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Fabienne Ilzkovitz *

European Integration and Structural Adjustment: The Case of the Peripheral Countries

This study aims to describe the structural effects of the removal of non-tariff barriers in the peripheral countries of the European Community. The first part describes the static competitive position of those countries in the industrial sectors which will be the most affected by 1992. According to this analysis the positioning of the peripheral countries in the run-up to 1992 differs from one country to another. Ireland is the only peripheral country where the share in manufacturing employment of the strong sectors is larger than the share of the weak sectors. On the other hand, Greece and Portugal are rather badly positioned: in those two countries there are few highly competitive sectors. Thereafter, the nature of trade (inter- versus intra-industry trade) and the dynamic adjustments have been analysed for the peripheral countries. The main conclusion is that in Spain and Portugal industry is restructuring and modernising and entrepreneurs are adapting their strategies in order to benefit from 1992, while this is not the case in Greece.

Introduction

The macroeconomic gains expected from the completion of the internal market are far from negligible: an additional growth of 4.5% to 7% in Community GDP and the creation of 2 to 5 million new jobs (see C.E.C.). If the macroeconomic effects of 1992 are well described in the well-known Cecchini report, this is not the case for its distributive effects. From a theoretical point of view, it is not possible to draw clear-cut conclusions about the redistributive impact of 1992. Some theoretical arguments lead to the conclusion that the distribution of the

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gains will be in favour of the less-developed countries but others lead to the opposite conclusion.

This is the case for the argument concerning the location of investment. On the one hand, it can be assessed that a small, peripheral and previously protected economy can attract investments from the core. But, on the other hand, there is also some tendency for industry to concentrate nearer to the core, partly because of the abolition of protection in the peripheral economy. So it is difficult to know a priori to which side the balance of advantages will tilt (for a discussion on this topic, see Bliss and Braga de Macedo).

In order to analyse the distributive impact of 1992, it is important to examine the probable structural adjustments in all the industrial sectors which will be most directly affected by 1992. The structural effects of the removal of non-tariff barriers are complex because international trade does not only result from comparative advantages but also from economies of scale and product differentiation which play at least an equally important role (Sapir). The aim of this paper is precisely to describe these structural adjustments for the peripheral countries of the EC (for the complete study describing the impact of 1992 on the industries of each Member State, see Buigues, Ilzkovitz and Lebrun).

This paper will be divided into two parts. The first part describes the competitive position of the peripheral Member States in the sectors which will be most affected by 1992. In the second part, two scenarios of structural adjustments for the peripheral countries of the EC are discussed.

I. Competitive Position of the Peripheral Member States

The first part describes the competitive position of the peripheral Member States in those industrial sectors identified as likely to be substantially affected by the coming of the single European market. These are industries currently protected by non-tariff barriers which prevent the exploitation of economies of scale or allow large price differences to persist between Member States¹.

¹ A more complete description of the methodology used can be found in Buigues and Ilzkovitz. The list of the sectors most affected by 1992 is given in annex 1.

A. Global Competitive Position

At the Community level, those industries most affected by 1992 (see annex 1, for the list of those sectors) account for 50% of manufacturing employment². For the peripheral Member States, the share in manufacturing employment of those sectors ranges between 47% (Ireland) and 68% (Portugal) (see table 1). Thus, we see that this share is higher than the Community average for Greece (61%) and Portugal and is very close to the Community average for Spain (48%) and Ireland (47%).

Table 1
Weight of the Sectors Most Affected by 1992

Country	Share in industrial employment
IRL	46.7
D	56.7
F	50.8
UK	50.0
B	50.1
I	52.2
NL	44.9
P	68.1
GR	61.5
E	48.1
DK	49.4
EC	50.0

Source: Commission services

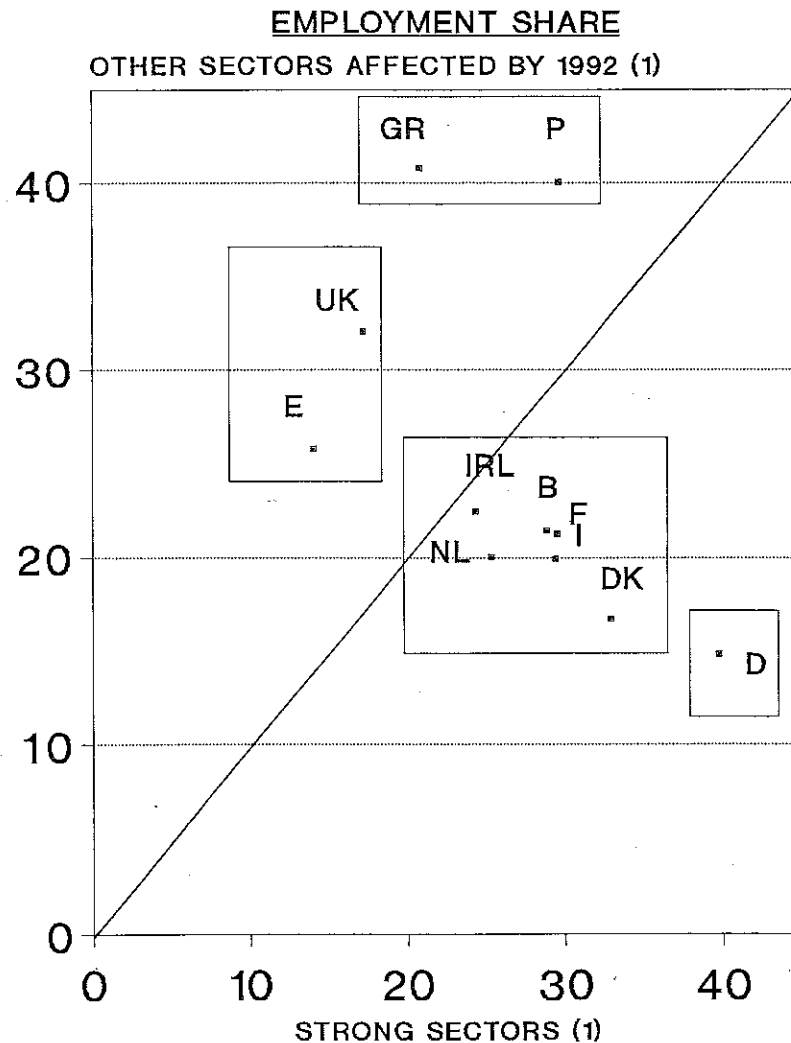
In order to obtain a first impression of the position of each Member State in these industries, we have classified those sectors into two groups:

- the strong performers: these are the sectors for which the global score obtained for the 4 indicators (intra- and extra-EC coverage ratio, export and production specialisation indexes) is positive (ranging from +1 to +4)³;
- the weak performers: the sectors for which the overall score is negative or zero (ranging from -4 to zero).

² Manufacturing employment is defined as employment in activities concerned with the production of manufactured goods (activities covered by NACE codes 21 to 49).

³ For each of these four indicators, a score of between -1 and +1 is awarded per sector: a score of -1 if the value of the indicator is < 90%, a score of 0 if 90% ≤ the value of the indicator ≤ 110%, a score of +1 if the value of the indicator is > 110% and an overall score is obtained for each sector by adding the score for each indicator.

Graph 1
Position of Countries in the Run-up to 1992



(1) Identified on the basis of the composite static indicator score

Graph 1 illustrates the position of each Member State according to the share in manufacturing employment of these two groups.

This graph shows four groups of countries:

- Portugal and Greece, where the strong sectors account for a much smaller share of employment than the poor performance sectors.
- The United Kingdom and Spain, where the share of the weak performers is slightly higher than the share of the strong performers.
- Belgium, Denmark, France, Ireland, Italy and the Netherlands, where the situation is reversed.
- Finally, Germany stands out as the country where the share of well-placed sectors is the highest and the share of poor performance sectors is the lowest.

Thus, according to this graph, the Southern countries are rather badly positioned in the run-up to 1992. This is especially true for Greece and Portugal and to a lesser extent for Spain.

B. Competitive Position of Greece, Portugal and Spain

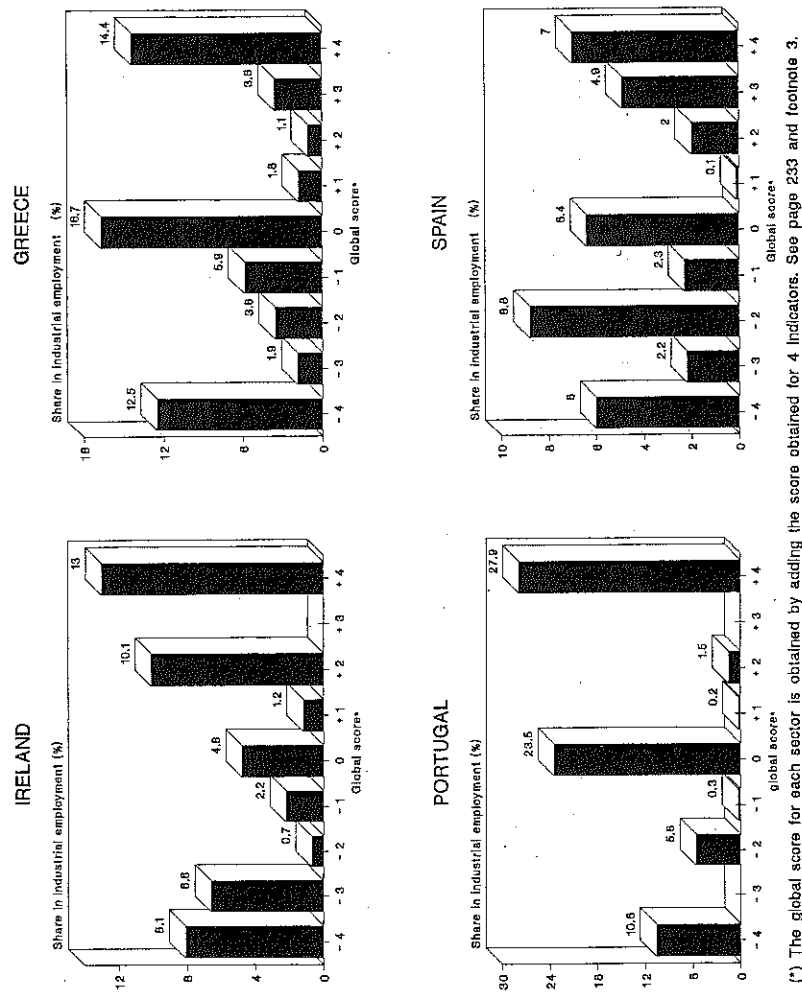
In order to obtain a better idea of the competitive position of Greece, Portugal, Spain and Ireland, let us consider their distribution of manufacturing employment in those sectors most affected by 1992 according to the total score obtained for the 4 indicators (see graph 2).

These profiles of the distribution of employment do provide us with an initial idea of the present position of a country in those sectors most affected by 1992. Thus, a country where industrial employment is concentrated in the high performance sectors should a priori encounter fewer difficulties than another country where employment is concentrated primarily in the poor performance sectors. It should, however, be remembered that this analysis is based on present and static performances and so suffers from certain limitations described at the end of this section.

In *Greece and Portugal*, the distribution of manufacturing employment shows three modes. Thus, manufacturing employment is concentrated in sectors performing very well (14.4% of employment in Greece and 23.5% in Portugal), in sectors where the scores obtained for the four indicators cancel each other out⁴ (12.5% of employment in Greece and

⁴ Strong specialisation in exports and production offset low intra and extra-EC coverage ratio, or alternatively a high coverage ratio on extra-EC markets and a strong production specialisation offset poor performances on the Community market.

