

Ashoff, Guido

**Article — Digitized Version**

## The southward enlargement of the EC: Consequences for industries and industrial policies

Intereconomics

*Suggested Citation:* Ashoff, Guido (1980) : The southward enlargement of the EC: Consequences for industries and industrial policies, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 15, Iss. 6, pp. 299-307,  
<https://doi.org/10.1007/BF02924654>

This Version is available at:

<https://hdl.handle.net/10419/139713>

### Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

### Terms of use:

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# The Southward Enlargement of the EC

## Consequences for Industries and Industrial Policies

by Guido Ashoff, Berlin\*

**On January 1, 1981 the southward extension of the EC starts with the accession of Greece. Spain and Portugal are to follow suit in the near future. The consequences in the industrial sphere will be less spectacular than those in agriculture but still of considerable importance for the process of integration in a Community of Twelve.**

---

Although the gross domestic product, the per-capita GDP and particularly the industrial output are growing in Greece, Portugal and Spain at a markedly faster rate than in the EC of the Nine, these countries are still far behind the Community as regards their level of development. There are also substantial differences between the three acceding countries. The per-capita GDP of Spain is only about 50 % of the EC average but more than double that of Portugal and about as high as that of Ireland<sup>1</sup> (see Table 1).

The economic development of the acceding countries during the last twenty years was characterised by the rapid growth of industry. Its GDP share rose continuously at the expense of agriculture. In Portugal and Spain it already bears comparison with the level in the EC. The agricultural sector however still carries much more weight for production and employment, especially in Greece, and seeing that, besides, productivity in the agricultural sector is still much lower than in the EC, the transition from agriculturally-oriented to more extensively industrialized economies has clearly still some way to go. The incorporation in the Common Agricultural Market will speed this transition, at least as far as the employment structure is concerned. To what extent the workers released by agriculture can be absorbed into the industrial sector will depend not least on the terms of accession to the EC and focal points of the future industrial policy.

The rapid industrial growth was attended by a marked change of the industrial pattern, especially in Greece and Spain (see Table 2). There was a notable diversification of the industrial base. The predominance of the consumer goods industries

lessened while the share of the basic and capital goods industries increased. Only in Portugal has the structure of industry undergone little change. The mechanical engineering and metal processing industries raised their share of industrial production in all three countries, the chemical, basic metal and vehicle industries increased theirs in part. These are also the industries which employ a particularly high proportion of foreign capital<sup>2</sup>. Compared with the acceding countries, the industrial diversification in the Community is already past its peak and on a downward trend: the relative decline of the consumer goods industries and the increasing importance of the basic and capital goods industries are resulting in growing concentration.

In spite of the faster structural changes, the industrial pattern in the acceding countries still differs markedly from that in the EC. These differences are typical of partly industrialized countries. The traditional consumer goods industries are still most important while the capital goods industries in particular, and in Greece and Portugal also the basic and intermediate goods industries, are greatly underrepresented. Spain has attained the highest degree of diversification among the acceding countries: in some fields like chemicals, basic metals, metal processing and vehicle construction Spain's position matches the EC average; however, this is not the case in the important area of mechanical engineering. The industries of the

---

<sup>1</sup> Irish per-capita GDP in 1978: US\$ 3,780 (cf. OECD: International Comparisons, Paris 1980).

<sup>2</sup> Cf. N. Perdikis: Concentration and Foreign Domination in the Greek Manufacturing Sector, in: A. Peperasis et al.: The Mediterranean Challenge, Vol. IV, The Tenth Member, Sussex 1980, p. 210; ILO: Employment and Basic Needs in Portugal, Geneva 1979, p. 200; E. N. Baklanoff: The Economic Transformation of Spain and Portugal, New York 1978, p. 44, 46.

\* Deutsches Institut für Entwicklungspolitik.

acceding countries are therefore also characterized by a smaller degree of vertical integration, with the result of marked dependences on imports of industries at early stages in the production chain. These are reflected by high import ratios for these industries<sup>3</sup> as well as corresponding overproportional deficits in the subsectoral trade balance in question<sup>4</sup> (see Table 3)

The high growth rates cannot hide a number of structural weaknesses from which the industries of the acceding countries suffer to different degrees. A pointer to these is the low productivity: in 1976 it was in Greece 54 %, in Portugal 22 % and in Spain 48 % of the EC average (see Table 1).

□ If labour productivity is accepted as an indicator of capital intensity, these figures will be seen as direct

<sup>3</sup> Ratio of imports to domestic consumption; cf. W. Hummen: Greek Industry in the European Community – Prospects and Problems, Berlin 1977, p. 17; Plano de Médio Prazo de Portugal 1977-80, Vol. Energia, Indústrias Extractivas e Transformadoras, Lisbon 1977, p. 154-156.

<sup>4</sup> Table 3 shows only the trade deficits vis-à-vis the EC of the Nine which however is the acceding countries' most important trading partner for industrial products. A table covering their entire foreign trade, excluded for reasons of space, would reveal similarly marked deficits for the industries in question.

evidence that the industries of the acceding countries are on average considerably more labour-intensive than those of the EC although all three countries made major investment efforts during the sixties and seventies and the ratio of gross fixed capital formation to the GDP is similar to that in the EC and most OECD states. Their productivity, like their investments, has been rising faster than that in the EC. The productivity gains vary greatly however, which is not surprising in view of the different unit size patterns.

