [Tovias, 1979, pp. 24 ff.]. Table 47 gives an overview of the five most important agricultural imports (at the six-digit CCCN) of the EC 9 from each of the eleven non-candidate GMP countries and of the corresponding competing imports from each of the new entrants in 1978. The shares of the sample goods in total EC 9 agricultural imports from the individual countries range from 42 percent (Morocco) to 100 percent (Jordan) and hence represent a sizeable scope in total Mediterranean

Table 47 - EC 9 Imports of Major Agricultural Products[a] from Mediterranean Countries, 1978 (EUA million)

CCCN	Commodity	Algeria	Cyprus	Egypt	Israel	Jordan	Lebanon	Malta	Morocco	Syria	Tunisia	Turkey	Greece	Portugal	Spain
0303.43	Shrimps										5.8				0.5
0303.66	Snails											7.7	3.1		0.2
0504.00	Guts, bladders and stomachs of animals						2.0			4.1			0.1	5.1	3.4
0602.19	Unrooted cuttings and slips							0.6						0.1	1.1
0603.55	Pinks, from 1 November to 31 May				27.3								0.7		0.9
0701.13	New potatoes, from 1 January to 15 May	1.3	5.2	14.4				1.4					0.7		13.3
0701.15	New potatoes, from 16 May to 30 June	1.1	23.5					0.4					6.3		11.2
0701.63	Onions, fresh			3.9											25.8
0701.75	Tomatoes, from 1 November to 14 May								49.3						53.9
0701.77	Tomatoes, from 15 May to 31 October								17.2						6.6
0704.10	Onions, dried			5.8			0.5			0.7					
0705.70	Lentils						1.9			0.3					1.8
0801.10	Dates										5.2				
0801.60	Avocados				25.0										0.6
0802.16	Sanguines, from 16 October to 31 March	1.6													4.2
0802.17	Other oranges, from 16 October to 31 March				57.7				21.1				8.7		153.6
0802.32	Clementines								42.8						115.7
0802.70	Grapefruits		11.7		53.2										0.6
0803.30	Figs, dried											16.3	2.6	0.3	0.2
0804.23	Table grapes, fresh, from 15 July to 31 October		9.2										11.7		4.1
0804.30	Table grapes, dried[b]											62.9	75.2		0.6
0805.93	Shelled hazlenuts[c]											135.7	0.1		4.9
1006.45	Wholly milled rice[d]						0.8								0.6
1207.30	Liquorice roots									0.6					
1207.98	Other plants			2.9									0.9		0.6
1208.50	Apricot stones and kernels									1.1			0.5		0.3
1507.05	Virgin olive oil[d]										19.8		4.4		15.6
1507.09	Lampant oil[d]										21.7		24.4		4.4
1602.53	Ovine meat							0.4							
1604.30	Salmonidae, prepared					0.1									
1604.71	Sardines, prepared[e]								16.5				1.3	24.9	4.6
1703.00	Molasses[d]			8.2									2.9		
2007.31	Grape juice[d]							1.4					2.1		0.6
2007.41	Orange juice				36.3								0.4		6.5
2205.25	Bottled wine[f]	9.8									10.8		5.7	4.6	30.1
2205.35	Bottled wine[f]	1.3											0.4		3.1
2205.49	Bottled wine[f]		9.8										1.3	0.2	1.4
2401.36	Light air type tobacco						0.4						0.3		
2401.38	Oriental type tobacco											25.4	36.5		
In percent of total EC agricultural imports from the individual countries		42.5	60.4	61.2	49.1	100.0	83.6	66.7	41.5	76.9	64.1	69.9	43.9	20.7	34.5

[a]The five most important agricultural imports from each exporting Mediaterranean country. - [b]Preferential treatment subjected to a ceiling (all beneficiaries). - [c]Preferential tariff ceiling (Turkey). - [d]Subjected to variable levies. - [e]Subjected to minimum prices and ceilings (Morocco, Tunisia, Turkey). - [f]Subjected to reference prices and ceilings (Algeria, Morocco, Tunisia; 2205.49 Turkey instead of Algeria).

Source: Eurostat [a, 1978].

agricultural export supply. The lower corresponding shares in the Community's imports from the new entrants (between 21 and 44 percent) indicate that the degree to which the two groups of countries are affected by the enlargement differs: In the hypothetical event that the eleven Mediterranean countries were to become members of the EC while the new entrants were left outside, the latter group would be less seriously affected than the group of eleven is in the actual case of the prospective southern enlargement. The reason is that the export supply of the new entrants is less concentrated on a few items and that it seems to be more complementary to, rather than substitutive of, the export assortment of the GMP countries. It should be noted that 47 percent of the Community's imports of the selected agricultural commodities from the fourteen countries considered is supplied by the GMP countries and 53 percent by the new entrants, of which one, Spain, accounts for the lion's share (two thirds). Thus, the two groups have proved to be almost equivalent exporters of agricultures into the EC 9 under the pre-enlargement tariff conditions.

This overall pattern may, however, conceal considerable inter-Mediterranean-country differences in the export overlap with each of the new entrants. In order to find out whether or not this is the case, we have calculated, in analogy to the trade overlap index discussed in Chapter III, coefficients of "export similarity" (ES), using the following formula [Finger, Kreinin, 1979]:

$$ES\,(ab, c) = 100\ \left[\sum_{i=1}^{5} \min\,(X_i\,(ac),\ X_i\,(bc))\right]$$

where X(ac) denotes the agricultural exports of the Mediterranean country a to the Common Market c, X(bc) represents Greece's, Portugal's or Spain's competing exports to the Common Market c, and i refers to the five most important agricultural exports (at the six-digit CCCN level) of each single country (Table 47). The coefficient can range from 0 to +100 and expresses the percentage of exports of one country which is matched by another country's exports to the same market. The closer the coefficient comes to 100, the greater is the degree of export similarity between the two countries.

The results obtained are reported in Table 48. It is noteworthy that

- Mediterranean agricultural exports compete largely with Spanish substitutes in the Common Market;

- Portugal's accession would affect only two countries (Algeria and Syria) to a considerable extent because of its complementary rather than substitutive export supply;
- Algeria, Lebanon, Syria and Turkey face the highest export similarity (more than 70 percent each) with, and hence competition from, Spain;
- Algeria is the only country which reveals a high degree of export similarity with each of the new entrants;
- by contrast, Jordan's total agricultural exports, although negligible in absolute terms, do not overlap at all with the exports of either Greece, Portugal or Spain;
- all Mediterranean countries but Jordan exhibit considerable levels of export similarity, particularly with regard to Spain and to some extent also to Greece, which implies that the Mediterranean countries themselves are competing with each other as exporters of agricultural products to the Community[1].

High levels of export similarity in agricultural exports may, then, be one of the roots of trade-policy conflicts between the Community and the Mediterranean countries in the aftermath of the southern enlargement. Only if the share of agricultural products in the total exports of an individual Mediterranean country is low and / or if the market access conditions for this particular country do not deteriorate in comparison with those for the new entrants, can a conflict of interests be avoided. As it is, however, there are several countries which seem to be quite vulnerable to the consequences of the enlargement in that they have, compared with this group's average, an overproportionate share of agricultural products in total exports to the EC 9 and an overproportional agricultural export overlap with at least

[1] A recent empirical analysis by Pomfret [1981] tends to confirm our result, but at the same time differs with regard to some details. For instance, Algeria appears as being less vulnerable to the Greek or Portuguese membership, Lebanon seems to be less threatened by Spain's competition and Morocco is shown as being more affected by the entry of Greece and Portugal than our calculations would suggest. These differences result mainly from the fact that Pomfret has used a different product coverage to include all the EC's agricultural imports from the Three and the non-candidate Mediterranean countries at the three-digit SITC level (classes 0, 1, 2 and 4). The Finger-Kreinin index obviously is sensitive to both the choice of product coverage and the level of disaggregation.

Table 48 - Indexes of Similarity between Agricultural Exports of the Mediterranean Countries and Greece, Portugal and Spain to the EC 9[a]

Country	Greece	Portugal	Spain
Algeria	59.2	64.9	76.3
Cyprus	57.0	16.4	66.5
Egypt	63.3	0	55.3
Israel	40.2	0	34.4
Jordan	0	0	0
Lebanon	32.2	0	76.7
Malta	40.3	14.4	45.6
Morocco	25.6	11.2	63.0
Syria	32.9	60.3	70.2
Tunisia	63.6	17.1	57.6
Turkey	40.5	6.6	71.4

[a]For method see text.

Source: Calculated from Eurostat [a, 1978].

one new entrant. The sensitive countries are Lebanon, which is a small supplier, Cyprus as a medium-sized exporter and most notably Turkey and Morocco which are the second and third largest exporters of agricultures among the non-candidate Mediterranean countries[1]. The picture becomes even gloomier inasmuch as the enlargement is likely to lead to reversals in existing tariff preferences, which are discussed in the following.

[1] Using additional indicators of vulnerability Tovias [1979, pp. 56 ff.] includes Egypt and Malta in this group of countries.

b. Reversal of Tariff Preferences

The empirical analysis of the Community's tariff treatment of major Mediterranean agricultural exports and of competing exports from the new entrants yields, to begin with, an unexpected result (Table 49): Already prior to the enlargement, hypothetically competing exports from Greece enjoyed a more favourable treatment than the actual exports of most Mediterranean countries (the exceptions are Algeria and Tunisia). This is remarkable indeed, because the majority of the sample items were included in the concession schedules of the bilateral trade agreements which the Community concluded with the Mediterranean countries concerned. It appears that the EC 9, on the basis of the 1962 Treaty of Association, had considerably lowered the tariffs on agricultural imports from Greece by the end of the 1970s, regardless of the fact that the Mediterranean countries were supplying similar products. Whereas all Mediterranean countries (except for Jordan) enjoyed a preference margin above that of the MFN tariff, their preferences vis-à-vis Greece were eroded before Greece's accession to the Community. Hence the Greek entry might not cause serious additional trade discrimination against Mediterranean countries.

The picture changes with respect to Portugal and Spain. In the case of Portugal, only Algeria and Syria may be vulnerable, since the export similarity is high (Table 48) and so is, for Algeria, the preference margin (Table 49). But the non-candidate GMP countries would suffer most from the reversal of preferences vis-à-vis Spain, once this country becomes an EC member state. Both the export similarity and the preference margins in favour of the Mediterranean countries (with the exception of Lebanon and Turkey) prevailing at the end of the 1970s were considerable. The preference margins reflect the well known reluctance of the Community to open the Common Market to Spanish agricultural products. After Spain's (and for that matter Portugal's) accession to the EC the comparatively better tariff treatment of non-candidate Mediterranean suppliers is bound to worsen considerably. Morocco and Cyprus which were already identified as particularly sensitive on the grounds of overall export similarity and agriculture-intensive export baskets, will suffer again, because in 1978 they still enjoyed fairly high preference margins vis-à-vis Spain. Morocco will regard the fact that its major agricultural exports to the Community are overproportionately subjected to duty-free ceilings as especially harmful. The other two relatively vulnerable countries, Lebanon and Turkey, may not be exposed to additional discrimination, since their preference margins in relation to Spain were already fully eroded by the late 1970s.

Table 49 - EC Preference Margins of Mediterranean Countries vis-à-vis Greece, Portugal and Spain for Major Agricultural Exports, 1978

Cuntry	Weighted average EC tariff rate imposed on Mediterranean country exports[a]	Mediterranean country preference margin vis-à-vis the			
		weighted average MFN tariff rate	weighted average EC tariff rate imposed on the same[b] agricultural imports from		
			Greece	Portugal	Spain
Algeria	6.4	12.5	7.7	12.1	11.7
Cyprus	12.4	6.0	-10.2	3.5	4.1
Egypt[c]	10.2	4.0	- 5.2	1.7	3.7
Israel	6.1	7.5	- 2.2	7.5	4.7
Jordan	7.0	0	- 7.0	- 7.0	0
Lebanon[c]	12.5	0.2	- 2.3	- 0.1	- 0.1
Malta[c]	35.6	3.9	-24.0	2.3	3.9
Morocco	5.9	11.3	- 5.9	5.6	7.9
Syria	1.8	1.0	- 0.1	0.8	0.5
Tunisia[c]	30.3	5.3	4.0	4.6	4.6
Turkey	1.4	3.6	- 1.4	- 0.2	- 0.7

[a]See for the breakdown of major agricultural exports Table 47, Tariff Rates have been weighted by the EC import values recorded in Table 47. Specific tariffs have been converted into ad valorem rates. - [b]Average tariff rate imposed under the assumption that the EC 9 imports the same amount of Mediterranean country major agricultural goods from the new entrants. - [c]The agricultural exports of this Mediterranean country partly face variable levies. As a proxy for the variable levies in 1978, the difference between the intra-EC import unit value and the extra-EC import unit value for the product concerned has been applied.

Source: See Table 47. - EG [1978a].

Furthermore, the adjustment shock of a suddenly discriminatory treatment would be intensified wherever the system of variable levies of the CAP would be extended to include Mediterranean agricultural products (in addition to the northern temperate-zone commodities). In this event, the new entrants would benefit from shifting the lower extra-EC (Mediterranean) prices for competing agricultural products up to the level of protected intra-EC prices to which the entrants could adjust after the accession. Since, in 1978, variable levies were still

imposed on agricultural imports from both the new entrants and the non-candidate Mediterranean countries, the preference margins shown in Table 49 do not reveal the prospective impact on these margins of a variable-levy system from which the new entrants would be exempted[1]. However, the high average tariff level of Egypt, Lebanon, Malta and Tunisia (Table 49, Column 1), which export CAP products subjected to variable levies, suggests that the scope for protecting domestic farmers in Greece, Portugal and Spain at the expense of suppliers from the other Mediterranean countries may be considerable.

Apart from the full erosion of preference margins and the protective effects of the variable-levy system, there is an additional source of discrimination against non-candidate Mediterranean countries. It affects the suppliers of non-CAP exports who only enjoy preferential treatment by the Community if they sell at pre-fixed minimum prices (Morocco's exports of canned sardines are a case in point). The link between concessions and minimum prices makes the preferential treatment redundant after the enlargement. In any case the new entrants will enjoy an essential tariff advantage in the Common Market resulting either from the CET at a MFN level without minimum prices or from the preferential tariff plus minimum prices. As the GMP-related trade agreements provide for frequent adjustments of the minimum prices (so that the Community can neutralize cost advantages of the beneficiaries) they mean a more effective privilege to the new entrants (and presumably greater inefficiencies in agricultural resource allocation) than the sole reversal of tariff preference margins.

The discussion so far leads to the conclusion that the enlargement will especially jeopardize the tariff concessions made by the Community to the non-candidate Mediterranean countries with regard to agricultural products which are subjected to variable levies or minimum prices. What remains to be settled is the question of how the enlargement may affect the tariff concessions for those imports on which only duties are levied. Much will obviously depend on the cost differentials between the new entrants and the other Mediterranean countries. Unfortunately, data on suppliers' prices at a sufficiently high level of disaggregation are not available. We can therefore only make an attempt to assess the value of tariff concession

[1] One Maltese product (grape juice) was subjected to duties plus variable levies instead of only to variable levies, as was the case for the competing Greek product. This explains the high negative preference margin of Malta vis-à-vis Greece.

indirectly and approximately. For this purpose a comparison is made between the cif-import-unit values (instead of between the market prices) of agricultural imports of the EC 9 that originated either in one of the new entrants or in one of the non-candidate Mediterranean countries, differentiating between an import under MFN tariff conditions (i.e. under the CET) and under conditions of preferential tariff treatment. The following formulas have been used to calculate the import-price differentials (IPD):

$$IPD = \left(\frac{P^{E}_{m}}{P^{M}_{m} + t^{M}_{mfn}} - 1 \right) \cdot 100 \qquad \text{and}$$

$$IPD = \left(\frac{P^{E}_{m}}{P^{M}_{m} + t^{M}_{pre}} - 1 \right) \cdot 100$$

where P^{E}_{m} and P^{M}_{m} stand for the unit value of EC 9 imports from the new entrants and the other Mediterranean countries, respectively, whereas t^{M}_{mfn} and t^{M}_{pre} represent the CET and the preferential tariff rate, respectively, which the Community applies to its imports from Mediterranean countries (all imports at the six-digit CCCN). The reference situation is that of a duty-free access of the new entrants to the Common Market.

The results for six selected Mediterranean countries (Algeria, Egypt, Lebanon, Morocco, Syria and Tunisia) in 1978 are shown in Table 50[1].

[1] Agricultural imports which are subjected to EC's minimum prices have been excluded from comparison because of the inherent distortion of the corresponding unit values of imports. Undetectable distortions may remain to the extent that there is scope for monopolistic pricing by individual suppliers of single commodities or that exports are controlled by governments or that importing firms possess some monopsonistic power.

Table 50 - Impact of EC 9 Tariff Preferences for Mediterranean Countries on Import Price Differentials[a] between Competing Agricultural Products from Selected Mediterranean Countries and Greece, Portugal and Spain, 1978

CCCN	Product	Mediterranean country competing with: Greece under MFN-conditions	Greece under conditions of preferential treatment	Portugal under MFN-conditions	Portugal under conditions of preferential treatment	Spain under MFN-conditions	Spain under conditions of preferential treatment	Percentage share in Mediterranean country's preferential exports (CCCN 1-24)
					Algeria			
0302.15	Anchovis, dried					+ 70.2	+ 95.6	2.9
0701.13	Potatoes, fresh	- 21.4	- 17.1			- 25.3	- 21.3	10.7
0703.15	Capers, fresh					+ 13.6	+ 21.7	2.5
0802.17	Oranges, navels	- 14.6	- 1.6			- 14.9	- 2.0	6.3
0802.32	Clementines					- 18.2	- 5.6	3.8
1207.98	Plants for insecticidal and related purposes	- 24.1	- 24.1			- 63.6	- 63.6	1.3
2002.60	Capers, olives prepared	+ 3.7	+ 24.6	+ 67.1	+ 100.7	- 18.6	- 2.2	4.1
2007.41	Orange juice	+ 27.3	+ 44.5			+ 164.2	+ 200.0	1.2
					Egypt			
0504.00	Guts, bladders and stomachs of animals	- 14.9	- 14.9	- 44.0	- 44.0	- 88.4	- 88.4	1.5
0701.13	New potatoes, fresh	- 6.6	- 1.5			- 11.3	- 6.4	41.9
0701.45	Beans, fresh					+ 26.4	+ 35.7	7.3
0701.63	Onions, fresh					- 29.7	- 24.6	11.4
0701.67	Garlic, fresh					+ 59.3	+ 68.4	2.8
0701.75	Tomatoes, fresh					- 14.3	- 8.9	0.4
0701.80	Garlic, dried	+ 191.4	+ 202.5	+ 118.6	+ 126.9	+ 134.6	+ 143.5	3.5
0802.19	Oranges					+ 21.4	+ 35.2	1.9
0809.10	Melons, fresh	- 56.0	- 53.8			- 18.9	- 14.8	3.2
0904.19	Pepper	- 25.7	- 14.2			+ 9.1	+ 25.9	0.4
0909.11	Aniseed					+ 87.7	+ 95.3	0.5
1207.98	Camomile, etc. fresh or dried	- 17.7	- 17.7			- 60.5	- 60.5	8.5
					Lebanon			
0504.00	Guts, bladders and stomachs of animals	- 24.8	- 24.8	- 50.5	- 50.5	- 89.7	- 89.7	44.3
0705.70	Lentils, Peas					- 13.4	- 8.6	42.5
1207.98	Camomile, etc. fresh or dried	+ 44.9	+ 44.9			- 35.5	- 35.5	2.5
					Morocco			
0101.15	Horses for slaughter	- 55.9	- 52.2					0.2
0101.19	Horses, other					- 49.6	+ 75.9	0.1
0201.01	Meat of horses, asses					- 25.7	- 16.5	1.3
0301.75 + 76	Saltwater fish			+ 14.0	+ 36.8	- 62.1	- 54.5	0.6

