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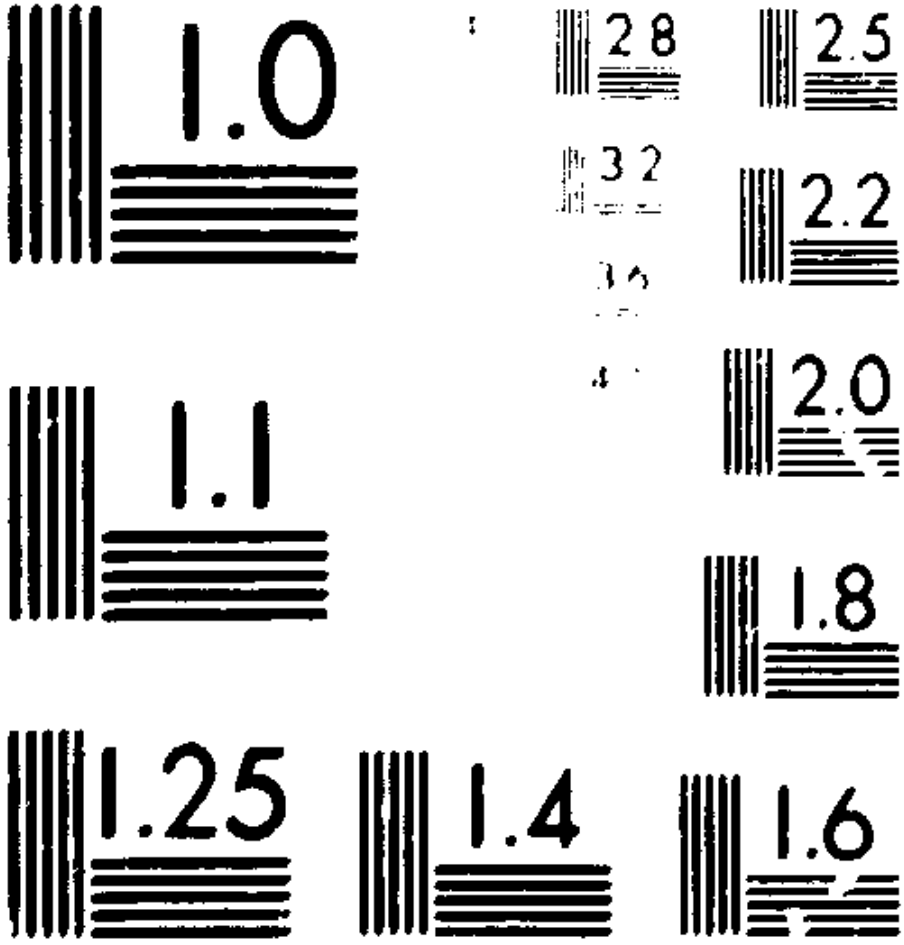

12292

Distr.
LIMITED

UNIDO/IS.360
10 December 1982

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ENGLISH

THE INTERNATIONAL INDUSTRIAL RESTRUCTURING PROCESS: THE EEC, THE EUROPEAN PERIPHERY AND SELECTED DEVELOPING COUNTRIES *

VOLUME ONE

Report of a Research Seminar

Sesimbra, Portugal
22-24 October 1980

O.D.K. Norby

Prepared by the
Global and Conceptual Studies Branch
Division for Industrial Studies

UNIDO Working Paper on Structural Changes 98

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FOREWORD

Industrial development is an ongoing process that depends on constant injection of restructuring and on the capacity to generate and absorb structural change.

In pursuance of General Assembly resolution 31/163 of December 1976, requesting UNIDO to prepare studies relating to the promotion of redeployment of industries from developed to developing countries, UNIDO is carrying out a programme of research covering, inter-alia, studies on redeployment potentials and obstacles, and prospective analyses of structural changes in developed and developing countries in the context of long-term global restructuring. This research programme attempts: to monitor and analyze changes in the international division of labour; to highlight probable trends in their determinants; and to identify possible future structural changes and their implications. In so doing, it would be inevitable that besides global analyses of the international restructuring process, the issue also be brought down to the regional and country levels. One group of countries that is seen to constitute a particular category, in terms of the international industrial restructuring process, is those countries that are on the periphery of the EEC. It is obvious that these countries, which are described as "countries on the European periphery" differ in their internal economic make-up. There is also vast difference between the countries in terms of policies, levels of development, trade patterns, relation with the EEC, etc.

UNIDO and the Government of Portugal organized jointly a Research Seminar on International Industrial Restructuring and the European Periphery Countries in Sesimbra near Lisbon, 22-24 October, 1980. The purpose of the seminar was to shed light on several key issues of broad significance.

Though this report is based primarily on the documentation presented to and the exchange of views on the relative importance of the different agenda items as it transpired during the seminar, it aims at providing a fairly complete overview of the many issues gravitated around structural change at international, regional and national levels.

This report was prepared by the UNIDO Secretariat, with the assistance of Mr. D.K. Norby of the Chr. Michelsen Institute, Norway, as UNIDO Consultant.

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Explanatory notes

The following abbreviations are used in this volume:

CMEA	Council for Mutual Economic Assistance
DAC	Development Assistance Committee of OECD
DMEC	Developed Market Economy Country
ECE	Economic Commission for Europe
EEC	European Economic Community
EFTA	European Free Trade Association
ETA	Eastern Trade Area
GATT	General Agreement on Tariffs and Trade
IFDA	International Foundation for Development Alternatives
IMF	International Monetary Fund
LAFTA	Latin American Free Trade Association
NIC	Newly Industrializing Countries
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OEEC	Organization for European Economic Co-operation
OPEC	Organization of Petroleum Exporting Countries
SADCC	Southern Africa Development Co-ordination Conference
UNCTAD	United Nations Conference on Trade and Development

Economic Abbreviations:

GDP	Gross domestic product
GNP	Gross national product
NMP	Net material product
RCA	Revealed comparative advantage

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1. INTRODUCTION

This study is based primarily on the documentation presented to and the exchange of views at a Research Seminar organized jointly by UNIDO and the Government of Portugal in Sesimbra near Lisbon, 22 - 24 October 1980. The seminar was attended by some 30 prominent persons from the host country, connected with government ministries, academic institutions, enterprises, the Confederation of Industries and the trade unions. A similar number of participants (29) came from the rest of the world, a large part of which included the present member countries of the EEC, the European Periphery outside the EEC (Spain, Turkey, several Eastern European countries and the Nordic countries), developing countries in Africa, Asia and Latin America, and the United States. These participants were either high ranking government officials or senior members of academic institutions. Industrial enterprises were represented by two experienced business consultants. Five international or regional organisations were represented by senior officials. The UNIDO Secretariat was represented by three staff members from the Division for Industrial Studies. Most of the participants were individuals presently or previously involved in research on industrial restructuring and adjustment problems in developed as well as in developing countries.

In spite of the broad participation in the meeting, and the wealth of experience and ideas which it represented, it is evident that such a seminar can only scratch the surface of the great variety of specific questions which the issues under debate raise. The documentation presented contains in itself only a small fraction of the research work available on the subject. Since this study is primarily based on the material presented to the seminar, it is not a comprehensive review of the subject matter. Nevertheless, it aims at providing a fairly complete overview of the many issues, which the international industrial restructuring process raises at international, regional and national levels.

The report follows, in part, the agenda* of the seminar, with a specific purpose to shed light on the relative importance of different agenda items as it transpired during the seminar. The report starts with a description of the issues and proceeds with a presentation of the likely international economic environment in the 1980s. Two chapters deal with the main subject of the seminar: one with industrial restructuring in the EEC, and the other with industrial restructuring in countries on the periphery of EEC. A discussion follows on the possible impact of the EEC enlargement on this process and on relevant policies as well as on the industrial prospects of developing countries. In the chapter "Summary and Conclusions" a synthesis of forces and features of the international restructuring process as influenced by the EEC enlargement, is presented. It attempts to outline national policy options as well as the direction of future research in this field.

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* See Annex I

II. THE ISSUES

In the background paper prepared for the Seminar a number of issues relevant to the industrial restructuring process in general and issues pertaining to the EEC enlargement and its impact on structural change are listed (See Annex III-1). These issues are outlined below.

The fundamental question to be raised concerns the major features of the international industrial restructuring process in the present worldwide economic, social and political environment. But further questions can be raised: are we facing an extended international economic crisis, and if so, which countries and which industrial sectors are affected the most? What kind of impact will this situation have on the international restructuring process? It is generally recognised that international restructuring should lead to fundamental changes in the international division of labour between countries and whole regions of the world, and that its principal feature is rapid industrialization of the developing countries. This is expressed most specifically in the Lima Target which establishes that the developing countries should account for one quarter of the world's industrial output in the year 2000. Is it relevant to ask whether the industrialization of the Third World implies "de-industrialization" of the developed market economy countries (the First World)? To what extent will developments in the developing countries lead to a shift in comparative advantages? What is the role of international trade in the restructuring process?

For the restructuring process within the European Economic Community the major trading partners appear to play a crucial role. The question is: what will be the impact of the entry of Greece and eventually Spain and Portugal on the ongoing changes in the structure of manufacturing industries in the EEC numbers? Will the adjustment difficulties that those states face be exacerbated as a result of the entry of the three South European countries, or will it stimulate industrial growth in the earlier member countries?

As for the restructuring process within countries on the EEC periphery, it should be noted that these countries are highly heterogeneous: the industrializing countries in Southern Europe have different levels of industrial development, with Spain and Turkey as the extreme cases; the centrally planned economies in Eastern Europe; and the highly industrialized countries in the North. The basic question is: how will the industrial restructuring process within each of these countries and within each group of these countries, sharing basic common characteristics, proceed both in relation to the EEC, and to developing countries. How are they affected by the ongoing restructuring in the EEC and what will be the impact of the enlargment of the EEC? What are the likely consequences for the industrial structure of the three countries of which one has entered the EEC and the other two probably will follow suit? The impact on the centrally planned economies in Eastern Europe should also be given special attention. Finally, the importance of developments in the EEC and its periphery to developing countries in general, and to their industrialization process, in particular, as well as the eventual challenge from at least the larger and more advanced developing countries to the industrial adjustment needs in the European region merit close examination.

The Third General Conference of UNIDO requested the UNIDO Secretariat to carry out "continuous surveillance of the industrial restructuring process", and since this process is strongly influenced by policies in the restructuring process these were singled out as a particularly important field for discussion, analysis and further research in the issue paper. A central problem in countries with market economies is how to select appropriate policies which induce enterprises both to adjust to the need for technological development and to take into account changes in comparative advantages between different regions of the world. What are the respective roles of governments, transnational corporations and predominantly domestic enterprises in this process? The characteristics and the eventual behaviour of the different actors make it essential to differentiate between various types of inducement policies on the part of government. It is futile to argue about whether governments as such are better equipped than market forces alone to steer the

process of restructuring. Various forms of government influence on the market forces will always be there. The issue is: to what extent governments are development oriented, and to what extent the market mechanism constitutes the basis for national economic decisions? From this starting point a whole range of other questions can be raised which are relevant to developed and developing countries: is the restructuring process (nationally and internationally) increasingly becoming a matter of negotiation between the actors? What then are the long-term objectives of the actors? What importance is attached by countries to reliance on transnational corporations for providing the required resources, marketing facilities and infrastructure? What is complementary between national and international objectives and between the objectives of foreign companies and host governments? What are the implications of the changing institutional framework in which the restructuring process takes place? A final question which arises out of growing government involvement in the restructuring process is whether enterprises are gradually placing more emphasis on competing for public support for research and development than on production cost competition.

When it comes to research on restructuring, the question can be raised: to what extent can economists really provide advice to governments and enterprises on the industrial restructuring process? A general surveillance of the international division of labour might reduce uncertainties among decision makers. It helps to avoid disruptive adjustment measures and weaken the resistance to adjustment. It is also important to ask how the developing countries view the relevance of the direction and approach of the ongoing research in this field. How should the changing institutional factors, particularly the interesting role of direct government intervention, be reflected in the research?

A great many of the issues were indeed discussed in the Seminar. In addition to the issues raised in the background paper, a number of related issues were brought forward during the discussions as well as some specific or more general problems which in the opinion of the participants have great bearing on the restructuring of manufacturing industries, both nationally and internationally.

Many of these issues are closely linked with the present international economic environment. The key assumption behind the Third World's demand for positive adjustment policies in the First World has been that they will make room both for increased exports of manufactured goods from developing to developed countries and for larger markets in developing countries. But underlying this assumption has been the premise that the developed market economy countries will resume a reasonably high rate of growth albeit lower than the rate that prevailed up to the beginning of the 1970s. This presumption may well be too optimistic: the prospect of energy shortages in the relatively near future is not all that hypothetical; the industrialized countries show no signs of coming to grips with stagflation and related structural problems. While offsetting factors like continued rapid technological development and a possible strong response to the challenges of rising energy prices, environmental problems and factors influencing dynamic impetus, the Third World cannot count on relatively rapid and steady growth in the industrial countries as a dynamic element in their own development process. The issue of delinking the industrial development of the Third World from the overall economic development of the industrialized countries was therefore raised in connexion with its fundamental implications on the industrial development strategies of the developing countries. Further questions about the growing need for recycling the OPEC surpluses directly to the developing countries were also raised, as well as questions whether the Lima Target is high enough, and whether the growth of manufacturing output in the industrialized countries will remain slow.

The issue of an eventual de-industrialization of the industrialized countries attracted great interest. The question was raised whether this "de-industrialization" was not an expression of the move towards the "post-industrial society" in the highly industrialized countries.

A further set of key issues, on which economists of different schools hold opposite views, were brought up in connection with the influence of the general economic environment on the restructuring process in the industrialized countries. Some participants advocated efficient allocation of

resources as a precondition for less inflation and unemployment, and maintained that restructuring guided by the market forces would, therefore, improve the general economic environment. On the other hand, it was argued that the de-industrialization led to balance-of-payments-induced policy constraints, and thereby to unemployment and slow growth. It was thus recommended that trade in manufactures between industrialized countries be controlled. Trade with the Third World - it was said - did not play a major role in the "de-industrialization" of certain high income countries.

For the developing countries, "restructuring" means both expansion and diversification of the capacity of their manufacturing industries. The problem of the intellectual environment, under which this restructuring will take place was raised and in this context it was questioned whether current economic theories and opinions are relevant for the Third World. The role of different constraints in the developing countries themselves was also stressed: domestic abilities to design, manage production of, and to market products; the educational structure; and disadvantages as regards the supply of many raw materials.

As regards restructuring within the EEC before and after enlargement, the key role of technology and of energy in this process was emphasized, with special insistence on the changes which would be needed if energy not only should become dearer, but in shorter supply. The challenge, these factors pose, may possibly stimulate both rapid restructuring and growth. As for the impact of trade with the Third World, attention was drawn to the policies pursued by developing countries, viz. the weight they eventually will give to export promotion. In this connexion it was shown that industrial exports from the developed centrally planned economy countries broadly cover similar subsections as developing countries exports. It was suggested that the import pressure on EEC countries thus may be aggravated. The question was also raised as to whether the enlargement of the EEC will lead to trade diversion.

The discussion of restructuring in the countries on the EEC periphery brought forward a whole range of issues which, to a large extent, were country specific.

The discussion on the subject of the relationship between the developing countries and the European periphery and the relationship between developing and industrialised countries in general focused on the discouraging effects regarding protectionist measures in developed countries and their impact on the export efforts of the developing countries. Also, the role of transnational corporations and the difficulties in predicting their actions, and hence the course of the restructuring process both in developed and developing countries was discussed.

In connexion with the subject of national policies the central issue became the question of whether governments are able to "pick the winners" in their adjustment policies. It was argued that it was far less difficult to "pick the losers" in advance, so that government policies could avoid prolonged efforts to support industries which were losing their comparative advantages. However, this does not resolve the first question, since adjustment not only means adjusting out of some economic activities, but also adjustment into other activities. Because of the difficulty in picking the winner, government support given to specific projects could lead to vested interests in products or processes which in themselves might not be successful, but which would be kept alive because of the resources invested in them. General public support to research programmes might avoid this pitfall. Since they do not have the resources to take part in the "rat race" on equal terms, they might be forced back into an inferior position. The important role of innovation policies for positive adjustment was emphasized. In this connexion, the attention was drawn to the implications of developed countries' policies for developing countries.

In conclusion, the major forces determining the restructuring process in the industrialized countries are changes in demand, technology and trade between the industrialised countries. External factors, i.e., the rising prices of and a threatening shortage of energy are contributing factors. The economic environment which currently could be characterised as "stagflation" and balance of payments constraints tend to make restructuring more difficult. The enlargement of the EEC is expected to have a much larger influence on the entrants than on the original nine member states. All factors in combination seem to create problems and few opportunities for the developing countries.

III. THE INTERNATIONAL ECONOMIC ENVIRONMENT IN THE 1980s

1. Structural Changes in a Larger Perspective

It is worth recalling that structural changes in manufacturing industries in the older industrialised countries are not at all a new phenomenon. Indeed, structural changes have also taken place in periods of relatively slow economic and industrial growth. Table 1 illustrates this point.

It is shown in the table that during the period of slow growth (on the average) between 1913 and 1937 the structure of the Western European manufacturing industries changed considerably, with, for example, textile production remaining on the same absolute level of output for over a quarter of a century.

Table 1

Long period shifts in the pattern of manufacturing output in Western Europe

Distribution of value-added between main branches of manufacturing, 1901 to 1968-70 in ten countries

	1901	1913	1937	1955	1958/60	1968/70
Food and drink	27	19	15	13	13.4	11.4
Textiles	20	18	12	8	7.5	5.6
Basic metals	7	10	10	9	8.3	7.3
Metalworking	16	24	28	34	36.3	38.2
Chemicals	5	6	10	14	9.5	14.5
All other	25	24	25	22	25.0	23.1
Total	100	100	100	100	100.0	100.0
Total Manufacturing (annual growth rate)		3.7	1.7	3.1		5.9

Source: Structure and change in European industry, Secretariat of the Economic Commission for Europe, United Nations, New York 1977, page 17.

Notes: The first four columns are reproduced from an article by Paretti and Bloch of the OECD, Paris, and are expressed in 1938 prices. The last two columns are estimated by the ECE, Geneva, and are in 1963 prices. The different prices used are, it appears, the reason why the share of chemicals in 1958/60 seem to be so much lower than in 1955. Nine countries are included in both parts of the table, while Austria was the tenth country during 1901 to 1955, and Yugoslavia during the last period.

It should also be noted that structural changes in manufacturing in a larger economic region such as Western Europe are, to a great extent, determined by changes in demand and supply within the region itself. Internal demand of the region for some categories of manufactured products, such as food and textiles grow relatively slowly and thus, if the region had been a closed economy, the industrial sectors would grow slowly. Structural changes in industrial production would obviously occur due to faster growth of demand/production in other sectors. The more rapid growth in other sectors has increased their ability to innovate, to reduce production costs of already existing products and thereby broaden the markets and to introduce new products at competitive prices. Change in technology thus directly influences the pattern of demand and emerges then as a major determinant for structural change in production. As Western Europe has relied extensively on trade with other parts of the world, international developments also largely influenced the restructuring process. Changes in the global demand structure affected their exports; successful competitors made inroads in some of their traditional export markets and penetrated the home markets in at least some industrial sectors.

The combined effects of changing market shares in the "world market" -- or rather in "world" exports -- and the changes in "world demand" are illustrated in Table 2. The figures for the United Kingdom are the most striking ones -- they show severely shrinking market shares in all three major commodity groups, but particularly in textiles and clothing, which at the same time show a sharply shrinking share in total world trade in manufactures.

The countries included in Table 2 undoubtedly represent most of world exports of manufactures. However, the figures obviously do not show the total world market for manufactured goods, i.e., net use of stocks plus production. Thus, the fact that the share of textiles and clothing in world exports fell from above one-third in 1913 to about one-ninth in 1959 does not necessarily mean that the share of total world output and consumption fell (equally) sharply. Yet figures from leading industrial countries show that the share of textiles in manufacturing fell almost as much as world exports between 1913

Table 2

Shares of "world market" by major commodity groups and exporting countries

Commodity group	Year	United Kingdom	Germany X)	Other West Europe	USA Canada	Japan	India	Total	Share of commodity group in total
Machinery	1913	26.8	32.9	20.6	19.2	0.5	-	100	25.0
Transport	1929	18.7	22.3	20.1	37.9	0.9	0.1	100	32.5
equipment	1959	19.7	(22.1)	24.5	29.7	4.0	-	100	53.2
and chemicals									
Textiles	1913	42.9	14.6	29.1	3.1	4.3	6.0	100	34.1
and	1929	33.0	11.8	33.7	5.7	9.5	6.3	100	28.7
clothing	1959	15.3	(8.4)	37.9	11.1	18.9	8.4	100	11.2
Other	1913	21.6	32.6	24.0	19.2	1.9	0.7	100	41.0
manu-	1929	17.7	25.5	27.8	25.7	2.3	1.0	100	38.8
factures	1959	13.9	(17.5)	35.7	25.6	6.7	0.6	100	35.6
Total	1913	30.2	26.6	24.9	13.6	2.3	2.4	100	100
manu-	1929	22.4	20.5	27.0	23.9	3.9	2.3	100	100
factures	1959	17.4	(18.9)	30.0	26.2	6.6	1.2	100	100

X) F.R. of Germany only in 1959

Source: A. Maizels: Industrial Growth and World Trade, Cambridge University Press Cambridge, 1963, Tables 8.1 and 8.3.

Notes: "World market" is the exports by the countries included in the table. Other Western Europe includes Belgium-Luxembourg, Italy, Netherlands (except in 1913), Sweden and Switzerland.

and 1959.[1/] The share lost by textiles and clothing was more than compensated by machinery, transport equipment and chemicals which also reduced the share of "other manufactures."

2. Institutional Changes

While restructuring within countries as well as redistribution of industrial production between countries is a process, which has taken place throughout this century in periods of slow growth as well as in periods of rapid expansion, several important changes in institutions and attitudes have taken place and these will have an important impact on the way in which future industrial restructuring proceeds.

a. The Role of Transnational Corporations:

One of the important institutional changes in the last decade is the growing role of the transnational corporations in some industrial sectors as well as in distribution, transport, banking, insurance and several other service sectors. Since much of the production of components and other intermediary goods used by the transnationals are produced by smaller enterprises under sub-contracting arrangements, it is not possible to assess the precise role of the largest corporations only on the basis of national statistics on manufacturing. But their role is clearly illuminated by their high share in the exports of manufactures of a number of countries. These data are not available on a regular basis, but a US survey for the year 1970 showed that 62 per cent of all the US exports of manufactured goods was contributed by 298 US multinationals.[2/] In Sweden, the 20 largest

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1/ Bloch and Paretti (See Table 1, incl. USA as quoted by A. Maizels, op cit., Table 2.2, as well as figures for Australia, Japan and Canada in Table 2.3)

2/ Source: A study for the U.S. Congress, quoted by G. Helleiner: Transnational Corporations and Trade Structure: The Role of Intra-Firm Trade, in Herbert Giersch (ed.), On the Economics of Intra-Industry Trade, Institut für Weltwirtschaft an der Universität Kiel, 1978.

corporations accounted for one-third of the exports of manufactures in 1975.[3] First, they reflect the role of these large enterprises in the domestic market. Second, they show the importance of the transnationals in determining the direction of international trade. Their importance in the export of manufactures from developing countries is well known.[4] It could be argued that the role of transnationals would accelerate the overall restructuring process in the present industrialised market economy countries, because the TNCs in their own interest would tend to abandon production which threaten to become unprofitable, or move it to countries in which it could be made profitable. With their large resources in terms of finance and human expertise they should be able to adjust fairly and rapidly. Indeed, TNC activities are in themselves evidence of the ability and willingness of the corporations to adjust according to international developments and challenges. However, due to the sheer size of the TNCs their actions have great implications for their home and host countries. Therefore, TNCs are increasingly in the public eye. This in itself tends to limit their choice of action. In addition, national authorities are using direct and indirect measures to curtail or redirect restructuring measures which TNCs otherwise might have undertaken. It has also been noted that, in spite of their large resources, the TNCs may not be such a force of innovation and imagination for restructuring as one tends to assume.[5]

3/ T. Laestadius: Produktion uten gränser. Sekretariatet för Framtidsstudier, Stockholm, 1980, p. 46.

4/ The shares of the multinationals in seven countries' exports of manufactures were as follows: (Year in brackets): Taiwan (1971) 20%, Mexico (1969) 25%, Republic of Korea (1974) 28%, Argentina (1969) 30%, Colombia (1970) 35%, Brazil (1969) 43% and Singapore (1976) 90%. Source: P.K.M. Tharakan: The international division of labour and multinational companies, ECSIM and Saxon House, Farnborough, England 1979, p. 98.

5/ "Since the manager of large firms can often be as myopic and inflexible as civil servants, it is crucial to create an environment that favours the growth of small and medium-sized firms as well and encourages entry of new firms." Assar Lindbeck: Can the Rich Countries Adapt? Needs and Difficulties, The OECD Observer, No. 108, January 1981.

b. The Employment Concept:

The gradual broadening of the concept of right to employment, combined with the strength of trade unions and/or the extension of social legislation to protect the rights of the employees of enterprises and other employers, is a further essential factor influencing the adjustment process in developed countries. In quite a few countries it has become a widely accepted social goal that people should have the opportunity to find a job in their own local area. Partly this has a social background -- people should not be compelled to leave their place of residence in order to earn their living; they should not be forced to move their children away from school and break social ties. Partly there are economic reasons for the decreased mobility of labour. Thus, when both husband and wife work, it is more difficult for them to change place of residence. Widespread home ownership often means an economic loss; a job-seeker is forced to move away from an area with growing unemployment, in which consequently home prices are depressed. All these factors are acknowledged as valid reasons for demanding a new job in the same geographical area if the old job is lost. Retraining schemes have been established in many countries to facilitate such a change-over to other jobs. However, it generally proved to be difficult to create new industrial activities in all the different traditional industrial locations in which plants faced adjustment pressures, leading to closure of industrial units. The result is, therefore, often an effort to defend existing jobs as long as possible. The influence of powerful interest groups -- trade unions, local elected officials, sub-contractors and other businesses which have vested interest in the survival of a firm -- often succeed in obtaining public support to prevent partial or complete closure of enterprises. Existing legislation also directly encourages firms to postpone adjustments which entail laying off people due to obligations to undertake terminal payments, etc.

To put it succinctly, increased emphasis on human/social value as an important factor of life in many European market economy countries has introduced strong elements of inflexibility in the economic structure. The real impact of this greater stress on social values differs considerably

between the various market economy countries. In North America, for instance, the political reaction against factors which threaten the flexibility of the market economy system appears to be quite strong. It is possibly the safest to consider that these factors of inflexibility are a lasting feature and not a phenomenon confined to the beginning of the 1980s.

c. The Role of the Enterprise:

An enterprise can be defined as an entity which has to be able to cover its current and capital costs through the sales of different goods and services which it produces in one or several production units. The enterprise concept covers all such entities, from the individual self-employed worker to the largest transnational corporation. Privately or publicly owned enterprises are in principle not different in this respect. The ability of the enterprise to sell its produce is the key to its survival. An enterprise may become unable to sell its products for three reasons: (1) the users will no longer buy the product(s), it has to offer, on account of changing pattern of consumption and that new types of products replace the older ones; (2) the users prefer similar, but somewhat different ("better", "modern," "more efficient," "sturdier," etc) products offered by other producers and no feasible price reduction can make them change back to the old product; and (3) other producers offer similar goods at such low prices that the enterprise in question cannot lower its prices sufficiently to keep its market share without unsustainable losses. Thus, the enterprise has to adjust, in the first case, by switching into another line of products, in the second, by developing new types of products acceptable to the buyers and in the third, by rationalizing the production methods in such a manner that it can meet the price competition. Generally, both enterprise owners and their personnel are strongly motivated to adjust -- the owners in order to safeguard the capital invested, the employees to keep their jobs. Admittedly, the motivation to protect the existing jobs is not evident, when other employment opportunities prevail. But there are several constraints to an enterprise's ability to adjust, and it is not easy to determine whether shortage of capital resources or the sheer lack of ability by the management (and perhaps also by the rest

of the work force to undertake the necessary adjustments is the critical factor. Obviously, if large capital investments are needed, an enterprise will frequently be unable to find enough equity and borrowed capital to undertake such investments. Nevertheless, the combination of very competent (and innovative) management and skilled (and experienced) labour force may prove to be not only the necessary but also a sufficient condition for mobilizing sufficient capital. The entrepreneur can, therefore, be seen as the crucial element as regards the adjustment ability of an individual enterprise.

Still, even the best possible management supported by a skilled work force will, in many circumstances, not be able to save an existing enterprise. First, the physical installations of the existing enterprise may be so closely linked with the existing production pattern that they will only have scrap value if the production pattern has to change. Second, the skills of the work force may be outdated, and the skilled workers will have to be completely retrained. Third, the production of new types of basically the same product would require production at a much larger scale than the existing enterprise can envisage due to lack of sufficient capital and human resources. Fourth, if the competitors' lower prices are the main reasons for the difficulties, it may be technically impossible to meet the price competition if the competitors pay far lower wages. In all these cases, the only feasible way of saving the enterprise is to establish a new enterprise in a different field of production, and re-employ management and staff (when properly retrained). But also in this case, the people of the old enterprise must have the necessary entrepreneurial qualities - to be able to identify a new field of activity - to raise the capital and to actually operate a new enterprise efficiently. In an expanding economy the work force of an enterprise, which has to fold up, may be absorbed by other expanding enterprises. However, even in an expanding economy new jobs will often not be available in the place in which the abandoned enterprise was located, and the skill, age or sex characteristics of the labour force will often make re-employment difficult and slow. Thus, in such cases there are strong and imperative reasons for all concerned to try to reconvert an existing enterprise. The role of the entrepreneur cannot be over-emphasized. Adjustment policies may assist in developing entrepreneurship, but they can never assure that sufficient creative talent will bring about the desired adjustments.

3. The Slow Growth Prospects in the Developed Market Economy Countries (DMECs)

Economic growth in the developed market economy countries has slowed down drastically. The annual rate of GNP in the major industrialised market economies (North America, Western Europe and Japan) fell from five per cent during the decade 1963 to 1973 to two and one-half per cent during the six-year period 1973-1979. The fall in demand was particularly pronounced as regards gross fixed investment, the annual growth rate of which fell from six to one per cent from the one period to the other.[6/] The fall in the annual rate of growth of manufacturing was more pronounced. From the period 1960/70 to the following eight year period 1970/78 the annual growth rate of GNP of 18 industrialised countries fell from 5.1 to 3.2 per cent, while the growth rate of manufacturing fell from 6.2 to 3.3 per cent, the rate of growth of the volume of imports fell over the same periods from 9.4 to 5.1 per cent.[7/]

The most recent experience and the immediate prospects are even less promising. While the GNP of all the OECD countries increased by 3.3 per cent in 1979, the provisional estimate for 1980 was one per cent only, and the same growth rate is forecast for 1981. The corresponding figures for industrial production are: 1979, 4.7 per cent; 1980, -1/2 per cent; and 1981, 1/4 per cent.[8/] The OECD forecast that under unchanged fiscal and monetary policies and oil prices there will be a slight increase in the growth rate of the seven major OECD countries (as a group) in the second half of 1981 and a somewhat larger increase during the first half of 1982. It should be noted that the forecasts are valid only under those assumptions.

The impact of the slow growth in the industrialized market economy countries on the growth prospects of the Third World is both direct and indirect. Slower growth means lower propensity to import, and this effect is inevitable as regards imports of raw materials which still represent the bulk of the export earnings for most developing countries. As late as 1977 there were fewer than ten developing countries whose exports of fuels, minerals,

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6/ International Trade 1979/80, GATT, Geneva 1980, p. 24.

7/ World Development Report 1980, World Bank, 1980.

8/ OECD Economic Outlook, December 1980, OECD, Paris.

metals and other primary commodities represented less than half of their total merchandise export earnings.[9/] However, for the developing countries as a group, exports of manufactures increased rapidly in importance as shown in Table 3.

We note that the dramatic change in the product composition of the oil-importing countries' exports, which took place during the decade 1963 to 1973, has slowed down considerably during the subsequent six years even if account should be taken of the fact that the share of fuel has become blown up due to the price increase on oil. But other data confirm that the growth of exports of manufactures to the industrialized countries has slowed down during the turbulent years after 1973. The share of imports from developing countries in total OECD imports of manufactures rose sharply, from 5.3 per cent in 1970 to 8.7 per cent in 1976, but did only reach 10.1 per cent in 1979, and the share increased only by 0.2 per centage points in 1979. To what extent this is the direct result of slower growth in demand in the industrialised countries, which in itself might slacken changes in the composition of merchandise imports, and to what extent it is due to more protection against imports from the Third World is difficult to assess precisely ? But rising protectionism can be seen as an indirect consequence of the slower growth in the industrialized countries.

The unemployment rate of the seven major OECD countries rose from just above three per cent in 1970 to almost six per cent in 1980 and is forecast to reach as much as 6 3/4 per cent in the beginning of 1982. For the OECD area as a whole unemployment reached 23 million or 6 1/2 per cent in 1980 and may increase to 25 1/2 million or 7 1/2 per cent of the labour force in 1982.[10/] The increasing unemployment has, in most countries, increased the pressure for preservation of existing jobs, and consequently also the demand for protection against imports. As the member countries of EEC and EFTA cannot raise protective walls against each other, and as USA, Japan[11/] and

9/ World Bank, op. cit., Table 9.

10/ Source: OECD, op. cit.

11/ As Japan imports relatively few manufactures, the country has been subjected to trade restrictions.

Western Europe are too dependent on each other to risk retaliation by introducing protective measures against each other, most forms of protection in industrialised countries will primarily hit their imports from the Third World. In principle, the industrialized market economy countries seem not to

Table 3

Product Composition of Oil-importing Developing Countries' Exports from 1963 to 1979.

	1963	1973	1978	1979
Exports, all commodities ($ billion)	22	68	160	199
Per cent distribution				
Primary products (excl. fuels)	76	56	43	42
Fuels	7	9	15	17
Manufactures	14	34	40	40
Manufactures of which:				
Engineering products	2	9	13	13
Textiles and clothing	6	12	12	11

Source: GATT, op. cit., p. 50.

want to reserve the process of international trade liberalization. 12/ But the internal political situation in the different member countries has led, and will undoubtedly continue to lead, to the use of industrial and regional policies implying non-tariff barriers on imports, in many cases primarily on imports from developing countries. Also, agreements restricting trade can be expected to prevail — the most prominent example being the multi-fibre agreement. There is little reason to believe that these policies will be relaxed as long as slow growth prevails in the industrialised market economy countries.

4. External Influence

The present crisis in the OECD countries can undoubtedly, to some extent, be ascribed to external shocks. Short- and long-term internal adjustment problems have overshadowed the need for industrial adjustment in response to the needs of the developing countries. The principal shocks have been the

12/ Of the Declaration on Trade Policy adopted by the Governments of OECD member countries on 4th June, 1980.

rapid increase in oil prices in 1973/74 and in 1978/80. The last wave of increases raised the quoted world price of oil from $12.91 per barrel in the fourth quarter of 1978 to $33 in the last quarter of 1980, or by more than 150%.[13/] The OECD estimates that this increase has "imposed a real income loss upon the area, equivalent . . . to a little over two per cent of OECD GNP."[14/] The direct impact on the inflation rate is estimated to be only one per cent, but as it came on the top of an already intolerable rate of price increase in most industrialized countries, it has led to reinforced anti-inflationary policies which in turn contributed to reduced growth of the GNP in several industrialized countries.