□ A characteristic feature of the acceding countries' economies is the dualism of a very large proportion of small enterprises side by side with a small number of larger and internationally competitive companies. There is a close connection between this and the mentioned lower capital resources. In Greece 93.5 % of all industrial firms employed less than 10 persons in 1973; in Portugal about 80 % of the firms employed about the same time not more than 10 persons; in Spain the firms with fewer than six employees accounted in 1977 for 72 %. Large enterprises with more than 100 employees accounted in Portugal for 2.6 %, in Spain for 1.4 % and in Greece for less than

**Table 1**  
**Selected Economic Indicators for Greece, Portugal, Spain, the EC of Nine and the Federal Republic of Germany**

	Year	Greece	Portugal	Spain	EC-9	FR Germany
Population ('000)	1978	9,360	9,820	36,778	259,666	61,327
GDP per capita (US\$)	1978	3,370	1,820	3,960	7,622	10,420
EC-9 = 100		44.2	23.9	52.0	100	136.7
Production structure <sup>a</sup> (%)	1976					
Agriculture		18.7	14.5	9.3	4.5	3.0
Industry (ISIC 2 - 5)		30.6	42.9	39.0	43.6	49.1
Manufacturing industry (ISIC 3)		20.1	34.0	26.8		38.3
Services, State		50.7	42.6	51.7	52.4	47.9
Employment structure (%)	1976					
Agriculture		30.1	33.9	21.6	8.5	7.1
Industry (ISIC 2 - 5)		29.6	33.5	37.2	40.1	45.6
Manufacturing industry (ISIC 3)			25.3	26.9		35.8
Services, State		40.4	32.6	41.2	51.5	47.3
Labour productivity <sup>b</sup>	1976					
Agriculture (US\$)		6,559	4,697	8,538	15,016 <sup>c</sup>	19,197
(EC-9 = 100)		43.6	31.3	56.9	100	127.8
Industry (ISIC 2 - 5) (US\$)		3,943	1,622	3,526	7,327 <sup>c</sup>	7,461
(EC-9 = 100)		53.8	22.1	48.1	100	101.8
Foreign trade share in GDP (%)	1978					
Imports (SITC 0 - 9)		24.2	28.9	12.7	23.2	18.9
Exports (SITC 0 - 9)		10.7	13.6	8.9	23.1	22.2
GDP share of foreign trade in industrial goods (%)	1978					
Imports (SITC 5 - 8)		16.1	17.0	5.6	14.0	11.2
Exports (SITC 5 - 8)		5.4	9.8	6.7	18.3	19.6
GDP share of gross fixed capital formation (%)	1977	23.4	19.5 <sup>d</sup>	21.3	20.6	20.9

<sup>a</sup>Gross product at market prices; <sup>b</sup>gross product at market prices per worker; <sup>c</sup>GDP contribution at market prices per worker; <sup>d</sup>1976.

Sources: OECD: International Comparisons (Paris 1980); OECD: National Accounts Statistics 1961-1978 (Paris 1980); OECD: Labour Force Statistics 1967-1978 (Paris 1980); Eurostat: Statistische Grundzahlen der Gemeinschaft 1979 (Brussels-Luxembourg 1979); UN: Yearbook of International Trade Statistics 1978 (New York 1979).

1 % (compared with 14 % in the Federal Republic of Germany in 1974). True, in the EC the proportion of small enterprises is also relatively high; in the Federal Republic of Germany for instance 43 % of all industrial firms in 1974 fell into the category with 1-9 employees, but they were far less important for employment (accounting for no more than 2 % of total employment compared with 42.2 % in Greece)<sup>5</sup>. Besides, the small enterprises in the acceding countries are for the most part not very specialized or productive.

□ The technological capacity of the acceding countries is lower than that of any EC member country. A pointer in this respect is the ratio of public and private spending on research and development to the GDP. In Greece it was 0.2 % (in 1976) and in Portugal and Spain 0.3 % (in 1976 and 1974 respectively). In the EC the corresponding figures are between 0.8 % (in Ireland in 1975 and in Italy in 1976) and 2.2 % (in the

Federal Republic of Germany in 1973)<sup>6</sup>. A similar picture emerges from the ratio of research and development spending by production enterprises to their gross fixed capital formation: Portugal (1976) 0.4 %, Spain (1974) about 1 %, Federal Republic of Germany (1975) 6.6 %, Ireland (1975) 2.6 %.<sup>7</sup>

<sup>5</sup> Cf. W. Hummen: Greece and the European Community. Problems and Prospects of Greek Small and Medium Industry, Berlin 1978, p. 35, 37; K. Eßer et al.: Portugal. Industrie und Industriepolitik vor dem Beitritt zur Europäischen Gemeinschaft (Portugal. Industry and industrial policy prior to the accession to the European Community), Berlin 1977, p. 75-76; R. Prodi, A. Cioè, F. Gobbo: La industria española y la ampliación de la CEE, Conference on Spain and the Enlargement of the EEC, Madrid, Jan. 17-19, 1979, p. 28; Statistisches Bundesamt: Statistisches Jahrbuch für die Bundesrepublik Deutschland 1976.

<sup>6</sup> Netherlands (1976) 2.1 %; United Kingdom (1975) 2.0 %; France (1975) 1.8 %; Belgium (1973) 1.4 %; Denmark (1973) 1.0 %; cf. UNESCO: Statistical Yearbook 1978-79, Paris 1980.

<sup>7</sup> Netherlands (1976) 6.5 %; United Kingdom (1975) 4.9 %; Belgium (1973) 3.9 %; France (1975) 3.8 %; Italy (1976) 2.5 %; Denmark (1973) 1.7 %; calculated on the basis of UNESCO, *ibid.*, and UN: Yearbook of National Accounts Statistics 1978, New York 1979.