Table 50 continued

CCCN	Product	Mediterranean country competing with						Percentage share in Medtierranean country's preferential exports (CCCN 1-24)
		Greece		Portugal		Spain		
		under						
		MFN-conditions	conditions of preferential treatment	MFN-conditions	conditions of preferential treatment	MFN-conditions	conditions of preferential treatment	
0602.98	Live plants, roses			+ 183.8	+ 207.9	- 72.7	- 70.3	0.1
0701.13	Potatoes, fresh	- 38.4	- 35.0			- 44.0	- 40.9	5.3
0701.41	Peas, fresh					- 46.0	- 42.3	0.1
0701.45	Beans, fresh					- 42.6	- 38.4	0.8
0701.63	Onions, fresh					- 56.6	- 53.6	0.2
0701.75	Tomatoes, fresh					- 21.5	- 16.6	22.3
0701.93	Sweetpeppers, fresh	- 65.7	- 64.3	- 36.4	- 33.8	- 50.6	- 48.6	0.7
0701.95	Aubergines, fresh					- 43.9	- 38.9	0.7
0702.30	Beans, fresh					- 71.2	- 69.7	0.1
0703.15	Capers, fresh					+ 17.9	+ 26.3	1.9
0705.51	Broad beans					- 17.5	- 14.0	0.4
0705.70	Lentils					- 6.3	+ 0.2	0.7
0801.60	Avocados					- 1.3	+ 8.0	0.1
0802.17	Navels, oranges	- 16.1	- 3.1			- 16.4	- 3.5	9.6
0802.32	*Clementines*					- 16.1	- 3.3	19.4
0809.10	Melons, fresh	- 41.4	- 38.5			+ 8.0	+ 13.4	0.1
0810.11	Strawberries, *raspberries*, preserved					- 12.7	- 8.1	0.1
0904.19	Pepper	- 62.6	- 55.1			- 45.1	- 34.1	0.4
0910.60	*Turmeric*					- 17.9	- 17.9	0.2
1207.98	Plants for insecticidal and related purposes	+ 6.1	+ 6.1			- 49.1	- 49.1	1.2
1208.50	Apricot stones prepared	+ 0.9	+ 6.0			- 17.4	- 13.2	0.2
1604.75	Tunny, prepared			+ 337.5	+ 397.0	+ 386.9	+ 453.1	0.2
1604.83 + 85	Mackerel, anchovis prepared			- 76.1	- 70.1	+ 40.9	+ 76.2	2.1
2001.90	Vegetables prepared by vinegar	- 24.0	- 7.3			+ 27.5	+ 55.5	2.3
2002.10	*Mushrooms*					- 69.7	- 66.5	0.5
2002.30	Tomatoes, prepared	- 18.6	- 14.6	- 20.4	- 16.6	- 49.4	- 46.9	1.9
2002.60	*Capers, olives* prepared	+ 21.4	+ 45.7	+ 95.6	+ 134.6	- 4.7	+ 14.3	9.6
2002.95	Beans in pod prepared					- 28.1	- 22.6	1.9
2002.98	Other vegetalbes prepared					- 7.5	- 0.5	0.1
2006.87	Apricots, prepared and packed	- 13.7	- 9.7			- 11.9	- 7.8	0.1

Table 50 continued

CCCN	Product	Mediterranean country competing with						Percentage share in Mediterranean country's preferential exports (CCCN 1-24)
		Greece		Portugal		Spain		
		under						
		MFN-conditions	conditions of preferential treatment	MFN-conditions	conditions of preferential treatment	MFN-conditions	conditions of preferential treatment	
2006.99	Other fruits, prepared	+ 75.1	+ 103.6			+ 35.5	+ 57.6	0.3
2007.41	Orange juice	- 45.6	- 35.8			+ 12.9	+ 33.3	3.7
2007.47	Lemon juice	- 29.4	- 19.7			- 29.4	- 19.7	0.1
		Syria						
0504.00	Guts, bladders and stomachs of animals	- 30.6	- 30.6	- 54.3	- 54.3	- 90.5	- 90.5	60.3
0705.70	Lentils, peas					- 9.3	- 4.3	4.2
1207.98	Camomile, etc. fresh or dried	- 6.0	- 2.3			- 23.0	- 20.0	16.7
		Tunisia						
0101.15	Horses for slaughters	- 46.4	- 41.7					0.4
0204.30	Meat of game fresh of frozen					+ 32.6	+ 41.9	0.5
0303.43	Redfish, fresh or chilled					- 82.2	- 80.8	9.3
0703.15	Capers					+ 5.2	+ 12.7	0.4
0802.17	Navels, oranges	- 16.1	- 3.1			- 16.4	- 3.5	3.1
0802.32	Clementines					- 20.9	- 8.9	0.4
1207.98	Plants for insecticidal and related purposes	- 65.8	- 65.8			- 83.6	- 83.6	0.4
2002.30	Tomatoes, prepared	- 29.9	- 26.5	- 31.5	- 28.3	- 56.4	- 54.3	0.3
2002.60	Capers, olives prepared	+ 97.3	+ 136.9	+ 217.7	+ 281.4	+ 54.8	+ 85.9	0.3
2002.98	Other vegetables, prepared					- 46.1	- 42.0	0.2
2006.87	Apricots, prepared and packed	- 12.7	- 6.0			- 10.9	- 4.1	3.4
2006.99	Other fruits, prepared	+ 19.3	+ 32.5			- 7.6	+ 2.6	0.2
2007.31	Grape juice	- 28.9	- 15.8			- 18.3	- 3.3	0.9

[a] Only those preferential tariff items are considered in which EC 9 imports from the beneficiary took place in 1978. For method see text.

Source: See Tables 47 and 49. - EG [1978b].

Four major features are noteworthy: Firstly, there is again a clear indication that the Mediterranean countries compete with Spanish substitutes in the Common Market also with regard to agricultural products for which they have claimed and obtained preferential treatment. As competitors of the Mediterranean countries Greece and above all Portugal evidently lag behind Spain's position.

Secondly, the evidence is mixed as to the question of whether import-price differentials (before tariffs) between agricultural commodities supplied by both groups of countries become smaller or larger when the Mediterranean countries are granted tariff preferences and their competitors, the new entrants, enjoy a duty-free access to the Common Market. For instance, take the Community's imports of prepared capers and olives (CCCN 2002.60) from Morocco. This country would appear less competitive than Spanish suppliers if the MFN tariff rate were imposed on its imports; thanks to the preferential treatment, the price disadvantage is transformed into a price advantage for Moroccan exporters of this product. Vis-à-vis Greece and Portugal, the preferential treatment of Moroccan suppliers even widens their price advantage which already exists under MFN access conditions. This latter pattern also appears in Algeria (prepared capers and olives, orange juice), Egypt (dried garlic) and Tunisia (prepared capers and olives, other prepared fruits). On the other hand, the figures presented in Table 50 bring out numerous cases in which price disadvantages faced by Mediterranean suppliers under MFN access conditions (negative sign) are only partially narrowed through preferential treatment.

Thirdly, if we exclude from the sample those products for which import-unit value differentials exceed 100 percent (in the one or the other direction) so that effective price competition can be assumed to be low, unit values of EC 9 imports from the new entrants appear to be generally lower than those under MFN access conditions from Mediterranean competitors. This is also the case if preferential rates are applied to imports from the Mediterranean countries instead of MFN treatment. To the extent that the ratio of unit values reflects the import-price ratio, existing price advantages of the new entrants would only be partly offset by the Mediterranean preferences. Exceptions from this general pattern refer to the Community's imports from Algeria and Egypt which compete with Spanish substitutes, as well as to the imports from Algeria which compete with Greek goods. In these cases preferences do affect the average price differentials by shifting the price advantages from the new entrants to the Mediterranean countries when preferential tariffs, rather than MFN rates, are imposed upon their exports.

Fourthly, price differentials (before tariffs) in favour of the new entrants do not exceed 25 percent at the maximum, as measured by the total average of the six Mediterranean countries' combined products vis-à-vis that of each entrant country, and they shrink to 16 percent at the maximum after preferential tariffs have been applied[1]. That means that given an average concession rate of customs duties of about 30 percent of the MFN rate for Mediterranean agricultural products eligible for preferential treatment, zero tariffs on imports from both origins would cut down that average price differentials to about 12 percent (vis-à-vis Portugal and Spain) and hence contribute to mitigate the accession-induced tariff discrimination against Mediterranean suppliers. In the case of the Mediterranean sample countries competing with Greece, price differentials would even disappear almost completely if the tariff discrimination were eliminated.

All in all, and even though a significant part of agricultural trade between the Community and the Mediterranean countries remains outside the preferential treatment and numerous preferential items are subjected to ceilings, it seems that the enlarged Community could still provide considerable trade assistance to those countries by abolishing the tariffs on preferential Mediterranean supplies. The observed relatively low average price differentials between imports from the new entrants and the non-candidate Mediterranean countries should make such a trade policy quite effective from the point of view of the latter.

c. Higher Levels of Self-Sufficiency

However, this conclusion rests on a short-term static analysis of tariff-rate changes and their incidence on import prices. It neglects to take into account that, irrespective of tariffs, the post-accession price ratios will probably differ from the pre-accession ratios if the new entrants succeed in receiving the same EC-internal transfers and subsidies for their agricultural commodities as the northern member states do for their main temperate-zone products. In this case, the domestic prices will be fixed above world-market price levels by means of quantitative import restrictions, minimum import prices, variable import levies, guaranteed producers' floor prices and export subsidies, all corresponding to measures employed within the framework of the CAP which harmed the Mediterranean countries

[1] Calculated from Table 50. The products for which price differentials exceed 100 percent are disregarded.

already in the past [Marsh, 1976]. In Chapter V we have shown that the adoption of the CAP by the new entrants is likely to result in additional surpluses and higher levels of self-sufficiency. It should be noted here that whenever the CAP encourages the production of goods of which the new entrants are net exporters or in which the degree of self-sufficiency in the EC 9 is high already, the enlarged Community will presumably consider the restoration of import restrictions against agricultural supplies from the Mediterranean countries. Thus Mediterranean tariff preferences are likely to be subjected to lower ceilings. The Mediterranean suppliers will then find it increasingly difficult to benefit from their attempts to reach and maintain international price competitiveness.

As can be seen in Table 51, the levels of self-sufficiency will rise after the enlargement for the majority of agricultural products in which the new entrants and the Mediterranean countries compete with each other (assuming the 1978 trade flows and production values will prevail). The two exceptions refer to cereals and sugar, where both the new entrants and the Mediterranean countries are net importers. But for this very reason there is no scope at all for increasing Mediterranean exports of these two products. As to the other commodities, note should be taken of the pre-enlargement levels of self-sufficiency and the extent of their increase in the EC 12. The most spectacular increases - and hence the worst news for the Mediterranean countries - will be achieved in oranges, grapefruits and other citrus fruits as well as in raisins and dates[1]. These are products which, prior to the enlargement, Mediterranean countries could export to the Common Market without facing excessively restrictive ceilings. The high accession-induced increase in the degree of self-sufficiency for these products gives rise to serious doubts that this status quo ante will be maintained in future, too. If the enlarged Community imposes tighter ceilings and other restrictions on imports of these goods from the Mediterranean area, it will adversely affect Morocco and Israel the most.

The perspectives of market access after the enlargement seem even worse for the Mediterranean countries in the case of wine than for citrus fruits. The reason is that domestic production exceeded apparent consumption already in the EC 9 (Table 51), so that the Community authorities have resorted to severe import barriers via reference prices and ceilings for individual sub-items of wine irrespec-

[1] For further analyses of changing levels of self-sufficiency in an enlarged Community, see Kersten et al. [1978] and Guth and Aeikens [1981].

Table 51 - Estimated Share of Domestic Production in Apparent Consumption[a] in the EC 9 and in the EC 12 for Selected Agricultural Products, 1978 (percent)

Product	EC 9	EC 12	Share in extra-EC 9 Imports	
			New Entrants	Mediterranean countries
Total Cereals	90.4	86.5	0.3	0.5
Potatoes	98.7	99.6	29.4	29.3
Lentils	18.8	52.6	7.0	5.8
Olives, olive oil	94.6	99.5	49.2	41.4
Tomatoes	93.5	97.8	68.6	27.9
Dry onions	85.1	97.4	39.1	27.1
Garlic	93.0	98.5	19.4	13.4
Grapes	99.7	100.1	48.3	12.2
Sugar (centrifugal raw)	103.9	100.8	0	0.6
Tobacco leaves	23.9	48.3	5.7	4.0
Pears	98.3	99.1	5.0	0
Oranges	36.7	81.2	53.8	31.0
Grapefruits, other citrus fruits, apricots	21.0	61.4	46.2	27.1
Avocados	0	5.4	2.4	63.6
Almonds, pistachios, hazlenuts	68.6	86.9	17.2	50.2
Cashew nuts, walnuts	78.3	81.3	0	0.8
Wine	101.1	122.9	55.1	9.3
Raisins, dates	0.4	65.5	34.2	28.6

[a]Domestic production plus extra-EC imports minus extra-EC exports. Changes in stocks have not been considered.

Source: Calculated from: FAO [b, 1978]; Eurostat [a, 1978]; Ministerio de Hacienda [b, Part I, 1978]; Instituto Nacional de Estatística [b, Vol. IV, No. 12, 1978]; Office National de Statistique de Grèce [Oct.-Dec. 1978].

tive of the enlargement. As the domestic production of wine in the EC 12 would exceed internal apparent consumption by more than 20 percent (given the 1978 data) extra-EC 12 imports are likely to be increasingly restricted, the effects of which will be felt in particular by Cyprus, Tunisia and Algeria. These countries will also be affected in third markets in case the Commission disposes of wine surpluses by dumping them outside the enlarged Community (as is common practice for a number of CAP goods).

2. Trade in Manufactures

For at least five Mediterranean countries (Algeria, Egypt, Jordan, Malta and Syria) EC trade preferences for agricultural goods are of little relevance as a negotiation topic, because the share of these goods in their total exports to the EC 9 is small (less than 6 percent at the end of the 1970s). Agricultural exports of the other countries of the region have also gradually lost in relative importance, so that in 1978 the maximum share of agricultural products in a country's total exports to the Community was held by Cyprus with 50 percent, followed by Turkey (43 percent) and Morocco (42 percent). Hence, improved market-access conditions for semi-manufactures and manufactures (CCT chapters 25-99) are at least as important an issue from the Mediterranean countries' point of view as that of trade policy with regard to agricultural products. Not only do the present export supply patterns of these countries make for a continued interest in an open Common Market after enlargement, but also the stated development objectives which imply profound structural changes towards export-oriented industrialization in years to come.

At first glance, Mediterranean countries do not seem to face any severe EC trade barriers even after the enlargement because most of their manufactured exports to the Common Market (textiles expressly excluded, however) are already non-dutiable either under the bilateral trade preferences or under the multilateral non-reciprocal trade concessions of the GSP [Yannopoulos, 1977]. Indeed, the Mediterranean countries enjoy the option of claiming preferential treatment under either system and of choosing the more favourable one, which for most of the products is the bilateral trade arrangement because of its open-ended character and of its more liberal rules of origin [Borrmann et al., 1979, pp. 175 ff.]. However, all this should not lead to the view that the market-access issue is, with regard to manufactures, not likely to pose serious strains on the trade rela-

tions between the enlarged Community and the Mediterranean countries left outside.

To begin with, irrespective of the sectoral structure of Mediterranean manufactured exports, the preferences will generally be eroded once the new entrants benefit from duty-free supplies to the Common Market in all groups of manufactures, whereas some of the competing Mediterranean exports will still be dutiable or subjected to ceilings. Secondly, Mediterranean preferential exports face rules of origin and hence minimum requirements as to local value added content; such restrictions do not exist within the Community. Thirdly, and this is the most important aspect because of its trade-deterrent potential, the new members may claim the same non-tariff protection for their domestic industries against "excessive imports" as the old members did against imports from NICs.

The existing barriers against textile imports from Algeria, Morocco and Tunisia illustrate this latter point. These countries did not join the MFA (neither in 1973 nor in 1978), so that quasi-voluntary export self-restraint provisions were imposed on them in order to "protect" the MFA signatories. The same provision was even applied to Israel, Egypt and Turkey although these countries subscribed to the MFA; Turkey's status of association did not rule out EC restrictions on its manufactured imports either. Once they reach full membership, Greece, Portugal and Spain will change sides, shifting from export-restricted countries to export-restricting countries. We know already that Greece joins in EC 9 arrangements within the MFA as well as the corresponding bilateral export self-restraint agreements, extended now to Greek imports from third countries including the Mediterranean textile exporters. Moreover, Greek exports to the EC 9 will be released from quantitative restrictions after the accession is completed; thus the quasi-voluntary export self-restraint provisions against Greek textiles which the Community imposed in 1978 for four sub-markets (France, Italy, the United Kingdom and Benelux) will disappear. Portugal and Spain might try to reach similar agreements. Whereas restrictions of the access to the Greek, Portuguese and Spanish markets do not imply new elements of protectionism because of the various national quantitative restrictions which the new entrants have been applying for years anyway (see Chapter IV), the removal of restrictions between the EC 9 and the Three clearly means a discrimination against Mediterranean suppliers of textiles versus competitors from the new member countries.

The extent to which individual Mediterranean suppliers of manufactures are likely to encounter an accession-induced discrimination depends mainly on the overall degree of protection in the enlarged Community, on the competitiveness of their export supply and, again, on the overlap with sensitive manufactured exports from the new entrants. Sensitive goods face quantitative restrictions (apart from relatively high MFN tariffs), whereas non-sensitive products do not. Semi-sensitive goods, as envisaged by the GSP during the 1970s, are intermediate cases often subjected to import surveillance and abrupt interventionism by the customs authorities. Table 52 provides a breakdown of EC 9 imports from Mediterranean countries into those sensitive, semi-sensitive and non-sensitive manufactured goods which are covered by the GSP[1].

Compared to the total of developing countries (entitled to GSP treatment) the Mediterranean suppliers of manufactures are more susceptible to the risk of quantitative restrictions imposed by the EC 9 because of the higher share of sensitive products in their manufactured exports (about 40 percent as compared to 23 percent in the case of all GSP beneficiaries). Countries such as Cyprus (75 percent), Tunisia (62 percent), Malta (60 percent), Turkey (58 percent), but also Egypt (56 percent) and Morocco (47 percent) exceed the Mediterranean average considerably and would therefore be affected most adversely by EC protectionist measures in sensitive sectors. To what extent such measures would be accession-induced depends on whether the new entrants also concentrate their manufactured exports on sensitive items for which they would claim priority treatment after the enlargement. Especially the Greek accession may lead to trade-policy conflicts because the exports of the Mediterranean countries Algeria, Egypt, Jordan, Malta, and Syria overlap to a considerable extent with sensitive textiles exported by Greece which account for about 50 percent of the Greek total manufactured exports (see Table 32).

Irrespective of the enlargement, the textile issue will in any case be the core of trade-policy disputes between the Community and the Mediterranean countries concerning manufactures if a renewed MFA were to link the import increase to the rates of growth of EC internal consumption and if the Community were then to apply such a provision to its trade with Mediterranean countries. The high overlap

[1] The sample resembles fairly well total EC 9 manufactured imports from Mediterranean countries. The first six categories from Table 52 account for about 75 percent of total EC 9 imports from Mediterranean countries in SITC categories 5-8.