The "oil shocks" have meant slower growth. Their real meaning is more fundamental: energy is no longer as abundant as most decision-makers wrongly assumed until towards the end of 1973. It has become necessary to slow down the growth of energy demand in relation to the growth of national income, and to reduce the consumption of petroleum products. These adjustments -- both energy saving methods and development of new energy resources, and better ways of exploiting old ones like coal -- which take time to become viable, require research, product and process development and large investments. Another problem is linked to the high taxation of petroleum products in many industrialised countries. This has led to a wide discrepancy between the increased cost of oil (imports of domestic production) to a country and the percentage increase in the prices paid by the final users of oil products. During the first period of oil price increases - 1973-75, the change in energy prices to the final users as related to the rise in the import price of oil was on the average of 0.24 in the seven major OECD countries. That means that if import prices for oil increased by 400 per cent, prices paid for all types of energy by the final users "only" rose by 96 per cent. For the period 1978 to 1980 the corresponding rate was doubled to 0.48, so that a 10 per cent increase in import price would lead to a price increase of the order of 4 1/2 to 5 per cent for the consumers. But it may be argued that the price signals to the final consumers still are weakened considerably. In spite of

13/ H.B. van Cleveland and R. Bhagavatula: The Continuing World Economic Crisis, America and the World, Foreign Affairs, 1980.

14/ OECD, op. cit.

this, estimates also show that in the same seven countries energy prices rose by almost 70 per cent in relation to other prices from 1972 to 1980.[15/] The energy problem exercises two opposite tendencies as regards the economic growth prospects in the industrialized countries. On the one hand, it creates vast new opportunities for research, innovation and production development, and leads to new investments, while, on the other hand, the relatively higher energy costs both to users and countries involve financial constraints which may lead to reduced purchases of other goods and services. For countries and groups of countries, these constraints manifest themselves in their current balance of payments. The industrial market economy countries' import surplus in the field of fuel jumped from $36 billion to $110 billion between 1973 and 1974, and from $130 billion to $184 billion between 1978 and 1979.[16/] According to GATT the current balance of payments of the industrial countries changed from a surplus of $17 billion in 1973 to a deficit of $14 billion in 1974, and from a surplus of $30 billion in 1978 to a deficit of $16.5 billion in 1979 which increased even further to an estimated $60 billion in 1980. The OECD shows even larger deficits for the OECD member countries in recent years: $35 billion in 1979, $73 billion in 1980, and (estimated) $40 billion in 1981.[17/] It is generally recognized that during a relatively short period of time -- perhaps for at leas. a decade -- large current account

15/ Source: OECD, op cit.

16/ Source: GATT, op cit.

17/ OECD, op cit.

Some other figures should be added to illustrate the structure of the balance of payments of the industrialised countries. First, these countries earn a large surplus on invisibles which can be seen from the following figures for the industrialised countries (in $ billions).

	1973	1974	1978	1979
Merchandise trade balance	- 9	-51	- 2	-53
Total balance, goods, services and private transfers	17.3	-13.8	30.3	-16.5
Implied balance, "invisibles"	+26	+37	+32	+36

(Source: GATT, op. cit.)

Second, the trade deficit is small compared to overall trade, e.g., in 1979 it resulted from total imports $1088 billion and total exports $1035 billion, and represented thus only 5.1 per cent of total exports. The corresponding figures for the other (i.e., non oil-exporting) developing countries were: imports, $261 billion; exports, $199 billion; trade balance, $62 billion or 31 per cent of export earnings (Source: Ibid.)

deficits do not represent a real problem for the industrialized market economy countries as a group. However, a large overall deficit does accentuate the problems of those individual OECD countries which experience especially large current balance deficits, and may compel them to follow particularly restrictive policies which have spread effects beyond their frontiers.

The reason why a large current balance of payments deficit for the OECD countries as a group does not create insurmountable problems is partly that the surplus countries, viz. some few OPEC countries, have hitherto had no alternative but to place their surplus earnings in the industrial market economy countries which, therefore, have had a large surplus on capital account due to this capital inflow. But under any circumstances it would be likely that the industrial countries would be "credit-worthy" enough to be able to finance their deficits by borrowing or other forms of capital inflow.

However, the functioning of the international capital markets is not without considerable pains and problems. The surpluses earned by the oil-exporting countries are far larger than the deficits of the industrial market economy countries (and, to a lesser extent, to centrally planned economy countries) through the banks and, to a lesser extent, the international bond markets. Official estimates show that the "net new international bank lending" rose from between $30 and $35 billion in 1973 to $50 billion in 1974, and after a slowdown in 1975 it has continued to rise sharply to reach almost $130 billion in 1979. The oil-importing countries' annual net borrowing from international banks rose from $10 billion in 1973 to $15 billion in 1974 and $40 billion in 1979.[18/] These figures, quoted from a recent IMF study are considerably larger than "net external financial receipts" through bank lending of all developing countries given by the OECD ($10 billion in 1974, $22.5 billion in 1978 and $16.66 billion in 1979), but the coverage may be different.[19/] A study by the World Bank suggests even larger increases in the commercial banks' claims on developing countries than the IMF ($53 billion in 1978, IMF approximately $30 billion; $40 billion in 1977, IMF approximately $15 billion).[20/] These large discrepancies are partly caused by differences in definition of transactions, but partly also by

18/ Source: Prospects for recycling oil surpluses by the international capital markets, Finance and Development, Volume 18, No. 1, March 1981. IMF/World Bank.

19/ Development Co-operation, 1980 Review, OECD, November 1980.

20/ World Bank, op. cit., p. 27.

difficulties to obtain exact data on all operations. But in any case, the figures are very large and illustrate the great role played by the international banks. The "recycling" of the oil surpluses means not only large earning opportunities, but also large risks. Many loans are guaranteed by governments, but, if and when a country has no financial resources to meet their debt obligations, neither guarantees nor honest will to honour debts can produce money to pay interest and amortisation. The importance of foreign earnings in total earnings of the largest American banks has grown very fast. Data for 1976 show that the share of foreign earnings in total earnings for the 6 largest USA banks ranged from 40 per cent (Bankamerica Corporation) to 78 per cent (Chase Manhattan Corporation).[21/] As shown by the IMF figures quoted above, lending to oil-importing developing countries represents only about one-third of total international lending, but it constitutes a considerable risk element. Moreover, as borrowing at commercial terms (i.e., short amortisation periods and high interest rates) has grown, the servicing of debt takes an increasing share of the export earnings of the largest borrowers -- the World Bank estimates that in 1980 the developing countries have used 70 per cent of the money which they borrowed on amortisation and interest on existing loans.[22/].

World Bank estimates show that in mid-June, 1979 65 per cent of the commercial banks' claims on developing countries were concentrated on 10 borrowers. It is thus easy to see that the risks are concentrated and that the banks are obliged to lend these countries fresh money so that they can service old debts. Even if this represents a kind of merry-go-round of money, the continued smooth operations of the international banking system depends also on a continued inflow of funds from somewhere.

This leads us to the next problem. In a world in which investments in most types of financial assets inevitably shrink in real terms because of worldwide inflation, the "investors" are, in principle, interested in safer forms of placement of money, which would yield a positive return in real

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21/ Transnational Corporations in World Development: A Re-examination, United Nations, New York, March 1978, p. 218.

22/ World Bank, op. cit., p. 25.

terms. For the oil-exporting surplus countries it appears to be a better solution to keep oil in reserve rather than to invest the surplus revenue in assets that will be eroded by inflation. The international monetary disorder, therefore, implies the risk that some (i.e., those with large current balance of payment surpluses) oil producing countries may reduce their oil output in a not too distant future.

Finally, the existing system is not logical: why shall most of the surplus oil-revenues be "recycled" from some OPEC countries to other developing countries through private banks in the industrial market economy countries? If this roundabout process, which has been developed due to the initial dominant position of the large banks in the market economy industrialised countries, should stop, the DMECs would both lose earnings from the transactions and the (at least theoretical) ability to meet their own capital needs first. But it would probably not exacerbate the balance of payments problem of the DMECs significantly.

5. Prospects for Restructuring

The fundamental reasons why it is so difficult for the developed market economy countries to get their economies moving at a higher rate of growth are considered to lie in problems like inflation, stagnating productivity growth and slow adjustment to changing conditions. Many analysts also put much of the blame on the recent rapid growth of government expenditure in relation to national income. It ought to be encouraging for the developing countries to observe that there is a growing recognition in the DMECs that adjustments and restructuring may be a necessary part of policies to get inflation under control and at the same time to enhance growth and reduce unemployment. The point of view that reallocation of resources in the industrialized market economy countries is needed simply to defend existing standards of living may be summarised as follows: There is probably a greater need now than during the last two decades for the reallocation of resources in OECD countries. At the same time, OECD economies show a reduced ability to carry out this reallocation smoothly. Government could, at least in principle, help to mitigate these difficulties with macroeconomic policies designed to increase capacity utilisation, the return on investment and hence, capital accumulation, and with microeconomic policies designed to remove market imperfections. But since political decisions are to a great extent

responsible for the lessened allocative flexibility of our economies, it is by no means obvious that the process can be reversed. Is it not possible simply to conclude that the OECD countries are now so rich that they can afford to do without further reallocation? 23/

It is important to realize that such a strategy may not be a realistic option. In a world where the competitive situation on world markets is changing all the time, refusal to reallocate may result in gradually falling standards of living. Competition will simply send the "value-added" in various productive sectors downwards -- possibly to zero or even to negative figures. In some developed countries this has already happened -- for instance in shipbuilding, where the market value of the intermediary product is now often higher than the market value of the ships produced. Thus, shipbuilding in some countries has become a negative production process in which excellent raw materials and intermediary products are turned into scrap.

There are signs of more violent fluctuations in economic and social policies as the result of change in the voting patterns of the electorate. Until the mid-seventies economic policies gravitated around macro-economic demand management as associated with the name of Lord Keynes, supplemented by supply management and a trend to expand government financed social measures. While the electorates in the industrialised market economies may be willing to try different types of experiments in order to get rid of inflation, unemployment, rising tax burdens or a growing government bureaucracy, there is still an underlying trend towards not accepting the "rat race" of an ever increasing insistence on efficiency and competitiveness, particularly amongst younger people. However, as other nations acquire the ability to use advanced technologies, and work under at least a temporary comparative "advantage" of much lower wages and living standards amongst the masses of the population, the richer nations are condemned to become more productive if they are to safeguard the standards which they have reached. If we would imagine a situation in which the rich nations effectively could fully protect their manufacturing industries against a growing number of "newly industrialized countries," they could, nevertheless, not protect the standard of living of

23/ See Assar Lindbeck: Can the Rich Countries Adapt? Needs and Difficulties, The OECD Observer, No. 108, January 1981.

their people. The reason is simple: they do depend on imports of fuels and raw materials and they would have to pay growing quantities of processed, manufactured goods for these imports as a consequence of increasing productivity and competitiveness in other parts of the world. Provided that the demand for raw materials and energy could be met, both highly industrialised and less economically developed countries appear to have a mutual interest in continued technological progress and increased productivity in the richer countries. It would be in the interest of the high-income countries because it is the only way in which it appears possible for them to maintain the material standard of living which they have reached. It would also be in the interest of the less developed countries because their rate of increase in material living standard could be accelerated through a steady supply of ever more appropriate capital equipment for the development of their own economies.[24/]

It can be concluded that whereas in the developed market economy countries there is a lack of consensus on key economic and social policy issues, there is an increasing need to find imaginative solutions to adjustment and restructuring problems which create an absolute uncertainty as regards the economic and social developments in these countries in the 1980s. It is, however, likely that the costs of protecting non-competitive manufacturing sectors or units little by little will become so large, and so obvious to the public at large, that this factor alone may compel governments to accept redeployment of various industrial activities. The collateral of such policy changes would be greater for manufactured from developing countries.

6. Development Trends in the Centrally Planned Economies in Eastern Europe

Also in the Soviet Union and in Eastern Europe the rate of growth slowed down considerably during the second half of the 1970s as shown in Table 4.

24/ It can be objected that this is not in the interest of the Third World, because they should develop their own technologies rather than remain dependent on imported ones. This is a fine argument in theory, but in practice the creation of "own technologies" means adaptation of technological knowledge, and new innovations elsewhere give developing countries a greater choice in applying technological solutions appropriate to their situations.

Table 4

Net Material Product (NMP) and Investment (I) in Eastern Europe

(Annual percentage change in volume)

		1966/70	1971/75	1976/79
Soviet Union	NMP	7.5	5.5	4.5
	I	7.5	7.0	4.0
Eastern Europe	NMP	6.5	7.5	4.5
	I	9.5	11.0	4.0
Soviet Union and E. Europe	NMP	7.0	6.5	4.5
	I	8.5	8.5	4.0

Source: GATT, op. cit. (based on UN and CMEA statistics)

The principal reason for the slowing down in the growth of the net material product appears to be that the scope for expansion through more extensive use of labour and capital is reaching its limits.[25/] It reflects itself in a very strong reduction of the percentage of the labour force in agriculture in the most industrialised CMEA countries:

	1960	1978
The Soviet Union	42	17
Poland	48	33
Hungary	38	18
Czechoslovakia	26	12
German Democratic Republic	18	10

This means that continued industrial expansion in the future will have to rely more on raising the labour productivity in the several industrial sectors than on expanding the capacity and employing more workers. The need to improve production methods is one of the factors behind the rapid growth of East-West trade which, to a large extent, reflects the CMEA-countries' needs to import improved technologies. The growth of this trade is reflected in the falling share of intra-trade between the CMEA countries, from 62 per cent in

25/ "The CMEA countries attribute this slow down first of all to the exhaustion of the extensive factors of growth". Z. Roman, in a communication to the Sesimbra Seminar.

1960 to 54 per cent in 1979, when 55 per cent of the imports of the European CMEA countries represented intra-trade, 33 per cent came from developed and 10 per cent from developing countries.[26/]

"The growth of East-West trade helped the modernization of the production capacities of the CMEA countries, at the same time it was accompanied in the seventies by indebtedness and made them more sensitive to the problems and the dramatic changes in the world economy -- stagflation, recession, disturbances of the international monetary system, rapid increases of the oil and raw material prices, transformation of the international division of labour, pressure for the new economic order. The coincidence of these effects with and the exhaustion of the extensive factors of growth and with a relatively slow progress in intensification require urgent improvements in efficiency and competitiveness and faster structural adaptation."[27/]

Even if it is apparent that it is a primary objective in the CMEA countries to increase the efficiency in terms of use of labour and other inputs in their manufacturing industries in general, various constraints imply that this process also may lead to a considerable degree of restructuring. Modernisation of existing and establishment of new production units involve choices of priorities in terms of products, individual production units, sub-sectors or entire sectors of manufacturing. Increased productivity will frequently depend on a larger degree of specialisation, or on exploitation of economies of scale. As the period of an apparent unlimited access to additional labour presumably is approaching its end, workers may have to be drawn from existing production units which may be closed down due to inadequate efficiency.

26/ Z. Roman, op. cit. Figures published by GATT show the following development of the imports of the "Eastern Trading Area" (which includes China and other Asian planned economies, but excludes Cuba):

From	Percentage share of imports		
	1963	1973	1979
Industrial Areas	19.6	32.2	35.2
Australia, New Zealand, South Africa	1.8	1.1	1.3
Oil exporting developing areas	0.8	1.7	2.5
Other developing areas	8.7	7.7	7.7
Eastern Trading Area	69.3	57.4	53.2

Source: GATT, op. cit., Table A 22.

27/ Z. Roman, op. cit.

This creates the possibility of abandoning certain lines of production and instead of importing the goods from other sources. But the CMEA countries are faced with balance of payments constraints vis-a-vis the rest of the world. The modernization of the industrial capacity depends, to some considerable extent, on the import of advanced machinery and equipment from the industrial market economy countries. Moreover, their imports of food, raw materials and even fuel from non-CMEA sources have been growing rapidly. It follows that there must be very compelling efficiency considerations behind decisions to start importing goods for which the CMEA, for the time being, is self-sufficient.

In macro-economic terms, such decisions will be fully justified if shifts away from industries, which clearly are no longer internationally competitive with increased imports, will allow the creation or expansion of industries which mean reduced import dependence in other areas, or a larger export potential. As in the case of many developing countries, the import substitution alternative may appear to be the safest strategy. Exports, particularly of specific goods, entail marketing problems which may require close collaboration with strong enterprises with international marketing experience and economic power. In a crisis environment, the outlook for exports of standardized goods is uncertain. While export promotion clearly is an important aspect of the policy of CMEA countries, uncertainties as well as strong international competition compel them to exercise considerable care as regards dismantling existing productive capacities. Nevertheless, the opportunities for advancing the growth of their own economies through increased foreign trade are fully recognized by the CMEA countries.[28/]

It appears as if the growth prospects of the CMEA countries during the next few years, to a large extent, will depend on their ability to raise productivity through qualitative improvements in their production methods, although there must still remain some scope for expansion through the creation of new production units and jobs. In some areas of manufacturing rapid progress appears to depend partly on the introduction of technologies imported

28/ "Possibilities of higher efficiency are offered by altenative ways of meeting the needs, primarily via substitution and foreign trade . . . Therefore, the forecasts about the changes in the world economy and in foriegn trade, in products, markets, prices, the analysis of comparative advantages are an integral part of planning in the CMEA countries." Roman, op. cit.

from developed market economy countries. Balance of payments constraints, which are made more severe due to poorer market prospects for goods from the CMEA countries in the market economy countries as long as these remain in a period of stagnation, may limit the capability of the CMEA countries to accelerate the growth in some sub-sectors through imports of machinery, equipment and entire factories. Thus, although the CMEA countries are less strongly dependent on trade with the OECD countries than the developing countries, the slow growth in the OECD countries is also having an impact on the centrally planned economies, notably the Eastern European countries. As pointed out, internal structural changes have slowed down the growth rates in the CMEA countries, and this trend is likely to continue for some time.

It is impossible at the present time to predict how adjustments in the manufacturing industries of the CMEA countries will affect the exports of manufactures from the developing countries. In 1978 the "Eastern Trading Area" (i.e., the CMEA countries, less Cuba, which in the GATT statistics is included amongst developing countries, plus China) accounted for only 2.4 per cent of the "other developing countries" exports of manufactures to other countries in the world (i.e., excluding trade between "other developing countries").[29/] To some degree CMEA countries and developing countries are competitors in third markets (textiles, clothing and other machinery and transport equipment, e.g., ships), and the present volume of trade in such goods between the two groups of countries is small. In case of standardized products low wage countries' advantages should be compensated by higher productivity, or it is better to withdraw.[30/] This statement suggests that the CMEA countries will not automatically "withdraw" from industries in which low wage countries, i.e., developing countries, appear to have comparative advantages. For reasons already suggested, they may hesitate to become too dependent on imports, and will aim at higher productivity in existing industries. But it may not always be possible to achieve this end, or the cost/benefit ratio of doing so may compare unfavourably with the cost/benefit ratios of alternative investment opportunities. While the CMEA countries as a group still may continue to plan for the highest possible degree of self-sufficiency for mass consumption goods, basic intermediary products and a range of capital goods, the planners are increasingly cost conscious and this may indeed open up marketing opportunities for goods from developing countries in the CMEA countries during a period of slower economic growth.

29/ Source: GATT, op. cit., Table 21. In 1979 the proportion fell further to 2.3 per cent, against 3.9 per cent in 1973.
30/ Roman, op. cit.

It should be added, however, that this is a speculative conclusion. Trends in recent years have been in the opposite direction, which is clearly apparent from Tables 5 and 6.

The distribution of imports shows that in all fields, imports from outside the Eastern Trading Area increased faster than intra-area imports during the five-year period 1973 to 1978, but the increase was particularly significant in the case of manufactures. However, the industrial areas strengthened their very dominant position as supplier of manufactured goods to the centrally planned economies, from 94 up to almost 96 per cent of the supplies from outside the area. On the other hand, the "other" developing countries increased their share in the imports of raw materials into the CMEA countries and China, while the OPEC countries became the dominant outside suppliers of fuel. On the export side it is worth noting that exports of fuel and other raw materials to countries inside the Eastern Trading Area rose faster than exports out of the area, while imports of such commodities from outside the ETA rose faster than intra-trade. This suggests that the centrally planned economies tend toward becoming net importers instead of net exporters of fuel and raw materials.[31/]

Manufactured exports out of the area rose faster than intra-trade area exports, but this was mostly due to a quadrupling of the value of the exports of manufactures to the OPEC countries. But exports to other developing countries and more so, exports to industrial areas also rose faster than the intra-area exports of manufactures. The share of "other developing countries" in the <u>total</u> exports of the ETA countries rose slightly, from 12.4% in 1973 to 12.7% in 1978 (and to 13.1% in 1979), while the corresponding figures for the "industrial areas" were 13.6% in 1973, 14.4 per cent in 1978, and 14.6 per cent in 1979. Thus, both in the First and Second World, the other developing countries have become somewhat more important export markets, and for both areas these markets are approximately equally important in relation to total trade. In absolute terms, however, the "industrial areas" total exports to the other developing countries were more than 7.5 times larger than those of the Eastern Trading Area in 1979.

31/ The GATT trade matrix shows that ETA's import surplus of other raw materials (including food) than fuel from outside the area rose from $1.2 billion in 1973 to $4.5 billion in 1978, while their export surplus of fuel rose from $2.5 to $9.7 billion during the same period. But fuel imports rose faster than fuel exports.

It is of equally great interest to look at the trade between the centrally planned economies and the developing countries from the viewpoint of the developing countries. Table 6 presents the same kind of data as in Table 5 for the "other" developing countries and the oil-exporting countries.

TABLE 5

"Extra-area" trade of the Eastern Trading Area

Per cent distribution of imports and exports

	Trade with other dev. countries		Trade with oil-exp. countries		Trade with industr. countries		Intra-trade in percent of total trade	
A. Imports	1973	1978	1973	1978	1973	1978	1973	1978
Fuel	10.6	3.2	71.2	83.9	18.2	11.6	79.2	77.2
Other raw materials	37.0	44.7	2.4	2.2	54.3	47.6	36.9	32.7
Manufacturers	5.2	3.5	0.5	0.2	94.1	95.7	64.5	58.8
TOTAL	18.0	17.0	3.3	5.5	75.7	75.2	57.8	55.1
B. Exports								
Fuel	10.2	11.8	-	0.1	89.8	88.2	44.5	45.1
Raw material	21.3	23.3	2.4	8.1	76.3	68.1	40.0	40.9
Manufacturers	35.1	30.9	9.8	17.1	54.1	50.9	70.5	66.9
TOTAL	29.0	28.1	6.9	11.2	63.3	60.1	57.2	55.0

SOURCE: GATT, op.cit. Table 21. The Eastern Trade Area includes China, but excludes Cuba which is included under other developing countries. Oil exporting developing countries are in the GATT statistics defined as the OPEC members. Industrial countries (or areas in the GATT terminology) include all OECD countries, except Australia and New Zealand, and also Yugoslavia, Malta and Gibraltar. Australia, New Zealand and South Africa are treated as a separate category in the GATT trade matrix, and are not included in the figures above (which explains why the percentages do not add up to 100).

Table 6

Extra-trade of the developing countries

I. The "other" developing countries

Per cent distribution of imports and exports

	Trade with EFTA countries		Trade with oil-exp. countries		Trade with industr. countries		Intra-trade in percent of total trade	
A. Imports	1973	1978	1973	1978	1973	1978	1973	1978
Fuel	4.0	4.8	87.6	88.2	7.9	6.5	15.9	13.4
Other raw materials	12.5	11.4	5.2	5.3	73.4	73.6	28.3	28.8
Manufacturers	8.0	7.0	0.3	0.6	89.5	91.1	10.4	12.1
TOTAL	10.1	9.2	11.2	17.2	75.4	70.9	15.1	15.3
B. Exports								
Fuel	1.5	0.5	0.9	5.5	95.2	91.5	24.1	20.7
Other raw material	10.8	14.0	2.8	5.6	85.2	79.2	14.7	15.5
Manufacturers	3.9	2.4	7.8	12.1	84.1	82.4	22.5	22.7
TOTAL	7.7	7.4	4.3	8.0	85.5	82.1	18.3	19.3

II. Oil exporting developing countries

A. Imports								
Fuel	0	0.5	22.2	53.8	72.2	45.7	25.0	11.9
Other raw materials	5.8	7.8	26.4	24.9	64.4	60.0	1.7	2.2
Manufacturers	6.4	5.3	8.8	7.8	83.6	86.7	0.6	1.3
TOTAL	8.3	6.5	11.7	10.6	78.0	81.5	1.0	1.6
B. Exports								
Fuel	1.3	1.9	18.9	20.2	78.3	76.3	0.2	0.2
Other raw materials	6.4	6.6	20.5	23.0	70.8	69.7	1.6	4.7
Manufacturers	8.2	3.7	17.6	30.2	76.5	65.1	11.5	31.7
TOTAL	1.9	2.2	16.9	20.5	77.8	75.8	0.5	1.1

Sources and definitions, see Table 5.

As regards the "other" developing countries, we note that the share of the Eastern Trading Area in their imports fell from 10 to 9 per cent between 1973 and 1978. In reality, the fall was even more pronounced because their imports of the two most important categories -- raw materials other than fuel and in particular, imports of manufactures -- fell significantly in relation to total extra-area imports. As the intra-trade in those fields rose somewhat in relative terms, it is quite evident that during the five-year period 1973 to 1978 the role of the centrally planned economies as suppliers to "other" developing countries declined quite significantly. As China increased its exports quite quickly in recent years, evidence suggests that the CMEA countries' role as suppliers of the "other" developing countries was declining, and the decline was particularly significant as regards manufactures. This may have two principal reasons: First, official development assistance from the CMEA countries appears to have remained at the same level in money terms from 1973 to 1978 (it rose from $1.23 billion to $1.26 billion, and did only increase considerably to $1.84 billion in 1979)32/ and this has certainly influenced the CMEA exports of manufactures to the "other" developing countries. Second, for many types of manufactures the CMEA countries are in a difficult situation not only because the importing countries may prefer goods from their traditional suppliers in the developed market economy countries, but also because much capital goods imports are linked with existing equipment and installations, and as standards differ it is often difficult to use equipment from new sources of supply.

As regards exports from "other" developing countries, it is striking that in the course of five years the Eastern Trade Area became a considerably more important buyer of raw materials other than fuel. On the other hand, while barely 4 per cent of the extra-area exports of manufactures went to the CMEA countries and China in 1973, this percentage had fallen to below 2.5 per cent in 1978. Thus, the centrally planned economies frequently are based on long-term contracts and thus less exposed to fluctuations due to changing business cycles. But at the same time it must be considered that exports of manufactures to the CMEA countries are so small that they can hardly fall

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32/ Development Co-operation, 1980 Review, OECD, Paris, 1981.

further even during a difficult transition period in the client countries. Moreover, as pointed out earlier, it is quite possible that some of or perhaps all the CMEA countries will find it advantageous to stop expanding their production of different types of manufactures which they can import at favourable prices from developing countries. The present figures for trade with the Eastern Trading Area, therefore, contain on balance some hopeful prospects for the exporters of manufactured goods in developing countries as regards future markets in the CMEA countries in particular.

The part of Table 6 that shows the geographical trade pattern of the oil-exporting developing countries do not call for many comments. We note that also in these countries the Eastern Trading Area has lost part of its market share for manufactured goods, while it has increased its share for raw materials. As regards from the OPEC countries the share of fuel in total exports out of the area rose from 89 per cent in 1973 to 94 per cent in 1978. But of this export only 1.3 per cent went to the Eastern Trading Area in 1973 and 1.9 per cent in 1978. The change is nevertheless significant -- the CMEA countries may represent a potentially growing market for fuel from the OPEC countries, but it is hardly likely that the share of oil sold to these countries will increase sufficiently during the 1980s to make the oil exporting countries significantly less dependent on their markets in the OECD countries.

7. Development Patterns and Prospects in the Developing Countries

a. General Features of the Developing Countries:

Due to the diversity of the developing countries it is virtually impossible to present the past experience and the prospects of the Third World in a reasonably coherent way: the individual developing countries are extremely different in size of population and geographical area; the size of their Gross National Products ranges from quite insignificant amounts to more than $200 billion, both due to the vast discrepancies in the size of population and to very large discrepancies in Gross National Product (GNP) and

GNP per capita; growth rates of population, GNP and GNP per capita are highly unequal; the structure of their economies and the composition of their labour forces are very dissimilar; and the same holds true for their foreign trade pattern. The common features of the "developing countries" are partly their very uneven domestic structures with large sections of traditional and, in an economic sense, normally very inefficient economic activities with subsequent social, cultural and political implications, and partly, their strong reliance not only on foreign technology and technicians, but also on mighty economic forces in the industrialised countries, particularly in the developed market economy countries.

Table 7 puts together some information which illustrates this diversity. Note that the ranges, which are shown in the table, show figures under "smallest" and "largest" for different countries.

In terms of population, the OECD table includes territories with population below 5,000 as well as India with 644 million in 1978. The smallest independent country, Nauru, has a population of 8,000 in 1978. GNP per capita was $80 in Kampuchea and Maldives, and $14,890 in Kuwait. The latter country has had a high national income per capita for a considerable period of time, but is still dependent on foreign resources for running its economy, and as late as 1975 more than half of its original population was still illiterate.

During the 8-year period 1970-78, the rate of growth of GNP ranged from -2.7 per cent in the Bahamas and -2 per cent in Mozambique to +17 per cent in Macao, +16 per cent in Botswana and +15 per cent in Saudi Arabia. In absolute terms the size of the GNP is shown as $10 million for a number of small countries, whereas it exceeds $100 billion in Brazil, Spain and India.

We also note the great degree of heterogeneity within each of the sub-groups of developing countries. Amongst the low-income countries there is, after all, a significant difference in economic development between countries with GNP per capita below $100 and those with more than $400 per

Table 7

The level of GNP and population of developing countries (including dependent territories) in 1978 and the growth of real GNP and GNP per capita 1970-1978

Group of countries	1978		1970-1978 real growth		1978 GNP
	GNP/CAP US$	Populat. Million	Rate GNP/CAP	(%) GNP	Million US$
Low income countries (inc. OPEC)					
Total	210	1,349	1.4	3.7	280,050
Range:					
Smallest	80	..	-4.4	-2.0	..
Largest	440	644	8.5	11.0	110,980
Middle income countries (excl. OPEC and NICs)					
Total	810	423	3.0	5.7	347,150
Range:					
Smallest	450	..	-5.2	-2.7	..
Largest	10,640	81	14.6	17.2	50,600
OPEC (Excl: Indonesia, Nigeria)					
Total	2,800	101	4.7	8.1	274,430
Range:					
Smallest	910	0.2	-1.4	0	1,990
Largest	14,890	36	11.8	15.2	65,030
Newly industrializing countries (NICs)					
Total	1,830	350	3.9	6.2	666,240
Range:					
Smallest	1,160	2	1.0	2.4	7,650
Largest	3,520	119	8.0	10.1	191,580
All developing countries	700	2,222	3.5	5.9	1 567 860
of which:					
Non-OPEC developing countries	560	2 121	3.5	5.6	1 293 430
Least Developed countries					
Total	180	259	0.6	3.1	46 930
Range:					
Smallest	80	0.15	-1.9	1.3	10
Largest	610	84	13.3	15.7	7 320

SOURCE: OECD op. cit. 1980 Review. The table excludes China, North Korea and South Africa, but includes certain OECD countries: Greece, Portugal and Spain (under NICs) and Turkey.

capita. Moreover, some of the larger low-income countries, notably India, have a very diversified economic structure, including highly sophisticated manufacturing industries completely controlled by managers and technicians and capital owners from the country itself. The growth rates also differ very considerably between the several low-income countries. The middle-income countries (excluding OPEC countries other than Nigeria and the NICs) are far more heterogeneous, not only due to the fact that their range of GNP per capita goes from $450 to more than $10,000, with a considerable number of them having a GNP per capita that exceeds, often considerably, $2,000, but also due to the highly uneven economic performance. A middle-income country is by no means a country " on the point of taking off," or which has already "taken off." On the contrary, many of them are in serious economic difficulties, particularly a number of small countries with highly specialised economies.

Even the OPEC is a very mixed group. The OECD table, that is the basis for Table 7, lists the two largest OPEC countries, Indonesia with 136 million inhabitants and Nigeria with 81 million people, under low- and middle-income countries respectively. Their GNP per capita in 1978 was $360 and $560. Income from production of crude oil has obviously a widely different impact on the overall economies of the countries because of differences in the size of population. The "real growth rates" shown in the table are, in a way, very misleading, because they do not take into account the gain in terms of trade which the oil exporters have had since 1973. Even if the real price of oil continues to rise, which seems quite likely in spite of the glut on the oil market in the middle of 1981, the oil-exporting countries cannot expect continued high growth rates unless they manage to diversify their economies and exports, and also the OPEC countries will, therefore, to an increasing degree, be dependent on marketing manufactured goods elsewhere in the world.

The most homogeneous group of countries, shown in Table 7, is the newly industrializing countries (NICs). Although they all have had some considerable success in expanding their exports of manufactured goods, their growth performance in the 1970s was rather unequal, ranging from a growth in the GNP of 2.4 per cent per year in Argentina to 10.1 per cent in the Republic of Korea.

Table 8 gives further indications about the economic structure of the different groups of countries. The source is the World Bank, which uses a different classification than the one used in Table 7.[33/]

The most striking fact brought out by Table 8 is the large variation in the share of manufacturing in the GDP, regardless of which group of countries that we consider. While the share of manufacturing in the GDP of the low-income countries is only half that of its share in the middle-income countries, there is within each of these two main groups very large differences between the extremes. Indeed, if we follow the OECD definition which excludes the NICs from the middle-income countries, we find that the maximum share of manufacturing is practically identical (25 versus 26 per cent) in low- and middle-income countries, whereas the share of manufacturing is as low as six per cent in several middle-income countries, while only four low-income countries for which data are available fall below a six per cent figure. On the other hand, the share of agriculture (and forestry and fishing) is much lower in the middle-income than in the low-income countries. Within all groups, except the "capital surplus oil exporters," there is a great variation of the contribution of "other industry" to GDP -- "other industry" being mining (including oil), construction, and gas and electricity. The shares of the two latter sectors depend quite strongly on the overall level of economic development and the lower figures for the middle-income countries are, for this reason alone, much higher than the lower figures for the individual low-income countries. The higher figures reflect the share of mining (including oil) in the GDP and varies, of course, very strongly because of the great differences in mineral resources and/or their commercial utilization.

The data on the growth of manufacturing during the period 1970 to 1978 demonstrates once more that progress in manufacturing is quite impressive in some low-income countries, while some middle-income countries have suffered stagnation or even decline in their manufacturing output.

33/ It only covers countries with more than 1 million inhabitants. In order to make Table 8 reasonably consistent with Table 7, the ranges are calculated on the basis of the same countries which are included in the different groups in Table 7. For comparison totals are shown for the corresponding, but somewhat different groups in accordance with the World Bank classificaton.

TABLE 8

Shares of GDP (per cent) originating in agriculture in manufacturing, and in other industry 1978. Average annual growth rate of manufacturing 1970-1978.

	Share in GDP (per cent) Agriculture	Manufacturing	Other industries	Annual rate of growth manufacturing
Low income countries (OECD definition)				
Range - highest	62	25	37	11.7
- lowest	26	2	1	- 6.0[a/]
Low income countries (World Bank definition) Total	38	13	11	4.2
Range - highest	62	23	37	11.7
- lowest	26	2	1	- 0.6
Middle income countries (OECD) definition, excl. OPEC, NICs)				
Range - highest	35	26	48	13.6
- lowest	3	6	6	- 2.4
OPEC (excl. Indonesia, Nigeria)				
Range - highest	21	17	71	18.4
- lowest	..	3	18	5.4
Newly industrializing countries (OECD definition)				
Range - highest	24	38	12	18.3
- lowest	2	19	6	2.0
Middle income countries, (World Bank def., incl. NICs, some OPEC)				
Total	16	47	9	6.8
Range - highest	38	38	48	18.3
- lowest	2	6	6	- 6.0[a/]
Capital surplus oil-exporters (World Bank definition)				
Total	5	8	57	16.1
Range - highest	9	12	76	18.4
- lowest	..	3	54	5.4

SOURCES: World Development Report, 1980, op.cit. For OECD-classification, see Table 7.

"Other industry" is the World Bank heading "industry" less manufacturing, i.e., mining, construction, electricity, water and gas. Note that the table only gives data for countries with more than 1 million inhabitants.

a/ Countries which have been the subject of strong political upheavals in the 1970s have not been taken into account.

b. Exports of Developing Countries:

Table 9 gives some pertinent figures on the export trade of the different groups of developing countries, although the figures in the table must be interpreted with considerable care.

