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GROWTH AND TRADE ASPECTS OF THE PROPOSED
ENLARGEMENT OF THE EUROPEAN COMMUNITY

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GROWTH AND TRADE ASPECTS OF THE PROPOSED ENLARGEMENT
OF THE EUROPEAN COMMUNITY*

Introduction

The purpose of this paper is to highlight significant growth and trade issues with respect to an eventual enlargement of the European Economic Community (EEC), after three Southern European economies formally applied for membership: Greece (on 12 June 1975), Portugal (on 28 March 1977), and Spain (on 28 July 1977). In the meantime, the EEC has entered into formal negotiations with Greece (since 27 July 1977) and Portugal (since 18 October 1978). The negotiations with Spain are expected to begin in spring 1979.

The paper will first examine recent development trends in the three countries, assessing also the economic impact of the profound political changes which have taken place since the mid-seventies. Next, the structure of foreign trade and international competitiveness of the three economies will be analyzed. The last section will deal with some potential growth and trade implications of the EEC's enlargement from the point of view of the applicant's, the Community's and the third countries' interests.

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Economic Development and Structural Change

The three applicant countries exhibit, as is shown in Table 1, distinct differences in economic variables both among themselves as well as in comparison to the EEC. Noteworthy is the diversity in the stage of economic development. On the one hand, per capita income in the most populated country - Spain - was 80 percent higher (in 1977) than in Portugal, which has a much smaller population; on the other hand, the average EEC per capita income roughly doubled that of Spain. Furthermore, Greece is the less industrialized and the most agricultural economy, both in comparison to Portugal and Spain and to the EEC. Finally, the degree of "openness" of the three economies to international trade is reasonably high on the import side, but relatively low on the export side.

Greece, Portugal, and Spain experienced a rapid overall growth during the sixties (Table 2). Both real GDP and per capita income increased at higher rates in these countries than in the EEC taken as a whole. Behind this rapid growth lies a substantial amount of investment in physical infrastructure and production capacities. Although deep-seated structural imbalances at the sectoral, regional, and educational level still prevail in the three economies, there has been an appreciable improvement in material living standards. This means that the Three have seized - Spain presumably more intensively than Greece and Portugal - the opportunities as "latecomers" in a growing world economy to come closer to the development levels of the less advanced EEC countries.

Table 1 - Selected Economic Indicators for Greece, Portugal, Spain and the EEC

	Period of Reference	Greece	Portugal	Spain	EEC (6)	EEC (9)
GDP (US-\$ billion)	1977	25.70	17.00	115.60	1271.40	1569.40
GDP per Capita (US-\$)	1977	2 780	1 740	3 150	6 520 ^a	6 055 ^a
Population (1 000)	1977	9 245	9 766	36 672	195 000 ^a	259 215 ^a
Structure of Production (%) ^b	1976					
- Agriculture		18.8	15.9	9.7	4.6	4.3
- Industry		30.2	42.7	40.0	43.3	42.5
-- Manufacturing		19.8	33.5	27.8	32.3	31.1
- Services		50.9	41.3	50.3	52.1	53.3
-- Public Sector		8.9	11.2	8.1	-	-
Structure of Employment (%)	1976					
- Agriculture		34.4	32.5	21.5	10.1	8.4
- Industry		28.9	34.1	37.1	41.6	40.9
-- Manufacturing		19.1 ^a	25.5	26.0	31.0	30.6
- Services		36.7	33.4	41.4	48.3	50.7
-- Public Sector ^c		-	15.6	15.5	-	-
Foreign Trade ^d	1977					
- Imports (US-\$ million)		6 853	4 925	17 835	306 346	389 539
- Exports (US-\$ million)		2 756	2 015	10 223	309 341	381 965
- Imports/GDP (%)		26.7	29.0	15.4	24.1	24.8
- Exports/GDP (%)		10.7	11.9	8.8	24.3	24.3
Percentage Share of Gross Fixed Capital Formation in GDP	1976	18.7	22.2	20.8	18.8	18.6
Average Annual Percentage Rate of Change of Consumer Prices	1970-77	12.4	17.4	14.6	-	10.0

^a Own estimates. - ^b EEC without Luxemburg and Ireland. Portugal and Spain: 1975. - ^c ISIC 9. - ^d EEC without Luxemburg.

Sources: OECD, Main Economic Indicators, August 1978. - OECD, National Accounts Statistics 1976. - OECD, Labour Force Statistics 1965-1976. - IMF, International Financial Statistics, August 1978. - Own Calculations.

Table 2 - Economic Growth in Greece, Portugal, Spain and the EEC (compound annual rates of change, real terms), 1960 - 1977