Table 52 - EC 9 Imports in GSP Preferential Tariff Items from Mediterranean Countries[a], 1979 (US-$ million)

GSP-Category	Algeria	Cyprus	Egypt	Israel	Jordan	Lebanon	Malta	Morocco	Syria	Tunisia	Turkey
Sensitive industrial products (except textiles)	6.7	12.3	22.8	33.8	0.1	5.4	19.2	27.3	1.1	16.5	24.0
Semi-sensitive industrial products (except textiles)	28.8	0.6	31.2	111.6	1.5	5.4	15.1	70.3	5.7	113.9	13.5
Non-sensitive industrial products (except textiles)	309.8	9.8	21.8	503.8	12.3	11.6	78.6	59.8	4.6	50.0	42.9
Sensitive textiles	0.8	45.0	72.9	177.9	0.1	1.4	150.6	185.3	3.0	296.7	330.3
Semi-sensitive textiles	0	0.8	10.1	44.6	0.1	0.6	7.4	11.8	0.1	2.4	20.1
Non-sensitive textiles	0	0.1	3.8	2.1	0	0.1	3.1	2.0	2.2	0.9	16.0
Sensitive agricultures (tobacco type Virginia, cocoa butter, canned ananas)	0	0.1	-	1.7	-	-	0	1.0	0	0.2	0.1
Semi-sensitive agricultures (raw tobacco)	0	0.4	-	-	-	0.1	7.7	-	0	-	7.4
Non-sensitive agricultures	5.8	7.5	6.4	146.3	0.1	0.2	0.9	93.6	3.1	26.7	158.8
Total agricultures, semi-manufactures and manufactures	351.9	76.6	169.0	1,021.8	14.2	24.8	282.6	451.1	19.8	507.3	613.1

[a]The data have been converted from European Units of Account (EUA) into US-$ by the rate 1 US-$ = 0,730 EUA.

Source: Microfiche data provided by Eurostat.

with Greek, and to some extent Portuguese, sensitive textile exports contributes to aggravating the disputes since vested domestic producer interests in the EC 9 countries are supplemented by vested export interests of at least two of the new entrants.

Furthermore, it is important to note that the Mediterranean manufactured exports, structured by different degrees of EC 9 market-access barriers as revealed by the 1978 figures, only provide an overview of the protectionist tendencies which these countries faced before the enlargement. This pattern may not be simply extrapolated into the post-enlargement period, however. It is quite possible that the new entrants will adjust their manufactured export supply to the improved Common Market access conditions (for instance by specializing in processed agricultures which were dutiable prior to the enlargement or by attracting export-oriented subcontracting investments in metal manufacturing from EC 9 countries) and that they will then induce the Community to establish new categories of sensitive items. This seems more likely than a reduction of the scope of sensitive items after the enlargement. Thus the 1978 break-down into more and less discriminated Mediterranean exports may indicate a provisional rather than an ultimate state of market-access barriers.

There is another interesting aspect. During recent years, the EC 9 has increasingly split up into two parties. One group includes the more liberal member states such as Germany, Denmark and the Netherlands; the other group is made up of France and the United Kingdom and to some extent also Italy and Belgium, which usually advocate more protectionism against third-country imports [Langhammer, 1981]. In fact, numerous official and concealed national non-tariff instruments are being used with the aim of delinking the country in question from the common trade policy and hence restricting direct imports or indirect imports (via other EC member states) from third (including Mediterranean) countries. These different attitudes also affected manufactured trade between the EC 9 and the new entrants in the past. In 1978, for instance, Germany accounted for 70 percent of total EC 9 sensitive textile imports from Greece; France, however, for less than 7 percent only. For all non-sensitive items the proportions were a bit more favourable for France (12 percent) compared with still 60 percent for Germany. In other words, Germany was the Community's member country which mainly absorbed those Greek products where domestic vested interests urged strict protection. On the other side, France - if at all - opened its markets mainly towards non-sensitive goods.

It is evident that after the enlargement France and other EC 9 member states will have to abolish their national protectionist measures against imports from the new entrants, so that the intra-Community disequilibrium with regard to the absorption of sensitive goods would become more balanced. However, the national protectionist measures will still be effective against the Mediterranean countries left outside. They may even be intensified if the protection-minded member-state governments want to keep the absolute volume of total sensitive imports at the (low) pre-enlargement level irrespective of whether these imports originate from intra- or extra-EC 12 sources. In the medium run such policies would jeopardize any common preferential trade agreements. The reason is that protectionist forces would sweep over the more liberal partner states if the outside suppliers were to adjust to the different degrees of openess within the enlarged Community by concentrating shipments susceptible to protection on the more absorptive sub-markets (as Greece did in the past).

3. Future Trade Policy Options

There is no strong dissent in literature on the overall adverse effects of the enlargement for the Mediterranean countries and their preferences, although static views prevail and hence the consequences for agricultural exports are frequently regarded as much more serious than the impact on manufactured exports. It would be unreasonable to expect, as some people do, that the new entrants will concentrate their exports on traditional or new markets outside the Community in order to avoid trade-diversion effects to the detriment of Mediterranean suppliers. Under the given conditions, price ratios between the new entrants' exports and their Mediterranean substitutes will change in favour of the former after the enlargement, because prior to the accession many of their exports still faced duties and ceilings which will now disappear. Exactly these changing price ratios, however, will be clear incentives both to expand production and exports to the EC 9 countries - notwithstanding internal subsidies - and to divert trade away from third markets.

The avoidance, or at least the mitigation, of enlargement-induced changes in the price ratios between the two regions' exports (the new entrants and the other Mediterranean countries) is hence the basic criterion for keeping the GMP alive (provided that this still is a true aim of the Community). It implies that the non-candidate Mediterranean countries can enjoy an improvement of their access conditions

comparable to that of the new entrants. Such a provision is essential for homogeneous products like agricultures where differential tariff and non-tariff treatment cannot be as easily outweighted by product differentiation as it is possible in the industrial sector. To a number of agricultural products such as tobacco, durum wheat, rice, olive oil, some vegetables and fruits, both the present member states and the new entrants apply a wide range of farm-support policies in addition to restricting imports by tariff and non-tariff measures. A liberalization of Mediterranean agricultural imports by the enlarged Community would therefore affect the new entrants only in those goods where differential tariff treatment is the only source of discrimination. Hence it should be viable to keep the discrimination of Mediterranean countries in agricultural trade within narrow limits after the enlargement.

In the area of manufactures the same argument holds with respect to quantitative restrictions. If the new entrants have enjoyed access advantages vis-à-vis Mediterranean countries before their accession, these advantages should be frozen, and not extended in the process of enlargement. In practice this would probably result in the elimination of ceilings on sensitive Mediterranean exports unless the new entrants' exports would still face ceilings in spite of these countries having become full members of the Community.

Up to now, however, the EC's official approach to the GMP after the enlargement is not oriented towards the avoidance of enlargement-induced changes of the price ratios between the competing exports from the two areas; nor does the EC seem to be prepared to freeze the existing differentials in pre-enlargement access conditions. Instead, a policy of fiscal compensation seems to be favoured. It consists in encouraging an inward-looking industrialization strategy of Mediterranean countries by means of financial and technical aid from the Community. If successful, these countries would become less dependent on exports into the Common Market. In addition, an intensified complementary (rather than substitutive) division of labour between the Community and the Mediterranean countries has been suggested by EC officials. Whether this sort of alternative to a straightforward liberalization of trade after the enlargement is a promising one, can be questioned. Inward-looking industrialization in small countries in general fails as a development strategy and is bound to lead to an impasse characterized by losses in real income, unemployment and a lack of international competitiveness of domestic activities.

On the other hand, trade diversion in the sense of directing Mediterranean exports from the EC 12 to other markets in the region is an "alternative" which simply does not exist in the short run, given the size and demand structure of the Community. A stimulation of intra-Mediterranean trade by multilateral tariff concessions (within the 1971 GATT scheme of preferences among developing countries) has not really taken place. The concessions made predominantly affected complementary raw materials which would have been traded without concessions anyway [Langhammer, 1980c]. Hence, trade creation among Mediterranean countries up to now has failed to foster the Mediterranean region as an alternative to the Common Market.

In the medium run, some oil-producing Middle East countries may become major export markets for the Arabian Mediterranean countries. However, the Middle East is likely to increase the demand for capital goods rather than that for consumer goods and agricultural products. This import pattern would relate neither to the actual supply potential of most of the non-oil-producing Mediterranean countries nor to their medium-term comparative advantages.

Thus both inward-looking industrialization and the exploration of new export market replacing the EC 12 are clearly inferior alternatives for Mediterranean countries compared to the absorption potential of the enlarged Community. It is evident that a deliberate trade liberalization which aims at avoiding enlargement-induced changes of relative market-access conditions between the two areas would have to face very hard resistance of both the new entrants' governments and EC officials. Mediterranean countries which either possess strategically important raw materials and hence may restrict the Community's access to their supplies (the Maghreb countries, for example) or which are otherwise politically important (say Turkey), may break the EC's internal resistance against a continued liberalization of trade after the enlargement [Guth, Aeikens, 1981]. Israel will have to rely on reciprocity and on its diversification potential, whereas Malta and Cyprus, in addition to Turkey, may claim that a further reduction of the trade barriers to their exports would correspond to their status as associate countries.

The various arguments which are likely to be raised by different Mediterranean countries indicate that due to the enlargement the GMP will encounter tendencies of splitting up. These tendencies are strengthened by the already visible EC policy strategies to shift the major instruments of the GMP from trade incentives to aid after the enlargement. Such a policy evidently meets the vested domestic

producer interests in the new entrant countries, and in France and Italy as well, but violates both the spirit and the letter of the various bilateral agreements with Mediterranean countries as well as EC consumer interests, and the requirements for an improved resource allocation inside and outside the EC. Those advocating protectionism against the Mediterranean countries on the grounds of possible short-term vulnerabilities should be reminded that the case for freer trade within Europe is also a case for unrestricted trade with third countries, just as it is stated in the Treaty of Rome through the principles of EC external trade relations. If both the present EC member states and the new entrants would take this statement seriously, they could reduce conflicts with the Mediterranean countries and encourage the development of mutually advantageous relations.

VII. The Regional Dimension

An enlargement of the EC to include countries whose level of economic development is far below the average of the EC 9 will substantially increase regional disparities within the Community. Already the marked regional differences in income and employment observable within the present Community are considered to be a problem which hinders economic development and the process of integration. Moreover, the political regionalism, which has become apparent in some member countries (and among the new entrants, in Spain) has one of its roots in the highly divergent economic performance of individual regions [Gerdes, forthcoming]. Also, regional imbalances have been given increased attention by the new entrants' governments, particularly after returning to democracy. Differences in income and in employment opportunities, which are the most widely used indicators of the extent of regional disparities, would be much higher in an enlarged Community than in the EC 9. For instance, in the EC 9, the ratio of per capita income in the richest region (Hamburg) to that in the poorest one (Western Ireland) amounts to nearly 6 : 1; in an enlarged Community this ratio could increase to 10 : 1 due to the backwardness of a number of Portuguese provinces. In Greece, Portugal and Spain taken together, nearly two thirds of the population live in regions, in which the average per capita income lies below or near that of the poorest regions in the EC 9 (Western Ireland, Mezzogiorno).

These growing regional imbalances may induce an intensification of regional policy activities within the Community, particularly so as the Treaty of Rome states that the European Economic Community was founded to unite the national economies and to promote their harmonious development by reducing inter-regional development differences. This chapter discusses the implications of regional development gaps within the Community for the shaping of regional policies. The first section gives a survey of the inter-regional disparities as they would appear in the EC 12. In the second section, the aims and instruments of regional policy in the member states and the new entrants are presented. Finally, the third section explores the possibilities and limitations of a common regional policy.

1. Regional Disparities in an Enlarged Community

Economic activity exhibits a high degree of regional concentration within the EC 9. This is already reflected in the EC's regional statistics (based on 86 regions): On the one hand, 40 percent of the gross national product (GNP) of the EC is produced in only 10 percent of the EC area, while, on the other hand, 10 percent of the GNP is produced in the least populated areas which correspond to 30 percent of the total EC area [Thoroe, 1981a]. In an enlarged Community economic activities would exhibit even higher degrees of concentration: measured by Gini-coefficients, concentration would be 0.68 in the EC 12 compared with 0.34 in the EC 9 (based on 1975 data)[1]. From these coefficients one cannot infer, however, that an economically inappropriate use is made of land.

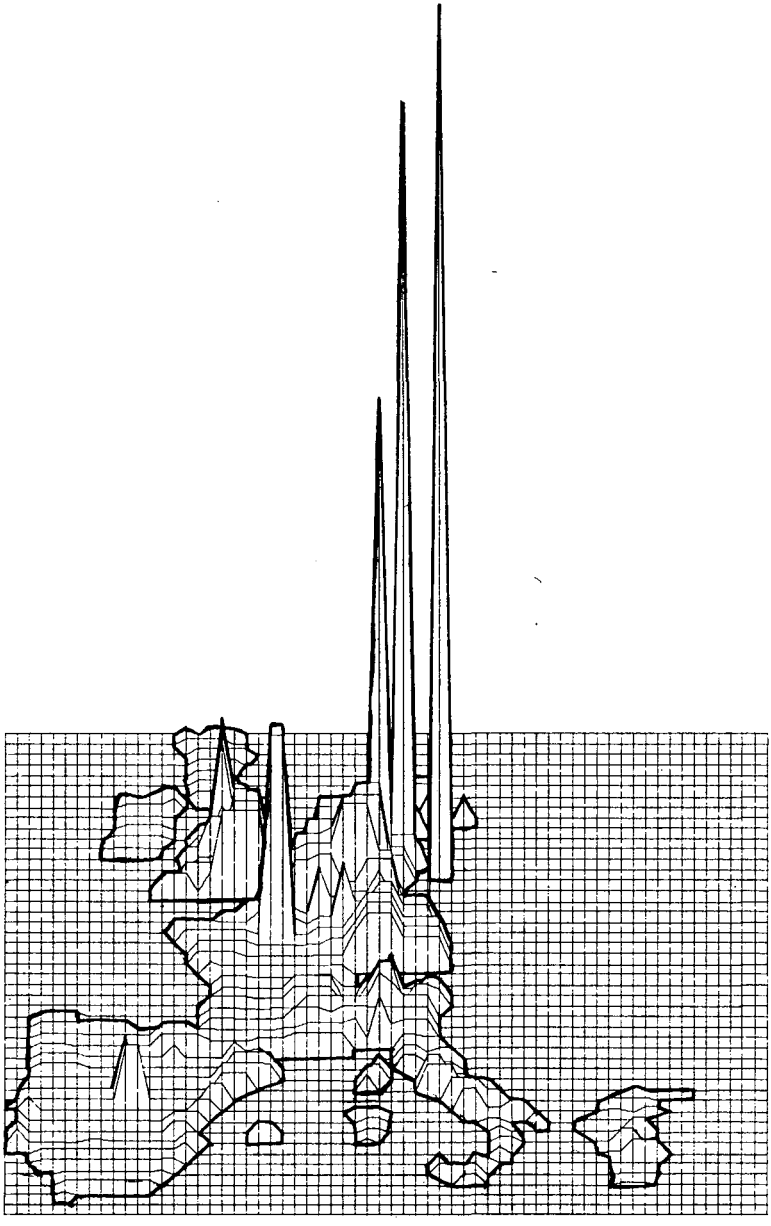
The regional concentration of economic activities corresponds to a concentration of population which is nevertheless not so pronounced. Referring to regional per-capita-income data, one can see that the activity differentials are positively correlated with welfare gaps both within the EC 9 and in the new entrants. The centre of economic activities within the EC 9 extends from Northern Italy through Southern and Western Germany, the Netherlands, Belgium and Greater Paris to the Southern and Mid-West regions of the United Kingdom. From this core towards the periphery the intensity of economic activity declines noticeably; likewise, regional per capita incomes decrease with increasing distance from the centre[2]. The new entrants fit into this core-periphery-gradient as well (Figures 3 and 4).

Such a centre-periphery-gradient could already be observed in Europe throughout the centuries, although the West European centre has shifted sometimes. Thus in the 16th century, with the formation of various overseas empires and the decisive importance of natural resources for national wealth, the centre shifted to the Atlantic coast. With the decreasing economic importance of national control over raw materials and the decline of the European empires, the Europe-

[1] The Gini-coefficient has been computed as a difference between existing cumulative distribution and cumulative equalized distribution divided by cumulative equalized distribution. For the formula of computation used here, see Sen [1973].

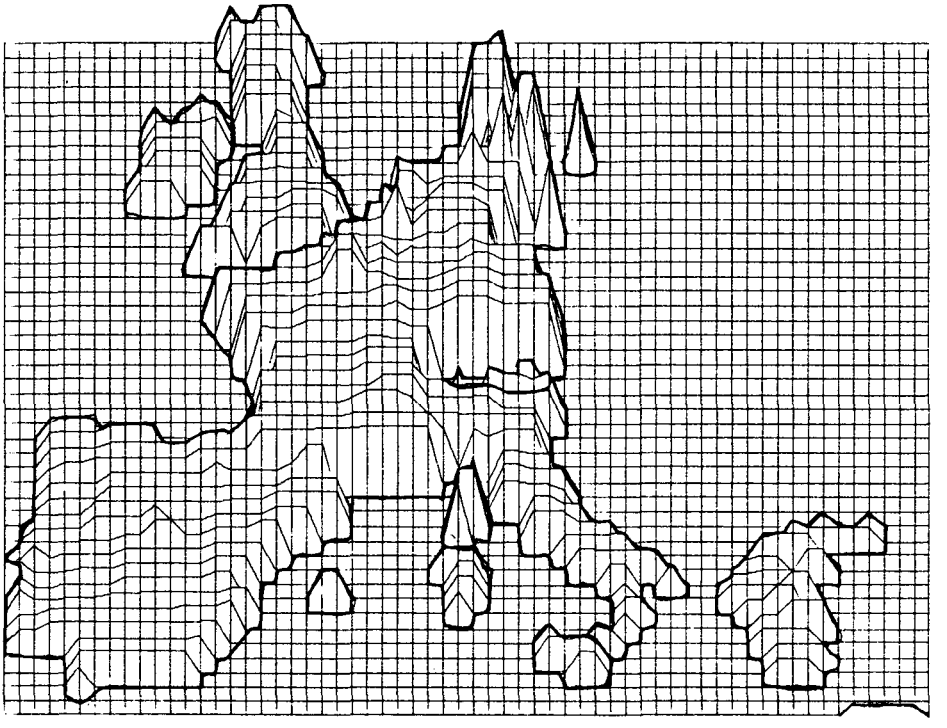
[2] For the EC 9 the centre-periphery-gap can be shown as well by distance functions. With increasing distance from Düsseldorf (as reference point for the core of the EC 9) regional per capita income declines significantly [Giersch, 1959; 1979; Biehl et al., 1972].

Figure 3 - The Regional Distribution of Economic Activity in an Enlarged Community, 1975 (GDP/sq km)



Source: Calculated from Eurostat [b, 1976 and 1978]; Banco de Bilbao [b]; Instituto Nacional de Estatística [a]; National Statistical Service of Greece [b]; Commission Centrale d'Elaboration du Plan de Développement Economique [1968].

Figure 4 - The Regional Distribution of Per Capita Income in an Enlarged Community, 1975 (GDP/Population)



Source: See Figure 3.

an economic centre moved back to central Europe [Seers et al., 1979].

Regional disparities within the Community have changed only little since the founding of the EC. The concentration of economic activity was not substantially different in 1975 from that in 1965. The Gini-

coefficient was 0.32 in 1965, 0.33 in 1970 and 0.34 in 1975 (based on EC regional statistics). The concentration of population has changed little, too. Though there has been marked migration from the periphery to more prosperous regions, these movements have mainly compensated regional differences in birth-rates. The disparity in per capita incomes narrowed somewhat in the 1960s, but in the 1970s it widened again [Thoroe, 1981a]. This relatively stable overall pattern disguises some sizeable shifts, which reveal strong differences in regional growth dynamics. Thus some former high-income regions lost ground to new prosperous regions. But this development is probably more due to the changing conditions in the international division of labour than to integration within the EC. Particularly the strong competitive pressure from the export-oriented newly industrializing countries, which was concentrated in certain industries during the 1970s, has generated structural adjustment requirements not only on a sectoral level but also for regions in which the trade-impacted branches are located and have a high share in output and employment.