Graph 2
The Competitive Position of the Peripheral Countries in the Sectors Most Affected by 1992 (*)



(*) The global score for each sector is obtained by adding the score obtained for 4 indicators. See page 233 and footnote 3.

23.5% in Portugal) and in sectors performing badly (12.5% of employment in Greece and 10.8% in Portugal). In both countries, the strong sectors are rather traditional labour-intensive industries (clothing, footwear, wine, ...) and high-tech industries such as telecommunications, office equipment are weak performers.

But, as regards external performances, Greece is today in a more critical situation than Portugal because in the former country, there are much less highly competitive sectors and much more weak sectors than in the latter. In fact, there are only four highly competitive sectors in Greece and among these, two (clothing and footwear) dominate in terms of manufacturing employment (13.3%). On the other hand, there are 17 industries obtaining a score of -4. Among these low performers, we find not only high-tech industries but also traditional industries supplying the public sector (railway equipment, boilermaking) and other industries such as machinery, vehicles, chemicals...

In Spain the distribution of industrial employment is rather even over the range -4 +4 corresponding to the possible scores of the composite indicator. Globally, industries in which Spanish performance is good are less important than those where Spanish firms perform badly: the former represent 14% of employment while the latter 20%.

For Spain, it is interesting to observe that its strong points are not confined to traditional industries (wine, footwear, etc.) but also include some sectors with a higher capital or skilled labor content such as automotive (+3) and domestic electrical appliances (+4). On the other hand, industries in the textile/clothing area obtain a negative score: cotton industry (-1) and clothing (-2). In this respect, Spain differs from the other two Southern countries.

In Ireland, the distribution of employment shows a pronounced U pattern. At one extreme, there are ten sectors with good performances (score of +4 or +2) totalling 23% of employment, and at the other extreme twenty sectors accounting for 14.5% of employment which show very poor performances (score of -4 or -3). This graph provides quite a good picture of the dichotomy within the Irish economy characterized, on the one hand, by very competitive high technology sectors dominated by foreign multinationals (data processing, telecommunications, pharmaceuticals, etc.) and, on the other hand, by local more traditional industries (footwear, clothing, etc.), which are not very competitive at all.

Irish external performances are distinctly different from those of the three Southern countries. Ireland enjoys comparative advantages in industries with high capital and R & D content. But in these high-tech sectors, foreign multinationals account for more than 80% of employment⁵. On the other hand, in the more traditional labour intensive industries of clothing, textiles and footwear where Irish firms dominate, the poor external performances are due to the increased penetration of imports following EC Membership and the inability of certain local firms to meet this increased competition.

This first analysis of the position of Greece, Portugal, Spain and Ireland suffers from a number of limitations:

- first, it is too static and does not take into account the evolution of performances and the adjustments observed;
- second, it provides no information on the nature of trade in which a country is involved, i.e. is it inter-industry (if a country is a net exporter of products in which it has a comparative advantage and a net importer of products in which it has a comparative disadvantage) or intra-industry trade (if a country exports and imports similar products which are differentiated by their brand or quality)? A priori, structural adjustments could be greater in sectors where inter-industry trade dominates because the reallocation of factors of production within industries is easier than that from sectors protected towards export growth sectors;
- third, the trade indicators in the sectors which are currently protected by non-tariff barriers can be misleading.

In order to overcome these limitations, complementary analyses have been undertaken. They are described in the next section and in the last part of this paper⁶.

⁵ 97.6% in radio, TVs, consumer electronics, 92.7% in medical and surgical equipment, 86.5% in office and data processing machinery, 85.2% in telecommunications equipment, 82% in pharmaceuticals (Source: O'Malley, cited in Buigues, Ilzkovitz and Lebrun).

⁶ The third limitation - the question as to whether the removal of non-tariff barriers will change the patterns of sectoral specialisation - is a very complex one. To analyse this question, the position of each Member State in the sectors most affected by 1992 was compared with their comparative advantages identified for industry as a whole on the basis of an econometric analysis. The conclusion was that the removal of non-tariff barriers will not change very radically the pattern of specialisation in the Community (for a more detailed discussion on this question, see Buigues, Ilzkovitz and Lebrun, Chapter 6).

C. Degree of Intra-Industry Trade in the Peripheral Countries of the EC

From a theoretical point of view, the removal of trade barriers can lead to an increase in inter-industry trade or intra-industry trade. The removal of non-tariff barriers will reduce the price of intra-EC imports and will induce substitution of domestic goods by imported goods if trade obeys the law of comparative advantages. This will increase inter-industry trade, each Member State specialising in those sectors where they have comparative advantages.

In the presence of economies of scale, the impact of integration will depend on whether the product is homogeneous or differentiated. If the product is homogeneous, integration will expand output in some locations and eliminate production elsewhere. The result will be an increase of inter-industry trade. If the product is differentiated, integration could expand output in all locations, each specialising on distinct varieties of the product and this will lead to an increase in intra-industry trade (Helpman, Sapir).

Table 2
Grubel-Lloyd Indexes: Shares of Intra-Industry Trade in the Intra-Community Trade (as % of Total Intra-Community Trade)

Country	1970 Total	1980 Total	1987 Total
BLEU	0.69	0.76	0.77
DK	0.41	0.52	0.57
D	0.73	0.78	0.76
GR	0.22	0.24	0.31
E	0.35	0.57	0.64
F	0.76	0.83	0.83
IRL	0.36	0.61	0.62
I	0.63	0.55	0.57
NL	0.67	0.73	0.76
P	0.23	0.32	0.37
UK	0.74	0.81	0.77

Source: Commission services

In order to measure the degree of intra-industry trade, the Grubel Lloyd index⁷ has been calculated for each country (see table 2). We can see that Spain and Ireland are more involved in intra-industry trade with the other European countries than Greece and Portugal. The value of this index is 0.64 for Spain and 0.62 for Ireland, two values not very different from those obtained by the UK (0.77), Germany (0.76) and the Netherlands (0.76) and markedly higher than that obtained by Greece (0.31) and Portugal (0.37). The intra-industry index increased considerably in Spain and Ireland between 1970 and 1987. This was also the case in Greece and Portugal but in these two countries, intra-Community trade remains essentially of the inter-industrial nature.