	1960-65	1965-70	1970-75	1960-75	1974/73	1975/74	1976/75	1977/76
Greece								
GDP (purchasers' values)	7.9	7.2	5.1	6.8	-3.7	6.2	5.8	3.7
- Agriculture	5.9	1.6	3.8	3.8	4.8	5.7	-2.0	-
- Industry ^a	9.2	11.8	7.8	9.6	-2.8	5.5	9.8	-
GDP per Capita	7.3	6.6	4.5	6.2	-4.0	5.2	4.4	2.9
- per Worker	7.0	8.1	5.0	7.1	-3.6	5.5	4.5	-
Portugal								
GDP (purchasers' values)	6.3	6.4	4.3	5.7	0.7	-3.7	6.2	5.5
- Agriculture	2.2	0.8	-1.0	0.7	-2.1	-1.9	-	-
- Industry ^a	9.0	8.1	5.6	7.6	3.1	-9.7	-	-
GDP per Capita	5.7	6.6	3.4	5.3	-0.6	-7.1	3.6	4.8
- per Worker	5.5	5.5	5.3	5.4	1.5	-3.2	5.5	-
Spain								
GDP (purchasers' values)	8.6	6.4	5.5	6.8	5.3	0.7	2.1	2.3
- Agriculture	2.6	3.4	2.9	3.0	4.7	-1.4	-	-
- Industry ^a	11.6	7.7	7.4	8.7	5.5	-2.4	-	-
GDP per Capita	7.5	5.3	4.3	5.7	4.1	-0.5	0.9	1.1
- per Worker	8.0	5.4	5.0	6.1	4.7	2.5	3.3	2.9
EEC (6)								
GDP (purchasers' values)	4.8	4.7	2.8	4.3	2.3	-1.7	5.3	2.3 ^b
- Agriculture ^b	1.4	2.2	1.2	1.6	0.7	-2.5	-	-
- Industry ^{a,b}	6.2	6.5	2.2	4.9	2.8	-6.1	-	-
GDP per Capita	3.8	4.0	2.2	3.5	1.8	-1.9	5.1	2.2 ^b
- per Worker	4.5	4.4	3.0	4.3	2.1	-0.4	5.5	-
EEC (9)								
GDP (purchasers' values)	4.5	4.5	2.6	3.9	1.7	-1.6	4.7	2.1 ^c
- Agriculture ^c	1.5	2.0	1.3	1.6	1.7	-3.1	-	-
- Industry ^{a,c}	5.5	5.7	1.9	4.3	2.1	-5.9	-	-
GDP per Capita	3.5	3.8	2.1	3.2	1.2	-1.8	4.6	2.5 ^c
- per Worker	4.2	4.4	2.7	3.9	1.5	-0.4	4.7	-
^a ISIC 2-4. - ^b Without Luxemburg. - ^c Without Luxemburg and Ireland.								

Sources: OECD, National Accounts Statistics, Various Issues. - OECD, Main Economic Indicators, August 1978. - OECD, Labour Force Statistics, Various Issues. - Own Calculations.

Economic development was clearly industry-determined. The sixties have shown a more rapid pace of industrialization than any time with similar length before in this century, exceeding also the rate of growth in manufacturing value added of the EEC (Table 2). The achievement is particularly significant in the case of Spain, which already enjoyed a relatively mature industrial sector in the early sixties, whereas industrial growth started from a lower basis in Portugal and particularly Greece. Among the Three, Spain has made the greatest headway in diversifying her manufacturing activities (Donges, 1976b). They now include, in addition to the production of traditional consumer goods (such as food, beverages, tobacco, textiles, clothing, footwear, and leather), a wide range of intermediate and capital goods (such as basic metals, chemicals, and related products, electrical equipment, machinery, and transport vehicles). In Portugal, industrialization also entered the stage of vertical diversification during the sixties, when the first integrated steel mill was inaugurated and the manufacturing of metal products, machinery and transport equipment expanded very rapidly (Esser et al., 1977). The Greek manufacturing profile, on the other hand, still is characterized by numerous light industries (many of them family-managed) producing non-durable and durable consumer goods, among which food processing including beverages, textile manufactures and leather products were the most prominent (Kartakis, 1970).

In comparison to the industrial sector, the agricultural output of the Three increased at a slower pace during the sixties, thereby paralleling the experience of the Community (Table 2). While Spain's agricultural growth exceeded that of the EEC as a whole, Greece and Portugal

found their agricultural sectors lagging behind the EEC's pace. This reflects the fact, that, due to outdated methods of cultivation as well as to poor soil and climate conditions, productivity levels in Greek and Portuguese agriculture are 50 percent lower than of the EEC average.

As in the EEC, the overall production structure of the Three has experienced substantial changes. Between 1960 and 1976, the share of agriculture in GDP fell in the three countries (most substantially in Spain), while the share of industry (and of the manufacturing sector) increased. The sectoral distribution of labour force has undergone a transformation in the same direction. Compared with an international cross-sectional standard of reference, Greece appears (in 1976) more agricultural-oriented and less industrialized than one would have expected of a hypothetical country with similar levels of development. Portugal and Spain, on the other hand, show lower shares of agriculture than "normal", while the industrial sector seems to be oversized in Portugal and roughly in line with expectations in Spain (Table 3).

In all three countries government policies were important in determining the pace of overall growth, structural changes and levels of efficiency. For long, the Three pursued a policy of inward-looking development, based on import substitution in manufacturing behind high protective barriers and supported by the establishment of state enterprises in activities regarded as crucial for the development process. Distorted cost structures, diseconomies of small scale, capital-intensiveness of production and lack of international competitiveness were the most negative consequences. Then, there was a gradual "opening" to the world economy and a progressive deregulation of the domestic

Table 3 - Normal and Actual Structure of Production and Employment for Greece, Portugal and Spain, 1976

Country	Sector	Normal ^a		Actual	
		Structure of			
		Production ^b	Employment ^c	Production ^b	Employment ^c
Greece	Agriculture	11.4	19.9	18.8	34.4
	Industry	43.1	40.6	30.2	28.9
	Manufacturing	33.2	28.6	19.8	19.7
	Services	45.5	39.5	50.9	36.7
Portugal ^d	Agriculture	18.3	37.5	15.9	27.5
	Industry	36.7	30.3	42.8	33.2
	Manufacturing	26.5	21.0	33.5	25.5
	Services	45.0	32.2	41.3	39.3
Spain ^d	Agriculture	13.2	24.2	9.7	21.5
	Industry	41.5	38.4	40.0	37.1
	Manufacturing	30.8	26.9	27.8	26.0
	Services	45.3	37.4	50.3	41.4

^aFor 1976 per capita income at 1970 exchange rates and prices. The sample is composed of the OECD countries. Data refer to 1971.

^bPercentage shares in GDP at current prices. - ^cPercentage shares in civilian employment. - ^d1975.