**Table 2**  
**Branch Structure of the Manufacturing Industries of Greece, Portugal, Spain, the EC of**  
**Nine and the Federal Republic of Germany in 1963 and 1976**  
**(% shares of the industrial net product at current prices)**

ISIC	Branch of Industry	Greece		Portugal		Spain		EC-9 <sup>a</sup>		FR Germany	
		1963	1975	1964 <sup>b</sup>	1976	1963	1976	1963	1976	1963	1976
	<b>Consumer goods</b>	(68.0)	(58.7)	(58.5)	(61.7)	(51.2)	(45.6)	(41.1)	(34.8)	(40.0)	(31.4)
31	Food, drinks, tobacco	25.0	19.8	13.1	17.0	13.3	12.4	14.1	13.1	15.5	12.5
32	Textiles, clothing, leather products, shoes	24.0	22.1	25.0	21.5	19.4	14.3	12.0	7.7	10.0	6.2
33	Wood products, furniture	5.8	5.1	6.7	6.7	6.1	4.9	3.6	3.5	3.8	3.8
34	Paper products, printing	5.8	4.3	6.5	7.8	5.3	6.5	6.4	5.7	5.4	4.2
36 <sup>c</sup>	Goods made from mineral materials <sup>c</sup>	7.4	7.4	7.2	8.7	7.1	7.5	5.0	4.8	5.3	4.7
	<b>Basic and Intermediate Materials</b>	(12.4)	(20.6)	(17.1)	(14.7)	(24.3)	(25.4)	(21.9)	(24.9)	(24.2)	(25.9)
35 <sup>d</sup>	Chemical products <sup>d</sup>	10.6	14.6	13.7	11.9	15.9	18.4	13.9	17.5	13.8	17.3
37	Base metals (iron, steel, nonferrous metals)	1.8	6.0	3.4	2.8	8.4	7.0	8.0	7.4	10.4	8.6
	<b>Capital goods</b>	(18.4)	(19.8)	(22.5)	(23.1)	(23.9)	(28.1)	(34.9)	(39.6)	(35.7)	(42.6)
381	Metal products	6.5	6.7	6.0	6.1	6.8	9.2	6.5	7.3	6.6	7.6
382/3/5	Engineering (incl. electrical, instruments optical)	7.4	7.5	7.5	8.3	8.0	10.5	19.9	22.0	21.4	25.5
384	Vehicles, transport equipment	4.5	5.6	9.0	8.7	9.1	8.4	8.5	10.3	7.7	9.5
390	Others	1.1	1.0	1.9	0.4	0.5	0.8	2.2	0.7	—	—
3	<b>Manufacturing industry<sup>e</sup></b>	100	100	100	100	100	100	100	100	100	100
	Diversification index <sup>f</sup>	32.4	29.2	24.5	23.2	21.4	19.4	23.5	26.5	25.7	28.5
	Transformation index <sup>g</sup>	1.73		1.39		1.69		1.52		1.89	

<sup>a</sup>Excl. Ireland, partly estimated; <sup>b</sup>calculated from Portuguese industrial statistics; <sup>c</sup>partly overlapping with basic and intermediate materials industries (ISIC 369 stones and earths); <sup>d</sup>partly overlapping with consumer goods industries (ISIC 356 plastics products); <sup>e</sup>owing to rounding individual items do not always add up to 100. <sup>f</sup>calculated by the formula:  $D = \frac{1}{n} \sum_{i=1}^n |x_i - x_n|$ ;  $x_i$  = percentage share of industry  $i$  in the industrial net product;  $x_n$  = 100% divided by number of industries ( $n = 11$ ,  $x_n = 9.09$  %).  $D$  may vary between 0 (maximum diversification if  $x_i = x_n$ ) and 100 (minimum diversification). 100 is an extreme value obtained in theory if an infinite number of industries are assumed to exist and one industry tends to account for 100% of the net product ( $x_i \rightarrow 100$ ). In the present case  $D$  cannot be more than 90.9. <sup>g</sup>calculated by the formula:  $T = \frac{1}{n} \sum_{i=1}^n |x_{it_1} - x_{it_0}|$ ;  $x_i$  = share of industry  $i$  in the industrial net product in period  $t_1$  (in the present case 1976) or  $t_0$  (1963) respectively;  $n = 11$ .  $T$  measures the average change of the shares in the industrial net product of all industries over the period.

S o u r c e : Calculated from UN: The Growth of World Industry 1968, 1972 (New York 1970, 1974); UN: Yearbook of Industrial Statistics 1977 (New York 1979).

□ Development differentials compared with the EC also show up in the infrastructure. Those in transport facilities are illustrated by per-capita figures for the road and rail networks: Greece 4.0 and 0.27 km, Portugal 4.8 and 0.37 km, Spain 4.0 and 0.37 km, EC of the Nine 8.8 and 0.42 km. The total energy production is (in tonnes of crude oil equivalent per capita) as follows: Greece 0.40, Portugal 0.25, Spain 0.53, EC of the Nine 1.55<sup>8</sup>. The immaterial infrastructure (education) gives a similar impression.

□ Finally, the industries of the acceding countries show a marked regional concentration. In Greece the Athens area (with 0.3 % of the country's territory and about 30 % of its population) accounted for 50 % of the industrial production, 46 % of employment and 35 % of all enterprises (in 1972/73). In Portugal the two industrial zones of Lisbon-Setúbal and Porto-Braga (15 % of the territory and 52 % of the population) provided 69 % of the industrial production

and 65 % of employment (in 1977). In Spain 50 % of the industrial output (in 1975) originated in four industrial centres: Madrid, Barcelona, the Basque provinces and Valencia (36 % of the population)<sup>9</sup>. The regional concentration of industry is in some measure matched by a sectoral one. The modern industries are located mostly in the agglomeration areas while many of the traditional industries and small firms are situated outside these zones. The industrial concentration has resulted in regional differences in growth and incomes and a migration from the countryside into urban areas. International and interregional disparities which have been aggravated by the integration dynamism are already a serious problem for the economic and political cohesion of the EC. The second EC enlargement will exacerbate these difficulties.