One of the reasons why the sizeable regional differences in income and in employment opportunities prevail in the applicant countries is that in large parts of these countries agriculture is still the dominant economic activity. The industrialization process has taken place in only one or two regions in Greece and Portugal and in only three or four provinces in Spain. Thus the tendency to urbanize, which typically accompanies the industrialization process, has led to substantial shifts in the regional distribution of population. In Greece, for instance, the population in Greater Athens increased by nearly 40 percent between 1961 and 1971, while in the other regions it decreased by nearly 5 percent on average, and in some individual regions considerably faster (Table 53). In Portugal, substantial increases in population can be seen in the traditional agglomeration centres of Lisbon and adjacent Setúbal, and Pôrto as well. In the 1960s the population in other regions declined drastically (Table 54). A similar strong relationship between industrialization and increase in population can be found in Spain for the districts Basque-Navarre, Catalonia and Valencia (Table 55). In Madrid, the Canary Islands and the Balearic Islands, where employment is dominated not so much by industry but by services, population increased markedly, too. In Madrid the expansion of the tertiary sector has improved employment opportunities notably; at the same time this province has become more attractive for industrialization as well. In the other two regions the increase in employment is no doubt due to tourism. On the whole, the three applicant countries exhibit a close relationship between changes in

Table 53 - The Regional Distribution of Population and Employment in Greece, 1951-1971

Region	Area		Population						Compound annual rate of population growth		Regional employment structure		
											Agriculture	Industry	Services
	sq km	percent of total area	in 1,000			percent of total population			percent				
			1951	1961	1971	1951	1961	1971	1951-1961	1961-1971	1971		
Greater Athens	428	0.3	1,379	1,853	2,540	18.1	22.1	29.0	+ 34.4	+ 37.1	0.9	40.5	55.1
Rest of Central Greece and Euboea	24,480	18.5	908	971	992	11.9	11.6	11.3	+ 6.9	+ 2.2	50.7	25.0	22.3
Peloponnesus	21,439	16.2	1,129	1,096	987	14.8	13.1	11.3	- 2.9	- 10.0	60.1	16.9	21.8
Ionian Islands	2,307	1.7	229	213	184	3.0	2.5	2.1	- 7.0	- 13.2	61.2	14.2	23.6
Epirus	9,203	7.0	331	353	310	4.3	4.2	3.5	+ 6.7	- 12.0	58.6	18.8	21.5
Thessalia	13,929	10.6	624	690	660	8.2	8.2	7.5	+ 10.5	- 4.4	57.7	18.7	22.2
Makedonia	34,177	25.9	1,705	1,896	1,891	22.3	22.6	21.5	+ 11.2	- 0.3	48.9	23.6	26.0
Thraki	8,578	6.5	337	357	330	4.4	4.2	3.8	+ 5.8	- 7.6	72.8	9.9	16.0
Aegean Islands	9,113	6.9	529	477	418	6.9	5.7	4.8	- 9.7	- 12.5	46.0	20.1	32.4
Crete	8,336	6.3	462	483	457	6.1	5.8	5.2	+ 4.6	- 5.5	62.5	15.8	20.6
Total Greece	131,990	100.0	7,633	8,389	8,769	100.0	100.0	100.0	+ 9.9	+ 4.5	40.5	25.6	32.0

Source: National Statistical Service of Greece [b, 1974 and 1978]. - Own calculations.

Table 54 - The Regional Distribution of Population and Gross Domestic Product in Portugal, 1950-1970

District/Region	Area		Population						Compound annual rate of population growth		Shares in Gross Domestic Product
	sq km	percent of total area	in 1,000			percent of total population			percent		
			1950	1960	1970	1950	1960	1970	1950-1960	1960-1970	1970
Northern region	17,904	20.2	2,427	2,627	2,631	30.6	31.7	32.4	+ 8.2	+ 0.2	26.1
Viana do Castelo	2,108	2.4	279	278	252	3.5	3.4	3.1	- 0.4	- 9.4	1.5
Braga	2,730	3.1	546	597	613	6.9	7.2	7.5	+ 9.3	+ 2.7	5.7
Pôrto	2,282	2.6	1,053	1,193	1,318	13.3	14.4	16.2	+13.3	+10.5	15.7
Vila Real	4,239	4.8	319	325	266	4.0	3.9	3.3	+ 1.9	-18.2	1.6
Braganca	6,545	7.4	228	233	181	2.9	2.8	2.2	+ 2.2	-22.3	1.6
Central region	27,399	31.0	2,445	2,191	2,209	30.9	26.4	27.2	- 1.0	+ 0.8	24.8
Aveiro	2,708	3.1	483	525	547	6.1	6.3	6.7	+ 8.7	+ 4.2	7.5
Coimbra	3,956	4.5	439	434	403	5.5	5.2	5.0	- 1.1	- 7.1	5.1
Leiria	3,516	4.0	396	405	379	5.0	4.9	4.7	+ 2.3	- 6.4	4.5
Viseu	5,019	5.7	494	482	412	6.2	5.8	5.1	- 2.4	-14.5	4.1
Guarda	5,496	6.2	308	283	212	3.9	3.4	2.6	- 8.1	-25.1	1.5
Castelo Branco	6,704	7.6	325	317	256	4.1	3.8	3.2	- 2.5	-19.2	2.1
Lisbon region	14,603	16.5	2,008	2,222	2,483	25.4	29.4	30.6	+10.7	+11.7	41.7
Lisbon	2,762	3.1	1,222	1,383	1,581	15.4	16.7	19.5	+13.2	+14.3	27.0
Setúbal	5,152	5.8	325	377	471	4.1	4.5	5.8	+16.0	+24.9	9.8
Santarém	6,689	7.6	460	462	430	5.8	5.6	5.3	+ 0.4	- 6.9	4.9
Southern region	28,587	32.3	1,042	1,000	801	13.1	12.1	9.9	- 4.0	-19.9	7.8
Portalegre	5,882	6.6	200	188	147	2.5	2.3	1.8	- 6.0	-21.8	1.7
Evora	7,393	8.4	222	220	180	2.8	2.7	2.2	- 0.9	-18.2	2.0
Beja	10,240	11.6	291	277	205	3.7	3.3	2.5	- 4.8	-26.0	2.0
Faro	5,072	5.7	328	315	269	4.1	3.8	3.3	- 4.0	-14.6	2.1
Total Mainland[a]	88,500	100.0	7,922	8,293	8,123	100.0	100.0	100.0	+ 4.7	- 2.0	100.0

[a] Portugal without Islands and Overseas Departments.

Source: Instituto Nacional de Estatística [a, 1977]. - Esser et al. [1977]. - Own calculations.

Table 55 - The Regional Distribution of Population, Gross Domestic Product and Employment in Spain, 1955-1975

Region	Area		Population				Compound annual rate of population growth	Share in Gross Domestic Product		Regional employment structure			
										Agriculture	Industry	Construction	Services
	sq km	percent of total area	in 1,000		percent of total population		percent						
			1955	1975	1955	1975	1955-1975	1955	1975	1975			
Andalusia	87,268	17.3	5,739	6,116	19.8	17.1	6.6	14.2	12.2	30.7	18.7	9.8	40.9
Catalonia	31,930	6.3	3,534	5,648	12.2	15.8	59.8	18.0	20.2	6.2	40.8	11.4	39.7
Madrid	7,995	1.6	2,210	4,345	7.6	12.2	96.5	12.6	16.7	2.0	26.1	12.5	59.4
Valencia	23,305	4.6	2,387	3,377	8.2	9.5	41.5	8.5	9.5	17.9	33.1	10.0	39.0
Castille-León	104,470	20.7	3,509	3,274	12.1	9.2	- 6.7	11.2	8.3	35.7	21.2	7.7	35.4
Galicia	29,434	5.8	2,607	2,679	9.0	7.5	2.7	6.2	5.7	50.7	14.8	7.2	27.3
Basque-Navarre	17,682	3.5	1,585	2,535	5.5	7.1	60.0	9.4	9.4	10.7	44.2	8.7	36.4
La Mancha	79,226	15.7	2,008	1,645	6.9	4.6	-18.1	4.2	3.5	37.8	18.6	10.9	32.7
Canary Islands	7,273	1.4	859	1,283	3.0	3.6	49.3	2.3	2.9	23.0	12.3	11.8	52.9
Aragón	47,669	9.4	1,100	1,172	3.8	3.3	6.5	3.8	3.3	25.6	28.2	8.3	37.9
Asturias	10,565	2.1	934	1,094	3.2	3.1	17.2	3.6	3.0	31.1	30.4	7.4	31.1
Extremadura	41,602	8.2	1,373	1,074	4.7	3.0	-21.8	2.6	1.8	46.7	11.4	7.6	34.3
Murcia	11,317	2.2	777	879	2.7	2.5	13.1	1.7	1.9	25.8	24.4	9.4	40.4
Balearic Islands	5,014	1.0	431	591	1.5	1.7	37.2	1.7	1.9	16.8	17.8	12.4	53.0
Total Spain[a]	504,750	100.0	29,054	35,712	100.0	100.0	22.9	100.0	100.0	22.9	26.9	9.9	40.3

[a] Excluding Ceuta and Melilla.

Source: Banco de Bilbao [b]. - Own calculations.

population and population density: the higher the density, the greater the increase in population[1].

In the less agglomerated areas of the applicant countries (in which more than half of the working population is employed in agriculture), industrial activities are raw-material-oriented. The most important industries in these regions are food processing, beverage, wood and cork, or leather and fur. In these regions, industrialization and agricultural development are therefore highly inter-related. Moreover, the industrial activities in the rural areas are dominated by small enterprises which use traditional technologies based on labour-intensive methods of production. Large factories, applying modern techniques and trying to exploit economies of scale, are concentrated in the areas of agglomeration.

If the new entrants are to take advantage of inter-industry and intra-industry specialization within the enlarged Community, a considerable amount of structural adjustment will have to be undertaken. This means that enterprises in the applicant countries will have to introduce more efficient production, organization and marketing methods. Likewise the benefits from economies of scale and from horizontal and vertical specialization will have to be exploited, as well as ensuring that high quality control standards are achieved. These chances might be seized primarily by the existing industrial (urban) centres in which agglomeration already offers considerable advantages. In the backward (rural) areas, however, the small-scale industries would be exposed to increasing competition. The consequence in the applicant countries of the structural adjustment caused by the EC enlargement may therefore consist of tendencies strengthening the agglomeration and increasing inter-regional migration. Whether or not this will happen depends to a large extent on how economic policies, especially the regional and structural policies, respond to pressures for adjustment at the national as well as at the Community level. As a matter of fact, the development prospects for the more laggard areas can be influenced by the common trade policy as well as by the common agricultural policy and the common regional policy.

As shown earlier (Chapter III), the enlargement-induced adjustment requirements - including regional ones - can be expected to be smaller in the Nine than in the new entrants. Obviously, this does not mean that single regions within the EC 9 will not be subjected to considerable adjustment pressures. This may be true, for instance, for

[1] The correlation coefficients, based on data of the 1960s, are 0.88 for Greece, 0.90 for Portugal and 0.75 for Spain.

rural areas in Southern France or in Italy which are highly specialized in producing Mediterranean products. Producers of these goods will be faced with sharply increasing competition from the applicant countries, as already discussed in Chapter V. Industry in some regions of the EC 9 may be affected by increasing competition from the new entrants, too, mainly from regions in which labour- and raw-material-intensive industries are of great importance. The enlargement would thus adversely affect those areas which are already regarded as "problem" regions in the sense that economic growth is relatively slow and unemployment is comparatively high.

In the EC 9 two entirely different groups of "problem" regions have appeared in the 1970s. One group encompasses the periphery regions which are still strongly oriented towards traditional activities. Although in these regions industrial employment had risen during the 1950s and 1960s very much, this trend did not continue into the 1970s. In some cases the share of industrial employment even declined considerably. As opposed to these regions, the other group consists of old industrial areas which formerly belonged to the advanced high-income regions. Industrial development of these regions has been based primarily on the availability of raw materials, which can nowadays be imported at much lower prices from abroad. In the last decade the problems associated with the highly agglomerated regions have influenced regional policies of the EC as well as those pursued directly by member governments.

2. An Evaluation of Regional Policies

In both the Nine and the Three manifold attempts to influence the regional development have been made, whereby the policies were aimed at reaching efficiency as well as attaining distributional objectives. Policies aiming at efficiency have tried to promote economic growth and employment creation in the regions and to mobilize factors of production not yet fully utilized, so that overall prosperity in the nation increases. Distributional goals have encompassed policies to reduce regional differences in income and in employment opportunities. Efficiency and distributional objectives may complement one another. This would be the case if those regions needy of promotion would at the same time be worthy of it from the point of view of overall economic growth. But frequently these aims conflict with each other. From the growth standpoint it would be most efficient to concentrate factors of production in those regions where the larger

contribution to increasing the wealth of the nation can be expected. These may be not the regions most urgently needing assistance from a redistributional point of view. In the regional policies as pursued by the member countries these aims are weighted variously; but it is safe to say that more importance has been attached to the distributional goals. The right to pursue a regional policy has always been officially justified in terms of reducing imbalances between areas of the national territory; and a low standard of living (measured by income per family or per head) is used in all member countries but France as a criterion to delimit areas entitled to be subsidized by regional policy measures [Courbis et al., forthcoming, Chapter III].

This dominance of distributional aims is not so clear-cut if other policies which have a regional impact are taken into account. For instance, government measures which are intended to improve infrastructure, to promote housing construction or to stimulate research and development, usually benefit high-income regions much more than low-income regions. Furthermore, problems of unemployment in traditionally high-income regions have frequently induced measures whose impact runs counter to targets for regional redistribution. Such measures are sometimes implemented within the framework of regional policy, but often by structuring sectoral programs to interface with certain regions [Adlung, Thoroe, 1980].

If one compares the various regional policies of the member countries, it turns out that regional assistance has been concentrated on industry. Even those incentives not explicitly limited to manufacturing activities tend to be applied almost exclusively in that sector. Services and other sectors have usually been neglected. Only France, Ireland and the United Kingdom have implemented regional incentives schemes which try to promote the service sector in problem regions. Within manufacturing activities there seems to be no discrimination in regional assistance at all, though Italy is an exception to the rule. There the "Cassa per il Mezzogiorno" (a national development agency of "extraordinary interventions" in the South of Italy) provides grants for priority sector projects whose amount exceeds normal grants by one fifth. Implicitly, however, regional policy discriminates between industries in the other member countries as well. This results mainly from the fact that the amount of financial regional aid is generally tied to investment (rather than to the number of jobs created by that investment), thereby favouring capital-intensive industries. Furthermore, the discretionary elements in the regional policy can easily lead the authorities to discriminate (perhaps unintentionally); the extent to which this is the case would be hard to determine, however.

As to the regional policy configuration in the member countries there are significant differences with regard to the instruments chosen, the purpose for which they are considered and the degree to which they are subsidized (Table 56). Grants, tax concessions and public loans at preferential terms are made available in different combinations and amounts to firms located in less advanced areas and to investors who are induced to settle there. The subsidy value of all policy instruments applied in each case can be estimated by adding the subsidy equivalents of the single measures and then relating this total to value added [Jüttemeier, Lammers, 1979]. Calculations of the effective rate of subsidy of regional policy measures show substantial differences between member countries as well as between areas of assistance within countries indeed.

By far the highest degree of regional subsidization was found in Italy and Ireland. The effective subsidy embodied in capital grants and loans in these countries exceeds 10 percent. But in the case of Italy it has to be taken into account that these high effective subsidies apply for small investment projects only. The effective rate of subsidy through capital grants and public soft loans for large projects amounts to only 3.7 percent. In addition to these subsidies for investment, the Italian and Irish governments provide additional financial help to the assisted areas. In Italy, for instance, concessions on profit taxes and wage subsidies of limited duration are offered. The effective subsidy equivalent of these wage subsidies depends highly on the labour intensity of production and the length of time workers have been employed. Based on average labour intensity, the effective rate of subsidy can be estimated to range between 2.8 and 7.9 percent. In Ireland, on the other hand, the tax relief for export profits should be mentioned as an important additional instrument which naturally increases the above-mentioned effective rate of subsidy. In contrast, Luxemburg, Belgium and France are at the bottom of the ranking of effective rates of subsidies. But it should be mentioned that, in addition to the measures shown in Table 56, France provides allowances in the local business tax and Belgium supplements regional assistance with aids for the whole economy which are structured more or less like the regional incentives. Finally, the middle group consists of Denmark, Germany, the Netherlands and the United Kingdom. In these countries the effective rates of subsidy are quite similar - near 5 percent (about half as much as in Ireland or in Italy).

Regional policy differences between the member countries are not limited to the variety of instruments or the effective degree of assistance. There are also considerable differences in jurisdictional

Table 56 - Regional Policy Instruments in the EC 9 Countries

Country	Target region	Type of incentives	Subsidy in percent of value added (around 1977)
Belgium	Development zones	Capital grant, interest subsidy, accelerated depreciation	3.3
Denmark	Special development regions	Company soft loan, investment grant	5.2
	General development regions	Municipality soft loan, company soft loan	1.9
France	Award zone 1	Regional development grant, special depreciation allowance	3.7
	Award zone 2	Regional development grant, special depreciation allowance	2.7
	Award zone 3	Regional development grant	1.6
Germany	Border areas	Investment allowance, investment grant, special depreciation allowance	5.3
	Nonborder areas	Investment allowance, investment grant	3.0
Ireland	Designated areas	Industrial development authority grant, investment allowance	10.0
	Non-designated areas	Industrial development authority grant	6.9
Italy	Mezzogiorno-priority	Capital grant, national soft loan (+ social security concession)	12.1 (+ 2.8 to 7.9)
	Mezzogiorno-non-priority	Capital grant, national soft loan (+ social security concession)	9.6 (+ 2.8 to 7.9)
	Depressed centre-north	National soft loan	2.3
Luxemburg	-	Capital grant, tax concession	2.7
Netherlands	Development areas	Investment premium, accelerated depreciation	4.9
	Intermediate areas	Investment premium, accelerated depreciation	3.3
United Kingdom	Special development areas	Regional development grant, interest relief grant	4.8
	Development areas	Regional development grant, interest relief grant	4.1
	Intermediate areas	Regional development grant, interest relief grant	1.7

Source: EC, Commission [1979, p. 228].

and administrative competences. In most countries, regional policy is embedded in more or less concrete conceptions of spatial development and spatial planning which are more comprehensive than regional development and plans. The regional planning authorities usually lack the competence to make decisions about spending funds for spatial purposes; they are basically authorized to decide on regional policy expenditures only, provided that regional planning and spatial planning are within the same jurisdiction. Otherwise spatial planning is mainly dependent upon coordination between those ministries authorized to make decisions on spending the money. This coordination has proven to be very difficult in practice, even if it is institutionalized. The aims of overall regional development planning and those of specific planning are in general not identical. Frequently, long-term targets of regional planning can hardly be reconciled with the task of individual departments having to deal with short-term problems and bottlenecks. But regional policy is dependent upon the assimilation of targets of regional planning into the planning framework of other departments, as regional goals can only be realized with the assistance of other departments, not against their will. If these departments insist on efficiency criteria they can somewhat redress tendencies of the regional policy to overemphasize distributional objectives.

Another problem of coordination in member countries' regional policy consists of harmonizing conceptions and actions of all governmental authorities involved. Depending on the constitutional provisions, the competence for regional policy is distributed between the levels of government in various ways by the individual member states. Thus in some countries regional policy is highly centralized (France), while in others it is largely de-centralized (Germany). But in general there are always several bodies of government involved in regional policy and regional planning which do not necessarily have identical targets and hence do not necessarily contribute to a harmonious process of decision making on regional policy. The reason is that the regions compete with each other for scarce resources and (mobile) factors of production which they want to attract in order to stimulate the welfare of their populations. If regional policy were effectively centralized, these serious problems of coordination would naturally disappear. But the disadvantage of such a centralization is that the genuine interests of the regions would probably not be correctly reflected in the national plans.