Source: Own estimates and calculations using regression estimates in Fels and Schatz (1974, pp. 77+78) to calculate the normal shares.

economy, starting in 1959 in Spain and followed by Greece and Portugal during the sixties. This has subsequently led to the rapid economic and industrial growth. But the new development strategies were not without misallocation. There are many instances in which subsidies granted to private investors did more than compensate for external economies or distorted factor prices; well-established industries (producing mainly durable consumer goods) continue enjoying the highest protection; the average level of effective tariff and non-tariff protection is still substantially higher than in the EEC (particularly in Portugal); direct and indirect cost disadvantages to export industries arising from protection are frequently not completely offset by the existing drawback systems and tax preferences; the structure of protection also keeps discriminating against agriculture which, in addition, is subject to price-ceilings policies, and so on. As a consequence, in the three countries both the agricultural sector and the manufacturing industry are excessively fragmented (particularly in Greece), many industrial firms produce well below optimum scale, the machinery is obsolete to a significant degree, only a few firms are known for modern organizational techniques and for engaging in research, and manufacturers are only slowly becoming really export-minded. Furthermore, industry has not absorbed labour released from the agricultural sector as rapidly as required, thereby forcing a large portion of the labour force to emigrate to the EEC and elsewhere. Judging from available evidence (Donges, 1976; Esser et al., 1977; Karayiannis-Bacon, 1976), the levels of efficiency and competitiveness are, on average, relatively close to EEC standards in Spain, and still far below in Portugal and Greece.

Both Portugal and Spain have to digest immense economic problems arising out of the transformation of their political systems from a long-standing authoritarian corporate state towards a new representative democracy, which has occurred since April 1974 and December 1975, respectively. Compared to the reestablishment of democracy and economic institutions in Greece when the Colonels' Junta collapsed in 1974 (seven years after their coup), the political transformation of Portugal and Spain has affected, as Baklanoff (1978) rightly points out, the economy much more profoundly. There has been a widespread nationalization of manufacturing and agricultural firms as well as of utilities, bank and insurance companies in Portugal. In Spain, there is considerable political pressure for nationalization or at least more government intervention in the private sector. Portugal has lost, in the wake of the decolonization, important markets for manufactured exports and sources of primary commodity supplies, while at the same time she has had to integrate about 800,000 repatriates (roughly one tenth of her 1973 population) into the productive system. Both countries are plagued by a proliferation of strikes and other labour conflicts; in Spain trade unions cannot control them due to their competition for increasing membership. While labour-management relations have been altered substantially in both countries with a view of bringing them in line with EEC standards, they are not yet settled. Furthermore, the governments' economic policies are mainly concerned with equity issues and only little with efficiency and the creation of certainty about the future conditions under which the private industry can operate.¹

¹There is also still some fear that the new political system could be destabilized in an unpredictable manner.

The consequences, with inter-country differences as to their intensity, are significant indeed: wage costs have increased sharply; private fixed capital formation has fallen drastically; foreign investors have become reluctant to invest or reinvest in these countries; an important outflow of physical risk capital, of entrepreneurial talents and of skilled labour has emerged; and many emigrants have tended to retain their remittances, thereby compounding the foreign-exchange constraints to economic growth. If these trends are not stopped, the economies of both countries could find themselves worse off in case of their accession to the EEC than otherwise would be likely. It is not only that the economies - in suffering an increasing social cost - would be less able to continue to expand and prosper. But just as well on the microeconomic level, the deterioration of entrepreneurial expectations would discourage the efforts for re-equipment, the search for improving technological efficiency, and the readiness for promoting on-the-job training of the labour force. Furthermore, in the wake of income-redistribution policies and social welfare programmes, labour becomes effectively more expensive to private industries than its opportunity costs to the economy, so that comparative advantages in international trade resulting from the relative abundance of labour could be easily reduced to nothing.

Foreign Trade Patterns and Competitiveness

Greece's, Portugal's and Spain's openings to the world economy have led to a rapid expansion of foreign trade. As Tables 4-6 show, Greece and Spain have experienced remarkably high growth rates of exports and imports as compared to the EEC countries. For Portugal the same

Table 4 - Foreign Trade: Greece - Relative Importance of the Common Market

SITC	Total Value		Percentage Share of EEC				Compound Annual Rates of Increase (1960-1976)		
	US \$ million		EEC (6)		EEC (9)		World	EEC (6)	EEC (9)
	1960	1976	1960	1976	1960	1976			
I M P O R T S									
O+1	75,3	466,2	14,5	26,9	18,6	31,2	12,1	16,5	15,8
2+4	66,4	429,8	13,6	20,8	31,3	25,7	12,4	15,4	11,0
3	52,4	1 226,0	7,4	5,5	9,5	6,2	21,8	19,5	18,6
5+7	365,5	2 990,3	35,7	44,5	49,2	51,5	14,0	15,6	14,4
6+8	141,5	896,5	57,7	50,8	66,0	57,0	12,2	11,3	11,2
O-9	701,9	6 013,1	33,6	34,5	44,6	39,7	14,4	14,5	13,5
E X P O R T S									
O+1	127,4	786,6	32,8	39,6	46,0	45,3	11,9	13,2	12,0
2+4	55,4	252,4	38,5	41,2	40,8	46,5	9,9	10,4	10,9
3	.	148,6	.	38,6	.	46,8	-	-	-
5+7	10,1	252,5	16,8	31,9	35,6	36,2	22,3	27,3	22,4
6+8	9,9	1 102,2	17,2	54,5	19,2	57,7	34,3	44,3	43,8
O-9	203,1	2 543,1	32,8	45,1	42,8	50,0	17,1	19,5	18,3

Source: OECD, Statistics of Foreign Trade, Serie C, Trade by Commodities, 1960. - OECD, Statistics of Foreign Trade, Serie B, Trade by Commodities, 1976. - Own Calculations.