<sup>8</sup> All figures for 1977 calculated on the basis of Eurostat: Statistische Grundzahlen der Gemeinschaft 1979, Brussels-Luxembourg 1979.

<sup>9</sup> Cf. Statistical Yearbook of Greece 1978, Athens 1979; W. Hummen: Greek Industry ..., op. cit., p. 22, 70; Estadísticas Industriais de Portugal 1977, Lisbon 1979; Plano de Médio Prazo de Portugal 1977-80, Vol. Política Regional, Lisbon 1977, p. 26; Banco de Bilbao: Renta nacional de España y su distribución provincial 1975, Bilbao 1977.

**Table 3**  
**Competitiveness and Specialization Pattern<sup>a</sup> of Greece, Portugal and Spain in the Industrial Trade with the EC of Nine in 1965 and 1977**

SITC	Product Group	Greece		Portugal		Spain	
		1965	1977	1965	1977	1965	1977
	<b>Consumer Goods</b>	(8.2)	(28.8)	(42.9)	(30.7)	(16.8)	(41.1)
0+1+4	Food, drinks, tobacco	51.5	40.9	58.0	23.3	39.3	62.7
65+84	Textiles, clothing, leather,						
+61+85	leather goods, shoes	-54.2	52.4	8.3	51.2	-23.2	47.1
63+82	Wood and cork products, furniture	-99.1	5.2	94.7	89.6	48.5	54.9
64	Paper, paper products, cardboard	-80.8	-94.6	-52.4	21.6	-94.2	4.4
66+81 <sup>b</sup>	Goods made from mineral materials, sanitary equipment, glassware, etc.	-98.2	-83.7	71.9 <sup>d</sup>	2.4	-76.5	-28.4
62+83+89	Other consumer goods	-89.1	-68.6	-85.3	-74.1	-38.7	19.6
	<b>Basic Materials and Intermediate Products</b>	(-94.4)	(-52.5)	(-77.5)	(-81.2)	(-65.9)	(-45.8)
5 <sup>c</sup>	Chemical products	-92.5	-70.5	62.7	-75.6	-69.5	-66.9
67+68	Iron, steel, non-ferrous metals	-96.8	-24.1	-93.2	-89.9	-84.2	-14.6
	<b>Capital Goods</b>	(-98.3)	(-95.8)	(-96.6)	(-70.1)	(-94.3)	(-30.0)
69 <sup>c</sup>	Metal products	-95.2	-64.0	-81.2	-62.3	-78.0	7.4
71+72+86	Mechanical, electrical and instrument engineering	-98.8	-96.0	-98.3	63.1	-95.7	58.6
73	Vehicles, transport equipment	-98.2	-98.8	-99.3	-93.0	-90.6	30.3
0+1+4, 5 to 8	Manufacturing industry (incl. food, drinks, tobacco)	-62.1	40.8	-36.5	-39.8	-51.2	9.2
5 to 8	Manufacturing industry (excl. food, drinks, tobacco)	-93.4	-54.5	-54.3	45.7	-80.2	-22.4

<sup>a</sup>Indices calculated by the formula:  $C_i = \frac{X_i - M_i}{X_i + M_i} \times 100$  ( $X_i$  = exports of the industry in question;  $M_i$  = imports of industry in question). They may assume values anywhere between + 100 and -100. High positive (negative) figures suggest high (low) *absolute* competitiveness and a rather more complementary division of labour (inter-industrial specialization). Figures near 0 point to rather more substitutive exchanges (intra-industrial specialization). An indication of the *comparative* competitiveness is obtained by comparison of the  $C_i$  figures for individual branches of industry with the figure  $C$  which applies to the entire industry according to the formula:  $RCA = \frac{1}{2} (C_i - C) = \frac{1}{2} \left( \frac{X_i - M_i}{X_i + M_i} - \frac{X - M}{X + M} \right) \times 100$  ( $X$  = exports and  $M$  = imports of the entire industry; corresponding to the coefficient  $\frac{1}{2}$ ,  $RCA$  may assume any value between +100 and -100.) Positive (negative) figures suggest comparative advantages (disadvantages). A corresponding table of  $RCA$  figures has been omitted for reasons of space but comparisons can be easily made on the basis of the above figures. <sup>b</sup>partly overlapping with basic materials and intermediate products; <sup>c</sup>partly overlapping with consumer goods; <sup>d</sup>diamonds from the former colonies account for nearly 90 % of the exports under this heading.

Source: Calculated from OECD: Statistics of Foreign Trade, Series C 1965, 1977 (Paris 1966, 1979).

The growth achievements and persisting structural weaknesses in the industry of the acceding countries are the outcome of a development which has been marked by intensified industrialization efforts and opening of their economies to the outside world. This trend, in progress since the early sixties, has concurred with the maintenance of a relatively high level of protectionism designed to shield the home market.

Until 1959/60 Portugal pursued a chiefly autarchic-colonial economic policy without a pronounced promotion of her industry. Spain followed from the end of the civil war until 1959 an outright policy of import substitution<sup>10</sup>. From about 1960 onwards the acceding countries (Greece already from the fifties) have been evolving a more intensive industrialization policy with extension of the infrastructure, import substitution, establishment of basic industries, promotion of industrial exports and foreign investments as its objectives.

They paid particular attention to opening up the West European economic region. Greece concluded an association agreement with the EEC in 1962. Portugal was one of the founder members of EFTA in 1960 and signed a free trade agreement with the EC in 1972. Spain has shown interest in a trade agreement with EC since 1962 and concluded such an agreement in 1970. The agreements gave the acceding countries early access to the EFTA and EC markets; for trade in the opposite direction they provided long transition periods.