Among the *Spanish* industries where intra-industry trade is more important, we find strong sectors which are not traditional industries such as vehicles and household electrical appliances (G.L. index of 0.9) and also industries with a higher technology content where external performances are average (pharmaceuticals), or poor (computers, aerospace).

In *Ireland*, it must be stressed that the intra-industry index is high in the majority of sectors dominated by foreign multinationals. This result can be explained by the high level of intra-firm trade, as in pharmaceuticals (G.L. = 0.84), where Irish industry essentially produces ingredients used in the composition of drugs, or by specialising in certain market niches such as domestic electrical appliances (G.L. = 0.99).

On the other hand, *Greece* is clearly engaged with its Community partners in inter-industry trade. The coefficient of intra-industry trade is superior to 0.6 only in a few sectors such as leather, footwear, textile. Even in those sectors with a high unskilled labour content and where Greece enjoys comparative advantages, imports remain high.

7 The Grubel Lloyd index (B) can be defined as:

$$B = 1 - \frac{\sum_{k=1}^n |X_i^k - M_i^k|}{\sum_{k=1}^n |X_i^k + M_i^k|}$$

in which $k = 1 \dots n$ branches

X_i^k = exports of product k by country i

M_i^k = imports of product k by country i .

The closer this indicator is to 1, the greater is the share of intra-industry trade (see Grubel, Grubel and Lloyd).

In *Portugal*, the index of intra-industry trade is slightly higher than in Greece. But it must be stressed that intra-industry trade is high (G.L. index above 0.7) in sectors with a higher technology content where Portugal is a net importer but where its coverage ratio has been improving over recent years (e.g. vehicles and electronics). These sectors are often incomplete insofar as Portugal has not developed the full range of activities of these sectors. But, despite their low coverage ratio, they include areas of competitive specialisation, thanks to the initiative of foreign investors or collaboration between national and foreign firms.

II. The Adjustment Process in the Peripheral Countries

In this part we will focus on two scenarios of dynamic adjustments for the three Southern peripheral countries of the EC. For those countries whose membership is more recent – especially Spain and Portugal – the adjustment processes could be more marked. We will also analyse the Irish experience in order to see what lesson can be drawn from Ireland for the three Southern countries.

A. Two Scenarios of Dynamic Adjustment

Two scenarios of dynamic adjustment can a priori be envisaged for the peripheral countries of the EC. Firstly, a scenario of inter-industry specialisation with growth in those sectors where they currently enjoy comparative advantages, and, secondly, a scenario of intra-industry specialisation with industrial structure converging towards that found in the more developed Community countries. In fact, any combination of these two scenarios is of course possible. Indeed, a country will not wholly adhere to one of the two models proposed here but overall the logic of its industrial development ultimately tends to correspond to one or other of these options.

1. Inter-Industry Scenario

If trade is of the inter-industry nature, the removal of non-tariff barriers will lead to a growth of intra-EC trade, each Member State specialising in those sectors where it enjoys comparative advantages. The first scenario therefore supposes that the removal of non-tariff barriers is going to allow the three Southern Member States to boost their exports to the other EC countries in those sectors where they at present enjoy comparative advantages – these are the traditional industries with a

high unskilled labour content such as footwear and clothing – and this would result in an intensification of inter-industry trade between the Northern and the Southern Member States.

Two arguments can be given in favour of the credibility of this first scenario. Firstly, the results of econometric analyses (see Buigues, Ilzkovitz and Lebrun, Chapter 6) shows that the Southern countries have a comparative advantage in labour-intensive industries. Secondly, this inter-industry specialisation could be reinforced by North-South relocation of manufacturing investment. Indeed, the removal of non-tariff barriers and the reduction in transport costs could encourage the firms of the Northern countries to locate their production in Southern countries where wage costs are lower.

However, the phenomenon of North/South relocation should remain rather limited according to survey results. According to a KPMG⁸ survey this strategy will only be adopted by 19% of European firms and will be particularly favoured by German firms. In general, other strategies such as the reorganisation of production units or an improvement in productivity would be preferred by European firms.

A survey carried out by IFO⁹ among German managers sheds additional light on their reactions in the context of 1992. Globally, 50% of German managers intend to defend their presence in the FRG by rationalising existing production units, 20% intend to cooperate with other Community firms, 14% would like to increase production capacities in the FRG and 14% envisage relocating a part of their production to other Member States. It is clear that opportunities for direct investment in the Eastern bloc countries and the unification of Germany could change the attitude of German managers as regards investment in the Southern Member States.

According to this IFO survey it seems that strategies of German firms vary greatly from one sector to another. In the weak areas, such as clothing, there is a greater propensity for firms to relocate. But in the strong areas, we find more firms ready to defend their location in Germany.

⁸ Survey conducted among 700 European firms.

⁹ Survey conducted during the summer of 1988 among 1,400 firms within German manufacturing industry.

It therefore seems that relocation will only affect a limited number of sectors. Such a conclusion can also be drawn from an analysis carried out by the Commission Services, which has shown that only some industrial sectors are vulnerable to the risk of North/South relocation (see Ilzkovitz).

Now what are the advantages and risks associated with this first scenario?

Firstly the *advantages*. An increase in inter-industry trade could lead to significant gains for the Southern countries. A study of Neven has shown that an increase in exports of clothing and footwear from the South to the North would increase GDP by 0.5% on the average in the Southern countries. Moreover, an intensification of trade based on their comparative advantages would pose fewer problems of adjustment in the short term.

However, the first scenario presents some *risks* for the Southern countries. Firstly, they would remain specialised in industries with a low R & D content and with low demand growth. Secondly, in those sectors, the Southern countries will face stronger competition from the developing economies where the wage costs are still lower: the ratio is 1 to 5 between India and Portugal.