Table 5 - Foreign Trade: Portugal - Relative Importance of the Common Market

SITC	Total Value		Percentage Share of EEC				Compound Annual Rates of Increase (1960-1976)		
	US \$ million		EEC (6)		EEC (9)		World	EEC (6)	EEC (9)
	1960	1976	1960	1976	1960	1976			
I M P O R T S									
O+1	59,8	742,6	9,7	8,0	15,1	12,0	17,1	15,7	15,4
2+4	104,7	521,5	7,6	11,0	10,5	14,6	10,6	13,1	12,9
3	55,9	692,2	7,3	8,2	14,0	11,5	17,0	17,8	15,6
5+7	193,9	1 572,9	54,9	51,9	74,6	67,2	14,0	13,6	13,2
6+8	118,4	785,5	66,4	46,2	80,7	62,1	12,6	10,0	10,7
O-9	545,3	4 315,9	38,3	31,4	50,8	41,5	13,8	12,4	12,4
E X P O R T S									
O+1	79,6	291,0	32,7	29,2	47,7	41,9	8,4	7,7	7,6
2+4	57,0	257,0	28,4	41,6	53,5	68,5	9,9	12,5	11,6
3	10,7	39,0	7,5	10,3	12,2	12,8	8,4	10,6	8,8
5+7	36,8	325,0	25,5	39,4	42,7	53,5	14,6	17,7	16,2
6+8	137,5	876,0	13,4	24,7	25,4	52,2	12,3	16,6	17,4
O-9	327,1	1 820,0	21,7	29,7	37,0	51,5	11,3	13,5	13,7

Source: OECD, Trade by Commodities, Various Issues. - Own Calculations.

Table 6 - Foreign Trade: Spain - Relative Importance of the Common Market

SITC	Total Value US \$ million		Percentage Share of EEC				Compound Annual Rates of Increase (1961-1976)		
			EEC (6)		EEC (9)		World	EEC (6)	EEC (9)
	1961	1976	1961	1976	1961	1976			
I M P O R T S									
O+1	189,1	1 753,0	8,5	9,4	13,2	15,4	16,0	16,8	17,2
2+4	264,2	2 500,5	7,6	14,0	10,8	19,0	16,2	21,0	20,2
3	177,6	5 092,7	5,6	2,6	7,6	3,2	25,1	19,0	18,1
5+7	346,7	5 181,9	52,5	57,0	67,6	65,5	19,8	20,4	19,5
6+8	114,4	2 758,3	50,0	43,0	64,0	50,8	23,6	22,4	21,8
O-9	1 092,2	17 287,6	26,1	27,7	34,3	32,8	20,2	20,7	19,9
E X P O R T S									
O+1	315,2	1 775,9	41,0	47,1	67,4	62,8	12,2	13,3	11,7
2+4	131,5	452,7	56,6	39,4	64,3	47,6	8,6	6,0	6,4
3	41,8	342,7	6,5	48,5	13,6	60,0	14,6	31,1	26,6
5+7	59,8	2 667,2	24,8	32,0	36,3	38,6	28,8	31,0	29,4
6+8	149,2	3 481,3	30,4	36,8	49,4	42,7	23,4	25,0	22,2
O-9	689,2	8 711,9	38,2	38,0	57,0	46,4	18,3	18,3	16,7

Source: OECD, Trade by Commodities, Various Issues. - Own Calculations.

has been true up to the revolution in 1974; afterwards, both imports and, most pronounced, exports showed absolute decreases.

In trade with the EEC, some common patterns for the three countries are discernible: First, while imports from the EEC rose slightly less than imports from other countries, exports to the EEC increased faster than exports to the rest of the world. However, in Spain's trade with the EEC, both export and import growth rates were lower than the respective growth rates in Spain's total trade. Partly as a result of these developments in all three countries import shares of the EEC, ranging between 30 and 40 percent, were substantially smaller than the EECs shares in the exports of these countries (45 to 50 percent) in the mid-seventies.

Second, as far as imports from the EEC are concerned, food (SITC 0+1) and raw materials (SITC 2+4); though forming only relative small proportions of total EEC imports, have generally gained in importance. Growth rates for these commodities did not only surpass import growth rates for manufactured goods (SITC 5-8) from the EEC, but also import growth rates for food and raw materials from other countries.

Third, the export structure of Greece, Portugal and Spain vis-à-vis both the world and the EEC, has changed: manufactured goods markedly increased their share at the expense mainly of food, a pattern which actually could be expected for countries pursuing accelerated industrialization and thereby experiencing changes in relative factor endowment and factor prices, as international cross-section analyses have shown (Banerji and Donges, 1972). Most noteworthy is the fact that Greece's manufactured exports to

the EEC expanded considerably faster than exports to the rest of the world. This development can be ascribed to a large extent to the trade creation effects which emerged from the Greece-EEC association agreement of 1961 (Kalamatousakis, 1976).¹

Fourth: All three countries experienced, especially in trade with the EEC, a worsening of their balance of trade in food and raw materials while they happened to improve their balance of trade in manufactures.

In sum, the Three have increasingly switched over from exporters of food and raw materials to suppliers of industrial goods, what amounts to saying that "latecomers" have the possibility to penetrate the markets in advanced countries by supplying the right product at the right price and quality at the right time and place. Spain is a particularly good example in this respect (Donges, 1973). Many of the new export items, particularly in the case of Greece and Portugal, account for only negligible amounts (earning less than US-\$ 1 million each), but most of them belong to those commodity groups, in which world trade has been expanding relatively fast. Taken together they can all be regarded as indications of the three countries' potential to diversify the export structure within a short time. Given the economic-policy distortions referred to above, which tended to discriminate against manufactured export expansion, the rapid change in the export structure is a significant achievement in itself.

¹Out of the other two applicants, Spain and the EEC concluded a preferential trade agreement in 1970. In comparison to the agreement with Greece, Spain obtained a much less favourable status (Donges, 1976).

Trade in manufactured products between the Three and the EEC is characterized by some remarkable peculiarities. Whereas it is common for these countries that imports of manufactures are dominated by chemicals and machinery (SITC 5 and 7) - roughly classified as relatively human-capital-intensive goods -, "other manufactured goods" (SITC 6 and 8) - products with a high degree of labour intensity - account for the overwhelming part of exports. Thus, Greece's, Portugal's and Spain's trade in manufactures seems to be governed by patterns of comparative advantage, which would suggest that the countries, due to a relative abundant domestic labour force, mainly export labour-intensive goods while they import essentially human-capital-intensive goods. This specialization in international trade is the most distinct for Greece which, as compared to Spain or Portugal, is in a relatively early phase of industrialization. In addition, the share of labour-intensive products in Greek exports still increased, while human-capital-intensive goods gained in importance in the import basket. Both trends are most noticeable in trade with the EEC. In contrast to Greece, Spain and, less pronounced, Portugal have expanded exports of machinery and chemical goods at higher rates than exports of other manufactures, and again the EEC countries have provided relatively rapid growing markets. It is interesting to note that in the case of imports of labour-intensive commodities EEC countries have lost market shares to third countries in Spain as well as in Greece and Portugal.