It is true that the composition of exports of most developing countries, apart from the majority of the OPEC countries, differs largely inside each group of countries. Even amongst the NICs we find a country (Argentina) which earns three-quarters of its export receipts from primary commodities, whereas we find a low-income, least developed country (Bangladesh) in which 56 per cent of the export earnings are derived from manufactures (mostly jute products). The averages for the two main groups, low income and middle income, as calculated by the World Bank are, on the other hand, concealing some important facts. As regards fuels, minerals and metals, the averages show that in the low-income countries 37 per cent of exports is contributed by this commodity group against 33 per cent in the middle-income countries. But only in six of 36 low-income countries do exports of such commodities exceed 37 per cent, while 16 out of 51 middle-income countries earn more than one-third of their export receipts from fuels, minerals and metals. Thus, contrary to what the averages give an impression of, export of mining products is of great importance for many more middle-income than low-income countries. The averages for the share of other primary products in exports do not give quite as biased a picture of the differences between the two groups, but they do underplay the role which other primary commodities (i.e., predominantly agricultural goods) play in the low-income countries compared to the middle-income ones. Thus, no less than 26 out of 36 low-income countries earn more than 44 per cent (the group average) of their export receipts from such primary commodities, while 29 out of 51 middle-income countries are above the average for the group as a whole, i.e., 30 per cent.

As regards manufactured goods, the averages for both groups are very misleading indeed. Only 10 of 36 low-income countries gain more than 19 per cent (the group average) of their export earnings from manufactures. The median share is only 8 per cent. But we find about the same discrepancy

TABLE 9

Shares of different commodities in merchandise exports 1977. Average annual growth rate of merchandise export volume, 1970-1978.

Country groups	Percentage shares of merchandise exports: Fuels, minerals, metals	Other primary comm.	Textiles and clothing	Machinery, transport equipment	Other manufac. turing	Average annual growth rate %
Low income (OECD)						
Range - highest	87	99	45	6	44	13.2
- lowest	.0	9	.0	.0	.0	-13.6
Low income (W. Bank)						
Total	37	44	7	2	10	- 0.8
Range - highest	87	99	45	6	44	13.2
- lowest	.0	9	.0	.0	.0	-13.6
Middle income (OECD) (excl. OPEC, NIC)						
Range - highest	94	91	19	26	63	21.5
- lowest	0	2	0	0	1	-5.0
OPEC (excl. Nigeria, Indonesia)						
Range - highest	100	48	1	3	7	6.2
- lowest	50	0	0	0	0	-10.1
NICs (OECD)						
Range - highest	32	75	46	32	39	28.8
- lowest	1	3	4	3	11	4.8[a/]
Middle income (W. Bank)						
Total	33	30	10	9	18	5.2
Range - highest	97	91	46	32	63	28.8
- lowest	0	1	0	0	1	-10.1
Capital surplus oil exporters (W. Bank)						
Total	99	..	..	..	1	- 1.2
Range - highest	100	1	1	3	7	6.2
- lowest	88	0	0	0	0	- 9.7

SOURCES: as for Table 8.

a/ Portugal, where the export volume fell by 5.9 per cent per year, has been disregarded because of the effects of political factors.

between average and median in the middle-income group: 13 out of 51 countries in that group earn more than 37 per cent - the group average - of their export receipts from manufactures, and the median figure turns out to be 19 per cent. If we eliminate the 11 NICs from the middle-income group and also the four OPEC countries which, of course, derive exceptionally small shares of their export earnings from manufactures, we end up with a median figure for the remaining 36 middle-income countries of 17 per cent. However, in contrast to the low-income countries, it is apparent that a considerable proportion of the middle-income countries are earning a significant part of their export receipts from manufactures. For these countries as well as for several low-income countries the prospects for exports of manufactured goods are of crucial importance for their economic development in general and for the further expansion of their manufacturing industries in particular. However, even for most of those low- and middle-income countries, in which exports of manufactures currently account for less than one-tenth of their export earnings, potential export markets may be of critical consequence, affecting their planning process for industrial development.

The figures for average annual growth rates of the volume of exports during the period 1970 to 1978 as given in Table 9 show a remarkable difference between the performance of the low-income countries -- and the OPEC countries -- on the one hand, and the remaining middle-income countries on the other. The volume figures give certainly a very misleading picture of the impact on the economy as concerns the OPEC countries, since their terms of trade have improved so dramatically since 1970. But for the great majority of the low-income countries the stagnation of the growth of the export volume has not been compensated by relative price increases for their export commodities. For many of the middle-income countries the growth of exports of manufactures has been the dynamic factor.

The impact of manufactures on the export performance of the developing countries can be illustrated in various ways. The OECD secretariat has calculated some figures for the period 1970 to 1978, broken down by sub-groups of "oil-importing" developing countries:

Table 10

Export performance of oil-importing developing countries 1970-78

Average annual percentage increases, 1975 prices

Time period	Growth of GDP/OECD	Growth of developing countries' exports		
		6 NICs	LDCs	Other oil importing countries
1970-73	5.1	14.9	-4.2	6.8
1973-78	2.4	7.9	0.1	4.7
1970-78	3.5	10.5	-1.5	5.5

Source: Development Co-operation 1980 Review, OECD, Paris 1981, p. 77. The six NICs represent the UNCTAD category of rapidly growing exporters of manufactures (i.e., Argentina, Brazil, Hong Kong, Republic of Korea, Mexico and Singapore). LDCs are the least developed countries.

Note that the classification differs somewhat from the one given in Table 9, notably because the OECD NICs are excluded from the figures in the UNCTAD classification used in Table 10. Not surprisingly, the export development for the least developed countries turned out to be even more negative. However, its development suggests that it has been strongly affected by supply factors.[34/] As regards the two other groups it is interesting to note the marked impact on the growth of exports from the oil-importing developing countries, and the slowdown in economic growth in the OECD-countries after 1973. This slowdown hit the exporters of manufactures (of which, however, Latin American ones also are very important exporters of food and raw materials). It can be inferred from these figures that slow growth or outright stagnation in the OECD countries in the beginning of the 1980s necessarily will have a depressing effect on the exports of the developing countries.

Table 11 illustrates the rapidly growing importance of exports of manufactured goods from the non-OPEC developing countries.

34/ The events in two of the largest exporters amongst the least developed countries -- Bangladesh and Uganda -- in the beginning of the 1970s explain probably a significant proportion of the fall in the volume of exports in the beginning of the 1970s.

Table 11

Product composition of the exports of oil-importing developing countries: 1963, 1973, 1978 and 1979.[35]

	1963	1973	1978	1979
Primary products (excluding fuels)	76	56	43	42
Fuels	7	9	15	17
Manufactures -	14	34	40	40
Of which engineering products:	2	9	13	13
Of which textiles, clothing:	6	12	12	11
In per cent of trade excluding fuels				
Primary products	81/82	61/62	50/51	50/51
Manufactures -	15	37/38	47	48
Of which engineering products:	2	10	15	15/16
Of which textiles, clothing:	6/7	13	14	13

Source: International Trade 1979/80, GATT, 1980.

35/ The lower part of the table is calculated on the basis of the upper half, and the figures are therefore approximate.

The changes during the last one and a half decades are very striking. In 1963 raw materials, excluding fuels, accounted for almost five and one-half times larger export value than manufactures for the "oil-importing" developing countries -- in 1979, the two main categories of exports were almost at par. Preliminary data for 1980 published by GATT do not give any precise indication of the comparative development of exports of manufactures and of raw materials other than fuels in 1980.[36/]

While exports of manufactures have constituted the major dynamic element in the growth of the foreign exchange earnings of the oil-importing developing countries, their future impact is hampered by two obvious constraints: almost two-thirds of the exports are destined for the high income market economies, and eight major exporters accounted for around 85 per cent of the exports of manufactures from developing countries (excluding the OECD NICs).[37/]

36/ GATT Press Release on International Trade in 1980 and Present Prospects, GATT 10 March 1981, states that the exports of manufactures from the "oil-importing" developing countries to industrialized countries rose by 18 per cent in value in 1980 (against a 20 per cent increase for trade in manufactures in the opposite direction). No price data are given, but prices of manufactured goods exported by developed countries rose by 12 per cent in 1980. Assuming that the prices of exports of manufactures from developing countries at least did not rise more than those from the industrialised countries, there was also in 1980 a sizeable increase in the export volume of manufactures (six per cent or more) from "oil-importing" to industrialised countries. But the data from GATT suggest that the volume of trade in raw materials other than fuels rose quite considerably in 1980, but they do not tell to what extent the increased exports originated in industrialised, "oil-importing" developing or Eastern Trade Area countries. The GATT figures for volume changes in 1980 compared to 1979: Total world trade, + 1 per cent; trade in petroleum, 10 per cent; world trade without petroleum, 4 percent; of which manufactures, + 3 per cent; and agricultural goods, + 4 per cent.

37/ OECD: The impact of the newly industrialising countries on production and trade in manufactures, Paris 1979, calculated on the basis of the figures for 1976 in Table 2, p. 19. In the same year these eight countries accounted for almost half (47%) of the industrial production of the developing countries with market economies. (Ibid., p. 18). During the period 1966 to 1975, seven of these eight countries plus three others accounted for almost three-quarters (73%) of the increase in manufacturing value-added in the developing countries. (Source: World Industry Since 1960: Progress and Prospects, UNIDO, United Nations, New York, 1979.)

By recalling the facts evidenced by the figures given in Table 6 (page 33), one can understand that in 1973 and 1978 the trade in manufactures between the "other" developing countries (i.e., LDCs less the OPEC countries) accounted for 22.5 and 22.7 per cent respectively. The share of exports to the oil-exporting developing countries rose from 7.8 per cent in 1973 to 12.1 per cent in 1978, but fell back to 10.7 per cent in 1979. The share of exports going to the Eastern Trading Area was small and shrinking -- 3.9 per cent in 1973, 2.4 per cent in 1978 and 2.3 per cent in 1979. The industrialised areas (i.e., the developed market economy countries less Australia, New Zealand and South Africa) remained the dominant clients: they accounted for 84.1 per cent of the exports in 1973, 82.4 per cent in 1978 and 83.7 in 1979.38/

With the present geographical distribution of the "other" developing countries' exports of manufactures, their future growth depends very strongly on the market prospects in the market economy industrialized countries. These exports represent already a very important proportion of the "extra-area" imports of manufactures of the industrialised countries: 67 per cent in 1973, 70 per cent in 1978 and 69.5 per cent in 1979.39/ Their share in the total imports of manufactures of the industrial areas rose from 6.5 per cent in 1973 to 8.5 per cent in 1979. If we look at the import figures for North America, Japan, EC and EFTA only we find that the share rose from 7 per cent in 1973 to 9.2 per cent in 1979 and 9.5 per cent in 1980.40/

It could be argued that the share of the oil-importing countries in the total import of manufactures in the OECD countries is still small and could be increased substantially at the expense of the privileged intra-trade between the industrialized countries, notably inside the EC/EFTA area. While it is true that non-tariff barriers including voluntary export limitations certainly restrict export of manufactures to the industrialised countries, other factors merit consideration. Imports from developing countries already represent a significant proportion of the total OECD imports of certain major groups of manufactures. Table 12 presents two sets of figures from different original sources which illustrate the growth of the shares of imports from developing

38/ 1979 data from International Trade 1979/80, GATT, 1980. The 1979 figures were not included in Tables 5 and 6 because the breakdown between fuels and other raw materials was not available for all areas.

39/ Ibid.

40/ GATT Press Release, March 1981, op. cit.

countries for some major categories of goods, and for some significant sub-groups. The figures in the top half of the table suggest that for some groups of goods the market penetration of the developing countries may tend to flatten out, but at a relatively high level (e.g., clothing, footwear and leather goods).

To what extent this is due to non-tariff barriers is difficult to establish, but it is not unreasonable to assume that other forces also may work in the same direction, viz. the remaining superiority of manufacturing units located in the industrialized countries to manufacture many specific types of goods within the different groups of goods, as well as the possibility of reversing comparative advantages by highly automated processes within some previously labour-intensive industries. In other categories of goods, however, the scope for further advance appears to remain very promising. However, for some categories of goods the control over the exports from developing to industrialized countries does not lie with the developing countries themselves.41/

Data for strictly controlled trade by companies which import goods from related parties in the supplying countries, are only available for the USA which, however, acccunted for about 45 per cent of all import of manufactures from developing countries (excluding OECD NICs) in 1977. These data show that 37 per cent of all imports of manufactures from developing countries to the USA (in this case including European OECD NICs and Ireland) consisted of "internal trade" ("related party imports") within USA controlled transnational corporations. This average figure is certainly much higher, when European suppliers are excluded from the figures. The "related party trade" was very high for the following categories of goods: electric machinery, 75 per cent; non-electric machinery, 64 per cent; and scientific instruments, 51 per cent.42/ Figures for trade with individual countries show that also in textiles, clothing and footwear, for which the average control of exports by the TNCs appears to be low, a large part of the imports is related party trade from some countries.

41/ Even in fields in which autonomous action by the developing countries, in principle, is quite feasible, because technologies are known and easily introduced, and products as a rule not identified by the trademarks of large transnational corporations, exports are frequently initiated and controlled by wholesalers or retailers in the importing countries.

42/ OECD, op. cit.

Table 12

Shares of Developing Countries in OECD Imports

	1970	1977	1979
A. Major groups			
Textiles	13.0	17.0	20.5
Clothing	27.4	42.8	44.7
Footwear, leather goods, furs	16.4	31.6	33.9
Non-electric machinery	0.8	2.4	2.9
Electric machinery and appliances	5.3	13.2	17.2
Other transport equipment	2.0	5.3	5.5
Other manufactures	6.8	10.3	11.1
All manufactures	5.3	9.0	10.1
B. Some sub-groups			
Unbleached cotton cloth	59	56	
Bleached cotton cloth	7	14	
Hosiery	27	41	
Knotted carpets	83	76	
Fur clothing	7	27	
Leather clothing	22	46	
Footwear	11	29	
Travel goods and handbags	24	45	
Plywood	29	30	
Furniture	6	8	
Plastic goods	13	13	
Telecommunications equipment	5	13	
Radio receivers	11	32	
Transistors and electric tubes	13	29	
Sound recording and reproducing apparatus	0	12	
Calculators and calculating machines	1	9	
Watches, movements and cases	2	24	
Toys and games	18	31	

Source: North/South Technology Transfer. The Adjustments Ahead. OECD, 1981. Upper half of table - Table 3; Lower half of table, Table 4, p. 55.

Table 13

Composition of exports of manufactured goods from "other" (non-OPEC) developing countries to each other, to OPEC countries and to each other, to OPEC countries and to the industrial areas (i.e. OECD countries etc., less Oceania).

	To OPEC countries	To each other	In Percent of Total To all developing countries	To industrial areas	
	1978	1978	1978	1978	1979
Iron and steel	6.7	5.2	5.6	2.7	3.1
Chemicals	5.8	12.8	10.7	6.0	5.7
Other semi-manufactures	11.7	10.3	10.7	13.5	12.7
Engineering products of which:	41.7	40.3	40.7	29.1	31.8
Machinery for specialized industries	6.7	8.3	7.8	1.5	1.6
Office and te. com. equipment	1.7	7.2	5.6	7.9	9.8
Road motor vehicles	5.0	3.4	3.9	1.1	1.1
Other mach.,transport equip.	20.8	14.8	16.6	9.1	10.0
Household appliances	7.5	6.6	6.8	9.6	9.2
Textiles	13.3	17.6	16.3	8.7	8.4
Clothing	10.0	4.8	6.3	22.4	21.4
Other consumer goods	10.8	9.0	9.5	17.6	16.9
Total manufacturing	100	100	100	100	100
Value, $ billion	6.0	14.5	20.5	40.7	51.0

SOURCE: International Trade 1979/80, GATT, Table 21.

Another study quoted by the OECD, breaks down industries "according to degree of TNC penetration of the industries and export performance," and concludes that 30 per cent of developing countries' exports of manufactures originates in industries with high penetration (notably electric machinery), 36 per cent in industries with medium penetration (primarily textiles and miscellaneous manufactures) and the remaining 34 per cent from industries with low TNC penetration, notably clothing.[43/]

While these indications give a rather cautious picture of the prospects for further substantial increases in exports of manufactures from the developing countries to the OECD countries under any circumstances, other indications are far more promising. For example, while the developing countries' share of imports into the OECD exceeded 10 per cent -- and in several groups was far higher -- in commodity groups accounting for one-third of OECD imports of manufactures, it barely was above 3 per cent in two important groups -- transport equipment and machinery other than electric -- that accounted for 35 per cent of total OECD imports of manufactures in 1977.[44/] While the industrialized countries clearly have comparative advantages in developing new types of capital goods, developing countries should be able to supply much machinery and capital equipment at very competitive terms.[45/] In such fields it is also feasible that developing country enterprises can promote their exports through indigenous firms not controlled by TNCs, controlled by other countries.

Another apparently promising element is the fact that the share of imports from developing countries in total imports of manufacturing varies very markedly between the several OECD countries. In 1977 Japan and USA imported 23 and 22 per cent of their manufactures from developing countries (including OECD NICs), Federal Republic of Germany and the United Kingdom 11 and 10 per cent, France and Italy 8 per cent, while the figure was as low as 5 per cent for other OECD and 4 per cent for Canada.[46/]

43/ Ibid.

44/ OECD, The impact of the NICs, op. cit.

45/ "For example, the South Korean motor vehicle industry has produced a medium-sized car at about one-third of the price of a similar European model. In ship-building, South Korean yards can produce at prices 30% lower than Japan." OECD: North-South Technology Transfer, op. cit., p. 72.

46/ Estimates based on OECD, The Impact of the NICs, op. cit.

These figures, however, are a bit misleading because they do, to some considerable extent, reflect the fact that in Japan and USA imports correspond only to around 10 per cent of GDP, whereas they are above 20 per cent for most other OECD countries, and in particular for the smaller countries included under other OECD. It cannot be expected that countries which are strongly integrated with neighbouring countries will take proportionally as much of their imports from developing countries as more self-sufficient larger countries like USA and Japan. Nevertheless, the figures suggest that there may be further scope for import penetration in many OECD countries.

c. Prospects for Development:

On balance, the various factors that determine the scope for increased developing country exports of manufactures to industrialised market economy countries point in the direction of a further increase of such exports, even if the growth prospects of the client countries appear to be very uncertain at least during the first half of the 1980s. In its 1979 World Development Report the World Bank made some projections of manufactured exports from developing countries as shares of imports into and total consumption in industrialized countries. Its "low scenario" projected that: the share of imports should grow from 9.9 per cent in 1976 to 14.2 per cent in 1990; its share in consumption should more than double, from 1.6 to 3.4 per cent; its share in the growth of imports from 1976 to 1990 should be 17.2 per cent; and its share in the growth of consumption should be 6.2 per cent.

The "high scenario" projected a share of imports of 16.2 per cent, and consumption of 4.6 per cent, with the shares in the growth of imports and consumption projected to 19.1 and 8 per cent respectively. The scenarios were based on an assumption of a 3.5 per cent annual growth in GDP in the industrialized countries under the low scenario and 4.9 per cent under the high scenario.[47/] One year later the World Bank had scaled down the basic assumptions for its scenarios considerably -- in the low case the growth of the GDP of the industrialised countries would be of the order of 3 per cent between 1980 and 1990, and in the high case 3.3 per cent during 1980-85 and 4 per cent between 1985 and 1990, or 3.6 to 3.7 per cent during the 1980s, or only slightly higher than the low scenario used a year earlier. The World

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47/ World Development Report 1979, The World Bank. August, 1979, pp.18-21.

Bank did not publish any estimate of the growth of world trade under its new low scenario -- for the high scenario it projects that exports of the developing countries should increase by 5.5 per cent annually in the first half of the 1980s and 6.4 per cent per year in the second half. The share of manufactured goods in their exports should increase from 24 per cent in 1978 to 39 per cent in 1990, and their share in the world trade with manufactures grow from 10.1 per cent in 1977 to 14.3 per cent in 1990.48/

On the basis of its 1980 high growth scenario the World Bank projects economic prospects, which under present circumstances are reasonably acceptable, for the middle-income developing countries during the 1980s (growth rates 5 to 5 1/2 per cent, growth of exports 6 per cent annually during the first half and 7 per cent during the second half of the 1980s, a moderate growth of the current balance of payments deficit in current prices and a decline in constant prices). For the low income countries, particularly in Sub-Saharan Africa, the prospects should be much dimmer even under the high growth scenario, and their current account deficit should grow considerably. For the low growth scenario the World Bank only shows estimates of growth of GDP (which should be about 1 per cent lower for both groups of oil-importing developing countries), but none for exports, imports and balance of payments.

Already at the end of 1980 even the low growth scenario appeared optimistic. The most recent estimates of the GDP growth in the OECD countries for 1980 and 1981 have been quoted and discussed earlier and the volume growth of world trade in manufactures was 5 1/2 per cent in 1979 and 3 per cent in 1980.49/ The World Bank's 1980 high growth scenario appears to imply an average volume growth of world trade in manufactures of the order of 7 1/2 per cent.50/ These figures look very high compared to the estimates of the growth of world trade as such.51/ But they would undoubtedly give room for a continued significant expansion of the developing countries' exports of

48/ World Development Report 1980, op. cit., pp. 6-7.

49/ GATT, Press Release, March 1981, op. cit.

50/ This latter condition must be fulfilled if the share of manufactures in the exports of developing countries should increase from 24 to 39 per cent from 1980 to 1990, while the growth of their exports should reach on the average close to 6 per cent, as stated in the World Development Report.

51/ The explanation lies probably in the development of other items, fuels, raw materials and non-factor services.

manufactures. The crucial question is how much lower the rate of expansion of exports of manufactures to the industrialized countries would be if the growth of these latter countries' GDP even would fall below the assumption behind the World Bank's low growth scenario? The outcome may very well be, even without additional restrictive measures against imports from developing countries, that markets in industrialised countries cannot even accommodate a more moderate, continued increase in exports from the present and some few newly emerging NICs. This would make it virtually impossible for other developing countries to start exporting manufactures to richer countries.[52/] On the other hand, it is not excluded that, mainly through the actions of transnational corporations and international business firms, new manufacturing capacities will be established in other developing countries, for exports to the industrialized ones. But if this happens, it may occur at the expense of some of the present exporters among the developing countries.

d. South-South Trade:

In this situation the evident alternative for the developing countries is to develop trade in manufactures between themselves. Such trade exists and is of growing importance, but as pointed out earlier only 23 per cent of the exports of manufactures from the oil-importing developing countries represents "intra-trade," while another 8 per cent goes to the OPEC countries, whose exports of manufactures still is very small. In the 1970s the trade in manufactures between the developing countries has increased faster than exports to the industrialised market economy countries.[53/]

The structure of the present exports of manufactures from the "other" (i.e., non-OPEC) developing countries to each other and to the OPEC countries is very different from the structure of their manufactured goods exports to the industrial areas as shown in Table 13.

52/ However, restrictions on imports from NICs may improve the prospects for other developing countries.

53/ Increase in volume of manufactured trade of "South"
Annual growth rate % for manufactured products at 1970 prices

	1965-69	1969-73	1974-76*
South's exports to South	10.8	15.3	16.0
South's exports to the West	14.5	12.4	9.4

Source: North/South Technology transfer, OECD, op. cit., p. 62.
*The rapid increase during 1973-76 is strongly influenced by the sudden expansion of OPEC markets.

There are some striking differences in the structure of manufactured goods exports from the oil-importing developing countries according to the destination of the exports. Exports to OPEC countries and to other developing countries are, on the whole, fairly similar in composition. In both cases engineering goods represent more than 40 per cent of total exports, although there are some differences as regards the distribution on sub-groups. The relatively insignificant trade in clothing between the developing countries is not surprising -- the clothing industry is a small-scale industry that can easily be operated even in small developing countries. As regards trade with the industrial areas we note, in part, the great importance of exports of clothing and also other consumer goods which reflects the comparative advantage of low-wage countries in these fields. Exports of engineering goods have become the major item in the developing countries' exports to industrial areas as well, but the composition of this field of exports is very different from that to other developing countries, because it is heavily influenced by the "captive" production of particular types of engineering products on behalf of the transnational corporations.

We are in the present context more interested in the prospects for more rapid growth of exports of manufactured goods from one developing country to another. There is no doubt that most of the NICs in the near future will have the capacity to supply other developing countries with a wide range of products: standardised semi-manufactures of many types (iron, steel, chemicals, textiles, etc.), and also with a broad spectrum of machinery and equipment, transport equipment and passenger cars. The fundamental barrier to the expansion of this kind of trade is not competition in price and quality with the industrialized countries, but rather the fact that this trade threatens to be a one-way trade, with the majority of other developing countries being unable to export manufactured (and even other) goods in return for imports of manufactures from the industrially more advanced developing countries.[54/]

In addition to this fundamental problem other factors hamper the growth of trade in manufactured goods between developing countries: old trade links between developing and developed counties; tied purchases of goods in connection with development assistance; the larger ability of the industrialised countries to offer credit facilities; the control of many

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54/ The NICs have increased their imports of raw materials from other developing countries.

industries in NICs and other developing countries by transnational corporations which determine the marketing patterns, etc. While these factors in isolation can appear to be critical barriers to trade in manufactures between developing countries, they can be overcome through policy and other actions by national governments and the international community, as steps towards a new international economic order.

But the fundamental problem of unequal industrial development between the developing countries themselves remains a very serious obstacle which cannot be removed in the short run, and which probably only can be overcome through a planned development of economic cooperation between Third World countries. At the outset it must be recognized that all developing countries, except the very smallest ones, eventually could support fairly diversified manufacturing industries providing goods for the home market if and when the domestic income level and the market for mass consumption goods, certain intermediary goods and some types of capital goods were at a considerably higher level. Industrial development is per se part of the process of reaching such higher levels of income and demand for different goods. For these types of goods import substitution is not an artificial phenomenon promoted by restrictive policy measures, but a natural part of the total development process.[55/] It follows that trade between developing countries in such goods probably will remain relatively modest, except in smaller geographical regions in which some division of labour also in such fields may be promoted with success, and at least not until an intra-industry trade, practically in identical products, may develop between the presently developing countries.

However, for a great variety of other goods there is ample scope for an exchange of manufactured goods between developing countries, both on an intra-industry and an inter-industry basis. Production of many goods must take place at a sufficiently large scale in order to reduce costs per unit; in other cases production entails the building up of so much skills and know-how that few countries can manage to develop a whole spectrum of high technology industries in the course of a relatively short period of time.

55/ This does not mean that all countries - developing or developed - must have their own food, beverage, tobacco, clothing, footwear, furniture, printing, metal goods, agricultural implement, etc. industries. Many countries may have such clear comparative advantages in certain economic activities that it would be uneconomical to produce a great variety of manufactured goods domestically. But this is probably not the case for a majority of the presently developing countries.

The difficulties involved in a broadly based promotion of manufacturing industries, distributed equitably between developing countries at different levels of development and, to a large extent, based on trade between developing countries, are two-fold: First, the early starters, even in sub-branches of industries in which most developing countries have a potential for indigenous manufacturing, will tend to export goods to the late starters and thus make their industrial development more difficult. Secondly, as regards large production units (not linked with the exploitation of natural resources) and technically complex factories potential entrepreneurs will inevitably tend to establish such factories in countries or regions of countries which already have a certain industrial infrastructure and which, therefore, benefit from external economies. This is why free trade areas between developing countries almost inevitably will contribute to an aggravation of existing inequalities between countries and regions inside the trading area. This is now generally recognised, but it does mean that efforts to encourage larger trade in manufacturing between developing countries neither can be based on a simple system of generalized mutual preferences at a global level nor by the establishment of free trade areas or custom unions in which the market forces can operate freely at a more restricted regional level. A good example is the stepwise establishment of closer co-operation between the nine countries in Southern Africa (SADCC - Southern Africa Development Coordination Conference).

This slow approach is undoubtedly wise and much safer than the plunge into all-embracing regional co-operation agreements which was fashionable a couple of decades ago. But it also means that during the '80s it is very unlikely that the growth of trade in manufactures between the developing countries will be so fast that it can replace growth of exports to the industrialized countries in general and the OECD countries in particular. It is perfectly true that in very many developing countries rapid industrial growth could alternatively take place on the basis of national self-reliance built on a speedy expansion of the supplies of "basic needs" goods, other mass consumption articles and many types of less complicated capital goods.[56/] But although such a development is both feasible and, in the eyes of many

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56/ Several of the larger developing countries, including low-income countries like India, have the capacity to produce technologically very complex products as well.

people highly desirable - it is severely hindered by financial constraints which are difficult or impossible to overcome in the short-run in countries in which income levels are low and the potential capacity to save correspondingly small.

The need to increase exports is further enhanced by the fact that the more rapidly growing developing countries, in part, have financed their expansion by international borrowing. From 1971 to 1980 the total debt of the developing countries rose from $87 billion to $446 billion (preliminary estimate). Between 1971 and 1980 the debt to various sources and the debt services changed as follows (main sources of capital only):

	Debt $ Billions		Annual Debt Service $ Billions	
	1971	1980	1971	1980
ODA from DAC countries	25	52	1.4	2.6
International organisations	10	56	0.9	4.5
Centrally planned economies	6	18	0.6	2.3
OPEC countries	0.4	18.5	-	2.2
Export credits	28	120	5.2	32.0
Capital markets	17	170	2.7	41.5
Total	87	446	10.9	87.9
Of which, interest			3.3	34.9
Of which, amortisation			7.6	53.0

Source: Development Cooperation, 1980 Review, OECD, op. cit.

In the course of these nine years the disbursed debt rose more than five-told, but the annual debt service rose eight times. This is mostly due to the changing compositions of the debt - in 1971 only 55 per cent came through export credits or from the capital market; in 1980 this proportion had risen to 70 per cent. Corresponding figures for debt services are 78 and 90 per cent. Most of the increase in commercial credits went to the middle-income countries and particularly to the newly industrialising countries. The latter accounted for 39 per cent of the debt in 1978 and 47 per cent of the debt services, against 25 per cent of the debt and 24 per cent of the debt services for the other middle-income developing countries.[57] The OPEC members are also large borrowers, while the debt of the low-income countries accounted to $77 billion in 1980 (17 per cent of the total) against

57/ Ibid

$18 billion in 1971. Their share in the debt servicing fell from 10 to 7 per cent, but their problem is not smaller for that reason. For the low-income countries which cannot afford to borrow much in the international capital markets, the shortage of concessionary loans and development grants is holding back economic growth.

The debt service of the non-OPEC developing countries in 1980 - $66 billion - corresponds to more than one quarter of the value of their merchandise exports in 1980 ($247 billion - Source: GATT, Press Release, March 1981). It could be added, according to a recent OECD estimate, that the current account deficit of the NICs alone in 1980 exceeded $30 billion, and that of other middle-income developing countries $25 billion. As neither the oil bill (which, according to the same estimates, in 1980 amounted to $41 billion for the NICs and $17 billion for other middle-income countries) nor debt servicing will fall during the next few years, it is obvious that the exporters of manufactured goods amongst the developing countries must continue to increase their exports and continue to borrow in order to pay old debt and debt services, to avoid a very grave payments crisis which would have worldwide ramifications. These few facts underline the critical importance of continued exports of manufactures from a number of developing countries to the industrialised countries in the 1980s. In addition, it is desirable, not at least for equity reasons, that more developing countries should be able to develop their exports of manufactures to pay for imports of goods and services which they cannot produce themselves.

8. Prospects for Trade Liberalization

In countries in which a literate and generally well-informed electorate has the power to unseat governments, it is deemed virtually inconceivable that government policies can break the power of popular organizations and significntly reduce the provisions of services offered by government bodies at different levels. These forces will undoubtedly aim at defending existing economic activities, including those which are threatened by international competition. The principles of free trade are indeed increasingly undermined by selective support given to important industries which employ many people and represent an indispensable part of the economic activities of certain geographical regions.

It is often advocated that it is the present economic crisis in the developed market economy countries that makes it difficult to undertake major structural changes - such changes will, therefore, have to wait until the economy starts moving again. Strong objections can be raised against this point of view. Indeed, it is both easy and logical to argue that major structural adjustments are needed precisely in order to make the economies start growing again. By defending firms and entire industries which may be fighting a loosing battle, the responsible authorities and organizations in the countries concerned, according to this line of argument, weaken the growth prospects of potentially far more promising economic activities; (a) by diverting investment capital and manpower from the growth to the declining industries; (b) by prolonging inflation, uncertainty and high interest rates - discouraging investment in promising economic activities; and (c) by raising the overall cost level in the national economies - affecting the competitiveness of enterprises producing internationally tradeable goods and services, including tradeables which per se should be fully competitive.

In this context it would be wrong to assume that it is merely in countries which insist on attaching the highest priority to ambitious employment and social policies which tend to defend existing enterprises in a climate of general stagnation and increasing unemployment. Governments, which have declared objectives to introduce far more flexbility in the economies of their countries and to give the market forces a more important role to play, hesitate to let key industries decline or even collapse under the pressure of international competition. In the United Kingdom strong measures have been taken to ensure the survival of the steel and automobile industries, and also other industries - such as computer industry. Similarly, in the United States the present administration has taken steps to defend the role of the automobile industry. It can be assumed that hardly any developed market economy country will be prepared to push trade liberalization so that the developing countries fully can exploit their potential comparative advantages through exports to the developed market economy countries. On the contrary it suggests that as the developing countries in general and the NICs in particular will begin to penetrate the markets of the OECD countries with new types of highly competitive products, new trade restrictions - most probably in the form of "voluntary" export restrictions, or agreements modeled on the pattern of the multi-fibre agreement - say around 10 per cent per annum in volume terms. There will be a ceiling on the overall expansion of such exports and in particular on the exports of products which will be declared "sensitive."

At the same time decision-makers in the developed market economy countries are aware of two crucial facts which should tend to underpin the willingness to accept growing imports of manufactures from the Third World. Firstly, it is largely those who influence government policies who realize that adjustments in the industrial structures must take place in order to avoid an unmanageable burden of internationally inefficient, subsidised or protected economic activities. Secondly, higher exports of manufactured goods from highly productive, profitable industries to the developing countries are conditioned by increased imports from the developing countries, and particularly of manufactured goods.

There is, however, considerable disagreement as to how the adjustment process be steered so as to avoid unnecessary and harmful disruptions of the economies. Some argue in favour of planning, whereas others maintain that any attempt to plan adjustments will interfere with the market forces and inevitably lead to a more inefficient allocation of resources. The debate between "planners" and "free market advocates" is marred by misunderstandings, particularly as regards the purpose and methods of planning. It is obvious that it is very hazardous to predict demand for different types of manufactured goods. But a distinction ought to be made between standardised goods and specific goods, as well as between the capacity to produce, and the composition of products being manufactured on the basis of a given capacity in terms of plants, skilled management and workers, and total work force.

It is not impossible to reasonably predict future demand for pig iron, steel, cement, basic industrial chemicals, yarn and other standardised intermediary goods. International trade in such goods is, in principle at least, open to any producer that can deliver goods of standard quality at what we may call "world prices."[58/] In recent years the production capacity of these standardised commodities in the developed market economy countries has been expanded well beyond the prospective market needs. This had led to painful adjustment processes, which have not been caused by competition from imports from developing countries, although these are also becoming competitive in many of these standardised goods. The "planners" maintain that international co-operation would be desirable in order to avoid wasting resources on creating excess capacity. The key question is whether the

58/ It should be noted that part of this trade, nevertheless, takes place between "related parties," i.e., between units belonging to the same transnational corporation.

international co-operation would be desirable in order to avoid wasting resources on creating excess capacity. The key question is whether the internationalization of economic activities would be pushed so far that entire basic industries will be closed down altogether in many of the present highly industrialized counties. All indications suggest that for defence, security, prestige or other reasons even the most ardent free market oriented governments will play the rules of the game. One can, therefore, conclude that there exists a basis for some form of international consultation or planning of production capacities as regards standardised goods. Needless to say that such a planning process would be difficult to pursue, since it would involve some kind of allocation of capacities between countries, both amongst the industrialized countries themselves and between developed and developing countries.