The results were essentially as follows:

□ The foreign trade grew appreciably faster than it had done in the fifties and almost continuously at a higher rate than did the GDP<sup>11</sup>. The dynamic advance of exports was in part attended by even higher growth rates of imports – a typical characteristic of rapid industrialization, especially in small countries. How far the acceding countries have gone in opening their economies is shown by the import ratio. In Portugal and Greece it is already above the EC average but still lower than in the smaller EC countries (Belgium, Denmark, Netherlands)<sup>12</sup>. Spain, in contrast, pursued

a more consistent policy of import substitution. On the export side less progress has been made than by countries in the EC, a fact which suggests, *inter alia*, lower competitiveness<sup>13</sup>.

□ The export pattern is one of increasing diversification<sup>14</sup>. Food, traditionally the most important commodity group, has lost much of its importance; only in Greece is it still the largest export item. Textiles/clothing/shoes (in Portugal the chief export group) and steel have gained relatively in all three countries. In Spain the shares of machines and means of transport have also increased and they are, together, now the country's biggest export item<sup>15</sup>.

□ The EC has become the most important market of the acceding countries for industrial products (SITC 5-8). Its share of these exports rose between 1965 and 1977 from about 35 to 50 % in Greece and Portugal and to 43 % in Spain. The gradual opening of the Common Market under the various trade agreements of the acceding countries with the EC made a major contribution to this. The EC's standing as a supplier of industrial products weakened slightly over the same period: from about 70 % to about 65 % in Portugal and Spain and 54 % in Greece. These shares are however still very high<sup>16</sup>.

□ Promotional measures by state authorities and the guaranteed political stability under dictatorial regimes gave rise to increasing investments by European and American enterprises, especially in the basic and capital goods industries. Their aim was to open the local market directly and thus to circumvent the import protection. In another type of foreign investment the acceding countries, especially Portugal and Greece, were by virtue of their low wage costs (about one-third to one-fifth of the German price level) regarded as suitable for relocatory investments to produce goods (clothing, electronics, etc.) for export.

□ Until the fifties the acceding countries specialized mainly in exporting goods benefiting from natural advantages (Ricardo goods), such as certain

<sup>10</sup> Cf. S. A. Musto: Spanien und die Europäische Gemeinschaft, Folgen und Probleme (Spain and the European Community, consequences and problems), Berlin 1977, p. 78.

<sup>11</sup> For the development of foreign trade since 1950 cf. the indices in UN: Yearbook of International Trade Statistics 1978, New York 1979.

<sup>12</sup> Cf. World Bank: World Tables 1980, Washington, DC, 1980.

<sup>13</sup> The EC countries' advantage from integration plays no longer a major role because the acceding countries (except Spain) have by now free access to the EC market for almost all industrial products.

<sup>14</sup> The degree of diversification can be determined globally by the formula:  $S = \frac{1}{2} \sum |h_{ij} - h_i|$  ( $h_{ij}$  = share of product  $i$  in the exports of country  $j$ ,  $h_i$  = share of product  $i$  in world exports). The index measures the deviation of the export structure of a country from the world structure and may be any figures between 100 (minimum diversification) and 0 (maximum diversification). The figures for the acceding countries and the years 1968 and 1976 are as follows: Greece: 0.760 and 0.670, Portugal 0.641 and 0.612, Spain 0.555 and 0.459; for comparison: Federal Republic of Germany 0.355 and 0.376. Cf. UNCTAD: Handbook of International Trade and Development Statistics 1979, New York 1979.

<sup>15</sup> SITC divisions 0 + 1 + 4, 65 + 84 + 85, 67 + 68; cf. UN: Yearbook of International Trade Statistics 1968, 1978, New York 1970, 1979.

<sup>16</sup> Calculated in both years for the EC of the Nine from OECD: Trade by Commodities, Series C 1965, 1977, Paris 1966, 1979.

foodstuffs, wines, some wood and cork products. In the sixties and seventies they specialized (in addition) increasingly in relatively labour-intensive products like textiles, clothing, leather, shoes, furniture and in part also in paper products, mineral goods, and miscellaneous consumer goods and metalware, thus availing themselves of the comparative advantages of resource endowment (Heckscher/Ohlin goods)<sup>17</sup>. The trend is shown in broad outline in Table 3<sup>18</sup>. It is noticeable that Spain has acquired comparative advantages in vehicle production. The relative advantage of Greece and Spain in the iron/steel/nonferrous metals group is, essentially, due to natural advantages springing from their raw material base. The comparative disadvantages of the acceding countries occur mainly in the basic and intermediate goods sectors and the investment goods industries. The level of intra-industrial specialization is generally low; the predominant type of specialization is that of complementary division of labour.

Accession to the EC will not provide additional export opportunities for Greece and Portugal because both these countries have been enjoying free access to the common market for industrial products since 1974 and 1976 respectively. The only important exception are a number of textile and clothing products which are subject to quantitative import restrictions by the EC; these have affected the exports from Greece in particular<sup>19</sup>. The acceding countries are looking forward to the discontinuation of these restrictions (in form of so-called orderly marketing agreements) as an

important benefit. Under the trade agreement with Spain the EC lowered its external tariff rates by an average of 57 %, so that the nominal tariff protection against industrial goods imports from Spain is now about 3.3 %<sup>20</sup>. EC membership will give to Greece and Spain free access also to the EFTA market (the free trade zone linked to the EC). Portugal's position will not change in this respect as she is an EFTA member.

Owing to their higher tariff and non-tariff barriers the acceding countries will experience a much greater measure of import liberalization. They will have to open their markets not only to the EC but to the third countries exempted from customs duties under various agreements (EFTA, developing countries covered by the Lomé Convention and the system of generalized preferences). Free trade exchanges will, furthermore, take place between the acceding countries, a step of special importance for Spain and Portugal.