Faced with this competition from the developing countries the Southern Member States could increase product quality in traditional sectors – this is called an up-grading process. Italian success in quality clothing industries demonstrates this development path. In this respect, relocation investments could contribute to this up-grading by favouring restructuring and the implementation of more modern methods of production.

However, another option is also open to the Southern Member States: to increase specialisation in new sectors more intensive in human capital and technique. It is this second option which corresponds to the second scenario proposed here: the intra-industry scenario.

2. Intra-Industry Scenario

The second scenario assumes that there would be a reduction in inter-industry specialisation in the Southern countries in those sectors where they have comparative advantages and an improvement of their performances in sectors with a higher technology content where they

have traditionally been net importers. Recent trends in the external performances of these countries seem to correspond to such a pattern.

On the one hand, there is a worsening of the trade performances in some traditional strong sectors such as footwear, clothing, household textiles... and on the other hand their position is improving in industries with a high technology content. Table 3 shows that intra- and extra-EC export/import ratios of these three countries are falling in industries in the area of textiles/clothing/footwear. On the other hand, their position is improving in industries with a high technology or a more skilled labour content.

Table 3
Trends in the External Performances of the Southern Member States

a) Deterioration in the strong sectors which are labour-intensive industries		
NACE CODE	SECTORS	COMPOSITE INDICATOR OF HISTORICAL COMPETITIVENESS FOR THE 3 COUNTRIES ¹
431	Woollen industry	-9
432	Cotton industry	-9
438	Carpets	-5
451	Footwear	-3
453	Clothing	-3
455	Household linen	-8
¹ Greece, Spain, Portugal. For the definition of the indicator, see annex 2.		
b) Improvement in the strong sectors with a high technology content		
NACE CODE	SECTORS	COMPOSITE INDICATOR OF HISTORICAL COMPETITIVENESS FOR THE 3 COUNTRIES
257	Pharmaceuticals	+2
346	Domestic electrical appliances	+2
372	Precision equipment	+1

Source: Commission services

This trend can be explained by increased competition from developing countries. For example, the Booz-Allen survey shows that in the case of textiles, the extra-EC import penetration rate increased from 38% in 1985 to 47% in 1987 and is expected to rise to between 52% and 55% in 1992. Similarly, the Portuguese import penetration rate increased in the eighties by 33% in the footwear, 19% in various textile products and 5% in clothing while the average increase for industry as a whole was 17% (see Gonçalves).

This second scenario also presents advantages and risks. Among the *advantages*, there is the development of sectors with a higher

technology content and with strong demand growth. Moreover, foreign investments which have increased in Portugal and Spain over recent years could contribute to the transfer of technology and an improvement in management methods.

The Irish experience shows that foreign investments permitted high-tech industries to develop there. For example, foreign multinationals account for more than 80% of employment in sectors such as pharmaceuticals, telecoms, computers and electronics. These foreign companies are essentially export-oriented and are very competitive internationally. Thus, foreign companies export an average of 83% of their production compared with 27% for local companies and they account for 76% of Irish manufacturing exports.

However, the Irish experience can also demonstrate the *risks* of this second scenario. In fact, the industrial policy followed after membership in this country did not succeed in improving the position of the national firms most exposed to external competition. While, on the other hand, incentives introduced to attract foreign investment did have a very significant effect (see NESCE).

The result has been a dichotomic structure of Irish industry with, on the one hand, high-tech internationally competitive sectors dominated by multinationals and, on the other hand, much less competitive local industries. Thus, in those sectors where multinationals are concentrated, the volume of production increased by about 16% per year during the years 1980-1987 while in the rest of manufacturing industry, this growth was only 0.3% per year.

The Irish experience demonstrates the weakness of an industrial policy based essentially on foreign investment and points to the need to maintain an industrial base founded upon local enterprises. Furthermore, greater specialisation in high-tech sectors does not necessarily mean a strengthening of human capital and technology. This is shown when subsidiaries of multinationals confine themselves to assembly activities. Finally, it must be stressed that the adjustment costs could be high in this second scenario. Indeed, it would be necessary not only to move factors of production into new sectors but also to improve their quality.

B. The Adjustments Observed

Having defined the two adjustment scenarios and having presented their advantages and risks, we will try to position each of the Member countries vis-à-vis these two scenarios. Indeed, the analysis of the overall performances of the Southern Member States showed that Greece and Portugal are in a worse situation than Spain. The question now arises as to whether an analysis of the observed adjustments gives reason to modify this conclusion.

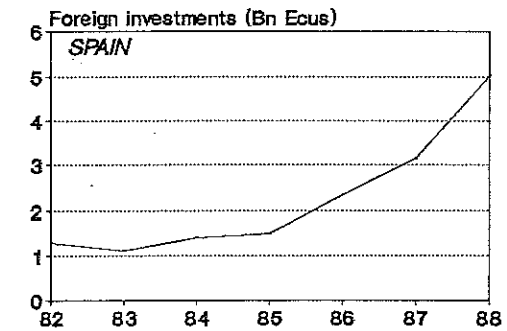
Two sources of information will be used here: the evolution of foreign direct investment and the strategies of firms.

1. Evolution in Foreign Direct Investment

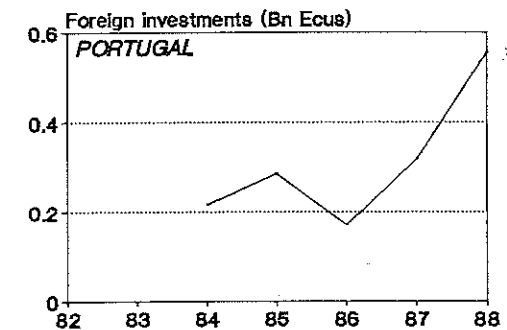
First of all, it is necessary to point out that between 1985 and 1989, the growth of manufacturing investment was very significant in Spain and Portugal. During these four years, the volume of manufacturing investment rose by 79% in Spain and 43% in Portugal. In contrast it fell by 78% in Greece over the same period. This helps to explain the near stagnation in growth of industrial production in Greece between 1988 and 1989 (6%) compared to the 17% increase in Spain and 19.5% rise in Portugal.