As regards specific goods not even the most ardent planner will maintain that it is possible to plan the future production and sales of goods which are not marketed on the basis of standard characteristics, but on the basis of the product design, performance, quality and reliability, the reputation of the producer (often in the form of trademarks or trade names) after-sale services and the marketing methods of producers and distributors. Planning is possible within a closed market in which consumers and other buyers (of machinery and equipment, etc.) have no choice. But in open economies nobody can predict which firms located in which countries will be able to sell cars, computers or machine tools successfully five or ten years from now. However, in certain industries it is, nevertheless, possible to have some ideas about the overall productive capacity needed to satisfy future demand. Ship-building is an example which no knowledgeable observer could have overlooked. The automobile industry is another case, but a far more difficult one because the ability of different producers to design and market successful models is very different - and the road from success to failure is short in that industry.

It is in the area of development of new specific goods that most of the OECD-countries retain comparative advantages due to their much greater resources of research and development capacities, trained and experienced labour force, skilled management and access to financial capital. Innovation and product development are frequently undertaken by independent enterprises on the basis of their own resources, including new and often small enterprises. But considerable government resources are also ploughed into research and development by industrial enterprises. To the extent that

unnecessary degree of competition in some few product fields between the leading industrialized countries.[59/]

On the other hand it must be recognized that both defence considerations and promising prospects, to a large extent, mainly apply to some few sub-groups of industries. In recent years, however, there are tendencies towards spreading of government financed research into their fields, but once more there is a trend toward clustering into some fashionable areas. The prospects for some international division of labour in the field of research and development between industrialized countries do not appear very promising, and the consequences of this may well become a future disposition towards protecting production of new types of goods into which considerable resources in money and manpower have been invested. This may again hamper developing countries exports of some products which may move into the mature stage of the product cycle and, therefore, be manufactured in technologically somewhat less advanced countries.

A crucial issue in the entire question of industrial adjustment and redeployment between early and late starters in industrial development remains the extent to which the older industrial countries will wish to retain a considerable level of capacity and output in manufacturing industries in which developing countries have become fully competitive and even may have achieved clear comparative advantages. This issue has two aspects: First, how far can a country afford to become "de-industrialised," an aspect which we will discuss in detail in the next chapter; and secondly, to what extent will particularly large industrial countries find it necessary to retain a fairly balanced structure of manufacturing industries for a variety of reasons, including national security.

The answer to the second aspect of this main issue is not as obvious as short-term considerations of the forces behind the international division of labour may suggest. In a world in which the distribution of comparative advantages between countries changes rapidly, frequent reversals of comparative advantages may also occur. A successful "newly industrializing

59/ In 1975 between 40 and 60 per cent of all government financed research and development expenditure in manufacturing went into air, space and other transport (overwhelmingly into air and space) in France, the Federal Republic of Germany, Japan, Uk and USA, while more than 30 per cent went into electrical and electronic industries in the same five countries. Source: Technical Change and Economic Policy, OECD, op. cit.

country" (NIC) may have based its initial accomplishments on a low wage level exploited in labour-intensive industries, but subsequently on acquired skills which permit a diversification into technologically complex industries. As a consequence of its own success a NIC will gradually move into a situation in which it will compete on much more equal terms with the older industrial countries, both as regards wages and technological know-how, and inter-industry trade will gradually give way to intra-industry trade in more specialised fields of production. It will, of course, take considerable time before the majority of the developing countries will become NICs, and low wage countries will retain their comparative advantages in labour- but no skill-intensive industries during a foreseeable period of time. But the more imminent problem is whether the present developed market economy countries, viz. the majority of the OECD countries, will permanently or temporarily lose their comparative advantages to the growing number of successful NICs. If the loss of comparative advantage appears to be of a temporary character, the arguments in favour of a drastic redeployment of industrial capacity from developed to developing countries will have to be modified.

It may be maintained that although lack of progress in the dismantling of barriers against imports of manufactured goods from developing countries into the OECD countries in particular appears to have harmful effects on the developing countries, it can, nevertheless, be argued that apparently inadequate trade liberalisation can protect at least some NICs from becoming excessively dependent on exports of manufactures to the "West" and subsequently very vulnerable to future changes of comparative advantages in their disfavour.

In a situation of near-stagnation in the developed market economy countries, those developing countries which have developed, or are developing sizeable exports of manufactures to the OECD countries probably face less problems than the developing countries which mainly depend on export of raw materials. The annual growth of manufactured goods exports from South to North may become disappointingly slow, both due to slow growth of the Northern markets and as a result of trade barriers, but it is likely that there will be a continued growth both in volume, value and unit values. The exporters of raw materials, on the other hand, are in the present situation not only faced with stagnation of demand in their most important markets, but also with sharp

falls in many commodity prices.[60/] The fluctuations in the foreign exchange earnings of countries, which mostly depend on exports of raw materials, have repercussions also in the developed market economy countries whose exports of manufactured goods will be hurt by declining foreign exchange earnings in many importing countries. Earnings from exports of manufactures will probably remain a more stable element of the developing countries' foreign exchange receipts, and therefore, a better basis for mutual trade between less developed and more developed countries.

9. Towards the "Post-industrial Society" or "De-industrialization"?

a. The Decline of Manufacturing:

Economists have predicted that at some future date the production and use of goods in the most developed countries will tend to stop growing, and the shares of the GNP contributed by primary and secondary activities will fall, and those of tertiary activities become gradually more predominant. The effects on the distribution of the labour force between sectors should be even more pronounced, because labour productivity grows faster in the goods producing sectors, in which human labour has been replaced by mechanical means for the last couple of hundred years in the process of industrialisation, than in the service sectors. The relative stagnation of the goods producing sectors would be caused by a saturation of demand for a growing number of consumer goods. In fact, the assumption that consumer demand for goods in the end will be saturated seemed to be belied by actual events: new types of goods and further processing of previously known goods appeared to create ever growing markets for goods at the same time as the demand for many consumer durables turned out to be far more flexible than any of us could have foreseen 40 to 50 years ago.[61/] But the basic supposition that per capita consumption of goods cannot continue to grow significantly forever is not yet invalidated. On the other hand, the declining share in developed countries of primary and secondary activities in total employment (as Colin Clark pointed to as an economic law more than forty years ago) has undoubtedly turned out to

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60/ The spot prices for many commodities have fallen dramatically between January 1980 and June 1981: cocoa by more than half, coffee by more than two-fifths, lead by one-third; tine by more than a fifth and rubber by about one-sixth. Newsweek, World Business section, No. 25, 22 June 1981.

61/ Examples of the latter phenomenon are the emergence of multi-car owner families, the widespread access to secondary residences, the multiplication of items like radio and TV sets in the households, etc.

be a significant feature of the economic growth process. In recent years,however, one assumption behind the validity of this "law," viz. that substantial increases in labour productivity mainly could take place in the goods producing primary and secondary sectors, is no longer as convincing as it was only a couple of decades ago.

As regards the distribution of both Gross Domestic Product and employment between "agriculture," "industry" and "services"[62/] the normal time path is first a falling share of agriculture and a rising share of both industry and services until a relatively high level of GDP per capita is reached, when also the share of industry will start to fall.

The figures in Table 14 illustrate tendencies in the recent couple of decades. In both low-income and middle-income developing countries the shares of both industry and services in employment as well as in GDP rose significantly in the 1960s and 1970s. In the industrialized countries the share of industry in employment rose slightly, but its share in GDP declined significantly, with the whole of the decline being caused by the declining share of manufacturing. The table also gives figures for one of the industrialized countries with lowest per capita income and for one with highest per capita income as well as for the United States which appears to have the most "mature" economy of all the industrialised countries.[63/] These data for individual countries show that at the lower end of the income ladder the share of industry had not yet stopped to increase in the industrialized countries at the end of the 1970s.

62/ "Agriculture" includes also forestry and fishing in the statistics referred to in the following, but not mining, which is included in "industry" together with manufacturing, construction and water, electricity and gas. Thus, the breakdown is not equivalent with the distribution between primary, secondary and service sectors. In practice this gives a somewhat misleading picture for some developing countries in which mining (petroleum or metals) constitutes a significant or even dominant part of the primary sector in terms of contribution to the GDP.

63/ Amongst the industrialised market economy countries Ireland and Switzerland have the lowest and highest GDP per capita, respectively. Data on the breakdown of GDP between sectors for these countries were not available for 1978 in the World Bank table.

Table 14

Percentage Distribution of Labour Force and GDP in Agriculture, Industry and Services

	Percentage of labour force in:					
	"Agriculture"		"Industry"		"Services"	
	1960	1978	1960	1978	1960	1978
Low income countries	77	72	9	11	14	17
Middle income countries	58	45	17	23	25	32
Industrialized countries	17	6	38	39	45	55
of which:						
Ireland	36	20	25	37	39	43
Switzerland	12	6	50	47	38	47
USA	7	2	36	33	57	65

	Percentage of GDP originating in:							
	Agriculture		Industry		of which manufacturing		Services	
	1960	1978	1960	1968	1960	1978	1960	1968
Low income countries	50	38	17	24	11	13	33	38
Middle income countries	22	16	31	34	22	25	47	50
Industrialized countries	6	4	40	37	30	27	54	59
of which:								
Finland	18	8	35	35	24	25	47	57
Sweden	7	4	40	33	27	24	53	63
USA	4	3	38	34	29	24	58	63

SOURCE: World Development Report, 1980, World Bank, op.cit.

The move into the post-industrial area, with a subsequent fall in the percentage contribution of the manufacturing sector for both employment and national income, should be a sign of prosperity and not a reason for worry. However, this process of "de-industrialization" contains certain implications and raises a few pertinent questions: Will there be jobs for the rest of the labour force and increase in productivity in other sectors and tertiary activities, particularly when employment in manufacturing starts to fall consistently for a longer period of time?

Will the demand for services, which, to some considerable extent, has been rising due to a growth of taxation and government expenditure in proportion to GDP, continue to increase sufficiently if and when the electorates refuse to shoulder an ever increasing tax burden?

What will be the consequences of continued replacement of manual and other labour functions by machinery and electronic equipment for the employment opportunities for people without highly skilled qualifications?

Finally, what will be the consequences for the balance of payments of high-income countries of an eventual redeployment of their manufacturing activities to lower income countries which gradually acquire comparative advantages in most branches of manufacturing?

The first three of these questions apparently have nothing to do with the economic relations between richer and poorer countries, and could eventually be analysed within the framework of closed economies. On the other hand, the industrialized countries do depend on trade with other parts of the world, and their internal adjustment problems will, therefore, have important ramifications for the rest of the world.

The first three questions have one common factor of concern -- the implications of technological development and structural changes on employment opportunities. It is generally presumed that the normal human being needs to do meaningful work in order to feel like a full-fledged member of the community. The problem of unemployment cannot be solved satisfactorily either by an equitable distribution of income among the members of the community, or

by the nostrums of welfare economy. "Work sharing" through short working hours, long holidays and early retirement is not necessarily an acceptable solution either. It immediately poses the problem of what people want to do with their leisure time. It is not at all obvious that a majority of people will feel satisfied by keeping themselves busy with "non-productive" hobbies, cultural activities, sports and so on. On the contrary, much leisure time will undoubtedly be devoted to "do-it-yourself" activities which in turn reduce the demand for goods and services for sale. It is not certain that most people will use part of their spare time to care for family, friends and others who need help, without asking for financial compensation. The mentality of people, who for generations have lived in societies in which goods and personal services have been sold at market prices, will hardly change overnight in affluent societies. On the contrary, even in the richest of the market economy countries most people seem to remain strongly interested in enhancing the current income at their disposal. This inter alia manifests itself in the popularity of promises of lower taxation. Even amongst young people who react against the materialism of modern societies only a small minority do, in fact, voluntarily choose a more austere way of living.

While it looks like a blessing that modern technology will abolish very many or even most physically heavy and/or mentally depressing repetetive jobs, this trend creates serious problems. It tends to create new job hierarchies, with considerable powers in the hands of key personnel who in spite of all technological advances often work more rather than less than in the past. Conscious attempts to decentralise and democratise decision-making may counteract this tendency, but it appears unlikely that they will altogether eliminate the role of key technocrats whose judgments are necessary even in a computerised society. On the other hand, the technological development threatens to make people, who simply may like to perform routine jobs, superfluous and "de-industrialization" certainly will exacerbate this tendency.

The demand for many services may stagnate, because there will be less increase in demand for business services if manufacturing industries cease to grow and because public services may expand at a slower pace due to resistance by the tax payers. The latter feature is by no means self-evident -- the general public may in the longer run prove to be willing to pay for having more comprehensive public services and better social security. At present a slowing down of the development of the "welfare state" appears more likely

than the opposite. Simultaneously, a significant proportion of the jobs in many service industries will be eliminated due to the "micro-processor" revolution.

All these factors suggest slower growth in employment in highly industrialized societies on the threshold of the post-industrial society. Will the industrialized market economy countries manage to solve their internal adjustment problems without trying to slow down an eventual relative decline in their manufacturing industries due to a shift of production of many goods, or of many production processes to the developing countries?

b. Foreign Trade Effects on Employment:

All studies show that for the time being and for the industrialised countries as a group jobs lost due to imports of manufactures from developing countries are more than compensated by jobs created as a result of exports of manufactured goods to the developing countries.[64/] However, as imports of manufactures from the developing countries grow, the ratio between exports and imports will shrink. It is the export surplus which causes net job creation in the OECD-countries. As imports of goods from developing countries are produced in industries in which the job divided by value of output ratio on the average is higher than in the industries which export to the developing countries, the net job creation due to exports does not merely depend on the size of the export surplus, but also on the ratio of exports to imports. Various estimates of the job content of different product suggest that for the time being this ratio may be of the order of 2/3.[65/] In 1979 the "industrial areas" (i.e., OECD less Oceania plus Yugoslavia, Malta and Gibraltar) exported manufactured goods of $64.8 billion to the OPEC countries

64/ A relatively recent study by B. Belassa for the World Bank showed that in 1976 the OECD countries gained 1.5 million jobs on their trade in manufactures with developing countries. 2.36 million jobs were created through exports - 0.85 million jobs were lost due to imports. However, a hypothetical study showed that in 1977 all developed OECD countries only had a net gain of 81,000 jobs from their trade in manufacturing with nine NICs -- job creation amounted to 1.34 million jobs - jobs lost were 1.26 million. (Economic Intelligence Unit Special Report, December 1979. Both studies quoted in North-South Technology Transfer, op. cit.)

65/ Ibid. Various estimates are quoted on p. 65.

and $120.3 billion to the oil-importing developing countries, whereas imports of manufactures from the two areas were $2 billion and $51 billion, respectively.[66/] If one uses the GATT category of industrial areas as a proxy for OECD, disregarding the fact that the intra-trade between the countries composing the industrial areas includes considerable trade with some NICs according to other definition, we find that the overall trade in manufactures between OECD and the developing countries in that year "created" 2.3 jobs for 1 job "lost." If we exclude the trade with the OPEC countries, the ratio falls to about 1.6. On the basis of the latter figure we find that it would take about 16 years, i.e., until 1995 for the ratio to fall from 1.6 to 1 if the oil-importing countries' exports of manufactures to OECD increased by 10 per cent annually, while the OECD exports of manufactured goods to the oil-importing developing countries rose only by 7 per cent per year. This example is within the realms of reality -- and it involves a steadily growing absolute export surplus from OECD to the oil-importing developing countries, although the growth of the surplus will be on the point of ceasing at the end of the period. What it illustrates is that the net job creation effect of trade in manufactured goods between the industrialised countries and the oil-importing developing countries cannot be regarded as a phenomenon which will last much beyond the 1980s.

On the other hand, it should be added that jobs "lost" due to foreign trade can also be regarded as labour saved for other uses. While there is strong disagreement among economists of different schools of thought as to whether operation of free markets will assure the best possible allocation of resources both nationally and internationally, there is no similar disagreement as to the beneficial effects of the divison of labour for individual products. In a full employment economy imports will indeed release labour for other productive activities. The concern expressed because of jobs "lost" through imports is partly due to the difficulty in maintaining full employment. In addition, of course, the lost jobs create a number of problems in different regions, for different categories of workers, etc. As long as these problems are not solved satisfactorily, decision-makers will be more preoccupied with jobs lost than with the release of labour.

66/ GATT, 1979/80, op. cit.

c. Shifts in Comparative Advantage:

Amongst the economic and social problems created by increased imports of manufactured goods from any source into any industrialised country the one linked to the balance of payments is the most intractable. Standard international trade theory is based on the assumption that there are differences in comparative advantages and, therefore, both countries with high and with low productivity will gain on trade. This is in itself an unexceptional presumption. However, as we know, a growing proportion of world trade takes place in processed or manufactured goods which do not necessarily have the singularity of what some authors refer to as Ricardo goods for which the comparative advantages are based on natural resources, advantages in location or some other factor which is not easily modified over time. Comparative advantages in manufacturing are very precarious. Virtually no country is assured of remaining superior in the production of any kind of manufactured goods which is not closely linked with certain natural or location advantages. Due to this large scope for shift of comparative advantages between firms and entire geographical areas, it is not certain that all nations necessarily will gain on expansion of trade over time under changing comparative advantages. It may demonstrate that a country at any time, and under a given set of assumptions, would be better off with trade than without. But it may be worse off than it was under an earlier period of time. If such a fundamental assumption as full employment of resources does not hold, a country may indeed be worse off with trade than without.

These reflections are not out of line with mainstream economic theory. In practical terms we can state the problem as follows: if a developed industrial country loses its comparative advantages in the production of some categories of manufactured goods, it could and should expand the capacity to produce goods for which it has retained comparative advantages. The exchange of an increased output of competitive goods for imports to replace non-competitive goods should in all respects lead to a gain -- lower-priced goods for the consumers and other users, labour released from non-competitive industries will be absorbed by competitive industries, etc. Of course, inflexibilities in the system will make the adjustment more difficult, but in theory this adjustment process leads to an increase in the flow of goods and services from existing productive resources. This works also in practice perfectly well as long as the loss of comparative advantages merely affects a

small part of the manufacturing industry. Problems, in practice albeit not in theory, start to arise when the loss of comparative advantage involves a large proportion of manufacturing. In theory the country will gain on trade as long as it keeps its comparative advantage in the production of one good to which all productive resources would be allocated. In practice the problems evolve at a much earlier state of the process. It is simply not possible to concentrate manufacturing on some few branches of industry and some products, and certainly not on one single product. The theory has an answer to this dilemma also -- changes in price levels, either directly or through changes in the exchange rate. But when such changes are needed in order to retain comparative advantages in the production of some goods, a country will be faced with reduced factor incomes, and consequently real product and income per inhabitant will fall.

This problem has per se nothing to do with trade between developed and developing countries. It has, on the contrary, occurred in some industrialized countries as a result of competition with other industrialized countries. Until recently, it did not lead to any decline in absolute real income levels in any leading industrialized country, because the shift in comparative advantages took place in a growing world economy in which there was room for everybody to expand total output. For that reason it did not lead to drastic alterations in the manufacturing structure in any country although some industries declined both in terms of employment and value added. In the future it is quite possible that changes in comparative advantages will affect such a large proportion of the manufacturing industries in many countries that a decline in total production may ensue, not only in the short term during a temporary recession, but also in the longer run. Once more, it should be repeated that this is not necessarily or even probably a consequence of market penetration by developing countries, but primarily a reflection of changing competitive strength amongst the developed market economy countries.

However, in the somewhat longer run it is quite feasible that the industrialized countries as a group, or at least a majority of them, may lose comparative advantages to a number of newly industrializing developing

countries.[67] An attempt to study this aspect in theoretical terms has been done in an article by Paul Krugman. His conclusions are set forth in his own summary:

> "This paper develops a single general-equilibrium model of product cycle trade. There are two countries, innovating North and non-innovating South. Innovation consists of the development of new products. These can be produced at first only in North, but eventually the technology of production becomes available to the South. This technology lag gives rise to trade, with North exporting new products and importing old products. Higher Northern per capita income depends on the quasi rents from the Northern monopoly of new products, so that North must continually innovate not only to maintain its relative position, but even to maintain its real income in absolute terms."

In this connexion it is worth remembering that innovations normally take place in individual firms and that the picture of the competitive strength of a country rarely can be schematised -- it depends in the end on how many and how important competitive firms it posseses. A declining industrial branch, apparently non-competitive, can contain some very competitive enterprises which may reverse the competitive situation for the entire branch in due time, while highly competitive branches may depend on the success of some large firms whose future prospects may be doubtful.

d. The Scope for Autarky:

Proponents for zero-growth in developed countries frequently argue that the "race" has been carried far enough, the human costs in terms of stress are too high to pay for further increases in material well-being, and that in any case, through better distribution of resources and less waste affluent countries could solve remaining social and economic problems without further significant technological progress. Krugman demonstrates that this assumption is wrong -- if the rich countries do not innovate, their income levels will fall.[68] His argument is strengthened if we look at the world as it is in reality, viz. with trade not only in "footloose" manufactured goods, but also

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67/ Paul Krugman, A model of innovation, technology transfer and world distribution of income. Journal of Political Economy, The Chicago University Press, Volume 87, No. 2, April 1979.

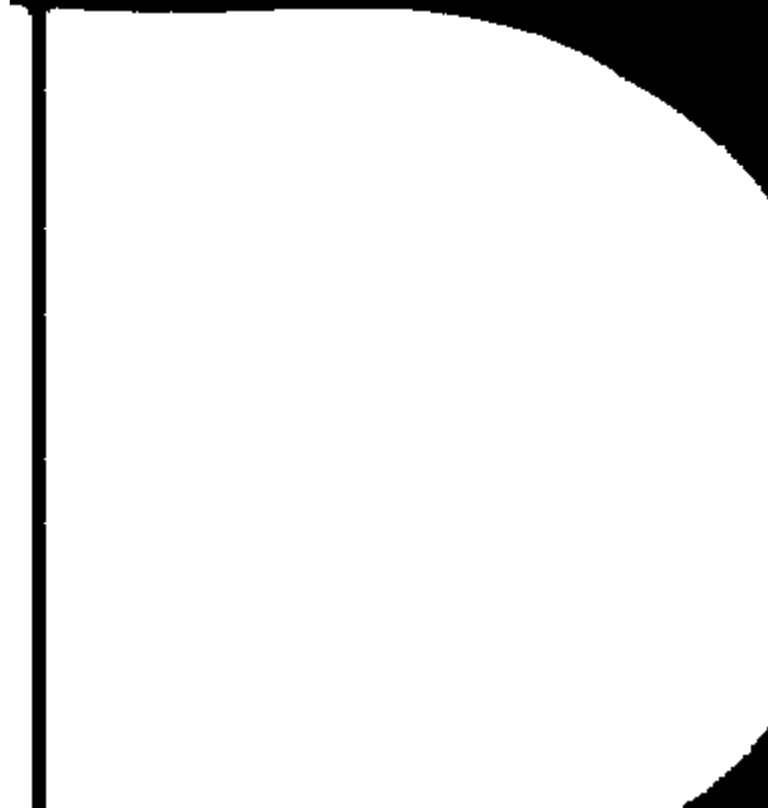
68/ Ibid.

in raw materials, processed raw materials and services. Indeed, the self-reliant country may have to devote an increasing part of its productive resources to pay for its imports of indispensable raw materials, etc., unless it raised productivity in its manufacturing industries rapidly sufficient to keep pace with the rest of the world. This means that the whole purpose of aiming at 'self-reliance' in manufacturing in this case would be forfeited.

Obviously, only large industrial countries with a very diversified industrial structure could contemplate a policy of self-reliance in manufactured goods. Moreover, the outside world might not be willing to let one or several industrial countries participate in foreign trade on their own terms. Admittedly, some industrial countries seem to be large enough to be able to aim at self-reliance, and such policies could eventually also be followed by groups of countries, such as the EEC. Indeed, the centrally planned economies do already conduct their foreign trade on the basis of limiting its imports to what they cannot produce themselves, and there is, therefore, a precedence for a self-reliant foreign trade policy for manufactures.

In the longer run, however, a "self-reliant" industrial region which, nevertheless, depends on imports of essential inputs, would run into difficulties unless it managed to innovate sufficiently to supply goods which the rest of the world would buy in exchange for its raw materials, etc. If this line of reasoning is correct, it follows that two possible policy objectives for industrial countries in some respects are unrealistic and self-defeating. First, a policy which aims at holding on to gains which have been achieved, inter alia, through autarky in manufacturing. Second, a policy of autarky in manufacturing for the purpose of maintaining a diversified structure of manufacturing industries, while continuing technological progress, but at a rate not determined by events in the outside world.

Both policy objectives aim at increasing the degree of autonomy in decision-making at the expense of sacrificing some potential future economic gains by not participating more intensively in the international division of labour. In the latter case an additional consideration is to reduce the risk element in an increasing integration of the world economy. It is doubtful, however, that any of these two policy objectives would be pursued if it was clear from the outset that their implementation quite possibly might lead to lower product and income per capita. Whereas in theory future losses might be



acceptable, as a form of insurance premium against uncertainty, economic policy makers in practice will have to take into account people's resistance against any reduction of their material standards.

It can be argued that national or regional autarky in manufacturing is a second best solution because continued participation in international trade in manufacturing involves the serious risk of a long period of de-industrialization with subsequent losses of output and income per capita. In theory, this argument is wrong. While inadequate technological progress under any policies might lead to a fall in per capita income, some producers or entire branches of industry would under any circumstances be internationally more competitive than others, and a country would, therefore, gain by trading with foreign countries compared to a situation of autarky. This theoretical objection rests on the assumption that suitable policy adjustments, for example, devaluation in a situation in which most of a country's manufacturing industries no longer were competitive internationally, would reestablish comparative advantages for the most efficient parts of industry.

In real life the behaviour of the actors in an economic system obviously does not always follow even the more realistic assumptions behind a theoretical analysis.[69/] A country may have to sacrifice growth in order to maintain its trade balance and the crucial question in the opinion of those who may support relative autarky as a second best solution is whether the lost

69/ The theoretical objection to autarky as a second best solution rests on two implicit assumptions: first, that it is possible to adjust the nominal cost level of a country in such a manner that it retains comparative advantages in a sufficient number of activities to be able to participate in international trade in a balanced manner, and secondly, that comparative advantages basically are determined by costs. The first assumption does not hold in the short and medium term becaues of the inflexibilities referred to earlier. Thus, the effects of devaluation will frequently be offset by increases in nominal incomes and, therefore, in costs as well, and as the entrepreneurs anticipate such changes in nominal costs, the stimulus offered by a devaluation is not very strong. As regards the second assumption recent evidence from a number of countries does not suggest that changes in relative cost levels have a determining influence on the balance of trade in manufactured goods. Changes in the relative pressure of aggregate demand, a variable which is directly controllable by macro-economic policy, provide on the whole, though not in every instance, a better explanation of changes in the trade or current account balance than do changes in nominal or even in real exchange rates." R. Blackhurst, J. Tumlir: Trade relations under flexible exchange rates, GATT Studies in International Trade, No. 8, Geneva 1980.

growth more than offset the gains from international trade or not. Additional evidence of a weak relationship between apparent costs and export performance is found in a relatively recent OECD study.[70/]

e. An Illustrative Case: The UK Industry

The problem of costs as a factor in determining the relative performance of one country in manufacturing is studied in detail in the case study of the United Kingdom prepared by Ajit Singh, Faculty of Economics, University of Cambridge.[71/] The study shows that between 1964 and 1976 the relative unit costs in the UK manufacturing industries (Sourc: OECD, op. cit.) fell by 12 per cent, the ratio of UK export prices to those of their major competitors fell by 10 per cent, and during the same 12 years the UK's share in OECD manufacturing output fell from 8.4 to 5.4 per cent, and its share in the exports of manufactured goods by the 12 most important exporters among the OECD countries fell from 14.4 to 8.7 per cent. Singh's explanation of the poor performance of the manufacturing industries in the UK is as follows: "Thus, UK's supply side deficiencies cannot be attributed to its pattern of production: nor, as seen earlier, can they be ascribed to increases in UK costs and prices relative to other countries. A number of studies have stressed the importance of non-price factors in international competition. In particular, empirical research on the relative competitiveness of UK and foreign products shows that the former are weak in terms of factors such as the following: delivery dates, quality, design, performance, etc. These non-price characteristics take us a long way towards an explanation both of the UK's high income elasticity of demand for imports and of its obverse, the low world elasticity for UK exports. They suggest a lack of dynamism in the productive system, which must in turn be related to the slow growth of manufacturing production in this country."

70/ OECD Economic Outlook. Occasional Studies. The International Competitiveness of Selected OECD Countries, OECD, Paris, July 1978. The study calculates "relative unit current costs in a common currency." Changes in productivity per man hour, hourly wages, costs of raw materials and movements in currency rates are taken into account.

71/ Ajit Singh: UK Industry and the Less Developed Countries: A Long-Term Structure Analysis of Trade and its Impact on the UK Economy.

Apart from the last sentence which states Singh's own judgment of the underlying reasons for the relative poor performance of the UK manufacturing, the explanation is based on the assessment of the impact of a number of observable factors. On the face of it some of these have nothing to do with progress in technology or innovations (e.g., delivery dates, quality) but with human factors influencing planning, workmanship, etc. Trade union attitudes have also been blamed for the declining trend in manufacturing. These are all surface phenomena -- it can well be argued that technological progress and innovations also affect management methods, including personnel management, production planning, quality control and so on.

The story of the United Kingdom is extremely important for our understanding of the dynamism of world trade in and production of manufactures. United Kingdom was a pioneer in modern manufacturing industries. As late as 1950 its net value-added of manufacturing per head of total population was clearly surpassed by that of the United States. In 1976 it was at the bottom of the league of industrialised countries together with a relative latecomer, Italy.[72/] During this period of strong relative decline and a tendency towards stagnation in absolute terms, the United Kingdom has retained a considerable part of its controlling power in the world economy, with the City of London as one of the world's principal financial centres, and with the UK as the home country of many of the largest transnational corporations in most fields of economic activities. The UK is not a country on the periphery whose economic activities are subjected to the control of the centres in the market economy countries -- it is firmly placed in the centre. In spite of the fact that the UK should -- and in many cases does -- profit from the existing international economic order, its manufacturing industries have been passing through a period of relative delcine, which, in reality, dates back to the 19th century.

There are two possible ways of looking at this decline. The first is that the United Kingdom has entered a "post-industrial" period in which the use of manufactured goods domestically will grow much more slowly than the use of other goods and notably services, and that it no longer depends on

72/ A. Maizels, op. cit. and World Development Report, 1980, op. cit.

manufacturing as a principal source of foreign exchange earnings, so that it can afford to become a net importer of manufactures. The other explanation is that the decline in manufacturing is a symptom and a major cause of a general decline in the economic performance of the United Kingdom compared to other industrialized countries. This latter point of view is supported by the fact that in terms of Gross National Product per head, UK's international position has declined steadily during the last couple of decades. However, there may be a link between the two ways of interpreting the chain of events. UK's international role in other economic activities may have diverted much entrepreneurship and capital away from manufacturing at home to other economic activities, at home or abroad. At the same time foreign exchange earnings from invisibles have permitted the UK trade balance in manufactures to shrink without causing a lasting structural current balance of payments crisis. In recent years the North Sea oil has contributed to the maintenance of the balance in the UK's external accounts. In short, there are several factors which have contributed to making Great Britain less vulnerable to the relative decline of her manufacturing industries. Nevertheless, the British story raises some important questions which concern the developed market economy countries as a group.

f. The Concept of De-industrialization:

Under free market conditions the location of manufacturing enterprises will, to a great extent, depend on access to entrepreneurship, management, capital, skilled workers, workers in general and technology. To some extent technology is controlled by the enterprises which have developed certain products or processes. Such control can delay the establishment of some production units, but it cannot postpone it forever. There will presumably always be some innovations which are controlled by property owners, but most technology can be transferred provided that the receiving country has the ability to exploit the technology and capital and entrepreneurship needed to apply it.[73/] Newly industrializing countries, which have reached a

73/ As it is stated in a recent study: "First, it is practially impossible to control technology transfers. As was the case for the United Kingdom in the nineteenth century, attempts in the past to maintain the technological leadership of a country through the most stringent controls have been unsuccessful. Second, technology transfer is to a certain extent governed by the firms in possession of the technology and it is aimed at ensuring their growth and even their survival." North South Technology Transfer, OECD, op. cit.

"take-off point" in manufacturing, are able to build the most efficient factories embodying very advanced techniques and in addition benefit from at least temporary advantage of lower labour costs than in older industrialised countries. As regards protected or secret technologies, the firms controlling them may provide entrepreneurship, capital and technical know-how for utilizing them in less developed countries, not to assist the host countries, but in order to safeguard their own position. The developing countries may consider that their process of industrialization progresses too slowly, but strong economic forces do indeed work in favour of a relatively fast industrialization of a growing number of NICs.

Will this lead to de-industrialization of the industrialized countries and thus weaken their economies, or is it merely a necessary element of the movement towards the "post-industrial society?" It is at this point that the balance of payments considerations may prove to be of fundamental importance. A given industrialized country has entered the post-industrial period in which increase in consumption (personal and public) mainly takes the form of the use of more services. However, there will evidently be a continued demand for non-durable goods as well as a replacement demand for durables. Moreover, there will be demand for investment goods in the service sectors, as well as replacement demand for capital equipment in all sectors. In total it is virtually certain that final demand for manufactured goods will continue to grow albeit possibly at a significantly slower pace than demand for services. If in this situation imports of manufactured goods will rise faster in value than exports, domestic manufacturing value-added would in all likelihood grow slower than domestic demand for manufactured products.[74/] This process, which per definition would involve a shrinking export surplus or an increased import surplus for manufactured goods, could be referred to as "de-industrialization" as distinguished from a slower growth in manufacturing due to the move towards a post-industrial society. But this type of "de-industrialization" may not necessarily be a symptom of economic decline. It may simply reflect the fact that the country in question earned a

74/ This conclusion is not self-evident, and may be wrong. It depends on the ratio of value added to output in different products and consequently on the product composition in the changes of imports and exports. The flow of intermediary goods and inputs, inside the economy and in foreign trade, will also influence the picture, and a correct analysis of the effects of changes outlined above would have to be based on an input-output model.

sufficiently fast increasing amount of foreign exchange to offset the loss on the manufactured balance from other sources, viz. primary products or invisibles. A fall in the surplus on manufactures could be offset by an increase in earnings from investments in manufacturing units abroad or from sales of engineering and management services.

Another concept has been suggested by A. Singh.[75/] It stresses the key role of manufacturing for a country's current foreign balance, but recognizes that other foreign exchange receipts have to be taken into account. Singh emphasizes that this definition must be seen in a dynamic context, and not in static terms. In a full employment situation and balance of payments equilibrium the potential growth of an economy from one year to another is determined by the increase in labour input and the increase in productivity. The latter, however, is in turn determined by changes in the level and composition of output and the increase of productivity in the different sectors of the economy, which again is determined by the structure of demand at home and abroad. Let us assume that real effective demand was raised by a sum which corresponded to the increase in GDP resulting from a likely increase in hours worked and productivity per hour. A country would be in a situation of "de-industrialization" if the increase in demand resulted in an unwanted balance of payments deficit and unemployment because the performance of manufacturing industries fell below expectations, both in the home market and in export markets. Account would have to be taken of exogenous factors which disturbed expectations, such as a significant crop failure, an oil price shock, etc.

75/ Singh, op. cit. Singh suggests that "an efficient sector for the UK economy may be defined as one which, given the normal levels of other components of the balance of payments, yields sufficient net exports (both currently, but more important, potentially) to pay for the country's import requirements at socially acceptable level of output, employment and the exchange rate . . . The definition I have suggested also means that even when 'manufacturing output was actually growing in proportion to GDP (as on one measure it did up to 1973), or even when manufacturing employemnt was growing in proportion to total employment,' there may be de-industrialisation, i.e., a structural disequilibrium in the sense of a progressive failure to achieve sufficient exports to pay for full employment level of import at a 'reasonable" exchange rate." For a wider application of this concept of de-industrialization to industrialized countries as a whole, see Annex III - 2, Singh, A.