Greece lowered her tariff rates vis-à-vis the EC under the provisions of her association agreement on May 1, 1980 to 32 % of the original level, equivalent to an average nominal protection at present of 11.3 %. The existing rates apply to about 30 % of Greek imports from the EC but affect virtually all the industries in Greece. The average tariff protection against third countries amounts to 13.2 %<sup>21</sup>. Portugal still subjects about 60 % of her imports from the EC to customs duties; these have been brought down to 20 and 30 % respectively of the original level<sup>22</sup>. The degree of protection available at present cannot be ascertained without extensive calculations because the Portuguese customs tariff is based on specific duty rates the nominal equivalent of which is changed all the time by exchange rate fluctuations and inflation. Calculations for previous years which indicate an average protection of 19.2 % vis-à-vis the EC and 31.1 % vis-à-vis other countries (1974)<sup>23</sup> must therefore be interpreted with caution, to say nothing of the later tariff cuts under the trade agreement. Spain has lowered her tariff for EC goods only by an average

<sup>17</sup> Calculations concerning the factor intensities of industry in the acceding countries are found in J. B. D o n g e s, K. W. S c h a t z: *Muster der industriellen Arbeitsteilung im Rahmen einer erweiterten Europäischen Gemeinschaft* (Pattern of industrial division of labour in the compass of an enlarged European Community), in: *Die Weltwirtschaft*, 1980, No. 1, p. 170; K. E b e r et al.: *Überlegungen zur portugiesischen Industriepolitik angesichts des Beitritts zur EG* (Reflections on the Portuguese industrial policy in the light of the accession to the EC), Berlin 1980, p. 75-76.

<sup>18</sup> Table 3 shows the specialization pattern of the acceding countries in regard to their trade with the EC. A similar table for their world trade had to be omitted for reasons of space but the rough specialization pattern recognizable in Table 3 does not differ significantly from that of the total foreign trade of the acceding countries.

<sup>19</sup> Cf. G. A s h o f f et al.: *Industriepolitik Portugals und Krisenindustrien in der Europäischen Gemeinschaft* (Portugal's industrial policy and distressed industries in the European Community). Fallstudie Textil und Bekleidung (Case study: Textiles and clothing), Berlin 1980, p. 107.

<sup>20</sup> The EC's Common External Tariff (CET) has been reduced for Spain by 40 and 60 % respectively – on the basis of the 1976 imports by an average of 57 %. Cf. EC Commission: *Statement on Spain's application for membership*, in: *Bulletin of the European Communities* 9/78, p. 22. The EC duties on imported industrial goods (SITC 5-8) average in the unweighted arithmetical mean including zero tariff items 7.6 % (Jan. 1, 1976): Calculated from W. H u m m e n: *Greek Industry . . .*, op. cit., p. 72. This gives a figure of 3.3 % for Spain. The effective protection is however higher. Spain can expect an above-average tariff reduction by the EC for textiles, clothing, shoes, paper products and metal goods.

<sup>21</sup> Cf. EC Commission: *Statement on the Greek application for membership*, in: *Bulletin of the European Communities* 2/76, p. 12-13; the present nominal averages have been calculated from Hummen's figures for 1976 with appropriate adjustments for later changes. Cf. W. H u m m e n: *Greek Industry . . .*, op. cit., p. 72.

<sup>22</sup> Cf. EC Commission: *Statement on Portugal's application for membership*, in: *Bulletin of the European Communities* 5/78: the 1979 protocol amending the free trade agreement of 1972 deferred the reduction of the Portuguese tariff rates which was to have taken place in 1980, to the year 1983.

<sup>23</sup> Cf. R. J. L a n g h a m m e r: *Die Präferenzabkommen der Europäischen Gemeinschaft mit Entwicklungsländern: Anpassungsprobleme in den Beitrittsländern?* (The preference agreements of the European Community with developing countries: Adjustment problems in the acceding countries?), in: *Die Weltwirtschaft* 1980, No. 1, p. 192.

of 26 %. Imports of industrial goods from the EC are subject to an average customs burden of 13.3 % and those from third countries of 18 % (1976)<sup>24</sup>.

Typical of the situation in all three acceding countries is the overproportional protection for traditional consumer goods industries (textiles, clothing, leather goods, shoes, wooden articles, furniture and, in part, metalware and rubber products) – which means for the old-established trades. Below-average protection is given to most basic and investment goods industries, i.e. the industries which are far less advanced than, for instance, in the EC and work with a relatively high proportion of foreign capital. Spain is in this respect in an exceptional position as far as her more strongly expanded investment goods industries are concerned. Another feature is the greater protection of end-products compared with semi-manufactures; the effective protection is thus even greater. Finally, there exist many non-tariff import barriers to which some authors attach even greater importance than to the tariff protection<sup>25</sup>.

The dismantlement of protection in the compass of EC accession will pose substantial adjustment problems for the three countries because of their lower overall competitiveness and the structural weaknesses of their industries. The EC and the EFTA for this reason conceded long transitory periods (in part up to 25 years) under previous trade agreements with the acceding countries, and in the case of Portugal for instance these have already been extended several times. The trade-creating effects will be greatest in the areas with the highest protection and most price-sensitive demand, which means as a rule in the

traditional consumer goods industries. These are the fields in which the acceding countries will encounter new competition from the developing countries with competitive advantages due to their even lower wage costs. Many small enterprises, which are especially numerous in these trades, will be unable to withstand the growing import pressure, so that considerable negative effects on employment must be expected<sup>26</sup>, in spite of the fact that these same industries have proved especially competitive in the export trade of the acceding countries. This success in the export business derives from activities of a limited number of larger and modern enterprises including foreign ones. In view of the fact that the accession to the EC will not create major export opportunities and thereby export-induced improvements in employment, the balance of trade will in all probability worsen in the medium term and the existing strains in the labour market<sup>27</sup> and the regional problems will be aggravated.