Turning to the new entrants, it appears that distributional objectives have been of lesser importance than in most member states of EC 9. In light of the relatively low level of economic development in the

applicant countries, general overall economic growth seems to have been given priority. As emphasis was laid on import-substituting industrialization for a long time (Chapter II), the agricultural sector was discriminated against, which contributed to relative stagnation in the rural areas. The government made only modest attempts to counteract the regional disparities which derived from these developments. Rural areas were helped by granting assistance to agriculture and by improving the overall infrastructure. Regionally specific assistance to industrial activities varies considerably in the individual applicant countries.

In Portugal, for instance, there has been no direct regional subsidy to industries; only within the framework of tax allowances (general as well as sectoral) is a certain regional differentiation apparent. To be sure, regional policy in Portugal has yet to be built up, and as a matter of fact, prior to 1974 it practically did not exist [Simões Lopes, 1980]. In the years following 1974 very ambitious targets were set for regional policies, but they have not been realized for lack of financial resources.

In contrast, there is a more ambitious regional policy in Greece [Kioukis, 1979]. The government tries to influence the regional patterns of industrial investment by means of a differential system of financial aids. The subsidy-equivalent of the policy instruments applied in each case can hardly be estimated because the assistance mainly consists of allowances on tax and liabilities similar to taxes, about which no data are available. Special depreciation allowances, exemption from contributions to the social securtiy system and similar institutions, reductions of the value-added tax and preferential tariff treatment of importers are granted to five different categories of assistance areas, depending upon the individual regional characteristics. In addition to these investment premiums, interest subsidies and grants for buildings are given, again differentiated for the different types of areas. Furthermore, industrial development in Greece is also influenced by the Greek Bank for Industrial Development. And apart from all this, there is a myriad of laws and administrative regulations aiming at a decentralization of industry. But, despite all these efforts, the regional concentration of industry has increased considerably. Scarce resources available for regional policy have been widely scattered, so that the incentive to invest outside the highly agglomerated areas was consistently too small [Kioukis, 1979, pp. 209 and 231].

In Spain regional policy has rested on the Perrouxian growth-pole

approach [Richardson, 1975]. Although originally a balanced participation of all regions of the nation was envisaged, regional assistance is primarily oriented towards development poles (for ten years at most) and towards so-called decongestion polygons. The first development poles were established in 1964 in seven provinces (Burgos, La Coruña, Vigo, Valladolid and Zaragoza in the North as well as in Sevilla and Huelva in the South). Subsequently, development poles were also established in Córdoba, Granada, Oviedo, Logroño and Villagarcía de Arosa. For the industrial decongestion of big areas of agglomeration (notably Madrid and Barcelona), five industrial "polygons" were set up in Toledo, Guadalajara, Aranda de Duero, Alcázar de San Juan and Manzanares el Real. The settlement of industries is assisted by grants for investment (up to 20 percent in decongestion areas and up to 10 percent in development poles), by public loans and interest subsidies, by tax allowances, and by exemption from import duties on products not produced in Spain. In addition, the improvement of infrastructure in development poles has priority. In general, the results have fallen short of official expectations [Donges, 1976b, pp. 125 ff.]. Neither have the tendencies of regional concentration been redressed, nor have the income and job opportunities been significantly improved or serious shortcomings in the physical infrastructure removed. Centralized regional planning was opposed by many people in the provinces time and again. The process of political decentralization, which is currently under way, will presumably also lead to a complete reorientation of the regional policy framework in this country.

The Community itself supplements the broad range of activities in regional policy in the individual member countries by a regional policy of its own, which took shape recently. Thus the Regional Development Fund (established in 1975) contributes to the financing of national policy measures according to commonly agreed fixed quotas for each member state. Since 1979 the EC has also been able to carry out specific programs of regional development, mainly for the benefit of problem areas (such as Southern Italy and Ireland) and related to investments in industry, the service sector and infrastructure; the financial means available for such purposes have been limited to 5 percent of total expenditures of the Regional Development Fund[1]. When the country quotas were established, considerations

[1] In the 1982 draft budget the financial provisions for these programs appear substantially higher. The reason is that the Commission intends to prevent new disputes over the United Kingdom's financial contributions by promoting specific regional programs for that country.

about inter-country income redistribution and about the compensation for financial burdens in other fields of Community policies (notably with respect to CAP) played a major role [Strasser, 1979, pp. 328-342]. Thus Italy and the United Kingdom were allocated the lion's share of the resources of the Fund. These transfer and compensation considerations will be of utmost importance in Community regional policy after the second enlargement, too. Therefore, the question might be asked whether the Community could increase its efforts in the field of regional policy and thereby relieve the CAP of tasks which cannot be accomplished efficiently by agricultural policies.

3. On the Scope of Community Regional Policies

In accordance with the preamble of the Treaty of Rome, which states that through integration the development disparities between the EC regions should be diminshed, an enlargement will involve considerable tasks for the Community to solve. As shown above, the EC 12 will face even larger regional discrepancies than the EC 9. Furthermore, regional imbalances within the applicant countries can be expected to increase in the process of their economic integration. Highly agglomerated areas can most easily make use of opportunities offered by a larger market and benefit from internal and external economies. The increase in efficiency in the centres of agglomeration induced by integration will enhance the attractiveness of these areas and encourage the inflow of mobile factors of production, from which the already existing tendencies to agglomerate will gain fresh impetus. It is a matter of conjecture whether such a self-intensifying process of spatial polarization can be avoided[1]. Countering the forces which aggravate agglomeration are factors such as the limited availability of immobile factors (land, environment), which become scarce and thus more expensive in the process of agglomeration, thereby inducing a regional dispersion of production activities. Transportation costs which increase for centralized production in the case that demand is decentralized can also promote this process.

As already mentioned, it is difficult to clearly determine (with available EC data) whether the spread or backwash effects in the process of integration have dominated in the EC 9. There is some evidence,

[1] Theory does not lead to unambiguous results. See, for instance, the discussion in Clark et al. [1969], Thirlwall [1974] and Gaile [1980].

however, that the importance of spread and backwash effects depends on the level of economic development of a country [J. G. Williamson, 1965]. If one uses a stages approach and distinguishes in the period of development between the stage of traditional society, the take-off, the phase of maturity and the phase of aging, then the previously described self-intensifying processes of agglomeration would be important first of all during the phases of take-off and of maturity [Thoroe, 1981a]. During the take-off the already existing agglomeration offers locational advantages to labour-intensive industries. More important for the start into industrialization, however, has been in most countries the development of raw-material-intensive industries. Natural resources have been main factors influencing regional development at this stage. In the maturity stage the effects of agglomeration become even more important as, in the course of an industrialization which was accompanied by agglomeration, transportation and communication systems improve, the intra- and inter-industry division of labour deepens and innovation becomes an engine of economic growth. This process, through which new techniques are developed and applied and new products are turned out, is most successful where human capital is abundant and the social atmosphere and institutional conditions are attractive to entrepreneurs and persons willing to bear risks. Such an environment is common to buoyant areas up to a certain degree of agglomeration.

Once the pace of the innovative progress recedes, regions enter the stage of aging or structural inflexibility. Whenever this process occurs the attractiveness for mobile production factors declines because the above-mentioned ingredients have been replaced or outweighted by institutional rigidities and bureaucratic impediments. The inter-regional and international integration of factor and product markets gives the newly developing regions the possibility of acquiring new or complementary technologies and mobile production factors from the formerly more advanced and now aging areas, which will cause serious structural problems and deteriorate employment opportunities there. Many firms will find themselves driven out by competitors from ascending regions. Likewise, new companies will find that the attractiveness of aging regions has declined because firms and highly skilled labour have emigrated to regions offering more favourable production possibilities and promising more pleasant living conditions.

Transposing these thoughts to the above-mentioned types of problem regions in the EC, the following can be noted. First of all, the rural peripheral areas lack (by nature) the agglomerational advantages.

Secondly, the old industrial areas lack the flexibility that once made them successful. The ascending agglomerating regions would thus seem to have strong competitive advantages vis-à-vis both of these types of regions - advantages which could well be strengthened by the enlargement. To put it another way: in principle, all regions can benefit from advantages offered by an enlarged market. But the structurally weak regions may find it hard to compete successfully with other regions. If inter-regional competition becomes rougher, the weak regions have to try to improve conditions to cope with structural change and attract resources complementary to those already available in these regions. If this is not done, it can be assumed that differences between the weak and the leading regions would at least temporarily increase. However, given the situation where the improvement of internal conditions for structural adjustment is hampered by substantial endogenous resistance, it would well seem easier to attempt to procure assistance from outside the region. Regional policy in the EC therefore has to expect intensified demands for measures assisting the development of backward regions as well as for measures rejuvenating old industrial regions. Such a constellation will add to the conflict between regional policy objectives, which to a large extent correspond to redistributional and ajdustment objectives, thereby cementing the traditional advantages of old industrialized regions. This conflict which already exists in some member countries at the national level [Adlung, Thoroe, 1980, pp. 2 ff.] would thus be extended to the Community level.

Such conflicts between different goals of regional policy had already heated discussion in face of the founding of the European Regional Development Fund. While the Commission perceived the development of rural areas as being the main task of a common regional policy, the United Kingdom pressed for a common fund to assist old industrial regions [Wallace, 1977]. In light of the discussions accompanying the founding of the Regional Fund it became clear, that - at the present level of integration and given diverging national political, economic and institutional parameters - agreement on an all-encompassing Community regional policy could hardly be reached [Noé, 1975].

Greece, Portugal and Spain are joining the EC with the expectation that they will receive assistance from the Community to promote economic development in their countries. The Community will hardly be able to refuse such assistance. Regional policy is therefore seen as a way to reduce at least the most aggravating conflicts and disparities within the enlarged Community. Unfortunately, however,

the above-mentioned conflicts between national interests in regional development policy as well as the competing interests of individual regions substantially narrow the scope for a Community regional policy. Already at the national level experience has shown that coordination between various national authorities is at the least difficult and often almost impossible [Adlung, Thoroe, 1980]. The problem of coordination is not so much a technical-administrative one as it is a problem founded in lack of similarity in aims and priorities of national and regional authorities. On the other hand, the effectiveness of regional policy depends to a large degree on how much the objectives stated by the various authorities can be harmonized and to what extent targets of regional policy are taken into consideration in the planning undertaken by the Ministries. That is, resources available for regional policy are quite modest compared with other public expenditures (directly or indirectly) influencing the development potential of regions.

At present the Community regional policy has avoided such conflicts by not formulating its own aims for regional policy. A formal coordination by EC and member-state authorities is reached thanks to the procedure of financing only those projects which are integrated into national programs for regional development, and of subjecting the concession of funds to requests made by the member governments (rather than by investors). This procedure implies, however, that the Community regional policy will be internally inconsistent when mutually conflicting strategies for regional development are pursued in individual member countries. Such inconsistencies could be more easily avoided if a narrowly defined Community regional strategy were followed in granting assistance, i.e. around uniform aims and uniform criteria throughout the Community. But this type of Community regional policy inherently contains the seeds of conflict with regional policies at the national level.

In an EC 12, consensus on a Community development policy for rural areas - probably the main interest of the new entrants - hardly seems attainable in the foreseeable future. The reason for this is simply that a solution would require a reduction of national sovereignity in the field of regional policy and a strengthening of EC competence. Presently the views on regional development objectives, on concepts for regional policy, on the identification and definition of problem regions as well as on the policy instruments to be applied vary largely between the member countries. The situation is complicated further by the fact that divergent views are not to be found at the national level only; they prevail at the regional and municipal level as well.

Even the awareness of what regional problems really mean seems to be differently cultivated from member state to member state. In France and Italy, for instance, regional differences in per capita income and employment opportunities are much higher than those in the United Kingdom and in Germany [Adlung, 1979], but it is in the latter that regional policies play the more prominent role in public discussion.

To the extent that these differences reflect diversities in social values and preferences, a policy framework which is aligned to uniform aims and uniform criteria throughout the Community runs the risk of not reducing marked nationalism and regionalism within the EC 12 (often emphasized as being main obstacles on the path toward European unification), but of strengthening such developments. The experience with the CAP shows that a Community policy which deserves this denomination cannot be enforced against highly divergent national aims and interests. Therefore it does not seem to be a very promising way to try to give new momentum to European integration by framing a Community regional policy oriented toward uniform concepts and goals. Regional policy does not only mean that assistance is given to one group of regions; it naturally implies also that those regions which are not elegible for assistance are discriminated against. Inter-regional competition within the EC 12 will thus create a serious potential for conflict, however well-intended a Community regional policy is shaped. For sure, regional policy would be overtaxed if it were to assume the role of the engine of European integration. On the other hand, it could play a useful complementary role to other Community policies, thereby providing support to the needed reform of the CAP and easing transfer problems in common budgeting. Let us assume that the member states all believe that a system of compensating transfers is required, be it for neutralizing excessive burdens from CAP, for correcting the distribution of welfare gains from integration or for assisting economically weak member states. If the degree of political integration is not sufficient for a general, non-tied system of financial transfers between the member countries, then regional policy could well be an area in which transfer problems are solved - in any case more efficiently than through the CAP. Via regional policy, countries could be rewarded for an efficient use of resources just as well as they could be compensated for disadvantages caused by integration. In addition, regional policy can give more efficient impetus to economic development of backward regions than CAP would do [Thoroe, 1981c].

In view of increasing demands for regional policy measures on the one side and a very sceptical appraisal of the chances for an all-en-

compassing Community regional policy, requiring severe restriction of national sovereignity, on the other side, solutions seem called for which would allow regional policy more scope on the Community level without infringing too much on national sovereignity. Community regional policy could be restricted to establishing a framework (or "code of conduct") for national activities and to implementing specific regional development programs under national participation. The national authorities would have to prevent unlimited competition in subsidizing differing regional development programs. The framework created by the Community would have to regulate the size of assisted areas as well as the amount of subsidies allowed. For example, the area being assisted by regional policy could be limited to 50 percent of the territory of a member state; the effective rate of subsidies (including equivalents of other assistance measures) would not be allowed to exceed 20 percent. Specific regional measures in a Community regional policy, for which national quotas could be fixed in order to guarantee the realization of transfer aims agreed upon by the Community should be coordinated with the national regional policies. Whether there will be a harmonization of national and Community regional policy beyond a mere coordination in the sense of creating a common framework for national activities ultimately depends on the headway which is made in other fields of Community policies. As it can hardly be expected that European integration will receive a new impetus from all-encompassing integration models in the near future, steps for further integration should be carefully executed. The slower pace in the integration process makes it all the more urgent to find promising areas where solutions can be jointly supported and carried out by all member countries in the interest of the entire Community.

VIII. Common Budgeting in an Enlarged Community

Problems of European integration and of Community policy formulation are reflected to a large extent by the budget of the Community. In the budget, the fiscal costs of the decisions in the various fields of Community policy are recorded. Though the size of the Common Budget in terms of the Community's combined gross national product is quite small (less than 1 percent), the financial framework within which the various Community policies are shaped and pursued has now become the Achilles' heel for the further integration process. Conflicts of national interests abound, Community policies' expenditures are coming up against financing possibilities and the entry of Greece, Portugal and Spain is not likely to reduce claims for increases in EC expenditures.

In this final chapter we shall discuss how the Community's budget not only reflects decisions on common policies but also has a decisive influence on the shaping of such policies. To gain a better understanding of the current budgetary problems, the features of the EC financing system will be presented in the first section. Subsequently, the potential for conflict among the member states is briefly discussed. The third section examines the possible budgetary effects of the enlargement. The weight of member states' redistribution concerns in the common budgeting is discussed in the fourth section. The concluding section looks at ways of tackling the budgetary problem.

1. Main Features of the EC Financing System

The EC financing system has been changed over a period of time. At first, the expenditures of the Community were financed exclusively by direct contributions from each member state to the Community. These contributions were proportional to the size of the member countries (measured by share of population in total EC population) and to economic potential (measured by share of GNP in total EC-GNP). The formulas for financing the various kinds of expenditures were different at first, depending on the individual sources through which they were financed [Reister, 1975, pp. 26 ff.]. Only when the budgets of the individual funds were incorporated into a global budget for the Community and when the transitional regula-

tions for replacing contributions from the member states with a system of "own resources" (Article 201) for the Community were implemented, was the budget system of the EC made uniform.

Following a Council decision of 1970 aiming at gradually replacing direct contributions with own resources, four sources of budget revenues were made available to the Community: agricultural (CAP) levies; revenues from the CET; proceeds up to 1 percent of value-added taxes (VAT) on a commonly agreed basis; and other levies, which may be introduced as part of specific Community policies according to the founding treaties of the European Economic Community and the Euratom.

This decision on own revenues was carried out in various steps [Strasser, 1979, pp. 534 ff.]. At first (1971 to 1974), only agricultural levies and - annually increasing - shares in tariffs were apportioned to the EC budget as EC revenues. Shortfalls between the revenues from these sources and EC expenditures were made up by contributions of the member states, calculated on the basis of their percentage share of the Community's GNP. At the same time, it was determined for this first step to the transitional period that changes in the annual shares in the financial contribution of a member state should be limited to deviations from the share of the preceding year by 1 percent upwards and 1.5 percent downwards, a provision which became known as "dynamic brake" system.

At the second step (1975 to 1977), the EC budget had to be financed by own revenues in principle. But because the tax basis for VAT had not yet been made uniform, further contributions were drawn on in proportion to national shares in the combined GNP. The "dynamic brake" was retained; the permissible band for fluctuations, however, was widened to ± 2 percent.

Since 1978, the system of own revenues is entirely applied to the six founding states. Table 57 reports on the development of the revenue side of the Common Budget during the 1970s. Special agreements existed until 1980 for those countries which joined the EC in 1973, i.e. the United Kingdom, Denmark and Ireland. According to these agreements, the then new member countries had to pay an annually increasing part of those contributions which would have been due had these countries been subjected to the Council decision on own resources. From 1978 onwards, the new members were expected to meet this condition, though no abrupt changes in the countries' shares in the Community's own revenues should arise. This provision was to set off a sustained quarrel.

Table 57 - Own Revenues of the EC, 1971-1981 (UA/EUA/ECU[a] million)

Year	Tariffs	Agricultural levies and miscellaneous duties	Financial contributions/ VAT revenues
1971	582.3	604.5	923.8
1972	957.3	617.8	1,236.6
1973	1,986.8	411.4	2,257.5
1974	2,737.8	329.9	1,903.8
1975	3,151.0	590.1	2,152.0
1976	3,860.1	983.9	2,245.5
1977	3,927.2	1,778.5	2,494,5
1978	4,390.9	2,283.3	5,329.7
1979	5,189.1	2,143.5	7,039.8
1980[b]	6,000.0	2,024.5	7,256.4
1981[b]	6,274.0	2,473.1	10,419.9

[a]UA from 1971 to 1977; EUA from 1978 to 1980; ECU since 1981. - [b]Budget plan.

Source: Strasser [1979]. - Bundesministerium der Finanzen [1981].

In 1978, there was a change in the accounting procedures of the Common Budget. Before 1978 the budget was stated in Units of Account (UA). National currencies were converted into UA by the official parities of the national currencies reported to the International Monetary Fund (IMF). But after the breakdown of the old Bretton-Woods-System in the early 1970s led to widespread exchange-rate floating, the former IMF parities and exchange rates diverged, sometimes markedly. Therefore, in 1978, the adjustment in common accounting to flexible exchange rates was carried out by introducing Europe-

an Units of Account (EUA)[1]. This change in budgetary accounting involved substantial shifts in the financial contributions of the individual member countries to the EC budget which also affected the new members. They were opposed to it on the grounds of the above-mentioned non-abruptness provision, so that the nine governments had to reach a compromise containing separate treatments for the budgets of 1978 and 1979.