In order to better assess similarities and peculiarities in manufactured trade of the Three in comparison to the EEC countries, we have estimated "revealed comparative advantages" using the following formula:

$$RCA = \ln \left(\frac{x_i}{m_i} : \frac{\sum_{i=1}^n x_i}{\sum_{i=1}^n m_i} \right) \cdot 100$$

where x_i , m_i denote industry's i exports and imports, respectively. The RCA-concept, which was developed by Balassa (1965), rests on the assumption that a country's imports indicate which of the domestic industries are relatively non-competitive, while these country's exports point to the industries which display comparative competitiveness. Hence, by comparing the export-to-import ratio of any single product category with the total ratio of the whole industrial sector, it becomes possible to identify the manufacturing activities in which the Three are competitive in international trade and in which they are not. When taking the RCA-values as a measure for relative competitiveness one must keep in mind that the calculations are based on actual trade figures and not on trade structures which would emerge if countries would export and import according to their real comparative advantages. Hence, the RCA-estimates reflect trade distortions which may be the result of protective measures against imports or of export incentives. However, since it does not seem unreasonable to assume that the longer-term tendencies in changes of comparative advantages are reflected in changes of trade structures in spite of trade distorting devices, RCA-values have been computed for the years 1960, 1970 and 1976.

The results are given in Table 7. Obviously, there exist significant differences in the structure of comparative advantages in trade of the Three on the one hand and the EEC countries on the other. To begin with, Greece shows comparative disadvantages in approximately all product groups of chemicals (SITC 5), in electrical and non-electrical machinery and in transport equipment (SITC 7). These product groups are predominantly human-capital-intensive. Comparative advantages of Greece can be found for instance in leather, wood and cork manufactures, textiles,

Table 7 - The Structure of Revealed Comparative Advantages in Total Trade of Greece, Portugal, Spain and the EEC (1960, 1970, 1976)^a

SITC NO.	Group of Industry	Greece			Portugal			Spain			EEC (6)			EEC (9)		
		RCA - Values														
		1960	1970	1976	1960	1970	1976	1961	1970	1976	1960	1970	1976	1960	1970	1976
51	Chemical Elements and Compounds	42.9	79.4	- 25.4	- 93.5	-138.8	-228.4	- 5.3	- 63.5	- 96.4	- 24.7	- 12.8	- 9.5	- 30.8	- 17.8	- 7.2
52	Mineral Tar and Crude Chemicals from Coal, Petroleum and Natural Gas	.	.	.	.	.	.	- 81.8	-	- 76.8	- 95.3	- 71.6	- 99.2	- 65.8	- 69.5	- 97.0
53	Dyeing, Tanning and Colouring Products	- 48.1	-	-220.4	-110.6	-	-200.5	-133.4	- 82.0	-107.4	- 9.4	31.0	26.2	16.8	33.8	34.1
54	Medical and Pharmaceutical Products	- 95.7	-	- 87.9	- 76.4	- 42.2	-110.9	- 74.9	- 95.7	-114.8	17.0	14.3	5.4	37.4	29.3	21.5
55	Essential Oils and Perfume Materials, etc.	59.4	-	2.9	- 4.5	-	- 74.9	79.1	35.1	- 3.3	6.7	13.1	6.6	20.0	22.3	16.2
56	Fertilizers, Manufactured	1.4	.	- 94.1	- 45.2	87.8	131.2	- 18.1	24.5	137.9	90.7	37.6	- 5.2	21.4	1.2	- 18.2
57	Explosives and Pyrotechnic Products	.	-	- 55.6	75.0	-	78.8	9.8	-	- 4.9	36.8	27.7	6.1	84.5	29.8	17.5
58	Plastic Materials, Regenerated Cellulose and Artificial Resins	.	.	- 70.3	-331.9	-167.4	-265.4	-336.8	-	-131.7	- 16.5	13.5	11.2	- 23.1	5.2	6.2
59	Chemical Materials and Products, n.e.s.	359.4	181.9	65.8	186.4	124.6	65.4	- 40.6	-	- 94.1	- 16.4	1.6	8.5	- 20.0	5.0	14.0
61	Leather, Leather Manufactures, n.e.s.	311.5	-	119.4	- 51.5	-	44.9	264.4	146.4	98.5	- 37.5	- 25.0	- 49.7	- 48.3	- 18.0	- 39.0
62	Rubber Manufactures, n.e.s.	.	.	-103.5	151.9	55.7	- 91.9	23.2	187.8	168.1	22.5	4.7	3.9	35.7	11.9	11.1
63	Wood and Cork Manufactures (excluding Furniture)	16.5	-	152.6	552.0	-	450.2	301.4	-	185.0	- 33.1	- 29.7	- 50.6	-110.5	- 80.0	- 71.5
64	Paper, Paperboard and Manufactures thereof	-122.2	-	-146.4	40.1	- 17.6	107.6	-122.4	- 52.3	- 12.2	- 93.8	- 63.5	- 62.3	-110.4	- 79.8	- 77.7
65	Textile Yarn, Fabrics, Made-up Articles and Related Products	84.8	134.6	172.4	200.1	160.1	150.0	248.9	95.4	47.3	7.8	2.2	- 18.1	1.7	0.6	- 18.1
66	Non-Metallic Mineral Manufactures, n.e.s.	139.7	39.7	209.6	112.0	27.8	108.9	18.0	32.0	54.3	- 11.0	- 8.8	- 19.8	- 1.6	- 14.3	- 12.2
67	Iron and Steel	- 61.3	145.0	77.6	-239.7	-147.0	- 87.3	62.7	-125.7	6.4	15.6	1.0	7.7	10.8	- 1.1	2.3
68	Non-Ferrous Metals	-121.0	203.4	136.8	-200.1	-	-260.4	79.1	- 40.0	- 32.4	-121.9	- 99.2	- 75.8	-128.9	- 95.0	- 71.2
69	Manufactures of Metal, n.e.s.	- 41.4	- 58.7	86.6	0.4	34.8	11.8	3.3	104.7	95.2	41.8	13.5	17.7	43.8	17.8	20.1
71	Machinery, other than Electric	- 60.1	-	-259.6	-208.0	-164.6	-144.9	-150.5	- 85.7	- 81.9	0.2	14.8	28.0	16.5	17.5	26.6
72	Electrical Machinery, Apparatus and Appliances	.	-134.5	- 34.5	-147.5	- 28.1	- 11.9	- 94.9	- 28.4	- 61.6	13.2	2.8	2.6	25.5	4.5	4.3
73	Transport Equipment	-338.1	-	-241.3	-347.1	-216.3	-112.4	-191.0	77.8	89.9	52.0	27.8	26.3	59.6	34.4	25.2
81	Sanitary, Plumbing, Heating and Lighting Fixtures and Fittings	.	-	26.2	92.0	-	6.2	339.4	144.7	49.4	4.5	- 7.5	- 7.5	8.7	0.9	- 4.0
82	Furniture	.	.	59.8	183.6	-	- 89.1	280.6	-	133.2	3.3	- 13.5	- 14.7	21.8	- 6.6	- 8.3
83	Travel Goods, Handbags and Similar Articles	.	-	174.7	.	-	67.5	.	-	210.6	69.3	25.1	- 26.4	44.5	27.2	- 35.9
84	Clothing	242.2	-	418.1	239.6	278.0	311.8	254.4	190.0	148.8	19.2	- 22.8	- 64.6	- 2.5	- 21.9	- 62.2
85	Footwear	.	-	580.7	.	-	415.5	.	-	398.8	48.0	44.0	- 9.3	14.3	30.4	- 17.8
86	Professional, Scientific and Controlling Instruments; Photographic and Optical Goods; Watches and Clocks	- 35.1	-	-243.3	-237.9	-	- 93.0	-213.3	-158.8	-217.2	12.4	- 2.5	- 19.3	- 0.3	- 2.1	- 16.8
89	Miscellaneous Manufactured Articles, n.e.s.	145.8	30.6	38.8	- 46.2	- 28.6	- 44.3	147.8	-123.3	61.0	- 23.8	1.4	- 14.7	- 21.2	0.5	- 11.2