In the sphere of the basic and capital goods industries the trade-creating effects will probably not be felt to the same extent (owing to lower protection and existing foreign enterprises). The competition of imported goods will however be felt by the firms which are not yet up to international competitive standards. Besides, it will be more difficult to establish new enterprises as foreign competitors already enjoying economies of scale have free access while the national production originates, during the incipient period, in plants with lower capacities and higher unit costs than those pertaining elsewhere<sup>28</sup>. The complete opening of their markets will thus tend to perpetuate the extant typical structure of partly industrialized countries, especially in Greece and Portugal. This is a problem for which the trade agreements with the EC in force now make allowance by giving the acceding countries the possibility of delaying tariff reductions for "infant" industries in exceptional cases or introducing new duties for limited periods in particular instances.

It may be argued on the strength of the conventional theory of foreign trade that the integration of countries at different levels of development (and resource endowment) is particularly advantageous because they will have even greater opportunities for specialization in accordance with their comparative advantages<sup>29</sup> and for achieving, in addition, dynamic

<sup>24</sup> Cf. R. J. Langhammer, *ibid.*, p. 192.

<sup>25</sup> E. g. A. Mitsos: *The Greek Industry in the European Community: Facing the Reality*, Second Conference on Integration and Unequal Development: The Implications of the Second Enlargement of the EEC, Madrid, Oct. 15-19, 1979, p. 3. Mention should be made as regards Greece of quantitative restrictions, tax imposts, cash deposit requirements, as regards Portugal of import licences and for a time cash deposit stipulations, and as regards Spain of various levies including the import equalization tax.

<sup>26</sup> This assumption is borne out by the experience in Ireland where a quarter of the jobs in manufacturing industry were lost between 1973 and 1977, owing to the recession caused by the oil crisis but also by the accession to the EC which resulted in larger imports from Great Britain and developing countries and, besides, caused labour costs to rise substantially after the adoption of the EC's agricultural policy (higher consumer prices). Cf. A. Coughlan: *The Impact of European Integration on Ireland: A Case Study*, First Conference on Integration and Unequal Development, Sussex, May 29-June 2, 1979, p. 5-6.

<sup>27</sup> The official unemployment figures were 11.2 % for Spain (first quarter of 1980), 8.2 % for Portugal (end-1979) and a little over 3 % for Greece (end-1979). Cf. OECD: *Main Economic Indicators* August 1980; *Economic Survey Portugal* July 1980; *Economic Survey Greece* August 1980. A large share of the unemployed (young people, rural unemployed) is often not included in the figures, so that the real unemployment is higher. The Portuguese press is mentioning figures of 14-16 %.

<sup>28</sup> Cf. W. Hummen: *Harmonisierung versus länderspezifische Differenzierung des industriepolitischen Instrumentariums: Der Fall Griechenland* (Harmonization versus differentiation of the tools of industrial policy for specific countries: The case of Greece), in: *Deutsches Institut für Entwicklungspolitik: Zur Erweiterung der Europäischen Gemeinschaft in Südeuropa*, Berlin 1977, p. 34.

<sup>29</sup> Cf. J. B. Donges, K. W. Schatz, *op. cit.*, p. 160.



integration gains (through economies of scale, increased efficiency of production as a result of stronger competition, acceleration of economic growth). There is no doubt that the strengthening of competition due to integration is desirable from the point of view of industrial policy in order to eliminate unproductive structures and to raise the efficiency of the productive apparatus. There is an imperative need for this in the acceding countries. However, their principal industrial problem in the future will be to coordinate the pace of the indispensable structural changes with the demands of employment policy.

Do the specialization-induced integration effects offer a solution to this problem? It can be seen from Table 3 that the comparative advantages of the acceding countries in trade with the EC arise in their traditional industries most of which are labour-intensive. In Spain they include several modern industries such as vehicle production. However important it is for the acceding countries to exploit these comparative advantages so as to achieve positive export and employment effects, it would create more problems than it would solve if this kind of specialization were made the sole basis of the future industrial policy. This conclusion derives from the following considerations:

□ The undeniable growth and export successes due to the mentioned specialization of the acceding countries up to the early seventies will not be repeated to a similar extent because the demand for the products concerned is expanding only slowly while the number of suppliers is increasing rapidly in consequence of the industrialization of the developing countries. Besides, a continuation of the low-wage policy pursued under dictatorial regimes will be politically impracticable in the longer term, to say nothing of the fact that the level of wages will probably rise and the wage differential compared with the developing countries will if anything widen after the accession to the EC when the social-policy parameters are equalized. To ensure their competitiveness, the acceding countries will therefore have to resort to more rationalization, which means that the opportunities for creating new jobs will be limited<sup>30</sup>.

□ Essential for the success of the described specialization pattern is, besides, willingness of the integration partner to withdraw from relatively labour-intensive industries in which higher wage costs put them at a comparative disadvantage, and it can certainly not be taken for granted that the EC is willing to oblige. The example of the textile and clothing

industry suggests that the EC would rather try to lessen external adjustment pressure by means of import restrictions until rationalization and modernization create a new set of advantages than allow these industries to be completely relocated. Demands can be heard from industrial circles that the present quantitative restrictions on goods from the acceding countries should be retained for a protracted transition period after they have joined the EC. A legal basis for this is provided, for instance, by the general escape clause which has in fact been inserted in the accession treaty with Greece (Art. 130).