From 1980 onwards the Council decision on own revenues was to be applied to all nine member countries without exceptions. But discussion on financing the budget went on, kept going mainly by the United Kingdom. This country saw a financial burden coming upon itself with the end of the separate treatments, which was felt unjustifiable considering that its economic potential was below the EC average. Due to strong trade relations with third countries, the United Kingdom makes a high contribution to the EC budget in tariffs and levies indeed. Besides this, it has to bear a larger than average share in EC VAT-revenues compared with shares in GDP. This is mainly due to an investment rate below EC average, for investment is exempted from VAT. With regard to EC expenditures the United Kingdom receives less than average, mainly because of its relatively small agricultural sector [Brown, 1980]. After protracted consultations a new compromise was found exempting the United Kingdom from financing some of the EC budget in 1980 and 1981. This exemption was financed by additional contributions from the other member states.

The budget problems reflect a fundamental institutional problem of the Community. In the past the need to finance the budget has exercised little constraint over the extent of common policy actions. Constraint has come from limited competence at the Community level. Common activities in the past have been restricted mainly by the lack of willingness on the part of the member states to delegate competence to the Community. This has implied that Community policies were not required to compete against each other for scarce resources, as the financial possibilities available to the Community allowed for agreement at the lowest common denominator, which meant mostly the most expensive one for the EC budget. At the same time much

[1] The EUA is a "basket" unit, based on a certain quantity of each community currency, weighted on the basis of GNP and intra-community trade of each member state. Its value is calculated daily by taking for each currency the rates of the different community currencies on the foreign exchange market.

effort was made at the Community level to attract more competence from the member states. But now, with the exhaustion of own revenues in the foreseeable future, the budget constraint becomes effective at the Community level, i. e. the individual fields of common policy have to compete against each other for scarce means at the Community level, as they have always had to do at the national level within the national budgets.

Hence, pressure to reform CAP now comes from the budget and while demands for reform had been made for a long time, they had not been taken seriously as long as the financial possibilities allowed it not to appear urgent. Just when the reform of CAP, on account of exhausted budgetary possibilities, seems to be unavoidable, the Community is faced with the second enlargement. This offers, on the one hand, the opportunity to take into account in the reforms the new conditions posed by the enlargement. On the other hand, there is a danger of the strict limitation on own revenues of the EC being relaxed by referring to additional expenditures induced by enlargement. Thus the pressure of imminent exhaustion of budgetary funds towards reforming the CAP would be evaded, which would be an unfortunate situation because it seems that fundamental reorientation can be expected only from this pressure.

2. Present Potential for Conflict

Budget problems have considerably undermined the climate for integration in the EC 9 in the last few years. Between the Council, the Commission and the European Parliament (directly elected since 1979) there are sustained conflicts about their respective competence with regard to the Common Budget and also over the functional composition of expenditures, and thereby of Community policy. Rapidly increasing financial burdens in some fields of Community policy, mainly that of CAP, have come in for much discussion. Greater budget stringency in most member countries has hardened national public opinion against the contributions which have to be made to the EC budget. It also appears that the Community's own revenues will be exhausted in the foreseeable future (provided that the present financing system prevails).

Further increases of obligatory expenditure - which results directly from the founding Treaties or from acts adopted in accordance with them - at a rate substantially above the growth rate of gross national

product, as was the case in the past, would displace non-obligatory expenditures[1]. Thus there would be fewer possibilities for activities in areas of policy deemed important for pushing forward European integration, for example by the European Parliament. As the Parliament does not have much influence on the obligatory expenditure, it may try to increase the non-obligatory expenditure, though the former has priority. With different levels of budget powers, it would be surprising indeed if conflicts between the Council and the Parliament would not increase even more in the future.

A large potential for conflict is also embodied in the transfers among the member countries because member countries do not contribute to the EC budget to the same extent that they take advantage of EC expenditures emanating from Community policies. Such disputes on transfer problems have for a long time heavily paralysed the development of a Community policy framework. The above-mentioned temporary settlement reached to relieve the United Kingdom somewhat from financial contributions did not permanently resolve the dispute. The reason is that the transfer flows of the EC budget are not in accordance with the aims on burden sharing between the EC member countries. The transfer positions are determined to a large extent by expenditures on CAP. And as was shown in Chapter V, a country's receipt of payments from CAP depends heavily on the degree of self-sufficiency in agricultural products. Thus the resulting net transfers are sometimes in complete contradiction to the financial potential of member countries and thereby contrary both to a concept of fair burden sharing and, even more so, to that of a carefully directed financial equalization system.

As can be seen in Table 58, the expenditure side of the EC budget is highly affected by expenditure on CAP indeed. In the early years after the foundation of the European Economic Community expenditures for the Social Fund still were dominant [Reister, 1975, p. 46 f.]. But after the creation of the EAGGF in 1962 for purposes of financing CAP, this type of expenditure gained in importance. After the common market organizations came into existence in 1967, the

[1] Until now the EC institutions have not agreed on an exact definition of obligatory and non-obligatory expenditures and, by extension, not on budgetary competence either. This problem has been left out of consultations on the Common Budget again and again. But the expenditures for the agricultural market organizations, for food aid, for the reimbursement to the member states of costs of raising EC revenues as well as for pensions and redundancy payments to EC employees are considered obligatory.

expenditures on CAP reached a share in total EC expenditures of nearly 95 percent. Since the early 1970s this share has been reduced somewhat because Community competence in other fields of policy has been expanded, particularly in social policy, regional policy and development aid policy. But the share of agricultural expenditures still amounts to 75 percent of an EC budget which has greatly increased in volume over the last decade. Thus from 1973 (the year of the first enlargement) to 1979, the average annual growth rate of the budget ran at more than 20 percent, thereby exceeding the growth rate of the EC's combined gross domestic product by seven and a half percentage points. The increase of expenditures for CAP in the second half of the 1970s has roughly kept up with growth in total EC expenditure (Chapter V), but from year to year marked fluctuations occur. This is mainly due to expenditures on the Common Market organization being highly dependent upon fluctuations in harvest yield and in world market prices. At low international prices a high export refund is required to dump excess agricultural production on world markets; at high prices less refunds are needed.

Thus the (unexpected) tightening of the agricultural world markets in the early 1980s has slowed down the increase in expenditures for agricultural market organizations significantly and has contributed to relief in the budget situation in the Community. This relief has meant that the predictable exhaustion of the Community's own revenues has not yet occurred. At the same time, controversy over the reformulation of priorities between the various fields of Community policy has been avoided so far in that non-obligatory expenditure has until now not been crowded out. But it would be an illusion to think that these developments will provide more than a short-term relief. Worldwide shortages of CAP products are not going to persist for ever, so that world-market prices are bound to decline again. Howsoever that may be, the 1982 draft Common Budget reckons with a 0.94 percent yield of VAT, so that the maximum rate of 1 percent of VAT to which the EC is entitled is now nearly reached. Already an unexpectedly high increase in agricultural production in the EC or a decline in world-market prices for agricultural goods could lead to the inability of the Community to implement the 1982 budget within the existing regulations on own revenues and without cutting expenditures.

Table 58 - The Common Budget by Main Areas of Activity, 1968-1981 (UA/EUA/ECU[a] million)

Area of activity	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977[b]	1978[b]	1979[b]	1980[b,c]	1981[b,c]
Administration	74	83	93	108	135	191	310	363	475	548	695	777	944	1,035
Agricultural policy	1,296	1,675	3,167	1,817	2,540	3,627	3,651	4,587	6,033	6,668	9,154	10,627	11,878	13,400
Regional policy	-	-	-	-	-	-	-	150	300	400	525	746	723	1,774
Social policy	26	21	38	57	85	250	291	360	177	55	557	547	769	683
Research, energy, industrial policy	0	-	1	65	76	70	159	138	113	167	308	255	380	314
Development cooperation	1	1	1	-	71	61	324	242	271	181	382	503	642	608
Repayment to the member states and other expenditures	-	-	-	130	176	250	306	374	584	575	668	721	848	1,513
Total budget	1,397	1,780	3,299	2,177	3,083	4,449	5,041	6,214	7,953	8,483	12,288	14,177	16,183	19,328

[a]UA from 1968 to 1977; EUA from 1978 to 1980; ECU since 1981. - [b]Payment authorization. - [c]Budget plan.

Source: See Table 57.

3. Increasing Claims on the Budget

On the revenue side of the EC budget different contributions are to be expected from the new entrants. The contribution in tariffs devoted to financing the EC budget depends on the amount of dutiable imports from third countries (mainly manufactures). The ratio of imports to GDP is much below the EC 9 average in Spain, and somewhat below it in Greece. Portugal, on the other hand, exceeds the EC 9 average by some percentage points, as has been shown in Chapter II. However, the share of manufactures in total imports is below the EC 9 average in each of the new entrants as has been shown in Chapter III. One may expect Portugal's and Greece's industrial imports from the other EC 12 countries to be above the EC average of intra-Community trade and Spain's imports to be below it. Taken together, Spain's and Portugal's contributions to financing the EC budget by tariffs can be expected to be roughly proportional to the share of these countries in the GDP of the EC 12 combined, or a little below that; Greece's contribution might be slightly above its share in the combined GDP. From tariffs as source of revenues, therefore, few, if any, conflicts need be feared.

The picture with regard to levies and duties on agricultural products is quite different. All three new entrants show a high import demand for various temperate-zone commodities, notably cereals and livestock products, which have traditionally been supplied to a large extent by third countries (Chapter IV and V). Therefore the new entrants' contributions of levies to the EC budget are likely to exceed the EC average considerably. The EC Commission has estimated on the basis of the 1978 budget that the new entrants would have had to pay nearly 20 percent of the levies in an EC 12 (doc. COM (78)200 final 27-4-78, p. 72), while the share of these countries in the GDP of EC 12 combined would have amounted to less than 10 percent. The existence of a marked discrepancy can be shown for Greece in the 1981 EC budget, too. It has been estimated that 4.7 percent of total levies in the (partly enlarged) Community come from Greece, while this country contributes only 1.6 percent to the GDP of the EC 10 combined.

Burdens above the EC average for the new entrants can also be expected from VAT contributions (once the VAT has been implemented there). This is caused mainly by a relatively high share of comsumption in GDP in these countries. Domestic consumption typically constitutes the assessment basis for VAT, while investment expenditures and export proceeds are left out. Therefore those countries in

which shares of investment and exports are relatively low have to make above-average financial contributions in VAT; the new entrants belong to this group.

All in all, present financial regulations lead to expected financial contributions by the new entrants above their shares in the GDP of EC 12 combined. The order of magnitude of these discrepancies is shown in Table 59. According to these estimates by the Commission on the basis of the 1978 budget, the discrepancy between financial contributions and shares in the combined GDP is most pronounced in the case of Portugal, but Greece follows close behind[1]. Only for Spain is the difference of minor importance. Accordingly, the new entrants fall into a general pattern, in which, given present financial regulations, the relatively high-income member countries have to pay contributions below their share in total GDP, while the lower-income countries have to make greater contributions. This general pattern is broken by greater than proportional contributions in tariffs and levies in the case of Belgium and the Netherlands, which may be due partly to the problem of the correct allocation of tariffs on goods imported in Belgian or Netherlands' ports but destined for other member countries. It is also broken by VAT contributions from Italy which seems to be due to difficulties in recording and collecting taxes. These qualifications made, the shaping of the EC revenue system out of harmony with a system of fair burden sharing or even with a carefully designed financial equalization system aggravates pressure for compensation on the expenditure side of the budget, as has repeatedly been shown by the British example.

On the expenditure side, an application of the existing regulations to the new entrants would cause substantial additional financial requirements to cope with obligatory expenditure in an enlarged Community. The extent of such additional expenditures would depend greatly on the situation on agricultural world markets at the time when the Common Market organization is put into operation in Greece, Portugal and Spain. According to the above-mentioned calculations of the EC Commission, the obligatory expenditure is expected to rise by nearly 12 percent (on the basis of 1978 data). The transfers implicit in the estimated compulsory expenditure would be more or less balanced between

[1] Such discrepancies play into the hands of those in the new Papandreou Administration who claim that a renegotiation of the Treaty of Adhesion is necessary if Greece is to benefit from her membership in the EC (there are even strong advocates within the governing Pasok of taking Greece out of the Community).

Table 59 - Potential Revenues and Shares in GDP in an Enlarged Community on the Basis of the 1978 EC Budget

Country/ Region	Tariffs		Agricultural levies and miscellaneous duties		VAT revenues		Total revenues	
	EUA million	percent	EUA million	percent	EUA million	percent	EUA million	percent
EC 9	4,833	91.0	2,063	82.1	5,710	89.3	12,606	88.7
Greece	100	1.9	100	4.0	130	2.0	330	2.3
Portugal	30	0.5	75	3.0	85	1.3	190	1.3
Spain	350	6.6	275	10.9	470	7.4	1,095	7.7
EC 12	5,313	100	2,513	100	6,395	100	14,221	100

Note: GDP (EC 12 = 100)
EC 9: 91.0; Greece: 1.4; Portugal: 0.8; Spain: 6.8.

Source: EC, Commission [1978]. - Eurostat [1981].

the EC 9 and the new entrants as a group. But substantial differences among the Southern countries would appear. Spain would have to make considerable net transfers, while Greece and, to a minor extent, Portugal would benefit.

This picture changes when other expenditures, most of them of the non-obligatory type, are taken into account. In the fields of Community regional and social policy, in addition to measures aiming at improving agricultural structures, the Commission has estimated the expenditures to imply greater shares for the new entrants than would be proportional. Thus the Guidance Section of the EAGGF, which is to support reforms of the agricultural structure, would have to spend nearly twice as much money in the EC 12 than in the EC 9 (Table 60). The same holds for the expenditures of the European Regional Development Fund. This means that the balance of net transfers would improve considerably for the applicant countries, particularly for Spain and Portugal. However, the Community's availability of own resources, as regulated at present, would not have permitted such an increase in EC expenditures. Already in 1980, the year before Greece's entry into the Community, a growth of EC expenditures in volume of 20 or 25 percent, as has been taken to be necessary in the Commission's calculations, could not have been financed. In the 1982 estimates, the financial potential of the EC 10 appears to be nearly exhausted. Hence, the restructuring of the EC budget, required in any case, gains in importance in view of the enlargement.

Table 60 - Potential Enlargement Effects on the Expenditures of the EC Budget for 1978 (EUA million)

	EC 9	Greece	Spain	Portugal	EC 12
EAGGF - Guarantee Section	8,666	400	600	100-150	9,700-10,200
EAGGF - Guidance Section	473	100	200-250	50-100	800-900
Social Fund	570	20-50	80-120	90-130	750-900
European Regional Development Fund	581	105	190	125	1,000
Reimbursements to member-states	690	20	60	10	800
Other expenditures	1,382	50	200	50	1,600- 1,700
Total budget	12,362	700-750	1,300-1,400	400-600	14,650-15,500

Source: See Table 59.

Nonetheless, the entry of Greece could be executed without such fundamental restructuring of Community policy and budgeting. The temporary relief for the budget due to the development of agricultural world-market prices has also given more breathing space to the transitional agreements preventing an abrupt revenue loss in Greece's national budget as it would have happened in case this country had immediately adhered to the EC decision on own revenues. For a transitional period, part of the financial contributions which Greece makes to the Common Budget will be returned to the new member at a decreasing rate, starting with 70 percent of the financial contribution in 1981 and ending with 10 percent in 1985. By this agreement, it seems that at least for the transitional period Greece will be a net recipient of transfers from the Common Budget.

Besides Greece, the other two entrants also expect to receive financial assistance from the Common Budget. Disillusionment of these expectations may become a grave obstacle to further European integration, because the new entrants would not behave in a constructive way in the Council. Experience shows that common principles such as financial solidarity and the decision on own revenues are accepted only as long as contradictions between payments to the Community and receipts from it compared with the economic potential of the member countries do not become too sharp. This cannot be achieved within the present framework of financial resources available for the Community without a fundamental restructuring in common policies. Claims by the Portuguese and Spanish governments for transi-

tional agreements similar to that arranged with Greece would further reinforce the urgency of such measures.

To meet the additional financial requirements of enlargement, it is sometimes suggested to expand the financial potential of the EC, especially by increasing the 1 percent VAT assessment basis. This would correspond again to solutions at the lowest common denominator. At the same time, pressure would decline for reshaping the Community policies. Given the serious problems in various member countries to consolidate national budgets and the need to cut down public expenditures, it would be quite inopportune to give in to claims for a larger Common Budget for the main purpose of achieving a greater redistributional potential.

4. The Common Budget as a Redistribution System

Disputes over the financing of the EC budget show very clearly that the principle of financial solidarity has not been accepted once and for all by the Council decision on Community own revenues. The problem of "juste retour", of participation in common expenditures in reasonable conformity to financial contributions, is not made an issue in each single field of common policy any longer, but it is discussed in connection with the Common Budget as a whole. A transfer balance, in which expenditures of the Community considered as receipts in the member countries are compared with financial contributions flowing from the member countries to the EC, does not capture either the integration effects resulting from an intensified division of labour within the Community or the impulses for economic development within the member states emanating from integration. Nevertheless, such transfer balances are quoted again and again for setting out the distribution of gains and losses of integration among the member states, as if integration were only an arrangement of redistribution. Little note is taken in the official mind of the fact that the ascertainment of national net positions in such transfer balances is simply an ephemeral exercise.

Imputing revenues and expenditures of the EC budget to member states raises many problems. The locations of registration, on which a transfer balance is based, are not always the locations at which expenditures and revenues show their economic effects. Tariffs and levies, for instance, are imputed as financial contributions to those countries at whose border they are imposed. But economically they

may not necessarily be borne by that country, for the burden can be passed on to other countries by intra-Community trade in imported products. Therefore transfer balances always show high contributions by those countries having efficient ports supplying a large hinterland. This is the case for the Netherlands and Belgium, as already mentioned. On the expenditure side similar problems arise. For example, the costs of EC administration are fully imputed as receipts to those countries in which common institutions are located, although the administrative functions are exercised for the Community as a whole, and it could hardly be expected that the expenditures on administration have their only economic effects at the locations of EC institutions.

Nevertheless, transfer balances are invariably used in the public discussion about "beneficiaries" and "financiers" of European integration. Measured by the criteria of a financial equalization system, net positions would have to correspond to economic potential, at least in signs of deviations from the EC average. But of the countries with an above-average economic potential - measured by per capita income - in recent years only Germany and France had a negative net position in the transfer balance and thereby made a positive contribution towards reducing welfare discrepancies through the Common Budget (Table 61). The other countries with above-average per capita income (Denmark, Belgium, Luxemburg and the Netherlands) gained positive net transfers from the EC budget. Among the countries with below-average economic potential, only Ireland and Italy had positive net transfer positions. The United Kingdom shows a substantial negative net transfer position. Taking into consideration differences in size of the member countries by relating net transfer to population, conflicts between existing transfer flows and aims of financial equalization systems are brought out more distinctly. Thus Denmark, which has got the highest per capita income within the Community, registers the second largest per capita net transfer from the Common Budget, while the United Kingdom with the third lowest per capita income makes the second largest financial contribution.

The predominance of official thinking in terms of expenditures and receipts ultimately reflects the weakness of an institutional agreement by which the agricultural policy, the social policy and the regional policy constitute fields for Community policy although little advantage, if any, can be expected at early stages of integration in these fields of common activity compared to national solutions. According to standard economic criteria about the distribution of functions between various levels of government, in Federations tasks

Table 61 - Net Receipts from the Common Budget and Per Capita Income of Member States

	Net receipts							Net receipts per capita		National per capita income in percent of average per capita income in the EC 1978			
	UA/EUA/ECU million[a]							EUA		in ECU		in PPS[b]	
	1975	1976	1977	1978	1979	1980[c]	1981[c]	1978	1979	1978	1979	1978	1979
Belgium/Luxemburg	+ 135	+ 346	+ 329	+ 337	+ 610	+ 703	+ 844	+33.03	+ 59.73	125.9	119.3	105.5	104.9
Denmark	+ 237	+ 294	+ 293	+ 381	+ 380	+ 385	+ 522	+74.65	+ 74.26	145.8	140.2	116.4	114.7
France	+ 35	+ 58	- 310	- 371	- 78	- 336	- 415	- 6.96	- 7.92	116.0	115.8	111.3	111.2
Germany	-1,007	-1,054	-1,467	- 597	-1,430	-1,658	-1,902	- 9.73	- 23.31	136.8	134.9	117.1	117.7
Ireland	+ 175	+ 155	+ 212	+ 326	+ 545	+ 523	+ 667	+98.37	+161.82	47.4	47.6	60.9	58.9
Italy	+ 40	+ 248	+ 294	- 334	+ 534	+ 653	+ 642	- 5.92	+ 9.43	60.4	61.6	76.8	77.9
Netherlands	- 27	+ 222	+ 88	+ 41	+ 288	+ 339	+ 470	+ 2.94	+ 5.08	122.0	115.2	104.9	102.2
United Kingdom	+ 104	- 90	+ 126	- 228	- 849	- 609	- 730	- 4.08	- 15.18	73.3	87.0	92.6	92.0

[a]UA from 1975 to 1977; EUA from 1978 to 1981; ECU since 1981. - [b]PPS = Purchasing Power Standard. - [c]Budget plans.