a) : Imports or exports not available. . : Exports insignificant (less than 0.1 Mill. US-\$).
 Exceptions: Imports or both imports and exports insignificant in SITC 83, for Portugal and Spain in addition in SITC 85.

Sources: OECD, Statistics of Foreign Trade, Series C, Trade by Commodities, 1960 and 1961. - OECD, Statistics of Foreign Trade, Series B, Trade by Commodities, 1976. - Own calculations.

some iron and non-iron product groups, travel goods, clothing and footwear. These goods can be judged as to be relatively labour-intensive and in a number of cases they are also raw-material-intensive. It is interesting to note that in the course of time Greece has become competitive in a range of these product groups, where exports had been insignificant at the beginning of the 1960s or even in 1970 (in this case, it has not been possible to meaningfully calculate RCA-values).

Portugal's structure of RCA-values resembles very much the structure of Greece, whereby two points of divergency may be made. First, Portugal had a relatively diversified export structure in 1960, when Greece lacked exports in some product groups. Second, in the case of some raw-material-intensive product groups Portugal and Greece show different performances (for instance paper and iron and steel).

Spain's RCA-coefficients differ significantly from those of Greece and Portugal. While Spain still shows comparative advantages in a number of labour-intensive product groups as mentioned above in the case of Greece and Portugal, she also has advantages where the two other countries have disadvantages (e.g. rubber manufactures, transport equipment). In addition, Spain has worsened her position in some product groups where Greece and Portugal have acquired or maintained a comparative edge (e.g. clothing) and she has gained competitive advantages or improved her position where both the other countries were less successful (e.g. transport equipment). On the whole, Spain has developed a structure of RCAs which resembles more the RCA structure of the EEC countries than the RCA structure of Greece or Portugal. This implies that after an enlargement

of the Community, Greece's and Portugal's manufactured exports might make adjustments within the EEC more painful than exports from Spain.

While RCA-values may throw some light on the structure of comparative advantages, it should be interesting to know the extent to which trade in manufactures between the Three and the EEC is of an inter-industry or an intra-industry nature. A reasonably accurate answer to this question can only be given on the basis of individual country studies. However, we can get a first impression by computing an index of trade conformity according to the following (trigonometrical) formula:

$$C = \cos (x_j, m_k) = \frac{\sum_{i=1}^n x_{ij} \cdot m_{ik}}{\sqrt{\left(\sum_{i=1}^n x_{ij}^2 \right) \cdot \left(\sum_{i=1}^n m_{ik}^2 \right)}}$$

where x_{ij} , m_{ik} are the share of country's j exports and country's k imports (or exports) of the (two-digit) SITC commodity group i in the value of total manufactured exports or imports. The index may show values ranging from zero to unity: the closer it is to zero, the greater the differences in the trade structures, thus indicating inter-industry specialization; on the other hand, an approximation towards unity reflects increasing similarity between both vectors and thus increasing intra-industry specialization.