□ Even if EC membership gives to the acceding countries unrestricted access to the Community market, it can be foreseen that one-sided specialization in favour of relatively labour-intensive industries on the part of the acceding countries will increase the EC's potential for protectionism. It cannot be ruled out that the older EC members will compensate for the increased competition by the new members by imposing greater import restrictions on third countries. The acceding countries will have an equal interest in shielding their enlarged market against undesirable competitors. Persistent protectionism would however curtail the EC's scope for trade and cooperation and thereby jeopardize its raw material supplies and sales markets and put political interests (e. g. in the Mediterranean region) at risk. For this reason alone if for no other must the EC be interested in a broader-based industrial development in the acceding countries.

□ In the acceding countries one-sided specialization according to (present) comparative advantages would imply a withdrawal of production factors from industries with comparative disadvantages because their allocation to these is not of optimum benefit. Apart from the fact that such a withdrawal would encounter very great practical difficulties and almost insuperable political obstacles (the production capacities in question were established in recent years by means of massive exertions), a glance at Table 3 shows that such action would perpetuate the existing industrial structure; the division of labour with the EC would continue to be complementary<sup>31</sup>. It has been demonstrated, however, by the pattern of trade

<sup>30</sup> Studies for Portugal for instance have shown that the indispensable modernization of the textile and clothing industry will have considerable negative effects on employment which it will in all probability be impossible to balance by accession-induced exports. The net effect will thus be negative. Cf. G. A s h o f f et al., op. cit., p. 103.

<sup>31</sup> It can be easily seen from Table 3 what Spain's industrial structure would be today if the country had concentrated in the mid-sixties solely on the industries with comparative advantages.

between industrialized countries that substitutive exchanges (intra-industrial specialization) release high growth impulses. Another consideration is that the growth and employment effects springing from vertical integration of production areas would be not utilized nor would use be made of the longer-term opportunities for substitution of imports which are now a heavy burden on the balance of trade.

These reflections lead to the conclusion that the acceding countries must design their industrial policies so as to cover a wider field if they are not to lag farther behind the EC in their structural development. Whilst still promoting the traditional industries in which the comparative advantages have arisen until now (modernization, advancement of efficiency), they should further the expansion of the basic and intermediate goods industries at least to the extent that they can meet the countries' own requirements in important product areas and assist in the establishment of new (infant) industries in the investment and durable consumer goods sectors. Spain will find this easiest because there is a larger home market, the economic development has reached a higher level and the industrial basis is broader, but some of the requisite conditions exist also in Greece and Portugal (e. g. in the steel, petrochemical and vehicle industries). A versatile industrial policy will be needed as will special forms of cooperation with foreign capital, tolerance in matters bearing on integration policy, and financial assistance by the EC<sup>32</sup>.

The fact that a number of EC industries are facing a structural crisis creates a conflict of interests between the Community and the acceding countries. In certain areas the EC's interests are opposed to the recommendation of specialization according to comparative advantages (in textile/clothing) and the outlined concept of wider industrialization (steel, chemical fibres, shipbuilding)<sup>33</sup>. While the EC tries to reduce surplus capacity and devise restructuring programmes and at the same to safeguard the domestic market against import competition, the

acceding countries are to some extent aiming at extending such industries (e. g. petrochemicals, in Portugal and Greece also steel). Strict application of the Community rules (e. g. the EC emergency programme for the steel and shipbuilding industries) would force the acceding countries to forgo a vertical integration of industry and thus to bear the consequences of a crisis which they did not bring about.

It must be the prime objective of the EC to resist a widening of the development differential between the new and old Community members so as to avoid constant conflicts which may jeopardize the policy of integration and perpetuate protectionist practices against third countries. Because of the required trading concessions and financial contributions it may not be in the short-term interest of the EC to encourage speedier and more broadly-conceived industrialization of the acceding countries but it is in its long-term interest to do so because this creates the prerequisites for more intensive relations with these countries in the sphere of trade, technology, etc.

It is doubtful whether the necessary restructuring process can be completed in the acceding countries in a general transition period of five years as arranged under the treaties of accession of the first EC enlargement and also with Greece. Longer transition periods will probably be needed in order to avoid massive employment and balance-of-payments crises. The traditional industries should be exposed gradually to international competition so as to avoid conservation of inefficient structures and the transition periods should be coordinated with concrete restructuring plans as well as supplementary employment and regional programmes in the acceding countries.

It would be advisable to consider longer transition periods for "new" industries, possibly with special tariffs similar to the arrangements in the existing trade agreements with the EC. In the "sensitive" industries the acceding countries should be allowed to build up their own production to a level that enables them to meet their own requirements of standard products by modern technological processes. In addition they will need anticipatory structural assistance similar to the present pre-accession aid for Portugal so as to facilitate improvements of infrastructure and education, the restructuring of small and medium-sized industries and the establishment of modern industries. A quantitative and qualitative reorientation of the EC's financial instruments is probably indispensable for this purpose.

<sup>32</sup> This policy and the instruments required for it are discussed at length in K. Eßer et al.: *Überlegungen zur portugiesischen Industriepolitik* . . . , op. cit.

<sup>33</sup> These problems have been examined in detail by Deutsches Institut für Entwicklungspolitik in a research project drawing on Portugal and in part also on Spain as examples. Cf. G. Ashoff et al., op. cit.; K. Eßer: *Industriepolitik Portugals und Krisenindustrien der Europäischen Gemeinschaft. Fallstudie Chemiefasern* (Case study chemical fibres), Berlin 1979; A. Eußner: *The Spanish Shipbuilding Industry and the Accession of Spain to the EEC. Adjustment Requirements and Problems*, Berlin 1979; A. Eußner: *Industriepolitik Portugals und Krisenindustrien der Europäischen Gemeinschaft. Fallstudie Schiffbau* (Case study shipbuilding), Berlin 1980; W. Hummen: *Industriepolitik Portugals und Krisenindustrien der Europäischen Gemeinschaft. Fallstudie Stahl* (Case study steel), Berlin 1979.