Greece can also be distinguished from the other two Southern countries in terms of the growth of foreign direct investment flows. In graph 3 presenting the evolution of foreign direct investment flows, we can see that the flow of foreign direct investment into Greece has stabilised over the last three years while this flow of foreign direct investment virtually tripled into Portugal and quadrupled into Spain. Consequently, while foreign and national investments contribute towards the restructuring of Spanish and Portuguese industry, this is not the case in Greece.

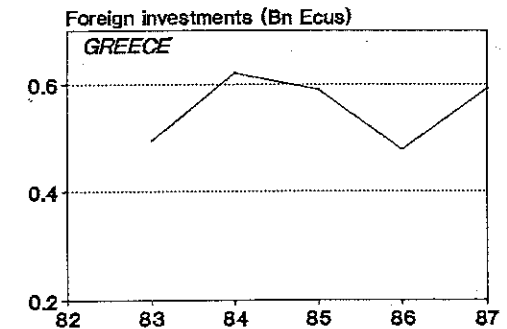
Graph 3
Evolution of Foreign Direct Investment Flows in Southern Countries



Source : Bank of Spain



Source : Bank of Portugal



Source : SOEC

It also appears that these foreign investments tend to be located mainly in high demand sectors. For example, in Spain, 88% of investments realised between 1986 and 1988 in strong demand sectors (chemical, electronics...) were financed by foreign companies whereas in low demand sectors the corresponding percentage was only 11% (see Vinals, Torres). The JETRO survey on Japanese companies established in Europe similarly shows that Japanese companies in Spain and Portugal are located principally in the chemicals/pharmaceuticals, electrical and electronic equipment and transport equipment industries.

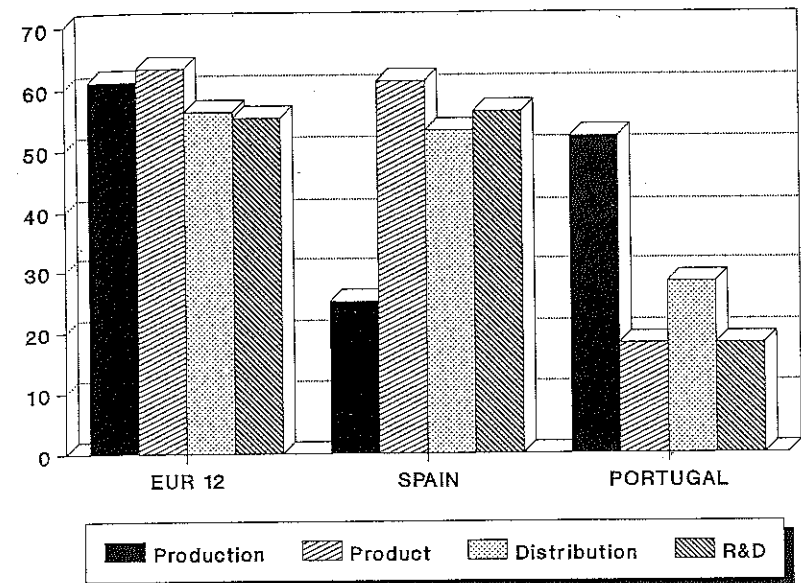
In Spain, the industrial sectors which benefited most from foreign investments show a stronger growth in production, exports and labour productivity (see Torres). These results seem to indicate that in Spain foreign investment contributes towards the modernisation of industry and the progress of higher technology content activities.

2. Survey Results

The survey carried out by the Commission of 9,000 firms provides useful information on the strategies envisaged by firms in the run-up of 1992. This survey shows that the reactions of Portuguese and Spanish managers are significantly different. Unfortunately, a similar survey is not available for Greece. The results of this survey must be considered with some caution as one can observe a difference between what managers say they will do and what they actually do.

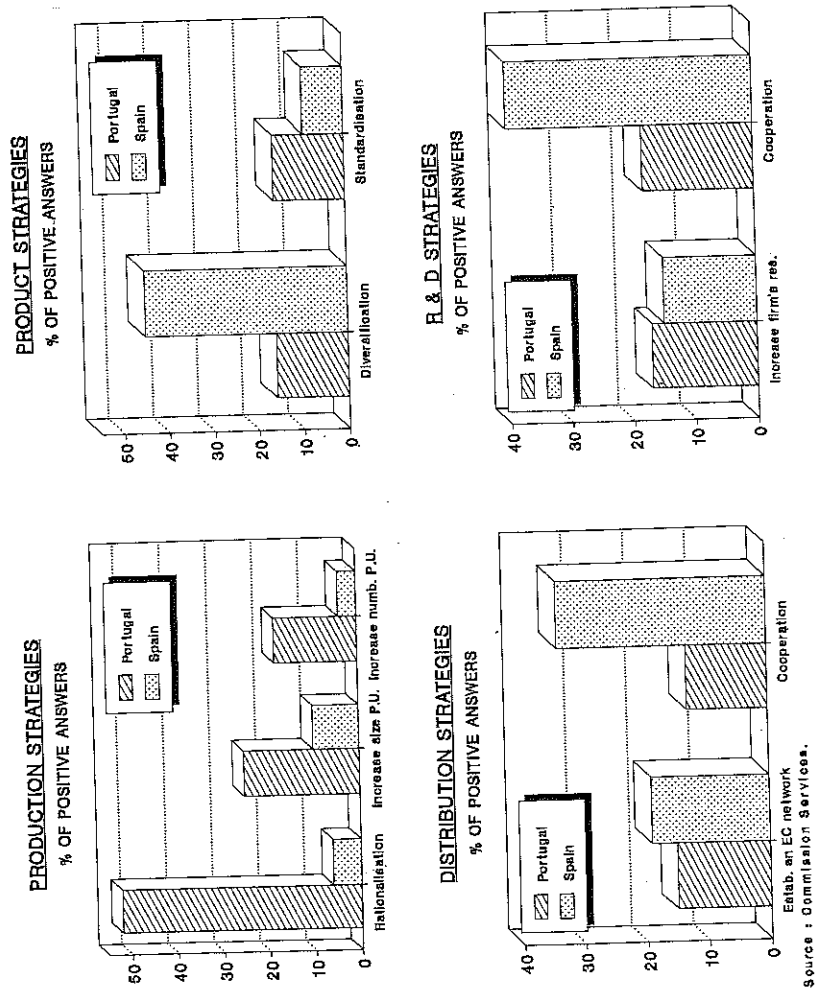
Firstly, Portuguese managers focus on production strategies (52% of the firms surveyed believe that the internal market will have an effect on their decision in this area, see graph 4) while the Spanish place more emphasis on products (61%), R & D (56%) and distribution (53%). Other differences appear when one goes into greater detail. Thus in the field of production 52% of Portuguese surveyed expect to rationalise their operations compared with only 6% of Spanish managers.