The results of the calculations are shown in Table 8. Four remarks are in order: First, it is a common feature for the Three that their foreign trade structures - as

Table 8 - The Structure of Manufacturing Trade^a of Greece, Portugal, Spain and the EEC in Comparison, 1960 and 1976

- Coefficients of Conformity -

EEC (9)	Year	Greece	Portugal	Spain
Total Exports	1960	Total Exports		
		0.359	0.349	0.682 ^b
	1976	0.490	0.511	0.910
Total Imports	1960	Total Exports		
		0.384	0.392	0.769 ^b
	1976	0.624	0.616	0.909
Total Imports	1976	Exports to EEC		
		0.472	0.560	0.915
Exports to Greece, Portugal and Spain	1976	Exports to EEC		
		0.304	0.395	0.725
^a SITC 5-8. - ^b 1961				

Source: See Table 7.

has been indicated by the structure of RCAs - have become more similar to the EEC's foreign trade structure as time passed. However, while Greece and Portugal yet show a foreign trade specialization which differs clearly from the EEC, the conformity of trade structures of Spain and of the EEC was relatively high in the mid 1970s. Second, the basket of manufacturing exports of Greece and Portugal to the world have conformed (in 1976) more with EEC's imports from the world than with their exports to the EEC. These observations, which especially apply to Greece, suggest that with the given import structure of the EEC there should be scope for trade diversion as a result of the enlargement in the sense that the exports of Greece and Portugal to the EEC would grow at the expense of third countries. Third, contrary to Greece and Portugal, the Spanish economy, which reveals patterns of foreign trade specialization quite similar to those of the EEC, has adjusted her export supply largely to the EEC's import structure. Consequently, Spain might face less scope for diversion of exports to EEC markets than Greece and Portugal. Fourth, for each of the Three the degree of inter-industry specialization as measured by the conformity index for their own exports to the EEC in comparison to EEC's exports to them appears to be markedly lower than it potentially could be; this is suggested by the fact that the export structures of both the three countries and the EEC vis-à-vis the world markets show a higher degree of conformity.

To put it differently: Spain's (actual and potential) trade with the EEC seems to be characterized by substantial intra-industry specialization; therefore, competition among Spanish and EEC producers seems to play an important role. This is much less true for Greece and Portugal. Their trade with the EEC still shows a relatively high degree of com-

plementarity and thus inter-industry specialization, although structural dissimilarities have become smaller since the early 1960s. Since complementarity is also a characteristic feature of the EEC's (and other advanced countries') trade with developing countries (LDCs), Greece and Portugal would have to compete, on the Community's markets, with suppliers from the Third World in a broader range of products than Spain.

Potential Trade and Growth Implications of the Enlargement

The enlargement of the EEC will presumably not only affect each of the three countries in a different way, but will have also an economic impact on the Community itself and on other countries, particularly those of the Third World. In spite of attempts to determine the economic effects of the eventual enlargement, as summarized by Edwards and Wallace (1976), most of what can be said at this stage is a matter of conjecture. Much depends on how the applicants, the EEC members and third countries will shape their economic policies, particularly with regard to trade orientation of their economies, to sectoral development and to regional structuring. Of no less importance is the way in which the eventual membership of the Three will be carried out, especially the time table for mutual tariff and non-tariff reductions, for the harmonization of the Common External Tariff (CET) and for extending the Common Agricultural Policy (CAP). All this will influence, in the final analysis, supply and demand price elasticities, production and consumption levels, factor endowments and factor productivity, whose knowledge of which is crucial if trade and welfare effects are to be quantified. Further empirical research in this area is likely to be particularly rewarding.

As far as potential trade effects are concerned, the major problem area is presumably agriculture.¹ Spain is a particularly large producer and exporter of several agricultural products, for which France and Italy have been the traditional suppliers within the Community. Olive oil, soybeans oil, citrus fruits, vegetables, tomatoes, and wine are cases in point. There also happen to be products in which the EEC has a high degree of self-sufficiency (except citrus fruits). In the past, Spain was able to sell these products to the EEC in spite of the market regulations within the CAP. This points to significant price and/or quality advantages of the Spanish supplies over the French and Italian ones. The same holds for Portugal and Greece (as exporters of wine, citrus fruits and vegetables), although Greece farm exports have benefitted from the association agreement. If the supplies of the Three were granted free access to the Common Market, they will increase competition for the EEC's higher-cost producers. The latter ones might suffer a loss of earnings if the additional supply causes the CAP-prices to fall. Any attempt of the EEC authorities to keep these prices artificially high means that internal prices in Spain, Portugal and Greece will have to move to CAP levels, which might stimulate output growth in excess of the increase of internal consumption, which could slow down as a result of higher retail prices. As the Three know that the CAP authorities would have to purchase any amount of overproduction, there is little incentive for them to sell their farm products in the world market, where competition is strong and prices are normally lower.

¹This issue has been dealt with in greater detail by Tom E. Josling and Louka T. Katseli-Papaefstration in their papers presented to this meeting.

²We are making the heroic assumption that this will not impose unbearable financial burdens to the EEC budget!

The trade diversion effects commonly associated with the CAP are compound under such circumstances. This is all the more so, as agricultural products of which the Three are net importers (particularly cereals and meat) would be increasingly supplied by EEC member countries at the expense of low-cost temperate food producers in the remaining Mediterranean basin, the USA, Argentina, and Australia. In the case of the Mediterranean countries, the value of agricultural concessions, however restrictive, made by the EEC in association and trade agreements is eroded. For instance, Israel's exports of citrus fruits or Marocco's exports of wine under the prevailing agreements would come up against the Community's absorption capacity sooner than it would be the case if the EEC were not enlarged. The third countries' exporters would have to shift their farm exports elsewhere in the world and they probably would be facing increased competition also from the (enlarged) EEC, which might try to reduce its accumulated stocks via exports at dumped prices.

With regard to manufactured products, the enlargement might lead to intra-EEC trade creation following mutual reduction in import barriers. This would presumably cause adjustment problems both in the old and the new member countries. In the new ones, only Spain's industrial structure can be regarded as sufficiently mature, so that a significant part of domestic firms should be able to withstand greater competition with established EEC producers, in durable consumers as well as in machinery and transport equipment, provided that efforts to improve on productivity and quality are undertaken (Donges, 1976b, pp. 182sqg.; Musto, 1977). Portugal's industry would, by comparison, have considerably more difficulties to survive, particularly in those areas where the realization of economies of scale requires much larger sized plants than the existing ones;

the labour-intensive production of components and accessories to firms at home as well as abroad could have better perspectives (Esser et al., 1977, pp. 248sq; Balassa, 1977). The situation of the Greek industry is only a little more favourable than the Portuguese one. In Greece, there has been less emphasis on establishing highly capital-intensive industries, while the textile and leather industry have already achieved a reasonable degree of international competitiveness (Hummen, 1977).