If de-industrialization takes place in a country it is not necessarily a consequence of a redeployment of industries from industrialised to developing countries. It is likely that the situation cannot be rectified by macro-economic measures. However, evidence suggests that a large number of industrial processes can be carried out at lower costs in new enterprises equipped with the most modern machinery and installations both in highly developed market economy countries and also in a large number of developing countries. The motivation for establishing such enterprises in many developing countries is far stronger than for doing so in many industrialized countries. First, governments of developing countries have to conduct a deliberate policy to create modern manufacturing industries. Secondly, many firms in the industri- alized countries find it more advantageous to build new production units out- side their own country for a variety of reasons: access to markets, lower wages, better supply of some critical raw materials, and government incentives in the host country. The capital invested in existing plants in the industri- alized countries is often so large and not yet amortised so that the owners find it uneconomical to scrap plants altogether to build new ones, and they will, therefore, satisfy themselves with less expensive modernization plans if they can find the funds to do so. The consequence is that many plants and entire enterprises gradually will become non-competitive, and will, in the end, have to go out of business. The risk involved in building new plants to produce basically the same product as before is often too large, and a rede- ployment of industry therefore takes place, often from one industrialized country to another, but also to an increasing degree to a developing country.

This description does <u>not</u> apply to entire branches of industries in a majority of industrialized countries. On the contrary, in all industrialized countries there are firms which have the will and resources to renew themselves and stay in competition in virtually all branches of the manufacturing industries. The main thrust in the direction of building new plants and creating new enterprises in the industrialized countries is, however, very often combined with the development of new products. It is in this field that the industrialized countries for a long period of time will retain a superiority in relation to the newly industrialized countries. What happens to the entire sector of manufacturing in the different industrialized countries depends on the global effect of actions of individual enterprises, large and small, old and new. De-industrialization can take place for two reasons: in a large country entrepreneurship and the ability to undertake innovations may not be widespread enough to ensure a broadly based flow of modernization and expansion of the manufacturing sector. In smaller

industrialized countries the problem is basically the same, but it is aggravated by the fact that a number of technologically advancing industries require resources at such a scale that many small countries cannot participate successfully in their development. Successful small enterprises can be established everywhere, but it takes many small enterprises to replace some larger, old enterprises which must fold up because they can no longer participate in the technological race.

It is important to raise the question of the implications for developing countries of a "de-industrialisation" of developed countries or of the technological innovation being pursued as a means to avoid de-industrialization. If de-industrialization in the developed countries became generalized, the developed countries could no longer increase their imports of manufactures to the developing countries. Such a course of events would seriously harm those developing countries whose industrial structure was based on supplying the older industrialized countries. It is more likely, however, that the industrialized countries will continue to innovate and renew their manufacturing industries. This may result in a reversal of comparative advantages in favour of the old industrialized countries. Such a reversal could take two forms: either changes in production methods which could make previously labour-intensive industries capital- and skill-intensive, or development of new products which would replace products that were so far produced successfully in NICs and other developing countries. Innovations could have predominantly beneficial effects for developing countries if new goods were developed which did not compete with production of goods which are in the process of being redeployed to the developing countries.

It is impossible to foresee which direction the development of new products and processes in the industrialized countries will take. But it would be prudent on the part of the NICs and other developing countries to be aware of the risk that at least some innovation as may threaten their newly acquired comparative advantages. The conclusion is, therefore, that regardless of whether the developed market economy countries as a group are going to stagnate economically as a result of de-industrialization or will continue to maintain strong manufacturing industries, there will always remain a serious risk for the developing countries that their export markets in the richer countries may stagnate, decline or even disappear for some goods. Finally, it looks quite likely that if the industrialized countries as a group discovered that they were on the point of losing their economic strength due to "de-industrialization," they could go to strong defensive measures which would also threaten to destroy markets for goods from the developing countries.

IV. INDUSTRIAL RESTRUCTURING IN THE EEC

1. Introduction

When reviewing the industrial restructuring process in the EEC, it is essential to realize that the Community does not consist of a homogeneous group of countries. Tables 15 and 16 show that there are many significant differences between the ten countries which are now members of the Community, and that there are reasons to believe that the adjustment problems faced by individual members are also vastly different.

One main difference refers to the population size. It could be assumed that the larger countries have, (when the economies of the nation states were not so strongly interdependent, in earlier periods) built up a relatively diversified economic structure as compared with the smaller countries which have been compelled to specialize to a much higher degree. This should a priori make the larger countries less vulnerable to adjustment difficulties, since they both have greater potentialities to develop a fairly wide range of innovating industries, and would be comparatively less hurt by difficulties in one single or a couple of industries. In contrast, smaller countries have a narrower range of alternatives for new industrial ventures, and might be more severely hurt if one of their industries runs into serious difficulties.

We also note that there are some significant discrepancies in GNP per capita: amongst the original six there are five "high" and one "high-middle" income countries; amongst the three more recent members the spread is wide -- one "high," one "high-middle" and one "middle" income country. As we discuss the impact of three new members on the EEC and on the other parts of the world we may look at Greece together with the two entrants; we observe that two of the three are "middle" income countries at the same income level as one of the "nine," and one is a "low-middle" income country. The future expansion of the EEC will mean that there will be as many "middle-income" countries as "high-income" countries in the 12, whereas amongst the original six, five were high-income countries.

However, income levels are inadequate measures of the level of development of different countries. Their industrial and foreign trade structures are also of great significance, as Table 16 illustrates some pertinent aspects of the differences in structures.

Parts A and B of the table show that in 1960 there were quite significant structural differences between the original six members of the EEC (data for Luxembourg have not been included), which are illustrated both by the distribution of the labour force and the contributions to GDP between the main sectors of the economy. In 1978 these differences had become far less striking. The structural changes that had occurred during these 18 years can hardly be ascribed to the effects of the Common Market alone. Rather, they reflect changes which normally take place for countries at this income level during the process of economic growth. For these countries the table confirms the presumed inverse relationship between the shares of labour force and GDP in agriculture, and GDP per capita. When we turn our attention to the three countries which became members in 1973, we get a very different picture: the "richest" country in this group is Denmark which still depends significantly on agriculture as a source of employment, income and foreign exchange earnings, while the United Kingdom, which ranks amongst the most industrialized of the nine, and has less of its labour force in agriculture, only belongs to the "high middle-income" countries in the Community. Ireland's position amongst the nine is as expected -- it is less industrialized and more dependent on agriculture than any of the other eight, and its GDP per capita is the lowest.

The internal economic structure of the eventual three newcomers to the EEC reflects their lower level of economic development, compared to the former nine members, with the exception of Ireland, the structure of which resembles strongly that of the two Iberian countries. Greece, which already is a member of the EEC, has the most "under-developed" economic structure in spite of the fact that its GDP per capita is far higher than that of Portugal.

Part C of Table 16 on the whole confirms the picture obtained from Parts A and B. It shows that all countries included in the table earn about half or more of their earnings from exports of goods from manufactured goods. Only in four of the present members (including Greece) manufactures account for less than two-thirds of merchandise goods exports. However, the table also puts the spotlight on the significantly larger weight in total exports of machinery and transport equipment (goods from "engineering industries") in the four large EEC countries than in all the others, presently members or not. This is a significant feature to be kept in mind when discussing restructuring within the EEC.

Table 15

Main Characteristics of the EEC member countries and the two applicant countries

	Area thousand sq.km	Population thousands Mid-1979	GNP market prices $ bill. 1979	GNP per capita U.S.$ 1979	Growth rates Popu-lation 1970 to 1978 $	GNP/cap $
Original six members						
Fed. Rep. Germany	249	61,208	717.7	11,730	0.1	2.4
Italy	301	56,882	298.2	5,240	0.7	2.0
France	547	53,446	531.3	9,940	0.6	3.1
The Netherlands	41	13,986	143.2	10,240	0.8	2.3
Belgium	31	9,852	107.3	10,890	0.3	3.0
Luxembourg	3	354	4.5	12,820	0.6	4.1
3 New Members in 1973						
United Kingdom	244	55,821	353.6	6,340	0.1	1.9
Denmark	43	5,113	60.8	11,900	0.4	2.1
Ireland (Eire)	70	3,258	13.7	4,230	1.1	2.3
Member in 1981						
Greece	132	9,437	36.7	3,890	0.8	3.8
Candidates for membership						
Spain	505	37,423	162.3	4,340	1.1	3.1
Portugal	92	9,878	21.3	2,160	1.7	2.0

SOURCES: 1980 World Bank Atlas. (For area, World Development Report 1980).

Table 16

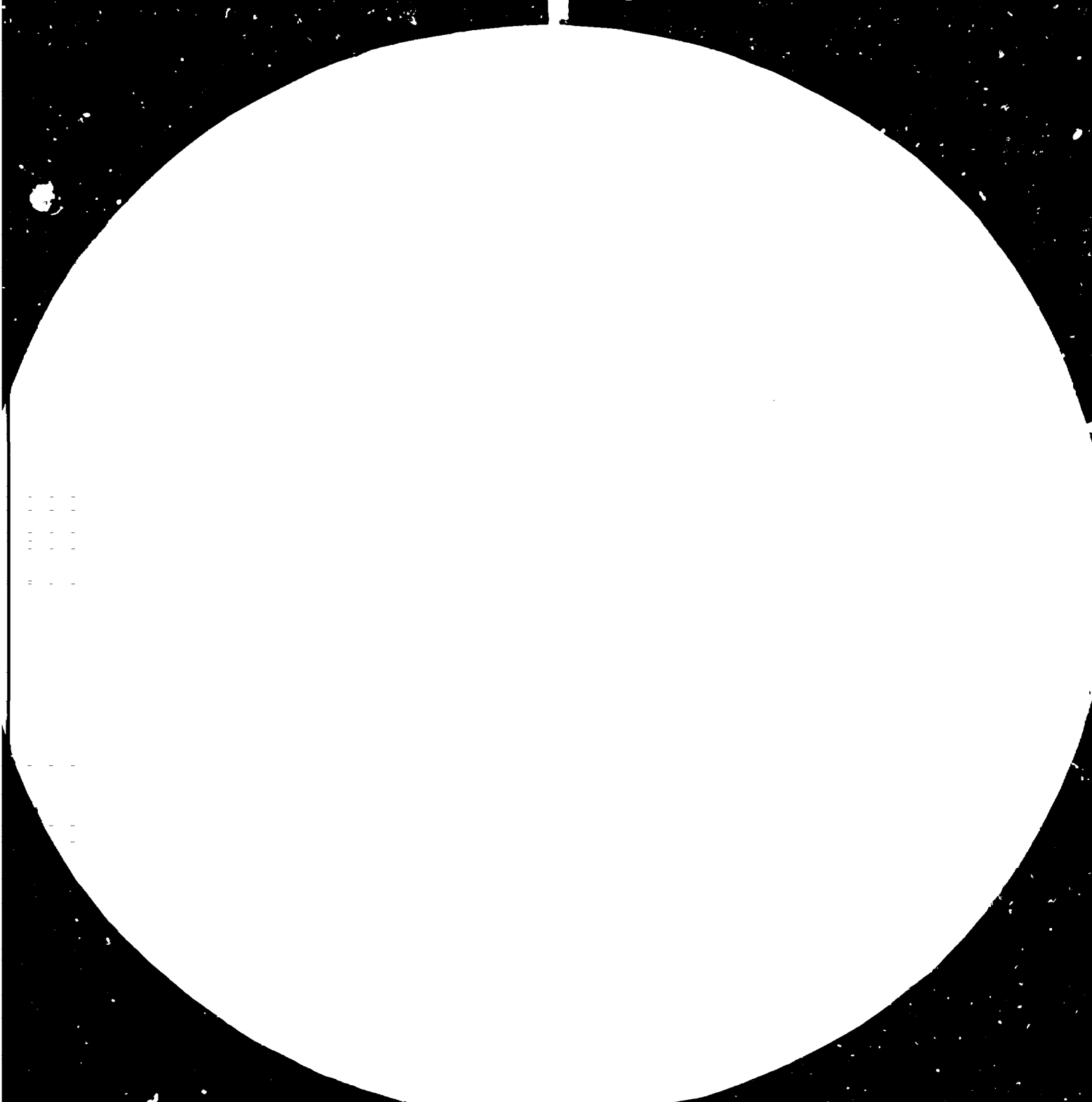
Structural Characteristics: Present EEC member countries and two applicant countries

A. Structure of employment

	Percentage of labour force in:					
	Agriculture		Industry		Services	
	1960	1978	1960	1978	1960	1978
Original six members						
Fed. Rep. Germany	14	4	48	48	38	48
Italy	31	13	40	48	29	39
France	22	9	39	40	39	51
The Netherlands	11	6	42	45	47	49
Belgium	8	3	48	43	44	54
Later members						
United Kingdom (1973)	4	2	48	43	48	55
Denmark (1973)	18	8	37	37	45	55
Ireland (1973)	36	20	25	37	39	43
Greece (1981)	56	39	20	28	24	33
Candidates for membership						
Spain	42	18	31	43	27	39
Portugal	44	27	29	37	27	36

B. Structure of production

	Percentage of Gross Domestic Product orignated in:							
	Agriculture		Industry		Of which manufacturing		Services	
	1960	1978	1960	1978	1960	1978	1960	1978
Original six members								
Fed. Rep. Germany	6	3	53	48	40	38	41	49
Italy	13	7	41	42	31	na	46	51
France	10	5	38	37	29	27	52	58
The Netherlands	9	4	46	34	34	na	45	62
Belgium	6	2	41	37	30	26	53	61
Later members								
United Kingdom	4	2	43	36	32	25	53	62
Denmark	11	na	32	na	22	na	57	na
Ireland	22	na	26	na	na	na	52	na
Greece	23	17	26	31	16	19	51	52
Candidates for membership								
Spain	21	9	39	38	27	30	40	53
Portugal	25	13	36	46	29	36	39	41



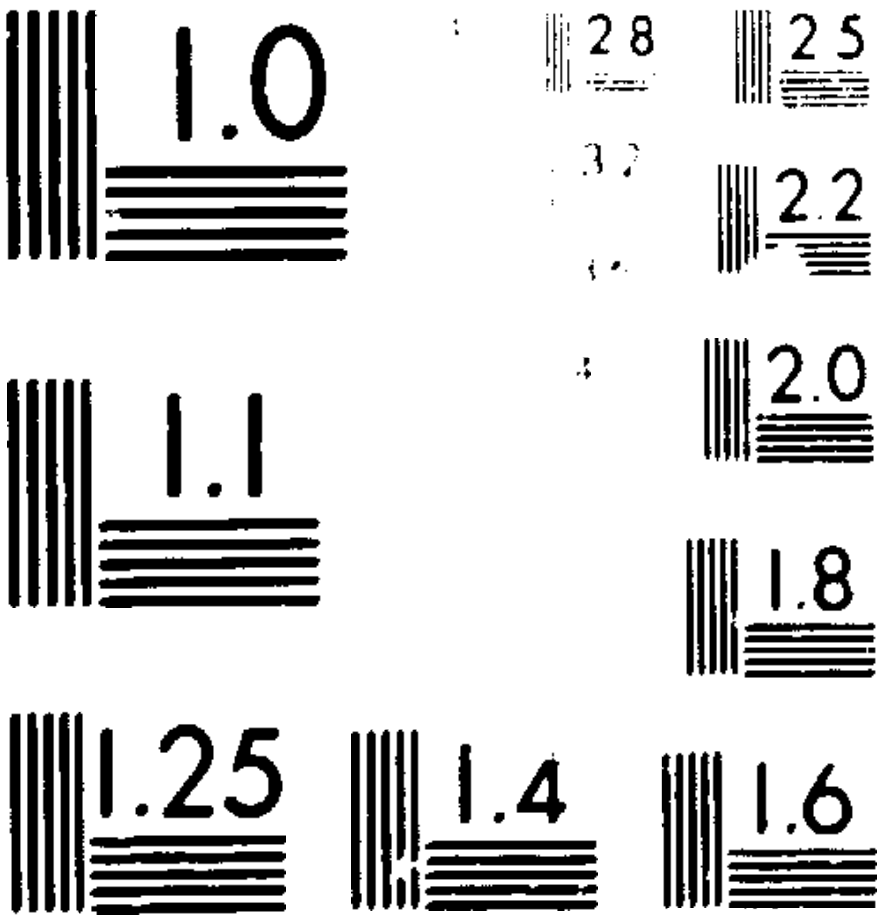


Table 16, cont.

C. Structure of exports

	Percentage share of merchandise exports:									
	Fuels, minerals metals		Other raw materials		Textiles and clothing		Machinery transport equipment		Other manufactured goods	
	1960	1977	1960	1977	1960	1977	1960	1977	1960	1977
Original six members										
Fed. Rep. Germany	9	5	4	6	4	5	44	48	39	36
Italy	8	7	19	10	17	11	29	34	27	38
France	9	6	18	17	10	6	25	38	38	33
The Netherlands	15	22	34	25	8	5	18	19	25	29
Belgium	15	11	9	12	12	8	13	24	51	45
Later members										
United Kingdom	7	10	9	9	8	5	44	37	32	39
Denmark	2	5	63	39	3	5	19	27	13	24
Ireland	5	3	67	42	6	9	4	15	18	31
Greece	9	14	81	36	1	18	1	5	8	27
Candidates for membership										
Spain	21	6	57	23	7	6	2	26	13	39
Portugal	8	4	37	26	18	26	3	15	34	29

SOURCE: World Development Report 1980.

2. General Features of the Industrial Restructuring Process in EEC Member Countries

From the discussion in the Sesimbra Seminar on the restructuring process in the EEC countries two different lines of argument emerged: one advocating a free market economy both domestically and in international transactions, and the other arguing that government intervention, including import controls, were needed in order to ensure full employment and maintain the highest possible level of growth and indeed, also international trade. These two views are reflected in this sub-chapter on restructuring in the EEC.

An overview of current adjustment issues in Western Europe was presented by one participant at the seminar on the basic assumption of the efficiency and dynamics of market forces.[76/] This presentation is summarized in this section.

a. Growth and Supply Factors:

The concern of governments of Western industrialised countries about inflation has prompted them to take measures to curb inflation, thereby suppressing a motion of growth. If present problems were mainly rooted in the lack of effective demand, the solution would be obvious. By pursuing expansionary fiscal and monetary policies, the EEC could increase imports faster than exports, and thus create additional effective demand for the rest of the world including the developing and the CMEA countries. This approach is bound to fail, however, if systematic rigidities cause bottlenecks in the restructuring of production and employment. In this case, expansionary demand management policies would presumably have inflationary effects rather than growth effects; they would retard structural changes rather than promote them; and they would inhibit the rapid integration of developing countries into international trade with manufactures rather than facilitate it. A growth of potential output (not just of demand) at reasonable levels will take place in the medium and long run only if the EEC countries undergo growth-oriented changes in the structure of production, that is, towards new lines of skill-intensive activities, including a modern service sector.

76/ J. Donges presented a paper prepared in co-authorship with his colleague - K.W. Schatz: Patterns of the Industrial Division of Labour and the Framework of an Enlarged European Community - Perspectives and Policy Conclusions. See Annex III-3.

While changes in the structure of production and employment are nothing exceptional in a growing economy -- as a matter of fact, they are even necessary for sustaining growth -- the speed with which they are occurring seems to exceed the ability and willingness of national societies to adjust to these changes. This is the crux of the problem. It can be illustrated with respect to three major sources of structural changes, such as technology, energy and foreign competition, to which we now turn.

Technology has always been a major determinant of structural changes. From economic history we know that in addition to more or less continuous structural progress there have been huge breakthroughs from time to time. They have led to long waves of investment and growth ("Kondratieff-Schumpeter cycles") with upswings and downswings lasting about 50 years. Steam power, railway construction, steel production, electricity, automobiles, aircraft and petrochemicals were amongst the factors that have induced upswings in the past. The micro-electronic technology, which has recently entered the stage of application might push world economic development into a new long-lasting upswing, with profound changes in the structure of production of goods and services and in the way in which they are distributed.

Though our knowledge about the prospective economic impact of the micro-electronics, once widespread diffusion had taken place, is still rather limited and analysts have so far often reached conflicting conclusions, it is safe to say that this new technology displays a number of characteristics which make it revolutionary in nature. These characteristics refer to: (i) the broad range of applications not only in industry but also in the service sector; (ii) the potential for substantial cost reductions - for increases of labour and capital productivity and for savings of raw material and energy input per unit of output; and (iii) the great flexibility and reliability of the production and distribution processes. The structural implications of micro-electronics may thus consist of: (i) greater product differentiation; (ii) regional decentralisation of production units; (iii) shifts of resources towards industries and services which apply micro-processors the fastest; and (iv) a revitalisation of industries which had lost international competitiveness due to rapidly increasing labour costs (for example, textiles or shoes).

Changes in the structure of production will also lead to changes in the structure of employment including job displacement in some sectors and job creation in other ones. Whether or not overall employment will decrease or increase is a matter of conjecture at this stage. On the one hand, there is much concern about the negative employment effect of micro-electronics. On the other hand, it does not seem unreasonable to emphasize the possible increases in overall employment arising from new products and services based on micro-processors. Negative employment effects may dominate if output is kept constant and if the speed at which micro-processors are applied in practice is high. One must not overlook, however, that once output based on micro-processors increases, prices might decrease; thus, demand expands and employment rises after all. The stronger the capability of technically skilled entrepreneurs to translate micro-electronic-based innovations into products for mass consumption is, the larger the net employment gains will be. It is likely, however, that improved employment prospects will mainly affect skilled labour, whereas the prospects are bleak for the less educated employees.

Energy has become an urgent determinant of adjustment in all oil-importing countries as a result of OPEC's recent pricing and supply policies. It is generally expected that real oil prices will be rising in the years to come. Furthermore, at least some OPEC countries may slow down output expansion on the grounds that the value of their foreign exchange surpluses suffers a continuous erosion by world inflation or that they do not see enough acceptable investment opportunities abroad, or that they want to avoid social strains which could result from the implementation of too ambitious development programmes. Significant interruptions in supply for political reasons cannot be ruled out either.

The structural implication of these developments are straightforward. On the one hand there are negative effects : to the extent that the profitability of a particular investment carried out in the past continued to rest upon cheap oil supplies, productive capacities will lose international competitiveness and may even become obsolete. Indirectly, high oil prices affect negatively those producers who face a slackening or declining demand for their products because consumers have to spend larger amounts of their income on gasoline and fuel oil. On the other hand, there are positive effects. They will accrue to domestic oil producing industries in the first

place. In addition, the beneficiaries include those firms producing goods which can replace oil or which do not require much oil inputs or which face a highly income-elastic demand in the wealthy OPEC countries. The major area with a potential for benefiting from the energy-induced structural changes is the production of investment goods and the manufactures of insulating building materials. As in the case of micro-electronics, the main benefits will accrue to those industries which change their production structure from high to low-energy intensity quickly. Industrial countries which have shown a high capacity to produce and process innovation may be in a better starting position than countries in which manufactures have been typically slow in restructuring. In no case should one expect, however, that structural adjustment to the oil prices will occur very rapidly. The reason is that the most profitable investment opportunities are still to be found.

Foreign competition induces structural changes in the EEC as a function of the industrialisation strategies which the developing countries and countries on the European periphery pursue. As long as the industrialisation strategy of developing countries was inward-looking and consisted of both effectively promoting import substitution and discrimination against manufactured imports, during the fifties and the early sixties in most developing countries, little competitive pressure was registered in the advanced countries.

If, by contrast, developing countries promote manufacturing for both the home and the world markets or predominantly for exports to the developed market economies, increasing competition will obviously fall on sectors producing mainly labour- and raw material- intensive goods, but also capital-intensive standardized goods.

In addition to competitive pressures from the developing countries new supplies of manufactures from the CMEA countries call for structural adjustment in the developed market economies. Imports of specialised machinery, modern technology and grain from the West has forced CMEA countries -- in the mid-sixties -- to earn hard currency through large exports, including manufactured exports. Although CMEA countries, on average, are relatively better endowed with physical and human capital than the developing countries as a whole, they have been supplying Western countries with similar

products: traditional labour-intensive goods such as footwear, clothing and leather manufactures. The commodity composition of CMEA manufactured exports has, however, been shifting over time more rapidly than exports of developing countries to capital-intensive, standardized goods, such as electrical equipment, metal-working machinery, glass manufactures, pulp and paper products. Indeed, trade in manufactures between East and West tended to become more intra-industry dominated than the West-South trade, where patterns of inter-industry specialization still prevail. By expanding their manufactured exports, the developing countries thus tend to cause greater adjustment pressures in entire sectors in the EEC than the CMEA countries do.

Changes in the international division of labour, in addition to new conditions set by recent developments in the field of technology and energy, are perceived by the EEC countries as an accumulation of shocks, which create substantial uncertainties in the business community and may induce firms to cut down long-term investment. The real problem which the countries in the European Community face is that all these structural changes are occurring very rapidly in comparison to what the societies are prepared to accommodate. This fact creates political problems which tend to lead to calls for increased protectionism, including selective protectionism and support such as the Davignon plan and the Multi-Fibre arrangement.

In connexion with this general overview of the adjustment process in the EEC and the OECD in general, it was pointed out that during 1980s restructuring would most probably take place in a situation of low growth of GNP and output of manufactures, leading to many business failures in "declining" industries and to a severe reduction of employment. Imports from countries outside the EEC or OECD area will aggravate the adjustment pressures in those branches which have become internationally non-competitive. On the other hand, the possibility of exporting to developing countries may enhance significantly the growth potential of competitive industries in the industrialised countries. Moreover, competition from outside may accelerate the renewal of production processes or even entire industries which could regain "comparative advantages" through modernisation and innovations. In any case, it can very well be argued that slow growth in the OECD area would create much more intricate adjustment problems than competition from outside.

The point of view that supply factors may represent the ultimate constraints which prevent the highly industrialised "Western" countries from achieving faster growth and full employment, is undoubtedly valid under certain assumptions. It implies that an expansion of demand would not be met by a corresponding increase of supplies of the respective goods and services, with two self-defeating effects: increased imports and price increases on those goods and services which could not be imported. The other side of the problem is whether enterprises, in fact, will readjust, modernize and innovate unless they are assured of demand for an increased output. Those enterprises which are sufficiently dynamic and innovating to create a market for their output or which are able to exploit export markets outside the EEC or OECD area are likely to manage to adjust. But insufficient entrepreneurship and the connected "inadequate" level of investment in the industrialised countries can form part of a vicious circle in which the average entrepreneur hesitates to invest until demand is higher, and demand is held back because the political authorities are faced with an inadequate supply response.

b. Planned Foreign Trade as a Condition for Industrial Survival

The arguments for controlled industrial development and trade in manufactures with foreign countries are based on the concept of "de-industrialization". The diagnosis of the British problem, which in particular has been put forward by a group of Cambridge economists, is that because British purchasers of manufactured goods to such a large extent prefer imported manufactured goods, the capacity to manufacture good domestic substitutes perfectly remains unutilized with unemployment and business failures as unavoidable consequences.[77/] In the paper submitted to the Seminar by one Cambridge economist,[78/] specific reasons are given for the fact that British goods are non-competitive. The question arises for how long macro-economic measures must be used in order to re-establish British industries' competitiveness. This does not only depend on adjustments of factor prices, notably wage costs, but perhaps primarily on improvements in "productivity."

77/ A. Singh, UK Industry and Less Developed Countries: A Long-Term Structure Analysis of Trade and Its Impact on the UK Economy, op.cit.

78/ Annex III-2, A. Singh, op.cit.

Pessimists suggest that a large part of British industry will be destroyed for good, and that implies that the desired equilibrium between imports and exports of manufactures will never be reached. It is, however, unlikely that the downhill course can continue that far, taking into account the vast British resources in research and development efforts and highly skilled technical and managerial personnel. The macro-economic cure which the United Kingdom is going through has, in any case, led to severe social strain. It is against this background that some Cambridge economists put forward alternative policies for industrial restructuring. The following paragraph reflects the view of these economists.

The policy of import controls which the Cambridge Economic Policy Group advocates are, according to the proponents, not meant to be measures which will defend an existing industrial structure, but macro-economic policy tools - the purpose of which are to ensure economic expansion and full employment.[79/] These alternative policies to replace present government ones are obviously very difficult to implement. There is no simple option of reflation. If the additional earnings created in the process of expansion were spent on British goods and not on imports, there would be enough capacity to employ everyone. Since consumers are also producers, British consumption in total cannot be greater than British production. The major advantage of import controls as compared with devaluation is that they could produce an expansion of output quickly and would not be inflationary, whereas it is being argued that the present depression is needed to drive inefficient firms out of business and get rid of out-of-date equipment. The proponents of the policy of import controls maintain that it may be more important to produce and employ inefficiently rather than not to produce at all. Moreover, it is questionable whether depression provides the right basis for the necessary change to take place, whereas with a policy of protection and expansion creative change can occur. A scheme of protection needs to be selective and conceived of as a component of an all-round macro-economic policy which aims at bringing about a dynamic process of growth and modernization. To this end it is necessary to have a consistent period of expanded demand for manufactured products. The aim is not to reduce total imports, but rather to spend more foreign exchange

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79/ "England's need of protection for expansion," The Guardian, 6 July 1981.

earnings on imported raw materials which are needed for economic expansion. The classical theory of international trade is based on a postulate of full employment. When, however, full employment cannot be assumed, free trade might prove to be destructive. If all relatively unsuccessful countries protect in the way suggested, i.e., using import controls to raise domestic output and not to strengthen their balance of payments, the system of protection can be generalized advantageously. This obviously assumes a high degree and new forms of international co-operation.

The Cambridge proposal raises some major questions. One problem is whether Britain's trading partners, inside and outside the EEC, would accept import controls in Britain without retaliating against British exports. Godley stresses that if retaliation took place, the policy would fail. He believes, however, that Britain's trading partners would realize that mutual advantages favour a policy of non-retaliation.

Other questions to be raised are: how to implement "non-selective" import controls; to what extent would reduced imports of manufactures lead to reduced exports of manufactured goods; would increased GNP and employment really lead to more real resources available for domestic use (due to a possible fall in average productivity); what would happen to exports of manufactures from Third World countries?80/ Several of these questions imply fundamental, and in part, purely practical objections against the use of non-selective import controls, inter alia, because such controls automatically must give maximum advantages to those industries which have lost the highest shares of their home market to foreign competitors. On the other hand, if import controls were non-discriminatory they should in principle assist NICs and other developing countries which have built up comparative advantges in some fields of manufacturing. But would such non-discrimination be possible? It should be added that in the form in which they are presented, the proposals do not imply any artificial protection of manufacturing industries as such in an industrial country, i.e., they do not in principle slow down the move in the direction of a "post-industrial" society. Moreover, it is quite likely

80/ As regards the last point, it has been pointed out that the Cambridge policies are assumed to lead to higher exports of raw materials from developing countries, while these want to have the opportunity to process more of these themselves and export them in the form of manufactured goods.

that higher assured domestic demand for manufactured goods indeed would facilitate "positive adjustment policies" that imply more rapid development of production goods for which an industrialised country will retain comparative advantages in the foreseeable future.

Regardless of arguments for and against the idea of re-introducing general import controls in a highly industrialised country, it has to be recognized that political developments may turn out such that these policies will be tried out in practice. Electorates in several important industrialized countries (notably the United Kingdom and the United States) have shown their willingness to experiment with fairly extreme monetarist and free market oriented policies because they considered that the middle-of-the-road welfare state "Keynesian" policies led to unsatisfactory results. If this approach fails, it is possible that the electorates will turn to other untried policies rather than return to the old policies. The idea of planned international trade was indeed advocated previously by France. In the face of current severe economic problems it could be expected that these ideas be pursued more vigorously in the near future. It then would be a question of whether this protection will be of a general nature or occur in the form of an increasing battery of selective "non-tariff barriers."

The alternative would be a full employment world, based on an extensive international division of labour, such as it has been argued by Professor Tinbergen for a long period of time, and most recently in a submission to the Secretary General of the United Nations.[81/] Logically, the Tinbergen approach is quite persuasive, but in both practical and political terms it is highly unlikely that we will witness a full employment world economy in the course of this century. Instead, several EEC countries may face problems similar to those which the United Kingdom has been facing for many years now, and it is by no means certain that these countries will adhere to policies conducive to principles of an open economy and free trade.

81/ J. Tinbergen, J.M. den Uyl, J.P. Pronk, and W. Kok: A new world employment plan. IFDA Dossier 21 (Jan/Feb. 1981), International Foundation for Development Alternatives, Nyon, Switzerland.

In their own self-interest the highly industrialized nations in general and the EEC countries in particular will undoubtedly continue to adjust their industrial structure. For the developing countries the crucial question is to what extent this adjustment will take place behind a shield of protection that severely limits the marketing opportunities for their manufactures in the EEC countries.

c. Larger and Smaller EEC Members:

National non-selective import controls, such as advocated by the Cambridge group, may represent an alternative for the four large EEC countries which have sufficiently large domestic markets to sustain a very diversified industrial structure without export outlets. However, for the smaller highly industrialized countries, including the six other members of the EEC, such a policy would be an unrealistic alternative. Except for Greece, these countries export a very high proportion of their Gross Domestic Product: around 50 per cent in the case of Ireland, Belgium-Luxembourg and the Netherlands. It would seem impossible for these countries to achieve a high degree of autarky. These smaller countries could, of course, introduce selective import controls in order to reserve a higher proportion of the home market for domestic producers, but while such measures could alleviate hardships for certain producers, employees and regions, they could hardly form the basis for a full employment policy. Moreover, a smaller country would remain dependent on exports in order to pay for goods it could not produce at home.

If the EEC as a group would use general import controls to maintain full employment, the smaller countries might risk welfare losses in relation to free trade with the rest of the world. The smaller countries would still have to be competitive as regards exports, and they may risk a welfare loss if they were compelled to import a larger part of their supplies from the other EEC countries. On the other hand, the smaller countries might gain from the higher employment in their partner countries and their enhanced domestic market. Indeed, the export structure of the smaller EEC countries may be so dependent on economic developments in the other industrialised countries that trade with these countries would be more important than the potential gains from trade with the Third World and the CMEA countries. Thus, between 82 and 90 per cent of the merchandise exports of Belgium-Luxembourg, Denmark, Ireland

and the Netherlands went to other industrialised countries in 1978.[82/] As regards Belgium and Netherlands, 83 to 85 per cent of their exports of manufactures only to other industrialized countries in 1977 went to the other EEC countries.[83/] In contrast, "only" about two-thirds of the merchandise exports of the four large EEC countries went to other industrialized countries and, furthermore, a much higher proportion of their exports of manufactures went to industrialized countries outside the EEC than was the case for the Benelux countries. The smaller industrialized countries are thus strongly dependent on other industrialized countries, and although they are interested in being able to purchase imports from the cheapest sources of supply, their economic prosperity is closely linked with that of other industrialized countries.

The smaller countries are faced with two particular problems compared to their larger industrialized countries: to what extent can they develop new growth industries based on recent technological advances and to what extent will such new developments eventually be carried out by autonomous national enterprises, the activities of which can be influenced by national economic policies? The areas of major technology developments, which are likely to have significant impacts, are expected to be the following:

- electronic, including the revolution in the micro-processors;
- the exploitation of energy and mining resources in the oceans;
- the development of new forms of energy; and
- bio-industry.[84/]

While it is obvious that new ventures which require very large capital resources for implementation will remain the exclusive field for multi-national and large government enterprises, it is quite possible that smaller firms and governments of smaller countries can find "niches" in the various areas of rapid technological progress. In the product cycle theory of industrial development and international trade the attention has been called to the phase of product development in which production can be shifted to developing

82/ World Development Report, 1980.

83/ Annex III-4, Dieter Schumacher, A comparative analysis of the impact of trade in industrial products on the employment pattern in six EEC countries: Report on a research project.

84/ Facing the Future: Report of the Interfutures Project, OECD, Paris, 1979.

countries.

Less attention has, on the other hand, been devoted to the earliest stages of development. When a product has been developed for mass production, large opportunities still exist for further improvements so that production, on the whole, will continue in highly industrialised countries. At this stage the scale of production, including continued research and development efforts, may prove to be a decisive factor. This means that even if technological breakthroughs can be made in a small highly industrialized country, continued development may have to take place within the framework of larger units. Thus enterprises located in smaller countries may be unable to pursue an initial success unless they can become not only multi-national, but large multi-national enterprises. It is a well-known fact that smaller countries like the Netherlands, Switzerland and Sweden in the past have managed to create such enterprises, but it is uncertain to what extent they and other smaller countries may be able to accomplish such feats in the future.