Graph 4
Impact of the Internal Market on the Internal Strategies of Firms (% of Positive Answers)



In the field of product strategies, the Spanish firms are not only more dynamic than the Portuguese but they also differ from the Portuguese by showing a clear preference for differentiated products (45% against 16%, see graph 5) and thus searching niche markets. This result may indicate that Spanish industry is further advanced in its restructuring. Having already reorganised their production, they are now seeking to develop new areas for specialisation.

Graph 5
Impact of the Internal Market on Internal Strategies



Also Portuguese managers are less ready to collaborate with European partners in distribution and R & D. Again this result suggests that the Portuguese would first like to consolidate their position on their own market, particularly by reorganising their production units. Nevertheless, technological agreements between national and foreign firms are encouraged in developing Portuguese sectors such as telecommunications. Another strategy consists of developing highly specialised national SMEs around the subsidiaries of foreign multinationals.

This analysis of the evolution of foreign direct investment and of the strategies of firms therefore confirms that Spain is pursuing an intra-industry scenario. Portugal is in an intermediate situation. In the traditional sectors, an effort is being made to modernise productive equipment and to improve quality and brand image of products but simultaneously, new sectors are being developed.

It is more difficult to judge the case of Greece as the Commission survey did not include Greek firms. Recent trends in national and foreign investments in this country tend to prove that there is no restructuring effort in Greece. The conclusion must therefore be that Greece at present shows an inter-industry scenario.

Conclusion

This paper aims to describe the structural effects of the removal of non-tariff barriers in the peripheral countries of the European Community. The main conclusion emerging from this analysis is that these countries do not constitute an homogeneous block as regards their positioning in the run-up to 1992.

Firstly, the weight in terms of manufacturing employment of the industrial sectors which will be most affected by 1992 varies strongly between these countries: it is lower than 50% in Ireland and Spain but above 60% in Portugal and Greece where it accounts for 68%. Thereafter, the competitive position in these sectors differs from one country to another. Ireland is the only peripheral country where the sectors performing well account for a larger share of employment than the poor performance sectors and this country enjoys comparative advantages in industries with high capital and R & D content. On the other hand, the overall position of the three Southern countries is rather unfavourable. This is especially the case for Portugal and Greece

where there are only few competitive sectors. However, it is necessary to improve this static analysis by taking into account the nature of trade, inter- or intra-industry, and of the dynamic adjustments observed.

This further analysis shows that Spain and Ireland are clearly more involved in intra-industry trade with the other European countries than Greece and Portugal. But in this respect, the situation in Greece and Portugal is not completely similar in the sense that in Greece, intra-industry trade is high only in a few labour-intensive sectors, although in Portugal this is the case in some sectors with a higher technology content.

Finally, the structural adjustments observed in the peripheral countries allow to refine our conclusion about their positioning. In this respect, we can observe that foreign investments are contributing towards the restructuring of Spanish and Portuguese industry and towards the development in those countries of strong demand sectors, while this is not the case in Greece. In Ireland, foreign multinationals have also permitted the development of high-tech industries but local firms did not succeed in improving their international competitiveness because of the lack of links between these firms and the foreign investors. On the other hand, results of surveys among European firms indicate that Portuguese and Spanish firms are adapting their strategies in order to benefit from 1992 while this is not the case in Greece.

Finally, it has to be noted that some Community policies can have an impact on the adjustment paths of the peripheral countries, for example, the use of structural funds and external trade policy. The first can contribute to local infrastructures and educational facilities, two factors which are of great importance to businessmen considering investing in the peripheral EC regions. The second can influence the propensity of these countries to adjust: continued protection vis-à-vis LDCs could incite these countries to keep their specialisation in traditional labour-intensive industries while a greater opening of the Community market would lead these countries to develop new areas of specialisation.