Source: Bundesministerium der Finanzen [1981].

are suitable for assignment to the upper level in the cases of

- advantages of uniformity in arrangements,
- marked border-crossing effects,
- cost saving through centralized execution of tasks.

Measured by these criteria, the fields in which Community policies are established at present would be ranked far behind other fields in which there is no Community competence at all, such as defense and foreign policy. Had Community policy been restricted to these more classical fields for centralized activities, the question of "juste retour" would probably have been of minor interest in common budgeting. But right from the beginning redistributional questions got a decisive weight in common budgeting as well as in some fields of Community policy, thereby creating a case for "moral hazard". CAP has been seen - and is still seen - as one instrument, among others, to improve the standard of living in traditionally less advanced rural areas. Regional policy was to improve conditions for accelerating economic development in problem regions, but it had to compensate simultaneously - in the case of the United Kingdom - undesired effects of CAP in intra-Community transfers. Questions of "just" burden sharing are of great importance also in routine decisions in Community policy. Due to the principle of financial solidarity, each member state can be committed to share in the financing of policies advocated by another member state on the grounds of national interests. Therefore, high increases in the budget seem to be institutionally predisposed.

5. The Need to Solve the Budgetary Problem

The need of fundamentally restructuring and reorganizing the Community policy in the present financial framework is not yet being seriously discussed at the political level. And the Commission even tries to abate such requirements. For instance, in its report on the 1981 budget, the Commission discusses various fields in which it feels extension of supranational public activity is required for overcoming the sustained employment and growth problems within the Community. These fields include the industrial adjustment policy, the energy policy, the science and research policy and the technology policy. Thereby the impression is given that such measures would contribute essentially to the relief of transfer problems, too. This

may be correct in individual cases. But if common activities were to be started on uniform criteria all over the Community, it would be expected that the economically stronger member states would be able to benefit much more from such activities than the weaker ones, just as one can already observe within the member countries that public financial means supporting private research and development programs tend to be concentrated in the higher-income regions for the simple reason that most of the potential beneficiaries of such policies are located there. Thus, through the extension of Community policy to such fields, conflicts between transfers and aims of financial equalization systems may even be aggravated. The question whether the pursuit of specific tasks is to be assigned to the Community should not be subjected to redistributional considerations. It would have to be proven in the first place that the Community level is more efficient than the decentralized national ones for pursuing more tasks. Such a superiority is not always evident in proposals made by the Commission. For example, it does not seem very conclusive to demand EC assistance for small and medium firms. If small and medium firms are to be given a decisive role in overcoming adjustment problems, the needed public support is certain to be provided more effectively by the member country governments. Therefore, if new impetus is desired to promote European integration, it seems much more urgent to develop a common framework for Community and national activities than to start costly common programs in which all member countries will try to secure their specific national interests, so that redistributional issues move at once into the center of interest.

The Commission seems to not be fully aware of the far-reaching differences between the member states in convictions and conceptions on the way to overcome the prevailing employment and growth problems. In the short run, which is the typical time horizon of politicians, none of the strategies pursued can claim such a striking success that it may be assumed that all member states could be persuaded to adhere to a common (Community) approach. It has also to be recognized that in the fields enumerated by the Commission there is already much national activity. These fields may not adequately be provided for in the national budgets in the view of the EC Commission. But this would mean that the proposals on these grounds have not been sufficiently successful in competing for scarce budget resources against other measures which have been given greater weight by national parliaments and governments. Member countries were not able to agree upon common strategies for promoting economic growth, full employment and price stability even in the EC 6, when

national differences were much less pronounced than in the EC 9 and many times less than they would be in an EC 12. Therefore, additional Community expenditure programs seem to not be very appropriate in solving existing problems in the Community. The only sure result of an extension of financial revenues of the Community to finance additional activities would be the postponement of the needed fundamental reforms of present EC policies.

Solving budget problems within the framework of present financial potential may be regarded as extremely difficult because agreement on the lowest common denominator would become almost impossible. But there is a way forward. Instead of trying to balance one-sided development of integration by giving more competence to the Community, as the Commission would like to see it, one could attempt to restrict Community activity in those fields where Community policy is most pronounced, and this would be first of all in CAP. The Commission seems unwilling to consider giving up competence even in fields where Community activitiy has been failing in its own eyes. Thus the Commission demands an active policy of improving agricultural structures which would be tailored to the specific characteristics of the individual agricultural areas, presumably as a conclusion from the failure of common activities of CAP according to uniform criteria all over the Community. But when for each agricultural region specific policy measures to improve agricultural structures are believed to be necessary, why must such a policy be carried through at the Community level? The need to reform CAP has been emphasized by the Commission, too, but the conviction predominates that the experience with CAP is on balance positive. Although the Commission proposes a stronger alignment of agricultural price policies with market conditions, which would be in accordance with our proposals discussed in Chapter V, nothing is said about the institutional means for ensuring such a market-oriented policy. Declarations in favour of market orientation have been numerous in the past on the part of the Commission, without having been brought to reality. Facing the second enlargement of the Community, one cannot help but regard solutions to the pressing budgetary problems as coming necessarily from a far-reaching reform of CAP, as shown in Chapter V.

Reducing expenditures for CAP would provide more scope for tackling the aims of fair burden-sharing and of financial equalization systems more comprehensively within the enlarged Community, though the presently reached level of integration does not seem ready to bear not-tied transfers among the member countries. The solidarity of European nations is not yet sufficiently pronounced for such a general

financial equalization system, by which pure redistribution of financial resources could be achieved most efficiently. Rather, the contributing countries will continue to be interested in having a say in the use of these resources in the receiving countries. If this is the case, such tied transfers could be undertaken for instance by regional policy, adequately coordinated between the Community and the national levels, as discussed in more detail in Chapter VII.

What is called for is the establishment of an overall framework for national policies, rather than the insistence on jointly financed programs in various fields of activity. In view of far-reaching differences in national interests, it is important to find in each individual area solutions which are commonly agreeable. Persisting in principles which are not commonly accepted would be rather unhelpful. Nor is it helpful to reiterate these principles when at the same time proposals are made which contradict such principles. Thus the EC Commission is implicitly accepting a restriction of financial solidarity in CAP in proposing relief in financial contributions to the United Kingdom based on the difference between its share in common GDP and its share in receipts from EAGGF (Guarantee Section), because of conflicts with the aims of financial equalization systems.

If true integration proceeds, it may be expected that the concerns about financial equalization will be shifted to the revenue side of the Common Budget. But the talks on fair burden-sharing are likely to continue in the course of the enlargement. The decision governing own revenues of the Community from VAT proceeds could very soon become a reason for criticism by the new entrants because of their relatively lower shares of exports and investment in GNP. As this is an institutionalized weakness of the arrangement of EC own revenues, the adequate avenue for avoiding a major upheaval within the enlarged Community would consist in changing the financing system. Thus consideration should be given to a restructuring of the Common Budget on the revenue side in the sense that a system of financial contributions of the member countries based on their shares in GDP (preferably GDP per head) is restored. Such a financing system would be in accordance with conceptions of fair burden-sharing applied in other international organizations. This may be a starting point for realizing a more ambitious system of financial equalization in the future, including greater revenues powers at the Community level, if through progress towards further integration, solidarity within the enlarged Community really increases.

It remains to be seen whether the EC will be able to effectively deal

with the budgetary problem, which by implication requires the restructuring of agricultural, regional and even trade policies (among others). The Commission should not be expected to become a driving force in this respect, because it could easily mean voluntary giving up powers, which bureaucrats are not used to doing. There is always the temptation to rest content with cosmetic changes and technical compromises. It is the governments and parliaments of the member countries which will have to push for policy reforms and to induce the EC institutions to act more flexibly. Given the weight of the EC in the world economy, and more so after the second enlargement, basic reforms to break out of the present stage of crisis are both desirable and imperative. If, however, the member states regard the EC as a machinery for income redistribution, then economic integration in Europe does not have a promising future.

Bibliography

Books and Articles

Adlung, Rudolf, Divergenz oder Konvergenz? Zur regionalen Entlung in der Europäischen Gemeinschaft. Institut für Weltwirtschaft, Kiel Working Papers, 91, Kiel, July 1979.

--, Carsten Thoroe, Neue Wege in der-Regionalpolitik. Institut für Weltwirtschaft, Kiel Discussion Papers, 68, Kiel, March 1980.

Bairoch, Paul, "Europe's Gross National Product, 1800-1975". The Journal of European Economic History, Vol. 5, Rome 1976, pp. 273-340.

Baklanoff, Eric N., The Economic Transformation of Spain and Portugal. New York 1978.

Balassa, Bela, The Theory of Economic Integration. London 1962.

--, "Trade Liberalization and 'Revealed' Comparative Advantage". The Manchester School of Economic and Social Studies, Vol. 33, Manchester 1965, pp. 99-123.

--, "Trade Creation and Trade Diversion in the European Common Market: An Appraisal of the Evidence". In: Bela Balassa (Ed.), European Economic Integration. Amsterdam 1975, pp. 79-118.

--, "Industrial and Trade Policy in Portugal". In: Fundação Calouste Gulbenkian, The German Marshall Fund of the United States (Eds.), Conferência Internacional sobre Economia Portuguesa, Lisboa 11.-13.10.1976. Lisbon 1977, pp. 223-252.

--, "A Stages Approach to Comparative Advantage". In: Irma Adelman (Ed.), Economic Growth and Resources - National and International Issues. London 1979, pp. 121-156.

--, "Portugal in Face of the Common Market". In: Fundação Calouste Gulbenkian, The German Marshall Fund of the United States (Eds.), 2ª Conferência Internacional sobre Economia Portuguesa, Lisboa 26.-28.9.1979. Lisbon 1980, pp. 637-695.

Balassa, Bela, "The Newly-Industrializing Countries after the Oil Crisis". Weltwirtschaftliches Archiv, Vol. 117, Tübingen 1981, pp. 142-194.

Baldwin, Robert E., Tracy Murray, "MFN Tariff Reductions and Developing Country Trade Benefits under the GSP". The Economic Journal, Vol. 87, Cambridge 1977, pp. 30-46.

Balz, Matthias, Rolf Lösch, Manfred Schöpe, "Probleme einer gemeinsamen Agrarstrukturpolitik in einer erweiterten Gemeinschaft". In: Reimar von Alvensleben, Ulrich Koester, Harmen Storck (Eds.), Agrarwirtschaft und Agrarpolitik in einer erweiterten Gemeinschaft. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Vol. 18, Münster-Hiltrup 1981, pp. 497-516.

Biehl, Dieter, Eibe Hussmann, Sebastian Schnyder, "Zur regionalen Einkommensverteilung in der Europäischen Wirtschaftsgemeinschaft". Die Weltwirtschaft, Tübingen 1972, H. 1, pp. 64-78.

Borrmann, Axel, Christine Borrmann, Manfred Stegger, Das Allgemeine Zollpräferenzsystem der EG und seine Auswirkungen auf die Einfuhren aus Entwicklungsländern. Hamburg 1979.

Brown, Arthur, "The Transfer of Resources". In: William Wallace (Ed.), Britain in Europe. London 1980, pp. 138-153.

Burberg, Paul-Helmuth, "Die Landwirtschaft in Griechenland". In: Georges Bougioukos et al. (Eds.), Griechenland vor dem Beitritt zur EG. Münster 1977, pp. 41-127.

Cairncross, Alec, Herbert Giersch, Alexandre Lamfalussy, Giuseppe Petrilli, Pierre Uri, Economic Policy for the European Community - The Way Forward. New York 1974.

Chenery, Hollis B., Moises Syrquin, with the assistance of Hazel Elkington, Patterns of Development, 1950-1970. London 1975.

Clark, Colin, Francis Wilson, James F. Bradley, "Industrial Location and Economic Potential in Western Europe". Regional Studies, Vol. 3, Oxford 1969, pp. 197-212.

Coffey, Reder (Ed.), Economic Policies of the Common Market. London 1979.

Cohen, Benjamin J., The European Monetary System: An Outsider's View. Princeton University Essays in International Finance, No. 142, Princeton, June 1981.

Courbis, Raymond, et al., The Regional Impacts of the Community's External Trade Policy. Brussels, forthcoming.

Coutsoumaris, George, The Morphology of Greek Industry. Athens 1963.

Donges, Juergen B., "From an Autarchic Towards a Cautiously Outward-Looking Industrialization Policy: The Case of Spain". Weltwirtschaftliches Archiv, Vol. 107, Tübingen 1971 II, pp. 33-72.

-- [1976a], "The Economic Integration of Spain with the EEC". In: Avi Shlaim, George N. Yannopoulos (Eds.), The EEC and the Mediterranean Countries. Cambridge 1976, pp. 217-241.

-- [1976b], La industrialización en España - Políticas, logros, perspectivas. Barcelona 1976.

-- [1980a], "Foreign Investment in Portugal". In: Fundação Calouste Gulbenkian, The German Marshall Fund of the United States (Eds.), 2ª Conferência Internacional sobre Economia Portuguesa, Lisboa 26.-28.9.1979. Lisbon 1980, pp. 251-279.

-- [1980b], "The Spanish Industry in Face of Its Integration into the European Community". Economia Internazionale, Vol. 33, Genova 1980, No. 2/3, pp. 3-19.

-- [1981a], "Desarrollo industrial de España y Cataluña. In: Pere Escorsa (Ed.), El desarrollo industrial en los años 80. Barcelona 1981, pp. 417-444.

-- [1981b], "O desenvolvimento industrial e a concorrencia portuguesa numa Comunidade alargada". In: Paulo de Pitta e Cunha et al. (Eds.), Portugal e o alargamento das Comunidades Europeias. Lisbon 1981, pp. 267-297.

-- [1981c], "What is Wrong with the European Communities?" Eleventh Wincott Memorial Lecture. The Institute of Economic Affairs, Occasional Papers, 59, London, February 1981.

Donges, Juergen B., Klaus-Werner Schatz, "Muster der industriellen Arbeitsteilung im Rahmen einer erweiterten Europäischen Gemeinschaft". Die Weltwirtschaft, Tübingen 1980, H. 1, pp. 160-186.

--, Gerhard Fels, Axel D. Neu et al., Protektion und Branchenstruktur der westdeutschen Wirtschaft. Kieler Studien, 123, Tübingen 1973.

Eisenkrämer, Kurt, "Gibt es politisch realisierbare Alternativen zur derzeitigen Agrarpolitik?" In: Alternativen zur EG-Preispolitik. Loccumer Protokolle 5/1980, Loccum 1980, pp. 50-69.

Ellis, Howard S., Diomedes D. Psilos, Richard M. Westebbe, Calliope Nicolaou, Industrial Capital in Greek Development. Athens 1964.

Esser, Klaus, Guido Ashoff, Tilo Becker-Fahr, Cordula Gaschütz, Portugal - Industrie und Industriepolitik vor dem Beitritt zur Europäischen Gemeinschaft. Berlin 1977.

Fernandes, Carlos Roma, "As implicações da adesão de Portugal às Comunidades Europeias nas trocas comerciais com os países terceiros". In: Fundaçao Calouste Gulbenkian, The German Marshall Fund of the United States (Eds.), 2ª Conferência Internacional Sobre Economía Portuguesa, Lisboa 26.-28.9.1979. Lisbon 1980, pp. 989-1010.

Finger, J. Michael, Dean A. Derosa, "Trade Overlap, Comparative Advantage and Protection". In: Herbert Giersch (Ed.), On the Economics of Intra-Industry Trade. Symposium 1978, Tübingen 1979, pp. 213-240.

--, Mordechai E. Kreinin, "A Measure of 'Export Similarity' and its Possible Uses". The Economic Journal, Vol. 89, Cambridge 1979, pp. 905-912.

Gaile, Gary L., "The Spread-Backwash Concept". Regional Studies, Vol. 14, Oxford 1980, pp. 15-25.

Genske, Rudolf, "Probleme der Budgetbelastung durch die gemeinsame Agrarpolitik als Folge der EG-Erweiterung". In: Reimar von Alvensleben, Ulrich Koester, Harmen Storck (Eds.), Agrarwirtschaft und Agrarpolitik in einer erweiterten Gemeinschaft. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Vol. 18, Münster-Hiltrup 1981, pp. 391-413.

Gerdes, Dirk (Ed.), Aufstand des Provinz-Regionalismus in Westeuropa. Frankfurt, forthcoming.

Giersch, Herbert, "Probleme der regionalen Einkommensverteilung". In: Walther G. Hoffmann (Ed.), Probleme des räumlichen Gleichgewichts in der Wirtschaftswissenschaft. Schriften des Vereins für Socialpolitik, N.F., Vol. 14, Berlin 1959, pp. 85-118.

--, "Aspects of Growth, Structural Change, and Employment - A Schumpeterian Perspective". Weltwirtschaftliches Archiv, Vol. 115, Tübingen 1979, pp. 629-651.

Goeman, Deterd, "Probleme gemeinsamer Markt- und Preisniveaupolitik". In: Reimar von Alvensleben, Ulrich Koester, Harmen Storck (Eds.), Agrarwirtschaft und Agrarpolitik in einer erweiterten Gemeinschaft. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Vol. 18, Münster-Hiltrup 1981, pp. 371-390.

Grilli, Enzo, Italian Commercial Policies in the 1970s. World Bank Staff Working Paper No. 428, Washington 1980.

Grosskopf, Werner, Stefan Tangermann, "EG-Erweiterung und Weltagrarmärkte". In: Reimar von Alvensleben, Ulrich Koester, Harmen Storck (Eds.), Agrarwirtschaft und Agrarpolitik in einer erweiterten Gemeinschaft. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Vol. 18, Münster-Hiltrup 1981, pp. 73-93.

Guth, Eckart, Hermann-Onko Aeikens, "Konsequenzen der Süderweiterung für die Mittelmeerpolitik und die AKP-Politik der Gemeinschaft". In: Reimar von Alvensleben, Ulrich Koester, Harmen Storck (Eds.), Agrarwirtschaft und Agrarpolitik in einer erweiterten Gemeinschaft. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Vol. 18, Münster-Hiltrup 1981, pp. 95-118.

Harrison, Joseph, An Economic History of Modern Spain. Manchester 1978.

Henig, Stanley, External Relations of the European Community: Associations and Trade Agreements. London 1971.

Hiemenz, Ulrich, Klaus-Werner Schatz, Employment Creation in Less Developed Countries. Institut für Weltwirtschaft, Kiel Working Papers, 38, Kiel, December 1975.

--, --, Trade in Place of Migration. Geneva 1979.

Hillmann, Arye L., "Observations on the Relation between 'Revealed Comparative Advantage' ond Comparative Advantage as Indicated by Pre-Trade Relative Prices". Weltwirtschaftliches Archiv, Vol. 116, Tübingen 1980, pp. 315-321.

Hummen, Wilhelm, Greek Industry in the European Community: Prospects and Problems. Berlin 1977.

Josling, Timothy E., "Questions for Farm Policy in an Enlarged European Community". The World Economy, Vol. 2, Amsterdam 1979, pp. 343-361.