Inside the EEC it is, therefore, reasonable to expect that much of the industrial restructuring, which will take place in smaller countries will be determined by enterprises which have their main interests in other countries, not only in the larger EEC countries, but in other industrialized countries outside the EEC. For the smaller countries, therefore, policies towards foreign investments may constitute an essential part of their adjustment measures, but it is also likely that such policies cannot have the same strong impact as policies which intend to modify the behaviour of national enterprises.

d. National or Regional Industrial Redeployment Policies

Although market forces are meant to constitute the major guidelines for the structural adjustment of industries in highly industrialised countries including the majority of the present members of the European Community, it was previously pointed out that for national economic, social and political reasons these governments would not let market forces destroy existing industrial structures without intervening, partly in order to slow down and alter the character of the decline of some industries, and partly to stimulate the creation of new enterprises and the development of new, competitive lines of production. Also, as was discussed above, less successful countries may contemplate the use of drastic means of intervention in order to accomplish an

adjustment of their industrial structure without intolerable social hardship and political risks. Finally, it was noted that smaller countries necessarily have less freedom of action than larger ones. These observations lead to the question of whether industrial redeployment within the EEC will continue within a free trade framework without some kind of common industrial redeployment policy for the EEC as a whole. On the basis of the papers presented and the oral interventions made at the Seminar it could indeed be emphasized that for the future structural changes and the functioning of the EEC, a crucial issue is to what extent the Community will move towards the direction of common industrial policies. For the developing countries, the question is whether such policies would eventually be inward-looking, as is the case of the EEC's Common Agricultural Policy, or whether they would take the form of "positive" adjustment policies which would aim at facilitating the sales of Third World manufactures within the EEC and at the same time put major emphasis on developing production of goods which the Third World needs for its development.

3. The EEC Enlargement and the Restructuring Process of the Nine Former Members of the EEC

The first phase of the enlargement of the European Community started by the admission of Greece as tenth member at the beginning of 1981. It is at present (summer, 1981) uncertain when the two other applicant countries -- Spain and Portugal -- will become EEC members. Their eventual membership will put additional strains on the Common Agricultural Policy (CAP) of the European Community, and the problem of how to accommodate two more Southern European countries into the CAP is so difficult that the negotiaton process may last quite long. However, it is generally expected that for political reasons a solution will be found, and that the two Iberian countries eventually will enter the EEC in the course of the 1980s. In the 1980s the original nine member countries will, therefore, have to make some adjustments also in the field of manufacturing as the consequence of this enlargement of the Community.

For the nine members of the EEC trade in manufactures with Greece, Portugal and Spain plays only a minor role, as can be seen from the following figures given in table 17.

Table 17

Trade in Manufactures between Greece, Portugal and Spain and the European Community, 1970 and 1977.

	Share of EEC (%) in:			
	Exports		Imports	
	1970	1977	1970	1977
Greece	56.2	46.3	54.4	50.5
Portugal	40.5	51.4	58.5	54.8
Spain	40.4	45.3	50.6	43.9
Total 3 Countries	42.3	46.2	52.9	47.3
	Share in EEC Trade (%)			
	1970	1977	1970	1977
Greece	0.92	0.80	0.25	0.32
Portugal	0.74	0.59	0.32	0.25
Spain	1.78	1.61	0.86	1.23
Total 3 Countries	3.44	3.00	1.43	1.80

Source: Tables submitted by Jürgen Donges and Klaus Werner Schatz to the Sesimbra Seminar, October 1980.

Imports from the three accounted for less than 2 per cent of the nine's total imports of manufactures in 1977, but the share had risen from just below 1.5 per cent in 1970. The progress might have been even more noticeable if Portugal had not gone through a difficult period in the middle of the 1970s. On the other hand, the three represented a shrinking export market for the nine in the 1970s -- the share of the nine's exports of manufactures going to those countries falling from close to 3.5 to 3 per cent. It must be remembered, of course, that compared to the extra-regional trade of the nine, imports from and exports to the three represent considerably higher shares.

In Table 18 we present parts of some recent estimates of the impact of trade in manufactures on employment in the six largest EEC countries in 1977. We note that except in the case of the Netherlands the six countries generated more jobs through exports than they "lost" due to imports of manufactures. For the group as a whole more than 3 million jobs were generated in this way. The net gain of jobs was distributed as follows: (Total: 3,068,500 jobs).

Net gain in jobs from trade in manufactures with:

All developing countries	2,426,000
of which:	
OPEC countries	1,434,400
Greece, Portugal, Spain	194,300
All other developing countries	797,300
CMEA countries	249,600
EEC countries	235,800
Other industrialised countries	157,100
of which:	
Japan	- 246,000
USA	- 27,800

Source: Schumacher, op. cit. Note that the net gain in jobs due to trade with EEC countries can have two reasons: (a) trade with Denmark and Ireland for which data are not available, and (b) differences in labour intensity amongst the trading partners.

The data for the several six countries show that all of them enjoy net gain of jobs in their trade with all sub-groups of developing coun except South East Asia.[85/]

On the other hand, only the Federal Republic of Germany and Italy had employment gains from their trade with other industrialized market countries, both with the EEC countries, and with the rest of the market economy

85/ Belgium was an exception, but instead it had a small net loss of jobs due to its trade with "other developing countries" and its "surplus" on South East Asia was negligble.

Table 18

Effects on Employment of Trade in Manufactured Products of six EEC Countries in 1977

	Effects on employment 1,000s	Of which due to exports to or imports from (in per cent)					
		All dev. countr.	of which The "Three"	OPEC	CMEA and China	EEC countries	Other DMECs
Employment generated by exports							
Fed. Rep. Germany	4,054	23.6	3.4	9.5	6.6	43.4	26.5
France	2,165	31.4	4.4	10.3	4.8	48.1	15.6
Italy	2,410	28.4	3.9	13.5	5.2	48.3	18.1
United Kingdom	3,476	32.4	3.2	13.9	2.9	34.4	30.4
The Netherlands	742	16.8	2.7	5.7	2.9	66.7	13.6
Belgium	838	14.5	1.9	4.8	2.1	71.1	12.3
Employment foregone due to imports							
Fed. Rep. Germany	2,580	13.9	3.0	0.7	4.3	54.5	27.4
France	2,039	11.5	4.2	0.5	3.1	64.1	21.4
Italy	1,303	13.9	2.5	0.8	4.2	58.3	23.6
United Kingdom	2,977	12.2	2.1	0.8	4.1	42.9	40.8
The Netherlands	909	7.6	1.4	0.2	2.4	71.5	18.5
Belgium	807	7.8	1.3	0.2	1.9	76.0	14.3

SOURCE: Annex III-4, D. Schumacher, op.cit.

industrialized countries as a group. The surplus in the trade with the centrally planned economy countries was concentrated on France, the Federal Republic of Germany and Italy.

Thus, towards the end of the 1970s the pattern of manufacturing trade of the EEC as it was in 1980 with the eventual three newcomers resembled that of the trading pattern with developing countries. Both in value and in terms of job creation, the nine EEC members as a group enjoyed a significant surplus in its manufacturing trade with the "applicant" countries, albeit in relative terms the surplus was shrinking.

Which impact will the enlargement of the EEC have on this trading pattern? It is overwhelmingly likely that the enlargement will lead both to trade creation and trade diversion. As regards trade creation it will probably take the form of larger inter-industry as well as larger intra-industry trade. Compared to most of the nine former members of EEC, the three have comparative advantages in a number of consumer goods industries, such as food products, beverages, textiles, clothing, shoes and other leather goods as well as rubber products. The enlargement may well hasten the decline of such industries in most of the older EEC countries as a result of competition from the Southern European member countries. However, this process may also involve a stronger element of trade diversion -- although higher imports from the new member countries may not necessarily lead to reduced imports of relatively labour-intensive consumer goods from developing countries and the CMEA countries, these increased imports may possibly pre-empt potential growth of imports from outside the EEC. In addition, if the competitive pressure on declining industries in the present nine EEC member countries becomes so strong that the speed of decline creates unacceptable social or regional problems, the EEC might resort to measures of protection which would hurt non-member countries, and primarily the developing countries.

Extensive studies on the effects of the enlargement bring forth the following conclusions:[86/]

> The EEC export possibilities for capital goods sector will continue to preponderate the composition of trade, andthe direction of trade may not undergo fundamental changes in the sense that new markets will be spiraling to totally new areas. The reason is that the export structure of the Economic Community, to a large extent, reflects the import structure

86/ J. Donges and K.M. Schatz, op.cit.

of countries entering the Common Market. Much importance can be attached to the intra-industrial effects of trade creation caused by the enlargement. The available opportunities do not seem to be fully utilized. Accelerated industrial development in countries entering the EEC is likely to create new possibilities in the composition of trade between the EEC members. On the other hand, competitive pressure will be largely increased in the labour intensive consumer industries. This development will affect particularly the textile and clothing industry, as well as the shoe and leather products industry.87/ When approximately one-fifth of the original employees lost their jobs in these branches, it magnified the problem of unemployment in the European Community. A change in the composition of trade does not necessarily initiate a change in the direction of trade. On the other hand, in specific sectors, export drive and import competition could have an impact. Thus, it is expected that the shrinking processes in the consumer goods industry will be further aggravated. One can also count the increasing pressures in the basic industries such as chemical products and in the capital goods sector - transport equipment, machinery, electro-technical products. This pressure will be particularly noticeable in the case of relatively standardized products and production processes. However, unlike the predominant part of the consumer goods industry, these industrial sectors have large possibilities to redirect the sales to other markets, or to capture new markets through product and process innovations. Therefore, one should hardly expect any negative impact on production and unemployment. Increased exports of these branches would be redirected to the new entrants.

The concentration of adjustment pressure on frequently shrinking industries in weak regions might necessitate the need for introducing restrictive trade policies which are uncongenial to the entrants. Obviously, neither the division of labour between the Community members nor the division of labour between the Community and the entrants would gain anything from a conservation of redundant industrial locations. New entry into EEC would confer the responsibility on Community members to acclimatize themselves to structural adjustment. The main task is to make companies aceede to product and productive process innovations, and to increase the professional and regional mobility of te labour force. These are economic policy requirements which, although not new, are crucial for a successful enlargement of the Community. It is also essential that international locational innovations, i.e., redeployment of companies and productive processes from the present EEC to the three new entrants, would not be hindered but promoted. Indeed, if such innovations are hindered, production and employment would, in the long run, be jeopardized. Obstacles to redeployment would also eclipse the entrants' scope for a rapid industrial transformation with the aid of human capital and technology - without which redeployment process would be entangled in the web of severe difficulties.

87/ Note, however, that the micro-processor "revolution" may reverse the comparative advantages in some of these industries.

This analysis of the impact of the eventual enlargement and policy issues which it raises, confirms the conclusions drawn above, viz. that the enlargement would not lead to any drastic changes in the pattern of trade in manufactures of the EEC countries. But the analysis points to the danger that the strengthened competitive pressure on "shrinking" labour-intensive industries in the nine EEC countries may lead to demands for protection which would hit third countries. In an earlier essay the same authors call attention to the fact that "Spain's comparative advantage differs significantly from that of Greece and Portugal. While Spain still shows comparative advantages in a number of labour-intensive product groups similar to those of Greece and Portugal, she also has advantages where the two other countries have disadvantages, such as in rubber manufactures and transport equipment. In addition, Spain has worsened her position in some product groups where Greece and Portugal have a comparative edge (for example, clothing) and she has gained in areas where both the others were less successful (for example, transport equipment). On the whole, Spain has developed a structure of RCAs (revealed comparative advantages - bracket added) which resembled more that of the Community countries than that of Greece and Portugal. This implies that after the enlargement, manufacture exports from Greece and Portugal might cause more adjustment problems in the nine than those of Spain."[88/] The authors also point out that because of Spain's more diversified industrial structure its wage pattern may no longer so clearly favour labour-intensive industries. In addition they observe -- and this may affect all three newcomers -- that the EEC membership may slow down the exodus from farming and thus somewhat hamper the flow of labour into low-wage, labour-intensive industries.

These observations lead to the question of whether enlargement will mean particularly severe adjustment problems for the nine in the most typical labour-intensive consumer goods industries. It should be remembered that Greece as an associated member and Portugal as a member of EFTA, which also have had privileged access to the EEC market of a free trade agreement, already have been able to export to the nine under relatively advantageous conditions. Will they, therefore, increase their market shares so considerably that they will be responsible for accelerated adjustment problems in such industries as clothing, textiles, shoes and leather goods, and

88/ J.B. Donges and K.W. Schatz: Competitiveness and Growth Prospects in an Enlarged European Community, Elsevier Scientific Publishing Company, Amsterdam.

therefore, indirectly cause more restrictive import policies vis-à-vis third countries? On the contrary, is it not more likely that Spain will cause greater adjustment problems, if it succeeds in penetrating markets with other types of consumer goods (such as cars and household equipment), intermediary goods (e.g., steel) and many types of capital goods? Its import penetration could very well take place in those sectors which did not face grave adjustment problems until the middle of the 1970s or even later (steel, ship-building, automobiles), but which are now in a severe crisis. However, the effects on third countries may be the same -- the adjustment problems within the EEC might become so difficult that the member countries will desire to buy imports from third countries, and in particular from the most dynamic of the developing countries. As Spain is a relatively large producer of manufacturing goods which will eventually benefit from free trade opportunities inside the EEC, its impact on the supply of manufactured goods in the EEC could be very significant, and therefore, lead to market restrictions towards third countries.89/

It would be wrong, however, to look at the effects of the EEC enlargement only on the basis of the potential additional supply of manufactured goods from the three entry countries to the former nine EEC member countries. Should the three entry countries increase their exports of manufactures to the other nine members of the EEC, they would also presumably tend to increase their imports, and perhaps primarily of capital goods from the most industrialised countries. But if the enlargement were to promote dynamic economic expansion in the new member countries, they would also possibly tend to increase their imports from third countries, including developing countries. This depends, of course, first of all on whether and to what extent EEC membership will actually stimulate economic growth in Greece, Portugal and Spain. This issue will be discussed in Chapter IV.

89/ In 1977 Spain accounted for 1.56 per cent of the output of manufactured goods in the market economy countries in the world. By comparison, Greece and Portugal together accounted for 0.65 per cent, Italy for 3.33 per cent and the United Kingdom for 4.16 per cent. Source: OECD, The impact of the NICs, op. cit.

Another issue is to what extent the enlargement will lead to investment by firms in the present member countries in new plants in the three additional member countries. This would not be a new feature in the industrial development of the three, and the question is merely whether the enlargement would bring further stimulus to such a redeployment of productive capacity from the "older" to the "newer" industrialized countries. The additional reason for creating manufacturing capacity by foreign firms in Greece, Portugal and Spain would be to exploit the comparative advantages of these countries for production for exports to the rest of the EEC. The advantages which the three can offer would eventually be access to certain raw materials and other natural resources on relatively favourable terms, and relatively cheap and abundant labour. Currently, it is evident that the three countries can expect a massive inflow of foreign investment. Portugal is perhaps the most attractive country, because its GDP per capita, and thereby also its wage level is so distinctly below that of the EEC member countries. But unpredictable factors like future economic policies, labour relations and so on will be among those factors that determine investment decisions at any given moment of time.

In conclusion, it can be said with considerable certainty that the enlargement of the EEC will affect export prospects of the more advanced of the developing countries (NICs) to the EEC. It must also be pointed out that the enlargement necessarily will weaken the advantages of the countries that are linked to the EEC by the Lomé Convention for their exports of manufactures. Many of these countries belong to the category of Least Developed Countries, and their present exports of most manufactures are insignificant. Undoubtedly, they may face additional difficulties for their future exports of manufactures as a result of an enlargement of the EEC to include some presently semi-industrialised countries. But it is unlikely that this will constitute any decisive deterrent against their future exports of manufactures. When they will be able to acquire the necessary inputs of entrepreneurship, capital and technology, their comparative advantages in terms of raw material resources and/or abundant manpower should enable them to compete successfully also with the eventual new members of the EEC. Finally, it should be noted that the enlargement may conceivably lead to a larger market for manufactured goods from the developing countries, including some of the NICs.

V. Industrial Restructuring in countries on the Periphery of the European Communities: Possible Impact of the EEC Enlargement on Restructuring Process

1. Introduction

In the present context the "Countries on the periphery of the European Communities" can be classified into five groups:

- Greece, Portugal and Spain: These three are semi-industrialized countries in Southern Europe, one of which has already entered the EEC, the other two are applicant countries.

- Ireland: A member of the EEC since 1973, but located on the periphery and much less industrialized than the other eight prior members of the EEC.

- Countries in Northern Europe: One of these, Denmark has been a member of the EEC since 1973.

- The Eastern European centrally planned economies (including Yugoslovia).

- Other Mediterranean countries, notably Turkey and the Maghreb countries.

The common characteristic feature of these countries is that in geographical terms they are relatively close to the original six members of the European Community and the United Kingdom. In all other respects they differ considerably in terms of level of income, economic system and the historical and present links with the "core" countries.[90/] The present

90/ Their GNP per capita ranges from $670 in Morocco and $740 in Albania (and $390 if we include Egypt) to $5,710 in the German Democratic Republic, $6,910 in Libya and $10,210 in Sweden. World Development Report, 1980, op. cit. Figures for 1978.

chapter aims at bringing together some pertinent observations and research results for some of the periphery countries relating to industrial restructuring and the impact of the EEC enlargement.

2. The three eventual new members of the European Communities:

Greece has already become a member of the EEC. It is generally assumed that in the course of the first half of the 1980s, Portugal and Spain also will become members, although the membership is not yet settled. Negotiations may take longer than expected, particularly due to the difficulties in settling the issues affecting the agricultural sector.

In his oral presentation Mitsos noted that the EEC's imports from Greece has increased faster than the EEC's imports from other Mediterranean countries. In this process of growth there have been significant changes in the pattern of Greek exports.

The static indices seem to confirm the general assumption that Greek exports are dominated by labour-intensive industries. High export/import or export/production ratios (or relatively high shares of OECD or EEC imports) relate to industries in which the number of employees in relation to value-added is high. However, dynamic indices show in contrast that the highest growth rates have been observed in the non-labour-intensive sectors. A similar difference between the static and dynamic indices is observed, when the impact of skill intensity is analysed: sectors with high skill intensity show a large gap between imports and exports, while the same type of sectors are amongst those which show the fastest export growth.

A study, conducted by Mitsos, analyses various other relationships which might help to explain the export performance. Of particular interest are his conclusions as regards the effects of tariff protection on exports.

> "The common view that tariff (and non-tariff) protection tends to discourage export growth has not been confirmed in the Greek case, where nominal tariff protection in the end year and nominal tariff protection in the base year are positively related (and very

significantly from the statistical point of view) to almost all indices of export performance. Two possible explanations for this relation are the following: (a) Both export performance and protection are related to the traditional character of Greek industries, (b) export performance is a direct function of the various incentives, aids, etc. provided by the government, which, in turn, depend on the political and economic power of the sector, exactly as protection does".91/

It is commonly believed that high protection of the domestic market leads to inefficiency and lack of motivation to export. However, it is obvious that entrepreneurs indeed are able not only to develop efficient enterprises and earn high profits behind tariff barriers, but that from that position of strength they are also able to expand into export markets. The export performance will depend on a number of factors, such as managerial ability and the existence of alternative profit opportunities at home or abroad, as well as export promotion measures.

Mitsos concludes that, in general, recent progress was highest in the modern, technology-intensive sectors. If the highest progress (in production, not export terms) has been realized in the modern sectors, the widely held belief that Greece is continuing to produce only consumer goods and raw materials can be rejected. As regards future developments, it was pointed out that Greece already, before entering the EEC, had free access to the EEC market except for textiles. These import restrictions on textiles will remain in force during the transition period. On the other hand, Greek tariffs are being reduced, whereas the significant tariff barriers (credit controls, import deposits, discriminatory indirect taxation as well as direct aid to industry) are not weakened. Drastic changes were not expected as a result of entering the EEC, although state assistance to Greek industry would probably be rationalized within the Community framework.

The general problem which confronts the three (eventual) new members of the EEC is whether they, as semi-industrialised countries, will be able to become integrated in a common market of industrially highly advanced

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91/ Annex III-5, A.G.J. Mitsos: Revealed Comparative Advantage of Greek Industry.

countries, in such a manner that the membership will favour economic and industrial growth and contribute to closing the gap in economic development and standard of living between the old and the new members. The European Communities are something more than a common market - they also include mechanisms which aim at an equitable economic and social development between the member countries, and the different geographical regions of each member country. However, the EEC does not seem to have sufficient means at its disposal to ensure such an equitable development. Moreover, historical evidence does not suggest that the three new member countries automatically will be pulled up to the level of their new partners merely as a result of membership in the Common Market. It is a historical fact that the unification of Italy led to under-development of Southern Italy. A recent case is the fate of the United Kingdom which has continued to lag behind in industrial development after joining the Common Market eight years ago.

It is likely that, at least in principle, the three newcomers will benefit from the Common Agricultural Policy and this in itself should also stimulate economic development in their areas, including manufacturing. The three newcomers should also benefit from extended opportunities. Indeed, recent developments suggest that "newly industrialising countries" are able to develop comparative advantages in manufacturing in relation to the very mature industrialised countries.

The question, however, arises whether the entrants are in a similar position to the NICs, whose success to a large extent can be related to their abundant supply of cheap and disciplined labour. The three eventual newcomers to the EEC, however, have recently entered a period in which their social policies and their labour relations have become more like those in the mature Western industrialized countries than in the majority of the NICs. Their success in manufacturing within the framework of the European Community will, to a very considerable extent, depend on how well their enterprises, private as well as government-owned will adapt themselves to both a new national and a new international economic and social environment.

a. Greece:

A study presented at the Sesimbra Seminar gives insights into the situation of Greek manufacturing industries in recent years and provides a

basis for assessing future prospects.[92] The development of Greek exports and imports of different groups of manufactured goods was studied on the basis of a number of static and dynamic indices. The static indices show the product groups for which Greece's present export performance is stronger, both in comparison to domestic output and domestic use as well as imports, and expressed as the shares they account for in OECD's and EEC's imports. The dynamic indices include indices of export growth, changes in export/import ratios and change in Greece's share of the OECD's imports as well as a couple of more complex indices.[93]

Donges and Schatz evaluate the Greek situation somewhat differently and expect "the entry into the EEC will enhance the inter- and intra-industry trade. The country's advantages in competition and specialisation are in those industrial branches in which the EEC and increasingly, Spain, on the whole, show disadvantages in competitiveness. These industries are predominantly the consumer goods industries. Moreover, the division of labour with the EEC in the various industrial branches is not as intensive as it could have been in view of the export and import structures of the EEC and Greece. Thus, there are specialization possibilities, above all, in the production of spare parts for investment goods, the assembly of commercial vehicles and the production of simple machines and the building and the maintenance and repair of ships."[94] The Donges-Schatz paper also includes estimates of Greece's revealed comparative advanta - (RCA) over a seven-year period, (Mitsos' data relate to a five-year period) which in part contradict Mitsos' findings. Thus, they show very marked improvements in the RCA for some "traditional" industries (notably textiles and clothing) and some improvement also for leather and leather goods and footwear. As regards modern sectors, the figures indicate marked improvements only for petroleum products, rubber products and, to a lesser extent, machinery. Nevertheless, the best opportunities for expanded Greek exports seem to lie in the "modern" sectors. Competititon in labour-intensive consumer goods from developing countries will most certainly become more intense in the future.

92/ Ibid.

93/ The so-called "Balassa index," and "Goodman-Ceyhun index."

94/ J. Donges and K.W. Schatz: Patterns of the industrial division of labour and the framework of an enlarged European Community, op. cit.

In these product groups Greece's market share within the EEC is likely to be shrinking and the overall market growth is not expected to be rapid. As Greece will be compelled to reduce the protection of its industries in the home market, its greatest opportunities will probably, as Donges and Schatz suggest, be in larger intra-industry trade through a higher degree of specialization.

b. Portugal:

There have been several distinct stages in Portugal's industrial development. Until the late 1950s, import substitution and sales to the colonies were predominant features. When at the end of the 1950s Portgual decided to join EFTA along with its main trading partner, the United Kingdom, significant change in the direction of Portugal's exports took place. From 1958-59 to 1971-72 the share of Portugal's exports going to EFTA increased from 18 to 35 per cent, the share going to the six EEC countries fell from 23 to 20 per cent and the share going to the colonies dropped significantly, from 25 to 19 per cent. At the same time there was a drastic changes in the composition of exports. In 1959, for example, only 14 per cent of the exports to the EFTA countries were manufactures; in 1966 the share of manufactures had risen to 50 per cent. The entry of the United Kingdom, which alone accounted for 18.5 per cent of Portugal's exports in 1971-72 and Denmark as well, with the remaining EFTA countries only accounting for 13 per cent of Portugal's exports meant considerable pressure for Portugal to join the EEC. In the beginning of the 1970s exports continued to be the dynamic force in Portugal's process of industrialization, while the impact of import substitution turned out to be negative, mainly because of the more aggressive marketing efforts by industries in the original EEC countries as compared to those of the EFTA countries.

While Portugal did increase its exports of manufactures considerably, its export record is far from outstanding. In the late 1960s and the early 1970s it was losing ground compared to the NICs and also relative to Spain and Greece.[95/]

95/ The information contained in the first two paragraphs on Portugal is based on a synthesis of studies undertaken by M. da Gama Santos for UNIDO. The data on Portugal originate from studies by the Institute of Development Studies (Sussex) on "Economic Integration and Unequal Development: the Experience of the EEC."

The prospects of Portugal within the Common Market were treated extensively in the Sesimbra Seminar. J. Cravinho provided an insight into the particular problems of semi-industrialized countries which enter an integrated economic community consisting mainly of highly industrialized nations.[96/] His main points can be summarised as follows. Trade agreements with the EEC in 1972 are spiraling toward "negative import substitution." The enlargement will threaten 40 per cent of the employment in the manufacturing sector. Political factors have been a major motivation for joining the EEC, and it has been realized that the economic impact of the (eventual) membership will be hurting special groups. The time set aside for the transition period will not automatically resolve the problems. An "infant technology argument" could be used not in favour of protection of products, but protection of areas of production which need time to become viable. In Portugal there has been a tendency to underestimate the "dualism" in the economy -- indeed, there are four to five different levels of economic activities. Apart from technology, Portugal must also tackle the problem of the mobilization and channeling of domestic capital and of entrepreneurship and managerial abilities.

Cravinho also touched upon recent development in Portugal. It had been argued during the seminar that devaluation would not work because of resistance to reduction of real wages. In Portugal devaluation had worked, with the result that real wages (which had been raised considerably in the period following the revolution in 1974 - bracket addeed) now were back to the 1972 level. The result had been a spectacular success in raising exports at the end of the 1970s. Cravinho judged this "success" as counter-productive, because it did not stem from a need to restructure and modernise in order to adapt to the new free trade environment in relation to the EEC, but, on the contrary, from an exploitation of comparative advantages in traditional, labour-intensive industries, based on low wages. Inside the EEC it would be likely that wages and social conditions, in general, should move closer to those of the other members, and if so, enterprises could no longer rely on exploiting the conditions which ruled during the period of dictatorship, i.e., ineffective trade unions and low wages. He stressed strongly that knowledge is an essential productive input which Portugal has ignored in the past.

96/ Annex III-6, J. Cravinho: Main Interventions during the Sesimbra Seminar.

Knowledge cannot be imported, but is essentially a "joint product" covering production, technology, marketing, even ways of living, and which is obtained by doing and living. In this context he considered that a steel industry per se was not essential for Portugal, but that it was a necessary part of the process of learning. Finally, he stressed that in Portugal's position it was necessary at the same time both to "link" and to "de-link" over a period possibly lasting 30 to 40 years. To be successful, an attempt to go into a free market would have to be combined with state intervention to assure that promising ventures will survive. The main results of detailed analyses of the industrial development strategy of Portugal were presented to the Seminar.97/

In spite of its low national income per capita, the share of both manufacturing and the wider concept of industry is considerably larger than in Greece and Spain and even larger than in the nine member countries of the EEC as a group. This is due to the backwardness and the relatively small role played by agriculture. On the other hand, it also means that at present manufacturing is already an essential means of living for the Portuguese people. The industrial structure is characterised by a strong specialisation in textiles, tobacco, wood, cork and furniture, with "sub-specialisation" in electrical engineering and in basic metallurgy. Textiles and clothing are the leading export sectors (40 per cent of exports of manufactures in 1977). In the period 1968-77 Portugal's greatest comparative advantages were in labour-intensive industries, but their position weakened in the course of the period. On the other hand, there has been some reduction in comparative disadvantages in the human capital skilled industries. For the raw material-intensive industries the picture was mixed.

Portugal's industrial expansion up to 1973 was, according to Murteira, determined from outside without any overall consideration of internal requirements. As the growth in the industrialised Western Europe has slowed down, Portugal cannot in the future rely on the dynamics of other countries. Secondly, the low unit labour costs in Portugal explain the pattern and rate of the industrial growth in the past. In the future industrial development must be based on another strategy. Murteira maintains, "entry into the EEC will contribute towards reducing differences in wage levels which exist between our country and those of the Community. As a result, the competitiveness of products, based on that comparative advantage, will be

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97/ Annex III-7, Murteira, A., The Need for a New Development Strategy: The Case of Portugal.

jeopardized". Since Portugal will eventually have to introduce the common EEC tariff structure and give access to goods from Third World countries, its industries will meet competition from low-wage countries in the home market.

Murteira lists a number of positive factors which should facilitate restructuring and further progress in Portugal: reasonable availability of mineral resources; a relatively elastic supply of skilled or semi-skilled labour at wage levels still below the EEC average; huge net international monetary reserves; a certain technological self-sufficiency in some lines of production (e.g., electrical engineering); climatic and geological advantages in certain agro-industrial activities; the extension and wealth of resources in the territorial waters; and forest resources.

But there are also a number of negative factors: a large number of small production units, badly structured and inefficient; a small domestic market; great technological backwardness; a certain lack of entrepreneurial talent and management capability: a great shortage of known energy resources; and marked regional imbalances.

Portugal's industrial strategy must, therefore, aim at: the enhancement of natural resources; the restructuring of traditional industries; the raising of national industry's technological level; and a strengthening of the industrial base.

One particular problem facing Portugal was raised during the discussions in the seminar, viz. its geographical closeness to Spain (which has stronger and more diversified manufacturing industries) which will gain free market access when both countries are members of the EEC.

On behalf of the Portuguese Finance and Planning Ministry, the German Development Institute has undertaken an analysis of the likely effects of Portugal's accession to the European Communities. The study consists of four parts, the first of which examines the question of a suitable industrial development strategy for Portugal.[98/] A clear bias towards labour-intensive

98/ Portugal's Industrial Policy in Terms of Accession to the European Community. German Development Institute (GDI), Berlin 1980. Authors: K. Esser, G. Ashoff, A. Eussner and W. Hummen.

exporting industries or towards infant industries with a high export potential would in no way take account of the country's present level of industrialization; an adequate and lasting contribution to economic growth, the reduction of unemployment and the improvement of the income structure could not be made, commercial policy requirements would only partly be satisfied and various openings and opportunities for further industrial development would be ignored. In Portugal and other semi-industrialized countries the limits to industrial development, geared exclusively to the exports, are becoming increasingly apparent.

The industrial development strategy which has been devised for Portugal is based on its present level of industrialization, the contribution made by various sectors of industry to socio-economic development, and the openings and opportunities for industrial development. Portugal should pursue four objectives simultaneously: developing the domestic market, finding substitutes for imported goods, increasing exports and diversifying exports. The emphasis should be placed on three aspects of industrial policy: the expansion of basic materials and intermediate products industries, the development of infant industries, i.e., both advanced labour-intensive sectors and comparatively more capital-intensive industries with a high export potential, and the modernization of traditional labour-intensive sectors.[99/] The study makes the observation that "government and industry in Portugal have taken account of the existence of crisis-hit sectors in the industrialized countries of Western Europe, their goal being merely the progressive growth of the equivalent, relative capital-intensive sectors of Portuguese industry to meet the countries own requirements." It concludes: "The Community's room for manoeuvre in foreign trade, in particular, depends on the traditional patterns of specialization in the semi-industrialized member states (including Ireland and even Italy to some extent) being superseded. Only rapid industrial development in the semi-industrialised applicant and member states will make it possible to prevent the formation in the Community of groups that impede integration. . . If an industrialization

99/ Ibid.

strategy like that described in Part I is to be implemented and so enable semi-industrialised member states to achieve a higher level of industrialisation, they must be allowed to expand the appropriate sectors of their industries at least until their own requirements are satisfied.100/

The four case studies prepared by the GDI experts contain certain very pertinent observations. Particular attention should be given to the study on textile and clothing industry, since these industries account for a larger proportion of industrial production, employment and exports. The report points out that inside the EEC these industries must be based on a supply of highly differentiated and very high quality products close to large consumer markets. Portugal will not gain any duty advantages in the EEC markets unless the present quota restrictions on imports from Portugal are lifted. At the same time Portuguese industries will be exposed to high quality product competition from the other EEC members and low wage competition from Third World countries. In terms of wage costs Portugal is at a disadvantage compared to the developing countries; in terms of productivity and probably also the quality the Portuguese industries are at a disadvantage compared to the two other newcomers, Greece and Spain. The conclusion is, therefore, that in order to compete, both the Portuguese textile and clothing industries must aim at product differentiation, improved quality and more diversified marketing. The main problem is that modernisation must lead to a very considerable loss of jobs. In order to help Portugal to overcome these difficulties the GDI group recommends: that the EEC must lift quotas on imports of these goods from Portugal from the moment Portugal becomes a member; that, on the contrary, Portugal must be allowed to maintain some degree of protection on the home market; that government assistance for restructuring must be allowed; and that Portugal should receive massive assistance from the European Social Fund.

As regards the other three case studies (steel, chemical fibres and ship-building) the GDI group considers that these industries should be competitive in the home market, and must be permitted to enjoy some degree of protection.

100/ Ibid.

The conclusions of two analysts from another German research institute (Institute für Weltwirtschaft an der Universität Kiel) are not in contradiction with some of the views on the future perspectives expressed by the GDI experts: "Portugal has an intermediate position between Spain and Greece. The chances for this country are likely to lie in the field of a stronger intra-industry division of labour in the capital goods industry, for instance, the agricultural machinery, textile machinery and machine tools industries, rather than in an inter-industry division of labour through which the country would increasingly become the supplier of consumption goods in the present EEC, thereby reducing the scope for previous suppliers in the economic community. In any case, the entry of Portugal might stimulate the consumer industries, particularly sophisticated textile and clothing products, as well as shoes. It should be considered that the total opening of the EEC market for this relatively small country means a significant enlargement for the potential demand for products for which the country possesses clear advantages in competition."101/

Donges and Schatz also envisage a broadening of Portugal's industrial structure, but in contrast to the GDI experts who assume that this broadening principally must take place in a relatively protected home market. Donges and Schatz suggest that this can take place through an intra-industry division of labour with other EEC countries. This possibility is certainly present, and it may involve economic gains, but the open question is whether Portugal - at its present stage of industrial development - is sufficiently attractive to foreign investors or to competent domestic entrepreneurs to enjoy an expansion of export-oriented enterprises outside the present traditional sectors.

c. Spain:

A statistical review of Spain's trade manufactured products shows that Spain in its trade with the EEC enjoyed strong and rising comparative advantages in wearing apparel, leather and leather products and footwear, and strong but declining comparative advantages in food products and beverages. Between 1970 and 1977 it developed relatively strong revealed comparative advantages in wood products, leading to improvement in more moderate comparative advantages in textiles, furniture and fixtures, rubber products

101/ J. Donges and K.W. Schatz: Patterns of the Industrial Division of Labour, op. cit.

and to some extent in non-metal products. It gained a strong competitive position as regards transport equipment, whereas its revealed comparative advantages in petroleum refinery products and petroleum and coal products disappeared in the course of these seven years. Comparative disadvantages shrunk in a number of industries, and became positive advantages in some cases (paper and paper products, printing and publishing, plastic products), and significant improvement in the competitive situation appeared to have taken place in such important industries as iron and steel, metal products and machinery.[102/]

According to hypothetical estimates of the impact on Spain's foreign trade of EEC trade liberalisation, imports from EEC should increase by 12 per cent compared to the present level and total imports (5.3 per cent). Of this increase, 84 per cent would be trade creation. It should be noted that more than two-thirds of the increase are estimated to be in capital goods; such imports should increase by 15 per cent in relation to present imports from the EEC and by almost 10 per cent in relation to total imports of capital goods. Most of the "trade divergence" would take place in capital goods imports. As regards exports to the EEC, these are estimated to increase by 6 per cent, of which consumer goods exports should increase by 8.5 per cent while exports of both intermediate goods and capital goods should increase by about 4.5 per cent. One-third of the export growth should consist of food products and beverages, the exports of which are estimated to grow by more than 10 per cent.