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Annex 1
The Industrial Sectors Most Affected by the Internal Market

NACE CODES SECTORS	NON-TARIFF BARRIERS	DISPERSION PRICES NET OF TAXES	SHARE IN THE VALUE ADDED	SHARE IN EMPLOYMENT	SHARE OF INTRA- EC IMPORTS IN DEMAND		SHARE OF EXTRA- EC IMPORTS IN DEMAND		EXTRA-EC EXPORTS IMPORTS RATIO
					EC IMPORTS IN DEMAND	EXTRA-EC IMPORTS IN DEMAND			
HIGH TECHNOLOGY PUBLIC PROCUREMENT									
GROUP 1									
330	Office machines	7.44	2.45	1.28	30.91	36.30	57		
344	Telecommunication equip.	8.89	4.29	4.33	22.44	28.76	117		
372	Medico-surgical equip.	21.12	0.98	0.45	31.48	31.38	139		
GROUP 2									
TRADITIONAL PUBLIC PROCUREMENT OR REGULATED MARKETS									
257	Pharmaceutical products	32.65	2.48	1.63	10.61	6.40	248		
315	Boilermaking, reservoirs, sheet-metal containers	22.12	1.00	1.10	2.54	1.10	1108		
362	Railway equipment	21.74	0.35	0.40	4.97	3.48	680		
425	Wine & wine-based products	15.88	0.34	0.16					
427	Brewing and malting	20.94	1.21	0.72	3.27	0.20	2047		
428	Soft drinks and spa waters	24.87	0.53	0.35	4.56	0.33	721		
GROUP 3									
341	Electrical wires and cables	8.89	1.40	1.52	11.21	8.79	163		
342	Electrical equipment		3.42	3.71	17.91	13.04	182		
361	Shipbuilding		0.78	1.16	7.75	21.72	178		
417	Spaghetti, macaroni, etc.	8.86	0.14	0.14	6.72	0.38	1038		
421	Cocoa, choc. and sugar confec.	10.12	0.72	0.79	12.98	2.83	214		
Sectors with moderate non-tariff barriers									
GROUP 4									
CONSUMER GOODS									
345	Electronic equipment	7.65	1.84	1.86	19.71	28.80	63		
346	Domestic type elec. appl.	7.67	0.88	1.09	22.68	11.37	130		
351	Motor vehicles	10.61	7.21	6.64	22.82	10.44	201		
438	Carpets, lino, floor cov.	13.76	0.23	0.30	44.85	23.65	122		
451	Footwear	14.28	0.81	1.24	44.65	36.84	106		

Annex 1 (continued)

NACE CODES	SECTORS	NON-TARIFF BARRIERS	ISPERSON PRICES NET OF TAXES	SHARE IN THE VALUE ADDED	SHARE IN EMPLOYMENT	SHARE OF INTRA-EC IMPORTS IN DEMAND	SHARE OF EXTRA-EC IMPORTS IN DEMAND	EXTRA-EC EXPORTS/IMPORTS RATIO	
453	Clothing	moderate	10.17	1.98	3.61	13.43	18.37	57	
455	Household textiles	moderate	13.42	0.21	0.30	26.05	31.68	59	
491	Jewellery, goldsmiths' and silversmiths' wares	moderate	22.06	0.27	0.25			157	
493	Photog. & cinemat. labs	moderate	10.12	0.16	0.16	15.99	10.23	128	
495	Games, toys and sports goods	moderate	12.07	0.26	0.33	23.95	43.41	48	
CAPITAL GOODS									
321	Agric. machin. and tractors	moderate	8.30	0.66	0.81	19.75	5.40	442	
322	Machine tools for metals	moderate	10.73	1.22	1.36	17.91	16.25	191	
323	Textile and sewing machines	moderate	10.97	0.53	0.56	34.96	23.26	369	
324	Machines for foodstuffs ind.	moderate	12.26	1.28	1.25	31.45	14.63	400	
325	Plant for mines, etc.	moderate	18.06	1.68	1.89	29.40	14.81	342	
326	Transmission equipment	moderate	0.73	0.73	0.85	23.79	13.48	178	
327	Other specific equipment	moderate	12.92	0.76	0.74	38.66	20.92	330	
347	Lamps and lighting equipment	moderate	15.70	0.36	0.42	31.84	12.70	252	
364	Aerospace equipment, manuf. and repairing	moderate	17.10	2.20	2.05	18.05	24.25	121	
INTERMEDIARY GOODS									
247	Glassware	moderate	21.46	1.11	1.05	21.29	7.39	213	
248	Ceramics	moderate	21.46	0.90	1.06	20.93	8.62	255	
251	Basic industri. chemicals	moderate		4.81	3.28				
256	Other chemical products for industry	moderate		1.81	1.15	30.39	11.41	249	
431	Wool industry	moderate	23.02	0.62	0.78				
432	Cotton industry	moderate	23.02	0.94	1.17	20.45	8.43	175	
481	Rubber industry	moderate	17.85	1.48	1.57				

Source: Panorama and estimations from Commission services

Annex 2
Analysis of the Historical Evolution of Competitiveness

Indicator of dynamic competitiveness within the identified sensitive sectors at national level

Sectors	NACE code	Δ intra X/M	Δ extra X/M	Δ intra SI	Global score

-1 if Δ intra, extra S/M, $< -5\%$
0 if $-5\% \leq \Delta$ intra, extra X/M $\leq +5\%$
+1 if Δ intra, extra X/M $> +5\%$
-1 if Δ intra SI < 0
0 if Δ intra SI = 0
+1 if Δ intra SI > 0

Samenvatting
Europese integratie en structurele aanpassingen

Het doel van deze studie is het beschrijven van de structurele effecten van de opheffing van de non-tarifaire barrières in de periferische landen van de Europese Gemeenschap. Het eerste deel beschrijft de statische competitieve positie van deze landen in de industriële sectoren die het meest zullen worden beïnvloed door 1992. Volgens deze analyse verschilt de positie van de periferische landen in de aanloop tot 1992 van land tot land. Ierland is het enige periferische land waar het aandeel van de sterke sectoren in de tewerkstelling in de verwerkende nijverheid groter is dan het aandeel van de zwakke sectoren. Anderzijds bevinden Griekenland en Portugal zich in een slechte positie: in deze twee landen zijn er weinig zeer competitieve sectoren. Daarna volgt een analyse van de aard van de internationale handel (inter- versus intra-industrie handel) en van de dynamische aanpassingen in deze landen van de periferie. De belangrijkste conclusie is dat de Spaanse en Portugese nijverheid zich aan het herstructureren en moderniseren is en dat de ondernemers daar hun strategieën aanpassen om te profiteren van 1992; dit is evenwel niet het geval voor Griekenland.