The manufactured goods exports potential of Greece and Portugal, and to a lesser extent that of Spain, coincides with sensitive areas within the Community in which there is already much adjustment pressure due to low-priced supplies from third countries. Textiles, clothing, shoes and leather products, in addition to steel and ships, are cases in point. The enlargement of the EEC would increase the adjustment pressure, unless specialization patterns of the Three and the Nine lead to significantly more intra-trade between them. One may expect that the Three will have to discontinue whatever export incentives they are granting nowadays in these sensitive areas. But this may not deter these countries from expanding their exports into the Community, since the reduction of their own tariffs would increase the profitability of producing for foreign markets, thereby making many of the prevailing export incentives redundant anyhow. A major question then is, whether or not the accommodation of additional suppliers from Greece, Portugal and Spain would be carried out at the expense of third countries. The answer is difficult to anticipate. An outright increase of the CET might be prevented by whatever is agreed upon in the ongoing Tokyo-Round of multi-lateral trade negotiations in terms of non-discriminatory and irreversible tariff and non-tariff reductions. But the enlarged Community could find itself under pressure from

the trade-impacted interest groups to make frequent recourses to safeguard provisions, to "organize" extra-EEC import growth (following the well-known French suggestion) or to provide (hidden) subsidies to domestic industries.

Even without such an increasing protectionism, third countries may suffer disadvantages from the enlargement of the Community. On the other hand, there might be a significant amount of trade diversion, which permits mainly Greek and Portuguese producers of labour-intensive goods to capture shares in West European markets at the expense of low-cost exporters from East Asia and Latin America. On the other hand, there will be an erosion - operating mainly on the trade diversion component - of the value of EEC's Generalized Tariff Preferences (GSP) on manufactured exports of developing countries (in operation since 1971), of the tariff-free access to EEC markets granted to (now) 53 African, Caribbean and Pacific countries under the Lomé Convention (signed in 1975), and of the preferential treatment granted by the EEC to other Mediterranean countries in specific association and trade agreements. However, it should not be overlooked that the reduction of Greece's, Portugal's and Spain's import tariffs to CET levels as well as the acceptance of the GSP and the Lomé Convention by the Three may lead to trade creation in favour of non-EEC countries, particularly the industrially more advanced LDCs.

Turning now to the potential growth effects of the enlargement, two opposing effects are discernible as far as the Three are concerned: one is that the increase of agricultural prices to CAP-levels could slow down the rate of out-migration of labour from agriculture into industry where labour productivity is higher. If this happens, resource allocation will be less efficient and the overall growth of the economy lower as compared to what might have been feasible in the absence of farm-price support devices. The other effect

refers to the manufacturing sector. One can expect from increased import competition, that domestic industries will improve their management and organizational structure, modernize their equipment and increase total factor productivity. Moreover, the whole production structure of this sector will come closer to comparative advantage and increase the share of activities facing a relatively income-elastic world demand. This is likely to stimulate overall economic growth. On balance, the growth effects should be positive for the Three. True enough, the governments of the Three have to pursue reasonable development-promoting policies, if the potential growth effects are to materialize. This assumption does not hold, at present, in Portugal and Spain, for the reasons discussed earlier.

For the actual members of the Community, the enlargement could have a positive growth impact too, at least in the medium-run. Allocative inefficiencies resulting from the CAP might not become substantially larger than what they are now. In the industrial sector, the least efficient domestic manufacturers will come under increasing competition, which will lead to growth-inducing structural changes in the form of process innovation, product innovation or locational innovation. We assume also in this case that the governments will provide, if economically justified, adjustment assistance in favour of trade-impacted workers, capital owners and regional budgets, rather than growth-inhibiting maintenance assistance as it happens so frequently in practice.

Of particular interest in this context is the potential for locational innovation. It means the shifting of production from the high wage member countries to the Three, where total unit labour costs are lower and will probably also be in the future. Greece, Portugal and Spain would not only

benefit in terms of a greater availability of equipment, know-how and entrepreneurship which particularly Greece and Portugal need very badly. Locational innovation could also be a substitute for labour emigration from the Southern to the Northern part of the Community, thereby increasing the rates of overall productivity and growth in both parts (Hiemenz and Schatz, 1978). In order for private risk capital to engage itself in the economies of the Three, one necessary condition is that these countries are sympathetic to foreign investment. The prevailing legislation is rather liberal in all three countries, mainly in Spain. The attitude of domestic businessmen and trade unions are somewhat less open-minded, particularly so in Greece. There could be in the future a tendency, on political grounds, to exclude or limit foreign investment from certain "key" industries, but in general the governments can be expected to encourage the inflow of private capital from abroad.

Conclusions

This paper began with a brief analysis of recent development trends. It has been shown that the three applicants do not make up a homogeneous group in terms of size, income levels and degree of industrialization. What the Three have in common is, on the one hand, the secular decline of agriculture and rise of industry in both GDP and foreign trade and, on the other, the relatively high degree of trade interdependence with the Community. In trading with EEC countries, Greece and Portugal have achieved the comparatively highest competitiveness in labour-intensive and some raw material-intensive manufactures. Spain has begun to develop a comparative advantage in standardized capital-intensive goods.

The potential growth and trade effects could only be discussed in form of hypotheses rather than accurate quantitative estimates. It seems reasonable to expect trade creation within the enlarged Community and trade diversion mainly in favour of the three new members. The growth effects presumably will be positive for all member countries, provided that structural and commercial policies pursued in each country are fitted to the changing international framework. Any proper test of these hypotheses would require more empirical research, and so does the formulation of economic policy choices in the event of the enlargement.

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