Jüttemeier, Karl Heinz, Konrad Lammers, Subventionen in der Bundesrepublik Deutschland. Institut für Weltwirtschaft, Kiel Discussion Papers, 63/64, Kiel, November 1979.

Kalamotousakis, George J., "Greece's Association with the European Community: An Evaluation of the First Ten Years". In: Avi Shlaim, George N. Yannopoulos (Eds.), The EEC and the Mediterranean Countries. Cambridge 1976, pp. 141-160.

Kartakis, Eleftherios A., Le Développement Industriel de la Grèce. Lausanne 1970.

Katsos, George, An Evaluation of the Structure of Protection in Greece during the Post-War Years. Ph.D. Thesis, University of Lancaster, December 1975.

Kersten, Lutz, Ulrich Sommer, Friedrich Uhlmann, "Die Zweite Erweiterung der EG. Probleme einer Erweiterung der Europäischen Gemeinschaften um Griechenland, Portugal und Spanien am Agrarmarkt". In: Bundesministerium für Ernährung, Landwirtschaft und Forsten, Berichte über Landwirtschaft, N.F., Vol. 56, Hamburg 1978, pp. 724-757.

Kioukis, Konstantin, Die Industrialisierung als Mittel zur wirtschaftlichen Entwicklung Griechenlands unter besonderer Berücksichtigung der regionalen Struktur. Diss., Universität Freiburg i.B., 1979.

Kirschke, Dieter, "Wohlfahrtsökonomische Konsequenzen der gemeinsamen Agrarpreispolitik in einer erweiterten EG". In: Reimar von Alvensleben, Ulrich Koester, Harmen Storck (Eds.), Agrarwirtschaft und Agrarpolitik in einer erweiterten Gemeinschaft. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Vol. 18, Münster-Hiltrup 1981, pp. 421-442.

Koester, Ulrich [1977a], Agrarpolitik in der Sackgasse. Divergierende nationale Interessen bei der Verwirklichung der EWG-Agrarpolitik. Baden-Baden 1977.

-- [1977b], "The Redistributional Effects of the Common Agricultural Financial System". European Review of Agricultural Economics, Vol. 4, Paris 1977, pp. 321-345.

--, "The Chances for a Thorough Reform of the Common Agricultural Policy". Intereconomics, Vol. 16, Hamburg 1981, No. 1, pp. 7-12.

Kreinin, Mordechai E., "European Integration and the Developing Countries". In: Bela Balassa (Ed.), European Economic Integration. Amsterdam 1975, pp. 327-364.

--, "Static Effect of E.C. Enlargement on Trade Flows in Manufactured Products". Kyklos, Vol. 34, Basel 1981, pp. 60-71.

Krieger, Christiane, "Wirtschaftswachstum und Strukturwandel in den Beitrittsländern". Die Weltwirtschaft, Tübingen 1980, H. 1, pp. 142-159.

Krugman, Paul, Jorge Braga de Macedo, "The Economic Consequences of April 25th Revolution". In: Jorge Braga de Macedo, Simon Serfaty (Eds.), Portugal Since the Revolution: Economic and Political Perspectives. Boulder 1981, pp. 53-87.

Langhammer, Rolf J. [1980a], "EEC Trade Policies and Latin American Export Performance. A Discussion of Causalities". Intereconomics, Vol. 15, Hamburg 1980, No. 5, pp. 246-251.

-- [1980b], "Die Präferenzabkommen der Europäischen Gemeinschaft mit Entwicklungsländern. Anpassungsprobleme in den Beitrittsländern?" Die Weltwirtschaft, Tübingen 1980, H. 1, pp. 187-203.

Langhammer, Rolf J. [1980c], Multilateral Trade Negotiations among Less Developed Countries. A New Field for the GATT. Institut für Weltwirtschaft, Kiel Working Papers, 102, Kiel, March 1980. Abridged version as "Multilateral Trade Liberalization among Developing Countries". Journal of World Trade Law, Vol. 14, Twickenham 1980, pp. 508-515.

--, "Nationaler Protektionismus im Rahmen der EG-Handelspolitik, dargestellt am Beispiel der Industriegüterimporte aus ASEAN-Ländern". Die Weltwirtschaft, Tübingen 1981, H. 1, pp. 74-93.

Marsh, John S., "The Common Agricultural Policy and the Mediterranean Countries". In: Avi Shlaim, George N. Yannopoulos (Eds.), The EEC and the Mediterranean Countries. Cambridge 1976, pp. 75-97.

Mateus, Abel M., Policy Responses to External Shocks: A Case Study of Portugal. January 1981 (to be published by the OECD).

McKinnon, Ronald I., Money and Capital - Economic Development. Washington 1973.

Méndez Reyes, Tomás, Economías de escala en la industria - Teoría y métodos de estimación. Madrid 1975.

Moura, João, "Problemas e Política de emprego no continente". In: Fundaçao Calouste Gulbenkian, The German Marshall Fund of the United States (Eds.), Conferência Internacional sobre Economia Portuguesa, Lisboa 11.-13.10.1976. Lisbon 1977, pp. 517-557.

Mouzelis, Nicos P., Modern Greece - Facets of Underdevelopment. London 1978.

Murray, Tracy W., Trade Preferences for Developing Countries. London 1977.

--, Wilson Schmidt, Ingo Walter, "Alternative Forms of Protection Against Market Disruption". Kyklos, Vol. 31, Basel 1978, pp. 624-637.

Musto, Stefan A., "Die Süderweiterung der Europäischen Gemeinschaft". Kyklos, Vol. 34, Basel 1981, pp. 242-271.

Neef, Arthur, "Unit Labor Costs in the United States and 10 Other Nations". Monthly Labor Review, Vol. 95, Washington 1972, No. 7, pp. 3-8.

--, P. Capdevielle, "International Comparisons of Productivity and Labor Costs". Monthly Labor Review, Vol. 103, Washington 1980, No. 12, pp. 32-39.

Nikolaou, Kalliope, "The New Members of the EEC: The Case of Greece". Economia, Vol. 4, Lisbon 1980, pp. 465-493.

Noé, Claus, "The Scope of a Common Regional Policy". In: Comments on "Economic Policy for the European Community - The Way Forward". Institut für Weltwirtschaft, Kiel Discussion Papers, 38/39, Kiel, June 1975, pp. 57-59.

Organisation for Economic Co-Operation and Development (OECD), The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures. Report by the Secretary-General, Paris, 1979.

Pasca, Roberto, "Mediterranean Agricultural Trade Probelms and the Effects of the EC Policies". European Review of Agricultural Economics, Vol. 5, Paris 1978, pp. 221-254.

Payne, Stanley G., Spain and Portugal. Madison 1973.

Pintado, V. Xavier, Structure and Growth of the Portuguese Economy. Geneva 1964.

Pomfret, Richard W.T., "The Impact of EEC Enlargement on Non-Member Mediterranean Countries' Exports to the EEC". The Economic Journal, Vol. 91, Cambridge 1981, pp. 726-729.

--, Benjamin Toren, Israel and the European Common Market - An Appraisal of the 1975 Free Trade Agreement. Kieler Studien, 1961, Tübingen 1980.

--, Alfred Tovias, "The Global Mediterranean Policy of the EEC". In: Herbert Giersch (Ed.), The Economic Integration of Israel in the EEC. Tel Aviv Conference, Tübingen 1980, pp. 41-67.

Puig Bastard, Pere, et al., La industria española ante la CEE - Análisis del impacto comercial y de la capacidad competitiva desde la perspectiva del desarme arancelario. Madrid 1979.

Reister, Erwin, Haushalt und Finanzen der Europäischen Gemeinschaften. Baden-Baden 1975.

Resnick, Stephen A., Edwin M. Truman, "An Empirical Examination of Bilateral Trade in Western Europe". In: Bela Balassa (Ed.), European Economic Integration. Amsterdam 1975, pp. 41-78.

Richardson, Harry Ward, Regional Development Policy and Planning in Spain. Westmead 1975.

Rodemer, Horst, Die EG-Agrarpolitik. Ziele, Wirkungen, Alternativen. Kieler Studien, 164, Tübingen 1980.

Roque Amaro, Rogério, "A Agricultura Portuguesa perante a C.E.E.". Análise Social, Vol. 14, Lisbon 1978, pp. 279-310.

Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung, Unter Anpassungszwang. Jahresgutachten 1980/81. Stuttgart 1980.

Schmitt, Günther, "Analyse und Prognose des Agrarsektors als Grundlage der Politikberatung - Thesen aus der Sicht der Agrarpolitik". Agrarwirtschaft, Vol. 27, Hannover 1978, pp. 193-194.

Schwartz, Pedro, "The Role of State Investment Companies in Spain". In: Brian Hindley (Ed.), The Role and the Performance of State Investment Companies in Western Europe. Forthcoming.

--, Manuel-Jesús González, Una historia del Instituto Nacional de Industria, 1941-1976. Madrid 1978.

Seers, Dudley, Constantine Vaitsos (Eds.), with the assistance of Marja-Liisa Kiljunen, The Second Enlargement of the EEC - The Integration of Unequal Partners. London 1982.

--, Bernard Schaffer, Marja-Liisa Kiljunen (Eds.), Underdeveloped Europe: Studies in Core-Periphery Relations. Institute of Development Studies, University of Sussex, Hassocks 1979.

Sen, Amartya K., On Economic Inequality. Oxford 1973.

Shaw, Edward S., Financial Deepening in Economic Development. New York 1973.

Silva Ferreira, António da, "Une évaluation des échanges entre la Portugal et la CEE". Economía, Vol. 3, Lisbon 1979, pp. 37-61.

Simões Lopes, Antonio, "Regional Development and Integration". In: Fundação Calouste Gulbenkian, The German Marshall Fund of the United States (Eds.), 2ª Conferência Internacional sobre Economia Portuguesa, Lisboa 26.-28.9.1979, Lisbon 1980, pp. 819-847.

Solbes Mira, Pedro, La adhesión de España a la CEE - Los efectos sobre la protección exterior a la agricultura. Madrid 1979.

Sousa, Alfredo de, "Funções de produção com elasticidade de substituição constante na indústria transformadora portuguesa". Economía, Vol. 1, Lisbon 1977, pp. 5-38.

Strasser, Daniel, Die Finanzen Europas. Bonn 1979.

Thirlwall, Anthony P., "Regional Economic Disparities and Regional Policy in the Common Market". In: Harry Gordon Johnson (Ed.), The New Mercantilism. Oxford 1974, pp. 104-125.

Thorbecke, Erik, in collaboration with Emilio Pagoulatos, "The Effects of European Economic Integration on Agriculture". In: Bela Balassa (Ed.), European Economic Integration. Amsterdam 1975, pp. 275-325.

Thoroe, Carsten, "Renationalisierung der Einkommenspolitik. Ein integrationsfeindlicher Weg zur Reform der gemeinsamen Agrarpolitik?" In: Alternativen zur EG-Preispolitik. Loccumer Protokolle 5/1980, Loccum 1980, pp. 32-49.

-- [1981a], "Changes in the Regional Growth Pattern in the European Community". In: Herbert Giersch (Ed.), Towards an Explanation of Economic Growth. Symposium 1980, Tübingen 1981, pp. 283-311.

-- [1981b], "Die europäische Agrarpolitik als Finanzausgleichsproblem". In: Dieter Pohmer (Ed.), Probleme des Finanzausgleichs, 3: Finanzausgleich im Rahmen der Europäischen Gemeinschaften. Schriften des Vereins für Socialpolitik, N.F., Vol. 96/3, Berlin 1981, pp. 85-123.

Thoroe, Carsten [1981c], "Regionale Probleme in einer erweiterten Gemeinschaft und der regionalpolitische Beitrag der gemeinsamen Agrarpolitik". In: Reimar von Alvensleben, Ulrich Koester, Harmen Storck (Eds.), Agrarwirtschaft und Agrarpolitik in einer erweiterten Gemeinschaft. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Vol. 18, Münster-Hiltrup 1981, pp. 471-495.

Tovias, Alfred, Tariff Preferences in Mediterranean Diplomacy. Trade Policy Research Centre, London 1977.

--, The Mediterranean Challenge, 3: EEC Enlargement - The Southern Neighbours. Sussex University Research Centre, Sussex European Papers, No. 5, Brighton 1979.

Tsekouras, Jannis, Wachstum und Strukturwandel in der griechischen Wirtschaft. Basel 1971.

Tsoukalis, Loukas, The European Community and Its Mediterranean Enlargement. London 1981.

Vaubel, Roland, Strategies for Currency Unification - The Economics of Currency Competition and the Case for a European Parallel Currency. Kieler Studien, 156, Tübingen 1978.

--, Choice in European Monetary Union. Ninth Wincott Memorial Lecture. The Institute of Economic Affairs, Occasional Papers, 55, London 1979.

Viaene, Jean-Marie, A Customs Union between Spain and EEC: An Attempt at Quantification of the Long-Term Effects in a General Equilibrium Framework. Ph.D. Thesis, University of Pennsylvania, 1980.

Vicens Vives, Jaime, An Economic History of Spain. Princeton 1969.

Viñas, Angel, et al., Política comercial exterior de España (1931-1975). Madrid 1979.

Vries, Tom de, On the Meaning and Future of the European Monetary System. Princeton University Essays in International Finance, No. 138, Princeton, September 1980.

Wallace, Helen, "The Establishment of the Regional Development Fund: Common Policy or Pork Barrel?" In: Helen Wallace, William Wallace, Carole Webb (Eds.), Policy Making in the European Communities. London 1977, pp. 137-163.

--, William Wallace, Carole Webb (Eds.), Policy Making in the European Communities. London 1977.

Weston, Ann, Vincent Cable, Adrian Hewitt, The EEC's Generalised System of Preferences: Evaluation and Recommendations for Change. London 1980.

Williamson, Jeffrey G., "Regional Inequality and the Process of National Development". Economic Development and Cultural Change, Vol. 13, Chicago 1965, No. 4, Pt. 2, pp. 3-84.

Williamson, John, Anthony Bottrill, "The Impact of Customs Unions on Trade in Manufactures". In: Melvyn B. Krauss, (Ed.), The Economics of Integration. London 1973, pp. 118-151.

Wissenschaftlicher Beirat beim Bundesministerium für Ernährung, Landwirtschaft und Forsten, EG Erweiterung: Agrarpolitische Probleme einer Erweiterung der EG. Schriftenreihe des Bundesministers für Ernährung, Landwirtschaft und Forsten, Reihe A: Landwirtschaft - Angewandte Wissenschaft, H. 239, Münster-Hiltrup 1980.

Wright, Alison, The Spanish Economy 1959-1976. London 1977.

Yannopoulos, George N., "The Mediterranean Policy of the EEC: Its Impact on the Associated Developing Countries". Journal of World Trade Law, Vol. 11, Twickenham 1977, pp. 489-500.

--, "The Effect of Full Membership on the Manufacturing Industries". In: Loukas Tsoukalis (Ed.), Greece and the European Community. Westmead 1979.

Yeats, Alexander J., Trade Barriers Facing Developing Countries. London 1979.

Statistical Sources and Documents

Bairoch, Paul, et al., La population active et sa structure. The Working population and its structure. Statistiques Internationales Rétrospectives, Vol. 1, Brussels 1968.

Banco de Bilbao [a], Informe Económico. Bilbao 1980.

-- [b], Renta Nacional de España. Bilbao, various issues.

Banco Exterior de España, Arancel de Aduanas. Madrid, various issues.

Bank of Greece, Monthly Statistical Bulletin. Athens, various issues.

Bundesministerium für Ernährung, Landwirtschaft und Forsten, Statistisches Jahrbuch über Ernährung, Landwirtschaft und Forsten der Bundesrepublik Deutschland. Hamburg, various issues.

Bundesministerium der Finanzen, Der Haushalt der Europäischen Gemeinschaft 1981. Bonn 1981.

Commission Centrale d'Elaboration du Plan de Développement Economique, Plan du développement économique de la Grèce 1968-1972. Athens 1968.

Deutscher Bundestag, 8. Wahlperiode, Auswärtiger Ausschuß (3. Ausschuß), Protokoll Nr. 32 und 33. Bonn, May 29 and 31, 1978.

--, Agrarbericht der Bundesregierung 1981. Bundestagsdrucksache 9/141, Bonn 1981.

Diário da Republica. I Série, Numero 141, Portaria No. 331/78, Lisbon, June 6, 1978.

The Economist Intelligence Unit (EIU) [a], Quarterly Economic Review of Greece. London, various issues.

-- [b], Quarterly Economic Review of Portugal. London, various issues.

The Economist Intelligence Unit (EIU) [c], Quarterly Economic Review of Spain. London, various issues.

European Communities (EC)/Europäische Gemeinschaften (EG), Treaties establishing the European Communities. Treaties amending these Treaties. Documents concerning the accession. Luxemburg 1973.

-- [1978a], Amtsblatt: Mitteilungen und Bekanntmachungen. Vol. 21, C 262, Brussels 1978.

-- [1978b], Amtsblatt: Rechtsvorschriften. Vol. 21, L 263-267, L 269, Brussels 1978.

-- [1980a], EEC-Document 1-67/80, PE 63873, April 7, 1980.

-- [1980b], Official Journal of the European Communities. Vol. 23, C 298, Brussels 1980.

--, Appendix to Regulation No. 1303/81, May 12, 1981.

--, Commission, doc. COM (78)200, April 27, 1978.

--, --, Regional Incentives in the European Community: A Comparative Study. Brussels, July 1979.

--, Rat, Dokumente betreffend den Beitritt der Republik Griechenland zu den Europäischen Gemeinschaften. Brussels 1979.

Eurostat, Analysis of Trade between the European Community and the ACP States. Series: Trade Flows, Luxemburg 1979.

-- [1980a], Animal Production. Luxemburg 1980.

-- [1980b], Crop Production. Luxemburg 1980.

--, National Accounts Aggregates 1960-1979. Luxemburg 1981.

-- [a] Analytical Tables of Foreign Trade - NIMEXE. Luxemburg, various issues.

-- [b], Regional Statistics. Yearbook. Luxemburg, various issues.

-- [c], Yearbook of Agricultural Statistics. Luxemburg, various issues.

Food and Agriculture Organization of the United Nations (FAO) [a], Commodity Review and Outlook, 1979/80. FAO Economic and Social Development Series No. 17, Rome 1979.

-- [b], Production Yearbook. Rome, various issues.

International Labour Organisation (ILO), Yearbook of Labour Statistics. Geneva, various issues.

International Monetary Fund (IMF), International Financial Statistics. Washington, various issues.

Instituto Nacional de Estadística [a], Anuario Estadístico. Madrid, various issues.

-- [b], Estadística Industrial 1976. Madrid 1979.

Instituto Nacional de Estatística [a], Anuário Estatístico. Lisbon, various issues.

-- [b], Boletim Mensal das Estatísticas do Comércio Externo. Lisbon, various issues.

-- [c], Boletim Mensal das Estatísticas Industriais. Lisbon, various issues.

-- [d], Estatístico do Comércio Externo Portugal. Lisbon, various issues.

Ministerio de Hacienda [a], Boletín Oficial de Estado. Madrid, various issues.

-- [b], Estadística del Comercio Exterior de España, Comercio por Productos. Madrid, various issues.

National Statistical Service of Greece [a], Annual Industrial Survey for the Year 1974. Athens 1979.

-- [b], Statistical Yearbook of Greece. Athens, various issues.

Office National de Statistique de Grèce, Bulletin de Statistique du Commerce Extérieur. Athens, various issues.

Organisation for Economic Co-operation and Development (OECD) [a], Labour Force Statistics. Paris, various issues.

-- [b], Main Economic Indicators. Paris, various issues.

-- [c], National Accounts Statistics. Paris, various issues.

-- [d], Statistics of Foreign Trade. Series B, Paris, various issues.

United Nations (UN) [a], Commodity Trade Statistics. New York, various issues.

-- [b], Monthly Statistical Bulletin. New York, various issues.

-- [c], Yearbook of Industrial Statistics. New York, various issues.