These statistical findings are, however, modified by Donges' and Schatz' written comments: "Spain could, just as the EEC, derive profits from increased trade, above all, in the capital goods industries. It is, on the other hand, less likely that the consumer industries would be significantly favoured by the country's entry into the EEC. There are two reasons for this. First, on the level of development that Spain obtained, these industries will lose competitiveness. Second, the enlargement of the market for domestic capital goods and also basic industries will have a negative impact on the competitive position of the consumer goods industries on the Spanish factor markets. Transport equipment and accessories for the automobile industry, electro-technical products and chemical products are likely to gain in importance in the industrial exports."[103/]

102/ Donges and Schatz, tables submitted to the Sesimbra Seminar, op. cit.

103/ J. Donges and K.W. Schatz: Patterns of the industrial division of labour, op. cit.

In his presentation to the Seminar the Spanish participant, Professor F. Lobo, gave the following picture of the situation. Since 1974 the rate of increase of GDP slowed down to an average of two to three per cent; in 1979 it was 0.6 and is estimated to be 1.2 in real terms in 1980, and manufacturing will grow only at 1.1 per cent. Investment since 1975 evolves at negative rates, approximately -3.5 per cent per year and its relative weight has decreased from an outstanding one-quarter to less than one-fifth of GDP. The most worrysome indicator and, in fact, the first economic, socio-economic and even political problem is unemployment. After a long period of full employment (not taking into account migrants), its rate has been rising steadily since 1974 to a historical record of 12.6%(1,620,000 persons) in the last quarter of 1980, well above most OECD countries.[104/]

Referring to the research on structural changes affecting Spanish industry, being carried out by the Fundación del Instituto Nacional de Industria, the paper mentions the ability of Spanish industry to absorb labour.[105/] Comparisons made between 1962, 1970 and 1975 input-output tables show that labour requirements per unit of final demand are consistently lower in sectors with higher growth potential, like energy production, metal mechanics, chemicals and machinery. All sectors with high employment potential were well behind in terms of growth. Shifts in final demand are aggravating the picture. The emergence of a conflict between two important goals, growth and full employment, as an outcome of the process of technical change and demand shifts taking place in Spanish industry in the sixties and seventies, has to be considered to understand the structural roots of unemployment in the eighties. Studying capital requirements, it can be concluded that in Spain industrial growth has evolved in a direction opposite to the relative factor endowment. This is an important explanation for the inability of the productive system to generate employment (Fuentes·1980).

The relative weight of intermediate inputs in output has been growing steadily according to input-output tables. This suggests an intense specialization process across Spanish industry. This trend came along with

104/ See Annex III-8.

105/ Under the direction of Professor Julio Seguar (See Fanjul, Maravell, Pérez-Prim and Segura, 1975; Fanjul, 1975; Pérez-Prim, 1974; Segura, 1975; Fanjul, 1976; Segura and Fanjul, 1977; Segura, 1979.)

another, no less strong, for substitution among inputs. The industries whose products were relatively more demanded at the end of the period by industry as a whole were chemicals, energy and machinery.

Another trend well-documented has been the increased inter-relationship between Spanish and world industry. The need for imported intermediates, in particular, have grown more than production. This is explained first, because growth in certain important final sectors has been slower than growth in production for the relevant intermediates. In fact, to attain a fixed final demand level (for instance the level reached in 1970) the 1970 industrial structure required 26.8 per cent more imported intermediates than the prevailing structure in 1962. Changes in the composition of final demand have been important in this respect too, since demand has been concentrated on products with high import requirements. (For example, the change in the structure of exports from 1962 to 1970 has increased intermediate import requirements by 11.3 per cent with a given technology.) The period 1970-1975 has seen the reinforcement of the very same trend. In conclusion, dependence on imports has grown steadily; the more technologically advanced a sector is, the more it depends on imported intermediates.

d. General Observations:

In the Seminar the following views were expressed on the conditions under which the enlargement could become successful: "To what extent an optimal location structure will develop in the enlarged area will largely depend on the economic policy in the countries entering the Common Market and in the present member countries. An efficient economic policy in the countries entering the EEC would require the following principles:

(i) The investment activities of private and public companies should not be directed by government regulations, subsidies and sales and price guarantees, which is presently the case.

(ii) Further industrial development should be directed towards the world market. It is imperative that export activities should be given equal importance.

(iii) The changes of the production structure, caused by integration and constituting a prerequisite for growth should be facilitated by measures conducive to adjustment befitting the changing locational conditions. It should not be attempted to preserve companies or industrial branches which are in structural difficulties.

(iv) The mobility of capital and labour between individual branches and regions should be promoted in order to take account of the structural adjustment pressures induced by the integration. Special attention should be given to the labour training schemes, to development of efficient capital markets and to the relaxation of regulations preventing lay-offs of workers.

(v) The fusion of companies should be promoted to the extent necessary, in order to rationalize production processes and to achieve real cost reductions. At the same time, however, it would be necessary to encounter possible risks of monopolization.

(vi) Foreign investors should be granted a high degree of legal security. Tax and other incentives to foreign investors should, however, effect healthy competition with other capital importing countries. This may result in a significant reduction of the benefits accruing to the country from capital inflow.

In the countries entering the Common Market, the economic policy reforms described above have already been initiated, or are seriously being considered. These reforms could probably not be realized abruptly due to the involved political risks. In Portugal and Spain, the practical implementation of these reforms calls for conscientious scrutiny as they have not yet completed the consolidation of re-oriented domestic policies. In order to create as much transparency as possible, and to positively influence the expectations by the entrepreneurs, employees and consumers, the envisaged reforms need to be announced well in advance in the respective time. The envisaged reforms should, in any case, be declared openly.[106/]

106/ J. Donges and K.W. Schatz: Patterns of the industrial division of labour, op. cit.

The present international environment is such that the governments of the less advanced of the industrialised countries probably can follow such policies only inside a dynamic and expanding market in which other countries also followed the principles laid down above, and in which these measures lead to maximum employment and a minimum social friction and stress. The fundamental question concerns the future international division of labour in manufactured goods: will it be such that all groups of nations, all individual nations and all regions within nations specialize in products and production processes for which they have "comparative advantages?" If pushed to its extreme consequences this should imply that no geographical area will have a "balanced" industrial structure. Or, will each group of nations, each nation or even each region within a nation strive to have some "basic" industrial structure that primarily is aimed at satisfying internal demand? If developing nations are encouraged to build a relatively broad industrial base, it can be expected that also "semi-industrialized" nations would build or maintain such a broader industrial base. This is, in fact, indicated by the industrial development strategy for Portugal which has been discussed extensively in this chapter. The reliance on policies determined by market forces may turn out to be unrealistic due to the prevailing barriers against their worldwide implementation. Moreover, it can obviously also be asked whether eventual results of such policies represent the ideal solution.

3. Ireland:

In a paper submitted to the Sesimbra Seminar, Kennedy presented some key information on the present position in Ireland.[107/] Commenting on new entry, problems of fiscal management and possible budget dispute he said: "Ireland has welcomed the admission of Greece, Spain and Portugal to EEC, and has not set conditions to be fulfilled by the aspirants. Ireland takes the view that enlargement be taken as an opportunity to deal more effectively with the present regional imbalances in the Community.

While accepting new entry, the existing members cannot but speak out the possible strain on the Community Funds. One must admit the fact that we are competing for regional funds which are too small for present needs. And when Greece, Spain and Portugal enter the Community, competion for funds will be

107/ Annex III-9.

doubly heightened. Like Ireland, these countris are likely to be eventual net beneficiaries under the Agricultural, Regional and Social funds. Under the existing limits on finance for these funds, the entry of these countries would cut down the amount for existing members.

This implies, in Ireland's view, that the limits on finance be relaxed enough to cover the extra demands on the burden of enlargement. Otherwise, an undue share of the burden of enlargement would have to be borne by the weaker regions in the Community."[108/] He added that the justification, in principle, for the Irish position is a value judgment -- the Irish do take the equity considerations in the Treaty of Rome seriously.

As regards competition through trade, Kennedy maintained that the impact of enlargement is not likely to call for further restructuring measures in addition to those already in train. Trade with the Three is small, but growing rapidly (1.5 per cent of Irish exports; 1 per cent of imports). Some displacement of Irish exports in other EEC markets may take place and the enlargement is likely to add to the existing pressure on such labour-intensive Irish industries as clothing, footwear and textiles. On the other hand, negative effects may be offset by the opportunities of new export openings in these countries, e.g., beef and dairy products, and in manufacturing possibly chemicals and electronics in the large Spanish market.

Ireland does face a major restructuring challenge, but it arises from factors other than the imminent enlargement of the EEC. Its GDP per capita is at the same level as that of Spain and Greece. Growth of population and of labour force is now rapid, and there is high structural unemployment. It has still a significant share of its labour force in agriculture, and agriculture cannot provide employment for more people. It enjoyed a boom period during the transition phase due to higher EEC prices, but it is now experiencing a substantial fall in real income, due to stagnant output prices, rapidly rising input prices and a high general level of inflation.

It was emphasized that manufacturing in Ireland has been and must remain a motor of growth. Industrial growth has resulted from attracting new industry, much of it from abroad, though there is also a successful small industry programme dominated by domestic enterprises. There is currently an urgent need to restructure and raise productivity in the older manufacturing

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108/ Ibid.

enterprises, many of which date from the protectionist phase of the 1930s. Indeed, in recent years job losses in older industries have substantially offset job gains in new industries. Since 1973 there has been no increase in GNP per capita because unfavourable changes in terms of trade have wiped out the growth of GDP per capita in real terms. Manufacturing industries in Ireland face significant shortages of both physical and social infrastructure. Another problem area concerns income policies and relationships with the trade unions.

Some of the critical issues in industrial policies were also mentioned:

(i) Foreign versus domestic ownership:

So far there have been no ill effects caused by foreign ownership.

(ii) The choice between capital or labour subsidies to manufacturing:

Kennedy thinks that labour-intensive industries are still desirable for Ireland.

(iii) Exploitation (processing) of natural resources:

There is a low degree of such process in Ireland, and it is a very difficult area which has not been given high priority.

(iv) Research and Development:

The transnational corporations do not undertake much R and D in connection with their manufacturing operations in Ireland.

(v) Education and training:

Whereas now "chalk and talk" education (academic and cheap) is predominant, education must be made more appropriate for the type of manufacturing which Ireland wants. There is still resistance to "manual" work which hampers a shift in education, and in addition there are budget constraints, since vocational training is very expensive.

In summary, it can be said that the impact of the EEC enlargement on Ireland is likely to have far more effect through its impact on the Community's Special Funds than through market competition.

4. The Highly Industrialized Market Economy Countries on the EEC Periphery

There are five Nordic countries, all of them members of the OECD, and with the exception of Finland they belonged in 1979 to the eight richest market economy countries in the world.[109/] They are all comparatively small countries with the population of the four largest ones ranging from 4.1 million in Norway to 8.3 million in Sweden (Iceland has only 0.2 million inhabitants). All five countries originally built their export trade on food and raw materials in an increasingly processed form (Denmark, meat and dairy products; Finland, lumber and wood products; Iceland, fish; Norway, fish, wood and metal products; Sweden, ores, forest products and metals). But they have all developed diversified industries in relation to the size of their population, and in all five countries 30 per cent or more of the labour force is employed in industry. Manufactured products represent more than 50 per cent of merchandise exports in all the four larger countries -- in Sweden the share reached four-fifths in 1977.[110/]

All the Nordic countries have important raw material processing manufacturing industries based on domestic raw materials. In addition, Norway processes imported raw materials -- ores for the metallurgical industries -- on the basis of its large supply of relatively cheap hydro-electric power. But continued industrial development has been based on "footloose" industries which in many cases started as home market industries under protection against foreign competition.

109/ Excluding Kuwait, United Arab Emirates and Quatar. GDP per capita in the five Nordic countries in 1979 were as follows: Denmark, $12,940; Sweden, $12,820; Norway, $11,360; Iceland, $10,980; Finland, $8,690. Source: OECD Observer No. 109, March 1981.

110/ World Development Report, 1980, op. cit.

A major problem facing the Nordic countries is whether they, on the basis of small local markets, will be able to continue to develop new products which will compete successfully in the world markets. These countries have a very high standard of education which facilitates the recruitment of skilled labour, technicians and management. But the relatively small size of most existing and most new manufacturing enterprises makes it increasingly difficult to develop successful innovations. Unit labour costs in the three Scandinavian countries are amongst the highest in the world, which means that only very capital- or skill-intensive forms of production can remain competitive.

In his paper submitted to the Seminar, Ohlsson emphasizes some more characteristics of the Nordic countries.[111/] Denmark is the only country which has chosen to be a member of the EEC, while the others have (partial) free trade agreements under the Rest-EFTA provisions that followed the entry of the United Kingdom, Denmark and Ireland. Denmark is also the only Nordic country on the European continent, the only dense economy and, finally, highly dependent on imported sources of energy.

Finland is the low-wage economy of the four and it has begun its industrialisation in the post-war period. It is a rather successful adjuster, also in recent years when other industrial countries have suffered from slow economic growth. Much of its energy imports stem from the Soviet Union and in return, Finland exports highly sophisticated engineering products, consulting skills, etc. Finland has a substantially larger share of both its exports and its imports with socialist countries than other industrial countries. Others with relatively high shares are Austria and Sweden.

Norway is one of very few industrial countries with huge supplies of energy. Only in te past few months (1980) have new deposits of gas been revealed and expectations are high for areas north of the 62° latitude. Moreover, Norway has still exploited merely a low proportion of its economically profitable waterfalls in contrast to Sweden, whose last large source of energy lies in vast, albeit yet unprofitable, uranium deposits. Finland, Norway and Sweden are all substantial net indirect exporters of energy to the European continent through their commodity trade.

111/ Annex III-10.

The inflexibility which has been dealt with earlier in this report is inherently strong in the Scandinavian countries. Full employment remains the major objective. There is also a strong desire to create jobs where people live rather than to persuade people to move to areas with enough jobs.

In spite of the commitments to free trade and also to supporting the developing countries' claim for a New International Economic Order, both Norway and Sweden have tried to slow down the shrinking of certain declining industries. An extreme case is the subsidizing of the Swedish shipbuilding industry. According to C. Hamilton, Sweden continued to expand its shipbuilding industry during the first half of the 1970s, so that it accounted for 9 per cent of world production (excluding USSR) in 1976-77.[112/] The employment in the shipbuilding industry rose from 25,000 to 32,000 between 1970 and 1975, but has since declined drastically, to about 22,000 in 1979.

In order to avoid a far more steep decline, the government (non-socialist after 1976) has paid heavy subsidies of which more than three-quarters was after mid-1977. Subsidies include first of all support to individual firms, many of which have been taken over and are now run by the government, but also subsidies to buyers of ships, loans which have been cancelled and honoured loan guarantees. According to Hamilton, subsidies per direct and indirect employee in shipbuilding reached $30,000 in 1979 or 1.8 times the average labour income in that industry. Several reasons are behind this policy: first, half the shipbuilding industry is concentrated around one city; and second, the Swedish shipbuilding industry has been very successful and efficient until recently and it was, therefore, expected that the crisis in the shipbuilding industry in the mid-1970s would be only temporary. Apparently, not full account was taken of the imbalance between the world shipbuilding capacity and the likely demand. Hamilton also noted that in spite of this massive government support, the best workers have left the shipbuilding industry for other and safer jobs. This fact may aggravate the problem of modernization and restructuring of this industry.

Hamilton also reported on an economic model which aimed at assessing the impact of a reduction of quantitative restrictions on textile and clothing imports to OECD in general and to Sweden in particular. An increase in imports of the order of 50 per cent in the OECD would lead to a price fall of the order of 12 per cent. For Sweden alone an increase in imports would only

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112/ Oral interventions during the Seminar by Carl Hamilton.

lead to a small price fall if the goods were perfect substitutes in the export markets, but to a very substantial fall if the commodities were specific to one export market (20 per cent for textiles, 9 per cent for clothing).[113/] The latter assumption is rather unrealistic, however, and a significant price effect would, therefore, depend on trade liberalization in a number of countries. As it is, Sweden conducts a restrictive policy for imports of clothing and textiles from developing countries, and does also subsidize this industry, although at a far lower level than in the shipbuilding industry. It should be noted that between 1970 and 1977 employment in the textile industry, nevertheless, fell from 34,000 to 19,000. Moreover, in spite of protective measures the share of imports in the apparent consumption (home demand) in Sweden has risen from below 30 per cent in 1960 to above 80 per cent in 1980. As in the case of the shipbuilding industry, the clothing and textile industries are very concentrated geographically. Half of the loss of jobs, which according to Hamilton's study would be rather moderate, would fall on one single country, and moreover, about one-quarter of the employment are non-Swedes, and more than 60 per cent women. However, the 26 to 35 different subsidies which the Swedish textile and clothing industries receive, in fact, do not postpone adjustment for more than a year or two.

Ohlsson discussed the Scandinavian situation in more general terms. In his opinion, the EEC enlargement does not seem to make much difference to the Nordic countries in the medium run, with the only possible exception being Denmark. If, however, the Southern European countries reinforce more anarchic trade policies in the EEC countries than, for instance, the paper, steel and traditionally developing country industries, the conclusion can be altered in two respects. First, the impact can be substantially larger and second, a larger proportion of the impact is bound to occur in the nothernmost parts of the three northern Nordic countries. Ohlsson also presented some statistics which illustrated the pattern of trade in Sweden and the structure of employment in manufacturing in the four larger Nordic countries. As regards the pattern of trade, the Swedish balance of trade in manufactures improved

113/ Carl Hamilton, Effects of non-tariff barriers of trade on prices, employment and imports: The Case of the Swedish Textile and Clothing Industry. (This paper is a progress report within a larger research project guided by Helen Hughes, The World Bank, and Jean Waelbroeck, Université Libre de Bruxelles).

from a deficit of 1.2 billion Sw. Kr. in 1970 to a surplus of 4.9 billion in 1977. Part of the improvement of 6 billion Sw. Kr. originated in the raw material based industries, the surplus of which rose from 1.7 billion Sw. Kr. to 3.9 billion during those seven years. However, the increase would have been considerably larger if the deficit in refined petroleum products had not risen from 2 to 7 billion Sw. Kr. The surplus from forest-based industries grew from 6 to 14 billion Sw. Kr. However, the main improvement was caused by the "footloose" industries for which a deficit of 2.8 billion in 1970 had turned into a surplus of 1.3 billion Sw. Kr. in 1977, and within this group the improvement was caused by a rise in the surplus from trade in products from "very technical personnel-intensive" industries from 0.8 billion Sw. Kr. to 5.3 billion Sw. Kr. For "technical personnel-intensive" industries there was a change from a deficit of .5 billion Sw. Kr. in 1970 to a surplus of 2.1 billion seven years later. On the other hand, the deficit in trade with "technical personnel- extensive" or "very technical personnel-extensive" industries rose by 3 billion Sw. Kr., from just above 3 to just above 6 billions. Thus, the Swedish trade statistics for that period show clearly that a restructuring of foreign trade towards exports of more advanced products has taken place.

Data on the four larger Nordic countries show that between 13 per cent (Sweden) and 20 per cent (Denmark) of the employment in manufacturing was in "typical industries for low-wage countries." In addition, another analysis shows that the employment in industries which "possibly are suitable for specific developing countries" ranges between 22 per cent in Sweden and 21 per cent in Norway to 11 per cent in Finland. If one adds the two figures together, one finds that between 30 per cent (Finland) and 37 per cent (Norway) of the employment in manufacturing are industries in which the Nordic countries may lose or are losing comparative advantages to developing countries. Trade statistics from Sweden shows that a relatively large proportion of the present apparent consumption of goods from more typically developing or semi-industrialised country industries originates from Southern Europe.

The prospects for the Nordic countries depend probably on three factors which are, to a less extent, influenced by the forthcoming EEC enlargement: the general level of activity in the EEC; the ability of Nordic enterprises to innovate; and the interest of enterprises in the core countries to exploit

particular Nordic resources through localisation of some production processes there. Of these factors the general level of activity may, as Ohlsson suggested, prove to be the most important. In lines of production in which a country on the periphery does not have strong comparative advantages, weak demand in the main markets will frequently lead to a severe reduction of purchases from more distant producers.

Ohlsson concludes that Norway is likely to experience much more deep-going structural adjustment because of the huge export of oil and gas in the near future than could be derived from the vulnerability of its industrial composition. In contrast, both Denmark and Sweden have a balance of payments situation that may well lead to a downward pressure on their wage level in international currencies. If it is realized, it will, of course, ease their adjustment pressures.

In summary, Ohlsson suggests three important conclusions to be drawn. One is that Sweden stands little chance of success in protecting against losses in comparative advantages and foreign protectionism. Second, its industrial composition has turned out to be very sensitive to the EEC and USA protection that has been associated with rapid Japanese export growth. Apart from the shipbuilding and steel industries, Sweden has earlier taken a substantial adjustment to rapid Japanese exports in, for instance, the calculator and ball-bearing industries. The present unstable situation in the car industry has already induced political reactions in both the USA and the EEC.

The third conclusion for a small economy with full employment objective is that the main instrument of adjustment policies has to be the nerve centre of macroeconomic policy instruments completed with realistic long-run oriented regional policy instruments and operated for regions rather than plants or local labour markets.

Ohlsson suggests that the poor Swedish performance in the past five years is attributable to an unlucky combination of sectorally very concentrated foreign protectionism and poor domestic adjustment policies. Along with severe consequences of the recent oil price increases this produces rather bleak prospects for Swedish economic growth in the forthcoming five years.

Against this background, Ohlsson continues, it appears rather safe to conclude that the EEC enlargement cannot make much difference to Swedish imports, exports and production unless it stimulates the present EEC countries to a different growth experience or to a more protective policy against non-member countries. Obviously, a more protectionist future in traditional developing countries does not matter much for Swedish industrial development. In contrast, an increasing protectionism in the steel and paper industries and for shipyards can have a sizeable impact and an impact that is devastating for the sensitive regional balance between northern and southern Sweden.

5. The Eastern European Countries

A written documentation on the possible effects of the EEC enlargement on the European CMEA countries and Yugoslavia was submitted to the Sesimbra Seminar. As already discussed in Chapt. III, the restructuring problem in the CMEA countries relates, in particular, to the change from "extensive" to "intensive" industrialisation, or in other terms, from increasing industrial output through the use of more resources -- manpower and capital -- to raising it by improving productivity. This has become necessary, since the available pool of manpower resources, from an increase in the labour force and from agriculture, is nearing exhaustion.

This change favours in itself expanded trade with developing countries in the form of imports of labour-intensive products so as to avoid further expansion of production that requires the use of additional manpower. This point is stressed in two recent UNIDO studies.[114/]

However, in their efforts to raise productivity the CMEA countries depend also on imports of high technology products from the developed market economy countries, and these imports have, at least in the longer run, to be paid for by exports. In the export markets in the developed market economy countries the CMEA countries meet the developing countries as competitors. At least

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114/ The industrial division of labour between European centrally planned economies and developing countries, UNIDO Working Papers on Structural Change, No. 28, November 1980; and Structural Changes in Hungarian Industry and Prospects of Division of Labour with the Developing Countries, UNIDO Working Papers on Structural Changes, No. 12, November 1980.

until the Eastern European countries are able to expand the exports of more skill-intensive goods to the EEC and OECD countries considerably above its present -- but by no means insignificant -- levels, they are compelled to maintain or even increase their exports both of raw materials and of labour-intensive manufactures. Seen from this angle the expansion of the EEC to include three more countries, which so far precisely have their most significant comparative advantages in "traditional" labour-intensive manufacturing industries, is bound to have disturbing effects on the export opportunities of the Eastern European countries.

In their oral interventions participants from several countries added some interesting personal observations to the general picture of the situation facing the smaller CMEA countries and Yugoslavia. Z. Roman of Hungary gave first an overall survey of the European CMEA countries -- several of his points as regards structure and problems have been referred to in Chap. II of this report. He stressed that each individual country needs to analyze its potential comparative advantages, and on this basis to decide whether and what to sell to CMEA countries or to the rest of the world. Qualitative factors have to be taken into account in addition to comparative advantages.[115/] There is now a preference for processing raw materials together with necessary efforts to achieve raw material and energy economies. Roman stressed the pressing need for export promotion. He confirmed that as regards traditional exports of standardized products some reduction has to be expected as the consequence of competition from low wage countries. The CMEA countries will have to move in the same direction as other industrialized countries, and both price and product quality are important factors.

L. Fiejka of Poland noted that in relation to the EEC the country is on the periphery. Also Poland is now entering a phase of industrialisation in which the overall efficiency of the production system must be raised. The adjustment pertains to three fields: (1) External trade; (2) Co-operation with the "West"; and (3) Internal restructuring. A large proportion of Poland's present exports to the West consists of raw materials and agricultural products. In these fields there are no direct competition with the three countries which may take part in the EEC enlargement. However, in

115/ The UNIDO study on the European Centrally Planned Economies put particular stress on marketing as a critical factor, both in the CMEA countries and the developing countries. Ibid.

manufacturing the situation is different. In its attempts to diversify its trade with the West, Poland may enter into certain competition with these countries. There is in particular an overlapping of exports in the textile industry, with the possible exception of Poland's linen industry which is based on a domestic raw material. This competition extends also to some degree to the clothing industry. The obvious case of competition between Poland and the three entrants is the crisis-hit shipbuilding industry. In conclusion, Fiejka pointed out that the reduced scope for an increased export of manufactures to the European market simply may force the country to invest heavily on the expansion of raw material production for exports. Non-economic factors may also disturb the export prospects.

The situation of Yugoslavia was analyzed by Z. Pregel. Yugoslavia is the one centrally planned economy country of Eastern Europe which has special links with the West, although its trade with the CMEA countries is also very large and important. As to the country's agreement with the EEC, Pregel notes that technologically, the country is still dependent on the EEC. He also pointed out that in 95 per cent of the agreements with foreign firms no exports are permitted from the enterprises which have been set up with assistance from these firms. As imports now correspond to 25 per cent of the GDP and exports only 15 per cent, this is a problem for the country. The cooperation with the EEC means, inter alia, that half a million Yugoslavs are working in the EEC countries. This is certainly to the benefit of the host countries, but their remittances are of great importance also for Yugoslavia's current balance of payments.

As in the case of the other Eastern European countries, Yugoslavia must also expect that the enlargement of the EEC will foreshadow a possible limitation of Yugoslavia's exports to the Community.

Turning to the internal restructuring process, Pregel stressed that Yugoslavia's industrial development suffers from several weaknesses: it has been an energy (and capital) intensive development; it has been import-intensive, i.e. depending on imported inputs; and it has been oriented to the domestic market. So far there was no systematic programme to integrate Yugoslavia's industrial development with the surrounding world.

6. The Southern Mediterranean countries at the Periphery

Of these Mediterranean countries, Turkey has the closest links with Western Europe: it is one of the founding members of OECD, having also been a member of its predecessor OEEC; and it has had an association agreement with the EEC since 1963. Through the association agreement exports suffer from the limitations imposed by EEC's Common Agricultural Policy as well as from EEC limits on "sensitive" manufactures. Such manufactures belong to the field of production in which a relatively low wage country as Turkey has comparative advantages versus most of the EEC members. B. Kuruc reviewed the present situation of his country. He based his review on what he considered to be a realistic assumption, viz. that there will be continued recession in the OECD world. Turkey now has 45 million inhabitants, and the population grows by 2.2 per cent per annum; the urban population by 6 per cent. Up to 1977, growth was rapid -- the GDP rose by almost 7 per cent annually, and there was progress over a wide spectrum of sectors. Manufacturing was a "motor of growth" until 1977. The economy is internally interdependent with links between agriculture (19 per cent of GDP), manufacturing (40 per cent) and services (41 per cent).

In recent years Turkey has faced serious problems of external financing. Prescriptions for stabilization have been followed since 1976, which had led to recession under inflationary conditions. Even in the period up to 1977 the rate of inflation (10-12 per cent per year) was much higher than in the Western world (5 per cent). Conditions in recent years have become far worse: more than 50 per cent in 1978, 70 per cent in 1979 and more than 100 per cent in 1980. During the same period exports have fallen from $2.8 billion in 1978 to $2.5 billion in 1980, and Kuruc did not see many possibilities for raising exports under the present circumstances.

Turkish manufacturing suffers from several weaknesses. Old techniques were adapted for the expansion of production. Wages are downwardly inflexible. On the other hand, it would have been impossible to aim at covering basic needs without strong emphasis on the development of manufacturing. For the future Kuruc considered that the country needs a mixed policy prescription. We cannot rely on the market only, he said, but must think of "market versus subsidies."

A. Krueger tended to give an alternative explanation of Turkey's problems. During its period of success manufacturing expanded under high import protection with the result that manufacturing industries are both high cost and capital intensive. Now it suffers from the consequences of certain mistaken industrial policies in the past. Turkey needs EEC as a market for its competitive products, but cannot enter EEC as a member because of the non-competitive position of many of its industries. In reply, Kuruc pointed out that the collapse of manufacturing in Turkey was of recent data -- in 1978 production rose by 9 per cent, in 1979 by one per cent while in 1980 there was an estimated fall of production of the order of 10 per cent. The principal reason for this was the breakdown of the external market for Turkish goods.

The Turkish situation is also discussed in a paper prepared for UNIDO.[116/] It maintains that the experience with the EEC association has been disappointing. "Turkey expected that the gradual liberalisation of her trade with the EEC would stimulate her traditional exports as well as open up markets for modern manufacturing. Access to financial assistance and the transfer of European technology and know-how were seen as pre-requisites for accelerating modernization and industrialization. Free movements of Turkish labour in the EEC would ease the problems of the Turkish labour market while foreign remittances would relieve balance of payments difficulties. Turkey argues that the agreement does not give sufficient access to the European market. While it provides for unrestricted imports more competitive than her industrial products (which are neither competitive in price nor in quality), it imposes restrictions on competitive textiles and agricultural products. Since the association agreement is based on the principle of reciprocity, import liberalisation has exposed Turkish manufacturing industry to strong competition. The financial benefits granted by the EEC have been considered inadequate, and freedom of movement for Turkish workers restricted. Turkish development strategy has emphasized industrialization through import substitution which has increased foreign dependence culminating in an international payments crisis in 1979. The strategy has been able to proceed thanks to over-valued currency and increasing capital transfers (workers' remittances). However, it has produced marked income disparities, sectors insufficiently oriented to meet the needs of mass consumption, neglected agricultural development, created growing labour market problems, despite considerable emigration. The strategy is inadequately oriented to generate

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116/ M. De Gama Santos, op. cit.

inter-sectoral linkages. The growing trade deficit, in particular with the EEC, is due to the inward-looking development policy and poses serious problems for Turkey especially aggravated by the enlargement of the EEC.

The enlargement will restrict foreign trade margins because of growing competition from the three candidates and because her most important export goods are "sensitive" agricultural and industrial products within the EEC. Turkey's relatively incomplete production structure and limited possibilities for product innovation and product differentiation make it very difficult for a diversification of Turkish exports in the short/medium run. Also, further emigration to the EEC, which relieves the local labour market pressure and gains capital transfers, will become more difficult with the admission of the three new Southern countries. In the Turkish view, a review of the (association) agreement providing for further protection of her infant industries would be a pre-requisite for reducing structural problems. Intensification of capital, technical aid, and industrial cooperation is envisaged, as well as access to resources of the European Development Fund.

Turkey's position on the EEC periphery seems to be quite problematic. The demands referred to in the previous paragraph would necessitate, inter alia, the European Communities to provide larger financial resources to meet both the strains caused by the enlargement itself as well as the financial needs of countries, which in some way or another, are associated with the EEC. As to the scope for Turkish emigrating labour, one can expect it to be restricted as long as unemployment is high and growing in the EEC countries.

Also, the situation in Cyprus was treated by da Gama Santos in her report.[117] Cyprus has only 0.7 million inhabitants. Due to the smallness of its market it is compelled to diversify its international economic relations. Because of its colonial past, Cyprus entered an association agreement with the EEC after the United Kingdom had joined in 1973. Its former preferences in the UK would expire after a transition period, while the new agreement should open up the markets of all nine EEC members to Cyprus. However, as in the case of Turkey, "the . . . association for Cyprus provides for duty-free access to the EEC for all her manufactures with the exception of semi-manufactured and manufactured food stuffs and mineral oil products. However, the provision of protection of "sensitive" industries, especially

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117/ Ibid.

textiles and clothing, has severely restricted Cyprus' exports and strained her relation with the EEC . . . The second enlargement of the EEC may have a severe impact on the Cypriot economy affecting her trading position, unless appropriate steps are taken to improve her export performance in agriculture and industry . . . the association has fallen short of expectations because it has not provided easy market access for her exports and capital transfers and industrial cooperation with the EEC countries have remained at modest levels . . . Cyprus has diversified her foreign trade into Arab countries . . . but Cyprus' present ability to compete internationally is mainly determined by the labour intensity of her exports and existing labour costs. Her most efficient export industries concentrate on product lines belonging to the end of the production cycle. They will face strong competition from an increasing number of developing countries with lower wages and entering the world markets in the same product lines. Furthermore, the Cypriot labour market is broadly strained by fast industrialisation which means that labour costs are likely to rise significantly, accelerating the deterioriation of Cyprus' competitiveness unless the product mix is adjusted in the direction of "modern exports" with higher technology and capital requirements."

Algeria was the only other Southern Mediterranean country which was discussed during the Seminar. The participant from Algeria, Hidouci, raised a number of basic problems and emphasized certain conditions considered necessary to ensure a long lasting co-operation between Europe and the Mediterranean basin for the next twenty years. He stated:

> "First of all, we deeply feel the need to progressively correct the choice and decision systems which are dominated in this region by the power of the bureaucracies that resulted in the longlasting crisis we know. This task demands that the development takes place primarily at the local level and be oriented to the satisfaction of the main social needs before being centred on the participation in the international division of labour as well as on the distribution and balance of the exchange in the world market.
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> For the Mediterranean, this implies simultaneously and in priority:(i) the constant progress of the formation and accumulation of knowledge in every domain of technical applications; (ii) an agricultural development oriented towards the most lasting and necessary products for the autonomy

of food production in this region; and (iii) an industrial development oriented toward a growing integration of the activities and markets in this region.

The government and international institution policies must tend, in this context, to reduce the centralizing tendencies of the modern technology and the concentration of the economic power and the nature of communications that reinforce the present aspects of the division of labour, through the promotion of methods and forms of cooperation which accelerate and effectively assume the spreading of progress and income towards the poorer regions and the social control of the multinational enterprises in this area.

One should also try to think about new coalitions between countries in the North of Europe and the small industrialized countries of the Mediterranean towards greater independence in the decision-making of these regions in the internationl division of labour and towards a reorientation of the commercial policies concerning the food products and the raw materials to the most useful social needs.

It is also necessary to promote the creation of a modern and scientific technical base strong enough to promote these transformations outside the monopoly of the transnational enterprises through medium and long-term consistent policies, adequate creation and development of instruments of conception and programme implementation. In order to last, these exchanges between Europe and the Mediterranean have to be determined by the priority of demand of its population more than by the offer imposed by the world market in crisis. This is the main bet of a lasting cooperation in our region."

7. The Developing Countries Outside the EEC Periphery

To the extent that Greece, Portugal and Spain on the one hand and the developing countries, including the NICs, compete on the market for manufactures in the nine former EEC countries, the enlargement will inevitably mean additional disadvantages for the outsiders. For those countries which

enjoy specific preferences -- members of the Lomé Convention, Least Developed Countries, and countries benefitting from the general preference scheme -- the value of these preferences will be somewhat eroded. On the other hand, extra-territorial imports of "sensitive" manufactures to the enlarged EEC may very well be reduced as the three entry countries capture a larger part of the market for such goods in the previous nine EEC member countries. So far, it was not possible to determine the quantitative implications of the enlargement for the export prospects of Third World countries outside the EEC.

The debates in the Seminar centred around the general issue of industrial development strategies in the developing countries as well as the trade relations between developing and developed market economy countries. To this end, one case study was presented to the Seminar on the Republic of Korea, which represents one of the most spectacular successes of economic growth in general and of expanded exports of manufactures among Third World countries.[118/] Its GNP rose by 9.9 per cent per annum between 1962 and 1978 (or by 4.5 times), and its exports rose from $55 million in 1962 to $1,132 million in 1971 or by almost 40 per cent annually at current prices. In 1978 exports reached $12,711 million, and exports rose by almost 30 per cent per annum between 1970 and 1978 (Source: World Development Report, 1980, op. cit.). The share of manufactured goods in exports rose from 27 per cent in 1962 to 86 per cent in 1971, and has remained on that level. In his oral presentation, Kim merely commented on his exhaustive written description of events in the Republic of Korea. He wanted to draw the attention to mistakes which, nevertheless, had been done -- "don't do this if you don't want to repeat our mistakes." The country made progress, when it obeyed economic laws such as the introduction of high interest rates and a realistic exchange rate in the beginning of the 1960s. In the 1970s, however, there were, according to Kim, several mistakes made: a mistaken emphasis on food self-sufficiency through high food grain prices (which, incidentally, helped to bridge the gap between rural and urban incomes, until 1977 when it started to reappear); emphasis on heavy industry assisted by low interest rates, which in reality were negative, taking into account the rise in prices; a failure to pass rising oil prices on to the domestic users; minimum wages which had to be revised again, etc. These policies followed as from 1972 during most of the 1970s led to structural imbalances and price inflation. Stabilization

118/ Annex III-11, K.W. Kim.

1972 during most of the 1970s led to structural imbalances and price inflation. Stabilization measures were introduced in 1979, but then followed a year of political instability. But in the autumn of 1980 the situation was again under control, Kim pointed out, and new measures were putting matters right. He considered that one of the important measures which had been introduced in 1980 was greater facilities for foreign investment. Under the previous system which prevented foreign majority interest in Korean enterprises, the country had tended to receive outdated technology under licensing agreements.

Kim's intervention led to a good deal of questions and observations. It was generally agreed that the high educational standards of the people in the Republic of Korea was a factor, that to a large extent, explained its success. But to what extent has "political stability" been a determining factor? Also, in the opinion of many foreign observers, Korea's success in bridging the income gap between rural and urban areas is a redeeming element in comparison with many other NICs, although Kim regarded the price policy which led to this result as a mistake. Kim supplemented his initial statement with a number of observations which partly related to the general discussion of the Third World problems, but which partly replied to observation on the Korean situation: (i) Non-economic factors were important in the Republic of Korea -- the people wanted to prove that they can do better than Japan; (ii) the new members of the EEC cannot compete with the four East Asian NICs, and, therefore, do not represent a competitive threat; (iii) protectionism is a constraint to Third World country exports, but not a constraint which cannot be overcome; (iv) the uncertainty as regards trade rules on the other hand is a real constraint -- stability of the rules of the game is important; (v) he (Kim) was not against the fostering of heavy industry, but in the Republic of Korea too much emphasis had been given to it in the beginning of the 1970s, with wrong investments; (vi) the role of the state must be limited -- a complex economy is too large for bureaucrats to survey; (vii) he (Kim) was pessimistic about the future of free international trade -- the idea developed as part of cold war strategies, but now the political underpinnings of free trade had gone; (viii) a low interest rate policy is unfortunate, because it undermines the control of the money supply.

The other case study of a developing country's experience was given by E. White who reviewed the situation in Latin America in general. Latin America contains 25 countries of which 4 to 5 account for 70 to 80 per cent of the area's economic strength (Brazil, Mexico, Argentina and to a lesser extent Colombia and Venezuela). In contrast to the Asian NICs the Latin American NICs have large domestic markets. They represent a large market with more than 300 million people and a GDP which exceeds $4,000 billion. The size of the Latin American market corresponds to that of the Federal Republic of Germany, France and Italy together in 1960. Since thirty years ago there has been considerable economic progress in the continent. For example, the output of machines and equipment has increased 9 times since 1950 and covers now 60 to 75 per cent of domestic demand.

As regards the participation of Latin America in international trade, it is a fact that its share in world exports fell from 6 per cent in 1960 to 4 per cent in 1975, but exports of manufactures have risen markedly. Their share in total exports from the big five countries have risen markedly. Their share in total exports rose from 2 to 4 per cent only in the beginning of the 1960s to nearly 30 per cent in the mid-1970s. A sizeable part of exports of manufactures is machinery, etc. Exports of manufactured goods to Latin America have risen three times as fast as to the rest of the world. Thus, 40 per cent of the manufactures are exported to Latin America, and it is also remarkable that locally owned firms account for more than half the exports of manufactured goods. On the contrary, about 95 per cent of the sales of the transnational corporations in the continent goes to local, domestic markets.

However, in total, imports have grown faster than GDP and the trade deficit has been increasing. The bulk of the extra-continental exports come from traditional industries while the continent imports high technology goods. It should also be noted that as much as half of the imports to Brazil and Mexico are imports by transnational corporations. There is an increasing diversification of foreign investments which now have reached $40 billion. Europe accounts for 30 per cent of these investments, and Japan has also become more important. Gradually, Latin American companies have begun to invest in other Latin American countries; so far such investments, however, represent only 2 per cent of foreign investments. It should also be noted that there is a presence of small and medium-sized firms from developed market

economy countries such as Spain.[119] In dealing with foreign enterprises the bargaining power of the Latin American governments has improved considerably. Latin America is also able to use its attractiveness to obtain better terms from governments and firms in the developed countries. Relevant advantages are the endowment with natural resources, the availability of labour and flexible government policies.

White pointed out that in Latin America in general intellectual and political problems are much more in the foreground than adaption to the international economy. There was no definite industrial policy. In Argentina the liberalization of the economy -- "aperture" -- led to a collapse of large local groups due to reductions of subsidies and other forms of protection and to foreign disinvestments. Transnational corporations stopped producing goods in the country and imported the goods instead. The propensity to import in Latin America is generally much higher for foreign firms than for those owned by nationals. Indeed, the import coefficients of the transnationals are larger than their export coefficients. On a question on the scope for trade between the countries in the region, White answered that "the flag of regional integration" had been raised in face of the slow growth in the developed market economy countries. While LAFTA has more or less failed to fulfill its goals, integration is obviously still regarded as an instrument of growth. Direct protection in the developed market economy countries has been estimated by Iglesias to affect about 13 per cent of Latin American exports. This figure, of course, does not tell how much higher exports would have been without such protection in their principal markets.

In another main intervention Krueger discussed the link between the restructuring in the developed market economy countries and the industrial development of the developing countries. Her point of view was that quite substantial shifts towards export orientation were needed in the Third World in order to stimulate development. Subsidies of domestic production were not sufficient to achieve development. However, successful export promotion was conditioned by a healthy world economy. The question was whether the OECD countries will move towards expansion under open conditions or whether we will face a period of stagnation and neo-protectionism. Krueger was surprised by

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119/ In this context, firms with less than 500 employees.

the emphasis which many of the participants had put on overall employment rather than on the more specific impact of trade in given industries. But she also recognised that it is difficult to disentangle import effects on structural adjustments from other factors. This being said she also referred to statistical studies which showed no overall negative impact of the developing countries on the industrialised countries. For some individual products there were large imports from Third World countries, but not really a large penetration of the markets.

The strong emphasis on export promotion was challenged by a number of participants during the seminar. Ambassador Hill of Jamaica referred to the relevance of conventional economic theory to the problems of the developing countries. The conventional free trade theory does not take into account such important factors as the role of the transnational corporations or the extent of government intervention in the economy of the developed market economy countries, including those countries which are the strongest supporters of the existing international economic order based on apparently free international trade. Another disturbing factor was that statistics were collected on a basis which satisfies conventional theory, but which did not illuminate some very important features of international trade.

To put it succintly, international trade statistics, for example, do not give any information on trade between related partners in different countries - only for the United States some systematic information is available on the role of "intra-firm" trade in international transactions. Another glaring gap is the lack of information on sub-contracting relationships in national statistics on manufacturing enterprises. Small and medium sized enterprises are numerous in all countries, but we do not know to what extent their operations are independent and to what degree they, in fact, are completely tied to larger firms.

Hill also raised the point that export success, to some considerable extent, implied dependence on transnational corporations. Could exports be used as the principal measure of success? India's exports of manufactures have not risen in a spectacular manner, but India has a huge domestic market and a very diversified and to a considerable extent highly sophisticated manufacturing sector. Its ability to cover many types of domestic demand may be a better measure of success than the penetration of foreign markets. Finally, Hill remarked that free trade between unequal partners could not be considered as "neutral."

Another point which was raised was the link between import substitution and exports; the fact is that industries which have begun their production on the basis of a protected home market, later have developed into becoming successful export industries. There was a general agreement that comparative advantages were not something that were given in advance, but which could be developed. In other words, the infant industry argument was accepted, as well as the need for a given industry to go through a transition period before it could be expected to meet foreign competition at home and abroad. Although the issue was not discussed specifically, there seemed to be broad agreement that prolonged and strong protection tended to breed inefficiency. One speaker maintained that competition from imports alone was not sufficient to raise productivity in an inefficient industry.

The discussion focused on the general problems of how developing countries should react to the economic stagnation in the industrialised countries and which strategy they could pursue to achieve a rapid rate of industrialisation. However, it became quite clear that there is a need to focus on the question of alternative strategies for industrial development for different sub-groups of Third World countries, such as the NICs, the Least Developed Countries, the countries in the different continents, or the countries which are associated with the EEC through the Lomé Convention. The problems of the various categories of developing countries are so diverse that it was not possible to discuss in detail the problems and solutions of long-term industrial development.

While it was generally expected that expanding markets for manufactured goods in the developed market economy countries would no longer constitute a strong engine of growth for the developing countries, there was little agreement on what should indeed constitute the determining dynamic force for the industrial development in the Third World. Those who believe in the inherent superiority of the market forces as a means to allocate resources and production, clearly regarded export promotion as the best policy to follow for the developing countries. For the developed countries this would imply dismantling industries which have lost their comparative advantages, concentrating on goods which, inter alia, could be exported to developing countries. On the other hand, those who were more in favour of a planned industrial development emphasized the much stronger market limitations in the

industrialized countries, the danger of inevitable measures of protection in those countries, and the wide scope for marketing of larger quantities of manufactures in the developing countries. In response to the argument against bureaucrats for steering development, Bienefeld stressed that nobody had actually expressed the opinion that all government interventions necessarily were correct; on the contrary, again suggestions were heard that the market forces were always correct. This and other problems which reappeared frequently throughout the Seminar are closely linked with the main issue in the last part of this report, viz. the question of national policy options.

VI. SUMMARY AND CONCLUSIONS

1. Forces and Features of the International Restructuring Process with Regard to the EEC Enlargement

In the preceding chapters of the report three partly overlapping sub-sets of the world economy were singled out: (a) the EEC countries (b) the countries on the periphery of the EEC and (c) the developing countries.

The individual countries within each group have a certain autonomy in terms of policy instruments, relating to foreign transactions and to domestic development. However, this autonomy is de jure -- due to participation in agreements -- and de facto, mainly due to the strong economic interdependence between the countries in the world economy. Although the degree of interdependence may differ, it is evident that no country is fully independent in economic matters.

In theory, the international trade and in discussions on international economic problems it is often assumed that the countries are the actors. It should, however, be noted that the principal economic actors are the consumers and the enterprises. Although governments, within their jurisdiction, can strongly influence both consumers and producers, a large number of enterprises -- not only the large transnational corporations -- are not within the jurisdiction of one individual government. Relations between national enterprises of two different countries may escape country-specific government control.

Moreover, the power of national governments to influence actors within their jurisdiction is also constrained, even in centrally planned economies. Within limits governments may be able to prevent the actors from behaving in a given manner, i.e., to prevent consumers and other buyers from purchasing specific goods and services, and similarly prevent enterprises from producing, importing or exporting specified goods and services. Through the use of the price mechanisms governments can, to some extent, influence buyers' decisions. Governments cannot, however, effectively compel the buyers to fully comply with the government's choices, nor can they effectively control how much, at what costs and with what quality producers supply goods and services.

The discussions during the Sesimbra Seminar reflected this complex issue. Reference was made to the overlapping of the different classifications of countries into sub-sets, and to the difficulty in determining the effective actors in the world economy. The basic question was how national and international policy measures could direct the behaviour of companies and consumers in a desired direction.

Thereby the issue of the role of the consumers -- private and governments -- and other buyers (viz. enterprises buying current inputs or capital goods) tended to be placed somewhat in the background during the proceedings. It was noted that the actions of the buyers were of decisive importance and that they often behaved in such an unpredictable manner that at times it was difficult to explain the behaviour on the basis of economic factors only. Buyers obviously would refrain from purchasing goods and services that cost too much in relation to substitutes or sometimes in absolute terms, or such goods of an inferior quality in relation to their price, or that for other reasons are unattractive. However, when attempting to determine the attractiveness of a product, the question concerns the reasons for choices between seemingly substitutable goods and services which are being sold in unequal quantities. In this context, the role of the producers becomes a crucial issue, as effective marketing is an outstandingly important feature of the operations of modern enterprises.

It is easy to chart "comparative advantages" when production costs for similar goods and services, or near substitutes vary considerably from one large region -- or one country, one geographical area of a country, one single enterprise -- to another. The standard tools of the economists -- labour costs, capital costs and costs of natural resources -- can be applied in such cases. Economists can demonstrate rather convincingly that Country A has definite comparative advantages, ceteris paribus, over Country B in producing particular goods and services. However, in reality, there are rather few such simple examples, particularly in "footloose" manufacturing.

Thus, it is very questionable whether it is useful to determine the comparative advantages of entire sub-groups of industries. It is more appropriate to analyze the production costs of certain products or the costs of operating specific production processes. Intra-industry trade is characteristic of trade between industrialised countries that are on a similar

level of development. Such intra-industry trade will most certainly increase in importance also in trade between countries on very different levels of economic development and with different productivity per man hour. In declining industrial countries and in crisis-hit industries in such countries there would thus always exist some enterprises which succeed in competing internationally as they are technologically superior, or have found profitable "niches" which correspond to a particular factor endowment.

There can be no doubt that the growth of the world economy is strongly influenced by developments in the most industrialized market economy countries. These countries have entered into a phase of "stagflation" in which economic stagnation and mounting unemployment do not seem to lead to a slow-down of the rapid price increases. The slow growth of productivity seems to be regarded as a cause of unemployment contrary to the otherwise popular belief that an increase in labour productivity will displace labour. Policy-makers consider rising productivity as a precondition for economic growth under non-inflationary conditions. This means that the developed market economy countries, in principle, would endeavour to restructure their economies so that non-competitive enterprises are eliminated, non-competitive lines of production abolished, and innovative, high productivity economic activities stimulated. Such restructuring would favour development for the developing countries as well as for the CMEA countries in as much as they depend on selling such goods to the OECD countries which have become non-competitive in high-wage, industrialised countries. However, constraints in identifying and realizing new lines of competitive production to compensate for the rapid decline of "traditional" industrial activi.. have brought about increasingly defensive adjustment policies in most OECD countries.

Another factor of great importance is the rapid technological development. Change in production methods could reverse lost comparative advantages of the high wage countries in their favour again. The hope of such technological break-throughs is frequently an apparently rational background for support to declining industries or lines of production in richer countries.

The enlargement of the EEC will somewhat change the character of the European Communities. It will become less homogeneous, since it will include the four semi-industrialized countries which, under present revealed comparative advantages, will aggravate the adjustment problems for some lines

of production in the high-income EEC countries, and also reduce the Community's import needs for such goods. This could harm the exports of several third countries on the EEC periphery (CMEA countries, relatively highly industrialized Nordic countries and low-income Mediterranean countries alike) and the developing countries. This negative effect might be avoided if the Community regained its dynamism and if the enlargement causes new member countries to move towards a higher level of industrial development, thus creating openings for imports from third countries. But the prospects for such dynamism depend also on economic events in other highly industrialized countries, notably in the United States.

Due to the uncertainties, which the developing countries face as regards the market of the developed market economy countries in general and in the EEC countries in particular, the question should be raised as to what extent developing countries should indeed pursue their industrialization through strategies aimed at the OECD country markets. The success of some ten NICs had convinced many Third World governments and their economic advisors that export orientation can be the engine of growth. Import substitution, on the other hand, had shown a tendency to be limited by small home markets and to result in inefficient production and high prices to the detriment of domestic consumers. There is, however, a growing awareness that the past successes of export promotion may not be sustainable. Firstly, only a few countries have so far succeeded. Secondly, only a few of those have prospects of maintaining a viable balance of payments situation on the basis of their prospective exports of manufactured goods. Even under the assumption of free access to the OECD markets, it is evident that at some stage these markets tend to be saturated. This tendency will be aggravated by a possible move of the richer countries towards a "post-industrial society" with slow growth of the use of manufactured goods and by rising energy prices combined with the possibility that both energy and some raw materials may become scarce in physical terms. Furthermore, it seems unlikely that the highly industrialized countries, de facto, will dismantle enough of their industrial capacity to allow for a long-lasting, rapid expansion of import of manufactures from Third World countries. It would thus seem that the best opportunities for a rapid growth of industrial production in the Third World lie in the development of mass markets for manufactures within their own frontiers. This obvious road is blocked by two severe constraints: firstly, larger markets in poor countries presuppose higher purchasing power amongst the masses. This could be created through higher industrial production. The problem then arises of how to make

Say's law work in practice: what must come first, goods or income? Secondly, since many developing countries are small, diversified industrial development could take place only in the framework of regional cooperation between such countries. Building up such regional cooperation in an equitable manner is, however, a very difficult undertaking.

Debates on international economic problems such as the one which took place at the Sesimbra Seminar tend to lead to clashes between proponents of free trade and proponents of planning and government intervention. There is, however, also a large group of economists in the academic world and in the service of governments, international organisations and business and trade unions, who hold a "third" view, argue that neither market forces nor government directives are infallible; prices are flexible and necessary tools in any economy and that governments must take into account predictable -- and less predictable -- demand and supply reactions. Although political factors constantly influence government decisions in "irrational" directions, the need for consensus in favour of "rational" policies is evident. In a country in which the popular will has the possibility to make itself heard in one way or another, dogmatic policies could hardly be pursued to their last consequence. The possibility of a consensus, not only nationally but also in the North-South Dialogue, does exist, but it has to take account of the feelings and interests of people, as consumers, wage earners and entrepreneurs. Dudley Seers maintained that the Brandt Commission's stress on the "mutual interests" between North and South was an unrealistic approach. Obviously, there are strong real conflicts of interest between South and North, but it should be emphasized that, nevertheless, a mutual interest exists in trying to resolve conflicts in a manner which implies least harm to all partners. In order to achieve a higher degree of international equity it is quite possible that the North must forego some of its acquired advantages, but it should be possible to achieve this in such a manner that the welfare gains of the South vastly outweigh the welfare losses of the North. Under those circumstances the loss may be accepted by consensus also in the North.

2. National Policy Options

For the developed market economy countries industrial restructuring is necessary, particularly if they intend to remain open economies with free movement of goods and services, capital and labour across borders. Domestic factors like changes in technology and consumption habits will in themselves

change many enterprises, while the growth in the demand for new types of goods and services will open up new opportunities. Trade with other high-income industrialized countries will add to the need for restructuring. Increased imports from developing, low-wage countries are, as many studies have shown in most cases, only marginally increasing the need for restructuring, although they can have strong impacts on some specific branches of industry and thereby also on the economy of some vulnerable geographical areas. The problem is not whether or not to adjust and restructure the economic activities of a country, rather to determine the speed at which this restructuring should take place. For human, social and political reasons many countries are likely to slow down the speed of restructuring. It would, however, also be possible to directly attack the effects of restructuring through retraining of manpower that has been rendered superfluous, through efforts to create new enterprises or other activities in particular geographical areas severely hit by restructuring, and through measures for reconverting existing enterprises for production of goods and services which are more suitable for the general environment of a given country than the former lines of production.

It is safe to assume that there is hardly any conflict of opinion between economists, politicians, government officers, business people and leading trade unionists regarding the desirability of changing a country's economic structure in line with changes in demand provided that harmful effects on the affected individuals are reduced or eliminated. The conflicts appear when it turns out to be difficult to avoid very marked harmful effects on individuals and groups of people. This is presently the case in many market economy countries in which unemployment is rising. Particular groups of people, notably youth, are hit especially hard by the lack of jobs, and the number of business failures and unemployed people rises to very disturbing levels in many geographical areas. In this situation governments feel compelled to take measures to help individual enterprises or entire branches of industry to survive the crisis, or at least to give them a breathing period. Restrictions on imports is one type of measure currently in use, but government aid (subsidies) in different forms have also become very important. Hamilton made the point that subsidies may be justified as an emergency or temporary measure, but that it was desirable that the system of subsidies be transparent. Due to lack of transparency subsidies were often growing out of control.

Even the more ardent opponents of government interventions accept that the state contributes to industrial development through aid to research and development. However, they warn against product-specific research support which tends to create vested interests in particular products and particular enterprises. For example, government support in the Federal Republic of Germany to computer development has led the government to direct public purchases to one particular national firm. It would thus be preferable to receive public support for broader research programmes, although it was argued that such programmes tended to discriminate against the developing countries. As Third World countries cannot match the research efforts of the rich countries the technological gap would be widened. The answer is that the developing countries would also benefit from technological innovations developed in the industrialised countries. However, even if this were true globally, the dange remains that Third World enterprises may lose the competitive edge which they have achieved.

The use of import controls in developed market economy countries to protect their own exposed industries is, for the time being, not widespread, but it does seriously hit a few selected products, and thereby particular "third" countries, including Third World countries. It was generally agreed that changes in import restrictions were far more disturbing than the restrictions in themselves. The risk of new severe import restrictions being imposed undoubtedly reduces the willingness of entrepreneurs operating in developing countries to invest in production for exports to the OECD countries.

Therefore, non-tariff barriers are far more important obstacles to imports than tariffs or direct import restrictions. Various forms of government aid, government procurement policies, product specifications, quality regulations, etc. are amongst the battery of measures available to a government that wants to protect a certain industry. Although steps were taken during the latest round of negotiations under the auspices of GATT to bring such measures under control and supervision, they are likely to remain the major threat to imports from developing countries in the developed market economy countries in the 1980s. Non-tariff barriers constitute a major tool in defensive adjustment policies aiming at slowing down restructuring.

During the Seminar there was a lively discussion on the key problem that faces both highly industrialised and developing countries: how to "pick the winners." One of the participants remarked that if the economists knew how to pick the winners, we would all be millionaires. Apart from aid to research and development, which eventually may produce some winners, it was argued that governments through economic analysis and publication of information on its own plans and expected trends could assist enterprises in making more successful decisions on investments and production plans. Several participants pointed out that governments could also try to avoid over-investment in certain fields of production, notably standard goods, the demand for which can be foreseen within a sufficiently narrow margin. De Bandt also stressed that national governments individually tend to plow research and other development resources into some very few promising industries which result in an abundance of capacity and product variants in some fields and a dearth of new developments in others. This could be avoided through better cooperation between governments.

There was probably a fairly widespread feeling that it is not possible in the highly developed countries to plan industrial development on the basis of some precise notion of comparative advantages. De Bandt referred to studies that had shown that only 30 per cent of the world trade can be explained by comparative advantages and, in the case of France, no studies have shown that more than zero per cent of its exports is determined by comparative advantage. Hamilton also referred to the need to look at comparative advantage as a concept that includes more than labour and human and physical capital: natural resources, returns to scale or even political stability are amongst the factors that count. To those can be added climatic factors -- footloose enterprises are to a growing degree placed in regions with a pleasant climate. The discussion of how to pick the winners was inconclusive. One pertinent point was made by Roman -- the problem, rather, is how we should get the winners to pick us.

While the issue of picking the winner remained unresolved for the developed market economy countries, and in particular, for the most advanced among them, it was suggested that there would be better scope for such predictions for the developing countries. It was argued that many of the identified "losers" in the more developed countries might become winners in low-wage countries. This argument presupposes, however, that policy-makers

both in developed and developing countries follow a concept of development which is based on the "comparative advantage" principle applied to factor endowments.

As discussed above, there is limited scope for such a model for the international division of labour. For the EEC core countries the enlargement of the EEC does not create any qualitative changes in the restructuring problems. The enlargement may have some quantitative effects, but they will hardly be all that significant. For the "applicant countries," however, the potential effects of membership on the restructuring process are expected to be very large. Their industries gain access to a much larger "home market," but must then also compete their old small home market with enterprises that often are superior in technology, management and marketing. The problems of those countries were discussed quite extensively during the Seminar, but there was not much debate of the policy options open to them. The reason is that the options are rather limited. Future policies depend largely on the performance of these enterprises in the new environment. As Kennedy stressed in the case of Ireland, the "semi-industrialised" EEC member countries need extensive economic assistance from the Common Funds. If this is not forthcoming, and if enterprises do not manage to meet the new challenge, governments of these countries may have to fall back on policy options which they, in principle, would prefer to avoid such as continued direct support to endangered firms and industrial branches.

During the seminar the link between macro policies and international trade and industrial policies was frequently brought to the foreground. Some speakers maintained that macro-policies could put things right -- if inflation was reduced, employment opportunities would occur, and balance of payments problems avoided. Others pointed to more specific problems. In the Irish case it was argued that real wages had to go down in order to make manufacturing more competitive, and this was necessary for further growth and development. The trade unions -- it was said -- understood this, but not the rank and file on the factory floor. Some participants from smaller countries argued, on the other hand, that in their countries macro policies were inefficient because of the dependence on developments in the larger countries. One extreme view was that import controls are needed in order to reestablish full employment. The link between international trade policies and macro-economic policies was one of the many subjects for further research.

For the developed market economy countries the goals of economic and social policies must necessarily have a decisive influence on other aspects of policy. If the maintenance and further increase in material welfare is an over-riding target, it looks as if the most advanced countries must continue to take full part in the technological race. If full employment, job security and "soft" values become the principal goals, it is quite possible that the free trade commitment will be further undermined. Thus, there are no "right" policies -- this must be seen in the context of the overall goals pursued by governments.

This, however, leaves us with the question of international equity. For the developing countries it makes a fundamental difference if the developed market economies, which probably for the rest of this century will control a large proportion of world production and purchasing power, pursue free trade policies or not. During the seminar the policy options for the developing countries were not given the same attention as those concerning the richer industrialised countries. Due to reasons referred to earlier, the export promotion strategy which has brought a considerable, but somewhat disputed success for the "NICs" cannot represent a valid answer for all Third World countries nor for future developments in the 1980s. Leaving aside the much disputed question as to whether Third World industrialisation under the control of transnationals and other foreign enterprises really gives the host countries a fair share of the gains, the very prospect of all developing countries -- or at least most of them -- becoming large exporters of manufactures to the industrialized countries, will raise the problem: whether there will be markets for so many exports. "Traditional" import substitution no longer command support. The exponents who strongly advocate and set forth the policy of "delinking" industrialization to meet the needs of the masses in the Third World seem to gain support. However, it brings forth new questions pertaining to the practical implementation of the policy.

Some speakers tended to minimize the importance of manufacturing for the growth of the poorer countries, referring, inter alia, to cases of some developed market economy countries such as Denmark and New Zealand, which have reached income levels without large manufacturing sectors. Unfortunately, these examples are barely valid. New Zealand and Denmark employ respectively 35 and 37 per cent of their labour force in industry, and only 10 and 8 per cent in agriculture, respectively. Manufacturing is a key sector in any high

income country. Very few, if any, Third World countries can base their future mainly on the exploitation of very abundant natural resources in relation to the population. The issue is not whether to industrialise, but how to. This last question is still open for further deliberation.

Finally, the question should be raised whether the experience of the past will be valid also for the future. A relatively rapid growth in world production has in the past been accompanied by a considerably more rapid growth in world trade. Is, indeed, an extensive international division of labour a necessary condition for rapid growth?

This is a proposition which has been put forward inter alia in a GATT study.[120/] Is past experience necessarily a true picture of the future? There is, of course, no doubt that division of labour is a necessary part of a highly productive, modern economic system. But to what extent is it necessary that the division of labour in tradeables go towards a complete internationalization? Much evidence suggests that "footloose" industries eventually can operate at the same level of productivity anywhere in the world. When the scale of production has a strong influence on productivity, it is self-evident that large markets are needed. But do these markets have to be world markets? Could large regional markets be a sufficient condition? These questions lend considerable support to the ideas of self-reliant development. But as pointed out earlier, self-reliance among the developing countries will, to some considerable extent, depend on equitable regional cooperation between developing countries. An alternative solution to an increasing participation in international trade against the odds of neo-protectionism in the developed market economy countries, therefore, does exist, but it may prove to be a more difficult solution which requires strong political will and great organisational abilities.

3. Areas and Issues for Further Action or Policy-Oriented Research

The last agenda item of the Seminar concerned the need for further, more precise research in fields related to restructuring of world industrial production. A great many possible subjects of research can be suggested, and a number of ideas were indeed advocated in the course of the seminar.

120/ R. Blackhurst, N. Marian, J. Tumlier: Trade Liberalization, Protectionism and Interdependence, GATT, Geneva, November 1977.

a. General Issues:

The present direction of research was questioned by Herman Muegge -- should we reorient ongoing research? What could the research community do in order to offer valuable and credible advice to policy-makers?

Dudley Seers asked whether it is possible to devise a scenario in which there would be a high level of employment throughout the world in 1990. Relevant projects do already exist. The implications of such a scenario for capital, for energy and for skills and qualifications should be elaborated. The scenario should also include area details such as what would be the function of Europe and the wide range of options for policies to be followed by governments, unions and management. Such a scenario could also have implications for economic theory, with unemployment taking the place of inflation as the main emphasis of policy. Ohlsson wanted to see further studies of the principles of international exchange, of know-how, labour and capital goods. Research should also cover the question of how larger countries could create a coalition of interest with smaller countries and which principles were to be followed in such a coalition. This should also cover coalition between planned and market economy countries, and between developed and developing ones.

Other general subjects were suggested by Bienefeld. These concerned the means by which the existing system adapts itself, the nature of the present imbalance, and the role of NICs and oil in the present situation. Kim suggested that the dynamics of restructuring was worth further analysis. In addition he suggested other more specific studies of global nature: a description of the technological progress, and the importance of the monetary disorder. Marsden put special emphasis on energy economy. Hill considered that income distribution was a relevant and important area of research. He also called for research into what he considered as dubious data, i.e., the apparent current balance of payments deficits of the developed market economy countries which he believed were exaggerated.

b. "Interface" Problems:

Kuruc indicated that cooperation was an important subject of research. Tharakan would like to see more work done on the way in which comparative advantages are changing. He also thought it essential to explore whether human skill-intensive industries in general also are capital intensive or not. De Bandt raised some broad issues: the role of the actors and the use of a system approach to international economic problems. In addition, he suggested that research be directed to the question of creating rules of behaviour in a protectionist world. The participant from UNCTAD ventilated some thoughts about what to do next: some international arrangements to guarantee open markets for manufactures, some common funds for finance, or new codes of conduct.

c. Areas of Research Related to Developing Countries:

The subsidy issue in a developing country context was well worth additional research, argued Kuruc who also suggested research to be done on the links between agriculture and industry. For Tharakan a point raised by Cravinho seemed particularly important -- in developing countries restructuring concerns the whole economy and this is worth further study. He also stressed the role of investment in human beings. Hill stressed the need for research into cooperation between peripheral or less developed countries, while Freire wanted to draw up framework for technological research for the developing countries to acquire technology be analysed further: imitation -- adaptation -- application. He considered that the scope for autonomous growth in developing countries should become a priority field of research, particularly in view of the prospects of slow growth in the developed countries.

Marsden pointed out that the discussions had shown that there was a need for research into the operations of the labour market and on unemployment as an argument for protection. Kim suggested research into the European co-operation which is particularly important. Singh was concerned with the problems of large semi-industrialized countries which have to reach levels of fast growth, say 8 to 10 per cent per annum. How to reach such levels? Which organizational problems, etc.

d. Questions Mainly Relevant for Developed Market Economy Countries:

Norbye related the question of "picking the winners" in developing countries to the possibilities for research into the identification of the "losers" in the industrialized countries. The answer is not simple because account had to be taken both of the impact of protectionism and of technological developments which might lead to factor reversals.

e. Possible Research Priorities:

This list of research ideas launched during the Sesimbra Seminar does not as such constitute a programme of research. Such a programme would need to have several elements, notably macro-economic studies of industrial development under free trade or under "organized free trade," viz. protection under some set of rules, and micro-economic studies of the dynamics of the enterprises which after all play the key role in industrialisation. A third major approach would be to concentrate on "transfer of technology" through studies of how technological managerial ability actually has been built up in countries and firms which have succeeded.

Seminar on
international industrial restructuring
and the European periphery countries
Sesimbra, Portugal, 22-24 October 1980

ANNEX I

AGENDA

The meeting commenced on Wednesday, 22 October 1980, at 10 a.m. and ended on Friday, 24 October 1980, in the afternoon.

Wednesday, 22 October

Opening of seminar

1. The international restructuring process: Recent Trends and Prospects

Chairman: J. de Bandt

The current international environment
- Mr. J. Marsden, UNIDO Secretariat

Industrialization of the developing countries - de-industrialization of the developed countries
- Mr. A. Singh, Department of Economics, Cambridge University

2. The restructuring process within the EEC: Recent Trends and Prospects

Chairman: D. Seers

General trends in restructuring EEC countries
- Mr. J. Donges, Institute for World Economics, Kiel
- Mr. D. Schumacher

The implications of enlargement of the EEC for Greece, Portugal and Spain
- Mr. K.W. Schatz, Institute for World Economics, Kiel

3. The restructuring process within countries on the European periphery

Chairman: J. Cravinho, GEBEI, Portugal

This session focused on countries on Southern Europe, Eastern Europe and small economies such as Ireland and the Nordic countries and the implications of EEC enlargement on the restructuring process in those countries.

Mr. A. Murteiro, Ministry of Industry and Energy

Mr. F. Lobo, University of Santiago de Compostella

Mr. A. Mitsos, Bank of Greece

Mr. K. Kennedy, Economic and Social Research Institute, Dublin

Mr. Z. Pege, Ljubljana

Mr. B. Kuruc, Ankara University

Mr. C. Hamilton, Institute for International Economic Studies, Stockholm

Mr. L. Ohlsson, EFI, Stockholm

Mr. Z. Roman, Research Institute for Industrial Economics, Hungarian Academy of Science

Mr. Z. Fiejka, Instytyt Gospadarki Swiatowej, Warsaw

Thursday, 23 October

4. The developing countries and the European periphery
Chairman: A. Hill, Geneva

This session examined the role and development endeavours of major developing countries and the extent to which newcomers from the periphery of the Common Market are potential partners or competitors in the restructuring process.

This session focused on selected countries in Asia, Latin America and North Africa:

Mr. K. Kim, Korean International Economic Institute
Mr. E. White, Argentina
Mr. G. Hidouci, Algeria

5. National policies and industrialization in an interdependent world:
Group discussion Chairman: K. Kim

The industrial restructuring process in the EEC, its periphery and the developing countries necessitates a clear notion of its prospects. It also calls for cogent formulation of policies and measures conducive to efficient resource allocation for realizing those prospects.

- Given the rapid international technology advancement and different skill endowments in various countries, what is the appropriate policy towards technology for a country on the European periphery?
- How are the "winners" picked?
- What policies and incentives are required to ensure that potential "winners" are realized?

Friday, 24 October

6. Research priorities on the international restructuring process:
Group discussion Chairman: K. Kennedy

This session aimed at an overview of relevant, ongoing research activities and identification of major gaps. The questions addressed included:

- What are the implications of the changing institutional framework of the international restructuring process for prospective analysis?
- Concepts and approaches: can economists provide answers to the questions faced by governments and companies?

7. Closing of seminar

ANNEX II

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* See Volume Two: Papers presented to a Research Seminar, Sesimbra, Portugal, 22-24 October 1980.


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